



AUSTRALIAN INDUSTRY
G R O U P

5 January 2011

The Hon Chris Bowen MP
Minister for Immigration and Citizenship
PO Box 6022
Parliament House
CANBERRA ACT 2600

H M Ridout
Chief Executive

51 Walker Street
North Sydney NSW 2060
PO Box 289
North Sydney NSW 2059
Australia

ABN 76 369 958 788

Tele: +612 9466 5566
Fax: +612 9466 5599
www.aigroup.com.au

Submission on Immigration Program Planning Levels 2011-12

The Australian Industry Group (Ai Group) welcomes this opportunity to contribute the views of Australian industry on the planning levels for the immigration program in 2011-12.

OVERVIEW

It is our strong view that the current planning level for the 2010–11 Migration Program, which is set at 168,700 places (down from the originally planned 190,300 in the previous year), remains significantly below what is required to avoid pressure on Australia's capacity and its attendant impact on costs and interest rates.

This view is based on clear evidence of re-emerging skill shortages which are set to intensify with the combination of our ageing population and labour demands influenced by the resources boom.

If we are to have the right skills at the right time and in the right place, lifting training and participation rates, of course, needs to be the first priority. However, studies of our future skills needs have demonstrated that there will be significant shortfalls of skilled labour in the coming years and we need to be willing to complement domestic labour supply with more skilled migrants.

We need the permanent migration program to remain focused on skill needs and we welcome the Government's emphasis in this regard. We also need to keep temporary programs, such as 457 visas, accessible to business and not further tightened.

In determining the policy settings for access to the program, the Government should also take into full account forecasts showing that our economy is in need of both skilled trades and tertiary qualified migrants. We believe the new Points Test for the independent skilled component of the program should recognise that different levels of English are required for different skills.

Additionally, the migration program has a role to play in addressing labour shortages that extend to unskilled and semi-skilled occupations. For example, hundreds of mines operate in Western Australia; all have vacancies for mining jobs with no experience required. Due to the global demand for minerals, the mining industry in Western Australia has a huge, all time

high demand for unskilled labour.¹ This doesn't only have an impact on WA, pre the Global Financial Crisis we saw workers, both skilled and unskilled move from non-mining sector states to WA which further intensified skills and labour shortages in these states.

The migration program should be set with an eye to two years out as this can be the length of time taken between application and arrival. The Australian economy is growing strongly, with unemployment set to fall further and the budget on track to return to surplus in 2012-13. The economic forecast for 2011-12 is similar to the conditions prevailing when the 2008-09 planning levels were being considered ahead of the May 2008 Budget.

At that time, the government set the planning levels for the migration program at 190,300. This was based on the need to *"help ease Australia's skills shortage and help fight inflation"* (Senator Evans' Media Release of 13 May 2008 attached).

We believe that in setting the 2011-12 migration program levels the Government should be guided by the same judgements on skills demand and the impact on the economy which were made in 2008 when considering the 2008-09 program.

RECOMMENDATIONS

1. The planning for the 2011-12 immigration program needs to take fully into account the intensifying skill shortages forecast for the middle of this decade.
2. The immigration program planning levels should be at least set at the same levels determined in 2008 of 190,300.
3. The Government should reduce the English language cut-off entry level to the independent skilled component of the program from International English Language Testing System 6 (IELTS) to IELTS 5 and change the scale to begin awarding 5 points at IELTS 6.
4. Consideration should be given to introducing a sliding scale for language requirements in the Points Test based on occupational language needs.
5. There should be no further tightening of eligibility under the 457 program.

TRAINING – A PRIORITY FOR INDUSTRY

Australian companies are committed to training and Ai Group research has found that employers look to source and develop skills locally as a first option to filling vacancies. Our most recent skills survey found that companies unable to fill vacancies were more likely to respond by upskilling their existing workforce than by pursuing any other option – including overseas recruitment². Companies are telling us that skilling is increasingly important to their operations, especially in a climate of skills shortages. Further, that these skills must be updated more often, broadened over time and be at a higher level for industry to remain competitive and for productivity to grow. Notwithstanding this commitment, it has become clear that the intensifying skill shortages in our economy cannot be met by the training of our own workforce alone.

