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REPORT FROM THE COMMISSION TO THE COUNCIL

**on the Functioning of the Transitional Arrangements on Free Movement of Workers
from Croatia (First phase: 1 July 2013 - 30 June 2015)**

{SWD(2015) 107 final}

1. INTRODUCTION

1.1 Purpose of the report

The Commission presents this report in accordance with part 2, paragraph 3 of Annex V to the 2011 Act of Accession of Croatia. It is to serve as the basis for the Council's review of the functioning of the transitional arrangements on free movement of workers, which must be completed before the end of the two years' period since enlargement, i.e. by 30 June 2015.

1.2 Free movement of workers

The free movement of persons is one of the fundamental freedoms guaranteed by EU law. It includes the right of EU nationals to move freely to another Member State to take up employment and reside there with their family members; and the right to equal treatment on the basis of nationality in employment-related matters and in relation to tax and social advantages, membership of trade unions, public housing, and the access of their children to general education, apprenticeship and vocational training.

1.3 Transitional arrangements on the free movement of workers

The 2011 Act of Accession allows EU-27 Member States¹ to temporarily restrict the free access of workers from Croatia to their labour markets by making it subject to their national law. The Court of Justice of the EU has consistently held that derogations from fundamental freedoms should be interpreted strictly.

The overall transitional period of seven years is divided into three phases ('2-plus-3-plus-2'). Different conditions apply during each phase:

- The national law of the other Member States regulates the access of workers from Croatia to their labour markets in the first two years.
- On 1 July 2015 the second phase of the transitional period starts. Those Member States that want to continue to apply restrictions during the second phase must notify the Commission beforehand, otherwise EU law granting free movement of workers applies.
- A Member State maintaining national measures at the end of the second phase may, in the event of serious disturbances of its labour market, or a threat thereof, and after notifying the Commission, continue to apply these measures until the end of the seven-year period.

¹ EU-27 are EU Member States on 30.6.2013; EU-15 are EU Member States on 30.4.2004.

The transitional arrangements end irrevocably on 30 June 2020.

In addition, a Member State that has stopped using national measures and applies EU law on the free movement of workers may re-introduce restrictions before the end of the 7-year period if there are serious disturbances on its labour market or a threat thereof.

The transitional arrangements only apply to access to the labour market. Once admitted to the labour market, a Croatian worker benefits fully from all other rights under EU law.

The transitional arrangements do not affect the fundamental right of EU citizens to move and reside freely within the EU, under Article 21 of the Treaty of the Functioning of the European Union (TFEU). They do not apply to self-employed workers who are established or provide their services within the EU. Austria and Germany are authorised to apply in certain sectors restrictions to workers posted by companies established in Croatia in the context of provision of services, and decided to make use of that possibility. There are no transitional arrangements for the application of EU law on coordination of social security schemes.

1.4 Member States applying restrictions during the first phase

Workers from Croatia currently have free access to the labour markets of fourteen of the EU-27 Member States. Member States applying restrictions are:

- Austria
- Belgium
- Cyprus
- France
- Germany
- Greece
- Italy
- Luxembourg
- Malta
- The Netherlands
- Spain
- Slovenia
- United Kingdom

These Member States as a rule require a work permit from Croatian workers, although sometimes with simplified procedures or exemptions for occupations in certain sectors.

Croatia decided to introduce reciprocal restrictions for workers from these Member States and requires a work permit from their nationals.

2. EXTENT OF INTRA-EU LABOUR MOBILITY OF CROATIAN CITIZENS

2.1 Croatian citizens resident in other Member States

The number of Croatian citizens residing in EU-27 is low² and most of them came a long time ago. In 2013, before accession of Croatia, they were around 347,000³, accounting for around 0.07% of the total population. They were concentrated in Germany (236,900 or 68% of the total mobile Croatians), Austria (58,700 or 17%), Italy (17,200 or 5%), the UK (8,900 or 3%) and Slovenia (8,300 or 2%).⁴

In terms of the labour force, EU-Labour Force Survey (hereinafter: LFS) data indicate that, in 2014, around 229,000 economically active Croatian citizens were residing in EU-27, where they represented around 0.1% of the total labour force. This share was higher than average, though relatively low, in Austria (1.0%), Germany (0.4%) and Slovenia (0.2%). In all other countries, it was below 0.05% or too small to be reliably determined.

