

# **A NEW EUROPEAN AGENDA FOR LABOUR MOBILITY**

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***REPORT OF A CEPS-ECHR TASK FORCE***

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**APRIL 2004**

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This report is the result of the Joint Task Force on Mobility, a CEPS-ECHR collaborative effort that was initiated in 2003. The views expressed are entirely those of the authors.

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ISBN 92-9079-489-5

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# A NEW EUROPEAN AGENDA FOR LABOUR MOBILITY

## REPORT OF A CEPS-ECHR TASK FORCE

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### EXECUTIVE SUMMARY

#### The challenge

The purpose of this report is to offer a basis for discussion and a new agenda for action on one of the big issues for the European Union: the declining population of working-age persons and the effect this decline will have on our economies, on enterprises and on our social protection systems. These developments will require a better match of the skills demanded by growth sectors and regions with those available in the workforce.

A fundamental aim of the EU and its Lisbon strategy<sup>1</sup> is to improve employment by leveraging all the untapped potential of EU citizens, strengthening their capacity to take up new and more qualified jobs and enabling them to move to where the best job opportunities are available – including to other member states. Member states and businesses will have to focus on occupational and geographical mobility to replenish the labour market, along with maintaining and improving the skills, competence and adaptability of the labour force. Mobility, as a means towards an integrated EU labour market that is open to all, will have to move to the centre stage of the EU Lisbon strategy, the economic and employment policies of member states and the human resource policies of enterprises.

#### Main findings

On the basis of research and practical experience, the Task Force highlights the following findings:

- The **demographic outlook** of the present 15 member states reveals that the working-age population is ageing and declining in some of these countries and that almost all member states will face such developments in the next 10 to 20 years, especially after 2010 when the ‘baby-boomers’ will have reached retirement age. EU enlargement will not make any important changes to that situation. Most of the new member states have demographic developments similar to those of the present member states.
- **Globalisation and technological change** have profound implications for the need of a diverse and qualified workforce in the production process, causing a rethink in R&D, design, production, marketing and management. To be competitive, the EU has to be able to attract, retain and develop ‘creative’ individuals. The main drivers of such performance are, according to recent research, attributed to technological capacities, investment in creative talent and attitudes of tolerance vis-à-vis immigrants.

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<sup>1</sup> The main goal of this strategy adopted at the Lisbon Summit by the heads of state and government in 2000 is to make the EU the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion.

- **Occupational mobility** is of great importance in the effort to improve the functioning of labour markets. Job turnover rates in the EU-15 averaged 10% per year in the 1990s, meaning that on average 15 million jobs disappeared and somewhat more than 15 million jobs were created. A smooth management of the flow of new jobs and jobseekers is a key to improving employment and strengthening economic growth and prosperity.
- Another way to study occupational mobility is to look at **job tenure** in the member states. For the EU as a whole, the average job tenure is roughly 10.6 years, which is much longer than in the US, where it amounts to 6.7 years. There are big differences, however, among member states. Denmark, the Netherlands and Sweden seem to be the leading countries with regard to job mobility. At the bottom of the EU scale are Greece, Belgium and the Western Länder of Germany. Although job mobility seems to have been quite stable over the last couple of years, it has to be noted that those citizens who changed jobs over the second half of the 1990s, on average did so twice within this period. Occupational mobility is highest for workers aged 15 to 24 and decreases with age.
- Regarding **policies to promote occupational mobility**, progress has been made in some areas at the EU level (such as in education and life-long learning participation), but the main problem is an alarming trend concerning investment in knowledge in member states. This rate has fallen over the past few years, while it has increased in the US and Japan, owing to low levels of private sector investment in research, training and development. Among EU member states there are great differences in human resource policies. Over the last 10 years Denmark has developed an interesting mix of flexibility and security that offers an example of good practice (see Annex 1).
- **Geographical mobility**, which is an important indicator of regional integration and another way of striking a balance between labour demand and labour supply, is low in Europe (at both national and regional levels). According to a Eurobarometer poll, fewer than 40% of those surveyed moved house within the last 10 years; about 20% moved at least once to another region, but within the same country. Less than 5% moved to another EU country over the last 10 years. A recent Eurostat publication states that during the period from 1995 to 1999, on average only 0.1% of the resident population moved across the member states per year, compared with 0.5% of non-EU nationals entering the EU. Citizens of Luxembourg, mainly because of the size of the country and its economic structure, are way ahead when it comes to mobility, followed by the Austrians and the Irish. Scandinavians are still above the EU average. In southern EU countries mobility across member states is much lower. Regarding attitudes to mobility, citizens of the European Union are not very willing to move to obtain a new job. Some 34% say that they prefer to stay in the same region and be out of work, while only 38% would prefer to move in order to find a new job.
- **Immigration** into the European Union is becoming increasingly important, particularly in the light of demographic developments. These flows now amount up to one million persons per year, representing 0.26% of the total resident population. Enlargement will turn some of these immigration flows – 50,000 persons per year

during the second half of the 1990s and the early 2000s – into intra-EU migration. Nevertheless, mobility between the new accession states and the present member states is expected to be modest in the years to come, representing at most 0.1% per year of the population of the present European Union.

- In general, there is a paradoxical pattern of **public policies and migration flows**, marked by:
  - i) low intra-EU migration, despite considerable steps undertaken by member states and the European Union to facilitate mobility, and on the other hand,
  - ii) growing immigration into the EU from non-EU countries despite tighter (labour) immigration policies towards these countries since the middle of the 1970s.

Yet, at the EU level, progress has been made over the last few years on geographical mobility issues, mainly in terms of actions to address the legal, administrative and linguistic barriers faced by students, trainees, teaching/training staff and researchers. In March 2004 the European Council in Brussels emphasised that free movement of workers is central to the development of the EU and encouraged further progress in a number of areas to promote mobility. One good example of EU policies to promote mobility and cross-country fertilisation are the exchange programmes for higher education such as Erasmus. The number of students taking part in this form of exchange amounts to over 100,000 every year and the programme is now expanding to the new member states.

A recent Eurobarometer survey carried out in December 2003 reveals recognition by EU citizens (56%) of the economic need for immigrants to work in some sectors. At the same time there is an emerging consensus among EU citizens in favour of equal rights for legal immigrants (66%) and for a common asylum-seekers policy at the EU level (85%). (See European Commission, 2004a.)

- Some member states have undertaken initiatives to stimulate the **economic immigration of non-EU citizens**, such as Germany and Ireland with regard to the temporary immigration of specialised labour. The German green card programme for IT specialists came into force on August 2000. Since then about 16,000 persons from non-EU countries, mainly India, Russia and the Central and Eastern European countries (CEECs), have received work permits. Among countries outside the EU, Canada offers an interesting example of an active labour-immigration policy, resulting in 230,000 permanent immigrants into Canada in 2002, most of whom are skilled workers. (See Annex 2 for case studies of German, Irish and Canadian experiences.)
- **For enterprises, both occupational mobility and geographical mobility is of utmost importance** for productivity and competitiveness. Innovative companies – those relying heavily on R&D for their success, those operating across borders and those willing to enter new markets or that are experiencing double-digit growth – have all designed human-resource mobility policies and practices with that aim at better fulfilling both business needs and employee satisfaction.

- The Task Force has conducted a survey covering private as well as public listed companies that range from a size of 3,000 to 120,000 employees and operate in 20 to 160 countries around the world. Furthermore, **examples of good practices** in international assignment policies have been collected and some of these, such as those developed by Volvo 3P and Schlumberger, are described in Annex 3.
- The range of practices and the motivations behind a company's decision to post an employee abroad have been widening in recent years. The patterns, drivers and characteristics of **mobility policies are also changing rapidly**, reflecting business strategies, new models of business organisation and structure, but also factors external to business. Similarly, employees' opportunities to work abroad are expanding and are also taking new forms. Mobility policies will continue to grow and change, in parallel with the increased globalisation of the markets and regional integration. Today's company recruitment and mobility policies in Europe often integrate the Single Market and single currency logic, but they continue to be confronted with a legal and administrative environment that remains costly and hostile to mobility. Companies are assuming the direct and indirect additional costs related to employee mobility. In an effective Single Market without barriers, these financial resources could be freed up to support corporate policies whose beneficiaries would be employees and their relatives moving to another country, rather than used to finance administrative procedures and Single Market failures. Some examples of good practice in international assignment policies and practices are described in Annex 3.
- In the area of **compensation to employees**, for example in relation to occupational pensions and share-option plans granted by the employer, companies employing a large multinational and mobile workforce are often obliged to set up these plans offshore to cover cross-border affiliation under the same rules – in order to ensure a better return to beneficiaries and minimise administrative costs for both employers and employees. More often, the lack of EU harmonisation and mutual recognition by national authorities of plans set up abroad lead to multiple filing with each different national authority concerned, along with a multiplication of specific national plans and procedures that are not justifiable from a Single Market perspective. At the macroeconomic level, this has a huge negative impact on the level of liquidity and integration of the EU financial market and is at the origin of a vicious circle that depresses rather than supports the EU economy. The more recent impulse given by the European Commission and Parliament to have a legal framework for the establishment of pan-European pension funds, and by the European Court of Justice towards the removal of discriminatory tax practices in cross-border pension contracts covering mobile employees, are positive signs that go in the right direction. Yet these measures will only be effective if member states do not jeopardise such EU decisions and take the necessary steps to implement them adequately into national laws.
- In addition, from a 'user' perspective it is also crucial that after EU laws are adopted specific attention is given to **communication** about the new measures and their benefits for users. The **training and education** of national officials to ensure the



correct and effective implementation of these provisions into national practices is important. The need for these activities is even more pressing after EU enlargement.

- These issues are so relevant and pertinent for the EU economy and for the welfare of its citizens that EU institutions and business organisations should improve their **cooperation** and better support each other's efforts in this area. The establishment of a true partnership and a renewed culture of trust between employers and public authorities of the countries of origin and of destination can support more and better jobs, thus improving overall business competitiveness in the European Union.

## Recommendations for action

This report recommends concerted actions to be taken by the European Union, by member states and by business – actions that can give political momentum to a process that is on its way, but is still too slow. We suggest these recommendations are included on the agenda of the forthcoming European Parliament and are taken onboard when the work of the next Commission is organised.

### 1. Focus the Lisbon mid-term review on the resourcing of the labour market

Our first recommendation, directed at the Commission and the High Level Group on the Lisbon strategy (chaired by Mr Wim Kok), is to focus the review of the strategy on resourcing the future labour market. The EU, the member states and businesses will face quite a different labour market situation in the coming four to six years, when the 'baby-boomers' retire. Thus the question is how to reconcile an ageing and declining working-age population with Lisbon objective of making the EU the most dynamic and competitive economy in the world.

- The employment rate is about 65% in the EU as a whole, with big differences between leading (70% or more) and lagging countries (around 60%). An increase in the employment rate of 1 percentage point per year would mean an increase of individuals in gainful employment of around 2.5 million a year (including non-EU nationals with a low employment rate) and a reduction of unemployment. The main avenues to achieve this include concerted action for investing in learning and staff-development policies, facilitating occupational mobility and entry into the labour market, and other initiatives for a more inclusive labour market.
- Internal mobility in the EU-15 – within and between member states – is low. The full implementation of the principle of free movement and improved incentives for mobility are another means to address this challenge and to better use the existing workforce, particularly young persons (the 'Erasmus generation'), who are more mobile than those who have settled.
- Net immigration represents up to 0.26% of the EU resident population, or one million persons a year, and part of this inflow will now, through enlargement, become intra-EU mobility. Another avenue is a concerted immigration policy aimed at attracting individuals from outside the EU, who are needed for the labour markets of today and tomorrow.

Thus, the mid-term review of the Lisbon strategy to be carried out in 2004-05 should focus on the question of how to adequately resource the labour market to avoid obvious mismatches and bottlenecks that will form obstacles to recovery and economic growth.

## **2. Appoint a commissioner for mobility**

Our second recommendation is to the President of the next European Commission to appoint a commissioner for mobility. The purpose of such an initiative is to make mobility a top priority of the new Commission and adequately equip the Commission to tackle present and future labour-market challenges along with changes in business policies. It also aims at ensuring the accountability and visibility of EU-level actions.

There is a wide range of EU policies and actions that have an impact on labour mobility. The effectiveness of these initiatives is a function of the level of cooperation among the European Commission's services and, through this, their level of coherence. A commissioner for mobility would help to promote policy direction in this area and become the policy-maker of reference for interaction with member states and social partners.

Very often, companies and citizens are not aware of EU policy developments or actions and the available information is difficult to obtain and understand. The commissioner would guarantee within his or her mandate the design and implementation of an adequate and user-friendly information and communications campaign by enhancing the role of the EU's European Employment Services (EURES) programme.

The commissioner could also study the feasibility of a specific EU statute for mobile employees along the lines of the Commission's recent proposal aiming at promoting the mobility of researchers.

A commissioner for mobility should have his or her own portfolio of mobility issues and be the coordinator and driving force for mobility initiatives in other policy areas, encouraging support from governments and enterprises and making public policies more visible and effective. A central objective of such policy coordination should be to bring about a new balance in the costs and benefits of mobility among governments, enterprises and individuals, facilitating labour mobility by improving economic incentives.

The first task is to contribute to making mobility a top priority of the Lisbon mid-term review and to work closely with businesses in the EU to overcome obstacles to international mobility.

## **3. Name-and-fame leading member states – and offer incentives for progress**

Our third recommendation, aimed at the Commission, is to organise a thorough annual review of the mobility policies of each of the 25 member states of the EU. The purpose of such an initiative is to identify leading and lagging countries, and thus put pressure on the lagging countries to improve their policies and ensure effective enforcement of EU principles. Such a review should be organised by the European Commission; the report from the review could serve as the basis for a public hearing in the European Parliament. These institutions, however, will be in a state of transition. Therefore, until

the new leadership of these institutions can pursue an initiative, CEPS and ECHR are prepared to develop the first set of indicators as well as carry out an initial review.

The social partners at the EU level have agreed to make mobility a priority in the joint work programme of the Social Dialogue Committee. CEPS and ECHR would welcome close cooperation with the social partners on a review of national strategies and policies for mobility. An initial review could focus on the following three areas: i) occupational mobility, ii) internal EU mobility and iii) immigration policies.

In the mid-term review of the Lisbon strategy in 2005, inadequacies in the implementation of the strategy by some member states have to be tackled. One way could be to better use existing EU funding programmes for providing financial incentives to those countries that are complying with the strategy or are making good progress. Well-performing countries create better economic conditions for all member states and could argue for a better distribution of EU funds to reward best practices.

#### **4. Strengthen corporate policies for mobility**

Our fourth recommendation is directed at business. In business, as well as among member states, there are leaders and laggards. The Task Force would encourage leading businesses in the EU to take the following three steps:

- First, establish a European business mobility network to promote the exchange of experience and information on best practice in business issues related to mobility.
- Second, such a network could also organise a peer review to help enterprises to develop and improve their policies.
- Finally, by organising such a network, firms could speak with one voice on mobility policies and become an active partner in the further development of EU initiatives – particularly on pensions, where improvements in regulations are most needed.

The following companies have already agreed to start such a network and to share information on their respective staff-mobility policies: Adecco, Chantelle, Hewitt Associates, Manpower, NCR Corporation, Publicis, Rexel-Pinault-Printemps-Redoute Group, Saab AB, Schlumberger, Toyota and Volvo 3P.

#### **Call for reaction**

CEPS and ECHR invite all interested parties – policy-makers, EU and national officials, businesses, managers and employee representatives, researchers as well as other opinion-makers – to comment on this report and to contribute to the further development of this new European agenda for labour mobility. The report is available on both the CEPS and ECHR websites and comments will be made available on these websites as well.



# A NEW EUROPEAN AGENDA FOR LABOUR MOBILITY

## *REPORT OF A CEPS-ECHR TASK FORCE*

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### **1 Purpose of the report**

The aim of this project is to evaluate recent efforts at the EU as well as national policy levels to facilitate geographical and occupational mobility in the EU member states. In addition, the project examines the way in which these factors influence business strategies and analyses the scope for eliminating the obstacles to labour mobility. This report was jointly initiated in July 2003 by CEPS and the European Club for human resources (ECHR), a Brussels-based, independent non-profit association. Its ambition is to bring together human resource directors from multinational companies, exchange experiences and develop, from a European viewpoint, an international vision of human resource management.

The Task Force has met five times between July 2003 and April 2004. It has worked in parallel with the preparations of the EU Commission synthesis report to the spring Summit 2004 and the mid-term review on the Action Plan for Skills and Mobility. Thus, the Task Force has had the benefit of having the reports of the Commission as a starting point for its deliberations. It has also benefited from research done by international organisations, such as the OECD and International Labour Organisation (ILO).

The Task Force has had the privilege to work with a great number of enterprises and human resource networks with practical experience in the field of mobility within as well as outside Europe. Furthermore, the Task Force decided to conduct a survey in order to obtain company-specific information on mobility policies and practices. The survey covered public and private companies, ranging in size from 3,000 employees to 120,000 employees, operating in 20 to 160 countries around the world.

The report is structured in two parts. The first part investigates occupational mobility and geographical mobility at an aggregated level. Here, recent trends in mobility and the latest efforts in EU immigration policies are examined. In addition, good national practices to foster occupational mobility, as well as national examples of economic-immigration policies are provided.

The second part of the report is dedicated to deepening the analysis by exploring the reasons behind and the obstacles to employee mobility at the company level. The unique possibility of drawing upon the experience of CEPS and ECHR corporate members in the field of international and particularly European personnel management enabled the Task Force to gather detailed and company-specific information.

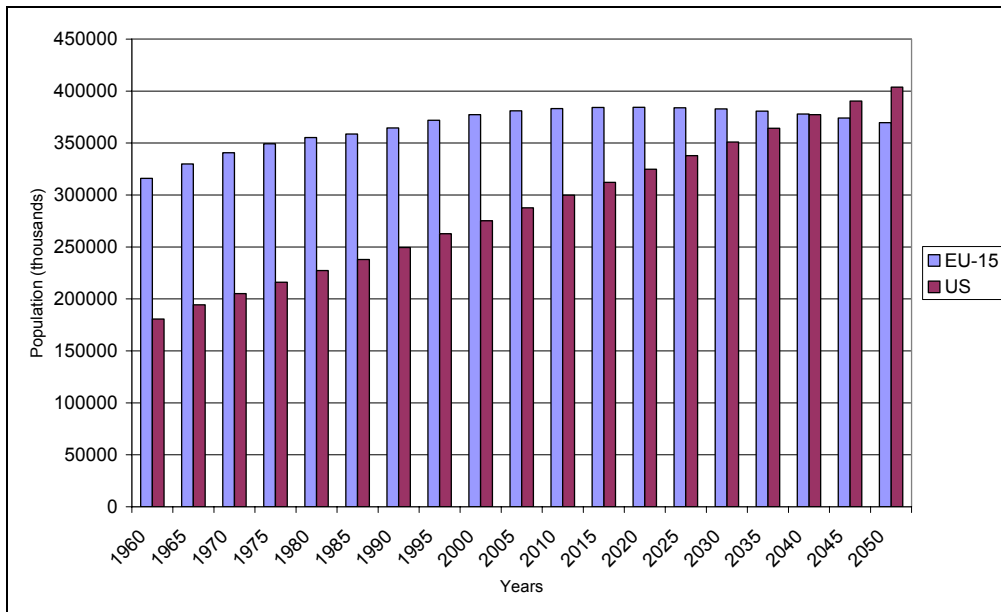
The Task Force seeks to make mobility – occupational as well as geographical – a top priority in the future development of the Lisbon strategy. Towards this end, this report offers a new agenda for action on mobility, not only for the European Commission, the European Parliament and the Council, but also for member states and enterprises throughout the EU.