¹ West Australian Job Seeker Website: <http://westjobs.com.au/jobseeker/mining-jobs-no-experience.html>

² Ai Group and Deloitte National CEO Survey 2010 Skills shortages: A high risk business

SKILL SHORTAGES AND THE ROLE OF BALANCED MIGRATION

Our nation risks missing out on the full benefits of future global growth and the dividends from our investments in education unless we commit to a new national approach to workforce development.³ This approach must maximise our people's capabilities, lift productivity and increase workforce participation.

Skills Australia considered three possible scenarios that Australia could plausibly face over the next 15 years. Based on the highest growth scenario—the one closest to Australia's current policy settings—the Australian workforce is projected to grow an average of 2.1 per cent a year reaching 15.3 million by 2025. Based on Skills Australia's projections we will have 9.3 million job openings in Australia over the next 15 years. This includes 4.8 million jobs through economic growth and 4.4 million replacement jobs arising due to workers leaving the workforce. Skills Australia projected that around 4.6 million additional qualifications will be required over the next 15 years due to employment growth. Some 3.8 million are expected as a result of the retirement of the existing workforce and around 3.5 million are likely to be required as a result of skills deepening.

Australia will need an additional 2.4 million people in the workforce with qualifications at Certificate III and higher by 2015, increasing to 5.2 million by 2025, to meet projected industry demand. In the short term (to 2015) the projected supply of qualifications based on a 2 per cent a year growth in enrolments was estimated to be well short of requirements. The workforce at this stage will be less skilled than is desirable and Australia will continue to depend on a targeted skilled migration program.⁴

The 2010 Intergenerational Report highlights the potential impact of an ageing population on Australia's future workforce participation rate. On current projections the numbers of Australians aged from 65 to 84 will more than double over the next 40 years and skilled migrants at the middle and top end of the current age scale coming in now will form part of that expanding group.

The Australian workforce participation rate is lower than that of the high performing OECD countries; our participation rate is lower than New Zealand, Canada and the United States. While the participation rate for older workers (55 to 64 years) has increased from 48% in 2000 to 59% in 2008 this is still below New Zealand (73%), Canada (65%) and the United States (61%). Australia's lower capacity to keep older workers in work reinforces the need to consider the importance of age as a factor when considering the immediate and longer term employment outcomes of migrants.

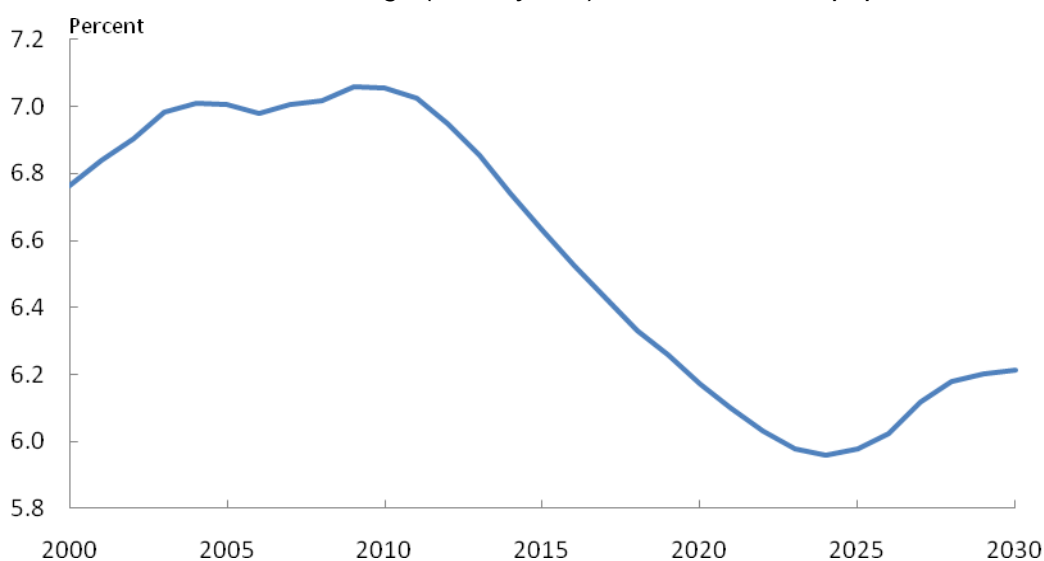
Balanced migration has a role to play in addressing both these short and long term skills needs.