Over the decade preceding the 2013 enlargement, Germany, Austria and Italy received most (76%) of the flows of working-age Croatian citizens.⁵

2.2 Mobility flows from the perspective of Croatia

Croatian nationals residing in other EU Member States in 2013 represented around 10% of the working-age population in Croatia, one of the largest ratios in the EU.⁶ They constituted around 2.8% of all mobile EU citizens of working-age (15-64), a larger share than Croatia's weight in total EU population (0.9%).⁷

However, these figures mainly reflect pre-2000 migration patterns: 9 in 10 of these mobile Croatians resided in EU-27 for more than ten years.⁸ After a wave of labour migration from Croatia to Austria and Germany in the 1960s and 1970s, the largest

² Low from receiving countries' perspective, but significant from Croatia's perspective (see section 2.2).

³ Source: Eurostat Population statistics (table migr_pop1ctz, latest data: 1. 1. 2013) complemented by other sources for UK and FR, see Chart 1. All tables and charts, as well as complete references of the cited documents can be found in the Commission Staff Working Document accompanying this report.

⁴ Chart 1.

⁵ Chart 2. Based on LFS.

⁶ Chart 3. Based on LFS.

⁷ LFS data.

⁸ Chart 3: According to the LFS, almost two thirds (63%) of working-age (15-64) Croatian citizens residing in other EU countries in 2014 moved there more than 10 years before and 21% were born in their current country of residence, while only 16% had moved less than 10 years before.

wave to EU countries took place in the 1990s because of the wars in the Balkans.⁹ Since then the flows have been limited and in 2014 the recent movers (i.e. having moved less than 10 years before) represented only 1.6% of the working-age population of Croatia, a much lower ratio than most Central and Eastern European Member States.¹⁰

2.3 Other work-related mobility flows

Labour mobility of Croatian workers also occurred through frontier work in neighbouring countries (Italy, Slovenia) and seasonal work, notably in Germany.¹¹

In 2013, around 35,000 persons were residing in Croatia but working in other countries, accounting for around 2.3% of jobholders in Croatia (compared to 1.4% in 2010).¹²

Moreover, around 8,700 portable documents A1 were issued for posting from Croatia to other Member States in 2013, in particular for Germany (5,400), Austria (850), Italy (700), Slovenia (480) and Finland (380).¹³ More than 90% of these documents were issued for countries having introduced temporary restrictions.

2.4 Mobility flows of Croatian citizens since accession

Although the accession of Croatia took place only on 1 July 2013 and despite a delay in collecting and publishing migration data, the existing data allow for a first assessment of how mobility to other EU countries has evolved since the accession

According to LFS, the number of Croatian citizens living in other EU Member States has not changed much since the accession, but this data source is unlikely to catch the most recent movers in its sample. Also, there is tentative evidence of increasing activity rate among those who were already abroad.¹⁴

According to Croatian official data,¹⁵ the number of Croatian nationals moving to EU-27 has increased recently, from 3,216 in 2012 to 4,058 in 2013 (or +26%), mostly to Germany, Austria and Italy. However, official emigration statistics underestimate outflows (Bozic, 2007).

Finally, according to a data collection that covers major EU destination countries¹⁶, there are signs of increasing mobility from Croatia since accession compared to previous years. This is particularly the case for the Member States that already host large number of Croatians and despite the applicable restrictions:

⁹ European Integration Consortium (2009).

¹⁰ Chart 3.

¹¹ European Integration Consortium (2009).

¹² LFS, table lfst_r_lfe2ecomm.

¹³ Charts 4 and 6.

¹⁴ Table 6.

¹⁵ Croatian Bureau of Statistics (2014).

¹⁶ See Tables 2 to 5.

- in Austria, the Croatian population increased by 3,340 (or +6%) between 2013 and 2014, driven by double inflows in 2013 compared to 2012; employment of Croatian nationals increased by 2,000 (or +10%) from 2013 to 2014, to reach 22,450;
- in Germany, the Croatian population increased by 22,800 (or +10%) between 2014 and 2015, and employment of Croatian nationals increased by 10,000 (or +10%) from June 2013 to June 2014, to reach 108,120;
- in Italy and Slovenia, the Croatian population also increases but at a smaller pace and there is no evidence of a rise in the number of those in employment. In the UK the inflows of Croatian nationals remained limited.

These Member States covered approximately 95% of all mobile Croatian citizens in the EU.¹⁷

Among the Member States that opened their labour markets, the inflows of Croatian workers remain limited in both absolute and relative terms. The clearest increase is seen in Ireland (2091 new registrations in 2014 compared to 486 in 2013) while numbers also went up in Sweden (net increase in Croatian residents of 857 in 2014 equal to +52%) and the Czech Republic.

Finally, the data suggest that **there has not been until now any major diversion of the flows** due to the differences in access to the labour market across EU-27 countries, as most post-accession movers from Croatia went to traditional destination countries.

