

**Title: Mobility of workers in the SME sector - obstacles and issues
of work permits**

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Summary

Mobility of workers is one of the instruments for helping to increase the effectiveness of labour market and to improve the competitiveness of economy.

In Croatia, similar to the EU, low labour force mobility rate should be increased by legislative and other measures in order to eliminate administrative, legal and linguistic barriers and contribute to the strengthening of the infrastructure of labour market.

Compared to its population of 4.4 million, Croatia does not have a large number of immigrants (less than 1%), but based on recent trends in demographic, economic and labour market developments and prospects of joining the EU, it is expected that number of foreigners will further increase. Majority of immigrants originate from former Yugoslav Republics, with an increasing share of EU Member States nationals (Germany, Italy, Austria) and China. Labour emigration of Croatian nationals, according to estimations, is mainly directed to traditional European destination countries, such as Germany, Austria and Switzerland, but at stagnating scale.

This data, even though it does not encompass all categories of migrants, still points to changing patterns of migration features in Croatia which corresponds to its overall socio-economic recovery and economic growth as of the beginning of a new century. Huge population displacements and movements caused by war during 90ies are being replaced by primarily economically-driven type of migration. According to available data, temporary migration becomes a predominant type of migratory flows, of which temporary resident permit holders with purpose of employment are the most dynamic category. Growing economy and SMEs sector requires young, mobile, motivated and skilled labour force. In spite of a high unemployment rate (11,8% per LFS, 2006), certain sectors such as construction, tourism and shipbuilding are faced with shortage of workers, which is being fulfilled by recruitment of foreign workers. On the "pull" side, Croatia is facing the same demographic problems of an aging society and diminishing labour force as the EU Member States, which are even more accentuated. At the same time the "push" factors are present, whereof the high unemployment rate and income differential are still important enough to stimulate larger scale movements towards west. Simultaneous effect of "push" and "pull" factors maintains the parallel presence of emigration and immigration flows with tendency towards growing net migration. The increasing number of foreign workers supports the expectations that the immigration trends will become more significant along with the economic and social development and will contribute to the alleviation of natural population decline. Thus Croatia follows the trends observed in new EU Member States, which are turning gradually into the countries of immigration.

On its path to EU Croatia has achieved considerable progress as regards reforms in the migration area. The migration legislation is in place and is gradually being harmonized with the *acquis*. Both Foreigners and Asylum Acts are currently being amended in order to ensure their further compliance with EU requirements and to overcome the observed problems in the implementation.

The main problems in implementation of Foreigners act refer to the area of employment and self-employment of foreigners. Quota system should reflect the real needs of the labour market and facilitate labour mobility in order to fill the labour shortages. Further administrative simplification for obtaining work and business

permits and more precise definitions of provision of services and activities deemed as self-employment are needed. Ultimately the provisions governing foreigners work should provide for improved labour mobility aimed at attracting profiles of workers that are in short supply and strengthening the competitiveness of Croatian economy. Admission procedures should be capable to respond promptly to fluctuating demands for migrant labour in the labour market.

Observed gaps and obstacles in legislation served for formulation of policy recommendations aimed at building of an effective migration management system. Lack of inter-ministerial cooperation and a central body competent for migration, coupled with absence of systematic national monitoring of overall migration flows urge for a coordinated and comprehensive policy approach.

More attention should be paid to the interrelationship between migration and development and to international co-operation. Labour migration, when managed effectively, can have a substantial positive impact on both country of destination and country of origin.

In spite of achieved progress, migration issues haven't yet reached the place they deserve on a domestic political agenda. The Government should manage labour migration more proactively in order to effectively respond to national labour market needs and economic development on the one hand while ensuring the compliance with international and EU Migration Law on the other hand. However, lack of labour migration research and reliable statistical data coupled with delay in adoption of a national migration policy remain key problems to be addressed. In view of demographic decline and ageing population, more sustained immigration flows will increasingly be required to meet the needs of the Croatian labour market and ensure sustained economic and social development.

1. Introduction

The European Commission has named 2006 the European Year for mobility of workers. The year aims to raise awareness and increase understanding of the benefits of both working abroad and in a new occupation. Due to observed low level of occupational and geographical mobility, the EU has made major efforts to create an environment that is conducive to the mobility of workers.

Freedom of movement for workers is a right and, as such, is one of the founding principles specifically recognized by the EC Treaty. Its objective is to ensure the mobility of the labour force in the Community, which means the elimination of any discrimination based on nationality as regards employment, remuneration and other working conditions, access to accommodation and the worker's right to be joined by his family. The right to free movement of workers is complemented by a system for the coordination of social security and by a system to ensure the mutual recognition of diplomas. However, it applies to EU nationals and their family members.

New member states (except Cyprus and Malta) have been imposed to apply transitional arrangements as regards free movement of workers and thus face restrictions on access to the labour markets of the EU-15 (except UK, Ireland and Sweden).

The common EU legislation on the rights of third country nationals to enter the Member States for work purposes is still being developed. The latest policy document lists the actions and legislative initiatives that the EC intends to take forward in view of developing a coherent legal migration policy at EU level. These proposals will consist of a general framework directive defining the basic rights of all immigrant workers admitted in the EU and of four specific directives, addressing the conditions of entry and residence of certain categories of immigrants. General framework directive will not deal with procedures and conditions of admission for third-country nationals in employment. Member States competence to determine the volumes of persons to be admitted remains unaffected.

Mobility of workers should be one of the necessary elements for establishing a genuine European labour market by making it possible to attract workers to regions with specific needs while, at the same time, reducing the overload in regions with excess skills, and therefore high level of unemployment, in a given sector.

Elimination of administrative and legal obstacles, knowledge building and improved access to information should contribute to this goal. In this context the EURES network should foster the labour mobility of EU nationals and also support the management of economic immigration of third-country nationals.

EU with its strong economy and political stability is already an important recipient of migratory flows. On the "pull" side changing demographics and labour market needs present key factors that will continue to fuel labour mobility. Low fertility rates and increasing life expectancy contribute to the ageing of European societies and shrinking of labour force. Currently, 36 to 38 million migrants are living in the 25 EU member states, which represent about 8 % of the European population. Immigration of third country nationals is considered as important, although partial solution to demographic ageing and labour market shortages. It is also acknowledged that European countries are experiencing increased pension deficits, reallocation of industries to cheap foreign workforce and labour shortages in high skill sectors (e.g. IT technologists, researchers, business managers), as well as in semi skills sectors

(e.g. nursing) and low skills sectors (such as agriculture, construction, domestic work) (IOM, 2005).

What is the state of play in Croatia as regards labour mobility and corresponding legislation? The country is preparing for membership based on the Stabilization and Association Agreement (SAA) signed on 29 October 2001 and Interim Agreement which entered into force in March 2002. On 20 April 2004, the Commission issued a positive opinion on the Croatia's application for membership which was followed by acquiring candidate status on 18 June 2004. Accession negotiation were opened in October 2005. Since 2001 Croatia is carrying out intensive administrative, institutional and legal reforms amongst which in the area of justice, freedom and security.

Similar to the the EU, Croatia is faced with low labour mobility on the internal market and high unemployment rate (11.8 %), but at the same time with labour market shortages in certain sectors (construction, shipbuilding and tourism) which is being fulfilled by recruitment of foreign workers. Immigrant workers are on rise, both legal and illegal. Growing economy (GDP growth rate 4.1% in the period 2000-2004) and SMEs sector requires mobile and skilled labour force. The unfavourable demographic trends, population ageing and decline point to the need of adopting a proactive immigration policy which is able to respond to the demands of labour market in short and long-term.

Scope of this study is to analyze immigration and emigration statistical data in Croatia in order to determine the scale, features and trends of contemporary migration with special focus on economic migration. Further it analyses to which extent is Croatian migration legislation and policy aligned with that of the EU and attempts to identify the main gaps and obstacles as compared with the *acquis* and in practical implementation. Main findings serve as basis for provision of recommendations which are necessary to align Croatian migration policy and legislation with that of the EU while taking into account national specifics.

Due to complexity of investigated topics, this paper should be considered as an overview of a broad range of migration and labour mobility data and corresponding legislation in Croatia and EU aimed at deepening of reciprocal understanding of this important issues between the EU and Croatia.

2. Analysis of the existing statistical data on in and out migration to and from Croatia

Generally the migration data are problematic for collection due to its complexity and variety of national specifics and Croatia is not an exemption. The main data sources are Central Bureau of Statistics and the Ministry of Interior.

Official migration statistical data are not reliable as they are not harmonized with international recommendations. The length of migration which is relevant for distinguishing short and long-term migration, and causes (purposes) of migration which are essential for differentiating the relevant categories of migrants are not applied. Only permanent foreign residents have been recorded which significantly limits the coverage of foreign population. Emigration data on the other hand are significantly underestimated due to unregistering problem. The Central Bureau of Statistics processes and publish the data on international migration of population of

the Republic of Croatia”¹ based on data collected by the Ministry of Interior (police administration/stations) according to the Law on Permanent and Temporary Residence of Citizens² and the Foreigners Act. The data include all Croatian citizens and permanently residing foreigners who registered/deregistered their place of permanent residence at the Ministry of the Interior.

