



Immigration and the Resources Boom Mark 2

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Executive Summary

Contending pressures

Two contending pressures have shaped the Australian Government's population policy. One reflects employers' desire to sustain a rapidly growing workforce and a high rate of population growth so as to maximise aggregate economic growth. They want to maintain net overseas migration (NOM) at 180,000 per year or above. The other is urban sustainability. This reflects voters' concern about the implications for their quality of life if NOM should continue at 180,000 or above. They fear ever-growing congestion, loss of urban amenity and dwindling housing affordability.

The Australian Government's decisions on the immigration program were detailed at the time of the 2011–12 Budget announcements. These show that the employers' concerns have prevailed. As a result, NOM is likely to track at 180,000 or higher into the medium term and the population will grow to 36 million or more by 2051. If this happens, the 'Big Australia' that politicians promised to avert at the 2010 election will be unavoidable.

Why do the government and employer groups want continued high migration?

The case for higher migration partly rests on estimates of the number of skilled workers that employers require. The most widely quoted source on the scale of this need has been prepared by the government's workforce advisory body, Skills Australia. It concludes that, Australia will need an extra 2.4 million skilled workers by 2015 and an extra 5.2 million by 2025. Such enormous numbers cannot be achieved without very high net migration.

However, these forecasts were determined by the assumptions that the econometric modellers (Access Economics) were required to work with. These included that NOM would grow from 220,000 in 2010 to 250,000 by 2025 and that Australia's aggregate GDP would grow at nearly four per cent per annum over the period to 2025.

These extreme assumptions meant that there would have to be rapid workforce growth. Moreover, Access Economics assumed that productivity growth would be very high, and that this would result in a more skills-intensive economy. This meant that new entrants to the workforce were assumed to be more skilled than in the past. In other words, the Skills Australia projections are based on a circular argument, grounded on the assumptions fed into the model used by Access Economics.

Sustaining aggregate economic growth

The Australian Government's immigration policy is also influenced by the level of aggregate economic growth that the government wishes to achieve. Currently, this is 3.25 per cent per year. This target requires NOM to be around 180,000. Though this is little known, the government is explicitly setting its immigration program so as to achieve pre-set targets for aggregate economic growth.

This policy is strongly supported by business interests. What matters for their bottom line is the number of workers and consumers in Australia. The higher these numbers, the more rapidly their

businesses will grow. This is why there has been a scare campaign by lobbyists that Australia's workforce growth will dry up in the absence of high migration.

For instance, Bernard Salt claims that 2011 is a watershed year. After 2011 the number of people entering the working ages will fall below the numbers exiting them. This claim is wrong. Even with zero NOM, we would have to wait until 2042 before the numbers entering the ages 15 to 24 fall below the numbers exiting the 55 to 64 age group.

We provide two workforce projections, both based on a NOM of 90,000 per annum. These indicate that, contrary to this scare campaign, there is likely to be substantial growth in the Australian workforce in the medium term even with NOM at half its present levels.

The first assumes that current workforce participation rates by age and sex will remain unchanged and the second that these will increase to match those achieved in Sweden by 2005. In the first scenario, Australia's workforce grows quite strongly by 950,000 between 2010 and 2025 and in the second by 1,700,000 over the same period.

Per capita productivity will not be lower if aggregate economic growth slows.

Our workforce projections confirm that, with NOM at 90,000 per annum, workforce growth will be well below what it would be with 180,000 NOM. However, it is not the case, as is often argued, that Australia needs high NOM to offset an inevitable decline in per capita economic growth as the baby boomers retire. When this cohort, now aged 55 to 64, leaves the labour market, Australia's labour-force participation rate will fall and thus per capita economic growth will decline as well. However, recent research by McDonald and Temple and by the Treasury shows that this decline is only marginally affected by the size of NOM. Australia's per capita economic growth will be determined not by the level of immigration but by the extent to which residents participate in the workforce and by how productively they are employed.

Could NOM of 90,000 deliver the skills needed by the resources industries?

The key finding is that NOM at this lower level could satisfy the skill needs of the resources industries. Most of Australia's current migration intake has little to do with the skills needed by these industries. ABS final figures for NOM show that when NOM peaked at 315,690 in 2008, 203,820 or 65 per cent derived from temporary-visa holders —students, temporary workers (457-visa holders), working holiday makers and visitors. Apart from the 457-visa holders, most of these migrants work as casuals in metropolitan semi-skilled jobs. And, most 457s are employed in service industries by metropolitan-based employers. Concessions granted by successive Australian governments have opened up pathways to permanent entry visas for all these temporaries. This encourages them to stay on in Australia and thus generate a continuing surplus of arrivals over departures in the NOM counts of temporary visa holders.

The great majority of permanent-entry visas in recent years have also been issued to persons working in metropolitan areas.

There have been major changes to the rules governing both temporary and permanent entry access to visas. We examine whether these new rules have produced an outcome better targeted to the needs of the resource industries. The conclusion is that further reforms need to be adopted.

Permanent migration

The analysis is based on a review of each of the three categories of visas for economic migrants: the points-tested, state-sponsorship, and employer-sponsored visa subclasses.

The share of the skilled visa program allocated to the points-tested visas has been reduced and priority is to be given to applicants with good English and skilled work experience. These visas have been heavily used by former overseas students. A result of the changes is that the number of visas issued to former overseas students will fall sharply, thus largely removing the incentive to study in Australia as a pathway to gaining permanent residence. However unpublished statistics show that tens of thousands of former overseas students will benefit from the transitional arrangements in place. Applications for permanent residence from these students will crowd out better qualified applicants for several years.

The state-sponsored visa subclasses have also been reformed in ways that will improve the English language proficiency and skill level of the migrants sponsored, but not the targeting of skills needed in the resource industries. Moreover, the legacy of past policies remains, notably the propensity of some states to use this visa category to pursue population building objectives. Reflecting this legacy, South Australia and Victoria retain an undeservedly high share of the visas to be allocated. For 2010–11, South Australia has been allocated 4,900 visas of the 23,000 visas available and Victoria 4,500, almost as many as Western Australia (6,000) and far more than Queensland (2,990).

The Labor Government is giving the employer-sponsored visa subclasses priority and these visas have seen the most growth in numbers. They also offer the greatest potential for cut backs. This category gives no priority to jobs crucial to the resource industries, and its policies for assessing credentials and testing English-language abilities are weak. They are far less stringent than those applying to the points-tested and state-sponsored visa subclasses.

A smaller, better-targeted permanent migration program could provide for much of the skill needs of the resource industries. There is also ample scope to tighten the rules governing the length of stay of temporary visa holders and to reduce their current large contribution to NOM. If these reforms were implemented, it would not be difficult to achieve a NOM of 90,000 per annum.

Temporary-entry migration and the construction needs of the resource industries

There will be a high demand for temporary workers in the construction (or start-up) phase of the mineral boom Mark 2. This demand should be satisfied, at least in part, by an increase in the number of workers recruited on temporary-entry 457 visas. This is appropriate as long as local workers are not excluded and as long as the extra temporary workers really are temporary. A new scheme is to be introduced, the Enterprise Migration Agreements, to allow resource projects of at least \$2 billion to recruit 457-visa holders on concessional terms, including the right to recruit semi-skilled construction industry workers. The government intends to allow all of these

extra 457-visa holders to be eligible for permanent residence if they can find an employer to sponsor them. This could have serious social repercussions if Australia has to absorb large numbers of semi-skilled construction workers in the post-mineral boom Mark 2 era. The government asserts that these temporarily recruited workers will 'only be a temporary solution'. But recent history belies this assertion. In 2005, the government liberalised access to the permanent-entry employer-sponsorship visa subclasses for 457-visa holders. Currently, nearly half of them eventually gain permanent residence visas, and the great majority of those sponsored by employers are former 457-visa holders. The result is that the 457-visa program is becoming a pathway to permanent residence, rather than a temporary solution to Australia's skill shortages.

The downside of population-induced economic growth

Most migrants locate in the Eastern metropolises, where they are the main contributor to the current city-building and people-servicing boom. The result of this influx is competition for scarce skills, particularly in the construction industries, and for public funds as these cities clamour for subsidies for their infrastructure and public services.

Victoria is a clear example. Thirty-six per cent of all job growth in Australia between March 2009 and March 2011 occurred in Victoria, yet Victoria's share of Australia's population is only 25 per cent. Most of this job growth was in Melbourne, where it was largely driven by growth in the construction and people-servicing industries. Links between this growth and the nation's resources industries were minimal.

Australia risks wasting the fiscal dividend from the resources boom in this city-building process. With more modest population growth, this dividend could be far better spent on investment in education and the development of knowledge-intensive industries.

Immigration and the Resources Boom Mark 2

Introduction

In 2009, the Australian Government announced that Australia's population was likely to reach 36 million by 2050. For this to occur, Australia's net overseas migration (NOM) intake would have to be maintained at about 180,000 per year. The government also indicated that it was comfortable with this figure, which became known as the 'Big Australia' outlook. It was accompanied by an iconic statement from the then Prime Minister, Kevin Rudd, that he personally welcomed such an outcome. Meanwhile, the Department of Immigration and Citizenship (DIAC) has proceeded with its long-term planning on the basis that NOM will continue at around the 180,000 level.

At the same time as this 2009 projection was released, the public was being advised that NOM had sharply expanded over the past five years—to a level well over the Big Australia 180,000 assumption. NOM was estimated by the Australian Bureau of Statistics (ABS) to have reached 313,400 in 2008–09. Such numbers implied an outcome well over 36 million by 2050. This realisation set off a wide-ranging debate about population policy in Australia.

In June 2010, shortly before the 2010 Federal Election campaign began, the new Prime Minister, Julia Gillard, announced that she was not in favour of a Big Australia. Mr Rudd had appointed ALP trouble-shooter Tony Burke as Minister for Population after the controversy about population broke out. As an indication of her concern, the new Prime Minister elevated him to Minister for a Sustainable Population. The implication was that the government had withdrawn its commitment to the 180,000 NOM policy. The Prime Minister has also emphasised the need for an improved training effort and greater workforce participation rates amongst those of working age. This advocacy could perhaps be read as part of a withdrawal from the Big Australia approach to population policy.

What is at stake?

Few observers, including business leaders, will deny that the recent growth in Australia's population, especially in the major metropolises, has contributed to the escalation of housing prices, to congestion on public roadways and public transport systems and to backlogs in the provision of public services (as with public hospital beds). Nevertheless, advocates of higher migration argue that, with proper planning and increased infrastructure investment, these problems can be overcome. However, the past record of such planning and investment is not reassuring. Under the Big Australia assumptions Melbourne is expected to grow from 4.0 million to 6.5 million, Sydney from 4.4 million to 6.7 million and Brisbane from 2.0 million to 3.7 million. Given the country's past record, it is no wonder that such numbers have generated sustainability concerns.¹

However, for business leaders and many economic commentators, the overriding priority is the alleged skill shortages which are expected to flow from the huge investment in new resource projects planned for the next decade. It is repeatedly asserted that continued high migration is needed to provide the required skills.² In addition, migration advocates usually link their case to the big-picture concern that, in the absence of migration, the rate of workforce growth will slow

sharply in Australia,³ thus putting capacity constraints on the Australian economy. For example, in its March quarter business outlook released on 27 April 2011, Deloitte Access notes that NOM has almost halved from 320,000 to 186,000 in just three years. Deloitte Access declares that:

*Policy has deliberately lowered the speed limits on what Australia has achieved just as the world wants to do the opposite.*⁴

One aspect of business advocacy for high migration, hinted in the Deloitte statement, is that high migration is not simply about meeting the skill needs of the resources industries but is also about maximising aggregate economic growth. Most advocates do not distinguish between concern about maximising aggregate growth and meeting the skill needs of the resource industry. They just assume that these issues are two sides of the same coin. Yet, this may not be true. As we show below, even if the predicted expansion of the resources boom Mark 2 comes to pass, the number of extra workers required in the operational phase of new projects in the resources industry will be small.

It is true that any slowdown in the rate of workforce growth relative to the past few years will put the brakes on aggregate economic growth. Economic growth is the product of population growth, the participation rate of this population in the workforce and the growth in productivity of the workers employed. The greater the population growth the more (other things being equal) aggregate economic growth will grow. Businesses dependent on growth in the domestic market, especially those in the city-building industries, will always want more immigration. But what matters to Australian residents is per capita economic growth. As discussed in section 4 of this report, it is arguable that a lower rate of aggregate economic growth, targeted to internationally competitive industries, would produce a better outcome for Australian residents than sustained high aggregate economic growth.

