The labour market impact of relaxing restrictions on employment in the UK of nationals of Bulgarian and Romanian EU member states

Migration Advisory Committee Report

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Summary

- The Treaty of Accession 2005 allowed the UK and other EU countries to impose transitional restrictions on the free movement of labour for nationals of Bulgaria and Romania for a maximum of seven years. The UK Government is conducting its first mandatory review of the restrictions imposed upon nationals of Bulgaria and Romania (known as the A2 countries) following their accession. The Government has asked us to advise on the labour market implications of relaxing the restrictions and that is the subject of this report.

- Options we considered were to recommend that the current restrictions on employment of A2 nationals be fully retained or, alternatively, that they be removed altogether. Intermediate options were to recommend the partial lifting of restrictions, either through special schemes for particular sectors and/or a relaxation of the work permit criteria that currently apply to employment of skilled workers from Bulgaria and Romania within the UK. We also considered issues and options in relation to Scotland.

- We based our decisions on a combination of our own research and evidence sought from expert stakeholders. Evidence came from the UK Government, academics, sector skills councils, employers, sectoral representatives and other stakeholders in the UK, Bulgaria and Romania.

The UK, Bulgaria and Romania

- Until the second quarter this year, the UK has enjoyed a sustained period of economic growth, accompanied by historically strong labour market performance. The UK labour market is amongst the most flexible in the world. However, the UK economy has recently contracted, and many commentators forecast recession in 2009. The economic downturn is starting to affect labour markets, with increases in unemployment and reduced vacancy numbers.

- Bulgaria and Romania are amongst the lowest-income economies in Europe with GDP per capita of around one third of the EU15 average. However, both have experienced strong growth over recent years, which appears set to continue, albeit at reduced rates, although the full impact of the global downturn on their economies is as yet unknown.

- The UK has a higher proportion of its workforce educated to a tertiary level than Romania and Bulgaria. Unemployment rates are slightly higher in Romania and Bulgaria than the UK. Compared to the UK, the Bulgarian and Romanian economies are more agricultural, with a smaller proportion employed in professional occupations.

Drivers and impacts of immigration

- The evidence base on drivers and impacts, although growing, is limited and context-specific, and subject to various methodological caveats, which

are usually emphasised in research publications but frequently ignored in public debate. The evidence does not automatically provide a reliable guide to future policy. Furthermore, the current UK economic downturn adds an extra element of uncertainty in terms of drawing policy conclusions.

- However, the evidence suggests that a range of factors could influence the decision to emigrate to the UK, including: differences in wage levels and purchasing power between the UK and the A2 countries; labour market and wider economic conditions in the UK and the A2 countries; the existence of A2 immigrant communities in the UK; and labour demand in the UK.

- Immigration in recent years seems to have had few adverse effects on employment and earnings outcomes for the UK-born workforce, although this may disguise some negative effects in the low wage market and positive effects in the higher wage labour markets.

- The precise economic impact of immigration to the UK depends crucially on the likely characteristics of the immigrants in question. Skilled, young, highly paid immigrants are most likely to make a small positive contribution to the net fiscal position and GDP per head; less skilled immigrants may still play a valuable role in filling shortages in less skilled sectors.

Experience of A2 and A8 immigration in the UK and EU

- Bulgarian and Romanian nationals, like all European Economic Area nationals, have a right to reside in member states. Those A2 nationals who can work in the UK include the self-employed, students, skilled workers with a work permit, less skilled workers on the Seasonal Agricultural Workers Scheme (SAWS) and the Sectors Based Scheme for food processing, and family members of A2 nationals subject to worker authorisation.

- Before a skilled job in the UK can be filled by nationals of A2 member states via the skilled work permit route, the employer is generally first required to advertise it within the UK (the Resident Labour Market Test).

- The impacts of Bulgarian and Romanian immigration to the UK to date have been small because of the small scale of the inflows. A2 immigrants to the UK so far are predominantly young, in employment and in relatively skilled occupations, but with lower than average earnings. However, relaxing the restrictions would be likely to affect the types of immigrants coming to the UK as well as the numbers.

- Spain and Italy are preferred destinations for A2 immigrants and A2 immigration to the UK is currently very small in comparison to those countries. However, the arrangements in Italy in particular impose only limited restrictions on A2 access to that labour market.

- In 2004, ten countries joined the EU as new member states. These included the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia (known as the A8 countries). Unlike most of the EU15, the UK did not impose labour market restrictions on A8 nationals. There are relevant lessons to be learned from that experience.

- Measured stocks of A8 immigrants in the UK have grown considerably and steadily since accession, from around 50,000 in 2004 to just over 700,000 in 2008. Limited data mean these figures are probably under-estimates. As the stock data suggest, inflows also rose rapidly after 2004, although some of these immigrants have already left and it is possible, but not certain, that they will do so in increasing numbers as the economy slows down.

- A8 immigrants to the UK have tended to be young, relatively educated, and in employment. But, in spite of their level of education, a large proportion of A8 immigration has been into lower skilled occupations.

- A8 immigration has probably not had a significant impact on labour market outcomes for existing workers. It is likely that it has provided a modest net per capita benefit to the UK economy, with relatively benign net fiscal impacts. However, the possibility of unobserved wage impacts at the low-wage end of the distribution remains. Furthermore, the evidence we have relates to a period of relative economic stability.

- What does the A8 experience tell us about potential future Bulgarian and Romanian immigration to the UK? Standard of living in source countries appears to have been a particularly important driver of A8 immigration, whilst labour market circumstances may have been less so. The A8 experience of countries like Sweden and Germany also illustrates that conditions and circumstances in the destination country are important, as well as those in the source country.

Impact of completely lifting the restrictions on A2 nationals

- It is not possible to predict accurately what flows from A2 countries will be if the UK lifts restrictions: the decisions of other EU15 members on whether to relax restrictions are a principle source of uncertainty. Nonetheless, flows will increase to some extent if restrictions are removed.

- It is reasonable to assume that the characteristics of future A2 immigrants will be roughly similar to those of A8 immigrants: they tend to be young and more educated relative to UK-born workers, with a high likelihood of employment and of taking up low-paid jobs in the UK.

- Removing the restrictions would probably have a small labour market and economic impact, whether positive or negative. However, uncertainties around potential flows and the current economic situation are likely to be asymmetric in their impact, with the possibility of significantly negative outcomes outweighing that of significantly positive ones. At this moment, greater risks would be posed by removing the restrictions than by retaining them. **We do not recommend fully removing UK labour market restrictions on employment of A2 nationals.**

Impact of relaxing the restrictions

- We considered the potential impacts of expanding the existing special schemes for the employment of Bulgarians and Romanians in agriculture and food processing, and introducing new schemes in the areas of construction, hospitality and social care.

- The agriculture sector is heavily dependent on immigrant labour and, in the very short term, there is no sensible alternative to immigration. Crucially, for our purposes, A2 workers coming to the UK on a seasonal basis do not gain permanent unrestricted access to the UK labour market. In the medium term we are expecting to see the sector make efforts to address shortages and reduce long-term dependency on immigrants, and the Government may wish to work with the sector on this. We recommend that the Government expands the current quota under SAWS from 16,250 in 2008 to 21,250 in 2009.

- In food processing, an increase in the current Sectors Based Scheme (SBS) quota is not needed, primarily because of the potential longer-term labour market impacts; but also because we were not convinced that the current quota is insufficient to meet employer needs. We recommend no change in the size of the SBS quota for the food processing industry. However a potential reallocation of that quota within the food and drink industry might be sensible, if the Sector Skills Council can make a case for that.

- In social care, there was some evidence of labour shortage. But we are concerned about the uncertainty of the volume of flows from the A2 countries and the labour market impact of such flows at a time of economic downturn. We recognise that the Government regards these services as a high priority, and understand that they may want to consider whether the benefits to the sector of such a scheme would outweigh the potential labour market and economic costs. But we do not recommend a scheme for social care.

- There is no clear evidence of national labour shortages in construction or hospitality. Both of these sectors are likely to be hit relatively hard by the economic downturn. We do not recommend special A2 schemes for the construction and hospitality sectors.

- We considered whether we should recommend a relaxation of the Resident Labour Market Test for A2 nationals. This would allow time for the UK labour market to adjust prior to full labour market access for A2 nationals in 2014. Also, an influx of skilled workers would possibly pose less of an economic risk than one of unskilled workers. However, the downside risks discussed above still apply to an extent, and the flexibility of the UK labour market means that a five year adjustment period is probably not required. We recommend retaining the Resident Labour Market Test for A2 nationals.

- We considered whether it would be possible to have a different system for governing the access by A2 nationals to the labour market in Scotland. However, we did not receive evidence that the Scottish labour market is sufficiently distinct from that in the rest of the UK to warrant separate arrangements. We are also concerned about the practicalities of any such arrangements, notably that A2 workers would be free to work anywhere in the UK after twelve months. We do not recommend a special scheme for Scotland.

Next steps

- We see a strong case for a systematic analysis of shortages and immigration in low-skilled jobs in the UK. We have begun to consider low-skilled jobs here, but, largely due to time constraints, could not do it in the systematic way and based on the comprehensive methodology used in our September 2008 report (Migration Advisory Committee, 2008). We believe that some of the above recommendations should be reviewed in the fairly near future.

- The Government has indicated that it may, from time to time, ask us to advise on further matters in relation to migration. We will publish reports on other issues that the Government asks for our independent view on as required.

Chapter 1
Introduction

1.1 Our task

1.1. The UK Government is obliged by European Union (EU) law to notify the European Commission if it intends to maintain labour market restrictions on nationals of Bulgaria and Romania (the so-called A2 countries) beyond January 2009. It has asked the Migration Advisory Committee (MAC) to advise on the implications of lifting the restrictions. This report provides that advice.

1.2. In August 2008 the Government specifically asked that we:

> *"consider what the likely impact on the UK labour market would be of relaxing existing restrictions, and whether it would be sensible to do so."*

1.3. This report focuses primarily on the UK as a whole, although we do, as also asked by the Government, take into consideration any issues specifically relating to Scotland.

1.4. The MAC was established at the end of 2007 to provide transparent, independent and evidence-based advice to Government on where shortages of skilled labour exist that can sensibly be filled by immigration. We completed this task by publishing a report in September 2008 containing the recommended shortage occupations list for the UK and Scotland. The Government may, from time to time, ask the Committee to advise on other matters relating to immigration.

1.2 Background

1.5. The EU consists of 27 countries: the 15 member states before enlargement in 2004 known as the EU15 (which include the UK); Cyprus and Malta; the eight countries that acceded to the EU in 2004, known as the A8; and Bulgaria and Romania, which acceded to the EU in 2007 and are known as the A2. All EU countries are members of the European Economic Area (EEA). A full breakdown of EU and EEA member states is provided in Box 1.1.

1.6. The Treaty of Accession 2003 was the agreement between the EU and the A10 countries, concerning their accession into the EU. It allowed existing EU members to impose transitional restrictions on the freedom of labour on the new member states, with the exception of Cyprus and Malta, for a maximum of seven years from the day of accession. The Treaty of Accession 2005 arranged the accession of Bulgaria and Romania to the EU and allowed existing members to impose transitional restrictions on the freedom of labour from those countries, also for a maximum of seven years from the day of accession.

1.7. The UK decided to restrict access to its labour market to nationals of Bulgaria and Romania when those countries acceded to the EU on 1 January 2007. Details of the restrictions are set out in Chapter 4.

1.8. For both the A8 and A2 immigrants, this seven-year period during which restrictions can apply is divided into three phases according to a "2+3+2" formula. Employment restrictions can be imposed for the first two years following accession and may be extended for a further three years. After that, they can be extended for an additional two years, but only if the national domestic labour market is experiencing serious disturbances.

Box 1.1 Breakdown of EU and European Economic Area member states

The EU15 comprises the UK and the 14 following countries:

- Austria
- Belgium
- Denmark
- Finland
- France
- Germany
- Greece
- Ireland
- Italy
- Luxembourg
- Netherlands
- Portugal
- Spain
- Sweden

The A10 countries are:

- Cyprus
- Czech Republic
- Estonia
- Hungary
- Latvia
- Lithuania
- Malta
- Poland
- Slovakia
- Slovenia

The A8 member states are all of the above excluding Cyprus and Malta

The A2 member states are:

- Bulgaria
- Romania

The following countries are members of the EEA but not the EU:

- Iceland
- Liechtenstein
- Norway

1.9. The UK Government considered whether to lift the restrictions in 2007 but decided that the prudent balance of costs and benefits was to maintain restrictions, while the medium- to long-term effects of accession migration were considered. The UK is now conducting its first mandatory review of the restrictions imposed upon nationals of Bulgaria and Romania following accession.

1.3 Our approach

1.10. In terms of the advice to be offered in this report, several potential recommendations were open to us. One option was to recommend that the current restrictions on employment of A2 nationals be fully retained. At the other extreme, a second option was to recommend that they be removed altogether. This would mean that nationals of Bulgaria and Romania would have the same access to the UK labour market as nationals of the EU15, or be subject to a registration scheme similar to the Worker Registration Scheme currently in place for A8 nationals who work in the UK.

1.11. Intermediate options were to recommend partial lifting of restrictions, either through:

- a relaxation of the work permit criteria that currently apply to employment of skilled workers from Bulgaria and Romania within the UK; or

- special schemes: for particular sectors or occupations where there is a particular case for, or benefit from, employing A2 nationals (e.g. creating additional sector schemes for A2 nationals or expanding the existing schemes); or special arrangements for Scotland.

1.12. The process by which we developed our advice can be summarised as follows:

- On balance, would the economy and labour market benefit from lifting the restrictions on employing A2 nationals.

- Would a better outcome than the above be achieved by a partial lifting of the restrictions and, if so, what type of partial lifting?

- If, after accounting for risks and uncertainties, there is a benefit from either a full or partial lifting of restrictions, we recommend the most favourable of these options (and if that is a full lifting we would then consider whether or not a scheme for registering A2 workers is desirable).

- If, after accounting for risks and uncertainties, there is not a case for either a full or partial lifting, we recommend that the current restrictions be maintained.

1.13. Analysing and forecasting immigration and its impacts is an inexact science. This was borne out by the House of Lords (2007) when it said: “the existing data about gross and net immigration flows to the UK, and about the stock of immigrants in the UK, are seriously inadequate.”

1.14. There were also some particular difficulties we faced in developing our advice on the specific A2 issue at this time. One problem arose from the fact that other countries have to announce their position on A2 to the same timetable as the UK, and their actions have important implications for the number and type of A2 immigrants that would come to the UK if the restrictions were removed or relaxed. Second, uncertainty in relation to the likely length and depth of the current economic downturn in the UK and world economies added a further degree of complexity to our work. These uncertainties played an important role in influencing our advice.

1.15. In considering the likely impact of revising the present restrictions, we looked at the impact on the UK labour market in particular and the UK economy in general. We considered variables such as earnings, employment, unemployment, GDP, GDP per head and net fiscal impacts. We examined the likely impacts on the UK as a whole. However, in response to the Government’s request, we considered Scotland as a separate case.

1.16. In terms of relaxing the restrictions for specific sectors, time constraints meant that we were not able to carry out analysis that was as detailed or wide-reaching as that for our report published in September 2008, where we set out our recommended shortage occupation lists for the UK and Scotland for Tier 2 of the Points Based System (PBS) for immigration. However, the underpinning methodology was similar. In Migration Advisory Committee (2008) we set out three criteria that had to be met for an occupation to be included on the shortage occupation list:

- First, is the occupation **skilled**? Individual occupations under Tier 2 of the Points Based System needed to be skilled to at least National Qualification Framework (NQF) level 3.

- Second, is there a labour **shortage** in that occupation? We assessed whether there is a shortage of labour within each skilled occupation.

- Finally, would it be **sensible** to fill any shortage using immigrant labour? We considered whether it would be sensible for immigration from outside the EEA to be used to fill these shortages.

1.17. We asked the “skilled” question in our former report because Tier 2 of the Points Based System is for skilled employment only. However, in the case of A2 workers, the Government has the option of deciding to allow the employment of A2 immigrants in less skilled jobs. Therefore, we do not confine our consideration in this report to skilled labour. Nonetheless, when considering the case for special sectoral schemes, the questions of shortage and sensible remained relevant, and so we considered them.

1.18. Our primary focus is on labour market effects, although we also take into account broader economic interests. There are other issues which, although important, are beyond our remit and which are not reflected in our advice. First, there are the potentially important implications that the relaxing of restrictions may have for A2 member states. We note these implications where we have received evidence on them. Second, our terms of reference do not include the social impacts of immigration, e.g. impacts on public services or social cohesion. The Migration Impacts Forum was set up to consider these sorts of issues.

1.19. Our general definition of an immigrant in this report is a person born outside the UK. However, as there is no universal definition of an immigrant, in places we use data or refer to literature that use other definitions of an immigrant.

1.4 How did we gather evidence?

1.20. We based our decisions on a combination of desk-based research and evidence sought from expert stakeholders. We drew up a list of questions that we needed evidence on in order to inform our work. These are set out in Box 1.2.

1.21. For the desk-based research component of our work, we reviewed the existing literature and gathered and analysed relevant data.

1.22. We sought expert evidence from academics, Sector Skills Councils, employers, sectoral representatives and other relevant stakeholders. We are extremely grateful to the individuals and organisations who provided input into this work.

1.23. We received factual information from the Government on its position regarding the restrictions imposed on A2 nationals at a meeting on 12 September 2008. On 26 September 2008, we took evidence from academics and other experts.

1.24. In addition to the oral evidence, we invited written evidence from the Department for Business, Enterprise and Regulatory Reform, the Department for Children, Schools and Families, the Department for Communities and Local Government, the Department for Culture, Media and Sport, the Department for Environment, Food and Rural Affairs, the Department of Health, the Department for Innovation, Universities and Skills, the Foreign and Commonwealth Office, the Department for Work and Pensions, the Home Office and HM Treasury. We received evidence from these Departments in a coordinated response, although some departments also contacted us directly.

1.25. We also sought and received written evidence from selected academics and other experts. We invited 116 experts or organisations to provide written evidence and 32 did so.

Box 1.2 Questions for MAC work on Bulgaria and Romania
Policy and economic context
1. What would be sensible policy objectives in terms of deciding whether or not to lift the restrictions (e.g. maximise GDP per head, fill skill gaps etc)?
2. What was the economic rationale for current restrictions placed on Bulgaria and Romania (A2)? Have the economic and other circumstances that provided a basis for the current A2 restrictions changed, and how?
3. What restrictions are in place in other EU countries (A2 and A8) and how and when may that change in the future?
4. How have restrictions in other countries affected the magnitude and characteristics of A2 (and A8) migration flows into the UK?
5. What happened to flows of in and out migration in countries that opened up their borders to A8 migrants and those who did not? How did the policies on A8 interact across countries?
Labour market context
6. What type labour (skill, experience, qualifications and education levels) is available in the A2 countries? Which workers will want to come to the UK?
7. What is the economic situation in A2 countries and how might this affect the potential supply of A2 labour? What can we learn from our experience of the A8?
8. Is there evidence of labour shortage (low skilled or other) or a mismatch between supply and demand in the UK that A2 workers may help to address?
9. How might the current and likely future economic and labour market context in the UK affect the demand for, and impact of, A2 workers?
Methodology and conceptual framework
10. What are the key theories of migration flows and effects? For example, key push and pull factors, or network effects. Can these theories help to predict the effects of lifting the restrictions?
Policy scenarios
11. What have been the impacts of the current A2 restrictions on the number and type of A2 (and other) immigrants coming to work in the UK, legally or illegally?
12. What have been the labour market and other economic impacts of restrictions on the employment of A2 and A8 nationals (or lack thereof) in other EU countries?
13. What is the likely impact of the lifting of restrictions on the number and type of A2 workers wanting to come to the UK?
14. What is the likely impact of lifting the restrictions on particular (low skilled or other) labour shortages?
15. What is the likely impact of lifting the restrictions on wider economic variables (e.g. GDP per head, fiscal position etc)? What happened in the case of A8?

Box 1.2 Questions for MAC work on Bulgaria and Romania (continued)
Policy considerations and recommendation
16. How would a decision on A2 affect the working and effectiveness of the PBS (including the work of the MAC)?
17. What are the likely impacts on the A2 countries of the UK lifting, not lifting or partially lifting restrictions?
18. Should restrictions on A2 workers be lifted, not lifted, or partially lifted? If partially lifted, then how? If not covered above, what is the basis for this belief?

1.26. In terms of sectoral evidence, we also took evidence from the agriculture, construction, food processing, hospitality and social care sectors – major employers of migrants in low-wage jobs – at separate meetings on 2 and 3 October 2008. We also sought employer evidence from each of the 25 Sector Skills Councils. We met other sectoral representatives as appropriate, including Seasonal Agricultural Workers Scheme operators on 4 November 2008. We also discussed this work with the Migration Advisory Committee Stakeholder Panel when we met with them on 3 October 2008.

1.27. We also visited Bulgaria and Romania on 7 and 8 October 2008, where we met key stakeholders and experts in those countries. In Bulgaria we met officials from the Ministry of Labour and Social Policy, the Ministry of Interior, the National Statistics Institute, and the Bulgarian National Bank. In Romania we met the State Secretary for the Ministry of Labour, the Economy and Finance Ministry, the Romanian Office for Immigration, and the International Organisation for Migration.

1.28. We wrote to the Scottish Executive to elicit their help in taking views about the position in Scotland and offered to visit Scotland. They supplied us with a response setting out their views and a list of stakeholders in Scotland. We contacted each of these and received three replies.

1.5. Structure of the report

1.29. Chapters 2-5 draw on the relevant data, literature and evidence received to provide the context for our advice. Chapters 6-8 apply that context in order to evaluate the cost and benefits of removing, relaxing or retaining the A2 restrictions.

1.30. More specifically, in Chapter 2 we provide factual information on the economic and labour market structure and conditions in the UK, Bulgaria and Romania. Chapter 3 discusses key theories and available evidence on the drivers and impacts of immigration.

1.31. Chapter 4 sets out the UK policy and legal position in respect of A2 nationals and information on stocks of A2 immigrants within, and flows into, the UK. It also discusses the policy, stocks and flows in relation to other EU countries. Chapter 5 discusses the A8 experience in the UK and the EU, in order to assess whether there are lessons to be learned in terms of the A2 decision.

1.32. In Chapter 6 we examine the likely impact of lifting the restrictions altogether. Chapter 7 discusses the options for, and impact of, partially relaxing the restrictions, including how this would affect specific sectors.

1.33. In Chapter 8 we set out our conclusions and the possible next steps for the MAC in this area of work.

1.34. Annex A gives a list of organisations and people from whom we sought written evidence, and identifies those who provided evidence. Annex B gives a list of organisations and individuals that gave us oral evidence and Annex C gives a list of organisations and individuals we met. Annex D describes transitional restrictions on A2 nationals across the EU and Annex E describes the characteristics of A2 and A8 nationals currently in the UK.

Chapter 2
The UK, Bulgaria and Romania: background information

2.1 Introduction

2.1. This chapter gives an overview of the populations, economies, and labour markets of the UK, Bulgaria and Romania. Information about the respective economies of these countries feeds into our discussion of possible flows and impacts of A2 immigration in subsequent chapters. Key points emerging from the data and comparisons between the A2 member states, the UK and the rest of the EU are set out in Box 2.1.

2.2. Data are largely drawn from national level and EU-wide data sources. However, some up-to-date data and qualitative analysis of trends were obtained from our discussions with officials and experts in Bulgaria and Romania as well as the UK. It is not always possible to obtain entirely consistent data for different countries. Also data on the same country will differ slightly according to the source it was gathered from, due to the different methodologies used (for instance, according to the Office for National Statistics (ONS), UK GDP growth in 2007 was 3.0 per cent, while according to Eurostat's methodology it was 2.7 per cent). As such, it is not always possible to make strictly accurate comparisons across countries as data from different sources can appear inconsistent. But it is generally possible to make broad comparisons, and we do this where we can.

Box 2.1: Key points and comparisons

The UK, including Scotland

- Until the second quarter this year, the UK enjoyed a sustained period of GDP growth. However, latest figures suggest that the UK economy has contracted, and independent forecasts suggest recession in 2009.
- Recent figures show that the economic downturn is starting to affect UK labour markets, with increases in unemployment and reduced vacancies.
- In common with the UK as a whole, in Scotland GDP growth is slowing, vacancies are falling, unemployment rates are rising, and employment rates are falling. Some sectors are showing slower rates of employment growth, or faster declining employment, most notably construction.

The A2 member states

- Both A2 member states are amongst the lowest-income economies in Europe, with GDP per capita of just over one third of the EU15 average. However, both countries have seen real GDP grow at an average rate of over 5 per cent per annum in recent years, compared to under 3 per cent in the UK.
- Approximately 17 per cent are educated to degree level in Bulgaria and 13 per cent (aged 25-64) in Romania.
- Labour markets have been strong in the A2 countries with shortages reported in some key sectors and strong real wage growth.
- In 2007 the unemployment rates in Bulgaria and Romania stood at 6-7 per cent, close to the EU average but above the UK rate of approximately 5 per cent.
- In the year to August, inflation was estimated to be 8.1 per cent in Romania and 11.8 per cent in Bulgaria, which is 2-3 times the expected rate of UK inflation in 2008.
- Major areas of employment under contract in Bulgaria and Romania include manufacturing; trade, repair of motor vehicles and personal and household goods; and construction. Agriculture is also a major sector, especially in Romania.

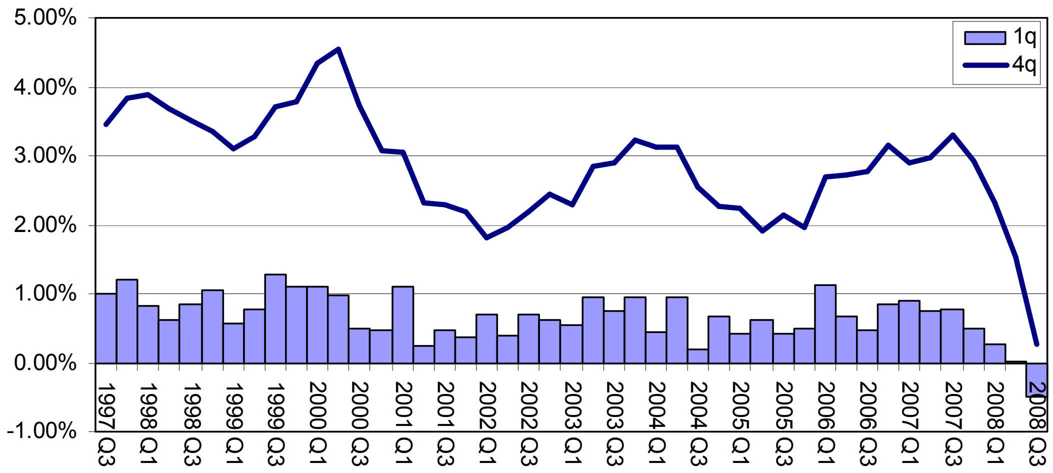
2.2 The UK

Macro-economic overview

2.3. In 2007 the UK was the second largest economy in Europe after Germany. From 1992 to 2007 the UK experienced a continuous period of sustained economic growth, averaging real growth of 2.8 per cent per annum. In 2007 the UK had an annual growth rate of 3.0 per cent (ONS, 2008a).

2.4. However, recent developments in the global economy have slowed growth. As Figure 2.1 shows, after Q3 in 2007 the growth rate started to decline and in Q3 of 2008 it was negative. A further quarter of negative growth would imply recession, by the accepted definitions.

Figure 2.1 UK quarterly and annual growth of real Gross Domestic Product, 1997 Q3 to 2008 Q3



Notes: Seasonally adjusted, market prices, chained volume measure, reference year 2003.
Source: ONS, EMLR (2008).

2.5. As set out in the UK Government's evidence to us, the world economy is now entering a period of low economic growth. The International Monetary Fund (IMF) (2008a) has reported that a deep financial crisis and continuing high commodity prices have led to quickly deteriorating UK and global growth. Both developments harm the UK more than most developed countries, as the UK obtains revenue from exporting financial services, while recording deficits in finished goods and commodities, including food. IMF (2008b) predicts that real GDP growth for 2008 will be 1.0 per cent for 2008, falling to -0.13 in 2009. It also predicts that consumer price inflation will be 3.8 per cent in 2008, falling to 2.9 per cent in 2009.

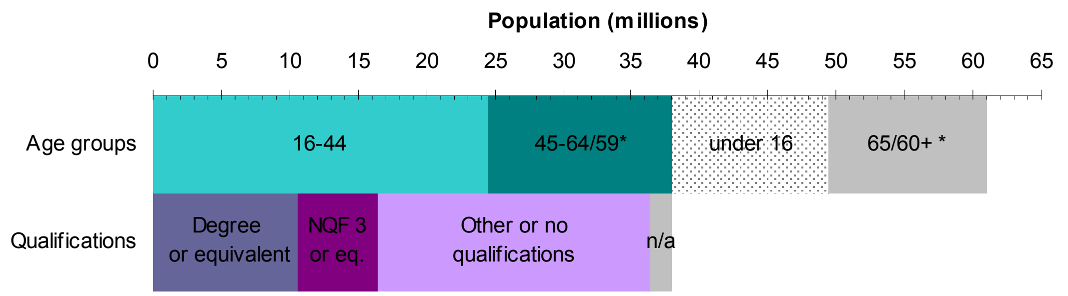
2.6. The ITEM Club's (2008) autumn forecast also sees the UK entering recession, with it forecasting GDP to shrink by 1.0 per cent in 2009, followed by a slow recovery to 1.0 per cent growth over 2010, and 2.9 per cent in 2011. The National Institute for Economic and Social Research (NIESR) predicts that Britain's economy will shrink by 0.9 per cent in 2009.

2.7. The above forecasts pre-dated the decision of the Bank of England to reduce the bank interest rate by 1.5 percentage points to 3 per cent on 6 November 2008. This was due to the downward shift in the prospects for inflation in the UK and the deterioration in the outlook for economic activity. The Bank of England, in its central projection set out in the November 2008 inflation report, forecast a pronounced contraction in domestic demand, with GDP falling by almost 2 per cent in the year to the second quarter of 2009, on the assumption of further reductions in the Bank Rate (base interest rate) and a number of other positive conditions (Bank of England, 2008).

Demography and labour market

2.8. As shown in Figure 2.2, the UK population was estimated to be 61 million in 2007 (ONS, 2008c), which is an increase of 2 million on 2001.

Figure 2.2 UK population by age groups, and working age population by qualifications held, 2007



Notes: *working age for males is 16-64 and females is 16-59. **Figures describe the working age population including students but excluding those who do not record a highest qualification – n/a.
Source: Age – ONS Population estimates. Qualifications – Romanian Labour Force Survey (September-December 2007).

2.9. Around 60 per cent of the UK population are of working age. Of the working age population there are approximately 10 million university graduates (or equivalent) and 16 million with a qualification equal to or greater than level 3 of the National Qualifications Framework (NQF). Together these workers make up approximately 50 per cent of the working age population in employment (Labour Force Survey (LFS)).

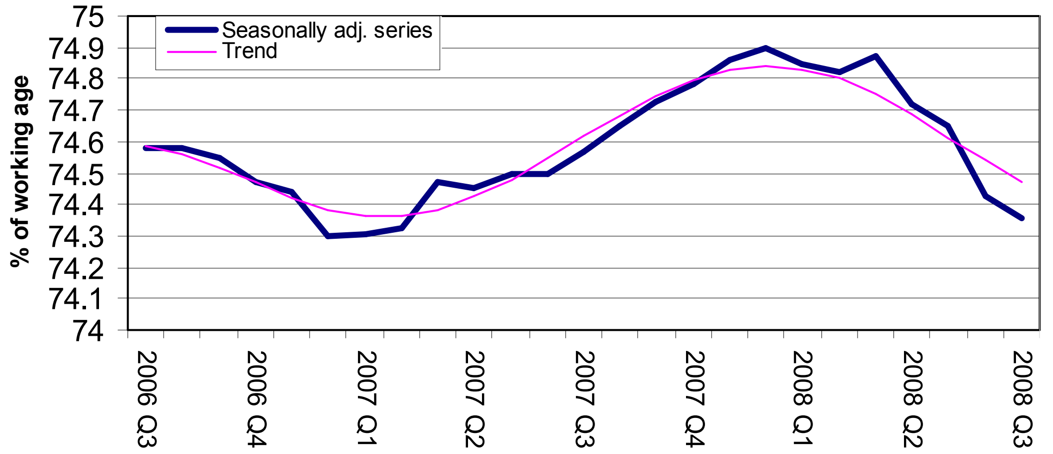
2.10. Alongside the growing economy, UK immigration has risen since the end of the last recession in 1993, with immigrants comprising approximately 8 per cent of the working age population in 1993 and approximately 13 per cent in 2008 (LFS).

2.11. In comparison with past levels the UK still has moderately low unemployment and high employment rates. However, due to the current economic slowdown unemployment rates are rising and employment rates are falling, and this may continue into the immediate future.

> *"A slowdown in the proportion of the British population who are economically active and in employment could well unfold against a background of above target inflation driven by strong increases in commodity and energy prices and the depreciation of sterling."*
>
> UK Government evidence to the MAC

2.12. Figure 2.3 shows how the employment rate has fallen in recent months. The employment rate for people of working age was 74.4 per cent in the three months to September 2008, which is down 0.2 percentage points on the year (ONS, 2008b).

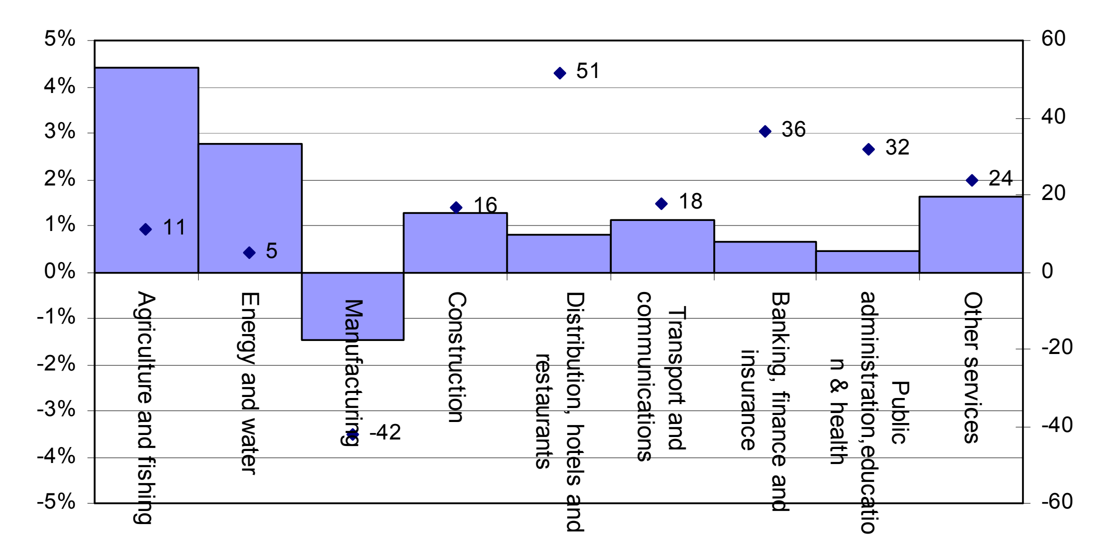
Figure 2.3 UK working age employment rate, Q3 2006 to Q3 2008



Source: ONS, Labour Market Statistics, (2008b).

2.13. Looking back slightly further, from June 2007 to June 2008 jobs in all sectors increased apart from in manufacturing where there were approximately 16,000 fewer jobs, a fall of 1.5 per cent. The sector that grew by the largest percentage was agriculture and fishing which grew by 4.4 per cent (ONS, 2008b). But the predicted recession implies that such employment growth is unlikely to continue.

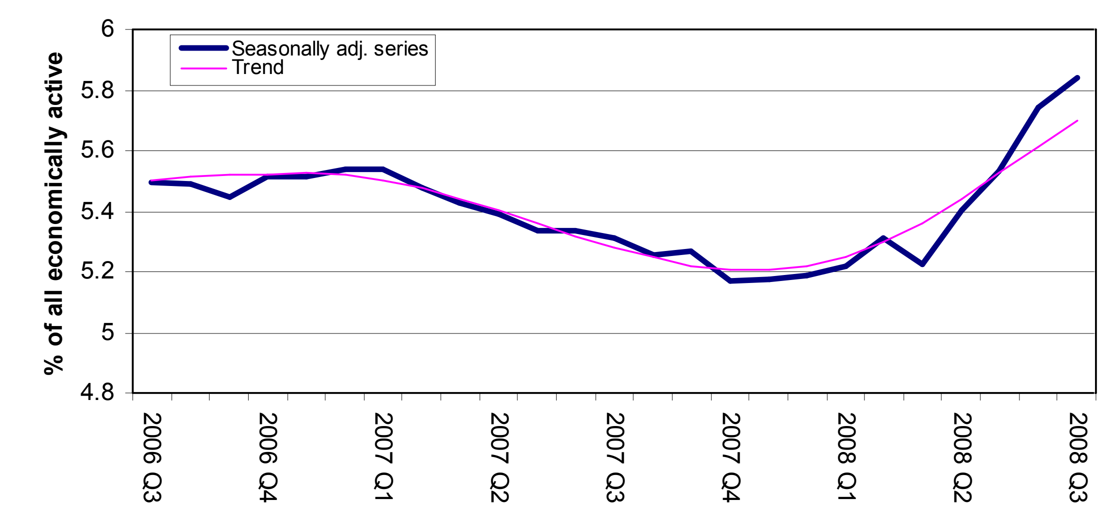
Figure 2.4 Change in jobs by industry (percentage change and in thousands), June 2007- June 2008, UK



Notes: The x-axis on the left is for the percentage change in jobs and corresponds to the bars. The x-axis on the right shows the number (in thousands) of job changes, and corresponds to the diamonds.
Source: Nomis, employer job estimates.

2.14. The unemployment rate, shown in Figure 2.5, and the claimant count rate have risen since late last year. The unemployment rate was 5.8 per cent in the three months to September 2008, up 0.5 percentage points on the year. The claimant count rate for September 2008 was 3.0 per cent of the workforce, up 0.5 percentage points on the year (ONS, 2008b).

Figure 2.5 UK unemployment rate, Q3 2006 to Q3 2008

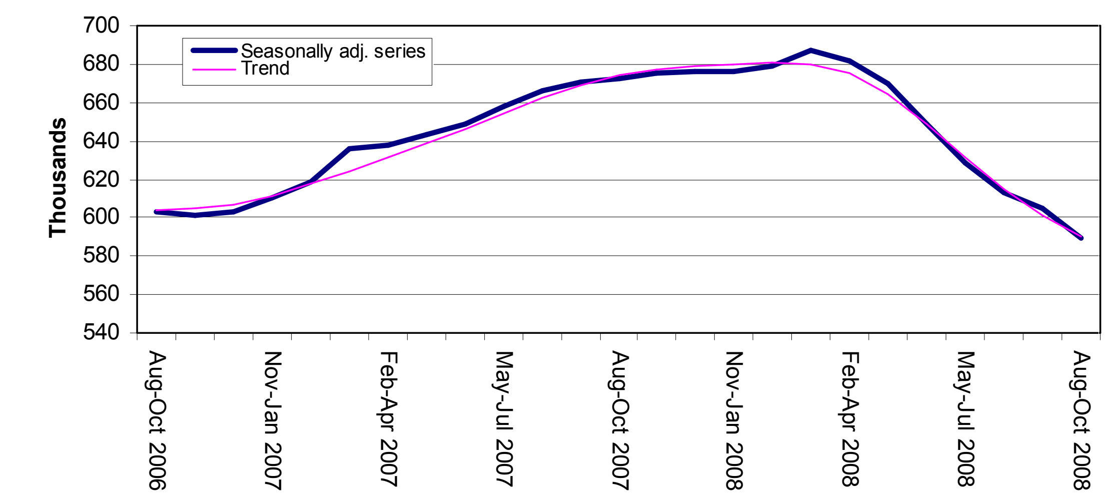


Notes: The International Labour Organisation (ILO) definition of unemployment is used here.
Source: ONS, Labour Market Statistics, (2008b).