At the moment, the Republic of Croatia is working on the alignment of its methodology with international recommendations (UN, 1998) and on preparations for introduction of Population Registry. The new definition of a migrant will be applied, according to which "migrant is a person who has remained outside his/her country of origin for one year or longer".

Croatia provides data about migration on a yearly basis to EUROSTAT, ILO and the Council of Europe and provides explanations on methodological differences. The introduction of a reporting template and indicators in line with the EU standards is a medium-term goal for the Republic of Croatia, which should inevitably be achieved prior to the accession to EU.

The Ministry of the Interior (Mol) collects vast majority of migration data on a centralised information system. The Ministry collects large quantity and variety of migration data disaggregated to a considerable extent, including on work, business and residence permits, illegal migration etc within its competencies stipulated by the Foreigners Act. Data is being processed by the IT department and delivered to the Analytical Department and other departments as per their respective needs for analytical and reporting purposes.

Absence of a comprehensive approach and systematic national monitoring of overall migration flows based on an agreed set of migration indicators becomes a serious problem.

Migration data processed by Mol can be obtained upon request.

Due to change of methodology of data collection in the field of employment of foreign workers as of year 2004 the problem of consistent and comparable long-term data series has arisen which distracts reliable analysis and conclusions.

Taking into account all these limitations, the statistical data will be used from various available sources, but primarily from the Ministry of Interior. Data will include work permits, business permits, residence permits and overall in and out migration in order to identify the migration scale and trends in Croatia and to forecast tendencies of future flows.

2.1. Work permits

The conditions under which foreign nationals can work in the Republic of Croatia, as well as the procedure of issuing work permits to foreign nationals are regulated by the Foreigners Act³. A foreign national is able to work in Croatia if s/he obtains a work permit or business permit and if s/he complies with other legal conditions. A work permit is issued to a foreigner by the Ministry of Interior upon a request from the employer. The work permit is issued for a limited period of time and to correspond to

¹ First Release 7.1.2. www.dzs.hr

² Official Gazette no. 53/91, 26/93 and 11/00

³ Official Gazette 109/03, 182/04

the duration of the work contract or other appropriate contract, but for a maximum of two years.

Data on work permits before 2003 are not comparable with those after 2003, due to different coverage which occurred by change of legislation. More detailed review and analysis of legislation is provided in chapter 3.

Until 2003, the Croatian Employment Service (CES) was in charge of issuing work permits. As of year 2000, corresponding to the economic recovery and a stable economic growth, number of work permits was steadily on rise. In the period 2000-2003 the number of issued work permits increased from 4,695 to 8,356 or by 78% (table 1).

Table 1: Number of work permits 2000-2003

Year	No. of issued work permits
2000	4,695
2001	5,710
2002	6,674
2003	8,356

Data Source: CES

The new Foreigners Act, being implemented since 1st January 2004, transferred the issuing of work permits to the authority of the Ministry of the Interior (Moi), which is also in charge of regulating the residence status of foreign nationals in the Republic of Croatia. The intention was to simplify the administrative procedures by designating one responsible body for both residence and work permits.

Table 2: Number of work permits under new quota system 2004-2006

Year	Established quota of work permits*	Total issued work permits**
2004	7,589	2,979
2005	2,428	3,814
2006	1,837	3,446 (I - X 06)

*for new employment, renewals and seasonal employment

** entails quota work permits and out of quota work permits

Data source: Ministry of Interior

At first glance the sharp decline of issued work permits as of year 2004 is notable as compared to the previous period, but the figures are misleading without taking into account legislative and administrative changes, particularly regarding the quota system, exemptions and introduction of business permits which covered some of previous work permits. In 2005 3,814 work permits were issued, which represents increase of 28% over the previous year.

As of year 2004, the Government of the Republic of Croatia, at the proposal of the Ministry in charge of labour and based on opinion of the Croatian Employment Service, determines each year the **annual quota of work permits**. The quotas

should reflect the labour market needs and be in accordance with the migration policy. Quotas are determined for:

- new employment
- renewal of already issued work permits and
- seasonal employment.

Besides quotas, the new Law stipulates 23 categories of persons who do not need work permit (**exemptions**): permanent foreign residents, foreign spouses of Croatian nationals, key staff of companies as defined in the SAA – company founders, procurators, members of company management and supervisory boards; university professors, scientists/researchers in scientific or professional training, athletes, artists and similar.

Besides, some categories of foreigners can be granted work permits that are not included in the quota (**out of quota work permits**). These work permits are granted for foreign workers –commuters, foreign workers and their family members, whose status is regulated by the SAA between the European Communities and their Member States and the Republic of Croatia, foreigners performing indispensable tasks in companies and foreign company agencies, intra-corporate transferees, school teachers teaching in the national minorities language, professional athletes or sports workers, foreigner's spouses and children with authorised permanent residence in the Republic of Croatia etc.

By sectors the annual quotas for new employment in the period 2004 - 2006 were allocated and used as follows (table 3):

Table 3: Allocation and utilization of annual quotas of work permits for new employment per sectors 2004-2006

Sectors	2004		2005		2006	
	<i>Allocated</i>	<i>Used</i>	<i>Allocated</i>	<i>Used</i>	<i>Allocated</i>	<i>Used*</i>
Shipbuilding	1.099	340	270	222	110	99
Construction	1.000	616	610	537	336	326
Tourism	310	120	370	148	516	180
Culture			68	11	45	7
Science and education	150	9	60	12	10	
Transport					4	
Health care	30	1	22	10	16	2
Total	2.589	1.086	1.400	940	1.037	

Data source: Government Decisions on Establishment of quotas for years 2004, 2005 and 2006; Mol

Three main sectors with labour shortages have been identified: construction, tourism and shipbuilding. As of start of implementation, the quota numbers are not being fully used. In 2004, only 42 % was used, while in 2005 67 % was used.

Low utilization of quotas influenced the reduction of quotas in each subsequent year. More detailed analysis can be found in chapter 4.

The annual quota of work permits for year 2006 amounts to 1.837 work permits, out of which 800 for extension of already issued work permits and 1.037 work permits for new employment of foreigners.

The annual quota of work permits for **seasonal employment** was determined only for year 2005, mainly for occupations in construction sector. Out of 400 quota, only 248 work permits or 62 % was used.

It is not clear why quota for seasonal employment hasn't been established for year 2006. Growing numbers of illegally employed foreigners who are found mostly in seasonal jobs in catering, tourism, trade and building sector point to the need for seasonal workers.

2.2. Business permits

The new Law on Foreigners introduced the Business Permit, which is considered as a residence and work permit in the territory of Croatia and which replaced the former business visa. The business permit is issued to a foreigner who has registered craft business or engages in a craft-identical activity or free lance profession, who runs business operations in a registered company of his/her own or in a legal entity in which s/he holds a majority stake. It also applies to foreigners who provide services on behalf of a foreign employer and who meets other conditions for the issuing of a temporary stay permit.

The initial intention for introduction of business permit was to eliminate administrative barriers and promote entrepreneurship and foreign investments, but due to the problems faced during its implementation, it is being re-examined during the ongoing process of drafting the new Law on Foreigners. More detailed review is provided in chapters 3 and 4.

In the year 2004, 3,417 business permits were issued, which increased to 3,875 in the year 2005 or by 13.4%. Until October 31, 2006 4,616 business permits were issued which points to the growing trend. Number of business permits exceeds the number of work permits which was not expected in spite of entrepreneurial orientation of Croatian economy. Analysing the leading nationalities amongst business permit holders it is hard to expect spectacular investments and benefits for the economy from their side.

Top three nationalities who were granted business permit are: 1. Bosnia and Herzegovina, 2. Macedonia, 3. China, followed by 4. Slovakia, 5. Italy, 6. Serbia and Montenegro, 7. Germany, 8. Slovenia and 9. Austria.

The data on the sectors of economy for which business permits are granted are not available, nor on the grounds of their approval (companies, crafts, contract for provision of services).

For comparison, the top 10 countries investors' in Croatia in the period between 1993 and 2nd Q 2006 are: Austria, Germany, USA, France, Italy, Hungary, Netherlands, Luxembourg, Slovenia and UK (Trade and Investment Promotion Agency, 2006) According to Croatia's competitive advantages and the strategy with focus on

knowledge based society and world FDI trends, the following fields of special interest for investors are defined: business services, ICT and R&D, biotechnology and pharmaceuticals.

Over the past two years significant public attention and concern was raised due to observed increase of companies registered by Chinese nationals. The State Inspectorate jointly with the Illegal Migration Department of the MoI initiated a comprehensive check-up action on operating of Chinese companies. Initial results showed that out of 310 companies, 10% hasn't started up the business within the legal deadline and in these cases there is a reasonable doubt in fake companies. The remaining 90% operate legally. The action's results showed that Chinese nationals at the moment do not present a risky migration group.

