

<b>Title:</b> Accession of Croatia to the European Union: transitional restrictions on access to the labour market <b>IA No:</b> HO0072  <b>Lead department or agency:</b> The Home Office  <b>Other departments or agencies:</b> The Foreign and Commonwealth Office, HM Treasury, the Department for Business, Innovation and Skills and the devolved administrations.	<b>Impact Assessment (IA)</b>			
	<b>Date:</b> 02/10/2012			
	<b>Stage:</b> Final			
	<b>Source of intervention:</b> Domestic			
	<b>Type of measure:</b> Secondary legislation			
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<b>Summary: Intervention and Options</b>			<b>RPC Opinion:</b> Awaiting Scrutiny	

Cost of Preferred (or more likely) Option			
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Measure qualifies as One-Out?
£0.0m	£0.0m	£0.0m	Yes   IN

**What is the problem under consideration? Why is government intervention necessary?**

The Treaty of Accession 2011 will admit Croatia to the EU on 1 July 2013 giving Croatian nationals free access to the UK labour market, regardless of skill level. The intention of Government intervention in the form of transitional restrictions is to prepare the labour market for full access by ensuring that, in the interim, labour migration from Croatia takes place in a managed way, where there is a demonstrable economic need for it. Under the planned transitional restrictions, Croatian nationals will be given the same access to the UK labour market as they currently enjoy under the immigration rules applied to non-EEA nationals. The impact will be kept under review and any decisions will be based on the evidence available.

**What are the policy objectives and the intended effects?**

The intended effect is that over the period of transition the UK labour market makes a smooth adjustment to a situation where Croatian nationals are fully integrated into the labour market.

The policy objectives are:  
 To avoid any potential unmitigated flow of unskilled workers that may risk adverse impacts on the UK labour market.  
 To avoid any risk of a deterioration in UK labour market performance while it is recovering from a period of weakness

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**

Option 1 - Do nothing: This would allow unrestricted access for Croatian nationals to the UK labour market.

Option 2 - Impose transitional restrictions for up to five years (with a review after two years) on Croatian nationals accessing the UK labour market. These would be applied from 1 July 2013 and preserve the current access to the UK labour market for Croatian nationals and through the grant of authorisation to work in line with the Immigration Rules.

It is necessary for the Government to intervene (option 2) to achieve this because there is no prospect of voluntary regulation or a code of practice preventing Croatian nationals seeking work, at any skill level, in the UK labour market after 1 July 2013 when they will no longer be subject to immigration control.

<b>Will the policy be reviewed?</b> It will be reviewed. <b>If applicable, set review date:</b> 06/2015					
Does implementation go beyond minimum EU requirements?			No		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	<b>Micro</b> Yes	<b>&lt; 20</b> Yes	<b>Small</b> Yes	<b>Medium</b> Yes	<b>Large</b> Yes
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			<b>Traded:</b> N/A	<b>Non-traded:</b> N/A	

*I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.*

Signed by the responsible SELECT SIGNATORY: \_\_\_\_\_ Date: \_\_\_\_\_

# Summary: Analysis & Evidence

Policy Option 1

Description: To make no changes (Do nothing)

## FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: £0.0m	High: £0.0m	Best Estimate: £0.0m

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£0.0m	0	£0.0m
High	£0.0m		£0.0m
Best Estimate	£0.0m		£0.0m

### Description and scale of key monetised costs by 'main affected groups'

There are no additional monetised costs.

### Other key non-monetised costs by 'main affected groups'

There is a slight risk that any increased flows of unskilled labour into the UK labour market at a time when it is recovering from a serious labour market disturbance could adversely impact on wages and job opportunities for resident workers at the lower end of the skill spectrum. This is difficult to quantify, but could potentially impose a cost on the UK economy.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	£0.0m	0	£0.0m
High	£0.0m		£0.0m
Best Estimate	£0.0m		£0.0m

### Description and scale of key monetised benefits by 'main affected groups'

There are no identifiable benefits from this option that can be quantified.

### Other key non-monetised benefits by 'main affected groups'

There are no other non-monetised benefits arising from this option.

### Key assumptions/sensitivities/risks

Discount rate (%) 3.5%

The main risk here is that increased flows of unskilled migrants could potentially have an adverse effect on the UK labour market as it recovers from a period of weakness. We have assumed this risk is greater than the risk of undermining growth by restricting the free movement of labour.  
One of the unknown factors is the response of other member states and this may have an increased impact on the UK if we did not impose restrictions and most other EU countries did.

## BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: £0.0m	Benefits: £0.0m	Net: £0.0m	No	NA

# Summary: Analysis & Evidence

# Policy Option 2

**Description:** Impose transitional restrictions on Croatians for access to the UK labour market

## FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -£0.19	High: -£0.10	Best Estimate: -£0.14m

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)	
Low	£0.1m	1	£0.0m	£0.1m
High	£0.2m	1	£0.0m	£0.2m
Best Estimate	£0.2m	1	£0.0m	£0.1m

### Description and scale of key monetised costs by 'main affected groups'

Direct costs of this policy may be between £0.1 and £0.2 million in the first year of this policy. Due to the uncertainty of the volumes involved it is not possible to estimate other costs.

### Other key non-monetised costs by 'main affected groups'

The UK Border Agency will have a small increase in processing costs but these are not expected to be large. The fees charged (where applicable) should make this a cost neutral process.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)	
Low	£0.0m	0	£0.0m	£0.0m
High	£0.0m	0	£0.0m	£0.0m
Best Estimate	£0.0m	0	£0.0m	£0.0m

### Description and scale of key monetised benefits by 'main affected groups'

Due to the uncertainty of the volumes involved it is not possible to estimate the benefits although they may be relatively small.

### Other key non-monetised benefits by 'main affected groups'

This policy is a tried and tested method of restricting access to the UK labour market and complies with EU law. It allows Croatian nationals access to the labour market where there is a demonstrable economic need for it. Skilled migrants are complementary to resident workers and the benefit from the dynamic impacts of migration, skills transfer and the filling of specific occupations will produce an economic benefit to the UK. It is equally difficult to quantify this.

### Key assumptions/sensitivities/risks

Discount rate (%) 3.5%

One of the unknown factors is the response of other member states and this may have an increased impact on the UK if we did not impose restrictions and most other EU countries did.

## BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: £0.14m	Benefits: £0.0m	Net: £0.0m	Yes	IN

# Evidence Base (for summary sheets)

## A. Strategic Overview

### A.1 Background

The Coalition's programme for government stated that it will apply transitional restrictions to future Member States when they accede to the EU.

The Treaty of Accession 2011 was signed by European Union (EU) member states on 9 December 2011 and consequently Croatia will become a full member of the EU from 1 July 2013. From that date, Croatian nationals will enjoy rights of free movement under EU law. However, as with previous accessions, the Treaty of Accession permits the existing Member States to depart from normal EU provisions concerning free movement rights to the extent necessary to apply transitional restrictions on Croatian nationals' access to their labour markets. These restrictions may be applied for up to five years (a two year period followed by a review and if required a three year period) and for a further two years in the event of a serious labour market disturbance.

With regard to previous accessions, the UK has applied transitional restrictions to nationals of the EU10<sup>1</sup> countries which joined the EU on 1 May 2004 (the Worker Registration Scheme) and to nationals of the EU2 countries which joined the EU on 1 January 2007 (who are subject to a work authorisation requirement). In both cases these restrictions were extended for the full period of seven years.

### A.2 Groups Affected

The groups affected may include the following.

- UK residents (natives and migrants).
- UK workers (natives and migrants).
- UK employers.
- Potential Croatian migrants wishing to access the UK labour market.

The main impacts will come from Croatian nationals having free access to the UK labour market but the impacts could be felt by UK residents and workers (native born and migrants) to varying degrees.

### A.3 Consultation

#### **Within Government**

The Home Office has consulted members of the European Affairs Committee, as well as those other departments not represented on the Committee but with a direct interest in the issue (which include the Department for Work and Pensions, the Department for the Environment, Food and Rural Affairs, the Department for Culture, Media and Sport and the Ministry of Justice), on its proposed approach to the application of transitional restrictions.

The FCO welcomed the recommendation to apply transitional restrictions but indicated that the precise approach to transitional restrictions should be informed by the evidence in the IA and in the future from evidence of impacts in the labour market.

The Department for Energy and Climate Change welcomed the Home Secretary's approach and requested that an effective communication and engagement plan be put in place.

The Department for Business, Innovation and Skills agreed with the Home Secretary's recommendations but had some reservations.

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<sup>1</sup> The A10 countries are: Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Cyprus, and Malta who joined the European Union on 1 May 2004. The EU2 are Bulgaria and Romania who joined the EU on 1 June 2007. Countries, on accession to the EU, were subject to employment restrictions by member states.

- The risks from Croatian accession are not easily identified and existing migration patterns to other EU member states are greater than that to the UK.
- The previous accessions happened under different economic conditions and past experience may not be a reliable guide to the future, so it is difficult to accurately assess the impact on the UK labour market. However, contributions to employment and growth are important to the UK economy.
- Future reviews should consider all the evidence available and decisions on transitional restrictions should be based on that evidence.