Those advocating maximising aggregate economic growth typically pay little heed to sustainability constraints. A useful summary of these constraints is provided in the recent report prepared by the National Institute of Labour Studies for DIAC, on the long-term physical implications of different levels of net overseas migration. The study concludes that, 'unless substantial and timely actions are taken to address these impacts [in relation to geographical concentration of population, urban water supply, oil demand and supply, greenhouse gas emissions, housing supply and infrastructure provision], some impacts have the potential to disrupt Australia's economy and society'. The study highlights the cumulative nature of these impacts on the natural and built environment:

*Small differences now in the effects of different levels of NOM on various natural and built assets in many cases accumulate to large differences 10, 20 or more years down the track.*⁵

For their part, DIAC and Skills Australia (the Commonwealth government's advisory body on skilled labour issues) both continue to operate on the assumption that a Big Australia is required to deliver the numbers of workers and skills needed if Australia is to sustain rapid economic growth and to avoid the alleged perils of an ageing society. According to the current Minister for Immigration and Citizenship, Chris Bowen:

Without immigration, it is projected that Australia's labour force growth will almost cease within the next decade and actually start going backwards from 2036.⁶

The immigration policy decisions contained within the 2011–12 budget announcements in May 2011 and the publication of the government's *Sustainable Australia* strategy paper indicate that, for the foreseeable future, immigration advocates have prevailed. The permanent migration program (including the humanitarian component) was raised by 17,300 to around 200,000 for 2011–12,⁷ with most of the extra visas being allocated to the points-tested and employer sponsorship visa subclasses. As well, the Labor government announced the creation of Enterprise Migration Agreements (EMAs) which will allow major resource projects access to temporary entry workers on 457 visas on concessional terms. These announcements put Australia on a track to NOM levels at or above those assumed in the Big Australia projection.

The *Sustainable Australia* strategy, while welcome in that it warns about the possible deleterious impact of rapid population growth, contains no hard policy recommendations that might reduce NOM. Yet as is shown below, there are plenty of opportunities to better target the skills needed by key industries within a smaller immigration program and to prune the arrangements currently in place which allow temporary visa holders to stay in Australia for extended periods.

Section One

1.1 How many extra workers does Australia need?

The number of skilled workers required in the resources sector is modest compared with the total Australian skilled workforce. Recent projections, prepared by Access Economics for Skills Australia indicate that, even with very optimistic aggregate economic growth assumptions, employment in mining will only increase from 157,000 in 2009 to 240,587 in 2025.⁸ This is a tiny number by comparison with the level of employment Access projects to 2025 of 15.3 million (compared with the 11.4 million employed as of March 2011).

Consistent with the Access projection, the recent National Resources Sector Employment Taskforce (NRSET) estimates that the operational requirements of some 74 'advanced major resource projects' in the development pipeline will be around 30,000. The really significant strain on Australian skills will derive from the construction workforce needed to build these projects. Again, according to NRSET, the construction workforce required for the projects at any one point of time is 45,000 in 2012 and 2013.⁹ This is a large increase in a short time. The recent surge in announcements concerning new projects suggests that these figures are likely to be conservative. The Australian Bureau of Agricultural and Resource Economics and Sciences has upped the estimates for 'advanced projects' on which the NRSET figures were based from 70 to 94.¹⁰ It is on the basis of these figures that the Australian Government has framed its proposals to facilitate temporary entry migration via the 457 visa. These proposals and the issues they raise are explored below.

The main driver of demand for skilled workers will be the needs of the service industries in the major metropolises. Much of this growth in demand, in turn, will come from providing for the population growth generated by high immigration. This is the core of our argument so it needs careful documentation. This is provided through an analysis of the Skills Australia projections for skill demand in Australia.

Skills Australia is the Commonwealth Government agency responsible for the estimates of workers needed in Australia over the medium term. According to the agency 'Australia will require an additional 2.4 million people in the workforce with qualifications at Certificate 111 level or above by 2015, increasing to 5.2 million by 2025, to meet projected industry demand and the replacement of retiring workers'.¹¹ These figures have been widely cited in discussions about the expected skills shortage flowing from the mineral boom Mark 2.¹² They imply the need for high migration because, if an additional 2.4 million skilled workers must be provided in just five years, the implication is that some 500,000 new skilled workers will be needed per year to 2015. This augmentation could not possibly be achieved through the training and retraining of the domestic workforce.

1.2 Skills Australia's projections are a product of its assumptions

The task of modelling Australia's skilled workforce needs up until 2025 was contracted to Access Economics, now Deloitte Access (and termed 'Access' in this report). The economic consultancy was given a set of scenarios within which it was required to model Australia's skill needs. One was called the Open Doors scenario. In this scenario, it was assumed that Australia's economic growth rate would be 3.93 per cent per annum, NOM would start at 220,000 per year and finish at

250,000 per year in 2025 and labour productivity would rise by 1.75 per cent per year.¹³ With NOM at this level Australia's population would be around 28.3 million by 2025 and well over 40 million by 2050. These assumptions are well above those used by Treasury in its recent economic forecasts. Skills Australia has used the model results from the Open Doors scenario in its public discussion of Australia's skill needs.

There were two other scenarios that embodied lower levels of economic growth, migration and productivity. The second, which is referred to as Low-Trust Globalisation, assumed that economic growth would be three per cent per annum, NOM 200,000 per year by 2025 and labour productivity growth, 1.5 per cent per annum. The third, called Flags, assumes much lower rates of growth. Access was required to model the likely demand for skills under each scenario. It did so by applying its knowledge about the likely shape of Australia's industries and their needs for additional workers by skill level should Australia's economy grow as assumed in each scenario.

As would be expected in a rapidly growing, richer and more populous economy, Access projects rapid growth in employment of 2.1 per cent a year, from 11.1 million in 2010 to 15.3 million by 2025 under Open Doors.¹⁴ Most of this growth was projected to be in the service industries providing for this richer population. Access projects that employment in the health care and social assistance industry will grow by 2.9 per cent a year over the fifteen years between 2010 and 2025 and that employment in the professional, scientific and technical services industries will grow by 3.1 per cent. By contrast mining grows by just 1.0 per cent a year and manufacturing does not grow at all. Construction is also strong, as would be expected given the huge demands that will be generated in accommodating the extra millions in Australia's metropolises, should Australia reach 28.3 million by 2025.¹⁵

As indicated, under the Open Doors scenario, most employment growth is in the service industries, like health, education and business services where a high share of those employed are managers and professionals. These workers usually need university qualifications and, as a consequence, Access projects very rapid growth in the need for persons with such qualifications. When these needs are compared with the capacity of Australian training institutions to produce qualified graduates Access concludes that:

The bottom line is that open doors produces a demand for skills which is not likely to be met based on existing demographic trends in the supply of students, particularly at the higher education end of the spectrum. A significant skills contribution is required from net migration and, beyond that, a structural lift in student participation rates.¹⁶

This is a circular argument that is self-fulfilling. The *need* for all these graduates and, to a lesser extent, for more diploma and trade qualified people in the Open Doors scenario is largely a consequence of the starting assumptions which include very high NOM. In the Access modelling, this very high NOM is not so much a consequence of rapid economic growth in Australia as it is a precondition and major contributor to this growth.

The Open Doors assumption that the economy will grow by 3.9 per cent per annum and that labour productivity will grow by an annual rate of 1.75 per cent requires that employment growth must reach 2.1 per cent per year. Likewise, an economic growth rate of 3.9 per cent per year will

produce a huge increase in economic activity which will drive high demand for the workers needed to produce the goods and services assumed in the modelling.

Access projects that very little of this growth will be directly attributable to the resources industries. Most of the forecast job growth will be in the capital cities. The extra workers will be largely engaged in providing services for the much-enlarged metropolitan populations and in the construction of the extra housing and city building required to accommodate these additional people. Where the resources boom is relevant is that it will deliver the surge in exports needed to provide for the extra imports generated by a richer and larger metropolitan population. Profits from the resource industries will also contribute to the Commonwealth tax revenue needed to provide the extra services for the metropolitan population. Australia's strong export performance will give overseas investors the confidence needed to lend to the Australian banks which will provide the loan money needed to build the required houses and infrastructure.

1.3 Immigration-driven economic growth – the Australian Government position

The Australian Government's policy on the scale of immigration is analogous to that of Skills Australia. The key government agencies involved, including the Treasury and DIAC, work with the assumption that a NOM target of 180,000 per year is required, because a figure below this level would result in a rate of aggregate economic growth well short of that desired by the Government. Since the Government has largely argued the case for high migration on labour force grounds, this position is not widely understood. Therefore, we document it carefully.

DIAC understands that the Government's aspiration is to achieve an average rate of Gross Domestic Product (GDP) growth of 3.25 per cent per annum over the next ten years. This is said to be 'broadly in line with official forecasts and trend economic growth'.¹⁷ This figure is lower than that assumed in the Skills Australia Open Doors scenario (3.90 per cent), but nonetheless, according to DIAC's calculation, an average NOM of around 180,000 is needed to achieve the 3.25 per cent rate. This conclusion is based on work commissioned by DIAC from Peter McDonald and Jeremy Temple of ANU. They have prepared projections of the relative contribution of population growth, labour-force participation and productivity per worker – the so-called three Ps – to aggregate and per capita economic growth at various levels of NOM.¹⁸

DIAC's interpretation of this research is set out in *Migrant Economic Outcomes and Contributions*, April 2011, and is as follows. DIAC assumes that labour productivity will grow by 1.6 per cent per year (following Treasury's assumption in the third *2010 Intergeneration Report (IGR3)*). DIAC then assumes, on the basis of McDonald and Temple's projections, that over the next ten years the growth in the domestic working age population (assuming zero NOM) and small increases in workforce participation rates by age group will deliver a further boost to GDP of 0.85 per cent per year. To achieve the target increase in annual aggregate GDP of 3.25 per cent requires a contribution of a further 0.8 per cent per year. The Australian Government's policy is to provide this additional 0.8 per cent through immigration. DIAC calculates that NOM of just over 180,000 per year is needed for this purpose.¹⁹ Our workforce projections (Table 1) support the arithmetic of this conclusion. It can be calculated from these that NOM of 180,000 will add an additional 105,000 persons to the labour force each year over the next decade, or a bit over 0.8 per cent a year to the Australian workforce. By definition, that means additional aggregate economic growth per year of 0.8 per cent.

The Treasury embraces this policy framework as well. It starts with the assumption that NOM will remain at 180,000 a year, and then explores what the economic and social implications will be if this is the case. The Treasury does not articulate a vision of the ideal economic structure of the Australian economy and then ask what level of NOM will be required. Why does Treasury make this assumption about NOM? The unstated assumption seems to be that NOM at 180,000 is needed to meet the Government's aspiration to achieve an aggregate economic growth rate of just over three per cent (at least in the next decade, after which it will fall a little). The only stated justification in IGR3 for choosing the 180,000 figure is that this will result in an average rate of growth per year in Australia's population to 2050 through immigration of 0.6 per cent, which is the same as it has been for the past 40 years.²⁰ There is no discussion as to why past patterns, which reflected a totally different economic environment, should be repeated in the future.

Treasury's central concern is that, even with NOM at 180,000 per year, there will still be a gradual decline in aggregate and per capita GDP growth over the next 40 years. Aggregate growth in real GDP is projected to fall from 3.3 per cent over the last 40 years to 2.7 per cent over the next 40 years. Per capita annual growth in GDP is projected to fall from 1.9 per cent per year over the past 40 years to 1.5 per cent over the next 40 years.²¹

According to Treasury, 'The ageing of the population is the major factor driving the slowing in economic growth'.²² As is detailed in McDonald and Temple's report for DIAC, the reason is the impending retirement of the baby boomer cohort, defined as those currently aged 55-64. As they move out of the labour force there will be a significant decline in the labour-force participation rate for persons aged 15 plus and thus a consequent decline in the contribution of the participation factor to economic growth.

This is a disturbing finding for a government and society preoccupied with maximising aggregate economic growth (rather than per capita economic growth). But will high immigration save the day? It will certainly add to aggregate economic growth, but what about per capita economic growth. This is the better measure of the material welfare of Australian residents. McDonald and Temple's findings on this issue are very important. Their analysis shows that the level of NOM makes little difference to the projected fall in the rate of per capita economic growth. The difference between NOM of 180,000 and NOM of 100,000 (close to the 90,000 level proposed in this report) will be about 0.05 per cent a year – very small by comparison with a projected fall of 0.3 to 0.4 per cent expected in per capita economic growth likely over the period to 2050.²³ This, as indicated, is due to the projected decline in the overall participation rate caused by the retirement of the current baby boomer population. A higher NOM makes a very small difference to this impact.

Business advocates have tried to magnify the significance of this difference in order to justify their priority – which is to persuade the Government to maintain a high level of migration so as to keep aggregate economic growth as high as possible. A good example is the Productivity and Prosperity Panel Report (PPP Report) to the Government's Sustainable Population Strategy inquiry, which was chaired by Heather Ridout, CEO of The Australian Industry Group, and which included the business lobbyist Bernard Salt.