2.3. Resident permits for employment

In year 2004 police administrations/stations approved 3,053 temporary residence permits with the purpose of work. In 2005 49.9 % more temporary residence permits with the purpose of work were approved, which amounts to 4.577.

Basically, this category reflects more accurately the number of employed foreign workers in Croatia than the work permits and presents the fastest growing group of immigrants.

2.4. Profiles of foreign workers

Along with the increase in issued work permits, structural changes have also taken place with respect to the nationalities and qualifications of foreigners granted permits. The early 1990s saw demands for permits primarily from low-skilled foreigners, whereas larger numbers of high-skilled foreigners have requested work permits over the last few years. This corresponds with an increase of permits for nationals of Germany, Italy, Austria, Great Britain and France.

2.4.1. Nationalities

According to the CES, majority of work permits in the period 1994 – 2003 were approved to nationals from Bosnia, Serbia and Montenegro, Macedonia and Slovenia, i.e from former Yugoslav Republics. Since the end of 1990s the gradual increase of work permits issued to EU nationals has been recorded, i.e Austria, Germany, Italy, France and UK.

Data on foreign workers by nationality varies from year to year, but comparison between the 2004 and 2005 statistics show that nationalities of former Yugoslav Republics are still a predominant group. Bosnian citizens are the leading nationality amongst foreign workers.

In 2004 the nationalities of foreign workers (temporary residence with the purpose of work, business permits and permanent residence) are ranked as follows: 1. Bosna and Hercegovina 1722, 2. Turkey 512, 3. China 468, 4. FYR Macedonia 356, 5. Germany 248, 6. Italy 230, 7. Austria 229, 8. S & M 219, 9. Slovakia 188, 10. Slovenia 176, 11.

Ukraine 122, 12. USA 119, 13. Hungary 104, 14. Russian Federation 84, 15. UK 73, 16. Romania 59, 17. France 58, 18. Bulgaria 51, 19. Czech Republic 51, 20. the Netherlands 28, etc.

Statistics for 2005 is shown in table 4.

Table 4: Nationalities of foreign workers in Croatia in 2005

Rank	Nationality	Foreign workers
1	Bosnia	2.968
2	FYR Macedonia	521
3	China	484
4	Italy	303
5	S&M	305
6	Austria	286
7	Germany	285
8	Slovakia	258
9	Slovenia	244
10	Czech Republic	128

Data source: Mol

2.4.2. Education

The educational structure of foreign workers has changed over the past 10-year period. While at the beginning of 1990s the prevailing groups were skilled and low skilled workers (i.e.masons, carpenters, welders), as of mid 90ies the share of highly educated workers has been gradually on rise (i.e. managers, procurists). Majority of work permits for skilled workers were issued for occupations in construction, shipbuilding, tourism and catering, while highly educated foreign workers are being employed as managers, teachers and interpreters (native speakers).

In 2005, the most represented group of foreigners are those with secondary education level (52 %), followed by those with University degree (17 %) and low skilled workers (11 %). The educational structure of males and females does not differ significantly, with higher share of highly educated females as compared with males.

Table 5: Foreign Workers by Education and Gender on 30 November 2005

Educational level	Men	Women	Total
Ph.D.	2	-	2
Masters	6	2	8
University degree	1.393	359	1.752
College degree	173	65	238
Secondary education	4.538	818	5.356
High skilled	108	4	112
Skilled	937	11	948
Semi-skilled	52	6	58
Low skilled	1.071	54	1.125

No education	14	7	21
Unknown	500	43	543
Total	8.794	1.369	10.163

Source: Ministry of Interior

2.4.3. Gender and age

Foreign workers in Croatia are predominantly male. In 2005 male share amounts to 86.5% while female participation is 13.5%.

As table 6 shows, age group 46-60 has the largest share of total number foreign workers, followed by 31-35 group, which is an unusual finding. Usually foreign workers are younger than domicile ones. Similar structure is present for men, while age structure of females differs significantly – with largest share of younger groups aged 26-35.

It seems that increase of managerial profiles of foreigners – usually male and middle-aged - supports such an age structure.

Table 6: Foreign Workers by Gender and Age on 30 November 2005.:

Age	Men	Women	Total
Below 20	65	16	81
20-25	720	167	887
26-30	1.256	324	1.580
31-35	1.396	266	1.662
36-40	1.374	201	1.575
41-45	1.332	136	1.468
46-60	2.425	224	2.649
60 +	226	35	261
Total	8.794	1.369	10.163

Source: Ministry of Interior

2.5. Illegal employment of foreigners

Illegal employment of foreigner is an issue that needs to be addressed in the broader context of combating irregular migration. According to the Foreigners Act the State Inspectorate is responsible for monitoring of employment of foreigners.

In practise, the State Inspectorate and Illegal Migration Department of Mol act together against illegal employment in the Republic of Croatia through joint actions: in 2004, they detected 1,632 foreign nationals involved in illegal employment activities, while the number in 2005 was 1,936, which represents an increase of 18.6% (table 7). The vast majority of illegally employed foreigners are Bosnian citizens (83%), who are found mostly in the construction and catering sectors. It is estimated that actual numbers are much higher.

The main factors that facilitate illegal employment of foreigners, who mainly originate from neighbouring countries, are:

- Significant informal labour market and proportion of undeclared work
- Lack of regular migration opportunities/bilateral treaties particularly on seasonal work
- Vicinity, small distances, linguistic proximities, family ties (particularly in border regions).

Table 7: Number of illegally employed foreigners in Croatia by nationalities of SEE in 2004 and 2005.

Nationality	Illegal employment		
	2005	2004	Change (%)
Albania	0	0	0.00
Bosnia	1599	1418	12.76
Bulgaria	8	15	-46.67
Greece	0	0	0.00
Macedonia	29	16	81.25
Moldavia	0	0	0.00
Romania	57	42	35.71
Serbia&MN	82	41	100.00
Turkey	2	0	200.00
Total for SEE nationals	1777	1532	15.99
Share of SEE nationals in total number	91.79	93.87	-2.22
Total for all nationalities	1936	1632	18.63

Source: Annual Report on the illegal Migration for year 2005, Ministry of Interior of the Republic of Croatia

2.6. Estimated total number of immigrants and labour immigrants in Croatia

Total number of immigrants in Croatia, measured by permanent and temporary residents and business permit holders, in 2005 amounts to 18.374 persons, which represents an increase of 17 % over the year 2004 (table 8). Temporary residents account for the major share, or 73.7 % of total number of foreigners.

Table 8: Total number of foreigners in Croatia in 2004 and 2005 per status

Status of Foreigner	2004	2005	Change rate (%)
Permanent Residents	1.512	966	- 26
Temporary Residents	10.774	13.533	25.6
Business Permit holders	3.417	3.875	13.3
Total	15.703	18.374	17.0

Data source: Mol

Estimated number of labour immigrants can be derived from the number of temporary resident permits for purpose of work, and number of business permits, but this figure is underestimated as number of employed foreign permanent residents is not included. Even at limited coverage, number of labour migrants in 2005 has increased by 30.6 % over the previous year (table 9).

Table 9: Number of labour immigrants in Croatia in 2004 and 2005 per type of permit (without permanent foreign residents)

Type of Permit	2004	2005	Change rate (%)
Temporary Resident Permit for purpose of work	3.053	4.577	49.9
Business Permit	3.417	3.875	13.3
Total	6.470	8.452	30.6

Data source: Mol

As data cover only two years, the time period is too short for any reliable conclusions, but still point to an increasing trend of both categories. Actual numbers are higher if illegal workers are added.

2.7. Outmigration by destination country

Statistics on emigration are particularly problematical; many countries do not collect them, and those that do tend towards underestimation (Salt, 2005). In Croatia, similar to countries of Central and Eastern Europe, the recording system developed during former regime, was designed to record only certain types of flows, mainly those regarded as permanent.

The official statistics in Croatia thus do not reflect the actual state as the applied methodology is still inadequate for assessing most of the flows that occurred after 1990 and is not aligned with the international recommendations. The coverage is limited as data comprise all Croatian and only permanent foreign residents who cancelled their permanent residence in the Republic of Croatia at the Registration Department of the Ministry of Interior⁴. The size of emigration is underestimated also because the persons going abroad for a longer period of time often do not respect legal obligation to report their departure to the Ministry of Interior. There are no efficient legal or administrative mechanism to enforce deregistration.

During 20th century Croatia was predominantly a country of emigration with annual average of 26.555 emigrants (Gelo et al., 2005). Number of emigrants was almost twice higher than number of immigrants. Traditional destination countries were North America, Europe, Australia and South America. European countries became main destination after the World War II (Germany, Switzerland, Austria). Apart from the period after the World War II, the most intensive emigration period was the last

⁴ According to the Law on Permanent and Temporary Residence of Citizens and the Law on Foreigners

decade of 20th century caused by war, which generated 491.629 emigrants. Of this number 95.5% came from former Yugoslav republics (Gelo et al., 2005).

