

# A SYSTEM THAT WORKS FOR ALL

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

### Introduction

CBI Northern Ireland welcomes the opportunity to respond to the Migration Advisory Committee's (MAC) call for evidence and present the business vision for a migration system which takes account of the unique economic conditions facing Northern Ireland.

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. CBI UK will be submitting a response to this call for evidence but given the importance of EU workers to the NI economy, CBI members in NI believe that a regional submission must also be submitted because Northern Ireland has a significant number of distinctive issues when it comes to skills.

### Key Issues:

- Given the small population of only 1.8 million, the future of Northern Ireland's **future economic success** will be dependent upon the private sector's ability to access international workers.
- **Ambitions to re-balance Northern Ireland's public and private expenditure will be thwarted by limiting the region's access to immigration.** Official population statistics from NISRA (2017) reveal that the subvention from HM Treasury to NI will need to grow substantially in the future if the region is to bridge the gap between revenues raised by a small working population and expenditure needed to care for a rapidly growing dependent population of elderly people.
- Since 1992 the **NI economy has been supported economically, socially and politically by the European Single Market** and a legal framework that enabled people, trade, business and investment to flow freely across the border. Following the Belfast (Good Friday) Agreement in 1998 the resulting political stability and consequent removal of security barriers and restriction provided the confidence needed for free movement of labour and access to EU migrant workers across the island has been an integral enabler of that economic progress.
- As **prosperity and peace go hand in hand**, it is important to recognise that any policy which hampers Northern Ireland's private sector and the region's overall economic performance, carries with it a risk of destabilising the fragile and currently incomplete peace process.
- Northern Ireland is **currently experiencing an acute shortage of skilled workers** – particularly in rural areas and in many key sectors such as ICT, the knowledge economy sectors (such as medical technologies and food science) agri-food, construction and hospitality.
- Companies cite the Brexit-related depreciation of the sterling, faster growing Eastern European economic growth and a "chill factor" as the main reasons EU migrants are now choosing to leave the region.
- Given the **land border with the Republic of Ireland**, a significant number of companies in Northern Ireland are currently making contingency plans to relocate across the border to access skills and thereby protect their businesses.
- To limit the economic shock to NI when the UK leaves the EU it is essential that NI has a migration system that both **protects current EU and international immigrant workers and facilitates business to access the skills** it needs to sustain itself and grow.

## 1. Freedom of Movement central to Peace Process

Unlike Great Britain, Northern Ireland is uniquely exposed to the potential changes that the UK's exit from the EU presents. This unique exposure relates to the hard won (but still fragile) peace process and the region's deep economic integration with the Republic of Ireland. Indeed, NI is the only region of the UK that will share a land border with the EU after March 2019

### 1.1 All-island economic gains:

The economic gains attained since the onset of peace back in 1998 are hugely significant and the potential for further gains cannot be ignored. These 'all-island' economic gains have been derived from achieving economies of scale and scope in an otherwise small peripheral island. For example, many Northern Ireland businesses operate on an all-island basis with supply chains, organisation of production, the purchasing of inputs and selling of final products stretching from Cork to Coleraine. Because of this integration and collaboration, firms are more productive, competitive, and economically successful – leading to more and better jobs and opportunities for citizens across the island. Underpinning these all-island economic gains and continued peace on the island, is the free movement of people.

Multinational businesses treat the island of Ireland as a single market with larger firms based in both jurisdictions moving project teams across the border in either direction on a regular basis depending on need. Several energy firms, large consultancies and banks operating in Northern Ireland organise their human resources in a similar way. For this mutually beneficial state of affairs to continue, as both governments recognise, the Belfast (Good Friday) Agreement and Common Travel Area must be protected.

### 1.2 The Belfast (Good Friday) Agreement:

**The Belfast (Good Friday) Agreement** confirms the right of the people in Northern Ireland to choose either UK or Irish citizenship, or both, without any loss of rights in either jurisdiction. **The Common Travel Area**, agreed prior to the UK's membership of the EU, facilitates free movement and reciprocal rights and entitlements for both British and Irish citizens with around 20,000 people regularly commuting across the border for work and study. Official statistics show that in May 2017 there were on average an estimated 118,000 daily vehicle crossings across the current invisible border (accounting for 43 million crossings annually).<sup>1</sup> These figures include those European migrants who live in the Republic of Ireland and cross the border to Northern Ireland to work.

