

# BREXIT AND INDUSTRIAL STRATEGY

## CBI RESPONSE TO MIGRATION ADVISORY COMMITTEE'S CALL FOR EVIDENCE

The CBI believes that the creation of a new system for managing EU migration should be evidence-led and welcomes the opportunity to contribute to the Migration Advisory Committee's (MAC) understanding of the impact on the labour market of EU migration and the role of the UK immigration system in supporting the industrial strategy. The CBI is the UK's leading business organisation, speaking for some 190,000 businesses that together employ around a third of the UK's private sector workforce. Its mission is to help businesses create a more prosperous society.

People and skills are at the heart of UK prosperity and the competitiveness of businesses with operations here. The prospect of new immigration rules and uncertainty about the status of EU workers are among the issues most frequently raised by CBI members since the UK's decision to leave the EU, and ensuring that companies can access the right skills and effort is essential to unlocking the full potential of industrial strategy.

To gather evidence for this submission, the CBI held regional and sectoral meetings with its members throughout the UK. The views and examples collected from these meetings found that EU migration has boosted jobs, investment and trade. It is equally clear however, that uncertainty is undermining long-term confidence, and that it is already damaging the ability of companies to recruit and retain key workers. To best support the industrial strategy and maintain the benefits of EU migration, a new immigration system must:

- 1) Ensure frictionless access to the skilled workers that businesses need, not only to the 'brightest and best'
- 2) Provide access to labour required to fill regional and sectoral shortages
- 3) Meet the diverse needs of all regions and nations of the UK
- 4) Allow businesses to easily move staff to and from Europe
- 5) Restore public confidence that migration is being effectively managed

### **EU migration has boosted jobs, investment and trade, but these benefits are being weakened by uncertainty**

Ensuring the UK is an attractive place to invest and do business is essential for job prospects and our future prosperity. Access to the skills, ideas and talent which overseas workers bring adds to the high employment rates of UK nationals by ensuring that firms operating in the UK can be competitive with their global rivals. Concern amongst business about this access has been steadily rising, even before the EU referendum. Between 2012 and 2015 the proportion of firms reporting access to overseas workers as a threat to the competitiveness of the UK more than doubled, rising from 6% to 16%.<sup>1</sup> Since the UK's decision to leave the EU, this concern has escalated significantly. In 2016, 31% of firms saw access to highly skilled migrants as a threat to competitiveness, with even more (35%) concerned over access to labour supply.<sup>2</sup>

### **EEA migration creates jobs in the UK for British nationals...**

Technology has globalised business, meaning that geographic proximity to customers – while still important to business location decisions – has declined relative to other factors such as a firm's ability to assemble the

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<sup>1</sup> *Employment Trends Surveys*, CBI/Accenture, 2012-2015.

<sup>2</sup> *People and partnership: Employment Trends Survey 2016*, CBI/Pertemps, December 2016.

best team. It means that more jobs, often highly skilled and well-paid ones, serve Europe-wide or larger international markets. Attracting these international jobs to the UK increases the proportion that are filled by British workers. For example, many firms operate international graduate schemes from the UK. Having them here rather than elsewhere in Europe makes these opportunities more accessible to British workers. The viability of UK-based international schemes rests on being able to bring workers to the UK. Far from immigration reducing employment opportunities for British workers, CBI members are clear that being open to companies assembling global teams here increases the opportunities for UK workers.

Migrants also support the availability of employment opportunities for UK workers when skill and labour shortages would otherwise force companies to consider moving jobs overseas to access the workforce they need.

**“Our Europe, Middle East and Africa (EMEA) business is based in the UK and consists of market specialists who are often from the particular country we seek to gather information on. If we cannot easily access this expert international knowledge, then the viability of the EMEA business in London will be called into question.”**

Financial services provider, London

**“Many of our people working in the UK are in European roles that require knowledge of our consumers in those countries. Given the global nature of our business, if we are not able to access talent, we may need to move certain activities outside of the UK to ensure we support our consumers in the best possible way. Recruitment of EU workers is therefore very important for our UK operations.”**

International drinks manufacturer, London

### **...boosts foreign direct investment...**

The UK remains Europe’s number one destination for Foreign Direct Investment (FDI)<sup>3</sup>, directly creating 44,665 jobs in 2016.<sup>4</sup> This investment generates growth and helps improve living standards across Britain. The UK’s reputation as an open society and stable jurisdiction, as well as advantages of time zone centrality and language, are key factors in making the UK an attractive destination for foreign investment. But increasingly a company’s ability to access the right people and skills is the deciding factor when a company considers where to invest.

Being open to people from overseas has a long-term positive impact on the level of investment into the UK. Whether it is time spent as part of an intra-company transfer, as a student, or as a worker, time spent in the UK is correlated with a higher likelihood of choosing to invest here rather than elsewhere in the future.<sup>5</sup>

Over 40% of businesses have reported that Brexit has affected their investment decisions according to a recent CBI survey, with 98% saying the impact has been negative.<sup>6</sup> Uncertainty about the rules that will govern migration from the EU in the future is one of the most significant factors, ranking equally important as uncertainty about the UK’s future trading relationships. This shows that uncertainty is having a damaging impact already and that the UK cannot be complacent about the time it takes to give businesses the certainty that they will be able to access the people and skills that they need to base their operations here. Sometimes it is investment earmarked for the UK that is paused. In other examples, UK CEOs have reported that it is already more difficult to make the case for investing in the UK rather than other business locations. Clarity over future access to people and skills from the EU is needed to prevent active relocation of operations overseas. For some that moment has already passed. 10% of firms have already begun implementing contingency plans, whilst 60% will need to implement them if there is not sufficient clarity 12 months before

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<sup>3</sup> *FDI mid-year update up to Q1 2017*, OECD, July 2017.

