

Spotlight on Borders

Insights from the border between Sweden and Denmark

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Key points:

- ❑ The Swedish-Danish border provides an example of cross-border mobility, trade and intergovernmental cooperation between two EU member states sharing cultural similarities but with separate currencies, neither of which is in a currency union.
- ❑ Cross-border flows may not be equal - one side of the border can have a gravitational pull on the other. Over 90% of cross border commuters travel from Sweden to Denmark.
- ❑ As in other European border regions, EU regulations provide a framework to promote cross-border mobility, but as regulations are implemented within distinctive national systems, differing entitlements and barriers to mobility may remain.

Denmark and Sweden are relatively small countries: Denmark has a population of 5.59 million and Sweden has 9.5 million. The border region between eastern Denmark and southern Sweden - the Øresund region - has a population of around 3.8 million, over two-thirds of which live on the Danish side of the border. It is composed mainly of the capital region of Copenhagen and the island of Zealand (and smaller islands) on the Danish side (representing around 23% of the territory of Denmark) and the Swedish region of Skåne, incorporating the cities of Malmö (Sweden's largest city), Lund and Helsingborg (around 3% of the much larger territory of Sweden). Prior to 1658, Skåne was part of the kingdom of Denmark, and Danish remained its official language until the early 19th century. Today, the regions share cultural and linguistic similarities (though the differences between Swedish and Danish are more marked than between Norwegian and Danish).

Both Denmark and Sweden are EU member states, and subject to most EU regulations. Although both joined the EU Schengen area in 1996, free movement for Danish and Swedish citizens and workers had long been facilitated by Nordic intergovernmental agreements reached in the 1950s. Both Sweden and Denmark are outside of the Eurozone, but the Danish Krone is pegged to the Euro. Physically separated by a strait, the border region was linked by a fixed link Øresund bridge/tunnel in 2000, following an agreement between the Swedish and Danish governments who are its co-owners. A long time in the planning, the 16km Øresund link is both a product of cross-border collaboration, and a trigger for its intensification. The Øresund region has been widely regarded as a flagship model of cross-border collaboration in the EU.

PEOPLE: WORK AND WELFARE

In 1999, before the Øresund bridge opened, around 2,600 people commuted daily across the Swedish-Danish border. A decade later, around 20,000 commuted daily to work or study, though this had fallen to around 15,000 by 2013, in the wake of the financial crisis. The vast majority (around 96%) commute from Sweden to Denmark. Around 40% of these commuters are Swedish citizens working or studying in Denmark, attracted by higher wages and job opportunities, while around 37% are Danes attracted to living in Sweden because of lower house prices.¹

¹ Øresund Committee/Nordic Council of Ministers, 2011, *33 Obstacles, Challenges and Opportunities: the Oresund Model*

Like all EU/EEA frontier workers, Danes and Swedes crossing the border to live and work are entitled to equality of treatment in employment rights, working conditions, and employment-related benefits, with the same social protection and advantages as national workers. Social security, like taxation, remains a national competence, but EU regulations mean that member states have to coordinate their systems so that EU/EEA citizens crossing borders are only subject to one country's rules and regulations. In general:

- The rules of the country of employment, rather than the country of residence, apply when calculating entitlements and claims. So, Swedes and Danes living in Malmö but working in Copenhagen are entitled to the same sickness benefits, maternity/paternity rights and unemployment benefit as Danes living in Denmark.
- In the case of economically inactive citizens, workers temporarily posted to another EU/EEA country, or workers who work in more than one member state and who undertake a 'substantial' part of their work in their home country, entitlements will be calculated according to provisions in the country of residence.

Crossing the Border

- Swedish-Danish cross-border commuting reached a peak of around 20,000 daily in 2008.
- Since the Øresund bridge opened, commuting has increased by 600%
- 2,117 Swedish students were funded for full-time study in Denmark in 2010/11, compared to 363 Danish students in Sweden.
- The majority of the commuters from Sweden to Denmark work in the service sector, including transport, communication, retail, hotel and restaurant services.

However, as EU regulations are implemented within *national* social security and tax systems, cross-border workers are still affected by national variations, and so can be subject to different qualifying conditions for pensions and benefits. Sweden and Denmark now have significantly different welfare states – the former has moved more toward a social insurance model, while the latter supports social benefits through higher taxation. Having markedly different systems can create difficulties for cross-border commuters, for example²:

- *Unemployment benefit*: In Denmark, unemployment insurance is voluntary; workers must join an unemployment insurance fund to be eligible for unemployment benefits. In Sweden, a flat rate benefit is provided to those who are not part of an insurance fund. Those living in Sweden but who worked in Denmark until they became unemployed would only be entitled to full unemployment benefits if they had voluntarily signed up to an insurance fund.
- *Working on both sides of the border*: Those living in Sweden and working in Denmark are covered by the Danish social insurance system, but coverage reverts to the Swedish system if they have a second job in Sweden. In that case, Danish employers (who – unlike their Swedish counterparts - do not normally pay social insurance contributions) incur additional costs in employer contributions in accordance with Swedish laws. Those living in Denmark but working in Sweden and who take a second job in Denmark face an additional 'special income tax' on their Swedish earnings.
- *Pensions*: Swedish workers in industries covered by national collective bargaining (around 90% of the workforce) are automatically enrolled in a mandatory occupational pension scheme, which supplements their public pension entitlements. The state pension in Denmark is lower, and normally supplemented by private or occupational schemes, but enrolment is not automatic. In addition, some Danish pension entitlements still require residence criteria.

