Parliamentary Assembly
Assemblée parlementaire

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COUNCIL OF EUROPE CONSEIL DE L'EUROPE

Doc. 10757
7 December 2005

Relocation of economic activities abroad and European economic development

Report
Committee on Economic Affairs and Development
Rapporteur: Mr Neven Mimica, Croatia, Socialist Group

Summary

One of the most concrete manifestations of globalisation is when companies transfer part or all of their activities – whether in production or services – to locations abroad that are deemed more favourable, often from the cost point of view. Whether the move is from western to central or eastern Europe or to, say, Asia, the consequences for the region affected can be traumatic. As a result, relocation – often popularly referred to as "outsourcing" or "off-shoring" – has become controversial and appears high on Europe's political agenda.

The report examines all sides of the relocation issue as it is played out in a rapidly integrating Europe and world. While relocation may reflect an "altogether natural tendency for companies to allocate their investments optimally", countries should properly assist those affected and seek to maintain essential aspects of Europe's hard fought for social achievements.

The report goes on to caution against any calling into question of existing trading agreements – such as the European Union's Internal Market, the European Economic Area, the Partnership and Cooperation Agreements concluded with other parts of Europe – or WTO rules.

Finally, the report calls for renewed efforts to realise the Lisbon Agenda aiming at increased European competitiveness, so as to win back investments and thereby reach higher economic growth and employment. The policies of several European countries that seem to have successfully turned the tide in this respect could serve as examples for others.

I. Draft resolution

1. The rising incidence of relocation of economic activities abroad by companies of production and services – often from more developed countries to countries with a more favourable cost structure in central, eastern and south-eastern Europe as well as in other parts of the world – has become a major political issue especially in western Europe and notably in countries with high unemployment. It may even have influenced recent referendums on the EU Constitutional Treaty, as some public personalities have called for measures to halt the trend by legislative and other means.

2. The Parliamentary Assembly – true to its own and the Council of Europe's pan-European mission, in the words of its Statute to "achieve a greater unity between its members … and facilitate their economic and social progress" - believes, however, that the altogether natural tendency for firms to allocate their investment optimally in an increasingly integrated Europe should be allowed to continue unhindered, not least because it helps the continent to overcome its tragic division during half a century following the Second World War and since it will surely over time lead to increased trade, a rise in prosperity on all sides and a more unified and politically stable Europe.

3. Relocation may, however, at least temporarily, lead to considerable individual and social hardship and suffering, as a town or region may lose a vital source of employment and income. It is therefore essential that countries properly assist those affected by this process and that essential aspects of Europe's hard fought for social achievements be preserved. In this regard, policies to promote and encourage employability have shown themselves to be more efficient than those serving merely to protect employment.

4. It is particularly important that one of the main achievements of the European Union of 25 member states – the Internal Market – should not be called into question. The same holds for the Internal Market's extension via the European Economic Area to Iceland, Liechtenstein and Norway, the EU's Bilateral Agreements I and II with Switzerland, the various Partnership and Cooperation Agreements concluded with other European countries, including Russia, and the various agreements reached worldwide through the World Trade Organisation.

5. The Assembly calls on the member states of the European Union not to let the recent difficulties in ratifying the EU Constitutional Treaty form a reason to halt the EU enlargement process. It calls for new vigour in implementing the European Union's Lisbon Agenda designed to boost growth, employment and competitiveness. In this context, it stresses the importance of intra-European research co-operation, more liberalised markets and better conditions for entrepreneurship, including reduced red tape, whether at national or EU level. Investment into research should be increased and the results of such research should be better channelled into products, processes and services.

6. Relocation of economic activities is supported by technological developments, especially in the information and communications technology sector (ICT), and facilitated by increasingly efficient means of transport, including air cargo. Countries in Europe and elsewhere which have properly adapted to this development show persistently lower unemployment and higher growth. Countries which, by contrast, try to seal themselves off from this worldwide and unstoppable development, by placing artificial obstacles in the way of relocation by companies on their soil, therefore risk slower economic growth and an even more painful adaptation later. The answer should rather be to engage in bold structural reform in all sectors including labour, products, services and education, so as to increase competition and thereby competitiveness and put countries in a position to attract foreign investment and become as much "recipients" as "senders" of relocation.

II. Explanatory Memorandum by Mr Mimica, Rapporteur

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1. Introduction and background

1. In October 2004, the Rapporteur and several of his colleagues presented a Motion for a resolution to the Assembly entitled "Outsourcing and economic development in Europe" (Doc. 10348). In our Motion, we noted that "the tendency by many companies to invest in new production capacities in the countries of the central, eastern and south-eastern Europe – a development known as "outsourcing" – has given rise to a heated debate in political and economic circles in some more developed countries of western Europe". Indeed, we said, "some public figures, even in government positions, have called for counter-measures in order to put the development on hold."

2. By contrast, we as signatories argued in favour of "the unimpeded spread of investments across all regions of Europe", on the grounds that "unrestricted investment flows [will] lead to higher prosperity for all, including well developed countries and their companies that [will] benefit from a higher level of production, trade and income". From the Council of Europe's point of view, we saw the motion as a contribution to "upgrading the potential for growth in an economically stable and prosperous Europe" and a "vital precondition for political, democratic and social stabilisation and cohesion of Europe as a whole".

3. Since the beginning of the 1990s, economic integration between the then countries of the European Union and the central, south-eastern and eastern (CSEE) European countries has increased considerably through trade and investments and the preparation of accession of CSEE countries to the European Union. CSEE countries have attracted foreign direct investment (FDI) and have become important trading partners for other European countries. For Germany, for example, the accession countries have become a trading partner of an importance equal to that of the United States. Germany's volume of trade with these countries has almost tripled – a rate far above the average 60% increase in trade with the world as a whole.[1] A large part of this trade is in intermediary products from foreign firms and affiliates of German companies.

1 DIW Economic Bulletin 6/2004 "The Eastern Enlargement of the European Union: Clear Challenges, Unjustified Fears"

4. Certain European policy makers some time ago started to refer to the issue of “outsourcing”, which is essentially trade in intermediary products, as a somehow undesirable or even “unpatriotic” practice. The political discussion over outsourcing – or, as we shall henceforth call it, “relocation of economic activities abroad” in order to cover all its aspects - originated in the United States, where offshore outsourcing has become more a politically sensitive issue than a purely economic concern. It was one of the most disputed topics during the 2004 US electoral campaign. However, both in Europe and the United States, the debate ignores important economic realities and does not in the Rapporteur’s view distinguish sufficiently between different analytical and political issues. Although relocation is a relatively nascent phenomenon in France, accounting for only 4% of total job losses between 2002 and 2004, it is already having major political repercussions. Fear of relocation has gripped French voters and was one of the most commonly cited reasons for their rejection of the EU Constitutional Treaty in a referendum in May 2005."