2.15. Over the year to September 2008, average nominal wage growth was 3.6 per cent, unchanged from the three months to August (ONS, 2008b).

2.16. In the three months to September 2008, the number of vacancies was down 83,000 over the year to 589,000 and the number of vacancies per 100 employee jobs fell from a year earlier by 0.3 to 2.3 (ONS, 2008b).

Figure 2.6 Total vacancies in UK, Aug-Oct 2006 to Aug-Oct 2008



Source: ONS Labour Market Statistics (2008b).

2.17. In conclusion, it is clear that we need to consider our advice on the restrictions applying to A2 nationals in light of the recent downturn of the economy and uncertainties about the scale of slowdown.

2.3 Scotland

2.18. The MAC has been asked by the Government to consider any issues specific to Scotland. Therefore, when determining our advice we need to consider the current labour market and wider economic context in Scotland. This section looks at some specific trends for Scotland, particularly in comparison to the UK as a whole (i.e. England, Wales, Northern Ireland and Scotland).

Macro-economic overview

2.19. GDP growth in Scotland tends to be lower than for the UK as a whole, but follows the same pattern of growth (Scottish Government, 2008a). Recent statistics show that GDP for Scotland rose by 1.8 per cent over the year in the second quarter of 2008, which was a growth rate of only 0.1 per cent from the first quarter (Scottish Government, 2008b), indicating that Scotland's economy is also slowing.

2.20. Because GDP per capita growth controls for population growth, in Scotland GDP per capita growth tends closer to the average for the UK than GDP growth. For example 1.9 per cent (Scotland) versus 2.0 per cent (UK) per annum over the period 1976-2006 (CPPR, 2008).

Demography and Labour market

2.21. As of mid-2006, official estimates put Scotland's population at around 5.1 million people (Government Actuary's Department (GAD), 2008). The population of Scotland decreased by 1.6 per cent between 1981 and 2005. However official projections estimate Scotland's population has now increased slightly to approximately 5.2 million in 2008 and forecasts Scotland's population to continue to rise in coming years, but much less rapidly than in the UK as a whole (GAD, 2008).

2.22. The working age population as a proportion of the total population in Scotland is very similar to the UK as a whole. But in Scotland, the working age population is also projected to rise less rapidly than in the UK, including among the 15-29 age group (GAD, 2008).

2.23. In the second quarter of 2008, 20.2 per cent of the working age population had a degree or equivalent qualification and 11.8 per cent had no qualifications compared to 20.3 per cent and 12.6 per cent in the UK (LFS).

2.24. The employment rate in Scotland for the third quarter of 2008 was 76 per cent, which is higher than the 74 per cent for the UK. The unemployment rate was 4.8 per cent, significantly below the UK rate (ONS, 2008a).

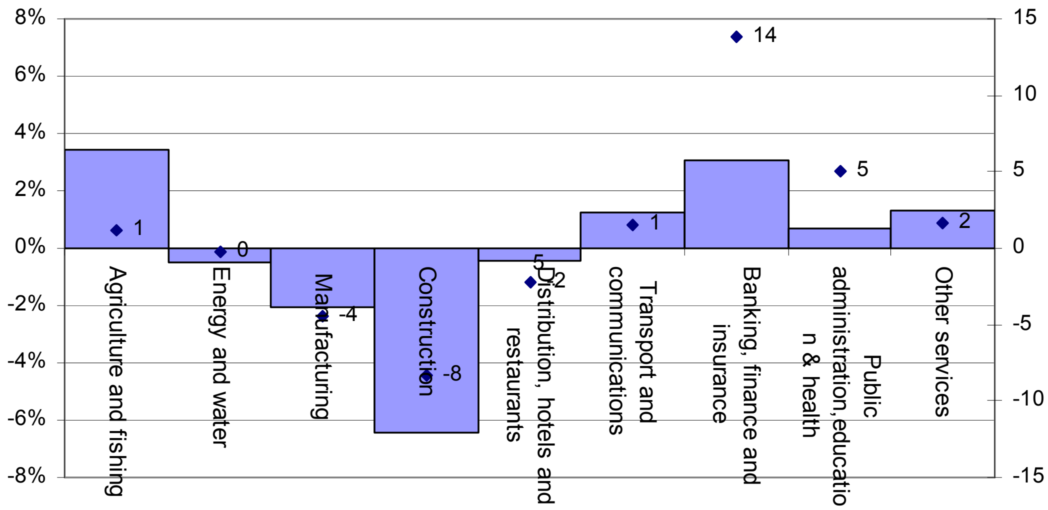
Table 2.1: Working age employment and unemployment figures in Scotland, Jun-Aug 2006 to Jun-Aug 2008

	Total in employment (thousands)	Unemployed (thousands)	Employment rate (%)	Unemployment rate (%)
Jun-Aug 2006	2,401	123	75.3	4.9
Jun-Aug 2007	**2,460**	**121**	**76.8**	**4.7**
Sep-Nov 2007	2,453	130	76.5	5.0
Dec-Feb 2008	2,458	127	76.6	4.9
Mar-May 2008	2,466	105	76.8	4.1
Jun-Aug 2008	**2,441**	**123**	**76.0**	**4.8**

Notes: The levels and rates are for working age population (16 to 59/64).
Source: LFS data reported in the ONS, EMLR, (2008a).

2.25. The LFS data for the third quarter of 2008 show that, like the rest of the UK, the Scottish labour market has been affected by the contraction in the economy. Table 2.1 shows that, compared to a year ago, the employment rate has fallen by 0.8 percentage points and the level of employment has dropped. Over the year the unemployment rate has risen by 0.1 percentage point and the number of unemployed has risen.

Figure 2.7 Change in jobs by industry (percentage change and in thousands), June 2007- June 2008, Scotland



Notes: The x-axis on the left is for the percentage change in jobs and corresponds to the bars. The x-axis on the right shows the number (in thousands) of job changes, and corresponds to the diamonds.
Source: Nomis, employer job estimates.

2.26. Figure 2.7 shows that, from June 2007 to June 2008, the estimated employee jobs in Scotland decreased in the following sectors: energy and water by 0.5 per cent; manufacturing by 2.1 per cent; construction by 6.4 per cent; and distribution, hotels and restaurants by 0.4 per cent to 537,000 jobs. Over the year to June 2008, jobs grew in the other sectors with the largest increase being in agriculture and fishing which grew by 3.4 per cent (Nomis). The most notable divergence from the UK is in construction, where UK employment grew over the same period, as shown in Figure 2.4.

2.27. In 2007 the median hourly wage in Scotland (£9.97) was slightly less, but similar to, the UK level (£10.22) (Annual Survey of House and Earnings (ASHE)).

2.28. The inflow of vacancies notified to Job Centre Plus fell in Scotland over the year to September 2008 by approximately 32 per cent, compared to a fall of approximately 28 per cent in Great Britain. Over the same time period, the stock of vacancies (live unfilled vacancies) fell by 27 per cent in Scotland compared to 18 per cent in Great Britain (Nomis).

2.29. In summary, Scotland's economy is also experiencing a downturn. Like the UK as a whole, GDP growth is slowing, vacancies are falling, unemployment rates are rising, and employment rates are falling. Chapter 7 considers the evidence we have received from stakeholders in relation to Scotland and the A2 restrictions.

2.4 Bulgaria

Macro-economic overview

2.30. Driven by domestic demand, the Bulgarian economy has been growing strongly since 2000, with real GDP growth averaging 5.5 per cent per year from 2000 to 2007 (Eurostat). While overall economic activity accelerated in the first half of 2008 on a year-on-year basis, investment growth seems to be moderating from the highs seen over previous years (UK Government evidence to the MAC).

2.31. GDP per capita (Purchasing Power Standards (PPS)) levels were just over one third of the EU15 and UK levels in 2007 (Eurostat). While the level is still very low, real GDP per capita (PPS) growth has been very strong, with annual growth averaging 6.4 per cent between 2000 and 2007 compared to 1.7 percent in the EU15 and 2.3 per cent in the UK (Eurostat).

2.32. The Bulgarian economy is expected to continue growing, though at a slower pace compared to recent years. The analysis of the UK Government is that the main risks to the economic outlook relate to:

- overheating of the economy;
- large and widening current account balance;
- high and rising external debt;
- the expected moderation of growth in export markets, with the continued appreciation of the real effective exchange rate; and
- possible EU sanctions on structural funds (related to corruption).

2.33. Although inflation has been falling over recent months, it still remains high (11.8 per cent in August 2008) (UK Government's evidence to the MAC). This is driven by large increases in commodity prices and strong wage growth. The Bulgarian Central Bank mirrors the European Central Bank's interest rate decisions and the current interest rate is not thought to be sufficiently high to curb domestic inflationary pressures.

Demography and labour market

2.34. The population of Bulgaria is just under 7.5 million (UK Government's evidence to the MAC). Of this, 3.5 million are of working age, with females making up 51 per cent of the population, but only 47 per cent of the working-age population (Bulgarian Labour Force Survey, Q2, 2008).

2.35. The population of Bulgaria is declining. The natural increase became negative in the 1970s and it has continued to decline since then (Bulgarian National Statistical Institute (NSI), 2008a). Historically low birth rates (a legacy of the transition periods) were one contributory factor. Higher education and potential living standards and increasing female employment rates, both resulting in a tendency to wait to have children, were also cited during our visit to Bulgaria.

2.36. Consequently, the population is ageing. Between 2000 and 2006, the proportion of 15-24 year olds dropped nearly two percentage points, and the proportion of 55-64 year olds has increased by a similar proportion (Dimitrov, 2008). Out-migration will also affect the demographics of the population that remains in Bulgaria.

2.37. In 2006, approximately 17 per cent of the population had received higher education, while 45 per cent were educated to secondary level (Dimitrov, 2008). Education levels are increasing relatively rapidly in the workforce.

2.38. Employment rates dropped following the collapse of the Soviet Union, remained low during the 1990's, but are now recovering (Dimitrov, 2008). The employment rate was approximately 62 per cent in 2007 (Eurostat) and had further risen to 64 per cent in the second quarter of 2008, with an economic activity rate of 68 per cent (NSI, 2008).

2.39. The unemployment rate fell from 19.5 per cent in 2001 to 6.9 per cent in 2007 (Eurostat). More recent figures estimate the unemployment rate to have fallen further, to 5.8 per cent in the second quarter of 2008 (NSI, 2008). The UK Government told us that of the unemployed in Bulgaria:

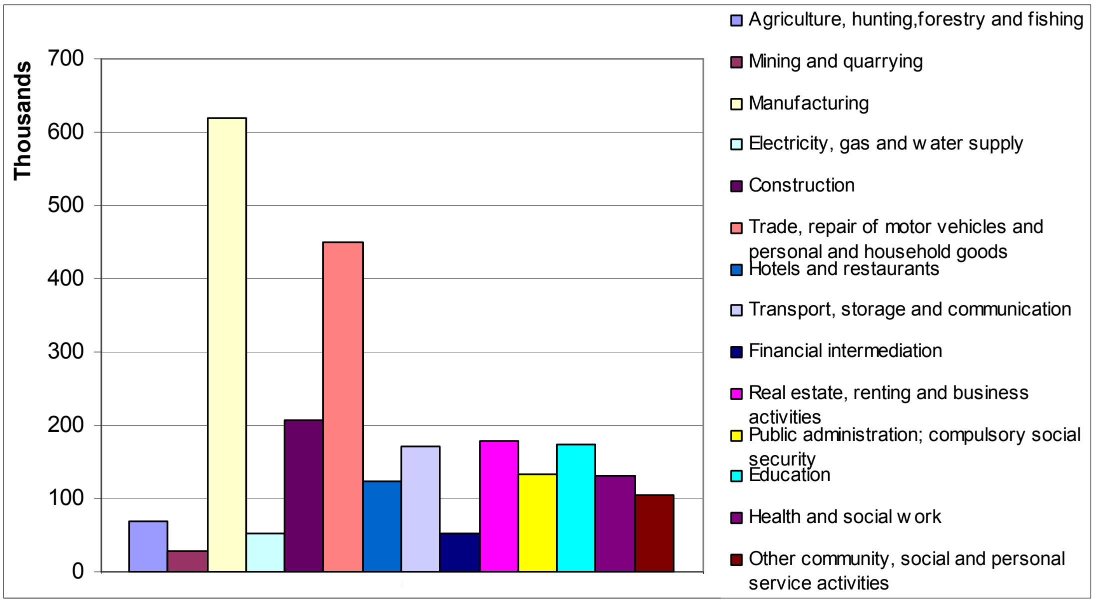
- two thirds are long-term (more than 1 year) unemployed;
- one fifth are in the 15 to 24 age group, and one third are between 15-64 ; and
- half of them are low skilled.

2.40. Earnings have been growing rapidly, with nominal average earnings increasing by more than 20 per cent on an annual basis in every month since the start of 2008, reaching a growth rate of 25 per cent in June 2008 compared to the same month in 2007 (NSI, 2008b). With wages growing faster than productivity, unit labour cost growth has been very high at 22 per cent year on year in the second quarter of 2008 (NSI, 2008b).

2.41. Shortages of labour have increased markedly since 2007, with acute shortages in the health care sector. With many nurses emigrating, the nurse-to-doctor ratio is thought to be around 1:1 (UK Government's evidence to the MAC). There is no standard ratio of nurse to doctor. However, the 1993 World Bank's World Development Report (World Bank, 1993) suggested, as a rule of thumb, that the ratio of nurses to doctors should exceed 2:1 as a minimum, with 4:1 or higher considered more satisfactory for cost-effective and quality care. We were told during our visit to Bulgaria that, in future, labour shortages are likely to be a major issue, with many employers looking abroad to fill in vacancies. However, this may alter if Bulgaria is affected by the worldwide economic downturn.

2.42. Figure 2.8 shows the breakdown of employees by the sector they worked in in 2008.

Figure 2.8 Employees under labour contract, by sector, Bulgaria, 2008



Source: Bulgarian NSI (2008c).

2.43. The three largest economic activities in terms of employees under a labour contract in Bulgaria, in the first quarter of 2008, were manufacturing (24.8 per cent of employment); trade, repair of motor vehicles and personal and household goods (18.1 per cent); and construction (8.3 per cent). Health and social work accounted for 5.2 per cent and agriculture 2.7 per cent (NSI, 2008c). However, as for Romania (see next section), we believe these figures underestimate total levels of agricultural employment.

2.5 Romania

Macro-economic overview

2.44. Real GDP growth has been very strong since 2000 to 2007, averaging 5.5 per cent per year (Eurostat). Domestic demand, particularly private consumption, has been the main driver of growth. Activity gathered pace further over the first half of 2008, with growth reaching 9.3 per cent in Q2 over the previous year, with investment growth providing strong stimulus (UK Government's evidence to the MAC).

2.45. Real GDP per capita (PPS) was approximately 36 per cent of the EU15 level in 2007. Real GDP per capita has also grown at a rapid rate, averaging 5.8 per cent per year between 2000 and 2007 (Eurostat).

2.46. Growth in 2008 will continue to be driven by government spending and private consumption, along with generous wage and pension settlements, and is likely to exceed that of 2007 (Euromonitor, 2008). However, UK Government and Romanian Finance Ministry officials told us they expected lower growth in 2009. Monetary policy will be tightened to address Romania's macroeconomic imbalances – rising current account and budget deficits (around 14 per cent of GDP in 2007), and inflationary pressures (8.1 per cent in August) (UK Government's evidence to the MAC). This is expected to result in muted consumption growth and inflation, and may result in lower business profits, while tighter lending conditions may also slow investment growth (Euromonitor, 2008).

Demography and labour market

2.47. The Romanian population is estimated to be around 22 million, of which 9.7 million are economically active (Figure 2.9).

2.48. Current activity and employment rates are very low by EU standards at 60 per cent and 58 per cent respectively in 2007 (Eurostat). Following a sharp contraction between 1999 and 2004, employment has been growing slowly since. Annual employment growth was around 1 per cent year on year in 2008 Q1. After peaking above 10 per cent in early 2002, the unemployment rate has settled at around 6-7 per cent in 2007 and 2008 (Romanian Labour Force Survey, Q1, 2008).

2.49. Nominal average earnings growth has been very high over recent years. After decelerating somewhat in 2006, it reached 21 per cent in 2007 (15 per cent in real terms), and accelerated further since the start of 2008, registering 26 per cent year on year in July 2008 (UK Government's evidence to the MAC).

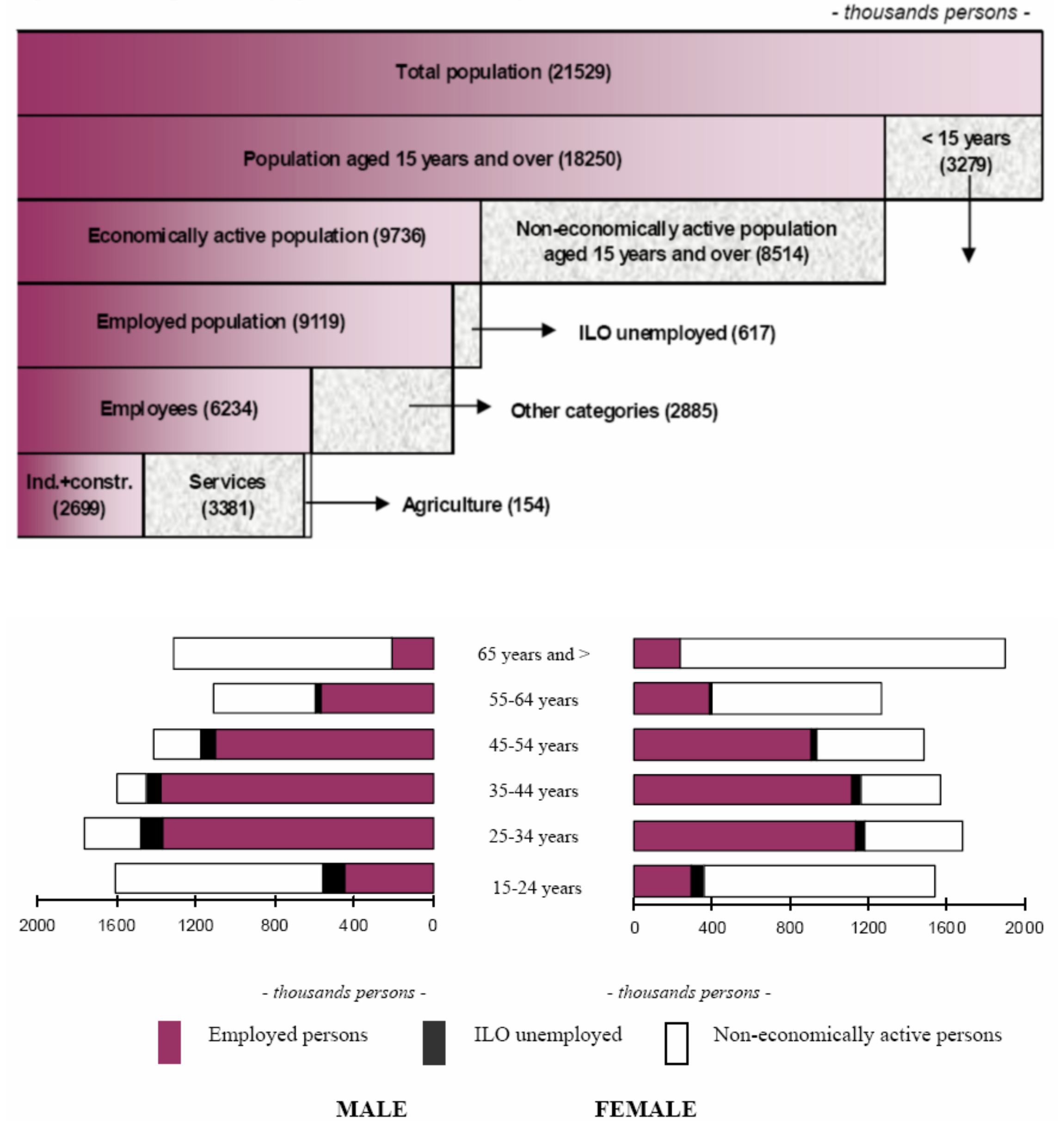
2.50. As Table 2.2 shows, approximately 13 per cent of the population aged 25-64 is educated to degree level. 25 per cent have only attended primary school or had no schooling at all. Males are more likely to have been educated to a higher level than females, and the urban population are more likely to have been educated to a higher level than the rural population.

Table 2.2 Level of education in Romanian population aged 25-64

	Total	**Male**	**Female**	**Urban**	**Rural**
Total persons aged 25-64	11,893	5,892	6,001	7,058	4,835
Level of school graduation	**Percentage of total**				
Superior (University level)	12.7	12.9	12.4	19.5	2.7
Medium (High school and post high school)	62.6	67.2	58.2	67.9	55.0
Low (Primary and no school)	24.7	19.9	29.4	12.6	42.3
Total	100	100	100	100	100

Source: Romanian Labour Force Survey, Q1 2008.

Figure 2.9 Population and employment in Romania, Q1 2008

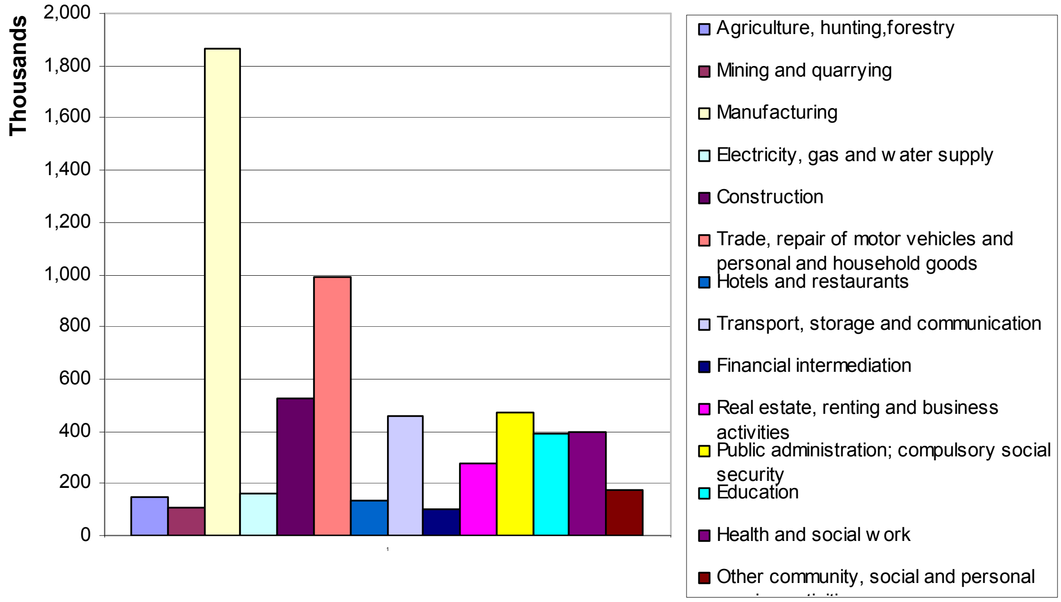


Source: Romanian Labour Force Survey, Q1 2008.

2.51. Figure 2.10 shows a broad breakdown of employment in Romania in 2008.

2.52. The three largest economic activities in terms of employees with a labour contract in Romania in 2008 Q1 were manufacturing (30.0 per cent of employment); and wholesale and retail trade; repair of motorcycles and personal and household goods (15.9 per cent); and construction (8.5 per cent). Health and social work accounted for 6.4 per cent of employment under contract, and agriculture, hunting and forestry 2.4 per cent. However, these figures for employees under contract greatly underestimate total employment in agriculture, forestry and fishing, which accounts for 23.3 per cent of total employment (Romanian National Statistical Institute (NSI), 2008).

Figure 2.10 Employees under labour contract, by sector, Romania, 2008



Source: Romanian NSI (2008).

2.6 Implications

2.53. We consider throughout this report the implications of the structure and performance of the UK and A2 economies for our advice on the A2 restrictions, but some key questions are briefly discussed here.

2.54. First, is there evidence that a new source of labour is required to support the UK economy? Until recently, the UK economy has experienced a period of sustained growth with low inflation and steadily increasing employment and falling unemployment rates. Immigration has played an important part in meeting labour demand. However, the recent downturn of GDP growth in the UK and the beginnings of negative trends in the labour market suggests caution is required regarding new sources of immigration.

2.55. Is there a ready supply of labour in the A2 member states? Both member states are amongst the lowest-income countries in Europe, in GDP per capita terms. However, both have also shown strong growth which is expected to continue, albeit at slower rates, whereas the UK economy is currently shrinking. Labour market prospects in the A2 countries appear to be positive for potential workers. However, unemployment in Bulgaria and Romania has been consistently higher than in the UK (Eurostat 2007), although rates there have been falling in recent years indicating growing employment opportunities. There is evidence of labour shortage in some sectors, and high wage growth.

2.56. However, whether the potential A2 labour supply would match UK demand is unclear. Labour demand will depend on where the shortages are in the UK economy. We have not carried out a full assessment of shortage for the whole labour market. Instead in Chapter 7 we consider some specific sectors. Furthermore, whether labour supply will match demand depends on the skills that the potential A2 immigrants have. Agriculture comprises a much larger proportion of the A2 economies than the UK. Construction sectors constitute a similar proportion in all countries. It seems reasonable to expect a supply of labour to be available to these two sectors at least.

2.57. How will the picture develop in the short and medium term? Forecasts for the UK economy predict further contraction in 2009. Current negative labour market trends are likely to continue into 2009. Both the Bulgarian and Romanian economies have experienced significant growth in the past five years or so. In summer 2008 there was evidence of overheating and inflationary pressures in both economies, and growth is currently forecast to continue, but at a slower pace. So the picture appears to be one of at least relative short-term buoyancy in the A2 economies compared to the UK. This may affect both the need for labour in the UK and the supply of labour from the A2 countries. But the current global economic climate makes all forecasts subject to considerable uncertainty.

Chapter 3
Drivers and impacts of immigration

3.1 Introduction

3.1. In this chapter we present the results of a partial literature review with the aim of setting out some of the key theories and evidence on the economics of migration as they relate to the issues being addressed in this report. The bulk of the evidence we review is related to Europe and we concentrate on aspects most relevant to our assessment of the impact of relaxing labour market restrictions for A2 nationals. The Chapter is structured around three issues:

- **What drives immigration flows?** In this section we briefly examine the economic theories that identify drivers of immigration; their relative importance in explaining flows; and the evidence available, especially in relation to the UK, that supports the theory;

- **Labour market impacts of immigration**: these may include impacts on wages, employment and unemployment of the existing UK workforce; and

- **Economic impacts of immigration**: these may include impacts on GDP and GDP per head; prices of UK goods and services; remittances (income leaving the UK economy); investment and trade; and the use of public services and the contribution to the funding of those services through taxation.

3.2. Because it is already legal for A2 immigrants to travel to and reside in the UK, it is likely that, if employment restrictions are lifted, the majority of new immigrants who arrive from the A2 countries will be coming to work.

3.2 What drives immigration flows?

3.3. The drivers of immigration are those factors which influence the decisions that individuals and households make about whether to temporarily or permanently emigrate from the source country, and which destination country they migrate to. These factors will therefore affect the volume and composition of flows between different countries.

3.4. Evidence on the drivers of immigration can be used for forecasting purposes. If we understand what drives immigration, and those drivers themselves can be predicted, then in principle it is possible to forecast immigrant flows.

3.5. In practice, the evidence is often equivocal and it is always specific, to some degree, to a particular time and place. Therefore, it is difficult to use evidence on the drivers of immigration to accurately predict flows from the A2 countries to the UK under different policy scenarios. Nevertheless, we consider the available evidence in order to see whether potential lessons can be drawn from it.

3.6. Labour market performance and immigration policy in destination countries are key drivers of immigration decisions. Policy in the source and destination country is obviously relevant, but it is important to recognise that immigrants may have more than one potential destination. In the case of A2 immigration, whether and to what extent other EU countries lift their restrictions on workers from these countries will be a key driver of likely flows to the UK.

3.7. We would expect economic immigration to be influenced by factors that relate to anticipated economic prosperity and labour market success (for the immigrant and their family) in the destination country, relative to the source country. This will include expected income and standard of living in the source country relative to the destination country; relative employment rates and demand for labour; skills and recognition of professional qualifications; exchange rates; and the demographic profile of the source and destination countries. These factors are, to differing extents, measurable. They also change over time. Therefore they will be of particular interest to us when considering the potential drivers of A2 immigration.

3.8. However, other factors will also influence migration decisions. Family networks, historical links between countries, cultural similarities, and the presence of established immigrant communities may have an impact, as may geographical proximity, and the associated financial and other costs of moving between countries.

Methodology

3.9. There is a large amount of theoretical and empirical literature on the causes of immigration. However, there are some limitations to this evidence and how applicable it is to potential A2 immigration:

- there is little empirical evidence supporting the theory on the precise reasons why immigrants move to one country rather than another, which is important because the UK is just one potential destination country for A2 immigrants;

- although many studies have identified drivers of immigration, the relative strengths of the drivers are less clear, particularly when applied to alternative contexts (e.g. country, time);

- the drivers will not always operate in a linear fashion. For example, at low income levels, a rise in income may improve opportunities to emigrate from the source country and thus increase emigration. At higher income levels, however, the opposite may occur because a rise in income may reduce the incentive to emigrate (Hatton *et al.*, 2003).

3.10. Economic and other theories of the drivers of immigration include:

- neoclassical micro theory which emphasises the individual immigration decision within a cost-benefit framework (Hicks, 1932; Sjaastad 1962; Harris and Todaro 1970);

- neoclassical macro theory which focuses on labour market aggregates such as productivity, pay level and employment opportunities (Borjas, 2000), but, again, this is embedded in micro-cost benefit theory;

- dual labour markets which emphasise the demand side of the labour market such that employers require a permanent supply (primary labour market) and a fluctuating reserve (secondary labour market) (Piore, 1980);

- family decision making which moves the focus away from the individual and towards family strategies and opportunities (Stark, 1991);

- systems theory which emphasizes the interaction between societies and links between economic, political, cultural and military factors (Chase-Dunn *et al*., 1994);

- the application of network theory to the issue of immigration: this theory is based on the premise that a network becomes more valuable as its usage increases, because costs fall or benefits rise, thereby encouraging increasing numbers of adapters (Massey *et al.*,1993).

3.11. Empirical studies confirm that the various factors listed above, which are not necessarily exclusive or contradictory, play an important role in explaining international immigration. Some of the evidence is discussed below.

Relevant evidence

3.12. Mitchell and Pain (2003) develop a detailed econometric model of the economic and demographic determinants of annual immigrant inflows into the UK from a number of different locations, looking at the change in the average annual level of International Passenger Survey (IPS) migration between 1988-90 and 1998-2000. The latter period’s average annual inflows were 83,400 per annum higher than in the former period, equivalent to a proportionate rise of nearly 30%. Mitchell and Pain attribute the increase to various drivers, as shown in table 3.1.

Table 3.1 Drivers of immigration into the UK: accounting for the change in average annual migration between 1998-2000 and 1988-90	
Components of change	**Thousands**
Rise in differential in GDP per capita between UK and source regions	36.8
Population growth in source regions	36.1
Friends and family "pull effect" from growth in UK immigrant stock	22.5
Growth in bilateral trade	10.5
Rise in UK per capita income relative to other Northern European countries (France, Germany, Belgium, Netherlands)	8.7
Fall in UK unemployment rate	8.2
Fall in proportion of 15-29 year olds in source countries (see notes)	-31.3
Residual	-8.5
Total	**83.4**

Notes: growth in proportion of 15-29 year olds occurred primarily in regions from which there was a relatively low level of immigration; changes were outweighed by the effect of the fall in the 15-29 age group ratio in the US and the EU over this period.
Source: Mitchell and Pain, 2003.

3.13. The study therefore suggests the following variables were indicators of legal flows of immigrants intending to stay in the UK for over 12 months in the period under consideration:

- UK incomes relative to other EU countries and source countries;
- population factors including population growth in source regions and the share of young adults in source country populations;
- the existing stock of immigrants in the UK;
- bilateral trade; and
- UK unemployment.

3.14. Empirical studies back up the theory of network effects with many studies finding that the stock of an immigrant population in the destination country is positively correlated to the propensity to emigrate to that country. Pederson *et al.* (2004) uses a number of regression models to analyse the flow of migration from 129 countries to 27 OECD countries for the period 1990-2000 and concludes that networks play an important role in explaining immigration flows. A robust result of their econometric analysis was that the network effects, measured by the stock of immigrants already resident in a country from the same national background, has a large positive effect on immigration flows. They also found that network effects seemed to be stronger for immigrants stemming from low-income groups compared to immigrants from high-income groups.

3.15. Munshi (2003) finds that US immigrants with access to larger networks are more likely to be employed and to hold higher paying jobs upon arrival. Therefore network effects make immigration a self-perpetuating process.

Immigrant networks can consist of friends, family and work associates, and can reduce the costs and risks of international movement.

3.16. Although the limitations discussed at the beginning of this section need to be borne in mind, we can conclude that factors such as GDP per capita, wages, the employment rate and the stock of existing immigrants do appear to affect immigration propensity in at least some contexts. Therefore, a range of factors could influence the decision to emigrate to the UK from the A2 countries including: labour market and wider economic conditions in the UK and the A2 countries; differences in wage levels and purchasing power between the UK and the A2 countries; the pre-existence of A2 immigrant communities in the UK; and, importantly, labour demand in the UK. We examine these in later chapters.

3.17. The above discussion has focused on legal working, but also any A2 nationals working irregularly in the UK could also become legally employed economic immigrants: when A8 nationals were given unrestricted legal access to the UK labour market in May 2004, some A8 nationals already working in the UK irregularly before May 2004 became officially recognised as employees (Gilpin *et al.,* 2006; Anderson *et al*., 2006).

3.18. Finally, barriers to entry such as quotas or entry requirements (such as those required in the Point Based System) impose costs that will also affect decisions to migrate.

3.3 Impacts of immigration on the UK labour market

Methodology

3.19. Our remit is to consider the likely impact on the UK labour market of relaxing restrictions on employment of Bulgarian and Romanian nationals. Therefore, here we set out some of the key evidence on the labour market impacts of immigration, specifically the impacts on earnings, employment and unemployment, before going on to consider in later chapters how that evidence may apply to the A2 context.

3.20. Although gradually growing, the evidence base on the labour market effects of immigration in the UK is still fairly limited and subject to various methodological caveats. These issues are usually emphasised in research publications, but frequently ignored in public debates. The House of Lords (2008) report explains that the empirical analysis of the impact of immigration on the labour market faces a number of methodological challenges:

- since immigrants tend to be attracted to economically successful areas with rising labour demand and rising wages, it can be difficult to determine causality in the relationship between immigration and wages;

- if the analysis is restricted to local labour markets (e.g. a specific town or region), immigration may be associated with emigration of resident workers or capital or both. If this is the case, the labour market impact of immigration will be dissipated throughout the economy, which makes it harder to measure; and

- the data used are often characterized by small sample sizes with potentially significant measurement errors.

3.21. As with the drivers of immigration, evidence on the labour market (and economic) impacts will always be, to some extent, specific to place and time.

3.22. Given these challenges, there is still a debate about the best method of investigating the impact of immigration on the labour market. There are two main approaches, both of potential value to us:

- the **factor proportions approach** uses national-level data on the proportion of immigrants in specific skill groups (e.g. defined by age or education) and relates that proportion to the level of pay or employment or unemployment. See Manacorda *et al*. (2006).

- the **spatial correlation approach** uses local labour market data and relates the proportion of immigrants in the local population to pay, employment or unemployment. See Lemos and Portes (2008) and Gilpin *et al*. (2006).

3.23. It does not automatically follow, as sometimes argued, that increased immigration will lead to worse employment or earnings outcomes overall for the UK born population. The “lump of labour fallacy” assumes that there is a fixed quantity of jobs in the labour market, and that if an immigrant takes a job they displace a potential resident worker.

3.24. In reality, it is the balance of labour demand and supply in labour markets that will determine outcomes. Immigration can increase labour demand as well as supply, raise the productivity of the resident population and increase economic efficiency. Alternatively, it can displace resident workers or depress wages.

3.25. Economists often refer to the extent to which immigrants complement or substitute resident workers and capital. Dustmann and Glitz (2005) discuss the issues in more detail. Within the overall impact there are likely to be elements of both complementarity and substitution. Some individuals might be adversely affected, even if there are overall benefits to the resident workforce. Borjas (1999) distinguishes between an “efficiency effect” and a “distribution effect” from immigration.

Relevant evidence

3.26. A number of studies document the effect of immigrant inflows on non-immigrants' labour market outcomes, and we discuss some UK evidence below. Lemos and Portes (2008) look at the specific wage and unemployment impacts of A8 immigration to the UK, which we discuss in more detail in Chapter 5.

3.27. The majority of empirical evidence suggests small or no overall effects on the earnings of resident workers. Dustmann et al. (2005) looked at immigration to the UK between 1983 and 2000 and found similar results. However, although they found that the impact of immigrants on the pay of the UK-born workforce is positive on aggregate, they did find some evidence that earnings effects differed across different levels of educational attainment. They found some evidence of negative effects on employment for those with intermediate education levels (those who have GCSE equivalent qualifications but no higher), and some evidence of positive effects on employment among the better qualified. This indicates that we need to consider the educational and skill distribution of potential A2 immigrants in order to ascertain their likely impact.

3.28. Following detailed analysis of the UK labour market, Dustmann *et al*. (2007a) conclude that recent immigration to the UK had, on average, a slightly positive wage effect, comprising significantly positive wage effects around and above the middle of the distribution, but negative wage effects at the lower end. However, the National Minimum Wage played a role in insulating the wages of low-paid workers from a larger impact.

3.29. Nickell and Saleheen (2008) argue that the reason why there is broad consensus among academics that the share of immigrants in the workforce has little impact on the pay rates of the UK born population is because occupational breakdown is not taken into account. They find that once the occupational breakdown is incorporated into a regional analysis of immigration, the immigrant to native ratio has a significant, small negative impact on the average wage. They find the biggest impact on wages is in the semi/unskilled services sector, such as social care homes.

3.30. In terms of impacts on employment and unemployment of resident workers, if immigrants have the same skills composition as existing workers then an increase in immigration is just the same as an increase in the overall population.

3.31. Most studies which have examined the relationship between immigration and employment outcomes over the shorter term have found little evidence of a clear or significant relationship. Dustmann *et al.* (2003a) summarised US and European research: "the common conclusion of this work, apart from a small number of exceptions, is that immigration has only very small or no effect on employment … of workers already resident".

3.32. Riley and Weale (2006) note that "a broad view of the data does not suggest a clear general link between immigration and unemployment." They point out that in the UK net immigration has been rising since 1997, but the unemployment rate fell between January 1998 and August 2005, from 6.4 percent to 4.7 percent.

3.33. However, Riley and Weale (2006) also suggest that the different pattern of A8 immigration may have led to an increase in unemployment among 18-24 year olds. The TUC (2007) make a similar point when it notes that, even if overall employment effects are modest, this is not to say that any individual's job is going to be unaffected by immigration. They conclude, following a review of the literature, that overall the impact of immigration seems to be to increase employment for native workers, but some groups may be disproportionately affected.

3.34. In a discussion about changes in the structure of employment more generally, the HM Treasury (2004) has noted that: "The process of redeployment inevitably brings transitional costs, which may fall particularly heavily on those least well equipped to cope with change – for example those with non-transferable skills. But the outcome for the economy on a whole is clearly positive; and there is a great deal governments can do to minimise transitional disruption to individuals' lives."