The true success of the *Belfast (Good Friday) Agreement* stems from the fact that these economic gains have been attained for the good of everyone on the island; while simultaneously both British and Irish passport holders living in Northern Ireland have had their identity protected. **Any future Brexit deal that diminishes the rights of either British or Irish passport holders to free movement across the island and between the two islands would result in a massive step backwards for Northern Ireland's peace process.** Indeed, if the UK were to leave the EU without a deal, freedom of movement between Northern Ireland and the RoI will without doubt be impacted and the political and economic consequence would be at the very least detrimental and could be chaotic. The provisions of both the Good Friday Agreement and the Common Travel Area must be protected in in any future migration system.

### 1.3 Areas of co-operation NI: RoI

Strand Two of the 1998 Belfast Agreement that deals with the 'totality of relationships' between Northern Ireland and the Republic of Ireland, including related legislation makes explicit references to 12 "areas for all-island co-operation" on programmes and institutions under the auspices of the North-South Ministerial Council. It is widely recognised that all-island co-operation extends well beyond these areas. At a high level, these

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<sup>1</sup> Additional Data Paper: Common Travel Area Data and Statistics, HM Government, August 2017

areas include: Agriculture, Education, Environment, Health, Tourism Transport and Social Security along with the entitlements of cross-border workers. In 1998 this was presumed to include all workers who as result of the free movement of labour had legal entitlements equivalent to local workers in both jurisdictions, and that would have included those from other EU Member States.

All-island institutions for co-operation were also set up under the Belfast Agreement. These institutions include Waterways Ireland, the Food Safety Promotion Board, InterTradeIreland, the Special European Union Programmes Body, a Language Body, and Foyle, Carlingford & Irish Lights Commission. The free movement of workers across the island (British, Irish as well as EU nationals residing in the RoI and NI) has enabled these established areas of co-operation to be significantly developed over a 20-year period and that progress must not be hampered.

The association between economic prosperity and peace cannot be ignored. Economic progress across the island of Ireland is highly dependent upon continued free movement of people and goods across the present day invisible border. In this regard, the CBI strongly welcomes the UK government and EU's commitment to fully deliver on the objectives and principles set out in their respective Article 50 negotiation documents. The objectives and principles aim to protect the island of Ireland including avoiding a hard border, supporting existing bilateral arrangements (as outlined above) and facilitating flexible approaches to the various all-island challenges that Brexit presents. **To that end, if the UK leaves the EU without an acceptable deal – this action would break that commitment.**

## 2. A Migration system for NI business:

### 2.1 Key Concerns:

One of the key concerns repeatedly raised by CBI members is the design of the UK's future migration system for EEA nationals. During the last two decades, the business community in Northern Ireland has benefited hugely from the free movement of skilled workers. Indeed, productivity data for the region shows that in the last number of decades, the biggest productivity gains were attained during 2003-2007 when Eastern European migrant workers came to live in Northern Ireland.

In 2003 Northern Ireland had maintained over 5 years of peace and this was undoubtedly a key factor in attracting many of those EU workers to come into the country. The peace process and the ability to attract and maintain EU workers is essential to businesses across Northern Ireland. Companies fear that they will be unable to compete in the future without access to EU workers and many have expressed their intentions to relocate if the future migration system chokes off their labour supply.

### 2.2 Northern Ireland's private sector – unique challenges

Businesses in Northern Ireland have endured a number of political, historical, geographic as well as demographic challenges that are very unique to the region. With only 3 percent of the UK's population, firms in Northern Ireland have traditionally struggled to attract workers from management level right down to low-skilled workers.

#### 2.2.1 The chill factor:

Historically, deep political tensions and security issues had worked to deter internationally mobile workers from coming to NI since 1970s right through to the mid-1990s. This problem was reflected in the low productivity figures, low investment, lower wage rates and living standards at that time. Additionally, a sectarian "chill factor" was responsible for the lack of mobility amongst the two main religious communities across the region.

Traditionally workers have been inhibited from taking jobs in areas that were deemed to have a different religious background. Indeed, even with the peace process prevailing, this sectarian chill factor has not yet entirely disappeared, there is on-going work around this issue, but there is plenty more to do.

### **2.2.2 The Brain-drain problem:**

Further pressure on NI companies to meet their skill requirements stems from the fact that 38% of A Level students leave the region to go elsewhere and arounds two thirds of that cohort do not return to Northern Ireland. This problem known as the “brain drain” was very prevalent during ‘the Troubles’ and is now being exasperated by the declining number of undergraduate university places that the NI Executive has been prepared to subsidise since 2015 (due to the Executive’s budget constraints and demands for expenditure to be skewed elsewhere).