In the short term, migration can provide the right workers in the right places at the right time. Retraining and higher participation rates among adults will provide part of the answer, but so too will immigration. Without the right response, it will only get harder to find anyone from a doctor to a tradesperson over the coming years.

³ Skills Australia *Australian Workforce Futures – A National Workforce Development Strategy 2010*

⁴ Skills Australia *Australian Workforce Futures – A National Workforce Development Strategy 2010*

Figure 1: The share of our population of prime student age is set to fall
Prime student age (18-22 years) as a share of the population



Source: Treasury projections. Cited in the Productivity and Prosperity Advisory Panel Report 2010.

Whilst Australia's labour market is generally recognised as being quite effective in responding to changing skills needs and economic fluctuations, for some occupations there is potential for market failure because the skills needed take a long time to develop.

For example, it can take up to 13 years to train a new doctor and around 6 years to train an Advanced Engineering Tradesperson (Figure 2). All domestic training takes time and better workforce planning is part of the solution, but governments and businesses cannot always anticipate when people will reduce their hours or retire. Nor can they necessarily anticipate skills needs.

Figure 2: It can take a long time to train new workers

Training timeline for a General Medical Practitioner (top) and an Advanced Engineering Tradesperson (below)



Source: Australian Industry Group. Cited in the Productivity and Prosperity Advisory Panel Report 2010.

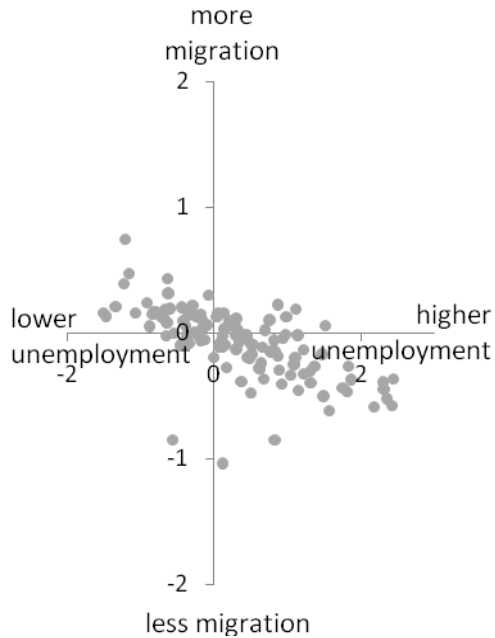
Migration can not only deliver workers at the right time, but it can help deliver them in the right places.

Although many factors influence where people decide to settle, overseas migration is generally more responsive to economic circumstances than internal migration. Figure 3 shows that, while states with low unemployment attract higher levels of internal and overseas migration, the relationship is stronger for overseas migrants. That is, overseas migrants are more likely to move to where the jobs are than the domestic population. The figure also shows that the domestic population will also move to places where there are limited job opportunities, largely for lifestyle reasons (Figure 3).