5. During the campaign the French government requested the permanent withdrawal of the so-called Bolkestein Directive calling for freedom of movement of labour and services within the EU. However, those freedoms form two of the four so-called “EU freedoms” and abandoning them would signify an essential weakening of the whole EU edifice. Nor, as was pointed out at the Hearing, would withdrawing an EU Directive mean the end to international outsourcing of important services, particularly in the information technologies sector – for example with respect to accounting, telephone services and software development.

6. The issue has sometimes been exploited as a threat by some (but not all) large corporations in their negotiations with trade unions and governments. Governments use it to appeal to public opinion. Major firms have recently been seen as “blackmailing” workers and governments by threatening to move entire production chains abroad if they cannot obtain less restrictive or financially onerous labour contracts. Central, eastern and south-eastern Europe has received attention as a prominent relocation and FDI destination. The debate is essentially one over the international division of labour and incorporates various elements such as trade policy, trade in services, investment regulations and income distribution.

7. The present report seeks to elucidate the different concerns of source and host countries as regards relocation activities and foreign direct investment. An earlier version served as an input to a Hearing on “Outsourcing: pros and cons” organised by the Committee in Paris in September 2005, on the basis of which it has now been revised. It traces the major developments of relocation and FDI and the scope of the phenomenon, in order to give a realistic picture of what is at stake. From the CSEE host countries’ point of view, it analyses the importance of FDI and trade for economic development and the continuation of the transition process. The Rapporteur is most grateful not only to the Hearing speakers but also to his colleagues on the Committee who have provided much valuable information and advice[2].

2. Overview

2.1. Definitions and distinctions of relocation and FDI

8. The notion of relocation as such is a very wide one that generally describes the practice of firms to subcontract business functions to outside suppliers. In practice, this can take many forms, and research papers and media publications refer to different types in their arguments. The UNCTAD World Investment Report 2004 provides a helpful structure for classifying different outsourcing and offshoring activities. There are two main distinctions to make in order to define outsourcing: whether a good or service is produced inside or outside a company; or whether it is produced inside or outside a country. Outsourcing takes place if the production of a good or service is contracted out to another company, regardless whether this company is domestic or foreign.

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[2] The guest speakers at the hearing were Mr Ken Heydon, Deputy Director, Trade Directorate, OECD; Mr Carlos Braga, Senior Adviser, International Trade Department, The World Bank; Mr Simon Commander, Senior Adviser to the Chief Economist, European Bank for Reconstruction and Development, and Director of the Centre for New and Emerging Markets at London Business School; and Mr Reiner Hoffmann, Deputy General Secretary, European Trade Union Confederation.

9. Looking at the international dimension, outsourcing is often used synonymously with offshoring and refers to the practice of importing goods or services for the production process from outside the home country. This can take two forms. For “intra-firm offshoring” or “captive offshoring”, firms establish affiliates abroad but are essentially still performing the function in-house. A prominent example is DHL's decision to relocate its data centre from the United Kingdom to Prague to track shipments, customer queries and billing activities[3]. The term offshore outsourcing or international outsourcing, to the contrary, is used when stages of the production process are performed abroad and by third parties.

10. The vehicle for captive offshoring is mainly foreign direct investment (FDI), which is defined as "an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)"[4].

11. The discussion on FDI thus partly overlaps with that on outsourcing and offshoring. Two forms of FDI can be distinguished: One is to take advantage of lower factor costs abroad for parts of the production chain and then re-import the intermediary products to the source country as an input for the final good. The final good is sold on the domestic market of the source country (vertical FDI). Vertical FDI largely corresponds to captive or intra-firm offshoring. A second incentive for FDI is to penetrate the market of the host country and the surrounding region and to produce goods for these markets (horizontal FDI) within the region to facilitate market access and avoid trade barriers. Horizontal FDI is generally not regarded as critically as vertical FDI from the host country point of view, as it is a natural expansion strategy of firms.

12. However, almost all empirical studies, based mostly on enterprise surveys, find that vertical FDI plays only a small role as a proportion of total FDI, although its importance appears to have grown in central European transition economies in recent years.[5] There are so far few comprehensive empirical studies on the exact nature of FDI flows from western Europe to CSEE countries. A survey of 1050 German FDI projects in Eastern Europe shows that the type and purpose of FDI differ largely across the European transition countries. Russia, Ukraine, Poland and the Czech Republic almost exclusively received horizontal FDI, i.e. for production to be sold in the foreign market, whereas the Slovak Republic and the Baltic States received mostly vertical FDI. For Hungary and Romania the findings are mixed[6]. It is therefore difficult to draw simple conclusions on the economic effects of total FDI on the source country.

2.2. Dimensions and scope of relocation and FDI in the last fifteen years

13. Data on international relocation often looks at the overall imports of intermediary products and services and does not distinguish between goods produced by external suppliers or by foreign affiliates of a domestic firm. Imports as a result of captive offshoring still, however, represent a minor share in total imports of intermediary products. As FDI only applies to captive offshoring, it also plays a limited role in the evaluation of the international outsourcing impact on the source countries.

14. From the political discussion one might get the impression that FDI from old member countries of the European Union to CSEE countries is unusually high. Statistics and economic analysis, however, do not support this impression. Although FDI flows to CSEE sharply increased in recent years, the level of FDI stock in the host countries of Central, Eastern and South-Eastern Europe has just reached its expected level compared with the average stock of FDI in countries with similar income levels.

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3 Financial Times, 19 November 2003, “You're speaking to Prague: Outsourcing: Companies are locating their call centres in the country”

4 UNCTAD World Investment Report 2004

5 Brenton, Paul, Francesca di Mauro and Matthias Luecke, "Economic Integration and FDI: An Empirical Analysis of Foreign Investment in the EU and in Central and Eastern Europe" in: Empirica 26: 95Ð121, 1999

6 Marin, Lorentowicz, Raubold (2002), "Ownership, Capital or Outsourcing? What Dries German Investment to Eastern Europe?" Paper presented at the Deutsche Bundesbank spring conference on "Foreign Direct Investment in the Real and Financial Sector of Industrialized Countries"

15. The UNCTAD World Investment Report 2004 gives a comprehensive overview of the evolution of FDI stocks and flows to eastern, south-eastern and central Europe. The overall volume of FDI inflows reached $21 billion in 2003, an amount slightly lower than in previous years which in part can be explained by the end of the privatization process in the Czech Republic and Slovakia. The main recipients of FDI were Poland, the Czech Republic and Hungary. However, the total share of the eight central and eastern European new member countries of the EU[7] declined and a greater percentage of FDI was invested in other countries of the region (see table 1). The remaining CSEE countries increased their share of total FDI inflows from 28% in 2002 to 45% in 2003[8].

