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## Let them come?

EU migration and London's economy

On 1 January 2014, temporary restrictions on Bulgarian and Romanian nationals coming to the UK to seek work will expire. Despite some calls to extend the restrictions,<sup>1</sup> **the UK Government has said this would not be possible under existing EU law.**<sup>2</sup> However, in November Prime Minister David Cameron announced proposals for restricting access to health, unemployment and housing benefits for EU migrants. This was welcomed by the Mayor of London and there are indications that other EU states such as France and Germany may follow suit.

**The UK Government has been reluctant to put a figure on the number of additional Bulgarian and Romanian nationals that may enter the UK labour market in 2014. This may have added to apparent growing public unease over the end of restrictions.** Ministers may be reluctant to offer any numbers for fear of it being inaccurate, as happened with the then Labour ministers and the 2004 enlargement. In 2003 the Home Office commissioned a report estimating that net migration from the eight new member states would be between 5,000 and 13,000 per year,<sup>3</sup> but it turned out to be 49,000 in the year of accession alone.<sup>4</sup> **These estimates, however, were based on the premise that the majority of EU member states would not impose 'transitional arrangements', which was not the case.**

A more recent report commissioned by the UK Government into the impact of lifting the restrictions on Bulgarian and Romanian citizens did not provide any estimates on additional arrivals but concluded that "actual numbers of citizens working in the UK may not increase substantially".<sup>5</sup> This was based on analysis of past migration patterns to Spain, Italy and Germany which have been preferred destinations for Bulgarian and Romanian nationals. In addition, compared to the ten countries that joined the EU in 2004, the combined population size of Bulgaria and Romania is significantly smaller (under 29 million in comparison to 75 million).

**Previous inflows from the two countries have actually been comparatively low,** with an estimated 57,000 Bulgarians and 100,000 Romanians living in the UK, but they are highly educated (over three quarters have intermediate or high level qualifications) and have filled skills gaps in sectors, including construction, manufacturing, hospitality, wholesale and retail, and health and social care.<sup>6</sup>

### What are the transitional arrangements for Bulgarian and Romanian nationals?

Bulgaria and Romania joined the EU on 1 January 2007. Under the terms of the accession treaties, existing EU member states could restrict the free movement of workers from the two countries for up to seven years if there were risks of "serious disturbances" in the domestic labour market.

The previous UK Government imposed the transitional controls on Bulgaria and Romania initially for five years and the current Government extended this to the maximum allowed period of seven years. All but four of the other pre-2004 EU member states also imposed some form of restrictions, which they will lift at the same time as the UK.

EU member states had the same transitional control options for the eight countries that joined in 2004. The previous UK Government decided not to impose any restrictions to workers from those new member states, one of only three countries to do so.

Under the transitional arrangements, Bulgarian and Romanian nationals are free to be self-employed and run their own business, but to be employed, the employer needs to apply for a work permit before the worker applies for a registration certificate. Once they have been working legally in the UK for 12 months, they obtain the right to work without restrictions.

There are also separate arrangements for students and those already in the UK, as well as a number of other schemes. From 1 January 2014 these will all be replaced with unrestricted access to the UK labour market.

**London businesses interviewed emphasised the importance of being able to recruit from a larger labour pool** but did not foresee the opening of the UK labour market to Bulgarian and Romanian nationals would impact significantly on the make-up of their workforce. Lifting the restrictions will make it easier for business wishing to employ Bulgarians and Romanians, as the current employment categories are viewed as confusing.

**The opening of the UK labour market to Romanian and Bulgarian workers will be of benefit to London businesses who will be able to access a larger labour pool. The end of the current transitional arrangements will also reduce red tape for businesses looking to employ skilled workers.**

<sup>1</sup> See for example Daily Express: *Say NO to new EU migrants*; Daily Mail: *Enough is enough Mr Cameron: Mail poll reveals voters' deep concern over wave of new migrants*, 21 November 2013; and The Telegraph: *Half of Britons think Romanians and Bulgarians should not be allowed to live or work in UK*, 25 November 2013

<sup>2</sup> E-petition: *Stop mass immigration from Bulgarian and Romanians in 2014, when EU restrictions on immigration are relaxed*, at <http://epetitions.direct.gov.uk/petitions/41492>; and Harper, M. in "Immigration (Bulgaria and Romania)", *Hansard*, 22 April 2013, Column 227WH. However, in November Prime Minister David Cameron announced proposals for restricting access to health, unemployment and housing benefits for EU migrants. This was welcomed by the Mayor of London and there are indications that other EU states, including Germany and France, may follow suit.