„Brain drain” is an issue for Croatia but this phenomenon has not been sufficiently empirically researched. The recent researches are focused on emigration potential but no reliable data on actual numbers of emigrants are available.

It is estimated that 24,1% of young scientists can be considered as a serious emigration potential (Adamović, 2003). According to the most recent research on emigration potential (Božić, Burić, 2005) the Croatia’s total emigration potential is estimated at 12,5%, i.e. 460,000 persons older than 14. The probable migration potential is estimated at 2,5%, i.e. 92,000 and the real migration potential at 0.4% of the population above 14, i.e. 14,700 persons. The younger population, as well as unemployed, unmarried and highly educated persons, are more likely to consider emigration.

Official data, presented in table 9 are limited and not reliable due to reasons already explained, but can serve as an illustration.

Table 9: Emigrants by country of destination and citizenship, 2005

Country of destination	Emigrants			
	Total	Croatian citizens	Foreigners	Unknown
Total	6 012	5 509	171	332
Europe	5 018	4 869	3	146
Austria	580	579	1	-
Bosnia and Herzegovina	1 055	1 037	-	18
France	4	4	-	-
Italy	31	31	-	-
Serbia and Montenegro	2 656	2 529	-	127
Hungary	-	-	-	-
Macedonia	9	9	-	-
Netherlands	12	12	-	-
Germany	500	498	2	-
Romania	2	2	-	-
Slovenia	118	117	-	1
Sweden	6	6	-	-
Switzerland	29	29	-	-
Other European countries	16	16	-	-
Asia	2	2	-	-
Africa	3	3	-	-
North and Central America	39	39	-	-
Canada	14	14	-	-
USA	25	25	-	-
South America	1	1	-	-
Oceania	19	18	-	1
Australia	19	18	-	1

New Zealand	-	-	-	-
Unknown	930	577	168	185

Source: Central Bureau of Statistics

According to the official data the majority of Croatian emigrants in 2005 departed to Serbia and Montenegro, Bosnia, Austria, Germany and Slovenia.

2.7.1. Employment of Croatian nationals abroad per bilateral agreements

In the context of emigration of Croatian nationals it is interesting to mention temporary emigration regulated through the bilateral agreements between Croatia and EU countries. The Croatian Employment Service mediates in the employment of Croatian workers abroad. This mediation is carried out in line with international agreements, which have been concluded only with Germany and Slovenia until today.

The agreement on employment procedure of Croatian nationals in Germany governs the right of residence and work of Croatian workers in Germany. Based on this agreement⁵, the CES mediates in organised employment of Croatian workers, so called "guest workers" for up to 18-month jobs, at quota of 500 workers.

Other categories of workers are subject of direct agreements between the employment services, which cover following labour force categories:

- seasonal labour force (4-month jobs) – agriculture, catering industry, etc.
- students during summer break (3-month jobs) – quota: 30.
- medical technicians

According to the CES register, the number of employed workers in Germany over the period 2000-2005 has decreased from 7,233 to 4,883 or by 22,5 %. The reasons for a decline can be sought in stricter criteria for admission in Germany (language requirements) on one hand and lower interest of Croatian workers for employment abroad on the other hand.

Table 10: Number of Croatian workers employed abroad through the mediation of CES

Number of Croatian workers employed abroad through the mediation						
Year	Total	Seasonal workers	Guest workers	Students	Medical technicians	Seamen on foreign ships
2000	7,233	5,954	-	-	147	1,132
2001	7,862	6,211	-	-	317	1,334
2002	7,669	6,035	57	37	390	1,150
2003	6,161	5,238	319	24	98	482
2004	5,108	4,778	168	16	31	115
2005	4,883	4,615	111	32	11	114

Source: CES, 2006

⁵ Official Gazette –International Agreements No. 14/2002

Data on employment according to the Bilateral agreement with Slovenia are not available due to problems in its implementation.

Bilateral agreements on employment should be further encouraged in order to facilitate and regulate legal migration flows. At the same time such arrangements contribute to fight against irregular migration channels and provide benefits for both sending and receiving country. Croatia should consider signing of such agreements with other EU countries, as well as with neighbouring and other third countries whose nationals work in Croatia in larger proportions.

2.8. Net migration balance for Croatia

Official net migration balance reflects all methodological deficiencies described in previous subtitles, but can serve at least as an indication of trends. The major problem of the official statistics on the immigration side is that it counts only permanent foreign residents, while the emigration side is underestimated due to the deregistration problem. According to the Central Bureau of Statistics' data on international migration of population of Croatia, the number of immigrants in the period 1996-2005 exceeds the number of emigrants, resulting with a positive net migration during the entire observed period (table 11).

In 2005, there were 14 230 persons that immigrated to Croatia while 6 012 persons emigrated from Croatia with net migration that amounted to 8 218.

In the same year, there were 94.0% Croatian citizens and 6.0% foreigners that immigrated into the Republic of Croatia, while 91.6% Croatian citizens and 2.8% foreigners emigrated abroad. Out of the total number of immigrants, there were 58.7% persons who arrived from Bosnia and Herzegovina. Out of the total number of emigrants from the Republic of Croatia, 44.2% persons departed to Serbia and Montenegro and 17.5% persons departed to Bosnia and Herzegovina.

Of total number of immigrants and emigrants, there were slightly more men than women (53.0% of total immigrants and 50.2% of emigrants were male).

In 2005, the greatest share of immigrants was recorded in the City of Zagreb (16.2%) and the County of Split-Dalmatia (16.1%). The largest share of emigrants from the Republic of Croatia to foreign countries was again in the City of Zagreb (17.4%), followed by the County of Sisak-Moslavina (11.7%) and the County of Osijek-Baranja (10.1%).

Table 11: INTERNATIONAL MIGRATION OF POPULATION OF THE REPUBLIC OF CROATIA

Year	Immigrants	Emigrants	Net migration
1996.	44 596	10 027	34 569
1997.	52 343	18 531	33 812
1998.	51 784	7 592	44 192
1999.	32 910	14 285	18 625
2000.	29 385	5 953	23 432
2001.	24 415	7 488	16 927
2002.	20 365	11 767	8 598

2003.	18 455	6 534	11 921
2004.	18 383	6 812	11 571
2005.	14 230	6 012	8 218

Source: Central Bureau of Statistics

However the official data point to the decreasing scale of migration – of both immigration and emigration which can be attributed to methodological limitations, but also to the overall gradual stabilization of huge population displacements occurred during and after the war across the former Yugoslavia region. The majority of immigrants were ethnic Croats originating from Bosnia and Herzegovina, while the majority of emigrants were ethnic Serbs who departed to Serbia and Montenegro. While even during the war part of migration from/to Croatia was of economic nature, as of end of 90ies the economic migration is becoming the predominant type of movement.

Presented data from other available sources (MoI) on the other hand indicate that immigration flows are increasing.

2.9. Forecastable tendencies on in and out migration

Forecasts on migration belong to the most demanding and challenging part of population forecasts and are mainly subject to researchers' intuition and experience as they include variety of complex and unpredictable parameters.

Official statistical data can hardly serve as a relevant basis for forecasts. Therefore the focus will be on defining the main determinants of future migration tendencies.

In an attempt to provide any coherent migration forecast for Croatia, current demographic and migration trends should be taken into account as well as economic and labour market developments while considering also the EU accession effect.

Demographic features of Croatia are extremely unfavourable and by several indicators are worse than EU average. Low fertility rate (1.4), decreasing birth rates, natural and overall population decline and ageing of population influence the shrinking of working age population. In view of demographic decline and ageing population, more sustained immigration flows could increasingly be required to meet the needs of the Croatian labour market.

As per classification of countries according to the relative importance of migration and natural change in their overall growth rate (Salt, 2005), Croatia has been classified as country with « Population loss owing to natural decrease more than offsetting migration gain », together with Belarus, Bulgaria, Hungary, Serbia and Montenegro. The population projections for 2004-2051 (Grizelj, Akrap, 2004) point to the population decline in all combinations. As per mean fertility rate and mean migration the population will decline by 16.2% by 2051.

Immigration per presented data in tables 8 and 9, tend to increase per all categories, while the most dynamic category are temporary resident permit holders with purpose of employment. Current estimation of total number of immigrants amounts to 18.374 persons. Further increase is expected in order to ensure sustainable economic growth and to meet labour market demand in sectors that are faced with labour shortages.

Emigration is likely to stagnate and become of a predominantly temporary duration. The estimated real migration potential at 0.4% of the population above 14, i.e. 14,700 persons is below immigration numbers.

Based on estimated higher immigration than emigration figures, it is expected that net migration will remain positive and that it will gradually increase along with the socio-economic growth.