## **B. Rationale**

The purpose of Government intervention in the form of transitional restrictions is to prepare the labour market for full access by ensuring that, in the interim, labour migration from Croatia takes place in a managed way and only where there is a demonstrable economic need for it. Under the planned transitional restrictions, Croatian nationals will be given the same access to the UK labour market as they currently enjoy under the immigration rules applied to non-EEA nationals. They will ensure that Croatian nationals, who will have unrestricted access to enter and reside in the UK for up to three months, will be required to obtain work authorisation if they intend to take employment in the UK and such authorisation will generally be granted only where the proposed employment meets the relevant requirements as set out in Immigration Rules. It is necessary for the Government to intervene to achieve this because there is no prospect of voluntary regulation or a code of practice preventing Croatian nationals seeking work, at any skill level, in the UK labour market after 1 July 2013 when they will no longer be subject to immigration control.

## **C. Objectives**

The period of restricted access is designed to allow the UK labour market to adjust smoothly to the position of full access for all Croatian nationals regardless of skill level. The two main objectives are presented below.

- To avoid any potential unmitigated flow of unskilled workers that may risk adverse impacts on the UK labour market (for example, an increase in unskilled workers in particular sectors or negative wage impacts at the lower end of the skills distribution).
- To avoid any risk of a deterioration in UK labour market performance while it is recovering from a period of weakness.

## **D. Options**

Option 1 is to not to apply transitional restrictions: there would be no restriction on Croatian nationals accessing the UK labour market from 1 July 2013. This option is not preferred because it risks an uncontrolled (albeit probably low) flow of migrant workers from Croatia to the UK. If other EU countries impose transitional restrictions, there is a risk that these flows to the UK could be larger than expected.

Option 2 (the preferred option), is that the UK Government applies transitional restrictions on the free movement of labour for Croatian nationals to the UK labour market from 1 July 2013 for a period of up to seven years which preserve the same level of access post-accession as Croatian nationals enjoyed on the date the Accession Treaty was signed. This would be subject to subsequent review after two and five years and during that time period Croatian nationals who were skilled and met existing criteria for non-EEA nationals would still be able to obtain permission to work in the UK. This option specifically includes the measures presented below.

- After 1 July 2013 Croatian nationals will have an unrestricted right to enter and reside in the UK but will be required to obtain work authorisation if they intend to undertake employment in the UK.

- To qualify for work authorisation, they will normally have to meet the requirements of the Tier 2 or Tier 5 categories of the Points Based System as they stood when the Accession Treaty was signed in December 2011, and will not be allowed access as a work seeker or as unskilled labour.
- Croatian nationals who meet the criteria for the Tier 1 (Exceptional Talent) route or the previous Tier 1 (Post-study work route) will be issued with a registration certificate that will exempt them from the requirement to obtain work authorisation.
- Croatians nationals who study in the UK and who engage in part-time employment, vacation employment or vocational employment will not have to seek authorisation to work provided they have a registration certificate confirming they are exercising a Treaty right as a student.
- Croatians who are self-employed will not be subject to work authorisation but should they choose to become employed in the UK then they will need work authorisation.

## E. Appraisal (Costs and Benefits)

### General assumptions and data

The assumptions used in this IA are outlined here. The first assumption is that the UK has suffered a serious labour market disruption from which it is still recovering. The second assumption is any additional inflows of unskilled labour could disrupt the process of a smooth and steady recovery. Thirdly, the government does not wish immigration restrictions to hinder the potential for economic growth and therefore where there is a requirement to recruit skilled Croatian labour or labour that is task specific that the immigration system affords these nationals access to the UK labour market

### Objective function

In January 2012, the MAC published a report on the impacts of migration and recommended that migration policy impact assessments should concentrate on the welfare of the resident population. The Net Present Value (NPV) in this impact assessment therefore aims to maximise the welfare of the resident population - defined as those formally settled in the UK. The NPV should include the effects from any change in fiscal, public service, consumer and producer surplus and dynamic effects where practical and appropriate, but should exclude forgone migrant wages (net of taxes). Wider impacts on UK GDP and non-residents are identified and quantified where possible alongside political and social considerations, as these all affect the policy decision and should be given appropriate consideration in the final assessment.

### Labour market assessment

The labour market is assessed by looking at the main indicators of labour market performance as demonstrated in *'The impact of the recession on the labour market'*, Office for National Statistics (2009) and *'Review of the UK's transnational restrictions on access of Bulgarian and Romanian nationals to the UK labour market'*, Migration Advisory Committee (2011). These reports clearly show that a labour market disruption has occurred.

The main UK labour market indicators are summarised in Table 1. These show the average value for all the key indicators for the period of the latest complete economic cycle (1997Q1 to 2006Q4), the five quarters of the recession (2008Q2 to 2009Q2) and the last 12 months (2011Q3 to 2012Q2).