16. Furthermore, as the Hearing found, relocation of economic activities is normally much smaller relative to the overall economy and the daily changes going on there, than one would think when looking at absolute numbers. For instance, it is estimated that over the next 15 years, 60,000 jobs will be transferred from the United States abroad every quarter. At the same time, however, the United States is at present losing and creating 7 million jobs every three months. Seen in this way, relocation represents only 1% of the turnover of jobs in the US. In France, Germany and Italy, the phenomenon is even less significant. Furthermore, the relocation movement will be curbed by developments in the destination countries themselves. For instance, the salaries of computer analysts increased by 18% annually in India between 1999 and 2003.

17. A French committee member at the Hearing in this context compared the 11,000 jobs lost to relocation in France in 2004 - compared to the up toward 20,000 jobs that change hands every day in that country. But he also wondered whether, say, the 60,000 job losses in the United States take into consideration the loss in future earnings. After all, small industrial units that disappear might have been able to grow and give work to many more. He also felt that when a given manufactured product has reached maturity and employs a large labour force, there is little further interest in manufacturing on the spot – one example being T-shirts that are now being produced in Tunisia on a large scale for the French market. What should be preserved, he argued, are upstream and downstream activities, namely research and marketing.

18. A Portuguese member of the Economic Committee said his country is facing a serious relocation problem. What can be done, he said, in a situation where an EU worker earns $70 a day, as against a Romanian worker earning $4 and a Chinese worker only 45 cents? He said that Portugal has lost 50,000 jobs since the beginning of 2005, not least in the textile and automobile industries. The companies moving out, are, he said, mainly Japanese and American multinationals that came to Portugal several years ago to take advantage of the significant benefits offered by the government at that time, such as free sites and a flexible labour market. The companies have benefited form all these opportunities and subsidies, he said, but are now leaving the country with no thought for the workers' interest. The result, he argued, is strong popular opposition in Portugal to the European project as a whole. Workers over 50 years of age are a particularly vulnerable group, he said. What training will enable those people to find news jobs? At their age they are not going to becoming computer experts. Instead, he said, they form a lost generation.

19. To this another participant retorted that the lesson to be learnt from that kind of experience is that neither countries nor municipalities should make the mistake of subsiding for multinationals to establish themselves there. The mobility of capital, he said, is a fundamental fact of the global economy and any effort to restrict it will be in vain.

20. Much depends on whether one argues from the macro-economic point of view, where relocation may seem a minor concern, or from the micro economic point, where the loss can be devastating for a particular locality or region. One Hearing participant, for instance, said he would the following day have to address a company in Hamburg where 1,000 jobs would be shed over the next six months. That company's employees would certainly find it hard to take a purely macro-economic view.

21. The Hearing emphasised that relocation need not be a zero sum game. There are important advantages for all sides. Through research and development, rich countries can refocus on their principal skills. Countries of destination will have access to new technologies, scarce and well paid

7 the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovenia, Slovakia
8 UNCTAD, World Investment Report 2004: The Shift Towards Services

skills and distant markets. It was also pointed out at the Hearing that the movement is not one way. Developing countries are also investing in the United States and the United Kingdom. Relocation and the liberalisation of trade therefore, it was argued, hold advantages for all sides.

22. However, one Hearing participant stressed the need for better protection of intellectual property vis-à-vis countries like China and India. In future these would no longer simply be workshops of the world for products with low value added. They are now, he said, discovering the force of distribution and retailing, where the real profits in, say, Europe are to be made. He predicted there would be no political reaction in Europe until spectacles for €10 are put on the market.

2.3. An upward relocation trend in the services sector

23. Along with the continuous liberalization of international trade and investments since the 1970s, firms increasingly imported intermediary products and components from countries with lower factor prices and thus substituted for domestic production. It is estimated that this kind of outsourcing activity in the manufacturing sector rose by 30% between 1970 and 1990. One study of ten OECD countries and four countries considered as emerging markets found that trade in components constituted 21% of the emerging markets' exports[9].

24. Whereas the phenomenon of international outsourcing in the manufacturing sector is not new, it recently also arose in the services sector and for service activities within manufacturing. With the expansion of information and communication technologies, it is now possible to outsource business processes such as customer service, telemarketing, and document management but also financial services and IT services such as software development. The number of services that require geographical proximity (so called face-to-face services) might well shrink even further.

25. The recent withdrawal for revision within the EU of the so-called Bolkestein draft directive on “services in the internal market” reflects different, even conflicting, views on the further liberalisation of international trade in services. Especially to the new EU member states, the withdrawal signifies the abandonment of one of the basic principles of the EU’s Internal Market, that is, the free movement of services. To some of the older member states, by contrast, it means a similar abandonment of social and economic rights and guarantees hard fought for and achieved over decades. In view of this, there is a clear need to observe a difficult middle road between ensuring regular provision of services in public utilities and avoiding any semblance of social dumping in service sector.

26. The fairly recent phenomenon of service outsourcing is the main driver of renewed political attention to the issue. Whereas traditional outsourcing in the manufacturing sector affected low-skilled, blue collar workers, service outsourcing is seen as a threat to well paid, white collar jobs. This has considerably increased lobbying efforts. A recent study in the US has shown that among individuals with an annual income above $100,000, the percentage of those actively supporting free trade slipped from 57% to 28% between 1999 and 2004[10].

27. Having attracted manufacturing relocation and investments in the early 1990s, CSEE countries are increasingly successful in attracting service sector contracts and investments. They offer a large pool of college graduates with technical and language skills, especially in German and English that make them attractive locations for service and business process outsourcing. The Czech Republic is so far the most prominent host country for service sector outsourcing and the number of call centres is set to rise about 70% to more than 500 by 2007.[11] CSEE countries increasingly compete for contracts in the IT sector with India and benefit from their geographical and cultural closeness to western Europe.

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9 Hummels, Ishii and Yi, “The Nature and Growth of Vertical Specialisation in World Trade,” Journal of International Economics, Vol 54(1), pp.75-97