² Nordic Council of Ministers Expert Group under ÄK-A/ ÄK-S, 2012, *Freedom of Movement within the Social and Labour-market Area in the Nordic Countries: summary of obstacles and potential solutions*
<http://www.norden.org/en/publications>

The Øresund committee provides an online information service - *Øresund direkt* – to help raise awareness of rights and responsibilities of frontier workers and citizens moving between Sweden and Denmark among citizens, employers, and officials.

TRADE AND ENTERPRISE ACROSS THE BORDER

As EU member states, Sweden and Denmark are both within the EU internal market (as is Norway, even though it is not an EU member state), and thus have no formal barriers to trade. Denmark and Sweden have strong economic ties and a strong trade relationship³:

- Sweden is Denmark's second most important trading partner for both imports and exports (behind Germany, its more populous neighbour to the south).
- Denmark is Sweden's 5th largest trading partner for exports (behind Norway, Germany, the UK and the US) and the 4th for imported goods.
- External trade in both Denmark and Sweden is concentrated in northern Europe, but is quite diversified:
 - Denmark's largest trading partner, Germany, is the source of around 13% of all Danish exports, with a similar level of exports to Sweden
 - Sweden's top export destinations are Germany and Norway, each accounting for around 10% of overall exports. Around 7% of Swedish exports are bound for Denmark.

Within the border region, it is estimated that Øresund commuters contributed 740 million EUR in added value to the Danish economy, and 4.4 billion EUR since the Øresund bridge opened in 2000, although GDP growth in the region - 6% between 2000 and 2009 - was markedly lower than the EU average and in other Nordic capital regions. The region is recognised as a European innovation leader, capturing 43% of private R&D funds invested across Denmark and Sweden. Notable achievements of cross-border cooperation in enterprise include the Medicon Valley Alliance, a cluster of life sciences academics and the biotech industry, as well as innovation networks and clusters in ICT and low carbon technology.⁴ The international competitiveness and connectedness of the region is enhanced by Kastrup Airport, the largest in the Nordic countries. It serves both Zealand in Denmark and southern Sweden with excellent transport links in both directions, though it is financed mainly by the Danish state, Danish pension funds and EU infrastructure funds.

The Øresund committee surveyed businesses with a view to identifying remaining barriers to trade within the border region. Danish and Swedish companies pointed to greater difficulties transferring capital across the border (compared to within country transfers) and additional communications costs as a result of postal and telephone charges being charged at international rates. Having distinctive currencies has rarely been raised as an issue – perhaps because currency union within the Nordic countries is not a serious prospect, while membership of the Euro was rejected in popular referendums in both countries. Removing the obstacles created by administrative, legal and physical barriers to mobility and labour market integration has been the major focus of cross-border cooperation.

CROSS-BORDER COOPERATION AND INTERGOVERNMENTAL RELATIONS

There is extensive cross-border cooperation between the Nordic countries, both informally and more formally within the Nordic Council of Ministers.⁵ Within the border region, the Øresund committee

³ SCB Statistics Sweden, 2014; Statistics Denmark, 2014

⁴ Nauwelaers, C., K. Maguire and G. Ajmone Marsan (2013), 'The case of Oresund (Denmark-Sweden) – Regions and Innovation: Collaborating Across Borders', OECD Regional Development Working Papers, 2013/21, OECD Publishing. <http://dx.doi.org/10.1787/5k3xv0lk8knn-en>

⁵ For a review and evaluation, see McEwen, N, 2014, *A Nordic Model for Scotland? Scottish-UK relations after independence*. Available at: http://www.futureukandscotland.ac.uk/sites/default/files/papers/McEwen_NordicIGR.pdf

describes itself as a regional embassy, promoting regional interests, supporting cross-border networks, and identifying obstacles and solutions to labour market integration across the region. Many of the cross-border projects it promotes are supported by European Regional Development Funds (especially INTERREG).

The Øresund Committee

- Set up in 1993, the Øresund committee is a political forum of 36 elected politicians from regional and municipal authorities on each side of the border, meeting twice a year.
- Its 12 member executive committee meets quarterly, with chairmanship rotating between the leaders of Skåne and Copenhagen capital region.
- The committee is supported by a permanent secretariat of 14 civil servants – more than twice the number of officials supporting the British-Irish council secretariat.

Enhanced transport infrastructure has been a focus of intergovernmental cooperation and a key factor the region's success. The *Öresund Regional Development Strategy* (ÖRUS) includes plans to further boost road and rail links across the border, promote green growth, and strengthen the region's reputation as a cross-border, integrated innovation hub.

Historical agreements, treaties and conventions between the Nordic countries have long supported cross-border cooperation, mobility and labour market integration. Although many of these have been superseded by EU law and regulations aimed at enhancing the European internal market, the latter do not extend to taxation – a key issue arising from cross-border mobility.

Following OECD rules, the 1983 Nordic multilateral treaty ensured that employees' income would only be taxed by the country of employment. An additional bilateral protocol between Sweden and Denmark included a mechanism for compensating both countries for the loss of tax revenue from residents who commute across the border. However, the substance of this agreement is controversial in Sweden. At a national level, it has been argued that the resources transferred are insufficient. Within Sweden, the system of fiscal redistribution means that the affected region, Skåne, does not benefit from the transferred funds in spite of shouldering the responsibility to provide extensive public services for residents paying income taxes across the border.

CONCLUSION

- ❑ The Swedish-Danish border underlines the importance of good transport infrastructure to cross-border cooperation, mobility and trade, but the direction of travel will be predominantly shaped by economic opportunities.
- ❑ Labour market integration has generated mutual benefits in the border region - the Danish side benefits from Swedish labour during periods of labour shortages, while Sweden saves on unemployment benefit costs when its residents cross the border to take up these jobs.
- ❑ Permanent intergovernmental committees can help to promote cross-border cooperation, identify barriers to cross-border trade and mobility and promote policy solutions.

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