The employment rates for the previous Accession nationals (A8) are approximately 10 percentage points higher than the overall national employment rate in the UK, for example in 2012Q1 the A8 (by nationality) employment rate was 79.6 per cent compared to 71.0 per cent overall, and this difference has been consistent over time. When full-time earnings by occupation are taken into account, senior managers and professionals (the highly skilled categories) earn about 40 per cent more than the overall average (£552 for April to June 2012) whereas personal services, customer services and elementary occupations (the low skilled occupations) only earn about 55 to 60 per cent of average earnings. On average about 25 per cent of those that are unemployed cited 'elementary occupations' as their previous occupation before entering unemployment.

**Table 1 Comparison of UK Labour Market Indicators Averages 1997Q1 to 2012Q2**

	<b>Economic cycle 1997Q1- 2006Q4</b>	<b>Recession<sup>1</sup> 2008Q2- 2009Q2</b>	<b>Last 12 months 2011Q3- 2012Q2</b>
Real Annual GDP growth (%)	3.2	-4.0	-0.8
Real Quarterly GDP growth (%) <sup>2</sup>	0.8	-1.5	-0.7
Employment rate (%) <sup>2</sup>	72.4	72.0	71.0
Average weekly earnings total pay growth (%) <sup>2,3</sup>	4.2	1.9	1.6
Unemployment rate (%) <sup>2</sup>	5.6	6.6	8.4
Claimant Count rate (%)	3.5	3.5	4.9
CC All >12 months (%)	20.3	10.0	19.7
CC 18-24 yrs >12 months (%)	5.1	1.8	9.0
Total redundancies (000s)	161	246	158
Total vacancies (000s)	615	579	463
Insolvencies (000s)	13.7	16.9	17.2
Firm birth rate (%)	12.2	10.9	n/a
Firm death rate (%)	10.4	10.4	n/a

Source: Office for National Statistics, Labour Market Statistics, August 2012 and the Department for Business, Innovation and Skills, May 2012.

- 1) The UK entered a recession in 2008Q2, according to the Office of National Statistics (ONS) and exited it in 2009Q3 but the GDP data have been revised and now show that the date of exit was 2009Q2.
- 2) These data are for the three months ending in the last quarter of the specified date, for example for 2012Q2 the data pertain to the period April to June 2012.
- 3) Average Weekly Earnings Growth is total pay, 3months, year-on-year growth (%). The earliest data point is 2001Q2.

### Impact on Volumes

Croatia has a population of about 4.5 million of which 68 per cent are aged 15 to 64 years of age (July 2012). The labour force is approximately 1.7 million and unemployment was close to 18 per cent in 2011 (considerably higher than the UK). There are an estimated 9,000 Croatian nationals living in the UK at present (<1% of all foreign citizens living in the UK) and approximately 750,000 living in other countries (source: World Bank Global Migrant Stocks Database, 2010)<sup>2</sup> The number of Croatians who are resident in the UK is only about 5 per cent of the number living in Germany (~245,000) The top three spoken foreign languages for Croatian nationals are English (49%), German (39%) and Italian (14%). Perhaps because Germany is a closer neighbour and German is spoken in by a significant proportion of Croatians then Germany provides a stronger draw for migrant labour.

The evidence for Polish accession to the EU shows that following accession, the number of NINos issued increased by 580 per cent from 10,000 in 2003 to 145,000 in 2005 then rising by a further 60 per cent to peak at 242,000 in 2007 only four years later. For Bulgarians and Romanians the percentage increase in NINos two years post-accession was 560 and 710 per cent respectively to a level of 16,000 and 23,500 respectively. This assessment does not attempt to forecast the volume of Croatian nationals that may or may not attempt to enter the UK labour market as this is not possible given the wide range of factors which may influence the level of migration. However, previous experience indicates that with open or partially restricted access to the UK labour market there are likely to be significant flows of potential workers to the UK following accession to the EU.

It is not possible to estimate the scale of Croatian migration. Although the total population of Croatia is around one ninth that of Poland and less than a quarter of Romania, and therefore we might not anticipate as large an inflow as from these previous accessions, the Croatian population is larger than that of Lithuania, whose nationals now comprise the second largest accession state diaspora in the UK with an estimated 134,000 residents living in the UK in 2011.

<sup>2</sup> These data are taken from migration stock data, country censuses, extrapolations of census data and UN data. Due to the four step collection process they should be considered as best estimates.

Table 2 provides data on applications by the most recent accession states, Bulgarians and Romanians, to work in the UK using an accession worker card, a registration certificate, in the Sector Based Scheme (SBS) and in the Seasonal Agricultural Worker Scheme (SAWS). None of these datasets gives complete coverage of employment and work by the EU accession nationals in the UK as some will be working in the Points Based System and some will be self-employed. While these comparative data are useful the SAWS and SBS schemes will not be available to Croatian nationals. These schemes will close in 2013. The Migration Advisory Committee (MAC) has been invited to provide advice on the economic impacts on those sectors currently using the schemes (these are agriculture and food processing).