The scale of mobility after Croatia's accession has been small in absolute terms and in relation to the population of the receiving countries especially compared to what happened after 2004 and 2007 enlargements. Between 2004 and 2010, the number of mobile citizens of the then acceding countries in the EU-15 increased by around 3.7 million (2.4-fold increase). The highest increase in the scale of mobility occurred within the first two years immediately after 2004 and 2007 enlargements, the movements in the following years being smaller.¹⁸

3. POTENTIAL MOBILITY FROM CROATIA AND FACTORS IMPACTING ON MOBILITY

Due to the size of Croatia in terms of population (4.2 million in 2014 or 0.8% of the total EU population¹⁹), potential flows of workers to other EU Member States following the accession are likely to be relatively limited, at least in % of the labour force of the EU and in most destination countries.

¹⁷ Assuming comparability of Eurostat, UN and OECD migration data with the national administrative data.

¹⁸ CMR (2015).

¹⁹ Eurostat, Population statistics.

3.1 Factors impacting on future mobility flows from Croatia

The factors impacting on mobility flows are multiple and linked to both pull and push factors.

In terms of push factors, the **analysis of the economic and labour market situation in Croatia points to some clear, but somewhat declining, incentives to move abroad**. Indeed, Croatia has the third lowest GDP per capita in the EU. However, since 2010 it started growing again and it stood at 61% of the EU-average in 2013. Moreover, Croatia's Gross Household Disposable Income per capita (in pps) grew steadily throughout the crisis and in 2012 amounted to 59% of the EU average.

In 2014, Croatia had the third highest unemployment (17%) and youth unemployment rates (45%) in the EU. While it also has the fourth lowest employment rate (57% in the 3rd quarter of 2014), it had one of the highest year-on-year increases in employment rate (+3.2 pps).

The percentage of persons at risk of poverty or social exclusion in Croatia is above the EU average (29.9% vs. 24.5%, 2013).

Wages in Croatia (compensation per employee) in 2013 were the second highest of the Central and Eastern European Member States.

According to the 2013 Eurobarometer²⁰, the reasons for Croatians to consider moving abroad were similar to those of most other EU citizens: higher wages (80%), better working conditions other than salary (31%) and the difficulty to find a job in Croatia (30%).

Finally, in terms of distribution across recipient countries, economic factors (e.g. unemployment rate, job vacancies and wage levels in the destination countries) are likely to play a role. However, evidence from previous enlargements shows that the distribution has also been influenced by geographical proximity, cultural and historical links and networks with compatriots already present in some Member States. This appears to be true also in the case of Croatian movers.²¹

3.2 Potential mobility estimates from Croatia

In 2013, around 43% of Croatian citizens aged 15+ said that they 'would consider working in another EU Member State in the next 10 years' (one of the highest shares across EU countries), but only half of those expressed a strong desire to do so (21%). Another survey conducted in 2014 indicated that around 3.3% of Croatian citizens interviewed declared that they are making concrete plans to move abroad.²² This is more than double than the share in 2009 (1.5%).

²⁰ Eurobarometer 'Internal Market', 2013.

²¹ Vidovic and Mara (2015). See also figures presented in section 2.4 on major EU destination countries for EU movers.

²² Pilar (2014).

Forecasts of net migration from Croatia to EU-27 over 2013-2019 (based on a macro-gravity model²³) indicate that it would range between +166,000 (a scenario where existing restrictions are maintained) and +217,000 (if all Member States opened their labour market on 1 July 2015), or between respectively 0.03% and 0.04% of the destination countries' population. Some destination countries will get a larger than average net migration from Croatia in % of their population but this ratio will be much below 1%, with, in the 'maximum scenario', 0.55% in Austria, 0.34% in Slovenia and 0.13% in Germany. Therefore, post-accession mobility from Croatia is likely to be small, whatever the legal regime on access to work.

Finally, the forecasts indicate that the difference between the restrictions remaining in place and them being lifted from July 2015 amounts overall to +51,000 Croatian citizens or just 0.01% of the EU-27 population.

Irrespective of the future decisions on restrictions the three main recipient countries (Germany, Austria and Italy) are likely to receive more than 80% of the increased net mobility from Croatia.

4. MAIN CHARACTERISTICS OF INTRA-EU MOVERS FROM CROATIA

The impacts of mobility flows on both destination and origin countries are influenced by the characteristics of the movers. Given the limited availability of data, this section focuses on a wider timeframe, that is, on the Croatian citizens residing in 2014 in EU-27 for less than ten years (the 'recent movers'). They are predominantly young and have higher employment and lower inactivity rate than average.