<sup>4</sup> *Time to act: EY’s Attractiveness Survey*, EY, May 2017.

<sup>5</sup> *The Wider Benefits of International Higher Education in the UK*, BIS, 2013.

<sup>6</sup> *Brexit affecting investment decisions now*, CBI, July 2017.

changes are due to come into effect.<sup>7</sup> The impact is acutely felt in Northern Ireland. Here the option of relocating south of the border to the Republic of Ireland is far easier than it is for firms operating elsewhere in the UK.

**“Growing concern and a lack of clarity over the future migration system is another factor tipping the scales in favour of us relocating south of the border – an option we are now actively considering.”**

Agri-food manufacturer, Northern Ireland

**“We had originally planned to expand investment in one of our plants to manufacture a new product range for the global market. However, anxiety over future access to the specific skill set, which was required from outside of the UK, has meant we have decided to explore offshoring elements of the manufacturing process to outside of the UK instead.”**

Bathroom fittings and shower manufacturer, South West

**“The longer this uncertainty lasts, about future access to global talent, the more our parent company becomes nervous about the UK being the right place to have its European HQ.”**

International car manufacturer

**“We have concerns over our long-term ability to recruit the necessary skills, which includes EU migrants, to ensure we can support the delivery of significant infrastructure projects in the UK.”**

Engineering provider to the energy sector, Scotland

**“We are actively deferring any further investment decisions in the UK until there is more certainty on our ability to continue to easily access European skills and talent post-Brexit. As a US parented company with only 2% of revenue coming from the UK, access to talent is a major factor in our decision about where to base our EU footprint.”**

American parented company

### **...and increases our ability to export goods and services**

The UK needs a migration system that reflects its ambition to both maintain extensive trade with Europe and expand relationships with the rest of the world. Accelerating the UK's export performance is a key component needed to strengthen the UK economy and to raise living standards for all. Exporters often tell us they benefit from hiring foreign staff as they bring market awareness, cultural understanding and language skills which help firms to expand overseas and break into new markets. International travel, not only for short-term business trips but also often longer-term secondments, underpins trade in both goods and services. Any new migration system must facilitate access to overseas workers and easy cross border travel to avoid imposing unintentional non-tariff barriers to trade.

**“We are a global company headquartered in Manchester, but Europe is a significant market for our products with strong consumer brands in both Greece and Poland. For us to sustain growth, it is vital that we can continue to easily travel to our customer base in these markets.”**

International consumer brands company

### **Failure to quickly guarantee the status of EU workers has already damaged the ability to attract and retain key workers**

16 months on from the UK's decision to leave the EU, Europeans living in the UK are still unclear about their future rights in the UK. This uncertainty, combined with currency devaluation and an increased sense of feeling unwelcome, has caused many EU nationals to leave and made it harder to attract Europeans to the UK. Latest migration statistics show a 28% drop in net EU migration between the year ending December 2015 and December 2016 (down 51,000 from 184,000 to 133,000)<sup>8</sup>, and examples from CBI members suggest that the situation has become worse throughout 2017. This reduction in the supply of EU labour and

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<sup>7</sup> *No more Brexit soap opera: Time to unite to achieve best deal*, CBI Press Release, 5 November 2017.

<sup>8</sup> *Migration Statistics Quarterly Report*, Office for National Statistics, August 2017.

skills is already having a detrimental impact on the ability of UK firms to deliver the goods and services expected from them by their customers. EU nationals in the UK must have the confidence that they are welcome to remain and continue contributing to our economy. Guaranteeing the rights of EU nationals is the first necessary step to demonstrating the open, global Britain that Government has rightly prioritised as its approach to Brexit and industrial strategy.

The current language being used within the immigration debate and constant focus by politicians about reducing migration is having a detrimental impact on the attractiveness of the UK as a place to work. It is causing workers of all skill levels – and most acutely the highly skilled – to hesitate about coming to the UK due to anxieties about feeling undervalued and unwelcome. If the UK is to remain a globally attractive destination for people to come and work, the language and tone which Government uses in the public debate must reflect the important contributions migrants make to this country.

**“Many existing EU employees currently feel unwelcome and unsure about remaining in the UK, with some already starting to leave. As a result, we have seen a tightening of the labour market for our front-line factory operatives and temporary labour. This has already had an impact on production and caused disruption in supplying some of our customers.”**

Food manufacturer, East Midlands

**“I lost a very good Greek engineer who went back to Greece a month after the referendum vote. She was approached in the street and told to go home. So she decided to do just that.”**

Electrical engineering firm, North East

**“So far this year we have already lost 22 EU nationals. Not only is it quantity, but quality. We are seeing our brightest workers leave first as they seek to secure the best jobs elsewhere in Europe before competition increases as more EU nationals leave the UK.”**

Professional lighting manufacturer, West Midlands

**“Our shortage of skilled machine operators has been compounded by a third of our EU workforce returning to the continent post-referendum”**

