

# Review of the transitional restrictions on access of Bulgarian and Romanian nationals to the UK labour market

Migration Advisory Committee

November 2011



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# Chapter 1 Introduction

## 1.1 The Migration Advisory Committee

1.1 The Migration Advisory Committee (MAC) is a non-departmental public body comprised of economists and migration experts that provides transparent, independent and evidence-based advice to the Government on migration issues. The questions we address are determined by the Government.

1.2 Previously, we have provided advice on the design of Tier 1 and Tier 2 of the Points Based System (PBS) for managed migration (Migration Advisory Committee, 2009a and 2009b), the transitional labour market access for citizens of new European Union (EU) accession states (Migration Advisory Committee, 2008) and the first annual limits on Tier 1 and Tier 2 of the PBS (Migration Advisory Committee, 2010). In early 2011, we provided advice on occupations and job titles skilled to National Qualifications Framework level 4 and above for Tier 2 of the PBS (Migration Advisory Committee, 2011a) and recommended amendments

to the Government's shortage occupation list (Migration Advisory Committee, 2011b). In a report that is being published alongside this one, we have advised on what would be the likely economic impact of restricting or removing settlement rights under Tier 1 and Tier 2 of the PBS.

## 1.2 Our task

1.3 The UK Government is obliged by 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 the beginning of January 2012. In May 2011, the Government asked that we consider, by October 2011, the following question:

*"Is there a serious disturbance, or threat of such a disturbance, to the UK labour market and would maintaining the existing restrictions on Bulgarian and Romanian nationals' access to the labour market assist in addressing any such disturbance or threat?"*

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### **1.3 Background**

1.4 The EU consists of 27 countries: the 15 Member States before enlargement in 2004 known as the EU15 (which includes the UK); the 'A10' countries that acceded to the EU in 2004 and consist of Cyprus and Malta and the eight 'A8' countries; 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), together with some countries not in the EU. A full breakdown of EU and EEA Member States is provided in Box 1.1 below.

### Box 1.1 Breakdown of European Union and European Economic Area Member States

The 'EU15' comprises:

- Austria;
- Belgium;
- Denmark;
- Finland;
- France;
- Germany;
- Greece;
- Ireland;
- Italy;
- Luxembourg;
- Netherlands;
- Portugal;
- Spain;
- Sweden; and
- United Kingdom.

The 'A10' countries are:

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

The 'A8' countries are all of the above excluding Cyprus and Malta.

The 'A2' countries are:

- Bulgaria; and
- Romania.

All of the above countries are members of the EEA.

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

- Iceland;
- Liechtenstein; and
- Norway.

Switzerland is not in the EEA, but its nationals are subject to the same immigration control processes as those for EEA countries. References to policy in relation to EEA (non-EEA) nationals in this report therefore include (exclude) Switzerland.

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- 1.5 The Treaty of Accession 2003 was the agreement between the EU and the A10 countries governing the accession of the latter into the EU. The Treaty allowed existing EU members to impose transitional restrictions on the free movement 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 governs the accession of Bulgaria and Romania to the EU and allowed existing members to impose transitional restrictions on the free movement of labour from those countries, also for a maximum of seven years from the day of accession.
- 1.6 For both A8 and A2 nationals, the seven-year period during which restrictions can apply is divided into three phases according to a “2+3+2” formula. The accession treaties stated that employment restrictions can be imposed for the first two years following accession and can be extended for a further three years. After that, they can be extended for an additional two years only if the national domestic labour market is experiencing a serious disturbance (or threat thereof).
- 1.7 The seven year transitional period for A8 nationals expired on 1 May 2011. From that date, A8 nationals have been able to access the UK labour market on the same terms as other EU nationals (except Bulgarian and Romanian nationals).
- 1.8 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. In 2008, the MAC was asked to advise on whether those restrictions should be retained beyond the beginning of January 2009. Our advice was provided in Migration Advisory Committee (2008).
- 1.9 Following receipt of the advice provided by the MAC, in a Written Ministerial Statement dated 3 November 2009, the then Minister of State for Borders and Immigration, Phil Woolas, stated on behalf of the former Government that the restrictions on working in the UK which applied to Bulgarian and Romanian nationals would continue until the end of 2011. He said: *“The Government remain committed to the principle of free movement of workers within the European Union and acknowledge the benefits that intra-EU migration brings to the UK both as an exporter of British workers to other member states and as a result of the role of migration from other member states in meeting labour shortages in important sectors of the UK’s economy. However, the Government have chosen a gradual approach to Bulgarian and Romanian workers’*

*access to the UK's labour market. Given the current labour market situation, it is important that we continue to give weight to the need to protect the interests of the resident workforce.”* Details of the current restrictions are set out in Chapter 2.

- 1.10 In accordance with the Treaty of Accession 2005, by 1 January 2012 the Government has to demonstrate that the UK is experiencing a ‘serious disturbance (or threat thereof) to the labour market’ if it wishes to maintain the current restrictions on A2 nationals until the end of 2013. This is the last time that the UK can decide whether to maintain restrictions on A2 nationals’ access to the UK labour market because the seven year transitional period for A2 nationals ends in January 2014.

### 1.4 Our approach

- 1.11 We decided to separate our task into two parts. First, we consider whether there is a serious disturbance, or threat thereof, to the UK labour market. Second, if the answer to the first question is yes, we consider whether maintaining the current labour market restrictions imposed on Bulgarian and Romanian nationals would help to address the disturbance or threat. The analytical approach we have adopted in this report reflects this distinction between the two parts of our task.

- 1.12 The first part of our task required that we considered the state of the UK labour market. In doing so, we analysed national-level data and evidence published or provided by government departments, academics, and other corporate partners. On the basis of this evidence we made a judgement as to whether we consider the current UK market to be ‘seriously disturbed’.
- 1.13 The second part required that we examine the impact of maintaining (or removing) the labour market restrictions in the context of the current state of the UK labour market. We analysed existing evidence on the impacts of migration, and the profile of flows and existing stocks of Bulgarian and Romanian nationals resident in the UK, in order to consider the possible impact of maintaining (or removing) the current labour market restrictions on Bulgarian and Romanian nationals. We regarded the questions of whether maintaining restrictions would help to address disturbance to the labour market or whether removing them would exacerbate such disturbance as essentially equivalent.
- 1.14 This report develops and sets out our views on the above issues. We understand that the Government may decide, on the basis of this report, to retain or remove existing restrictions. We therefore make our views on the answer to the question that was put to

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us as explicit as possible. Our remit did not, however, require us to specifically recommend whether restrictions should be retained, relaxed or removed altogether, and this report does not do that.

- 1.15 In Migration Advisory Committee (2008) we considered existing, and potential additional, sector schemes for the employment of A2 nationals. We have not been asked to consider the case for maintaining, broadening or curtailing such schemes for this report, and have not done so.

### 1.5 How we gathered evidence

- 1.16 The analysis in this report is based on a combination of desk-based research and evidence we received from corporate partners, gathered through a series of targeted activities. In this report 'corporate partners', or just 'partners', refers to all parties with an interest in our work or its outcomes, including private and public sector employers, trade unions, representative bodies and private individuals are included within this term. We received correspondence on this matter from 16 partners and quote from this in boxes throughout this report.

- 1.17 We sought evidence from organisations including the British Chambers of Commerce, the Confederation of British Industry, the Federation of Small

Businesses, the Federation of Small Businesses Scotland, the National Farmers Union, the Recruitment and Employment Confederation, Scotland's Trade Union Centre, the Scottish Government, the Trades Union Congress, the Scottish Trades Union Congress, and the United Kingdom Permanent Representation to the European Union. We also sought evidence from operators of the Seasonal Agricultural Workers Scheme (SAWS).

- 1.18 In addition, although we wrote to all Government departments about this work, we specifically invited written evidence from the Department for Business, Innovation and Skills, the Department for Communities and Local Government, the Department for Work and Pensions, the Foreign and Commonwealth Office, HM Treasury, the Home Office, the Northern Ireland Office, the Office for National Statistics, the Scotland Office, and the Wales Office.

- 1.19 We wrote to the Bulgarian Labour Attaché at the Bulgarian Embassy in the UK, the Bulgarian Ministry of the Interior, and the Bulgarian National Statistics Institute. We also wrote to the Romanian Labour Attaché at the Romanian Embassy in the UK, the Romanian Economic and Finance Ministry, the Romanian Interior and Administrative Reform Ministry, the Romanian

branch of the International Organisation for Migration and the Romanian National Institute of Statistics. We received evidence on the Romanian labour market from the Romanian Embassy in the UK and the Romanian Ministry of Labour, Family and Social Protection.

- 1.20 We met with officials from both the Bulgarian and Romanian Embassies in London and attended an event with representatives from Romanian community associations and businesses. We refer to aspects of these discussions at relevant points in this report. In addition, some other issues were raised with us and these are discussed in the next section.

## 1.6 Other issues

- 1.21 Much of the evidence that we received from partners directly informed our consideration of the question put to us. However, some of our partners, particularly those within the Bulgarian and Romanian communities, sought to draw our attention to the impact of the current labour market restrictions on Bulgarian and Romanian nationals already resident in the UK. These issues do not fall within the scope of the specific question we were asked by the Government, and so they could not be used to inform our response to that question. Nevertheless, we understand why our partners felt that these other issues

were important and we summarise them here.

- 1.22 The issue not directly related to our commission that was most frequently raised was that the current labour market restrictions, and, in particular, the process of certification, has led to some A2 nationals being exploited, or being left vulnerable to exploitation, during their time in the UK. We were told that some employers offer employment to A2 nationals on the condition that they certify themselves as self-employed and that, with few opportunities of alternative employment in the UK, some A2 nationals are effectively forced to accept this arrangement.
- 1.23 We were told that, as self-employed workers, many A2 nationals have no written contract with their employer. Instead, they are paid via a payroll company whose fees are often deducted from workers' pay. By hiring workers that are registered as self-employed, employers are able to avoid the need to make National Insurance contributions and to provide benefits such as paid sickness or annual leave.
- 1.24 It was put to us that this arrangement has three particular adverse consequences. First, it harms the A2 nationals affected by subjecting them to poor working conditions, uncertain employment arrangements, and fewer employee rights.

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Second, it reduces the amount of tax paid by those companies that employ A2 migrants who are registered self-employed. Third, by reducing the cost of A2 migrant workers to employers, it makes the rest of the UK labour force (i.e. those workers who are not registered as self-employed) less competitive relative to A2 migrants.

*“A further practice related to the employment of Romanian nationals in the UK is the high incidence of self-employment, creating a secondary labour market, where (self-employed) workers are deprived of various social and residence entitlements. Moreover, the lower level of social contributions related to their ‘employment’ leads to an undercutting of the price of labour in the specific trades in which these self-employed have clustered (e.g. domestic workers, construction sector).”*

Dr. Liliana Harding (University of East Anglia) evidence to the MAC review

*“ALP members complain of facing unfair competition due to the use of false self-employment of Bulgarians and Romanians on food and agricultural contracts by their competitors. Bulgarians and Romanian nationals are prone to such abuse because of their lack of free access to the employment market due to the immigration restrictions imposed upon them. Such bogus self-employment is used to deny Bulgarians and Romanian workers NMW [National Minimum Wage], holiday pay, and other rights.”*

Association of Labour Providers evidence to the MAC review

- 1.25 When we met with representatives of the Romanian communities in the UK it was argued that removing the labour market restrictions on A2 nationals would help to protect those A2 migrants already resident here because this would offer them alternatives to self-employment. It was said that this would also benefit the UK economy, by increasing tax receipts from employers, and the existing UK labour force, by denying UK employers the option of hiring A2 nationals at a lower cost. The Romanian Embassy in the UK also argued that removing labour market restrictions would not increase the number of Romanian nationals seeking employment in the UK, but was important because it would protect Romanian nationals currently resident in the UK.



*“Romanian authorities are certain that lifting the labour restrictions would not increase the number of Romanian nationals seeking employment in the UK, but would provide equal treatment and social protection to those who already work in this country. In our view, labour market restrictions have not limited the number of Romanian nationals who chose the UK as an employment destination; instead, the transitional regime has led workers into a grey area of the labour market – by turning them into self-employed workers – and, as a consequence, workers have constantly been denied basic employment rights. Extensive evidence suggests that workers are often at risk and their protection is limited if not non-existent.”*

Embassy of Romania evidence to the MAC review

1.26 We also received evidence that argued that the registration process was too complex and too long, and that this process put A2 nationals at a disadvantage to all other prospective workers in the UK. We were told that the lengthy waiting times could lead employers to withdraw offers of employment to A2 nationals, and that the inability to work legally during the time that the registration certificate is being issued could increase the likelihood that A2 nationals claim welfare support or consider working illegally. We were also told that some registration processes put A2 nationals at a disadvantage relative to all other migrants, including those from outside the European Union (EU).

*“Whilst employment for up to 20 hours is possible for any international student proving full time enrolment, Romanian students need once again to apply for a registration certificate. Only upon certification can the Romanian student obtain employment for the statutory time. That puts the Romanian student at a disadvantage to all other (international) students, who can seek and take up a part time job upon proving enrolment in the UK higher education system.”*

Dr. Liliana Harding (University of East Anglia) evidence to the MAC review

1.27 Some partners also argued that restrictions on A2 nationals should be lifted on grounds of fairness: we were told that labour market restrictions deprive A2 nationals of their most basic rights as citizens of the EU. Furthermore, there was some feeling among those we met that the decision to impose labour market restrictions was a response to the large migrant flows from the A8 countries following their accession to the EU in 2004, rather than based on a consideration of Bulgaria and Romania themselves.

1.28 We recognise the concerns expressed to us, and think it would be legitimate for the UK Government to consider them alongside our analysis in subsequent chapters of this report. Nevertheless, several counter-arguments also need to be considered. First, it was not suggested to us that A2 workers were being forced to

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work, or remain, in the UK against their will. The option to return to their home countries is available. Second, the terms of the accession treaty were clear at the point when Bulgaria and Romania entered the EU, and those terms have not changed. Finally, it is legitimate for the Government to take into account lessons learnt from the A8 experience when considering the position of A2 nationals.

### **1.7 Structure of this report**

1.29 In Chapter 2 we provide the background to the accession of Bulgaria and Romania to the EU. We set out the UK policy and legal position in respect of A2 nationals and we discuss the experience of other EU countries, including the restrictions on employment of A2 nationals that those countries have in place.

1.30 Chapter 3 addresses the first part of the question put to us by the Government. It

considers whether there is a serious disturbance, or threat of such a disturbance, to the UK labour market. In Chapter 4 we address the second part of the question and, in the context of the current state of the UK labour market, we look at the possible impact of maintaining or removing the current labour market restrictions on nationals of Bulgaria and Romania.

1.31 In Chapter 5 we conclude by summarising our findings in this report and setting out our response to the question we have been asked by the Government.

### **1.8 Thank you**

1.32 We are extremely grateful to the individuals and organisations that provided input for this work and, in particular, those who hosted events on our behalf or who helped us to identify partners with an interest in this work. A list of partners who wrote to and met with us is supplied as an annex to this report.

## Chapter 2 Policy context

### 2.1 Introduction

2.1 In this chapter we describe the labour market restrictions that currently apply to Bulgarian and Romanian (or 'A2') nationals who wish to work in the UK. We also set out the various migration routes that are available to economic migrants from Bulgaria and Romania. Additionally, we describe the labour market restrictions imposed on Bulgarian and Romanian nationals by other Member States of the European Union (EU), in particular the EU15 countries (as defined in Chapter 1), in order to put the UK labour market restrictions in an international context.

### 2.2 Rights to residence in the UK for Bulgarian and Romanian nationals

2.2 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, provided that they are able to prove their nationality and identity when required to do so.

2.3 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. A2 nationals who wish to live in a Member State for longer than three months need to exercise a Treaty right to reside in the UK (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 2.3 for discussion of routes to employment); a student; a self-employed person; or a self-sufficient person.

2.4 The family members of an A2 national who has a right to reside in another Member State will also have a right to reside in that Member State (see Box 2.1 for definition of a family member).

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### Box 2.1: Definition of a family member according to European Community legislation

EEA nationals' family members include the following:

- Spouse or civil partner.
- Children of the national or his or her spouse or 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 or her spouse or civil partner.
- In certain circumstances, members of their extended family.

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

### 2.3 Rights to employment in the UK for Bulgarian and Romanian nationals

restrictive than the rules that applied to them prior to accession.

2.5 In October 2006, a Written Ministerial Statement by the then Home Secretary, John Reid MP, set out in detail the ways in which Bulgarian and Romanian nationals could come to the UK to work legally. The chief effect of this is to restrict A2 nationals to skilled employment except where they are coming under quota-based arrangements for the agricultural and food processing sectors. A2 nationals are not, however, subject to the numerical limits on skilled workers that apply to non-EEA nationals admitted under Tier 2 of the Points Based System. Furthermore, under the 'standstill clause' in the Accession Treaty, the restrictions applied to A2 nationals cannot be more

2.6 What this means in practice is that A2 nationals can exercise a Treaty right to reside as a worker in the UK provided that they first obtain authorisation of their employment. The exemptions to this requirement are discussed below.

### Where work authorisation is not required

2.7 As discussed in paragraph 2.5 Bulgarian and Romanian nationals do not always have an automatic right to work in the UK. However, they are able to exercise a Treaty right to reside and work without restriction if any of the following apply:

- On or after 31 December 2006, they had completed 12 months' continuous legal employment in the UK.
  - On 31 December 2006, they had leave to enter or remain in the UK 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 (including the family members of an A2 national who is subject to work authorisation and has been granted such authorisation).
- 2.8 Persons in these categories may apply for a blue registration certificate which confirms that they have free access to the labour market.
- 2.9 In addition, under EU law there are also provisions which are intended to enable, in certain circumstances, an undertaking established in one Member State to post workers to another Member State on a temporary basis in connection with the supply of a service. The UK's work authorisation requirements do not interfere with the exercising of these rights.
- 2.10 A2 nationals are also able to exercise a Treaty right to reside in the UK as:
- a self-employed worker (see Box 2.2);
  - a student; or
  - a self-sufficient person.
- 2.11 Those A2 nationals who are exercising a Treaty right as a student or a self-employed person can apply for a yellow registration certificate confirming their status. A Bulgarian or Romanian national who is exercising a Treaty right to reside as a student and who wishes to engage in part-time or vacation work must obtain such a certificate. This is endorsed to indicate that the holder can engage in such employment.