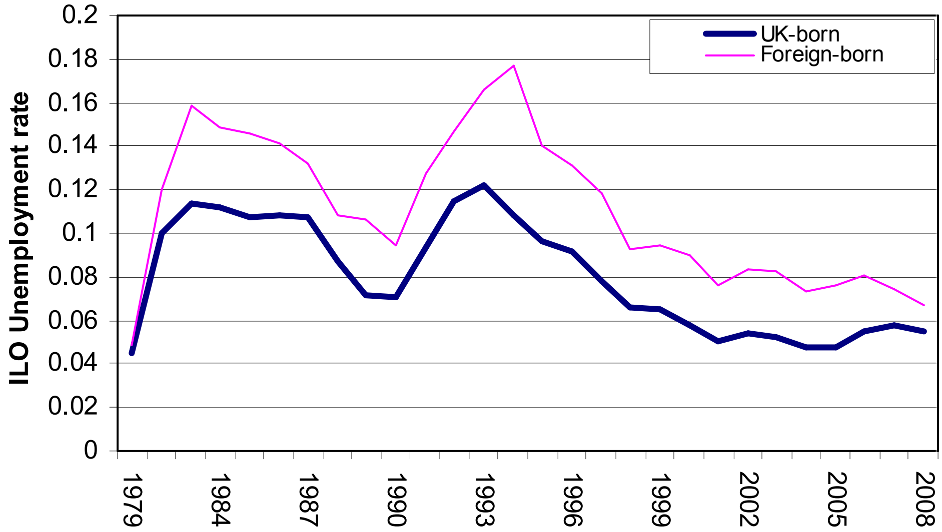
3.35. Most recent UK studies have taken place in the context of a healthy labour market, and they may not fully capture the impact of immigration on a labour market experiencing a downturn. Some evidence suggests that certain types of immigrant workers are affected more by changing economic circumstances than non-immigrants (i.e. the amplitude of immigrants' unemployment is higher than that of natives).

3.36. Dustmann *et al.* (2003b) examined historic employment rates for UK immigrants and found that: "through two major economic recessions and subsequent recoveries, employment rates for non-white immigrants have displayed more volatility than those of UK-born whites or white immigrants. In bad times employment rates of non-white male immigrants fall further, but recovery is also faster. This is true for both males and females".

3.37. The CBI (2008) also states that: "During poorer economic times, migrants help keep the labour market more flexible as they are more pre-disposed to mobility". At the same time, given some employers' perception that migrants have a "superior work ethic" (see House of Lords, 2008), it is possible, at least in theory, that employers in some sectors prefer to retain migrants rather than non-migrants in times of economic downturn.

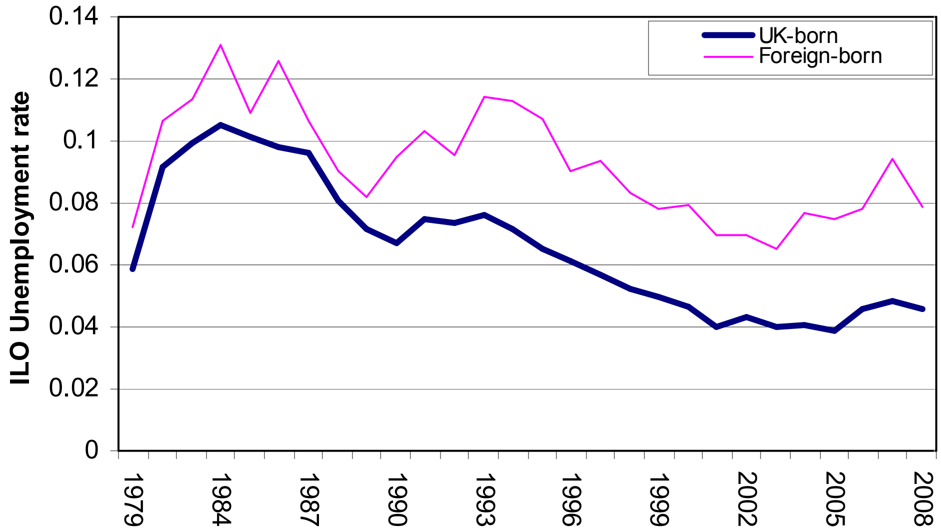
3.38. There is some evidence that immigrant employment and unemployment varies more than that of natives through the economic cycle. Figures 3.1 and 3.2 provide up-to-date comparisons of immigrant and UK-born unemployment rates. The data support the point that immigrants have historically been more vulnerable in a recession, although it is too early to ascertain the likely implications of the current downturn.

Figure 3.1 Unemployment rates for immigrant and UK-born men UK 1979-2008



Source: Migration Advisory Committee calculations based on the Labour Force Survey, Q1 1979 -2008 Q1.
Note: The International Labour Organisation (ILO) definition of unemployment is used here.

Figure 3.2 Unemployment rates for immigrant and UK-born women UK 1979-2008



Source: Migration Advisory Committee calculations based on the Labour Force Survey, 1979 Q1-2008 Q1.
Note: The International Labour Organisation (ILO) definition of unemployment is used here.

3.39. These charts indicate that in the upswing of the economy, immigrant unemployment falls further than native unemployment. In recession both immigrants and local workers suffer, but immigrants suffer more.

3.40. Wadsworth (2007) summarises the evidence found in recent relevant literature in the UK by concluding that: “the evidence so far suggests that, overall, immigration has had few adverse effects on the labour market performance of the UK-born workforce, although this average may disguise some negative effects in the low wage market and positive effects in the higher wage labour markets” and "the recent empirical research on the labour market effects of immigration to the UK finds little evidence of overall adverse effects of immigration on … employment for people born in the UK”. Most of the studies discussed above would support these conclusions.

> *“Government and independent research continues to find no significant evidence of a negative employment effect from immigration.”*
>
> UK Government evidence to the MAC

3.41. Nevertheless, all these recent studies were carried out when the labour market was benign. The current UK economic downturn adds an extra element of uncertainty to our analysis, and the specific characteristics of the potential A2 immigrant increment to the UK workforce needs to be taken into account.

3.4 Evidence on impacts of immigration on the UK economy

Evidence for the UK

3.42. The analysis and public debate on international immigration in the UK have been primarily concerned with the economic and social impacts of immigration on the resident population and economy

3.43. The House of Lords (2008) report concluded that the economic impacts of net-immigration to the resident UK population are small, especially in the long run. This conclusion contrasts with the Government and business community’s assessment that immigration creates significant economic benefits to the UK. See, for instance, the report by the Home Office and Department of Work and Pensions (2007). Part of the disagreement stems from insufficient data on immigration and immigrants in the UK and from differences in the interpretation of the limited (although gradually growing) empirical evidence on the economic consequences, as well as differing views on what the appropriate metric is for measuring the impact of immigration on the UK economy.

3.44. Key metrics that the research has focused on are GDP, GDP per capita, productivity, prices, remittances (income leaving the UK economy), investment and trade and fiscal effects (net contribution to public finances). Below we discuss the available evidence relating to the UK on these variables. As with the evidence on drivers, estimates of the impact of immigration will be specific to the time and place under examination, so that care needs to be taken when applying them to other contexts, such as A2 immigration to the UK.

3.45. Home Office and Department of Work and Pensions report (2007) estimated that by adding workers to the labour force, immigration raised the total **GDP** by £6 billion in 2006 and accounted for 15-20 per cent of the annual trend output growth of 2.7 per cent during 2001-2006.

3.46. However, since net-immigration also adds to the population as well as to economic output, the impact of immigration depends on how the increase in GDP compares to the increase in the population. As a basis for the specific questions we are focusing on in this report, **GDP per capita** is the most appropriate metric.

3.47. House of Lords (2008) concluded that the "overall conclusion from existing evidence is that immigration has very small impacts on GDP per capita, whether these impacts are positive or negative". However, in their reply, HM Government (2008) argues that "migration has made a positive contribution to this strong recorded growth in GDP per head in the UK". On the basis of the findings on the effects of immigration on the wages of UK-born employees in Dustmann *et al*. (2007a), the Government estimates that recent immigration has raised the GDP per head of the non-immigrant population by about 0.15 per cent per annum in real terms over the 10 years to the end of 2006.

3.48. Overall, relative to other factors, the impact of immigration on GDP per head has been relatively small but, some economists would argue, still significant. Furthermore, most measures of the effects of immigrants on GDP per capita fail to account for the dynamic and spill-over effects of immigration which may result in under or over estimation of the benefits, primarily because these effects are extremely difficult to measure. This is closely related to the issue of complementarity and substitution discussed in section 3.3.

3.49. Immigration increases the supply of labour, and therefore raises potential output. But immigrants consume goods and services too. The balance of these factors determines the impact of immigration on **prices of goods and services**. If immigration raises the level of aggregate supply more than aggregate demand, this could reduce inflationary pressures for a period of time. The effect immigration has on wages and the growth of wages also impacts on inflation through its impacts on both the costs of goods and services and consumer spending power. Frattini (2008) finds that prices are lower in UK sectors that have experienced more immigration.

3.50. Not all immigrant income will be spent or saved in the UK. The more money immigrants spend or invest in the UK, rather than saving or sending back to the source country in the form of **remittances**, the greater the likely impact of immigration on UK economic growth. Key factors that affect the spending behaviour of an immigrant are whether they still have family in their home country, whether they are temporary immigrants or settling in the host country for good, and the level of prices and wages in the destination country relative to that in their home country. Merkle and Zimmermann (1992) looked at the spending behaviour of German immigrants and found that immigrants are more likely to save income if they plan to return home.

3.51. An increase in immigrants can help the economy by increasing **trade and investment**. Many studies have shown the link between immigrants and trade and investment, for example Gould (1994), Girma and Yu (2002), and Head and Ries (1998).

3.52. Another factor of interest is the **net fiscal impacts** of immigration. Both tax payments, and the quantity of public services consumed, by immigrants will depend on a variety of factors including:

- age on arrival and length of stay;
- the number and age of any dependents;
- earnings and skills that will influence earnings;
- eligibility for and take-up of government benefits and services;
- the nature of the welfare system, and the extent to which it redistributes income from high to low income earners; and
- indirect impacts on the UK-born population (e.g. earnings, employment, take-up of benefits).

3.53. The fact that immigrants are not resident in the host country at the start of their lives, and may not be resident at the end, suggests that if they earn an average income, on average and under various large assumptions, they are likely to make a net positive fiscal impact. Several studies have attempted to assess the net fiscal impact of recent immigration in the UK. Taking many of the above factors into account, Gott and Johnston (2002) find an overall positive net fiscal impact of immigration in the UK. This methodology is largely adopted by Sriskandarajah *et al*. (2005) who conclude that the net-contribution of immigrants to the UK has been greater than that of non-migrants. However, other studies, such as Coleman and Rowthorn (2004), suggest that there could have been negative impacts.

3.54. Results differ across studies largely because empirical assessments of the net fiscal impacts of immigration depend in practice on the methodology adopted and decisions about how to allocate certain costs or benefits between immigrants and non-immigrants. The treatment of costs associated with children in these calculations is particularly contentious, as discussed in Riley and Weale (2006), Migrationwatch (2006) and HM Government (2008). Another issue of controversy concerns which items of expenditure to include in the fiscal accounting, e.g. spending on public goods such as defence. It would not be sensible for us to attempt to precisely estimate the likely net fiscal impact of lifting or relaxing the A2 restrictions, because there is no agreed method for doing so.

3.55. Overall, it is clear that the precise economic impact of increased A2 immigration to the UK will depend crucially on the likely characteristics of those immigrants. Skilled, young, highly paid immigrants are more likely to make a small but positive contribution to the net fiscal position and GDP per head. Immigrants who do not possess the above characteristics are less likely to do so, but factors such as the dynamic effects of immigration and the potential for immigrants to fill shortages in less skilled sectors may complicate this picture.

3.5 Wider factors

3.56. Our remit is to focus on the labour market and economic impacts of immigration, but here we briefly summarise some of the potential wider impacts of immigration. A first category of wider impacts relates to spill-over effects on the global economy and will include: potential brain-drain for A2 countries; beneficial effects of remittances; impacts of flows to the UK for flows to and impacts on other countries inside and outside the EU; and positive and negative externalities on the global economy of free movement (e.g. impact on trade policy).

3.57. A second category of wider impacts relates to what we categorise as non-economic effects including: social cohesion and impacts of concentrated immigrant communities forming in particular areas; social exclusion (language differentials, discrimination, perceptions); demographic consequences and other effects on future generations (birth rate of immigrants, outcomes of second generation immigrants); and cultural enrichment and diversity.

3.58. These factors do not directly influence our recommendations in this report. The Migration Impacts Forum (MIF) has been set up to consider the wider impacts on public services and local communities and advise the Government on these issues.

3.59. The theory and evidence discussed in this chapter will be built upon in Chapters 4 and 5, where we examine the A2 and A8 immigration experience in the UK and in Chapter 6 where we assess the likely impact of removing restrictions on A2 nationals.

Chapter 4
A2 immigrants in the UK and EU

4.1 Introduction

4.1. The best available estimates indicate that around 750,000 Bulgarian and 1.5 million Romanian nationals currently reside outside of their home countries. The UK Labour Force Survey (LFS) recorded a total of about 67,000 Bulgarians and Romanians residing in the UK in 2008. Partially due to the design of the LFS, this is likely to be an underestimate, for reasons explained in section 4.3. Even so, only a small fraction of Bulgarian and Romanian nationals currently residing abroad are in the UK.

4.2. This chapter discusses the pattern of Bulgarian and Romanian immigration to the UK pre- and post-accession. We also look at the pattern of migration across the EU, concentrating on Italy and Spain, which account for around 60 per cent of A2 nationals living abroad, as set out later on in this Chapter.

4.3. A key question is the extent to which the current restrictions are, in fact, restricting Bulgarian and Romanian immigration to the UK, and what the impact has been of different restrictions in the EU. First, we examine the routes that are available to Bulgarians and Romanians to work in the UK, and the resulting in-flow since accession. Second, we look at the restrictions and in-flow in other EU15 countries to assess the extent to which the levels of restrictions in other member states and migrant choice shape the flows of Bulgarians and Romanians to those countries and, potentially, to the UK too.

4.4. Sections 4.2 and 4.3 explain the current restrictions in more detail, but they are summarised in Box 4.1.

4.2 Rights to residence in the UK for A2 citizens

4.5. Following accession to the EU on 1 January 2007, nationals of Bulgaria and Romania do not require a visa to come to the UK. They benefit from the same rights of free movement as other EU nationals and can enter and leave freely, providing that they are able to prove their nationality and identity, when required to do so.

4.6. This right of free movement includes the right to move to the UK, or to any member state, and reside for up to three months following arrival. If A2 nationals wish to live in a member state for longer than three months, or if they wish to work, they need to exercise a Treaty right (see below). They may also require permission from a member state to reside there. Treaty rights apply where the person is a worker (see section 4.3 for discussion of routes to employment); a student; a self-employed person; or a self-sufficient person.

Box 4.1 Summary of A2 restrictions

A2 nationals, like all EEA nationals, have a right to reside in member states. They are able to apply for documentation – referred to as a registration certificate – from the UK Border Agency (UKBA) to confirm this status. However, the Accession Treaties for Romania and Bulgaria permitted member states to derogate from these free movement rights in respect of A2 nationals wishing to enter their labour markets. The documentation issued to A2 workers affected by this derogation normally takes the form of an accession worker card, although students wishing to work can do so provided they obtain a registration certificate confirming their status. Those who can demonstrate that they are highly skilled can obtain a registration certificate conferring free access to the labour market.

The following must obtain authorisation, generally in the form of an accession worker card before they can start work in the UK. This card confirms that they are exercising a Treaty right as a worker and shows that they have been given permission to do so by the UKBA:

- skilled workers (who generally need to first obtain a work permit);
- less skilled workers (Seasonal Agricultural Workers Scheme (SAWS)– for which a specific SAWS card is issued – and the Sectors Based Scheme); and
- family members of A2 nationals, subject to worker authorisation, or of a person with limited leave to enter or remain under the immigration rules.

The following can apply for a registration certificate if they wish, but are not obliged to do so, as they do not need employment permission from the UKBA:

- A2 nationals who are exempt from authorisation (and have free access to the labour market);
- students who do not wish to work;
- self-sufficient persons; and
- self-employed persons.

4.7. Family members of any of the above also have the right to reside in a member state (see Box 4.2).

Box 4.2 European Community legislation definition of a family member

Family members include the adult EEA national's:

- spouse/civil partner;
- children of the national or his/her spouse/civil partner who are:
  - under 21
  - dependants (this includes stepchildren or adopted children, provided that the adoption is recognised by the UK);
- dependants in the ascending line (i.e. parents, grandparents) of the EEA national or his/her spouse/civil partner; and
- in certain circumstances, extended family members.

In the case of EEA national students, only their spouse/civil partner and dependent children are entitled to the right of residence for more than three months.

4.3 Rights to employment in the UK for A2 citizens

4.8. Unlike A8 workers, who obtained access to the UK labour market immediately upon accession, but who were subject to a requirement to register their employment, workers from the A2 countries have restricted access. Bulgarian and Romanian nationals do not automatically have a right to work as employees in the UK. This is unless they are otherwise exempt from restrictions (see later in this Chapter). We outline below what level of access to the labour market they presently have.

4.9. Member states may exercise their discretion in restricting Bulgarian and Romanian workers' access to the labour market for up to seven years from the date of accession. The UK Government chose to impose restrictions from 1 January 2007. It must review this decision before 1 January 2009.

4.10. The reason the Government decided to place restrictions on A2 nationals' access to the UK labour market when they joined the EU was outlined in a Written Ministerial Statement by John Reid in October 2006. It stated that: "The UK will maintain controls on Romania and Bulgaria's access to jobs for a transitional period. The opening of our labour market will take account of the needs of the labour market, the impact of A10 expansion and the positions adopted by other Member States." In light of this, a more gradual approach to opening labour market access to A2 workers was adopted by the Government. The statement also set out some of the routes, as discussed in this chapter, by which A2 nationals would still be able to come to the UK.

4.11. The Government's statement in 2006 also set out in detail the ways in which Bulgarian and Romanian nationals could come to the UK to work legally. These restrictions had to be consistent with rights under EU law, including rights to free movement and the ability to exercise other Treaty rights. Furthermore, under the "standstill clause", any restrictions cannot place nationals from accession states in a worse position than they were pre-accession. For this reason, there are two broad ways in which A2 nationals can work legally in the UK:

- by exercising a Treaty right as a worker where authorisation to work is not required; or

- by applying for permission to enter the labour market as a worker on the basis of the same or less stringent criteria than applied to A2 nationals on 31 December 2006.

These are discussed in more detail below.

Exercising a Treaty right where permission to work is *not* required

4.12. Under the transitional arrangements that came into force on 1 January 2007, Bulgarian and Romanian nationals do not always have an automatic right to reside as a worker under EU law. However, they are able to exercise a Treaty right as a worker in the UK without restriction in the following circumstances:

- they have completed, on or after 31 December 2006, 12 months' continuous legal employment in the UK;

- they had leave to enter or remain in the UK on 31 December 2006 and that leave was not subject to a restriction on taking employment, or they were given such leave after that date;

- they are the spouse or civil partner of a UK national or a person settled in the UK;

- they are the family member of an EEA national who has a right to reside in the UK and is not subject to work authorisation requirements;

- they are the family member of an A2 national who is exercising Treaty rights as a student, self-sufficient person or self-employed person. They will remain exempt provided that their sponsor remains a student, self-sufficient person or self-employed;

- they are also a national of the UK or another EEA state other than Bulgaria or Romania and are subject to work authorisation; or

- they are a member of a diplomatic mission, the family member of such a person or a person otherwise entitled to diplomatic immunity.

4.13. Persons in these categories receive a blue registration certificate which confirms status.

4.14. Under EU law there are also narrow provisions which allow, in certain circumstances, for workers employed in another member state to be posted to the UK on a temporary basis. The exercise of these rights cannot be limited by controls on access to the labour market.

4.15. A2 nationals are also able to exercise a Treaty right to:

- come to the UK to work in a self-employed capacity;
- come to the UK as a student; and
- come to the UK to reside as a self-sufficient person.

4.16. These persons can apply for a yellow registration certificate, which for students not working and self-employed persons confirms status (i.e. that they are exercising their Treaty right). Successful application for a yellow registration certificate is required for students who wish to work, and this must be obtained before work commences.

Box 4.3 A2 nationals exercising a Treaty right to self-employment

If A2 nationals claim a Treaty right as a self-employed person, they need to be able to demonstrate that they are genuinely self-employed if challenged. The UKBA works to the following guidelines when assessing whether an applicant is self-employed.

Suitable sufficient evidence that indicates self employment is:

- invoices showing payment for services;
- contracts to provide services;
- evidence from HM Revenue and Customs (HMRC) of National Insurance special reference number (obtained simply by giving basic details to HMRC);
- evidence from HMRC of registration for tax; and
- evidence from HMRC of National Insurance contributions.

In addition, applicants are encouraged to provide as many of the following pieces of evidence as possible:

- original bank statements;
- proof of National Insurance registration;
- evidence of tax payment under the Construction Industry Scheme (if appropriate);
- details of their business premises;
- client lists;
- details of how they advertise their business; and
- letters of recommendation from clients.

As a general guide, the following questions are considered when determining whether an applicant's claim to be self-employed is genuine – this is not an exhaustive list:

- Do they have to do the work themselves?
- Can someone tell them at any time what to do, where to carry out the

Box 4.3 A2 nationals exercising a Treaty right to self-employment

work or when and how to do it?
- Do they work a set amount of hours?
- Can someone move them from task to task?
- Are they paid by the hour, week, or month?
- Can they get overtime pay or bonus payments?
- Do they hire someone to do the work or engage helpers at their own expense?
- Do they provide the main items of equipment they need to do their job, not just the small tools that many employees provide for themselves?
- Do they agree to do a job for a fixed price regardless of how long the job may take?
- Can they decide what work to do, how and when to do the work and where to provide the services?
- Do they regularly work for a number of different people?
- Do they have to correct unsatisfactory work in their own time and at their own expense?

Once they have commenced self-employed work in the UK, A2 nationals must register with HMRC within three months. HMRC will give them a special seven digit reference number to prove they have registered and under which they can begin paying contributions. This number is given after providing basic personal details.

Once they have their reference number, they have an interview with the Department for Work and Pensions (DWP) to obtain a **National Insurance number**. DWP will issue the number as long as the applicant can provide three pieces of information:

- a letter from HMRC confirming self-employment and a reference number;
- a relevant identity document, or documents; and
- proof of address.

In some circumstances, DWP will also ask for other proof of self-employed working (e.g. invoices or an accountant’s letter).

Routes for highly skilled, skilled and less skilled employment

4.17. Under the Accession (Immigration and Work Authorisation) Regulations 2006, A2 nationals may obtain work authorisation on the basis of the same or less stringent criteria than that applied to nationals on 31 December 2006. Work authorisation may be obtained for highly skilled and skilled employment. Those coming for low skilled employment are subject to quota based arrangements, which are currently restricted to the agricultural and food processing sectors. The arrangements are explained in more detail below.

4.18. A2 nationals will be granted authorisation to be employed in the UK if:

- they are **highly skilled** (i.e. met the criteria of the Highly Skilled Migrant Programme at the time of accession or meet the same requirements now, in which case they have unrestricted access to the labour market); or

- they have an offer of a **skilled** job that cannot be filled via the resident labour market (i.e. meet the criteria for a work permit – the use of the shortage occupation list and Resident Labour Market Test).

4.19. A2 nationals will not be subject to the same criteria as non-EEA nationals seeking admission under the Points Based System. This is because some of those criteria (e.g. the requirement to hold a minimum amount of funds) are immigration control-derived criteria rather than labour market-based criteria and also because some of the requirements of the Points Based System (e.g. the requirement for sponsors to be licensed) are more restrictive than those applying pre-accession and their application would therefore be contrary to the standstill clause.

4.20. Before A2 nationals can apply for an accession worker card as a skilled worker, the employer will first need to obtain a letter of approval through the existing work permit arrangements (arrangements which will be retained for A2 nationals after introduction of PBS Tier 2). Only when the authorisation has been granted are employees allowed to start work. The accession worker card is issued for a specific job and, if employees wish to change jobs, they need to obtain a new accession worker card to reflect this.

4.21. Work authorisation is currently given to **less skilled** immigrants from Bulgaria and Romania coming through:

- the **Seasonal Agricultural Workers Scheme** (SAWS); and
- the **Sectors Based Scheme** for food processing.

4.22. Both of these arrangements are subject to quotas of, for 2008, 16,250 and 3,500 respectively. These schemes were previously open to non-EEA nationals but, since 2007, they have been reserved for A2 nationals only. The Government took this decision because it has been the Government’s policy to phase out low-skilled immigration schemes for non-EEA workers given the availability of workers from an expanded EU labour market; and, more specifically, because the Treaty on Accession requires member states to give workers from the Accession States preference over third-country nationals in terms of labour market access.

4.23. Workers on the SAWS scheme have a SAWS worker card which provides details of their place of work. Those on the Sectors Based Scheme have a purple accession worker card.

Boxes 4.4 and 4.5 explain these schemes in more detail.

Box 4.4 Seasonal Agricultural Workers Scheme (SAWS)

The SAWS is designed to allow farmers and growers in the UK to recruit low-skilled workers to undertake short-term agricultural work. The scheme works on a quota basis.

To be eligible under the SAWS, applicants must be at least 18 years of age and from Bulgaria or Romania. Participants are allowed to work in the UK under the scheme for up to six months.

SAWS workers carry out low-skilled work including:

- planting and gathering crops;
- on-farm processing and packing of crops; and
- handling livestock.

Workers should be paid at least the Agricultural Minimum Wage and be provided with accommodation by the farmer or grower employing them. No extensions beyond six months are allowed, but applicants can reapply to the scheme three months after their participation ends.

The scheme is managed by nine approved operators and a fixed number of work cards are issued to each operator each year. The operators are responsible for:

- sourcing and recruiting eligible workers to take part in the scheme;
- assessing and monitoring employers' ability to provide suitable work placements to SAWS workers;
- ensuring workers are treated fairly and lawfully; and
- ensuring farmers and growers are provided with people who are suitable to do the work on offer.

The scheme was originally due to close in 2010, but it will now continue for the lifespan of the restrictions on A2 nationals.

Box 4.5 Sectors Based Scheme

The Sectors Based Scheme is designed to fill shortages in the food processing sector.

The basic entry requirements under the Sector Based Scheme are:

- applicants must be a national of Bulgaria or Romania;
- applicants must be aged between 18 and 30;
- jobs should be within the food processing industry (specifically the fish, meat and mushroom processing industries);
- the employer must show that there is a shortage of people in the UK to fill these vacancies and will normally need to advertise jobs in order to demonstrate that there are vacancies; and
- applicants are not allowed to bring a spouse or dependant with them to the UK.

This is a temporary work permit for a maximum period of 12 months (after 12 months, A2 immigrants on the SBS are exempt from work authorisation requirements and may obtain a registration certificate (blue) confirming their unrestricted right to access the UK labour market).

The maximum quota for this scheme in 2008 is 3,500, broken down, as of November 2008, as follows:

- Fish processing – 555
- Meat processing – 1945
- Mushroom processing – 1000

The scheme was originally due to close in 2006, but will now continue for the lifespan of the restrictions on A2 nationals.

Other routes to employment

4.24. **Students** can work, but must first obtain a yellow registration certificate. This confirms that they are an EEA national exercising a Treaty right as a student. This gives them permission to work for up to 20 hours a week during term time and full time during vacations, or as part of a vocational course. Registration certificates are only issued to those people studying at genuine educational establishments included in the Department for Innovation, Universities and Skills' (DIUS) Register of Education Providers[1]. This process is being reviewed in light of the forthcoming PBS Tier 4 sponsorship register which will replace the DIUS register.

4.25. The UKBA told us that they have been made aware of a small number of cases where A2 nationals claim to have registered on a course which comprises a certain number of hours' education each week, but where the

[1] A list of these establishments can be found at www.dfes.gov.uk/providersregister.

education element was insufficient. The UKBA will act in conjunction with DIUS to remove educational establishments operating in this way from the register**.**

4.26. Providing that the work undertaken by students amounts to employment, they would be eligible for exemption under the restrictions once they had satisfied the qualifying period of 12 months' continuous legal employment.

Irregular employment

4.27. We received anecdotal information from stakeholders that some A2 nationals are claiming to be exempt from the need for authorisation to work and then are effectively working as employees, in breach of the A2 Regulations. The UK Border Agency (UKBA) told us that sometimes this has been as a deliberate attempt to circumvent the law. For example, individuals have obtained authorisation documents under the SAWS scheme, or as self-employed persons, and then tried to claim that they have the correct authorisation when being employed in other areas. Others were working without authorisation documents, including for cash in hand, perhaps without being aware of the law (e.g. the construction sector). Such workers, we were told by stakeholders, were vulnerable to exploitation.

4.28. The UKBA has encountered A2 nationals in its operations against illegal workers and UKBA figures suggest that abuse takes place on a relatively small scale: up to June 2008, 315 fixed penalty notices had been served on A2 nationals working without the correct authorisation in the UK. The UKBA told us that legislation is clear on the offences that may be committed by either the employer (the criminal offence of employing an A2 national either without authorisation, or without the correct authorisation) or the employee (the criminal offence of working without authorisation, working without the correct authorisation, or attempting to obtain an authorisation by means of deception). For the purposes of the legislation, "employer" means, in relation to a worker, the person who directly pays the wage or salary of that worker.

4.29. The UKBA told us that, although legislation is clear on these matters, there are wider implications and considerations for other government departments. For example, those who are working for cash in hand may be in breach of HMRC legislation and those employers who are deliberately exploiting vulnerable workers would fall to BERR to investigate under employment law. The UKBA are working closely with other Government departments to deal with issues around A2 nationals, where they arise, and to provide a coordinated response.

4.4 Bulgarian and Romanian migrants and immigration in the UK

4.30. This section describes the pattern and characteristics of Bulgarian and Romanian immigration to the UK, looking specifically at pre- and post-accession trends to establish the impact of restricted access to the labour market following accession. Data on the immigration of A2 nationals to the UK has a number of shortcomings, and conclusions that can be drawn from it are necessarily tentative. Box 4.6 describes the key data sources available to us.

Box 4.6 Data on stocks, flows and characteristics of A2 and A8 workers in the UK

This box outlines the available data and the limitations on using it to accurately describe the stocks and flows of post-accession immigrants from the A2 and A8 member states.

Stocks

The only measures of stocks of immigrants come from censuses and sample surveys of people living in the UK.

Between census years (the most recent census was 2001), estimates from the quarterly Labour Force Survey (LFS) provide the best data on stocks of A2 and A8 immigrant workers. In addition, useful information can be gleaned about the sectors, occupations and demographic profile of immigrant workers. It has been noted that estimates derived from the LFS may underestimate actual numbers on account of the following reasons:

- differing patterns of accommodation – for example higher rates of multiple occupancy. This is likely to affect all accession workers;
- "Individuals living at sampled addresses are generally included in the survey only if they regard the address as their main residence. Interviewers are instructed to include anyone who has been living continuously at the address for six months or more, even if they consider their main address to be elsewhere (either in the UK or abroad)" (Walling, 2007); and
- the presence of unauthorised immigrants who are likely to not respond to official surveys. This is more likely to affect A2 than A8 workers, due to the higher level of restrictions placed on them.

We are not aware of any reliable assessment of the extent of underestimation that the above factors may cause.

Long-term immigration flows

Accession nationals have the right of free movement within the EU, so do not require a visa or entry clearance to enter the UK. Control of Immigration statistics (see Home Office, 2008) are therefore of very limited use here. The International Passenger Survey (IPS) is the primary source of national statistics on migration; however, due to limited sample size, it becomes less reliable when disaggregating by specific nationalities. The IPS defines long-term migrants as those changing their place of residence for one year or more.

Short-term immigration

Some anecdotal and empirical evidence (for example IPPR, 2008) suggests

Box 4.6 Data on stocks, flows and characteristics of A2 and A8 workers in the UK

many A8 workers frequently return home, or come to the UK only for short periods. However, there is currently very little data on short-term immigration. The ONS is presently developing statistics for short-term migration based on the IPS. Blanchflower *et al*. (2007) note that a substantial proportion of immigration from the accession countries may be occurring through ports that are not regularly included in sample points for the IPS.

Administrative data
Administrative data provide basic counts of immigrants, and often richer information about immigrants. The advantage is that it is often more timely and not subject to sampling error in the way that survey statistics are. Disadvantages are that administrative data sources are rarely comprehensive in coverage, may exclude certain groups by design or in practice, and are prone to underestimation and/or double-counting. Furthermore, they only describe in-flows, and do not record out-flows, and therefore do not provide information about net flows.

<u>National Insurance numbers</u>
National Insurance numbers issued provide information on flows: however, records are not deleted if immigrants return home, so do not provide data on stocks. A National Insurance number is required for employment and self employment, so the quantity of numbers issues should closely reflect those formally coming into the regular labour market.

<u>Worker Registration Scheme for A8 nationals</u>
A8 nationals are able to engage in any employment in the UK which is available to EU nationals, on the condition that they register that employment through the Workers Registration Scheme (WRS). The WRS is therefore a useful source of data on workers, although it does not capture those that are self-employed, those working for short periods of time (officially up to three months), students, and a number of other exemptions. In addition, some workers who are required to register may fail to do so. The WRS does not measure outflows.

<u>Accession worker cards and registration certificates for A2 nationals</u>
In terms of indications of flows, administrative data on worker cards and registration certificates are more difficult than the WRS to interpret because each on its own does not encompass all A2 immigrants. But adding them together would result in double-counting of immigrants who had obtained a worker card and then subsequently obtained a registration certificate. In addition, there are some A2 nationals who are entitled to engage in economic activity in the UK, but who are not required to possess a registration certificate, either because they are exempt from work authorisation requirements or because they are exercising a Treaty right on some other basis e.g. the self-employed.

Estimating stocks and flows in other EU countries
All EU countries run concurrent censuses and also are required to maintain a

Box 4.6 Data on stocks, flows and characteristics of A2 and A8 workers in the UK

Labour Force Survey. Thus, comparable data on stocks is, in theory, available for other countries. In practice, some use different definitions of immigrant (by nationality or by country of birth), and availability and timeliness of migration data (which is not the primary purpose of Labour Force Surveys) is an issue.

Data on flows are much more difficult to obtain and are extremely limited in their comparability. Some countries collect detailed information about flows through border controls, whilst others collect very little. As with different UK administrative data sources, these are generally not comparable with one another, and are therefore most useful for looking at countries individually.

In terms of emigration from accession countries, there is no single reliable source. Official records, for example population registers, will grossly underestimate levels of emigration. Information must be pieced together from a number of sources. During our discussions with officials in Bulgaria and Romania, we were told with some pride that the governments no longer collect the kind of detailed statistics on population and border control that were required under the previous systems of government in those countries. Having said that, Bulgaria has recently begun a survey similar to the UK's IPS.

Stocks and flows

4.31. The 2001 census recorded 7,630 Romanian-born and 5,350 Bulgarian-born people living in the UK (Table 4.1). Since then, these stocks have grown considerably: the 2008 Labour Force Survey (LFS) recorded around 67,000 A2-born living in the UK. Stocks recorded in the LFS are likely to be an underestimate of actual numbers for a variety of reasons (see Box 4.6 for further details). Nevertheless, even if the LFS underestimates to some degree, plausible estimates of the stock of A2-born in the UK would still amount to a small fraction of the total stock of immigrants in the UK.

Table 4.1 Stocks of Bulgarian- and Romanian-born immigrants in the UK

Year	Bulgarian	Romanian
2000 (census)	5,350	7,630
2004	26,000	
2005	32,000	
2006	34,000	
2007	41,000	
2008	67,000	

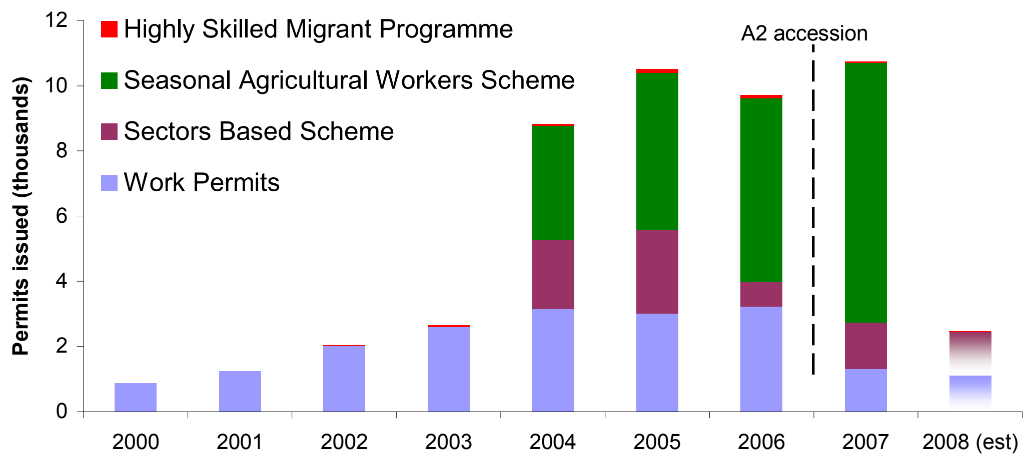
Note: Labour Force Survey sample sizes are too low to report Bulgarian and Romanian stocks separately. Estimated confidence intervals at the 5% level for the 2007 annual dataset are +/- 20.6%.
Source: 2001 census; Labour Force Survey 2002-2007 (annual); Labour Force Survey Q2 2008.

4.32 A substantial increase in the stock is observed between 2007 and 2008. While estimates are subject to considerable sampling error, even the lowest estimates in the range would yield a more substantial increase than in other years.

4.33. As suggested by the relatively low stock, A2 nationals have not historically constituted a substantial flow to the UK. Unfortunately, no data source can accurately describe A2 labour flows, particularly pre- and post-accession. In light of the fact that visas and entry clearance are not required following accession, and the small sample size of the IPS, we must piece the picture together from a number of administrative data sources.

4.34. Figure 4.1 shows the flow of A2 nationals contained in employer-based administrative data. These figures show permits for which employers apply: work permits, the Sectors Based Scheme and SAWS; and the Highly Skilled Migrant Programme. Until accession, the vast majority of A2 immigrants required an employer-based permit to obtain a visa. Therefore the issue of these permits may closely approximate the flow of A2 nationals into authorised employment in the UK. In the three years prior to accession, between 10,000 and 13,000 permits were issued each year. The number of National Insurance numbers issued during this time was fewer than the numbers of employer-based permits.

Figure 4.1 Employer-based permits issued for Bulgarian and Romanian nationals 2000-2008

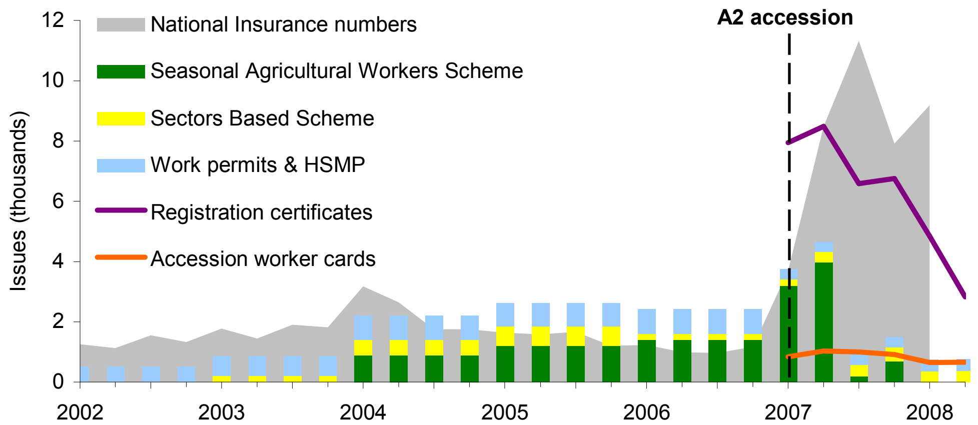


Note: Seasonal Agricultural Workers Scheme time-series begins 2004, data is unavailable for 2008; Sectors Based Scheme time-series in 2003. 2008 estimates based on 8 month figures from 1 Jan to 31 August 2008.
Source: UK border Agency administrative data.