Small manufacturer, South West

**“Since the referendum applications from EU nationals for care positions have fallen off a cliff.”**

National healthcare provider

**“Through our supply chain we are starting to see real recruitment problems now and we expect these to rise as we increase staffing numbers towards Christmas.”**

National supermarket

**“Last year we lost 4% of our daffodil crop due to a persistent labour shortfall. This year’s loss equates to 20 million stems of daffodils left unpicked in the fields.”**

International fruit and vegetable supplier, East Midlands

**“Over the summer we suspend our production line to allow holidays and many of our EU nationals go home for a short period. This autumn a far higher amount than usually choose not to return. From the exit interviews the primary reasons were: increasing uncertainty about their right to remain, experiencing increased levels of xenophobia and their earnings going not going as far due to the exchange rate.”**

International car manufacturer

**“We are a global university and compete with other institutions from around the world to attract top academics. Historically this has not been an issue and we continue to recruit competitively. However, we are increasingly seeing hesitancy amongst some candidates worried they may not be welcomed in the UK.”**

University, Scotland

**“All this political rhetoric about reducing net migration and only wanting highly-skilled migrants is having serious unintended consequences... Outside of these four shores the UK is now seen as an unfriendly place to come and build your career.”**

Electrical engineering firm, North East

**“We are concerned that the type of language being used to refer EU migrants is driving away the very skills and labour which the economy requires to grow.”**

Construction and property company, London

**“Even if the new migration system provides adequate routes for the EU migrants we need, they may not want to come. We need to make the UK an attractive place to work. Something we are currently failing to do.”**

Small manufacturer, South West

### Key conclusions

- It is important to jobs, investment, trade and growth that companies of all sizes and in all sectors, have confidence that they will be able to attract the people and skills they need to thrive here in the UK
- Migration directly supports jobs for British workers by enabling globally focused roles to be based in the UK and by underpinning industries which would otherwise relocate to avoid skill or labour shortages
- Investment decisions are already being negatively impacted by uncertainty over future access to skills and talent from the EU
- Anti-immigration rhetoric is making the UK a less attractive place to work, damaging the ability of UK-based firms to recruit or retain an international workforce
- Trade and exports are enhanced by a firm’s ability to access overseas workers that have in-depth market knowledge

## **Industrial strategy is best supported by an approach to migration that meets all of businesses’ skills needs, not only the need for the ‘brightest and best’**

Access to a skilled workforce stimulates innovation, drives productivity gains and enables companies to grow. As the UK leaves the EU and implements a new industrial strategy, ensuring access to this pool of skilled talent is a top concern for business. In 2016 a third of firms (31%) viewed access to skilled migrants as a threat to competitiveness.<sup>9</sup> Looking ahead, this rises to nearly six in ten (58%)<sup>10</sup> businesses who see difficulty in recruiting skilled migrants as a threat to competitiveness in five years’ time. The proportion of businesses not confident there will be enough people with the skills necessary to fill their future skilled roles has reached a new high (69%).<sup>11</sup>

## **Businesses need to both invest in their workforce and recruit from overseas**

Businesses do not regard migration as a substitute to training. They recognise that they need both to be successful. In 2015, UK businesses invested over £45bn in training and skills<sup>12</sup> – more than the schools budget in England in the same year.<sup>13</sup> But business does recognise there is still more to do to upskill the

<sup>9</sup> *People and partnership: Employment Trends Survey 2016*, CBI/Pertemps, December 2016.

<sup>10</sup> *People and partnership: Employment Trends Survey 2016*, CBI/Pertemps, December 2016.

<sup>11</sup> *The Right Combination: Education and Skills Survey 2016*. CBI/Pearson, July 2016.

<sup>12</sup> *UK employer skills survey*, UKCES, 2015.

<sup>13</sup> *Schools spending*, Institute for Fiscal Studies, 2015.

domestic workforce. Getting the education and skills system right is a fundamental long-term challenge which business is committed to. Whether on the Apprenticeship Levy, T-levels, or pathways to higher education – business wants to work collaboratively with Government to deliver the skills system we need. Getting this right will reduce some of the future demand for overseas skills. But this pipeline cannot be switched on overnight, and even with a perfect skills system, UK competitiveness would be improved by having access to a global workforce. The UK's skills needs will only be met if we have the widest pool of talent to draw upon, including from abroad, so it is false to present a binary choice between investing in training or hiring migrants, business need to do both.

**“As a foreign company operating in the UK, we are deeply committed to investing in training and upskilling British workers. But this takes time. We have skilled roles which we have not been able to find British workers to fill and so must be able to recruit from abroad.”**

International car manufacturer

### **Highly-skilled migrants make irreplaceable contributions to the UK and should be welcomed, not restricted**

Being able to recruit highly-skilled talent with relative ease, from both Europe and around the globe, ensures British businesses can compete globally and create prosperity for all. We face critical skills shortages across numerous sectors and professions which is holding the economy back. Immigration plays a vital role by supplementing skills and plugging these gaps, which is critical for success of the industrial strategy. EEA migrants are also key in filling critical ‘lynchpin’ roles which underpin entire supply chains.