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### Box 2.2: Bulgarian and Romanian nationals exercising a Treaty right to self-employment

If A2 nationals claim a Treaty right as self-employed persons, they need to be able to demonstrate that they are genuinely self-employed. The UK Border Agency 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 a National Insurance special reference number (see below);
- 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.
- 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 work, or when and how to do it?
- Do they work a set number of hours?
- Can someone move them from task to task?

- Are they paid by the hour, week, or month?
- Can they receive 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? and
- 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 with this they can begin paying contributions. This number is given after providing basic personal details.

Once they have their reference number, A2 nationals have an interview with the Department for Work and Pensions (DWP) to obtain a **National Insurance Number**. DWP will usually issue the number as long as the applicant can provide:

- 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**

2.12 Under the Accession (Immigration and Work Authorisation) Regulations 2006, A2 nationals may obtain

work authorisation on the basis of the same criteria as, or less stringent criteria than, those that applied to A2 nationals on 31 December 2006. This is known as the 'standstill clause'. Work

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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.

- 2.13 A2 nationals will be granted authorisation to be employed in the UK if:
- they are **'highly skilled'** (i.e. they meet the criteria of the Highly Skilled Migrant Programme<sup>1</sup> as they stood on the date of accession), in which case they will be granted unrestricted access to the labour market; or
  - they have an offer of a **'skilled'** job that cannot be filled by the resident labour market (i.e. they meet the criteria for a work permit).
- 2.14 A2 nationals seeking authorisation to work are not subject to the same criteria as non-EEA nationals seeking

admission under the Points Based System (PBS) for the same purpose. This is, in part, because some of the criteria applied to the latter (for example, the requirement to hold a minimum amount of funds and English language requirements) are immigration control-derived criteria rather than labour market-based criteria. In addition, some of the requirements of the Points Based System are more restrictive than those that applied pre-accession, meaning that their application would be contrary to the standstill clause. For example, the PBS requires the sponsor (employer) to be licensed and for the job to be skilled to National Qualifications Framework level 4 or above; the skill requirement for the work permit scheme could be satisfied by someone coming to fill a job skilled to the equivalent of level 3 or above.

2.15 Before A2 nationals can begin employment as skilled workers, the employer first needs to obtain a letter of approval through the existing work permit arrangements. The A2 national can then apply for an accession worker card. This is issued for a specific job, so if employees wish to change jobs they need to obtain a new accession worker card.

2.16 Work authorisation is currently given to less skilled workers from Bulgaria and Romania coming through:

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<sup>1</sup> The Highly Skilled Migrant Programme (HSMP) is still open to A2 nationals who can show that they meet the criteria of the scheme as they stood on the date of accession. However, the scheme was closed to all other nationals in 2008..



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

which are 21,250 and 3,500 places respectively for 2011. These schemes were previously open to non-EEA nationals, but since 2007 they have been reserved for A2 nationals only.

2.17 Both of these arrangements are subject to annual quotas,

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### Box 2.3: Seasonal Agricultural Workers Scheme (SAWS)

The Seasonal Agricultural Workers Scheme (SAWS) is designed to allow farmers and growers in the UK to recruit low-skilled workers to undertake short-term agricultural work. The scheme operates 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, and the continuation of the scheme is linked to the continuation of the A2 restrictions.

**Box 2.4: Sectors Based Scheme**

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

The basic entry requirements under the Sectors Based Scheme are:

- applicants must be nationals of Bulgaria or Romania;
- applicants must be aged between 18 and 30;
- jobs should be within the food manufacturing sector (specifically the fish, meat and mushroom processing industries); and
- 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.

The continuation of the scheme is linked to the continuation of the A2 restrictions.

**Other routes to employment**

2.18 Students from A2 countries can work, but they must first obtain a yellow registration certificate. This confirms that they are EEA nationals exercising a Treaty right to reside in the UK as students. 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 Business, Innovation and

Skills' (BIS) Register of Education Providers<sup>2</sup>.

2.19 Provided that the work undertaken by students amounts to employment (i.e. not self-employment) they will be eligible for exemption from the restrictions once they have satisfied the qualifying period of 12 months continuous legal employment.

**Irregular employment**

2.20 Since 1 January 2007, it has been an offence to employ a Bulgarian or Romanian national who is required to

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<sup>2</sup> A list of these establishments can be found at <http://www.bis.gov.uk/policies/higher-education/recognised-uk-degrees/listed-bodies>.

## A2 labour market restrictions

- hold an accession worker card but who does not have one, or who is undertaking work other than that specified in the card. Employers face a maximum fine on conviction of £5,000 per worker.
- 2.21 If prosecuted and convicted of working without the mandatory documentation, an A2 worker could face imprisonment of up to three months or be offered the opportunity to discharge their liability to prosecution by paying a fixed penalty fine of £1,000.
- 2.4 Transitional restrictions imposed by other EU Member States**
- 2.22 The impact on the UK labour market of lifting the labour market restrictions currently imposed on A2 nationals will depend, at least in part, on the labour market restrictions imposed on those economic migrants by other EU Member States. Past and current restrictions are discussed below. Further details of the labour market restrictions imposed on A2 nationals by EU Member States are in Annex B to this report.
- 2.23 When the A2 countries acceded to the EU on 1 January 2007, 17 of the 25 existing EU Member States imposed labour market restrictions on A2 nationals. EU Member States were required to review these labour market restrictions after two years, from 1 January 2009. Ten member states
- retained restrictions beyond that date. Spain removed all restrictions imposed on A2 nationals.
- 2.24 At present, nationals of Bulgaria and Romania have the right to work, as employed or self-employed, without a work permit in: Bulgaria; Cyprus; Czech Republic; Denmark; Estonia; Finland; Greece; Hungary; Latvia; Lithuania; Poland; Portugal; Romania; Slovakia; Slovenia; and Sweden. A work permit, or similar form of documentation, is required in: Austria; Belgium; France; Germany; Ireland; Italy; Luxembourg; Malta; the Netherlands; and the UK. Iceland, Liechtenstein and Norway, which are members of the EEA but not the EU, also require Bulgarian and Romanian nationals who wish to access their labour markets to hold a work permit.
- 2.25 Spain continues to allow nationals of Bulgaria the right to work without labour market restrictions. However, in a letter to the European Commission dated 28 July 2011, Spain invoked the 'safeguard clause' in the Treaty of Accession 2005, thereby seeking permission from the Commission to reinstate work restrictions for Romanian workers. This clause allows a Member State to request to reintroduce previous restrictions on labour market access, if it is undergoing or foresees serious labour market disturbances.

- 2.26 On 11 August 2011, the European Commission approved Spain's request to restrict access to its labour market to Romanian workers until 31 December 2012 due to a serious disturbance in the Spanish labour market. We understand that the restrictions will apply to activities in all sectors and regions, but will not affect Romanian nationals who are already active in the Spanish labour market.
- 2.27 At the time of writing this report it is not clear what changes, if any, the countries discussed above will make to the restrictions imposed on A2 nationals' access to their labour markets. However, it seems plausible to expect that, on the basis of the current global and European economic situation, many other countries will keep their restrictions in place.
- 2.28 All other things being equal, we might expect migrant inflows to the UK from Bulgaria and Romania to be larger under a scenario where the UK is the only country to remove the current restrictions than under a scenario where other Member States lift their restrictions at the same time. We consider this issue further in Chapter 4. First, in Chapter 3, we examine the state of the UK labour market.



### 3.1 Introduction

3.1 This chapter sets out the analysis we have used to consider whether there is a serious disturbance, or threat of such a disturbance, to the UK labour market. This addresses the first part of the question that we have been asked by the Government, as discussed in Chapter 1.

3.2 First, we discuss the UK macro-economic and labour market context to this report, considering both past and projected trends in economic and labour market indicators. Here we also consider the state of the UK macro-economy and labour market within a global context. Second, we consider, with reference to these indicators, how we believe a serious labour market disturbance, or threat thereof, should be defined. On the basis of this definition, we set out our view of whether the UK labour market is currently in a state of serious disturbance.

3.3 The UK labour market statistics presented in this chapter reflect the Office for National Statistics' (ONS) statistical publications to

September 2011 inclusive. They do not reflect the results of the October 2011 statistical publication, which was released shortly before we submitted this report to the Government. We considered the October statistics prior to submitting our report and they did not substantively affect the analysis presented in this chapter nor change the conclusions reached.

### 3.2 The UK and global macro-economy and labour market

3.4 This section sets out the current, and projected future, trends of leading macro-economic and labour market indicators for the UK. It also puts the current condition of the UK economy and labour market into a global context.

#### The UK macro-economy

3.5 Figure 3.1 shows one-quarter and four-quarter growth of real Gross Domestic Product (GDP) in the UK since the beginning of 1975. The UK experienced a sustained period of real GDP growth between 1992 and 2007, averaging 2.8 per cent per annum. In contrast, the UK

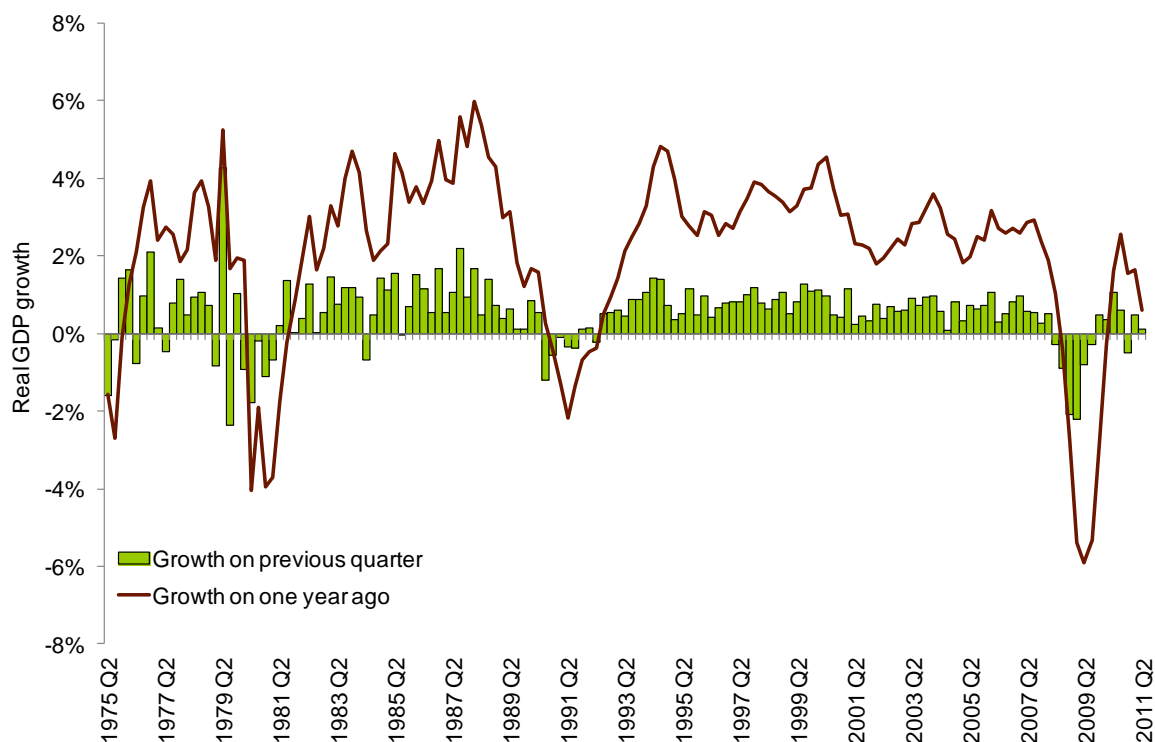
## A2 labour market restrictions

experienced six consecutive periods of negative growth from the second quarter of 2008: real GDP contracted by 6.4 per cent over this period. In GDP terms this represents the worst recession experienced by the UK for over 60 years (Joyce and Sibieta, 2011).

of 2009 the UK economy has, with the exception of the fourth quarter of 2010, maintained generally modest but positive economic growth. UK real GDP grew by 0.1 per cent in the second quarter of 2011 compared to the previous quarter, and by 0.7 per cent compared to the second quarter of 2010 (Office of National Statistics, 2011a and 2011b).

3.6 Since emerging from recession in the fourth quarter

**Figure 3.1: One-quarter and four-quarter growth of real Gross Domestic Product, UK, 1975 Q1 to 2011 Q2**



Notes: Seasonally adjusted, chained volume measure, constant 2006 prices.  
Sources: Office for National Statistics, 2011a and 2011b.

3.7 Short- and medium-term forecasts of UK real GDP growth are, of course, subject to uncertainty and are continually revised. These forecasts for the UK economy reflect the global financial crisis in 2008-09 and the ongoing sovereign debts crisis in Europe. The independent Office for Budget

Responsibility (OBR) (2011) forecasts that UK real GDP will grow by 1.7 per cent in 2011, followed by 2.5 per cent in 2012, 2.9 per cent in 2013 and 2014, and 2.8 per cent in 2015. These forecasts are higher than the average of those from a range of financial and economic institutions compiled more recently by HM



Treasury (2011): the average forecast of real GDP growth from these institutions is 1.2 per cent for 2011 and 1.8 per cent for 2012. In September 2011, International Monetary Fund (2011) forecasted that UK real GDP would grow by 1.1 per cent in 2011 and 1.6 per cent in 2012.

3.8 The labour market implications of stagnant and below-trend growth in real GDP are prescribed by Okun's law, which is the empirically observed correlation between the unemployment rate and real GDP (Okun, 1962). Okun's law implies that a given percentage point increase in the unemployment rate is associated with a larger percentage decrease in real GDP. The exact magnitude of this relationship will vary depending on the country and the time period considered.

3.9 We tested the relationship between the unemployment rate (as defined by the International Labour Organisation (ILO)) and real GDP for the UK using annual data for the period 1971 to 2010. For this analysis we used the dataset for real GDP presented above and the dataset for the unemployment rate that we present in the next section of this chapter. We found that, historically, real annual GDP growth of approximately 2.5 per cent is needed before the UK unemployment rate starts to fall.

3.10 There are of course factors other than growth of real GDP that might affect the unemployment rate, which makes it difficult to assess whether this relationship will be stable over time. However, as we observe later in this chapter, the UK unemployment rate increased during the period of recession in 2008-09, and stabilised once the recession had ended. It can also be observed that the current growth rate of real GDP is significantly below the level required to stimulate a fall in the unemployment rate.

### The UK labour market

3.11 A notable impact of the recent economic downturn on the UK labour market was the effect on **average weekly earnings**. These data are shown in Figure 3.2. Year-on-year growth in **nominal average weekly regular earnings** (which exclude both bonuses and arrears of pay) fell from a recent peak of 4.7 per cent in the three months to September 2007 to a low of 1.1 per cent in the three months to November 2009, before increasing to 2.1 per cent in the three months to July 2011. Year-on-year growth in **nominal average weekly total earnings** (which include bonuses but exclude arrears of pay) fell from a recent peak of 6.1 per cent in the three months to March 2007 to a low of minus 2.7 per cent in the three months to March 2009, before increasing to 2.8 per cent in the three

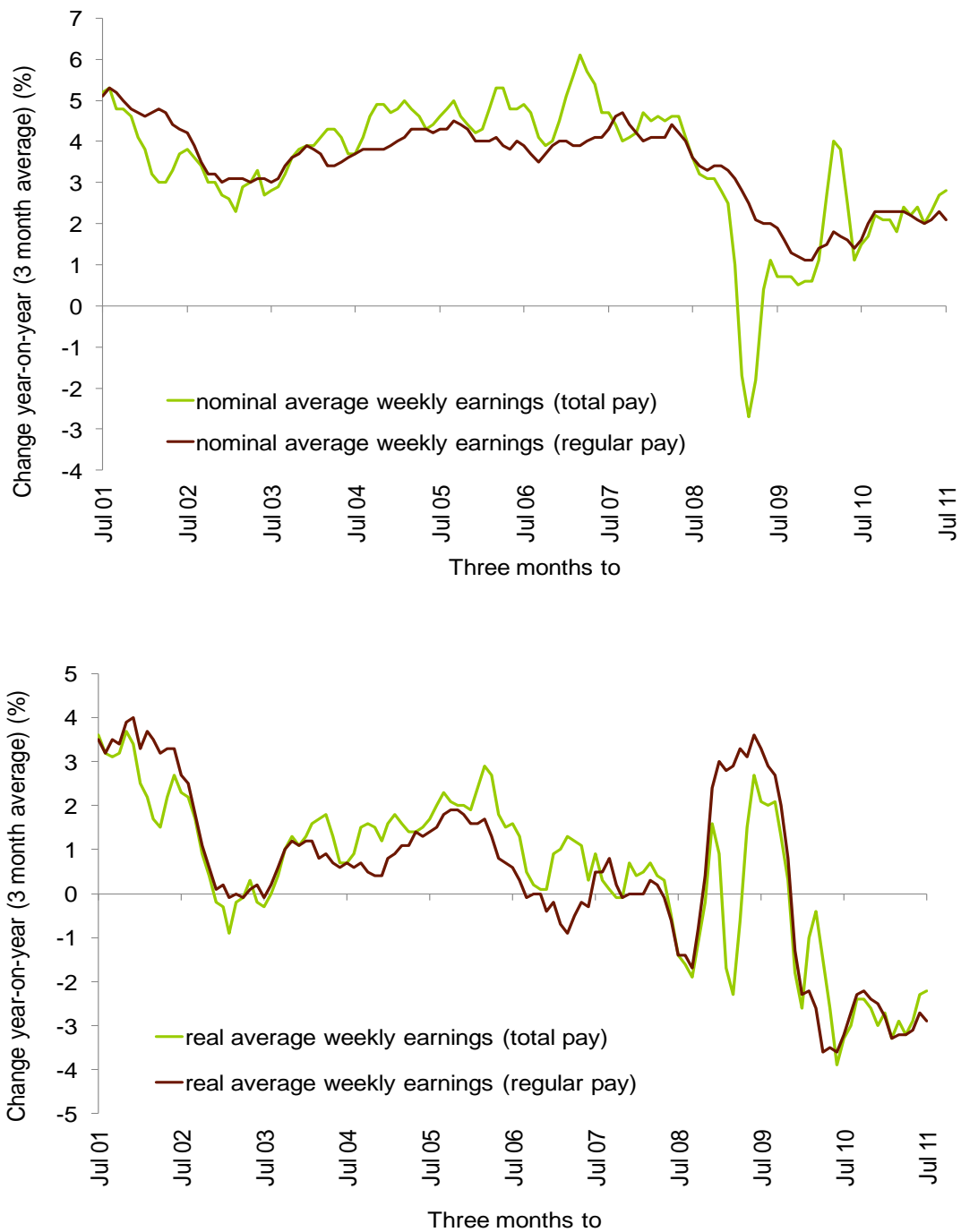
## A2 labour market restrictions

months to July 2011. Year-on-year growth in **real average weekly regular earnings** fell from a recent peak of 3.6 per cent in the three months to June 2009 to a low of minus 3.6 per cent in the three months to April 2010, before increasing to minus 2.9 per cent in the three months to July 2011. Year-on-year growth in **real average weekly total earnings** fell from a recent peak of 2.9 per cent in the three months to March 2006 to a low of minus 3.9 per cent in the three months to June 2010, before

increasing to minus 2.2 per cent in the three months to July 2011.