The PPP Report cites the results of the Treasury's IGR3 modelling which also examines the impact on participation of various levels of NOM. As with the McDonald and Temple study, all factors

other than the level of NOM are kept constant in order to show the impact of NOM on participation. Treasury's modelling shows that GDP per capita by 2050 will be about \$104,000 under the 180,000 NOM scenario and around \$102,000 under a 70,000 NOM scenario, compared with a starting point of about \$58,000 in 2010.²⁴ The difference is tiny – barely two per cent after 40 years. Yet the PPP Report describes it as 'significant'. It will 'make a big difference to most family budgets'.²⁵ It is highly unlikely that most Australian residents will regard this monetary gain as worth the deterioration in the quality of their lives that will inevitably result from having to accommodate the extra 10 million migrants (and their children) a NOM of 180,000 per year will deliver to Australia's projected population by 2050. (See Table 2.)

1.4 Aggregate versus per capita economic growth

Leaving aside the quality of life issues, what matters for residents' economic welfare is, as noted, the effect of population growth on labour productivity. The Treasury is quite properly concerned about boosting productivity and in IGR3 explores various policies that might achieve this end, including better training of the domestic workforce.²⁶ However, the Treasury ignores the long term impact of high immigration on labour productivity.

The addition of another 10 million migrants (and their children) plus another four million from natural increase will necessitate a massive city-building effort. This is in a context where our major metropolises are running into severe diseconomies of scale in the provision of transport, water, power and other utilities as well as in the provision of affordable housing. This city-building effort will consume much of the tax dividend that the federal and state governments will reap from the mineral boom Mark 2.

City building will crowd out an alternative use of the resources boom dividend for capital-deepening, that is an expansion in the level of investment in capita per worker and in the training of the domestic workforce. The potential per capita productivity gain from the latter approach is large. This argument is developed in Section 4 of this report, through the case of Melbourne, a city whose economic growth has been heavily dependent on population growth.

It is not inevitable that a resources boom must be accompanied by high migration. As indicated in the Access Economics modelling, the resources industries are relatively low employers of labour, except in the construction or start up phase. The workers needed in this phase can largely be supplied via temporary migration. There will be some employment growth spinoffs in Australia's metropolises for professional services (as in engineering and finance) from the resources boom. But these are likely to be offset by contractions in manufacturing, tourism and some service provision that can be outsourced to lower wage countries, as well as the much reduced demands for labour from the city-building and people-servicing industries resulting from lower population growth.

We now proceed to examine what Australia's workforce growth might be if NOM were reduced to 90,000 per year and higher workforce participation rates were achieved. The key question is whether the resulting growth in the workforce would be sufficient to meet the needs of the resources industries. Our argument is that the current migration program has little to do with these needs and that, to the extent that migrants are needed, they can be supplied through a better targeted immigration program focussed on temporary workers.

1.5 Workforce projections with NOM of 90,000

To suggest an alternative NOM of 90,000 per year might seem brave given the volume of assertions from government and business that Australia is about to enter a period of low workforce growth. Chris Bowen's statement above is an example of this point of view. By far the most vocal advocate of gloom on this account is Bernard Salt. He has used a megaphone to broadcast such concerns. In his weekly *Australian* column and now in his most recent book, *The Big Tilt*, Salt asserts:

*2011 is a break point year. From this year onwards, more baby boomers exit the workforce than generation Ys enter.*²⁷

The implication scattered through Salt's writings is that, in the absence of high migration, Australian business will be hit with a severe shock as they struggle to find workers.

The break point Salt refers to concerns the time at which the number of persons in the 15-64 age group turn 65 each year by comparison with the number of young people who turn 15 each year. The break point will not be in 2011. As of 2010, there were 1,403,778 Australian residents aged 10-14, many more than the 1,212,537 aged 60-64.²⁸ McDonald and Temple provide a definitive analysis of the issue Salt addresses. They compare the numbers of persons who enter the age group 15-24 each year with those leaving the baby boomer age group (55-64) each year under various NOM scenarios. They show that even for the zero NOM scenario, the numbers exiting the 55-64 age group do not exceed those entering the 15-24 year old age group until around 2042.²⁹

Nevertheless, as acknowledged above, there will be a slowdown in the rate of workforce growth in Australia as the baby boomers retire from the workforce over the next couple of decades. Whether this outlook deserves the panic Salt is keen to generate is another issue.

What matters from the point of view of the size of the Australian workforce is not just the numbers entering and exiting the workforce ages, but labour-force participation rates. Salt provides no workforce projections which take account of these participation rates or of their potential to change. There has been a sharp increase labour-force participation rates over the past decade, particularly among women and older persons. For example, the labour-force participation rate for men aged 55-59 increased from 71.6 per cent in July 2000 to 79.2 per cent in July 2009 and in the case of women from 48 per cent to 63 per cent over the same period.³⁰

In order to examine the workforce outlook, two sets of labour-force projections have been prepared which illustrate the implications of NOM at 90,000 per year, by comparison with NOM of 180,000 and a NOM of zero.

In the first projection, the average workforce participation rate attained in 2010 by age group and sex in Australia has been applied to Australia's projected population under each of these three NOM scenarios. In the second projection, the labour-force participation rates achieved in Sweden in 2005 have been applied to Australia's projected population for each level of NOM. Sweden is distinctive in its relatively high rate of labour-force participation, particularly amongst women. As Appendix One shows, Swedish women in the 30 plus age group participated in the workforce in 2005 at a rate at least ten percentage points higher for each five-year age group than is the case

for Australian women by 2010. On the other hand, the Swedish participation rates for people aged under thirty are well below those in Australia. These lower rates, too, are assumed in the second projection. For this projection, it is assumed that it will take a decade (to 2021) before the Australian rates reach those of Sweden.

Given the rapid recent increase in Australian labour-force participation rates, especially for those aged 55 plus, it is plausible that the Australian rates will approach those of Swedish men and women in this age group. The higher level of investment in education and training of those entering this age group in future decades means that they will possess the skills and physical capacity needed to remain in the workforce.

As Table 1 shows, with NOM at 90,000 per year and assuming Australian 2010 workforce participation rates, the labour force grows by almost one million by 2021. The pace of growth then slows, but nevertheless between 2021 and 2051 it grows by another 1.8 million. This is well below the 1.5 million level that would occur if NOM were sustained at 180,000 per year to 2021 and the extra four million if this NOM were sustained to 2051. Nevertheless, workforce growth of around 90,000 a year, or about 0.7 per cent a year, would be considered a healthy addition in most advanced societies. Even with NOM at zero, there is still an increase in the Australian workforce of around 360,000 between 2010 and 2021.

Table 1: Projected labour force growth under three net overseas migration (NOM) scenarios and two rates of labour-force participation, Australia to 2051

	0 NOM	90,000 NOM	180,000 NOM
<i>@ Australian participation rates in 2010</i>			
2010	11,757,045	11,757,045	11,757,045
2016	12,134,514	12,405,603	12,672,453
2021	12,128,598	12,709,626	13,286,290
2025	12,140,728	12,997,014	13,808,822
2031	12,151,223	13,388,999	14,621,935
2051	11,871,166	14,578,842	17,281,865
<i>@ Swedish participation rates in 2005</i>			
2010	11,757,045	11,757,045	11,757,045
2016	12,561,509	12,836,908	13,107,954
2021	12,881,231	13,487,473	14,089,060
2025	12,889,595	13,768,502	14,642,627
2031	12,887,792	14,191,928	15,491,010
2051	12,667,420	15,526,674	18,380,816

Source: CPUR population and labour-force projections

Should the participation rate in Australia trend towards the Swedish level under the 90,000 NOM per year assumption, the rate of workforce growth will be considerably higher throughout the period to 2051. Under the 90,000 NOM assumption it would grow by 1.7 million to 2021, or by about almost one per cent each year, and by a further two million between 2021 and 2051. It can be safely concluded that a NOM of 90,000 per year is not the dark apparition business advocates imply.

1.6 The immigration influx and domestic labour-force participation

An increase in the proportion of young people who achieve post-school qualifications is overdue in Australia. The main need is in the higher education system. University qualifications are increasingly required for both professional and managerial occupations. These occupations account for most of the growth in skilled jobs in Australia. In the decade 2000 to 2009, the employed workforce increased by 2.1 million. Almost half of these new jobs were in professional and managerial occupations, or 663,400 and 383,000 respectively, compared with 268,100 new jobs in technician and trade fields.³¹

Domestic undergraduate completions have fallen way short of demand. They increased from 81,057 in 2000 to 94,647 in 2005 but only marginally thereafter to 98,752 in 2009.³² It was in this latter period that demand for professionals and managers took off. Most skilled migrants are professional and their numbers have increased sharply in recent years. They have filled the gap left by low levels of domestic training.

The participation rate of 20–24 year old Australian residents in higher education (whether at undergraduate level or above) is low. It has hovered at around 25 per cent over the period between 2004 and 2010.³³ The Australian government has made a commitment to increase the share of the 25-34 year old cohort with degree qualifications to 40 per cent by 2025. This share was 29.2 per cent in 2006 but grew to 34.6 per cent in 2009. Most of this recent sharp growth is attributable to the enormous influx of overseas students (many of whom hold degrees when they arrive) and the many thousands who have stayed on in Australia on a temporary or permanent basis after completing their course in Australia (discussed further below). An analysis of this recent increase and the increase in domestic undergraduate completions required to achieve the 40 per cent target (which assumes continued high migration) has shown that these completions will have to grow rapidly to reach nearly 150,000 by 2020 and nearly 180,000 by 2025.³⁴ In these circumstances there would be a major augmentation of the supply of professionals and managers and thus a diminished need to rely on immigrants. The same argument can be made for domestic training at the diploma and trade level.

At the low skilled end of the labour force, as noted, there has been a huge influx of temporary migrants (particularly students). They are in direct competition with the regrettably large number of resident youths who enter the work force without post-school training. The latter need access to entry level jobs but have faced ferocious competition from temporary migrants. Partly as a consequence, the number of 15–19 year old residents who were employed fell from 767,300 in March 2008 (just before the Global Financial Crisis (GFC) hit Australia) to 694,700 in March 2011.³⁵ By March 2011, some 17.6 per cent of 15–19 year old residents in the labour force were unemployed compared with 13.3 per cent in March 2008.

1.7 Would lower NOM have much impact on Australia's projected population growth?

Table 2 provides the answer. It shows that, with a NOM of 90,000 per annum, Australia's population would reach 31.1 million by 2051 rather than 36.0 million under the Big Australia projection. A reduction of five million would make an enormous contribution to the resolution of sustainability concerns. The total fertility rate is currently around 1.9, below replacement level of 2.1. Despite this, there is no escaping further growth in Australia's population. Table 2 shows that

with nil NOM and fertility remaining at current levels Australia's population would add about four million by 2051 through natural increase. The rest of the growth to the Big Australia outcome of 36 million, that is almost 10 million, will derive from NOM of 180,000. A reduction of NOM to 90,000 would therefore reduce this source of growth by five million.

Table 2: Population growth in Australia, at 180,000, 90,000 and zero NOM per annum to 2051

Year	180,000 NOM	90,000 NOM	zero NOM
2010	22,207,606	22,207,606	22,207,606
2016	24,332,132	23,904,555	23,469,945
2021	26,064,841	25,104,298	24,135,932
2031	29,486,618	27,322,151	25,148,887
2051	36,018,655	31,122,310	26,215,727

Notes: Projection assumptions—

NOM 180,000 projection

TFR: 2007–2008 = 2.0; 2009–2010 = 1.95; 2011 = 1.92; 2012 onwards = 1.9; NOM: 2007–2010 = 244,000; 2011 = 215,700; 2012 onwards = 180,000; Life expectancy: Males = 87.7; females = 90.5.

NOM 90,000 projection

TFR: 2007–2008 = 2.0; 2009–2010 = 1.95; 2011 = 1.92; 2012 onwards = 1.9; NOM: 2007–2010 = 244,000; 2011 = 172,000; 2012 onwards = 90,000.

Life expectancy: Males = 87.7; females = 90.5.

NOM zero projection

TFR: 2007–2008 = 2.0; 2009–2010 = 1.95; 2011 = 1.92; 2012 onwards = 1.9; NOM: 2007–2010 = 244,000; 2011 = 122,000; 2012 onwards = 0; Life expectancy: Males = 87.7; females = 90.5.