On the “pull” side, Croatia is facing the same demographic problems of an aging society and diminishing labour force as the EU Member States. At the same time the “push” factors are present, such as unemployment, job uncertainty and relatively low income levels, that are still important enough to stimulate larger scale movements abroad. As a consequence of simultaneous effect of “push” and “pull” factors, the parallel presence of emigration and immigration flows has been observed. While it is estimated that emigration and immigration are nearly at equilibrium, the increasing number of foreign workers supports the expectations that the immigration trends will become more significant along with the economic and social development. Thus Croatia follows the trends observed in new EU Member States, which are turning gradually into the countries of immigration.

Compared to its population of 4.4 million, Croatia does not have a large number of immigrants (less than 1 %), but based on recent trends, demographic insufficiency, observed labour market shortages, further economic growth and prospects of joining the EU, it is expected that number of foreigners will steadily increase.

Based on a presumption of a faster growing and larger immigration than emigration scale, it is estimated that positive net migration will grow in the next period. Still its size won't be sufficient to offset the natural decrease of population.

Current migratory flows to and from the new Member States can serve as a useful comparison for Croatia. The following table provides comparative figures for six Member States of the European Union for the period from 1 May to 31 December 2004. While these figures indicate a degree of movement from certain new Member States to the three Member States that have not imposed transitional measures (the United Kingdom and Ireland, in particular), they do not show any spectacular flows. It should also be pointed out that a considerable proportion of these workers (as many as 40% of them in the United Kingdom, according to estimates) were already living in these countries at the time of enlargement, which means that the actual movements have been that much lower.

Table 12: Number of workers from the new Member States working in certain Member States of the Union (1 May – 31 December 2004)

	SK	CZ	PL	LIT	LV	HU	EST	SLO	Oth.	Total
UK	13 445	8 850	73 545	20 095	9 070	3 740	1 990	165	95	130 990
IRL	4 664	3 004	26 118	11 760	6 015	1 770	1 561	60	140	55 092
SWE	64	101	2 460	659	248	189	342	16	4	4 083
FIN	22	11	130	61	108	61	1 692	19	0	2 104
SLO	1 440	102	347	18	2	117	0		3	2 029
CZ	59 818		8 882	142	9	131	3	29	10	69 024

(country of origin in relation to country of destination)

Source:

<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/05/229&format=HTML&aged=0&language=EN&guiLanguage=en>

Similar to trends in new EU member states, no spectacular increase of Croatian emigrants is expected upon joining EU.

3. Review and analysis of the existing legislation and policy in the areas of movement and stay of foreigners, conditions for obtaining business and work permits in the Republic of Croatia.

3.1. Review of EU legislation

Freedom of movement for workers is a right and, as such, is one of the founding principles specifically recognized by the EC Treaty, as laid down in article 39. Its objective is to ensure the mobility of the labour force in the Community, which means the elimination of any discrimination based on nationality as regards employment, remuneration and other working conditions, access to accommodation and the worker's right to be joined by his family. However, it applies to EU nationals and their family members.

New member states (except Cyprus and Malta) apply transitional arrangements (from two to seven years) as regards free movement of workers. Normal EU rules for eight new countries apply only to self-employment and provision of services. Free movement of workers applies fully in only three old Member States (Ireland, Sweden and UK) with minimal restrictions in the form of a Workers' Registration Scheme. Data on migratory flows from new to old Member States indicate that transitional arrangement will be probably lifted by the majority of old Member states upon expiry of two years.

Access of third-country nationals who are not the spouse or the children of an EU migrant worker to the labour market of the EU Member States is currently subject to national legislation. The common EU legislation on the rights of third country nationals to enter the Member States for work purposes is still under development.

The EU has concluded agreements with several third countries which contain in many cases a clause on equal treatment as regards conditions of work. This means that nationals of those third countries must be treated the same way as nationals of the EU Member States.

Article 63(3) of the EC Treaty provides that the Council is to adopt, among others, *“measures on immigration policy within the following areas: (a) conditions of entry and residence, and standards on procedures for the issue by Member States of long term visas and residence permits”*.

Since 1999, the Commission has sought to launch an in-depth discussion on a strategic project on economic migration and to set up a common immigration policy. The Treaty of Amsterdam moved immigration matters from the 'Third Pillar' to the 'First Pillar' of the EU, thereby paving the way for a common immigration policy, which is still being developed. Various measures have been adopted in the wake of the Tampere European Council.

In 2001 the Commission adopted a proposal for a **Directive** dealing with **“the conditions of entry and residence of third-country nationals for the purpose of paid employment and self-employed economic activities”**, but this Directive has not been adopted. This failure has led the Commission to re-launch the debate on the need of common rules for economic migration.

The Hague Programme, endorsed on 4-5 November 2004, stressed the importance of legal migration and fight against illegal employment and of having an open debate on economic immigration at EU level.

EC Communication on “Policy Plan on Legal Migration” was made public in December 2005 and is based on the results of the consultation process stimulated by the “Green Paper on an EU Approach to Managing Economic Migration”. It defines a road-map for the remaining period of The Hague Programme (2006-2009) and lists the actions and legislative initiatives that the EC intends to take forward in view of developing a coherent legal migration policy at EU level.

These proposals will consist of a general framework directive defining the basic rights of all immigrant workers admitted in the EU and of four specific directives, addressing the conditions of entry and residence of certain categories of immigrants (highly skilled and seasonal workers, intra-corporate transferees and remunerated trainees). General framework directive will not deal with procedures and conditions of admission for third-country nationals in employment. Moreover Member States competence to determine the volumes of persons to be admitted remains unaffected.

The Policy plan contains also a number of non-legislative tools aimed to improve the knowledge and access to information in the field of immigration. These measures include the setting up of an EU Immigration Portal, the revision and development of the European Job Mobility Portal (EURES) and of the European Migration network.

3.2. Review of national legislation

The Law on Foreigners is the umbrella legislation that regulates the conditions of entry, movement, stay, and employment of foreign nationals in the territory of Croatia. It was published and entered into force in July 2003, but has been implemented since 1 January 2004. The new Law replaced two previous Laws: the Law on Movement and Stay of Foreigners and the Law on Employment of Foreigners. It contains new elements and is, in many areas, aligned with the EU Acquis. The most significant change in comparison with the former Law is the area of employment of foreigners and transfer of authority for issuing of work/business permits from the Croatian Employment Office to the Ministry of Interior, aimed at simplifying the procedure for obtaining residence and work permit. More favourable provisions were introduced for some categories of persons, as listed below.

The proposal of a new Law on Foreigners has been drafted and is due to be adopted by the Government and sent to the Parliamentary procedure.

A more detailed overview of basic provisions governing conditions of stay and employment/self-employment of foreign nationals is given below.

3.2.1. Stay of foreigners

Within the meaning of the provisions of the Foreigners Act, a stay of foreigners is a stay of up to 90 days, temporary stay and permanent residence.

- Stay of up to 90 days

Up to 90 days stay, the so-called tourist visit, is a stay of an foreigner without a visa, with a visa or with a border pass, unless laid down otherwise by the Foreigners Act or an international agreement. Foreigners who are not required a visa to enter the Republic of Croatia can stay up to 90 days in the period of six months, counting from the day of their first entry, unless laid down otherwise by the same Act or an international agreement.

Note: Croatian legal and natural persons who provide accommodation to foreigners, and persons who are visited by foreigners, shall report foreigners' stay at a police administration/police station within the period of 12 hours following the moment of their arrival.

Foreigners who do not use the above stated accommodation services shall report their stay at a police administration/police station within 24 hours following their entry into the Republic of Croatia or the change of their address within 24 hours following the change of their address in the place of their stay. Likewise, foreigners can report their up to 90 days stay at a tourist board of the municipality or town they are staying in.

- Temporary stay

Foreigners obliged to have a temporary stay permit are those who:

1) intend to stay in the Republic of Croatia for a longer period of time or for reasons other than those the visa was issue for;

2) are not required a visa to enter the country but intend to stay in the Republic of Croatia longer than 90 days or for the purposes stated in Article 37 of the Act (stay for the purposes of work, studying, education, family reunion and other justifiable reasons);

3) are engaged in the activities and jobs set out in Article 95 of the Act (categories of persons who can, under certain conditions, work without a work permit), and who intend to stay in the Republic of Croatia longer than 30 days.

An application for the issuing of the first temporary stay permit (form 1a, Rules on the foreigners status in the Republic of Croatia – “Narodne novine” – RC Official Journal, No 202/03 and 145/04) is submitted by an foreigner at a diplomatic mission or a consular office of the Republic of Croatia. Exceptionally, an foreigner who is not required a visa to enter the Republic of Croatia can submit the application for the issuing of the first temporary stay permit at a police administration/police station. The temporary stay permit is affixed to an foreigner's travel document. An application for the extension of the temporary stay permit is submitted by an foreigner at the competent police administration/police station, at the latest 30 days before their authorised temporary stay period expires.

