



Scottish Council for
Development and Industry

POLICY SUBMISSION

CONSULTATION ON THE ECONOMIC CASE FOR RESTRICTING TIER TWO IMMIGRATION TO SHORTAGE OCCUPATIONS

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SCDI is an independent and inclusive economic development network which seeks to influence and inspire government and key stakeholders with our ambitious vision to create shared sustainable economic prosperity for Scotland.

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Proposed Restrictions For Tier Two Immigration

1. SCDI is an independent membership network that strengthens Scotland's competitiveness by influencing Government policies to encourage sustainable economic prosperity. SCDI's membership includes businesses, trades unions, local authorities, educational institutions, the voluntary sector and faith groups.
2. SCDI, along with Oil & Gas UK, has previously commented on the addition of key oil and gas industry occupations to the UK/ Scotland Shortage Occupation Lists, and together we met the Secretariat of the Migration Advisory Committee.
3. SCDI asked its wide membership for comments on the proposal to restrict tier two immigration to shortage occupations. While concern was expressed by sectors including financial services and life sciences, most feedback was given by the oil and gas and the ICT sectors, and this submission focuses on them.

Oil and Gas Industry

4. North Sea oil and gas is making an increasingly important contribution to the UK economy and public services, especially at a time when tax receipts from financial services and property have been in steep decline. Tax payments to the Treasury for 2008-09 should be around £13.3bn, more than double those of 2004-05, despite the declining trend in production and higher capital and operating costs. The UK's balance of trade in goods and services would have been £78bn last year had it not been for the production of indigenous oil and gas. It also provides well-paid, high quality employment for 450,000 people in the UK.
5. The fall in the price of oil and gas over the last year has put pressure on investment by the industry, but it has been determined as far as possible to retain skills and capacity in order that the UK is well-positioned when demand picks up again to exploit the estimated 25bn barrels of oil equivalent (boe) left to produce.
6. The UK oil and gas industry, centred in and around Aberdeen, has also built a world-class supply chain. The latest *Survey of International Activity in the Oil and Gas Sector* published by SCDI and Scottish Enterprise showed that Scottish based service/supply companies generated a record £14.2bn in domestic and international sales, compared to £12.9bn in 2006. Total sales have now more than trebled since the first survey in 1997. Oil & Gas UK has estimated that the Exchequer benefits by around £5-6 billion a year in corporation tax, payroll taxes and national insurance contributions from the supply chain, in addition to the tax revenues generated by exploration and production companies in the UKCS.
7. Activity by the supply chain is increasingly outside the UK and, indeed, the European Economic Area (EEA). International activity accounted for over 40% of the Scottish supply chain sales total for the first time. In 2000, the international share was 27%. The African region has become firmly established as the top

geographic region for direct oil and gas sales. It also accounted for 15% of total international sales, second behind the North American market at 31% share. Sales activity from the oil and gas supply chain was recorded in 103 different country markets, a record high. The top 5 total international markets combining direct and subsidiary exports were the United States, Canada, Norway, Russia and Azerbaijan. The top 5 international markets for direct exports were Angola, Norway, Russia, Azerbaijan and the United States. Only Norway is in the EEA.

8. While SCDI would anticipate that the growth in the value of international sales and in country market may plateau in the current economic downturn, we do not expect a decline and the medium-term prospects are still substantially positive.
9. The UK has ambitions for the rapid expansion of offshore wind energy in which the expertise and skills of this supply chain will be crucial. It is likely that offshore wind projects will be constructed by internationally mobile teams of engineers.
10. Intra-company transfers have been important in building the success of the UK oil and gas industry and remain so at this time. Oil and gas is a globalised industry in which talent is internationally mobile. Companies operating in the North Sea often have their HQs outwith the UK/ EEA and the UK must be able to recruit skills from around the world if it is to remain competitive for investment and activity is to be sustained. The UK's supply chain companies now operating in nearly every oil and gas province around the world and mobility of skilled staff between their bases is essential for their success. The most recent statistics on migrant workers in Aberdeen and Aberdeenshire reflect the particular importance to the industry of being able to employ talent from outside the EEA, especially from Africa. These show that, with 660 registrations, they accounted for over half of all Scotland's National Insurance registrations from Nigeria in 2007/08.

