Introduction and Background

We welcome the opportunity to provide evidence to the Culture, Tourism, Europe and External Relations Committee inquiry into how the UK’s immigration policy can best respond to Scotland’s demographic and skills needs.

SDS has a strong interest in the potential implications of the UK’s immigration policy and how, alongside Brexit, this might affect the Scottish economy. We are also concerned about the potential impacts on Scotland’s labour markets, sectors and regions. Our Skills Planning team have been actively monitoring published research on the potential implications of immigration policy and Brexit and we have been engaging with industry bodies and leadership groups, other national agencies and regional partners to build a clearer understanding of the range of potential consequences.

Our research and engagement with industry and regional partners has highlighted that the following issues reflect a skills and labour market perspective in relation to immigration and Brexit:

- The Brexit negotiations have begun against the backdrop of several unanswered questions including the rights of EU migrants to live and work in the UK, future trade options with EU members and the impact on ongoing and new inward investment. This uncertainty presents challenges for individuals, businesses, and public sector agencies to prepare for the future, but also suggests the need for caution in terms of making a single definitive response to the challenges (and opportunities) presented by Brexit.

- While undeniably important, Brexit is only one of a range of drivers that will impact on the Scottish economy and labour market. Brexit has the potential to exacerbate (or mitigate) a number of wider issues including:
  - An ageing workforce and a high employment rate, resulting in a tight labour market;
  - Introduction of policy changes that increase costs to employers such as the introduction of the National Living Wage, the introduction of auto enrolment for employees into company pension schemes and the Apprenticeship Levy;
  - Ongoing changes to working patterns in the labour market – such as increases in zero hour contracts and rising self employment;
  - The rise of automation and the potential for this to be accelerated in the face of a tight labour market and rising costs for employers.

“... the decision to leave the EU has come at a time when the UK labour market was already at a ‘tipping point’ in the light of ... wider changes in the UK economy and
labour market ... without a coherent policy response, the UK economy and labour market is likely to face serious consequences in light of the end of free movement throughout the EU”

The Resolution Foundation, 2017

Our Board has been actively considering the impact of Brexit and its effect on the economy and the labour market. The remainder of this paper sets out some of the evidence that has been considered – and sets out some questions that the Committee may want to consider in its discussions.

Economy

Our review of evidence suggests there are multiple issues that have the potential to impact on Scotland’s economic performance, and therefore the labour market,

The impact of any new trade arrangement could have differential impacts across Scotland’s key sectors. Some 125,000 jobs in Scotland were supported by trade with the EU in 2013\(^1\) - accounting for 5.7% of the total workforce. Undoubtedly there will be trade winners and losers resulting from Brexit however at this moment there is limited data available at the Scottish level. The impact of new trade tariff regimes could impact in some economically significant sectors and therefore have implications for those working in these areas.

At a UK level the top three sectors that will face the greatest absolute tariff increase\(^2\) (in terms of value) are:\(^3\)

- Vehicles (£1,348m),
- Meat (£378m),
- Dairy produce (£331m).

Focusing on the percentage of tariffs against value of UK exports, the highest average tariff estimates by sector are:

- Tobacco and the manufacture of tobacco products (43.7%);
- Preparation of meat or fish (39.9%); and
- Dairy produce (39.4%).

The establishment of new regulation regimes could present particular challenges for the Financial Services and Life Sciences sectors (to name but two). As examples:

- If the UK leaves the European Drug Agency, will Scotland still be a viable location for companies involved in drug testing, development and production?
- Will Scottish banks and their subsidiaries be able to sell financial products across the EU?

\(^1\) [www.sbs.strath.ac.uk/economics/fraser/20170420/Exports-and-Employment-Scotland.pdf](http://www.sbs.strath.ac.uk/economics/fraser/20170420/Exports-and-Employment-Scotland.pdf)

\(^2\) The tariff (or customs duty) paid on goods imported to the EU is calculated by applying the tariff to the value of the good imported.

\(^3\) [www.civitas.org.uk/content/files/potentialpostbrexittariffcostsforeuuktrade.pdf](http://www.civitas.org.uk/content/files/potentialpostbrexittariffcostsforeuuktrade.pdf)
The value of sterling fell to a 31 year low on currency market in light of the news that the UK had voted to leave the EU\(^4\). Over the past year, while the pound has improved it has continued to fluctuate since the Brexit decision. The fall in the value of the pound has the potential to increase competitiveness of Scottish and UK export. At the same time, however, the costs of imports have increased. This has potential implications not just for consumers, but also for Scottish exporters who are reliant on international supply chains.