Source: CPUR projections

Section Two

2.1 Why did NOM get so high and is it imploding?

From a sustainability perspective what matters is the size of NOM and where the migrants in question are locating. While NOM averaged 79,000 during the 1990s, it began to grow to 100,000 or more per annum from 1999. It then exploded from 138,790 in 2004 to 315,690 in 2008 (see Table 3). This had relatively little to do with expansion in the government's permanent migration program which grew from 120,064 in 2004–05 to 171,318 in 2008–09 (excluding the humanitarian component which remained around 13,000 during this period). NOM exploded because of increased numbers of persons holding temporary resident visas. In order to explain how this came about we begin with an overview of the transformation of migration rules that facilitated this growth.

To be counted as an addition to NOM (that is to be regarded as an Australian resident by the ABS) a person arriving in Australia has to stay in Australia for 12 months out of the ensuing 16 months. It does not matter whether the resident is in Australia on a temporary or permanent visa or was born in Australia. Departures are defined as residents who leave Australia and stay overseas for at least 12 months out of the 16 months following their departure. NOM is the difference over a period between arrivals who meet the above definition of a new or returning resident and residents who depart Australia for the required period. This method of calculating NOM was introduced in 2006.

2.2 The transformation of Australia's immigration system

In their zeal to accommodate employer interests for more labour, successive Australian governments over the past decade have transformed the rights of migrants entering Australia as temporary entry workers on 457 visas, students, working holiday makers and visitors. They have done this partly by removing some of the barriers to work in Australia, but mainly by liberalising the opportunities for these visa holders to extend their stay in Australia as temporary-visa holders or to apply for a permanent residence visa while in Australia. This has increased the attraction of visiting Australia and longer stays while here, thereby adding to NOM (as shown below).

The transformation of the student and 457 visas into de facto pathways to permanent residence is the most serious instance. In the case of students, a program originally intended to promote overseas-student education in Australia ended up, by 2008–09, as a major entry pathway for the points-tested skilled migration visa subclasses. In the case of the 457 visa, a program designed (when the visa was restructured in 1996) to facilitate the temporary movement of workers with high level skills via inter-company transfers, has ended up as the dominant contributor to Australia's permanent-entry employer-sponsored visa subclasses. The specifics of the immigration rules facilitating this process are documented in Section three of this report.

The number of visitors and working holiday makers who are counted in NOM has also increased sharply. One might wonder how a visitor program set up to facilitate visits to Australia by relatives, tourists and business persons, none of whom are permitted to work in Australia, could do this, given that such visits would normally be of short duration. Yet very large numbers of visitors are staying in Australia for 12 out of the ensuing 16 months. According to ABS estimates, their number was 49,800 in 2008. There is a similar pattern for working holiday makers. They are

invited to spend a working holiday here of up to 12 months after they first enter Australia (though some can qualify to extend their visa if they work for a specified period in a regional area). Yet of those arriving in 2008 the ABS counted 32,450 who stayed for at least 12 out of the ensuing 16 months.³⁶ These extended stays have been encouraged by the multiple pathways available to people on temporary visas to change to other temporary resident visas (for instance, from visitor or working holiday maker visa status to a student visa) or to a permanent resident visa. For example, all the visa subclasses mentioned in this paragraph can be sponsored onshore by employers to a 457 visa or a permanent residence visa under one of the permanent entry Employer-sponsored visa subclasses. Even if rejected, the applicant will usually be allocated a bridging visa with full work rights while the application is being considered.

Another way of looking at this phenomenon is via stock counts of visitors and other temporary-entry visa holders who are in Australia at a particular point of time. According to DIAC, there were 715,248 temporary visa holders in Australia in March 2006 (not including New Zealand citizens) and 1,035,916 in March 2010.³⁷ This is an increase of almost 300,000. Most of these people do not end up as Australian residents for NOM purposes but, as is obvious from these stock figures, the number who might potentially extend their stay for long enough to be counted in NOM is enormous.

The analysis supports the position taken by the recent Sustainable Development Panel Report chaired by the Hon. Bob Carr. Under the heading 'Government needs more control over its migration program', it states:

The Government is currently choosing to have less control over the immigration program. As immigration is the largest component of projected population, a national commitment to action on sustainability requires the Australian Government to exert more control over the size and composition of all immigration, particularly the temporary programs. The current approach of allowing the 'market' to determine the annual size and composition of the temporary migration program creates clear tensions with a sustainable population agenda. The recent record level of net overseas migration (320,000 in the year to March 2009) was driven by migrants entering through uncapped temporary programs, in particular the student program.³⁸

2.3 The constituents of NOM

Table 3 sets out unpublished ABS estimates of the components of Australia's of NOM in 2004 and 2008. Both estimates are based on the new ABS definition of NOM.

Table 3 shows the difference between the number of arrivals included in NOM and the number of departures, which are subtracted from NOM for each visa subclass. The table shows that only 26.1 per cent of the growth of NOM was due to the two visa groups which include employer sponsorship, whether for temporary appointments in the case of the 457 visa or the skill component of the permanent entry subclasses. By 2008, these two sets of visa categories made up 86,490 of the total NOM of 315,690, or just 27.4 per cent. This means that the employer driven part of the migrant intake, the one most likely to provide for resource industry employers, is only a minor part of the overall net movement of migrants to Australia.

One qualification here is that the NOM methodology understates the contribution of people recruited under the permanent-entry skilled migration visa subclasses. This is because if those on temporary visas who have already been counted as residents subsequently change their status to permanent residence while in Australia they will not be added to NOM arrivals. To do so would be to double count them. Conversely, half or more of those included in the skilled visa subclasses are spouses or dependents of the principal applicant and may not possess any skill qualifications at all.

Table 3: Components of NOM, Australia, 2004 to 2008, and change 2004 to 2008

	2004	2008	Change 2004–08	Share of change (%)
<i>Temporary</i>				
Students	57,840	121,690	63,850	36.1
Subclass 457	9,500	37,620	28,120	15.9
Visitors	19,490	28,420	8,930	5.0
Working holiday makers	8,930	23,110	14,180	8.0
Other	-4,500	-7,020	-2,520	-1.4
<i>Total Temporary</i>	<i>91,260</i>	<i>203,820</i>	<i>112,560</i>	<i>63.6</i>
<i>Permanent</i>				
Skill	30,740	48,870	18,130	10.2
Family	25,230	31,720	6,490	3.7
Humanitarian and other	11,490	9,880	-1,610	-0.9
<i>Total Permanent</i>	<i>67,460</i>	<i>90,470</i>	<i>23,010</i>	<i>13.0</i>
New Zealand citizen	18,300	38,270	19,970	11.3
Australian citizen	-30,500	-10,390	20,110	11.4
Other	-7,720	-6,460	1,260	0.7
Total	138,790	315,690	176,900	100.0

Source: ABS, unpublished NOM data by visa type, 2004 to 2008

Analysis of the state location of the various components of NOM by the ABS (not shown in the above table) indicates that there has been a heavy concentration of the student, working holiday maker and visitor categories, as well as the family and humanitarian permanent visa subclasses in NSW and Victoria. The largest subclass is students. They contributed 60.3 per cent to the total growth of NOM in NSW between 2004 and 2008 and 64 per cent of the growth in NOM for Victoria (compared to 36.1 per cent for Australia as a whole, as shown in Table 3).³⁹

These temporary visa subclasses are the main cause of the continued dominance of NSW and Victoria as the loci for the net movement of people in and out of Australia though, as we will see, high proportions of people selected as skilled migrants also settle in these states. For 2009–10, the ABS estimates that, of the total NOM for Australia, 30.6 per cent occurred in NSW and 28.0 per cent in Victoria. Almost all of these state gains were in Sydney and Melbourne respectively.

Table 4 provides an example of how the current visa arrangements open up multiple channels into extended stay in Australia for so-called temporary migrants, in this case overseas students. It details the numbers of international students on student visas in Australia who applied for one of the temporary or permanent visa subclasses listed over the years 2006–07 to 2009–10. These are applications, not visas granted. In some cases the visa may not be granted but, while DIAC considers the application, the applicant will normally gain a bridging visa with work rights until a decision is made. The main avenue for prolonging a stay in Australia is the Graduate Skills visa

subclass (485) which allows a former student to stay in Australia for up to 18 months with full work rights after course completion. This generous arrangement was introduced in September 2007. It was a concession to the overseas student industry and was intended to pay-off the industry and its bureaucratic supporters (including the Commonwealth Department of Education) in return for some tightening of students' access to the points-tested skilled visa subclasses. This visa subclass is generating massive interest, with 28,126 applications in 2009-10 (Table 4). As is evident, there are many other avenues open for continued stay, including the 457 visa subclass, the State/Territory Sponsored visa subclasses and family migration. The number of family (mainly spouse) applications by 2009-10 is staggering. There were 44,755 spouse visas granted in 2009-10. If all the 6,744 applications from those holding student visas are successful, the student cohort alone will give a huge boost to this component of the family program in 2010-11.

Table 4: Visa applications¹ from persons holding a student visa by subclass of application, Australia, 2006-07 to 2009-10

Category (visa subclass)	2006-07	2007-08	2008-09	2009-10
Employed Sponsored (permanent)	141	175	223	775
Subclass 457 (temporary)	2,509	2,827	3,168	2,767
Skilled Independent (permanent)	21,314	14,465	8,133	11,080
Graduate skilled, subclass 485, (temporary)	—	11,807	22,888	28,126
State/Territory Nominated (permanent)	293	718	4,693	3,325
Skilled Australian Sponsored (permanent)	2,682	2,930	4,409	5,207
Family Migration (permanent)	3,578	4,118	5,162	6,744
Total	30,517	37,040	48,676	58,024

¹ Onshore applications where the last substantive visa held prior to application was a student visa (principal applicants only).

Source: DIAC, unpublished, 2010

Table 4 does not exhaust the range of opportunities for students to extend their stay. DIAC has recently published details of the numbers of permanent visas granted to former overseas students for the six months to December 2010. These show that, for these six months, aside from the visa subclasses listed above, 13,949 people whose last visa was a student visa obtained a visitor's visa, another 1,414 a Working Holiday visa, and 351 a protection visa (that is they had successfully applied for asylum under the humanitarian program).⁴⁰

2.4 Recent reforms: will they lead to a fall in NOM?

The key reform has been a reduction in the ease with which overseas students have been able to obtain permanent residence under the points-tested skilled visa subclasses. These reforms are detailed below in Section three of this report. Suffice for the moment to note that DIAC estimates that NOM from students, which reached 121,690 in 2008 (Table 3), fell to 33,600 in 2009-10 (Table 5). This is the main cause of the decline in NOM from 313,400 in 2008-09 to an estimated 215,576 in 2009-10 and 185,772 for the year to September 2010, according to the ABS.⁴¹ This is a dramatic development. If this downward trend continues, it will diminish the concerns about sustainability which have fired the population debate over the last year or so.

2.5 The outlook for NOM

DIAC prepares internal projections of NOM. These are shown in Table 5. They are drawn from DIAC's *The Outlook for Net Overseas Migration*, published in May 2011. The figures for each visa group include both primary and secondary applicants. That is, they include spouses, children and any other dependents visaed to accompany the primary applicant. As noted above, the NOM arrival figures only include those who are estimated to stay in Australia for 12 out of the ensuing 16 months after arrival. The departure figures, likewise, only include those who meet the above definition of a resident and who subsequently leave for 12 out of the 16 months following departure.

As of May 2011, DIAC officials projected the net NOM to be 158,600 in 2010–11, 181,400 in 2011–12 and 187,800 in 2013–14.⁴² The projections were based on the assumption that the policy settings announced at the time that the 2010–11 Commonwealth Budget was presented in May 2011 will prevail through the forecast period.

DIAC expects the recent decline in NOM to bottom out in 2010–11 at 158,600. Most of this decline is projected to flow from a decline in the number of NOM arrivals attributable to overseas students. The number of offshore student visas granted fell from a peak of 227,924 in 2008–09 to 158,240 in 2009–10, or by 30.6 per cent.⁴³ There has been a further decline in the six months to December 2010 (relative to the same period in 2009) of 27 per cent.⁴⁴ As a result, for the years to 2013–14, the number of these arrivals counted in NOM is expected to stabilise at a much reduced level relative to the level in 2008.

The subsequent upward movement in NOM to 187,600 in 2013–14 is expected to come from two major sources. The first is a rise in the number of 457 visa holders. This reflects the Australian Government's policy, detailed below, to facilitate employer access to temporary workers through the creation of Enterprise Migration Agreements for the resources industries. The second is a rise in the number of permanent visa holders, particularly those visaed under the various skilled visa subclasses. They will be the major component of the increase in the overall size of the permanent immigration program announced for 2011–12 of 17,300 compared with 2010–11. As can be seen from Table 5, very few of those counted as NOM arrivals in this permanent category subsequently leave Australia, so an increase in the permanent program translates into a similar overall net gain in NOM. It will be noted that the forecast increase in NOM arrivals for permanents is around 10,000. This is smaller than the 17,300 expansion in the immigration program because some of those granted permanent visas will already be in Australia, including former overseas students. Since they would already have been counted as NOM arrivals they are not counted again.