ICT Industry

11. The ICT industry accounts for 10% of UK GDP and employs over 1m people directly in the UK. The recent Government report, 'Digital Britain', said that the Digital Economy is central to industrial strength and competitiveness and it must be ensured that the UK is at the leading edge of the global digital economy.
12. ICT is another globalised industry in which companies from the largest to SMEs may successfully operate internationally. The 'openness' of the UK economy to investment and skills is a key factor in the success of its technology industry and the decisions by so many multinationals to locate their European HQs in the country. The global workforce available to businesses in the UK helps to address any skills shortages and gaps, increases the vibrancy of the ICT sector and attracts further investment which benefits the UK economy and labour market.
13. The ability to move skilled staff within a company depending on skills needs at any given time is essential to its strength and competitiveness. If the ambitions of the 'Digital Britain' report to be at the leading edge of the global digital economy

are to be realised, multinational companies of all sizes must retain confidence in the openness and flexibility of the UK's economic and employment policies.

14. Intra-company transfers are especially important to the technology sector because projects may be short and specialist and individuals already working in a company have knowledge of its computer systems and security clearance. IT Service Providers are usually organised into onshore/offshore teams in which skilled offshore staff can be rapidly and efficiently sent to a short-term project.

Shortage occupations

If the ICT and/or general Tier 2 points are changed, or the routes are suspended, what does this imply for future policy on, or analysis of, shortage occupations? Alternatively, is there a case in the current economic climate for suspending the shortage occupation route and requiring all Tier 2 sponsors to carry out a RLMT?

15. SCDI does not support either the suspension of the intra-company transfer and/or general Tier 2 routes, or the suspension of the shortage occupation route.
16. In the oil and gas sector, ICT sector and other industrial sectors, the need to bring in highly skilled individuals from outside the EEA for particular specialisms or projects goes beyond the occupations which have been identified on the shortage occupation lists. For example, SCDI and Oil & Gas UK have highlighted a number of omissions in discussions with the Migration Advisory Committee. Nor do the current shortage occupation lists include skills and expertise in specific systems and software that are prerequisites to particular ICT sectors.
17. Requiring all Tier 2 sponsors to carry out a RLMT would lead to delays, increase the length of time and cost for short-term projects, and, as the economy recovers, make it harder for companies to respond to changes in demand.

Resident Labour Market Test (RLMT) route

What evidence is there of the potential impact on the UK economy and labour market of suspending this route until further notice? Is there evidence of displacement of domestic workers under this route? Is the route operating effectively: for instance, should the required advertising time be longer than one or two weeks?

18. Suspending the RLMT route would limit the availability of skills to businesses in key industrial sectors in the UK, affecting their strength and international competitiveness, and, in some cases, reducing the level of service which they can offer to other UK businesses. Neither impact would seem to be sensible for the UK economy in the teeth of a recession. SCDI believes that RLMT-compliant recruitment exercises should be a sufficient safeguard for domestic workers.

Intra-company transfer (ICT)

What evidence is there of the potential impact on the UK economy and labour market of suspending this route until further notice? Is there any evidence of displacement of domestic workers or undercutting? Do workers gaining entry

through the ICT route complement the skills of the domestic workforce? Do such workers fill roles that genuinely require a current company employee?