## 2 Why is mobility the issue?

The present EU member states are facing a daunting demographic outlook. Population projections<sup>2</sup> reveal that a decrease in population size is expected in virtually all EU countries over the next 50 years. For example, the EU-15 population, which in 2000 was nearly 100 million larger than that of the US, is anticipated to become smaller relative to the US by 20 million in 2050 (see Figure 1). The population of Italy, currently at 57 million, is projected to decline to 41 million by 2050.

In addition to the decrease in population size, the EU is undergoing a relatively rapid population ageing process. In the EU-15 countries, over the next half century the median age of the population is expected to increase from 38 to 49 years old while in the US, the median age will only increase from 35 to 38 years.

Figure 1. Demographic comparison between the EU-15 and the US



Sources: Eurostat, UN Population Division, US Census Bureau and author calculations.

These demographic trends in the EU-15 will mostly occur through falling birth rates and lengthening life spans.<sup>3</sup> Since 1965, fertility in EU countries has constantly decreased, coming under the replacement level of two children per woman around 1975. Today, it stands under 1.5 births per woman. Meanwhile, life expectancy at birth has risen from 67 years in 1955 to 78 years in 2003.

While uncertainties exist, especially with regard to the evolution of fertility rates, these trends will cause contractions in the EU labour force that will lead to a dramatic reduction in the working-age population and unsustainable social security systems in the

<sup>2</sup> The population projections cited here draw on Eurostat's baseline scenario and the official UN (medium-variant) population estimates and projections.

<sup>3</sup> Additionally, the growing number of elderly people is expected to change the mortality pattern, as the impact of population ageing starts to outweigh the decrease in mortality rates.

near future. In some countries (e.g. Italy and Germany) the working-age population has already started to decline and soon other EU countries will follow this pattern. The so-called ‘dependency ratios’, i.e. the ratio of people aged over 65 to the working-age population, are expected to double over the next 50 years (see Table 1).

*Table 1. Dependency ratios and projections for EU-15 countries, in percentages*

	2000	2010	2020	2030	2040	2050
Belgium	28.1	29.4	35.6	45.8	51.3	49.7
Denmark	24.1	27.2	33.7	39.2	44.5	41.9
Germany	26.0	32.9	36.3	46.7	54.7	53.3
Greece	28.3	31.6	35.8	41.7	51.4	58.7
Spain	27.1	28.9	33.1	41.7	55.7	65.7
France	27.2	28.1	35.9	44.0	50.0	50.8
Ireland	19.4	19.1	24.5	30.3	36.0	44.2
Italy	28.8	33.8	39.7	49.2	63.9	66.8
Luxembourg	23.4	26.2	31.0	39.8	45.4	41.8
The Netherlands	21.9	24.6	32.6	41.5	48.1	44.9
Austria	25.1	28.8	32.4	43.6	54.5	55.0
Portugal	25.1	26.7	30.3	35.0	43.1	48.7
Finland	24.5	27.5	38.9	46.9	47.4	48.1
Sweden	29.6	31.4	37.6	42.7	46.7	46.1
United Kingdom	26.4	26.9	32.0	40.2	47.0	46.1
<b>EU-15</b>	<b>26.7</b>	<b>29.8</b>	<b>35.1</b>	<b>43.8</b>	<b>52.4</b>	<b>53.4</b>

*Note:* Ratio of people 65+ to working-age population.

*Source:* EPC (2001).

Given the demographic challenge of decreasing natural population growth and an increasing average age of the EU population, occupational mobility, the integration of large numbers of recent migrants and their descendants into the EU labour markets together with economic immigration will become increasingly necessary to fill job and skill shortages.

Moreover, in a world undergoing rapid technological change, mobility of the workforce is recognised as a key element of a competitive economy. Mobile employees contribute to the diffusion of knowledge, compensate for shortages of skilled labour, elevate levels of competence to meet quality standards and match the need of the growing globalisation of business.

Despite the trend of EU businesses becoming more international in their outlook and the fact that the key principle of the EU Single Market is the free movement of people (with capital, goods and services), the mobility of the workforce in the EU is low.

Addressing the problems of low and declining levels of mobility has become part of the European Union’s ‘new economy’ agenda agreed at the Lisbon summit meeting in March 2000, at which attention was drawn to the persistence of boundaries and barriers within the supposedly frontier-free EU Single Market. Subsequent European Council meetings reaffirmed this view and set in motion an Action Plan for Skills and Mobility, which aims at creating a more favourable environment for “more open and easily accessible European Union labour markets by 2005” (European Commission, 2002).

Reality, however, is still considerably lagging behind the declared objectives. The European Commission has just provided a state of play in its mid-term report on the implementation of its Action Plan of Skills and Mobility where it states progress and constraints in developing more mobility between countries and jobs (European Commission, 2004b).

The current challenges that EU labour markets face make occupational as well as geographical mobility key priorities in European strategies, member-state policies and business practice. This report addresses three forms of mobility – occupational mobility in the form of changes between jobs, immigration into the EU and finally geographical mobility in the EU-15, i.e. the free movement of labour.

### **3 Occupational mobility<sup>4</sup> – Facts and prospects**

#### **3.1 Occupational mobility: A key to productivity and prosperity**

Mobility between jobs is a fundamental part of the ongoing restructuring of enterprises and improvements in the productivity of the economy. The introduction and diffusion of new technologies and competition between enterprises on local as well as global markets are the main driving forces behind change, leading to the creation as well as the destruction of jobs. Occupational mobility is necessary to facilitate the matching process in a dynamic labour market – the finding of skilled labour for employers and the finding of new jobs for employees.

Job turnover rates in the EU-15 amounted on average to 10% in the 1990s, meaning that one-tenth of jobs were either created or destroyed per year (Gomez-Salvador et al., 2004).

Since the matching process between vacancies and workers is costly, a high level of mobility of employees between different workplaces and industries is an indicator of an effective labour market where the labour force proves to be very adaptable to changes in the demand for qualified workers. The capacity problems of industrial production can be reduced through a high mobility between jobs. Further, mobility tends to reduce long-term unemployment as many job openings give unemployed persons the opportunity to find new jobs.

Some mobility, however, is a result of forced, non-voluntary job changes and many individuals go through spells of unemployment when changing jobs. Job changes may also have the consequence of substantial losses in real earnings for the individual. The presence of negative social effects from occupational mobility suggests an important role for well-designed social security systems in a flexible labour market.

#### **3.2 Job tenures and job changes**

A closer look at the development of occupational mobility in OECD countries within the last decade shows that, even though the average job tenures have been fairly stable within the last decade for most countries, they differ extensively between some EU

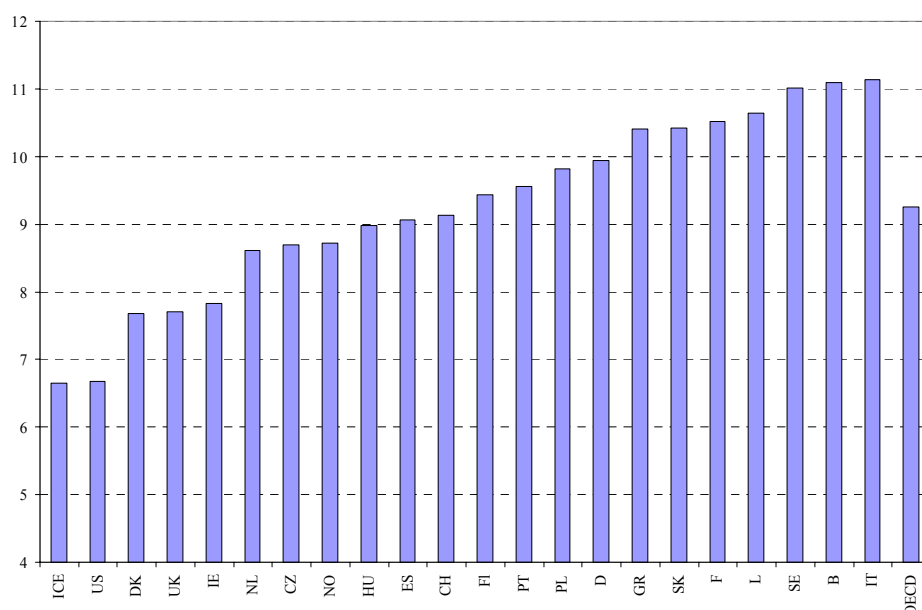
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<sup>4</sup> The term ‘occupational mobility’ is being used here in the same sense as ‘job mobility’, by which the change of jobs is meant, but not necessarily a change of occupations.



countries and the US. The employment relationship in the US is roughly 6.7 years on average – much shorter than in the EU-15 countries – where it amounts to 10.6 years on average (Auer and Cazes, 2003). Denmark, the UK and Ireland show the lowest average tenures throughout the European Union, with 7.5 to 8 years, while countries such as Germany, Greece, France, Belgium and Italy show average tenures of 10 to 11 years (see Figure 2).<sup>5</sup>

*Figure 2. Average job tenure in OECD countries in years, 2001*



Sources: Eurostat, LFS and Current Population Survey for the US, own calculations.

A look at the frequency of job changes for 10 EU countries reveals a similar picture: a very large majority of European Union citizens benefit from a high level of job stability, as only 29% of them changed jobs over the last half of the 1990s (European Opinion Research Group EEIG, 2001). Nevertheless, the pattern differs once again across countries. According to the same source, over the period from 1995 to 2000, about 52% of employed people changed jobs at least once in Denmark, a figure that makes Danish citizens the champions of occupational mobility in the EU-15. The Netherlands (41%) and Sweden (44%) completed the trio of countries that had the greatest job mobility rates during that period. At the bottom of the scale in the EU were Greece, Belgium and the Western Länder of Germany (all with roughly 21%), while in Luxembourg (22%), Italy (23%) and Portugal (24%) mobility was not much higher. Although job mobility seems to have been quite stable over the last couple of years, it has to be noted that those citizens who changed jobs over the second half of the 1990s, did so on average twice within this period. Occupational mobility is highest for those workers aged 15 to 24 and decreases with age. Moreover, the mobility of workers between jobs seems to decrease with the attained educational level, even if the difference is not very big.

<sup>5</sup> See Auer and Cazes (2003) for a recent analysis of the development of average job tenures in Europe and the US.

### 3.3 Occupational mobility and job security

With regard to spells of unemployment between changes of job, the question arises as to what degree occupational mobility brings more job insecurity. The OECD *Employment Outlook* (2003) offers an analysis of the perception of job security<sup>6</sup> using data from the 1989 and 1997 waves of the International Social Survey Programme. The percentage of employees who perceived that their job was at least somewhat insecure rose (often quite sharply) in all the seven countries for which data were available. The country with the highest share of employees worrying about losing their jobs was Spain with about 60%, followed by Portugal (50%) and Germany (43%), whereas in countries such as the US (17%), Canada (16%), Denmark (14%), the Netherlands (13%) and Norway (11%), workers seemed to be much less concerned.<sup>7</sup>

A similar picture emerges from looking at the results of the European Opinion Research Group EEIG (2001) for EU-15 countries: here, the most satisfied citizens with regard to the security of their jobs seemed to be the Danes, obtaining the highest mean score for satisfaction (see Figure 3). The Western Länder of Germany (opinions were strongly divided between East and West in this respect), Austria, the Netherlands and Luxembourg followed, as did the Scandinavian countries. The countries of southern Europe, along with France (and the Eastern Länder) obtained the weakest mean scores of satisfaction.

Whereas the most obvious explanation for an increased perception of insecurity would be that the risk of job loss also increased, the overall stability of employment relationships for the last decade, as stated above, casts doubt on this explanation. Another possibility is that the economic consequences may have worsened for workers who lose their job. For example, mobility can be costly as some job changes are involuntary and accompanied by unemployment and reductions in real earnings.

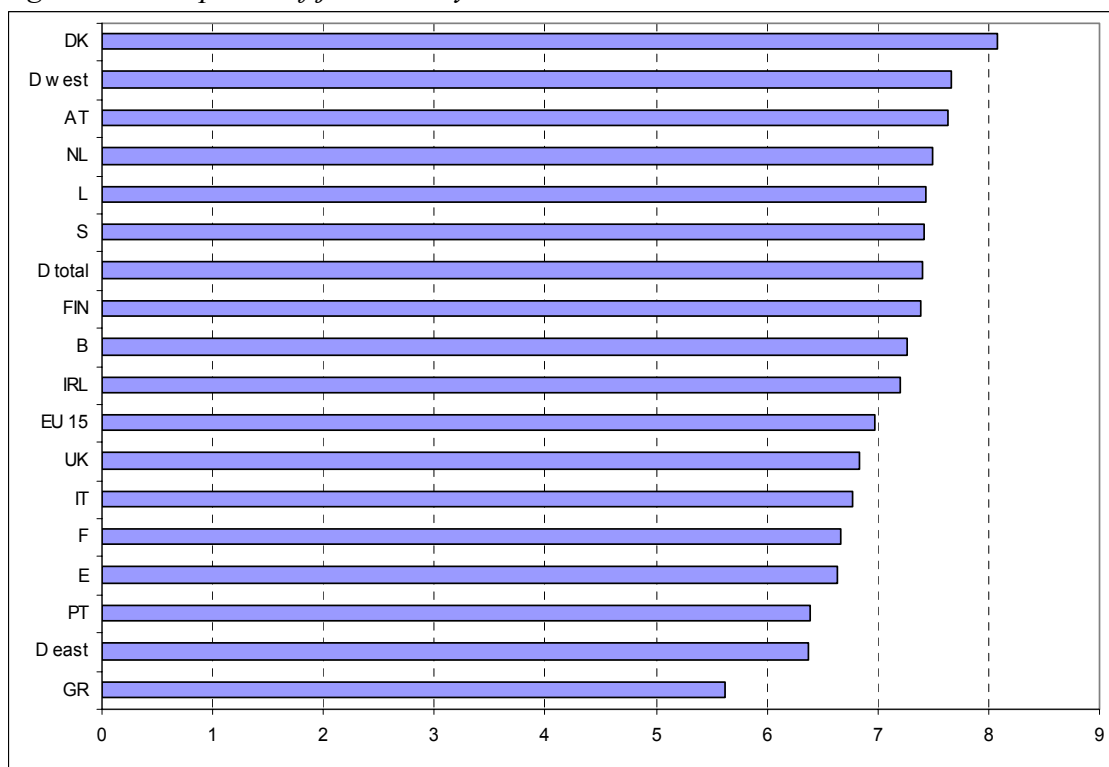
A comparison of the figures on occupational mobility with individual perceptions of job security shows that high ‘mobility rates’ do not necessarily coincide with individual perceptions of insecurity. Especially with regard to Denmark, it seems that the average ‘mobility rates’ are high, whereas general perceptions of job insecurity are low. These low perceptions of job insecurity may be fostered by the ‘Danish model’, which offers a combination of low employment protection, high social protection and extensive labour market policies. (See Annex 1 for this interesting example of good practice.)

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<sup>6</sup> The stability of jobs has an objective dimension (i.e. how many workers experience job loss and what are the consequences) and a subjective dimension (i.e. workers’ perceptions of how stable their current job is). Here, we only discuss the subjective dimension.

<sup>7</sup> Subjective data, such as the perception of job insecurity, are always difficult to interpret because they could result from very different origins. Thus, the individual perception of job stability may be greatly determined by the overall economic environment and the general state of the labour market. Nevertheless, as stated in the OECD *Economic Outlook* (2003), recent empirical evidence suggests that subjective job-loss expectations have significant predictive power in explaining future job losses and that higher subjective job-loss probabilities are correlated with an increased expectation of future earnings declines (see Stephens, 2003). Furthermore, these perceptions of insecurity are closely tied to individual well-being and have implications for the macroeconomy because they are linked to lower levels of consumer expenditure and greater wage restraint.

Figure 3. Perceptions of job security in EU-15 countries



Source: European Opinion Research Group EEIG (2001).

### 3.4 Public policies to promote occupational mobility

The EU Commission stated in its report on the implementation of the Action Plan for Skills and Mobility in 2002 that the movement of workers between jobs or sectors, whether within or between member states, is low in the EU (European Commission, 2002). In an increasingly knowledge-based, service-sector economy in the EU, occupational mobility is essential for adapting to structural change. The European Commission emphasised that all citizens must have a decent level of initial education and the opportunity to update knowledge and acquire new skills throughout their working lives and beyond. This should be a matter of shared responsibility between governments, public authorities, employers, social partners and individual citizens.

In many instances, changing jobs can mean more than moving from one enterprise to another or from one industry to another; it can also mean taking up a different career and occupation. It is therefore essential, according to the European Commission, to ensure that the mix of learning opportunities is responsive to the need to ensure both the employability and the adaptability of workers throughout their working lives, thereby enhancing their capacities for occupational mobility.

Nevertheless, the situation in the EU in these respects is far from satisfactory. A look at the facts presented in the report on the implementation of the European Commission's Action Plan for Skills and Mobility can illustrate the difference between the stated objectives and present realities:

- While employment growth in so-called ‘high education’ sectors during the end of the 1990s and the beginning of this century was three times higher than the average employment growth, educational attainment levels are still low in the EU as a whole. The average share of the population having attained at least upper secondary education was over 64.6% (among those aged 25 to 64 in 2002). It varied in different member states from 78.2% to 20.6%.
- There is still a worryingly high share of the population leaving school without formal qualifications. The average rate of early school-leavers across the EU is about 18.5%, ranging in different member states from 8.4% to more than 45%.
- There are also alarmingly low levels of adult workers in education and training, particularly for those with low to medium levels of educational attainment; of those, only 6% took part in education and training compared with more than 15% of those with high education levels.
- Low-skilled workers have a low propensity for occupational mobility and the proportion of low-skilled workers tends to be highest in member states and regions with low employment rates and high unemployment, i.e. in those that are lagging behind.

In its mid-term report on the implementation of the Action Plan of Skills and Mobility, the European Commission provides a specific assessment of the state of play regarding each of the priority areas for action and the measures put forward to support them (European Commission, 2004b). With regard to occupational mobility, the main areas where progress has been made include the adoption of a series of benchmarks by the European Council to achieve by 2010 (concerning early school-leavers; graduates in mathematics, science and technology; completion of upper secondary education; low-achieving 15 year-olds in reading literacy; and life-long learning participation). These benchmarks include key objectives in the field of occupational mobility, which were adopted by the European Council. Yet according to the report, progress has been slower on developing new skills and qualifications related to the information, communications and technology (ICT) sector and in the promotion of continuing vocational training and life-long learning.