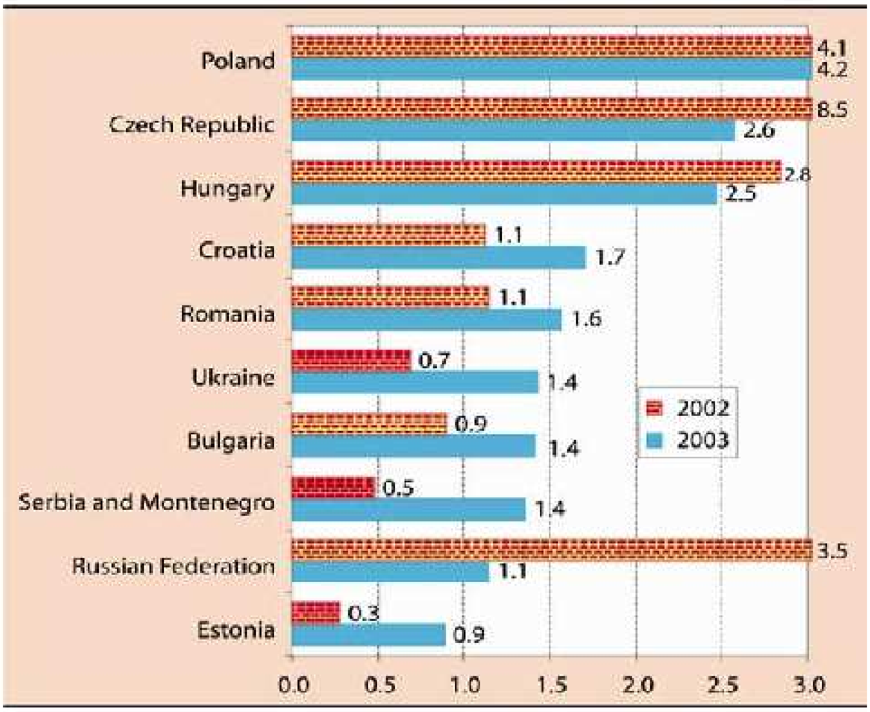
10 Rajan and Wei 2004, quoted in Amiti and Wei, "Fear of Service Outsourcing: Is it Justified?" NBER Working Paper 10808, September 2004)

11 Financial Times, 24 October 2003, “Central Europe leads growth in call centres “

28. A survey by the United Nations Conference on Trade and Development (UNCTAD) and Roland Berger Strategy Consultants, found that nearly half of European companies were planning to move more services offshore. Among those, UK companies accounted for 61% of the total of jobs moved, followed by Germany and the Benelux countries with 14% each[12]. Compared to US firms, most European firms have until now been reluctant towards business process and IT outsourcing.

29. In Germany, manufacturing outsourcing accounts for 50% of total outsourcing and, apart from a few prominent examples (Deutsche Bank's decision in 2002 to outsource a large part of its European IT operations to IBM in a contract worth about $2.5 billion over its 10-year lifespan), firms are hesitant to engage in business process outsourcing[13]. In Italy, outsourcing is relatively low, due to the structure of its industry with relatively few large corporations and due to strong political and cultural constraints. Nordic telecommunication companies are slowly moving service centres to the Baltics. In Spain, there is a growing trend for outsourcing mainly to Latin America and northern Africa. A major constraint for outsourcing in the service and communications sector is a natural one, i.e. language skills. German and English are widely spoken in eastern Europe where it is not surprising to find a rise in service activities relocated from German- and English-speaking source countries.

Table 1: Top ten recipients of FDI inflows in 2002 and 2003 (in billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

a Ranked on the basis of the magnitude of 2003 FDI inflows.

30. The size of international service outsourcing and offshoring is difficult to establish. From an FDI point of view, service sector investments are increasing more rapidly than FDI in other sectors. Between 2002 and 2003, the share of service sector projects in the total number of related FDI projects rose from 37% to 51% for all developing and transition countries. Their share in the number of jobs created by such projects reached 57%. India's exports of software and IT-driven services, for example, grew from less than $0.5 billion in the early 1990s to around $12 billion in 2003-2004[14]. Table 2 shows the major recipients of FDI for services projects in CSEE. The Russian Federation, Hungary, Poland, and the Czech Republic are the largest recipients with each 11-15% of total service FDI.

12 Financial Times, 27 September 2004, "A loss of jobs or a gain in profits? Offshoring: Brian Groom ponders a controversial question that lies at the heart of Europe's competitiveness"

13 Financial Times, 1 December 2004, "When push comes to shove Offshore outsourcing has hit the headlines this year, but how much is really going on? FT correspondents give a global snapshot"

14 UNCTAD World Investment Report 2004, p. 160

31. The Hearing similarly emphasised the increasing market share of services in the economies of OECD countries, as well as the potential for such activities to be outsourced to low-cost countries. Whereas the share of agriculture has decreased over the last 20 years in the OECD area and that of industry is also falling in rich countries (while increasing slowly in poor countries), the share of services is rising in all three categories of countries – that is, the rich, the developing countries and those in transition, and poor countries. Services now represent two-thirds of global economic production: 70% in rich countries, 50% in medium-income and 44% in low-income countries. The general trend is thus towards an extension of the service sector throughout the world. Productivity in the service sector is therefore a key issue when is comes to raising overall competitiveness in a given country. (Another trend identified by the Hearing is towards jobs requiring higher skills levels. The reason for this is less the development of trade than technological change as such.)

32. Furthermore, the Hearing made clear that countries that take the greatest recourse to outsourcing – the United States and the United Kingdom – are also the prime suppliers of outsourced services. This being said, there are many activities such as catering, personal services, hairdressing etc that can never be done at a distance.

Table 2: Largest CSEE recipients of services FDI projects, 2002-2003
(Number of projects and percentage)

	Number of projects			Share
Country	Total	Greenfield FDI[a]	Cross-border M&As	(Per cent)
Russian Federation	126	81	45	15
Hungary	121	72	49	14
Poland	116	37	79	14
Czech Republic	95	31	64	11
Romania	77	57	20	9
Bulgaria	53	31	22	6
Slovakia	43	18	25	5
Serbia and Montenegro	31	21	10	4
Total	852	439	413	100

Source: UNCTAD, based on information provided by OCO Consulting and UNCTAD, cross-border M&A database.

[a] Based on projects monitored in five key services areas: financial services, telecommunications services, headquarters and distribution centres, R&D and shared services/call centres.

3. Challenges and opportunities relating to relocation

33. International outsourcing and offshoring have different implications for the host and the source country. In the political discussion over relocation, however, these differences are rarely distinguished and they both provoke fear of job losses in the source countries. Among economists, there is an emerging consensus that international relocation is essentially a trade policy issue. The reputed economist and head of the current US American Council of Economic Advisers, N. Gregory Mankiw, argues that "outsourcing is just a new way of doing international trade". The General Agreement on Trade in Services (GATS) under the World Trade Organisation refers to this kind of trade as “Mode 1” trade in services, involving "arms-length supply of services with the supplier and buyer remaining in their respective locations"[15].

34. The politically more sensitive issue in the debate over relocation is intra-firm offshoring, which involves a domestic company relocating the production of goods or the provision of services abroad. The concerns about job losses are similar to those about international relocation but in addition to job losses and wage decline they focus on diversion of investment and a subsequent lack of investment capital in the source country economy.