- 3.12 As these data on average weekly earnings include both part-time and full-time workers, some of the observed changes in these earnings over time may also reflect a change in the proportion of workers that are in part-time employment. This in itself may also be a response to the economic downturn, as employers reduce individuals' working hours as an alternative to making redundancies.

**Figure 3.2: Three month average year-on-year growth in average nominal and real weekly earnings: total and regular pay, Great Britain, Jul 2001 to Jul 2011**

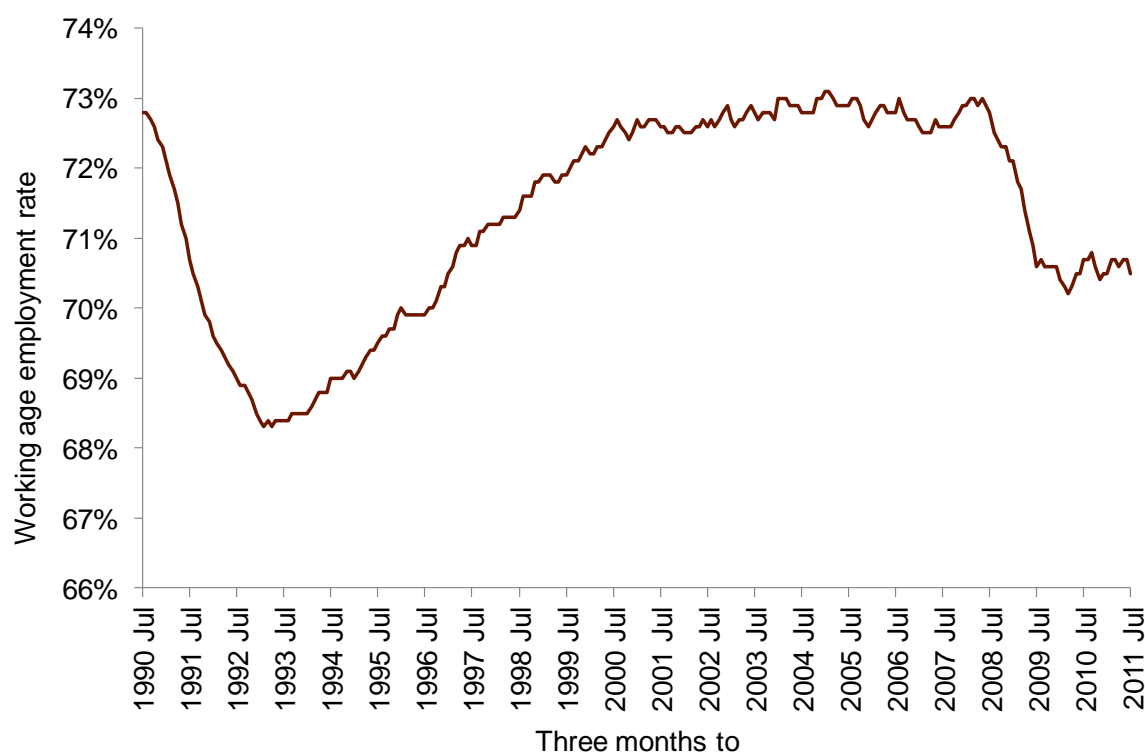


Notes: Average weekly earnings of total pay includes bonuses but excludes arrears of pay. Average weekly earnings of regular pay excludes both bonuses and arrears of pay. The figures are three-month averages and have been seasonally adjusted. Average weekly earnings are calculated by dividing the total amount paid by the total number of employees paid in Great Britain. The growth rate is equal to average weekly earnings over a three-month period against the same three-month period a year ago. Real earnings have been estimated using data from the Retail Price Index (RPI), which is not seasonally adjusted. Sources: Office for National Statistics (2011c) and (2011d).

## A2 labour market restrictions

- 3.13 Joyce and Sibieta (2011) found that, as well as earnings, state benefits and tax credits also fell in real terms in the UK during the last financial year (2010-11). This is estimated to have led to a fall in median net household income of 3.5 per cent, the largest single-year fall in 30 years.
- 3.14 As shown in Figure 3.3, the UK **employment rate** fell to a recent low of 70.2 per cent in the three months to March 2010. It has since modestly fluctuated, and stood at 70.5 per cent in the three months to July 2011. This is still 2.5 percentage points below the UK employment rate observed in the three months to May 2008, and at least 2 percentage points lower than the UK employment rate observed at any time between December 2000 and September 2008. This is a substantial reduction.
- 3.15 As noted by Gregg and Wadsworth (2010), the UK employment rate throughout the most recent recession remained higher than might have been expected based on the experience of previous recessions in the UK. The authors cited a combination of high levels of firm profitability prior to the recession, supportive monetary and fiscal policies, and reductions in real producer wages (that is, the real-term reduction in wage costs faced by employers) as the main reasons for this smaller impact of the recession on the UK employment rate. The data on real growth in average weekly earnings presented earlier offer support to this view.
- 3.16 The Office for Budget Responsibility (OBR) forecasted in March 2011 that there will be little change in the level of employment between 2010 and 2011, but that it will increase steadily from 2012 in response to projected above-trend output growth rates (Office for Budget Responsibility, 2011).

Figure 3.3: UK working-age employment rate, July 1990 to July 2011



Notes: Seasonally adjusted. The employment rates are those calculated in the three months to the date shown. The employment rate is calculated from the Labour Force Survey (LFS) and is given by the number of individuals aged 16 to 64 who did at least one hour's paid work in the week prior to their LFS interview, or who have a job that they are temporarily away from, as a proportion of the working age population.  
Source: Office for National Statistics (2011e).

3.17 The **unemployment rate** (as defined by the ILO) and the **claimant count rate** (measuring claimants of Job Seeker's Allowance) reached respective recent highs of 8.0 per cent in the three months to March 2010 and 5.0 per cent in January 2010, as shown in Figure 3.4. Both the unemployment rate and the claimant count rate have remained reasonably stable since early 2010 and are still considerably higher than their levels immediately prior to the most recent recession, and very close to their recent peak levels: the unemployment rate was 7.9 per cent in the three

months to July 2011 and the claimant count rate stood at 4.9 per cent in August 2011. As we discussed in the previous section of this chapter, historical trends suggest that the current growth rate of real GDP is too low to stimulate a reduction in the unemployment rate.

3.18 Both the unemployment rate and the claimant count rate are expected to peak in 2011 before starting to decline thereafter (Office for Budget Responsibility, 2011; HM Treasury, 2011). Office for Budget Responsibility (2011) forecasts that the

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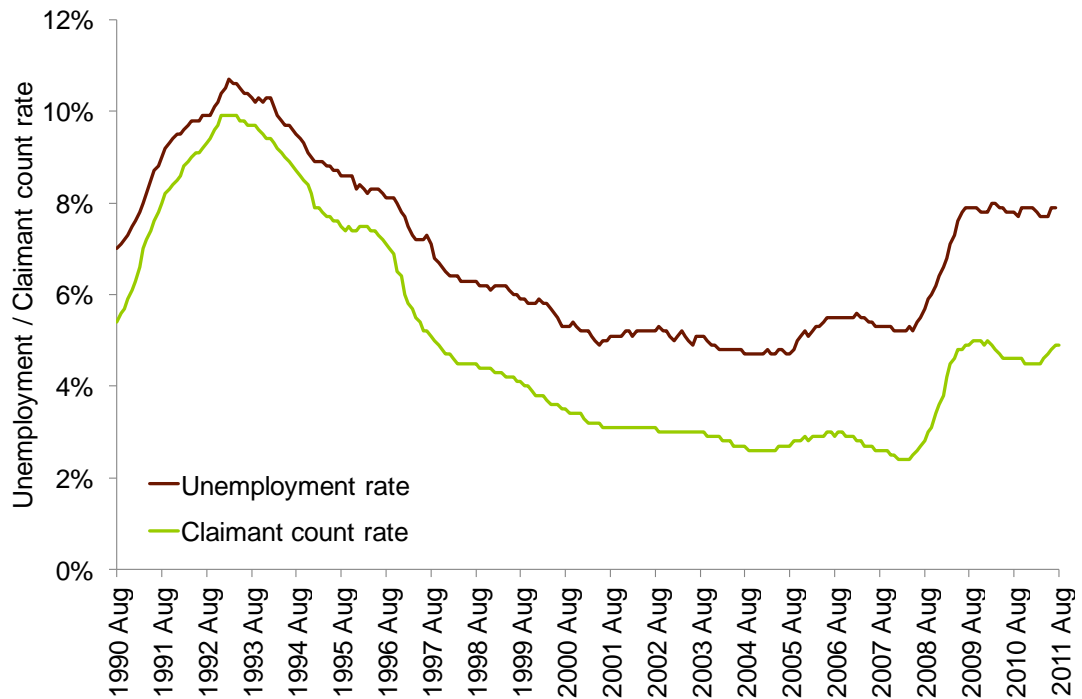
unemployment rate will fall back to 6.4 per cent by 2015, a higher rate than observed in the years immediately prior to the recession.

3.19 The UK Commission for Employment and Skills (UKCES) has commissioned an update of the Working Futures projections last published in 2008. This update looks forward over the decade to 2020. This work is nearing completion and will be published shortly (UK Commission for Employment and Skills, 2011). It suggests that the prospects for a rapid decline in unemployment from the current high levels are

limited and that the main risks around the forecast (especially those associated with the continuing sovereign debt crisis) are negative. Both the claimant and ILO measures of the unemployment rate are expected to peak in 2011 and then come down slowly.

3.20 This suggests that the UK labour market is not likely to see a significant improvement in the short to medium term as far as overall unemployment rates are concerned. The full results of the latest Working Futures will be made available via the UKCES website before the end of 2011.

**Figure 3.4: UK unemployment rate, August 1990 to July 2011 and claimant count rate, August 1990 to August 2011**



Notes: Seasonally adjusted. The claimant count consists of all people between the ages of 18 and state pension age claiming Jobseeker's Allowance at Jobcentre Plus local offices. They must declare that they are out of work, capable of, available for and actively seeking work during the week in which their claim is made. The claimant count rate is the number of claimants expressed as a percentage of the sum of claimants and workforce jobs (mid-year estimates are used). The unemployment rates are those calculated in the three months to the date shown, while the claimant count is calculated for each month. The definition of unemployment is internationally agreed and recommended by the International Labour Organisation. Individuals are defined as unemployed if they are aged 16 and above and are without a job, want a job, have actively sought work in the last four weeks and are available to start work in the next two weeks; or are out of work, have found a job and are waiting to start it in the next two weeks. The unemployment rate is calculated from the Labour Force Survey and is given by the proportion of the economically active population (those who are in employment or unemployment) who are unemployed. Source: Office for National Statistics (2011e).

## A2 labour market restrictions

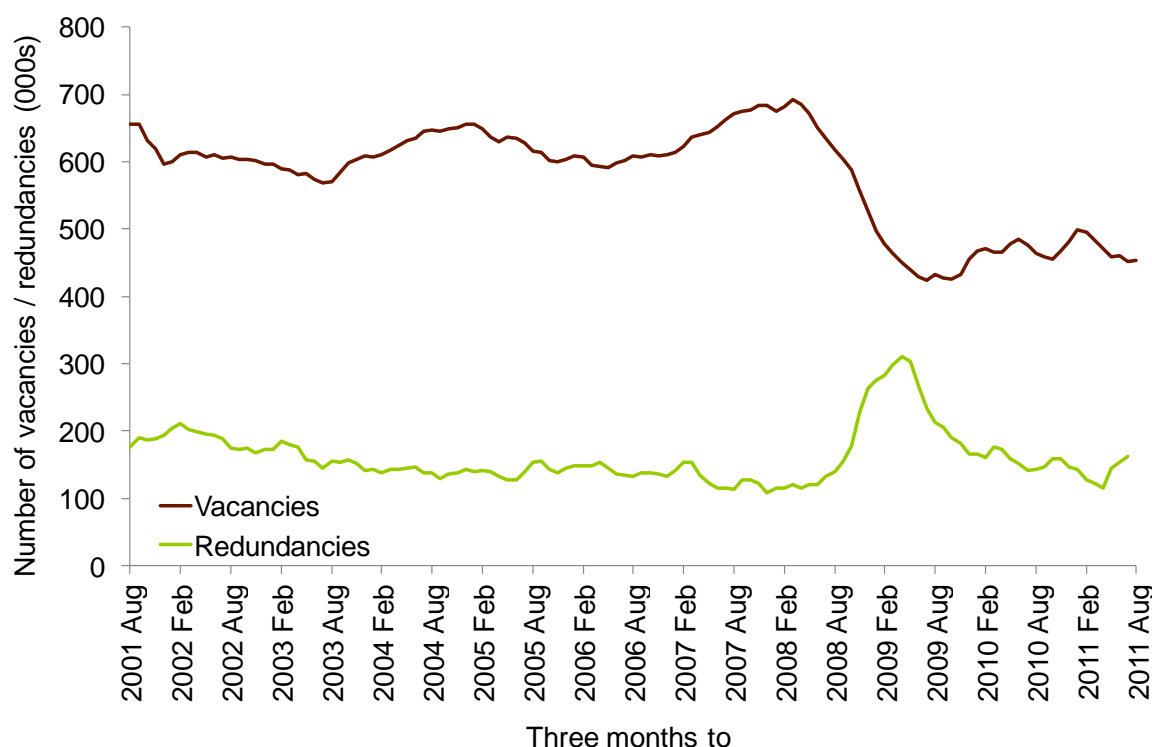
*“It is clear that conditions within the UK labour market have deteriorated since the last review [of the labour market restrictions on A2 nationals]; most recently demonstrated by the overall unemployment rate of 7.9 per cent. Of particular relevance to this year’s review must be the youth unemployment rate [20.8 per cent in 2011 Q2], given the predicted make-up and jobs taken by future migrants from the A2 nations. Although job creation in the private sector has continued to date, losses in the public sector will weaken the labour market in 2012.”*

CBI evidence to the MAC review

- 3.21 Figure 3.5 shows that, according to the ONS Vacancy Survey, there were 453,000 **vacancies** in the three months to August 2011. The number of vacancies appears to have broadly
- stabilised since the recession: total job vacancies fell from a peak of 692,000 in the three months to March 2008 to a low of 424,000 in the three months to July 2009. However, the number of vacancies remains substantially below the level observed before the recession.
- 3.22 Redundancies typically peak in the midst of a recession. As shown in Figure 3.5, the number of redundancies peaked at 310,000 in the three months to April 2009, up from a recent low of 109,000 in the three months to December 2007. Redundancy levels have since declined to 162,000 in the three months to July 2011.



**Figure 3.5: Total vacancies, August 2001 to July 2011 and total redundancies, August 2001 to August 2011**



Notes: Seasonally adjusted. Total redundancies are estimated from the Labour Force Survey and describe the number of people who had been made redundant or had taken voluntary redundancy in the month of the survey or in the two calendar months prior to this. Total vacancies are estimated from the monthly Vacancy Survey, which asks employers how many vacancies they have in total for which they are actively seeking recruits from outside their organisation, for example by advertising or interviewing. Vacancies do not include those in agriculture, forestry and fishing, and are for the three months to the date shown.

Source: Office for National Statistics (2011e).

3.23 Although the number of **redundancies** has fallen considerably over the past two years, this variable remains vulnerable to the effects of the recent recession. As discussed in the Chartered Institute for Personnel and Development's (CIPD) *Labour Market Outlook* for Spring 2011, while the private sector was beginning to generate new jobs, this was being at least partly offset by the weak employment prospects in the public sector and the planned future public sector job losses caused by reductions in

government spending. The CIPD concluded that while the overall labour market outlook *"appears to show a modest pick-up in the second quarter of 2011...near-term and medium-term employment prospects remain uncertain and subdued compared with pre-recession levels."* (Chartered Institute for Personnel and Development, 2011a).

3.24 In the Summer 2011 *Labour Market Outlook* (Chartered Institute for Personnel and Development, 2011b) the CIPD warned that the jobs

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market may weaken over the next 12 months, and this may even lead to a fall in employment levels over the next four quarters. The long-term outlook for employment levels is likely to be affected by ongoing uncertainty about the prospects for economic growth, both in the UK and internationally.

### The global macro-economy and labour market

- 3.25 So far in this section we have focussed on the impact of the most recent recession on the UK. Jenkins *et al.* (2011) found that the decline in UK real GDP during the most recent recession lies somewhere in the middle of global experience: economies such as Ireland and Japan experienced sharper falls, whereas the impact was smaller in countries such as Canada and Australia. The decline in the UK employment rate was also in the middle of the range: the employment rate in Germany actually rose during the recession, and did not change considerably in France, whereas the fall in the employment rate in the US was larger than in the UK.
- 3.26 International Monetary Fund (2011) warned that the global economy is entering a 'dangerous new phase' of considerably lower economic growth, citing reasons such as falling consumer confidence, financial turbulence in the eurozone, and natural disasters such as the recent earthquake and tsunami in

Japan. The study projected that global growth will fall from over 5 per cent in 2010 to 4 per cent in 2012 and that real GDP in advanced economies (including the UK) will grow at an 'anaemic' pace in the near future: 1.6 per cent in 2011 and 1.9 per cent in 2012.

