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1. EU Construction industry - anxious about the enlargement?

By Oliver Loebel (CEETB¹) and Lyne Therrien

What was unthinkable fifteen years ago is now becoming reality. On 1 May 2004, eight Central and Eastern European countries as well as Cyprus and Malta will join the European Union. It will be another significant step towards realising the dream of a united Europe and exterminating the roots of war on our continent.

All studies show that enlargement will offer additional growth potential and lead to a win-win situation in the existing and new Member States. In particular, the EU manufacturing industry is benefiting from the accession process. Between 1995 and 2002, the EU-15 countries realised an accumulated trade surplus of more than Euro 120 billion with the candidate countries. Indirectly, the EU construction industry benefited from this surplus by providing the built facilities required for coping with the additional demand.

Many enlargement-related concerns of the EU population have been assuaged in recent years – at least partially. Today, half of the EU population is in favour of enlargement. Greece leads with 65% followed by Denmark, Spain and Italy with more than 60%. Support for enlargement is much lower in France (34%), Germany (38%), the UK (38%) and Austria (41%).

Notwithstanding this positive overall picture, it is obvious that not everybody is looking forward to enlargement day. One of the most reluctant sectors

is the construction industry. However, statistics show that construction is of vital importance to the European economy. With an annual turnover of almost € 1000 billion, a total direct workforce of more than 10 million, representing almost 11% of the total number employed in the enterprises sector, and another 15 million employed indirectly, the construction sector contributes about 10% to GDP.

The EU runs a significant surplus in trade in construction, although the absolute figures remain limited, not only by the nature of the product produced but also by the fact that construction carried out by subsidiaries of multinational companies resident in the country concerned is excluded from the statistics.

In the Netherlands and Finland exports accounted for more than 5% of total exports of services in 2001. In Germany, Greece, Italy, Sweden and the UK, exports of construction services declined significantly relative to total exports of services between 1995 and 2001. Nevertheless, with the exception of Germany and Ireland, all Member States had a trade surplus in construction.

Around 97% of all construction enterprises are small or medium-sized, including a 22% share of self-employed. In spite of the economic importance, many EU construction businesses feel that enlargement will negatively affect their activities.

Stagnating construction activities in the EU

In a number of countries, but in particular in Germany, construction has been stagnant for a number of years. For 2004, negative growth is still expected for Germany, Ireland, Italy and Portugal. The recession is accompanied by an increase in bankruptcies and redundancies. At the same time, many national construction markets are facing a far-

reaching restructuring process. EU businesses are therefore not eager to welcome new competitors. However, the lack of employment opportunities in some crisis-wracked Member States is very likely to discourage potential migrant workers to move "westwards". Optimistic growth prospects in the accession countries may reinforce this.

Fears of growing black market

Many people feel that the problem of undeclared work may increase even further. In reality, the issue of black work is not linked to enlargement. Rather, it is first of all a national problem. To a great extent, it is something done by domestic workers. Foreign

undeclared workers may come from all over the world, and not only from the acceding countries. In addition, the likelihood that a foreign worker accepts to do undeclared work is also caused by the absence of opportunities for legal employment.

¹ European Technical Contractors Committee for the Construction Industry (www.ceetb.org)

Wage costs hamper competitiveness

Construction is a very labour-intensive activity and wage differences have a significant impact on the price a construction business can offer.

For enterprises established in the acceding countries a part of this competitive advantage is counterbalanced by lower labour productivity, additional costs due to cross-border activities and, in a number of cases, lower skills. However, whilst public and private clients continue to award projects to the lowest initial price instead of the economically most advantageous tender covering the whole life cycle of a construction, lower wages are likely to outweigh best value for money for the client.

When looking at the effects of enlargement, it is evident that some regions and trades will be more affected than others. The regions along the border between the present and the new Member States (Finland, Germany, Austria, Italy) are without any

Worries in the accession countries

Life would be too easy if concern about problems was only present in the current Member States. Many construction businesses in the accession countries also have mixed feelings about EU membership. The full application of all EU regulations will considerably increase their administrative burden as additional investments in health and safety, the qualification of enterprise owners and employees as well as equipment and management systems will be required. Enterprises will have to apply numerous EU rules and standards without having had the opportunity of participating in the drafting process. The most important areas affected by EU regulation are construction products, public procurement and health and safety, as well as energy and environment.

In spite of these worries, the enlargement process is now irrevocable and accession treaties with ten new

doubt more likely to see new competitors than Portugal or Ireland. Construction businesses in the border regions are particularly concerned about commuters, who, if they came as independent service providers, would not be covered by the safeguard clauses regarding the free movement of labour as stipulated in the Accession Treaties. Taking account of the particular exposure to new, low-cost competitors, the Accession Treaties also contain safeguard clauses for Austria and Germany concerning the provision of services.