4.35. Following accession, both accession worker cards and registration certificates were issued, in addition to the employer-based permits. The numbers of employer-based permits are no longer a useful indicator of flow, but still indicate something about the routes immigrants take. In 2007, a similar total was observed compared to the preceding three years; however, the numbers of work permits declined slightly, and SAWS permits increased. In 2008, data are unavailable for the SAWS, but the UK Border Agency expect the SAWS quota for this year to be fully utilised, which would put the final total for 2008 at about 20,000, which is significantly higher than in previous years.

4.36. An alternative picture of post-accession flows is obtained by looking at the allocation of accession worker cards, registration certificates and National Insurance numbers. Box 4.6 discusses the limitations to these administrative data in more detail. Figure 4.2 presents these administrative data relating to A2 nationals.

Figure 4.2 Quarterly administrative data for A2 nationals Q1 2002-Q2 2008



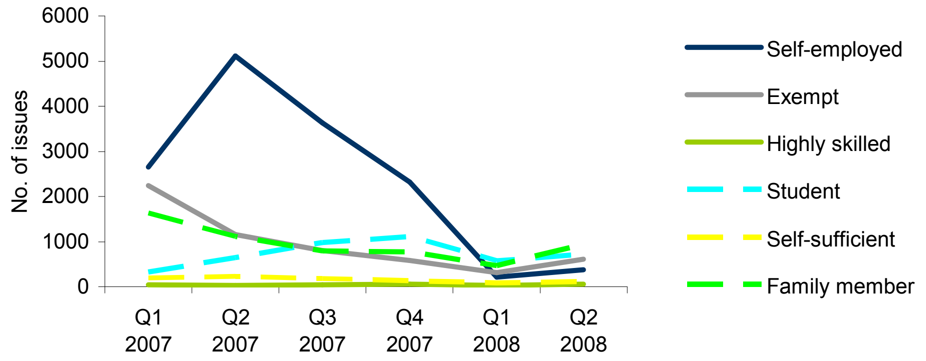
Note: Seasonal Agricultural Workers Scheme time-series 2004 Q1– 2007 Q4; Sectors Based Scheme time-series in 2003 Q1 – 2008 Q2; National Insurance numbers time-series 2002 Q1 – 2008 Q1; Accession worker cards and registration certificates time-series 2007 Q1 – 2008 Q2.
Source: UK Border Agency management information for work permits, SAWS and SBS; UK Border Agency (2008a); DWP (2008).

4.37. Two trends are immediately visible. First, the number of registration certificates issued immediately following accession is much higher than worker cards, indicating that a large number are claiming Treaty rights upon accession. This will include workers claiming to be self-employed. This has dropped-off more recently, but is still substantially higher than those applying for employer based employment authorisation.

4.38. Second, the amount of National Insurance numbers issued has increased dramatically. Adding worker cards and registration certificates may include double-counting and therefore overestimate flows, but the amount of National Insurance numbers allocated in fact exceeds this. This indicates that a proportion of A2 immigrants are obtaining National Insurance numbers, but not accession worker cards and registration certificates. This group may include those not working (but requiring a National Insurance number for other purposes) and those exercising treaty rights to self-employment (but without applying for a registration certificates) as well as irregular employment.

4.39. Figure 4.3 examines the registration certificates in more detail. The most noticeable trend is a large surge in registered self-employed following accession. We do not know the extent to which this reflects new inflows of immigrants or regularisation following accession.

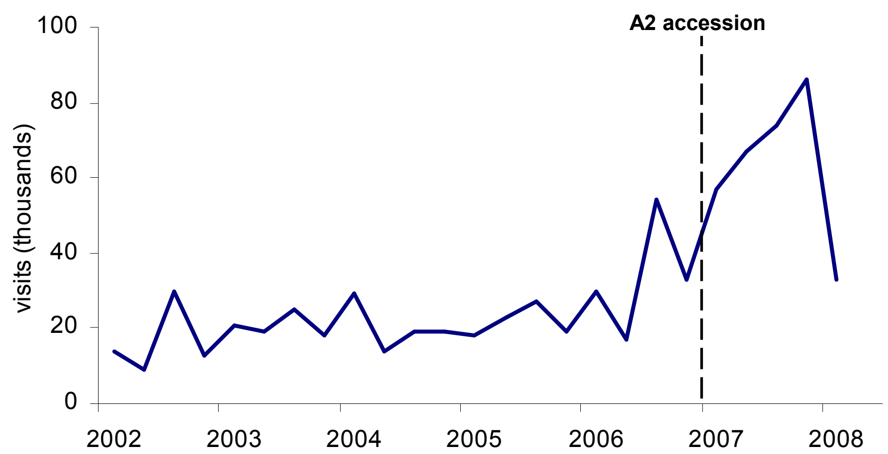
Figure 4.3 Approvals of accession worker registration certificates by application type



Note: exempt and highly skilled categories have unrestricted access to labour markets, whilst access is partially restricted for self-employed and students, and wholly restricted for family members.
Source: UK Border Agency accession statistics.

4.40. One further source of data is the number of passenger visits to the UK. Passenger visits include holiday-makers and business visitors and are therefore much higher than issues of National Insurance numbers and registration certificates. Figure 4.4, however, shows that although an increase in passenger visits has been observed, it is not in the same scale as the increase in National Insurance numbers issued to A2 nationals. A sharp fall is observed in the first quarter of 2008, the level of which is similar to pre-accession levels. We cannot fully explain this, but it cannot be solely attributed to seasonality, as visits by non-A2 nationals have not fallen by a similar amount.

Figure 4.4 Quarterly passenger visits by A2 nationals 2002-2008



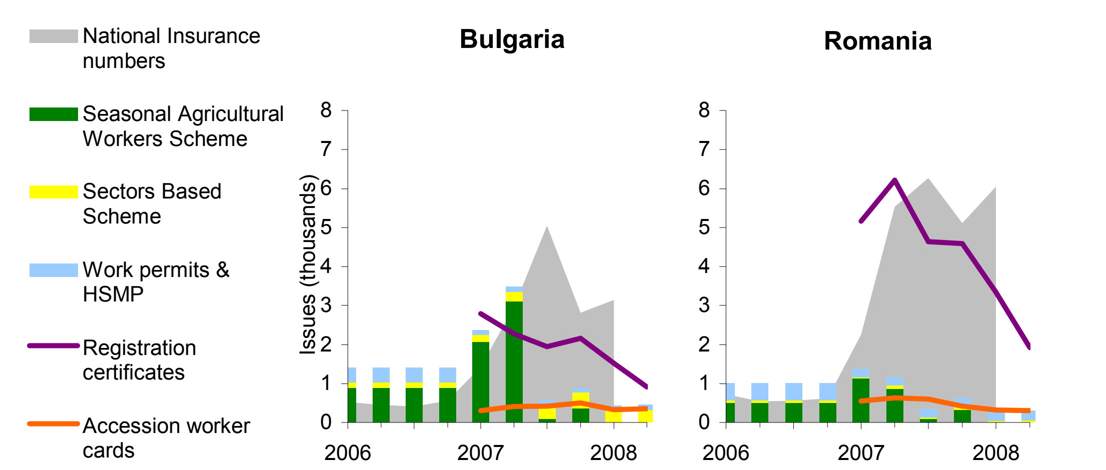
Source: International Passenger Survey 2002-2008.

4.41. Taking these data as a whole, some tentative conclusions can be drawn:

- A2 immigrants constitute a small segment of the UK labour market, and flow of foreign nationals into the UK;
- post-accession A2 immigration to the UK has occurred largely outside of the employer-based permit system; and
- the number of A2 immigrants observed in the UK has increased substantially following accession. This increase will be due to an additional flow of new immigrants since accession in January 2007, and possibly some regularisation of immigrants who were working in the UK prior to accession.

4.42. The increase in observed A2 immigration, however, appears to apply to Romanian immigrants to a greater extent than Bulgarians, as shown in Figure 4.5. The population of Bulgaria is around a third of the size of Romania. However, Bulgarian nationals accounted for a larger proportion of pre-accession issues of permits than Romanian nationals. Post-accession, however, permits issued to Romanians show a much larger increase than those issued for Bulgarians. The proportion utilising registration certificates is far higher for Romanians than Bulgarians, although numbers have sharply declined for immigrants from both countries.

Figure 4.5 Quarterly administrative data for Bulgarian and Romanian nationals 2002-2008



Note: Seasonal Agricultural Workers Scheme time-series 2004 Q1 – 2007 Q4; Sectors Based Scheme time-series in 2003 Q1– 2008 Q2; National Insurance numbers time-series 2002 Q1– 2008 Q1; Accession worker cards and registration certificates time-series 2007 Q1– 2008 Q2.
Source: UK Border Agency management information for work permits, SAWS and SBS; UK Border Agency (2008a); DWP (2008).

Characteristics and impact of A2 immigrants in the UK

4.43. This section examines the characteristics and labour market impact of A2 nationals currently in the UK.

4.44. The likely impact of A2 immigrants on the UK labour market and wider economy to date is very difficult to assess. To the extent A2-born immigrants currently constitute a very small fraction of immigration and the total UK labour market, their impact on the UK labour market will necessarily be small. The relatively small number of A2 immigrants currently in the UK also impedes any empirical assessment of impact.

4.45. Chapter 3 has outlined the economic theory relating to the labour market and the economic impact of immigrants. This suggests that the best way of estimating what impact immigrants may have had is related to their skills and demographic characteristics and their role in the labour market. We look at key characteristics and the likely impacts in turn.

4.46. There is evidence that A2 nationals are taking opportunities outside of those covered by employer-based permits, which limits the usefulness of data collected through the permit system about their characteristics and role in the labour market. We therefore rely heavily on immigrant characteristics recorded in the LFS and the theoretical implications of these. To avoid repeating similar charts in this chapter and chapter 5, analyses of the demographic characteristics of A2-born and A8-born immigrants in the UK, as recorded in the LFS, are collated in Annex E, and we refer below to some of the charts and tables in that annex.

4.48. **Age** is an important indicator of likely labour market and economic impact. Approximately 56 per cent of A2-born immigrants in the UK are aged between 20 and 34 years, compared with 18 per cent of UK-born and 30 per cent of non-EEA immigrants (table E.1). This trend has increased between 2004 and 2008 (see figure E.3). Previous studies have shown that young immigrants are more likely to be in work, less likely to have economically inactive dependants, and less likely to make demands on the state than older immigrants.

4.49. As Chapter 3 has discussed, early and later life-cycle stages are characterised by high demands on public services, whilst people in their 20s and 30s typically make much less demand. Young working age immigrants are therefore more likely to provide a net positive fiscal benefit and less per capita demand on public services.

4.50. **Skill** is another important factor, particularly relevant to labour market impacts. It is difficult to accurately estimate the level of qualifications held by immigrants in the LFS, but we can see at what age people complete their full-time education (Figure E.5). Nearly 40 per cent of A2 immigrants completed full-time education at 18, with the vast majority of the remainder completing subsequently.

4.51. Therefore, nearly all Bulgarian and Romanian immigrants in the UK have studied beyond the age of compulsory education and spent, on average, longer in education than UK-born workers. Furthermore, A2 workers are proportionally more represented in skilled occupations than the UK-born workforce (Figure E.9). Skilled workers are relatively likely to complement existing workers, partially because of their complementarities with capital. These factors suggest that the current A2 immigrant stock is relatively likely to exhibit complementarity with the existing workforce, and benefit the UK labour market. In addition, workers in higher skilled occupations typically exhibit higher productivity. However, it is likely that this pattern partially reflects the operation of the work permit system and current restrictions, so does not necessarily demonstrate the potential composition of immigrant inflows if restrictions were to be lifted.

4.52. Median earnings of Bulgarian and Romanian immigrants in the UK appear to be lower than those of UK-born workers and other immigrant groups in our analysis. However, data is not robust enough to look at the distribution in more detail and there may be a number of factors, for example, self-employment and occupational distribution that we might wish to take into account before drawing definite conclusions.

4.53. Given the demographic profile of A2 immigrants, we would expect high **economic activity rates**. This is borne out in the statistics: at 82 per cent in 2007 (figure E.13), employment rates for A2-born immigrants are higher than for UK-born, other EEA-born and non-EEA immigrants. Correspondingly, unemployment rates for A2-born immigrants are currently lower than for these other groups, at less than 3 per cent in 2007. High A2 employment and low unemployment rates could in theory raise aggregate employment rates in the UK, but the small number of A2 nationals in the UK means any such effects are likely to be negligible. Employment and unemployment data up to the second quarter of 2008 do not show any adverse effects on either UK-born or immigrant groups (see Figures E.12 and E.13), but these figures will not factor in the labour market situation in the latter half of 2009.

4.54. The **occupational profile** of immigrants will also determine labour market impacts. A2-born workers are less represented in professional and associate professional occupations, but more represented in skilled trades occupations (Figure E.6). However, it is difficult to draw any conclusions as to the extent to which this supply is matched with demand. While the SAWS and Sectors Based Scheme are now restricted to A2 immigrants, these do not constitute the majority of employment by occupation or sector.

4.55. The occupational distribution may partially account for the very high proportion of A2-born immigrants that are self-employed (Figure E.14). The Treaty right to self-employment since accession is also likely to drive this. But, the proportion of self-employed appears to have increased in the year prior to accession, and has fallen back since then.

4.56. In terms of the wider economy, high employment rates suggest a greater contribution to GDP per head than UK-born or other immigrant groups. But lower wages will reduce the fiscal benefits of A2 immigrants.

4.57. In summary:

- the impacts of A2 immigration to the UK to date will necessarily be small because of the small fraction of the immigrant workforce that they constitute;
- the indicators of potential labour market impact are mixed: the high employment rates and relatively high number of years in education of A2 immigrants contrast with their lower average earnings.
- in terms of wider economic and fiscal benefits, the age profile and employment rates give more weight to the possibility of a modest positive impact rather than a negative one, although this is partially offset by relatively low earnings.
- The past is not necessarily a good guide to the future: chapter 5 will examine to what extent the characteristics of the A8 stock changed post-accession.

4.5 A2 Immigration in other EU15 countries

4.58. With the exception of Sweden and Finland, all other EU15 countries have imposed some kind of restriction on access to labour markets for A2 nationals. We received evidence that, within the EU15 countries, important destinations for Romanians in the last 15 years have been Italy and Spain. These countries are also important for Bulgarians, along with Turkey, Greece and Hungary.

4.59. We begin by outlining the context of overall patterns and drivers of Bulgarian and Romanian emigration to date. Then, we review the experience of Italy and Spain, together with that of Sweden. We look at historical immigration patterns in each country, and we discuss changes in the flows of Bulgarians and Romanians to these countries following accession, according to the differing restrictions in place. Traser (2008) describes policies and patterns of Romanian and Bulgarian immigration in a wider range of member states. Annex D summarises the restrictions currently in place across the EU.

Patterns and drivers of emigration from Bulgaria and Romania

4.60. Emigration from Bulgaria and Romania was severely restricted by the authorities until 1989 (although legal emigration of selected groups was permitted – see Horváth, 2007). We were told that the mid- and late-1990s were periods of high, although often undocumented and therefore difficult to estimate, levels of emigration, but flows have since levelled off. A proportion of the early immigration flows consisted of relocation of national and ethnic groups previously prevented from leaving, for example ethnic Germans in

Romania (Sandu *et al.*, 2004). In addition, 300,000 ethnic Turks were expelled from Bulgaria in 1989.

4.61. Estimates of flows are neither particularly reliable nor comparable across Europe. However, data about stocks are slightly more reliable and, taken together, can build a broad indication of the pattern of migration from A2 member states.

4.62. Data from the Bulgarian Institute of Statistics and other sources indicate that, in 2006, around 750,000 Bulgarian migrants were residing abroad. One third of Romanian households have at least one member who emigrated since 1989, meaning that at least 10 per cent of Romanian adults are abroad (Sandu, 2006). These data, together with what we were told by Romanian officials and academics, suggest that around 1.5 million Romanians are abroad.

4.63. Italy and Spain were asserted to be preferred destinations by a number of people that presented evidence. If we put the A2 immigrant stocks for Italy and Spain in the context of estimates of overall emigration, together they account for around 60 per cent of all A2-born migrants living aboard. The Turkish census in 2000 recorded approximately 480,000 Romanians (OECD, 2008), meaning Turkey accounts for a further 15 per cent (largely, we were told, as a result of the 1989 expulsion from Bulgaria). For Bulgaria, a Gallup poll in 2006 indicated the top EU15 destinations of preference were Spain, Germany and Italy, with the UK ranking fifth in order of preference and another survey similarly puts the UK in fourth place (ASSA, 2007). Sandu (2006) suggests Romanian emigration can be seen as having three distinct stages. Until 1995 the destinations were primarily Israel, Turkey, Italy, Hungary and Germany. Between 1995 and 2002, Canada and Spain were added to these. Since 2002, he argues that temporary migration is much more prevalent, and Romanians have narrowed their focus to Italy and Spain.

Italy

4.64. We were told by officials and experts in Bulgaria, Romania and the UK that Italy is a preferred destination for A2 migrants. The reasons given for this are the similarities in language (for Romanians) and culture (for both nationalities), as well as the precedent of previous migration from both countries to Italy.

4.65. Data on stocks and flows support these claims for Romanians, less so for Bulgarians. Latest population statistics indicate that approximately 625,300 Romanian and 33,500 Bulgarian nationals were residing in Italy on 1 January 2008 (Istat, 2008).

4.66. Upon accession in 2007, Bulgarian and Romanian workers were allowed free access in Italy to jobs in: agriculture, tourism, construction, domestic help and caring, metalworking, and highly skilled and management-level employment. Seasonal workers were also allowed free access. In other sectors, employers of Bulgarian and Romanian workers need to submit a copy of their employment contract to the local labour office to enable workers to obtain a permit. There is no labour market test and no pre-determined requirements for qualifications.

4.67. Between 1 January 2007 and 1 January 2008, Italian official statistics record an 83 per cent increase in the number of Romanian and a 68 per cent increase in the number of Bulgarian nationals residing in Italy (Istat, 2008). A substantial proportion of the increases in official statistics in 2008 can be expected to have resulted from the regularisation of irregular immigrants already within Italy.

4.68. Italian restrictions do not appear to heavily impede a Bulgarian or Romanian migrant from taking legitimate work in any sector. Regulations appear to focus on ensuring that employment complies with the law, rather than restricting numbers. However, because it is difficult to distinguish between new immigrants and existing immigrants who have been regularised, and because A2 migrants have a strong tie to Italy anyway, it is difficult to infer the likely impact of the rather limited restrictions in place in Italy.

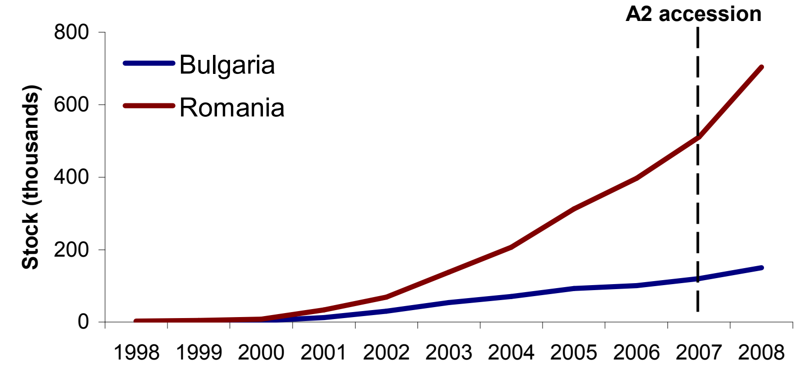
Spain

4.69. We were told by experts in the A2 countries that Spain is the preferred destination for A2 migrants after Italy. Linguistic and cultural similarities were again cited as a motivation for this preference.

4.70. Spain currently requires that Bulgarian and Romanian nationals obtain a work permit to take up employment. These restrictions have been in place since accession. A permit is directly linked to obtaining a job offer and the employer approving an application.

4.71. In June 2007, 404,600 Romanians and 98,900 Bulgarians with residence permits were recorded. Figures for town hall registers in January 2007 were 525,000 and 122,000 respectively. The Spanish system allows access to health and education for both regular and irregular immigrants – through the municipal government – which explains the discrepancy between local and national figures. Figure 4.6 shows the stocks of Bulgarian and Romanian nationals recorded on the local municipal registers in Spain.

Figure 4.6 Stocks of A2 nationals recorded on Spanish municipal registers 1998-2008

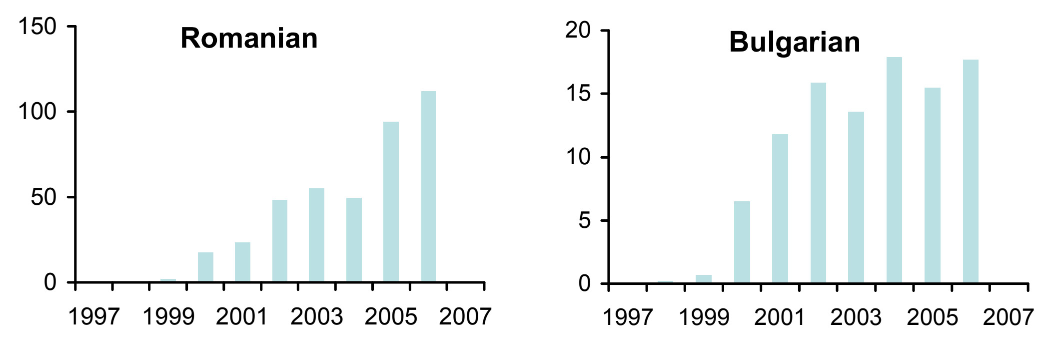


Note: Stock of foreign-born population recorded on the municipal population register.
Source: INE base, Instituto Nacional de Estadística de Espana.

4.72. As with Italy, regularisation is an important issue (see, for example, Bleahu, 2007). On the eve of A2 accession there were 211,000 Romanians and 60,000 Bulgarians with official residence permits (Ministerio de Trabajo y Asuntos Sociales, 2007). Comparing this with the June 2007 figures for residence permits (503,500), the number of immigrants with official residence permits has doubled. However, the municipal registers recorded much less of an increase and the gap between the municipal and official residence permits is smaller than pre-accession. This suggests that the impact of accession appears to have been that a substantial irregular immigrant population has been regularised, rather than there having been substantial increases to inflows.

4.73. Figure 4.7 shows that annual flows of Bulgarian and Romanian nationals to Spain have increased since the 1990s and in 2006 stood at around 100,000 for Romanians, and 20,000 for Bulgarians. Figures are not available for 2007 and 2008 flows.

Figure 4.7 Annual flows to Spain of A2 nationals recorded on change of residence statistics 1997-2006



Note: Increment to stock of foreign-born population recorded on the population register. Data assembled by Instituto Nacional de Estadística.
Source: OECD SOPEMI Migration outlook 2008.

Sweden

4.74. Sweden did not impose restrictions on labour market access for A8 or A2 migrants. All A8 and A2 workers must register within three months of entry. This is free of charge and valid for five years after which can they apply for citizenship.

4.75. Flows from the A2 countries to Sweden in 2005 and 2006 were in the low hundreds. 1,287 Romanians emigrated to Sweden in the first half of 2007, compared to 270 in the whole of 2006, while 636 Bulgarians emigrated to Sweden since joining the EU, compared to 96 for 2006 (Traser, 2008). These represent substantial increases, but low numbers overall.

4.76. It is clear that Sweden is not experiencing mass immigration as a result of lifting restrictions. This implies that little diversion is occurring from other destination member states that have imposed restrictions. Tamas and Münz (2006) suggest that Sweden's strong labour market institutions have reduced employer demand and/or preference for immigrants, because collectively agreed wages are effectively enforced. Chapter 5 provides example of this in relation to the A8 using a case cited by Doyle *et al*. (2006).

4.6 Conclusions and implications

4.77. We have set out the context of current restrictions in the UK and other EU15 countries. The experiences of the UK and other EU countries of A2 immigration since accession have a number of tentative implications for the nature and character of A2 immigration we might expect if restrictions were lifted or relaxed.

4.78. First, some flows to the UK and other EU15 member states have already partially occurred, outside of the remit of employment restrictions:

- regardless of whether countries imposed labour market restrictions, the accession of Bulgaria and Romania to the EU in January 2007, provided a range of new opportunities for immigrants to work legally in the EU15 countries;
- in the UK, A2 immigrants appear to be utilising the Treaty rights far more extensively than employer-sponsored routes, resulting in possible reductions in the latter;
- Spanish and Italian experience suggests that these opportunities are being used as a route to regularised employment for existing but unobserved immigrants.

4.79. Second, the evidence on A2 points towards relatively modest but increased flows to the UK if restrictions are lifted:

- the UK is not currently a preferred destination for A2 immigrants. Spain and Italy are preferred destinations, and UK A2 immigration levels are currently very small in comparison to both these member states;

- however, this is partially because the restrictions imposed by Italy are very limited in the extent to which they actually impede access to the labour market by A2 immigrants;

- if some A2 immigrants are working in the UK irregularly, it is plausible that an increase in the number of regularised immigrants will be observed if restrictions were completely lifted.

4.80. Finally, the characteristics of current flows of A2 immigrants, in theory, point to modest positive impacts, although there is a limited evidence base to draw on. Current impacts on the labour market and economy are small, because A2 workers constitute a very small fraction of the labour force, but also because A2 immigrants to the UK so far are predominantly young, largely in employment, in relatively skilled occupations, but have lower than average earnings.

Chapter 5
UK and other relevant EU experience with the A8 accession

5.1 Introduction

5.1. This chapter reviews the UK experience of immigration following the accession of the A8 member states. We then put the UK experience in the context of A8 migration to other EU15 countries where, in many cases, restrictions were maintained. We finally examine the evidence on drivers of A8 immigration, which will inform to what extent we use the A8 experience as a model for future immigration from the A2 member states.

5.2. The A8 experience is a potentially useful model for assessing the impact of lifting restrictions on the A2, as the UK imposed no restriction on free movement of labour from A8 member states in 2004. Prior to the A8 accession in 2004, Dustmann *et al.* (2003) used the experience of the accession of southern European countries in the 1980s to assess the potential flow from A8 member states to the UK. They reviewed a number of estimates of future immigration following A8 accession and carried out an econometric analysis of potential immigration to the UK and Germany. Their study highlights some important factors we need to account for in learning from previous accessions.

5.3. The analysis predicted that there would be in the range of 5,000 to 13,000 net permanent immigrants per year from the A8 countries to the UK, for the period up to 2010. As data presented in this chapter show, immigration from the A8 countries was, in fact, far higher than this forecast. However, the model's assumption that Germany (and a number of other EU countries) would lift restrictions was not borne out in practice.

5.4. In fact, the total emigration rate from A8 countries observed following accession was of a similar order to that predicted in the study. The overall approach is therefore useful. However, the experience of this study does illustrate that we need to consider carefully the A8 experience in the UK and other EU countries to understand what we can infer for our assessments of the likely impact of lifting restrictions on Bulgarians and Romanians.

5.2 The A8 experience in the UK

5.5. Here we examine evidence on the stocks, flows, immigrant characteristics and the impacts on the labour market and the wider economy of granting unrestricted access to the UK labour market to A8 nationals.

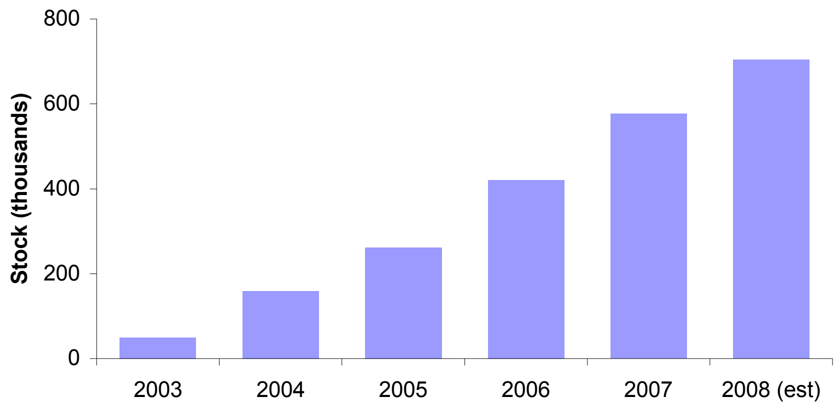
5.6. A8 nationals may freely work for any employer for up to one month, or indefinitely as self-employed, without any authorisation. If a national of an A8 member state wishes to work for an employer for more than one month, they must register with the Worker Registration Scheme (WRS) unless they are exempt from doing so. Exemptions are detailed on the UK Border Agency website[2]. This scheme is for monitoring purposes and does not restrict free movement of labour. Some immigrants may fail to register, for example, because they are unaware of the requirements to do so or do not wish to pay the fee (currently £90).

Stocks

5.7. The stock of A8 immigrants in the UK has grown considerably and steadily since accession. Brücker *et al.* (2003) estimate that 850,000 A8 and A2 nationals were residing in the EU15 member states in 2003, of which only 50,000 were resident in the UK. In the second quarter of 2008, the Labour Force Survey (LFS) recorded 704,000 A8-born immigrants in the UK. As noted in Chapter 4, the LFS is liable to underestimate stocks of immigrants, but it is the most reliable and timely data source available.

5.8. Figure 5.1 shows the absolute growth in the stock of A8 immigrants. Stocks have grown considerably and A8-born immigrants now constitute 11 per cent of all immigrants. Analysis of the LFS presented in Pollard *et al.* (2008) shows that Polish-born and Lithuanian-born immigrants constitute the largest groups among them.

Figure 5.1 Stock of A8-born persons in the UK 2003-2008



Source: 2003 estimate from Brücker *et al.* (2003); 2004-2007 from LFS annual datasets; 2008 estimate based on LFS 2008 Q2 dataset.

Flows

5.9. International Passenger Survey (IPS) data show that, until 2003, inflows of long-term A8 immigrants to the UK (defined as those intending to change their place of residence for one year or more) were approximately balanced by outflows. However, a very large increase in inflows in 2006 was not met by a corresponding increase in outflows, with the result that net long-term immigration of A8 nationals totalled 158,000 for the period 2004-2006 (Figure 5.2) – equivalent to an annual net inflow of 53,000. The difference between inflow and outflow means A8 immigrants accounted for around 13

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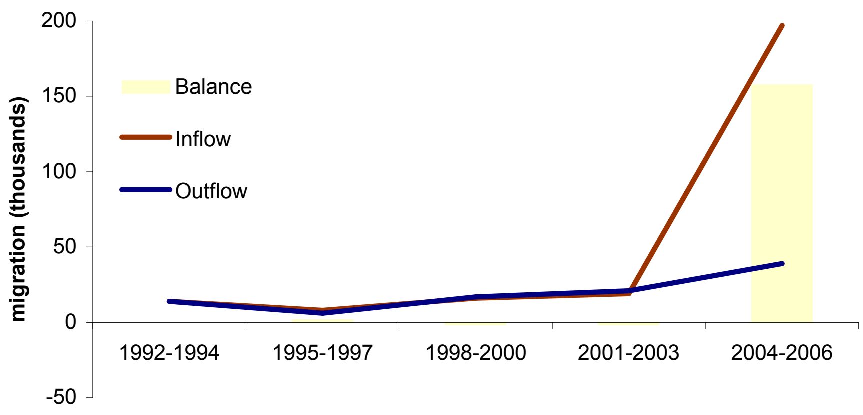
[2] http://www.ukba.homeoffice.gov.uk/sitecontent/applicationforms/wrs/englishwrs.pdf

per cent of the total inflow, but 30 per cent of net immigration in the period 2004 to 2006.

Figure 5.2 Inflows and outflows to and from the UK of long-term A8 immigrants 1992-2006



Note: Figures show aggregate of flows over three-year periods.
Source: International Passenger Survey (published ONS, 2007, Table 3.21).

5.10. However, these figures do not include immigrants intending to come for less than one year (whether or not they actually do so). As noted in Chapter 4, accurately estimating short-term immigration is very difficult. We must rely on administrative data from the WRS and National Insurance numbers, which provide an indication of gross inflows (Table 5.1). Both sources may register regularisation of workers already in the UK prior to accession, in addition to new inflows. They show that the scale of gross inflows is considerably larger than the number of long-term immigrants recorded in the IPS.

5.11. The cumulative total of applicants under the WRS was 888,000 between 1 May 2004 and 30 June 2008 (UK Border Agency, 2008a). WRS estimates exclude some categories of immigrants such as the self-employed and immigrants working for less than one month, as well as those that fail to register. From migrant surveys, Pollard *et al.* (2008) estimate that a third of A8 immigrant workers in the UK are not registered on the WRS and are therefore not in compliance with regulations.

5.12. Cumulative issues of National Insurance numbers are likely to record a greater proportion of gross inflows than the WRS, because all workers require a National Insurance number and no fee applies. These show a cumulative total of 980,000 allocations between 1 April 2004 and 30 March 2008 (DWP, 2008).

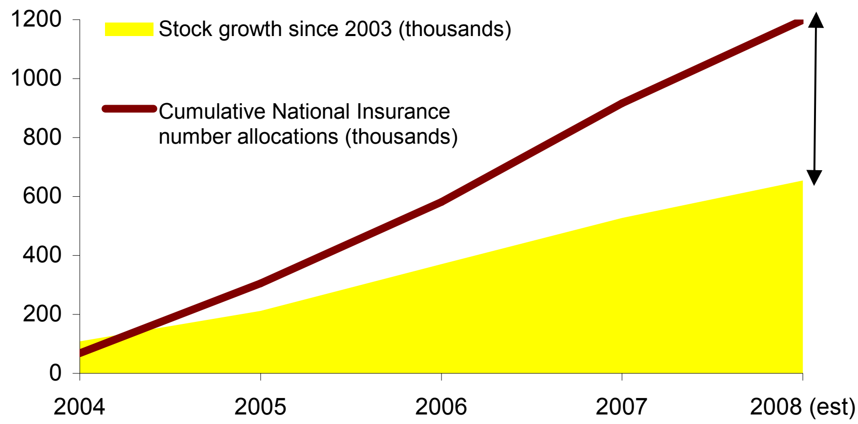
Table 5.1 National Insurance numbers and applications under the Worker Registration Scheme 2004-2008 (thousands)

	2004	2005	2006	2007	2008	Total to date
National Insurance number allocations	68.7	236.4	276.6	334.6	70.7 (Q1)	980.0
Worker Registration Scheme applications	134.6	212.3	234.7	217.9	48.5 (Q1) 40.4 (Q2)	888.0
Worker Registration Scheme approvals	125.9	205.0	227.9	210.8	46.4 (Q1) 38.0 (Q2)	854.0

Source: National Insurance numbers DWP (2008). Worker Registration Scheme (UK Border Agency, 2008a).

5.13. It is widely asserted that recent A8 immigration is characterised by short-term migration to the UK, with immigrants returning home after a period of employment in the UK. The administrative data do not give any indication of departures to corroborate this directly. However, by comparing cumulative flows with the stock, Pollard *et al.* (2008) estimate that around half of immigrants from A8 countries have already left the UK. The difference between cumulative flows and the increment to the stock of A8-born immigrants shown in Figure 5.3 corroborates this estimate, showing the stock growing at approximately half the rate of inflows, although both sets of data may underestimate actual numbers for reasons described in Chapter 4.

Figure 5.3 Cumulative allocations of National Insurance numbers to A8 nationals and growth in stock for A8-born 2004-2008



Note: Issues of National Insurance numbers are estimated for 2008 using data from Q1, 2008, and assuming Q1 will account for the same proportion of annual total as previous years.
Source: National Insurance numbers 2004-2008 Q1; Labour Force Survey 2004-2007 (annual), 2008 Q2.

5.14. Although there has always been some churn in A8 immigrants, a number of experts have asserted to us that A8 immigrants are returning home in greater numbers as a response to the economic downturn. Professor John Salt in his evidence to us concluded that *"an economic downturn will certainly reduce the number of A8 immigrants working in the UK"* but also said: *"a* *substantial proportion of them will not go home".* Figure 5.3 shows that a proportion of A8 immigration has been temporary and Table 5.1 shows lower numbers of A8 immigrants registering in administrative data in 2008. However, latest LFS data show increases to stocks at similar rates to previous years. The latest available data does not therefore appear to corroborate anecdotal evidence, although these data are from June 2008 and do not cover the second half of 2008.

Characteristics of A8 immigrants

5.15. Here we discuss the characteristics of A8 immigrants who have arrived and those that remain in the UK. The WRS provides data on characteristics of gross inflows, whilst the LFS provides information about the stock of A8 immigrants remaining in the UK. Much of the discussion in this section refers to an analysis of LFS data, presented in more detail in Annex E, and the text in this section refers to charts and tables within that annex.

5.16. Looking at age, 82 per cent of applicants to the WRS up to June 2008 were aged between 18 and 34 (UK Border Agency, 2008a). Analysis of the stock of A8-born immigrants in the UK confirms that arrivals since 2004 have been heavily skewed towards the 20-34 age group (Figure E.3). In 2008, 65 per cent of the A8 immigrant stock is aged 20-34 (Table E.1).

5.17. There is some gender difference, with male applicants accounting for 56 per cent of the total. Only 8 per cent of workers registering under the WRS declared they had dependants living in the UK when they registered (UK Border Agency, 2008a).

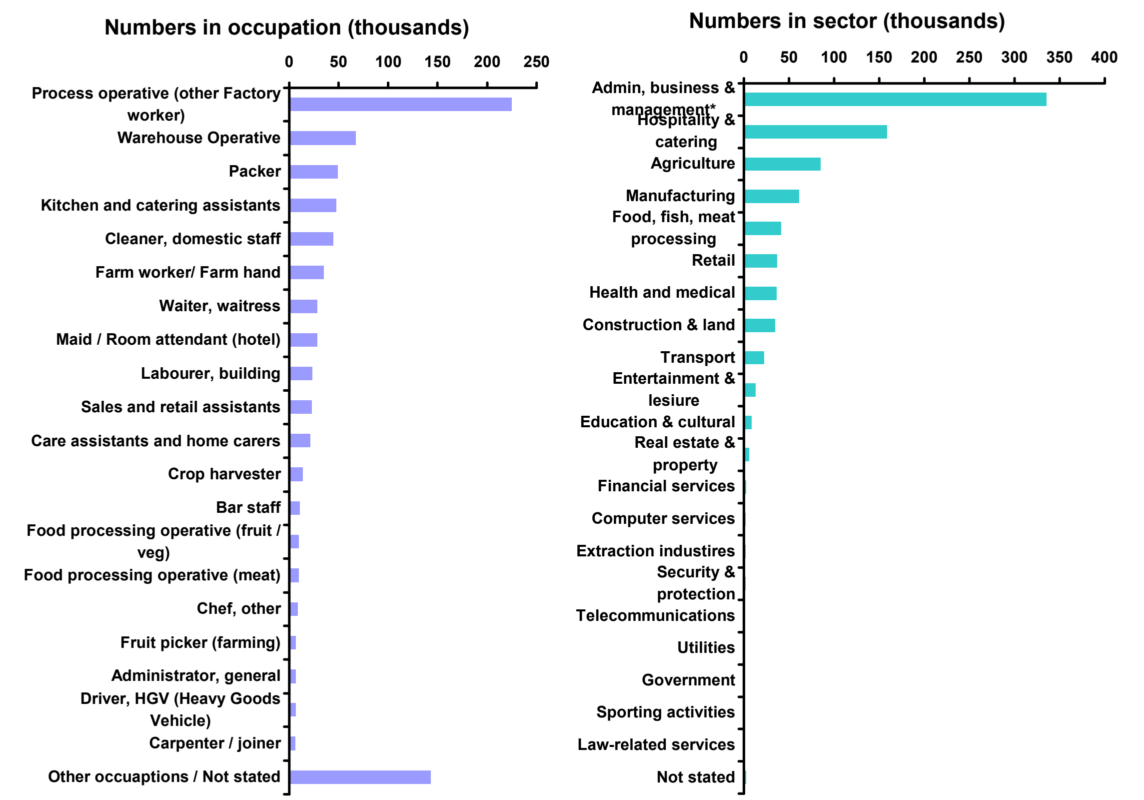
5.18. In terms of education and skills, the majority of A8-born immigrants are educated to age 18 or over. By this particular measure, education levels compare favourably with the UK-born population.