### **2.2.3 Recommendation:**

These unique challenges render continued access to European labour vital for Northern Ireland’s economic competitiveness and prosperity. **The CBI therefore recommends that the Government must ensure that any future migration system for EEA nationals will continue to include all island cooperation as set out in Strand Two of the Belfast Agreement so as to accommodate Northern Ireland’s unique economic circumstances and the local employment challenges that its business community currently face.** It should be noted that in a CBI survey carried out in September 2017, 100% of companies felt that any future migration system must reflect the unique economic circumstances of Northern Ireland.

## **3. NI’s skill shortage rapidly growing**

In the CBI’s migration survey (Sept 2017) 96% of firms believe that Northern Ireland is facing a growing skills shortage.

### **3.1 EU citizens leaving:**

Companies right across Northern Ireland and in a wide variety of sectors are already expressing concern about labour shortages. EEA nationals living in Northern Ireland have yet to receive a guarantee that they will be able to remain once the UK leaves the EU. This feeling of uncertainty, along with a fall in the value of sterling and an increased sense of feeling unwelcome, has led to a fall in migrant labour availability.

Businesses continue to report that, a small, but growing, number of long-established migrant employees are now leaving Northern Ireland. Crucially, and for the first time, those leaving are not being replaced by new arrivals. One agri-food manufacturer which is highly dependent on EU workers, reported a 7% drop in EU workers in the month of August alone. This net loss of available skills is having a knock on negative effect on many sectors – especially the manufacturing, engineering, agri-food, hospitality and healthcare sectors – with many raising concerns about growing labour shortages. In addition, several manufacturing businesses have noted that their staff are now being asked to work 40-45 hour working weeks to make up for labour shortages. They fear the impact of difficult working conditions will force even more staff to resign.

### **3.2 Technology / automation - Substitution?**

Inability to access skills has prompted some companies to consider investing in automation where possible. However, this option requires significant time and substantial capital expenditure. Given the current uncertainty around Brexit, the business case for technology investment does not stack up for many companies. For example, it would be irrational for an indigenous large meat processor to invest more in automation in a local plant when the threat of WTO arrangements still hangs over the firm. There is wide-spread consensus among

the local meat and dairy sector, that under WTO arrangements their firms would not survive because they would have hefty tariffs imposed on their EU exports and, in addition, domestic sales of meat and dairy products could not compete against products from low wage economies where production standards are lower. Decisions to invest in automation involve much more than mere feasibility.

In addition, a number of FDI companies with a base in NI have reported that if they wish to invest more in technology they must compete for investment funding against their sister operations around the world. This means that for foreign-owned manufacturing plants in NI, their ability to attract funding for further shop-floor investment has dried up as global owners are reluctant to invest any more into their NI operations until the Brexit outcome is established.

In many services sectors the opportunity to substitute labour with technology is simply not possible. This limitation ranges from low-skilled jobs such as waiting or cleaning hotel rooms in the hospitality and tourism sector; right through to large accountancy companies who regularly move teams of accountants, auditors and consultants across the all-island economy to work on projects. Given that the services sector accounts for over 70% of the local economy, the opportunity to close the skills gap with technology would require a quantum leap in terms the technical potential for replacing certain jobs. McKinsey (2016) for example points out that 'unpredictable environments' in areas such as: construction sites, medical care, hospitality, farming etc make automation very difficult. In addition, where jobs require a large proportion of time dedicated to managing others, having interactions with stakeholders, applying expertise or doing unpredictable work, then the likelihood of automation is low.

### 3.3 Aging population:

A further concern from a macroeconomic perspective, relates to Northern Ireland's aging population. Official statistics from NISRA (2017) show that the region's overall projected population growth over the 25 year period to mid-2041 is significantly lower than in the rest of the UK (7.6 per cent compared with 11.2 per cent). At the same time, our population is projected to age at a much faster rate.

Out of all the UK countries, at 43.1 per cent Northern Ireland had the largest percentage growth of people aged 85 and over between mid-2006 and mid-2016. The population aged 65 and over in NI is projected to increase by 65.1 per cent to 491,700 people from mid-2016 to mid-2041, with the result that almost one in four people (24.5 per cent) will be in this age category. The population aged 85 and over is projected to increase by 127.2 per cent to reach 82,800 people over the same period, which will see their share of the population doubling from 2.0 per cent to 4.1 per cent. These demographic changes will serve to put much more pressure on the dependency rate in Northern Ireland. In NI, the dependency rate for children has fallen from two thirds of the total number of dependents to just over a half (55.3%) in 2016 as the ratio of children to working age people declined.