Oil and Gas Industry

19. SCDI is aware of information compiled by Oil & Gas UK from the sector which demonstrates that intra-company transfers are undertaken only when necessary. Multinational companies which responded to its call for evidence reported that they had used the route less than 20 times in 2009 and/ or on around 70 occasions over the last 5 years. These figures are very limited when compared with the size of the UK industry and, indeed, total immigration to the UK. This would strongly suggest that companies carefully consider whether their skills need is genuine and weigh up the significant costs of relocating a non-EEA worker to the UK before making a decision on taking this route. From the perspective of our wide membership network in North East Scotland and elsewhere in Scotland, SCDI is not aware of any evidence or local concern regarding the displacement of domestic workers or undercutting in the industry.
20. The UK oil and gas industry uses intra-company transfers for:
- Technical roles, usually with specialist engineering or geosciences skills – in the process, this knowledge is also imparted to the domestic workforce
 - Senior level management roles – including MDs and Vice-Presidents
 - International graduate development – graduates are encouraged to work in a range of international locations as part of their training and these opportunities benefit UK graduates and, therefore, the domestic workforce
 - Knowledge transfer between global oil and gas regions – this leads to performance and efficiency improvements in the UK oil and gas sector
 - Securing contracts in international markets – state-owned oil companies often expect in awarding contracts that service companies make a commitment to help develop their own domestic workforce via intra-company transfers to the UK and certainty that these can take place is important in tendering outcomes
21. The suspension of the intra-company transfer route would be likely to marginalise the UK oil and gas industry and make it a less attractive location for globally-mobile investment, and make the UK-based supply chain less able to compete internationally for business. Both would have a damaging impact on the UK's economy, public finances and labour market, and affect UK energy security.
22. There also important regional considerations. The economy of North East Scotland has remained relatively resilient during the economic downturn. The global oil and gas workforce which lives, permanently or temporarily, in the community has undoubtedly helped to support the wider economy at this time. The closure of the intra-company transfer route would therefore not only impact on the industry itself, but the local economy and domestic workers in general.

ICT Industry

23. Intra-company transfers are especially important to the ICT industry as a result of the global delivery model which has evolved. Because of the nature of the World Wide Web, projects may be deployed across international borders, undertaken partly remotely and partly onsite, and need specialist systems knowledge. Skilled offshore staff often need to be rapidly and efficiently sent to a short-term project. Such relocations usually cost more than the average UK worker and are only approved when needed to deliver projects to public and private sector customers. Moreover, there is a self-limiting element to these intra-company transfers in a recession – expenditure on ICT tends to be cut substantially, which reduces the number of projects and, therefore, the need to relocate people to the UK. This means that there is no displacement of domestic workers or undercutting, and the fewer intra-company transfers that do still take place continue to be necessary and to complement the skills of the existing domestic workforce.

24. The UK technology industry uses intra-company transfers for:

- Executive/Development roles – multinational businesses need to have absolutely the right leaders in place if they are to be successful and benefit the UK economy
- Short term skills shortage – when there is no timely, cost effective alternative
- Temporary project transferees – in which there is no permanent UK job
- Graduate and employee development – as with the oil and gas industry, UK workers in multinational ICT companies also benefit from the experience of intra-company transfers and, ultimately, this creates a stronger UK domestic workforce

25. The suspension of the intra-company transfer route would undermine the strength and competitiveness of the UK's ICT sector in the teeth of the recession and its capacity to recover and make progress toward the vision articulated by the UK Government in its 'Digital Britain' report. SCDI is aware of evidence for the trade body Intellect which suggests that, if it is implemented, nearly a third of companies considered that their UK workforce would drop by over 500 jobs and over a third that there would be a revenue loss of over £100m. The potential long-term impact on the UK economy and labour market is very clearly negative.

Conclusion

26. SCDI supported the introduction of the flexible, points-based immigration system. It is right that the Migration Advisory Committee considers how to respond to the economic downturn and deterioration of the UK labour market. However, SCDI believes that the economic case is firmly against restricting Tier 2 immigration to shortage occupations only and suspending the intra-company transfer route. Companies are still familiarising themselves with the new system, any short-term benefits would be minimal, and the longer-term impact would be damaging.

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