### 3.3 The causes and definition of a 'serious labour market disturbance'

- 3.27 In Migration Advisory Committee (2009c) we said that a labour market disturbance, occurring in the labour market as a whole or in a particular sector, occupation or locality, could be caused by:
- chronic structural problems in the macro-economy or labour market;
  - a shock in the macro-economic environment, resulting in changes in demand; or
  - a shock to labour supply.
- 3.28 There is no universally accepted definition of what constitutes a 'serious disturbance to the labour market'. It is therefore necessary to explore what might be considered to be the main characteristics of such a disturbance.
- 3.29 In Migration Advisory Committee (2009c) we said that significant changes in labour market indicators, such as employment, unemployment, vacancies and

- redundancies, would be expected if the UK labour market were disturbed. It would then be necessary to consider the economic and labour market context to these changes, as well as to employ sensible and considered judgement, to determine whether the observed disturbance is 'serious'.
- 3.30 In that report we defined a 'serious disturbance' in the labour market in terms of rapid adverse changes in leading labour market indicators, including employment, unemployment, vacancies and redundancies. We concluded that "the UK labour market is currently suffering what might reasonably be described as serious disturbance as a result of the macro-economic downturn. Recent data indicate sharp and sudden increases in unemployment and redundancies and falling vacancy levels and employment rate" (Migration Advisory Committee, 2009c).
- 3.31 At the time of writing this report the UK is technically out of recession, and leading labour market indicators, such as those listed above, are no longer experiencing 'rapid adverse changes' from one quarter to the next. However, it is not necessarily the case that these indicators must have recently experienced rapid adverse changes to infer a seriously disturbed labour market. Instead, in the current context, it is the **adverse levels** of these indicators, particularly when compared to their pre-recession levels, that suggest that the labour market is currently seriously disturbed.
- 3.32 Table 3.1 presents the average values of the main labour market indicators discussed above between 1997 and 2006 and between 2000 and 2007, which could both arguably be considered to best reflect the period prior to the most recent recession. The current performance of the labour market indicators, presented as the average value over the most recent 12 months for which data are available, is also shown in Table 3.1.
- 3.33 The first comparative period considered is January 1997 to December 2006, which covers the period of the most recently completed economic cycle, as identified by HM Treasury (2008). HM Treasury's identification of this period was subsequently supported by National Audit Office (NAO) (2008). HM Treasury's methodology to identify this period as the most recently completed economic cycle is based on a wide range of cyclical indicators, including vacancies and wage and price inflation. The methodology incorporates a consideration of National Statistics and information provided by the Bank of England and employer surveys.
- 3.34 The second pre-recession period considered is January 2000 to December 2007

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inclusive. This was a period of continuous real GDP growth during which many leading labour market indicators, including the employment rate, the unemployment rate, the claimant count rate and vacancy and redundancy levels, remained relatively flat.

basis for comparison with the current performance of the UK labour market. Because it has been agreed by both HM Treasury and the NAO, we are inclined to prefer the former as the most useful for comparison. However, for completeness we present and consider both.

3.35 We believe that either of these periods provides a useful

**Table 3.1: Comparison of average labour market indicators across the following periods: most recent 12 months for which data are available; Jan 1997 to Dec 2006; and Jan 2000 to Dec 2007**

Labour market indicator	Average of the most recent 12 months for which data are available	Average from Jan 1997 to Dec 2006	Average from Jan 2000 to Dec 2007
Employment rate (per cent)	70.6 (y/e Jul 11)	72.3	72.7
Unemployment rate (per cent)	7.8 (y/e Jul 11)	5.5	5.1
Claimant count rate (per cent)	4.6 (y/e Aug 11)	3.5	3.0
Total redundancies (thousands)	144 (y/e Jul 11)	161	155
Total vacancies (thousands)	469 (y/e Aug 11)	614 <sup>(1)</sup> (Jun 01 to Dec 06)	621 <sup>(1)</sup> (Jun 01 to Dec 07)
Growth in real average weekly earnings (based on regular pay) (per cent)	-2.8 (y/e Jul 11)	1.4 <sup>(2)</sup> (Mar 01 to Dec 06)	1.2 <sup>(2)</sup> (Mar 01 to Dec 07)
Growth in real average weekly earnings (based on total pay) (per cent)	-2.7 (y/e Jul 11)	1.6 <sup>(2)</sup> (Mar 01 to Dec 06)	1.5 <sup>(2)</sup> (Mar 01 to Dec 07)

Notes: averages are calculated using monthly data over the period shown.

(1) Data on the level of vacancies in the UK are only available from June 2001, thus the figures presented do not necessarily represent the true average for the whole period indicated in the table.

(2) Data on growth in average weekly earnings are only available from March 2001, thus the figures presented do not necessarily represent the true average for the whole period indicated in the table.

Sources: Office for National Statistics (2011c), (2011d) and (2011e).

3.36 As there is a considerable amount of overlap between them, we would not expect to observe large differences between the averages of labour market indicators that

are calculated over the two pre-recession comparator periods. Table 3.1 confirms this.

3.37 Over the past 12 months the UK **employment rate** has

- been, on average, approximately two percentage points lower than the average employment rate over both of the comparative pre-recession periods, as shown in Table 3.1. Similarly, the average **unemployment rate** over the past 12 months has been more than two percentage points higher than the average unemployment rate over both of the comparative pre-recession periods. The average **claimant count rate** over the previous 12 months has been over one percentage point higher than its average over both of the comparative pre-recession periods.
- 3.38 The average total number of **redundancies** over the past year has been slightly lower than during either of the pre-recession periods. This is because the number of redundancies tends to increase during period of recession, before falling back once positive real GDP growth returns, as shown for the 2008-09 recession in Figure 3.5.
- 3.39 It is not possible to compare the number of **vacancies** over the previous 12 months with its performance over the entirety of either of the two comparator periods because published data on vacancy levels are only available from June 2001. Nevertheless, on the basis of the available data it would appear that current vacancy levels are depressed relative to their levels prior to the recent recession.
- 3.40 There are similar limitations to comparing the performance of the growth in **real average weekly earnings** indicators, as the necessary data are only available from March 2001. Nevertheless, available data suggest that growth in real average weekly earnings (either based on regular or total pay) is depressed relative to its pre-recession level. We consider the significant deterioration of the growth of real average weekly earnings to be a strong indicator of a disturbance to the UK labour market.
- 3.41 Six of the seven labour market indicators presented in Table 3.1 suggest that the UK labour market is currently performing poorly relative to the period prior to the last recession. **We believe it is reasonable to conclude, on the basis of the these indicators and the labour market data discussed above, that the UK labour market is in a state of serious disturbance.** Furthermore, we are mindful of the uncertainty around the future performance of the UK labour market (reflected in the forecasts presented above), particularly when taking into consideration such factors as the ongoing reduction in public sector spending in the UK and the labour market impacts that this is likely to generate, and the recently increased pessimism about global economic growth prospects in the immediate future. This uncertainty further supports our view that the UK

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labour market is seriously disturbed at the present time and looks set to remain disturbed in the near future.

- 3.42 In conclusion, our short answer to the first part of the question that we were asked to consider by the Government, namely *“Is there a disturbance, or threat of such a disturbance, to the UK labour market?”*, is yes. Specifically, there is an actual

current disturbance rather than simply a threat of future disturbance. In the next chapter of this report we consider the second part of the question that we have been asked: *“Would maintaining the existing restrictions on Bulgarian and Romanian nationals’ access to the labour market assist in addressing any such disturbance or threat?”*

### 4.1 Introduction

- 4.1 This chapter considers whether maintaining the existing restrictions on Bulgarian and Romanian nationals' (A2 nationals) access to the UK labour market would assist in addressing the serious labour market disturbance that we believe the UK is currently experiencing. This addresses the second part of the question that we have been asked by the Government. The focus of this chapter is on those issues that are relevant to potential future flows of A2 nationals into the UK labour market and the potential impacts of those flows.
- 4.2 For the purposes of this report we assume that maintaining the current labour market restrictions is one of two options under consideration: alternatively, the current restrictions on A2 nationals' access to the UK labour market could be removed. It is necessary, therefore, to consider the possible impact on the UK labour market of both of these options.
- 4.3 We begin by discussing the relevant academic literature

on the drivers, and economic and labour market impacts, of economic migration. Next we discuss conditions in the Bulgarian and Romanian labour markets to consider whether economic factors may drive nationals of these countries to migrate to the UK. We then examine the characteristics of those A2 nationals already resident in the UK to aid our consideration of the possible labour market impact of maintaining (or removing) the current restrictions on A2 nationals' access to the UK labour market. As an alternative potential proxy of this impact, at points during this chapter we also consider briefly the experience of migration from the 'A8' countries to the UK since these countries' accession to the European Union (EU) in 2004.

### 4.2 The drivers and impacts of economic migration

- 4.4 In this section we briefly consider the existing evidence and academic literature in relation to:
- the drivers of economic migration;

## A2 labour market restrictions

- the labour market impacts of migration; and
- the economic impacts of migration.

4.5 We have discussed this evidence in some of our previous reports, such as Migration Advisory Committee (2008), Migration Advisory Committee (2009c) and Migration Advisory Committee (2010), and we do not repeat all of this discussion here. Instead we aim to draw out and summarise the key points.

### The drivers of economic migration

4.6 The drivers of migration are those factors which influence the decisions made by individuals and households regarding 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, such as between Bulgaria or Romania and the UK.

4.7 It may be possible to use the evidence on the drivers of migration for forecasting purposes: if we understand what drives migration, and those drivers themselves can be predicted, then in principle it is possible to forecast immigrant flows. In practice, however, the evidence is often equivocal and it is always specific, to some degree, to a particular time and place. As a consequence, it is difficult to

use evidence on the drivers of migration to accurately predict flows from the A2 countries to the UK under different policy scenarios. Nevertheless, it may indicate potential broad trends.

4.8 Two key drivers of migration decisions are the labour market performance and the migration policies of potential destination countries. In the case of emigration from Bulgaria and Romania, whether and to what extent other European Union (EU) countries lift their restrictions on workers from these countries will be a key driver of likely flows to the UK. We discussed the current restrictions in other EU countries in Chapter 2.

4.9 One recent study on the drivers of international migration to and from the UK found that the UK's stance on migration policy relative to that of other destination countries (measured as net immigration to the UK relative to net immigration to other destination countries) was an important determinant of immigration into the UK from, among others, the A8 and Latin American countries (Mitchell and Riley, 2011). The study found that a more lax immigration policy in the UK relative to other potential destination countries was associated with an increased rate of immigration into the UK from the countries mentioned.

4.10 We would also expect economic migration to be



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influenced by factors that relate to anticipated economic prosperity and labour market success (for the main migrant and their dependants) in the destination country, relative to the source country. Relevant factors may 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.

4.11 Blanchflower *et al.* (2007), which looked specifically at the impact of A8 migration on the UK, found that the propensity to migrate to the UK was negatively correlated with the per capita Gross Domestic Product (GDP) in the source country. The difference in GDP between the A2 countries and the UK may thus be a considerable pull factor. We consider this issue later.

4.12 There are also other, non-economic, factors that will influence migration decisions. Family networks, historical links between countries, cultural similarities, and the presence of established migrant communities may have an impact, as may geographical proximity and

the associated financial and non-financial costs of moving between countries.

4.13 In Migration Advisory Committee (2008) we set out some of the existing theories, economic or otherwise, on the drivers of migration. These theories include:

- neoclassical microeconomic theory, which emphasises the individual migration decision within a cost-benefit framework (Hicks, 1932; Sjaastad 1962; Harris and Todaro 1970);
- neoclassical macroeconomic 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 and Berger, 1980);
- family decision making, which moves the focus away from the individual and towards family strategies and opportunities (Stark, 1991);

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- systems theory, which emphasizes the interaction between societies and links between economic, political, cultural and military factors (Chase-Dunn *et al.*, 1994); and
  - the application of network theory to the issue of migration. 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).
- 4.14 In Migration Advisory Committee (2008) we also discussed Mitchell and Pain (2003), which developed an econometric model of the economic and demographic drivers of annual immigrant inflows into the UK from various source countries. To do so, Mitchell and Pain (2003) compared the average level of International Passenger Survey (IPS) migration between 1988-90 and 1998-2000 and found that average annual inflows during the latter period were 83,400 (or 30 per cent) higher per annum. Their study found that the following variables were indicators of legal flows of immigrants intending to stay in the UK for over 12 months in the periods 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;
  - bilateral trade;
  - UK unemployment; and
  - the existing stock of migrants in the UK.
- 4.15 The findings of international studies also support the theory that the existing stock of a migrant population in a destination country increases the propensity of further flows of their compatriots to emigrate to that country (Pederson *et al.*, 2004). The literature suggests that this network effect can also improve the labour market outcomes of immigrants to a country: Munshi (2003) found that Mexican migrants working in the United States with access to larger networks were more likely to be in employment and hold more highly paid jobs soon after their arrival.
- 4.16 None of the literature discussed above relates directly to the decision of Bulgarian and Romanian nationals to migrate to the UK. One recent study, however, found that the high economic status associated with living and working in the UK has become a significant pull factor for recent waves of

Bulgarian migrants (Maeva, 2010). This study cited the finding of Markova and Black (2008) that Bulgarian migrants tend to work in occupations in the UK that are significantly less skilled than the occupations in which they were employed in Bulgaria. Maeva (2011) found that the UK has only recently become a popular migration destination for Bulgarian nationals, and that this growing popularity can be attributed to factors such as the high standard of living in the UK and the positive experience of other Bulgarians in the UK. In particular, the author cited the recent flows of Bulgarian students to and from the UK as potential explanation in the growing interest in the UK as a migration destination.

- 4.17 While studies such as Mitchell and Pain (2003) identify factors that may be positively correlated with an individual's decision to migrate to a destination country, the relative importance of these factors is likely to vary according to time and place. For example, although the current UK unemployment rate, when compared to its pre-recession levels, may be considered a deterrent to potential Bulgarian and Romanian immigrants to the UK, this may be more than offset by the increased attractiveness of the UK as a migration destination that may be caused by a strengthening of the Bulgarian or Romanian

communities in the UK over the same period.

- 4.18 A further limitation is that there is relatively little evidence that allows the potential composition of future migration flows to be reliably inferred. Consider, for instance, the case of an across-the-board increase in the prospective migrants' incomes in the A2 countries. While this may raise the ability and propensity of low-income individuals to emigrate, it may simultaneously persuade those prospective migrants already on a relatively high income to remain in their country of nationality.
- 4.19 Despite these limitations, on the basis of the available literature it would appear that a range of factors could influence the decision to migrate to the UK from either Bulgaria or Romania. These include: labour market and wider economic conditions in the UK and Bulgaria and Romania; differences in wage levels and purchasing power between the UK and Bulgaria and Romania; the pre-existence of Bulgarian or Romanian migrant communities in the UK; labour demand in the UK; and the level of access to labour markets other than the UK. We consider some of these factors in the next sections of this chapter.

### Labour market impacts of migration

- 4.20 We discussed the existing literature on the labour market

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- impacts of migration in detail when we were asked to consider the limits on Tiers 1 and 2 of the Points Based System (PBS) for 2011/12 (Migration Advisory Committee, 2010). It is difficult to identify the impact of migration on the UK labour market in the absence of a counterfactual (what would have happened if the migration had not occurred). Nevertheless, many studies have attempted to isolate this impact of migration by comparing groups or localities that have been affected by migration with otherwise similar groups or localities that have not.
- 4.21 The available empirical evidence suggests that migration has little effect on **average wages**. Some studies have found no statistically significant effect of migration on non-migrant wages (e.g. Dustmann *et al.*, 2005), some have found that, overall, migration led to a slight increase in average wages (e.g. Dustmann *et al.*, 2008), while others have reported a negative impact on wages (e.g. Reed and Latorre, 2009).
- 4.22 The academic literature provides mixed conclusions regarding whether the wage impacts of migration vary across the wage distribution. Lemos and Portes (2008), which considered the impact on the UK labour market of the accession of the A8 countries to the EU in 2004, did not find the impact of migration to be statistically significant “*either on average or at any point on the wage distribution*”. On the other hand, Dustmann *et al.* (2008) found that such impacts vary across the wage distribution, reporting a negative impact on the wages of natives at the bottom end of the wage distribution, and a positive impact on wages at the top end of the distribution. As we said above, Dustmann *et al.* found the overall impact of migration on wages to be slightly positive.
- 4.23 Separate studies have also examined the impact of migration on wages within occupations. Nickell and Salaheen (2008) found that a 10 percentage point increase in the migrant share of an occupational workforce reduces average wages by 0.4 per cent. This impact of migration is estimated to be larger for some occupational groups, in particular the unskilled and semi-skilled service sector: here, a 10 percentage point increase in the migrant share is estimated to reduce average wages by approximately 5 per cent.
- 4.24 The variation in the impact of migration across the wage distribution and occupations suggests that migrants and non-migrants are not always perfect substitutes. Furthermore, the findings of Dustmann *et al.* (2008) suggests that substitutability between migrant and non-migrant labour is lower in more highly skilled jobs at the

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- top end of the wage distribution. On average, certain types of new immigrant flows are more likely to be substitutes for the existing stock of migrants in the UK than for non-migrants because migrants are disproportionately concentrated at the bottom end of the wage distribution.
- 4.25 This increased substitutability of new and existing migrants was tested by Manacorda *et al.* (2006). The results of this study suggest that new migration depresses the earnings of migrants relative to the native-born population, such that a 10 per cent rise in the migrant share leads to a 2 per cent rise in the wage differential between natives and migrants.
- 4.26 Many empirical studies find no statistically significant impact of migration on the **employment levels** of non-migrant workers (see, for example, Dustmann *et al.* (2005); and Lemos and Portes, 2008)). Jean and Jimenez (2007) found that an increased share of migrants in the labour force may lead to higher unemployment among non-migrant workers in the first five to ten years, but they too found no significant impact in the long term.
- 4.27 All such studies are, to differing extents, constrained by the ability to isolate the specific impact of migration in the available datasets. Furthermore they are, once again, specific to a particular
- time and place and typically only allow for a modest degree of disaggregation. In Migration Advisory Committee (2010 and 2009b) we discussed anecdotal evidence that migrant workers may displace non-migrants in some circumstances and in some sectors. Such eventualities will be of interest to policymakers yet they do not necessarily contradict findings showing that, at the whole-economy level, migrants do not have a significant impact on employment levels or rates of UK workers.
- 4.28 An important consideration, given the conclusions drawn in Chapter 3 of this report, is how migrant employment rates are affected by times of economic downturn. Dustmann *et al.* (2006) provided some empirical support to the hypothesis that migrant employment rates are disproportionately affected by recession compared to non-migrant employment rates, finding that migrant employment rates in the UK and Germany vary more than those of non-migrants through the economic cycle. However, there is some evidence that this was not the case during the most recent recession, where the unemployment rates of migrants and the UK-born population rose together and by similar amounts (Wadsworth, 2010).
- 4.29 The effect of migration on the employment rate of natives at different stages of the

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economic cycle is considered by Peri (2010). This study found that there is no significant impact of migration on the employment rate of natives while the economy is growing. This is found to be the case even in the short run and even for less-educated native workers. However, the study found that, during economic downturns, new immigrants have a small negative short-run impact on the employment rate of natives. Immigration is found to have no impact in the long run.