**Table 4 Applications by Bulgarian and Romanian Nationals to Work in the UK, 2007 to 2010.**

	2007	2008	2009	2010	2011
<b>Bulgarians</b>	20,318	22,288	22,863	23,944	23,260
Accession Worker Card	1,989	1,805	1,067	947	1,009
Registration Certificate	11,529	8,269	8,671	10,684	10,425
Sector Based Scheme	1,162	1,381	704	452	503
Seasonal Agricultural Worker	5,638	10,833	12,421	11,861	11,323
<b>Romanians</b>	30,392	25,692	28,643	35,081	36,430
Accession Worker Card	3,114	2,169	1,650	2,344	2,319
Registration Certificate	24,613	17,707	19,164	24,651	24,659
Sector Based Scheme	245	188	71	149	319
Seasonal Agricultural Worker	2,420	5,628	7,758	7,937	9,133
<b>Total</b>	50,710	47,980	51,506	59,025	59,690

Source: Table ee.01: Applications from Bulgarian and Romanian nationals for permission to work in the UK by date of application, Home Office Migration Statistics, January to March 2011.

Table 2 suggests that the volumes of applications for permission to work from Bulgarians and Romanians averaged about 50,000 over the period 2007 to 2009 and increased to 60,000 in 2010. It remained at that level in 2011.

Croatian nationals are likely to be attracted to similar occupations as Bulgarian and Romanian nationals and might take a similar position in the labour market. Table 5 presents the top 20 occupations in which registered workers were employed for the period May 2004 to September 2006, which was a period of large inflows of A8 migrants to the UK. Most of the top 20 occupations are relatively unskilled or semi-skilled.



**Table 5, Top 20 occupations in which registered workers are employed, by quarter applied, May 2004 to September 2006.**

May 2004 to Sept 2006 Occupation	2004					2005					2006					May-04 Sep-06
	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Process operative (other Factory worker)	17,970	10,000	13,100	14,975	15,180	53,255	12,450	13,830	14,450	111,955						
Warehouse Operative	3,810	2,440	2,565	4,100	4,750	13,855	3,650	4,365	5,375	31,050						
Kitchen and catering assistants	5,940	2,465	3,495	3,580	2,870	12,410	2,685	3,215	3,160	27,410						
Packer	5,515	3,045	3,270	3,720	3,335	13,370	2,620	2,910	2,930	27,350						
Cleaner, domestic staff	4,355	2,135	2,470	3,025	2,565	10,195	3,145	2,905	2,990	23,595						
Farm worker/ Farm hand	3,350	1,705	4,170	2,420	1,030	9,325	1,915	3,845	2,575	21,010						
Waiter, waitress	4,980	1,705	2,030	2,255	1,670	7,660	1,525	1,755	1,845	17,765						
Maid / Room attendant (hotel)	3,375	1,305	1,910	2,140	1,705	7,060	1,665	1,850	1,820	15,765						
Care assistants and home carers	2,580	1,385	1,590	2,075	1,835	6,885	1,765	1,470	1,395	14,090						
Labourer, building	2,080	1,140	1,445	1,550	1,145	5,280	1,500	1,785	1,580	12,225						
Sales and retail assistants	2,535	1,105	1,400	1,615	1,285	5,405	1,245	1,410	1,600	12,195						
Crop harvester	1,235	610	2,205	1,655	275	4,745	450	1,820	1,135	9,390						
Food processing operative (fruit/veg)	1,600	705	1,010	895	760	3,370	640	750	735	7,095						
Bar staff	1,950	665	810	890	610	2,975	550	585	665	6,720						
Food processing operative (meat)	1,525	565	675	655	660	2,555	485	530	670	5,760						
Chef, other	1,380	545	625	690	535	2,395	495	605	530	5,410						
Fruit picker (farming)	545	125	1,170	855	155	2,305	140	705	560	4,255						
Administrator, general	1,000	400	465	480	435	1,780	395	475	550	4,200						
Driver, HGV (Heavy Goods Vehicle)	730	570	635	555	460	2,220	350	350	340	3,990						
Driver, delivery van	580	340	410	420	355	1,525	320	280	300	3,005						
<b>Total Top 20</b>	<b>67,030</b>	<b>32,955</b>	<b>45,445</b>	<b>48,555</b>	<b>41,610</b>	<b>168,565</b>	<b>37,995</b>	<b>45,445</b>	<b>45,210</b>	<b>364,240</b>						
Not Stated	20,015	8,540	9,660	10,310	7,860	36,370	8,665	9,040	9,500	83,590						

Source: Accession Monitoring Report May 2004 to September 2006, The Home Office (2006).

**Table 6 Real Hourly Wages of UK, Foreign-born and A8 Workers (£), 2011**

(£)	UK Born	Foreign born	A8 Workers
Male	13.90	13.90	9.01
Female	11.30	12.00	8.10

Source: Labour Force Survey, 2012, Males and females in a main job, full-time and part-time, employees only.

