

Review of the Balance of Competences
Internal market: Free Movement of Persons
A submission by the City of London Corporation

The City of London Corporation (“CoLC”) is grateful for the opportunity to make a submission to this Review. The CoLC has for several years chaired a City of London Migration Working Group as a forum for reflecting the views of those firms and organisations representing the UK-based financial and professional business services industry (“the City”). This group directly informs CoLC’s own work on migration policy and related visa issues. The group has also proved to be a valued forum for engagement between the City and Ministers or officials from the Home Office, which has led to progress on a number of issues, including business visa applications and related processes. CoLC also welcomes decisions by the Home Office to review online applications, Tier 1 usability, translation services, and initiatives to work with other EU member states, in particular the recent announcement to establish a shared-visa with Ireland.

In support of our work, CoLC has previously published a number of reports on migration issues, including our November 2011 research report on migration, [*Access to Global Talent*](#)¹, which was well received both inside and outside Whitehall. More recently, we have compiled a short position paper on the availability of business visas² and we continue to make parliamentary submissions and consultation responses to the Home Office on these issues on behalf of our City stakeholders.

In the context of this Review, we are answering the following questions:

5. *What evidence do you have of the impact on the UK economy of EU competence on the free movement of persons?*
6. *What is the impact of this area of EU competence on employment sectors, such as [...] ‘banking and finance’ [...] or other sectors?*

Summary of conclusions

- The UK-based, international financial and professional services industry benefits from access to the pool of skilled and talented people via the free movement of labour provisions of the EU single market;
- It would damage British trade and economic interests to withdraw from these provisions.
- It is, however, essential that access to the wider international market in skills in non-EU / EEA states is not made so difficult that talented individuals locate or do business elsewhere.
- Highly-skilled workers, particularly in financial services, are not a burden on the state (see paragraph 3 below); they generate wealth and are positive contributors to the UK economy. Their spending on goods and services in the UK also benefits the UK economy as a whole.

¹ CoLC, Consensus (November 2011), *Access to Global Talent – the impact of migration limits on UK financial and professional business services*

² CoLC (March 2013), *Open for Business. Open for business visas?*

- London's strength as a financial centre derives from its position as the junction of EU and global business. It is Europe's international financial centre. Its workforce must reflect this.
- London's ability to attract both EU / EEA and non-EEA nationals is a major advantage to the City's global position and UK trade.
- The Free Movement of Persons inside the EU provides the UK with access to talent from across the world's largest and wealthiest Single Market, a market in which London is the global hub for financial and professional business services (see paragraph 12 below).

The broader international skills pool

1. London is recognised as the 'destination of choice' – through better job opportunities, leisure amenities, transport links and cultural reference points – for many immigrant workers. In the last 20 years, London has seen the proportion of its population who are foreign-born more than double, to its current level of 33% (approximately 2.5 million people)³. The City, itself a global financial services hub and centre for international trade, is dependent on access to a global talent pool of individuals who live and work in the UK.

2. Both the City's working population, and those businesses that are located here, are representative of London's broader cosmopolitan mix. This is also reflected by the international characteristics of those businesses located here, in areas ranging from asset management, through pension provision, capital-raising, legal services, accountancy, insurance and maritime services. Approximately 20.7% of those employed in financial services in the UK (excluding pensions and insurance) were born overseas⁴. These international firms, many of which have located their headquarters in the UK (see paragraph 13 below), have global business and clients, and they want to recruit the best people they can from across the world.

3. Highly-skilled migrant workers are a benefit to the UK economy, not a burden, as they generate wealth and deliver a net contribution⁵ directly to the UK's economy, as well as quantitative contribution⁶ to wider society. In 2011, the average wage of a highly-skilled, well-paid employee in the financial services sector for example was between £45,000 and £55,000. During the same period, employment taxes for each employee were- £22,971 on average taking amounts borne and collected together. These figures are an indication of the direct benefit to the Exchequer for each job created or maintained in this sector⁷. Each employee's spending on goods and services also benefits the wider UK economy. These educated individuals are likely to

³CoLC, Oxford Economics (January 2011), *London's Competitive Place in the UK and Global Economies*

⁴This figure includes those UK nationals also born overseas and is taken from Rienzo, C. (August 2012), Migrants in the UK Labour Market – an overview, *Briefing - Migration Observatory at the University of Oxford*, 2nd Revision: p. 4

⁵George *et al* (February 2012), Skilled immigration and strategically important skills in the UK economy, *Final report to the Migration Advisory Committee (MAC) by National Institute of Economic and Social Research*

⁶CoLC, London School of Economics and Political Science (2007), *The Impact of Recent Immigration on the London Economy*, p. 64

⁷CoLC, PwC (December 2012), *Total Tax contribution of UK financial services*, fifth edition

be investors, entrepreneurs, or key staff for the many international firms which are major investors in the UK. These individuals are not likely to remain in the UK long-term, and even if they do, they are less likely to make claims on publicly-funded services, such as the NHS and state education. They are also likely to be highly trained in skills that are passed onto British workers and businesses.