### Economic impacts of migration

4.30 Academic studies into the economic impacts of migration have tended to focus on the impacts on: GDP; GDP per capita; productivity; prices; remittances (income leaving the UK economy); investment and trade; and fiscal effects (net contribution to public finances). We discussed these impacts of migration in detail when we were asked to take them into account as part of our consideration of the limits to Tiers 1 and 2 of the PBS for 2011/12 (Migration Advisory Committee, 2010). This section provides a brief review of this material.

4.31 By increasing the size of the UK population, positive net migration clearly has a positive impact on UK **GDP**. Riley and Weale (2006) estimated that migration accounted for 0.9 percentage points, or 17 per cent, of the total growth in UK GDP of 5.3

per cent between 2003 and 2005. However, this does not tell us about the impact on individuals' economic prosperity or standards of living, so the use of GDP as a measure of the economic impact of migration is limited, or even potentially misleading (House of Lords, 2008).

4.32 **GDP per capita** (per head) is a more useful measure, as it takes into account the change in population size. Migration can have a positive effect on UK GDP per capita by changing one or more of its key determinants:

- By boosting the **employment rate**.
- By boosting **productivity**, through complementing existing residents' skills and capital, and through increasing the overall skills available and providing spillover benefits to the economy.
- By boosting trade and inward investment.
- By boosting other components of **trend economic growth** relative to the change in population size that occurs as a result of the migrant inflow.

4.33 The impact of migration on the employment rate will depend on the extent to which migration workers are complements or substitutes for the existing domestic workforce. As we discussed earlier in this section, the

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- available evidence suggests that migrant and non-migrant labour are less likely to be substitutes at higher levels of skill. Thus we might expect skilled migration to increase the UK employment rate and, with it, GDP per capita.
- 4.34 There is evidence from both the United States and Europe that migration, particularly skilled migration, does increase average productivity levels (Peri, 2010; Huber *et al.*, 2010; Hunt and Gauthier-Loiselle, 2008). Similarly, there is evidence that migration boosts levels of trade across countries, either through migrants' own innovation or through the innovation of the business and personal networks they generate (Neumark and Mazzolari, 2009).
- 4.35 The practical implications of the endogenous growth literature (see, for example, Aghion and Howitt, 1997), which indicates that there may be long-term benefits of migration in terms of human capital spillovers that promote increased productivity and per capita GDP growth, will depend on the skill level of migrants. Again, we would expect the skill level of the migrant inflow to be positively correlated with the benefit to the UK non-migrant population, and consequently to UK per capita GDP growth.
- 4.36 A key consideration for this review, therefore, is the skill profile of those Bulgarian and Romanian nationals who might migrate to the UK if the current labour market restrictions were not maintained. We consider this issue later in this chapter.
- 4.37 Migration can also have an impact on the **prices of goods and services** in the UK. This impact operates through two opposing channels. First, migrant inflows increase the UK labour supply, thus raising potential UK output. Second, migrant inflows increase the demand for UK goods and services.
- 4.38 It is the relative size of these changes in aggregate supply and aggregate demand that determine the net effect of migration on prices of goods and services. The limited evidence available suggests that, on balance, migration has reduced inflationary pressures in the UK (see Frattini, 2008). Blanchflower *et al.* (2007), which focussed in particular on the impact of immigration from the A8 countries, noted that the extent of the inflationary impact depends on the economic characteristics of the migrant cohort relative to the non-migrant workforce: the higher the migrants' productivity relative to the non-migrant workforce, the more the migrant cohort raises the potential supply of the UK economy.
- 4.39 The impact of migration on the UK economy will depend on the proportion of migrants' income that is sent back to their home country in the form

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of **remittances**: the higher the proportion of migrants' income that is spent in the UK, the greater the contribution to UK GDP. Studies suggest that remittances are likely to be higher if migrants retain strong family links in their home country, if price and wage levels in their destination country are high relative to prices and wages in their home country, or if migrants view their relocation as temporary (Merkle and Zimmerman, 1992).

4.40 Migrants' **net fiscal impact** (that is, their contribution to government tax receipts less the value of the public services, including welfare payments, that they consume) depends greatly on their individual characteristics. As migrants often spend the very early and very late periods of their lives outside of the UK, and reside in the UK only whilst of working age, several studies have found evidence in support of migrants making a positive net fiscal contribution to the UK (Gott and Johnston, 2002; Sriskandarajah *et al.*, 2005). Dustmann *et al.* (2009) estimated that, on average, A8 migrants to the UK made a positive net fiscal contribution in each fiscal year from 2005/06 to 2008/09. Of course, migrants' net fiscal contribution will also be highly correlated with their earnings, and thus with their skill level and qualifications: all else equal, we would expect that, on average, highly skilled, high-earning migrants will

make a greater net fiscal contribution than those with low earnings and low levels of skill.

4.41 None of the academic literature discussed so far in this section has considered the specific economic and labour market impact of Bulgarian and Romanian nationals in the UK. One recent paper, Fic *et al.* (2011), looked at flows of Bulgarian and Romanian nationals to the so-called 'EU15' countries (defined in Chapter 2), which includes the UK, between 2004 and 2009. This period covers the first two years following Bulgaria and Romania's accession to the EU. Using an econometric model that specifies the labour market in each destination country in terms of a wage equation and a labour demand equation, Fic *et al.* (2011) assessed the short- and long-term macroeconomic impact of migration from Bulgaria and Romania.

4.42 Taking into account the fact that migrant flows from Bulgaria and Romania were predominantly of working age, Fic *et al.* (2011) estimated that, in the long run, UK per capita GDP would increase by 0.04 per cent as a result of immigration from these countries between 2004 and 2009. The long-term impact on the UK unemployment rate was estimated to be very small, a decrease of 0.01 percentage points. The paper also estimated a reduction in real wages in the UK of 0.05



per cent in the long term as a result of immigration from Bulgaria and Romania over the same period. There is some uncertainty around these estimated long-term impacts because they are based on the assumption that all migration flows over the period were permanent. In reality, as we discuss elsewhere in this chapter, this is unlikely to be the case.

### 4.3 Economic, labour market and migration context in Bulgaria and Romania

4.43 This section summarises the current economic and labour market situation in Bulgaria and Romania. It also considers migration flows from these two countries to the UK and the characteristics of the stock of Bulgarian and Romanian nationals in the UK.

#### Economic, labour market and migration context in Bulgaria

4.44 Bulgaria's GDP fell by 5.5 per cent between 2008 and 2009, followed by growth of 0.2 per cent in 2010 (Eurostat, 2011a). Forecasts provided by Eurostat (2011a) suggest that Bulgarian GDP is forecast to grow by 2.8 per cent in 2011 and 3.7 per cent in 2012. However, it is possible that these forecasts will be revised downward as a result of the economic and financial crises that are being experienced at the time of writing this report.

4.45 GDP per capita in Bulgaria was estimated to be US\$6,325 (US dollars) in

2010 (World Bank, 2011). For the same period, UK GDP per capita was US\$36,100.

Expressed in Purchasing Power Standards (PPS), which adjust for differences in price levels across countries to enable meaningful comparison of price data, in 2010 Bulgaria had the lowest GDP per capita of all EU27 countries, at only 44 per cent of the EU27 average (Eurostat, 2011b).

Comparatively, UK GDP expressed in PPS was 14 per cent higher than the EU27 average in 2010. A recent study by the Open Society Institute – Sofia (2011a) reported that Bulgaria is the poorest of the 27 EU Member States in terms of GDP per capita adjusted for purchasing power, and that *“the large difference in income between Bulgaria and the old Member States is a powerful engine for the movement of migrants - from Bulgaria to more well-to-do countries.”*

4.46 The unemployment rate in Bulgaria was 11.7 per cent in August 2011. This is a 1.5 percentage point increase on one year previously, and 2.2 percentage points higher than the average unemployment rate of all EU27 countries in August 2011 (Eurostat, 2011c) and higher than the current unemployment rate in the UK.

4.47 Bulgaria is a country of net emigration. Net emigration from Bulgaria has slowed from over 45,000 per annum in the 1990s to around 15,000 in

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- 2009 (National Statistics Institute, 2011). In the context of the economic downturn, migration to and from Bulgaria declined in 2009, and preliminary data suggest that this decline continued in 2010 (Organisation for Economic Co-operation & Development (OECD), 2011). In 2009, 60 per cent of emigrant flows from Bulgaria were women. Furthermore, in 2009, more male Bulgarian migrants returned to Bulgaria than female Bulgarian migrants (OECD, 2011).
- 4.48 Due to this positive net emigration, the Bulgarian Diaspora is large relative to the size of the population of Bulgaria: an estimated 2.5 million Bulgarians are thought to reside abroad (Black *et al.*, 2010), while the population of Bulgaria is currently estimated at 7.5 million (Eurostat, 2011d).
- 4.49 According to OECD (2011) the most popular migration destinations of Bulgarians are Spain and Greece. Recent surveys (Open Society Institute - Sofia, 2011b), on the other hand, found that Germany and Spain were the most popular destinations of Bulgarian emigrants, followed by the UK. A separate survey by the Bulgarian Academy of Science (2011) found the UK to be the most popular destination, followed by Germany and Spain. The findings of this evidence are mixed, but they do suggest that the UK ranks among the
- most popular destinations for Bulgarian migrants.
- 4.50 Spain lifted its labour market restrictions on Bulgarian nationals on 1 January 2009. There is no evidence that this led to increased flows of Bulgarian nationals to Spain: Spanish migration data indicate that approximately 9,700 Bulgarians migrated to Spain in 2009 (OECD, 2011). This is the lowest number since 2000, which is most likely a reaction to the uncertainty caused by the economic downturn experienced in both the host and destination countries at this time.
- 4.51 There is survey evidence that many Bulgarian nationals return to their home country after a short period abroad, but that a majority of these individuals consider it highly likely that they will emigrate again, and not necessarily to the same destination country (Minchev and Boshnakov, 2007).

### **Economic, labour market and migration context in Romania**

- 4.52 Romania's GDP fell by 6.6 per cent during 2009 and by 1.9 per cent during 2010. However, the Romanian economy is expected to strengthen in future years, with forecasted GDP growth of 1.5 per cent and 3.7 per cent respectively in 2011 and 2012 (Eurostat, 2011a). As with the forecasts for Bulgarian GDP growth, it is possible that these forecasts will be revised downwards.

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- 4.53 Per capita GDP in Romania was estimated to be US\$7,538 in 2010, compared to US\$36,100 in the UK for the same year (World Bank, 2011). Expressed in PPS terms, Romania's GDP per capita in 2010 was the second lowest of all EU27 countries (at only 45 per cent of the EU27 average). As we discussed above, Bulgaria had the lowest GDP per capita in PPS terms in 2010, while UK GDP per capita in PPS terms was 14 per cent above the EU27 average (Eurostat, 2011b).
- 4.54 In August 2011 the unemployment rate in Romania was 7.3 per cent, which is unchanged from 12 months before. This is lower than both the average unemployment rate in all EU27 countries and the unemployment rate in the UK in August 2011 (Eurostat, 2011c).
- 4.55 Romania is a country of net emigration (OECD, 2011). Data on the emigration of Romania nationals or people born in Romania is limited, as only a small proportion of actual outflows are captured by official emigration statistics. In 2009, there were approximately 17,000 newly registered Romanian emigrants - an increase of 17 per cent on the previous year - with Canada, Germany and the United States the most popular destinations.
- 4.56 Statistics provided by the destination countries suggest that the level of emigration of Romanian nationals is in fact much higher than is reported in Romanian statistics: in 2009, the number of Romanian nationals living in Italy increased by approximately 90,000 to a total of 890,000, while in Spain the corresponding increase was approximately 33,000, to a total of approximately 750,000 (OECD, 2011). The total number of Romanians working abroad in 2009 is estimated to be 3 million, with the largest populations in Italy and Spain. To put this figure into context, Eurostat (2011d) estimates the total population of Romania to be 21.4 million.
- 4.57 Evidence we received from the Romanian Embassy in the UK and Dr. Liliana Harding provided support for Spain and Italy being the preferred migration destinations for Romanian nationals. The Romanian Embassy in the UK told us that approximately 80 per cent of all Romanian nationals who migrate within the EU are thought to migrate to Spain or Italy, but that it is not possible to determine exact levels due to existing data limitations and free movement of Romanians across EU Member States. It was argued that Spain and Italy were the preferred destinations due to cultural, geographical and linguistic similarities. Of course, the fact that these countries have in the past been relatively open to allowing A2 nationals, including those working in low

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skilled occupations, to gain access to their labour markets may also be a possible explanation for this observed preference. We were told that many Romanians who emigrate to Spain and Italy work in construction or as home carers.

4.58 Spain lifted its labour market restrictions on Romanian nationals on 1 January 2009. However, as we discussed in Chapter 2, the European Commission permitted Spain to re-impose labour market restrictions on Romanian nationals from August 2011. In practice, this measure did not affect those Romanian nationals already in employment in Spain, but meant that no further Romanian nationals would be permitted to gain access to the Spanish labour market without the relevant work permit or exemption. The restrictions, which are in place until 31 December 2012, were authorised by the European Commission *“in view of the current economic situation in Spain. The unprecedented fall in GDP (3.9 per cent between 2008 and 2010) has resulted in the highest unemployment rate in the EU, over 20 per cent since May 2010”* (European Commission, 2011).

4.59 Flows of remittances to Romania are estimated to be the largest in the EU: more than €3 billion were remitted by Romanian nationals living abroad in 2009, with approximately two-thirds of

remittances coming from Romanian nationals resident in Italy and Spain (OECD, 2011).

### 4.4 Bulgarian and Romanian nationals in the UK

4.60 In this section we examine evidence on those A2 nationals already resident in the UK. This evidence will help us to consider the possible impact of these future flows on the UK labour market. We consider this evidence in two parts. First, we examine the magnitude of stocks of A2 nationals in the UK and flows to the UK. Second, we consider the characteristics of those A2 nationals already resident in the UK.

4.61 It is important to note that the discussion in this section is based on historical data. The past is not a fully reliable guide to the future, particularly in the context of the potentially significant change to UK labour market policy with respect to A2 nationals being considered in this report.

### Migration of Bulgarian and Romanian nationals to the UK

4.62 Table 4.1 shows the estimated populations of Bulgarian and Romanian nationals in the UK since 2004, as reported by the Annual Population Survey (APS). This table shows that there were approximately 52,000 Bulgarian nationals and 79,000 Romanian nationals resident in the UK in

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2010. These estimates represent a considerable increase in the UK-resident populations compared to the years immediately prior to the accession of Bulgaria and Romania to the EU in 2007. The UK also observed a considerable and steady increase in the stock of A8 immigrants following the accession of these countries to the EU in 2004. We considered stocks and flows of A8 migrants in more detail in Migration Advisory Committee (2008).

4.63 The APS estimated that, in 2010, Bulgarian and

Romanian nationals represented the 35th and 24th largest foreign-born populations resident in the UK respectively. As we set out earlier in this chapter, the population of Romania is approximately three times as large as that of Bulgaria. It is therefore unsurprising that the stock of Romanian-born individuals in the UK is larger than the stock of individuals born in Bulgaria. Relative to the size of the populations of the two A2 countries, however, the proportion of all Bulgarians living in the UK is larger.

**Table 4.1: Estimated Bulgarian and Romanian population resident in the United Kingdom, by country of birth**

Year	Estimated population (000's)	
	Bulgaria	Romania
2004	<14*	14
2005	15	18
2006	<17*	17
2007	<20*	23
2008	33	41
2009	37	56
2010	52	79
Year to July 2011 <sup>(1)</sup>	52	82

Notes: Estimates are based on the Annual Population Survey (APS) which is the Labour Force Survey (LFS) plus various sample boosts. The LFS excludes students in university halls that do not have a UK resident parent and people in most other types of communal establishments (e.g. hotels, boarding houses, hostels, mobile home sites, etc). It is grossed to population estimates of those living in private households that only include migrants staying for 12 months or more.

The Office for National Statistics only publishes estimates of the 60 largest foreign-born populations in the UK. An asterisk (\*) denotes that the Bulgarian-born population in the UK was not one of the 60 largest foreign-born populations. In these instances it is only known that the Bulgarian-born population is smaller than the 60<sup>th</sup> largest foreign-born population estimated in that year. The figure shown is the size of the 60<sup>th</sup> largest foreign-born population in the UK, as recorded by the APS.

(1) This estimate is based on the most recent four quarters of LFS data, from 2010 Q3 to 2011 Q2. It is not an APS estimate and thus does not include the various sample boosts that are used in calculating these APS estimates.

Source: Office for National Statistics (2011f).