But immigration must not only be viewed through the narrow prism of being about filling domestic skills shortages. Overseas workers bring fresh ideas, added diversity, and unique skills sets which cannot be replicated and are critical for success of the industrial strategy. Migrants often bring unique cultural understanding or specialist knowledge which British workers cannot provide, even if trained to the highest degree. British firms are operating in a global environment and if they are not able to access the world's top talent, from academia to engineering to life sciences, then they will be at a distinct competitive disadvantage.

**“We are already facing a significant skills shortage for engineering roles. If you restrict access to EU migrants then the pool of available talent shrinks even further and only exacerbates the problem.”**

Manufacturer, West Midlands

**“It is the law that for an abattoir to operate a vet is needed on site. Currently 98% of vets working in Scottish abattoirs are EU nationals. If these vets aren't there then the whole abattoir has to suspend production, meaning farms can't pass on their livestock and meat products don't reach retailers' shelves.”**

Food and drink manufacturer, Scotland

**“We have a diverse workforce with employees from the EU working in our London, Edinburgh and Belfast offices and UK citizens working across Europe. That diversity is very important to us to ensure our workforce matches the diversity of our consumers.”**

International drink manufacturer

**“The UK currently has a huge amount going for it on the global stage, such as being a world leader in R&D. But if we restrict access to the global talent behind such success, then we risk cutting this off at the knees without even knowing it.”**

International consumer brands company

### **Non-graduate skills are equally important and this must be reflected in any new migration system**

Under the current non-EEA route for skilled migration, the Tier 2 visa route, skilled is defined as holding a degree (RVQ level 6). Business is clear this is an overly simplistic and unsatisfactory definition of 'skilled'. You do not need to hold a degree to be a welder in the construction industry, but this is obviously not an

unskilled role. These roles either require a large degree of relevant experience or a high level of technical training. Many of the biggest immediate skills pressures in the UK are for roles that would not meet a graduate level skills test, for example large goods vehicle (LGV) drivers<sup>14</sup> and technician roles in manufacturing.<sup>15</sup>

Businesses look to hire the best people for the job. As well as requiring recognition of technical skills as well as graduate skills, this assessment must also take account of experience. Any new migration system must be flexible enough to allow business to recruit these workers and not restrict the pool to only those with specific formal qualifications. Languages is a prime example where there are not enough British workers with the necessary skills and businesses recruit native speakers to fill the gaps, many of whom often lack a formal qualification.

**“The sector already faces a severe shortage across a range of vocational skills and the demographic challenge of a rapidly ageing workforce. Turning off the tap of migrant labour precisely when we have greater number of tradespeople retiring would threaten our ability to deliver the homes the UK needs.”**

One of the UK’s largest housebuilders, London

**“We are facing a chronic shortage of LGV drivers which EU nationals are currently helping to fill. If this supply of skilled labour was restricted it would have a massive cross-cutting impact on sectors across the economy.”**

Recruitment agency

**“The call centre for many of our European customers is based in the UK and we rely on recruiting staff with fluent language skills in many European languages. There simply isn’t this skill base in the UK and we therefore depend on hiring native speakers from across Europe.”**

Financial services provider, South East

**“We provide services to both the public and private sector, interpreting and translating in more than 1,000 different language pairs. The language skills in the UK are insufficient to meet our clients’ demands. All of our translators and interpreters must pass our own independent test of their language skills before they can start work, rather than us depending on the quality of any qualifications they may have.”**

International translation and interpreting company

**“People is a gamechanger for us. We require a bespoke set of skills which, to date, we have been unable to find in the UK so are forced to recruit from abroad. Programming and operating robots used on our production line is a highly-skilled role which doesn’t require a degree.”**

International car manufacturer

## **A swift, simple and fee-free system is needed for businesses hiring skilled European migrants**

The existing non-EEA visa system is a highly complex, time consuming and expensive process which many employers struggle to navigate. For example, the guidance document alone for sponsors is 205 pages long.<sup>16</sup> With many businesses, but particularly SMEs, unable to recruit via the non-EEA system because of these burdens, introducing a system with similar levels of bureaucracy when hiring EU nationals would prevent many businesses from hiring anybody who wasn’t British. This would have a dramatic impact and it would be smaller and medium-sized companies that would be worst hit. Businesses must not be required to hold a license to recruit EU workers.

The impact is again likely to be seen first in Northern Ireland. Firms face direct competition from businesses in the Republic, so new processes which make it more difficult and costly to recruit EU workers will

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<sup>14</sup> *The Driver Shortage: Issues and Trends*, Freight Transport Association, October 2016.

<sup>15</sup> *An Up-Skill Battle: EEF Skills Report 2016*, EEF, 2016.

<sup>16</sup> *Tiers 2 and 5: guidance for sponsors*, Home Office, May 2017.

undermine competitiveness and encourage relocation of operations south of the border. The current non-EEA system is not just burdensome for business, but arduous for individual applicants as well. This complexity is already putting some people off coming to the UK. The approach that is needed for EU nationals, and more generally, is to make the UK the best place to work.

The Immigration Skills Charge is a penalty charge. The revenue raised is not used to address the skill shortages that led to an overseas worker being needed, and it fails to recognise that the clear majority of businesses do not choose to hire from overseas instead of investing in training. The government should rule out a similar charge being imposed on businesses that hire EU workers.