The following should be submitted when applying for the temporary stay permit: two photographs, a copy of a valid travel document, proof of sufficient means of subsistence, proof of provided accommodation and health insurance, and proof of justifiability of stay (e.g. marriage certificate, work permit or similar).

When applying for the first temporary stay permit, a police clearance certificate, issued by the country an foreigner is a national of or has a permanent residence in, should also be submitted. The certificate shall not be older than six months.

Foreigners temporarily staying shall report their sojourn and change of address at the competent police administration/police station within three days following their entry into the Republic of Croatia, or the date they changed their address.

Before leaving their sojourn, they shall give notice of their departure.

A special kind of a temporary stay is a Business permit, described under the subtitle "Conditions of employment/selfemployment of Foreigners".

- Permanent residence

An application for the issuing of a permanent residence permit is submitted by an foreigner at a police administration/police station, and the application is subject to the Ministry of the Interior's decision.

Permanent residence shall be granted to a foreigner who:

- 1) has been granted a temporary stay for at least five consecutive years prior to the day of his/her application for permanent residence, or
- 2) has been granted a temporary stay in the Republic of Croatia, and has been married for three years to a Croatian national or an foreigner who has been granted permanent residence.

Permanent residence can exceptionally be granted to other foreigners temporarily staying, for humanitarian reasons or where it is in the interest of the Republic of Croatia.

In both of the aforementioned cases, permanent residence shall not be granted to an foreigner:

1. who has been given a final non-suspended prison sentence;
2. who has no means of subsistence;
3. who has no provided accommodation;
4. who has no health insurance;
5. for reasons of the protection of the legal order, national security or public health.

A minor temporarily staying in the Republic of Croatia shall be granted permanent residence if one parent is a foreigner with authorised permanent residence, and with the other parent's consent.

When applying for the permanent residence permit, a foreigner shall submit the following documents: a copy of a valid travel document, a birth certificate (not older than six months), proof of sufficient means of subsistence, proof of provided accommodation and health insurance, a certificate of registered sojourn, a marriage certificate (not older than six months), proof of Croatian nationality, or a spouse's stay permit.

- Registration and cancellation of stay or residence of foreigners

Sojourn is a place where an foreigner stays for the period of up to 90 days or temporarily, and domicile is a place that an foreigner with authorised permanent residence has settled with an intention to live in.

A foreigner temporarily staying in the Republic of Croatia shall report his/her sojourn and change of residence address to the competent authority within three days following his/her entry into the Republic of Croatia, or the date he/she changes his/her residence address.

A foreigner having permanent residence shall report domicile and change of his/her residence address in the place of domicile to the competent authority within eight days following the change of his/her residence address.

A foreigner staying temporarily and a foreigner having permanent residence shall

cancel their sojourn/domicile before leaving their place of sojourn or domicile. A foreigner in possession of a business permit shall report his/her sojourn and change of residence address to the competent authority within three days following his/her entry into the Republic of Croatia, or the date he/she changes his/her residence address, and the reason for this is that a business permit is considered as the authorisation for a temporary stay or work of foreigners.

3.2.2. Conditions of Employment and Self-employment of Foreigners in Croatia

As a rule, a foreigner can work in the Republic of Croatia on the basis of a work or business permit. Some categories of foreigners do not need a work permit and in certain cases laid down by the Foreigners Act a foreigner can work without a work permit.

Legal provisions governing employment/self-employment of foreigners are described below.

- Work permit

The new Law introduced a quota system of work permits in the Republic of Croatia. The Government of the Republic of Croatia brings every year the decision on the annual quota (number) of work permits that are to be extended and the ones for new employment. Quota can also contain seasonal employment.

However, some categories of foreigners shall be granted work permits that are not included in the quota (out of quota work permits). These work permits are granted for:

- foreigner workers –commuters who have entered into employment contracts in the Republic of Croatia for an unlimited period of time on condition of reciprocity;
- foreigner workers and their family members, whose status is regulated by the Stabilisation and Association Agreement between the European Communities and their Member States and the Republic of Croatia;
- foreigners performing indispensable tasks in companies and foreign company agencies, and who are not the foreigners laid down in Article 95 of the Act (the ones working without a work permit);
- foreigners who have been seconded within the framework of the internal secondment of staff within companies, as laid down by the Law on Ratification of the Protocol on Accession of the Republic of Croatia to the Marrakesh Agreement on Establishing the World Trade Organisation;
- school teachers teaching in the national minorities language and script;
- the cases of an international agreement arrangements;
- professional athletes or sports workers, working in the Republic of Croatia on the basis of a valid contract;
- foreigner's spouses and children with authorised permanent residence in the Republic of Croatia.

An application for the issuing of a foreigner work permit is submitted by an employer (legal or natural person) at the competent police administration/police station according to their head office.

When applying for the work permit (regardless of whether the work permit is included in the quota or not), an employer should submit the following:

- data on a foreigner the employer intends to conclude a contract of employment or other relevant contract with;

- data on the work post or job and the working conditions;
- evidence of the registration of a company, agency or small business in the Republic of Croatia (e.g. the Commercial Court register certificate on the company registration, a copy of the decision on the agency registration in the Republic of Croatia, a copy of a trade licence);
- certificate of taxes paid (internal revenue services certificate, pension insurance and health insurance services print-out, Bon 1, Bon 2);
- statement of reasons for the justifiability of employing an foreigner (in form of an official letter).

In cases of a work permit extension, along with the aforementioned, an employer shall submit a copy of the previously issued work permit, a copy of the previous contract of employment or other relevant contract and a copy of an foreigner's employment record.

An employer is bound to conclude a contract of employment or other relevant contract with a foreigner in a written form before the beginning of the work, and at the latest within 15 days following the issuing of the work permit. If the contract is not concluded in a written form, an employer is bound to, before the beginning of the work, and at the latest within 15 days following the issuing of the work permit, submit a written confirmation that the contract has been concluded. The work permit is granted for a limited period of time, with a validity period that is identical to the time the contract of employment or other relevant contract has been concluded for, but for two years at the longest.

An application for the extension of the work permit shall be submitted by an employer at the latest 45 days before the issued work permit expires.

- Foreigners not needing a work permit

As laid down by the Foreigners Act, there are categories of persons who are permitted, under certain conditions, to work in the Republic of Croatia without a work permit, which is defined by Article 95 of the Foreigners Act. Pursuant to the provisions of this Act, the following categories of foreigners do not need a work permit:

1. indispensable personnel of companies defined under the Stabilisation and Association Agreement between the European Communities and their Member States and the Republic of Croatia;
2. founders, proxies, members of boards of management and supervisory boards of companies, who perform tasks in the company, where the task performance does not have the character of employment and does not total more than three months a year;
3. professors invited as lecturers by Croatian universities, scientists doing scientific and professional further studies, scientific representatives of international organisations and scientists taking part in the execution of scientific research projects important for the Republic of Croatia;
4. administrative personnel, experts, teachers and lecturers of foreign cultural and educational institutions who do their work in the Republic of Croatia within the framework of a programme of cultural and educational cooperation;

5. civilian and military officials of other states who come to work in the Republic of Croatia pursuant to a cooperation agreement with the Government of the Republic of Croatia;
6. members of scientific international missions who carry out research work in the Republic of Croatia that has been approved by the Government of the Republic of Croatia;
7. foreign correspondents accredited to the Republic of Croatia or reporters of foreign media;
8. representatives of religious communities carrying out work exclusively related to religious service;
9. artists and technical staff taking part in opera, ballet, theatre, concert, art and other cultural events, if, for this purpose, they do not stay in the Republic of Croatia longer than 30 days, or three months a year discontinuously;
10. authors and performers in the art of music, music drama, dance and ballet, and also supplementary reporting, organisational and technical staff who are taking part in cultural workshops, meetings, colonies, if, for this reason, they do not stay in the Republic of Croatia longer than 30 days or three months a year discontinuously.
11. persons that, pursuant to a contract with the Government of the Republic of Croatia, the Ministry of Defence or the Ministry of the Interior, are carrying out tasks relating to defence and national security or who are undergoing further training in these areas;
12. Croatian nationals' spouses and children who reside in the Republic of Croatia;
13. persons who visit the Republic of Croatia for the purpose of taking part in sports and chess events;
14. experts in the conservation of the cultural heritage, librarianship or archive administration if, for this purpose, they do not stay in the Republic of Croatia longer than 30 days;
15. foreigners sent by a foreign employer, who provide services of professional further training to persons employed with legal or natural persons in the Republic of Croatia for a period of up to three continuous months;
16. persons who have been granted temporary stay for the purpose of professional further training with a Croatian employer which is an organisational form of a foreign employer that has sent them for further training, if their further training does not last longer than three continuous months;
17. foreigners who engage in activities related to delivery, assembly or servicing of machines or equipment, if their work does not last longer than 30 continuous days or a total of 3 months a year discontinuously;
18. foreigners who take part in fairs and exhibitions where their employer is exhibiting;

19. foreigners who take part in professional congresses and seminars;
20. foreigners employed with circuses or amusement parks, if they do not stay in the Republic of Croatia more than three continuous months;
21. persons who have been granted asylum status;
22. foreigners with permanent residence permits;
23. foreigners who in the Republic of Croatia have the status of fulltime school or university student, when engaged in activities of a temporary nature, through authorised agents, and in line with the regulations governing engagement in such activities.