Simultaneously, the dependency ratio of people of pensionable age has been rising and is expected to increase from 271 per 1,000 people of working age to 377. For Northern Ireland, these population statistics are a stark reminder that employers will need to access young international workers as the local pool of working age people diminishes.

From a macroeconomic perspective, any restrictions on Northern Ireland's private sector to access people will reduce the economy's ability in the future to be self-sufficient. Given this demographic backdrop and the additional costs of the ageing population, it will require significantly increased subventions from HM Treasury if living standards in Northern Ireland are to be maintained; **migration of working people from inside and outside the EU is one of the most realistic ways of mitigating our reliance on Westminster funding in the future.** In summary, any ambitions to re-balance Northern Ireland's public and private expenditure will be thwarted by limited access to immigration.

### 3.4 Recommendation:

The CBI therefore strongly recommends that any migration system for Northern Ireland is evidence-based and takes into consideration the full range of influencing factors such as population trends as outlined above. Both the long-term and short-term consequences of any change to migration policy must be fully analysed.

## 4. Impact on NI competitiveness

Prior to its dissolution the local Executive was taking steps to address Northern Ireland's economic fragility through its own regionally focused Industrial Strategy which envisioned "*a globally competitive economy that works for everyone.*" This vision required Northern Ireland to transform its economic competitiveness, grow the private sector and increase wealth. Such objectives however are highly correlated with rising productivity and access to talent. Local companies argue that the private sector simply cannot grow and deliver industrial strategy goals if access to European migrant labour is unduly curtailed.

The current shortage of skilled workers has already negatively impacted Northern Ireland's competitiveness. The 2016 Economic Advisory Group Competitiveness Report established that the region's competitiveness had barely improved vis-à-vis other regions and nations over the past five years. In the case of labour supply, education and skills, Northern Ireland has in fact become significantly less competitive.

The term low-skilled also applies to the 'forgotten middle' of roles which are skilled but not to degree level, for example technicians in manufacturing and tradespeople in construction. In Northern Ireland, this 'forgotten middle' of migrant labour is a key element within the region's manufacturing/agri-food workforce. Without them, those sectors would struggle as there is a significant skills undersupply identified at NQF Levels 3-5.<sup>2</sup> Yet currently these vital technicians would be excluded under Tier 2 migration rules which consider applicants unskilled unless they are educated to degree level.

Given these pressures, local firms have expressed fears around the application of the current non-EU migration system to EEA nationals. This they argue would make accessing labour even harder and serves only to make local companies even less competitive than their counterparts in Europe.

### 4.1 Inability to grow:

Several CBI members have recently reported, due to the number of their employees leaving, that they are now forced to turn away new orders and are struggling to fulfil their existing order book. Other businesses have shared concerns that they are currently tendering for new business without being confident that they will have the workforce needed to fulfil the contract.

### 4.2 Rising Wages:

The Department for the Economy in NI has reported in its publication "*The Cost of Doing Business in NI 2015*" that labour is the largest cost area for local businesses, accounting for 20% of turnover on average according to its business survey. This report highlights a significant degree of variation by sector depending on the activity being carried out, from retail where labour costs are lower at 15% of turnover, to construction at 26%. A small number of firms – mainly hotels & restaurants, construction and some manufacturing companies – are very labour intensive and are therefore very sensitive to local labour costs.

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<sup>2</sup> Northern Ireland Skills Barometer, UUEPC, June 2017



While the imposition of the National Living Wage without rising productivity has been an issue for the business community, a further worrying development is that some companies across Northern Ireland, like others across the UK, have been forced to dramatically raise salaries to attract certain skills. For example, in Co. Antrim an engineering company has been forced to advertise for welders at £14 per hour, this compares to the UK average of £11-13 per hour. In addition, a tradeable services company based in Belfast has been forced to increase the salary of German speakers for its call-centre by 27% in the last six months.

Wage rises driven by productivity gains are desirable, however wage inflation driven primarily by a shortage of labour is a huge cause for concern for both businesses and policy makers.