4. The City's ability to attract skilled workers from outside the EU / EEA is limited by the regulations put into place by HM Government, although it is accepted that the process of review and re-examination has produced improvements in recent months.

5. City business broadly accepts the political need for UK controls on skilled immigration. Its key argument, however, is that when these controls are too rigid - and the perception is created that the UK is not "open for business" - that talented people and the business areas in which they work belong elsewhere. This perception has the capacity to damage inward investment and inhibit the flow of capital.

6. In reality, the presence of skilled and talented people, with cultural, commercial and political knowledge, can bring and anchor business here and, rather than displacing British workers, can create new opportunities for them while generating corporate profits, tax revenue and export earnings. This is supported by respondents to our (CoLC) survey in 2011 - one well-known global bank indicated that comprehensive training programmes led by foreign staff contributed to developing the UK labour force as a long-term objective⁸.

7. It is therefore important that the UK's continued adherence to the free movement of persons from within the EU / EEA should not be a reason for supporting the over-regulation (or even prevention) of recruitment of skilled individuals from outside the EU / EEA.

8. In the financial and professional business services sector, and in other areas of "the knowledge economy", the UK is in a position which, with careful policy management, can generate a double advantage:

- Through its adherence to the free movement provisions of the Single Market it has cost-effective access to the EU / EEA skills pool, attracting talented individuals here and anchoring the businesses which employ them; and
- By applying its work permit rules for talented and highly-skilled individuals from outside Europe it widens the existing pool and broadens the capacity to do global, rather than solely domestic and European business.

The EU / EEA commitment

9. For the City, access to the EU and EEA pool of skilled and talented people, under the free movement of labour provisions⁹, has been a considerable benefit and is essential for the UK's success in the future. European companies regard the extent of the UK's integration with the EU as important for FDI attractiveness with 56% of

⁸*Ibid* 1, p. 29

⁹ Established in the Treaty of Rome, 1957; amended by Directive 2004/38/EC on the right to move and reside freely (within the EEA)

European investors stating reduced EU integration would make the UK a less attractive location to invest¹⁰.

10. Such individuals can, under the free movement of labour provisions, be recruited directly by City companies or transferred from elsewhere. Their employment is not subject to the various regulations governing entry to and work in the UK by non-EEA nationals. This free movement has contributed to the development of a competitive Single Market.

11. For the City and other major areas of the economy, the free movement of labour provisions has facilitated benefits, in terms of sectoral knowledge, familiarity with business and regulatory cultures, linguistic skills and networks of contacts in the public and private sectors.

12. The free movement of labour within the EU provides the UK with access to talent from across the world's largest and wealthiest Single Market, a market in which London is the global hub for financial and professional business services. EU cross-border trade in 'services' currently amounts to approximately €101 billion a year (0.8% of EU GDP)¹¹. Within that EU market the UK has a 74% share in foreign exchange trading, a 74% share in interest rate OTC derivatives trading, a 51% share in maritime insurance and an overall 19% share of total financial and related professional services employment¹².

13. As a global centre for financial and professional business services, London is the location of choice for many non-UK businesses that choose to establish either their headquarters or a strategic branch of their businesses here:

- Out of 971 companies in the UK (worth over £5 billion) with overseas majority ownership, 172, some 18%, are from the EU, mostly from Germany 34, France 33, Netherlands 25 and Italy 15. A further 62 are from elsewhere in Europe, principally Switzerland (39);
- Out of 251 foreign banks authorised to take deposits in the UK, nearly a third, 79, are from the EU, with a number of other banks entitled to establish branches in the UK but not accept deposits. EU banks in the UK hold nearly £1.4 trillion in assets or 17% of total assets of banks in the UK;
- Some 115 companies from EU countries were listed on the London Stock Exchange's markets in March 2013, accounting for over a fifth of 589 listings of foreign companies. EU companies also account for around a fifth of the market valuation of UK foreign listings. Most EU companies on the London Stock Exchange are from Ireland (51), Cyprus (15), Netherlands (11), and Luxembourg (11);
- Out of funds managed in the UK totalling £5.1 trillion, more than 30%, or some £1.9 trillion, is managed by overseas headquartered firms. Around 11% of total UK assets are managed by EU headquartered firms. There is also significant outsourcing; £765 billion is managed in the UK on behalf of

¹⁰ Ernst and Young (2013), *Ernst and Young's attractiveness survey: UK 2013 – No room for complacency*.