<sup>3</sup> Dustmann, C., et. al. (2003): *The Impact of EU Enlargement on Migration Flows*, Home Office Online Report 25/03

<sup>4</sup> The net total for 2004-2010 was 353,000. See Vargas-Silva, C. (2010): *Migration Flows of A8 and other EU Migrants to and from the UK*, The University of Oxford Migration Observatory

<sup>5</sup> Rolfe, H., et. al. (2013): *Potential impacts on the UK of future migration from Bulgaria and Romania*, NIESR, p. iv

<sup>6</sup> Office for National Statistics (ONS) (2013): *Population by Country of Birth and Nationality, 2012*; and Rolfe, et. al. (2013), pp. 21, 24-25

**Economic migration has always played a vital role in London's economic development.** Historically, diverse migrant communities have helped establish London as a centre for trade and finance, deliver vital public services and fill positions in sectors with acute labour shortages.<sup>7</sup>

London's demography has changed significantly as a result of immigration, with the number of non-UK born residents growing from 1.17 million in 1986 to an estimated three million today – 37 per cent of London's resident population. Approximately one-third of those are EU citizens.<sup>8</sup>

Figure 1: London businesses employing migrant workers



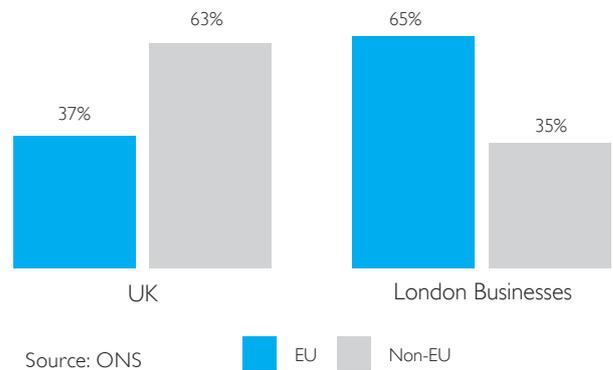
**The majority of London businesses employ migrant workers.** According to LCCI's member survey,<sup>9</sup> 52 per cent employ migrant workers (see Figure 1) – an eight per cent increase on 2011.<sup>10</sup> While for one in ten businesses migrant workers composed over 60 per cent of their workforce; for 23 per cent it was under a fifth of their workforce. Whereas official data shows that the national workforce is comprised of one-third EU workers and two-thirds non-EU,<sup>11</sup> two-thirds of the migrant workers employed by LCCI members were from the EU, compared to one-third of non-EU origin (see Figure 2).

Much of the immigration debate has centred on the additional strain placed on public finances. Unlike the majority of countries within the EU, in the UK benefits like jobseeker's allowance, pension credit and housing support can be claimed without having paid into the system.<sup>12</sup> To prevent potential abuses, EU migrants

are assessed against the "habitual residence test" to demonstrate that they intend to live and work in the UK.<sup>13</sup>

**However, EU migrants have been found to be less likely to rely on welfare benefits than the overall UK population.** A higher proportion of EU citizens are in employment (63.3 per cent) than UK-born citizens (56.2 per cent), making them less likely to receive unemployment benefits.<sup>14</sup>

Figure 2: EU and non-EU workers as a proportion of all UK migrant workers and among London businesses



Source: ONS

**EU migrants have made a positive net fiscal contribution to the UK's public finances, paying more in taxes than they receive in benefits; and limiting EU migration would have significant economic costs.** Between 2001 and 2011, EU migrants put 34 per cent more into the UK system than they took out, amounting to a net fiscal contribution of £22.1 billion (in contrast to a negative fiscal contribution of £624.1 billion by the UK-born population).<sup>15</sup> **If the UK were to exit the EU and limit migration, the cost to the economy would amount to £60 billion in real terms, or two per cent of GDP, in 2050-51.**<sup>16</sup>

**London businesses support immigration because of the economic benefits it brings.** According to LCCI's survey, 55 per cent of London businesses believe that, taking into account the impact on public services, immigration has a positive effect on London's economy, while only 25 per cent believe it has a negative effect.