#### **4.3 Disparity with Republic of Ireland offering:**

The current reduction in the supply of EU labour and skills is having a detrimental impact on the ability of Northern Ireland firms to remain competitive and will undoubtedly have an impact upon future competitiveness and survival. Firms are also increasingly aware that their competitors in the Republic of Ireland are not facing the same issues. For example, Republic of Ireland based competitors can offer EU workers euro-based salaries and a welcoming culture. **To retain competitiveness, EU nationals living and working within the UK must be confident they are welcome to remain and continue contributing to our economy.**

#### **4.4 Ability to attract Foreign Direct Investment:**

Northern Ireland's attractiveness to Foreign Direct Investment (FDI) is strongly linked to continued access to inward flows of migrant workers. The talent pool in any economy is always cited as one of the guiding factors on investment location decisions. Given Northern Ireland's acute shortage of skills at all levels it is obvious that foreign direct investors will prioritise the Republic of Ireland where the Irish government are committed to improving the value proposition for foreign investors.

The Industrial Development Agency (IDA) in Ireland notes in its 2015-2019 strategy for attracting foreign investment that: "*The availability of talent will be the key differentiator for locations to win FDI in the future. Existing investors are unanimous in their praise of the quality and commitment of the people they can hire and attract to Ireland*". The agency highlights the fact that skills are crucial to their investor proposition and they commit to focusing on "...education, skills, labour activation, re-training, and visa/work permit programmes" to ensure that their FDI proposition stays ahead of the competition.

The labour market policy approaches between the Republic of Ireland and the UK are currently poles apart in terms of attracting international workers and skewing resources into education, re-training and skills. For Northern Ireland the very different policy approach makes competing with the Republic of Ireland for investment extremely difficult. This makes the region's future ability to deliver higher levels of economic growth highly unlikely.

## **5. Northern Ireland is economically very different to the rest of the UK**

The Northern Ireland economy is structurally very different to the rest of the UK. Overall, the economic recovery in Northern Ireland remains fragile and many long standing structural issues are only now beginning to be addressed. The economy has traditionally been overdependent on public sector spending while the private sector was stunted in previous decades due to the legacy of the political instability and unrest. In the last few years however, there have been significant efforts to rebalance the economy in terms of the public/private balance. However, the challenge is to significantly accelerate this restructuring progress.

### **5.1 Rebalancing the economy:**

The latest labour market statistics from NISRA (2017) show that private sector employee jobs have grown to a series high in June 2017 (547,170 jobs), to now stand at 6.2% above a series peak which occurred in June 2008. However, NISRA report that there is some evidence that the annual growth in private sector jobs is slowing (from 17,130 over the year to June 2016 to 10,700 over the year to June 2017).

Public sector jobs on the other hand are continuing to decline with a decrease of 570 jobs (-0.3%) over the latest quarter. Public sector employment is now 10.5% below its series peak which occurred in September 2009.

### **5.2 Unemployment levels:**

Local ILO unemployment levels (4.7%) are slightly higher than the UK average, but at a sub-regional level Northern Ireland can experience extremely low rates of unemployment. For example, the average claimant count unemployment level is below 2% in a number of NI Council areas such as mid-Ulster (1.6%), Lisburn and Castlereagh (1.5%), Armagh City, Banbridge and Craigavon (1.8%). It is for this reason that companies complain that the local supply of labour is simply not sufficient to allow their businesses to grow. For example, Mid-Ulster's global manufacturing base is currently really struggling to find the skills they need to fulfil orders because of the tight local labour market.

These low unemployment rates are therefore reflected in local company's reliance on immigrant workers. CBI member unease regarding the situation was made clear in a recent survey: when asked, 96% of respondents said that Northern Ireland faced a growing skills shortage.

### **5.3 Lower productivity**

NI productivity levels still remain below the UK average despite key sectors such as manufacturing and retail performing well. Work carried out by the CBI and McKinsey in 2016 shows that the relatively poor productivity in Northern Ireland is attributable to a number of factors. In the first instance, poor transport links which widen access to labour are a factor, for example connectivity to both London and Dublin could be significantly improved. In addition, innovation levels are lower in Northern Ireland.

The reasons behind lower innovation levels are complex but this issue is undoubtedly related to the 'brain drain' problem whereby young talented people choose to leave the region and live elsewhere. The CBI report found that the share of graduates in the NI workforce was lower than many other UK regions. Unfortunately, further problems lie ahead for in work training across Northern Ireland's private sector as the introduction of the Apprenticeship Levy (the revenues of which will not be directly returned to NI employers for training purposes) will serve as a double tax for employers. Many firms have raised concerns that in the future they cannot afford to run their own in-house training or apprentice schemes and pay for an Apprenticeship Levy as well.