Foreigners under Subparagraphs 9, 10, 14, 15, 17, 18 and 20 shall have a valid contract concluded with a natural or legal person that is registered in the Republic of Croatia for the engagement in these activities.

- Business permit

A business permit is an approval to stay and work in the Republic of Croatia with intention to attract foreign investors and entrepreneurs.

It is issued to a foreigner who:

- has a registered small business or a similar business, or a freelance profession,
- runs the affairs in his/her own registered company or in a legal entity in which he/she has a majority share, or
- provides services on behalf of a foreign employer and who meets other conditions for the issuing of a temporary stay permit.

An application for the issuing of a business permit is submitted at a local police administration or police station by the foreigners personally. Exceptionally, foreigners who provide services on behalf of a foreign employer can submit an application for the issuing of a business permit at a diplomatic mission or consular office of the Republic of Croatia. Along with the application for a business permit, a foreigner shall submit evidence on the registration of a company, small business or similar business, or freelance profession or a contract for services concluded with a legal or natural person who conducts business activities in the Republic of Croatia. Since a business permit is a kind of a temporary stay permit, a foreigner has to submit other documents laid down under the subparagraph "Temporary stay".

A foreigner shall submit the application for a business permit extension at least 30 days before the valid business permit expires.

- Investment Promotion

It is important to mention the Investment Promotion Act and the Free Zones Act that are in the process of harmonisation with the European Union regulations. Croatia is offering special programs for investment promotion with the goal of improving the investment environment. Foreign investors are equal to domestic investors in terms of rights and obligations. These acts should be enforced by the beginning of 2007, and they will offer investors various tax incentives, support for new jobs creation, support for training and re-training of employees.

Special incentives will be given for the following investments:

- Investments which will bring high added value
- Investments which will bring new technologies and know-how
- Production of goods and services for the international market
- Investments which will generate new jobs creation

4. Assessment of weaknesses and gaps in the legislation as compared to the EU legislation and in practical implementation

The 2003 Foreigners Act has brought some innovations into the Croatian migration legislation which ensured its closer compliance with the EU acquis. In general the Law presents improvement compared to the previous Law on Movement and Stay of Foreigners and the Law on Employment of Foreigners by merging them into a unique Law which governs conditions of entry, stay, residence and employment of Foreigners and it is more aligned to EU legislation. Amongst other things, it was aimed to simplify administrative procedures for admission of economic migrants and thus facilitate labour mobility and promotion of entrepreneurship and investments in accordance with the labour market and economic demands. It also introduced more favourable provisions regarding some categories of persons such as key staff of companies, researchers, sportsmen, members of religious orders, artists etc.

However, there are some gaps and weaknesses that need to be addressed in order to improve certain provisions as compared to the EU legislation and to overcome problems observed in its practical implementation. Delay in adoption of a migration policy presents a problem which is urgently needed to be resolved.

This assessment will be primarily focused on areas of employment and self-employment of foreigners which are of relevance for this study. At the same time the most problems in implementation of the Foreigners Act refer to this particular domain. The weaknesses and gaps will be grouped by employment (work permits) and self-employment (business permits) areas.

Some findings will be used from the “Model of EU Alignment strategy for the Republic of Croatia in the area of migration” that was produced by IOM and Mol in 2005⁶.

4.1. Employment of Foreigners (Work permits)

Procedures regarding employment must be clearly distinguished from those regarding self-employment and both terms should be defined.

The Republic of Croatia has adopted provisions requiring foreign nationals to obtain a secure job offer and employer guarantee before they can be granted a work permit.

The intention of the legislator to simplify the administrative procedure by designating one responsible body (regional or local administration/stations of Mol) for both work and residence application procedure didn't prove to be feasible in practise. Namely, the application for work permit which is submitted by an employer is condition for approval of temporary residence and the decisions on these two applications cannot be made simultaneously. In other words, the new solution with one body responsible for two application processes, which were previously managed by two bodies (CES

⁶ within the framework of a CARDS Regional Project “Establishment of EU compatible legal, regulatory and institutional frameworks in the fields of Asylum, Migration and Visa matters”.

and Mol) didn't contribute much to the disburdening of procedures. This can be improved by introduction of a single document "resident permit for the purpose of employment" as per *acquis*. Mol could then coordinate single application procedure within its own structures and/or in cooperation with other relevant bodies, i.e. CES.

In addition, the Government of the Republic of Croatia makes a Decision on the annual quota of work permits for foreigners for the following year the latest by 31 October of the current year in accordance with the Migration Policy. Proposal of the Decision on the quota of work permits is made by a responsible body for labour (Ministry of the Economy, Labour and Entrepreneurship) based on the opinion of the Croatian Employment Service prior to its submission to the Government. Croatian Employment Bureau gives the opinion on sectors and occupations that are in short supply on the basis of the analysis and needs assessment of the labour market. The Government establishes in its Decision the final number of work permits by sectors, occupations in which employment of foreign nationals is permitted and their territorial distribution. This means that, on the basis of such Decision the Ministry of Interior, i.e. responsible bodies (police administrations/police stations) decide on approval and issuance of work permits for jobs that are determined by Decision.

The implementation of the Government Decision on establishing the annual quota of work permits has not produced the expected results, since the significant share of work permits in the quota remained unused. The statistical data have also indicated a very slight difference between the number of work permits based on quotas and those issued outside of quota. There is a disparity between the actual job needs and the jobs listed in the quota system. At the same time the illegal employment of foreigners is on rise, particularly in the construction sector. The quota system at current setting is not able to respond flexibly and promptly to fluctuating demands for migrant labour.

On one hand there is obviously lack of qualitative labour market research and analyses, but on other hand the problems are coupled with lack of coordination between the Mol, CES and Ministry of Economy, Labour and Entrepreneurship. The new Law marginalized the role of other relevant bodies by authorizing Mol for all aspects of foreigners without obliging Mol to ask for opinion of relevant bodies during decision making process on application.

4.2. Business permits

The situation as regards Business permits is more complex.

A larger than expected number of foreigners has regulated their stay through the institution of the business permit, thus through self-employment. Number of issued business permits exceeds the number of work permits (4,577 business permits vs. 3,814 work permits in 2005).

The term "self-employment" should be defined and understood as an independent economic activity that brings benefit to the country; thus, self-employed individuals are usually treated as entrepreneurs or investors.

While the introduction of business permits was aimed to attract investors and simplify the administrative procedures, the implementation hasn't fulfilled such expectations.

The business permit is considered as a residence and work permit in the territory of Croatia. As compared to the former business visa, the scope of persons has been extended to craftsmen and foreigners who provide services on behalf of

foreign employer. The latter category proved to be problematic since the beginning of implementation. Practise showed uneven approach and different interpretation of this institute from the side of different bodies of public administration. Since the services haven't been defined, the existing legal formulation allows for possibility of issuing the business permits for the activities which were not initially envisaged for business but rather for work permits, i.e. provision of services on behalf of foreign employer in the construction sector. The business permits on this ground are primarily being granted to Bosnian nationals who actually are posted workers who should be eligible for work permits.

Besides, its approval should be conditioned by a higher deposit of the original capital in order to ensure benefits for the economy and generate employment, while taking into account non-discriminatory measures.

Three top nationalities who were granted business permit are of Bosnia and Herzegovina, Macedonia and China.

For comparison, the top 10 countries investors' in Croatia in the period between 1993 and 2nd Q 2006 are:

	country	m EUR
1.	AUSTRIA	2.650,5
2.	GERMANY	2.082,3
3.	USA	1.214,7
4.	FRANCE	1.192,9
5.	ITALY	971,7
6.	HUNGARY	895,9
7.	NETHERLANDS	863,1
8.	LUXEMBOURG	776,0
9.	SLOVENIA	519,5
10.	UK	294,4

Source: Trade and Investment Promotion Agency (www.apiu.hr)

It is indicative that three leading nationalities amongst business permits holders (Bosnia and Herzegovina, Macedonia and China) originate from countries that are not present amongst countries investors.

Inter-ministerial cooperation should be strengthened because, at the moment, there is only one body (MoI) that is involved in issuing work, business and residence permits. The decision making process on work and business permits should be shared amongst relevant ministries and bodies as per their respective competencies while the issuing of permits could remain at the MoI.

The Law hasn't prescribed all relevant conditions for approval of business permits to third-country nationals contained in acquis: the application must also show that the self-employed activity in question will create a job for the applicant and will have a beneficial effect on the economic development of the State concerned.