The European Commission report to the spring summit in 2004 emphasises the urgent need to strengthen human resource investment, particularly in the private sector (European Commission, 2004c). A look at relevant indicators reveals an alarming trend with regard to investment in knowledge; in the EU it has fallen over the past few years, while it has increased in the US and Japan. Public expenditure on education as a proportion of GDP in the EU is comparable to that in the US (4.9% versus 4.8%) and superior to that in Japan (3.6%), while the level of private investment is markedly inferior. The private sector contributes three times more in Japan and five times more in the US than in the EU (European Commission, 2004c). To boost productivity and employment, member states and social partners are urged to give immediate priority to: increasing adaptability of workers and enterprises; attracting more people to the labour market; investing more effectively in human capital; and ensuring effective implementation of reforms through better governance.

Measures should target a number of fields, including increasing the private sector's contribution by providing specific incentives, reinforcing life-long learning and improving the effectiveness of national education and training systems.

## 4 Geographical mobility – Facts and prospects

### 4.1 Labour mobility in the EU and immigration into the EU<sup>8</sup>

A further means to grease the wheels of the labour markets and to fill job and skill shortages that evolve from an ageing workforce and technological change is geographical mobility – mobility across EU countries as well as immigration into the EU.<sup>9</sup>

Traditionally, labour immigration policies have been strongly influenced by the respective labour market situation in the member states. From the mid-1950s, labour migration was marked by recruitment through targeted schemes and bilateral agreements (e.g. the German 'guest-worker' programmes). This type of labour immigration is generally considered to have stopped after the oil crises in the beginning of the 1970s. Persistent unemployment, which has been on the rise since that time, has also had a negative effect on intra-EU migration.<sup>10</sup>

The impression of low internal mobility is confirmed by a recent Eurostat (2003) publication, which states that in 1995-99:

- just over one in 1,000 of those resident in the EU moved from one member state to another each year (or 0.1%);
- the average number of immigrants moving into the EU amounted to just under five in 1,000 (or 0.5%); and
- in total, therefore, immigration into the EU member states, including those coming from another EU country, amounted on average to just over 0.6% of the resident population per year over the period 1995-99.

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<sup>8</sup> Immigration takes place on the grounds of so-called 'pull and push' factors. An examination of the push factors in the countries of origin would have exceeded the scope of this report.

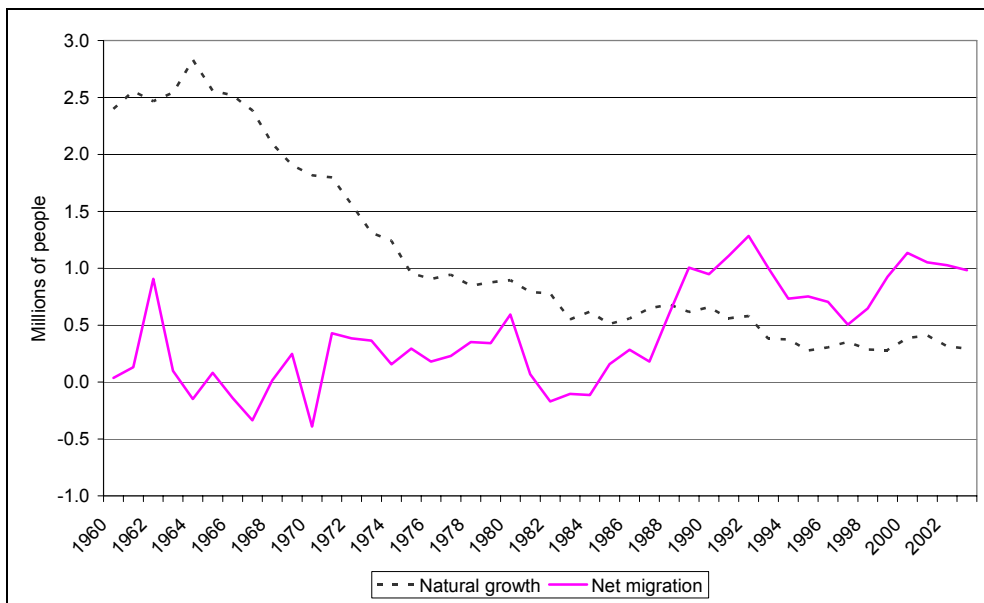
<sup>9</sup> Assessing developments in actual migration numbers and flows is not an easy task. This is partly because of the growing complexity in migration flows, as migration has become less conventional in the sense of permanent settlement (long-distance/cross-country commuting and temporary migration), and because the variations of migrants are increasing (seasonal workers, guest employees and contract workers) and residents are becoming more diverse. At the same time, the lack of unified standards across countries for registering and reporting immigration makes it difficult to gather harmonised information. The different concepts throughout the EU of registering nationality, such as distinguishing between citizens and foreign-born nationals, result in lower immigration figures for countries with higher naturalisation rates (e.g. France and the UK). Furthermore, net-migration figures differ, for example, according to the way they have been attained.

<sup>10</sup> For further details on the history of labour migration since WWII see, for example, Boeri et al. (2002).

Net immigration into the EU-15 has by now become the primary influence on EU population growth.<sup>11</sup> While natural population growth decreased constantly from the beginning of the 1960s onwards (as can be seen from Figure 4), net immigration has increased more or less steadily since the mid-1980s. The period before was characterised by huge ‘intra-EU flows’ owing to active the labour recruitment of the northern and central European countries from southern Europe.<sup>12</sup> The fall of the iron curtain and a number of ethnic conflicts boosted immigration and caused flows that in some countries reached peaks unequalled to this day. In Germany, for example, immigration in 1992 was twice as high as in 2001. The upsurge in immigration towards the end of the 1990s in southern European countries, however, might have been caused by regularisation campaigns.

During the 1990s, net migration flows into the EU varied between 500,000 and one million people per year. Eurostat’s baseline scenario suggests an average of 630,000 net immigrants into the EU over the next couple of years, with roughly 500,000 additional illegal immigrants per year (estimated by Europol).

Figure 4. Net migration versus natural population growth



Sources: Eurostat, NewCronos.

In the present context of rising demographic challenges and reported skill gaps in EU labour markets, labour migration has again attracted a lot of attention recently. Compared with the post-war immigration surge, however, those countries of southern Europe that were among the sources from which labour was recruited are now among the group of EU countries that are trying to attract labour immigration.

<sup>11</sup> For example, during 2003, the EU population is estimated to have increased by roughly 1.3 million, mainly as a result of the net inflow of international migrants (983,000 persons), while natural growth contributed to total growth by less than one-third (294,000 persons).

<sup>12</sup> It should be noted, however, that Greece did not join the EEC until 1981, and Spain and Portugal did not join until 1986.

In many EU countries, the tendency to take increasing recourse to schemes of temporary immigration can be observed. On the one hand the demand for highly skilled workers and IT specialists in particular is being facilitated through special schemes, such as those introduced in France, Germany, the UK and Ireland<sup>13</sup> or through exceptions in standard immigration laws, as for example in the Netherlands, where other professions have also benefited. The scheme for the temporary immigration of IT specialists in Germany – the German green card – and Ireland’s new work visa/work authorisation programme are explained in more detail in Annex 2.

On the other hand, the demand for low-skilled workers has also risen and is increasingly being regulated through seasonal visas (European Commission, 2003a). In Germany, for example, the number of work permits issued to seasonal workers originating from the EU periphery has – according to the Federal Employment Services – more than doubled over the last decade from 138,000 permits in 1994 to 318,000 permits in 2003.

In the following section, two ways of improving the matching process in EU labour markets is considered in more detail. While one means is intra-EU mobility, including mobility between the present and the new member states, another is the integration of immigrants into the labour market.

## 4.2 Intra-EU mobility

Data on mobility between member states are very difficult to attain. A look at the figures in Table 2 on the share of foreign citizens (both EU and non-EU nationals) in EU-15 countries only reveals a very broad picture: the share of EU citizens in the total foreign population is quite high in Luxembourg, Belgium and Ireland, while in the rest of the EU-15 countries the share of EU foreigners among total immigrants is less than 50%.

For the period 1995-99, Eurostat data on flows confirm the impression that intra-EU mobility is low compared with inflows from the EU periphery. On average, over the second half of the 1990s, some 18% of all those moving into the EU countries (whether from inside or outside the EU) were citizens of other EU member states, 27% were nationals returning from a spell abroad and 54% were citizens of non-EU countries (Eurostat, 2003).

Further confirmation of the view that EU citizens lead a fixed lifestyle can be found in an opinion survey that was carried out in 2001 in the member states as part of the Eurobarometer 54.2, at the request of the Directorate-General Employment and Social affairs of the European Commission (European Opinion Research Group EEIG, 2001).<sup>14</sup>

It reveals that while 38% of EU citizens have moved house within the last 10 years and 21% have moved at least once to another region within the same country, only 4.4% seem to have moved to another EU-15 country. Citizens of Luxembourg are way ahead regarding mobility between member states, followed by Austrians and the Irish.

<sup>13</sup> For more information on the latest initiatives in other EU countries that aim at admitting temporary immigrants for employment, see OECD (2002) and Apap (2003).

<sup>14</sup> The survey interviewed 16,014 people, representing an average of roughly 1000 people per member state.

Scandinavians are still above the EU average when it comes to moving to another EU country. Italians are the most anchored citizens, as are southern Europeans in general: the Portuguese, Spanish and Greeks are not very mobile across countries.

The prospects for European mobility in the future are not very promising either: only 19% of EU citizens think they will move house in the future and 8% say they would be prepared to move to another EU country, versus 68% who would not and 14% who did not respond to this question.

Why is geographical mobility so low in Europe?

An initial answer to this question may be offered by the survey quoted above, which reveals that EU citizens generally are quite satisfied with where they live. When asked about the reasons for not moving house, satisfaction with the place of stay was the prevailing explanation for the fixed lifestyle of EU citizens in 81% of the cases.

*Table 2. Shares of foreign population in EU countries\**

	Foreign nationals as a percentage of total population			EU foreigners as a percentage of total foreign population		
	1991	1996	2001**	1991	1996	2001**
Belgium	9.1	9.0	8.3	60.9	61.0	66.0
Denmark	3.1	4.2	4.8	17.3	20.9	21.0
Germany	6.7	8.8	8.9	25.3	25.3	25.7
Greece	2.2	1.5	na	na	28.5	na
Spain	1.0	1.3	2.3	na	47.2	40.6
Ireland	2.5	3.2	4.1	78.2	74.2	66.0
Italy	1.4	1.3	2.5	na	17.4	10.5
Luxembourg	28.6	34.2	36.9	na	89.5	86.1
Netherlands	4.6	4.7	4.2	na	26.3	30.2
Austria	6.6	9.0	8.9	na	na	14.9
Portugal	1.1	1.7	2.0	na	24.7	27.3
Finland	0.5	1.3	1.8	na	20.0	18.3
Sweden	5.6	6.0	5.4	na	33.7	37.8
UK	4.3	3.4	4.2	32.2	41.1	34.8
Weighted average	2.9	3.2	3.9	45.3	23.2	22.9

Notes: \* EU-14 without France.

\*\* The latest year for which most data were available is 2001.

Source: Eurostat, NewCronos.

Family and financial reasons are cited by only 8% of the respondents. Work does not seem to hold back any nomadic tendencies either: this reason is only cited by 2% of those who haven't moved house in the last 10 years. When it comes to expatriation to another EU country, language still seems to be an important barrier – only 29% of EU citizens say they would be willing to live in another EU country where the language was different from their native language.

Thus, if one looks at the possible drivers of mobility on a personal level, family and personal reasons seem to prevail. Only 15% of those who moved did so for professional reasons and 34% of EU citizens prefer to stay in the same region, even if that implies being out of work. It is within the 25 to 39 year-old group that one can find the highest



proportion of individuals citing professional reasons for moving; students are the only socio-professional group where the major reason for moving is not ‘for family/personal reasons’.

The motivation to move for professional reasons has, however, greater importance when it comes to moving house in the future (increase of 12 percentage points). In general, professional reasons seem to be of greater importance in the Nordic and Central European countries, as well as in Ireland.

According to the Eurobarometer survey, mobility seems to increase with educational level and is highest among those aged between 25 and 39. When it comes to income, the poorest individuals seem to have moved more often than the wealthiest ones, who in turn are more mobile than those in the intermediary income groups. Unemployed individuals and students are also more mobile than retired persons and those at home.

#### **4.2.1 EU enlargement and the impact of immigration from the CEECs**

Enlargement will turn some of the immigration flows into intra-EU mobility, shifting the bias a little bit away from immigration into the EU. Mobility between the new states and the present member states is nevertheless expected to be modest in the years to come.

Research on the effects of EU enlargement on workforce migration concludes that East-West flows are likely to be small and that they could in the long run even dwindle or possibly reverse. A recently updated study by the DIW on migratory patterns states for example that there is a potential inflow from the CEECs over the next 25 years of 3.7 million persons in total (DIW, 2003). The net inflow into the EU-15 on a yearly basis is estimated to be between 318,000 and 400,000 persons at the beginning of free movement – and thus yearly inflows will at most account for 0.1% of the EU-15 population. Borjas (1999) also stipulates that post-enlargement migration flows are likely to be small. Two recent papers, by Drinkwater (2003) and the European Foundation for the Improvement of Living and Working Conditions (2004) use cross-national survey data and confirm that view. The Drinkwater study focuses on the reasons why citizens from the accession countries may not be willing to move and finds that although individuals in many CEECs display a high willingness to go abroad, overall, the motivation to move country is lower than it is in the EU-15. The report by the Dublin-based institute finds that only 1% of the new member states’ working population, i.e. approximately 220,000 persons per year, can be expected to migrate from the accession countries over the next five years, most of whom will be young, educated to tertiary level or still studying, and living as single persons without dependents. Apart from Germany, which presently attracts 60% of the inflows, Italy and Austria are expected to be the major countries of destination according to the DIW study.

Owing to concerns in existing member states, the EU negotiated transitional arrangements of a flexible nature with the acceding countries to allow the existing member states to limit the movements of workers from the new member states for a period of up to seven years after enlargement. Member states wishing to allow free movement sooner may do so (Treaty of Accession, signed in Athens in the summer of 2003). Reviews of the situation are planned to take place two and five years after

enlargement. The recent decisions taken by most of the EU-15 member states to introduce transitional arrangements seem not only motivated by the fear of large inflows of workers willing to work for little money but also by the risk of what is sometimes called ‘social-welfare tourism’. The UK and Ireland, being the last countries besides Sweden to announce that they would not impose barriers to workers from the accession countries have just declared that they will restrict access to non-contributory social-welfare payments to new entrants (e.g. rent supplements and the job seekers allowance) unless they can prove to have been working (and residing) in the country of destination for a certain period of time. Hence, the granting of social assistance that usually depends on passing a means test is now also coupled with the requirement of ‘habitual residency’.

Thus, with this move in means-tested social security policies, the precise area of social welfare where newcomers would have had the possibility to shop is going to be changed. In the field of social benefits (such as unemployment benefits), where the granting of payments is conditional on an individual’s previous contributions to social funds, new labour market entrants, including nationals who have not made such contributions, are not eligible anyway.

Nevertheless, as a recent ruling of the European Court of Justice showed (case C-138/02), regulations aimed at preventing member states from becoming destinations for means-tested ‘social-security shoppers’ already exist in EU legislation.<sup>15</sup> The Court stated that there is a distinction to be drawn between member-state nationals who are looking for their first job in the host member state and those who are working or have worked there for a longer period of time. People who are looking for their first job benefit from the principle of equal treatment only as regards to access to employment, while those who have already entered the employment market may, on the basis of the 1968 Regulation, claim the same social and tax advantages as national workers.

### **4.3 Labour market integration of immigrants**

What makes immigration policy such a sensitive issue is that it bears a wide range of implications – social, cultural, economic and legal. With regard to the economic effects of immigration flows, as could be seen from the example of transitional arrangements, the fear of unsuccessful integration into EU labour markets seems to prevail.

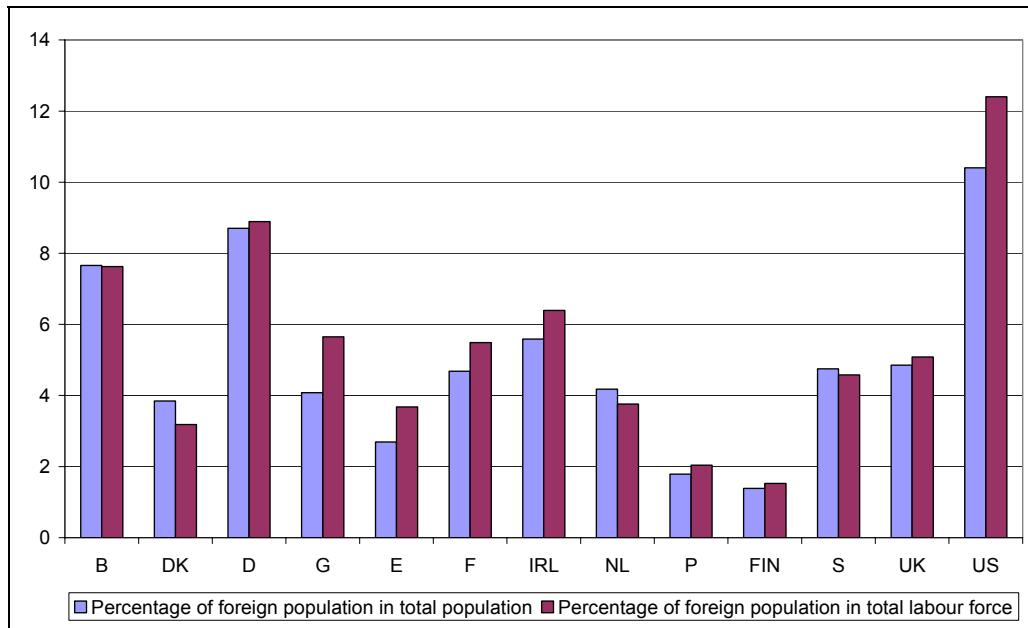
An examination of participation rates suggests that the integration of foreigners in the labour force is broadly in line with their presence across member states. Especially in the ‘new’ immigration countries – such as Ireland, Italy,<sup>16</sup> Spain, Portugal and Greece – participation in the labour market has been growing in accordance with the increase of new foreign workers (see Figure 5).

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<sup>15</sup> On 23 March 2004, the European Court of Justice rejected an appeal by an Irish citizen who was refused a job seekers allowance in the UK. For more details, see case C-138/02.

<sup>16</sup> Data on the representation of foreigners in the labour force for Italy were unfortunately not available.

Figure 5. Share of foreigners in total population and labour force, 2003



Notes: Without Austria, Italy or Luxembourg. US data refer to foreign-born persons in 2000.

Sources: Eurostat, LFS and US Census Bureau (2001).

Yet this picture changes if one takes a closer look at the actual integration of foreigners into EU labour markets on the basis of data on employment and unemployment rates for foreigners. Moreover, if one distinguishes between EU nationals and non-EU nationals, the picture of ‘equal participation’ is less convincing (see Tables 3 and 4).