4.1 Age, gender and education

Of the recent movers from Croatia, 87% were of working age (15-64) compared to an average of 66% of all those living in EU-27. They are therefore much more likely to be in the economically productive period of their lives than the native population. Moreover, they are rather young as 62% of them are aged 15-34 compared to only 37% in the EU-27 working-age population (Chart 12). As for the gender breakdown, there is a similar share of women among the recent movers from Croatia (52%) than the average in the working-age population of EU-27 (50%).

Only around 19% of the recent movers from Croatia had in 2014 a low level of education, compared to around 27% in the EU-27 working-age population, while the share of those having a high level of education was somewhat smaller (respectively 19% and 26%).

²³ Vidovic and Mara (2015). The model takes into account macroeconomic determinants, geographical and cultural proximity and institutional features. The net migration forecasts concern citizens of all ages.

4.2 Labour market status and occupational and sectoral composition

In 2014, the employment rate of the recent movers of working-age was high (71.3%), in particular compared to the average employment rate across the EU-27 (65.0%). It is due notably to a much lower inactivity rate (19.4%) than in the EU-27 overall (27.6%) and a low unemployment rate.²⁴ This confirms that workers from Croatia moved to EU-27 mainly in order to take up employment and are likely to bring a positive economic contribution.

Croatian citizens working in the EU²⁵ tended to work predominantly in manufacturing (20%), construction (12.7%) and human health and social work (11.9%).²⁶ They are also overrepresented in the sectors of accommodation and food services activities (10.4%) and administrative and support services activities (7.6%).

Overall, they are concentrated (54%) in occupations requiring intermediate level of qualifications, in line with the large share of those having a medium level of education.²⁷ Around a quarter of them work in highly-skilled occupations, in particular as technicians and associate professionals.

Restrictions to salaried employment may have limited effect on the total flow of workers as they do not cover self-employment or posting of workers.²⁸ In Austria, the number of self-employed Croatians increased quickly between 2013 and 2014 (+772 persons or +56%), in particular compared to those being employees (+2,023 persons or +10%).²⁹

5. POTENTIAL ECONOMIC AND LABOUR MARKET IMPACTS

5.1 Economic and labour market impact for destination countries

While Croatia's accession is too recent to estimate the economic, labour market and fiscal impacts of mobility to other Member States, several factors point to a potential positive impact of mobility from Croatia for the destination countries.

The characteristics of recent movers from Croatia described in section 4 show that they moved to the EU-27 mainly in order to take employment and are therefore likely to bring a positive economic contribution. Movers from Croatia are predominantly of working-age and younger than the average of citizens in destination countries, have a relatively good level of education and are much more likely to be in employment. These are the characteristics that they have in common with mobile EU-27 citizens in general and post-2004 enlargement movers in particular, for which the economic and labour market impact in destination countries

²⁴ 5.8% in 2014 among all Croatian nationals living in EU-27 except those born in their country of residence.

²⁵ Data on sectors and occupations cover all Croatian workers in EU-27 excluding those who were born in their current country of residence.

²⁶ Table 7.

²⁷ Table 8.

²⁸ As regards previous enlargements see Galgoczi et al (2012) and CMR (2015).

²⁹ Austrian social security data.

has been assessed in most studies to be overall positive.³⁰ Mobile EU workers have enabled the host countries' economies to improve the skill mix, as they work mainly in sectors and occupations where labour shortages need to be filled.³¹ The effect of post-enlargement mobility on the unemployment rate and wages in the destination countries has been rather marginal, at least in the long-run.³² In terms of the fiscal impact of mobile EU citizens, studies have shown that it is often neutral and in most cases can be said to be positive.³³

5.2 Demographic prospects, brain drain and labour shortages in Croatia

Croatia's net migration was positive from 1999 to 2008 but turned negative since 2009,³⁴ a trend primarily due to declining immigration flows into Croatia³⁵.

Moreover, as shown above, the extent of the outflows in the last decade has been relatively modest. Nevertheless, mobility flows have increased since accession and mobility of young and well-educated people could worsen the demographic prospects³⁶ and the growth potential of Croatia. Indeed, recent movers from Croatia are younger than the average working-age population of Croatia and tertiary graduates are slightly overrepresented.³⁷

On the other hand, in 2012 Croatia had one of the highest tertiary education enrolment rates (for those aged 20-24) in the EU³⁸, rising consecutively for almost a decade. This has resulted in a sharp increase in the number of university graduates, from 17,000 per year in 2003 to almost 40,000 in 2012. Nevertheless, in 2013 Croatia had a relatively low share of tertiary graduates (17%) in its working age population, counterbalanced to an extent with a below EU average level of low skilled workforce (22.4%) and one of the lowest drop-out rates in the EU (4.5%).