Therefore it is important to establish procedures for carrying out the "economic benefit test" contained in the EU Acquis. Officials evaluating business plans need to be specialised in order to assess such proposals, related investments, and their impact. The test must establish whether the proposed business investment will be a capital multiplier and possibly create additional jobs. In addition, the proposal for a monitoring system that allows for follow-up checks every 6-12 months after the establishment of a business might be effective. The entity charged with checking and controlling, as well as with giving advice and opinions with regard to the economic benefit of proposed business ventures, should be determined.

So-called "briefcase businesses", in other words non-operative companies that only exist on paper for the sole purpose of obtaining a residence permit for the person registering the business, must be avoided wherever possible by applying the "economic benefits test". In this regard, a working group should be established consisting of ministerial-level specialists. Whenever reasonable doubt arises in relation to the company's genuine intentions, additional tax solvency checks could be made.

The EU Acquis refers to the "independent activity of artists", a category that should be evaluated on a case-by-case basis because of difficulties in assessing the legitimacy of the activities and because it is a category that has suffered from widespread abuse in recent years.

Furthermore, an expert inter-ministerial working group should be established. A tracking system that carries out regular checks should be put into place to enable the withdrawal of business permits where it has been proven that a company is not operating as envisaged by the permit.

All checks and balances mentioned above should be the least hindrance possible to new investment in the Republic of Croatia. The issuing of short-term visas for third-country nationals who seek to come and assess the local business climate should be facilitated upon completion of standard visa application checks.

4.3. Illegal employment of foreigners

Illegal employment of foreigner is an issue that needs to be addressed in the broader context of combating irregular migration. According to the Foreigners Act the State inspectorate is in charge of monitoring the employment of foreigners.

In cases of illegal employment, the State Inspectorate issues a decision on the prohibition to work and starts misdemeanour procedures against the foreign worker and the employer.

In practise, the State Inspectorate and Illegal Migration Police officials act together against illegal employment in the Republic of Croatia through joint actions: in 2004, they detected 1,632 foreign nationals involved in illegal employment activities, while the number in 2005 was 1,936, which represents an increase of 18.6%. The vast majority of illegally employed foreigners are Bosnian citizens (83%), mainly in the construction sector.

Actual size of illegal employment is much higher as State Inspectorate is understaffed at local level, while the Illegal migration officials alone are not authorized to initiate misdemeanour procedure when they detect a foreigner in illegal

employment. Police officials can in such cases revoke the stay of foreigners, which is then statistically not being recorded as a case of illegal employment but amongst measures undertaken against illegal stay. Of 744 cases of cancellations of stay of foreigners recorded in year 2005, the majority refer to illegal employment and should be added to official statistics on illegal employment of foreigners.

Significant informal labour market and lack of regular migration opportunities/bilateral or regional treaties facilitate illegal employment. Therefore the fight against illegal employment should be focused on reducing the informal labour market on one hand and on strengthening legal migration opportunities on the other hand.

Sanctions that are defined in Croatian legislation have dissuasive effect: a company caught employing foreign nationals illegally has to pay fines that should refrain them from such practices in the future. Nonetheless, this part of the Law on Foreigners requires changes in sense of giving authority to the Illegal migration officials to initiate misdemeanour procedure in such cases.

5. Review and assessment of the established national administrative and institutional structures, and technical infrastructure.

The lead Ministry in the area of migration is the Ministry of the Interior, that is pursuant to the Foreigners Act, responsible for all foreigners issues.

Directorate for Inspection and Administrative Affairs - Foreigners and Asylum Department is in charge of legal migration, while the Police Headquarters - Border Directorate and its Illegal Migration Department is in charge of illegal migration. In cases of involvement of transnational criminal networks the cooperation with criminal police is mandatory. Data collection is provided by all aforementioned departments through a centralised IT system, while IT and Analytical Departments are in charge of data processing and analysis.

The implementation of the provisions related to the employment of foreigners is monitored by the State Inspectorate. Other relevant bodies for employment of foreigners are Ministry of Economy, Labour and Croatian Employment Service that are included in preparation of Government Decision on Annual Quotas for Work permits. A number of other ministries is in charge of certain aspects of migration within their respective competencies (Health and Social Care; Science and Education, Justice etc. The Government office for Human Rights is in charge of the implementation of human rights and its Committee for Suppression of Trafficking in Human beings deals with counter-trafficking.

Apart from the MoI, that increased number of employees to secure the implementation of the Foreigners Act within its expanded competencies, all other relevant bodies are either understaffed or lack specialized officials for migration issues. Even the MoI that already increased number of officials is still understaffed as initial assessments of manpower needs were underestimated.

Although a number of professional trainings and additional education have been conducted on variety of migration topics, there is still need for continuous and new trainings, particularly in police administrations and stations at the regional and local level. Officials at the Headquarters are pretty well trained and acquired relevant knowledge. The employees dealing with applications and approval of work and business permits are particularly overburdened and lack specialized trainings.

In addition, considerable quantity of IT equipment is required for fulfillment of numerous tasks related to the implementation of the law. Existing equipment is either not sufficient or should be renewed due to increasing technical requirements. The MoI IT system is continuously being upgraded in order to be compatible and achieve the EU standards.

The Foreigners Act didn't require the establishment of new institutions; however, certain organizational changes and internal reallocation of staff within the MoI were necessary.

Generally the administrative and institutional capacity of national structures, especially of MoI, has improved but still needs further enhancements. The most problematic area is in the field of work and business permits as, pursuant to the Law, only MoI is dealing with tasks related to their approval and issuance. Approval of business permits should be conditioned by submission of a detailed business plan and performance of economic benefit test for which specialized officials and agency should be tasked.

Existing level of cooperation within the MoI and with other relevant bodies (CES and MELE) is not satisfying and should be significantly strengthened. Therefore it is recommended to improve intra and inter-ministerial cooperation in the field of employment and self-employment of foreigners in sense of regular communication and exchange of information, particularly related to business permits if economic benefit test will be imposed by the new Law.

Due to lack of inter-ministerial cooperation it is recommendable to establish a central body in charge of migration that would coordinate all migration related issues and activities.

6. Policy recommendations

In general, the migration legislation in Croatia is in place and is in many aspects aligned to the EU Acquis. The new Foreigners Act is currently being drafted which should contribute to its further harmonization with the EU legislation. The Proposal for a Strategy of migration policy has been withdrawn from the parliamentary procedure in May 2006 due to numerous comments received and should be sent back to the Parliament by the end of 2006.

On the policy level the absence of a coordinated and comprehensive approach to migration issues presents major problem. There is lack of understanding of a strong link between the migration and development and positive impacts of migration. Concept of a migration management hasn't been sufficiently incorporated into policy and legal documents and administration.

The Ministry of Interior is the lead ministry responsible for migration and foreigners, but there is a lack of cooperation with other relevant bodies in the field of employment and self-employment. Migration matters have been tackled partially within the competencies of each respective department of MoI or other ministries. The absence of a coordinated approach, research and systematic monitoring of migration flows, particularly on labour migration in view of labour market and demographic development is the main obstacle for implementation of an effective migration policy. Although Croatia achieved significant progress in a reform process and alignment of

migration legislation with that of the EU, migration issues haven't yet reached the place they deserve on a domestic political agenda.

Based on observed gaps, following policy recommendations are proposed:

- Building of an effective migration management system based on a coordinated and comprehensive policy approach. It encompasses policy, legislation and administration of migration issues to ensure that population movements occur to the mutual benefit of migrants, society and government. Since migration is strongly linked to development and other major policy issues such as demographic trends, security, trade, environment, health and economics, these issues should be also taken into account in management efforts.
- Ensure further compliance with international and EU Migration Law particularly on the free movement of workers and the rights of accompanying family members, mainly as regards non-discrimination. On immigration side, the flexible framework of admission of migrant workers should be established aimed at attracting profiles of workers that are in short supply and strengthening the competitiveness of Croatian economy. Admission procedures should be capable to respond promptly to fluctuating demands for migrant labour in the labour market.
- Strengthening international cooperation and dialogue on migration. Transnational character of migration requires dialogue and cooperation on inter-state, regional and global level, between countries of origin and countries of destination and should encompass all relevant stakeholders in migration spectrum: governments, migrants and civil society and moreover private sector, employers and trade unions when labour migration is dealt with.

In order to achieve proposed recommendations, a number of activities and tools are needed to support their implementation:

- Knowledge building and information through research and improved access to information on migration issues
- Harmonization of Migration statistics with international and EU standards
- Systematic monitoring of migratory flows
- Improvement of intra and inter-agency cooperation on migration
- Establishment of a central migration agency/body in charge of migration that would coordinate all migration related activities.

Ultimately, all these measures should contribute to improved labour mobility aimed to increase the effectiveness of labour market and to improve the competitiveness of economy, while ensuring the migrant workers' rights.

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