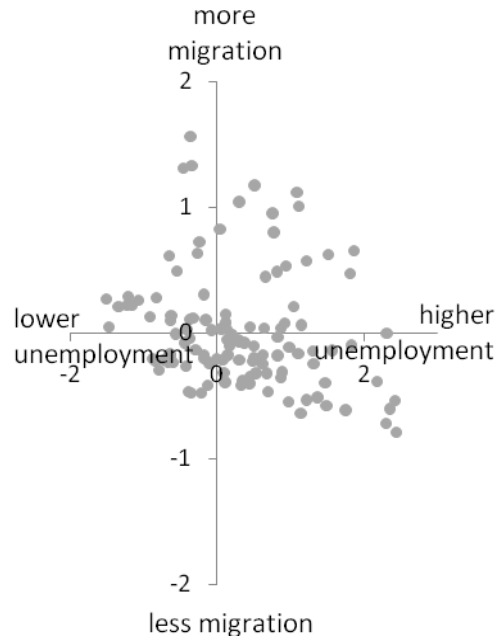
Figure 3: Overseas migrants go where the jobs are

Difference between state and national migration rates (is a state getting more migrants or less) as a function of the difference between state and national unemployment rates

Net Overseas Migration



Net Interstate Migration



Note: Each dot represents the experience of one state, in one of the years from 1990 through to 2009.
Source: ABS cat. no. 6401.0, cited in the Productivity and Prosperity Advisory Panel Report 2010.

While the majority of temporary migrants settle in the cities – where there can also be skills shortages, they also help relieve shortages in the regions. Indeed one of the recommendations of the National Resource Sector Employment Taskforce⁵ was to improve information for employers and streamline the approvals process in order to make the most of targeted immigration.

The Ai Group report on employer skill needs cited above identified that skills shortages are again looming large as a major risk for business posing real problems for companies in terms of production and service delivery. The report found that this situation is forecast to intensify and businesses are working hard to mitigate the risks.

The survey, which involved more than 400 companies of all sizes, found that almost half of all companies (47.5%) believe there is a high to extreme risk of skills shortages negatively impacting on the operation of their businesses by 2015.

On this latter finding, this clear trend highlights the importance of considering the lag effect related to permanent migration applications. The process is such that someone applying for permanent migration in 2011-12 may not arrive in Australia until 2014. Furthermore, the planning levels need to fully take this into account and be set in view of the skill needs expected in the middle of this decade.

Other important findings in this survey included:

- Shortages are intensifying in occupations associated with manufacturing, construction and engineering, which are pivotal to the Australian economy. These

⁵ National Resource Sector Employment Taskforce, *Resourcing the Future*, July 2010.

occupations are based on skills which have a long development lead time, are in high use across the economy and whose absence puts industry at high risk.

- Among the occupations employers are struggling to fill: Metal fitters and machinists (59.6% of all vacancies were unfilled), Engineering professionals (51.7% unfilled vacancies), Metal casting, forging and finishing tradespersons (36.7% unfilled vacancies), Structural steel and welding trade workers (32.9% unfilled vacancies) and Business administration managers (36.7% unfilled vacancies).
- Large companies are anticipating a higher risk of skills shortages by 2015 (58.8%), than medium and small companies.
- An inability to fill skilled occupations poses real problems for business' ability to support production and service delivery in the future.

ECONOMIC ENVIRONMENT

Balanced Immigration plays an important role in expanding the capability of the Australian economy at a time when we are approaching full capacity and when the minerals sector is booming. Immigration helps to offset the structural pressures that are stifling non-mining trade exposed sectors in particular manufacturing. Ken Henry stated in 2009 that "some of the structural decline in manufacturing could be ameliorated by a sustained increase in the size of the labour force."⁶ These pressures stem from the value of the dollar, inflationary and interest rate pressures and competition for labour and skills.

Migrants' superior labour mobility offers macroeconomic benefits through matching job vacancies and people, meaning that we can run a non-inflationary economy at a higher tempo and lower interest rates. More expeditious filling of labour shortages leads to less wage blow-outs and to lower overall unemployment rates.⁷

Balanced immigration can help Australia address current skill shortages and adjust to the growth of the resource sector by taking pressure off the cost of living and interest rates and ensuring that growth opportunities are available for the non-mining sectors of the economy.