**“Imposing the current system of employer sponsorship should be avoided at all costs and the top priority when designing the new migration system. The costs and administration processes required to be compliant are excessive.”**

International law firm, North East

**“Companies like mine will simply not go down this process (non-EEA employer sponsorship) if they can hire the person who is best for the role elsewhere. We will go to the likes of Italy or America where the process is easier. If a similar system was imposed, we would move as it would be a nightmare.”**

Electrical engineering firm, North East

**“The hoops we already have to jump through and level of bureaucracy involved when hiring a worker from outside the EU is frightening. But the thought of having to go through a similar process in the future when we want to recruit an EU worker genuinely scares me. Our non UK workforce brings differing skills and diversity of thought and experience to the business and if we are truly going to meet the needs of our customers we need to continue to embrace this.”**

Bathroom fittings and shower manufacturer, South West

**“If the new migration system hinders our ability to easily access the talent we need in Northern Ireland, we will relocate operations to the Republic where necessary.”**

American parented business services company, Northern Ireland

**“We need a light touch system for managing EU migration. We face intense competitive pressures from firms operating in the Republic and any increased administrative burdens as a result of the new system will put us at a disadvantage when compared to rival firms south of the border.”**

Software development firm, Northern Ireland

**“The Tier 2 system is administratively cumbersome for us, but it also is for applicants. One international candidate told us they took a job in Australia rather than the UK because of the complexity of the visa process and cost involved. It is important that any system to manage European migration is as simple as possible.”**

University

**“The problem with the RLMT is that it is too lengthy. The EU migrants we need are unlikely to come to the UK as during that 28 day period they are more likely to find or be offered a similar job elsewhere in Europe and take that up instead.”**

Japanese manufacturing company

**“Our industry employs around 80,000 seasonal workers across the UK for the harvest each year. If the £1,000 Immigration Skills Charge was applied it would increase cost of crops by £9 per tonne on average. This would make production unviable and these crops simply would not be grown and harvested in the UK.”**

National Farmers Union Scotland (NFUS)

**“The cost for us if the Tier 2 system was copied and pasted for EU nationals would be prohibitive. It would make the UK an unattractive place to business.”**

American technology company, London



## The new migration system must provide routes for entrepreneurs and self-employed workers

Europeans who travel to the UK as entrepreneurs or choose to start their own business here make an important contribution to the economy. Freelancers also underpin the success of many UK industries, for example the creative sector. The new system for EU migration must provide an effective route for skilled self-employed workers. The requirement for EU nationals to have a traditional contract of employment before they can travel to the UK would prohibit access to those wishing to become self-employed or work on a freelance basis. As the UK Government have recently noted, it is possible to manage migration by controlling access to the labour market and social security, rather than imposing border controls.<sup>17</sup> The UK may wish to draw upon the Swiss model for EU migration in this regard. EU nationals who are self-employed can travel to Switzerland and can apply for a residence/work permit valid for five years “if they are able to show the existence of an effective self-employed activity when submitting their application”.<sup>18</sup>

**“We have more than 15,000 linguists that conduct translation and transcription services for us on a self-employed basis. Some carry out work remotely in their own country, but a significant proportion are EU nationals with language skills here in the UK. Continuing to have access to these skilled European self-employed linguists and translators is important for our business.”**

International translation and interpreting company

### Key conclusions

- British firms must both invest in the domestic skills base and be able to access international workers to be globally competitive
- Improving the UK skills base is a top priority for business, but doing so requires a long-term approach and will take time to be effective
- Migrants play a key role in plugging skills gaps at graduate, non-graduate and technical levels
- Beyond shortages, an openness to mobility improves diversity, innovation and the spreading of international good practices and technologies
- The high administrative burdens and excessive costs of the current non-EEA migration system, including the requirement to become a licensed sponsor, must be avoided
- A route for EU entrepreneurs and the self-employed is needed

## Access to labour from overseas is required to avoid critical shortages across sectors and regions

Immigration is not just a skills issue though. Against a backdrop of low unemployment and an ageing workforce, more than a third (35%) of businesses view access to labour supply as a threat to the UK's labour market competitiveness. This is a rising concern, with half (50%) believing it to be a threat to competitiveness in five years' time.<sup>19</sup> When the CBI asked its members about their priorities for the future EU migration system, 46% of respondents reported access to labour as their priority.<sup>20</sup> In sectors that are reliant on EU labour, such as transport and distribution (76%), construction (63%), retail and hospitality (63%), the proportion reporting labour as their priority is significantly higher than other sectors.<sup>21</sup> It has been possible to

<sup>17</sup> *Position Paper: Northern Ireland and Ireland*, HM Government, August 2017.

<sup>18</sup> *Factsheet: Residing in Switzerland and taking up gainful activity*, Swiss Federal Department of Justice and Police (FDJP), State Secretariat for Migration (SEM), June 2017.

<sup>19</sup> *People and partnership: Employment Trends Survey 2016*, CBI/Pertemps, December 2016.

<sup>20</sup> *Business priorities for a new migration system*, CBI, December 2016.

<sup>21</sup> *Business priorities for a new migration system*, CBI, December 2016.

keep Tier 3 of the non-EEA migration system closed since it was introduced because labour needs could be met by recruiting EU workers. The new system for managing migration must ensure that these needs can continue to be met.