5.19. However, analysis of occupational skill level suggests A8-born workers in the UK are disproportionately employed in low skill occupations. As explained in detail in our September 2008 report (Migration Advisory Committee, 2008) the Standard Occupational Classification divides occupations into four skill levels, level 1 being the lowest. Nearly three quarters of A8-born workers are in occupations skilled to levels 1 and 2 whilst under half of UK-born, A2, other EEA and non-EEA immigrants are in occupations at these skill levels. Dustmann *et al*. (2007) show that immigrants may take employment for which they are overqualified. This is likely in the case of A8, but data are not sufficiently detailed to fully confirm this.

5.20. Regarding occupational distribution, over 50 per cent of A8 workers in the UK are in elementary occupations and process, plant and machine operative occupations. This compares with less than 20 per cent for UK-born workers. The proportion of A8 workers in these occupational groups has increased substantially since accession, from just over 25 per cent in 2004.

5.21. The WRS provides information on which occupations and sectors A8 immigrants go into when they first arrive, albeit not in the categories used in the Office for National Statistics' Standard Occupational Classification (SOC) or Standard Industrial Classification (SIC). Figure 5.4 shows the top 20 occupations and sectors in which A8 immigrants are employed. It is clear that a substantial fraction of A8 immigrants are initially going into lower-skilled occupations, in hospitality, agriculture or manufacturing sectors. Nevertheless, the spread across other occupations and sectors is quite broad.

Figure 5.4 Top 20 occupations A8 immigrants register for, and the flow into each occupation, March 2004 – June 2008



Note: Occupations outside the top 20 are included in "Other occupations / Not stated".
*The majority of workers in the admin, business and management sector are employed by recruitment agencies, which subsequently post workers to a variety of industries.
Sources: WRS data (published UK Border Agency, 2008a).

5.22. The proportion of A8 immigrants in employment has increased from under 60 per cent in 2004, to around 80 per cent in 2008 (Figure E.13). Correspondingly, the proportion of those unemployed has fallen from a relatively high position in 2004 to below that of UK-born, EEA-born (excluding accession countries) and other foreign-born immigrants (Figure E.13).

5.23. In 2004, 30 per cent of A8 immigrants were self-employed. By 2008, this figure had dropped to 11 per cent (Figure E.14). Blanchflower *et al.* (2007) also find that pre-2004 A8 immigrants have a high probability of being self-employed, whilst new arrivals have a lower probability. Self-employment may reflect previous restrictions on A8 immigrants.

Impact of A8 immigration on the UK labour market

5.24. Before going on to discuss the impact on the labour market and the wider economy of the A8 accession, it is worth repeating that considerable debate still surrounds many theoretical aspects of this issue (see, for example, House of Lords, 2008). In addition to the theoretical implications of flows and characteristics, we review some empirical studies that have attempted to assess the labour market and economic impacts of A8 immigration.

5.25. As set out in Chapter 3, a potentially important factor is the degree to which immigrant labour complements or substitutes existing labour and capital. The skill level of occupations that immigrants enter is an important determinant in this respect. Negative effects are generally hypothesised at the low skill (and hence low paid) end of the distribution (see, for example, Dustmann *et al*., 2007). In relation to A8 immigration, Blanchflower and Shadforth (2007) suggest that fear of unemployment (not unemployment itself) may depress wages at the lower end of the labour market.

5.26. In theory, the low-skill occupational distribution of recent A8 immigration increases the possibility of negative effects arising from substitution of existing labour and capital. But whether this is actually observed in the labour market is an empirical question. Important pieces of work in this respect are Gilpin *et al.* (2006) and Lemos and Portes (2008), both on behalf of the Department for Work and Pensions. Lemos and Portes build on Gilpin *et al.* (2006) using a spatial correlation approach (i.e. comparing areas receiving high numbers of immigrants with those receiving low numbers) to examine whether there has been an impact on wages or unemployment for existing workers. Treating the inflow of the A8 workers after 2004 as a “natural experiment”, the authors hypothesise that, if inflows of A8 immigrants have caused increases in the unemployment rate (or wage depression), then those districts where WRS registrations had been concentrated should have seen the largest increases in unemployment (or reduced lesser wage growth). They also compare elementary occupations, where A8 immigrants are concentrated, with other occupations. The paper finds “no statistically significant impact on wages, either on average or at any point in the distribution” and no statistically significant effect on unemployment, although the authors indicate that the evidence on impacts at the low-wage end of the distribution is less complete.

5.27. There is empirical evidence to suggest that negative effects of immigration at the low-wage end of the distribution are mitigated by the National Minimum Wage (see Metcalf, 2008). Lemos and Portes (2006) suggest that negative effects could also be masked because immigrants are more likely to be present in areas of higher labour demand, raising the possibility that immigration could have dampened wage or employment growth that would otherwise have occurred.

5.28. There is some evidence that A8 immigrants are locating in response to labour demand. The geographical distribution of A8 immigration in terms of population density is dispersed. Higher concentrations are observed in areas with higher numbers of jobs in agriculture and food processing (Stenning *et al.*, 2006). These are areas which have not traditionally received large inflows of immigrants, and the overall distribution differs considerably from that observed for previous waves of immigration to the UK, which have tended to concentrate in and around large urban centres (Commission for Rural Communities, 2007; LGAR, 2007).

5.29. Debates have tended to focus on the consequences of the above, rather than the causes, which has ignored the possibility that the pattern is driven by labour demand. Coombes *et al.* (2007) tested this hypothesis and concluded that early A8 immigrants did locate in response to labour shortage. While this may mean we cannot necessarily rule out dampening of wage growth in areas of shortage, A8 immigration has also played a role in responding to needs in local labour markets.

"In 2004 when 10 new countries joined the EU, we gave their people access to our labour market – but the Workers Registration Scheme ensured people came to work and not claim benefits.

This has been a success. Workers from the new member states have filled skills gaps, including in key public services such as the NHS and social care, and have contributed to UK growth and prosperity. Studies have found no evidence they have taken jobs away from British workers or undercut wages. Employers and customers alike have welcomed their skills. Very few have brought dependants and the proportion attempting to claim out of work benefits has been less than 1%."

HM Government evidence to the MAC

Impact on the wider economy

5.30. Professor Dustmann in his evidence to the MAC argued that the UK economy has benefited, on aggregate, from A8 immigration. Although this view is not unanimous, it appears to be a growing consensus. A recent study by the Work Foundation (Coats, 2008) reviewed the data and evidence on the impact of A8 immigration, concluding that A8 immigrants have contributed to economic growth and not displaced existing workers.

5.31. The fact that A8 immigrants are largely young and in employment suggest (as discussed in Chapter 4) that it is likely that, so far, on aggregate, A8 immigration has made a modest but positive net economic impact. In his evidence to us, Simon Kirby outlined a model developed by the National Institute of Economic and Social Research, which demonstrated the hypothetical macro-economic effect of the A8 immigration as an external shock to the labour market based on assumed characteristics. In this model, although medium-term forecasts for GDP were positive, the forecast for per-capita GDP were slightly negative in the short term and slightly positive in the longer term. We note that there are a number of quite wide-ranging assumptions in this model, so results need to be treated with caution.

5.32. Blanchflower *et al*. (2007) argue that A8 immigration has contributed more to supply than it has to demand and therefore has acted to reduce inflationary pressures. This would, in theory, correspond with reduced wage growth.

5.33. In terms of fiscal impacts, the life-cycle effect discussed in Chapter 3 (whereby immigrants may not be in the country at the start and end of their lives, when the net fiscal contribution is likely to be most negative) could be offset by the lower wage distribution of A8 immigrants. However, in the short term the net fiscal impact is likely to be positive; long term net impacts are more difficult to ascertain.

5.34. Evidence suggests that A8 immigrants have made little demands on the welfare system in comparison to both UK-born people and immigrants of other nationalities. In light of a stock of 700,000, the numbers of A8 immigrants applying for tax-funded income-related benefits and housing support are low (UK Border Agency, 2008a). From the date of accession until June 2008, approximately 10,000 applications for income support have been made by A8 nationals of which less than 2,000 proceeded for further processing (UK Border Agency, 2008a). In the same period, approximately 13,000 applied for Jobseekers' allowance, of which fewer than 5,000 proceeded, and around 500 applications for the State Pension Credit were made, of which only 180 proceeded.

5.3 The A8 experience in the rest of the EU15

5.35. In this section we briefly review other EU15 member states' experiences of the A8 accession in comparison to the UK. Specifically, we compare member states that lifted restrictions with those that maintained them.

5.36. In 2004, the UK, Ireland and Sweden were the only EU15 member states to completely lift restrictions. Other member states either maintained their existing work permit arrangements, or implemented a modified work permit regime for A8 nationals. At the end of the first transitional period in January 2006, a number of member states lifted restrictions including Spain, Portugal, Greece and Finland. Further lifting and relaxation of restrictions occurred in other member states in 2007.

5.37. Provisions for self-employed and posted workers from A8 member states are similar to those described in Chapter 4 for the A2, although Germany and Austria applied transitional measures restricting posted workers in certain sectors.

Flows to the EU15 following accession

5.38. Data on migration flows and immigrant populations are fairly limited at the EU level, and caution is needed in comparing estimates derived from different member states' statistics. In general, primary and secondary data and analysis is more readily available for migration flows from Poland (for example, see OECD, 2008), as Poland is the largest of the A8 countries and provided the most substantial flow from the A8 to EU15 member states.

5.39. For EU-wide comparisons, two sources of data have been used by others, both with limitations. First, the European Commission (2006) examined stocks of A10 immigrants as a proportion of working age population in EU15 member states. Second, the World Bank (2006) and Kaczmarczyk and Okólski (2008) report data from the Polish Labour Force Survey on numbers of returned temporary migrants (having been in the UK for two months or more). The former covers the A8 plus Malta and Cyprus (both small populations, but not subject to restrictions). Figures for the latter need to be treated with caution as they clearly exclude those currently abroad and are thus an indication of temporary migration only. Both sets of data will be subject to sampling errors in respective labour force surveys. Table 5.2 shows both sets of data.

5.40. Overall, data suggest that, pre-accession, Polish immigrants were fairly dispersed throughout the EU15 countries. Larger numbers are observed in member states with greater populations, in particular in Germany and the UK, the two largest economies in Europe. The UK and Ireland in particular have experienced rapid increases in temporary immigration from Poland between 2004 and 2007.

5.41. The European Commission (2006) reviewed the increases to stocks of accession nationals in EU15 countries and concluded that: “there is no evidence to show a direct link between the magnitude of mobility flows from EU10 member states and the transitional arrangements [restrictions] in place”.

5.42. These data show substantial increases in A8 immigration to the UK and Austria only. However, as is visible in Table 5.2, time-series data are missing for two further interesting cases: Germany and Ireland, discussed below.

5.43. Turning to impacts, the most comprehensive examples of analyses of labour market impacts are those covered previously in this chapter with respect to the UK. The World Bank (2006) cites UK evidence to the end of 2005 to conclude that “the inflow of migrant workers did not weaken the absorptive capacity of the receiving labour markets and there is continued strong demand for labor”. They note some concerns about job displacement in a number of member states, but no systematic evidence is presented.

5.44. In a review of transitional arrangements, the European Commission (2006) analysed residence permits and labour force surveys in member states and labour market outcomes. Employment rates of nationals, other immigrant groups and nationals of the 10 countries joining in 2004 are compared and authors conclude that A8 nationals contribute positively to aggregate employment rates. However, the assessment of whether substitution of domestic workers may be occurring is made at a very aggregate level. They also look at education levels, again at a very aggregate level, to conclude that A8 workers are more likely to complement than substitute domestic labour.

Table 5.2 A10 stock in EU15 countries and Polish return migration by destination, 2004-2007

	A10 stock as a percentage of working age population			Polish return migrants by destination country (thousands)			
	2003	2004	2005	2004	2005	2006	2007
EU25	*0.1*	*0.1*	*0.3*	*750*	*1,170*	*1,550*	*1,860*
Austria	0.7	0.8	1.4	15	25	34	39
Belgium	0.2	0.2	0.2	13	21	28	31
Cyprus	-	-	-	-	-	-	4
Czech Republic	-	-	-	-	-	-	8
Denmark	-	-	-	-	-	-	17
Finland	0.3	0.3	0.3	0	1	3	4
France	0.1	0.1	0.1	30	44	49	55
Germany	-	-	0.7	385	430	450	490
Greece	0.3	0.4	0.4	13	17	20	20
Ireland	-	-	2.0	15	76	120	200
Italy	-	-	-	59	70	85	87
Luxembourg	0.3	0.3	0.3	-	-	-	-
Portugal	-	-	-	1	1	1	1
Spain	0.2	0.2	0.2	26	37	44	80
Sweden	0.2	0.2	0.2	11	17	25	27
The Netherlands	0.1	0.1	0.1	23	43	55	98
U.K.	0.2	0.3	0.4	150	340	580	690
Non-EU (excl. Norway)	-	-	-	20	30	60	65
Norway	-	-	-	-	-	-	36
Notes	Figures derive from EU15 Labour Force Surveys and describe the number of A8 immigrants as a percentage of working-age population.			Figures describe the number of persons returned to Poland who have stayed temporarily abroad for more than two months (three months for 2007 data).			
Source	European Commission (2006).			World Bank (2008).			

Ireland

5.45. The Irish experience of A8 immigration is similar to that of the UK. Between 2002 and 2006, stocks of Polish-born immigrants grew from 2,100 to 62,600 (OECD, 2008). As Table 5.2 shows, the stock of A8-born nationals as a proportion of working-age population was the highest amongst the EU15 member states in 2005.

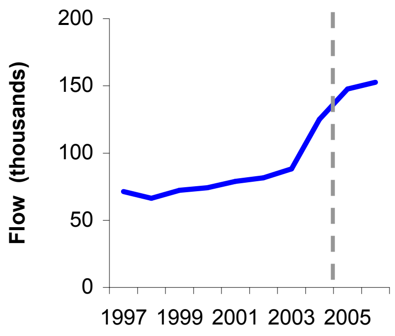
5.46. Doyle *et al*. (2006) ascribe the substantial inflow to strong labour demand arising from high GDP growth. Barrett *et al*. (2008) analysed the gap between A8 immigrant earnings and those of natives in Ireland. They found no earnings disadvantage for the lowest skilled immigrants and their native counterparts, whilst a substantial gap was observed at the highest skill level.

Germany and Austria

5.47. Figure 5.5 shows that Germany experienced substantial flows of immigration from Poland prior to accession. Austria is a less popular destination for Poles than Germany, although other A8 nationalities are heavily represented (Figure 5.6).

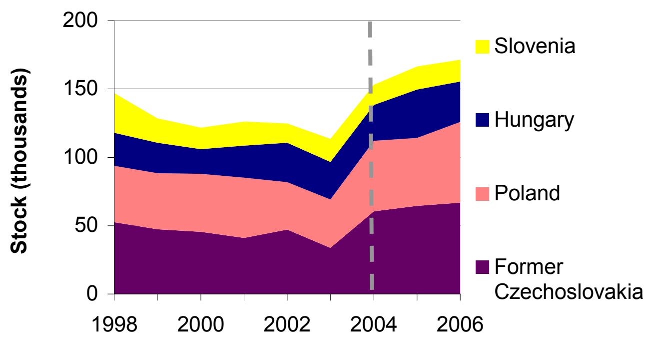
5.48. For both Austria and Germany, tentative evidence exists that suggests that increases in A8 migration began prior to 2004, and that A8 migration has continued at a moderate pace since then. Table 5.2 shows that temporary migration to both countries has increased at a slower pace than in the UK or Ireland.

Figure 5.5 Annual flows of Polish-born immigrants to Germany, 1997-2006



Source: OECD (2008).

Figure 5.6 Stocks of selected A8-born immigrants in Austria, 1998-2006



Source: OECD (2008).

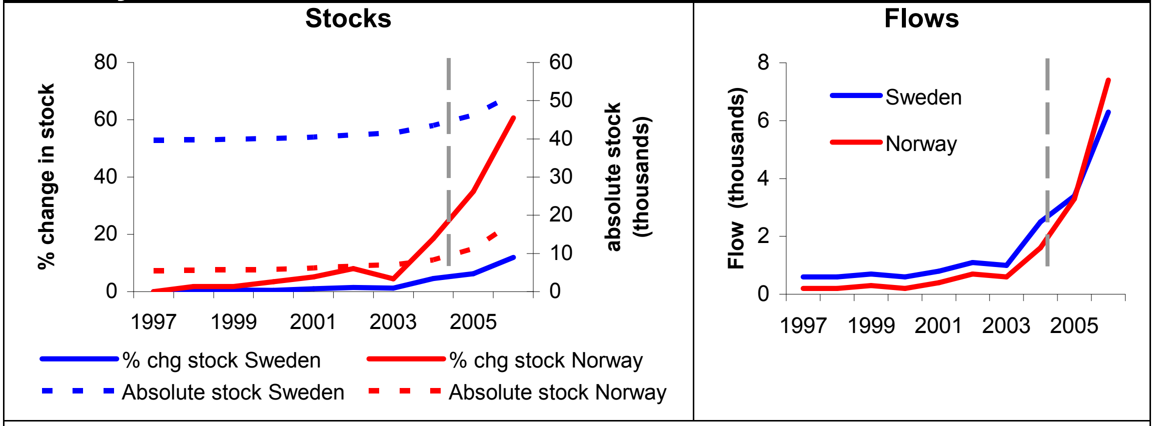
Sweden and Norway

5.49. Like the UK, upon accession, Sweden did not impose labour market restrictions. It also had a relatively large initial stock of Poles: in 2004, Polish-born immigrants numbered 44,000 out of a population of approximately 9 million (OECD, 2008).

5.50. However, Sweden did not experience flows of the magnitude that the UK and Ireland did. In fact, comparison with Norway, which imposed some limited restrictions, shows that Norway experienced similar absolute flows (Figure 5.7), despite a smaller population and an initial stock of Polish-born.

5.51. It has been suggested that collective labour agreements, which appear to be similar in the two countries, have played a part in limiting migration flows. Doyle *et al*. (2006) cite a widely reported wage dispute between a Latvian construction company, L&P Baltic AB and the Swedish Building Workers' Union in which the union insisted workers were paid the average of €16 per hour, whilst the company wished to pay €12 per hour to their Latvian workers. Sweden's low inflow may suggest that overall labour market demand and flexibility may be more important in determining flows than legal restrictions.

Figure 5.7 Stocks and flows of Polish-born immigrants in Sweden and Norway, 1997-2006



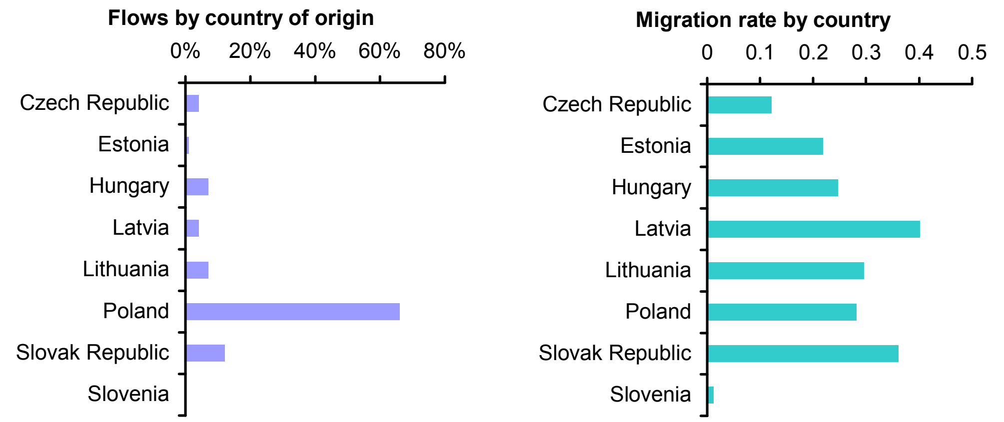
Source: OECD (2008).

5.4 Drivers of A8 migration

5.52. The A8 experience provides a potential model for evaluating the impact of lifting the A2 restrictions. If the A8 and A2 member states were identical, and prevailing economic circumstances and restrictions in place in other member states were the same, this would be straightforward. They are not, but examining the two sets of countries in light of what we know about drivers of migration may reveal some useful insights.

5.53. Chapter 3 sets out the existing evidence on key drivers of immigration generally. By comparing the different rates of immigration to the UK from each sending country with various driver variables, a number of studies have sought to assess the drivers of A8 immigration. Figure 5.8 shows the patterns of immigration from each of the A8 countries to the UK. Poland is by far the most significant sending country, but it also has the largest population. In proportion to their working age populations, Latvia, Lithuania and the Slovak Republic show greater UK immigration rates than Poland. Immigration from Slovenia to the UK is insignificant in both number and rate, which is likely to be related to its considerably higher income levels.

Figure 5.8 Proportion of WRS flow from each of the A8 countries and immigration rates 2004-2008



Note: Immigration rates are calculated by an average of WRS approvals as a percentage of the country's working age population in the years 2004-2008.
Sources: WRS data (published UK Border Agency, 2008a), Eurostat population data, 2008.

5.54. Pollard *et al.* (2008) identified a number of economic drivers of A8 migration to the UK by comparing the rates of immigration to the UK observed for nationals of different A8 member states. They observed:

- a negative relationship between GDP per capita (Purchasing Power Parity) in sending member states and the rate of immigration to the UK; and
- a weak positive relationship between both unemployment and youth unemployment in sending member states and the rate of immigration to the UK; and
- a weak positive relationship between the relative strength of the pound sterling vis-à-vis home currencies and the rate of immigration to the UK.

5.55. Blanchflower *et al*. (2007) also found strong positive correlations between rates of immigration to the UK from the A8 member states and GDP per capita in those countries. However, they found a stronger positive correlation with the UN Human Development Index ranking and levels of life satisfaction reported in Eurobarometer surveys in sending member states. They also observed a weak positive correlation with unemployment rates, and a very weak and probably not significant correlation with employment rates in sending member states.

5.56. We replicated some of these analyses using the rate of immigration to the UK of the working population in each A8 member state. This was not a multivariate analysis, and care needs to be taken when assessing the results as the potential correlation between 'driver' variables is not accounted for.

5.57. **Figure 5.9** shows the correlation for GDP per capita in sending member states as an example; the key results are described below (the Pearson r^2 is a measure of correlation, between 0 and 1. The closer the value is to 1, the closer the correlation):

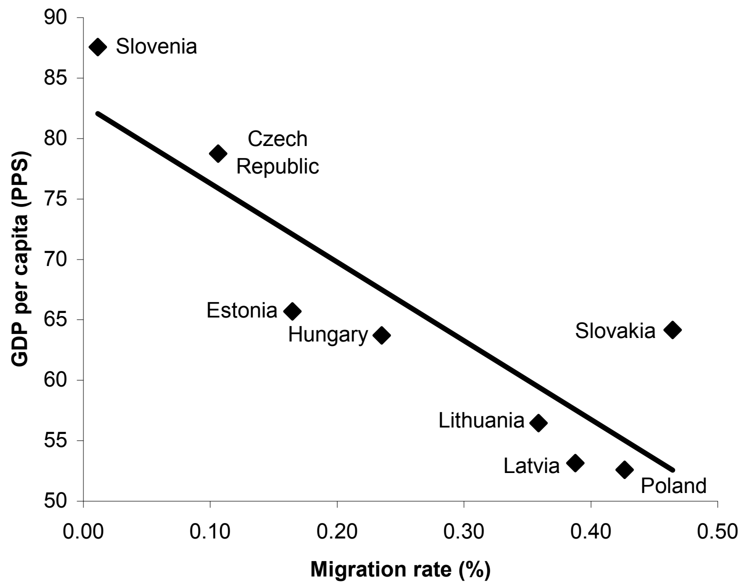
- we hypothesised less immigration from member states with higher average incomes. A strong negative correlation was observed with average incomes (Purchasing Power Parity) (Pearson $r^2 = 0.76$);
- we hypothesised more immigration from member states with higher unemployment levels. A moderately strong positive correlation was observed between unemployment levels (Pearson $r^2 = 0.59$);
- we hypothesised more immigration from member states with higher youth unemployment levels. A weak and not statistically significant positive correlation was observed between youth unemployment levels in sending countries (Pearson $r^2 = 0.37$); and
- we hypothesised more immigration from member states with a larger pre-existing immigrant population in the UK. A weak and not statistically significant correlation was observed between the stock of immigrants in the UK in 2001 and the rate of working age migration to the UK (Pearson $r^2 =0.34$).

5.58. Economic factors have clearly played an important role in determining rates of immigration from A8 member states to the UK. However, this kind of analysis looks only at the 'push' side of each driver: it does not explain different flows observed in different EU15 countries. It is difficult to assess the pull side of migration because of limited data available. The case of Sweden, for both the A8 and A2 accessions, highlights that factors other than income levels and labour market restrictions must play a part.

5.59. In his evidence to us, Sir Andrew Green emphasised the importance of 'network effects', also discussed in Chapter 3, where further immigration is driven by the experience of family and friends who have already migrated to the UK. Thus, initial preferences or migration decisions become emphasised over time. It is very difficult to empirically assess the extent to which this effect is contributing to continued flows from A8 countries.

5.60. Pollard *et al*. (2008) suggest that non-economic factors, for example the opportunity to learn English, played equally important roles in determining A8 immigration to the UK. Their survey of return migration to Poland suggests that personal factors, rather than changing economic circumstances, are the most important reason for return to home countries.

Figure 5.9 Correlation between GDP per capita and annual immigration rate of working-age population to UK for A8 countries, 2004-2008



Note: Averages are taken for years 2004-2008. GDP per capita in Purchasing Power Parity, indexed at the EU Purchasing Power Standard EU27 = 100. Annual migration rate is the inflow recorded in the WRS as a percentage of working-age population in sending country. Source: MAC analysis of Eurostat and WRS.

5.5 Conclusions and implications

5.61. The UK witnessed substantial immigration from the A8 member states – most significantly from Poland – following accession in 2004, when the UK did not impose transitional labour market restrictions, but the majority of major EU15 member states did.

5.62. Recent immigration from A8 member states has been of a different character to previous waves of immigration to the UK:

- A8 immigrants have tended to be young, relatively educated, and in employment;
- in spite of their level of education, a large proportion of A8 immigration has been into lower skill occupations; and
- there is evidence that a substantial proportion of A8 immigration is short-term, with around half of those who have arrived since 2004 having returned to their home countries or gone elsewhere.

5.63. The character of this immigration has implications in terms of impact on the UK labour market and economy:

- A8 immigration has not been shown to have a significant impact upon labour market outcomes and prospects for existing workers;

- however, although unobserved, the possibility of impacts at the low-wage end of the distribution remains; and

- it is likely that A8 immigration has had a net benefit to the UK economy. However, the per capita benefit has been smaller.

5.64. The UK experience of the A8 accession also has potential implications in terms of considering the likely nature and scale of flows from the A2 to the UK, were labour market restrictions to A2 nationals removed or relaxed.

- income levels and living standards, as well as labour market demand, appear to affect migrants' choice of destinations and the latter could potentially affect choice of location within destination countries;

- labour market conditions in sending member states appear to have been less of a factor in terms of influencing flows to the UK; and

- the experience across the EU does not suggest that flows can be reliably gauged on the basis of the restrictions in place in different member states.

Chapter 6
Impact of removing restrictions on A2 nationals

6.1 Introduction

6.1. This chapter assesses the potential impacts on the UK labour market, and the UK economy in general, of lifting restrictions on A2 nationals' access to the labour market completely.

6.2. It is our intention to look forward, so we are not presenting new evidence on past immigration. We draw heavily on the analysis of current and historical economic conditions and immigration patterns in Chapters 2, 4 and 5. In addition, our assessment of potential flows and impacts relates back to the discussion of theoretical frameworks, drivers of immigration and impacts in Chapter 3. This evidence is supplemented with evidence from academics and government and by data and evidence collected during our visit to Bulgaria and Romania.

6.3. The chapter is structured as follows:

- **Potential flows:** in light of current economic conditions, consideration of the magnitude of potential flows is more important in determining impact than it would otherwise have been. We therefore review the evidence on flows and assess whether estimates can be made of the magnitude of potential inflows.

- **Labour market impacts:** we consider the likely impacts of potentially increased flows on the UK labour market. We review past experience, primarily the UK experience with the A8 discussed in Chapter 5, and critically assess the extent to which that experience is applicable in current economic conditions.

- **Economic impacts:** finally, we consider wider economic impacts, including possible macro-economic effects and net fiscal implications of potential immigration flows.

6.4. A key theme that spans this chapter is uncertainty. Throughout, we therefore attempt to make an assessment of: what is probable – our best estimate given the evidence; and what is possible – the range of potential impacts arising from uncertainties.

6.5. The chapter looks at the UK as a whole. Labour market and economic needs and impacts may, of course, be unequally distributed. Chapter 7 considers specific sectors and Scotland.

6.2 Potential flows

6.6. In order to assess the impact of immigration to the UK, we need to assess both the magnitude and composition of flows, and the uncertainties surrounding them. First, we outline how **limited information** is a source of uncertainty, in that:

- data on migration are limited; and
- we do not know what decisions other EU countries will make.

6.7. Second, we examine the applicability of the **A8 experience** in making an assessment of the magnitude and characteristics of flows, looking specifically at:

- extrapolating from the A8 experience;
- comparisons between A8 and A2 countries; and
- the past experience of A2 immigrants in the UK and other EU countries.

6.8. Finally, we discuss the determinants of immigration including **push and pull factors** in the context of wider uncertainties which are likely to affect any immigration to the UK, specifically the changing economic context.

Limited information

6.9. A source of uncertainty is that we rely upon **data that are subject to limitations** that affect the reliability of estimates derived from them. We have highlighted in Chapter 4 the inadequacy of the available data on gross and net immigration flows to the UK and about the stock of immigrants in the UK. The problem of estimating current stocks and flows of immigrants from the A2 countries is further exacerbated by the insufficient available data on short-term immigrants. One of the main characteristics of migration within Europe is that, thanks to cheap and frequent flights, short-term migration[3] has hugely increased in the last decade. The available UK data on gross and net immigration flows include only those immigrants that intend to stay for longer than 12 months[4]. We also know very little about the scale of illegal employment of immigrants in the UK.

6.10. It is unfortunate that perhaps the most relevant factor in determining the magnitude of immigration flows is also the most unpredictable: **we cannot be certain what actions other EU countries will take** in relation to the A2 restrictions at the end of the first two-year period. It is worth emphasising the UK's experience of the A8 accession in this respect. Incorrect assumptions about the decisions of other EU15 member states contributed to a considerable underestimation of the flow from these countries in an independent study carried out for the UK Government in 2003 (see, for

[3] Short term migration is defined by the ONS as between 3 and 12 months.
[4] The ONS is working on producing short term migration statistics and recently published experimental data for mid-2006.

example, Dustmann *et al*. (2003) and IPPR, (2006)). Professor Rowthorn in his response to our request for information made a similar point: the fact that most other EU countries imposed restrictions on A8 immigration diverted A8 migrants towards the UK.

> *"It is difficult to predict other countries' future policies, though possible that the worsening economic climate may make other countries more cautious about opening their labour markets to A2 nationals."*
>
> UK Government evidence to the MAC

6.11. If migrants' preferred destinations were fixed irrespective of restrictions, the impacts of other member states' decisions would be more limited. However, an important lesson from the 2004 accession is that preferences are partially constructed in relation to restrictions and opportunities in different countries.

6.12. Thus, if the UK were to lift all the restrictions while the other member states maintained theirs, then the UK would be likely to receive much higher immigration inflows from the A2 countries. At the other extreme, if the UK maintains the current restrictions while the rest of the member states lift them, then the potential flow of immigration to the UK will probably be much lower. Box 6.1 illustrates the uncertainty of different combinations of outcomes.

6.13. The current picture is that while Sweden has removed restrictions and Italy and Norway (which is in the EEA but not the EU) have very limited restrictions, the other EU15 member states have maintained, to a greater or lesser extent, the regimes that were in place prior to accession. Furthermore, the standstill clause contained within the Treaty of Accession does not preclude member states that have relaxed restrictions from tightening them again, so long as they are equal to or less than were in place on 31 December 2006. Low absolute flows to Sweden and Norway (see Chapter 4) mean that this is probably not an important consideration for these member states. However, in Italy, recently published statistics indicate large increases to stocks of both Bulgarians and Romanians, and this coupled with the political sensitivities surrounding the Roma population in Italy, make the forward look less certain.

6.14. Informal discussions with UK government officials working in the EU and other independent experts lead us to conclude that the other EU15 member states are likely to be conservative in their decisions. This was also the view of Professor Dustmann when he provided oral evidence to us. The current economic situation is thought to contribute to a generally cautious approach.

6.15. A probable scenario to consider is therefore one in which the other countries do not lift restrictions, meaning that if the UK lifted its restrictions, the UK and Sweden would be the only countries where free movement of labour was permitted. This would be similar to the A8 accession in May 2004, when only the UK, Ireland and Sweden completely lifted restrictions.

Box 6.1 A representation of how the decisions of other member states impact upon potential immigration flows from A2 countries to the UK

The following diagram illustrates the possible outcomes of different combinations of decisions. It relies on four main assumptions:

- there is a fixed pool of potential A2 immigrants;
- these potential immigrants have three options: stay in their countries; emigrate to UK, and emigrate to other EU countries;
- both the UK and the other member states have three options: retain the current restrictions, relax them or remove them;
- the economies of the EU are identical, or at least very similar, in terms of their labour markets and demand for immigrant labour.

More fundamentally, this diagram assumes that immigration restrictions are the only, or at least the key, determinants of immigration – we know that this is not the case in practice

EU / UK	Keep	Relax	Lift
Keep	Status quo		Lowest flows to the UK
Relax			
Lift	Highest flows to the UK		

The two arrows indicate the directions of increasing flows of potential immigrants from the A2 countries to the UK, depending on the decisions being made by the other member states. The box at the top right of the figure represents the situation where the UK retains the current restrictions while the other member states remove theirs. In this case, we should expect a low flow of immigrants from the A2 into the UK. Conversely, if the UK removes its restrictions but other countries retain theirs, there is a high flow of immigrants to the UK. Relaxing the assumptions might affect the precise result, but the same general principles would hold true.

Applying the A8 experience to the A2 accession

6.16. Next we examine the A8 comparison in more detail using the A8 experience as a model for the A2. We assess:

- some of the predictions of flows that have been made on the basis of the A8 experience;
- some specific differences in terms of drivers of migration between the A2 and A8 countries;
- past experience of A2 immigrants in the UK and other EU countries.

6.17. A number of studies have made predictions of migration flows on the basis of flows observed in previous accessions. Most notable is Dustmann *et al.* (2003) which modelled flows of A8 immigrants to the UK on the basis of the accession of southern European countries in the 1980s, discussed in more detail in Chapter 5**.**

6.18. Less sophisticated estimates were made in advance of the A2 accession by a number of organisations. In 2006, before the A2 accession, IPPR produced a basic forecast, assuming: the same migration rates (migration to the UK as a proportion of population) for the A2 as the average of the A8; and similar full removal of restrictions in the UK as for the A8. This yielded an estimate that the net stock of A2 migrants would increase by 48,000 by summer 2008 if restrictions were lifted. However, this fails to account for differences between A2 and A8 countries in terms of variables that affect migration.

6.19. Migrationwatch (2006) used GDP per capita as a predictor of A2 migration. The resulting estimate of over 300,000 A2 migrants in the 20 months from accession was an overestimate (Stone, 2006). A further estimate was made by Open Europe (2006). Based on a single push factor, very low income in Romania and Bulgaria, it estimated that around 450,000 Romanians and 170,000 Bulgarians would arrive in the UK in the first two years following accession.

6.20. In Chapter 5 we discussed the main drivers of migration that appear to have influenced the pattern and flow of the A8 immigrants into the UK and rest of the EU. The analysis suggests that GDP per capita has been strongly correlated with the rate of immigration from A8 countries to the UK. In his evidence to us, Professor Rowthorn suggested that although economic downturn might deter A2 nationals from coming to the UK, the relevant GDP per capita differential between A2 countries and UK will still act as a strong driver and flows would very likely increase as a result of lifting the restrictions. That said, both the Bulgarian and Romanian economies have experienced positive and sustained economic growth in recent years. And as discussed in Chapter 2, growth rates in both countries are forecast to slow down but to remain still positive and higher than the UK, although the impact of the global economic slowdown on those growth rates remains to be seen.

6.21. As shown in Chapter 5, unemployment in the source countries has been a less significant driver in determining immigration flows from A8 countries to the UK than GDP per capita, but still may have some effect. The A2 member states currently have slightly higher unemployment rates than in the UK. However, in our visit to Romania and Bulgaria, we were presented with evidence suggesting that some sectors are experiencing labour shortages. This was supported by Professor Salt, who told us that, in order to deal with the labour shortage in Bulgaria, its government has been debating possible measures to attract labour with the Vietnamese, Macedonia and Thai governments.

Comparison of A8 and A2

6.22. Predicting the likely magnitude of immigration from Bulgaria and Romania in comparison to those from the A8 is complicated by inconsistency in the indications provided by the drivers. The low relative level of GDP per capita (around 40 per cent of the EU27 levels in 2007) in the A2 countries would imply high immigration rates, as the A8 countries averaged 57 per cent of the EU27 average in 2004. However, if unemployment rates (5.8 per cent for Bulgaria and 7 per cent in Romania in 2008) are compared to those of the A8 in 2004 (14.7 per cent), a lower immigration rate is suggested (Eurostat, 2008).

6.23. We would expect, as with past A2 and A8 immigration to the UK, a large majority of A2 immigrants to be young, in employment and with few dependants. We would also expect future A2 immigrants to be relatively well educated. However, as with the A8, they may work in relatively low-waged occupations in the UK that do not require the level of qualification they possess.

6.24. A2-born immigrants in the UK are currently proportionally in more skilled occupations than the A8, primarily trades (e.g. construction). However, the occupational distribution of A2-born immigrants in the UK *in 2008* is similar to that of the A8-born immigrants *in 2004*. The A8 experience suggests that the A2 employment profile could change over time, with additional employment being more skewed towards the less-skilled occupations. NIESR evidence to us also suggested that A2 immigrants would not act very differently from A8 immigrants if restrictions were lifted and they would probably head for the same occupations.

6.25. There are, however, some important uncertainties. First is the question of how tight labour markets in Bulgaria and Romania (e.g. shortages in construction) might affect the occupational distribution. Second, just as economic drivers have been important in determining A8 immigration, the context of the UK economic downturn may result in a different pattern of A2 immigrant characteristics and their role in the labour market. Finally, it is difficult to predict whether A2 immigration would follow the A8 model in that a substantial proportion would be short-term.

Lessons from the A2 experience

6.26. Relative to some other countries, immigration to the UK from Bulgaria and Bulgaria has been low, both before and after accession. We received some explanation for the relatively low flows during our trip to Romania and Bulgaria, where officials made the argument that southern European countries are the preferred destination, especially for low-skilled workers. This has been further confirmed by Professor Salt and NIESR in their evidence: similarities in language and culture, and the fact that Southern European countries are closer and cheaper to reach, have been listed as the reasons why a very small fraction of total A2 immigrants have chosen the UK so far. NIESR cited network effects as playing a role here, and the existing networks in Italy and Spain will remain even if the UK removes its own restrictions.

6.27. A 2006 Gallup poll for the Bulgarian Ministry of Labour and Social Policy estimated that around 45,000 – approximately 1 per cent of the working-age population – are likely to emigrate from Bulgaria in the future (around 11,000 of whom would emigrate within 12 months), down from approximately 55,000 in 2001. However, ASSA (2007) indicated around 5 per cent are prepared to settle abroad, and another 16 per cent are considering this or have been hindered from doing so. Unfortunately, we do not have comparable estimates for Romania.