15 Bhagwati, Jagdhish, Arvind Panagariya and T.N. Srinivasan, "The Muddles Over Outsourcing" forthcoming in "The Journal of Economic Perspectives”

35. However, companies engaged in outsourcing investment abroad could benefit from this economically, but also politically, inevitable process, sharpening their competitiveness and bringing net gains to all the national economies where they are active - as is currently happening in the US, Germany and Ireland. Therefore, the debate over this issue in Europe should shift from how to stop relocation to how to manage it. Europe is still in a position of economic strength and one of the most productive regions in the world. Europe is capable of taking this seemingly negative factor of relocated economic activities and turning it into something positive.

36. Relocation should be considered an important part and consequence of the globalisation process. Within that broader and more general context, globalisation has contributed to expanded trade and higher economic growth, but it also presents enormous economic and social challenges. Governments must come to grips with globalisation's social consequences by boosting economic performance, competitiveness, the social market economy, innovation and research in order to support tomorrow's jobs. Solidarity in coping with the negative consequences of globalisation and relocation should be further promoted.

3.1. Impacts on economic welfare and labour markets of source countries

37. International trade is widely accepted to have beneficial effects on aggregate economic welfare through the exploitation of gains from trade. However, when it comes to effects on the sector level and micro level of the economy, the results are not as clear cut. Traditional economic theory, based on the notion of comparative advantage, predicts that in western Europe high-skilled workers gain whereas low-skilled workers lose and vice versa for developing and transition countries (because European countries are relatively well endowed with high-skilled workers and transition countries are relatively well endowed with low-skilled workers). As a result, inequality within countries rises. As production processes that require low-skilled workers are relocated abroad, those that involve higher skilled labour remain in the country. Relative demand for high-skilled workers increases and wages increase. The inverse is true for low-skilled workers. As relative demand in the source country labour markets decreases, their wages go down and workers are displaced in the restructuring process.

38. The overall effect on the labour market then depends on the magnitude of the gains from relocation and on the structure of the labour market. When companies relocate stages of the production process or outsource them to lower-cost or more efficient suppliers, they should be able to expand production and employment in stages where they are strong. The overall effect of outsourcing depends on whether firms could and did create more jobs than were lost before. This argument assumes that workers are perfectly flexible and can easily move between jobs and sectors. In reality, this depends on the structure of the labour markets and the profiles of qualification.

39. Empirical evidence is difficult to obtain since it has proven difficult to disentangle the interlinked effects of technology, trade and relocation on wage and employment levels[16]. There are numerous studies on the US manufacturing sector that show that there is an effect of outsourcing on jobs but that it has been exaggerated in the political discussion. A major part of the decline in wages of low-skilled workers and the loss of manufacturing are attributable to technological change with computers and machines replacing manufacturing workers, rather than foreign workers replacing domestic workers. A study by Alliance Capital Management found that the United States saw an 11% decrease in manufacturing employment between 1995 and 2002 while manufacturing jobs decreased by 15% in China and by 20% in Brazil. The US number corresponds to the global average of 11% while global manufacturing output increased by 30%. This gives reason to conclude that jobs are not lost because of outsourcing but because of technological change[17]. A widely quoted empirical study by Feenstra and Hanson on the reasons for the decline of the cost share of US manufacturing labour in the production process found that 11 to 15% of the decline in wages between 1979 and 1990 can be attributed to outsourcing[18].

16 Catherine J. Morrison Paul and Donald S. Siegel, The Impacts of Technology, Trade and Outsourcing on Employment and Labour Composition, Scandinavian Journal of Economics 103 (2), 241-264, 2001

17 Drezner, Daniel, "The Outsourcing Bogeyman", in: Foreign Affairs, May/June 2004

18 Feenstra, Robert C. and Gordon H. Hanson, "Globalization, Outsourcing and Wage Inequality" AEA Papers and Proceedings, Vol 86 No.2, May 1996

40. A growing number of studies examine the effects of international relocation on European labour markets. For Germany, various studies find similar results as for the US. Imports of intermediate goods have a negative effect on wages of low-skilled workers and on the demand for low-skilled labour.[19] The exact nature of the effect depends on the structure of the labour market. In flexible labour markets (e.g. the United Kingdom), relative wages of unskilled workers decreased. In more rigid labour markets (e.g. Sweden, Italy), the effect translates into a decrease in employment of low-skilled labour as wages are less flexible due to the strong position of trade unions[20].

41. While the above reasoning focuses on the notion of comparative advantage, there is a second mechanism that shapes international trade. When countries become more and more equal, they increasingly engage in intra-industry trade, i.e. trade with similar products of similar quality. Gains from trade then arise from economies of scale, specialisation and diversification. Intra-industry trade is largely neutral in its effect on wages and employment of the workforce involved in the production process. Already today, trade by ‘pre-enlargement’ European Union countries with new member countries and accession candidates is largely intra-industry trade, and fears of job losses from trade need to be revisited[21].

42. When it comes to the highly disputed topic of service relocation, data analysis for business services until 2002 gives a mixed picture. The UK was a clear net outsourcer, Germany slightly so. France was a net insourcer. In absolute terms, France, Germany, the UK and the Netherlands are among the top ten outsourcers but were also among the top five recipients of global outsourcing[22]. Service relocation is still a very small percentage of the total phenomenon but it is increasing at a much faster pace[23].

43. As far as intra-firm offshoring is concerned, popular concerns address both the fear of investment diversion from source countries to new host countries and the consequences on source country labour markets. One often gets the impression that FDI is a one-way street from developed to developing and transition economies. However, based on their actual GDPs, developing countries export more FDI than developed countries and the largest recipients of FDI are still the US, Germany, and the UK[24].

44. Whereas generally countries are assumed to benefit from increased competitiveness of their firms, real effects also depend on the structure of the labour markets. Inflexible and sticky labour markets are a major reason why offshoring can have negative effects on the home economy. Whereas every dollar of corporate spending shifted offshore can generate up to $1.14 in US wealth, the same dollar spent by a German company leaves its home economy on average 20 cents worse off[25]. In France, every outsourced dollar spent on investment abroad by French companies left the French economy with a loss of 15 cents.

45. The Hearing concluded that policy makers in Europe and other developed economies cannot remain idle. Institutional reform and sound labour market policies are needed, as is an unemployment insurance genuinely oriented toward a return to employment. Other essential factors are a flexible salary system and an education and training system that facilitates labour mobility.