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- 4.64 The Romanian Embassy in the UK told us that the UK-resident Romanian population represented only a small proportion of the total number of Romanian nationals living in EU Member States. We were told that a relatively small number of Romanian nationals have chosen the UK as an employment destination but that Romanian students continue to be attracted by the UK's highly ranked universities.
- 4.65 Survey evidence from Bulgaria suggests that Bulgarian nationals are attracted to the UK as a migration destination due to the popularity of the English language and English-speaking culture among younger Bulgarians. The same survey evidence found that the opportunity to increase earnings and the presence of friends and relatives already resident in the UK are also important factors that may explain the growing stock of Bulgarian nationals resident in the UK (Open Society Institute - Sofia, 2011b). We were also told that, like many Romanians, Bulgarian students are attracted to the UK because of the large number of high quality universities.
- 4.66 A survey was conducted on a small sample of Bulgarian nationals resident in the UK at the time of the Bulgarian parliamentary elections in July 2009. The number of respondents to this survey was very small (117) and the survey was conducted outside the Bulgarian Embassy in London, so the findings of the survey are not necessarily representative of all Bulgarian nationals resident in the UK. Approximately three quarters of all respondents to the survey said that they had come to the UK primarily for economic reasons, citing the insufficient earnings in Bulgaria and the lack of prospects in Bulgaria as the main reasons for migrating (Markova, 2011). None of these respondents reported being unemployed before leaving Bulgaria, and some said that they were in fact disappointed by the economic situation that they were experiencing in the UK.
- 4.67 The population estimates set out in Table 4.1 provide a snapshot of the Bulgarian- and Romanian-born populations resident in the UK in a given year; they do not indicate the level of long-term migration to the UK by Bulgarian and Romanian nationals.
- 4.68 The primary source for estimates of long-term migration is the International Passenger Survey (IPS). The IPS defines long-term migrants as those changing their place of residence for one year or more. The IPS is a continuous voluntary sample survey that is conducted at all principal air and sea routes to the UK, as well as at the Channel Tunnel. Due to its limited sample size, the IPS

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- becomes less reliable when disaggregating by specific nationality or over short time periods. Even when combining all Bulgarian and Romanian nationals recorded in the IPS between 2004 and 2009, the resulting migration estimates still have large standard errors, which suggests that they may be unreliable. Consequently, we do not present the IPS data in this report.
- 4.69 Unfortunately there is no single data source that can accurately describe all economic migration flows of A2 nationals to the UK, particularly as entry clearance visas are no longer required following accession. In light of this, and the small sample sizes in the IPS, it is necessary to consider a variety of administrative data sources to build a picture of flows of A2 nationals to the UK.
- 4.70 In Chapter 2 we set out how Bulgarian and Romanian nationals may live and work in the UK. Table 4.2 shows the number of applications for accession worker cards, the Sectors Based Scheme (SBS), the Seasonal Agricultural Workers Scheme (SAWS) and registration certificates approved each year from 2007 to 2010. These data on annual inflows do not correspond to the annual growth in the stock, which we set out in Table 4.1. There are two main reasons for this: first, the data in Table 4.2 correspond to the inflow only, and so they do not take account of the outflow in each year; second, a large proportion of the annual inflow is via temporary migration routes (the SBS and the SAWS). Migrants through these routes may not be picked up in the APS.

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**Table 4.2: Approved applications by A2 nationals for accession worker cards, the Sectors Based Scheme, the Seasonal Agricultural Worker Scheme and registration certificates, 2007 to 2010**

	2007	2008	2009	2010
<b>Approved accession worker cards <sup>(1)</sup></b>	<b>3,797</b>	<b>2,776</b>	<b>2,097</b>	<b>2,592</b>
...of which Bulgarian nationals	1,615	1,507	913	794
...of which Romanian nationals	2,182	1,269	1,184	1,798
<b>Approved Sectors Based Scheme applications <sup>(1)</sup></b>	<b>1,407</b>	<b>1,569</b>	<b>775</b>	<b>601</b>
...of which Bulgarian nationals	1,162	1,381	704	452
...of which Romanian nationals	245	188	71	149
<b>Approved Seasonal Agricultural Workers Scheme applications <sup>(2)</sup></b>	<b>8,058</b>	<b>16,461</b>	<b>20,179</b>	<b>17,150</b>
...of which Bulgarian nationals	5,638	10,833	12,421	9,971
...of which Romanian nationals	2,420	5,628	7,758	7,179
<b>Approved registration certificates <sup>(3)</sup></b>	<b>29,753</b>	<b>19,568</b>	<b>21,479</b>	<b>26,315</b>
...of which Bulgarian nationals	9,163	6,262	6,821	8,030
...of which Romanian nationals	20,590	13,306	14,658	18,285

Notes: (1) Accession worker cards are typically issued to A2 nationals who have been granted a skilled (business and commercial) work permit or permission to enter low-skilled employment in the UK via the Sectors Based Scheme (SBS). They are also issued to A2 nationals entering the UK via smaller employment routes, such as au pairs and domestic workers. Entering the UK via the SBS is a two-stage process: first, the applicant is approved for the SBS; second, the applicant is issued with an accession worker card. Consequently, the number of approved accession worker cards and the number of approved SBS applications should not be treated as separate migration flows, as the number of approved accession worker cards will include most, if not necessarily all, of the approved SBS applicants. However, because there may be some delay between the two stages of this process, and because it may be the case that not all individuals whose application for the SBS is approved will subsequently receive an approved accession worker card, these data are presented separately in this table. (2) Approved applicants to the Seasonal Agricultural Workers Scheme are not issued with an accession worker card or a registration certificate. Therefore, they will not be picked up in any of the other grants or approvals for documentation listed in this table. (3) The approved registration certificates presented here include all blue and yellow registration certificates (but not purple certificates, which are accession worker cards). These numbers therefore include those registering as being students, self-sufficient or self-employed, and those registering as being exempt from work authorisation. Source: Home Office (2011).

4.71 The number of approved accession worker cards shown in Table 4.2 includes those accession worker cards that were issued to A2 nationals entering the UK via the SBS. The number of approved SBS applications is also published separately by the Home Office, and these data are also presented separately in Table 4.2.

Entering the UK via the SBS is a two-stage process: first, the applicant is approved for the SBS; second, the applicant is issued with an accession worker card. Consequently, the number of approved accession worker cards and the number of approved SBS applications should not be treated as separate migration flows, as



## Chapter 4: Analysis of labour market restrictions

- flows via the SBS should also be included in the accession worker card data. However, because there may be some delay between the two stages of this process, and because it may be the case that not all individuals whose application for the SBS is approved will subsequently receive an approved accession worker card, these data are presented separately in Table 4.2.
- 4.72 The data show that the total number of accession worker card approvals was lower in 2010 than in 2007. The number of approved SBS applications has also declined over this period, while the number of approved SAWS applications issued to A2 nationals has more than doubled. In every year since 2007 Bulgarian nationals have made greater use of the SBS and the SAWS than Romanian nationals.
- 4.73 In its discussions with us the Romanian Embassy in the UK said that the SAWS and the SBS are not particularly attractive to many Romanian nationals. Employment with a SAWS operator often involves working outside, and therefore obtaining work on any particular day is often dependent on the weather. We were told that this deters many prospective Romanian migrants from coming to the UK: with no guarantee of constant or even regular work during their time in the UK, many Romanian nationals find that they cannot justify the expense of migrating to the UK. The Romanian Embassy to the UK told us that Romanian nationals were not familiar with, or attracted to, many of the jobs available under the SBS, which may explain the relatively small numbers of Romanian nationals that come to the UK via this route.
- 4.74 As Table 4.2 highlights, the majority of A2 nationals are not issued business and commercial work permits or work authorisation through the SAWS or the SBS. Instead, they apply for, and are subsequently granted, a registration certificate. We discussed the various types of registration certificate in Chapter 2. The registration certificate data shown in Table 4.2 includes those A2 nationals who enter the UK as 'highly skilled' (according to the Highly Skilled Migrant Programme (HSMP) or the Science and Engineering Graduate Scheme (SEGS) in Scotland), students, domestic workers or au pairs, or who register as being self-sufficient or self-employed during their time in the UK. Self-employed workers are not obliged to apply for a registration certificate, therefore Table 4.2 does not pick up the total flow of self-employed A2 nationals that enter the UK in any given year.
- 4.75 Table 4.2 shows that the number of approved registration certificates declined during the period of the economic downturn (2008-

## A2 labour market restrictions

2009) before increasing again in 2010. However, the number of approvals in 2010 was still lower than the level observed in the first 12 months following accession. It also shows that the large majority of registration certificates are issued to Romanian nationals. This suggests that there is a greater number of Romanian nationals than Bulgarian nationals coming to the UK to work who exercise a Treaty right (e.g. by registering as self-employed or self-sufficient during their time in the UK) or who are exempt from labour market restrictions (e.g. by being highly skilled).

as self-employed during their time in the UK will be granted a registration certificate, as there is no obligation for them to apply for one. Furthermore, some registration certificates will be issued to students who may wish to qualify for the right to work in the UK, but who may not actually enter employment. Therefore, to obtain an alternative picture of flows of A2 nationals into employment in the UK it is useful to examine the number of National Insurance Number (NINo) allocations to A2 nationals between 2007 and 2010. These data are set out in Table 4.3.

4.76 As we explained above, not all A2 nationals who register

**Table 4.3: National Insurance Numbers issued to A2 nationals, 2007 to 2010**

	2007	2008	2009	2010
National Insurance Number allocations	31,420	39,330	33,610	31,420
...of which Bulgarian nationals	12,250	15,890	13,540	12,450
...of which Romanian nationals	19,170	23,440	20,070	18,970

Notes: National Insurance Number allocations for each foreign-born population are rounded to the nearest 10.

Source: Department for Work and Pensions (2011).

4.77 A comparison of Tables 4.2 and 4.3 shows that the number of NINos issued to A2 nationals has been lower than the number of approved registration certificates and SAWS, SBS and accession worker card applications in every year of the period considered. This may be explained by the fact that not all A2 nationals who are issued a registration certificate in fact enter employment in the UK (e.g. students).

Alternatively, it is possible that some A2 nationals may enter employment without a NINo (i.e. illegally).

4.78 As Table 4.3 shows, more NINos have been allocated to Romanian nationals than to Bulgarian nationals in each year since 2007. Overall NINo allocations to A2 nationals were highest in 2008, but they fell thereafter and returned to 2007 levels in 2010. This decline in NINo allocations

might be a consequence of the economic downturn, with worsening labour market conditions deterring some A2 nationals from seeking employment in the UK. Nevertheless, data presented earlier in this chapter suggests the stock of A2 nationals in the UK has continued to rise.

- 4.79 As discussed earlier in this section, there is no one data source that allows us to determine the exact number of A2 nationals that are resident in the UK population. The results of the 2011 census will provide a good indication of the stock of A2 nationals resident in the UK, but these results are not available at the time of writing this report. What we can say, based on the available data, is that the number of Bulgarian and Romanian nationals that are resident in the UK has increased considerably since the accession of Bulgaria and Romania to the EU in 2007. However, in absolute terms, these numbers are still quite small, particularly in the context of the size of the UK population as a whole and the size of some other foreign-born populations in the UK.
- 4.80 Likewise, when considering the flow of economic migrants from the A2 countries to the UK, the lack of one all-encompassing data set makes it difficult to determine exact numbers. The picture is further clouded by the fact that A2 nationals may reside freely

in the UK before registering to work, thus making it difficult to attribute work-related visas to migration flows in any particular year. However, on the basis of the available evidence we can conclude, tentatively, that A2 nationals comprise a relatively small, albeit growing, part of the entire UK labour market. Furthermore, a considerable proportion of these economic migrants from the A2 countries are currently employed through the SAWS and the SBS, which are both temporary work-based migration routes. As suggested by the survey evidence discussed in the previous section, it is also likely that at least some A2 nationals who come to the UK via non-temporary routes return to their home countries after a certain time period. In time these individuals may emigrate again, and they may again consider the UK as a possible destination.

### **Characteristics of Bulgarian and Romanian nationals resident in the UK**

- 4.81 In this section we examine the characteristics of those Bulgarian and Romanian nationals already resident in the UK. This may provide a useful proxy for future immigrant flows to the UK from the A2 countries.
- 4.82 The evidence presented in this section is based on the characteristics of those Bulgarian and Romanian nationals recorded in the UK

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Labour Force Survey (LFS). For the purposes of our analysis we considered the characteristics of those A2 nationals recorded in the most recent four quarters of LFS data, from the third quarter of 2010 to the second quarter of 2011. As the sample size of A2 nationals recorded in the UK LFS is relatively small, there is a considerable margin for error when drawing strong conclusions from these data.

4.83 The Department for Communities and Local Government has recently published a study that examined the characteristics of A2 nationals recorded in the LFS from 2004 to 2009 (Kausar, 2011), but in this section we focus on the findings of our own analysis and any relevant evidence that was provided by our partners.

4.84 Table 4.4 compares the age and gender breakdown of Bulgarian-born and Romanian-born nationals resident in the UK to that of all UK residents. It shows that the median age of Bulgarian-born and Romanian-born UK residents (31 and 28 respectively) is lower than the median age of all UK residents (39). UK residents born in Bulgaria and Romania are more likely to be of working age (defined as aged 16-64 for both men and women the purpose of this analysis): 94 per cent of those born in Bulgaria and 91 per cent of those born in Romania are of working age, compared to 65 per cent of all UK residents. The fraction male is also slightly higher than for all UK residents.

**Table 4.4: Age and gender breakdown of all UK residents, those born in Bulgaria, and those born in Romania, 2010 Q3 to 2011 Q2**

	Per cent aged 16-64 <sup>(1)</sup>	Per cent aged 20-34	Per cent female	Stock
All UK residents	65	20	51	61,604,310
...of which Bulgarian-born	94	56	50	52,152
...of which Romanian-born	91	73	45	82,404

Notes: (1) This age range approximates the working-age population. However, as it includes females aged between 61 and 64, it slightly overestimates the working-age population of the groups shown.

Source: Labour Force Survey, 2010 Q3 to 2011 Q2.

4.85 We have also used the LFS to analyse the skill profile of Bulgarian- and Romanian-born participants in the UK labour market. An individual's skill level can be considered in terms of the skill level of the occupation in which he or she is employed, or in terms of the

formal qualifications that he or she possesses. We consider both in this section.

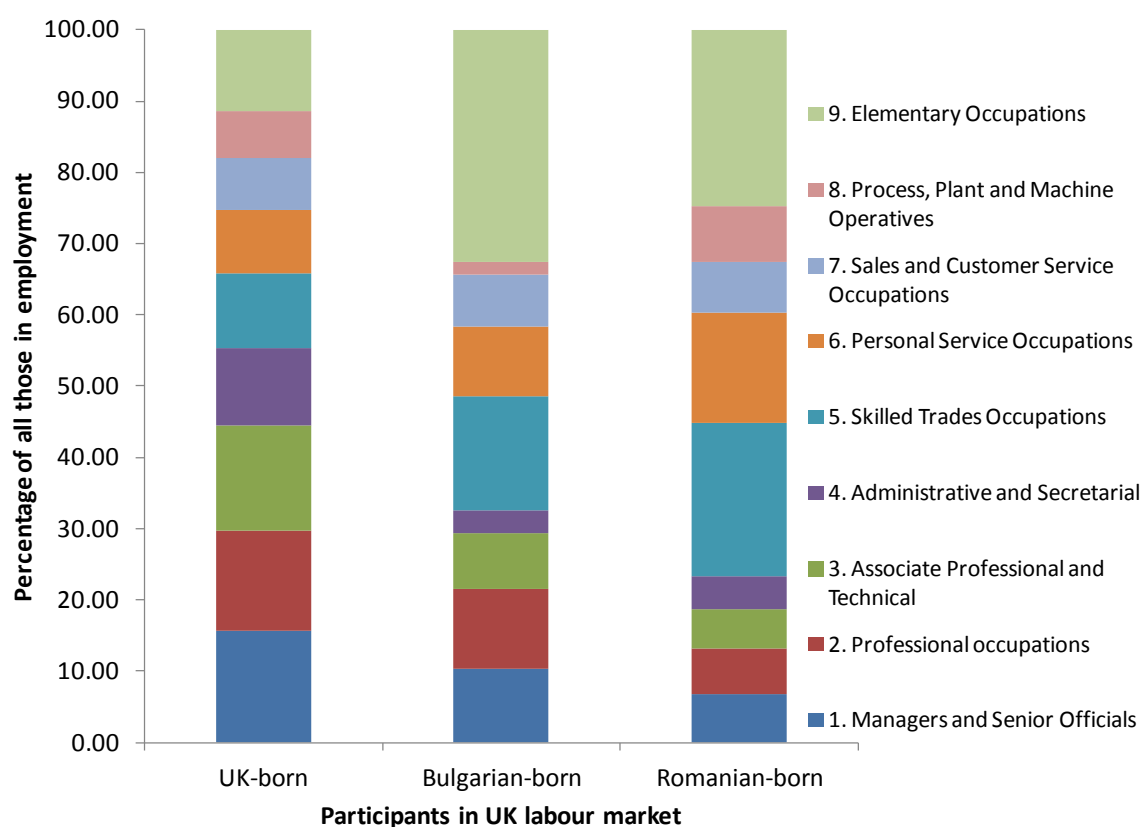
4.86 Figure 4.1 shows the occupational grouping of UK-born, Bulgarian-born and Romanian-born employees grouped at the 1-digit level of

## Chapter 4: Analysis of labour market restrictions

the Standard Occupational Classification (SOC) 2000. Figure 4.1 shows that UK-born workers are more likely to be employed than Bulgarian-born and Romanian-born workers in the first three 1-digit categories of SOC 2000 (managers and senior officials, professional occupations, and associate professional and technical occupations). A2 nationals are disproportionately concentrated in skilled trades

occupations and elementary occupations. Furthermore, a significant proportion of Romanian-born workers, in particular, are employed in personal service occupations. These results can possibly be explained in part by the fact that there are specific migration routes (i.e. the SAWS and the SBS) that are designed to allow low skilled migrants from Bulgaria and Romania to work temporarily in the UK.

**Figure 4.1: Occupational profile of UK-born, Bulgarian-born and Romanian-born respondents to the UK Labour Force Survey, 2010 Q3 to 2011 Q2**

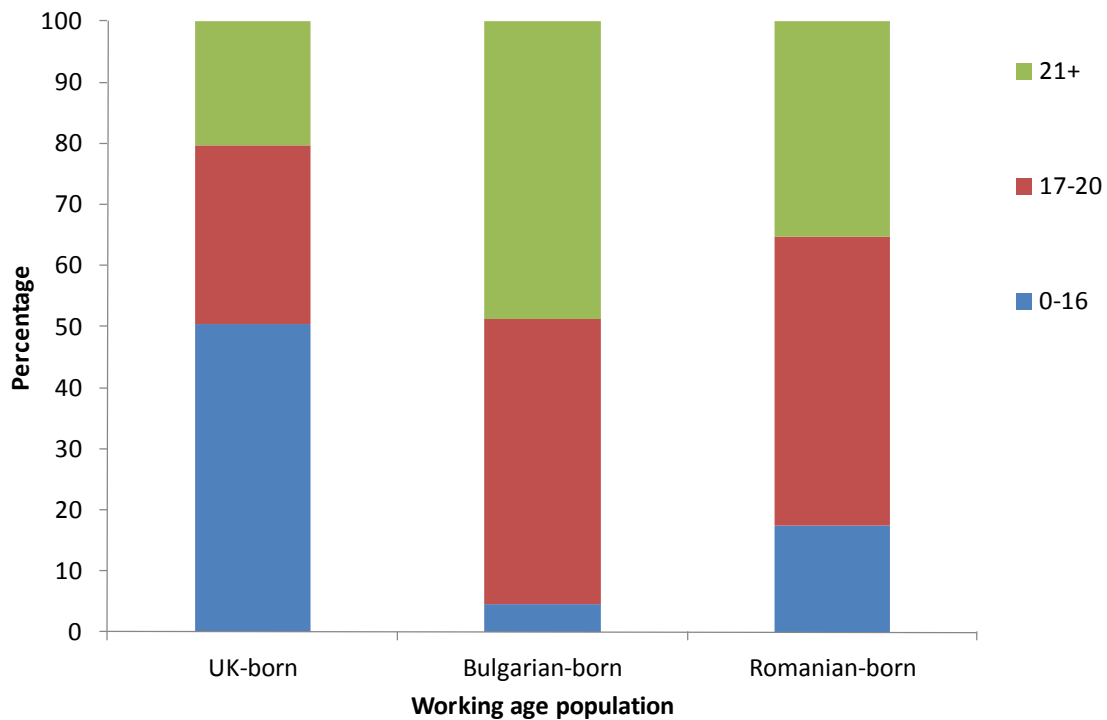


Notes: Occupations are at the 1-digit level of Standard Occupational Classification 2000. The sample size of A2 nationals recorded in the UK Labour Force Survey is relatively small, so there may be considerable margin for error when drawing strong conclusions from these data when disaggregating this sample into even smaller groups. We present these data not to make generalised statements about all A2 nationals resident in the UK, but rather to analyse the available data to provide an indication of what the characteristics of typical A2 nationals might be. Source: Labour Force Survey, 2010 Q3 to 2011 Q2.