The challenge of accession conditions was to strike a balance between the undeniable macro-economic benefits and specific problems at enterprise level in a number of regions. In fact, in spite of overall positive figures, no entrepreneur will welcome enlargement if it means the end of his own business.

Member States have been signed. The enlarged Union will have to guarantee the free movement of people, goods, services and capital. Safeguard clauses can therefore only have a transitional character. This series of articles aims to address some of the concerns in the present Member States, demonstrate strategies in the enlarged EU and explain how EU rules provide for a smooth accession process.

Other articles in this series:

- Accession treaties: Giving the construction industry a reprieve
- Construction industry in the accession countries - excellent growth prospects
- Internal Market rules to avoid unfair competition in construction
- Fears of invasion of cheap labour ill-founded
- And if enlargement also offered opportunities...?

2. Construction industry in the acceding countries - excellent growth prospects

By Oliver Loebel (CEETB²) and Lyne Therrien

The impact of enlargement on the construction industry in the present Member States cannot be estimated without analysing the current situation and future prospects for construction in the acceding countries.

First of all, a look back to the past is useful. Following the velvet revolutions in the Central and Eastern Europe countries about fifteen years ago, all countries in this region underwent a dramatic restructuring process. Large state-owned companies broke down, while the private business sector developed only with great difficulties. This situation was particularly burdensome in countries where there had been no private entrepreneurship before the reforms (former Czechoslovakia and the Baltic states). GDP shrank by as much as 30 % in a number of countries and only now they have reached again the per capita income they had fifteen years ago. The construction industry was no exception to the rule, as investments in industry, housing and infrastructure practically came to a standstill.

Today, the situation has changed. The construction sector has developed structures similar to those in the present EU. A large number of new, mainly micro-businesses was created. The average

number of employees varies substantially between four (Czech Republic, Poland), twenty in Hungary, thirty in Slovakia and forty in Lithuania. Most of the newly created businesses are chronically undercapitalised and complain of rough competition and pressure within the supply chain.

Several countries, in particular Poland and Slovakia, are only now beginning to recover from the long recession in the construction industry. Others, such as Hungary, Lithuania and, to a lesser extent, the Czech Republic have enjoyed remarkable growth rates over the past four years. The total turnover of the acceding countries is however only a fraction of that of the present EU: Euro 42 billion in the acceding countries as compared to Euro 1,000 billion in the present EU.

The good news is that future looks much better. EUROCONSTRUCT, the European network of specialised construction research institutes and consulting organisations (<http://www.euroconstruct.org/>) regularly evaluates the current situation and future developments in Western and Eastern Europe. The following table shows actual growth rates and forecasts for the total construction sector output (1999-2005).

| | 1999 | 2000 | 2001 | 2002 | 2003 (F) | 2004 (F) | 2005 (F) |
|----------------|-------|------|------|------|----------|----------|----------|
| Austria | 0.2 | 1.7 | -1.5 | 0.0 | 1.5 | 1.7 | 2.0 |
| Belgium | 8.5 | 4.9 | -2.0 | -4.2 | 0.4 | 3.5 | 5.2 |
| Denmark | -3.6 | 4.1 | -1.6 | -0.7 | 0.0 | 1.2 | 1.7 |
| Finland | 6.5 | 7.0 | 0.0 | -0.9 | 0.9 | 1.3 | 4.1 |
| France | 5.7 | 7.0 | 1.6 | -0.8 | -1.1 | 0.6 | 1.2 |
| Germany | 1.4 | -2.6 | -6.0 | -5.9 | -1.6 | -0.8 | 1.8 |
| Ireland | 12.3 | 6.5 | 3.7 | -1.4 | -3.2 | -3.7 | -4.6 |
| Italy | 5.1 | 5.6 | 4.8 | 1.6 | -0.3 | -1.2 | -1.0 |
| Netherlands | 6.1 | 4.0 | 1.9 | -2.2 | -1.9 | 1.2 | 2.0 |
| Portugal | 5.1 | 6.3 | 3.0 | -2.6 | -5.7 | -6.1 | 1.9 |
| Spain | 8.8 | 6.5 | 5.5 | 4.5 | 3.0 | 3.5 | 3.5 |
| Sweden | 4.6 | 4.9 | 2.6 | -1.2 | 0.3 | 3.4 | 2.5 |
| UK | 1.2 | 1.7 | 3.4 | 8.4 | 4.9 | 1.9 | 2.3 |
| Czech Republic | -6.5 | 5.4 | 9.5 | 2.5 | 4.6 | 4.7 | 4.6 |
| Hungary | 7.1 | 4.6 | 6.3 | 9.2 | 8.1 | 9.9 | 10.1 |
| Poland | 6.1 | 1.0 | -7.0 | -8.0 | -2.5 | 5.0 | 10.0 |
| Slovakia | -25.5 | 3.7 | 1.7 | 3.4 | 2.1 | 2.4 | 2.7 |