Table 3. Employment rates by nationality, 1992 and 2002

Employment rates	EU nationals		Non-EU nationals	
	1992	2002	1992	2002
B	57.4	60.6	31.2	30.7
DK	74.8	77.2	53.5	49.8
D	67.1	66.5	59.0	51.2
EL	53.6	56.3	55.3	68.4
E	49.1	58.3	54.2	67.1
F	61.0	63.9	42.2	43.2
IRL	50.9	65.1	42.8	58.2
L	61.5	64.0	62.1	57.1
NL	64.7	75.3	35.5	48.6
A	68.2	68.2	70.9	67.4
PT	66.0	68.5	51.2	76.1
FIN	59.9	69.2	42.6	54.4
S	71.7	74.9	41.1	49.9
UK	68.6	72.1	52.9	57.3
<b>EU available</b>	<b>62.6</b>	<b>66.4</b>	<b>51.5</b>	<b>52.6</b>

Source: Eurostat, LFS.

In 2002, the employment rate of non-EU nationals was on average much lower than that for EU citizens. The gap was highest in Belgium at 30 percentage points, where the employment rate for non-EU citizens was also 20 percentage points below the EU average. The gap in employment rates exceeded 20 percentage points in Denmark, the Netherlands, Sweden and France, and 10 percentage points in Germany, Finland and the UK. Smaller differences were displayed by Ireland and Luxembourg. The employment rates were about the same for EU nationals and non-EU nationals in Austria and lower for EU nationals than for non-EU nationals in Portugal, Spain and Greece. No data were available for Italy.

*Table 4. Unemployment rates by nationality, 1992 and 2002*

Unemployment rates	EU nationals		Non-EU nationals	
	1992	2002	1992	2002
B	6.3	6.3	24.5	33.5
DK	9.1	4.2	16.0	13.0
D	6.1	8.1	10.4	16.2
EL	8.0	9.9	14.2	9.6
E	17.8	11.0	16.2	15.6
F	9.7	8.1	26.2	24.9
IRL	15.4	4.3	na	na
L	2.0	2.3	na	na
NL	5.2	2.5	23.3	5.7
A	4.1	4.5	7.6	10.0
PT	4.1	4.7	na	na
FIN	17.1	10.4	28.6	22.1
S	8.6	4.8	27.3	15.0
UK	9.7	4.9	17.1	10.0
<b>EU available</b>	<b>9.1</b>	<b>7.1</b>	<b>16.0</b>	<b>15.8</b>

Source: Eurostat, LFS.

The unemployment rate was roughly more than twice as high for non-EU nationals as for EU nationals in 2002. In all member states for which data were available except Greece, non-EU nationals performed less well than EU nationals in terms of unemployment. Contrary to the situation in the EU, in the US the employment rate was almost as high for foreign-born persons (66.6%) as for natives (67.3%) in 2000 (see US Census Bureau, 2001).

The situation varies greatly not only among the EU member states and between the EU and the US, but also between men and women and among different age groups. In particular for young men, employment rates did not differ substantially between non-EU nationals and EU foreigners (European Commission, 2003a).

If one looks at the labour integration of non-EU nationals over the last 10 years, progression seems to be striking for non-EU nationals in Greece, Spain, Ireland, Portugal and the Netherlands. This partly confirms the observation stated above about the relatively good integration of foreign workers in these new destinations for immigrants (the Netherlands forms an exception to this pattern). The developments in most of the former immigration-target countries (Germany, Belgium and France) are far

less optimistic – in Germany, employment rates even fell and unemployment rates increased for non-EU nationals. On average, the gap between employment rates of EU citizens and non-EU nationals even widened from 11 percentage points to roughly 14 percentage points, owing to an increase in employment rates for European Union nationals.

Integration in the labour market depends on individual characteristics such as age, level of education, professional experience and family structure. With regard to foreigners, participation also depends on the length of stay, as the individual conditions for successful integration into the labour market of the host country (such as language proficiency) improve.

The gap between the employment rates of non-EU nationals and EU nationals could thus be partly accounted for by a difference in skill levels between the two groups. The latest *Employment in Europe* report states that half of the non-EU nationals in employment are low-skilled (unskilled manual and low-skilled or unskilled non-manual) while this is the case for less than a third of EU nationals (European Commission, 2003a).

This observation is confirmed by an estimation of the skill levels of EU nationals and non-EU nationals on the basis of attained education levels for several EU-15 countries (see Figures 6 and 7).<sup>17</sup> The average qualification level of non-EU foreigners seems to be below that of EU foreigners and well below that of the native population, especially in high income and high education countries such as Germany, France, Denmark and the Netherlands. Countries with relatively low education levels among natives (Spain, Italy, Portugal and Greece) seem to receive immigrants with higher education levels, especially from other EU countries but also from the EU periphery.

Taking into account the high share of non-EU nationals among internationally mobile persons, the overwhelming portion of immigrants entering the EU belongs to the low-education category. There are exceptions to this pattern: Ireland, which mainly attracts EU-immigrants originating from the UK; Finland, which mostly attracts foreigners from the CEECs; Luxembourg, which mainly attracts EU citizens; and the UK. The latter managed to attract non-EU foreigners with education levels well above those of natives, although three-quarters of this group come from developing (new Commonwealth) countries.

If labour immigrants are successfully integrated into the labour markets, increased competition and productivity gains could yield a net welfare gain to the total region. Successful integration is becoming even more important with respect to the higher flows of immigrants that are expected to come. The more that immigration complements the native labour market supply the higher the gains are for the host country.<sup>18</sup> Thus

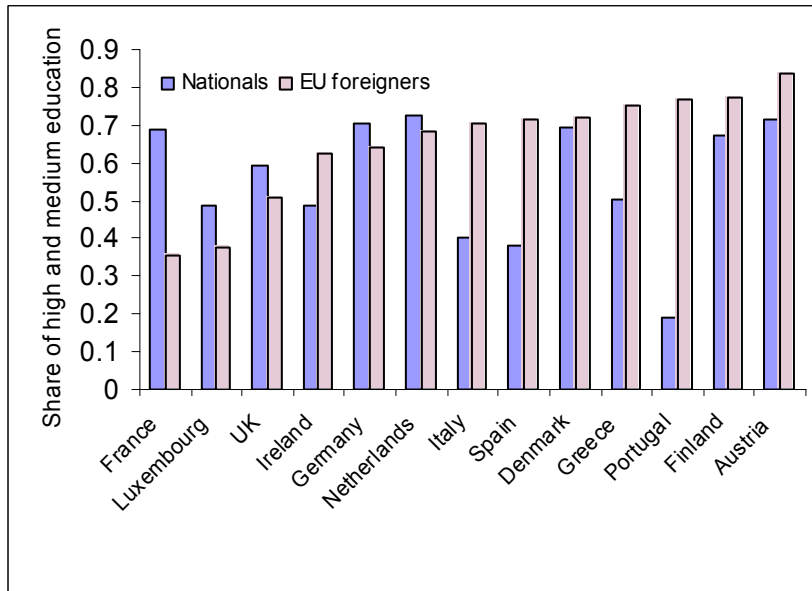
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<sup>17</sup> An indication of the skill composition of migrants can be obtained using the European Common Household Panel (ECHP), which applies the categorisation of educational levels according to the UNESCO International Standard Classification of Education (ISCED-97).

<sup>18</sup> If the share of manual workers in the host countries is lower, high-skilled (and very low-skilled) immigrants are sufficiently different from the share of native production inputs. Owing to these production complementarities between immigrant workers and other factors of production, the overall

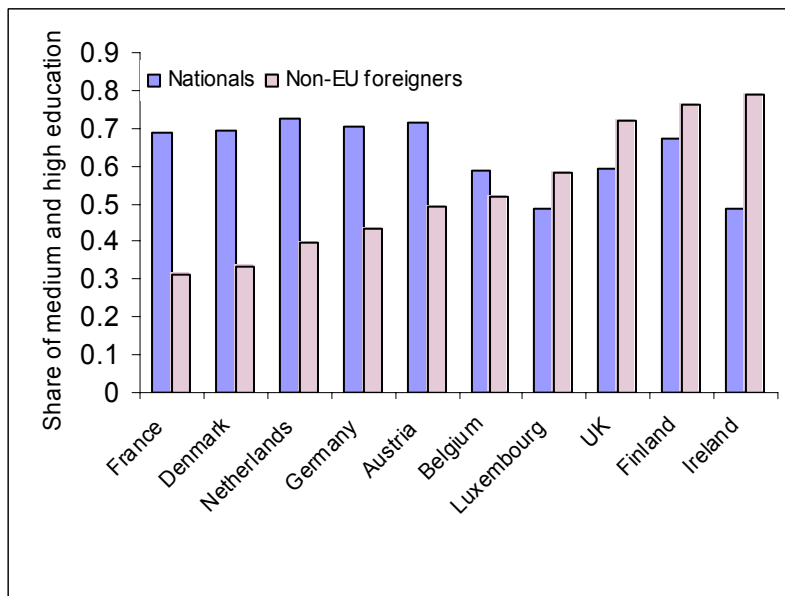
investment in management policies for labour immigrants and in the creation of incentives for integrating them into the host country should bring about high returns.

Figure 6. Skill composition of EU foreigners\* and natives in the EU-15, 1996



\*Foreigners are defined by citizenship and not by immigrant status.  
Source: Boeri et al. (2002).

Figure 7. Skill composition of non-EU foreigners\* and natives in the EU, 1996



\*Foreigners are defined by citizenship and not by immigrant status.  
Source: Boeri et al. (2002).

net gain in income of the native population of the host countries resulting from the immigration of high-skilled and (very) low-skilled workers is positive (see for example Borjas, 1995).

It is often said that source countries are likely to lose from international migration, especially owing to emigration of the more highly skilled. This does not necessarily hold true if one takes into account that migration can improve the efficiency of the home country's labour market, since mobile citizens can diffuse back knowledge they have attained abroad. Furthermore, alongside human capital, returning citizens can bring physical capital that can be invested in the original source country. Those who stay may also benefit from the emigration of others if mobile citizens send a sufficiently large amount of remittances back home.<sup>19</sup> The effect of these economic flows on investment, in turn, can have a positive impact on productivity and employment in the source countries.

## 5 The EU's efforts in mobility policies

The description in section 4 of intra-EU mobility and immigration shows that the unsuccessful integration of immigrants into EU labour markets has been reinforced by restricting labour migration from non-EU countries since the mid-1970s. Thus, the 'channel' of economic migration has been restrained and immigration from the EU periphery has taken place increasingly within the channels of family reunification and humanitarian immigration, where access to labour markets in the member states has often been restricted.

This led to the paradoxical pattern of migration flows in the EU marked by:

- i) low intra-EU migration despite considerable political steps undertaken by member states and the European Commission to facilitate mobility and, on the other hand,<sup>20</sup>
- ii) growing immigration into the EU from non-EU countries despite tighter (labour) immigration policies towards these countries since 1973.

Thus, even though the goal of the member states was to protect the EU labour markets from immigration and to promote intra-EU mobility, restrained labour immigration policies have had the result of a large inflow of non-EU immigrants who are not well integrated into EU labour markets.<sup>21</sup>

This paradoxical pattern of public policies and migration realities has to be taken as a starting point for the rethinking and reorientation of EU strategies and member-state policies, both in terms of intra-EU mobility and immigration policies.

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<sup>19</sup> Migrants sent \$72.3 billion to developing countries in remittances in 2001 – a figure that is much higher than total official aid flows to the developing world (International Bank for Reconstruction and Development/World Bank, 2003).

<sup>20</sup> This does not mean, however, that granting the free movement of people had no effect on the mobility of EU citizens across borders. Without these measures, intra-EU migration might have been even lower since economic motivations for movement, such as differences in income and employment across EU-countries, have been declining over the past decades.

<sup>21</sup> While the policies of active labour recruitment nearly stopped after the oil crises in the 1970s, attempts to restrict secondary immigration (immigration owing to family ties) throughout the years of growing unemployment have not always been very successful. In France and Sweden, for example, family-linked immigration respectively accounted for 78% and 60% of permanent inflows in 2000, (OECD SOPEMI, 2002).

## 5.1 Intra-EU mobility: Free movement of persons

The history of the Community labour-immigration policy can be divided into two periods. The first period, covering the 1980s and beginning of the 1990s, can be broadly characterised by a focus of the EU authorities on facilitating labour mobility between member states. This focus developed in the run-up to the Schengen Agreement of 1985 and the subsequent Schengen Convention of 1995 (leading to the abolishment of border controls between European countries)<sup>22</sup> and the Single European Act, which set out the timetable for the creation of the Single Market in 1993. Article 7a of the Single European Act states:

The internal market shall comprise an area without internal borders in which the free movement of goods, persons, services and capital is ensured in accordance to the provisions of the Treaty.

Nevertheless, guaranteeing the free movement of workers is a multidimensional task that goes far beyond the granting of open immigration policies. To assist in achieving the aim of creating labour markets that are ‘open to all, with access for all’ the legal, administrative and linguistic barriers to mobility also have to be addressed.

In the above-mentioned mid-term report on the implementation of the Action Plan of Skills and Mobility, the European Commission assesses recent progress and constraints in developing more mobility between countries (and jobs). (See European Commission, 2004b.)

According to the mid-term report, for example, the European Commission has made progress on a common European Health Insurance Card, which will be introduced for emergency health care throughout EU countries on 1 June 2004 and in successive steps is going to replace the E111 forms. Furthermore, better coordination on social security rights is on the way, aiming at simplification and modernisation as the proposal for a reform of the respective Regulation 1408/71 had its second reading on 20 April 2004 (see European Commission 1998 and 2003b).

Progress can also be seen in the field of the portability of (supplementary) pension rights (including the possibility for companies to set up EU-wide pension plans). The improved portability of occupational pension rights has been the subject of a Commission consultation procedure with the social partners launched in June 2002 in order to address obstacles to the acquisition of pension rights (minimum-age conditions, waiting and vesting periods), to improve the preservation of acquired pension rights and to facilitate the transfer of pension rights between schemes. Concerning the elimination of tax obstacles to cross-border provision of occupational pensions, the European Commission is currently examining the relevant national rules to make sure that member states comply with the Treaty provisions. Notably, eight infringement cases against different member states have already been opened.<sup>23</sup> The fact that some of these

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<sup>22</sup> The Schengen Agreement has meanwhile been signed by all EU member states except the UK and Ireland.

<sup>23</sup> The countries concerned are Denmark, Belgium, Spain, France, Ireland, Italy, Portugal and the UK; these are also discussed in European Commission press releases IP/03/179 (05.02.2003), IP/03/965 (09.07.2003) and IP/03/1756 (17.12.2003).



countries have started to change their legislation to comply with the European Commission request shows the importance of Commission action in this area and should discourage any complacency.

Progress has also been made with regard to mobility in education and training, as the Education and Training 2010 work programme provided the first set of policy recommendations, particularly aiming at improvements in the field of vocational training (European Commission, 2001a). In addition, the goals of the work programme are the provision of access to mobility, the monitoring of the volume, direction and participation rate of mobility flows, the facilitation of recognition of qualifications acquired during mobility and the promotion of mobility from non-EU countries (Erasmus World Programme). The mobility of researchers has been promoted within the context of implementing the Communication on *A Mobility Strategy for the European Research Area* (European Commission, 2001b) and the proposals for facilitating the admission of non-EU nationals to carry out scientific research throughout the EU (European Commission, 2004d). Furthermore, the Researchers' Mobility Portal<sup>24</sup> came on-line in July 2003, and the European network of mobility centres for researchers (ERA-MORE) will be launched in 2004. The European Commission has also adopted a proposal for a decision of the European Parliament and the Council on a single framework for the transparency of qualifications and competences – the Europass, which aims at helping EU citizens to present their vocational and professional qualifications more clearly and effectively.

Nevertheless, the report notes that the draft Directive to streamline the recognition of professional qualifications, tabled by the Commission in March 2002, still awaits its first reading (despite the spring European Council of 2003 having urged rapid progress on its adoption).

## **5.2 The Lisbon strategy: The need for a proactive immigration policy**

The second period of Community migration policies starts out with the coming into force of the Amsterdam Treaty in May 1999 and is marked by a shift in focus towards immigration from outside the European Union. The subjects of concern are now the non-EU nationals.

The Amsterdam Treaty, despite the fact that it does not mention a common immigration policy, foresaw the transfer of competence regarding asylum and migration from the third pillar to the first pillar after a five-year transition period and was a major step in the development of a common Justice and Home Affairs policy.

Moreover, with the publication of a controversial report by the United Nations on the demographic outlook for a broad range of countries in March 2000, the debate on immigration policies gained new momentum (UN, 2000). Based on an analysis of current population trends and projections for the period 1995-2050, the study states that European countries need replacement immigration to avoid a decline in total population in general and a decline in the labour force in particular. According to the report, the number of immigrants needed to offset a decline in total population for the EU-15

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<sup>24</sup> The Researchers' Mobility Portal can be found at <http://europa.eu.int/eracareers>.

countries in the next 50 years is approximately comparable to the immigration rate of the 1990s, i.e. an average annual net migration of 857,000 persons. The report stipulates however, that in order to prevent a labour force decline, the number of immigrants entering the EU each year should double. The provocative observations<sup>25</sup> of the report not only stimulated an intense public debate in the European press, but they also contributed to re-opening the issue of immigration in the EU institutions and member states at a time of reflection on how to implement the new Amsterdam provisions (Apap, 2003).

Even though the Commission adopted a timid position towards replacement immigration, the Lisbon Strategy, launched the same year, underlines the need for a 'proactive' immigration policy with regard to labour. The Communication on Community immigration policies from November 2000 makes it clear that 'zero immigration' policies are no longer appropriate and that a new approach is needed, especially with regard to labour immigrants (European Commission, 2000a).

Furthermore, a proposal for a directive dealing with the conditions of entry and residence of non-EU nationals for the purpose of paid employment and self-employed economic activities was put forward on 11 July 2001, the same day a Commission Communication on an open method of coordination for Community immigration policies was published (see European Commission, 2001c and 2001d). Nevertheless, resistance to the proposal for the purpose of employing non-EU nationals has been strong in the relevant Council Migration Admission Working Group. Improvements with regard to the legal status of non-EU nationals have been achieved through the Directive on the status of long-term resident non-EU nationals, who are now allowed to live and reside freely across member states after they have been holding the legal status for five years (European Commission, 2001e), on which the European Council reached political agreement on June 2003 and with respect to the right of family reunification for those non-EU nationals who are already resident in an EU member state and want to accompany an EU citizen (European Council, 2003).

The relationships between immigration, integration and employment were examined by the European Commission in a recent Communication (European Commission, 2003c). It addresses skill shortages and demographic challenges and therefore the need for a "controlled open immigration policy of third-country nationals". At its Thessaloniki session of June 2003, the European Council discussed the Communication and stressed the need to explore the legal means for non-EU nationals to migrate to the EU – taking into account the reception capacity of the member states – within the framework of enhanced cooperation with the countries of origin.