### **5.4 Significant proportion of small companies:**

The NI economy is characterised by a large proportion of small firms. According to Ulster University's report "The Contribution of Small Business to NI", small and medium-sized companies and self-employed people, together, provide; 75% of employment, 75% of turnover and 81% of GVA in NI's private sector. Smaller companies are synonymous with lower productivity and lower wages as (unlike larger companies) they less able to generate economies of scale. The pursuit of a lower rate of Corporation Tax for NI to attract large multinationals into the region was recognised as a lever to address this problem.



### **5.5 Lower median wages in NI will leave the region at a disadvantage if the wrong salary threshold is set**

These structural issues have resulted in overall lower productivity levels and lower median wages when compared to the UK as a whole, (NI wages are 91.9% of the UK median). Lower wages have to some extent been offset by lower living costs for NI consumers (for example, lower housing costs) and for local businesses, they can help to offset higher energy and transportation costs.

However, lower wages could be a major disadvantage for NI if the future migration system for EEA nationals, as it is for Tier 2 migration, is subject to a salary threshold set at a level that is not appropriate for NI. It is therefore vital that any future migration system demonstrates sufficient regional flexibility in this regard.

### **5.6 Recommendation:**

**Any salary thresholds established in a future migration system for EEA nationals must be set at a level that is relevant to Northern Ireland.**

## **6. SPECIFIC SECTOR EXAMPLES**

### **6.1 The Agri-food Sector:**

At the heart of the draft NI Industrial Strategy is recognition that small regional economies cannot be successful at everything and instead must specialise in existing strengths. One of Northern Ireland's great strengths is our agri-food industry which represents a proportionally much larger section of our economy than it does for the UK as a whole.

The food and drinks processing sector has an annual turnover exceeding £4.4 billion. The sector represents a quarter of regional manufacturing and directly employs over 22,000 people. The sector's supplier, the farming sector, contributed a further £1.8 billion in 2015.<sup>3</sup> Together they are Northern Ireland's most strategically important industry and the NI Executive had a joint target to raise the sector's turnover to £7 billion by 2020.

However, these growth targets will be jeopardised if agri-food firms cannot access European labour – on which they are reliant. The NI Food & Drink Association has estimated that 48% of their member's full-time employees, and 91% of seasonal contract agricultural workers, are EU nationals.<sup>4</sup> While local firms do not wish to be so reliant on European labour, they recognise that these workers are not replacing indigenous labour but instead are addressing important shortages in the regional labour market. Without access to European labour the agri-food sector cannot grow and contribute to the Executive's efforts to rebalance the regional economy.

Nor can the issue of labour be viewed in isolation. The agri-food sector is very vulnerable to a loss of market access and disruption to supply chains via potential tariff & non-tariff barriers following the UK's withdrawal from the EU. This will put further pressure on the sector as it seeks to adjust. However, it is important to note that the continued importance of access to European labour is not limited to agri-food alone. The ICT, pharmaceutical, medical technologies, and university sectors have all expressed grave concerns regarding access to EU migrant workers in the future.

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<sup>3</sup> Size and performance of the NI Food and Drinks Processing Sector, DAERA, July 2017

<sup>4</sup> *Brexit: Challenges & Opportunities for Northern Ireland Food & Drink*, NIFDA, November 2016

## 6.2 Manufacturing/ Knowledge Economy:

CBI members report skills shortages in a range of manufacturing sub-sectors. While there is a significant need for lower and mid-tier skills in the manufacturing sector there is also a significant need for high-level skills too. For example, the regional manufacturing sector extends to knowledge intensive areas such as medical diagnostics, pharmaceuticals, food nutrition, aerospace and plastic composites and engineering. Companies report the need to attract qualified engineers (chemical, design as well as project management engineers), chemists and graduates with PhDs from across Europe to meet their business needs. Any restrictions on that access to professional talent will severely restrict Northern Ireland's ambition to grow its knowledge economy.

## 6.3 Health:

In common with advanced economies across the world, the Department of Health in NI has been striving to transform how it delivers and manages health and social care to meet the population needs. In 2011 a review of healthcare delivery by the Department of Health set out a vision and strategy for responding to the many challenges that the health sector faced. *Transforming your Care* set out a shared view of how that transformation would take place and a huge component was the reallocation of resources from secondary care to the primary and community care sectors. Private sector companies charged with delivering that community care for the NHS however are encountering severe problems accessing staff to fulfil those contracts. They have reported that they must now turn down a significant proportion of tendering for new contracts because they have no staff to carry out the work. Should this continue to be the case there will be a problem for NI's NHS to transform its delivery model, make the necessary savings and improve patient outcomes.