Source: Summary report "The outlook for the European construction sector 2003-2005, Euroconstruct, Budapest, 6-7 June 2003 (page 138)

The table gives a rather gloomy outlook for most of the present Member States for 2004 and 2005. On the other hand, construction activities in the acceding countries are likely to enjoy very high growth rates. This also applies to the three Baltic states, which are not mentioned in this table. Growth will mainly be driven by commercial

developments and residential construction and renovation. Increasing investments are also expected in the road infrastructure. The optimistic growth figures seem realistic given the tremendous backlog demand in all acceding countries. This backlog becomes obvious in the following table that shows the construction sector output per capita:

| Country | Ireland | Finland | Austria | France | Germany | Italy | UK | Spain | Czech Rep. | Hungary | Poland | Slovakia |
|-----------------|---------|---------|---------|--------|---------|-------|------|-------|------------|---------|--------|----------|
| Euro per capita | 5394 | 3696 | 3186 | 2542 | 2361 | 2333 | 2215 | 2010 | 875 | 790 | 544 | 300 |

Source: Summary report "The outlook for the European construction sector 2003-2005, Euroconstruct, Budapest, 6-7 June 2003 (page 122)

² European Technical Contractors Committee for the Construction Industry (www.ceetb.org)

Euroconstruct estimates that countries below 1,000 Euro per capita performance face enormous tasks, demand and dynamism in the near future. A look at Ireland and Poland clearly indicates the future direction of growth. Poland with almost 40 million inhabitants has roughly the same construction sector output as Ireland with a population of 3.5 million. The per capita output in Ireland is thus about ten times higher.

At this point, the main obstacle to even higher growth is the lack of public and private funds. In the future, the lack of duly qualified personnel may cause an additional problem for construction businesses.

As a conclusion, the following points should be emphasised:

- All acceding countries from Central and Eastern Europe have an enormous potential for growth in construction activities over the next decade. The reasons for this positive outlook are twofold:

- Firstly, after a long period of shrinking output, construction activities start from a very low level.
- Secondly, there is an enormous backlog demand for the modernisation of buildings, infrastructure and commercial outlets.
- Not only domestic companies will benefit from these opportunities. The acceding countries expect strong foreign competition for publicly and EU financed projects and projects based on public-private partnerships, in particular in the field of infrastructure development.

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3. Accession treaties: Giving the construction industry a reprieve

By Oliver Loebel (CEETB³) and Lyne Therrien

When the new Member States join the European Union on 1 May 2004, they will have to apply the Community acquis - 14,000 legal acts covering 100,000 pages – in the same way as the existing members. At the same time, they will have the same rights. At least that's the theory.

Practice looks much more complex however. Each candidate country has developed its own system and identified certain particularly vulnerable sectors. Hence, candidate countries asked for numerous transitional periods in various areas ranging from duties on tobacco to the purchase of land by foreigners.

The existing Member States also felt the necessity to offer temporary protection to those sectors that are likely to be most negatively affected by enlargement. Construction was identified as one of the most vulnerable EU industries. Due to its high labour intensity, differences in wage costs and social charges have a particularly strong impact on competitiveness.

But how could governments reconcile the guaranteed fundamental EU rights of free movement of people and services and, at the same time, respond to the claims for the temporary protection of certain sectors?

The EU proposed suspension of these two freedoms for a certain period of time to grant enterprises in the present Member States a longer adaptation period. This idea was not new. Similar seven year transition periods had already been applied to Portugal and Spain when they joined the EU in 1986. Interestingly enough, they proved needless, as the quotas were never fully used. In other words, far fewer Portuguese and Spanish job seekers than initially expected migrated to the rest of the EU.

The current Member State demands were much contested by the Central and Eastern European candidate countries, which pointed to the EU's annual trade surplus of Euro 17 billion, and claimed free access to EU markets in areas where they felt they were holding a competitive advantage.

As accession negotiations progressed, both sides admitted the need for concessions and, hence, transitional periods were agreed on both sides. What does this mean for the construction industry?