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- 4.87 Foreign qualifications are not always reliably or consistently reported in the LFS. This makes it difficult to ascertain the true skill level of the individual who possesses them, including in comparison with individuals with UK-accredited qualifications. Therefore, as a proxy for the level of qualifications obtained by individuals in the UK labour market, we examine the age at which individuals finished their education. This information is well reported in the LFS and thus enables more reliable comparison.
- 4.88 Figure 4.2 shows the age at which working-age UK-born, Bulgarian-born and Romanian-born respondents to the LFS completed their schooling. We have restricted this analysis to the working-age population (again defined as men and women aged 16-64) to take account of the fact that A2 nationals resident in the UK are a self-selecting group and tend to be of working age. It is, therefore, most useful to compare the schooling of these migrant populations with UK-born individuals of similar age.
- 4.89 Figure 4.2 shows that a very small proportion of working-age Bulgarian-born and Romanian-born individuals left schooling at or before age 16. Comparatively, around half of all working-age UK-born individuals surveyed left education at or before age 16. This result is not surprising: we were told by the Romanian Embassy that, for most students in Romania, compulsory schooling does not end until age 18, and that this compulsory school-leaving age was increased from 16 many years ago. Therefore, the relatively small proportion of Romanian-born individuals recorded in the LFS as leaving school at or before age 16 is likely to comprise older migrants.

**Figure 4.2: Age of leaving education for UK-born, Bulgarian-born and Romanian-born respondents to the UK Labour Force Survey, 2010 Q3 to 2011 Q2**



Notes: The sample size of A2 nationals recorded in the UK Labour Force Survey is relatively small, so there may be considerable margin for error when drawing strong conclusions from these data when disaggregating this sample into even smaller groups. We present these data not to make generalised statements about all A2 nationals resident in the UK, but rather to analyse the available data to provide an indication of what the characteristics of typical A2 nationals might be. Source: Labour Force Survey, 2010 Q3 to 2011 Q2.

4.90 Figure 4.2 also shows that, compared to working-age UK-born individuals, a larger proportion of Bulgarian-born and Romanian-born individuals recorded in the LFS left school aged 21 or above: 20 per cent of working-age UK-born individuals recorded in the LFS left school aged 21 or above, compared to 49 per cent of Bulgarian-born and 35 per cent of Romanian-born. This suggests that those A2 nationals resident in the UK are, on average, more likely than the average UK-born individual to have high-level qualifications. Again, as the

Bulgarian and Romanian populations resident in the UK are arguably atypical of all Bulgarian and Romanian nationals (in that they are self-selecting as migrants), and thus arguably cannot be compared fairly with all UK-born individuals, this result is perhaps not surprising.

4.91 Considering Figures 4.1 and 4.2 together suggests that A2 nationals resident in the UK are more likely than UK-born individuals to be overqualified for the occupations in which they are employed. A higher proportion of A2 nationals are employed in low skilled

## A2 labour market restrictions

occupations (according to the 1-digit level of SOC 2000), yet A2 nationals are more likely to leave school with higher-level qualifications.

4.92 We noted a similar pattern relating to migrants from A8 countries in Migration Advisory Committee (2008). In that report we noted that “A8 migrants to the UK have tended to be young, relatively educated and in employment” but also that “in spite of their level of education, a large proportion of A8 immigration has been into lower skilled occupations”.

4.93 When we met with representatives of the Romanian community in the UK we were told that the skill level of Romanians in the UK was generally higher than the skill level of Romanian communities that had emigrated to other Member States of the EU. We were told that the main reason for this was the difficulty for many Romanians of learning the English language, and that, therefore, successful participation in the UK labour market was only attainable for those Romanians who are highly educated and highly skilled. We were told that those prospective Romanian migrants who are comparatively less skilled are more likely to choose Spain and Italy as migration destinations due to the linguistic and cultural similarities and the perceived availability of low skilled employment in Spain and Italy

for Romanian migrants. These flows of relatively low skilled migrants to Spain and Italy rather than to the UK may also be explained by the fact that Spain and Italy have made it easier for low skilled A2 nationals to access their labour markets: Spain lifted its labour market restrictions on A2 nationals in 2009 (although these have recently been re-imposed on Romanian nationals), while Italy permits free movement of labour in some sectors, such as agriculture, hotels and tourism, construction and seasonal work.

## 4.5 Possible impact of maintaining or removing the current labour market restrictions on Bulgarian and Romanian nationals

### Impacts within our remit

4.94 This section uses the evidence presented so far in this chapter to consider the possible impact of maintaining or removing the current labour market restrictions on A2 nationals. Specifically, as we have been tasked by the Government, it considers this issue in terms of the possible impact on the current disturbance to the UK labour market. As we set out in Chapter 3, we consider this labour market disturbance to be serious. Furthermore, independent forecasts suggest that the UK labour market may experience further disturbances throughout the remainder of 2011 and 2012.



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- 4.95 The specific question we have been asked by the Government asks whether maintaining the existing restrictions on Bulgarian and Romanian nationals' access to the UK labour market would assist in addressing the current labour market disturbance. As we set out in Chapter 1, we regard the questions of whether maintaining restrictions would help to address disturbance to the labour market or whether removing them would exacerbate such disturbance as being essentially the same.
- 4.96 Maintaining the existing labour market restrictions is the 'do nothing' option: it implies no change in migration policy, and thus implies that the impact on the UK labour market of migration from the A2 countries should remain unchanged from what is currently being experienced or what would happen anyway. This current impact may be positive, negative, or negligible. Removing or amending the current labour market restrictions, on the other hand, implies a change in migration policy, and thus a change in the impact of migration from the A2 countries on the UK labour market. This *change* in the impact may also be positive, negative or negligible. It is the effect of the latter scenario that is most relevant to the question that we have been asked by the Government, and which is the focus of our discussion in the remainder of this chapter.
- 4.97 The main ways in which removing the current labour market restrictions on A2 nationals can affect the UK labour market are by affecting:
- the **size** of the net flows of A2 nationals that enter the UK labour market; and
  - the **composition** of the net flows of A2 nationals that enter the UK labour market, in terms of their demographic and occupational profile.
- 4.98 We discuss both of these potential impacts in this section, with reference to the literature on the drivers of migration, which we discussed earlier in this chapter.
- 4.99 As we outlined earlier in this chapter, a key driver of economic migration flows to the UK is the attractiveness of the UK as a migration destination. A rational migrant will consider the strictness of the UK's migration policy relative to other countries, and consider his or her expected prospects in the UK labour market relative to his or her home country as well as in other potential destination countries. The migrant will then use this information to decide whether, and where, to migrate.
- 4.100 One important driver of the **size** of migration flows to the UK in response to a removal of the labour market restrictions on A2 nationals, therefore, will be the change in migration policy that occurs in other EU Member States.

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As we discussed in Chapter 2, Member States, including the UK, must decide whether to maintain restrictions on A2 nationals' access to their labour markets beyond 31 December 2011.

Unfortunately, although we can form expectations about what decision other Member States will make (for example, on the basis of the ongoing disturbances to international labour markets that we discussed in Chapter 3), we cannot be certain what action these countries will take. In Migration Advisory Committee (2008) we discussed the

potential implications of other countries' decisions regarding labour market restrictions on A2 nationals on the size of migration flows to the UK. We said that we would expect immigrant flows from the A2 countries to the UK to be largest if the UK were to be the only country that lifted its current labour market restrictions, and smallest if the UK were the only country that did not. The theoretical discussion we presented in Migration Advisory Committee (2008) is set out again in Box 4.1.

**Box 4.1: A representation of how the decisions of other European Union Member States might impact upon potential immigration flows from Bulgaria and Romania to the UK**

The following diagram illustrates the possible outcomes of different combinations of decisions regarding the labour market restrictions on Bulgarian and Romanian nationals. It relies on four main assumptions:

1. There is a fixed pool of potential A2 immigrants.
2. These potential immigrants have three options: stay in their home countries; emigrate to the UK; or emigrate to other EU countries.
3. Both the UK and the other EU Member States have three options: retain the current restrictions; relax the current restrictions; or remove the current restrictions.
4. 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. In practice, we know that this is not the case.

<div style="display: flex; align-items: center; justify-content: center;"> <div style="writing-mode: vertical-rl; transform: rotate(180deg);">UK</div> <div style="margin: 0 10px;">\</div> <div style="writing-mode: vertical-rl; transform: rotate(180deg);">EU</div> </div>	Keep	Relax	Lift
Keep	Status Quo		Lowest flows to the UK 
Relax			
Lift	Highest flows to the UK 		

The two arrows indicate directions of increasing flows of potential immigrants from the A2 countries to the UK, depending on the decisions being made by the other EU 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 countries 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 hold true.

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- 4.101 As we discussed in Chapter 2, Spain has recently re-imposed restrictions on Romanian nationals' access to its labour market. Theoretically at least, in a situation where the UK is the only country to remove its labour market restrictions on A2 nationals from January 2012, it is possible that a number of Romanian nationals who are working, or who would have otherwise chosen to be working, in Spain would instead attempt to gain employment in the UK. When we met with representatives of the Romanian community we were told that this is unlikely because Spain and the UK attract very different types of Romanian migrant: Romanian nationals working in Spain tend to be low skilled, whereas the difficulty of learning the English language and the types of employment available in the UK are more suitable to more highly educated, highly skilled Romanians. Furthermore, we were told that the standard of living of Romanian nationals is very different in Spain and the UK: in Spain Romanian migrants would expect to live alone or with a Spanish family, whereas the cost of housing in the UK (and, in particular, London) means that Romanian nationals tend to share accommodation with several other individuals.
- 4.102 While the impact on immigration inflows of changing UK migration policy cannot be fully considered in the context of possible changes in other EU Member States' migration policies, it can be considered in isolation. Lifting the current labour market restrictions on A2 nationals would mean moving from a situation where A2 nationals have the right to reside in the UK, but not necessarily the right to work, to a situation where A2 nationals have the automatic right to both reside and work in the UK. We believe it is fair to assume that this policy change would increase the attractiveness of the UK as a potential migration destination for A2 nationals (certainly, it would not reduce the attractiveness of the UK). The key issue for the purpose of our review is whether this increased attractiveness would affect the size and composition of immigrant inflows to the UK, and whether, in turn, this would have an affect on the UK labour market.
- 4.103 The Romanian Embassy argued that lifting the current labour market restrictions on A2 nationals would not increase the size of immigrant inflows into the UK because those A2 nationals who wished to emigrate to the UK have already done so. Here the Romanian Embassy referred to the fact that A2 nationals have had right of residence in the UK since the A2 countries acceded to the EU on 1 January 2007. Furthermore, the Romanian Embassy argued that the

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declining number of young Romanians was an indicator that the pool of prospective Romanian emigrants was decreasing.

- 4.104 In its evidence to us the Bulgarian Ministry of Labour and Social Policy said that active measures taken to improve labour market prospects in Bulgaria may improve the relative attractiveness of the Bulgarian labour market and thus help to reduce levels of emigration. The Bulgarian Ministry of Labour and Social Policy also argued that removing the current restrictions on A2 nationals' access to the UK labour market would not lead to a significant increase in migration flows to the UK.

*“A significant increase of labour mobility from Romania seems unlikely. Large numbers have already been working in the EU over the past years, suggesting that many of those who wanted to move have already done so and that the potential for additional emigration is limited. In addition, due to a substantially shrinking young generation, the pool of potentially mobile workers is getting smaller and is likely to act as a brake on geographic labour mobility within the EU.”*

Embassy of Romania evidence to the MAC review

- 4.105 On the other hand, we note that, in recent history, the young Romanian population has shown a high propensity to emigrate, and even a relatively small increase in

emigration to the UK in terms of the Romanian population could constitute a significant increase in the UK's migration inflow. As we set out earlier in this chapter, the combined population of the A2 countries is estimated to be approximately 29 million in 2011. To put this figure into context, the combined population of the A8 countries in 2011 is estimated to be approximately 73 million (Eurostat, 2011d).

- 4.106 Migration Watch UK argued that the fact that there were already established communities of A2 nationals in the UK increased the likelihood that removing the current labour market restrictions would increase immigration inflows into the UK. Migration Watch UK said that these established communities would act as a significant pull factor for prospective migrants.

*“The current restrictions allow Bulgarian and Romanian nationals to reside in the UK provided that they are a student, self-employed or self-sufficient but not economically active. As a result there are sizeable populations of Romanian and Bulgarian nationals already in the UK providing a further pull factor were restrictions on access to the labour market to be lifted.”*

Migration Watch UK evidence to the MAC review

- 4.107 Another potential pull factor is the attractiveness of the UK labour market relative to the labour market prospects in

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Bulgaria and Romania. When we met with representatives of the Romanian community we were told that, especially when compared to the situation prior to the recent recession, the UK labour market is currently relatively unattractive to many prospective Romanian nationals. The difference in the rates of unemployment in Romania and the UK, which we have presented in this report, was cited as one of the reasons why emigrating to the UK is not as attractive to Romanian nationals as it was at the time of Romania's accession to the EU. The Romanian community argued that this was another reason why immigrant inflows into the UK would not increase significantly in the event that the current labour market restrictions on A2 nationals were removed. Indeed, the Romanian Embassy said that it expects some Romanian nationals currently working in the UK to return to Romania in the near future due to increasing economic and labour market prosperity in Romania relative to the UK. This argument is supported by some survey evidence from Bulgaria, discussed earlier in this chapter, which found that migration is often temporary or circular. Nevertheless, the Bulgarian and Romanian populations in the UK grew in 2010, as shown earlier in this chapter.

4.108 Despite the effects of the recent economic downturn, Migration Watch UK argued

that the difference in GDP per head between the UK and the A2 countries would act as a significant pull factor for further inflows of A2 migrants into the UK. Here Migration Watch UK cited the disparity in GDP per head between the UK and Poland prior to the accession of the A8 countries to the EU in 2004, attributing the large inflows of A8 migrants into the UK to pull factors such as higher GDP per head.

*“...a higher GDP per capita rate in the United Kingdom provides significant incentive for Bulgarian and Romanian nationals to migrate to the UK to enjoy a significantly higher standard of living and will therefore act as a major ‘pull factor’. In 2004, GDP per capita for Poland was \$13,000 compared to \$32,000 for the UK and was clearly a significant driver of Polish migration following accession to the EU.”*

Migration Watch UK evidence to the MAC review

4.109 Certainly, as we set out earlier in this chapter, UK per capita GDP, both in absolute and PPS terms, is considerably higher than per capita GDP in both Bulgaria and Romania. As we discussed earlier, there is existing evidence that suggests this is encouraging Bulgarian nationals to consider the UK as a potential migration destination. We believe it is plausible that Romanian nationals would be encouraged to consider migrating to the UK for the same reasons.

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- 4.110 In Migration Advisory Committee (2008) we examined the UK experience of immigration from the A8 countries and considered whether this experience had potential implications for the scale of flows from the A2 countries to the UK that might occur if labour market restrictions were removed or relaxed. Based on the experience of A8 immigration, we said that:
- 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.
- 4.111 A further consideration when deciding whether or not to remove the restrictions on A2 nationals' access to the UK labour market is whether this would affect the **composition** of net flows of A2 nationals to the UK. As with magnitude, it is very difficult forecast the composition of future immigration inflows. The best sources we have for doing this are the information we receive from partners and the available data on past immigration inflows. It may also be possible to gain useful insights from the UK experience of A8 migration following the accession of the A8 countries to the EU in 2004.
- 4.112 As discussed earlier in this chapter, under the current labour market restrictions A2 nationals presently working in the UK are typically employed in low skilled occupations. Given the nature of the labour market restrictions, and the existence of low skilled migration routes that are specifically designed for A2 nationals (the SAWS and the SBS), this is not surprising.
- 4.113 Nevertheless, our discussions with partners and our analysis of the LFS suggest that A2 nationals resident in the UK are relatively well educated: comparing working-age populations, A2 nationals resident in the UK are, on average, more likely to have a high level of schooling than the average UK-born individuals. One hypothesis, therefore, is that an increasing number and proportion of A2 nationals would switch into highly skilled employment if the current restrictions on their access to the UK labour market were removed.
- 4.114 However, A2 migrants do not currently have unrestricted access to the whole of the less skilled sectors of the UK

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labour market, including sectors such as hospitality and catering and manufacturing where A8 migrants account for a disproportionately large share of UK employment. The experience following the accession of the A8 countries to the EU in 2004 tells us that, even in the absence of labour market restrictions, well educated and highly skilled migrants may remain disproportionately employed in low skilled occupations (Migration Advisory Committee, 2009c). One possible explanation for this is that, despite high-level qualifications, migrants' access to highly skilled employment is limited by their proficiency in the English language, at least in the short term. The A8 experience suggests that the impact of lifting labour market restrictions on A2 nationals might be disproportionately concentrated at the bottom end of the skill (and therefore wage) distribution. Its impact may also be concentrated in particular occupations and sectors.

### Impacts outside our remit

4.115 The Scottish Government and the Department of Health (DH) argued that removing the current labour market restrictions may in fact increase the supply of social care workers available in the UK. In its evidence, the Scottish Government also highlighted the important contribution that migration has

made to Scotland, both economically and socially, and its importance in the context of an ageing population.