## **Record high employment levels have left businesses unable to fill vacancies**

The UK's employment rate is at a near record high of 75% and unemployment at its joint lowest since 1975 (4.3%).<sup>22</sup> These positive labour market conditions mean that there are not UK nationals ready to be recruited in volumes required to meet demand in many areas. This is particularly the case for certain sectors, most notably care<sup>23</sup>, agriculture<sup>24</sup> and construction<sup>25</sup>. If roles in these sectors are not able to be filled then the quality of care, sustainability of British produce and delivery of key infrastructure projects will be put at risk.

Sometimes these shortages can also be regional, often where jobs are created in one area but low mobility among UK workers means that job-seekers from other areas do not move to take these roles. This is becoming more common as people become more reluctant to move area to take on a job, a challenge illustrated by the 25% fall in the share of workers moving region since 2001.<sup>26</sup> CBI has been made aware, for example, of factories closing and relocating to Poland as a direct result of not being able to source sufficient quantities of labour.

Automation is helping to offset this challenge in many occupations, but its impact is highly variable. While technology is helping to reduce the labour required in many occupations, the necessary technologies are not even close to coming to market in occupations like fruit picking, for example.

**“When recruiting we frequently experience having only EU candidates to choose from, despite advertising roles locally to encourage a wide range of applicants. It is, therefore, of critical importance that we have ongoing access to existing sourcing of labour post-Brexit.”**

Manufacturing and logistics company, West Midlands

**“I have seen a minimum of 45 chef vacancies, every week for the last four years, which are continuously advertised and remain unfilled. Access to labour from the EU is critical in filling gaps in the domestic labour market.”**

Hospitality business, Wales

**“If 200 people knocked on our door for a job we would have a vacant role for each of them. Today we are in fact holding interviews for 70 roles, with 9 in 10 of the applicants being EU nationals.”**

Recruitment business, Wales

**“As a business, we are investing in new machinery to pick crops which would have previously been done by hand, for example automating the harvesting of iceberg lettuces and celery. But for certain crops, like spring onions, the process is so complex and delicate that complete automation is not a viable option. This summer we successfully trialled importing spring onions from Africa. If access to EU workers is restricted and we are not able to source the high volume of labour required to pick this crop, then we will start importing instead of growing it in the UK.”**

Salad and vegetable grower for national and international supermarkets, East of England

**“Hospitality is a people industry. At present, I don't know of a robot that can cook a three-course meal or machine that can clean an entire bedroom. We still require the labour to perform these fundamental roles within our sector.”**

Hotel, Wales

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<sup>22</sup> *UK Labour Market: Nov 2017*, Office for National Statistics, November 2017.

<sup>23</sup> *Brexit and the future of migrants in the social care workforce*, Independent Age, September 2016.

<sup>24</sup> *Supply of Seasonal Labour to British Horticulture Farms: NFU Labour Survey Results*, National Farmers Union, August 2017.

<sup>25</sup> *Migration and construction: The view from employers, recruiters and non-UK workers*, CITB, June 2017.

<sup>26</sup> *Get A Move On? The decline in regional job-to-job moves and its impact on productivity and pay*: Stephen Clarke of the Resolution Foundation, August 2017.

## **Businesses turn to EU workers due to these shortages, not wage pressures...**

There is very little evidence that immigration has reduced UK wages. Whilst one study has found migration to have an extremely small negative impact on local wages for some semi and un-skilled roles<sup>27</sup>, many others dispute this stating there is little evidence that higher levels of migration suppress wages.<sup>28</sup> And it is important to remember that the change in the rate of pay in lower-paying roles is dwarfed by the pace at which the National Minimum Wage and latterly the National Living Wage have increased. A recent study found that areas of the UK with large increases in EU immigration did not suffer greater falls in pay for UK-born workers.<sup>29</sup>

It is not yet viable in all sectors to reduce the number of workers required through greater investment in technology. Rather than driving investment in technology, cutting off access to workers will force these companies to compete over too few workers in an area. At best, this will lead to the sort of short-term wage inflation that erodes the long-term viability of UK jobs, if not make them unviable immediately.

**“Certainly, within our sector it is a myth that overseas labour is undercutting wages. Even if you raise wages, as I have tried, you still don’t get the applicants. There is no pool of British people who want to do mechanical roles within the engineering sector.”**

SME manufacturer, South West

**“We placed a job advert for a forklift truck driver, paying above the average salary for the role. Had interviews arranged with four British candidates, not even one turned up.”**

Lighting equipment manufacturer, West Midlands

**“One of the reasons we struggle to recruit British workers is public misperceptions about certain roles. If a young person turns to their parents and says they want to be a waiter or receptionist, too often they will be dissuaded. More must be done to encourage school leavers to enter the profession and show the career progression on offer.”**

Hotel, Wales

**“We are directly experiencing the financial implications of a shortage of LGV drivers through increased wages and are already passing this additional cost on to our customer base.”**

Drinks supplier, North West

**“75 per cent of our roughly 2,000 staff are EU nationals. We are already experiencing a shortfall in workers which is directly hampering our growth as a business. Previously we had been growing at a rate of 25 per cent and now we are down to 3 per cent. Wage inflation, because of the reduction in supply of labour, combined with the rising costs of acquiring new sites, food inflation, higher business rates have all contributed to this reduction in growth.”**

National restaurant chain

## **... and cutting off this supply would have impacts far beyond the directly affected sectors**

Although a business may not employ EU migrants directly, European labour is likely to play a role somewhere within their supply chain. The logistics sector for example, is heavily dependent on EU workers, whether in driving roles or staffing warehouses. The food supply chain is another example of the importance of European migrant labour.<sup>30</sup> Many firms are also not fully aware of the importance of EU labour throughout

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<sup>27</sup> *The impact of immigration on occupational wages: evidence from Britain*, Stephen Nickell and Jumana Saleheen, December 2015.