Overall, EU migrants benefit London's economy, making a net contribution to the UK's public finances. Leaving the EU and limiting the free movement of people would have significant cost impact to the UK economy.

<sup>7</sup> Henry, Z. (1985): "The New Commonwealth Migrants 1945-62" in *History Today*, Vol. 35, No. 12; and LSE (2010): *The Impact of Recent Immigration on the London Economy*, p.11

<sup>8</sup> Of the 63.7 million total UK population, approximately 7.68 million (12 per cent) are foreign-born. ONS (2013): *Annual Mid-year Population Estimates, 2011 and 2012*

<sup>9</sup> November 2013 LCCI survey of 144 London businesses

<sup>10</sup> June 2011 LCCI survey of 222 London businesses

<sup>11</sup> Of the 4.4 million non-UK born workers in the UK, 1.63 million were from the EU compared to 2.75 million from outside the EU. ONS (2013): *EMP06: Employment by country of birth and nationality*

<sup>12</sup> Finland, Germany, Estonia and Ireland are the only other EU member states that do so.

<sup>13</sup> Citizens' Advice Bureau (2013): *Coming from abroad and claiming benefits - the habitual residence test*, at [http://www.adviceguide.org.uk/england/benefits\\_e/benefits\\_coming\\_from\\_abroad\\_and\\_claiming\\_benefits\\_hrt.htm](http://www.adviceguide.org.uk/england/benefits_e/benefits_coming_from_abroad_and_claiming_benefits_hrt.htm)

<sup>14</sup> CEBR (2013): *The Impact of the European Union on the UK Labour Market*

<sup>15</sup> Dustmann, C. and Frattini, T. (2013): *The Fiscal Effects of Immigration to the UK*, University College London, p. 27. See also OECD (2013): *International Migration Outlook 2013*

<sup>16</sup> CEBR (2013), op. cit.

## SKILLS CONTRIBUTION OF EU MIGRANTS

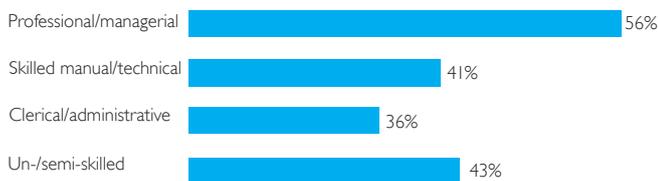
EU migrants are commonly thought of as low-skilled and alleged to be driving down wages and taking jobs that could be done by UK workers. However, **EU migrants are employed across all occupational levels**, with only a fractionally larger proportion employed at lower middle level positions (see Figure 3).<sup>17</sup> LCCI research found that a greater proportion of London businesses (56 per cent) employ EU workers in professional and managerial positions than at other occupational levels (See Figure 4).<sup>18</sup>

**Figure 3: Proportion of EU migrant workers at different skill levels in the UK**



Source: ONS

**Figure 4: Proportion of businesses employing EU workers at different occupational levels**



**Migrant workers are also employed in a broad range of sectors across London's economy.** A recent study found that migrants from other EU countries were more likely than the native population to be employed in industries such as financial services, professional and business services, real estate, hospitality, manufacturing, and administrative activities. Wholesale and retail, transport and communications, and health and social care are also sectors with a higher proportion of migrant workers overall.<sup>19</sup>

**Skills gaps are the main reason London businesses employ EU workers**, as LCCI members believe there is currently a short supply of domestic candidates with the required skills (58 per cent) or experience (40 per cent) (see Figure 5).

**Migrants do play an important role in filling skills gaps in a number of key economic sectors.** A recent Government review of engineering skills, for example, found the UK relies heavily on immigration in this area. EU and non-EU migrants account for 20 per cent of professionals in the UK in strategically important sectors such as oil and gas extraction, aerospace, and computer, electronic and optical engineering.<sup>20</sup> Businesses interviewed also remarked recruiting technically trained staff has been "a big problem" for the engineering sector.

**Even with foreign labour, some sectors still suffer from skills shortages.** The construction industry, for example, is known to experience shortages in bricklaying, joinery, roofing, plumbing and other skilled trades.<sup>21</sup> As a result, many employers are putting more effort into training British young people.