Special exemptions for Germany and Austria

Austria and Germany have obtained additional concessions in the field of the free movement of services. The two countries have very long borders with five new Member States and are afraid that potential migrants from the acceding countries might enter their territory as service providers and, thus, bypass the transitional periods applicable to the free movement of labour. If such service providers came as commuters, they would be able to benefit from the lower costs of living in the new Member States and considerably undercut price levels in the EU-15

The following measures related to the free movement of workers from new into current Member States have been agreed for all acceding countries (except Malta and Cyprus):

- During a two-year period, the right to free movement of labour is suspended and current Member States will continue to apply existing national measures to new Member States. However, Member States may also decide to allow full labour market access immediately.
- After this period, labour markets will be assessed and current Member States will have the possibility to fully apply the acquis in the field of the free movement of labour. If justified, the transitional scheme can be prolonged by another three years.
- In principle, the transitional scheme should come to an end after five years. However, if a current Member State can demonstrate that the full opening would lead to serious disturbances of the labour market, a final two-year prolongation is possible. In other words, at the end of the seventh year at the latest, all safeguards must be abolished.

How will the EU-15 make use of these transitional measures? At the moment when these articles were drafted, only Ireland had signaled that it would opt for full labour market opening from the day of accession. Germany and Austria announced their intention to make full use of the seven years.

The Netherlands wanted to accept a maximum of 22,000 migrant workers in the first year. However, in February, the government decided to prohibit the free movement of workers from the candidate countries completely during the first two years.

The UK is currently looking at benefit restrictions for migrants. In addition, the government might impose restrictions if the number of migrants exceeds 13,000 per year.

Already one year ago, Belgium had decided to suspend the free movement of workers during the first two years after enlargement.

Sweden is now also planning an initial two-year period of restrictions with the option of a further three-year extension.

France, Italy and Spain are likely to announce restrictions in the coming weeks.

countries. Both Austria and Germany have identified particularly sensitive areas in which the free movement of services can be limited for the duration of the transitional period. These special safeguard clauses cover excavation, earthmoving, actual building work, assembly and dismantling of prefabricated elements, fitting out or installation, alterations, renovation, repairs, dismantling, demolition, maintenance, upkeep, painting, cleaning work and improvements. In other words practically

³ European Technical Contractors Committee for the Construction Industry (www.ceetb.org)

all construction activities will enjoy a prolonged protection.

It should be noted that these additional safeguards only apply to employees, while the cross-border provision of services will be allowed for self-employed from the date of accession, provided they comply with the EU rules for the access to regulated professions.

All current Member States applying transitional measures are committed to gradually increasing labour market access under national law. Construction enterprises in the present Member States, whose markets will enjoy a certain protection during the transitional periods, must use the reprieve to prepare for full opening. Strategies must not only focus on the price, but also on specialisation and service packages. In any case, seven years after enlargement at the very latest, construction businesses from the acceding

countries must be guaranteed similar rights as the present EU businesses.

However, it may be the case that construction businesses from the present Member States will call for the abolition of quotas for immigrant workers before the final date. Many construction trades, including those in Austria and Germany, already suffer from a lack of young motivated people willing to join the industry.

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4. Internal Market rules to avoid unfair competition in construction

By Oliver Loebel (CEETB⁴) and Lyne Therrien

In May 2004, the borders between the present EU members and ten other European countries will disappear. The newcomers will have to apply the Community *acquis* – the whole set of EU rules and regulations. These rules also include regulations to guarantee a level playing field in the Internal Market. For the construction industry, two directives are of particular importance.

Firstly, the Directive on the recognition of professional qualifications sets clear rules for the establishment of enterprises in a regulated

profession in another EU country. It therefore concerns the self-employed. The Directive's importance lies in the fact that the self-employed are not included in the transitional periods fixed in the accession treaties.

The second directive defines the rules for the posting of workers to construction sites in another EU country and, thus, addresses employees. Its main objective is to avoid social dumping. It has to be applied along with the above-mentioned transitional periods.

Cross-border access to regulated professions

To begin with, it will be demonstrated how the Directive on the recognition of qualifications contributes to consumer protection and a level playing field. Each EU Member State has developed its own system for vocational training and requirements for creating an enterprise in certain professions. Some countries, such as the UK, Ireland or Sweden have a very liberal approach. People are allowed to launch their own business in almost all professions. In other countries, such as Germany, Austria and Luxembourg, a large number of trades require a master certificate (or similar qualifications). Each system has pros and cons. The problem is that they are not compatible and nobody wants a harmonised European vocational training system. Against this background, the EU put in place a mutual recognition scheme, which is based on professional experience rather than qualifications.

What skills will for example a Hungarian construction business have to prove if it wants to establish in Austria? First of all, the Hungarian entrepreneur would not have to hold a Master certificate (*Meisterbrief*) or similar qualification required for Austrians who want to set up a business in their own country. Such a requirement would not be considered reasonable for EU foreigners.