Moreover, falling in line with the debate of labour shortages in the course of rapid population ageing, the discussion on skill needs was instigated by the International Data Corporation (IDC) publication on the existence of a European ICT skills gap. In its broad skills definition, the IDC projected that gap to reach 1.7 million workers in 2003 (EITO, 2001). Despite the recent downturn in the high-tech industry, demand continues

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<sup>25</sup> As stated earlier, immigration policies are a sensitive issue. The fact that many European countries experienced a failure of their earlier recruitment with regard to the return of labour immigrants to their home countries has to be kept in mind when analysing the recent debates on immigration policies.

to grow for ICT skills centred on the internet environment. The main drivers for this demand are the growing importance of internet technology, telecommunications devices and infrastructure, as well as the increasing use of internet technology as a foundation for business processes. The IDC also predicted that the current skills shortage in Western Europe would become more acute unless society took urgent action.

These recent developments mark a turn in the debate on economic immigration since the 1970s, not only at the EU level. A number of member states have developed concrete policy initiatives to address skill shortages as well as the increasing challenge of an ageing and diminishing workforce.<sup>26</sup> In the UK, reform of the Immigration Act in 2002 introduced a programme to attract highly-skilled immigrants, which is based on a point system and is not subject to any quotas. The new scheme represents a broadening of former criteria such as occupations in demand and levels of qualifications (Hatton, 2003). In Germany and Ireland, the green card for IT specialists and the introduction of the work visa scheme represent the latest initiatives to foster immigration in certain sectors of the economy. While the work permit granted under the German IT scheme is attached to the employer, the Irish work visa programme allows greater flexibility, as immigrants are allowed to change their employer at least within the respective sector of the economy in which they have been employed before.

While most of the recently introduced programmes in EU-15 countries focus on temporary migration and are subject to quotas, the Canadian example shows that policies based on a broad set of criteria for permanent economic migrants, rather than a selection process based on certain occupations, provides a flexible management tool for economic immigration. Moreover, the prospect of a long-term stay may enhance the attractiveness of Canada for immigrants vis-à-vis other countries of destination.

In Annex 2, recent policy initiatives in the field of (specialised) labour immigration in Germany and Ireland are further investigated, as is an example of good practice in labour-immigration management in Canada – a country with a long history of migration.

## **6 The role of business in promoting mobility**

### **6.1 Background**

Technological change and globalisation are both phenomena that have profound implications for the need of specialised labour in the production process.

Technological change in particular has been skill-biased, shifting the demand for labour towards highly skilled workers. This development may lead to temporary shortages that could be met through labour mobility, at least as long as not all countries and regions are equally affected. While the time for adaptation to key technologies is becoming shorter (owing to the speed of technological change and increased competition), the mobility of employees can facilitate a fast diffusion of knowledge.

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<sup>26</sup> Of course, any estimate of the future labour-force gaps to be filled by immigrant workers depends on the extent to which the existing labour force potential, including former immigrants, can be mobilised.

The growing international dimension of business creates an increasing demand for international knowledge, such as the command of foreign languages, knowledge of markets, customer needs, etc. Moreover, spillovers and the occurrence of externalities in the information society tend to favour a local spatial concentration of the relevant industries and services, which contradict the idea that information and communication technologies reduce the need for spatial mobility (Winkelmann, 2001). Another phenomenon of our times is the diminishing importance of mass production. Instead, products are increasingly adjusted to individual customer needs, requiring flexibility in the production process and, in connection with the growing globalisation of business, geographical mobility.

The change in the environment of companies through globalisation, technological change, increased competition, improved reaction to customer needs, an increase in the flexibility of organisations, as well as the retention of employees and their development can generate recruitment problems. While companies can react to these bottlenecks in many ways – e.g. they can provide more training for existing employees, employ new technologies or offer better benefits to attract and retain employees – one important measure to cope with recruitment difficulties is the greater use of mobile workers.

The need for mobile employees is further boosted by social forces such as an ageing workforce and evolving attitudes towards travel, and political drivers such as the upcoming enlargement process. Yet the need for a mobile workforce is in no way reflected in the previously stated low levels of intra-EU mobility and the resistance in many member states to opening their immigration policies towards labour immigrants. Hence, the demand for mobility causes increasing concern throughout business.<sup>27</sup>

Little is known – at least on a larger scale – about the extent to which multinational companies recruit internationally and post their employees abroad, about the reasons behind these policies and the barriers companies face in pursuing these policies. It is certain that firms gain from the international mobility of their employees – whether firms recruit and post employees internationally in order to gain and spread knowledge that is not available nationally, or because they want to attract and spread international competence. But does the scope of their policies satisfy their needs? Or is the use of a mobile workforce to address recruitment problems limited because of the existence of various barriers to international labour mobility, creating a gap between potential demand and realised demand in international mobility?

In the following section, international personnel policies and practices by multinational companies are examined in more detail with the aim of presenting a clearer picture of what labour mobility at the firm level is about and illustrating the prospects for further refinements.

## **6.2 Policy and practice in international management of the workforce**

When analysing the international management policies and practices of firms one has to bear in mind that these are determined by the context in which they operate. As

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<sup>27</sup> Nevertheless, the recent shift in policy by many countries towards highly skilled immigration might have happened because of some influence from the business side.

countries differ with regard to their gravitational pull (for example, oil rigs in the Middle East may be a less attractive destination than international cities) and traditional ties (e.g. colonial past), the industrial structures in place change with country and region. Companies also differ with respect to the degree of international orientation and firm size, and hence, can pursue very distinct mobility policies.

Accordingly, some multinational corporations may be more active and strategic with regard to mobility policies than others, as they may belong to a group of companies that are managed globally across most of the key elements of the business operations. Examples for this category of business include global oil companies and global automotive companies, which tend to possess very explicit and developed workforce mobility strategies. Although their activities may be geographically dispersed, and employees may work in many different countries, all key business, product and organisational development decisions are taken centrally.

*Box 1. Types of mobile workers*

- ‘Traditional’ international expatriate, whereby an employer moves an employee to a foreign country for either a long-term (between two and five years) or short-term period (one to twelve months), but always on the basis that the employee is expected to return ‘home’.
- ‘Permanent’ transfer, whereby an employee is moved to take up a contract of employment on local terms and conditions on a permanent basis with the host company with no expectation that he or she will return.
- International hire, whereby an individual is recruited in one country specifically to work on local terms and conditions in another country that is not their current place of residence.
- Local hire, in which an individual is recruited and works in his or her country of residence.
- Cross-border commuter – a recent form of mobility – whereby an employee commutes across countries, usually on a weekly or bi-weekly basis while the place of residence remains unchanged.
- Rotational assignment, another new form of mobility, where the employee commutes from the home country to another country for a period of a few months without changing the home country.
- Virtual assignee, who assumes business responsibilities that span several countries and works as part of a team located in several countries but does not need to relocate, although such work often involves extensive business travel.
- Teleworker, supported by ICT, who works from any location, especially his or her home.

*Source:* PricewaterhouseCoopers, 2002.

Other businesses, such as food and drink manufacturers, retailers and pharmaceutical companies tend to allow a greater decentralisation of decision-making on what are seen as operational issues. Here, the local management tends to have a high degree of delegated authority over the development of local and regional market strategies. Mobile employees can therefore be found primarily in brand, product and process development, whereas internationally mobile executives may also be needed in the firm’s top management. Companies with an even more decentralised organisational structure may only use mobile employees on an ad hoc basis and are often characterised by a missing formal mobility policy (PricewaterhouseCoopers, 2002).

PricewaterhouseCoopers has identified eight key types of mobile workers, as described above in Box 1, which illustrates that international mobility is multidimensional and can

take many different forms, depending, for example, upon whether it is motivated by the employer or the individual, or whether it lasts for a few months or several years.

The next section covers international assignment policies involving the ‘traditional’ international expatriate, which is also categorised as the so-called ‘secondee’.

### **6.2.1 Drivers of and obstacles to international assignment policies**

In order to attain company-specific information on mobility policies and their challenges, a survey was conducted among the corporate members of the CEPS-ECHR Task Force. The survey was based on detailed questionnaires that were designed to provide the necessary information on business perceptions of the drivers and obstacles in the field of international mobility. The focus of the investigation was on the process of posting employees to a foreign destination.

The questionnaire was structured around two parts:

- i) The first part contained general questions about the size of the firm, its international orientation and the job positions of the employees assigned abroad.
- ii) The second part addressed the main elements of assignment policies motivations and obstacles surrounding expatriation policies, the measures undertaken to overcome obstacles and companies’ possible recommendations to public authorities.

### **Characteristics of the companies**

The survey covered private as well as public companies, ranging from a size of 3,000 to 120,000 employees. Most of them display a very international orientation, operating in 20 to 160 countries around the world. Although many of them show a European focus in their business activities, a lot of the companies also operate outside Europe. The average expatriate population size ranges from 40 to about 5,300 assignees per firm.

The outcome of the survey was complemented with information from more representative surveys where these exist,<sup>28</sup> as well as presentations by external experts who took part in the Task Force meetings.

### **Main elements of (long-term) assignment policies**

Assignment policies and practices differ a lot across firms and with the length of stay. Yet mobility policies for long-term assignments (two to three years and sometimes up to five years)<sup>29</sup> usually embrace assignment preparation procedures and compensation

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<sup>28</sup> PricewaterhouseCoopers undertook a major survey in 2002 to investigate business and policy issues linked to European labour mobility. PwC surveyed 4000 businesses in eight European countries and undertook a series of case studies with more than 20 multinationals operating in different sectors. Furthermore, about 10,000 individuals were surveyed in 10 European countries via telephone interviews. The IZA (Institute for the Study of Labour in Bonn) conducted an international employer survey in 2000 in order to investigate the reasons firms recruit internationally (for further information, see PricewaterhouseCoopers, 2002 and 2003; see also Winkelmann, 2001).

<sup>29</sup> Short-term assignments (usually between six weeks and six months) seem to take place on a rather ad-hoc basis and as such involve less preparation and less compensation or incentive measures.

schemes that are offered in order to prepare the employee for his or her stay abroad and make sure that the secondee does not face any loss in real earnings while working abroad.<sup>30</sup>

Preparation procedures mostly involve medical tests, the handling of administrative requirements (such as residence and work permits) language training and pre-assignment visits. The pre-assignment visits have the purpose of enabling the employee and his or her partner to select housing, enrol children in local schools, open bank accounts, meet future work colleagues, etc.

The objective of many compensation packages is to provide an employee with a level of overall compensation that builds on the previous net take-home pay. The packages are designed to ensure that the remuneration is sufficient to attract expatriates to particular locations. At the same time, they should be competitive regarding the local market, taking into account differences in income taxes, social and other contributory benefits and the cost of living between home and host countries.

The compensation package usually comprises a base salary on top of which a location allowance, a housing allowance, a share of the school fees, the reimbursement of moving costs, medical insurance and, on occasions, incentive and hardship premiums are paid. The cost-of-living adjustment takes into account the exchange rate, inflation and the cost-of-living index, which measures the differences between the costs of goods and services in the home and host countries.

Sometimes, the firm even takes care of the spouse in that it offers job search trips, assistance with work permits, spouse assistance programmes (e.g. CV preparation and job search) or compensation for the loss of spousal income. A further means to deal with family-related mobility obstacles are, for example, the Permits Foundation and partnerjob.com, two initiatives that were established by companies from Europe and the US. Their objective is to inform trailing spouses about job openings and work permit procedures as well as improve work permit regulations for the spouses and raise government awareness of the negative impact of work permit restrictions on employee mobility (see Annex 3 for examples of corporate initiatives). Usually, the connection of the assignee to home-country social security and pension plans is maintained (an example of good practice in assignment policies can also be found in Annex 3).

### **The drivers of international assignment policies**

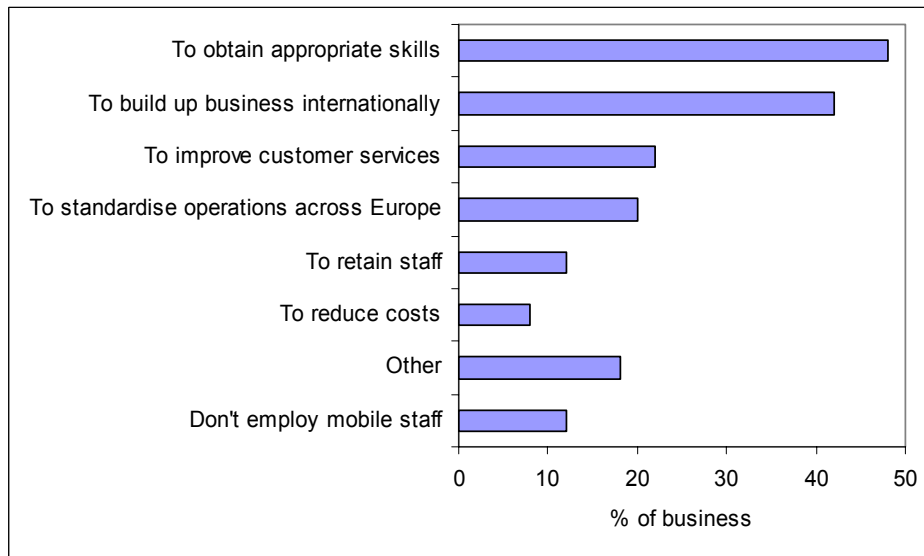
The main business reasons for international assignments appear to be business expansion and issues related to the management of the entities abroad, such as the lack of local expertise, the need of proximity to customers, the control of costs and technology as well as the exchange of knowledge.

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<sup>30</sup> These schemes fall under the so-called ‘home- or headquarters-based remuneration approach’ and exist in parallel to the less-commonly used ‘local market-rate approach’, which links the expatriate to the host country salary structure (PricewaterhouseCoopers, 2003). The assignment costs are usually charged to the company of the host country.

Under ‘reasons other than business’<sup>31</sup> for posting employees abroad, career and competency development and retention of the ‘best’ are often mentioned by the companies. Another driver that is not directly linked to a business need seems to be the evolution and the dispersion of something like a global corporate culture, which “builds a group ethic around common values and practices” among employees around the world. PricewaterhouseCoopers (2002) states similar reasons for an international personnel policy as shown in Figure 8.

Figure 8. What are the main reasons why your company employs mobile staff?



Note: The PwC survey differs from our result in that it takes both, the posting and the recruitment process into account.

Source: PricewaterhouseCoopers (2002).

### Obstacles to labour mobility

A striking result of the survey was that all the companies investigated face difficulties in the posting process and accompanying cost impacts for their business. The obstacles to sending employees abroad vary with destination (EU versus EU periphery) and type of assignment (e.g. long versus short term).

In general, the main barriers seem to be:

- immigration policies for those assignees and spouses who leave the EU-15 or come from the EU-15 periphery;
- administrative procedures such as residence and work permits (for non-EU citizens) for long-term assignees;
- differences in tax and benefit systems across countries;
- differences in the cost of living;

<sup>31</sup> Many multinationals differentiate between *business-driven* and *career-driven*, or *individually driven* mobility.



- the reluctance on the part of some employees to move because of family reasons (such as the impact on the career of their spouse or differences in school systems);
- recognition of professional qualifications;
- language problems; and
- cultural differences and distinctions in infrastructure.

In the case of employees and spouses originating from non-EU countries or going there, immigration rules are one of the main barriers. The firms also reported that the immigration policies of member states give too much weight to protecting domestic labour markets, which have the effect of lengthy waiting times and complex bureaucracy when applying for work permits. Spouses who are not EU citizens and follow their partners face significant difficulties in obtaining a legal status, since they lose their permit to stay and work when moving.<sup>32</sup> With regard to mobility across the EU-15 countries, administrative barriers are imposed by the need for a residence permit in most member states.

Differential rates of income tax and differences in the structure and levels of individuals' social security contributions also add to the administrative burden of mobility. The relevant information has to be collected from each national administration concerned. Moreover, some member states do not recognise the full deductibility of social security contributions (not any or only up to certain level) made in an EU country other than the country of activity. The trailing spouses may not only lose their jobs when moving but could also discover that they are not entitled to unemployment benefits.<sup>33</sup> Despite considerable progress in the portability of first- and second-pillar pensions, pension rights are still lost for a number of reasons. For example, since defined benefit systems prevail in most countries (which tend to decouple contributions from benefits), the mobile employee is discriminated as his or her benefits are paid proportionally to the length of contribution in each country he or she worked in and not for the total reference period. As benefits usually increase exponentially with the years of contribution, it is most likely that the assignee will receive reduced payments relative to those of a worker who remained in one country throughout his or her whole career. Highly mobile workers may, at worst, face the loss of pension rights owing to a move back home before the end of the vesting period. Moreover, since the retirement age varies across countries, the benefits may not all be released at the same time. Spouses that follow their partner abroad face an interruption in their pension history that could penalise them. (For further information on pension portability, see Mortensen, 2003.)

The assessment of professional qualifications (especially between those countries where former exchanges of workers have been rare) and differences in the cost of living that in turn represent difficulties in calculating remuneration and compensation packages seem

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<sup>32</sup> At least the problem of attaining a residence permit should soon be solved as a result of the Council Directive that was recently adopted on the right of family reunification for non-EU nationals who are already resident in an EU member state and want to accompany an EU national (see European Commission, 2000c and European Council, 2003 regarding Directive 2003/86/EC 22.09.2003).

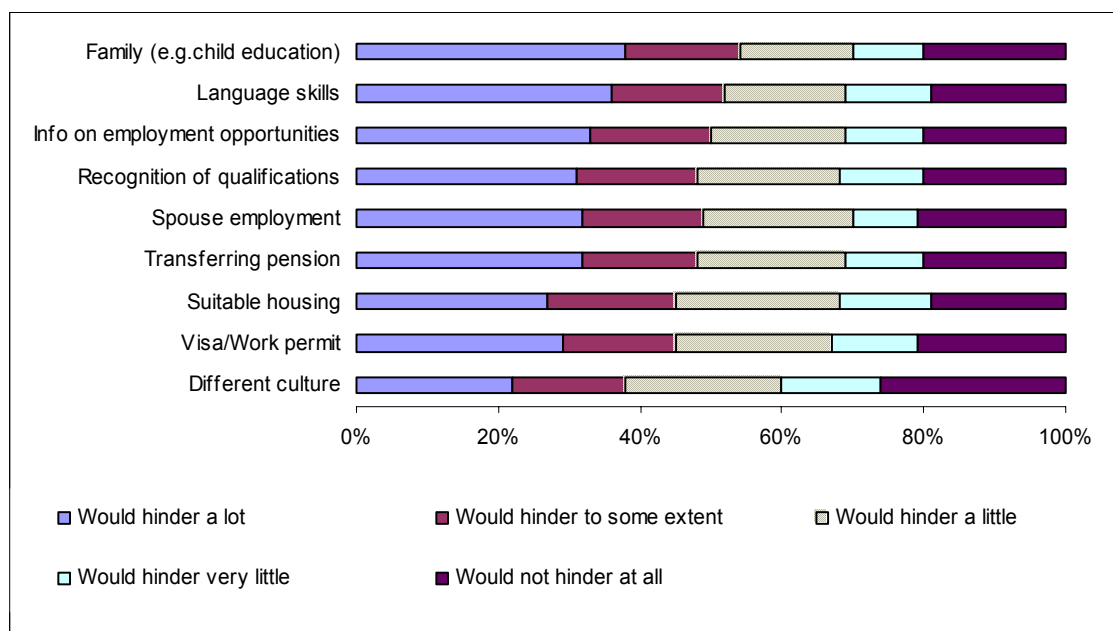
<sup>33</sup> The unemployed spouse is entitled to unemployment benefits under EU Regulation 1408/71 for three months (extended to six months under the reformed regulation) if he or she was already registered as unemployed before moving.

to apply to all ‘forms of mobility’, as does the reluctance to move by some employees because of family reasons. Language problems and cultural differences were mentioned least often by the surveyed companies as barriers to mobility.