Thirdly, investor confidence has been tested over the past 12-18 months since the announcement of an EU referendum, the referendum itself, and then a general election. In Scottish Enterprise’s most recent report on economic trends (April-June 2017), Lloyds Bank Ltd’s\(^5\) monthly survey details an increase in investor sentiment in recent months which may be aligned to devaluing of the pound sterling.

Fourthly, the UK experienced an increase in inward investment in the UK as a percentage of GDP, from 31.4% in 2005 to a high of 55.6% in 2013. In recent years however, inward investment has fallen. A slight decrease was experienced in 2014 (54.3%) and inward investment has continued to decrease, dropping 9.9 percentage points from 2013 to 2016. It is unclear if the recent decrease in inward investment is related to Brexit.

**Labour Market**

With regard to the labour market, the most significant impacts are likely to be driven by any significant changes to, or removal of, the free movement of EU labour. A total of 150,000 EU migrants are reported to come to the UK to work each year. In 2015, 115,000 EU nationals aged 16+ were in employment in Scotland, accounting for 4.5% of total Scottish employment.

There is strong evidence that the Scottish labour market has tightened over recent years with high levels of economic participation and falling levels of unemployment. If labour supply was to be restricted by Brexit then it is possible that demand for labour in certain sectors and/or regions could outstrip supply.

Sectors which are likely to be affected include, but are not limited to:

- Food and Drink (11.3% of the current workforce are EU Workers);
- Tourism (10.8% - EU Workers);
- Creative Industries (7.3% - EU Workers);
- Manufacturing (7.1% - EU Workers);
- Distribution, hotel and restaurants (6.9% - EU Workers);
- Construction (13% non-UK workers, 6% EU workers) - UK Wide\(^7\)

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\(^7\) CITB - Migration and Construction: The View from Employers, Recruiters, and Non-UK workers
In some sectors, there is evidence of the impact of the Brexit decision already being felt. Data gathered shows a marked contraction in the net number of nurses that are EU/EEA nationals in 2016/17 compared to previous year.

Regions that are most likely to be affected include the Highlands and Islands and the North East of Scotland, both of which have high proportions of EU nationals employed in what is already a very tight labour market.

The potential impacts of any restriction to free movement will create challenges and opportunities across different occupations. Of the EU nationals currently working in Scotland, 31% (equivalent to 35,000) are employed in elementary occupations. Elementary occupations include: cleaners, hospital porters, labourers. At the other end of the labour market there is anecdotal evidence that EU workers make up a significant proportion of the workforce in highly skilled industries including Digital Technologies and Life Sciences.

In addition to the ‘direct’ impacts of Brexit, our research suggests that Brexit may act as a stimulus for changes in employer and business behaviours. There is a case to be made that the combination of increased employment costs and reduced availability of labour might provide strong incentives for firms to increase the pace or scale of automation. These pressures are likely to be most sharply felt by those industries that are currently reliant on both low wage models and migrant labour.

Similarly as competition for labour increases, businesses may look to increase the attractiveness of their employment offering through increased salaries and/or benefits. Whilst this may be a viable option for some businesses, the additional costs associated may force others to look elsewhere for labour.

Finally there is evidence that retention of employees may also become more of a priority for businesses in response to Brexit. Businesses may choose to up-skill existing workers and/or employ young people through youth initiatives and “grow their own” talent.

For policy makers, Brexit implications should be considered alongside existing and emerging policies on:

- Broadening labour market participation – i.e. increase the pool of labour to counteract the anticipated decline. While labour market policy has often been framed as a social inclusion activity, there may be equally strong economic drivers for increasing the participation of low engagement groups such as older workers, people from BAME backgrounds and single parents in the labour market;

- Other complementary activity might include an increasing focus on policies that encourage life-long working and retention/return of individuals who may face additional barriers to employment.

8 www.gov.scot/Topics/Statistics/Browse/Labour-Market/Publications/EUnat
Education

Current arrangements allow EU students to remain in the UK, to live and work once they have graduated. This means Scotland gains from retention of skilled workers who have settled here during their studies. Therefore there could be implication for the skills system as a result of Brexit, including funding and other repercussions for the college and university sector.