<sup>28</sup> *How small is small? The impact of immigration on UK wages*, Jonathan Portes, January 2016.

<sup>29</sup> *Brexit and the Impact of Immigration on the UK*, Jonathan Wadsworth, Swati Dhingra, Gianmarco Ottaviano and John Van Reenen, Centre for Economic Performance, LSE, May 2016.

<sup>30</sup> *Breaking the chain*, FDF, BRC, NFU et al., June 2017.

their supply chain, so a reduction in access may have unintended consequences. Our economy is an ecosystem. Reducing access to EU migrants providing labour in one sector is likely to have knock-on effects.

**“We run a just-in-time production line which is dependent upon a seamless supply chain delivering parts precisely when we need them. We are aware that our logistics partners use drivers, packers and warehouse staff from the EU. If they can’t continue to access the labour they need, then our production line may simply stop.”**

International car manufacturer

**“The proportion of our workforce who are EU nationals that we directly employ is relatively small, we estimate 4%. Our biggest concern is in our supply chain. One of our major suppliers employs around 3,000 EU citizens who work in their food processing, fruit packing, flower packing etc. Another of our main suppliers employs 1,600 EU citizens in the meat industry, mainly slicing and packing imported meats. EU citizens account for over 70% of total employment in both these companies.”**

National supermarket

## **A controlled route to access European labour is required as part of any new migration system**

When the public is asked to compare highly skilled vs unskilled migration, the latter is less popular, however this does not tell the whole picture. Public opinion is more nuanced and the answer to this broad question should not be interpreted by policy-makers as a green light to restrict the supply of labour from the EU. Attitudes become more positive as soon as you break down exactly the sorts of people that you are speaking about – whether they are care workers, fruit-pickers or waitressing.<sup>31</sup>

Seasonal workers play a critical role within our economy, particularly within the agricultural and horticultural sector. The temporary nature of these roles, combined with the need to often regularly move within the UK as the harvest season progresses for different crops, can make this work more conducive to being carried out by workers from overseas. Any new migration must provide a route for European labour to continue to come to the UK for seasonal work. EU migrants also play a critical role in providing labour during periods of peak labour market demand, for example in the run up to Christmas. The new migration system must be agile and dynamic enough to preserve the UK’s labour market flexibility. Copying and pasting the existing features of the Tier 2 system does not provide the flexibility or ease of access required. A new bespoke system must be designed to allow continued access to the labour businesses need to grow, whilst also demonstrating this is controlled and migrants are arriving because there is a clear economic case for them.

**“Having to complete a test of the resident labour market when we already know there is not the labour out there would be a complete waste of time and resources. A simple check would see we have already advertised these roles for a prolonged period without success and require EU workers to fill.”**

Hotel, Wales

**“A centralised shortage list alone is not dynamic and would never be exhaustive enough to meet businesses’ labour requirements.”**

Recruitment agency, Wales

**“The new system needs to be agile and none of the features of the existing Tier 2 system are. Having to wait 28 days before we could recruit the talent we need from Europe would be ridiculous. The new system needs to be far more responsive to employers’ needs.”**

International manufacturer, North West

**“We know that if it is a wet Easter online shopping and demand for home delivers dramatically rises. EU migrants play a vital part in ensuring adequate labour supply within our flexible labour market.”**

International recruitment company, London

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<sup>31</sup> *Time to get it right: Finding consensus on Britain’s future immigration policy*, p.23, British Future, September 2017.

### Key conclusions

- Record high employment means EU workers play a vital role in filling labour shortages in key sectors including, logistics, hospitality, care, construction and agriculture
- Concern about access to European labour is not limited to directly affected businesses – it is likely to have an impact on the services that most companies rely on in their supply chains
- A controlled route for the migration of European workers can both satisfy nuanced public opinion and allow businesses to continue to meet their labour requirements

## The new immigration system must meet the diverse needs of all regions and nations in the UK

The volume and nature of work carried out by EU nationals varies across the country to match the local shortages that businesses are confronted with. Business is clear that the new migration system must work for the whole of the UK, not just for some regions. While businesses favour a single holistic system operating throughout the UK rather than separate visa regimes for each region, it is essential that this system is flexible enough to recognise the differences between the UK's regions and nations.

The Scottish shortage occupations list in the non-EEA migration system is an example of the sort of flexibility that must also be deployed in the new EU system. There is an equally compelling case for this sort of flexibility in Northern Ireland too given its greater detachedness from the rest of the UK labour market. The differential strength of local economies can exacerbate the challenges that companies face, with stronger economies like London drawing in some of the top talent that companies operating in other regions have equal need for. And the impact can be equally strong on the availability of labour as well as the availability of skills.

