

After Enlargement, Employers' Perspective

Chair, Ladies and Gentlemen,

Free movement of workers is one of the four fundamental freedoms of the internal market of the European Union and the European Economic Area.

The four freedoms were supposed to increase trade in goods and services, the free flow of capital and the free movement of labour, thus increasing economic growth and improving the living standards of all the member states.

The free flow of labour is **very** important for the Icelandic labour market which happens to be very flexible, which generates low unemployment and extremely high participation rates, including the very young and the oldest workers.

The flexible labour market, coupled with the recent strong inflows of foreign labour, gives Iceland the possibility to exploit its growth potential in full and hence maximise the welfare of its citizens.

Labour market forecast 2003

When the current and enormous power-related construction projects were being prepared, it was immediately clear that the domestic labour market could not meet such a major challenge. It was clear that thousands of foreign construction workers were needed for the projects.

This was confirmed in a report, published by the Ministry of Industry and Commerce in March 2003, on labour demand due to power-related projects.

It was therefore obviously questionable for Iceland to apply transitional arrangements regarding labour market access in relation to EU enlargement in 2004.

SA's position

At the outset, SA-The Icelandic Confederation of Employers, was of the opinion that such transitional arrangements should not be applied in Iceland, as labour

demand was obviously about to rise and cumbersome bureaucratic procedures can be very time consuming and costly for businesses - and time is money.

IFL's position

This was also the position of IFL – The Icelandic Federation of Labour – in the beginning. However, IFL's position changed by the end of year 2003 when the Federation insisted that Iceland should apply such transitional arrangements.

Adoption and implementation

Despite the obvious case for no restrictions, the Government decided to meet IFL's demands, also with reference to the fact that most EEA Member States had decided to apply such transitional arrangements.

This was very disappointing for the business community. Granted, by the beginning of year 2004, unemployment was rather high by Icelandic standards, or around 3%, but on the other hand some large construction projects were being prepared and there was no unemployment among tradesmen and general construction workers.

Further, national authorities made no efforts to ease the processes for entrance to the Icelandic labour market for foreign workers. On the contrary, the Ministry of Labour was working on a regulation which made even stricter demands than before on paper work related to applications for work permits.

Despite the fact that national authorities had actively encouraged these large construction projects, there was little understanding within the relevant authorities that foreign labour was needed and that all processes in that respect needed to be swift and reliable. At the time, it took from three to five months to obtain residence and work permits for workers from the new Member States.

SA repeatedly complained that these procedures were damaging the Icelandic labour market. Suddenly TWAs, which were almost unknown to the Icelandic labour market prior to year 2004, were blooming in that very same labour market. Hundreds of workers arrived here from the Baltic states, Poland and Portugal, by mediation of TWAs. Their salaries were paid in the workers' home countries and income tax was not paid in Iceland, with few exemptions though. Repeatedly suspicions rose that some of these workers were not being paid in accordance with the terms of Icelandic collective agreements.

Finally, in September 2005, authorities decided to speed up the process of applications for residence and work permits and to reduce bureaucratic demands in that respect. The idea was to increase direct employment and to reduce the scope of TWAs in return.

The IFL also came to the conclusion that transitional arrangements after May 1 this year were not desirable. It was regarded more important to enable Icelandic employers to hire foreign workers directly without having to use the services of TWAs.

In SA's opinion, TWAs have every right to provide the services they do. SA has, however, encouraged employers only to deal with reliable TWAs who fully respect Icelandic legislation and collective agreements.

Further, SA has stressed that direct hire should be the general principle in the Icelandic labour market. That rests on the **condition** that we will continue to have a flexible labour market where employers and employees are mutually able to terminate employment contracts with a termination notice.

A flexible labour market

In this respect the Icelandic labour market differs from those of most other European countries. The free right of dismissal and resignations has brought us an effective and dynamic labour market and low unemployment – the envy of many of our continental neighbours in Europe who have to deal with inflexible labour markets and unemployment figures almost completely unknown to Icelandic modern history. Icelandic employees are not afraid to change work since we do not apply the rule of last on in – first one out. Accordingly, workers understand that bad performance can lead to dismissal on behalf of the employer.

Icelandic employers are therefore not hesitant to hire foreign workers directly. They do not need TWAs or other service providers to increase their flexibility – it is there already.

In the debate on whether or not to apply transitional arrangements after May 1 this year, the aforementioned factors were taken into consideration, i.e. (that is) to encourage direct hire, that salaries and income taxes were to be paid in Iceland, and that undeclared work of foreigners was to be reduced.

Further, attention was drawn to reports on the experience of EEA Member States of EU enlargement.

On the one hand was a Commission report from February 2006, which stated that:

- Free movement of workers since the 2004 enlargement had had a positive impact.

- Workers from new EU10 had helped to relieve labour market shortages and had contributed to better economic performance in Europe.
- Countries that had **not** applied restrictions after May 2004 (UK, Ireland and Sweden) had experienced high economic growth, a drop of unemployment and a rise of employment.
- Evidence suggested that some of the 12 old EU countries, using transitional arrangements, may have faced undesirable side-effects, such as higher levels of undeclared work and fake self-employed work.

Another report from the Norwegian FAFO institute, written for the Nordic Council of Ministers, came to similar conclusions. Both reports recommended removing the transitional arrangements.

A different legal environment

Unlike many other European countries, Iceland has a non-negotiable legislation on minimum wage. According to Icelandic law, wages and other terms negotiated by the social partners are the applicable minimum for all workers in the relevant sector, regardless of whether the employee or employer in question is a member of the relevant labour union or employers' federation. Posted workers are also entitled to pay according to collective agreements, according to the Posted workers Act. Paying according to a collective agreement in their home countries is illegal if lesser pay is in question.

Labour market surveillance has been in the hands of the social partners. National authorities do not operate any direct pay control. And it's a valid question whether they should. The unions want to withhold this assignment but also realize that they don't have the tools to observe foreign service providers or undeclared work.

The task ahead

SA and IFL adopted mutual proposals last June. The task ahead is to find ways to implement these proposals. We must find ways to secure even further the rights of foreign workers in the Icelandic labour market. Surveillance is best kept in the hands of the social partners, but further rules are needed on the role of public authorities.

Economists forecast stagnant economic growth in the year 2007, followed by a new period of fast growth in 2008-2010.. We therefore expect unemployment to remain low and do not expect any substantial shortage of employment in the coming years.

As already mentioned, SA believes that Iceland has benefited from the free flow of labour and should continue to do so. We therefore do not see any reason to apply any sort of temporary restrictions on labour market access for workers from the soon to be new EEA Member States Rumania and Bulgaria. On the contrary, we should welcome these nations without reservations into the EEA, with all the rights and obligations that membership entails. Further, we must bear in mind, that temporary restrictions can only be applied on direct hire, not on trade and services. Experience tells us that restrictions only lead to blossoming TWA services and undeclared work.

Iceland has had a very good experience from free flow of labour from new EEA Member States. Workers from these countries have met strong demand in what is probably Europe's most overheated labour market and have therefore enabled the Icelandic economy to grow more rapidly, increasing the quality of life for all of us.

Prior experience from labour market openings – be they Nordic or European - should teach us that there is no cause for alarm. Foreign workers are not about to “flow into the country” taking our jobs away. On the contrary they fill vacant jobs, and hence contribute to growth and creating new jobs.

Thank you!