With regard to the number of students in Scottish Universities, 17,286 EU students studied at a Scottish University in 2014/15 – 12.3% of the total student total. In addition EU students were reported to account for 26.2% of research postgraduates, 24.3% of taught post graduates and 10.5% of undergraduates in Scotland. Aberdeen and St Andrews Universities were reported to have higher concentrations of EU students than the Scottish average.

EU workers also make up a significant proportion of staff in further and higher education, and in particular the university sector, has benefitted from freedom of movement as a result of membership of the EU. 16% of all academic staff at UK Higher Education Institutions are non-UK EU-domiciled (in total 28% of academic staff are from outside the UK). Within the Scottish university sector, 26% of research-only staff are from other EU countries.

Ease of travel has meant the opportunity to do field research within Europe, enabling UK postdoctoral researchers to find research and teaching jobs abroad, facilitating international collaboration. A reduction/loss of research funding from the EU is anticipated to impact on the movement of academic research staff.

Areas of future focus for SDS

Considering the implications of Brexit and its impact on the availability of skills in the labour market will be an ongoing issue for SDS and partners. The Skills Planning Team continue to monitor and keep up to date on literature and research on the issue. SDS will also continue to play a part in the national Brexit response team.

SDS has also explored options with industry groups and partners in those sectors and regions most likely to be affected by Brexit. This includes work with Tourism employers in the Highland and Islands.

SDS will continue to work with partners to respond to Scotland’s demographic and skills needs:

- **Migration** – SDS will work in partnership with Government to ensure that immigration policy supports the ambition of the Scottish economy and retains quality staff in our skills system;

- **Broadening labour market participation** – working with groups under represented in the labour market to develop their skills and meet the needs of the economy/labour market;

- **Pay and progression** – in light of potential increases to the cost of labour, work with partners to look at new ways to attract and retain employees.
Skills system support –
  o Support over 25s and in work training;
  o Increasing Work Based Learning through incentives; and
  o Making use of institutional capacity to meet shifting labour market needs.

Points to consider for the Committee

We hope that the Committee has found this to be a helpful outline of the challenges facing businesses and individuals as a result of any changes to freedom of movement and immigration policy. Going forward, we would suggest that the Committee may wish to give consideration to the following points:

• How to encourage the UK Government to set out a clear vision for UK immigration policy prior to leaving the EU in order to provide certainty for business and individuals.

• How to encourage the UK Government to set out an immigration policy which considers different visas for
  o differing levels of skilled workers and students.
  o overseas workers for short term activity e.g. for the tourist and fruit / vegetable season.

• Lowering costs attached to recruiting migrants – consideration of the impact of raising or decreasing salary exemption levels on free movement.

• Do changes to freedom of movement present opportunities for increasing efforts to broaden labour market participation – working with groups under represented in the labour market to develop their skills and meet the needs of the economy/labour market

• What challenges and opportunities do changes in freedom of movement present in terms of improving pay and progression in the workplace

• In the light of potential increased costs of labour, work with partners to look at new ways to attract and retain employees.


IPPI (2017) *Freedom of Movement: why it is central to Scotland’s interests in the Brexit negotiations* strathprints.strath.ac.uk/59548/1/Imrie_IPPI_2017_freedom_of_movement_why_it_is_central_to_Scotlands_interests_in_the_brexit_negotiations.pdf


NRS (2017) *European Economic Area (EEA) born residents living in Scotland*  

Resolution Foundation (2017) *Work in Brexit, Reshaping the Nation’s Labour Market*  

Scottish Enterprise Brexit Steering Group (2017) ‘People’ Positioning Paper

Scottish Enterprise (2017) Economic trends Survey April-June 2017

SFC/SDS (2016) European Union Membership Referendum Outcome – Potential Implications – for Joint Skills Committee

Scottish Government (March 2017) *EU Nationals Living and Working in Scotland*  
(March 2017)  

Scottish Parliament (2017) *Determining Scotland’s future relationship with the European Union*  
[www.parliament.scot/S5_European/Reports/CTEERCS052017R04Rev.pdf](http://www.parliament.scot/S5_European/Reports/CTEERCS052017R04Rev.pdf)

Scottish Parliament (2017) SPICe Briefing: Agriculture and Brexit in Ten Charts  
[www.parliament.scot/ResearchBriefingsAndFactsheets/S5/SB_17-12_Agriculture_and_Brexit_in_10_Charts.pdf](http://www.parliament.scot/ResearchBriefingsAndFactsheets/S5/SB_17-12_Agriculture_and_Brexit_in_10_Charts.pdf)

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9 Internal document – not available in the public domain