## 6.4 Hospitality / Tourism / Recreation:

The tourism sector in NI is recognised as a potential high growth sector. Currently, the sector accounts for around 4.9 percent of local GVA and over 8 percent of employment. Tourism is an export opportunity, allowing us to bring global income to our economy. By 2020, the tourism sector in NI aims to double the contribution to GDP and generate £1bn in tourism spend, creating 10,000 new jobs in the process. These ambitions cannot be achieved without access to migrant workers. This sector currently relies heavily on a strong supply of migrant labour and ambitions to grow requires that an international pool of workers remains accessible.

## 6.5 Universities:

Securing a sustainable Higher Education system is vitally important as today's young people will drive tomorrow's economic growth. We must, therefore, nurture their talent so that our students can maximise their potential as global citizens. Local universities have expressed deep concerns that restrictions on the freedom of movement between European countries will have implications for thousands of NI students who go to Europe to study or engage on work exchange programmes.

Investment in research and development by local businesses has never been higher, although there is still more to do if we are to reach our knowledge economy growth ambitions. It is essential therefore that both businesses and universities in NI will continue to have access to research funding opportunities as well as have access to the best international research staff to work on collaborative projects. The most successful universities globally are those that can attract world-leading talent.

For example, Queen's University in Belfast currently employs 764 EU staff members (479 EU academics and researchers as well as 285 EU Professional Support staff). Future limitations on the freedom of movement of talent into Northern Ireland could potentially jeopardise both of our local universities ability to produce world-class research - which is determined by their ability to collaborate on global projects and attract the best of international talent. Beyond damaging our universities' future research capabilities, this dent to their global competitiveness will be further amplified if local universities have restricted access to research funding and

income from international students. Currently, QUB has 1,010 EU students enrolled for the 2016-17 academic year.

### **6.6 Construction:**

Having experienced the worst housing crash in Europe back in 2008, Northern Ireland's construction sector is only just recovering in terms of economic activity. In March 2016, the Construction Industry Training Board (CITB) commissioned a skills and training survey. The survey found that right across the UK this sector had common themes around recruitment difficulties and skill shortages, skills deficiencies and gaps in established workforces as well as training and development activity. Construction firms in Northern Ireland report the same issues and additionally note that the industry has really struggled to attract young people as the sector's turbulent past during 2007-2014 – which resulted in parents encouraging young people to bypass this sector for job security reasons. NI construction companies have expressed concerns about bidding for further work as they currently face skills shortages. Attracting international workers into this sector will also be crucial if NI is to realise its ambitions for infrastructure delivery in terms of roads and housing.

## **7. The Republic of Ireland's FDI success presents a unique challenge**

Firms in Northern Ireland face several competitiveness challenges, such as higher transport and energy costs, which are inherent to its geographic position on the periphery of both the UK and Europe. However, one of NI's greatest competitive challenges in a post-Brexit world will without doubt be the Republic of Ireland, where investors and local firms can enjoy full access to European markets, access to skills, low corporation tax and do not face an Apprenticeship levy.

While Northern Ireland's geographic proximity to the RoI has one on hand led to both greater collaboration to achieve economies of scale, it has on the other hand also led to greater competition between firms on both sides of the border and strong competition for investment between the two jurisdictions.

This has resulted in a situation where Northern Ireland's key economic competitor is not another UK region, which operates on the same economic policy playing field, but a nation-state which is free, within the constraints of EU rules, to amend economic policy levers at will.

For example, as mentioned earlier, the hospitality sector in NI is facing significant shortfalls in availability of labour. Hotels and restaurants across the region complain that it is very difficult to compete with the Republic of Ireland's hospitality sector for international workers given that the Irish economy is currently paying higher wages (euro) and the VAT rate for tourism in Ireland is only 9 percent, making it a much better offering for consumers as well as workers.

Given this unique economic situation brought about by geography, Northern Ireland has sought to use devolution to introduce specific economic measures to allow local firms to compete with the Republic of Ireland on a more level playing field.

