

23 October 2008

Migration Advisory Committee
6th Floor
Advance House
15 Wellesley Road
Croydon
CR0 2AG

Dear Mr Franks

A2 COUNTRIES – ROMANIA AND BULGARIA

Thank you for the opportunity to input into the Migration Advisory Committee's (MAC) consideration of the impact on the UK labour market of lifting the restrictions on Romanian and Bulgarian workers.

SCDI asked for comments from its broad membership of Scottish businesses, local authorities, trades unions, educational institutions and the voluntary sector when the restrictions were first proposed. It found that a clear majority of SCDI members did not support them and this remains our position. Following this latest call for evidence, SCDI has again asked for comments and this response is based on their input.

Migrant workers from the A8 have made a substantial contribution to the Scottish and UK economies. Sectors such as tourism, catering and hospitality, agriculture, food and drink, manufacturing, and construction have particularly benefited. The UK Government's recent response to the House of Lords report on the economic case for immigration showed that it has made a positive contribution to trend output growth and to the GDP per capita of people born in the UK. In addition, it has benefited the social sector, especially the care sector.

The latest figures from the Office of National Statistics (ONS) on Eastern European migrant workers coming to work in the UK are, as a result, a significant concern to many Scottish businesses. Between April and June 2008 there were 40,000 applications for work permits - a drop of 14,000 from the same period in 2007 and the lowest level since 2004. Applications from those countries for the Worker Registration Scheme fell by 9,000 in the second quarter of this year compared to the first. The number of applications from Bulgarians and Romanians has also fallen, to 7,005 compared to 10,860 in the same period last year. In Scotland, according to the latest Accession Monitoring Report, the number of employers of registered workers fell by 37 per cent from 5200 in Q2 of 2007 to 3785 in Q2 of 2008. Feedback from SCDI businesses in the Highlands and Islands, a region which has especially benefited, suggests even more dramatic falls in the number of registrations of Eastern European migrant workers. This

trend is illustrated by the reduction in air services to Eastern Europe and the closure of 'Gazeta' the Polish newspaper for the Highlands.

The consequences for the economy are already becoming clear. A recently-published study by Improve, the food and drink sector skills council, found that one in ten migrant workers currently employed in the industry are classified as migrants, with around half of them from Poland. Twenty-six per cent of employers identify shortages in their local labour market as the reason why they take on migrant workers, with nearly half (47.1 per cent) saying that further falls in the number of migrant workers would leave them with vacancies and more than a quarter (28.3 per cent) saying that it would affect their productivity. The study - and comments from SCDI members in the Scottish food and drink sector - confirms that Polish workers, in particular, would appear in growing numbers to be returning home or leaving to work in other emerging economies. Among the other vacancies which Scottish businesses have found it difficult to recruit for in the last six months are qualified bakers, chefs, cooks, hospitality, CNC operators and manual labour. Though unemployment in the UK is now rising, these opportunities are still not being filled by the UK national workforce.

In reaching its decision, SCDI recognises that the MAC will need to weight up a number of policy objectives. From a Scottish perspective, we would urge it to consider how it can support the targets in the Scottish Government Economic Strategy. These include raising Scotland's GDP growth rate to the UK level by 2011 and matching the GDP growth rate of the small independent EU countries by 2017. One of the three means of doing so is identified as "increasing Scotland's population and the supply of potential workers" with the target to match average European (EU-15) population growth over the period from 2007 to 2017. It is clear that, having attracted less than half of the Eastern European migrants who have gone to live and work in Ireland since 2004, Scotland will need to do more to achieve these targets.

Industry-led targets have also been set for priority sectors. For tourism, this is revenue growth of 50% between 2005 and 2015. Concern that decreasing numbers of migrant workers will be a barrier to achieving this target were expressed in a recent inquiry by the Scottish Parliament's Economy, Energy and Tourism Committee. The food and drink sector has a target, meanwhile, to increase its value to the Scottish economy from £7.3bn in 2007 to £10bn in 2017. Following the publication of its study, Improve warned that falling numbers of migrant workers could have a "disastrous effect" on the industry. Engineering is a sector of the Scottish economy which continues to perform strongly, particularly aerospace and energy. They are already experiencing significant skills shortages and these seem set to grow over the next ten years. If Scotland and the UK are to maximise their renewable energy and oil and gas resources, and the potential for new manufacturing industries, it is vital that these are addressed. Romania

has been identified by companies providing personnel to the engineering industry as a substantial source of future labour supply.

There appear to be several factors behind the declining number of migrant workers. These include the economic slowdown, the depreciation of the pound against the euro and other currencies, the higher costs of living, such as travel and fuel, which have a disproportionate impact in rural areas, and the opening up of other European countries' labour markets. SCDI accepts that opening up the UK labour market to migrant workers from the newest accession states would provide a relatively small benefit in the short term. But, in what will be a difficult period for the economy, it could make a significant difference to the productivity and profitability of some businesses, and also better position the UK for the subsequent economic recovery.

SCDI understands that many SMEs regard the current process of obtaining work permits for workers from Romania and Bulgaria as a significant disincentive. The justifications necessary are detailed, the costs are very high, delays of around 6 months in the Home Office determining an application are standard and it seems as though many are refused. The process needs to be simplified and the elimination of the different rules for the A8 and A2 countries would clearly be helpful. SCDI would also suggest that it would be informative for the MAC to ask the Home Office how many applications it has received and the percentage of them that it has refused, and publish its findings.

As regards the impact on public services and housing, with the general trend being a reduction in the number of migrant workers, it would be limited. On balance, therefore, SCDI believes that there is now an overwhelming argument for the existing restrictions on Romanian and Bulgarian workers to be lifted - fully and without further delay.

As the UK economy enters a period of downturn, it needs to be remembered that the underlying factors which made migrant workers so welcome in the first place – skills gaps and shortages, an ageing and, in Scotland contrastingly with the rest of the UK and much of western Europe, a declining population – have not gone away. For Scotland, the implication of failing to attract more people to work would be that it would struggle to improve its sluggish long-term economic growth rate and match the growth of other small EU countries. The decision by the UK not to impose restrictions on migrant workers from the A8 gave Scottish businesses and the UK economy a competitive advantage in Europe. The threat, if UK immigration policy does not adapt to address the changing situation which is now being faced, is in that the UK, especially Scotland, will, in contrast, emerge from the downturn at a competitive disadvantage.

SCDI welcomes the consideration which the MAC is giving to this issue and the opportunity to comment. It hopes that, when announced,

the Ministerial decision will be based on the evidence presented and not simply be used as an opportunity, as the UK economy enters a recession, for more so-called 'tough' rhetoric on immigration policy.

Yours sincerely

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