Table 6 shows that A8 workers generally have a lower real wage than either UK or other foreign born workers despite having a higher employment rate. This reflects the fact that many of them work in the lower skilled occupations.

The Home Office does not forecast the flows of Croatian nationals that will apply to work in the UK or who will obtain leave to enter and actually arrive and work in the UK. This is because it is very difficult to construct an accurate counterfactual situation over a number of years or to predict the relative impacts of the potential drivers for migration for a single nationality. This is the prime reason why it is not possible to say with certainty what will happen to the number of Croatian nationals who will come to work in the UK following accession to the EU in 2015.

Using the NINo data in Figure 5 and the general trends in volume data (see Tables 3 and 4) it is possible that there may be an increase in the flows of unskilled Croatian nationals who will seek to work in the UK. This is based on previous experience of countries that have acceded to the EU. However, we cannot be certain about what will happen in the future and we definitely cannot provide robust estimates of the magnitude of flows of Croatian nationals to the UK for the purposes of work. In 2011 only about 250 entry clearances were issued to Croatian nationals and about 140 of these were for the purpose of study.

The previous experience of A8 and EU2 migrants may not be a reliable guide to the future. There has already been an inflow of migrants from Eastern Europe so it is possible that future inflows will be smaller and the potential for increased inflows may be low. However, as the economy moves out of its current situation, if left unregulated, this could attract larger inflows. There is also not yet clarity over what other member states may do in relation to Croatian accession which may have an influence on the flows to the UK. Evidence on the drivers of migration and from previous

Accessions do however indicate that following accession there is the potential for inflows to increase significantly with the potential for adverse impacts on the domestic labour market.

## **OPTION 1 – Do not introduce transnational restrictions on Croatian nationals (Do nothing)**

### **COSTS**

If there are no transitional restrictions put in place then it is possible that there will be unregulated inflows of Croatian nationals to the UK labour market at all skills levels. It is not possible to accurately assess the volumes of Croatian nationals that would seek to work in the UK on accession to the EU from July 2013 onwards. However, what is available is the experience of the A8 and EU2 countries when they acceded the EU in 2004 and 2007 respectively. All of these show increases in those seeking work over time. It is not possible to assess the costs of this option with any certainty as the counterfactual does not exist.

### **BENEFITS**

There are very few benefits that arise out of the 'do nothing' option. What would be a benefit may include:

- There may be some benefits to residents associated with migrant workers coming to the UK, including any dynamic benefits to the economy (for example, due to increased specialisation and innovation) or due to a possible increase in consumption and tourism spending. These impacts are very difficult to quantify however. It may be that this spending would simply replicate existing spending of native and migrants workers already in the UK. Similarly, migrants may also have negative economic impacts if they lead to the displacement of resident workers, or crowd out investment opportunities for residents.
- Minimising the burden of regulation on employers but this is a non-cashable benefit.

Of these potential benefits, they are either small or difficult to quantify and there is a very significant degree of uncertainty surrounding them. They are out-weighted by the potential costs and risks.

## **ONE-IN-ONE-OUT (OIOO)**

### COSTS (INs)

No additional regulatory one-in-one-out costs have been identified as a result of the proposed option.

### BENEFITS (OUTs)

No additional regulatory one-in-one-out benefits have been identified as a result of the proposed option.

### NET

This policy is neutral as there are no additional one-in-one-out regulatory costs or benefits.

## **OPTION 2 – Introduce restrictions on the free movement of Croatian nationals into the UK labour market**

### **COSTS**

The introduction of labour market restrictions on Croatian nationals would avoid any potential disruption to the UK labour market but there are some costs associated with this policy.

#### **Direct set up costs**

##### UKBA staff training and familiarisation costs

There will be costs to UK Border Agency of training and familiarising staff with the new rules and guidance with regard to the restrictions. Around 500 UK Border Agency casework staff will need to be trained in the new rules and guidance and around 4,000 UK Border Agency staff that will need basic familiarisation. We estimate training will require around half a day for casework staff and

around one hour for other staff. Assuming the hourly wage is £15 then the training impacts are estimated at around £0.06 million in year 1 only.

#### Familiarisation for private and third sector immigration advisers

There will be costs in training and familiarising staff with the new rules and guidance. The Office of the Immigration Services Commissioner (OISC) annual report suggests there are around 4,000 regulated immigration advisers. Assuming half of these are private sector and earn a wage of around £22 per hour including on-costs, and around half are voluntary sector and earn around £12 per hour including on-costs, and that they require around one hour familiarisation, the costs are estimated at around £0.07 million in year 1 only.

The total cost of introducing transitional restrictions in Year 1 is therefore estimated to be between £0.1 and 0.2 million.