DIAC's projections also indicate that there are likely to be further increases in the contribution of working holiday makers and tourists (or visitors) to NOM. As an earlier, unpublished DIAC report on NOM acknowledges, this upward movement is facilitated by the ease with which temporary residents can renew and change their visa status from one temporary visa sub-class to another.⁴⁵

The analysis above indicates that Australia's immigration policy settings are likely to put NOM on track to deliver the Big Australia outcome (that is a NOM of around at least 180,000 per year). This implies a population for Australia of at least 36 million by 2050.

Table 5: Projected net overseas migration (NOM) by major visa category

	2010–11	2011–12	2013–14
NOM arrivals			
<i>Temporary</i>			
Student	79,100	73,400	71,100
Subclass 457	33,100	39,500	53,000
Working holiday maker	29,200	30,300	30,900
Visitor	61,400	64,800	64,900
<i>Total temporary</i>	<i>202,700</i>	<i>208,000</i>	<i>219,800</i>
<i>Permanent</i>			
Skilled	48,600	53,700	53,700
Family	31,100	37,500	37,500
Humanitarian	11,700	12,600	12,600
<i>Total permanent</i>	<i>91,400</i>	<i>103,700</i>	<i>103,700</i>
<i>Other</i>			
Australian citizen	56,800	55,700	53,600
New Zealand citizen	41,100	41,800	43,100
Other	28,700	27,900	26,300
<i>Total other</i>	<i>126,700</i>	<i>125,400</i>	<i>123,000</i>
Total year-ending NOM arrivals	420,800	437,100	446,600
NOM departures			
<i>Temporary</i>			
Student	-62,400	-57,800	-56,100
Subclass 457	-12,600	-15,100	-20,200
Working holiday maker	-10,500	-10,900	-11,100
Visitor	-47,500	-42,600	-42,700
<i>Total temporary</i>	<i>-131,000</i>	<i>-126,400</i>	<i>-130,100</i>
<i>Permanent</i>			
Skilled	-3100	-3500	-3500
Family	-1900	-2300	-2300
Humanitarian	0	0	0
<i>Total permanent</i>	<i>-5100</i>	<i>-5800</i>	<i>-5800</i>
<i>Other</i>			
Australian citizen	-78,500	-77,000	-74,100
New Zealand citizen	-10,100	-12,400	-17,500
Other	-35,600	-34,100	-31,500
<i>Total other</i>	<i>-124,200</i>	<i>-123,600</i>	<i>-123,000</i>
Total year-ending NOM departures	-262,700	-255,800	-258,900
Net NOM			
<i>Temporary</i>			
Student	16,700	15,600	14,900
Subclass 457	20,500	24,400	32,800
Working holiday maker	18,700	19,400	19,800
Visitor	13,900	22,200	22,200
<i>Total temporary</i>	<i>69,700</i>	<i>81,600</i>	<i>89,700</i>
<i>Permanent</i>			
Skilled	45,400	50,200	50,200
Family	29,200	35,200	35,200
Humanitarian	11,700	12,500	12,500
<i>Total permanent</i>	<i>86,400</i>	<i>97,900</i>	<i>97,900</i>
<i>Other</i>			
Australian citizen	-21,700	-21,300	-20,500
New Zealand citizen	31,100	29,300	25,700
Other	-6,800	-6,200	-5,200
<i>Total other</i>	<i>2,500</i>	<i>1,800</i>	<i>0</i>
Total year-ending Net NOM	158,600	181,400	187,600

Source: DIAC, *The outlook for net overseas migration*, May 2011

Section Three

3.1 How well targeted are the skilled visa subclasses and have recent reforms improved this targeting?

In what follows, each of the major visa subclass groups in the permanent entry and temporary entry categories are examined with an eye to establishing whether they are attracting scarce skills or not. To the extent that they are not, this will offer the basis for recommendations directed at better targeting the program.

3.1.1 The permanent program – outcomes and planning levels

The stated strategy of the Labor Government has been to concentrate its permanent-entry skill program on the visa subclasses involving sponsorship by employers and state governments. The latter are subject to the same points test as applicants for the skilled-independent and skilled Australian-sponsored visa subclasses listed in Table 6. However those sponsored by state governments were granted a ten point concession in the points test which applied up to June 30 2011, and continue to receive a major points concession (detailed below) under the points test applying since 1 July 2011. Table 6 provides an initial basis for assessing how far this strategy has been implemented. The figures are for primary and secondary applicants in each category.

Table 6: Permanent migration program outcomes and planning levels 2005–06 to 2011–12

Category	2005–06 outcome	2006–07 outcome	2007–08 outcome	2008–09 outcome	2009–10 outcome	2010–11 planning levels	2011–12 planning levels
Family	45,291	50,079	49,870	56,366	60,254	54,550	58,600
Skilled							
Employer-sponsored ¹	15,226	16,585	23,762	38,026	40,987	44,150	46,000
Skilled-independent	49,858	54,179	55,891	44,594	37,315	35,200	44,350
State/territory-sponsored	8,024	6,928	7,530	14,055	18,889	23,000	24,000
Skilled Australian-sponsored	19,062	14,167	14,579	10,504	3,688	3,500	4,100
Distinguished talent	99	227	211	201	199	200	200
Business skills	5,060	5,836	6,565	7,397	6,789	7,800	7,200
1 November onshore	7	0	2	0	1	0	0
<i>Total skilled</i>	<i>97,336</i>	<i>97,922</i>	<i>108,540</i>	<i>114,777</i>	<i>107,868</i>	<i>113,850</i>	<i>125,800</i>
Total special eligibility	306	199	220	175	501	300	550
Total	142,933	148,200	158,630	171,318	168,623	168,700	185,000
Skill as per cent of total program ²	68.1	66.1	68.4	67.0	64.0	67.5	68.0

¹ The employer-sponsored category includes the Employer Nomination Scheme (ENS), the Regional Sponsored Migration Scheme (RSMS), and labour agreements. The ENS is the largest component.

² The total program does not include the Humanitarian category (around 13,000 per year) or New Zealand citizens who can move in and out of Australia as they please.

Source: DIAC

Table 6 shows that there has been a significant repositioning of the skilled program towards the employer-sponsored and state-sponsorship visa subclasses. The number of visas issued under both these categories has more than doubled since 2005–06. This expansion has been at the expense of both the number and share of visas allocated to the points-tested skilled-independent

and skilled-Australian-sponsored visa subclasses. The stated rationale for this repositioning was to reduce the number of supply driven migrants (that is, those who apply for a permanent residence visa without any employer or state government input) in favour of those selected through employer or state government sponsorship.

It is notable, however, that the May 2011 Budget announcements revealed a partial reversal of this policy. To our surprise, most of the growth in the skill stream for 2011–12 was not in the much trumpeted increase in visas allocated to the Regional Skilled Migration System (RSMS) visa subclass (a subcategory of the employer-sponsored category) but to the points-tested skilled-independent and skilled Australian-sponsored visa subclasses (Table 6). The reasons for this outcome are explored below.

The implications of these changes are central to any understanding of the potential for further targeting of the migration program. The government claims that tightening the points-tested visa subclasses and directing more of the program towards the employer-sponsored visa subclasses, will lead to a higher skilled and better-targeted skilled migrant intake. However, our analysis of each of the major visa subclasses shows that this is not always the case.

3.2 The points-tested permanent-entry skilled visa subclasses

The following commentary applies to the selection of skilled migrants under the points-tested visa subclasses who have not been sponsored by a state government. The new rules described above have also impacted on those sponsored by state governments, but not to the same extent because of the concessions granted to state sponsored migrants (described later). The reforms to the rules apply to both offshore and onshore applicants, though in the case of onshore applicants they must have completed an Australian qualification to be eligible.

The reforms to the points-tested categories reflect the government's objective to better target the skills of those selected under these visa categories and, in the process, attenuate the links between study in Australia and gaining a permanent residence visa. The onshore share of these visas had grown to the point where it was dominating these visa subclasses. As described above, there has been a surge of overseas students studying in Australia. For perhaps half of these students, the main priority was to access Australia's labour market and gain permanent residence, rather than to procure an educational qualification useful in their home country.

The first policy initiative occurred in early 2009 when the Labor Government issued a Critical Skills List that prioritised the occupations which the government was prepared to process under the points-tested visa subclasses. This list included most of the professional occupations requiring university qualifications, including accounting. But, it no longer included cooking and hairdressing. These were the dominant fields of study being undertaken by overseas students in the rapidly growing vocational education and training (VET) sector. When a new Skilled Occupation List (SOL) was announced in March 2010, which replaced the Critical Skills List, it again did not include cooking or hairdressing. It did, however, include most professional occupations (including accounting) and most traditional trade occupations (like carpenters and electricians).

This initiative largely severed the link between study in Australia in VET courses and subsequent permanent residence, though VET graduates in cooking and hairdressing could still apply for permanent resident visas in the employer-sponsored and state-sponsored visa subclasses, though in the case of the latter under much tougher selection rules (described below). In addition, the government announced that, for new overseas students, there would be no access to the Graduate Skills visa (485) if the qualification gained did not lead to an occupation listed on the new SOL.⁴⁶ This removed an important remaining incentive for enrolment in cooking and hairdressing courses, that is, full work rights in the Australian labour market for an 18 month period after course completion.

A second major initiative was implemented by the accrediting agencies that are responsible for assessing the qualifications of applicants in the points-tested visa subclasses. With DIAC's encouragement, there has been a toughening of the English language standards required for applicants with professional qualifications. Since mid-2010, all the accrediting agencies for professional occupations (such as the CPA in accounting) have required an IELTS (International English Language Testing System) score of seven as part of their accreditation assessment. An application for a points-tested visa subclass in these occupations cannot proceed if this standard is not reached. The IELTS tests applicants on four elements of their English ability: reading, writing, listening and speaking, and the applicant must score at least 7 on each of these elements. This is very difficult for students from Asian countries, except for those whose secondary school training was in schools where English was the language of instruction. This is often the case for students from Singapore and Malaysia and for those from upper middle class backgrounds in India.

In the case of the trades, those who have obtained trade credentials while in Australia, and who apply for points tested visa after 1 January 2010, will have to complete a Job Ready test conducted by Trades Recognition Australia (TRA), the authority responsible for accrediting trade credentials for immigration purposes. This test will include a competency or job-ready workplace assessment to be conducted by a TRA-approved assessor. This is a vast improvement over the previous situation where TRA accepted the trade applicant's certificate without any competency test.

3.3 Implications of the new points test

A third major government initiative was the implementation on 1 July 2011 of a new points test. This points test removed some of the concessions which favoured applications from former overseas students relative to all applicants applying from an offshore location. Two of these changes are particularly significant. One is that points are allocated for educational qualifications for both onshore and offshore applicants. Previously, offshore applicants did not receive such points. Another is that new applicants will normally have to have experience in their nominated occupation if they are to achieve the required pass mark. For onshore applicants, this has to be at least one year's work experience in Australia in their professional or trade field. Former overseas students find it difficult to obtain such employment immediately after completing their course. These and other changes to the new points test will favour overseas applicants relative to onshore applicants. The changes will favour overseas applicants from English-speaking countries who can meet the much tougher English language requirements of the new points test.

Finally, the new points test removes most of the concessions that were previously available to applicants sponsored by a relative. Up to 30 June 2011, if an applicant had an Australian relative prepared to sponsor him or her, there was a 20 point concession on the pass mark required – meaning that the sponsored person only had to obtain 100 points – not the 120 required for applicants without a sponsor. Concessions for persons sponsored by relatives have been a feature of the Australian selection system for decades. From mid-2011 there will be no such concessions, with one exception described later.

This is a major change. Until a few years ago, around 15,000 persons (including principal applicants and dependents) were gaining visas under the skilled-Australian-sponsored visa subclasses each year (see Table 6). Most of these were former overseas students sponsored by relatives who were permanent residents in Australia. Successive Australian governments have encouraged this pattern by widening the range of relatives that Australian residents are eligible to sponsor under this visa subclass. By 2005, an overseas student in Australia or someone resident overseas could be sponsored by a resident who was a non-dependent child, parent, brother or sister and niece or nephew of the person they wished to sponsor. In November 2005, the government added aunts and uncles to the eligible range of sponsors. This initiative was another example of the tendency over recent years for the government to widen migration eligibility.