6.28. However, as discussed in Chapter 4, there have been substantial increases in authorised Bulgarian and Romanian workers in the UK and other European countries following accession in 2007 relative to previously. This is despite the fact that only Sweden has completely lifted restrictions, and many EU countries including the UK, have ostensibly maintained similar work permit arrangements as previously.

6.29. The impact of accession over the first two years in the UK will potentially affect future additional flows. The implication, drawn by a number of those that we received evidence from during our visit to Bulgaria and Romania, is that a proportion of the potential flow from the A2 countries has already occurred. This is as a result of the opportunities to work in the UK created by various legal routes established as part of the Treaty of Accession, as well as irregular employment facilitated by free movement.

Push and pull factors in the context of economic slow-down

6.30. Whilst in many ways the scenario of the UK lifting restrictions on the A2 when other countries do not is similar to that of the A8 accession, in one crucial way it is not. A final source of uncertainty about the likely magnitude of flows is the changing economic context. This might affect not only the composition of flows, as discussed above, but also the levels.

6.31. As described in Chapter 2, following a long period of sustained economic growth, the UK is now experiencing a slowdown, with the expectation of recession in 2009 for the first time since 1991.

6.32. As discussed in Chapter 5, there is evidence that flows from A8 countries are slowing down and some anecdotal evidence that actually many A8 immigrants are returning to their home countries. Pollard *et al*. (2008) also predicts that fewer immigrants from the new EU states will come to the UK and many already in the UK will return to their home countries in the coming months and years. They base this forecast on the development of the EU countries, with improving economic conditions making it less likely that would-be migrants will leave.

6.33. So how are the current UK economic slowdown and a likely recession next year going to affect the flows of A2 immigrants? The current economic situation in the UK may have some impact on A2 flows as the UK becomes a less attractive destination. Clearly the economic situation in the A2 countries matters too although, as set out above, growth in these countries is expected to be relatively robust compared to the UK in 2009.

6.34. On the other hand, according to Professor Salt in his evidence to us, most studies of the immigration response to economic downturn indicate that, although the inflow of new immigrant workers falls sharply, most existing workers do not go home. In his evidence, Professor Rowthorn emphasised the fact that despite the current economic situation in the UK, economic opportunities here are still much better than in Bulgaria and Romania, so lifting the restrictions would still see an inflow of workers from A2 member states.

6.35. The British Chambers of Commerce (BCC), although supporting a lifting of the restrictions, recognised that the current economic downturn is sending mixed signals: firms are complaining that A8 workers are leaving but many businesses are not filling vacancies.

6.36. Also, despite the current economic downturn, inflows of A8 workers are continuing according to the WRS: this could indicate that, if for example the UK is the only country to completely lift restrictions, inflows could be more significant that we think.

6.37. Box 6.2 summarises the key points on flows of immigrants.

6.38. In conclusion, a probable scenario is one in which, whether or not other countries lift restrictions, a moderate additional flow of Bulgarian and Romanian nationals would occur. This scenario reflects the majority of views expressed about the scale of potential flows. However, there is a possibility that, under certain circumstances, much larger flows could be observed and this is a matter for concern in the context of a UK economic downturn.

Conclusions on flows

Box 6.2 Summary of key points on flows
It is not possible to accurately predict what flows from A2 countries to the UK will be if the UK lifts restrictions: • other EU15 members states' decisions are a principle source of uncertainty; • a scenario where most or all other member states do not lift restrictions is highly plausible. However, the evidence provides some indication of the size and nature of potential flows: • drivers of immigration, including relative GDP per head, do indicate that flows are likely to increase to some extent if restrictions are lifted; • however, the experience of the A8 may overstate likely additional flows, as some post-accession A2 immigration has already occurred; • the economic downturn in the UK is likely to imply lower rates of immigration than occurred following the A8 accession; • it is reasonable to assume that characteristics of immigrants will be roughly similar to the A8: they will be young and with a very high rate of employment, but potentially taking up low-waged jobs in the UK.

6.3 Impact on the labour market

6.39. We now examine the potential impacts on the UK labour market should restrictions for A2 nationals be completely lifted. We consider overall impacts only: sector-specific needs and impacts are discussed in more detail in Chapter 7.

6.40. As discussed in Chapter 3, immigration can have both positive and negative impacts on labour markets. Some types of immigration may be positive for some existing workers, but negative for other workers and/or the economy as a whole. Other types may constitute a win-win, for example if immigrants complement existing workers and help to clear bottlenecks in the labour market.

6.41. Because immigrants may differ from the existing workforce, for example in terms of wages they may be willing to accept, these effects could potentially be different to a simple increase in the supply of a particular type of labour. Furthermore, if an increase in labour supply comes as a "shock" to the market, effects on variables such as wages and unemployment may be larger than if gradual increases are observed.

6.42. Our starting point in assessing the impacts is a probable scenario of a moderate flow, as outlined in the previous section. We then go on to discuss the potential range of impacts resulting from uncertainties.

Scenario of a moderate flow

6.43. All things being equal, if the experience of the A8 serves as a scenario for what might be expected to happen if restrictions on A2 nationals were lifted, labour market impacts will be broadly neutral. As Dustmann highlighted in his written and oral evidence, the UK have benefited from A8 immigrants who have filled hard-to-fill vacancies. As discussed above, it is plausible that if restrictions on A2 employment were lifted, the immigrants would head for similar occupations to the previous wave of A8 workers.

6.44. This scenario sees little or no impact on aggregate employment or unemployment. The reasons for this are as follows:

- A2 immigrants are a small fraction of the total labour force in the UK and are likely to remain so. Bulgaria and Romania are two relatively small countries;
- although additional A2 immigrants may tend to concentrate in low skilled occupations, it is likely that many of these immigrants will fill gaps in the labour market, rather than displacing the UK-born on a large scale;
- A2 immigrants have relatively high economic activity rates with low unemployment rates. As discussed in Chapter 3, during poorer economic times, immigrants help keep the labour market more flexible as they are more pre-disposed to mobility, although we do not know how much this will apply to Eastern European immigrants;
- the UK has a flexible labour market which appears to have absorbed large A8 immigrant flows without serious labour market disturbance. It is plausible to assume that it would absorb additional moderate flow from A2 member states without major transitional costs.

Possible range of impacts

6.45. Despite the above, current economic conditions create a different playing field and we are deprived of crucial empirical information. **Because most of the empirical evidence on the impacts of immigration relates to a period of sustained growth, rather than falling growth rates or recession, we do not know that empirical effects observed or theoretical propositions will hold during a downturn.**

6.46. As Dr Drinkwater stated in his response to us, the UK labour market has been in a relative healthy state until recent times, which is likely to have mitigated any of the possible adverse impacts on these flows.

6.47. Of course, a slowdown will reduce the likelihood of substantial flows, but evidence we saw suggested that, even in an economic slowdown, more A2 workers are likely to come to the UK if the restrictions are lifted than if they are not, and in principle these numbers could be larger than we would expect. In addition, it is likely that the majority of these workers will take up employment in the UK in less skilled jobs.

6.48. Furthermore, the extent to which the current economic slowdown will deepen or continue is currently unpredictable. If economic conditions decline substantially from their current trend, theory suggests that the benefits immigrants bring to the labour market will reduce, while the costs will remain, or increase. As explained in Chapter 3 the overall impact of immigration on the labour market will depend on whether immigrants will act as complements or substitutes to the factor endowments of residents. Given the specific characteristic of A2 immigrants, a potentially deeper recession could mean the impacts of increased immigration are more likely to fall on the negative side than the positive and this downside risk would be amplified if flows were larger than expected.

6.4 Impact on the UK economy

6.49. Impacts on the wider UK economy generally follow on from the potential flow and labour market impacts. If immigrants complement existing labour (by, for example, filling vacancies or providing additional skills) they positively contribute to productivity, whereas if they substitute for existing labour in the UK market they can depress wages and reduce employment opportunities. Therefore, the net economic benefit is closely related to the net labour market benefit, which is subject to the risks and uncertainties discussed above.

6.50. As described in Chapter 5, NIESR in its evidence to us described findings that A8 immigrants initially had a small but negative effect on GDP per capita, followed by a slightly positive effect in the longer term. They would expect similar results for A2 immigrants.

6.51. As reported in Chapter 5 there is some empirical evidence suggesting that recent immigrant inflows into the UK appear to have had a slightly larger impact on supply than demand, and may therefore have depressed inflationary pressures. However, a fully comprehensive assessment of the impact of A2 immigrants on prices would need to consider the constituents of inflation in the context of likely consumption patterns, and there is only limited evidence on this.

6.52. As also discussed in Chapter 3, some empirical evidence suggests that immigration may have a small but positive impact on trade and investment, which may apply in the A2 context, but it is not possible to quantify this effect.

6.53. Given they are in general young, educated, without dependants and likely to be in employment and not likely to claim benefit, it is very likely that A2 immigrants make a strong fiscal contribution. But, according to Professor Rowthorn, a distinction should be drawn between short- and long-term effects.

Although in the short term, immigrants are likely to make a positive fiscal contribution, the long-term effect depends on: skill levels, and hence future tax payments; whether the workers remain in the destination country and have a family; and on the welfare rights immigrants acquire in the UK.

6.5 Concluding remarks

6.54. The balance of probability suggests small labour market and economic impacts, whether positive or negative. However, uncertainties around flows and the current economic trend are likely to be asymmetric in their possible impact. Overall, therefore, we believe that at this point in time, there are greater risks of substantially negative impacts (e.g. increased unemployment) than substantially positive ones (e.g. increased employment and higher growth in wages and productivity-per-head).

6.55. Therefore, although it is probable that impacts would be small, there is a small risk of adverse consequences under specific circumstances, particularly in the context of an economic downturn. **Therefore, we do not recommend a full lifting of restrictions on employment of nationals of Bulgaria and Romania at the current time.**

6.56. These conclusions, however, do not necessarily hold for particular sectors of the economy. Chapter 7 examines options for more targeted relaxation of restrictions, and in particular whether benefits could be expected for specific sectors. It also considers whether there are any specific considerations that apply to Scotland.

Chapter 7
Impact of relaxing the restrictions

7.1 Introduction

7.1. In this chapter we discuss specific sectors that we investigated in order to examine whether there was a shortage of labour that might sensibly be filled by immigrants from the A2 member states. We consider the impact of partially relaxing some of the existing rules governing access of A2 nationals to the UK labour market through new or amended sectoral schemes and changes to the work permit arrangements for nationals of A2 member states. Finally, we consider specific issues relating to Scotland.

7.2 Bottom-up sectoral evidence

7.2. Five sectors discussed in particular detail are agriculture, construction, food processing, hospitality, and social care. We focused on these sectors because all of these sectors are major employers of immigrants in low-waged and/or low-skilled jobs. Chapter 5 also demonstrated that the first four sectors listed are amongst the most common for registration of A8 immigrants (the other sectors that have seen the highest levels of A8 registration were widely defined, for example, admin, business and management).

7.3. Regarding social care, chapter 5 shows that a significant proportion of A8 registrations have been as “care assistants and home carers” and, in addition, labour shortages are frequently asserted in this occupation as documented in Migration Advisory Committee (2008). The UK Government also suggested it was worth us examining this sector

> *“The two existing low-skilled schemes for A2 nationals have made a significant contribution, especially in the agricultural sector. There are arguments for continuing these schemes and considering whether there is a case for low-skilled schemes in other sectors, including social care.”*
>
> UK Government evidence to the MAC

7.4. Low-skilled jobs were outside the remit of our previous report (Migration Advisory Committee 2008) which focused on shortages in skilled jobs only. The scope and depth of the analysis of low-skilled jobs in this report was limited by the very tight time constraints of this report.

7.5. The agriculture and food processing sectors currently have access to A2 immigrant labour via the Seasonal Agricultural Workers Scheme (SAWS) and the Sectors Based Scheme (SBS) respectively, as outlined in Chapter 4. Therefore, key questions we considered in relation to these sectors were whether current and planned arrangements are sufficient to address a labour shortage, and whether the sectors would benefit or suffer from a relaxation of restrictions at this particular moment (i.e. 1 January 2009).

7.6. The construction, hospitality and social care sectors do not currently have access to less-skilled A2 labour through sectoral schemes. Therefore, we considered whether these sectors would benefit from new special schemes, and weighed any benefits against the wider economic and labour market impacts.

7.7. The **shortage** and **sensible** criteria we apply to sectors in this chapter were described in Chapter 1. We required there to be a compelling case against the shortage and sensible criteria before we recommended sectoral schemes. There are two key reasons for this:

- **According to EU law, after 12 months of continuous employment in the UK, A2 workers have unrestricted access to the UK labour market. Therefore, unless labour is employed for less than 12 continuous months, any impacts from sectoral schemes would eventually be felt more widely as workers moved to other areas of the labour market.**

- **As has been reiterated throughout this report, the current uncertainty with regard to the likely severity and duration of the current economic downturn means that past evidence on the labour market impacts of migration does not necessarily provide a reliable guide to the future. This led us to take a cautious approach.**

7.8. It was put to us that some A2 immigrants were working irregularly in the UK or on a spurious self-employed basis, and that therefore these workers may as well be regularised. We wish to be clear from the outset that we do not see abuse of current laws as a justification for relaxing them. Such an argument would not satisfy our **sensible** criteria, whereby we set our recommendations in the context of high-level Government policy objectives. As set out in UK Border Agency (2008b), a stated objective of Government policy is "ensuring only those who play by the rules and have the skills the economy needs come to Britain".

7.9. We commissioned evidence from the Sector Skills Councils for each of the sectors identified. We also took evidence from employers within the sectors at oral hearings (a series of round-table meetings with approximately 50 representatives from different sectors in total) and through correspondence. We drew, where required, on our research for Migration Advisory Committee (2008), including some of the sectoral review papers listed on page 83 of that report, which can be obtained from our website. Full lists of those we took evidence from are in Annexes A-C to this report.

7.3 Top-down sectoral evidence

7.10. As well as considering the sectoral evidence, we also considered top-down evidence when assessing whether it would be sensible to fill sectoral shortages with A2 workers. Where possible, we considered the key data sources available, focusing on the number of A2 workers currently working in a sector, as well as wages and vacancies.

7.11. We chose to look at data that can be disaggregated to the two-digit Standard Industrial Classification (SIC) level and to four-digit Standard Occupation Classification (SOC) level; or that can be broken down by relevant Sector Skills Council (SSC). SOC and SIC are standard classifications that group the labour market into occupation and industry classifications. We considered the following SIC codes:

- 01: Agriculture, hunting and related service activities
- 45: Construction
- 15: Manufacturing of food and beverages
- 55: Hotels and restaurants

7.12. For the care sector we used the four-digit SOC code 6115 (care assistants and home carers).

7.13. For data on employment we used the Labour Force Survey (LFS). However, the LFS may undercount the number of A2 workers for reasons discussed Chapter 4.

7.14. As set out in Migration Advisory Committee (2008), in a situation of labour shortage we might expect to see rapidly rising earnings. We used the latest Annual Survey of Hours and Earnings (ASHE) 2007 data on the annual percentage change in the median hourly pay between 2006 and 2007 to examine whether there was evidence of rapid earnings growth.

7.15. In order to look at vacancies we used Job Centre Plus (JCP) vacancy data derived from records of jobs advertised in Job Centres and giving the actual number of advertised vacancies, rather than survey data. However, we are aware that these JCP vacancies represent only around 35-40 per cent of all advertised vacancies. The JCP data record notified vacancies and live unfilled vacancies. The “notified vacancies” are the number of new vacancies that are advertised each month, and indicate the inflow of new vacancies. The “unfilled live vacancies” are the number of unfilled vacancies that are currently available to be filled, and indicate the current stock of vacancies. These data are available up until October 2008.

7.16. We took data on hard to fill vacancies and skill shortage vacancies from the 2007 National Employers Skills Survey (NESS). The NESS survey asks approximately 80,000 employers direct questions about their businesses and the vacancies they may be experiencing, as discussed further in Box 7.1.

Box 7.1 NESS definition of hard-to-fill vacancies and skill-shortage vacancies

- NESS first asks establishments whether they have any current vacancies. If so they are then asked how many vacancies they have.

- For each of the job roles where a vacancy is reported, the employer is then asked whether they consider this vacancy to be hard-to-fill (HtFVs). Reasons that a vacancy may become hard-to-fill include skill-related issues, but can simply involve such aspects as poor pay or conditions of employment, or the employer being based in a remote location.

- Any vacancies which are reported as being hard-to-fill because of applicants having a lack of skills, qualifications or experience (on either a prompted or unprompted basis) are defined as skill-shortage vacancies (SSVs).

7.17. We looked at the percentage of employers surveyed with vacancies, hard-to-fill vacancies (HtFVs), skill shortage vacancies (SSVs), and the number of vacancies and HtFVs as a percentage of the number of employees estimated to be in each sector. The vacancy data are broken down by SSC: Lantra is the SSC for agriculture, Construction Skills is the SSC for construction, Improve is the SSC for food processing, People 1st is the SSC for hospitality, and Skills for Care and Development is the SSC for social care.

7.18. The NESS, ASHE and LFS data are inevitably untimely, especially in light of the recent economic downturn. For example, the latest available data for ASHE refer to April 2007. Therefore we combine these data with more recent bottom up evidence and data received from employers.

7.4 Agriculture

7.19. Agriculture is a sector made up of a number of different labour markets. The Department for Environment, Food and Rural Affairs divides agriculture into a number of constituent parts for statistical purposes. These are: cereals (including wheat, barley, and oats); other arable (such as oil seed rape, sugar beet, peas and beans); potatoes; horticulture (comprising vegetables, fruit, flowers, and glasshouse crops); cattle; sheep; pigs; and poultry (Scott, 2008).

7.20. The core of permanent employment in agriculture and horticulture includes salaried managers, farmers, partners and directors and includes a substantial component of owners and entrepreneurs. Agricultural and horticultural labour also includes a substantial contribution from family workers in many sectors.

7.21. Agricultural work is mainly seasonal. Shortages are particularly acute in agriculture because of the huge difference between low- and peak-season labour demand (Scott, 2008). We were told that seasonal immigrant workers fulfill an important role for the sector because the work they do is not regarded as attractive by the resident labour force (Scott, 2008).

"… only 16 percent of the peak season workforce in the 268 farms surveyed during April 2008 was British born. In other words, 84 per cent of all peak-season agricultural workers are now migrants."

Scott (2008) research for the MAC

7.22. To cope with seasonal variation in demand, work authorisation is given to immigrants via the Seasonal Agricultural Workers Scheme (SAWS), as discussed in Chapter 4. Approvals under this scheme are subject to a quota limit of 16,250. Since 2007 this scheme has been reserved for A2 nationals only. This quota represents only a proportion of immigrants working in the sector. A8 nationals are also heavily represented.

"Data collected by the Accession Monitoring Report shows that between May 2004 and the end of June 2008 more than 85,000 Accession nationals registered under the Workers Registration Scheme to take up employment in the agricultural sector."

Letter to MAC from the Department for Environment, Food and Rural Affairs

7.23. We met with sector representatives, including the National Farmers Union (NFU), on 2 October 2008 to discuss whether the restrictions on A2 nationals should be amended. We also met representatives of eight of the nine SAWS operators on 4 November 2008. Both groups of stakeholders told us that they are concerned about the restriction of the SAWS to Bulgarian and Romanian nationals, that the quota limit is too low, that fully lifting restrictions would exacerbate labour shortages, and that the scheme may close by the end of 2010. They said that the loss of this scheme would damage their sector. The UK Border Agency has since confirmed with us that the scheme will stay in place until the restrictions on employing nationals of A2 member states are lifted.

7.24. As Table 7.1 shows, wages across this sector in 2007 were on average £7.62 an hour. This is an increase of 3.7 per cent from the average wage in 2006, which is slightly higher than the annual percentage wage increase for UK workforce as a whole.

Table 7.1 Gross hourly pay, UK 2007

	Median hourly pay (£)	Annual percentage change
Agriculture jobs	7.62	3.7
All employee jobs	10.22	3.2

Source: ASHE.

7.25. The NESS vacancy data in Table 7.2 show that in 2007 employers in agriculture were less likely than average to have vacancies of any kind. However employers in agriculture have a higher than average number of HtFVs as a percentage of employment and almost half of their vacancies are HtFVs. As with all of the NESS data in this chapter, these figures are over a year out of date.

Table 7.2 Agriculture Vacancy data, England, 2007

	% employers with vacancies	% employers with hard to fill vacancies	% employers with skill-shortage vacancies	Vacancies as % employment	HtFVs as % employment	HtFVs as % vacancies
Lantra	9	4	3	2.7	1.3	47
All sectors	18	7	5	2.8	0.8	30

Source: National Employers Skills Survey.

7.26. Figures 7.1 and 7.2 show no significant increase in the inflow of vacancies (notified vacancies) and the stock of vacancies (live unfilled vacancies) over the past year and a half. Instead the data shows that both the inflow and stock of vacancies in October 2008 have decreased over the year.

Figure 7.1 Notified vacancies in agriculture and related service activities

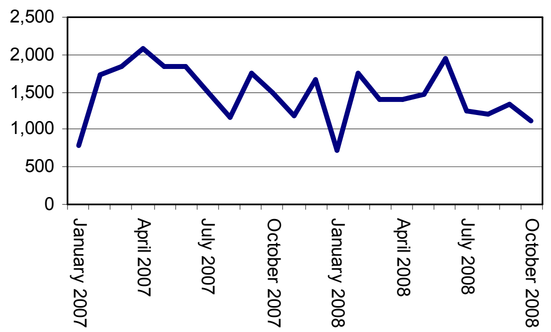
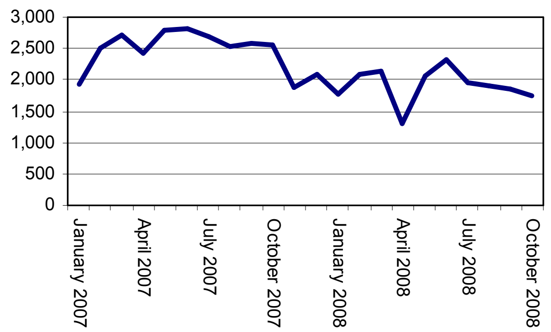


Figure 7.2 Live unfilled vacancies in agriculture and related service activities



Source: Nomis Job Centre Plus vacancy data.

7.27. Although vacancy rates are not particularly high in the sector, the NESS data shows employers are finding them harder to fill. However figures 7.1 and 7.2 indicate some evidence that vacancy levels are falling in response to the economic slowdown. It is, of course, possible that employers are not reporting vacancies to job centres because they know they can fill them using the SAWS. Overall there is some (but, at best, limited) indication of shortage, within the national-level data; good evidence from stakeholders is needed in order to make a compelling case for removing or relaxing the restrictions or expanding the SAWS quota.

7.28. Concordia (YVS) Ltd, a supplier of labour to agriculture with an allocation of 6,257 of the 16,250 SAWS quota, presented us with evidence that between 2006 and 2008 the number of people they placed from A8 countries dropped by 40 per cent. When we met them, Concordia told us that they had 3,000 unfilled vacancies this year, and that there would be an adequate supply of A2 nationals to fill these vacancies if their quota was sufficiently large. Table 7.3 gives statistics provided by Concordia showing the increasing decline in interest in working in agriculture from A8 nationals.

Table 7.3 Concordia data on A8 nationals recruited				
	2005	**2006**	**2007**	**2008**
Total requested by farms to recruit	14177	14346	14821	14622
Numbers of A8 recruited	3977	3898	3474	2255
Year-on-year drop in A8		2%	11%	35%
Source: Concordia (YSV) Ltd.				

7.29. In July 2007 the NFU surveyed SAWS operators asking them "what workforce they would require in 2008 and what, given the current economic climate and SAWS restrictions, they would expect to achieve". We were told that estimates provided by SAWS operators showed "an expected shortfall of close to 5,150 workers (or 17 per cent) for 2008" and that this was predominately driven by the reduced number of workers available from other sources such as A8. The NFU told us that the situation has deteriorated since then and that the results of a survey at the end of the 2008 season indicate that the difficulties growers face securing sufficient seasonal labour have worsened. Table 7.4 shows the quantitative outcome of the NFU 2008 survey.

Table 7.4 Expected shortfall of number of SAWS workers 2008			
Number of workers – 2008	SAWS	Other	Total
Required	16,045	14,185	30,230
Expected	15,570	9,530	25,100
Difference	**-475**	**-4,655**	**-5,130**
Difference	**-3%**	**-33%**	**-17%**
Source: NFU survey of SAWS operators (2008).			

7.30. We received evidence from Kentish Garden Growers (KG growers), a soft fruit producer, that the standard strawberry production in 2009 has been estimated to fall by 2,500 tonnes, worth £8.75 million. We were also told the production of premium strawberries by KG growers is estimated to fall by 27 per cent in 2009 because growers are concerned about whether they will have enough pickers to harvest a variety that is much more expensive to produce, as well as the risk involved in a declining, price-sensitive market. KG growers said the loss of production here is estimated to be 1,160 tonnes or £5.2 million at farm gate prices.

7.31. We looked at what alternatives to immigrant labour were available in the sector. There is evidence that, due to the constant pressure to drive down prices, the sector naturally looks at cost saving measures; however, mechanisation is not always a viable option given that some of the work is labour intensive.

7.32. We also heard anecdotally about a scheme in Spain that employs those on benefits. We heard that those who work within this scheme continue to receive benefits for the days they do not work. We were told that the agriculture sector has looked at the feasibility of adopting the Spanish model in the UK. But as the current UK benefit system stands, it would affect eligibility to claim benefits and so the unemployed would be unwilling to participate in such a scheme.

7.33. Sector representatives asserted that increasing wages to attract the resident labour force is not a feasible option because wage rises are constrained by prices received by farmers. It was also argued that low wages were not the problem in terms of attracting local workers. Effects on benefit eligibility and the work ethic of UK workers were cited as larger factors. However, we do not necessarily accept that low wages and tough working conditions are themselves a sufficient argument for immigration.

> *"There is a lack of UK people able or prepared to do sustained physical hard work in agriculture."*
>
> Concordia (YVS) Ltd evidence to the MAC

7.34. The SAWS operators also told us that agricultural work is a tough environment and removing the restrictions on employment of A2 nationals (as considered in Chapter 6) could lead to their choosing to work within other sectors, such as hospitality. This would reduce the numbers of workers available to this sector.

7.35. The NFU said the lifting of restrictions on A2 nationals would be likely to increase the labour supply in the sector in the very short term, but this would be only a temporary solution. Concordia (YVS) Ltd also told us that the restrictions on A2 nationals should remain in place. Because to do so "… would continue to direct labour resource to the needs of agriculture in the UK." This view was supported by other stakeholders.

7.36. The SAWS operators also discussed with us the negative impact that lifting restrictions would have on the supply of fresh British products and food security**.** We were told that, due to the insecurity about the supply of labour, most growers will not be expanding their businesses this year but will be remaining the same or even, in some cases, retracting the areas that they are farming. This, they said, will eventually impact on the amount of fresh British produce available on the market and result in an increase in imports. The Department for the Environment, Food and Rural Affairs made a similar argument:

> *"The research report commissioned by MAC refers to migrants using agricultural employment as a "revolving door" and this is reflected in the evidence of A8 nationals who since 2004 have used agriculture as a stepping stone to better employment elsewhere in the UK. It is certainly possible that the same pattern would repeat itself with A2 nationals if the restriction was lifted. "*
>
> Letter to MAC from the Department for Environment, Food and Rural Affairs

7.37. The NFU, broadly supported by the other sector representatives we met, said that, instead of restrictions being fully lifted, they would like to see an increase in the number of SAWS permits by at least 5,000 in 2009, which would be broadly consistent with the shortfall shown in the data they presented to us.

7.38. The NFU also requested that the quota rise a further 4,000 in 2010, taking the quota back to nearer its previous level of 25,000. This, they said, would offset the decline in numbers of A8 workers who are increasingly working in sectors other than agriculture. A total rise of 9,000 would also be broadly consistent with the shortages claimed by Concordia (YSV) Ltd, who have approximately one third of the SAWS quota and report 3,000 vacancies, although we are mindful that this is evidence from only one operator.

"While large numbers of migrants have taken up seasonal and casual employment in agriculture in recent years, data taken from the Accession Monitoring Return indicate that the supply of migrant labour is declining. In 2008, 22,700 A8 nationals registered with the Workers Registration Scheme to take up work in agriculture. By 2007 the numbers registering had fallen to just under 18,000… Also, in 2005, the Government cut the SAWS quota from 25,000 to 16,250 which remains the current level of quota. Agricultural and horticultural employers are concerned about the increasing difficulty they are experiencing in recruiting sufficient numbers of workers at periods of increased seasonal activity."

Letter to MAC from the Department for Environment, Food and Rural Affairs

7.39. The SAWS operators also told us that SAWS cards were frequently not used to the fullest extent. Workers often did not stay for the full six months allowed and therefore a rise in the quota was needed to offset this. Those who did stay for the full six months should also be allowed to stay longer, it was argued, although it was acknowledged that this would be of limited benefit.

7.40. We received evidence from the Gangmasters Licensing Authority, a non-departmental public body that reports to the Department for Environment, Food and Rural Affairs and which exists to prevent exploitation of workers in the agricultural sector. We were told that if the SAWS quota was raised, lifted, or allowed for substitution (i.e. if workers leave the UK, other workers can join the SAWS scheme) then it may have the effect of providing sufficient workers for the available vacancies. Furthermore, raising the quota would assist in reducing the likelihood of agencies exploiting workers.

7.41. In conclusion, there is some evidence that there is a shortage of seasonal labour in this sector and there is no doubt that the sector is heavily reliant on immigrant workers, particularly those employed via SAWS. We did not see any evidence to cause us to think that there are appropriate, immediate, sensible alternatives to the use of immigrant labour. The work is seasonal and the labour force transient. If, as seems to be the case, a suitable supply of local labour cannot be found in the short term, then it is sensible to bring in labour from elsewhere, assuming that it is in the UK's interests to retain a healthy and vibrant agriculture sector. The existing SAWS seems to do this very efficiently.

7.42. Nevertheless, we are concerned that, by continuing to permit immigration via SAWS, the sector will be in the long term reliant upon a ready supply of low paid immigrant labour. This is not a sensible long-term solution to matching labour supply and labour demand in agriculture. The Government may wish to examine mechanisms to breaking this long-term dependency on immigrants.

7.43. **We recommend that the SAWS quota limits be upped by 5,000 in 2009.** Regarding the request that a further 4,000 be added in 2010, this is a sector where supply of, and demand for, labour interact in a complex manner: crop planting behaviour, and thus the future demand for labour to pick those crops, is influenced by the expected supply of labour. Due in particular to these complexities, it would be sensible to monitor the impact of the initial increase on shortages in the sector before acceding to the request for a further one.

7.44. We would be happy to advise further on this. In recommending an increase we have taken due note of the fact that the SAWS employment is seasonally based and runs for less than 12 months. It does not therefore run the risk of allowing A2 nationals unrestricted access to the UK labour market after that time.

7.5 Construction

7.45. The UK construction sector is very diverse, including housing, commercial, infrastructure and repair and maintenance. It accounts for approximately 10 per cent of Gross Domestic Product (GDP) and employs nearly 1.9 million people (Department for Business, Enterprise and Regulatory Reform, 2007). After a sharp decline in activity in the early 1990s, construction output has steadily increased since the mid-1990s (Chan *et al.*, 2008).

7.46. The industry includes about 186,000 private contracting companies, with firms employing over 600 persons contributing 18 per cent of employment, and 93 per cent having fewer than 13 employees, many acting as subcontractors.

7.47. The workforce is divided between directly employed and those classified under the industry-specific self-employed tax scheme (CIS, or Construction Industry Scheme) as self-employed. Table 7.5 shows that just under 40 per cent of workers are self-employed, an increasing number of whom are immigrants (Chan *et al.*,2008).

Table 7.5 Proportion A2-born self-employed in construction, 2007				
	Workers in construction in UK	**A2-born workers in construction, in the UK**		
		New*	**Old****	**Total**
Proportion of employees	63%	13%	32%	19%
Proportion self-employed	37%	87%	68%	81%
Total (thousands)	2129	8	3	11

Notes: *A2-born workers have been in the UK less than five years ** A2-born workers have been in the UK longer than five years.
Source: LFS, 2007.

7.48. Chan *et al.* (2008) estimate that about 10 per cent of the construction workforce consists of immigrants from A8 and A2 member states, especially Poland, many of whom are working in labouring or low-skilled occupations and as ‘undeclared’ labourers. However, the LFS data suggest that in 2007 only approximately 1 per cent of workers were from the A2 and 2 per cent from the A8. This suggests that LFS is under representing the number of A2 immigrants in construction.

7.49. The high levels of self-employment among A2 workers in the construction industry almost certainly reflect the fact that they have an incentive to declare themselves as self-employed as they can then work in the UK without restriction.

7.50. ASHE estimates that median hourly earnings across this sector have increased by 2.3 per cent over the past year, well below the UK average, suggesting that this sector is not experiencing an overall labour shortage.

Table 7.6 Gross hourly pay, UK 2007		
	Median hourly pay (£)	Annual percentage change
Construction jobs	11.25	2.3
All employee jobs	10.22	3.2

Source: ASHE.

Table 7.7 Construction vacancy data, England, 2007						
	% employers with vacancies	% employers with hard-to-fill vacancies	% employers with skill-shortage vacancies	Vacancies as % employment	HtFVs as % employment	HtFVs as % vacancies
Construction Skills	16	8	7	3.6	1.8	51
All sectors	18	7	5	2.8	0.8	30

Source: National Employers Skills Survey.

7.51. Figures 7.3 and 7.4 show that over the last few months there has been no dramatic change in the number of vacancies notified (the inflow). However, the live unfilled vacancies (the stock) for 2008 levelled off and then fell in both September and October 2008.

Figure 7.3 Notified vacancies in construction

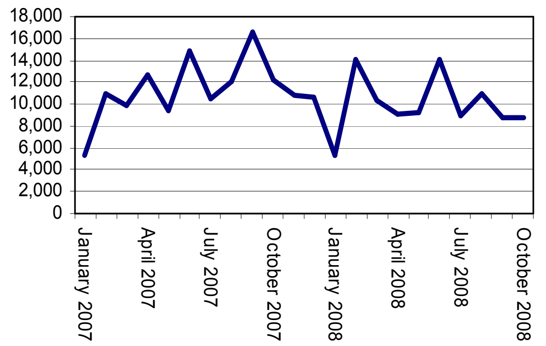
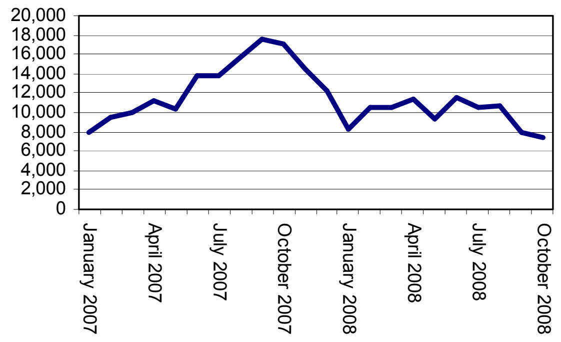


Figure 7.4 Live unfilled vacancies in construction



Source: Nomis Job Centre Plus vacancy data.

7.52. In October 2007 there was a stock of approximately 17,000 vacancies notified to Job Centre Plus, whereas in October 2008 there was less than half that amount, approximately 7,000. Although the data are quite volatile they do not indicate an overall shortage across this sector, and do, in fact, indicate some evidence of declining vacancy levels.

7.53. On the basis of the data we do not consider that there is a current general shortage of workers across the construction sector. We did, however, receive anecdotal evidence that A2 nationals were being used to fill gaps in the workforce for this sector, particularly for those jobs that tended to be heavy and/or dirty.

7.54. Chan *et al.* (2008) found evidence that there were some skill shortages which varied according to sector and occupation, and were particularly severe in house building, refurbishment and maintenance, and in the bricklaying and carpentry trades. They found that the strategy of the industry is for immigrants to be used to 'plug' immediate skill gaps.

7.55. The Sector Skills Council for the industry, Construction Skills, told us that the UK's economic downturn has seen the annual requirement for new construction staff halve, although there is still a need for new labour. They provided forecasts from the Construction Skills Network, which reports on the number of new industry recruits required to satisfy growth. The forecasts indicate that the slowdown in the housing market and related sectors has reduced the requirement for new recruits for 2009 to 2013 from the previous average (as forecast at the end of 2007) of 88,000 per year to 42,000 per year.

> *"The UK's current economic downturn has seen the annual requirement for new construction staff halve, according to our new forecasts"*
>
> Construction Skills evidence to the MAC

7.56. The Recruitment and Employment Confederation's Report on Jobs (2008) shows the results of their survey which asks recruitment consultancies about employer demand in sectors. This reports that demand for construction staff in September 2008 has fallen for the first time since 2003 and continued to fall in October 2008.

7.57. We were told that the house-building part of the sector was shrinking but that there may be scope for expansion in other areas due to forthcoming large-scale publicly-funded projects such as Crossrail and the 2012 Olympic Games. These and other large projects will need workers, but some sector representatives told us that these will not necessarily come from within the ranks of displaced housebuilders, partly because of a reluctance to relocate and partly because skills are not readily transferable. In contrast to this, others told us that some of those being laid off in the house-building sector would be able to fill jobs in the wider construction industry. Overall, therefore, there was not a completely clear picture on this issue.

7.58. To the extent that specific shortages cannot be filled by movements within the sector, we think it is important that the sector engages in training and re-skilling the existing workforce and invests in apprenticeship schemes for local workers. Construction Skills agrees with us on this point.

7.59. Some sector experts expressed concern to us that employers are failing to provide health and safety training to immigrant workers who have registered themselves as self-employed, but are actually working as employees. These workers are therefore more vulnerable and at risk from accidents.

7.60. We have considered the argument that the current restrictions serve only to prevent legal working by forcing people to claim they are self-employed. Indeed this point was put us by officials from the Romanian Government when we met with the Secretary of State at the Ministry of Labour. Removing restrictions would, so the argument runs, facilitate better, simpler regulation and reduce the number of health and safety incidents, but not make a significant impact on the economy. However, we consider that employers in the sector should operate in accordance with the law and, as made clear at the beginning of this chapter, we do not see abuse of the restrictions as a justification for relaxing them.

7.61. Representatives from within the construction sector told us that relaxing or removing the restrictions would not have a big impact on the UK economy. The workforce will be flexible to the changing economy and will generally follow the work. Should the UK experience a slowdown, then workers in construction will migrate elsewhere. For instance, we were told that Romania has the fastest growing construction industry in Europe and was in receipt of significant EU grant money, making it likely that many A2 nationals would go there to work or would remain there.

7.62. In summary, this sector has a relatively slow growth in wages and there is some tentative evidence of declining vacancy levels in the sector. There is no clear national evidence of shortages. Where sub-national shortages exist there are more sensible options for filling them than creating a new stream of immigrant labour.

7.63. There was no request made by representatives in this sector for any kind of sector based scheme for construction to be set up and on balance we decided there was not a case for a special scheme at this moment. In any event there would be little or no benefit of having a scheme which only guaranteed workers to this sector for 12 months before they could take up other work in other areas. Given that we had evidence that immigrant workers tend to be given the heavy, dirty work in construction, we considered it likely that some would switch to other sectors in as soon as they could. **We therefore do not recommend a sectoral scheme for the construction sector.**

7.6 Food processing

7.64. Food processing encompasses a wide range of activities and occupations integral to UK agri-business and food retailing. The types of occupation include the production, processing and preserving of meat and meat products as well as the processing and preserving of fish and fish products, fruit and vegetables, and fruit and vegetable juice.

7.65. The Sector Skills Council for the food and drink sector is Improve. They told us that the sector is worth £77.4bn per annum to the UK economy and employs over 500,000 people.