*“Scotland has benefited greatly from migration both economically and socially, therefore we would suggest it would be appropriate to lift the restrictions currently being placed on nationals from the A2 countries. For example, employers from some parts of the care sectors have recruited significant numbers of workers from out with the UK and EEA in past. We are currently exploring present and future demand for non-UK workers in services such as Care at Home and Care Home for Adults Services.”*

The Scottish Government evidence to the MAC review

4.116 On the other hand, some partners raised concerns that lifting the restrictions and, in doing so, closing the SAWS and the SBS, would have negative consequences on the sectors that currently employ large numbers of A2 nationals. Several SAWS operators argued that A2 nationals would move away from agricultural work and into alternative low skilled employed if they were given free access to the UK labour market.



*“Lifting the restrictions on A2 would disrupt the seasonal labour supply into agriculture currently facilitated through SAWS. Many of those who are candidates for SAWS will switch to other sectors such as hospitality, catering and care where the work is less seasonal and more permanent when restrictions are lifted.”*

Concordia (YSV) Ltd evidence to the MAC review

*“Should the restrictions not continue we feel we will be faced with the same situation as we were back in 2007/2008 when sufficient numbers of A8 nationals could not be sourced to meet the demands, which resulted in crops being left un-harvested in the fields.”*

Place UK Ltd evidence to the MAC review

*“At present the A2 workers are the only category of workers from EU and EFTA member states not to enjoy full access to the UK labour market. This is an anomalous situation which is confusing to employers and workers alike and unnecessarily distorts the UK labour market whilst transitional provisions remain in force. [...] We recommend that the UK labour market be opened to workers from the A2s in 2012. In the alternative, if the UK labour market is to remain closed generally to A2s workers, we ask that SAWS in its present form be retained for a further 2 years as a transitional scheme allowing A2 workers limited access to the UK labour market, and that during this period the Government prepares a follow on scheme to SAWS to be implemented from 1 January 2014.”*

National Farmers Union evidence to the MAC review

4.117 The National Farmers Union (NFU) argued that the current labour market restrictions on A2 nationals should be removed on the basis that they distort the UK labour market and are confusing to both employers and workers. If labour market restrictions are maintained, the NFU argued, then the SAWS should be retained in its present form and, furthermore, a successor scheme to SAWS should be prepared by the Government for implementation at the end of transitional measures on A2 nationals in 2014.

4.118 In this review we have not been asked to consider the impact of removing the current labour market restrictions on particular migration routes or programmes, such as SAWS. Therefore, whilst we acknowledge these concerns, we believe it would be outside our remit to make a judgement as to whether such issues justify maintaining or removing the current labour market restrictions on A2 nationals.

### 4.6 Concluding remarks

4.119 This chapter has considered whether maintaining the existing restrictions on access of Bulgarian and Romanian nationals to the UK labour

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market would assist in addressing a serious disturbance to that labour market. This addresses the second part of the question that we have been asked by the Government. Three issues are of primary relevance:

- Would lifting restrictions increase the annual inflow of Bulgarian and Romanian migrants into the UK and into the UK labour market?
- Would lifting restrictions affect the composition of Bulgarian and Romanian

migrants and/or of the jobs they work in, and how?

- On the basis of the above, would retaining current restrictions assist in addressing the serious labour market disturbance that we believe the UK is currently experiencing?

4.120 Although the evidence is partial and equivocal, the discussion in this chapter allows us to draw some conclusions in relation to the above. These are set out in Chapter 5.

# Chapter 5 Conclusions

## 5.1 Introduction

5.1 In this chapter we summarise the findings of this report and set out our response to the question we have been asked by the Government.

## 5.2 Our commission

5.2 This report has been produced in response to the following question that we were asked by the Government:

*“Is there a serious disturbance, or threat of such a disturbance, to the UK labour market and would maintaining the existing restrictions on Bulgarian and Romanian nationals’ access to the labour market assist in addressing any such disturbance or threat?”*

5.3 We have separated this question into two parts. First, we have considered whether there is a serious disturbance, or threat of such a disturbance, to the UK labour market. Our analysis of this part of the question is set out in full in Chapter 3.

5.4 Second, we have considered, *in the context of the current state of the UK labour market,*

the possible impact of maintaining or removing the current labour market restrictions on nationals of Bulgaria and Romania. In doing so, we have regarded the questions of whether maintaining the current restrictions would help to address any labour market disturbance, or whether removing the restrictions would exacerbate any such disturbance, as being essentially the same. Our analysis of this part of the question is set out in full in Chapter 4.

## 5.3 Existence or threat of a serious labour market disturbance

5.5 There is strong evidence that many leading labour market indicators, including real earnings growth, vacancy levels, and employment and unemployment rates, continue to exhibit the adverse effects of the most recent recession. Growth in real GDP remains low, and Okun’s law would suggest that it is currently insufficient to stimulate a sustained reduction in the rate of unemployment. Independent forecasts suggest that the overall state

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- of the UK labour market is not set to improve in the near future. Indeed, due to stagnant and below-trend levels of economic growth, both in the UK and internationally, as well as ongoing sovereign debt crises, financial turbulence and depressed consumer confidence, it is highly plausible that the UK labour market will experience further adverse changes before it begins to recover.
- 5.6 **We believe it is reasonable to conclude, on the basis of these factors, that the UK labour market is in a state of serious disturbance.**
- 5.4 Effect on migration flows of lifting labour market restrictions on Bulgarian and Romanian nationals**
- 5.7 Since the accession of Bulgaria and Romania to the European Union (EU) in 2007, migrant inflows to the UK from these countries have been relatively small. Furthermore, a significant proportion of these inflows have been via temporary migration routes, i.e. the Seasonal Agricultural Workers Scheme (SAWS) and the Sectors Based Scheme (SBS), and there is evidence that a considerable number of A2 nationals return to their home countries after a short period abroad. Nevertheless, relative to pre-accession levels, the number of Bulgarian and Romanian residents in the UK has risen substantially since 2007.
- 5.8 To the extent that removing restrictions on UK labour market access for Bulgarian and Romanian nationals would alter the behaviour of prospective migrants from the A2 countries, it seems likely that inflows to the UK would increase: it is plausible that at least some A2 nationals who currently decide not to emigrate to the UK would be encouraged by the improved access to the UK labour market that would occur if the current restrictions were removed. Removing restrictions might also encourage some A2 nationals who currently come to the UK via temporary employment routes to seek more permanent employment in the UK.
- 5.9 An additional important factor is the decisions that other EU Member States will make regarding A2 nationals' access to their labour markets, which must also be reviewed by 1 January 2012. It is unclear whether Member States that currently impose restrictions will remove them. It is also possible that other Member States that are currently relatively open to economic migration from the A2 countries will, like Spain, opt to re-impose labour market restrictions. These decisions could have a significant impact on the number of A2 nationals that choose to migrate to the UK in response to the UK's current labour market restrictions being removed.

5.10 Overall, there is a wide range of uncertainty around the effects on UK migration inflows of ending restrictions on labour market access for Bulgarian and Romanian citizens. All other things being equal, lifting the restrictions would almost certainly have a positive impact on migration inflows to the UK from those countries. At one extreme the effect could be small (with the additional annual inflow being in the hundreds or low thousands, for instance) but it could be significantly higher. It would not be sensible, or helpful to policymakers, for us to attempt to put a precise numerical range around this likely impact.

### **5.5 Economic and labour market impacts of lifting labour market restrictions on Bulgarian and Romanian nationals**

5.11 The impact of the increased inflow would be contingent in part on its size, but also its composition. While some studies have found little or no overall impact of migration on levels of employment or average wages, others have found that these impacts vary across different occupational and skill groups. Overall, because currently A2 workers do not have unrestricted access to the less skilled labour market, it seems likely, if not certain, that lifting restrictions would increase the number of Bulgarian and Romanian immigrants entering less skilled occupations even if the

individuals themselves were relatively highly educated. In a healthy labour market this may not be a matter for concern, but we believe that such an eventuality risks exacerbating the serious labour market disturbance currently being experienced in the UK.

5.12 **We believe that there is a risk that an increase in the inflow of A2 nationals and/or a change in the composition or behaviour of A2 nationals in the UK could have negative impacts on the UK labour market. Removing existing restrictions on the employment of A2 nationals in the UK would increase this risk.** These impacts would be small in comparison to the ongoing adverse impacts of the recent recession and the global economic situation, but they could nevertheless be considered significant.

### **5.6 Conclusions**

5.13 **In response to the question of whether there is a serious disturbance, or threat of such a disturbance, to the UK labour market, our answer is yes. There is a current and actual disturbance to the UK labour market.**

5.14 **Regarding the question of whether maintaining existing restrictions on Bulgarian and Romanian nationals' access to the labour market would assist in addressing the serious**

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**labour market disturbance our answer is also yes. The extent to which maintaining existing restrictions would assist in addressing any such disturbance is, however, subject to considerable uncertainty.**

5.15 As we discussed in Chapter 1, our commission from the Government was to consider the possible labour market impact of maintaining or removing the current labour market restrictions on A2 nationals in the context of the current state of the UK labour market. There are other

considerations, such as the impact of the current restrictions on the employment of A2 nationals who are already resident in the UK (discussed in Chapter 1) and the implications for particular sectors (discussed in Chapter 4), that the Government may wish to take into account alongside the labour market impact described above when deciding whether or not to maintain restrictions beyond 1 January 2012. Although we have discussed some of these issues in this report, they have not influenced our conclusion.

## Annex A

## Consultation

### A.1 List of organisations / individuals that submitted evidence

50 Club Horticultural Employers Association

Association of Labour Providers

British Embassy in Bulgaria

British Embassy in Romania

Bulgarian Ministry of Labour and Social Policy

Concordia (YSV) Ltd

Confederation of British Industry

Department for Business, Innovation & Skills

Department of Health

Embassy of Romania in the UK

Harding, Dr. Liliana (University of East Anglia)

HOPS Labour Solutions Ltd

Main, Anne (Member of Parliament for St Albans)

Migration Watch UK

National Farmers Union

Place UK Ltd

Scottish Government

### A.2 List of organisations met with

Anglo-Romanian Economic and Political Forum

British Chambers of Commerce

British Embassy in Bulgaria

British Embassy in Romania

Confederation of British Industry

Embassy of Romania in the UK

Embassy of the Republic of Bulgaria, London

Honorary Consul on Romania in Leeds

London Resources Ltd

Radio Romani on line

Romanca Society

Romani in UK

Romani on line

Romania in the Third Millenium

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Romanian Cultural Centre

Romanian Medical Society -  
UK

Romanian Self Support  
Group, Ballymena

Romanian Student Society,  
University of Nottingham

Scottish Romanian Society

Trades Union Congress



## Annex B

# Summary of transitional restrictions imposed by EU Member States on nationals of Bulgaria and Romania

### B.1 Definitions

- B.1 'Free movement of labour' refers to migrants from other EU Member States being able to take up employment in another Member State without restriction. There may be a requirement to register that employment with the relevant authorities. This is the current situation between the EU15 Member States and will be the situation for all EU Member States once transitional arrangements for accession countries expire.
- B.2 'Transitional arrangements' are different arrangements for Bulgarian and Romanian nationals that will be in effect between the date of accession and when free movement of labour is permitted. These must not be more restrictive than the arrangements that were in place immediately prior to accession.

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Table B.1 Summary of transitional restrictions to free movement of labour from Bulgaria and Romania		
Member State	Current restrictions on Bulgarians and Romanians	Further information
United Kingdom	<b>Work permit required</b> unless the applicant: is coming to the UK to work under the Seasonal Agricultural Workers Scheme (SAWS) and holds a valid work card issued by a SAWS operator; or was given permission to enter or remain in the UK before 1 January 2007 and his or her passport has been endorsed with a condition restricting employment to a particular employer or category of employment; or qualifies for an exemption (full details of exemptions are available here: <a href="http://www.ukba.homeoffice.gov.uk/workingintheuk/eea/bulgariaromania/liveworkuk/">http://www.ukba.homeoffice.gov.uk/workingintheuk/eea/bulgariaromania/liveworkuk/</a> ).	<a href="http://www.ukba.homeoffice.gov.uk/workingintheuk/eea/bulgariaromania/">http://www.ukba.homeoffice.gov.uk/workingintheuk/eea/bulgariaromania/</a>
Austria	<b>Work Permit required and further restrictions for posted worker apply in some sectors.</b> Freedom of movement will be granted once the worker has been legally employed for one year. Family members resident in Austria will only be granted freedom of movement after 18 months. Some sectors are subject to further restrictions on posted workers: agriculture, landscaping, masonry, constructions, security, industrial cleaning, care and social work.	<a href="http://www.ams.at">http://www.ams.at</a>
Belgium	<b>Modified work permit required.</b> A resident labour market test is required unless the occupation is deemed to be in shortage. Permits issued within five days for shortage occupations.	Brussels region: <a href="http://www.bruxelles.irisnet.be/fr/citoyens/home/travailler/travailler_comme_ressortissant_etrangier.shtml">http://www.bruxelles.irisnet.be/fr/citoyens/home/travailler/travailler_comme_ressortissant_etrangier.shtml</a> Flemish region: <a href="http://www2.vlaanderen.be/ned/sites/werk/index.html">http://www2.vlaanderen.be/ned/sites/werk/index.html</a> Walloon region: <a href="http://emploi.wallonie.be/THEMES/PERMIS_TRAVAIL/MENU.htm">http://emploi.wallonie.be/THEMES/PERMIS_TRAVAIL/MENU.htm</a>
Cyprus	<b>Free movement of labour permitted.</b>	
Czech Republic	<b>Free movement of labour permitted.</b>	
Denmark	<b>Free movement of labour permitted.</b> Temporary restrictions on nationals of A8 and A2 nationals were abolished from 1 May 2009. If seeking work, Bulgarian and Romanian nationals may reside in Denmark for up to six months without applying for a	<a href="http://www.workindenmark.dk">www.workindenmark.dk</a>

	registration certificate. If employed for more than three months, the worker must apply for a registration certificate.	
Estonia	<b>Free movement of labour permitted.</b> EU nationals must register their stay in Estonia within three months of their arrival but they do not need any extra permits to start work in Estonia.	
Finland	<b>Free movement of labour permitted.</b>	<a href="http://www.mol.fi/finnwork">http://www.mol.fi/finnwork</a>
France	<b>Full work permit required but some occupational exemptions apply.</b> Permit conditions include labour market test, and job meets prevailing labour and pay conditions. Permit issued without need for labour market test for selected occupations, which fall into the following sectors: construction and public works; hospitality; agriculture; mechanical engineering and metal industries; processing industries (incl. manufacturing); commerce and sales; and cleaning.	<a href="http://www.anaem.social.fr">www.anaem.social.fr</a> <a href="http://www.travail-emploi-sante.gouv.fr/espaces,770/travail,771/">http://www.travail-emploi-sante.gouv.fr/espaces,770/travail,771/</a>
Germany	<b>Work permit required until 31 December 2012 and further restrictions applied to posted workers.</b> Permit conditions include labour market test and other checks, e.g. qualifications. Restrictions are applied to posted workers in construction, industrial cleaning and interior decorating.	<a href="http://www.arbeitsagentur.de">www.arbeitsagentur.de</a>
Greece	<b>Free movement of labour permitted.</b>	
Hungary	<b>Free movement of labour permitted.</b>	
Ireland	<b>Work permit required.</b> Permit conditions include labour market test. Permits only considered for a limited number of occupations below an annual salary of €80,000.	<a href="http://www.djei.ie/publications/labour/2011/Guide%20to%20Work%20Permits%20for%20BR%20Nationals-June11.pdf">http://www.djei.ie/publications/labour/2011/Guide%20to%20Work%20Permits%20for%20BR%20Nationals-June11.pdf</a>
Italy	<b>Modified work permit for some sectors, free movement of labour in other sectors.</b> 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; and seasonal work. For other sectors, a simplified work permit is required.	
Latvia	<b>Free movement of labour permitted.</b>	
Lithuania	<b>Free movement of labour permitted.</b>	
Luxembourg	<b>Full work permit with sectoral exemptions.</b> 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.	<a href="http://www.mae.lu/">http://www.mae.lu/</a>
Malta	<b>Modified work permit required.</b> Permits granted for jobs that require qualified and/or	

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	experienced workers and for those occupations for which there is a shortage of workers in the Maltese labour market.	
Netherlands	<b>Work permit required.</b> Permit issued following Resident Labour Market Test. Employer must obtain permit.	
Poland	<b>Free movement of labour permitted.</b>	
Portugal	<b>Free movement of labour permitted.</b>	<a href="http://www.sef.pt">www.sef.pt</a> <a href="http://www.iefp.pt">www.iefp.pt</a>
Slovakia	<b>Free movement of labour permitted.</b>	
Slovenia	<b>Free movement of labour permitted.</b>	
Spain	<b>Free movement of labour permitted for Bulgarian workers.</b> Labour market restrictions imposed on Romanian workers.	
Sweden	<b>Free movement of labour permitted.</b>	
<p><b>Notes:</b> This information is not intended as a definitive legal guide to restrictions imposed by Member States; jobseekers should always seek information from the relevant authorities in each Member State. Bulgaria and Romania have not taken the opportunity to apply reciprocal restrictions to any EU Member State. <b>Source:</b> EURES Portal: <a href="http://ec.europa.eu/eures/home.jsp">http://ec.europa.eu/eures/home.jsp</a></p>		

## Abbreviations

ALP	Association of Labour Providers
APS	Annual Population Survey
BIS	Department for Business, Innovation & Skills
CIPD	Chartered Institute for Personnel and Development
DH	Department of Health
DWP	Department for Work and Pensions
EEA	European Economic Area
EFTA	European Free Trade Association
EU	European Union
GDP	Gross Domestic Product
HMRC	HM Revenue and Customs
HSMP	Highly Skilled Migrant Programme
ILO	International Labour Organisation
IPS	International Passenger Survey
LFS	Labour Force Survey
MAC	Migration Advisory Committee
NAO	National Audit Office
NFU	National Farmers Union
NINo	National Insurance Number
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Co-operation & Development
ONS	Office for National Statistics
OSI	Open Society Institute
PBS	Points Based System
PPS	Purchasing Power Standards
RPI	Retail Price Index
SAWS	Seasonal Agricultural Workers Scheme
SBS	Sectors Based Scheme
SEGS	Science & Engineering Graduate Scheme
SOC	Standard Occupational Classification
UK	United Kingdom
UKCES	UK Commission for Employment & Skills



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