What is apparent from the stated barriers is that businesses do not view the potential availability of a mobile workforce or their ability to manage such a workforce as major obstacles.

Individuals’ perceptions of the factors hampering mobility may differ to some extent from those attributed to them by business managers. Social barriers are perceived to be more important, especially family ties, housing and the education of children. Language skills also represent a major obstacle for individuals, as could be seen from the Eurobarometer survey results in section 4.1.2. In addition, lack of information about employment opportunities is a major concern among employees and trailing spouses (see Figure 9).

Figure 9. What do individuals see as the barriers to mobility?



Source: Based on PricewaterhouseCoopers (2002).

The various social, cultural and most importantly, policy-related obstacles to labour mobility are costly as well as time-consuming for businesses and adversely affect international competitiveness. In some cases, such obstacles imply that international mobility only takes place in connection with a mandatory business need and a positive return on investment.

### Measures undertaken by the firms to address the difficulties in mobility

In order to deal with the different tax and benefit systems in place, many companies use international law experts and external consultancy services to calculate cost-of-living allowances and compensation schemes. These services are supposed to come up with

remuneration, social security and pension solutions that will in turn facilitate a motivated international workforce that can anticipate a secure future income.

With regard to problems related to family relocation and tax/benefit systems, a lot of firms declared the development of spouse support and an increased recourse to unaccompanied/short-term assignments as solutions. Another evolving strategy to cope with these barriers seems to be the conduct of thorough job interviews, which are designed to prevent bad surprises from occurring in the later career of employees through the increasing recruitment of those who are willing to move.

In general, the companies seem to have worked on standardising the assignment procedure as well as its documentation process to make it simpler and more transparent and hence easier to evaluate, particularly in terms of cost efficiency. This trend of formalisation is reflected by the fact that all the surveyed companies (even the smallest ones) possess an explicit, written assignment policy, at least for short- and long-term assignments.

None of the companies stated the recourse to financial incentives or the amendment of compensation schemes as possible solutions to the problem of the reluctance of some employees to move. Instead, the firms seem to focus increasingly on communication and review processes in order to consult the employee on his or her international career opportunities as well as to find out about his or her personal objectives and barriers. Further, information exchange and benchmarking among the human resources staff that are involved in international personnel management seem to be an important measure to identify and address incentive problems in a non-financial way.

Nevertheless, the comprehensive solutions that are being offered by the companies with the purpose to reduce if not eliminate the hurdles that assignees have to confront currently imply immense costs. Unsurprisingly, the companies that took part in the survey all agreed that public authorities – at the national as well as the EU level – have a role to play in reducing the barriers and, hence, the costs that these companies face when sending employees abroad.

### **Role of public authorities**

As could be seen from the illustration of the main barriers to international mobility, the biggest obstacles are policy-related, notably the lack of common EU immigration policies and differences in tax and benefit systems.

Thus, the main problem areas that companies want to see further addressed by public authorities are immigration regulations and the coordination of tax and benefit systems across countries and information. The latter seems to cover on the one hand the lack of access to one-stop information with regard to the different administrative regulations at the national level. On the other hand, the visibility of initiatives at the EU-level to promote the free movement of workers still seems to be very poor. Many companies are not aware of initiatives undertaken by the European Commission, such as the EURES and the Europass frameworks that were previously mentioned.

When asked if they could propose further actions to stimulate mobility, a lot of the companies mentioned the greater expansion of school and university programmes for

individuals as a measure to enhance the propensity towards mobility at a later career stage.<sup>34</sup> Another means that has not been addressed sufficiently seems to be the access for accompanying spouses to ‘closed positions’ in specific industries of member states, such as in education and medical sectors.

### 6.3 Key trends in international assignment policies and practice

As new challenges evolve with an increasing globalisation of business, technological change and political as well as social upheavals, mobility policies of firms have to adjust.

One of these new challenges is the so-called ‘dual-career issue’. The partner of an assignee is faced with administrative obstacles (i.e. residence and work permits), the burden of job search in an unfamiliar environment, possible language problems, an insecure future in the home country upon return, etc. More and more expatriates are female (approximately 25%) and partners of the assignees who are working. As estimated by ORC Worldwide,<sup>35</sup> 40 to 65% of the partners are now willing to work in the foreign destination, while at the same time the partner’s career has become one of the main reasons for assignment refusal or failure (PricewaterhouseCoopers, 2003).

The dual-career issue is increasingly being addressed by means of offering spouse support<sup>36</sup> or the increasing recourse to short-term and unaccompanied assignments, whereby the partner can stay in the home country and pursue his or her job.<sup>37</sup> Furthermore, expatriates seem to be increasingly young and are therefore not as settled or bound by a partner or family.

Another key development in mobility policies seems to be that companies are moving away from offering expensive incentive premiums for the majority of their workforce. While mobility is still, if not increasingly, considered very important, the pressure to reduce cost differentials between expatriates and locals has become higher (mainly owing to higher proportions of expatriates and an increasing need to operate internationally).

The increasing number of firms that consult outside experts to calculate remuneration and compensation schemes and the previously stated trend of formalising assignment procedures reflect the goal of being cost-conscious. The PricewaterhouseCoopers survey even states that formalising and simplifying the policy are the most important trends in international-assignment management. Cost-benefit analyses or cost projections for each assignment are increasingly considered.

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<sup>34</sup> The EU exchange programme for higher education exchanges is constantly growing. Since the mobility scheme started in 1987-88, the number of students taking part each year increased from 3,000 to over 100,000 today and is now expanding to many CEECs. Roughly 2.5% of all students take part in the programme (see European Commission, 2000b).

<sup>35</sup> See the ORC Worldwide HR management specialist website ([www.orcinc.com](http://www.orcinc.com)).

<sup>36</sup> See the initiatives of Schlumberger in the field of dual careers in Annex 3 for further information.

<sup>37</sup> For more information on short-term policies and practice, see *Net Expat Newsletter*, No. 2, 2004.

Companies also try to lower the purely financial incentives by means of motivating the assignees with personal career development prospects. Thorough career interviews at the start, as well as the offer of platforms for information exchange (through internal surveys, the creation of career centres, benchmarking, etc.) at a later stage of the career are increasingly used by firms to motivate the career-driven mobility of their employees. These communication processes have the goal of addressing the training opportunities that are offered through working in a different environment, be it through different functions within the corporation, different businesses or different countries.

At the same time, the information exchange between the employee and the human resource department has the effect that the company gains a better understanding of the reasons for the reluctance of the employee to move. In turn, the policy of communicating and involving employees in the development of human resource policies engages the necessary commitment to succeed. The employees have the opportunity to familiarise themselves better with the idea of working abroad, leading to an improved self-selection process.

Moreover, companies seem to differentiate increasingly between strategic and operational moves, hence between those with specific, quantifiable business needs and those with goals that should be encouraged, but for which there is no business case to support the expense of a full expatriate package (PricewaterhouseCoopers, 2003).

This short summary of developments shows that changes evolve rapidly in international assignment policies and practices. If companies want to anticipate such changes and take them into account, they have to think ahead. In the years to come, international mobility will increasingly become the norm. Mobility will be more and more driven by individuals, (instead of being organised by the companies) and incentives other than financial ones. Young persons especially seem to view international experience as a significant benefit. Mobility may become less burdensome owing to reduced administrative obstacles, increasingly open job markets and better language skills of the individuals. At the same time, the dual-career issue is likely to become an even greater barrier to international assignments.

The examination of international assignment policies and practice has shown that multinational companies face numerous problems when sending employees abroad. Firms would expand their mobility policies if regulations were simplified.

Despite the EU granting the free movement of EU citizens, these obstacles are still very apparent with regard to mobility between EU countries. Years of experience and the need to send employees abroad despite the difficulties in the posting process made companies find their own solutions by inventing internal mechanisms for compensating the welfare loss.

The barriers stated, however, open up a whole range of further action by public authorities at national and EU levels. The responsibility is on them to guarantee a smooth functioning of the Single Market and to allow for burden-sharing among all the actors involved.

## 7 Synthesis and conclusions

### 7.1 Towards a mobility-friendly environment to support the EU's growth

International migration and mobility in the EU should be seen in the context of new demographic patterns, economic growth targets and the increasing interdependence of different regions of the world in terms of trade relationships and the movement of capital. Beyond the greater economic interconnection among the regions, there is also a change in the role played by fast-developing and developed economies on the world scene. The EU risks being relegated to a leadership role mainly as a market of consumption rather than of innovation and production. This leads to the emergence of new value systems that are changing the traditional patterns of complementarity between R&D, production and commercialisation of products and services. The development of information and communication technologies, the falling cost of transport and telecommunications, the globalisation of production, marketing and distribution, the new central role of R&D for gaining sustainable competitive advantage (and leadership) in future and more profitable markets, are all facets of the same paradigm in today's economies. The 'human capital' factor and its capacity to attract new investments or to move where it is more in demand and can be better rewarded are at the centre of this paradigm.

The growth of the EU's population has been substantially driven by migratory flows from non-EU countries into the region. Although migration-friendly policies cannot alone solve the economic problems derived from the ageing of the EU working population, they can reduce its negative impact. These flows have already helped to close local employment gaps in labour market supply, especially for job positions requiring very high or very low skills. In both cases, meeting labour market demand through immigration has not competed in general, nor overlapped, with local unemployment.

Nevertheless, the positive economic impact of migratory flows on the country of destination is not always acknowledged in public opinion or in the policy measures taken by national authorities in this area. On average, more than half of EU citizens are of the opinion that there are 'too many foreigners' in their country while only 32% consider that the current number of foreigners is just right (European Opinion Research Group EEIG, 2001). The highest score for the former opinion is expressed among retired persons and those living at home, while the lowest score is found among executive-level employees and students. This suggests that the more economically 'active' part of the population and those with higher education are more open towards the acceptance of a foreign workforce and positively value the contribution of immigrants. A more recent Eurobarometer survey carried out in December 2003 reveals a greater recognition by EU citizens (56%) of the economic need for immigrants to work in some sectors. At the same time, there is an emerging consensus among EU citizens in favour of equal rights for legal immigrants (66%) and for a common asylum-seekers policy at the EU level (85%). (See European Commission, 2004a).

The national difference of opinions in terms of opposition to a larger presence of foreigners also reveals an apparent paradox that contradicts the usual political assumption made on the linkage between the immigration rate and the level of tolerance

by the local population. It seems that acceptance of a foreign population is not really a function of the higher proportion of foreigners in that country. The terms of the debate at the national and local levels have often been confused by the tendency to look at the flows of asylum-seekers and of ‘economic’ immigrants from the same perspective. On the contrary, these flows are two distinct phenomena driven by different conditions, different motivations and characteristics, and as such require different policy solutions backed by a coherent immigration policy at the EU level. While the emphasis so far has been on border controls, with some progress registered in the fight against illegal immigration, the Council of Ministers remains hesitant and slow to address the question of legal immigration, including fair treatment and better integration of non-EU nationals. The relevance and pertinence of a common EU migration policy in support of EU competitiveness and its ambition to become a leading knowledge-driven economy by 2010 are further confirmed by recent independent research (Florida & Tinagli, 2004). According to these findings, the epicentre of competitiveness in Europe has shifted from the traditional larger economies to a cluster of Scandinavian and northern countries because of their ability to attract, retain and develop creative people. The main drivers of such performance are attributed to three main factors: a) their technological capabilities, b) their increasing investment in ‘creative talent’ and c) their values and attitudes of tolerance vis-à-vis immigrants. These same countries are leading European economic performance in terms of innovation, productivity, employment and growth.

## **7.2 Regaining confidence in European values and Single Market principles**

The emergence of increasing feelings of insecurity among large segments of European society, often fuelled by alarming overestimations of migratory flows, is driving the agenda on immigration policies. Only a few countries have taken the initiative to open up their frontiers to foreign workers with specific skills in order to meet business and R&D needs, but even these countries are having second thoughts and are introducing more restrictive policies. The recent decisions taken by EU member states to delay the free admission of workers from the acceding countries in their territory, even after 1 May 2004, may illustrate an inclination that encourages a culture of ‘fear’ and ‘exclusiveness’ rather than one of confidence and ‘inclusiveness’ of EU citizens’ rights. Although one can understand the arguments put forward – especially by those member states such as Germany and Austria, which are likely to receive most of the migratory flows from acceding countries – empirical research and past experience demonstrate that the size and scope of migratory flows from these countries to the 15 EU member states are actually likely to be quite limited. In addition, the recent European Court of Justice ruling that practically stops the opportunity for ‘social-security shopping’ should reduce the risk foreseen by some countries of becoming an attractive destination for immigrants just looking to benefit from EU welfare provisions. The lack of intra-regional mobility, with cross-border flows remaining very low and almost stable since the launch of the Single European market, is another aspect of the same question: Can living and working patterns along with European values be reconciled with economic objectives, fast-changing industrial processes and a more competitive business environment? The answer to this more general question relies on different levels of action and on a more positive attitude towards change at each of these levels.

There are still a number of legal, administrative, cultural and behavioural impediments that make the personal decision to move abroad hard for EU citizens. Although individuals with higher education, technical and managerial skills show a much higher than average propensity towards geographical mobility, many EU citizens are not ready to change country even in a situation of unemployment. The attachment of EU citizens to their own place of residence and the low propensity of EU citizens to change town, region or country indicate two faces of the same coin.

On one side of the coin, there is a high level of satisfaction linked to the local quality of life, local habits, local culture and a network of relatives, which seems to act as a disincentive to move abroad. This also explains why cultural differences, the safeguard of their specificities and ways of life are so important to Europeans. Although this is linked to the personal sphere of individual choices, it will evolve over time and be influenced by external factors related to the achievements of EU integration and a deeper perception of its benefits. Some positive signals are already there. For example, the so-called 'Erasmus generation', named after one of the most popular EU programmes – which has permitted more than one million students to enjoy a learning experience abroad – is already demonstrating attitudes and behaviour among young persons towards new patterns of mobility. Indirectly, the ongoing convergence of EU education systems towards more compatible cycles of study, the broadening knowledge of foreign languages, the development of cross-border communication networks and the reduction of transport costs are other examples of EU initiatives that reduce physical and psychological distances influencing attitudes and mindsets. These developments have also started to affect businesses, with companies adapting their human resource policies, particularly their recruitment and employee-mobility practices.

On the other side of the coin, the more practical barriers to mobility are represented by the remaining gaps in the EU process of integration and failures to establish the European Single Market as a space without internal frontiers – which allows full freedom of movement to EU citizens and businesses and full recognition of their rights irrespective of their country of origin or destination. The important achievement of the Single Market for trade in goods has not been extended in practice to people and services. In addition, many opportunities already opened up by EU initiatives are still poorly communicated to the potential beneficiaries and are made unnecessarily complicated by local administrations. This may also explain the increasing lack of confidence vis-à-vis the EU project and institutions, which have not been able to deliver on some of the most tangible and fundamental aspects expected from the Single Market. On the eve of EU constitutional reform and EU enlargement to 10 new members, this issue becomes even more crucial. To be successful, both events require broad and long-term support by EU citizens and economic actors. This support can only be generated through the effective establishment of the EU Single Market, which is one of the pre-conditions for developing a 'culture of membership' among EU citizens and ensuring greater regional integration while safeguarding national differences and prerogatives.

### **7.3 Leveraging business success and experience**

The need to reduce costs while at the same time continuing to invest in research, innovation and staff development are among the main challenges that companies are



facing in order to succeed in today's highly competitive environment. Global sourcing, employee mobility and a more efficient management of work allocation and talent have been the most frequent response by businesses to address this apparent paradox.<sup>38</sup> Despite the different forms of these solutions, which undergo evolution and transformation, human capital remains a critical underlying factor of business competitiveness. Innovative companies – those relying heavily on R&D for their success, those operating across borders and those willing to enter new markets or that are experiencing double-digit growth – have all designed staff mobility policies and practices that aim at better fulfilling both business needs and employee satisfaction.

The practices and the motivations behind a company's decision to post an employee abroad have been widening in recent years. Similarly, employees' opportunities to work abroad have also expanded. Mobility policies will continue to grow in parallel with the increased globalisation of markets and regional integration. Today's company recruitment and mobility policies in the EU often integrate the Single Market and single currency logic, but continue to be faced by a legal and administrative environment that is costly and hostile to mobility. Firms are assuming the direct and indirect additional costs related to employee mobility. In an effective Single Market without barriers, these resources could be used to support expatriate employees and their families rather than to finance administrative procedures and Single Market failures.

From the perspective of employees and their families, as well as from unemployed persons looking for new job opportunities abroad, there is still a huge gap in terms of knowledge about their rights and how they could benefit from the EU legal framework and initiatives when changing their country of residence. The best employers and business organisations are often fulfilling the role of information and communication. These issues are so relevant and pertinent for the EU economy and for the welfare of its citizens that EU institutions and business organisations should improve their cooperation and better support each other's efforts in this area. The establishment of a true partnership and a renewed culture of trust between employers and public authorities of the countries of origin and of destination can support more and better jobs, thus improving business competitiveness in the EU. Towards this end, the CEPS-ECHR Task Force proposes a new European agenda for labour mobility with four priorities:<sup>39</sup>

- focus the Lisbon mid-term review on the problems related to the adequate resourcing of the labour market;
- appoint a commissioner for mobility to ensure greater coordination and accountability of EU initiatives;
- name-and-fame leading member states – and offer incentives for progress; and
- strengthen corporate policies for mobility.

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<sup>38</sup> On global sourcing trends and business practices, see the Hewitt Associates (2003) study and survey findings.

<sup>39</sup> See the Executive Summary for details and rationale.