### **7.1 Levelling the playing field:**

The competitive economic pressure placed on Northern Ireland by the Republic of Ireland's low corporation tax rate of 12.5% is the reason the NI Executive sought and received the powers to vary the local corporation tax rate to match that of the Republic of Ireland. Unfortunately, the dissolution of the Executive in January has precluded the implementation of a lower rate for now. In addition, in 2012 Northern Ireland sought and received

a derogation of the Carbon Price Floor as its imposition would render electricity generators uncompetitive within an all-island Single Electricity Market. **Northern Ireland is therefore already recognised as having different policy requirements than the rest of the UK due to geographic imperatives. This recognition must also extend to the UK's future immigration system for EEA nationals working in Northern Ireland.**

### **7.2 Contingency plans – firms will move to the RoI**

If firms in Northern Ireland cannot access the labour they need, many will decide to focus their future investments in the Republic of Ireland. Here the option of relocating to the Republic of Ireland is far easier than it is for firms operating elsewhere in the UK to relocate overseas. Already, uncertainty over future access to EU labour and skills is causing firms to consider relocating more seriously.

Several businesses, particularly larger firms, have already signalled that they have already started exploring re-location opportunities. A number have already purchased facilities in the Republic of Ireland and others are considering expanding facilities they already possess.

Northern Ireland's unique geographic circumstances create challenges to our firm's competitiveness that do not exist in other UK regions. **This impact of geography must be accounted for in any future migration system.**

## **8. Current political instability**

At the time of writing, Northern Ireland is currently without a functioning Executive and has been since January. Political stalemate has resulted in policy paralysis with no major policy decision or reform made in the last ten months, and no 2017-18 NI budget set. Without political progress, a caretaker Direct Rule administration will be put in place, further slowing reform.

Political stalemate has exacerbated Northern Ireland's skills challenge. To deliver the skills businesses need through indigenous sources, there must be a significant realignment of Northern Ireland's devolved skills system. However, significant long-term reform requires a stable devolved Executive in place with the ambition and political will to deliver the necessary transformation over the next decade.

With no Executive in place, transformational reform is off the table and yet local businesses face tangible skills shortages today. Businesses are committed to doing their part to make up skills shortfalls by investing in training and collaborating with the local education system. Even in the current challenging economic environment, almost 40% of Northern Irish businesses have ambitions to expand existing training programmes. A 2017 CBI report done in conjunction with Pearson consultants revealed that firms in Northern Ireland are ahead of their counterparts in Britain, with more than 90% of firms offering a dedicated learning and development strategy compared to just 76% of UK companies.<sup>5</sup>

As the major policy levers to improve skills remain in the hands of government, there is a limit to what business can achieve. However, the commitments already made to protect that Belfast Agreement should work to support any future skills policy as ultimately the continued access to migrant labour (to address current and future skills shortages) will be crucial to ensuring that NI companies continue to prosper and are not forced to relocate.

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<sup>5</sup> CBI/Pearson Education and Skills Survey, CBI, July 2017

It is also important to recognise the lasting influence of the region's history on its social and economic fabric. The continued impact of "the Troubles" is an important contributor to Northern Ireland's proportionally high economic inactivity rate and it will take time to support those who are able and willing to re-enter the workplace.<sup>6</sup> Efforts to do so will be hampered by continuing tensions between elements in the two communities which often discourage people from moving or travelling out of certain areas to seek work, further limiting local firms' labour pool.

Northern Ireland's unique political, economic, geographic and historical circumstances create challenges for local firms that simply do not exist in the other regions and nations of the UK. These circumstances must be accounted for in any future migration policy.

## Conclusion

Economic, political, geographical and demographic conditions in Northern Ireland are fundamentally different to those in the rest of the UK. The result is that our labour requirements are different and we have had an undeniably different experience of European migration due to sharing an invisible land-border with another EU state. Free movement across that border is accepted, politically necessary, and recognised as a vital element of the peace process and the all-island economy. Thus, any future migration system for this region must accommodate Northern Ireland's unique economic and political circumstances.

Local businesses require any new UK migration system for EEA nationals to be flexible enough to work for Northern Ireland. This flexibility, which could be delivered by tools such as a dedicated Shortage Occupations List or salary threshold variations, should protect key sectors and ensure the region's unique economic and political conditions are accounted for.

Access to talented people, of all skill types, is the foundation of any modern successful industrial strategy. Northern Ireland has come far in the last twenty years and we wish to build upon our economic and social progress to date. To do so requires a migration system that supports local economic growth and recognises Northern Ireland's unique political and geographic circumstances.

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