However, the authorities of the host country, in this case Austria, can compare the knowledge and skills certified by the diplomas, certificates etc. obtained by the Hungarian entrepreneur with those required under Austrian rules. If the comparison shows a substantial difference, Austria as the host country would have to give the Hungarian entrepreneur the opportunity to demonstrate that he has acquired the knowledge and skills that were lacking, through an adaptation period or an adaptation test.

On the other hand, Austria would have to accept as sufficient evidence of skills and knowledge if the Hungarian entrepreneur can prove that he had pursued the activity in question in another Member State for a longer period. The directive lists a number of definitions of what is considered a sufficiently long time. Here are two examples.

- six consecutive years in either a self-employed capacity or as a manager of an undertaking; or
- three consecutive years in a self-employed capacity or as a manager of an undertaking where the beneficiary proves that he has received at least three years' prior training for the activity in question, attested by a nationally recognised certificate or regarded by a competent professional or trade body as fully satisfying its requirements.

It goes without saying that similar rules will also be applied to entrepreneurs from the present Member States, who wish to establish in a new Member State where the activity in question requires specific qualifications. Slovenia, for example, applies similar rules as Austria.

The EU is currently discussing a consolidation of all directives in this area. Opinions on how this should be done differ considerably between the Commission, the Parliament and Member States. It is therefore too early to forecast the outcome of the process. One thing seems clear however: The future will see further liberalisation and simplification.

If the Commission proposal is adopted, a new category, the "freedom to supply services" will be introduced. This will apply if an enterprise from another EU country does not establish in the host country and limits the provision of services to not more than 16 weeks per year. In this case, the Hungarian entrepreneur would only have to prove two-years' vocational training or two years of experience to obtain the permission to carry out construction activities in the same area. If the entrepreneur came from another country, where the profession is regulated (for example Slovenia), no evidence would be required at all.

Whatever the consolidated directive looks like, it is not likely to come into force before 2006. In the meantime, the present system will continue to apply so that the benefits it provides are not put at stake in the enlargement phase.

⁴ European Technical Contractors Committee for the Construction Industry (www.ceetb.org)

Limiting competition on social achievements

The Directive on the posting of workers, adopted in 1996, covers a typical practice in construction – subcontracting – and addresses therefore an area of major concern. What happens after the introduction of the free movement of workers when an enterprise, established in Poland, posts its workers to a construction site in Germany? Lower costs of living, considerably lower wages and employers charges would enable this Polish enterprise to undercut any price a German competitor would be able to offer.

The question is older than one might think. When the “unification boom” in Germany came to a sudden end in the mid 1990s, and the construction market began to shrink, prices came under heavy pressure. German enterprises were not able to compete against the huge number of posted workers mainly from Southern Europe. The German construction industry therefore called for regulation to counterbalance their competitive disadvantage. The German Act on the posting of workers was born, which was soon covered by a European directive. By the way, France also introduced similar rules to protect its national construction sector in 1995.

The principle of the Directive is simple. Workers posted to another Member State must be guaranteed the most relevant rules of employment in the Member State where the work is carried out. Such rules can be defined by law, regulation or administrative provision, and by collective agreements or arbitration awards that have been declared universally applicable. In principle, they must apply from day one of the posting, although

Member States may decide on certain exemptions mainly for non-significant activities or short postings. The following terms and conditions are covered:

- maximum work periods and minimum rest periods;
- minimum paid annual holidays;
- the minimum rates of pay, including overtime rates. The concept of minimum rates of pay is defined by national law and/or practice of the Member State to whose territory the worker is posted. Supplementary occupational retirement pension schemes are not covered.
- the conditions of hiring-out of workers, in particular the supply of workers by temporary employment undertakings;
- health, safety and hygiene at work;
- protective measures for women, children and young people;
- Non-discrimination rules.

To return to the example at the beginning of this article, the workers posted by a Polish enterprise would not be paid on the basis of Polish, but German rules. A study conducted by the German institute *Wissenschaftszentrum Nordrhein-Westfalen* concludes that this law has practically eliminated the differences in the cost of labour based on minimum wages between German enterprises and others from countries such as Portugal or Poland. The following table shows that Portuguese subcontractors even have to calculate with higher hourly rates than their German competitors. This is mainly due to additional costs incurred by cross-border activities.

| | Hourly labour costs Regular employment on the basis of <u>minimum</u> wages |
|----------------------------------|--|
| German subcontractors | ca. 28,43 Euros |
| Polish subcontractors | ca. 28,60 Euros |
| Portuguese subcontractors | ca. 31,66 Euros |
| British subcontractors | ca. 29,27 Euros |

Source: Zukunftsstudie Baugewerbe Nordrhein-Westfalen (Arbeitspaket 6): „Die Internationalisierung des deutschen Bauarbeitsmarktes“, Georg Worthmann (Gelsenkirchen, April 2003)

On the other hand, certain differences persist for highly skilled construction workers. The study estimates that a German enterprise applying collective agreements has to pay about 9 Euro / hour more than their foreign competitors, as they do usually not apply German collective agreements.