The evidence on the impact of emigration on Croatia thus far does not indicate that it caused skills shortages in certain sectors. Bottlenecks appear across the skill spectrum in Croatia and are mostly focused in the sectors of the accommodation and food service, education and healthcare.³⁹ Most occupations experiencing shortages in Croatia are due to a lack of technical and workplace competencies. In some cases, there is a lack of experienced specialists, notably in the healthcare sector. Inadequate regional adjustment and planning of capacities are also partially responsible for the identified shortages.

³⁰ See a review of studies in European Commission, ESDE 2011, chapter 6; EPC (2013).

³¹ European Commission, ESDE 2011, pp. 268-276.

³² NIESR (2011). See also Martins et al. (2012) and Wadsworth, J. (2015).

³³ See review in ICF-GHK (2013) and, in particular, ECAS (2014) and Social Situation Monitor (2013).

For the fiscal impact of EU and non-EU migrants, see OECD (2013).

³⁴ Croatian Bureau of Statistics (2014).

³⁵ Eurofound (2014).

³⁶ Croatia has been experiencing a reduction in its crude birth rate and population since 2007. In terms of ageing, it had in 2013 a below-EU-average old-age-dependency ratio (27.1% vs. 27.5%), but with a projection to reach almost 50% by 2050.

³⁷ Chart 12.

³⁸ Eurostat, Education statistics.

³⁹ European Commission (2014), Bottleneck Vacancies in EU Labour Markets.

Whilst efforts are needed to ensure that the country retains and attracts the needed labour force, existing research has noted the overall importance and potential of labour mobility in the EU as an economic adjustment mechanism. The potential benefits of people being employed in another Member State compared to remaining unemployed at home are also important.⁴⁰ Moreover, previous experience has shown that mobility flows in the EU are often circular and that many return home after several years, bringing home the valuable experience and skills.⁴¹

5.3 Remittances

One of the positive impacts of mobility of Croatian citizens on their country's economy are remittances sent back home. Their net balance was as much as + €702 million in 2013⁴² or 1.6% of its GDP, the sixth largest ratio in the EU and the highest net remittances per person in the EU (almost 500 EUR per person residing in Croatia in 2013). There are some indications that remittances are mainly used for savings and investments, meaning that they are likely to contribute to more longer-term growth.⁴³ The same study indicates that remittances helped decrease the level, depth and severity of poverty in Croatia. Finally, remittances along with compensation of seasonal and frontier workers have been judged to play a significant role in offsetting the negative balance of investment income.⁴⁴

6. CONCLUSIONS

Due to the size of Croatia in terms of population and as shown both by flows since 2013 and projections on post-accession mobility, future potential flows of Croatian workers to other EU Member States are likely to be small, at least in percentage of the labour force of the EU and in most destination countries. They are unlikely to lead to labour market disturbances, even in the main destinations (Germany, Austria, Italy).

Flows since the accession have been directed towards traditional destination countries despite the restrictions, while they increased by very little in absolute terms in a few countries having opened their labour markets. This confirms that mobility flows are influenced by many factors besides the restrictions, such as employment opportunities, network effects and historical, cultural and linguistic factors.

Restrictions to salaried employment may have limited effect on the total flow of workers as they do not cover self-employment or posting of workers.

The young age and high employment rate tend to confirm that Croatian workers moved to other Member States mainly in order to take up employment and that they are likely to make a positive contribution to their economies.

⁴⁰ European Policy Centre (2013).

⁴¹ Eurofound (2012).

⁴² Eurostat (2014).

⁴³ Poprženović (2007).

⁴⁴ European Commission (2015) - Croatia Country Report.

Croatia is experiencing a certain outflow of its young and highly educated workers, but these flows relative to the size and characteristics of Croatia's native workforce are relatively moderate, though they have increased since accession. Remittances to Croatia play an important role in stabilising the economy which is currently in a difficult macro-economic situation.

Freedom of movement of workers is a fundamental freedom of the EU. Temporary restrictions are derogation from that fundamental freedom. The Commission trusts that this report will provide the Council with the necessary information to review the functioning of the transitional arrangements and allow the Member States which apply restrictions to review their decisions in respect of access of Croatian workers to their labour markets. It recalls that Member States that want to continue to apply restrictions during the second phase (from 1 July 2015 until 30 June 2018) must notify the Commission beforehand.