7.66. There is evidence that the number of enterprises in the sector is declining while turnover is rising, suggesting concentration among larger food processing companies (Geddes, 2008).

7.67. There are a wide variety of products with a range of preparatory and processing needs. Some of the processes have been mechanised, but there remains a good deal of manual input. Employment in food processing tends to be lower skilled and there is seasonal variation in demand in some areas (e.g. processing of fruit and vegetables at Christmas).

7.68. Competitive pressures associated with UK retailing cascade down the supply chain and impact on food processing operations, driving down costs. This invariably asserts downward pressure on wages which makes food processing jobs low paid and therefore unattractive to the local labour market. Some of the work is arduous. There is evidence of abuse and exploitation of workers (Geddes, 2008).

7.69. There are a large number of immigrants working in the sector. Immigration from the A8 member states has been an important factor in filling labour market gaps in the sector. Improve estimates that 33 per cent of establishments in the food and drink manufacturing sector currently employ immigrant workers. Latest research by Improve (Improve Ltd, 2008) shows that, wherever immigrants are employed within the food processing sector, they, on average, account for nearly a quarter of the workforce.

7.70. Immigrant workers in the food processing sector were formerly recruited by a sectors based scheme for non-EEA workers for temporary employment (maximum one year) in lower-skilled occupations. From 1 January 2007 the scheme has applied only to Bulgarians and Romanians and has an annual quota limit of 3,500.

7.71. During 2007, only 1,405 quota places were taken up (comprising 245 Romanians and 1,160 Bulgarians). For 2008, only 735 places had been taken up until June 2008 (comprising 105 Romanians and 630 Bulgarians).

7.72. Wages across this sector are lower than across the total workforce as a whole and the annual change is lower than the average change for all employee jobs.

Table 7.8 Gross hourly pay, UK 2007

	Median hourly pay (£)	Annual percentage change
Food processing jobs	8.93	2.1
All employee jobs	10.22	3.2

Source: ASHE.

7.73. The NESS vacancy data in Table 7.9 show that employers in food processing were almost as likely as average to have vacancies of all types, but there are no indications of particular shortage in the sector from these data.

Table 7.9 Food processing vacancy data, England, 2007

	% employers with vacancies	% employers with hard-to-fill vacancies	% employers with skill-shortage vacancies	Vacancies as % employment	HtFVs as % employment	HtFVs as % vacancies
Improve Ltd	19	6	4	1.5	0.3	19
All sectors	18	7	5	2.8	0.8	30

Source: National Employers Skills Survey.

7.74. Figures 7.5 and 7.6 show that the number of notified vacancies and the number of live unfilled vacancies have remained relatively stable over the past few months, but with tentative signs of decline most recently. There appears to have been a spike in the number of notified vacancies in September 2007, which has not been repeated since. In both September and October 2008 both the inflow and the stock of vacancies fell.

Figure 7. 5 Notified vacancies in manufacturing of food and beverages

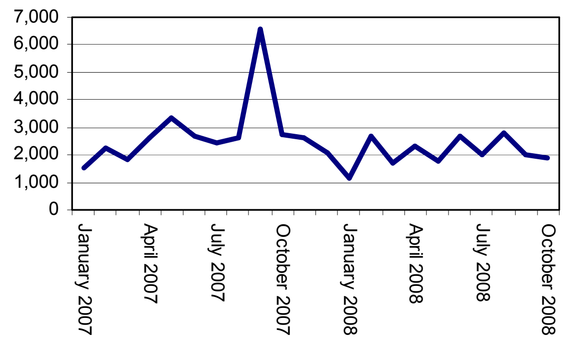
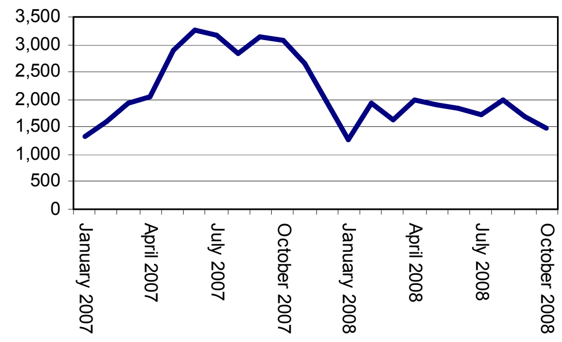


Figure 7.6 Live unfilled vacancies in manufacturing of food and beverages



Source: Nomis Job Centre Plus vacancy data.

7.75. Overall, the national level data do not suggest a real shortage in this sector, requiring that we look closely at the bottom-up information.

7.76. Data from the Workers Registration Scheme quoted in Improve (2008) show a slight decline in the number of applications to the sector, from 225,100 in 2006 to 216,025 in 2007.

7.77. We were told that the sector has an ageing workforce and the meat processing sector cannot attract young people from the local labour market because they do not see it as a viable career.

7.78. We were also told that there was a good deal of competition for A2 labour from sectors such as construction and hospitality. We also heard that some Eastern European workers are returning to their home countries. This was serving to exacerbate shortages.

7.79. Improve asked employers what they felt the impact on their business would be if their immigrant workforce was no longer available. 47 per cent said there would be “an increase in job vacancies”, 29 per cent said they would “face a skills shortage”, 28 per cent a “drop in productivity performance” and 6 per cent felt that their loss would have a “huge impact on their operations”.

> *“Whilst an overall decline in employment (10%) is forecast up to 2014, replacement demands mean the industry will need to recruit an estimated 118,000 workers.”*
>
> Improve Ltd evidence to the MAC

7.80. Representatives from the sector told us that they would like to see an increase in their current quota of 3,500. However, they were not initially able to tell us why the existing quota was not being fully taken up. We discussed this subsequently with Improve who said that the mismatch between shortages and less than full take-up of the quota is due to some of the shortages being in other parts of the food processing sector not covered by the Sectors Based Scheme. Improve told us that the scheme accounted for only 4 per cent of the sector's workforce and omitted *"…to take account of the sub-sectors such as bakery, dairy, fresh produce, chilled and convenience foods and confectionery amongst others, where the vast majority of the food and drink manufacturing industry's migrant labour is employed."* However, the evidence given to us did not point to specific shortages in other parts of the sector, although it did indicate a heavy general dependence on immigrant labour.

7.81. Improve said that the quota not being fully met did not necessarily mean that the numbers of immigrants working in jobs covered by the scheme had reduced, rather that the numbers entering the UK for a particular job role were lower.

7.82. We asked the sector about alternatives to using immigrant labour. We were told that the sector faces a critical problem which they are trying to remedy by up-skilling the current workforce. We were told that the sector was launching a training academy to address the problem for the longer term. However, short-term problems remain. A2 workers can help to alleviate the problem. The industry has tried to mechanise, but still needs manual labour.

> The industry has done much work on mechanisation, but there is still a need for manual labour: *"If the industry is to sustain its position, it must focus on up-skilling the current workforce and improve the career opportunities of the 52% of employees in the sector who have only achieved at best a Level 2 qualification."*
>
> Improve Ltd evidence to MAC

7.83. It is clear that use of immigrant labour is very important to the food processing sector. A8 nationals have solved labour shortages where employers have struggled to attract local workers. If these workers decrease in significant numbers this could pose problems for the sector. However, we do not see immigration as clearly being the only solution in the long run. The sector needs to look at raising wages, improving employment conditions and/or adopting less labour-intensive methods amongst other alternatives to relying on low wage immigrant labour.

7.84. To conclude, the sector did not produce a convincing case that the current quota of 3,500 should be increased. To make such a recommendation, we would have needed to see evidence that the existing quota is being fully utilised and/or convincing evidence of shortage. Nor did Improve provide compelling evidence that the current quota needs to be expanded to further sub-sectors within food and drink. However, the current scheme is providing only limited help to the industry it was set up to support. If Improve are able to put a sensible proposition to the Government in terms of reallocating the quota to include further sub-sectors we think the Government should give consideration to this.

7.85. **Therefore we recommend that the SBS quota for the food processing industry remains unchanged at its current level of 3,500, but with a potential reallocation of that quota within the food and drink industry.**

7.7 Hospitality

7.86. The hospitality sector has a combined turnover of approximately £135 billion a year and employs approximately 1.9 million people in more than 180,000 establishments (People 1st, 2006).

7.87. The UK hospitality sector is very diverse in terms of the range of businesses it represents, the range of occupations within it, the types of customers it serves and the diversity of the people employed within occupational groups . It is dominated by restaurants, public houses and hotels which are typically small enterprises employing fewer than 10 people. These small enterprises account for approximately 75 per cent of all businesses, although many of them may in fact be part of a larger chain organisation (Lucas and Mansfield 2008). Workplaces employing over 25 people account for 45 per cent of all employees (People 1st, 2006).

7.88. The workforce is characterised by a reliance on particular types of workers that are associated with being marginalised within secondary labour markets, in particular: young people, students, women, ethnic minorities and immigrants. There is a high proportion of part-time working throughout the sector. Seventeen per cent of the workforce are full-time students (People 1st, 2006), and approximately one third of the total workforce is aged 24 or under (which is almost two-and-a-half-times the national average).

7.89. Sectoral staff turnover rates average 30 per cent, with levels of between 90 and 100 per cent per year having been observed in pubs and restaurants. Seventy per cent of recruitment is to replace existing staff (People 1st, 2006).

7.90. Immigrant workers have been traditionally important to the sector and comprise 18 per cent of the current workforce. Over 40 per cent of all immigrant workers originate from the Middle East and Asia, over half of whom work in restaurants (People 1st, 2006). The major development in terms of workforce composition has been an influx of workers from A8 member states since 2004. Information from the Home Office Accession Monitoring Report (2007) reveals that, in 2007, close to 33,000 workers from A8 countries registered for work in the hospitality sector, with the highest proportion taking up employment as kitchen assistants or room attendants in hotels. The report does not, however, account for how many left the sector to either take up positions in other industries or to return home. People 1st told us that between May 2004 and June 2008 almost 160,000 nationals have come to work in the hospitality and catering industries from the Accession State countries.

7.91. Low wages prevail across the sector, with the majority of occupational rates being set at or around the National Minimum Wage (Low Pay Commission, 2007). Low pay is associated with factors such as the high presence of young workers and other marginal groups, and lower skill requirements. The annual percentage change in pay, at 6.5 per cent, is over double the UK average, which is a potential indicator of labour shortage.

Table 7.10 Gross hourly pay, UK 2007

	Median hourly pay (£)	Annual percentage change
Hospitality jobs	6.00	6.5
All employee jobs	10.22	3.2

Source: ASHE.

7.92. The NESS vacancy data in Table 7.11 show that employers in hospitality were about as likely as average to have vacancies of all types. However, they are more likely than average to have both vacancies and hard-to-fill vacancies as a percentage of employment than average. Approximately 31 per cent of their vacancies are hard-to-fill, which is close to average.

Table 7.11 Hospitality vacancy data, England, 2007

	% employers with vacancies	% employers with hard-to-fill vacancies	% employers with skill-shortage vacancies	Vacancies as % employment	HtFVs as % employment	HtFVs as % vacancies
People 1st	20	8	4	4.3	1.3	31
All sectors	18	7	5	2.8	0.8	30

Source: National Employers Skills Survey.

7.93. A joint survey in September 2008 by the British Hospitality Association and People 1st showed 45 per cent of respondents were finding it more difficult to recruit from within the EEA than a year ago, with 21 per cent finding it partially difficult.

7.94. In Migration Advisory Committee (2008) we reported that skilled chefs, all of whom fall within this sector, were in shortage. We also heard evidence that there were shortages of unskilled or lesser skilled workers within this sector.

7.95. Figures 7.7 and 7.8 show no clear trend of increasing vacancies over the past year, but vacancies are at a slightly lower level than twelve months ago. Both inflow and stock of vacancies fell in October 2008.

Figure 7. 7 Notified vacancies in hotels and restaurants

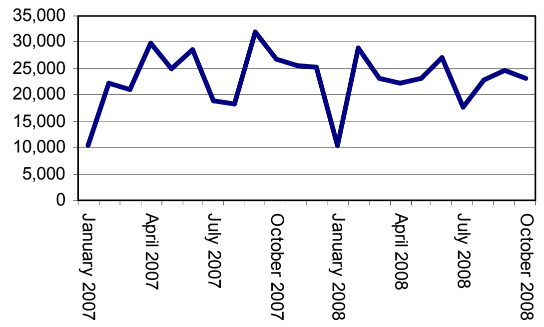
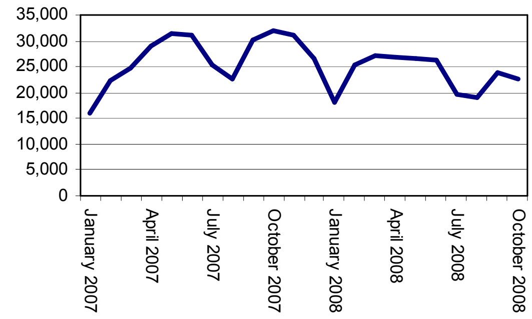


Figure 7.8 Live unfilled vacancies in hotels and restaurants



Source: Nomis Job Centre Plus vacancy data.

7.96. Overall, the wage and vacancy evidence points in different directions in terms of indicating shortage. This may reflect the different time periods of the data.

7.97. The Recruitment and Employment Confederation's Report on Jobs (2008) reports that demand for hotel and catering staff has fallen in October 2008 from the previous month, compared to a year ago when it was rising.

7.98. In their oral evidence to us, representatives from the sector did not say that there were shortages across the sector. The economic downturn had had an impact in this regard. We were told that many employers had stopped recruiting. Overall, there was uncertainty as to the extent of any contraction to be experienced by the sector as a result of economic circumstances. Although there was widespread concern, this was balanced against the opportunities offered by upcoming international events such as the Ryder Cup, the Olympics and the Commonwealth Games, all to be hosted by the UK in the next six years.

7.99. Sector representatives felt that there was a demand to fill low-skilled jobs, but some felt that this could be best addressed by a scheme under Tier 3 of the Points Based System, as this would open up opportunities to nationals outside the EEA, as some employers doubt whether A2 nationals have the requisite skills and training to work in this sector, particularly to work as chefs. Other employers recognised that A2 nationals would provide a suitable source of labour.

7.100. Considering the inconclusive evidence on shortages and given the strong likelihood of an economic downturn hitting this sector particularly hard, and taking account of the fact that A2 nationals would only be committed to staying for 12 months in this sector before seeking work elsewhere, the evidence we received suggested it would not be sensible to recommend a separate scheme for A2 nationals to work in this sector.

7.101. The sector's representatives also recognise that efforts need to be made to attract and retain UK-born workers. A special scheme for A2 nationals may undermine those efforts.

> *"The arrival of A2 workers may help fill vacancies but, as has been experienced with A8 nationals, they may only provide a short-term respite. The sector will need to tackle its poor retention problems and put in place a more sustainable recruitment drive to recruit British nationals."*
>
> People 1st evidence to the MAC

7.102. In summary, therefore, there is no clear evidence of shortage in this sector, despite rapid earnings growth. We also do not consider that a scheme that enables this sector to recruit A2 nationals will be sensible to pursue as immigrants are highly likely to seek other work after 12 months. While this may not be problem for a sector which is used to dealing with a high turnover of staff (and where a guaranteed 12 months' service from an employee may actually be seen as a benefit), we have to consider the impact on the wider economy of an increased supply of immigrant labour coming in. **We therefore do not recommend a sectoral scheme for the hospitality sector.**

7.8 Social care

7.103. Between four and six per cent of the UK labour force are employed in social care – more than a million workers in England and Scotland (Moriarty, Manthorpe, Hussein and Cornes, 2008). Of these, LFS data show that 540,000 work as care assistants and home carers. Of the 540,000, 1,500 are A2-born nationals, 7,000 are A8-born nationals, 14,000 are from other EEA countries, and 72,000 are from outside the EEA.

7.104. The high proportion of publicly funded care recipients means that many employers are reliant upon fees paid to them by local councils for providing care.

7.105. Changes in the demographic structure of the population, in particular the proportion of the population aged 80 and over, mean that the demand for social care is expected to increase (Moriarty *et al.*, 2008). Only around one third of people living in care homes are funding their own care.

7.106. Limits on fees paid by local councils have left employers with little flexibility in terms of the steps they can take to attract workers to the sector. Poor pay in the short term makes the sector unattractive when compared to alternatives. Wages across this sector are lower than across the total workforce as a whole. However, as shown in Table 7.12, the annual percentage change in pay at 5.3 per cent is higher than average.

Table 7.12 Gross hourly pay, UK 2007

	Median hourly pay (£)	Annual percentage change
Social care jobs	7.53	5.3
All employee jobs	10.22	3.2
Source: ASHE.		

7.107. When we were looking at shortage occupations we received evidence that there were shortages in the social care sector, but we concluded that 70 per cent of employment in the sector was less skilled (Migration Advisory Committee, 2008). Moriarty *et al.* (2008) report that the vacancy rate in social care runs at around four to five per cent and is double that for all types of industrial, commercial and public employment.

> *"The social care sector has an exceptionally high vacancy and turnover rate and this has been well documented in past years."*
>
> Skills for Care and Development evidence to MAC

7.108. A report by Skills for Care and Development entitled *The State of the Adult Social Care Workforce in England 2008,* records that over 70,000 vacancies for care assistants and home carers were notified to Jobcentres in the first six months of 2007.

7.109. The Recruitment and Employment Confederation's Report on Jobs (2008) reports that the nursing/medical/care sector is the only sector in the survey for which demand for staff in October 2008 rose compared to the previous month. The workforce will also need to grow over the longer term.

> *"The Skills for Care report ... states that the adult social care workforce that would be required by 2025 is projected to be between 2 million and 2.5 million workers – around a 60% increase on current figures."*
>
> UK Government evidence to the MAC

7.110. The NESS vacancy data in Table 7.13 also show that in 2007 employers in social care were more likely than average to have vacancies. However, the data do not suggest that this sector suffers from particularly high levels of skill shortage or hard-to-fill vacancies. This suggests that although the sector has a high vacancy rate, this may be due to a high turnover rate rather than shortages.

Table 7.13 Social care vacancy data, England, 2007

	% employers with vacancies	% employers with hard-to-fill vacancies	% employers with skill-shortage vacancies	Vacancies as % employment	HtFVs as % employment	HtFVs as % vacancies
Skills for Care and Development	28	7	4	3.4	0.9	27
All sectors	18	7	5	2.8	0.8	30

Source: National Employers Skills Survey.

7.111. Figures 7.9 and 7.10 show that the number of notified vacancies (inflow), and the number of live unfilled vacancies (stock) have steadily risen since the beginning of 2007. This suggests that if demand for labour has increased over 2007 and supply has not increased that there may now be more hard-to-fill vacancies than when the NESS survey was carried out. In Migration Advisory Committee (2008) our earlier, more detailed, analysis concluded that there was evidence of labour shortages in skilled jobs within social care. However, we have not yet carried out a systematic analysis of low-skilled jobs in this sector.

Figure 7. 9 Notified vacancies for care assistants and home carers

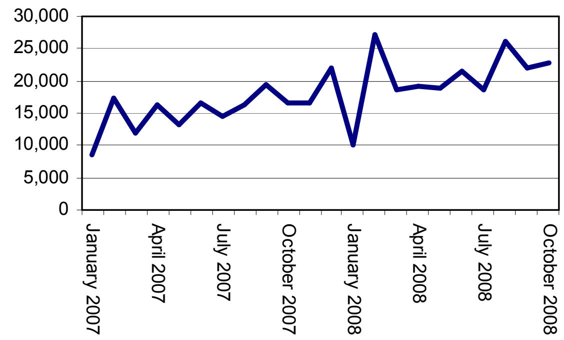
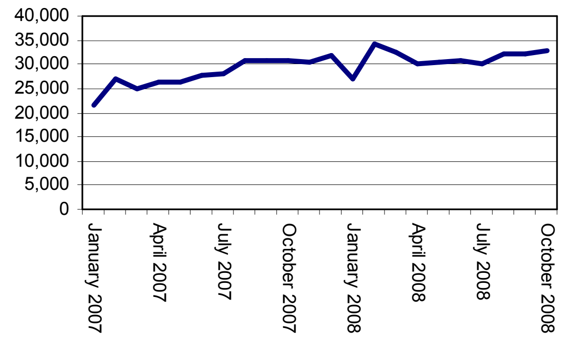


Figure 7.10 Live unfilled vacancies for care assistants and home carers



Source: Nomis Job Centre Plus vacancy data.

7.112. The Government expressed concern about restrictions to the labour supply in this sector, and the Department of Health also argued that a relaxation of A2 labour market restrictions would help the social care sector.

"Restrictions on the availability of low-skilled migrant labour in the sector could result in a shortage of available workers in this sector, unless, as the MAC September report notes, pay rates are increased."

UK Government evidence to the MAC

"… for the unskilled staff in the social care setting, allowing A2 labour market access could ease labour shortages in the social care sector; shortages we expect to be exacerbated under the points-based migration system ... Any reduction in the availability of low-skilled migration in the sector could reduce the number of available workers in this sector, with significant potential implications for Government expenditure. We would therefore welcome relaxation of A2 labour market restrictions as a route to addressing some of these concerns."

Department of Health letter to the MAC

7.113. We were told that lifting restrictions would not hugely benefit this sector because of the need for workers with good English language skills. We also heard that the sector does employ people from Eastern Europe and has developed training programs for them to improve their English language skills. However, there is a limit to the number of such postings before it begins to have a negative impact on the work that needs to be done.

7.114. That said, the English Community Care Association reported that one of their large corporate members has had significant direct experience of recruiting from the A2 countries and can confirm availability of under-utilised professional staff, with the motivation to work in the UK and adequate English language skills.

7.115. We did not receive a unanimous view from the sector on whether restrictions on A2 nationals should be lifted. However, we suspect that greater efforts could be made to recruit workers with the requisite language skills from within the EEA, and think a special scheme for A2 workers would be of some benefit to the sector.

7.116. This, however, needs to be weighed against the fact that anybody coming to the UK on a special scheme would have free access to the UK labour market after 12 months of continuous employment. Given that this is a sector which combines low wages with demanding work, sometimes requiring an employee to be resident with the person or persons receiving care, we do consider it highly likely that many A2 workers would want to move jobs after 12 months.

7.117. **We expressed concerns in chapter 6 regarding policies that would further increase the supply of long-term less skilled immigrants to the UK economy at this difficult time and therefore do not recommend a special scheme.**

7.118. However, if the Government decided that the needs of the sector are so great that they outweigh the potential costs to the economy and labour market, we would understand the basis for that decision.

7.9 Other sectors

7.119. We also received evidence pertaining to the automotive retail, cleaning and support services, fashion and textiles, health and logistics sectors.

7.120. Automative Skills, part of the Institute of the Motor Industry, and the Sector Skills Council for the automotive retail industry, told us that they did not have any specific labour market intelligence on the likely impact on employers in their sector of relaxing restrictions on A2 nationals, and only very limited anecdotal information on this topic.

7.121. The Cleaning and Support Services Association, the trade association for UK contract cleaning companies, told us that in the view of their members it would be right for the UK to lift the restrictions on labour market access on A2 nationals. In support of this view, the Association cited increasing numbers of A8 nationals returning to their home countries and creating unfilled vacancies in the cleaning sector, the introduction of the Points Based System, and concerns about the equity of an arrangement that penalises nationals of one EU member state over that of another. However, we did not receive detailed evidence on this.

7.122. Skillfast, the Sector Skills Council for the fashion and textiles sector, told us that Romania has a significant fashion and textiles sector with many workers possessing skills that can be used to fill UK skill shortages. Skillfast consider that immigrants from Romania can be used to fill shortage jobs requiring NQF level 3 skills. They cited their submission to us in respect of our shortage occupations report, which did not argue that these jobs should be included on our recommended shortage occupation lists. They stated that this was because they did not feel it would be sensible to fill these jobs with immigrants from outside the EEA. An assumption underlying that position was that UK employers would gain access to A2 nationals at this level in due course. Skillfast said that the use of Romanian immigrants in the fashion and textiles sector is on a small scale, fewer than 1,000 in total, and is likely to continue at this level, particularly in view of the developing economic situation. They concluded that the numbers in their sector are too small to have a significant bearing on a national discussion as to whether to relax the restrictions.

7.123. The Department of Health Workforce Directorate told us that relaxing the restrictions would not have much impact on the NHS skilled workers from A2 countries.

7.124. Skills for Logistics, the Sector Skills council for Freight Logistics Industries, told us that the A8 immigrant flows over the last three years had met the needs of the logistics industries and that they did not feel that a change in the existing restrictions on A2 nationals would have an impact on their sector.

7.125. **We did not receive evidence from other sectors such as to cause us to consider recommending any additional sectoral schemes.**

7.10 Relaxing the work permit rules

7.126. As explained in Chapter 4, one route by which skilled nationals of A2 member states can be granted authorisation to be employed in the UK is if they meet the criteria for receiving a work permit. The current work permit arrangements are being replaced by Tier 2 of the new Points Based System for EEA nationals, but retained for nationals of Bulgaria and Romania.

7.127. Before a job can be filled by a national of an A2 member state via the skilled work permit route, the employer is generally first required to advertise it within the UK. This is known as the Resident Labour Market Test (RLMT). Some jobs are exempt from this requirement, notably those in a shortage occupation or filled via an intra-company transfer.

7.128. We gave careful consideration to whether we should recommend a relaxation of the RLMT for A2 workers within the UK. The arguments can be broadly categorised into those relating to the likely impact on the UK labour market and those relating to the concept that, everything else being equal, preference should be given to nationals of EU member states over nationals of non-EU member states. The first set of arguments is clearly within our scope. The second set is arguably less so, but the issues are set out below nonetheless.

7.129. In terms of labour market impacts, we considered whether the benefits of relaxing restrictions outweighed the potential risks of doing so, particularly at a time of economic downturn

7.130. An argument for relaxing the RLMT criteria for Bulgarian and Romanian nationals is that the restrictions will have to be removed fully within five years anyway. Therefore, a partial relaxation for skilled workers now will allow the labour market more scope to gradually adjust to the change in potential labour supply. With regard to the economic downturn, even if the RLMT was removed, A2 workers would still only be able to come to the UK if employers had a skilled vacancy that they wished to fill.

7.131. We also recognised that an influx of skilled labour may create greater economic benefits to the existing workforce than an influx of less skilled labour, for reasons discussed in Chapter 3. Furthermore, based on what we know about the Bulgarian and Romanian labour markets (Chapter 2), current work permit flows from these countries (Chapter 4) and the composition of A8 employment (Chapter 5), flows of skilled workers from these countries would be considerably smaller, and therefore easier to absorb, than those that would result from a total lifting of restrictions.

7.132. However, the UK has a relatively flexible labour market (Chapter 2) and a five-year adjustment period may not be required. The nature of complementarity and substitution may also change during a downturn. The likely magnitude of flows also remains very difficult to predict, for all the reasons discussed in Chapter 6, but also because we cannot quantify the impact of the signal that relaxing the RLMT would send to employers regarding a new source of potential labour.

7.133. Moving on to the arguments concerning EU preference, the RLMT also generally applies to non-EEA nationals under Tier 2 of the new Points Based System for immigration, as set out in UK Border Agency (2008b). In theory, relaxing the RLMT criteria for Bulgarian and Romanian nationals may sharpen employer incentives to look for sources of skilled labour within the EEA before looking outside. So if the RLMT requirement were removed for employing Bulgarian and Romanian nationals, then that would give them preference over non-EEA nationals in terms of access to the labour market.

7.134. Because the EU preference arguments are largely geopolitical in nature, and therefore not strictly within our remit, we focused mainly on the costs and benefits to the labour market in determining our advice. Particularly due to the risks associated with implementing such a change during an economic downturn, and the fact that we have not had the time to carry out detailed analysis of the likely impacts, **we recommend that the RLMT is maintained for Bulgarian and Romanian nationals for the time being**.

7.135. However, this was a finely balanced decision. A relaxation of this nature may have smaller downside risks at a different point in the economic cycle. Consider the case of the National Minimum Wage, which is often cited as a labour market reform that did not have obvious adverse economic consequences: it was introduced in April 1999 when the UK labour market was in a relatively good state of health. Therefore, we see value in reviewing our recommendation further in less than three years time, when the UK Government next has to report formally to the EU. At that time, we would be happy to be asked to consider this matter further.

7.11 Scotland

7.136. Information about the Scottish labour market is contained in Chapter 2. We did not receive a large amount of additional evidence relating just to Scotland. What we did receive is summarised below.

7.137. The Scottish Social Services Council (part of the Skills for Care and Development Sector Skills Council) told us that research conducted in 2007 by Scottish Care found that 13.4 per cent of the workforce in the private and voluntary care homes surveyed were from outside the UK. The Council said that the restrictions on the entry of non-EU citizens to work in the UK were expected to affect residential care homes as most of the staff are defined as personal service staff. A survey in Scotland of over 300 care workplaces in 2007 found that just over a quarter had at least one vacancy for personal service staff and that of these almost half regarded them as hard-to-fill vacancies. The sector's workforce grew overall by 42 per cent between 1995 and 2004 and is continuing to grow further due to the increasing demand for its services. Because of this growth, the Council states that the ability to recruit freely from outside the UK is something that many employers in this sector want. Scottish Care is reported as having members who are keen to recruit employees from all countries including Bulgaria and Romania.

7.138. Aberdeenshire Council told us that they are in favour of relaxing the restrictions on A2 nationals to the same level as that on A8 nationals. They say that they would be able to recruit A2 nationals to fill vacancies for home carers and cleaners. Relaxation would have the additional benefit of simplifying current procedures which they find confusing. They consider that rises in unemployment following the economic downturn are most likely to affect higher skilled posts, not the lower skilled posts which they are struggling to fill.

7.139. The Scottish Council for Development and Industry (SCDI) told us that their members did not support continuing with the restrictions. Sectors such as tourism, catering and hospitality, agriculture, food and drink, manufacturing and construction have particularly benefited from the presence of A8 workers. However, the numbers of these workers arriving is dropping, with the Highlands and Islands reported as being particularly affected. SCDI states that vacancies are proving increasingly hard to fill for qualified bakers, chefs, cooks, computer numerical control operators and manual labourers.

7.140. Skillfast, in their evidence to us about the UK, told us that limiting access to A2 workers through the restrictions has a disproportionate impact in local labour markets where the supply of indigenous labour is more constrained, such as the Borders Region and the Highlands and Islands.

7.141. The SCDI highlighted areas where there appeared to be differing concerns in Scotland over the A2 restrictions than in the rest of the UK. These were the targets contained on the Scottish Government Economic Strategy including raising Scotland's GDP growth rate to the UK level by 2011 and matching the GDP growth rate of the small independent EU countries by 2017. One of the three means of doing so is identified as "increasing Scotland's population and the supply of potential workers" with the target to match average EU15 population growth over the period from 2007 to 2017. SCDI state that it is clear that, having attracted less than half of the Eastern European immigrants who have gone to live and work in Ireland since 2004, Scotland will need to do more to achieve these targets.

7.142. Additionally, Scotland has had industry-led targets set for priority sectors. For tourism this is revenue growth of 50 per cent between 2005 and 2015. Concerns that decreasing numbers of immigrant workers will be a hindrance to this were expressed by the Scottish Parliament's Economy, Energy and Tourism Committee. The food and drink sector has a target to increase its value to the Scottish economy from £7.3 billion in 2007 to £10 billion in 2017.

7.143. The Scottish Executive also drew our attention to the targets contained in the Scottish Government's Economic Strategy and referred to above. The Executive support the lifting of restrictions on A2 nationals to allow employers to freely employ people from these countries and expressed concerns that a reduction in the available pool of labour could have adverse impacts on the economy, particularly in the agriculture and tourism sectors currently employing large numbers of A8 workers.

7.144. Our own analysis in Chapter 2 suggests that Scotland's labour market follows similar trends to those in the UK. Scotland's economic cycle is closely correlated with that of the UK as a whole. Average earnings are similar. The one sector where recent employment trends showed the most distinctly separate pattern over the year to June 2008 (construction) contracted in Scotland over the year despite growing in the UK as a whole.

7.145. We considered whether it would be possible to have a different system for governing the access by A2 nationals to the labour market in Scotland from that governing access in the rest of the UK. We see a number of practical problems with such an approach. It might encourage labour supply businesses to locate north of the border for the purpose of supplying exempt workers to English clients. And, with the exception of posted workers, the other categories of exemption in the current Regulations are not contingent on employment circumstances in this sort of way, for instance a worker's registration certificate would need to contain information enabling non-Scottish employers to know that they were committing an offence if they employed the individual.

7.146. Finally, 12 months' legal and continuous employment in Scotland would lead to free access to the UK's labour market, meaning some A2 immigrants would use employment in Scotland as a stepping stone to work in other parts of the UK.

7.147. We have not considered in detail whether it might be easier to deliver separate arrangements for Scotland within a framework of maintaining the restrictions but lowering the bar or extending quotas in some way. This is because overall, we do not consider that we received sufficient evidence to conclude that the labour market in Scotland is sufficiently distinct from that in the rest of the UK so as to warrant separate arrangements being put in place. The same concerns that we have expressed elsewhere in this report about unrestricted access to the UK labour market against a backdrop of uncertainty over what the other EU15 countries will do and the current economic climate apply equally to Scotland. **Therefore, we do not make separate recommendations in relation to Scotland.**

7.148. The following chapter summaries our conclusions and recommendations.

Chapter 8
Conclusions and next steps

8.1 Conclusions

8.1. As set out in the introduction to this report, our task was to “consider what the likely impact on the UK labour market would be of relaxing existing restrictions, and whether it would be sensible to do so”. We were also asked to consider any implications for Scotland.

8.2. We considered several potential recommendations:

- that the current restrictions be fully retained; or
- that the current restrictions be removed altogether; or
- implementing new special schemes for particular sectors or occupations where there would be a particular benefit from employment of A2 nationals; and/or
- implementing a change in the current policy or quotas under the Seasonal Agricultural Workers Scheme (SAWS) or the Sectors Based Scheme (SBS); and/or
- abolishing the Resident Labour Market Test (RLMT) component of the work permit arrangements for nationals of Bulgaria and Romania.

8.3. **Our primary recommendation is that the restrictions on employment of nationals from Bulgaria and Romania be retained beyond January 2009**. We expect the impact of lifting the restrictions would be small, but the risks to the labour market are mainly on the downside. The uncertainty in relation to when and how other countries will lift the restrictions, combined with uncertainty regarding the likely length, severity and labour market implications of the current economic downturn, have led us to recommend a cautious approach.

8.4. Nonetheless, we do recommend some changes to help employers to access the labour they need without having adverse implications for the UK labour market in the short term, and help to prepare the UK labour market for full access to nationals of the A2 countries within the next five years. We recommend that the Government:

- expands the current quota under SAWS from 16,250 in 2008 to 21,250 in 2009; and reviews during 2009 whether a further increase would be desirable; and
- retains the current quota under the SBS for food processing at its current level of 3,500.

The SAWS recommendation represents the fact that we identified shortages in the relevant sectors and accept that, in the very short term, there is no sensible alternative to immigration. Crucially, it also reflects the fact that workers coming to the UK on a seasonal basis do not gain permanent unrestricted access to the UK labour market. In the medium term we are expecting to see the sector make efforts to address shortages by fully examining alternative means such as raising wages, improving working conditions and/or switching to less labour-intensive methods. The Government may also wish to work with the sector to examine mechanisms to break the long term dependency on immigrants.

8.5. In food processing, we do not recommend an increase in the current SBS quota, primarily because of concerns about the longer-term labour market impacts of doing so, as A2 workers gain unrestricted access; but also because we were not convinced that the current quota is insufficient to meet employer needs. Therefore, we recommend no change in the size of the SBS quota but with a potential reallocation of that quota within the food and drink industry if the Sector Skills Council can make a case.

8.6. Aside from the above, we recommend that the Government creates no new sectoral schemes for employment of A2 nationals. This is partially due, in the cases of hospitality and construction, to a lack of compelling evidence of labour market shortage. In social care, there was stronger evidence of shortage. But our concerns regarding the uncertainty of the volume of flows from the A2 countries and the labour market impact of such flows at a time of economic downturn applied to all three sectors.

8.7. We also recommend the RLMT requirement for employment of skilled A2 nationals on work permits remains in place for the time being. However, this was a finely balanced judgement. We recommend that the decision be reviewed in less than three years time, possibly alongside the review of the SAWS quota that we have recommended for during 2009.

8.8. Although we considered evidence received in relation to Scotland and this influenced our recommendations for the UK, we did not receive evidence that we felt justified recommendations specific to Scotland.

8.2 Next steps

8.9. This report focuses on whether it would be sensible to remove, relax or retain restrictions on employment of A2 labour in the UK. The Government can review its policy in this area at any time, and we would be happy to provide further advice as required.

8.10. We see a strong case for a systematic analysis of shortages and immigration in low-skilled jobs in the UK, to complement our work on skilled jobs in our first major report. We have begun to consider low-skilled jobs in this report but, largely due to time constraints, could not do it in the systematic way and based on the comprehensive methodology used in Migration Advisory Committee (2008).

8.11. Following on from our report in September 2008, we are continuing to review skilled shortage occupations in the UK, and will publish an update on our work in this area in spring 2009.

8.12. The Government has indicated that it may, from time to time, ask us to advise on further matters in relation to migration. We will publish reports on other issues that the Government asks for our independent view on as required.

Annex A: List of people / organisations asked to provide written evidence and those who provided written evidence

An asterix* indicates people and organisations who provided written evidence.