It should also be noted that wages agreed through collective bargaining are universally applicable in a number of EU countries. In Germany, some *Länder* require the application of collective agreements for public works contracts. This makes it even more difficult for foreign subcontractors to offer competitive prices.

The above figures show that the EU directive has achieved its goal of avoiding social dumping. It can clearly not be the objective to eliminate wage differences completely, as countries with lower hourly wages often have lower labour productivity.

Unfortunately, there are two sides to each coin. The success of the directive led to a sharp decline of legally acting foreign subcontractors on German building sites. However, a number of them came back as undeclared workers. The fact that this is not an enlargement-related issue is certainly not more than cold comfort for enterprises respecting the rules.

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5. Fears of invasion of cheap labour ill-founded

By Oliver Loebel (CEETB⁵) and Lyne Therrien

Both construction businesses and trade unions from the present Member States warned in the past that the number of immigrants from the acceding countries could lead to serious distortions of labour markets. In fact, the income differential in the case of Central and Eastern Europe is significantly larger than previous enlargement rounds. Over the past five years, dozens of studies have therefore tried to estimate the migration potential for sectors and regions. Although all these figures should be treated with caution, it is obvious that the forecast migration was higher in the first studies than it is in more recent ones. The European Integration Consortium suggests that the number of foreign residents from the acceding countries (including Romania and

Bulgaria) in the EU-15 will increase by around 335,000 people p.a. immediately after the introduction of the freedom of movement. About one third of them will be employees. These figures sound significant. In practice however, it only represents 0.1 % of the EU-15 population. Furthermore, as almost all present EU members will make use of the transitional periods for the free movement of workers, real figures should be somewhat lower in the first years after the enlargement. The study also expects the migration figure to fall below 150,000 people within a decade. After thirty years the share of the foreign population originating from Central and Eastern Europe in the EU-15 population may reach 1.1 %.

Regional and sectoral disparities

All studies agree that the impact will be felt differently according to the region and the industry. Obviously, EU-15 countries and regions closest to the new Member States are likely to be more affected than others. Germany is expected to receive 220,000 people immediately after the freedom of movement is introduced, which represents two thirds of total migration. After 30 years, 3.5 % of Germany's population could originate from the acceding countries. Other countries bordering the acceding countries, such as Finland, Austria and Italy will also see higher migration figures than the rest of the EU-15. Border

regions will also experience considerable short-term (even commuter) migration for work.

Among the industries that are likely to be most affected, construction is regularly mentioned along with tourism and agriculture.

In this context, it appears logical that the accession treaties contain safeguard clauses suspending the free movement of workers. The additional measures in favour of Austria and Germany, aimed at limiting the provision of construction services, also takes account of the specific situation of these two countries.

Wage differentials not enough to stimulate migration

Differences in wages and labour costs are usually considered as the major drivers for the migration of workers and self-employed service providers. Indeed, the differences are substantial, even compared to the most advanced candidate countries. In the Czech Republic, the total labour costs in construction (Euro / month / 1 employee) amounted to Euro 710 in 2002, well below the level of the EU neighbours.

On the other hand, the turnover per person employed in construction is also considerably lower (Euro 28,000 p. a. in the Czech Republic, 38,000 in Hungary and only 12,000 in Lithuania). Lower labour productivity compensates for a significant part of the low costs of labour, thus reducing the competitive advantage of construction businesses from the acceding countries.

Both construction workers and businesses will not move westwards at any price. Many other criteria

are involved in the decision process and may, at least to some extent, outweigh differences in labour costs:

- Business opportunities and unemployment in the acceding countries
As outlined before, construction markets will rapidly grow, and unemployment amongst construction workers is likely to diminish.
- Business opportunities and unemployment in the EU-15
Growth will be sluggish in both 2004 and 2005 in most EU-15 countries, including in the two main "target countries" Austria and Germany.
- Indirect factors such as distance to families and homes, cultural differences, languages etc.
Obviously most people prefer to stay close to their homes.