### **Wider non-monetised economic and social impacts**

#### Reduction in dynamic growth potential

The dynamic impacts of migration on growth are difficult to measure, and vary depending on the characteristics of migrants. In general, these dynamic benefits will accrue from skilled workers rather than low-skilled. Given the minor volume changes expected with the imposition of restrictions, and the predominantly low-skilled nature of the potential migrant labour flows, it is difficult to see that this will impact on growth at all. It is unlikely that there will be any significant effects on dynamic growth and that innovation, competition and specialisation should be largely unaffected.

#### Impacts on resident migrant income

Any impacts on existing resident migrant income are very difficult to quantify. Those migrants who are already working in the UK under the registration schemes or the PBS will remain working in the UK under the conditions of their leave and permission to work. It is unlikely that there will be any significant changes to their income if this policy were introduced.

#### Impacts on the Exchequer

There may be a marginal impact on the potential fiscal contribution of migrants to the Exchequer, which would have a negative impact on UK residents and could be included in the calculation of the NPV. The direct tax contribution of economic migrants can be calculated using their estimated average gross earnings and current income tax rates. With expected earnings of those that work of between £12,000 (the national minimum wage) and £17,600 (the average wage for A8 nationals in the UK based on the LFS for 2011). At these wage rates the average tax contribution would be approximately £1,300 to £3,100 per person based on 2012-13 tax rates (source HMRC website). As this proposal would restrict the volumes of potential migrants in the future it is difficult to estimate what the overall net impact on the Exchequer would be. However, it is unlikely to be significant given the low expected wages of accession migrants in the UK. Perhaps more significantly, in a time of recovery from serious labour market disruption it is unclear that new and predominantly low-skilled migrants would provide an additional contribution or the degree to which they would simply displace other resident low-skilled workers, thereby negating any fiscal benefits and potentially stimulating additional welfare costs. It is therefore difficult to accurately measure these effects so they are not monetised.

#### Reduction in indirect fiscal contribution

It is possible that the indirect fiscal contribution of migrants could be marginally lower due to reduced spending in the UK. Spending decisions will depend on household income and preferences. It is difficult to accurately measure these effects so they are not monetised.

#### Distributional impacts

There may be some small distributional impacts as lower income migrants are likely to be affected more than those migrants who are more highly skilled with higher incomes. This is because the highly skilled migrants will still be able to access the labour market due to their skills profile and the rising demand for their skills as the economy recovers. However, if lower skilled migrants are more likely to displace lower skilled resident workers, then there would be positive distributional impacts for lower skilled residents if transitional restrictions are imposed on Croatian nationals.

## **BENEFITS**

The proposal will lead to a number of direct and indirect wider benefits to the public sector, including the UK Border Agency, to the wider economy, and to UK residents. The main benefit is to reduce the risk of uncontrolled inflows of Croatian nationals and mitigate any potential impact they would have on the UK labour market and economic recovery. The main wider benefit to the UK Border Agency and society is greater public confidence in the operation of immigration policy. This benefit is not possible to quantify and is not monetised in this impact assessment.

## **ONE-IN-ONE-OUT (OIOO)**

### COSTS (INs)

No additional regulatory one-in-one-out costs have been identified as a result of the proposed option. There may be some small transitional impacts on employers as they need to become familiar with the change in rules for Croatian nationals but these are difficult to monetise.

### BENEFITS (OUTs)

No additional regulatory one-in-one-out benefits have been identified as a result of the proposed option. There may be some small reduced impacts on business due to the changes, as employers will no longer need to sponsor Croatian nationals under the Points Based System, and they would no longer require visas and sponsor enforcement.

### NET

This policy is neutral as there are no additional one-in-one-out regulatory costs or benefits.

## **Wider benefits - reduced burdens on the taxpayer**

### Welfare savings

There may be some benefit from restricting Croatians' access to the UK labour market. However given that the counterfactual does not exist, it is not possible to quantify any of these savings.

### Reduced public service costs

If increased inflows of migrants were allowed to come to the UK then there would be an increased burden on the health, education, transport and criminal justice system (CJS) costs to the degree to which these additional residents make demands on these services. By introducing restrictions on Croatians accessing the labour market freely then the potential pressure on public services should be reduced.

### Wider reduction in public service provision

It is not possible to estimate any additional impacts.

### Increased social cohesion

It is judged that there may be an increase in social cohesion if restrictions are placed on migrants working in the UK at a time when the UK labour market is recovering slowly. This may be a relatively minor benefit as the flows of Croatians may not be large enough to make any difference to social cohesion. It is not possible to quantify this.