46. The ETUC representative at the Hearing, by contrast, said that far too much fault had been laid at the door to what was generally called “too rigid” labour markets in Europe. He argued that adaptation is possible also with existing labour market policies where there is effective social protection and substantial social regulations that give the state a clear role. Of course, he argued, the labour force needs to be sufficiently flexible and capable of retraining. Lifelong training, he said, is

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19 Geishecker, Ingo and Holger Goerg, “International outsourcing and wages: Winners and losers” DIW Discussion Papers, March 2004

20 Anderton, Bob, Paul Brenton and Eva Oscarsson, Outsourcing and Inequality, CEPS Working Document No. 187 October 2002

21 Aturupane, Chonira, Simeon Djanov and Bernard Hoekman, Determinants of Intra-Industry Trade between East and West Europe, World Bank Aug 1997

22 Amiti and Wei, "Fear of Service Outsourcing: Is it Justified?" NBER Working Paper 10808, September 2004

23 Amiti and Wei, "Fear of Service Outsourcing: Is it Justified?" NBER Working Paper 10808, September 2004, pp. 12

24 UNCTAD World Investment Report 2004

25 McKinsey Global Institute, www.mckinsey.com/knowledge/mgi/rp/offshoring/german_summary.asp

needed but that was nothing new. The ILO has pronounced itself in favour of a flexible and permanently learning workforce for decades. Furthermore, the European Union has structural funds at its disposal and these should be used more widely. It is also, he said, wrong to say that wages are not flexible when in fact they have been so for the last decade.

47. The Hearing also engaged in a discussion on how to assist people who lose their jobs. The classic solution has been to organise untargeted social protection so as not to favour any particular category of the unemployed. Experience shows, however, that countries where policies have been more precisely targeted have fared better.

48. The Hearing did not, however, identify any one miracle solution. Rather, several policies will have to be conducted jointly so that people that are disadvantaged by a policy in one field can find compensation in another. It is also important to reach synergy between macro-economic policies and employment policies that help capital and labour to transfer from declining sectors to up-coming ones.

49. The volume of the benefits to the source country and company resulting from relocating jobs to more favourable foreign destinations depends principally on the following factors: the level of cost savings, the level of profits repatriated from the outsourced investment, the number of workers that can be re-employed in new jobs created in the source country with the aid of the increased profits, and the increase in sales to the outsourced production outlet. A comparison by McKinsey Global Institute of off-shoring investment made by US and French companies revealed that the reasons behind the lower gains made by French companies were related to the fact that French companies invested more heavily in northern Africa and eastern Europe, where cost savings were less than was the case in India, where US companies invested relatively more. Moreover, French companies did not reap as much profit from investing in off-shoring centres abroad as did US companies, and they sold less of their intermediate products to the outsourced companies. But the biggest difference with the US resulted from the inflexibility of France's labour market, as unemployed workers in France had much greater difficulties in finding a new job than did their US counterparts. Only 60% of unemployed French workers had found a new job within a year, whereas the more vibrant labour market in the US enabled 70% of unemployed workers there to find a new job within three month.

50. It would be misleading to argue that firms base their production decision solely on wage costs, as is often implied in media articles. What counts is labour productivity, which is reflected in wages. More qualified and more efficient workers receive higher wages but create more added value than less productive, less well-paid workers. Productivity in CSEE countries has risen sharply. In the new EU member countries the productivity/wage level is by now similar to or above the EU average (see table 3). This implies that the real issue at stake for the EU countries is not absolute wage rates, but rather labour productivity.[26]

51. There is clear evidence that the general level of competitiveness of the economy of the source country determines the level of outsourcing activities of companies on its soil. The lower the home economy’s competitiveness, the higher the outsourcing investments of the home companies will be. Similarly, the inward investment into a source country by investors abroad is a clear indication how these perceive the competitiveness level of the country in question. Foreign investment in France and Germany fell sharply in 2004, reinforcing concerns that inflexible labour practices, weak domestic demand and an expensive domestic currency might be driving investors elsewhere. OECD figures indicated that inward investment in France almost halved from $43 bn in 2003 to $24 bn in 2004, while in Germany foreign investment decreased from $66 bn in 2003 to $27 bn in 2004. However, the weakness of the continental European economy did not affect the UK and the US. The US remained the biggest foreign investor as US companies almost doubled their overseas spending in 2004, with foreign direct investment outflows jumping to $252 bn from $141 bn in 2003. Foreign direct inflows into the clearly competitive UK market more than trebled in 2004, reaching $78 bn. At the same time, the UK is one of the countries in the world that accounts for the most direct investment abroad, thereby showing that a competitive economy can manage both to be a large recipient of investment and a big investor overseas.

26 cf. the latest reports of the French Conseil d'Analyse Économique (CAE) «Recherche et développement, financement et croissance: quels choix pour la France dans l'Union européenne?» and «Désindustrialisation-délocalisations» find only a small impact of outsourcing but a strong decline in competitiveness.

Table 3: Wage rates and productivity in Europe

Country	Gross monthly average salary					Productivity[a]	Productivity/salary (EU-15=100%)
	1998	1999	2000	2001	2002	2000	2000
Average for the EU-15[b]	1 845	1 923	2 127	2 191	..	42.5	100
Of which:							
Greece	1 101	1 160	1 227	1 286	1 357	19.4	79
Portugal	..	..	1 052	1 112	..	10	48
Spain	..	1 297	1 326	1 372	1 425	26.1	98
New EU members from CEE	..	381	410	460	..	11.7	117
Of which:							
Czech Republic	..	343	379	430	510	10.9	144
Estonia	..	282	303	328	..	8.3	137
Hungary	307	314	348	408	489	11.1	160
Latvia	..	257	277	280	..	..	..
Lithuania	233	251	270	300	..	..	..
Poland	346	442	471	626	598	9.3	99
Slovakia	274	260	299	320	382	9.2	154
Slovenia	..	895	935	988	1 041	21.3	114
EU candidates	..	115	132	146	153	..	..
Of which:							
Bulgaria	101	111	120	127	132	..	..
Romania	..	120	144	165	174	..	..

Source: UNCTAD, based on http://europa.eu.int/comm/eurostat/; www.dree.org/elargissement (data in *italics*); and Stephan 2003, p. 10 (for productivity data).

[a] Value added per € 1,000 labour costs, national average.
[b] EUROSTAT estimate. Data for Austria, Ireland and Italy are not available.
[c] Average productivity is based on data for the Czech Republic, Estonia, Hungary, Poland, Slovakia and Slovenia only.

3.2. Impact on economic development of recipient countries

52. Foreign Direct Investment is usually regarded as beneficial to the recipient country and has come to be regarded as an important tool for development. It provides investment capital that is lacking domestically and thus fosters economic development. Compared to other international capital flows, FDI is thought to be less volatile because of the long-term orientation of investors. In the context of developing and transition economies, FDI is expected to have spill-over effects to the local industry and disseminate managerial and technological knowledge.

53. Spill-overs can take four different directions: (a) through competition with foreign controlled plants, local companies strive to become more efficient and competitive; (b) through co-operation of foreign owned enterprises with up-stream suppliers and downstream clients technological and managerial knowledge is transferred; (c) technology spill-overs occur through imitation or (d) through movements of human capital from technology intensive foreign affiliates to domestic enterprises[27].