High specialisation versus low labour costs

When determining the impact of migration on construction, it is not enough to look at the geographical situation. One can also expect that the more complex and specialised the activity, the lower the pressure from foreign job seekers or service providers. This means that architects, engineers and technical building contractors are likely to see

fewer new competitors than, for example, painters or masons. Obviously, the provision of services involving a high degree of expertise, quality, specialisation and knowledge of state of the art technologies and standards provide a counterbalance to low labour costs. In any case, it seems pointless to wait until wage differentials with

⁵ European Technical Contractors Committee for the Construction Industry (www.ceetb.org)

the acceding countries have disappeared. The above-mentioned study of the European Integration Consortium estimates that it will take about thirty years to half the income gap between the Central and Eastern European countries and the EU-15.

Is migration really bad?

Generally, the EU population is ageing and would be declining or stagnating without immigration. This would negatively affect domestic consumption and thus also construction activities. The year 2003 provides a good example: without net inward migration, Germany, Italy and Greece would have experienced a population loss. Interestingly enough, only four Acceding Countries recorded more emigration than immigration, in particular Lithuania (-1.4‰), whilst the highest net migration rates were observed in Cyprus (+14.1‰) and Malta (+3.9‰).

On the other hand, immigration of motivated people is urgently needed to fill the growing number of vacancies in most construction trades. The UK specialist contractors associations are involved in costly marketing campaigns to attract new people into the profession. In spite of shrinking construction output over the past few years, Germany is also expected to face a serious lack of skilled construction workers from 2006 / 07. Migrants from the acceding countries could help reduce the problem.

The acceding countries themselves are not very pleased to see skilled people moving westwards. During the years of recession, many construction jobs became redundant. Thanks to strong growth in construction output, the demand for labour is set to

Construction businesses in the present Member States, and in particular in the border regions, should therefore carefully analyse developments in customer requirements. Service packages should be developed and market niches secured.

increase rapidly. Highly qualified people will be particularly needed. As their number is limited, and some of them will seek work in the EU-15 countries, those who stay will be able to demand higher wages. This will reduce their interest in migration.

In conclusion, nobody should be afraid of workers from the acceding countries swamping EU-15 labour markets. On the contrary, construction businesses of most present Member States will welcome new workforce. On the other hand, competition is likely to increase in the border regions, at least in certain construction activities. The transitional periods fixed in the Accession Treaties will help the most exposed areas to cope with the new situation.

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6. And if enlargement also offered opportunities...?

By Oliver Loebel (CEETB⁶) and Lyne Therrien

The previous articles mainly dealt with enlargement-related changes in the home markets of EU-15 construction businesses. However, enlargement is not a one-way business and market opening in the eastern countries also offers opportunities for businesses from the present EU. Large construction companies such as Hochtief (D) or Bouygues (F) have been active in these markets for more than ten years already. With its subsidiaries in Poland, the Czech Republic and Russia, Hochtief is already one of the most important players in this region.

But what about SMEs?

Undoubtedly, small or medium-sized businesses from the EU-15 can also successfully develop business activities in the acceding countries. Taking account of the fact that most SMEs act regionally or even locally, it is clear that construction businesses from the border regions with the acceding countries are better positioned to "go east" than their colleagues from Ireland or Spain. Most successful examples are thus reported from Finnish, Swedish or Danish companies in the Baltic countries or Poland, and German and Austrian enterprises in Poland, the Czech Republic, Slovakia, Hungary and Slovenia.

How do SMEs decide to go "east"?

Very often, SMEs take their first steps in the acceding countries on the basis of a short-term decision. They met somebody at a trade fair or they even have family in these countries. It also frequently happens that they follow their clients or business partners who build facilities in the acceding countries and wish to continue the co-operation with their traditional suppliers. A Danish installer was for example involved in constructing the Danish embassy in Estonia. L&H - Rørbyg A/S Engineers & Contractors also from Denmark were involved in a number of water supply and district heating projects in Latvia, Bulgaria and other countries. For these "ad hoc" activities, they exported their services and know-how and worked with local subcontractors. They benefited from some government support. BABAG, an Austrian technical contractor, followed their general contractors or architects to Hungary and were involved in a number of refurbishment projects for hotels and office buildings. To this end, they established a subsidiary in Hungary and worked with local subcontractors. The German Rastrei Vogtland GmbH, specialised in mechanical verge construction, also came to the Czech Republic as a subcontractor of large road construction companies

What are the main problems?

According to Tekmanni Oy, the most important problems concern heavy administrative burdens, tariffs and tax issues. L&H - Rørbyg A/S Engineers & Contractors also complain of problems with the

Bouygues was involved in large projects in Poland, Hungary, the Czech Republic and other countries. The focus is clearly placed on large infrastructure projects (motorways, airports) and commercial buildings (hotels, offices, shopping centres). With enlargement and the opening up of the public procurement markets in these countries, enterprises from the EU-15 countries will find new business opportunities thanks to EU funded infrastructure projects.