In particular, over the past year we have seen the emergence of Reserve Bank of Australia (RBA) concerns over the impacts of the terms of trade improvement on incomes and inflation. The RBA raised interest rates seven times since October 2009 and rises by banks in addition to the increase in the cash rate have further raised borrowing rates and magnified the contractionary impacts of the RBA moves.

The current situation is similar to that which existed prior to the onset of the Global Financial Crisis where the RBA's concerns over inflationary forces in an economy nearing full capacity saw them pushing up interest rates. In a media release issued by the then Minister for Immigration and Citizenship, Senator Chris Evans, in May 2008 announcing planning levels of 190,300 it was stated:

⁶ The Shape of Things to Come: Long Run Forces Affecting the Australian Economy in Coming Decades. Address to the Queensland University of Technology Business Leaders' Forum 22 October 2009 Dr Ken Henry Secretary to the Treasury

http://www.treasury.gov.au/documents/1643/HTML/docshell.asp?URL=QUT_Address.htm

⁷ B Hughes, "The UV Displacement", *Australian Bulletin of Labour*, vol 1, number 3, March 1975, pp 39-76. See also chapter 6 of B Hughes' *Exit Full Employment*, Angus & Robertson, 1980 for detailed analysis of the links between the migration cutbacks and subsequent wage inflation. Cited in the Productivity and Prosperity Advisory Panel Report 2010.

"The Rudd Government has moved to ease pressure on employers struggling with the skills shortage by adding an additional 31,000 skilled migrants to the 2008-09 Migration Program....

'The permanent skilled migration program is a capped scheme that has not been allowed to grow sufficiently in the past to respond to the skills shortages now faced by employers,' Senator Evans said.

'This record increase in the number of places in the permanent skilled migration program, since the introduction of managed migration in 1947, will help ease Australia's skills shortage and help fight inflation.' (Senator Chris Evans, attached)

We should continue to be guided by these judgements.

Box 1: There are Australian states, regions and cities that are calling for more skills and more immigration:

The Hunter: "The Hunter has the capacity to absorb population growth and boost its position as a significant contributor to the national economy. This is a region that actively seeks economic growth and diversity. RDA Hunter believes attracting skilled migrants will be an essential component of securing our future."⁸

Karratha: "While the resource sector continues to grow the position of people employed in other key sectors of the town is being eroded. Each year many small businesses close their doors in Karratha due to the difficulty in attracting and retaining workers and the costs of employment. As a result it is now more expensive to buy the basics and more difficult to contract services in Karratha."⁹

Western Australia: "The Minerals Council of Australia has forecast that the mining industry will require an additional 80,000 workers by 2020. With pressures such as these, particularly strong in the Pilbara, the West Australia Chamber of Commerce and Industry is projecting a state shortage of 210,000 skilled workers by 2020."¹⁰

MIGRATION PROGRAM POLICY SETTINGS

Points Test

Beyond the number which will determine the planning levels for the 2011-12 Migration Program are the important policy settings which influence the proportion of the various classes of migrants who make up the overall intake.

At present the balance between the skilled and family streams is 67.5 per cent and 32.3 per cent respectively. We strongly support this emphasis on skilled migration which is also underpinned by the un-capped 457 visa program and other temporary programs.

However, there have been a number of changes over the past year to both permanent and temporary programs which we believe make it harder for prospective migrants in the skilled trades.

⁸ Regional Development Australia – Hunter - Connecting the Hunter Issues Paper No 1. 2010
http://control.visionscape.com.au/SiteFiles/hunterregioncom/FINAL_007697_RDA_Infrastructure_A4_Booklet_04.pdf

⁹ Cited in the Productivity and Prosperity Advisory Panel Report 2010.