These sponsor concessions have come to an entirely appropriate end. In a context where skilled migrants are battering down the door to enter Australia, there is no need to offer such concessions, especially given that the consequence is to lower the skill level of the intake. However, there remains one exception to this important reform. The new points test introduced in July 2011 continues the practice of allowing a relative to sponsor an applicant for a provisional skilled regional visa under visa subclasses 475 for offshore applicants and 487 for onshore applicants who have completed a university or VET course in Australia.

The tougher English language requirements and other provisions described above are being applied to applicants for this provisional regional visa. However applicants for a 457 or 487 visa receive five points under the new point test. This is well below the 25 points awarded for sponsorship under the superseded points test. Nevertheless, this concession could be decisive under the new points test, where the pass mark will be set at 65 (rather than at 120 under the previous points test). Sponsors will have to live in a designated region, and the sponsored person will have to live and work in that region for a couple of years before being able to apply for a permanent residence visa. However, since Melbourne and Adelaide are included in the designated regional locations, this leaves open an enormous loophole. Around three quarters of those visaed under these provisional visa subclasses are being sponsored by relatives located in Melbourne. As the 2006 *Evaluation of the General Skilled Migration Categories* stated: ‘There does not appear to be any convincing rationale as to why migrants sponsored under this concessional category should be permitted to settle in Melbourne’,⁴⁷ Yet Melbourne survives as an eligible ‘regional area’.

At the same time as the reforms to the points-tested visa subclasses have been introduced, the share of visas allocated to these visa subclasses has been reduced. Table 6 shows that the number of visas issued for the skilled-independent and skilled-Australian-sponsored visas subclasses has

declined from 68,920 in 2005–06 to 38,700 for the 2010–11 planning year. This decline has, in a sense, forced the tightening of the selection system described above. The combination of this decline in visa numbers and tighter selection will sharply reduce the number of former overseas students who gain one of these visas. According to unpublished DIAC estimates, under the new points test, the number of principal applicants visaed will fall to around 4,000 a year (from around 20,000 a couple of years ago). This tougher access to a points-tested permanent residence visa will add a further disincentive for study in Australia. As a consequence it is unlikely that there will be any medium-term spike in NOM from overseas students.

There remains a question about why, for the 2011–12 planning year, the government has increased the planning level for the points-tested visa subclasses. As Table 6 shows, the planning level for the skilled-independent visa subclass for 2011-12 has been increased from 35,200 in 2010-11 to 44,350 and that for the skilled Australian-sponsored visa subclass from 3,500 to 4,100. Does this mean that the estimate of 4,000 for former overseas students cited above is now obsolete?

The answer is no. The increase for the 2011-12 planning year is a consequence of two sources, neither of which will alter the situation for former overseas students who apply for a points-tested visa after mid-2011 under the new points test. The first of these sources is applications from former overseas students who have applied since the new selection arrangements announced on 8 February 2010 and the adoption of the new SOL from mid 2010. They have been applying at a rate of about 1,800 a month for onshore points-tested visas. DIAC's processing priorities prior to 1 July 2011 put those sponsored by employers first, those sponsored by states second, and third those who have applied for a points-tested visa and have an occupation listed on the new SOL. As a consequence, thousands of this third group will be processed in 2011-12, with the number depending on how many applications there were under the higher priority visa subclasses.

DIAC changed its priority processing order from 1 July 2011. It is now:

1. Employer-sponsored migrants in regional areas (the RSMS scheme discussed below)
2. Other employer-sponsored migrants
3. State-sponsored migrants
4. Independent skilled migrants with occupations on the new SOL
5. Remaining applicants, including the bulk of overseas students covered by the transitional arrangements described in the following paragraph.

The second of these sources derives from the tens of thousands of overseas students who are subject to the transition arrangements announced on 8 February 2010. Students with occupations listed on the old SOL but not on the Critical Skills List, who applied for a points-tested visa prior to 8 February 2010, have been stockpiled. They have been granted bridging visas with full work rights and promised that their application will eventually be processed according to the rules that were current when they applied. Overseas students who had already been issued with a 485 visa by 8 February 2010, or who were in the pipeline of overseas students awaiting assessment of their application for a 485 visa, can also apply for a points-tested visa under the selection rules prior to 8 February 2010, as long as they do so before the end of 2012.

As of December 2010 there were 29,211 former VET sector students holding bridging visas and another 26,309 former Higher Education sector students. About 16,000 of these 55,520 former overseas students had applied for a points-tested visa and another 25,000 had applied for a 485 visa.⁴⁸ There were a further 22,460 who held a 485 visa as of 31 December 2010.⁴⁹ As indicated, most of those who have not already applied for a points-tested visa can do so under the pre-8 February rules. They will have to be processed eventually, and when they are most will succeed, including thousands of cooks. They will be vying for a scarce number of places within the points-tested planning program with those who apply under the selection system introduced in July 2011.

3.4 The occupations of points-tested migrants granted a permanent visa

The data provided in Table 7 give an indication of the occupations held by principal applicants visaed in the points tested visa subclasses during 2009–10. Some smaller visa subclasses (including the provisional regional visa subclass under the skilled-Australian-sponsored visa subclass discussed above) and superseded visa subclasses where backlogs are still being processed have not been listed. The occupations listed in Table 7 are those under which migrants applied for a visa, but are not necessarily the occupations they ended up employed in once in Australia as permanent residents.

Table 7: **Principal applicants visaed in 2009–10 by major occupation in the points-tested skilled visa subclasses**

Occupation	Skilled independent		Skilled Australian-sponsored	
	offshore (175)	onshore (885)	offshore (176)	onshore (886)
Managers	4	1	1	1
Professionals				
Engineers	3,531	954	259	147
Accountants	1,867	3,077	85	136
Computing professionals	3,711	181	124	10
Doctors	971	1	12	0
Nurses	864	329	48	106
Dentists	133	34	1	1
Pharmacists	276	199	12	36
Secondary school teachers	328	119	110	8
Other professionals	464	124	39	21
<i>Total professionals</i>	<i>12,145</i>	<i>5,018</i>	<i>690</i>	<i>465</i>
Associate professionals	245	10	15	1
Tradespersons	54	12	23	13
Total	12,448	5,041	729	480

Notes: The table does not include the visas issued during 2009–10 in two small provisional regional visa subclasses in the skilled Australian-sponsored group or superseded visa subclasses in the skilled-independent visa group where DIAC is still deciding on a backlog of applications.

Source: DIAC, visas issued, unpublished

The range of occupations for which visas were issued in 2009–10 was much narrower than in previous years because of the introduction of the Critical Skills List in 2009. Without this initiative, there would have been thousands of visas issued onshore to former international students who had completed courses in cooking or hairdressing. As indicated above, there will be further changes as a result of the point test introduced in mid-2011. In particular the skilled- Australian-

sponsored via subclasses 176 and 886 will, in effect, cease to exist. Note, however, that (just to confuse matters), the two main state-sponsored visa subclasses discussed below are also labelled as 176 and 886. There will be visas issued under these subclasses within the state sponsored category because of the points concessions given to applicants sponsored by state governments (but no longer by relatives).

The occupational structure for the offshore skilled independent visa subclass 175 was very different from that of the onshore skilled independent visa subclass 885 (which is only open to former overseas students). Though both visa categories are almost entirely made up of professionals, the former has a far heavier weighting towards engineers and computing professionals. By contrast, the onshore subclass is dominated by accountants. Tradespersons are conspicuous by their absence in both the offshore and onshore categories.

There is considerable evidence that former overseas students with accounting qualifications find it much harder to gain professional-level employment in Australia than do either local students with such qualifications or migrants from overseas who have accounting qualifications and work experience. It is appropriate, therefore, that the government has decided to rebalance the points-tested visa subclasses towards applicants from overseas. They are more likely to have the advantage of work experience and to be drawn from a wider variety of professional fields than are the onshore applicants.

The reforms to the points-tested visa subclasses will be very tough on new overseas students. For the immediate future, most of the onshore applicants not already in the pipeline will present with accounting qualifications. Accounting is one of the eligible occupations currently on the Skilled Occupation List. Just over half of all overseas students completing courses at Australian universities are doing so in business fields, mostly in accounting.⁵⁰ Large numbers will not be eligible even to apply for an 885 visa because they will not be able to achieve 7 on the IELTS test. Even those who achieve this standard may struggle to achieve the required pass mark because of difficulties in gaining professional-level work experience in Australia.

3.5 State/territory-sponsored permanent-visa subclasses

As Table 6 shows, the government has delivered on its stated intention to increase the number of migrants recruited under the state-sponsored visa subclasses. The rationale for giving relatively high priority to state sponsorship is that the states are expected to have a relatively good understanding of the skill needs within their jurisdictions. As noted below, this is questionable, given the lack of rigour in the methods used by the states and the bureaucratic and political power exercised at the state level by some population-hungry state governments.

There have been major recent reforms to the rules governing state sponsorships. Those sponsored by the states have to undergo the same points test as described above and thus applicants need to have better English than was previously the case. Migrants can be sponsored under visa subclass 176 for offshore applicants and 886 for onshore former overseas student applicants. An additional visa subclass 475 is for applicants sponsored by states who are applying from overseas and willing to work in a regional area (which in this case does not include Melbourne – but does include Adelaide and the ACT) on a provisional basis before a subsequent

applicant for permanent residence and visa subclass 487, which is similar, but only open to former overseas students still in Australia. Applicants for subclasses 176 and 886 receive a five point concession under the new points test and those applying for provisional visas 475 and 487 receive a ten point concession.

There has also been a tightening of the numbers and occupations eligible for state sponsorship. States used to be able to sponsor as many migrants as they pleased and in whatever occupations they chose (as long as the occupation was at trade level or above and was listed on the SOL). South Australia and Victoria have been the two most enthusiastic sponsors, in part because the governments of both states have been anxious to use population growth as an engine of aggregate economic growth for their respective economies. By contrast, the NSW Government has not shared this preoccupation and, as a result, far fewer migrants have been sponsored by NSW than the governments of Victoria or South Australia.

The Commonwealth Government has responded to criticisms based on these outcomes by introducing a new regime of state migration plans. Each state must now negotiate its plan with DIAC. On the basis of these negotiations, each state is allocated a numerical cap that specifies the total number of sponsorships, covering both principal and accompanying secondary applicants, which can be issued in a particular program year. State governments are also required to indicate the occupations eligible for sponsorship and to provide target numbers for each of these occupations. The latter are guidelines rather than strict quotas.

These changes are welcome, but do not go far enough. State migration plans have been set for all states for all states in 2010–11, with Victoria allocated a visa cap of 4,500, South Australia 4,890, WA, 6,000, NSW, 1,740, Queensland, 2,990 and Tasmania 700 out of a national target of 23,000. The eligible occupations listed for Victoria and South Australia cover a wide range of managerial, professional and trade occupations. There does not appear to be much selectivity in this choice of occupations. In other words, the states are not targeting occupations which, it could be argued, are crucial to the viability of internationally-competitive industries.

Since the formal state plans do not indicate the target levels set for each occupation, it is too early to know whether the new arrangements will reproduce the results for visas issued in 2009–10. These are shown in Table 8 for the main visa subclasses under the state-sponsorship rubric. It is obvious that there was a supply driven component. This is evident in visa subclass 886, since the main occupations sponsored for this visa are accountants followed by cooks – both being occupations for which there are thousands of former students still in Australia who are looking for a permanent resident visa opportunity. An earlier study of ours found that the states were beginning to restrict sponsorships for cooks and hairdressers. This is likely to continue under the new DIAC guidelines.⁵¹

To judge from the list of occupations for principal applicants visaed in the three state-sponsored visa subclasses listed for 2009–10, with the exception of visa subclass 886, there is a good spread of professional occupations and, at least in proportional terms, more tradespersons than was evident with the points-tested categories.

Table 8: Principal applicants visaed in 2009–10 under the main state/territory-sponsored visa subclasses, by major occupation

Occupation	Offshore (176)	Provisional (475)	Former student (886)
Managers	93	277	3
Professionals			
Chemists	51	18	13
Geologists	35	5	0
Life scientists	65	73	73
Engineers	332	59	122
Accountants	366	75	521
Marketing and advertising professionals	13	249	13
Computing professionals	297	45	86
Doctors	74	0	0
Nurses	169	1	141
Secondary school teachers	53	36	7
Social workers	22	3	1
Urban & regional planners	37	35	5
Designers & illustrators	0	105	5
Other professionals	252	629	97
<i>Total professionals</i>	<i>1,766</i>	<i>1,333</i>	<i>1,084</i>
Associate professionals	99	238	8
Tradespersons			
Cooks	62	9	174
Hairdressers	75	2	24
Metal fitters	147	4	0
Welders	68	0	0
Motor mechanics	103	4	30
Electricians	196	5	0
4Carpenters	101	5	0
Bricklayers	95	5	0
Plumbers	92	0	0
Other trades	373	74	64
<i>Total tradespersons</i>	<i>1,312</i>	<i>108</i>	<i>292</i>
Total	3,270	1,956	1,387

Source: DIAC, unpublished

But there are several weaknesses in the state-sponsored visa subclasses. One is that the methods used by the state or territory to determine the particular occupations that end up on the State Migration Plan list are not subject to expert scrutiny. For example, the Commonwealth department with detailed labour market knowledge and expertise (DEEWR) has been shut out of the process for assessing state plans at the Federal level. Currently, DIAC alone assesses these proposals.