54. Reliable empirical studies of actual spillovers are scarce and the few that exist show a mixed picture. For most of the new member countries of the EU, positive effects of FDI can be seen in the rise in productivity and in the increase in technology-intensive production, whereas the beginning of the transition process is dominated by labour-intensive and resource intensive production. This becomes evident for example in trade flows from the accession countries. For German imports from the accession countries, the share of labour intensive textiles, clothing and leather goods dropped from 24% to 10%, whereas the share of high-tech products doubled to 55% from 1993 to 2001[28].

55. Experience shows that it is much easier to attract FDI than to reap its benefits. Whether and to what extent spill-over effects occur will largely depend on country conditions. In particular, educational levels and institutional conditions are key determinants for successful use of FDI for economic growth. Countries that have been successful in developing domestic capital and high value-added industries as a result of FDI are also those which have engaged in far-reaching market reforms.

27 UN/ECE Economic Analysis Division, Economic Development Through Foreign Direct Investment in Central and Eastern Europe, Background Paper for Special Session III on FDI and the Restructuring of Transition and Emerging Economies, 2000

28 DIW Bulletin 6/2004 "The Eastern Enlargement of the European Union: Clear Challenges, Unjustified Fears"

56. Investor confidence in a stable and beneficial institutional framework has been enhanced by the 2004 EU enlargement. The ten new EU members have so far received considerably more FDI flows than south-eastern European countries. For countries that are at the beginning of the accession negotiation process, future FDI inflows are of special importance. While investors gain confidence in these markets, the benefits from FDI also help these countries carry out necessary market reforms, improve infrastructure and liberalise trade.

57. It is evident that FDI is an important ingredient in development but not the only one. As a consequence of increased demand for low-skilled labour, wages in this segment rise[29]. Indeed, many countries have already seen rising wage levels and a loss in manufacturing jobs in favour of countries with cheaper labour. Hungary's wage levels, for example, have risen by 20% between 2001 and 2003 and the country lost thousands of jobs when companies such as IBM, Philips and Flextronics shifted production to China[30]. In 2003, the same number of Japanese firms that shifted capital abroad also repatriated capital to Japan, as wages in other Asian countries rose and concerns for the protection of intellectual property rights became stronger[31].

58. Since, therefore, the low-cost advantage can not form any stable basis for sustained economic prosperity in the region, domestic capital formation and creation of enterprises will have to be a priority for the countries in central, south-eastern and eastern Europe (CSEE). The next wave of investment in the higher-skilled service sector is important for the diversification of many economies in central, south-eastern and eastern Europe.

59. To better compete for IT outsourcing with countries like India and Ireland, the institutional framework is crucial. It is especially important for CSEE countries to improve their reputation for IT security and for protecting intellectual property. The rating agency Gartner rates Hungary, Poland and the Czech Republic as “fair” for IT security issues. This means that these countries are ahead of Russia (judged by the agency as “poor”) but behind India (“good”) and Ireland (“excellent”)[32].

60. A major challenge for CSEE economies are the still high unemployment rates in most countries[33]. FDI has so far been concentrated on large corporations, and on capital cities or highly urbanised areas. Disparities within countries remain high. The main motors for job creation, however, are small and medium sized enterprises. A policy that aims at fostering job growth thus has to set the appropriate incentives for the creation of small and medium sized businesses along with FDI inflows.

61. It is natural and important for countries to engage in competition for FDI inflows. Tax reductions for corporations are one possible instrument that is increasingly being criticized by some governments in western Europe, as they feel that low corporate taxes in the east are made possible by EU funding financed by western European members. Company taxation rates are mostly below the pre-enlargement EU average of 32.5% - such as for instance 19% in Poland, 16% in Hungary and 25% in Slovenia. However, they do by far not reach Ireland's rate of 12.5%. This criticism left aside; there are intrinsic motivations for countries in the transition process to avoid a downward spiral of tax reductions. CSEE countries still face major challenges, for example in infrastructure development. If infrastructure investments have to be reduced due to reduced government budgets, this could have negative consequences as regards the country's attractiveness to investors.

4. Relocation, FDI and European economic integration

62. The economies of central, eastern and south-eastern Europe are expected to experience a surge in FDI in the years to come. The UNCTAD World Investment Report 2004 expects FDI to increase steadily in the EU accession countries as well as in other CSEE countries. The lion's share of global and European FDI, however, is expected to flow to India and China. Given this, it would seem inappropriate for policy makers to focus their concerns over outsourcing mainly on the CSEE countries and thereby risk jeopardizing their economic development and transition.

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29 Egger, Peter and Stehrer, Robert, "International Outsourcing and the Skill-Specific Wage Bill in Eastern Europe". The World Economy, Vol. 26, pp. 61-72, January 2003

30 Financial Times, 24 October 2003, “Central Europe leads growth in call centres”

31 "Faut-il craindre les délocalisations?", Le Monde, 23 July 2004

32 Financial Times, 2 July 2003, “A growing opportunity to close the cultural gap: Eastern Europe”

33 For example top FDI host countries Poland with 19.1%, or Slovakia with 17.1%

63. Indeed, FDI flows to these countries will enhance their economic integration with other parts of Europe and the world economy as a whole - a process accelerated, as the case may be, through EU accession, ongoing or expected accession negotiations, or other arrangements with the EU such as its "Neighbourhood Policy". This in turn means increased trade and potential capital flows in the opposite direction, that is, from the CSEE to western European countries. As we have seen, companies in many CSEE countries already engage in FDI in Europe and globally. When seen in proportion to the economic size of countries, it turns out that developed countries are not the major source of FDI, but that indeed developing countries engage in more FDI as a share of their GDP[34].

64. As has been shown above, relocation is complementary to increased trade, which fosters economic integration between western European and CSEE countries, eventually leading to an even better functioning European market. The road to global competitiveness starts with competition at home. The best way to improve the competitiveness of the European economy on the global scale is to allow competition within and between the European countries. Relocation, being a corporate phenomenon, could contribute to that goal, as well as to a more balanced economic development across Europe, via an indirect, non-governmentally driven, development assistance to less developed European economies.

65. Sometimes multinationals are seen as wanting to play out one work side in one country against another located in a different country. For example, General Motors recently announced that 10,000 jobs would be cut in Europe over the next six months. Following that, however, workers in Germany, Poland and Sweden showed a remarkable degree of solidarity, leading the company to abandon any plans for imminent layoffs.

66. The relocation of some productive functions could increase economic welfare in both the investor's home country and the recipient country. But to reap the full benefits of this, the advanced European economies will have to implement some necessary reforms, foremost in the liberalisation of the markets for labour and products, and as regards social and economic policies. These reforms have been on the European agenda for quite some time, but since most tend to be quite unpopular, few countries have had the determination to implement them. Relocation has demonstrated that the recipient countries have been able to embark on similar reforms at home, thus creating competitive and appealing conditions for attracting investments, while simultaneously prompting developed economies to finally follow the reform path in creating the basic environment for improved competitiveness.