¹⁰ Cited in the Productivity and Prosperity Advisory Panel Report 2010.

In particular, in regard to the permanent program, we have expressed the view that the new Points Test will make it very difficult for applicants with trade skills who apply as independent skilled migrants (i.e. self nominated without a business or State sponsor). There are expected to be around 60,000 approvals in this Points Test determined category this financial year or more than half of the 113,850 places set aside for skilled migrants who gain entry essentially because of their work or business skills.

In a direct comparison between the previous Points Test and the current Points Test (which comes into effect on 1 July 2011) some would argue that the skilled trades will receive a more favourable treatment under the new scheme. For example, points are awarded for overseas apprenticeships in the new scheme when there were none awarded before. The new system is also a step forward in that no occupation gets an advantage over any other and it is based on the much more rigorously designed Skilled Occupation List.

However, when the new Points Test system is viewed on its own merits, we expect that very few skilled tradesperson applicants will be successful. The biggest barrier will be the higher language requirements, under which the threshold for applications is International English Language Testing (IELTS) Level 6. While applications are accepted at this cut-off level it attracts zero points. To achieve IELTS 6, a score of at least 6 needs to be scored in **each** of the four test components of speaking, reading, writing and listening.

While IELTS 6 is technically regarded as a "*competent user*", it is widely considered in the education industry as being a university level of fluency that you would expect from those who have completed their schooling and further studies in English. While applicants at this level can apply for migration under the independent program they are not awarded any points. This would likely disadvantage applicants with trades training who would not draw on English language skills of such a high level in their work or training.

This is typical of the types of comments readily available on the internet from applicants seeking IELTS 7 pass marks:

"just failed 9, 8, 6.5 and a rubbish 4.5 how bad is that considering I have recently graduated with my second degree."

While trade qualifications do see some improvements under the new Points Test, we do not support the fact that even a basic university qualification gets five more points than a trade qualification. In this tougher new test with a 65 point pass mark, the five point difference could decide whether some applicants pass or fail. This is inconsistent with Skills Australia research which has shown little difference between the projected demand in Australia to 2025 between trade level and university qualifications.¹¹ Both should be given the same priority in the Points Test.

We would recommend that the Government reduce the English language cut-off entry level to the program to IELTS 5 and to change the scale to begin awarding 5 points at IELTS 6.

IELTS 5 is already the entry level for the 457 temporary visa scheme under which many trade qualified workers enter Australia. In setting this level, the Government made a judgement that it was sufficient for both the work required and to meet occupational health and safety needs.

If IELTS 5 is sufficient for workers in the 457 category it should be sufficient for the independent skilled program as well. It should also be noted that the current IELTS 5 requirement already represents a tightening up of earlier 457 language requirements.

¹¹ *Economic Modelling of Skills Demand report by Access Economics for Skills Australia October 2009*

If the Government is unwilling to make changes to the system before it becomes effective in July 2011, there should be a thorough review after 12 months to determine its effectiveness, particularly in relation to the number of trade qualified approvals.

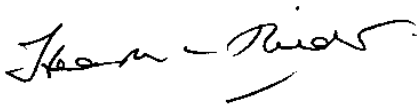
Further, we would propose that before that time, the Government consider modifying the system to introduce a sliding scale for language requirements based on occupations. Those in the skilled trades, for example, could be allowed to apply with IELTS 5 English (as under the 457 scheme) and receive points for IELTS 6 while the stricter requirements remained for those occupations where higher levels of English were deemed essential.

We recognise that the Government has adjusted policy settings generally so that there will be a larger proportion of migrants who are sponsored by employers under the Employer Nomination Scheme. However, there will always be a need for an independent category of migrant without an employer or state sponsor and we believe that there should be consistency in policy which recognises the economic need for more skilled trade workers in Australia.

While many skilled trade workers enter Australia under the 457 program and other temporary visas, the requirements under this program have been tightened in recent years. This has made it more difficult for employers to source such skilled labour. We would strongly recommend that there be no further tightening of this program.