A second weakness is that the plans do not appear to take much account of the skilled labour coming from outside the jurisdiction of a particular state or territory. As well, they do not appear to target skilled vacancies in occupations crucial to the needs of internationally-competitive industries. The range of occupations is wide and predominantly in the service industries. Nor is there any universal requirement that the sponsored migrant should have an employment offer from an employer resident in the respective state. Some states/territories, including Tasmania

and the ACT, give preference to applicants already employed in the state/territory concerned, but the others do not.

The state-sponsored category is sometimes justified on the grounds that it distributes migrants into regional areas. But neither visa subclass 176 nor visa subclass 886 involves a regional settlement requirement. The migrants coming under these visas can settle where they choose, including in another state if they wish. Visa subclasses 475 and 487 do require a period of living and working in a regional destination.

3.6 The employer-sponsored visa subclasses

Migrants sponsored by employers are now the government's number one priority, whether sponsored as permanent residents or as temporary residents. The two categories are closely related since, as will be documented below, most of those sponsored for permanent residence under the employer-sponsored visa subclasses originally entered Australia on a business long-stay temporary entry, subclass 457 visa. Because of this contribution and because this visa is being given top priority as regards processing speed, it is considered first.

3.6.1 The 457 temporary work visa subclass

Given the need to target skilled migration to the skills genuinely needed in key internationally competitive industries, the 457 visa subclass, or some variant of it introduced to accommodate the needs of large resource industry projects, is potentially a good option.

However, the existing 457 visa subclass does not require employers to demonstrate that they could not find suitable Australian workers, nor does it target particular skills or employer locations. In the case of 'standard business sponsorship' employers from any industry and any location in Australia can sponsor a 457 visa holder, as long as the employer meets the criteria for approval by DIAC as a 457 sponsor and the applicants' skills are at the trade level or above. (However in a 'labour agreement' – that is a non-standard business sponsorship – 457 visas can be granted to persons with sub-trade or semi-skilled occupations.)

In 2009–10, 61.1 per cent of the primary applicants granted 457 visas were for nominated positions in NSW and Victoria, and only 16.5 per cent for positions in WA. The year 2009–10 was exceptional because the temporary lull in the prospects of the mining industry (due to the GFC) led to a decline in the number of 457 visa grants for jobs in WA. But even in 2008–09, when many more 457 visas were granted, only 21 per cent of these were issued for positions in WA, compared with 52.1 per cent for positions in NSW and Victoria.

As to the industries for which these visas were issued, in 2009–10 they were predominantly in the service sector, particularly in health care and social assistance, and information media and telecommunications. It was only in Western Australia that there was a heavy concentration of 457 visas issued in the mining and construction industries.⁵²

There is no requirement that sponsored migrants must have their credentials assessed by the relevant Australian accrediting agency, except for persons being sponsored from designated countries (including China, India and the Philippines) in certain trade occupations (which include

most of the electrical and metal trades).⁵³ Those sponsored in occupations requiring certification in order to work in the occupation, like doctors, also have to be accredited. For all other occupations, all that is usually required is that the sponsored 457 migrant convince a DIAC case officer that their qualifications and experience are relevant to the specified job. As to English standards, these were raised to a minimum of 5 on the IELTS test in 2009. This is a poor level of English, way below what is required to carry on a professional discourse or to comprehend a complex trade manual, and well short of what is now required of applicants for the permanent-entry points-tested or state-sponsored visa subclasses.

3.6.2 The 457 visa and permanent residence

The 457 visa was originally intended to fill short term skill vacancies. The idea was that overseas workers would fill skilled gaps on a temporary basis and, in the process, pass on their skills to Australian workers. Most of those visaed when the program was redesigned in 1996 were brought here by overseas companies with operations in Australia, or by companies selling high-tech goods or services to Australian clients and needing to provide local training so that clients could use these goods and services. The following DIAC statement of purpose for temporary residence visas (including 457s) indicates the limited scope that the Australian Government had in mind for these visas a decade ago.

*The temporary residence visas are intended to be used for specific temporary purposes only....Temporary residence visas are not intended to be used for de facto permanent residence or as a stepping stone to permanent residence (with the possible exception of independent executives under the temporary business entry (subclass 457) who are expected to set up a business in Australia and who could subsequently apply for a permanent business visa on the basis on that business). **The current policy settings and restrictions on temporary residence applicants reflect an expectation that they will return to their home country at the end of the visa period.**⁵⁴(our emphasis)*

Successive governments have implemented changes to the migration rules that have encouraged employers and 457 visa holders to regard the visa as a pathway to a permanent residence visa. The most important, introduced in 2005, allowed 457 visa holders to be sponsored by an employer under the permanent resident employer-sponsored visa subclasses on concessional terms. These concessions are detailed below (p. 41). The result is that the 457 visa subclass has become a pathway to permanent residence for those who chose to take up the opportunities now available. A significant proportion of 457 visa holders are choosing to do so.

According to the DIAC Annual Report for 2008–09, the last of the 457 visas granted in 2004–05 expired in June 2009. Of the 46,010 people granted a 457 visa in 2004–05, 22,840, or almost half had been granted a permanent residence (or a provisional visa which can lead to permanent residence) by mid-2009.⁵⁵ Table 9 indicates the permanent residence visa subclasses that 457 visa holders accessed in 2008–09 and 2009–10. Most are choosing one of the permanent entry employer-sponsored visa subclass routes. As we will see, they are currently the dominant source of those visaed onshore for the employer-sponsored visa subclasses.

The absence of accreditation requirements and minimal English standards were not an issue when most of the sponsored 457 visa holders were involved in inter-company transfers for western

firms operating in Australia. But, in recent years, an increasing minority of 457 visa holders have been drawn from Asian countries. Since these temporary workers now have the right to apply for permanent entry employer-sponsored visas while employed in Australia, any deficiencies in their skills or language capacity will be imported into the permanent Australian workforce. The recent reforms to the 457 visa subclass discussed below, have not allayed concerns on this account.

Table 9: Applications granted for a permanent/provisional¹ residence visa as at 30 June 2010 where the applicant last held a subclass 457 visa (principal and secondary applicants)

Stream	Permanent/provisional visa category	Applications granted		Visa category as share of all grants (%)		
		2008–09	2009–10	2008–09	2009–10	
Economic Migration	Employer-sponsored	Employer Nomination Scheme (ENS)	23,680	25,980	60.4	59.9
		Regional Sponsored Migration Scheme (RSMS)	6,330	7,670	16.2	17.7
		Labour agreement ²	820	80	2.1	0.2
	Other	Skilled Independent	4,820	5,570	12.3	12.8
		Other skilled ³	1,630	1,950	4.2	4.5
<i>Sub-total</i>		<i>37,270</i>	<i>41,240</i>	<i>95.1</i>	<i>95.0</i>	
Family Migration	Spouse	1,610	1,890	4.1	4.4	
	Other family	310	270	0.8	0.6	
	<i>Sub-total</i>	<i>1,910</i>	<i>2,160</i>	<i>4.9</i>	<i>5.0</i>	
Total applications granted⁴		39,180	43,400	100.0	100.0	

¹ A permanent or provisional visa is a visa subclass which is countable towards the migration program outcome.

² The labour agreement category is a small subset of the employer-sponsored visa subclasses which involves agreements between state governments and employers allowing nomination of groups of migrants.

³ In determining the last visa held, bridging visas have been excluded.

⁴ The sum of the individual visa types does not equal the sub-total and total because all numbers have been rounded.

Source: DIAC, Report Id BR0008, p. 14 of 46

Another major problem flowing from this right to apply for an onshore permanent entry visa under the employer-sponsored visa subclasses is that it enhances the power of the employer to impose harsh employment conditions. Most employer sponsors of onshore migrants for permanent residence under the employer-sponsored visa subclasses are sponsoring applicants already working for them. In this situation the employer holds the whip hand. Once visaed, whether from offshore or onshore, the migrant worker on a 457 visa is technically restricted to work in the particular job to which he or she is sponsored, for up to four years, though barriers to 457 mobility between sponsors have been reduced.⁵⁶ By contrast, migrants sponsored under the permanent-entry employer-sponsored visa subclasses are not constrained by the visa conditions to stay with the sponsoring employer if they want to move (except for the Regional Sponsored Migration Scheme (RSMS) visa, discussed below).

Barbara Deegan conducted an Integrity Review of the 457 visa subclass in 2008. She writes that, 'where a visa holder has permanent residency as a goal, that person may endure, without complaint, substandard living conditions, illegal or unfair deductions from wages, and similar forms of exploitation in order not to jeopardise the goal of permanent residency'.⁵⁷

These circumstances have aroused great concern in the union movement about the potential for the 457 visa subclass to be used to import people on terms and conditions which undercut local employment standards and which potentially exclude locals capable of doing the work from gaining employment. As noted, there is no requirement that, when an employer sponsors a person for a 457 visa, the employer prove that local workers are not available or cannot be attracted to do the work.

3.6.3 Current reforms and proposals for temporary worker visas

As a result of union concerns, the Labor Government has introduced changes to the rules governing the granting of 457 visas. The government succeeded in passing the *Migration Legislation Amendment (Worker Protection) Act 2008*.

This legislation increases the sponsor's obligations and the government's powers to enforce the obligations that employers take on when they sponsor a 457 visa holder. In September 2009, the government also stipulated that, henceforth, sponsors must pay the 'market salary rates', defined as the wages paid to an equivalent Australian worker at the same workplace, to all new applicants for 457 visas and, from 1 January 2010, pay market rates to all other 457 visa-holders. Previously the only requirement had been that sponsors must pay a minimum annual base salary of around \$45,000 (in 2008), which was well below average prevailing rates in most trade and professional occupations. Sponsoring employers must also now meet certain training benchmarks. These benchmarks are intended to stop sponsorship from employers who spend little on training their domestic workforce. Now, 457 sponsors must show that they are paying at least two per cent of recent payroll expenditure into an industry training fund, or that they are paying at least the equivalent of one per cent of their payroll on the training of their Australian resident employees.

So far, these new rules have not led to any curtailment in 457 visa application from sponsors. In the seven months to January 2011, primary applicants nominated for 457 visas were 29,240, compared with 20,430 in the same period to January 2010. Nor has the predominance of NSW and Victoria changed in the destination of the 457 visa applicants. In the seven months to January 2011, these two states were the location of 59.3 per cent of applicants compared with 58.2 per cent in the same period to January 2010.⁵⁸

Finally, as will be evident when the permanent entry employer sponsored visa subclasses are considered, the government's reforms to the 457 visa, though welcome, do not deal with concerns about the extent to which the program has become a de facto permanent entry pathway.

3.6.4 Enterprise Migration Agreements

The Labor Government has accepted the recommendations of the National Resources Sector Employment Taskforce for the establishment of a new mode of temporary foreign worker entry entitled Enterprise Migration Agreements (EMAs). Some details about these EMAs were released in the May 2011 Commonwealth Budget. They are to be for *mega* resource construction projects, defined as involving a capital expenditure of \$2 billion or more and a workforce of at least 1,500. The project owner or prime contractor who participates in an EMA will identify the number of overseas workers and occupations required on a project over its construction life.⁵⁹ This will allow

the contractors responsible for parts of the project to gain faster approval to sponsor the number of temporary migrant workers they claim to require under the 457 visa subclass. This may include groups of workers drawn from the contractor's overseas work sites, such as in the Middle East.

The range of occupations eligible will extend to the semi-skilled level, though unlike workers with trade skills or above, employers will have to make a case for the inclusion of persons who are semi-skilled and for the numbers sought. Resources construction projects typically involve large numbers of semi-skilled construction workers and occupations, including scaffolders and riggers, plant operators, truck drivers and bulldozer operators. This arrangement would potentially allow sub-contractors to import entire project workforces, drawn from their workforces engaged in construction projects in other countries.