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## ANNEX 1

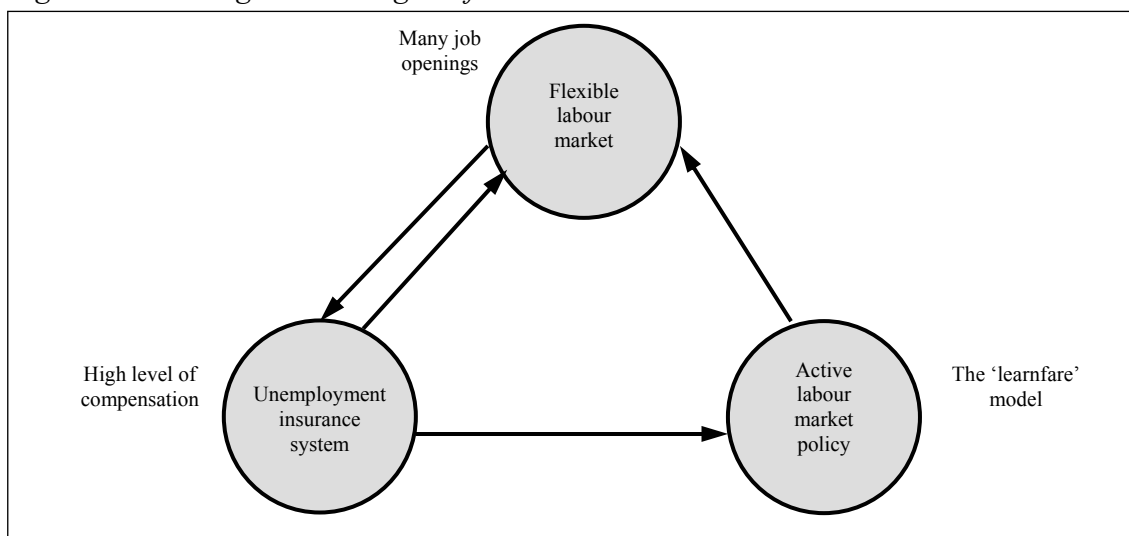
### THE DANISH MODEL – AN EXAMPLE OF A FLEXIBLE LABOUR MARKET WITH A HIGH DEGREE OF JOB SECURITY

From a dynamic perspective, job security is about building and preserving people's ability to remain and progress in the labour market. As structural unemployment in most EU countries is on the rise and many countries display a considerable mismatch between supply and demand for labour (especially related to skill-biased technological change), how occupational mobility can be enhanced in a way that undesirable side-effects (such as an increased perception of insecurity) remain small is a question that needs to be resolved.

As the analysis of job mobility and security has shown, the Danish model – which offers job security and flexibility – may hold a possible solution to these problems, since occupational mobility is relatively high but perceptions of job insecurity in Denmark are low compared with other countries.<sup>40</sup>

The examination of the Danish model follows the idea of what has been described as the 'golden triangle' of the Danish labour market. The sides of the triangle consist of 1) low employment protection, 2) generous unemployment benefits, and 3) active labour market policies.

*Figure A1.1 The 'golden triangle' of the Danish labour market*



Source: Madsen (2001).

The view that the Danish labour market has three main pillars is reflected by the fact that Denmark ranks eighth (out of 26 OECD countries) in the OECD's ranking on the coverage and depth of employment legislation. It is first in a ranking (of 27 countries) on shares of GDP spent on active labour market policies and fourth in spending on passive labour market policies (OECD, 1999).

<sup>40</sup> This view also seems to be stated in sources such as the European Employment Task Force Report (2003) and OECD (2003).

## Low employment protection

In its Employment Outlook study of 1999 the OECD undertook a thorough analysis of employment protection legislation of different OECD countries for the late 1980s as well as for the late 1990s. Even though the indicators used by the OECD are not exhaustive (and not very up-to-date), they are by now standard measures for the strictness of employment legislation, in terms of the overall coverage of employment protection and of the particular provisions for regular employment, temporary employment and collective dismissals.<sup>41</sup>

The overall assessment of employment protection regulation in OECD countries shows that Denmark is among the less restrictive countries. With a score of 1.2 in the late 1990s, it comes after the UK (0.5) and Ireland (0.9) and is way below those scores for southern Europe, which all rank above 3 (see Table A1.1 for details). Compared with the ranking for the late 1980s, Denmark seems to have moved a lot in the direction of easing employment protection, a result mainly influenced by the temporary work indicator.

After substantial reforms, the use of temporary work agencies (TWAs) was facilitated in such a way that the authorisation of the use of temporary work contracts was extended to all types of work. The number of renewals for such contracts is unrestricted and the cumulated duration is unlimited.

What is generally underestimated by the OECD figures is the degree of employment protection that is not covered by legislation, such as the working conditions that are negotiated in collective agreements between trade unions and employers' confederations. In Denmark such collective agreements are very important. Roughly 82% of the employed are organised workers. Negotiations on wage and work conditions take place in a decentralised way, as at least two, if not three levels of negotiations on wage and working conditions are involved. The main, broad agreements such as minimum wages are negotiated at a central level and more detailed bargaining takes place at a local (plant) level (Madsen, 1999).

How is the degree of coverage by employment regulation connected to occupational mobility?

In general, stricter employment legislation is associated with lower turnover in the labour market (fewer hirings and firings) wherein both jobs and unemployment spells tend to last longer. Fewer workers face unemployment in any given year, but those experiencing unemployment have a greater probability of remaining unemployed for a year or more (see OECD, 1999 and Bertola et al., 1999).

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<sup>41</sup> For a definition of the OECD indicators, see OECD, 1999.

Table A1.1. OECD indicators of employment protection

	Overall		Regular employment		Procedural difficulties		Notice/severance pay		Difficulty of dismissal		Temporary employment		Fixed-term contracts		TWAs	
	Late 1980s	Late 1990s	Late 1980s	Late 1990s	Late 1980s	Late 1990s	Late 1980s	Late 1990s	Late 1980s	Late 1990s	Late 1980s	Late 1990s	Late 1980s	Late 1990s	Late 1980s	Late 1990s
B	3.1	2.1	1.5	1.5	0.5	0.5	2.3	2.3	1.8	1.8	4.6	2.8	5.3	2.0	4.0	3.5
DK	2.1	1.2	1.6	1.6	0.5	0.5	2.0	1.9	2.3	2.3	2.6	0.9	1.3	1.3	4.0	0.5
D	3.2	2.5	2.7	2.8	3.5	3.5	1.0	1.3	3.5	3.5	3.8	2.3	3.5	1.8	4.0	2.8
EL	3.6	3.6	2.5	2.4	2.0	2.0	2.4	2.2	3.3	3.0	4.8	4.8	4.0	4.0	5.5	5.5
E	3.7	3.1	3.9	2.6	4.8	2.0	3.1	2.6	3.8	3.3	3.5	3.5	1.5	3.0	5.5	4.0
F	2.7	3.0	2.3	2.3	2.5	2.8	1.5	1.5	2.8	2.8	3.1	3.6	3.5	4.0	2.6	3.3
IRL	0.9	0.9	1.6	1.6	2.0	2.0	0.8	0.8	2.0	2.0	0.3	0.3	0.0	0.0	0.5	0.5
I	4.1	3.3	2.8	2.8	1.5	1.5	2.9	2.9	4.0	4.0	5.4	3.8	5.3	4.3	5.5	3.3
NL	2.7	2.1	3.1	3.1	5.5	5.0	1.0	1.0	2.8	3.3	2.4	1.2	1.5	0.8	3.3	1.6
P	4.1	3.7	4.8	4.3	4.0	3.5	5.0	5.0	5.5	4.5	3.4	3.0	2.3	2.3	4.5	3.8
A	2.2	2.2	2.6	2.6	2.5	2.5	2.0	2.0	3.3	3.3	1.8	1.8	1.8	1.8	1.8	1.8
FIN	2.3	2.0	2.7	2.1	4.8	2.8	1.9	1.4	1.5	2.3	1.9	1.9	3.3	3.3	0.5	0.5
S	3.5	2.2	2.8	2.8	3.0	3.0	1.7	1.6	3.8	3.8	4.1	1.6	2.7	1.8	5.5	1.5
UK	0.5	0.5	0.8	0.8	1.0	1.0	1.1	1.1	0.3	0.3	0.3	0.3	0.0	0.0	0.5	0.5
CH	3.5	2.2	1.2	1.2	0.5	0.5	1.5	1.5	1.5	1.5	0.9	0.9	1.3	1.3	0.5	0.5
US	0.2	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.5	0.5	0.3	0.3	0.0	0.0	0.5	0.5

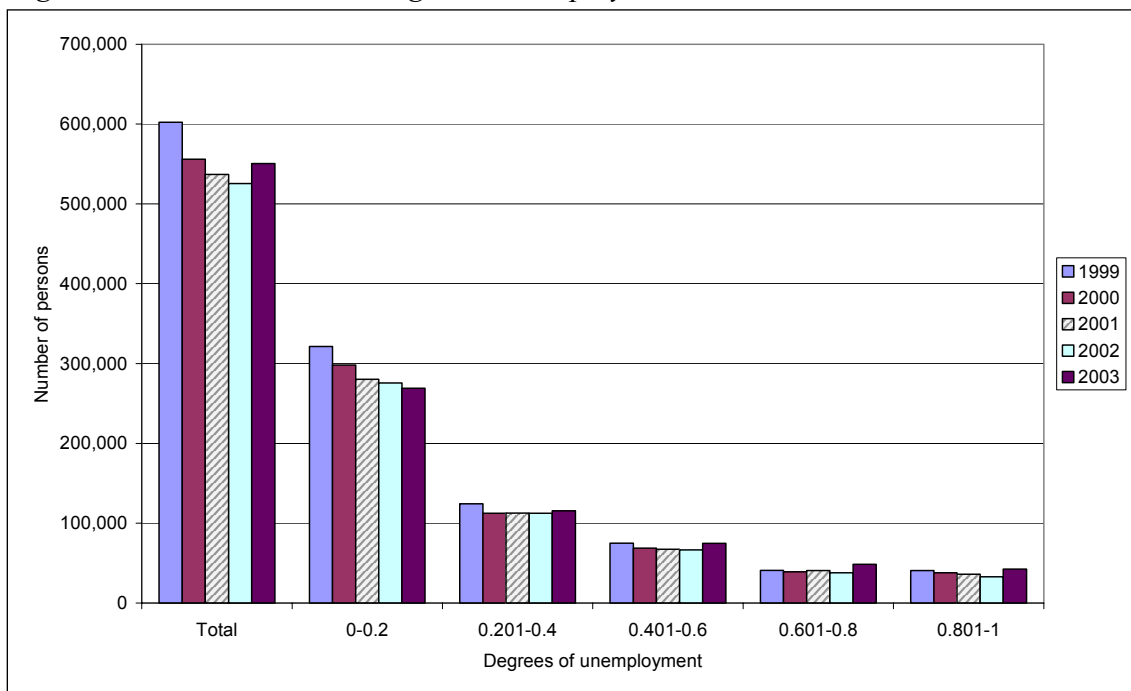
Note: Higher values indicate stricter employment protection according to the respective OECD indicator. The 'overall indicator' is an average indicator for regular and temporary employment.

Source: OECD, 1999.

For Denmark, evidence shows that more people become unemployed over the years, compared to other (especially big) EU-15 countries. Nevertheless, even though direct job-to-job changes are rare, those who do lose their jobs remain unemployed for only a short period of time.

Around 534,000 persons, or one-fifth of the workforce (2.8 million), were affected by unemployment in 2002. A large number of those affected by unemployment, however, experience only one or more short spells of unemployment (see Figure A1.2).

*Figure A1.2. Short-term vs. long-term unemployment in Denmark*



*Note:* The degree of unemployment is the average proportion of the year during which a person is unemployed.

*Source:* Data from AMFORA, Statistics Denmark.

The fact that the Danish unemployed move often from employment to unemployment and then just as fast back into employment again supports the view that the Danish labour market is characterised by a high degree of mobility.

Yet the interpretation of Danish unemployment figures derived from administrative registers is hazardous: many of the Danes who are registered as employed are in fact taking part in active labour-market programmes or are participating in various forms of company leave or early retirement schemes,<sup>42</sup> thereby reclassifying the unemployed and distorting the mobility figures. While the share of the registered unemployment in the total workforce was only 5.2% in 2002, the share of full-time participants in labour-market programmes amounted to 9% for the same year (see Table A.1.2 below).

<sup>42</sup> Early retirement schemes allow older workers (aged 60 to 67) to exit the labour market and to receive unemployed pensions (the former early retirement scheme allowing workers to retire from 59 years onwards has been abandoned).



Nevertheless, the total share of inactive persons in the Danish labour force fell from 12.4% in 1997 to 9% in 2002, which indicates a real improvement in Denmark's overall employment conditions.

*Table A1.2. Full-time participants in Danish active labour market programmes*

	Share of labour force in %		Number of persons	
	1997	2002	1997	2002
Subsidised employment	1.8	1.2	48956	33008
Leave schemes	1.7	0.6	46708	17071
Education and training for unemployed	0.9	1.0	23817	28838
Other activation	0.2	1.1	4222	29700
<b>Total activation</b>	<b>4.5</b>	<b>3.9</b>	<b>123703</b>	<b>108617</b>
Registered unemployment	8.0	5.2	220159	144732
<b>Total</b>	<b>12.4</b>	<b>9.0</b>	<b>343862</b>	<b>253349</b>

Source: Data from AMFORA, Statistics Denmark.

## A generous unemployment insurance system

Danish unemployment insurance is mainly financed through taxes. The coverage is voluntary, but most workers pay the relatively small, yet rising membership fee. The employers' contribution is also very limited. Employers only pay the first two days of unemployment benefits.

Denmark has the highest maximum replacement ratio<sup>43</sup> in the world, offering 90% compensation for the lowest wage levels. Over 70% of the workforce is covered by the unemployment insurance and most of the remaining 30% are covered by social assistance schemes (European Employment Task Force, 2003). The duration of the payments (up to four years) is comparatively long. Moreover, these payments are not reduced during this period because of the age of the unemployed or their active time in the labour market as it is in other EU countries (Westgaard-Nielsen, 2001).

## Active labour market policy

The generosities of the Danish unemployment insurance system are counterbalanced by the requirement of an active job search and a mandatory activation period<sup>44</sup> that should start before the end of a 12-month period of unemployment for adults and before the end of a six-month period for unemployed persons under the age of 30. The main activation and reintegration measures are job training and education; these are applied for up to three years. During this period, the unemployed are required to contact the Employment Services every three months. For the long-term unemployed, assistance is

<sup>43</sup> The replacement ratio refers to unemployment benefits divided by the wage.

<sup>44</sup> Activation policies can be understood in the narrow sense of compulsory training or employment measures for the unemployed.

based on specific needs and on an individual action plan (Westgaard-Nielsen, 2001). Other important measures of Danish labour market policies include a job rotation scheme, parental- and training-leave schemes and early retirement schemes.

The numerous activation measures available can be traced back to the labour market reform process that started out with major reforms in 1993-94, followed by another major reform in 2002. The 1993-94 reform introduced measures directed at those who are potentially long-term unemployed, which were more tailored towards the individual.<sup>45</sup>

What seems to guarantee the working of the generous unemployment insurance system in Denmark, and to override the economic incentives at the individual level to go back to work, is the application of benefit control measures and the provision of remedies supporting employability through the employment office.<sup>46</sup>

While Denmark seems to offer a solution to avoid the undesirable side-effects of high occupational mobility, one has to bear in mind that the Danish model is one of a kind. The Danish labour market is in many ways idiosyncratic – particularly with regard to the intensive interplay between the labour market and its institutions. These institutions are all governed in one way or the other by the social partners.<sup>47</sup> The collective bargaining process is more characterised by vertical and horizontal coordination than by a top-down steering.

The government has an active role in the bargaining process, mainly owing to its role as an employer (especially for women) – the public sector is responsible for almost one-third of total employment. Denmark is characterised by an industrial structure with many small- and medium-sized firms that are traditionally more dynamic and flexible. The Danish authorities can track the unemployed very effectively. The main tool is the personal identification number (PIN), which follows every Dane from cradle to grave and allows him or her to be identified each time contact with the public sector takes place.<sup>48</sup>

Moreover, the Danish system is not a system that was created by design in one stroke, but is the result of a long process of policy learning through bargaining. Hence, the transferability of the Danish experiences and the success of their implementation in other countries have to take into account Danish cultural factors and idiosyncrasies. Taking isolated elements of this set of policies and institutions and attempting to import them into another institutional and macroeconomic context has a high risk of not being successful. One size does not fit all.

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<sup>45</sup> Such measures included, for example, a personal action plan that forms the basis for the activation remedies applied.

<sup>46</sup> Moreover, the activation period seems to represent an incentive to look for work individually: shortly before the activation period starts, the rate at which unemployed persons return to the labour market increases considerably (Bolvig et al., 2001).

<sup>47</sup> For example, unemployment insurance funds are essentially run by trade unions.

<sup>48</sup> The PIN also makes it easy to map the individual's changing position in the labour market, enabling the Danish statistics office to compile detailed longitudinal data sets with information on individual histories of unemployment.

Nevertheless, the Danish model points to a general direction which, if followed, allows for a combination of a relatively flexible employment relationship with good coverage by the unemployment insurance system. In Denmark, the set of instruments in place to guarantee the right and duty of an individual to actively seek work are measures to control benefits and personal supervision of the unemployed. These are accompanied by various economic incentives for firms to employ individuals who have lost their job and to provide education and training.

Ironically, the combination of weak employment protection legislation and generous unemployment benefits may offer little to dissuade employers from temporary and short-term lay-offs. Thus, the Danish 'security net' itself may enhance flexibility and in turn mobility in the labour market.

## ANNEX 2

### GOOD NATIONAL PRACTICE IN MANAGED ECONOMIC IMMIGRATION

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#### **The 'green card' initiative for IT specialists in Germany**

Following complaints from firms that many IT jobs could not be filled (between 70,000 and 350,000 estimated vacancies) and that the innovation, strength and competitiveness of German industry was endangered, Chancellor Schroeder announced an IT programme in February 2000, the so-called 'green card'. The IT programme came into force on 1 August 2000.

The green card regulation applies to foreigners from outside the EU and concerns:

- persons with a university or technical college degree (diploma or master) in the field of information and communication technology (ICT);
- foreigners graduating from German universities and technical colleges that earn an annual salary of €45,000 (previously, they had to leave the country); and
- those individuals whose ability in the field is confirmed by an employer who agrees to pay an annual salary of at least €51,000.

The IT companies can apply at the employment office for a work permit and since the overall goal was to speed up procedures, the work permit is usually granted within a week.<sup>49</sup> At the start, a quota of 10,000 green cards was determined, which has since been extended to 20,000.

The work permit is temporary – and is limited to five years. During this period, however, the holder of the green card can change to another IT job in another firm. In this case, no effort is required to determine whether a German or another EU citizen would be also available and therefore have priority in getting the job. Nevertheless, the green card is no 'ticket to citizenship'. The programme will expire on 31 December 2004 (owing to the expected reform of the immigration law).

What are the results to date?

From August 2000 until February 2004, 15,986 green cards were issued, of which 26% were given to employees coming from India, 13% to employees from the Russian Federation, 7% to employees from Romania and roughly 3% to 7% to employees from the CEECs. North Africa, South America and Pakistan had a much smaller share (1% to 3%). Thus, a quarter of green cards have been issued to Indian nationals and nearly another quarter of IT specialists come from the CEECs.