I would be happy to discuss this further with you.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Heather Ridout', with a horizontal line underneath.

Heather Ridout
CHIEF EXECUTIVE

Cc Kruno Kukoc,
Peter Speldewinde – Labour Market Branch

Federal Government Budget Media Release 2008-09 - Record skilled migration program to boost economy

Tuesday, 13 May 2008

The Rudd Government has moved to ease pressure on employers struggling with the skills shortage by adding an additional 31 000 skilled migrants to the 2008-09 Migration Program.

The Minister for Immigration and Citizenship, Senator Chris Evans, said today the extra places allocated to the permanent skilled migration program represented a 30 per cent increase on 2007-08 when the Howard government added just 5000 places.

'The permanent skilled migration program is a capped scheme that has not been allowed to grow sufficiently in the past to respond to the skills shortages now faced by employers,' Senator Evans said.

'This record increase in the number of places in the permanent skilled migration program, since the introduction of managed migration in 1947, will help ease Australia's skills shortage and help fight inflation.'

The increase is further to a special one-off allocation of 6000 extra skilled migration places announced by the Rudd Government in February 2008.

Overall, permanent skilled migration will make up 133 500 places in the Migration Program, which totals 190 300 for 2008-09. The Family stream will be increased by 6500 places to 56 500. This increase in the Family stream includes a boost of 4000 places to the parent visas.

'This significant increase of permanent skilled workers in 2008-09 will ensure a better balance in our skilled migration program overall,' Senator Evans said.

'Australia's skilled migration program is structured to target skills to meet the needs of the job market by maximising the use of employer-sponsored migration.'

Research has shown that the labour market participation rate for permanent skilled migrants is now more than 90 per cent.

'The program also works with state and territory governments to foster state-sponsored migration and uses the Migration Occupations in Demand List to get the right workers into the right jobs,' Senator Evans said.

The increase in the Migration Program from 2008-09 will cost an additional \$1.4 billion over four years for settlement services and ongoing core government services such as health, education and employment services. The additional cost to the Budget will be more than offset by revenues from income tax, excise duty, GST and charges paid by the new migrants, estimated at some \$2.9 billion over four years. The states and territories will be paid \$1.0 billion in GST.

The Rudd Government has also committed \$19.6 million to improve the processing and compliance of the temporary skilled migration program, which includes the uncapped 457 visa scheme.

'This is the first stage of a series of reforms aimed at restoring integrity and public confidence in the 457 program,' Senator Evans said.

'The Rudd Government is committed to ensuring the 457 visa scheme operates as effectively as possible in contributing to the supply of skilled labour while protecting the employment and training opportunities of Australians and the rights of overseas workers.'

Senator Evans said the use of 457 visas to employ temporary skilled migrant workers has grown rapidly in recent years.

A total of 39 500 subclass 457 visas was granted in 2003-04 compared with 49 700 in just the first half of 2007-08.

Senator Evans said the temporary skilled migration program is expected to exceed 100 000 places in each of 2007-08 and 2008-09.

A working party led by Senator Evans and the Deputy Prime Minister, Julia Gillard, and including the Treasurer and Minister for Trade, will develop a longer-term reform package which will be considered as part of the 2009-10 Budget.

The working party will consult with state and territory governments, industry and the unions as well as with industrial relations expert, Barbara Deegan.

Ms Deegan is examining the temporary skilled migration program to address concerns about the exploitation of migrant workers, salary levels and English language requirements in order to improve the integrity of the scheme.

Ms Deegan is due to present her report to the Minister for Immigration and Citizenship and the Deputy Prime Minister in October.

Source: Minister for Immigration and Citizenship, Media Release: Budget 2008-09 - Record skilled migration program to boost economy <http://www.minister.immi.gov.au/media/media-releases/2008/ce01-buget-08.htm>