It must also be emphasised that each construction enterprise close to the borders should examine the opportunities that enlargement offers, but not every enterprise should decide to launch activities in the acceding countries. Naturally, cross-border activities involve higher risks, including financial, and sustained efforts to cope with cultural, technical and administrative requirements. It is therefore unsurprising that only very few micro-businesses can live up to this challenge. The typical SME crossing the border to the acceding countries is medium-sized. This is also true for the examples that will be presented below.

with German shareholders. One year later, they set up a subsidiary to manage these activities. Mr Hille from Rastrei stresses the importance of employing local staff, as they are familiar with the national culture.

Tekmanni Oy, a technical contractor from Finland, has worked in Russia and the Baltic countries for eleven years now. They partially work through subsidiaries in those countries, but they are also exporting project services directly.

The stonemason Franz Bamberger first came to the Central and Eastern European countries as early as the beginning of the 1980s. Like the others, he started as a subcontractor for large Austrian construction companies, that built hotels in Hungary, Bulgaria, Czechoslovakia and Russia thanks to credit backing from the Austrian government. Later, Bamberger began to work also independently and established subsidiaries in Poland, Hungary and Russia. However, he still manufactures all his stone products in Austria and exports them to the building site abroad. The products are assembled by local workers supervised by Austrian staff. Some of the local workers were also trained in Austria.

customs. Furthermore, they stress the financial weakness of the local subcontractors. The Rastrei Vogtland GmbH adds language difficulties and differences in attitude to the list. As regards

⁶ European Technical Contractors Committee for the Construction Industry (www.ceetb.org)

administrative problems, it took about nine months to register Rastrei's Czech subsidiary. The Czech customs were also extremely slow in authorising the transfer of equipment for demonstration purposes to the Czech Republic. On the other hand, the enterprise can cope with the differences in wage costs, as they hold a strong competitive advantage in the technical area.

Bamberger had a similar experience. Transport problems, complicated customs procedures and all sort of national admission schemes require constant efforts. He also stresses that insurance companies and banks are usually not prepared to offer payment bonds for construction projects in the candidate countries. The biggest problem for Bamberger however is the pressure to provide continuous employment for local staff. On the other hand,

On balance....

Obviously, these enterprises had to face a certain risk and overcome a number of time-consuming and, thus, costly obstacles. So, how do they assess their activities after some years of experience?

Mr Hille from the Rastrei Vogtland GmbH has no regrets. Their Czech subsidiary was profitable from the outset. To emphasise his confidence, he announces that rented equipment will be replaced with their own in 2004. Tekmanni Oy and L&H - Rørbyg A/S Engineers & Contractors also think that the benefits outweigh the difficulties. They therefore intend to continue the operations in Eastern Europe. Bamberger draws very positive conclusions. First of all, he could reduce his dependence on the Austrian market. Today, between 20 and 50 % of his turnover is realised in the Central and Eastern European countries. This share is set to increase even further in the future. Almost all construction projects he was involved in were profitable.

BABAG has more mixed feelings about their future in Hungary. They would not want to get involved in projects without a certain amount of pre-financing. The risks would be too high for an SME. In addition, over the past nine months, they were unable to obtain a new contract due to strong pressure on prices.

thanks to his specialisation, he can target a client group that is prepared to pay a reasonable price.

BABAG, however, found that even by employing local staff, it is very difficult to compete independently on the Hungarian market, as costly Austrian supervisory staff are still needed. Strangely enough, the price pressure is particularly strong if Hungarian subsidiaries of Western general contractors are involved.

It should be noted that several enterprises also indicated certain problems with corruption. In a number of cases, the granting of permissions depended on the payment of a few dollars. It was also indicated that the situation seems to improve gradually. Furthermore, customs procedures will be significantly simplified after enlargement, so that one of the most oft-quoted problems is likely to disappear.

It is evident that these examples are not representative and enlargement will certainly not change the fact that construction is first of all a regional business. What these examples can do is to demonstrate that construction services are crossing the borders in both directions, even if the total figures remain small compared to trade in products. However, even these modest figures contribute to developing new trade links across Europe, whilst the political tools agreed in the accession treaties will reduce the risk of an enlargement shock for EU-15 construction businesses. In any case, a regular look at the construction markets in Central and Eastern Europe will do no harm, because that is region where Europe's growth potential lies.

Other articles in this series:

- EU Construction industry - anxious about the enlargement?
- Accession treaties: Giving the construction industry a reprieve
- Construction industry in the accession countries - excellent growth prospects
- Internal market rules to avoid unfair competition in construction
- Fears of invasion of cheap labour ill-founded

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