### Case study: Apprenticeships

The Director of a medium-sized decorating company established a successful apprenticeship programme in 1995 as a means to secure the long-term future of the business: "my youngest worker was in his late-20s and it was quite clear that in another 10 years I would have a problem. I had been an apprentice myself so decided to start an apprenticeship scheme because my business needed it then and it continues to need it now, despite the availability of EU labour. The programme has grown over the last few years and currently includes 12 apprentices and seven trainees. Overall, 65 per cent of the company's workforce has come through a traditional apprenticeship route."

Prime Minister David Cameron recently commented that the UK should be saying "no" to European migrants, supporting young people to develop the skills necessary instead.<sup>22</sup> However, LCCI does not believe the two issues are mutually exclusive. Addressing systemic labour shortages will take a long time and the effects of any investment will take several years to manifest. The UK must keep its borders open to economic migrants in the short term at least.

LCCI endorses investment in, and support for, more apprenticeships and training to equip young people and adult learners with the skills that businesses need. However, this is a long-term challenge and London businesses must be able to access the services of skilled migrant workers in the short term.

<sup>17</sup> LCCI analysis of ONS (2011): *Non-UK born workers – 2011*

<sup>18</sup> November 2013 LCCI survey of 144 London businesses. The figure represents the proportion of businesses that employ any number of workers at the specified levels.

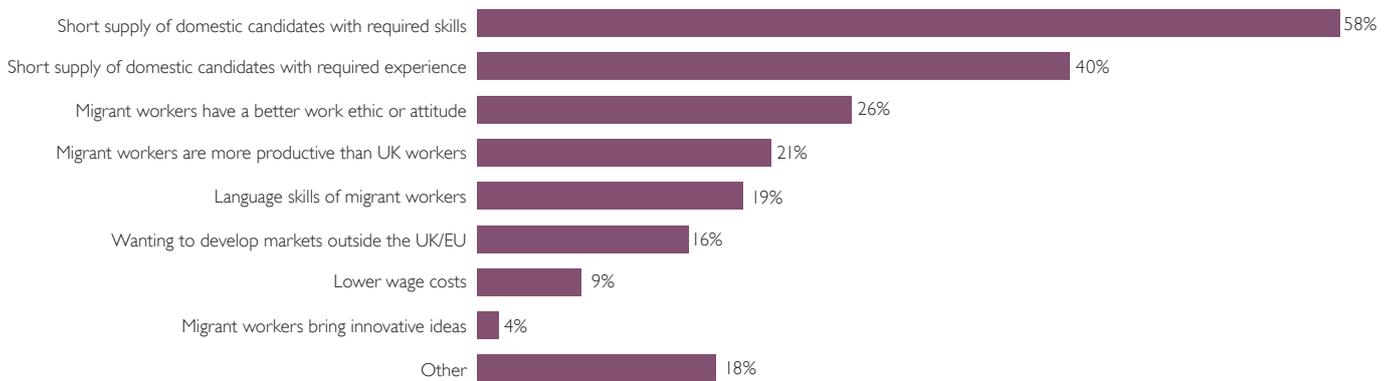
<sup>19</sup> ESRC Centre on Migration, Policy and Society (2010): *An Evidence Base of Migration and Integration in London*, University of Oxford, pp. 58-9; CEBR (August 2013), *The Impact of the European Union on the Labour Market*, p.10

<sup>20</sup> NIESR (2012): *Skilled immigration and strategically important skills in the UK economy*, quoted in Department for Business, Innovation and Skills (2013): *Professor John Perkins' Review of Engineering Skills*, pp. 11-12

<sup>21</sup> *Simply Business: Struggling to find a tradesman? Study shows numbers are falling*, 15 March 2013

<sup>22</sup> *The Telegraph: Britain must say 'no' to eastern European workers, says Cameron*, 28 October 2013

Figure 5: Reasons London businesses employ EU workers



**EU workers' different attitudes to work are attractive to London businesses.** Having a better work ethic (26 per cent), specifically a willingness to work longer or outside core hours, and being more productive (21 per cent) were cited as important reasons for employing EU workers (see Figure 5). This is one reason why London's retail, hospitality, leisure and tourism sectors, for example, are known to have a high proportion of EU workers, as well as UK-born workers' reluctance to see those sectors as a long-term career option.<sup>23</sup>