## **F. Risks**

### **OPTION 1 – Do not introduce transnational restrictions on Croatian nationals (Do nothing)**

Previous accessions have highlighted the difficulty in making an accurate assessment of potential inflows of accession workers, and it is similarly difficult to predict likely inflows of Croatian nationals which may seek to access the UK labour market on accession to the EU from 1 July 2013. The risk of this option is that it could give rise to significant flows of Croatian nationals to seek and take employment in the UK at low skill levels, with potential negative impacts on the labour market. The potential likelihood and impact cannot be reliably predicted but at a time when the Government emphasises the importance of recovery and economic growth, and that the resident unemployed have full access to available jobs, then avoiding any factor that potentially disturbs the path of

recovery is critical. This option does not meet the objective of avoiding unskilled labour having free access to the UK labour market.

There is a great deal of uncertainty attached to this option, given previous experience of new EU accessions. It is not considered likely that any other options, short of the introduction of transitional restrictions, could be delivered to manage the potential impacts while meeting EU legal requirements. Self-regulation, a voluntary code of practice, differential taxation, performance standards and market permits or charges were all considered and rejected as they all allow free access to the labour market and could not provide any certainty that these schemes would mitigate any potential adverse effects on the UK labour market.

**OPTION 2 – Introduce restrictions on the free movement of Croatian nationals into the UK labour market**

Given that market clearing and pricing will result in firms maximising profits and minimising costs then it is highly likely that cheaper labour will be employed compared to labour that is slightly more expensive assuming all other factors are equal. The transitional restriction of labour flows from EU accession states to the UK is a tried and proven way to avoid any adverse effects on the UK labour market, and one recognised in EU law. There is no other measure that can be employed that will avoid or mitigate these adverse effects with the same certainty as transnational restrictions, which also comply with EU law. Option 2, which may be enacted in other EU countries, does not have the same degree of risk attached to it as Option 1 has. It has much more certainty about the outcomes, in that it will avoid or substantially mitigate any adverse effects on the UK labour market and economy.

**Risks and sensitivity of the options considered**

The UK is only one of the countries involved in the EU (see Annex A) and potential flows of migrant labour to the UK are likely to be affected by the volume of migrants coming to and the opportunities in other EU countries. Figure 6 illustrates how, if most EU countries impose restrictions on Croatian nationals accessing their labour market and the UK does likewise, then the flows to these countries are unlikely to change much and any additional Croatian immigration is likely to be small. If none of the EU countries impose restrictions then it may be that all of the EU countries could have relatively larger inflows of Croatian nationals to their labour market. The worst position for the UK would be if the UK did not impose restrictions but other EU countries did so. In those circumstances, the UK would potentially face larger flows into the UK labour market that may have a significant adverse effect on the UK labour market and economic performance in the short-run, and perhaps into the medium-run.

**Figure 6 Risks and sensitivity of Croatian nationals’ access to the UK labour market given other developed EU countries actions**

UK \ EU	Restricted	Relaxed	Free
Restricted	Relatively low flows to all countries		Lowest flows to the UK
Relaxed			
Free	Highest flows to the UK ←		Higher flows to all ↓

**G. Impacts on Business**

There are no robust estimates of impacts on business as it is likely that the impacts on business will be negligible or small, given that the application of transitional controls will involve the continued application of existing controls. There are no one-in-one-out costs and the direct costs are relatively small as they only include training and familiarisation. The policy proposal is unlikely to lead to large or significant impacts on business. The Government is aware that some employers,

primarily in the agriculture sector, have expressed concerns about the supply of low-skilled labour following the closure of the current Seasonal Agricultural Workers and Sector-Based Schemes for Romanian and Bulgarian nationals. As mentioned on page 5, the Migration Advisory Committee is considering the impact on the sectors affected.

## **I. Implementation**

The Government plans to implement these changes from 1 July 2013, and will confirm the detail of the transitional restrictions and publish a final impact assessment at that time.

## **J. Monitoring and Evaluation**

Under the terms of the Treaty on Croatia's Accession, Member States are required to notify the European Commission at the end of the two year period following the date of accession whether they will continue to apply transitional measures. The effectiveness of the new regime will therefore be monitored by the Home Office and the UK Border Agency on an ongoing basis, with a more thorough review aimed at informing the terms of the required notification after two years from the date of accession. This will include:

- monitoring the volume and characteristics of Croatian nationals entering the UK labour market through the immigration routes available to them from 2012 onwards; and
- monitoring the UK labour market to ensure that the flows of Croatian nationals entering the UK for employment do not cause any adverse effects to the UK labour market or the UK economy.

A further review may take place after five years from the date of accession, at which point transitional restrictions may only be extended in the event of a serious labour market disturbance. The Home Office may commission the Migration Advisory Committee to provide advice in connection with any such a review, as it has done previously.

## **K. Feedback**

Feedback and findings from monitoring will be incorporated into the post-implementation review of the policy to inform future policy decisions on restrictions on Croatian nationals entering the UK labour market. Evidence on the UK labour market, produced by ONS, data from the migration statistics and findings and opinions from employers will be included in the feedback.

## **L. References**

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