67. FDI contributed significantly to the high economic growth of Spain and Ireland in the late 1980s and the 1990s. These countries thereby managed to reduce unemployment, and especially Ireland successfully developed a high-tech sector. These developments also enhanced the overall attractiveness of the EU for investors from overseas and led to FDI inflows notably from the US and Japan. CSEE countries are now seeking to catch up and emulate these successful models.

5. Concluding remarks

68. One of the aims of this report is to place relocation of economic activities abroad within the broader context of its potential contribution to rectifying problems that occurred in the recipient countries labour market due to losses sustained through brain drain and the emigration of skilled workers. Furthermore, worrying aspects of relocation for the recipient countries are to be taken into account, such as having trade and economic relations with the source countries too dependent on the relocation phenomenon. (For instance, 70% of Romania's trade with the EU is derived from outsourced facilities). Other aspects include the risk of unpredictable further relocation towards Asian countries; the unfavourable impact of competition with Asian countries based on cheaper labour, in that these may discourage wage increases in the European countries receiving investments; and the still limited scope for the transfer of technology and marketing capacities following the relocation of capital to many recipient countries.

34 Mann, Catherine, "Globalization of IT Services and White Collar Jobs: The Next Wave of Productivity Growth", International Economics Policy Briefs, December 2003.

69. The effects of international outsourcing and offshoring activities by European firms on their domestic labour markets are considerable. There is increasing evidence of at least short and medium term losses for low-skilled workers and the lower wage segments of the labour force. There are, however, by the same token major benefits to be derived, such as increased competitiveness of firms across Europe and the world, stronger economic growth resulting from increased continent-wide integration, political dividends as greater wealth in the CSEE result in greater political stability and a stronger democracy, and wealth gains for citizens as prices are kept lower than they otherwise would have been (due to increased competition and lower costs of production), also resulting in lower inflation.

70. In order to meet these effects, reforms of labour markets are needed. With more flexible labour markets, displaced workers may more easily move to more competitive sectors. Clearly this represents a significant challenge for many European countries which are already coping with high unemployment. By the same token, social policies are needed to palliate the effects. If disadvantaged and displaced workers do not receive support it will be difficult to maintain a societal consensus on economic openness, which as we have seen is an important drive of economic growth.

71. Liberalisation of trade in services, including through an increase in competition in the services sector within countries, could considerably raise economic growth and allow European citizens better value for money. It could be done either via WTO agreements, within the EU or by individual nations. Indeed, the OECD has found that countries that liberalise their services sector regardless of whether other countries do so show persistently higher economic growth. The Hearing for its part emphasised the potential benefits for all sides from a rise in global purchasing power. If the latter increases significantly, then everyone will be able to trade and invest more in an increasingly intertwined world economy. As the Hearing pointed out, the biggest export market for the Italian car maker Ferrari is not the US or Italy, but China. We are back to where this report began, namely the view that the relocation of economic activities - if pursued with due attention to the social and economic consequences resulting from it and closely monitored by the international community as a whole - is likely, as Europe's own experience with its economic integration has shown so clearly, to be "win-win" rather than "win-lose" or, even more pessimistically, "lose-lose".

72. Furthermore, FDI and international relocation can be important sources of lasting economic growth in recipient countries, provided they manage to create a favourable institutional framework, ensure good governance and encourage inflows into knowledge intensive sectors from where new knowledge can be diffused throughout the overall economy.

73. Economic development in all parts of Europe must be a top priority for policy makers across the continent, as this will enhance overall economic integration and prosperity. Relocation forms part of that process and will in due course be seen for what it is, namely as highly beneficial for the realisation of the ideals of the Council of Europe across all of its forty-six member states.
Reporting committee: Committee on Economic Affairs and Development

Reference to committee: Doc. 10348; Ref. No. 3029 of 23.11.2004

Draft resolution unanimously adopted by the Committee on Economic Affairs and Development on 18 November 2005.

Members of the Committee: Mr Evgeni **Kirilov** (Chairperson), Mrs Antigoni Pericleous Papadopoulos (Vice-Chairperson), Mr Márton Braun (Vice-Chairperson), Mr Konstantinos Vrettos (Vice-Chairperson), MM. Ruhi **Açikgöz**, Ulrich Adam, Hans Ager, Abdülkadir Ateş, Radu-Mircea **Berceanu**, Akhmed Bilalov, Jaime Blanco (alternate: Mme Elvira **Cortajarena**), Patrick Breen, Milos Budin (Andrea **Rigoni**), Erol Aslan **Cebeci**, Mrs Ingrīda Circene, MM. Ignacio Cosidó, Giovanni **Crema**, Øystein Djupedal, Ioannis Dragassakis, Iván Farkas, Joan Albert Farré Santuré, Relu Fenechiu, Mrs Siv Friđleifsdóttir, MM. Carles Gasóliba, Francis Grignon, Alfred Gusenbauer, Nick Harvey, Norbert Haupert, Anders G. **Högmark**, Ivan Ivanov, Klaus Werner Jonas, Ms Verica Kalanović MM. Karen Karapetyan, Orest Klympush, Anatoliy **Korobeynikov**, Rudolf Kraus, Zoran Krstevski, Jean-Marie Le Guen, Harald Leibrecht, Rune Lund, Gadzhy Makhachev (alternate: Mrs Liudmila **Pirozhnikova**), David Marshall, Jean-Pierre Masseret, Miloš **Melčák**, José Mendes Bota, Mrs Ljiljana Milićević, MM. Neven **Mimica**, Gebhard **Negele**, Conny **Öhman**, Guilherme de Oliveira Martins, Mart Opmann, Bogdan Podgórski, Jakob Presečnik, Jeffrey Pullicino Orlando, Luigi Ramponi, Maurizio Rattini, Maximilian Reimann (Alternate: Johannes **Randegger**), Dario Rivolta, Volodymyr Rybak, Kimmo **Sasi**, Bernard Schreiner, Samad Seyidov, Leonid Slutsky, Ms Geraldine Smith, Mrs Aynur Sofiyeva, MM. Christophe Spiliotis-Saquet, Qazim Tepshi, Frans Timmermans, Dragan Todorović, Mrs Ágnes Vadai, Mr Luc Van den Brande, Mrs Jelleke Veenendaal, Mrs Birutė **Vėsaitė**, MM. Oldřich **Vojíř**, Varujan Vosganian, Robert Walter, Andrzej Wielowieyski, Marek **Wikiński**, Paul **Wille**, Mrs Rosmarie **Zapfl-Helbling**, Mr Kostyantyn Zhevago.

N.B: The names of the members who took part in the meeting are printed in bold

Head of Secretariat: Mr Torbiörn

Secretaries to the committee: Ms Ramanauskaite and Mr de Buyer