**“There simply aren't the people in the North East. There is a massive war for talent, especially in technology and engineering, more so I would say than in other regions.”**

Recruitment agency, North East

**“We are losing an increasing number of skilled workers to London due to increased competition and the pull of higher wages on offer in the capital.”**

American manufacturer, Scotland

**“The wages on offer in Northern Ireland are not comparable to those for similar roles in other parts of the UK. Any future migration system needs to take this into account to avoid us being at a disadvantage when hiring overseas workers.”**

Software development firm, Northern Ireland

**“A devolved migration system with different entry requirements would be a nightmare to navigate for firms operating on both sides of the Scottish border. If the visa is tied to the job in a specific location, what happens if they need to be relocated within the business to elsewhere in the UK? Would short-term visits to operations in England be allowed?”**

Food and drink manufacturer, Scotland

### Key conclusions

- The needs of all regions and nations must be accounted for in a holistic and flexible UK wide system for managing EU migration

## Companies in the UK must continue to be able to easily move their staff to and from the EU

To date, Free Movement has enabled businesses to quickly move their staff around Europe with ease. Three in ten businesses cited protecting this mobility as a priority for the future migration system, rising to four in ten (39%) for large businesses who may be more likely to have operations in multiple countries.<sup>32</sup> Many international firms have based their European headquarters in the UK and UK subsidiaries of European companies have expanded in recent years. Mobility of staff across the Channel is critical for the day to day operations of both these types of business. If European intra-company transfers (ICTs) were restricted, or made more difficult by having to complete lengthy forms weeks in advance of travel, this would cause both international and European firms to question their investment in the UK. Provisions under the General Agreement on Trade in Services (GATS) Mode 4 does not meet businesses requirements and while it may be a good starting point for thinking about intra-company mobility, it is not sufficient on its own.

Within the economy there are also highly specialised roles which may not require a full-time presence in the UK. Businesses need to access these specialist skills though, often at short notice, by being able to bring global and European teams to the UK for a limited-period. Travelling overseas is also an integral part of many UK industries, for example a TV crew travelling to a European location to film. Preserving ease of mobility is important to ensuring such jobs can continue to be based in the UK. Firms send UK staff to Europe, and vice-versa, for secondments to share best practice and experience overseas markets as part of their career development. These exchanges are an important part in improving productivity and must not be undermined. In a global economy, protecting this flexibility to transfer skills and knowledge across Europe's borders is vital. The new migration system must ensure businesses can continue to easily move staff to and from Europe at short notice.

**“As the European HQ of a Japanese company we have colleagues from across Europe who travel for meetings and training regularly. The day to day functioning of the business would be heavily impacted if this became more difficult.”**

Japanese manufacturing company

**“With our parent company in Europe we do a lot of cross-border travel. If this became more difficult we would not shut up shop here, but our parent company would certainly question further investment in the UK when compared with other destinations.”**

European chemicals business, North West

**“As part of our graduate programme we bring new starters from across the global business to the London HQ as part of their development. We already find this difficult under the non-EU visa system and a similar process for EU nationals would add another factor to make us consider relocating.”**

International commodities firm, London

**“Working within a global business, myself and many other members of our team frequently travel to our offices in Europe as part of our day to day roles attending meetings, seminars, exhibitions and our European HQ in Barcelona, therefore restricting/regulating cross border travel would severely impact our operation.”**

International manufacturer, Yorkshire and Humber

**“Thousands of our staff travel to Europe each year working on ‘fly-in-fly-out’ projects for clients.”**

International professional services firm, London

### Key conclusions

- Intra-company transfers are fundamental for many businesses operations and firms must continue to easily be able to move staff to and from Europe after we leave the EU

<sup>32</sup> *Business priorities for a new migration system*, CBI, December 2016.

## A new approach to migration policy is needed to restore public confidence

Business recognises the need for a system that restores the public's confidence that migration benefits the UK and is being managed effectively. However the net migration target, introduced in 2010, has driven a narrow debate on migration in the UK that is centred on a number which cannot reflect the nuances in the public's views on immigration. Rather than focusing on a single arbitrary figure, emphasis must be placed on control – to ensure that those who come are here to work and to contribute. An honest debate is needed which recognises the benefits of migration when managed effectively. The new migration system should focus on the value which migrants bring. It must show the public in a clear and transparent way that the skills and labour provided by migrants coming to the UK are genuinely required by business to deliver economic growth.

Different parts of the UK have been impacted differently by migration. People are legitimately concerned about the social impacts of immigration, in particular the additional pressures on public services. The solution though is not to reduce migration which the economy needs in order to fund and staff public services, but to better tackle these pressures directly by ensuring that the proceeds flow to the areas affected by increased demand. The Controlling Migration Fund<sup>33</sup> is an effective way to help local authorities mitigate the impacts of increased immigration on local communities. It should be better publicised and better funded. Greater flexibility in public service funding is also required to help communities account for changes in the local population – a challenge more often caused by internal movement of people than by immigration.

Immigration is not the cause of a lack of opportunities for people in some parts of the UK, but it can feel that way. A new industrial strategy has an important role to play in ensuring that pathways to high and mid-skilled, well paid jobs exist in all the UK's regions and nations. Unlocking regional growth and ensuring different regions reach their full potential for a more equal share in the UK's prosperity is a central part of the solution. Business is clear that reducing immigration is not the answer. Demonstrating control in the new migration system is the key to restoring public confidence.

### Key conclusions

- Public confidence in the migration system is best restored by demonstrating effective controls are in place to ensure people are contributing, rather than chasing an arbitrary target to reduce net migration

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<sup>33</sup> *Controlling Migration Fund: mitigating the impacts of immigration on local communities*, Department for Communities and Local Government, November 2016.