#### Case study: Hospitality sector

The Director of a central London hotel and conference centre, who employs a majority of EU workers including Romanians, said: "hospitality, particularly in London, is a growing industry but not enough British people are interested in hospitality as a career, leading to a high percentage of EU, and non-EU, workers. Hospitality is something you need to have a passion for. It is about customer service, making people feel nice. As long as they can legally work in the UK, we recruit the person that has the right attitudes and skills to fill a position regardless of their passport."

**Migrant workers also play a vital role in helping businesses' wanting to export.** Thirty five per cent of London companies employ EU migrants because of their language skills and/or because they want to develop markets outside the UK (see Figure 5). Their knowledge of markets and populations of their mother countries can help expand overseas business contacts and trade links, enabling businesses to take advantage of overseas growth opportunities.

#### Case study: Foreign Languages

Industries such as tourism, leisure and hospitality, and translation services are particularly dependent on language skills but can find it difficult to recruit domestic candidates with a sufficient level of proficiency. The Managing Director of a legal and financial translations company remarked: "There is a dearth of linguistic specialists in the UK. We have contact with linguists from all over the world, and the ability to speak a second or third language is taken far more seriously on the continent than it is in the UK."

**Finally, one of the other main benefits of the free movement of labour across the EU is that it expands businesses' recruitment pool.** Businesses interviewed saw EU and native British workers as part of the same, enlarged, labour market. This is hugely important for small and medium sized businesses that find the complex immigration regulations a barrier to employing non-EU workers.

There appears to be a business demand for employees with specific skills, attitudes and experiences that are unique to economic migrants and are not currently readily available in the UK labour market. Restricting EU migration to the UK could lead to a shortage of skilled workers that many companies are dependent on. This could harm London's economic growth and firms' ability to trade both domestically and internationally. The Government should move to neutralise the increasingly negative public image of EU migration and promote the economic benefits to the UK of the free movement of labour.

<sup>23</sup> CIPD (2013): *The state of migration: employing migrant workers*

## SUMMARY

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On 1 January 2014, temporary restrictions on Bulgarian and Romanian nationals – which have been in place since the countries joined the EU in 2007 – will expire, removing barriers to their employment in the UK. The public concern for how this will impact on public services and jobs has once again brought the migration debate to the fore.

The Government has made it clear that it would not be possible to further extend the restrictions on Bulgarians and Romanians. The issue of EU migration, however, is high on the Government's priority list and part of the Prime Minister's agenda to renegotiate the terms of the UK's EU membership. In response to public concerns about levels of EU migration, the Prime Minister also announced a number of measures to limit the access to welfare benefits for all EU migrants.

London Chamber of Commerce and Industry (LCCI) is concerned that the value of access to migrant workers to businesses is being overlooked and must be promoted. This briefing aims to look beyond the emotions and assumptions traditionally involved in discussing EU migration to examine its vital role in the current and future success of London's economy. Based on a survey and in-depth interviews of London businesses, LCCI asks the Government to consider the following points:

### i. Opening the UK labour market to Bulgarians and Romanians will be beneficial to London businesses

The expiry of transitional arrangements for Romanian and Bulgarian workers will make it much simpler for businesses wishing to employ them and offer them a larger pool of labour.

### ii. EU workers make a valuable economic contribution

EU migrants make a net positive contribution to the UK's public finances, paying more in taxes than they receive in benefits. If the UK were to exit the EU and limit immigration, it would affect economic growth significantly.

### iii. Restricting EU migration would harm economic growth

The Government should do more to equip young people with the skills that businesses need. In the short-term, however, many firms rely on access to skilled EU migrants and restricting it would harm economic growth. The Government must move to neutralise the increasingly negative public image of EU migrants and promote the economic benefits to the UK of the free movement of EU workers.

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LCCI represents London businesses' interests to the Mayor and the GLA, national Government, Parliament and other relevant stakeholders. LCCI's research focuses on business-related matters led by the views and experiences of our member companies and is characterised by its independence and solution-focused approach.

Any data reproduced from the briefing should be fully referenced.

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