¹¹ Open Europe (2013), *Kick-starting growth: How to reignite the EU's services sector*.

¹² TheCityUK (2013), *Links between financial markets in the UK and the EU*

overseas-domiciled investment funds, of which the majority is domiciled in Luxembourg and Ireland¹³.

14. It is also important to emphasise that the international talent pool in London is not only drawn on by British companies or those from the individual's own country. A Spanish national working for a Japanese bank dealing with Latin American business, or a Greek maritime expert working for an American-owned insurance broker, are typical examples of the transfer of knowledge and experience across national boundaries.

15. The UK's commitment to this aspect of the Single Market has proved to generate strong business benefits, with the free movement of labour of migrants from the new EU member states adding £5 billion to UK GDP between 2004 and 2009¹⁴. Since 1992, 2.75 million new jobs have been created across the EU¹⁵. An estimated 4.5 million UK jobs are dependent on exports to the EU¹⁶. EU FDI in the UK creates 50-60,000 jobs and safeguards 40-50,000 jobs every year¹⁷. Withdrawal from the internal market, or the imposition of controls on the recruitment or transfer of skilled and talented EU / EEA nationals equivalent to those applied to other non-EEA jurisdictions by the UK, would be damaging.

16. If the UK was to withdraw from the free movement of labour provisions a key risk would be the likely tendency for firms doing business in other EU centres to locate nationals of that country, or from other countries remaining subject to the free movement provisions, in their domestic operations. These domestic businesses would then be built up at the expense of further growth, or even reduction, of their existing UK-based business, leading to a reduction in the City's tax-take and a likely increase in UK unemployment. The UK's adherence to the free movement provisions means that, for instance, German or Italian companies can productively deploy their own nationals here, where the competitive clustering of financial and professional business services adds value to their activity and value, and this benefits their British co-workers through transference of knowledge and skills.

17. The UK's continued adherence to the free movement of labour provisions, which enables access to international talent from across the EU / EEA, reinforces London's position as not only a European but also a global centre for financial and professional businesses services, and a 'destination of choice' for its participants, as well as supporting the argument for continuing full participation in the Single Market. International decision makers have specifically cited access to markets in the EU as a core reason for choosing the UK over other financial centres in over 40% of the UK-positive investment cases considered. In over 45% of UK-positive investment cases,

¹³ EU companies based in the UK, *Ibid* 11

¹⁴ Holland *et al*, National Institute of Economic and Social Research (May 2011) *Labour mobility within the EU - The impact of enlargement and the functioning of the transitional arrangements*

¹⁵ HM Government (2012), "The European Union Single Market – what has been achieved in twenty years?" in Centre for Economic Policy Research (2012): *Twenty Years On: The UK and the Future of the Single Market*

¹⁶ House of Commons (2013), *In brief: UK-EU economic relations – key statistics*

¹⁷ Oxford Economics (2009), *An Indispensable Relationship: Economic linkages between the UK and the rest of the European Union*

decision makers cited access to skilled staff, including EU nationals, as one of the core reasons for choosing the UK¹⁸.

Conclusions

18. London is a global hub for financial and professional business services which is dependent on access to a pool of international talent, from both within the EU / EEA and outside the EEA. The City's ability to attract both EU / EEA and non-EEA nationals to its international workplace are a major advantage to the City's global position and UK trade, placing the UK ahead of its closest competitors for this industry.

19. Skilled migrant workers are a benefit to the UK economy, not a burden, as they generate wealth and are positive contributors to wider society, wherever they are situated. Their spending on goods and services also benefits the wider UK economy. These individuals are likely to be investors, entrepreneurs, or key staff for the many international firms which are themselves major investors in the UK.

20. These skilled and educated individuals are not likely to remain in the UK long-term, and even if they do they are, in general, less likely to make claims on publicly-funded services, such as the NHS and state education. They are also likely to be highly trained in skills that are passed onto British workers and businesses.

21. If access to the global pool of skilled workers is inhibited, international companies located here could decide to move key business areas outside the UK. One of the key reasons often cited to CoLC for doing this is because these firms view London as a gateway to the rest of Europe, and beyond. International companies such as these are also likely to employ large numbers of British workers. If such businesses decide to move away, there may be negative effects on employment levels, the UK's pool of skills and leadership ability and the volume of taxes raised. This issue is therefore about economic growth across the UK rather than just the needs of City firms.

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¹⁸ The City UK (November 2012), *Driving Competitiveness, Securing the UK's position as the location of choice for financial and related professional services*