Anderson, Dr Bridget, Centre on Migration Policy and Society
Blanchflower, Professor David, Monetary Policy Committee, Bank of England
Clarke, Professor Linda, University of Westminster
Coleman, Professor David, University of Oxford
Drinkwater, Dr Stephen, University of Surrey *
Elliott, Professor Bob, University of Aberdeen
Rogaly, Dr Ben, University of Sussex
Rowthorn, Professor Robert, University of Cambridge *
Salt, Professor John, University College London *
Spencer, Sarah, Centre on Migration Policy and Society
Tamas, Kristof, European Commission
Wright, Professor Robert, University of Strathclyde

Aberdeenshire Council *
Asset Skills (SSC)
Association of Directors of Social Work
Automotive Skills (SSC) *
Auchrannie House Hotel
Bangladesh Caterers Association UK Ltd
Barway Services
Baxters Food Group
Benchmark Scaffolding
Blue Arrow
Bovis Lend Lease *
British Summer Fruits *
Byzak Ltd
Cala Hotels Ltd
Centre for Urban and Regional Studies
City of London Corporation
Cleaning and Support Services Association *
Cogent (SSC)
Commission for Rural Communities
Community Care Providers Scotland
Concordia (YSV) Ltd *
Confederation of British Industry Scotland
Construction Industry Council
Construction Skills (SSC) *
Convention of Scottish Local Authorities
Creative & Cultural Skills (SSC)
Crerar Hotels
Czech Match Ltd *
Edinburgh Smoked Salmon

English Community Care Association *
E-Skills UK (SSC)
EU Skills (SSC)
Federation of Small Businesses Scotland
Financial Services Skills Council (SSC)
Folio Hotels
Gangmasters Licensing Authority *
General Directors' Immigration Services Conference *
Global Highland Management Services
GoSkills (SSC)
Government Skills (SSC) *
Health and Safety Executive *
HM Government (cross-departmental response) *
HOPS Labour Solutions *
Improve (SSC) *
Institute of Directors Scotland
Inverness Hoteliers' Association
Institute for Public Policy Research
Joint Council for the Welfare of Immigrants
Kentish Garden Growers *
Lantra (SSC) *
Lifelong Learning UK (SSC)
Lifescan Scotland Ltd
Local Government Association
Lorne Fisheries
MacDonald Hotels
Marine Harvest
McAvoy Group Ltd
McGee
Moray Seafoods
National Farmers' Union *
National Farmers' Union Scotland
National Farmers' Union Wales
National Housing Federation
Newmafruit Farms Ltd *
Open Europe
Orion Group
Oxford Hotels and Inns Management Limited
People 1st (SSC) *
Proskills (SSC)
Roger Bullivant
Scotland's Trade Union Centre
Scottish Care
Scottish Care at Home
Scottish Chambers of Commerce
Scottish Construction Forum
Scottish Council for Development and Industry *
Scottish Executive *
Scottish Food and Drink Federation
Scottish Social Services Council *

Scottish Tourism Forum
Scottish Tourist Board
Scottish Trades Union Congress
Semta (SSC)
Sias Building Association
Skillfast (SSC) *
Skills Active (SSC)
Skills Development Scotland
Skills for Care and Development (SSC) *
Skills for Health (SSC)
Skills for Justice (SSC)
Skills for Logistics (SSC) *
Skillset (SSC)
Skillsmart Retail (SSC)
Springboard UK
Strathaird Salmon
Strathmore Hotels Ltd
Summit Skills (SSC)
Sussex Centre for Migration Research
The Alliance of Sector Skills Councils
The Barchester Group
UNISON Scotland
United Kingdom Permanent Representation to the European Union *
Walkers Shortbread Ltd
50 Club *

Annex B: List of people / organisations who provided oral evidence

Clifford, Ragnar, UK Border Agency
Dustmann, Professor Christian, Professor of Economics, University College London
Green, Sir Andrew, Chairman, Migrationwatch UK
Kirby, Simon, Research Fellow, National Institute of Economic and Social Research

Annex C: List of people / organisations met

C.1 In the UK

Academy of Oriental Cuisine
British Chambers of Commerce
British Hospitality Association
British Meat Processors Association
Bovis Lend Lease
Bulgarian Labour Attache, Bulgarian Embassy
Chinese Immigration Concern Committee
Concordia (YSV) Ltd
Confederation of British Industry
Construction Confederation
Dunbia
Ethnic Minority Citizens Forum
Federation of Small Businesses
Fruitful Ltd
Haygrove Ltd
HOPS Labour Solutions
House Builders Federation
Improve (SSC)
Kier Group
Lantra (SSC)
National Farmers' Union
NHS Employers
Northern Ireland Food and Drink Association
People 1st (SSC)
Recruitment and Employment Confederation
Registered Nursing Home Association
Romanian Labour Attache, Romanian Embassy
R & JM Place
S & A Produce
SASTAK Ltd
Trades Union Congress
Union of Construction, Allied Trades and Technicians
Welcome Skills (SSC)
Wilkin & Sons Ltd
50 Club

C.2 In Bulgaria

Bulgarian National Bank
Ministry of the Interior
Ministry of Labour and Social Policy
National Statistics Institute

C.3 In Romania

Economic and Finance Ministry
Interior and Administrative Reform Ministry
International Organisation for Migration
Ministry of Labour
National Institute of Statistics

Annex D
Summary of transitional restrictions imposed by EU member states to 2004 and 2006 accession countries

Definitions

"Free movement of labour" refers to nationals of EU member states being able to take up employment in another member state without restriction. There may be a requirement to register their employment with relevant authorities. This is the current situation between the EU15 member states and will be the situation once transitional arrangements for accession countries expire.

"Transitional arrangements" are arrangements for labour migration of Bulgarian and Romanian nationals that will be in effect between the date of accession and when full Free Movement of Labour is permitted. These must not be more restrictive than arrangements in place immediately prior to accession.

Table D.1 Summary of transitional restrictions to free movement of labour from Bulgaria and Romania

Member state	Current restrictions on Bulgarians and Romanians	Intentions towards restrictions for second phase	Further information
United Kingdom	**Work permit required.** Schemes remain unchanged from date of accession. Quota schemes remain for Bulgarian and Romanian nationals in seasonal agriculture and the food processing sector	MAC to advise UK Government.	http://www.ukba.homeoffice.gov.uk/workingintheuk/eea/bulgariaromania/
Austria	**Work permit required and further restrictions of posted worker apply in some sectors.** Austria's work permits are stringent and include resident labour market preference. Some sectors are subject to further restrictions on posted workers: agriculture, landscaping, masonry, constructions, security, care and social work.		http://www.ams.at

Table D.1 (continued) Summary of transitional restrictions to free movement of labour from Bulgaria and Romania			
Member state	**Current restrictions on Bulgarians and Romanians**	**Intentions towards restrictions for second phase**	**Further information**
Belgium	**Modified work permit required.** A resident labour market test is required unless an occupation is deemed to be in shortage. Permits issued within five days for shortage occupations. Work permits are required by employers but not migrants.		http://www.bruxelles.irisnet.be/fr/citoyens/home/travailler/travailler_comme_ressortissant_etranger.shtml
Cyprus	**Free movement of labour permitted.** A2 employees must register their employment.		
Czech Republic	**Free movement of labour permitted.**		
Denmark	**Modified work permit required.** Permit conditions are less stringent than for non-EU nationals. Work needs to be full-time and meeting prevailing labour conditions. Permits usually issued for up to one year.		www.nyidanmark.dk
Estonia	**Free movement of labour permitted.**		
Finland	**Free movement of labour permitted.** A2 employees must register their employment.		http://www.mol.fi/finnwork
France	**Full work permit with occupational exemptions.** Permit conditions include labour market test, and job meeting prevailing labour and pay conditions. Permit issued for 150 occupations without labour market test. Occupations fall into the following sectors: construction and public works; hospitality; agriculture; mechanical engineering and metal industries; processing industries (incl. manufacturing); commerce and sales; cleaning.		www.anaem.social.fr
Germany	**Work permit required and further restrictions applied to posted workers.** Permit conditions include labour market test and other checks e.g. qualifications. Restrictions are applied to posted construction workers, including related occupations such as industrial cleaning and interior decorating.		www.arbeitsagentur.de

Table D.1 (continued) Summary of transitional restrictions to free movement of labour from Bulgaria and Romania			
Member state	**Current restrictions on Bulgarians and Romanians**	**Intentions towards restrictions for second phase**	**Further information**
Greece	**Full work permit required.** Permit issued following labour market test.		Relevant local authority
Hungary	**Full work permit required.** Permits issued without labour market test for some unskilled work.		
Ireland	**Work permit required.** Permit conditions include labour market test. Employers must obtain permit before migrant arrives in country		www.fas.ie www.entemp.ie
Italy	**Modified work permit for some sectors, free movement of labour in other sectors**. Free movement of labour permitted in the following sectors only: agriculture; hotels and tourism; domestic work and care services; construction; engineering; managerial and highly skilled work; seasonal work. For other sectors, a simplified work permit is required.	The Italian government stated its intention to apply transitional arrangements for a period of one year. This period has now elapsed, however restrictions remain in place.	
Latvia	**Free movement of labour permitted.**		
Lithuania	**Free movement of labour permitted.**		
Luxembourg	**Full work permit with sectoral exemptions.** Simplified procedures for obtaining a permit for agriculture, viticulture, hotel and catering, and qualified people in financial sector. Permits in other sectors granted more speedily depending on labour market conditions.		
Malta	**Modified work permit required.** Permits granted for jobs that are in shortage for which migrants are qualified.		
Netherlands	**Work permit required.** Permit issued following resident labour market test. Employer must obtain permit.		
Poland	**Free movement of labour permitted.**		

Table D.1 (continued) Summary of transitional restrictions to free movement of labour from Bulgaria and Romania			
Member state	**Current restrictions on Bulgarians and Romanians**	**Intentions towards restrictions for second phase**	**Further information**
Portugal	**Full work permit required.** Permits issued in sectors where a quota of vacancies for foreign nationals has been identified. Different permits are required for temporary and longer-term work.		www.sef.pt www.iefp.pt
Slovakia	**Free movement of labour permitted.**		
Slovenia	**Free movement of labour permitted.** A2 employees must register their employment.		
Spain	**Work Permit required.** A firm offer of employment is required, together with approval from the foreigners' department in the province of employment.	Spain stated its intention to have a shorter transition period for A2 nationals for a maximum of two years from 1 Jan 2007. At the end of the first year, the effects of the transition would be reviewed and a decision will be taken as to whether to extend for a further year.	
Sweden	**Free movement of labour permitted.**		
Note: this information is not intended as a legal guide to restrictions imposed by member states; jobseekers should always seek information from the relevant authorities in the member state in which they wish to work. Bulgaria and Romania have not taken the opportunity to apply reciprocal restrictions on any other EU member state. **Source:** EURES Portal: http://europa.eu.int/eures/			

Annex E: Characteristics of A2-born and A8-born immigrants in the UK Labour Force Survey 2004-2008

E.1 Introduction

E.1. We commissioned a number of custom tables from the Office for National Statistics from the Labour Force Survey (LFS) annual datasets between 2004 and 2007, and for the second quarter of 2008.

E.2. The analysis presented primarily supports Chapters 4 and 5 of the main report, which look at the current and past characteristics and impact of A2 and A8 immigration to the UK and the EU.

E.3. These tables examined a number of different variables covering demographic characteristics and performance of A2-born and A8-born immigrants in the UK labour market. Comparison groups included were UK-born, other EEA-born and other foreign-born.

E.2 Methodological notes

E.4. For this analysis, we have defined 'immigrant' as those born outside the UK, rather than by nationality. The revised population weights calculated in 2006/07 are used.

E.5. It is likely that the LFS underestimates numbers of immigrants, and sampling biases may result from:

- immigrants having higher rates of multiple occupancy;
- types of accommodation excluded from the sample, such as communal establishments;
- individuals only being included if they regard the sampled address as their main residence, or if they have been living there for six months or more; and
- unauthorised immigrants being less likely to respond to an official survey.

E.6. Specific groups of immigrants are present in small numbers in the population. Thus, a small number are recorded in the survey. In some cases, cell sizes were too small to reliably report, and estimates were suppressed in the tables that we commissioned. For the remaining data, standard errors may still be large for certain groups.

E.7. Figures for 2004 to 2007 are derived from annual datasets. Figures for 2008 are derived from the second quarter of 2008, and are therefore not wholly comparable with the annual datasets.

E.3 Stocks

E.8. A8 and A2-born immigrants (defined as those born in A2 or A8 member states) comprised a very small fraction of the UK labour force in 2008 (Figure E.1). Of all immigrants, 11 per cent were born in the A8 countries and 1 per cent in A2 countries.

E.9. Figure E.2 shows growth in stocks of A2-born and A8-born immigrants in the UK. Stocks of A2 nationals have shown year-on-year growth between 2004 and 2008, with a substantial increase recorded in 2008. The 2008 stock is over double the 2005 stock. Stocks of A8-born have grown at a faster rate by a similar increment in each year between 2004 and 2008.

Figure E.1 Immigrants as a proportion of UK population, 2008

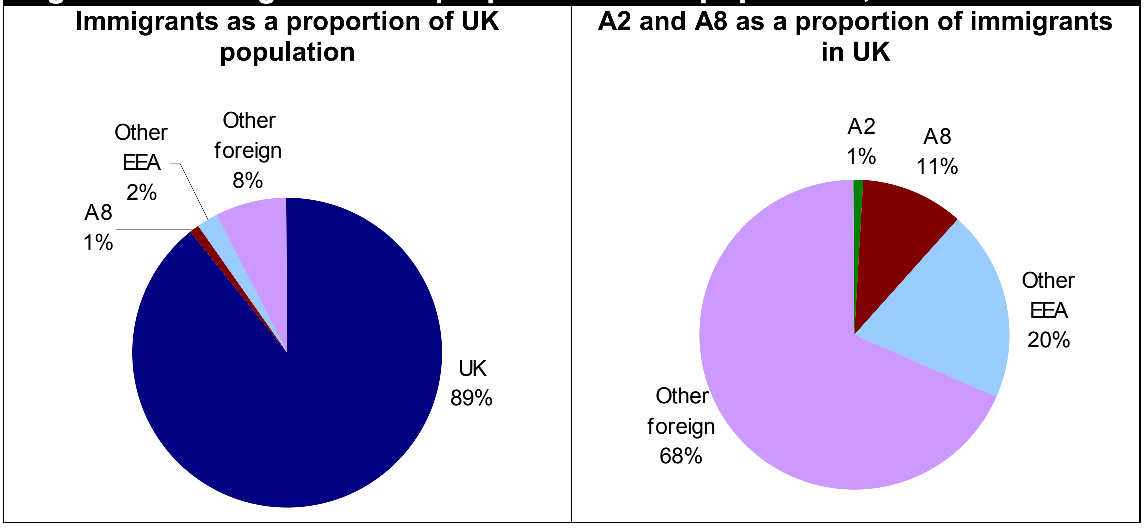
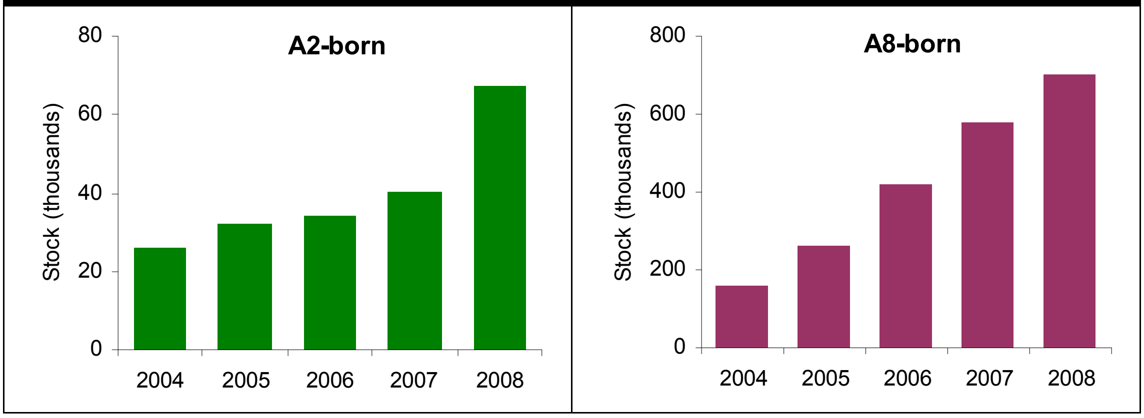


Figure E.2 Stock of A2-born and A8-born immigrants in the UK, 2004-2008



E.4 Demography

E.10. Table E.1 shows that in 2008, 88 per cent of A2-born and 84 per cent of A8-born immigrants were aged 16-64. This compares with 64 per cent of UK-born, and 72 and 82 per cent of other EEA and other foreign-born immigrants respectively. Over half of A2-born and A8-born immigrants are aged between 20 and 34, which compares with far smaller fractions for other immigrant groups and only 18 per cent of UK-born.

E.11. Figure E.3 shows the growth in stock between 2004 and 2008 for A2-born and A8-born immigrants. It is clear from the charts that, not only did 20-34 year olds constitute the largest proportion of both A2 and A8 immigrant groups in 2004, but this age group has experienced the largest growth in stock since then. The trend is less stark for the A2-born than the A8-born.

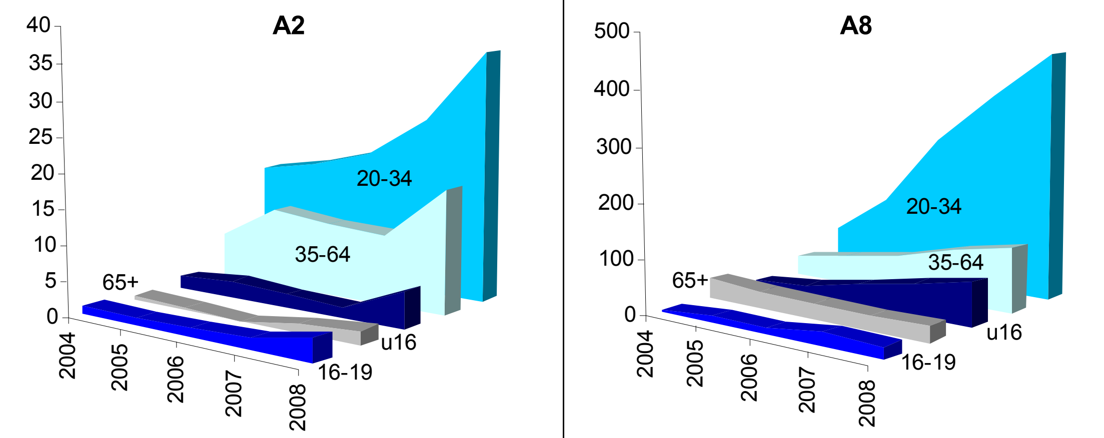
E.12. Differences in the gender ratio are small in magnitude. Both A2-born and A8-born immigrant populations have a lower proportion of females than males, the A8-born considerably lower. Other immigrant groups show higher proportions of females.

Table E.1 Demographic information for immigrant groups in UK, 2008

	Of populations:			
	% aged 16-64*	% aged 20-34	% Female	Stock
UK-born	63.6	18.0	50.8	53,848,000
A2-born	88.4	55.9	49.5	67,000
A8-born	84.6	64.7	47.5	704,000
other EEA	72.0	25.5	55.0	1,325,000
Other foreign-born	82.1	31.9	51.1	4,539,000

Note: *This range approximates the working-age population, but because it includes females aged between 61 and 65, it slightly overstates the working-age population.

Figure E.3 Stock (thousands) by age group for A2-born and A8-born immigrants, 2004-2008



E.5 Education and qualifications

E.13. It has been noted that immigrants' qualifications are not well recorded in the LFS. Figure E.4 confirms this. More A2-born and A8-born immigrants report 'other qualifications' than the total of those reporting any other level of qualification or no qualification at all.

E.14. If we look at the age a person has completed full-time education, this gives some indication of the level of qualification they may have obtained (Figure E.5). Comparing the modes (or spikes) at 18 years for A2-born and A8-born with the other groups suggests that A2-born and A8-born immigrants in the UK are more likely to have been in education until 18 years of age. Beyond 20 years of age, differences between the different groups are small.

Figure E.4 Level of qualification reported in the LFS for UK-born and immigrant groups, 2007

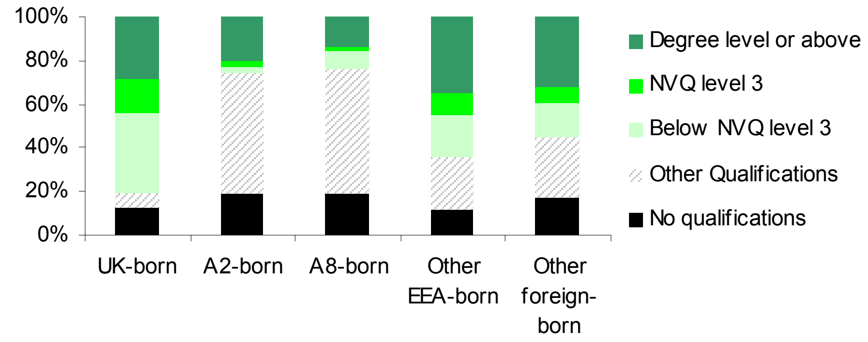
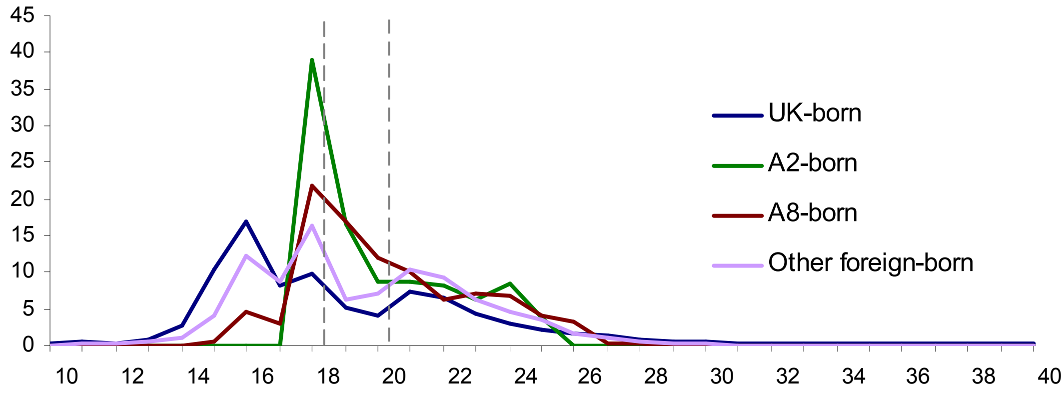


Figure E.5 Age completed full-time education for UK-born and immigrant groups, 2007



Note: Other EEA-born closely follow 'other foreign-born' in distribution, and are therefore excluded from this chart

E.6 Occupational distribution

E.15. Figure E.6 shows that the occupational distribution differs considerably amongst different immigrant groups. Two points particularly stand out:

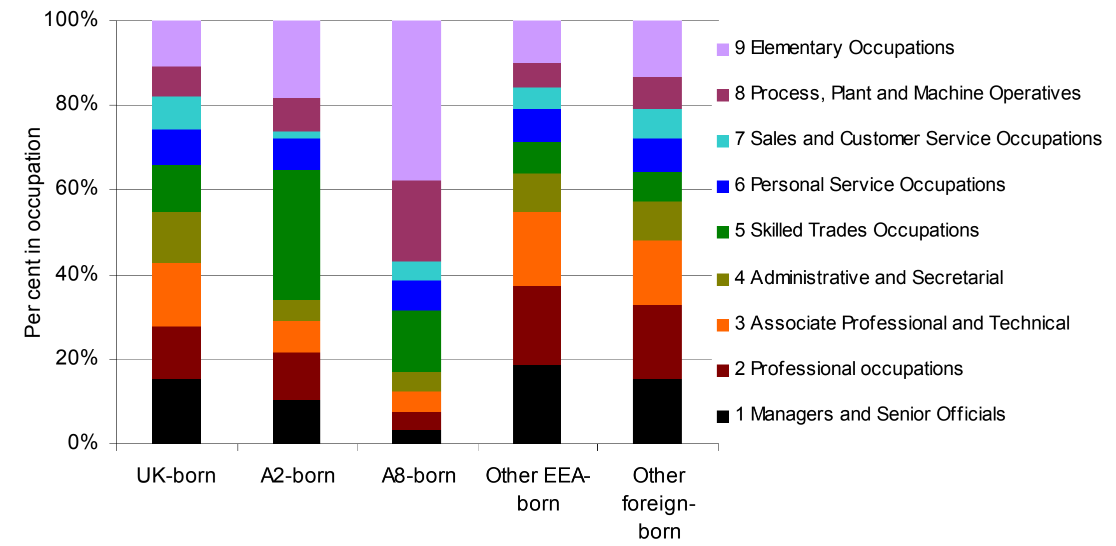
- 31 per cent of A2-born immigrants are in skilled trades, compared with between 7 and 14 per cent for other groups; and
- over half of A8-born immigrants are in occupations classified as process, plant and machinery operatives and elementary occupations. Around a quarter of A2-born immigrants and less than 20 per cent of other groups are represented in these occupations.

E.16. Some other notable points are as follows:

- fewer A2 than UK-born are in occupations classed as managers and senior official, and a very small fraction of A8 immigrants are in this category. This contrasts other immigrants, who are present in this category in greater proportion than UK-born; and
- only 9 per cent of A8 born and 18 per cent of A2 born immigrants are in occupations classified as professional and associate professional and technical occupations, compared with over a third of other immigrants and 28 per cent of UK-born.

E.17. Overall, the occupational distribution of A8-born immigrants differs most from that of UK-born. A2-born immigrants also differ, but to a lesser extent. Other foreign-born immigrants have an occupational distribution which most closely resembles that of the UK-born population.

Figure E.6 Occupational distribution of immigrant groups in UK, 2007



E.18. Figure E.7 shows changes in the occupation distribution for A2-born immigrants. There is variation in each of the occupational classes, but the main discernable trend is the larger number of skilled trades in 2007 and 2008.

E.19. Figure E.8 shows changes in the occupation distribution for A8-born immigrants. Here, there is a clearer trend. The proportion of A8-born immigrants in elementary occupations and plant and process operative occupations increased considerably between 2004 and 2006 (while all other occupational classes decreased correspondingly), but stablised thereafter.

Figure E.7 Changes to occupational distribution of A2 immigrants in UK, 2004-2008

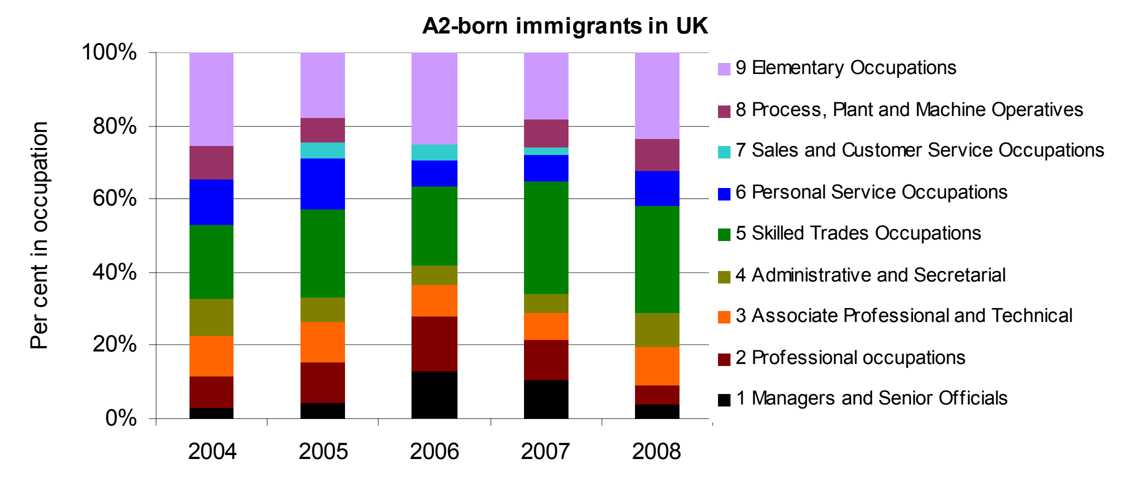
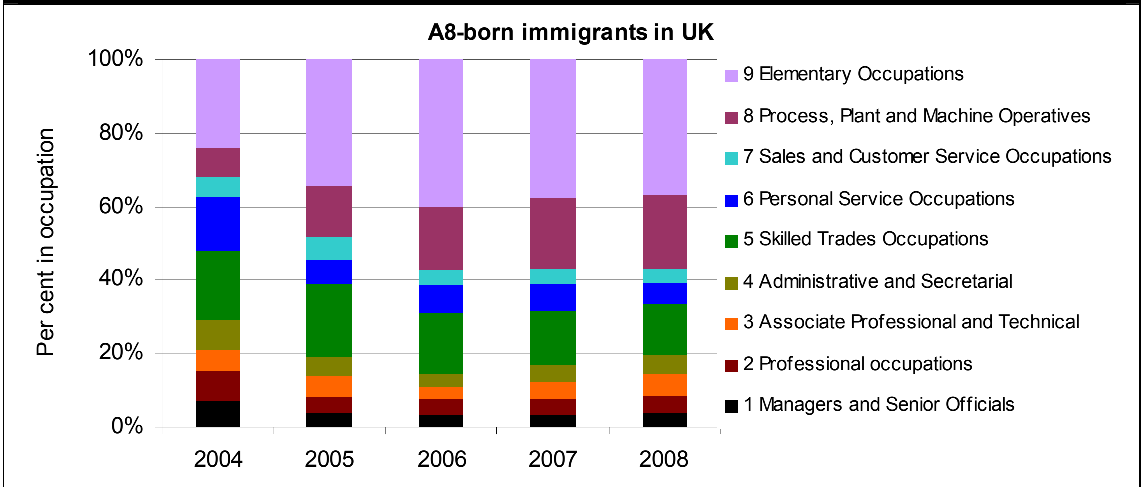


Figure E.8 Changes to occupational distribution of A8 immigrants in UK, 2004-2008



E.7 Occupational skill level

E.20. Occupational skill levels are defined by the type of job a person does. They do not necessarily imply qualifications at a certain level, but generally require skills that are associated with more advanced qualifications and/or higher wages (see Migration Advisory Committee, 2008).

E.21. Figure E.9 shows that, in 2007, while 57 per cent of A2-born and 62 per cent of other immigrants are in the top two skill levels, only 27 per cent of A8-

born fall into these occupations. This compares with 54 per cent of UK-born people.

E.22. Some more detailed findings are:

- about one quarter of UK-born people are in occupations in the highest skill level (level 4). There are substantially fewer A2-born and A8-born in occupations at this skill level at 11 per cent and 6 per cent respectively. However, a third of all other immigrants are in occupations in this highest skill level;

- about 29 per cent of UK-born are in level 3 occupations. However, whilst 21 per cent of A8-born immigrants are in this skill level, 40 per cent of A2-born immigrants are in this skill level; and

- A2 and other immigrants are less represented than UK-born in the lower skill occupations, with under half at levels 1 and 2. By contrast, nearly three quarters of A8- born are in lower skill occupations.

E.23. Looking over time (Figure E.10), a clear trend for A8-born immigrants has been for proportions to fall in the highest skill levels and proportions to increase in the lowest, although in 2008 this trend appears to have levelled. For A2-born, the picture is less clear. In 2008, A2-born immigrants are present in occupations at different skill levels in similar proportions to 2004. However until 2007, the trend was for proportions to increase in the highest skill levels and proportions to fall in the lowest.

Figure E.9 Distribution of occupational skill levels amongst immigrant groups in UK, 2007

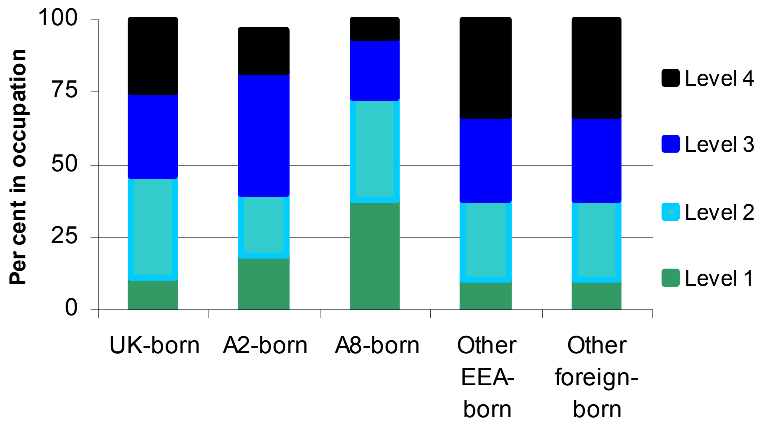
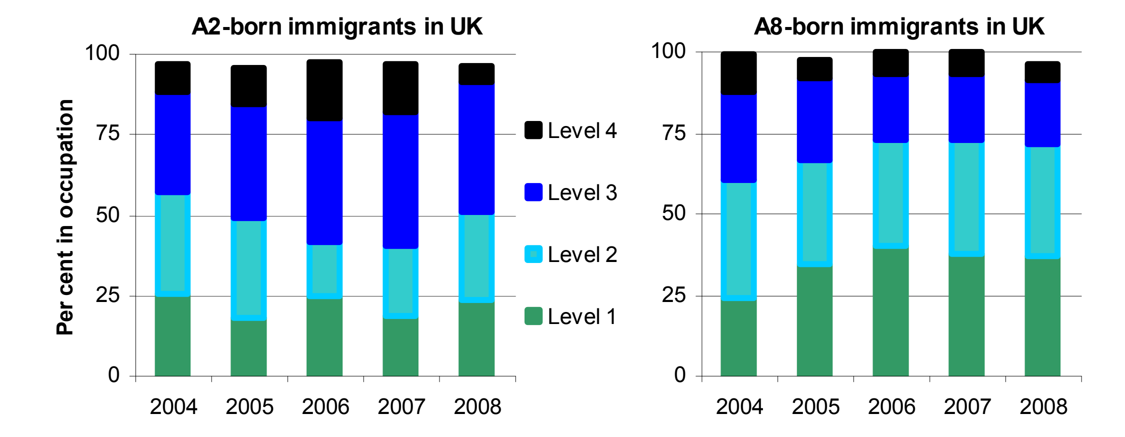


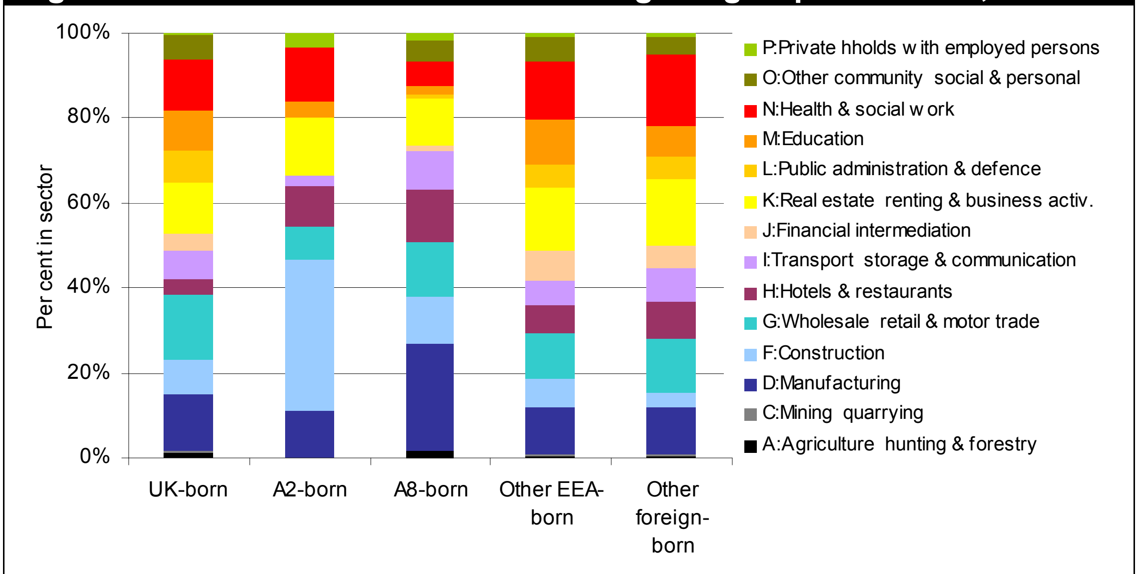
Figure E.10 Distribution of occupational skill levels amongst A2 and A8 workers in UK, 2007



E.8 Sectoral distribution

E.24. The sectoral distribution of A2-born and A8-born immigrants in the UK differs from that of UK-born. Noticeable trends are that A2-born immigrants are much more heavily represented in the construction sector than UK-born or other immigrant groups. A8 immigrants are more represented in manufacturing and agriculture. Both A2 and A8-born are more likely to be in hospitality than UK-born or other immigrant groups.

Figure E.11 Sectoral distribution of immigrant groups in the UK, 2007



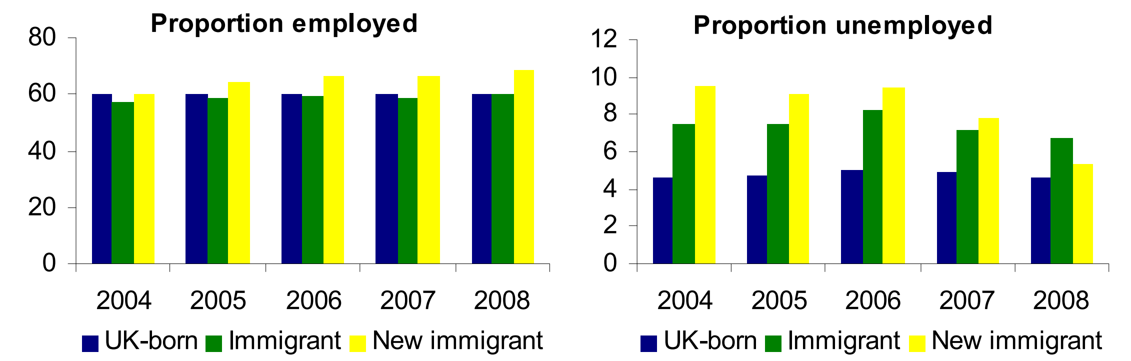
E.9 Employment and unemployment

E.25. Until 2008, a larger proportion of immigrants aged 16 and over were in employment and a smaller proportion unemployed than UK-born people. However, this is likely to reflect the fact that there are fewer retired people among immigrants (Figure E.12). The gap between UK-born and immigrant employment has been closing, and are approximately equal in the second quarter of 2008. Unemployment among new immigrants (people who have been in the UK for six years or less) aged 16 and over is high, but has also fallen considerably.

E.26. Looking at this trend by immigrant group, and taking into account the growing stock of A8 immigrants (Figure E.13), it is clear that the trends of increasing employment and falling unemployment are largely driven by the recent arrival of A8-born immigrants.

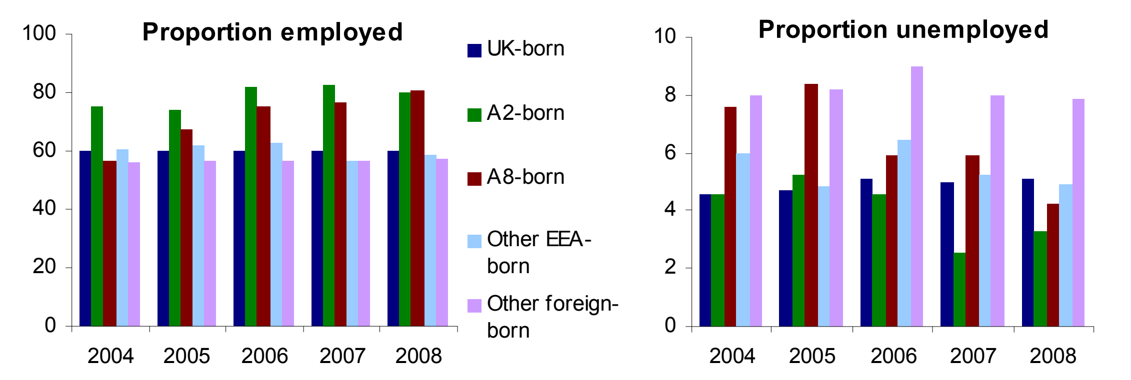
E.27. A2 immigrants are proportionally less in unemployment and more in employment (with the exception of A8 in 2008) than any other group considered in this analysis, including UK-born. In 2004, A2-born immigrants showed substantially higher employment rates than any other group; however the gap with the A8 has closed over time.

Figure E.12 Proportions employed and unemployed for UK-born, immigrants and newly arrived immigrants, 2004-2008



Note: Proportion employed describes the percentage of the 16+ population in employment. Proportion unemployed describes the percentage of the economically active 16+ population who are unemployed. Figures are not comparable with employment rates and unemployment rates as they include those over the working age. New immigrants are defined as those in the UK for six years or less.

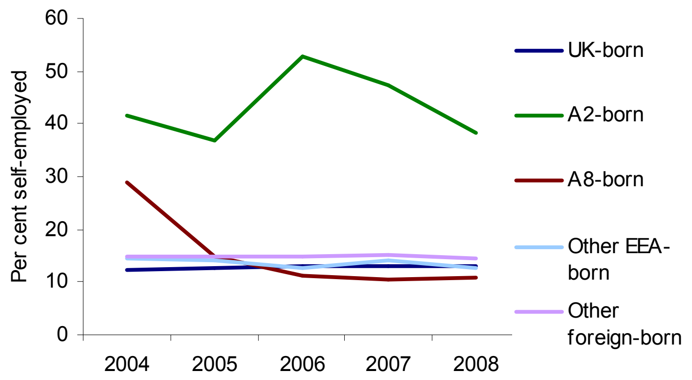
Figure E.13 Employment and unemployment rates for UK-born and different immigrant groups, 2004-2008



Note: Proportion employed describes the percentage of the 16+ population in employment. Proportion unemployed describes the percentage of the economically active 16+ population who are unemployed. Figures are not comparable with employment rates and unemployment rates as they include those over the working age.

E.28. Reported self-employment is substantially higher amongst A2-born immigrants than any other group (Figure E.14). UK-born, other EEA-born and other foreign-born show stable levels of self employment at around 12-15 per cent of the labour force. A8-born currently report slightly less self-employment, however, this has dropped from around 30 per cent in 2004.

Figure E.14 Self-employed as a percentage of employed for A2-born and comparisons 2004-2008



Note: Figures describe self-employed as a proportions of employed (i.e. employees plus self-employed).

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