The distribution of green cards in Germany seems to have a south/north and west/east drift: demand was highest by firms in southern Germany and in the German Länder, in

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<sup>49</sup> Because of the new work permit, it has been possible to fill job vacancies within six weeks. Previously, the search for suitable staff in the IT sector lasted an average of more than 20 weeks in Germany (see, for example Werner, 2002).

areas such as Bavaria, Baden-Württemberg and Hessen. Demand appeared to be lowest in the eastern part of Germany, with the notable exception of Saxony.<sup>50</sup>

While the initiative was put forward by big companies, the green card seems to be particularly relevant for small- and medium-sized enterprises (SMEs).<sup>51</sup>

Since the crisis in the IT sector in mid-2001, unemployment has been on the rise and also hit foreign IT specialists. About 7% of IT specialists who held a green card have been unemployed. Owing to the regulations, the job loss generally leads to a loss of the work permit and in turn to a loss of the residence permit. The practice of the aliens department in Germany, who used to ask IT specialists to leave after the loss of a job, has become less austere since the summer of 2002. Foreigners that have been employed for over a year and are therefore entitled to unemployment benefits are increasingly allowed to stay in Germany.

*Box A2.1 In comparison: The American green card*

Even though the name of the German work permits for IT specialists was borrowed from the American green card, these two immigration channels have little in common. In the American context, a green card represents the right of an immigrant to live and work in the US permanently. After five years, the immigrant can apply for American citizenship. Thus, the US green card holds the prospect of unlimited residence status. The US admits immigrants:

- if the immigration is family-sponsored;
- for economic and employment reasons, under the five following preferences –
  - priority workers – foreigners (including families) with extraordinary ability, outstanding professors, researchers, multinational executives and managers;
  - professionals with advanced degrees or persons of exceptional ability (including families);
  - skilled and other workers (including families but with an annual limit of 10,000 visas for unskilled workers);
  - special immigrants (including families);
  - employment-creation investors (start-up entrepreneurs);
- owing to (compulsory) diversity management by companies; or
- humanitarian reasons.

In addition to these permanent immigration programmes, temporary visa programmes allow foreigners to enter the US to work and study (for the highly qualified, this is the so-called H-1B visa).

Although impressive figures are missing to prove the success of the German green card initiative, the achievement of this programme cannot be questioned. Only about a fifth of the lower threshold of estimated job vacancies has been filled by green-card holders within the first three years of the initiative. Nevertheless the number of green cards

<sup>50</sup> Only 5% of the work permits issued were given to foreign IT specialists residing in East Germany, (see Schreyer, 2003).

<sup>51</sup> Almost two-thirds of the IT specialists are employed by firms with fewer than 100 employees, and most of them are men (see the article cited in the footnote above).

issued through the initiative has been growing gradually, without big setbacks and despite the downturn in the IT sector that set in shortly after the initiative was started.

The green card has also improved administrative efficiency. The Employment Services have gained a reputation for a relatively short processing time and for being a relatively bureaucracy-free organisation. Moreover, although being an isolated, specific programme, the green card seems to have initiated a public debate on immigration and the drafting of future immigration law, making it a definite success in political terms. Whereas the public used to be generally reserved, the idea that targeted immigration is reasonable and necessary is gaining acceptance. The new immigration law, which was drafted by the immigration commission, intends a broad concept for permanent and temporary immigration, including management and selection tools such as quotas and point systems. Highly skilled workers will be allowed to apply for a permanent resident card.

### **Ireland – New challenges for economic immigration policies**

Ireland's economic immigration policies have traditionally been very ad-hoc and market-led, without a formal quota-based policy or any special category of immigration visas.

Nor was the country in need of one. As a relatively poor member state at the European periphery, with no traditional colonial links, it has historically been a country of emigration rather than immigration. Even as outward-bound migration slowed and net-migration turned positive for the first time in modern history in the early 1970s, immigration flows mainly consisted of returning Irish citizens or British citizens who entered in response to improved labour market conditions. Non-EU immigration, the multinational sector aside, was insignificant (Mac Einri, 2001a). Since the early 1990s, however, a rapidly expanding Irish economy (averaged over the 1993-97 period, annual GDP growth rates exceeded 8%) caused an increased utilisation of labour force reserves, such as women, the unemployed and immigrants. During the 1990s Ireland experienced a substantial increase in non-Irish EU immigration and, even though Ireland has not become a major pole of attraction for non-EU immigrants, their share of foreign immigrants is on the rise (see section 4.1).

Thus, against the background of a rapidly changing environment, limited experience and a largely monocultural tradition, the country has been faced with challenges in drafting immigration and integration policies. An overarching immigration policy that embraces practices with regard to refugees, family reunification<sup>52</sup> and labour is still missing. Nevertheless, the recent labour market shortages, especially in sectors such as ICT, building professionals and nursing brought about the introduction of a new work visa scheme in the field of non-permanent, high-skilled immigrants that complements the older work permit scheme.

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<sup>52</sup> Family reunification rights are quite discretionary in the case of most non-EEA immigrant workers as such rights are missing under the work permit regime and are limited in the case of work visas and authorisations (Mac Einri, 2001b).

### *Work permits*

Under the work permit scheme, employers can apply for a work permit when it can be demonstrated that there is a particular need for the worker in question and that all reasonable efforts have been made to fill the vacancy through the domestic or wider EEA labour market (Department of Enterprise, Trade and Employment).

The applications are examined and the work permits issued by the Department of Trade, Enterprise and Employment. These are currently being processed within 10 weeks of receipt. The fees for work permits range from €65 to €500, depending on the duration of the permit (the maximum is 12 months).

Work permit holders are allowed to enter employment and reside in Ireland. They do not have the right, however, to free medical care or social welfare entitlements, nor free education. Moreover, they are not allowed a change of employer.

There are a number of cases where a work permit is not required in order to enter the labour market. Exemptions are granted in particular to:

- persons to whom the new work visa regime applies (see below),
- persons who have been granted refugee status,
- post-graduate students where the work is an integral part of the course of study,
- non-EEA nationals married to Irish citizens,
- persons with permission to remain as a spouse,<sup>53</sup>
- persons who have been posted on an intra-corporate transfer for a maximum period of four years, and
- individuals coming to Ireland from an overseas company for a maximum period of up to three years for training purposes.<sup>54</sup>

### *Work visa/work authorisation scheme*

This scheme was introduced in June 2000 as a fast-track alternative to the work permit regime to facilitate the recruitment of non-EEA nationals in sectors experiencing particular skill shortages. At the moment, nurses and other medical professionals, construction professionals and IT specialists can apply. These visas/authorisations are usually granted for a period of two years by the Irish Embassy or the Consulate and can be renewed at the end of the period. The application must be accompanied by a job offer. Holders of a work visa or authorisation are allowed to change their employers within the same skill category after arrival in Ireland (Department of Enterprise, Trade and Employment).

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<sup>53</sup> Most spouses currently travelling to Ireland arrive on the spouse visa, which does not allow them to work. In February 2004, however, a new initiative was introduced by the Department for Enterprise, Trade and Employment that makes access to the Irish labour market easier for partners accompanying skilled non-EEA nationals.

<sup>54</sup> The latter two exemptions – the Intra-Company Transfer Scheme and the non-EEA Trainee Facility, which were introduced in 1999 – have both been temporarily suspended and are currently under review because of evidence of misuse (Department of Enterprise, Trade and Employment).

## Canada's Economic Immigration Programmes

Canada is one of the few countries in the world with an active programme for permanent immigration and a long history of managing immigration. With 30 million inhabitants, it is a relatively small country in terms of population with immigration being the main source of population growth (70% of population growth in the 1990s was attributable to immigration). In recent years, the most important inflows of immigrants came from countries in the south, east and Southeast Asia, reflecting the Canadian government's emphasis on skills in the selection process.

One department – Citizenship and Immigration Canada (CIC) – is responsible not only for permanent and temporary residents, but also for citizenship, with a major part of the department budget dedicated to integration.

Permanent immigration into Canada is divided into three basic categories: family reunification, economic immigration and refugee protection. The economic immigration category (economic classes) comprises skilled workers, provincial and territorial nominees, investors, entrepreneurs and self-employed persons.

Of the approximately 230,000 permanent immigrants into Canada in 2002, about 54% were skilled workers.<sup>55</sup> Such workers are selected for their skills based on a point system that assesses education, language proficiency, work experience, age and potential adaptability (by examining the education of the spouse, work and study experience in Canada, etc.) of the immigrants. Furthermore, skilled workers must have enough funds to support themselves and their family members in Canada and have to pass criminal, security and medical tests.

Recent reforms to immigration legislation<sup>56</sup> broadened the selection process that used to be based on a rather strict assessment of occupational needs. Now the selection criteria have shifted somewhat towards an examination of the human capital/skill set of a potential immigrant, the recognition of more occupations in general and the extension of the education criteria, where the new act makes it easier for those with trade degrees/diplomas to pick up points.

In addition to granting permanent residence and eventually citizenship to the economic classes of immigrants,<sup>57</sup> Canada offers programmes covering temporary immigration, which could in turn enable permanent immigration in the long run.

In general, temporary foreign workers must have an approved job offer and a work permit before they arrive. Job offers are approved by Human Resources Development Canada (HRDC). The HRDC department examines the job offer to determine if the

<sup>55</sup> The general division of immigrants between the different categories was: 60% for the economic class, 28% for the family reunification class and 12% for the refugee class.

<sup>56</sup> The new Immigration and Refugee Protection Act (IRPA) was implemented on 28 June 2002 and replaces the Immigration Act of 1976. Draft regulations were the final step in a four-year process of the Immigration Legislative Review and are based on a broad and long consultation process. Parliamentarians and the public at large were provided with an opportunity to express their views before the final revisions.

<sup>57</sup> Immigrants are allowed to apply for citizenship after three years of residence; about 90% of them become citizens.



offer is genuine, the wage and conditions are sufficient to attract Canadians and if the employment of the foreign national will have a neutral (or positive) effect on the Canadian labour market. In some cases, a foreign national can conduct business activities in Canada without a work permit. In other cases, a work permit is required but confirmation by the HRDC is not.

By working temporarily in Canada, foreign immigrants gain experience and assist in meeting the demand for skilled workers. The worker and the employer must still meet certain criteria, but the new immigration act allows the worker to receive immigration status from within Canada.

Canada's immigration procedures have been built on the recognition that public acceptance and support is critical to the success of its programmes. Consultation with the provinces and territories in setting immigration goals, annual reports to inform parliament on recent activities and initiatives, comprehensive information about programmes and their track records via the internet are among the measures taken to ensure that all political levels are involved in the policy-making and that the public is informed about the latest developments. The constant update of the legal foundation for the immigration programmes is supposed to ensure that immigration policies reflect today's realities, allowing a quick response to Canada's economic conditions and needs.

In Canada, one person out of six was born outside the country. The fact that Canada is a country built upon immigration also makes it a very specific example in terms of its economic-immigration management. Nevertheless, the Canadian policy of selecting skilled workers that account for more than half of the permanent immigrants represents a considerable channel of immigration. This strong economic channel seems to help create tolerance and acceptance of immigrants throughout the indigenous population.

## ANNEX 3

### GOOD PRACTICE AT THE FIRM LEVEL

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#### **International assignment policies and practices of Volvo 3P**

With the acquisition of French Renault Trucks and American Mack Trucks (following the divestment of Volvo Cars to Ford in 1999), the Volvo Group – previously a niche player – became the world’s second-largest and Europe’s biggest manufacturer of heavy trucks with a strong global market presence.

At the same time that Volvo was turning into a multinational company, it was reaching the conclusion that remedies such as e-collaboration, networking technology and video conferences ‘don’t do the trick’ compared to posting the employees abroad. An international assignment policy was thus set up in June 2001 in order to support the global business strategy and to contribute to the achievement of business objectives by facilitating the movement of Volvo Group assignees and their families to different locations around the world.

The potential expatriate and accompanying partner are both involved in a thorough briefing and review at many stages of the assignment procedure. The salary calculation of Volvo 3P falls under the so-called ‘home or headquarter-based remuneration approach’ and many of the international assignments are supported by compensation payments. The Volvo Group increasingly takes recourse to short-term assignments lasting between six weeks and three months, thereby retaining the employee on the national payroll system (except for the compensation).

#### **The key challenges to international personnel policies identified by Volvo 3P are:**

- *Difficulties in comparing pension policies across countries.* In order to provide secure solutions for its employees, double payments (in host and home countries) are often necessary.
- *Schooling solutions.* It is often the case that comparable schools cannot be found in the host country and that ‘expat children’ are faced with losing school years as a result of their stay abroad.
- *Differences in tax scales, child allowances and health insurance/medical coverage across countries.*
- *Spouse.* Since dual careers are becoming more common, the posting abroad involves hurdles such as the search for a new job or the loss of pension contributions for the accompanying partner.
- *Domestic insurance requirements.*

#### **The key benefits of expatriations for the company are:**

- the spread of technical skills;
- creation of diversity;
- opportunities to develop ‘high potential’; and

- facilitation of change (networking, global collaboration, gaining understanding of local requirements, recourses, restraints and cultural implications).

**Key benefits of expatriations for the employee are:**

- cultural awareness;
- receipt of a holistic view of the organisation;
- personal growth; and
- family experiences.

**Initiatives to overcome the dual career problem by Schlumberger**

Schlumberger represents an international technical company, selling products within its divisions of Oilfield Services, Resource Management Services and Test and Transactions.

Being a company with a distinctly international orientation, Schlumberger pursues very innovative and internationally orientated HR policies. Its focus in HR policies for a culturally and gender-diverse workforce and its aim to provide borderless career opportunities are well known and reflected in the company's operational structure. The goal of achieving gender-diversity, especially in the segment of oilfield services is not an easy task. Attracting female recruits in engineering and retaining those recruited represent serious challenges for the company. As interests of female employees change throughout their careers, the appropriate policies across countries, such as maternity leave, part-time work and job-sharing opportunities, have to be adjusted according to the stage of career and personal preferences of the female employees. In addition, the appropriate local infrastructure for childcare, medical care, etc. has to be found in the respective countries. Moreover, since more and more partners of expatriates are well-educated and willing to work, international HR policies have to address the problem that the trailing spouse is often not willing to put his or her career on hold for the duration of the stay abroad.

Schlumberger addresses issues arising from its diverse and internationally oriented HR policies, in particular the dual-career issue, through a number of initiatives. One of these has been the founding of the effective Schlumberger Spouse Association (SSA).<sup>58</sup> The SSA is a social organisation of local spouses around the world who volunteer to help Schlumberger spouses and families to adapt to their new environment. The SSA seeks to foster a sense of fellowship among all spouses and partners. It tries to achieve this goal through offering a portal for communication and information exchange that also reaches the isolated spouses who live in hardship locations. In addition to receiving an e-mail and dial-up account, spouses are also able to access the SSA and the SpouseConnect websites.

Two other initiatives dealing with the dual-career issue, where Schlumberger is an active member, are the Permits Foundation and Partnerjob.com.<sup>59</sup> The Permits

<sup>58</sup> See [www.ssafara.net](http://www.ssafara.net).

<sup>59</sup> See [www.partnerjob.com](http://www.partnerjob.com) and [www.permitsfoundation.com](http://www.permitsfoundation.com).

Foundation was set up by about 20 international corporations from Europe and the US in order to encourage governments to relax work permit regulations for the spouses of expatriate employees. Partnerjob.com was launched by eight multinationals with the aim of enabling career-minded spouses to match their wish to work with the need of the companies to fill posts around the world. Therefore, this industry-driven website offers a forum where spouses can post their CVs and consult the database for job openings. The internet presentation is furnished by the member companies and other authorised institutions (e.g. schools).

These three initiatives in the field of solving mobility obstacles, apart from the HR policies of individual firms, show that information exchange among individuals involved in assignment policies as well as among firms can be another means to address barriers in mobility.

### **The Magellan Network – A forum for benchmarking and information exchange**

The Magellan Network is a professional network for international HR and mobility managers that provides a forum for its corporate members and invites experts to exchange information and to benchmark their work on international assignment policies. It does so by organising annual as well as more regular meetings on specific issues regarding mobility policies and by providing technical and professional information for its members via an online database. In 2003, the Magellan Network counted 130 multinational companies as members.

The network carries out surveys, identifies major problem areas in international assignment policies and tries to come up with possible suggestions for the improvement of the conditions for employees, spouses and companies.

According to the group, the major categories of obstacles the multinationals have to deal with while posting employees abroad lie within retirement, immigration, unemployment benefits, income taxes and administration. For example, in the field of pensions, the Magellan Network recommends allowing for the possibility to cumulate/combine the benefit of a bilateral convention with the EU convention in order to totalise the periods of contributions in EU member states as well as in non-EU countries. It also suggests authorising EU citizens to choose the ‘country of contribution’ to the state and supplementary pension system and to grant trailing spouses ‘free’ retirement periods for a limited duration (as are credited in some EU countries for childcare) to avoid breaks in the pension histories of expatriates and their spouses.

Concerning immigration policies, the members of the network suggest the removal of the obligation of any permit not imposed on nationals for those expatriates from EU member states. A status of ‘non-EU spouse’ should be created, to facilitate obtaining the residence permit and possibly a work permit (i.e. similar to the measure taken by the US government to issue work authorisations to trailing spouses).<sup>60</sup>

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<sup>60</sup> A Council Directive on the right of family reunification for non-EU nationals who are already resident in an EU member state and who want to accompany an EU national was recently adopted, which will in the future facilitate the attainment of a resident permit for the trailing spouse (European Council, 2003).

In the case of the rights to unemployment benefits, which may be lost when spouses lose their jobs in the course of following their partner abroad, the group states the need to determine a limited period during which spouses would receive unemployment benefits from the country of departure, to give them time to find a job in the country of destination.<sup>61</sup> This would ultimately generate retirement rights in some countries for the period abroad. Further, the Magellan Network recommends that tax breaks should be adopted to ameliorate the problem of taxation of benefit schemes for expatriates, which raise the costs of international assignment policies.

With regard to administrative hurdles, many of the Network members hold the view that the creation of a European agency for professional mobility – dedicated to informing companies about the respective national regulations in place – would help to centralise information and services. Implementing the principle of a single point of contact for employers for the payment of contributions could also reduce some of the administrative barriers. To gather all the relevant information about employees and their employment history, the members of the network suggest creating a ‘European Pass Card’, containing individual social security and health insurance information. This idea comes close to extending the European Health Insurance Card, which will be introduced for emergency health care throughout EU countries on 1 June 2004, replacing the E111 forms. The European Pass Card could in addition contain the individual’s history of retirement contributions (replacing the E200 series), the unemployment rights accrued (replacing the E300 series), the family members covered (replacing the E100 series) or even the information for family allowance (series E400).

Comparable to initiatives such as [partnerjob.com](http://partnerjob.com) by Schlumberger, the Magellan Network offers a platform for information exchange and benchmarking for companies to find solutions to the labour ‘mobility problems’ firms are facing and to enhance the visibility of these problems at government level.

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<sup>61</sup> The unemployed spouse is entitled to unemployment benefits under EU Regulation 1408/71 for three months (under the reformed regulation to six months) if he or she was already registered as unemployed before moving.

## ANNEX 4

### MEMBERS OF THE TASK FORCE

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