If this means that the workforce in question returns to their home country or to any other destination where the contractor wishes to employ them, the arrangement under the EMAs would be consistent with the original expectations of the temporary worker program. It would supply needed workers in a context where the demand is shown to exceed domestic capacity and where the workers in question would not be needed once the boom phase of the resources industries in question was over. This is implied by Chris Bowen, Minister for Immigration and Citizenship, in his announcement concerning the EMAs. Bowen said:

Overseas workers would only be a temporary solution, with the ultimate focus on local skills and training. To be approved for an EMA, projects will need to develop a comprehensive training plan, demonstrating how the project will invest in the up-skilling of Australians to meet future skills need in the resources sector.⁶⁰

There are many questions about how rigorously the government will enforce the training requirements and why it is allowing the inclusion of semi-skilled workers under the EMAs. Relatively little training is required for work such as truck driving. It is likely that many domestic workers would be eager to take on such work at the high wage rates employers are offering in resource projects.

As to whether the EMAs are to be temporary solutions to skill shortages, the answer is that this may not be the case. The government has decided that those covered by EMAs will be able to apply for permanent residence under the employer-sponsored visa subclasses just like other 457 visa holders. Since current policy is to encourage this transformation, especially in regional areas (discussed below), these arrangements could generate thousands of applications under the employer-sponsored visa subclasses.

3.6.5 The location and occupations of those visaed under the permanent-entry employer-sponsored visa subclasses

As noted earlier, the employer-sponsored visa subclasses have the highest processing priority in the permanent entry skilled migration program. This is reflected in their increased share of the program (see Table 6). In effect, the government has outsourced the selection of migrants to individual employers. It is therefore crucial for the quality of the migration program that the rules governing employer selection ensure that high quality migrants are selected.

One set of these employer-sponsored visas is classified by DIAC as Employer Nomination Scheme (ENS) visas. They include onshore and offshore visa subclasses (856 and 121 respectively) which are available to employers regardless of the location of the job in Australia. There are also regional visas available on a concessional basis under the RSMS, again for onshore and offshore migrants (857 and 119 respectively). These regional visas are only available to employers located outside Australian state capital cities, with the exception of Adelaide, Hobart and the ACT. They have constituted a minority of the total visas granted under the employer-sponsored visa subclasses (10,213 in 2009–10 out of a total of 40,481 — this figure includes principal and secondary applicants). The government announced in May 2011 that their number would be increased to 16,000. The implications of this announcement are explored below. There is also a minority of those sponsored under labour agreements within each of the two sets of employer-sponsored visas.

The government has given the highest priority to permanent-entry employer-sponsored visas because it believes that employers are the best judges of where skill deficiencies lie and whether migrants have the capacity to fill these positions. Since most of those sponsored are already in Australia and would have worked for the sponsoring employer while on a 457 or some other temporary visa, the employer would certainly know if their skills meet his/her requirements.

However, this does not guarantee that the skills they recruit are in short supply in Australia or that the employers who access the scheme are engaged in key internationally competitive industries. Apart from the requirement that the occupation must be at trade level or above (though with concessions for the RSMS subclasses – discussed below) most occupations are eligible (including occupations like cooking and hairdressing which are no longer eligible occupations under the points-tested visa subclasses). All that is required of the applicant is that he or she possesses the relevant diploma or higher qualification and minimal English (detailed further below). In the case of the ENS subclasses there is no restriction on the location of the nominating employer. These visas, as with the other skilled visas, primarily serve the interests of employers located in the major metropolises.

Unfortunately, it was not possible to access data describing the precise location of the nominating employers. The only information available was the initial state of residence of the migrants sponsored. This is shown in Table 10. By 2007–08, just over half of the employer-sponsored migrants were locating in NSW and Victoria. By 2009–10 this proportion had fallen to 42.5 per cent and the share of those locating in Western Australia had increased from 17.0 per cent in 2007–08 to 24.4 per cent in 2009–10. These figures suggests a better targeted outcome, though the absence of data on the occupations and industries of those sponsored by Western Australian employers (or by employers in Queensland) makes it difficult to determine the extent to which those nominated have anything to do with the resource industries.

Table 10: Principal and secondary applicants granted permanent resident visas under the employer-sponsored categories, Australia, 2007–08, 2008–09 and 2009–10

	2007–08		2008–09		2009–10	
	Number	per cent	Number	per cent	Number	per cent
New South Wales	7,944	34	10,218	27	9,711	24
Victoria	4,381	19	7,050	19	7,854	19
Queensland	3,720	16	7,556	20	8,467	21
South Australia	1,819	8	2,678	7	2,841	7
Western Australia	3,931	17	8,275	22	10,058	24
Tasmania	267	1	466	1	341	1
Northern Territory	359	2	952	3	1,134	3
Australian Capital Territory	674	3	786	2	741	2
Other	4	0	3	0	134	0
Total	23,099	100	37,984	100	41,281	100

Source: DIAC, *Immigration Update*, 2007–08, 2008–09 and 2009–10

The major occupations are shown in Table 11 for the ENS and RSMS visa subclasses for 2009–10. The pattern revealed is mixed. There is a significant number of skilled technical workers, including large numbers of engineers and geologists and, among the trades, many fitters and welders. However, the number of construction tradepersons is negligible.

There is also a heavy concentration in the people servicing industries, including doctors and nurses. Nursing is the largest individual occupation. In addition, there is a high number of bakers and pastrycooks and cooks. This partly reflects the profile of 457 visa holders. It may also reflect a supply-driven outcome, as former overseas students who have completed courses in cooking, but who are no longer eligible to apply for a points-tested visa, look for an employer willing to sponsor them.

3.6.6 Deficiencies in the permanent-entry employer-sponsored visa subclasses

Table 11 shows that the great majority of those sponsored by employers are onshore. Furthermore, almost all of the onshore group are former 457 visa holders. This applies to both the ENS and RSMS visa subclasses. In the case of the onshore ENS group, there were 27,220 visas issued in 2009–10. This figure includes principal and secondary applicants – rather than just the principal applicants shown in Table 11. Table 9 above showed that there were 25,980 visas issued to principal and secondary applicants who were former 457 visa holders in 2009–10. This means that 95.4 per cent of onshore ENS visas in 2009–10 were issued to former 457 visa holders. In the case of the RSMS, there were 8,420 visas issued to those in the onshore visa subclass, of whom, according to Table 7, 7,670 or 91 per cent were former 457 visa holders.⁶¹

This finding is very important. It was stated above that 457 visa holders can apply for a permanent residence employer-sponsored visa under concessional terms. This arrangement dates to March 2005. The concession is that there is no requirement that the sponsored 457 visa holder must prove that their qualifications are acceptable to the relevant assessment authority if he or she has worked in Australia for two years, including 12 months with the employer doing the sponsoring. This concession reflected employer pressure to facilitate the continued stay in Australia of temporary workers already in their employ. It has made the 457 visa an attractive option for applicants who would struggle to gain a permanent resident visa through the points-tested or

state-sponsored visa subclasses. It also enables those holding 457 visas to avoid the tough new English language requirements implemented for these visa subclasses.

Until recently, a 457 visa holder, or any other applicant for a permanent entry employer-sponsored visa, whether applying onshore or offshore, only had to meet the very low Functional English requirement. This meant that they had to average 4.5 on the IELTS test across the four

Table 11: Principal applicants visaed in 2009–10 under the permanent-entry ENS and RSMS visa subclasses, 2009–10, by major occupation

Occupation	ENS		RSMS		Total
	Offshore (121)	Onshore (856)	Offshore (119)	Onshore (857)	
Managers	118	1,115	32	113	1378
Professionals					
Geologists	7	138	2	23	170
Engineers	33	751	12	118	914
Accountants	43	157	7	22	229
Marketing and advertising professionals	65	398	8	17	488
Computing professionals	48	636	10	24	718
Doctors	13	335	5	128	481
Nurses	205	1,575	45	694	2,519
Secondary school teachers	4	71	10	23	108
University lecturers/tutors	83	149	27	33	292
Ministers of religion	22	136	10	20	188
Designers and illustrators	14	139	2	8	163
Other professionals	168	1727	99	252	2,246
<i>Total professionals</i>	<i>705</i>	<i>6,212</i>	<i>237</i>	<i>1,362</i>	<i>8,516</i>
Associate professionals					
Project and program administrators	16	257	16	24	313
Chefs	8	253	20	98	379
Police officers	1	0	83	0	84
Other associate professionals	38	683	78	330	1,129
<i>Total associate professionals</i>	<i>63</i>	<i>1,193</i>	<i>197</i>	<i>452</i>	<i>1,905</i>
Tradespersons					
Metal fitters	13	234	10	100	357
Welders	16	652	12	253	933
Motor mechanics	25	167	27	145	942
Electricians	15	118	7	35	175
Electrical distribution tradespersons	0	95	1	4	100
Carpenters	17	81	5	22	125
Plumbers	4	30	0	7	41
Bakery and pastrycooks	21	71	6	22	120
Cooks	100	355	50	178	683
Hairdressers	27	82	6	27	142
Other tradespersons	51	556	84	410	1,101
<i>Total tradespersons</i>	<i>289</i>	<i>2,441</i>	<i>208</i>	<i>1,203</i>	<i>4,141</i>
Other sub-trade levels	0	16	15	160	191
Total	1,175	10,977	689	3,290	16,131

Source: DIAC, *Visas issued data*, unpublished

aspects tested – reading, writing, listening and speaking. Since 14 September 2009, following a slight increase in the standard required for the 457 visa, the English requirement for the permanent-entry employer-sponsored visa subclasses has also been lifted to level 5 on the IELTS test. Persons who have reached band 5 on the IELTS test, according to the IELTS Information for Candidates brochure, have a ‘partial command of the language, coping with overall meaning in most situations, though likely to make many mistakes’.⁶² The communication capacity of such persons is well short of what employers would expect of professional employees.

Why would an employer want to sponsor a migrant for permanent residence when by doing so the migrant is then free to move elsewhere? As indicated, a migrant working on a 457 visa does not have this right. Presumably the answer is that the employer cannot find local workers able or willing to do the job in question. We do not know that this is the case because, in 2003, the requirement that the employer had to show that there were no locals prepared to take on the work was removed by the Coalition Government. This is an important because the current government continues to imply that some form of labour-market testing exists when it does not. For example, DIAC’s chief immigration planning official, Kruno Kukoc, recently stated that the demand driven employer-sponsored pathway was one: ‘Where the migrant fills an immediate skilled vacancy which cannot be filled locally’.⁶³

Another motive for sponsorship may be that the employer does not have to pay market rates for those nominated for a permanent visa. This is in sharp contrast to the requirements now in place for the 457 temporary visa where, since September 2009, market (or, more often, site) rates must be paid. But, as unions such as the CFMEU have pointed out,⁶⁴ neither the ENS nor the RSMS visa subclasses requires employers to pay ‘market rates’ as a condition for approval of the visa grant. The ENS visa only requires that the visa-holder is paid a minimum salary of \$47,480 (currently the 457 effective minimum annual salary), while the RSMS visa does not specify any minimum salary. The requirements simply state that the nominee ‘will be employed on a salary and working conditions that accord with the relevant Australian legislation and awards’.⁶⁵

It may be that some employers nominate those whom they had previously employed on 457 visas because, in order to obtain the migrant’s services under the location-specific conditions of the 457 visa, the employer had to promise or imply a subsequent nomination under the ENS or RSMS visa subclasses. As the unions have also pointed out, this situation creates a class of captive or compliant labour.

This arrangement may work out for the 457 visa holder in the long run, but the creation of this pathway to permanent residence means that the original objective of recruiting temporary migrant workers to deal with short-term skill shortages has been abridged. If the employer intends to sponsor the 457 visa holder as a permanent resident, there is no incentive to ensure that the migrant’s skills will be passed on to locals.

This pathway from the 457 to the ENS and RSMS visas also raises serious questions about the quality of the migrants attracted. They may be suitable for the limited needs of the individual employers nominating them but, if they include persons with poor English skills and uncertain formal qualifications, they become a long-term Australian problem. The government has moved

to increase the standards of selection under the points-tested and state-sponsored visa subclasses on the entirely justified basis that the reforms will increase the skill level of those attracted. The same rationale should be applied to the employer-sponsored visa subclasses, especially given that these have now become the number one priority of the skilled migration program.

3.6.7 The RSMS program

The Labor Government made a fuss of the expansion of the RSMS visa subclass at the time of the May 2011–12 budget announcements. As noted, the number of these visas was increased from 10,160 in 2010–11 to 16,000 in 2011–12, an increase of 5,840. Part of this increase was at the expense of the ENS program, which was reduced by 3,990 visas.

The increase was presented as a response to the skill needs of regional industries and to public concerns about sustainability, in that it implied that an increase in regional visas would take some of the pressure off population growth in the metropolises. This latter point would only apply if the increase in the numbers occurred at the expense of migration to the metropolises. Since the permanent migration program was expanded by 17,300 in 2011–12, well above the 5840 increase in the RSMS visa numbers, the overall increase in the program size has trumped the regional effect. It is also worth noting that, in the short term, almost all the onshore RSMS visas will be issued to 457-visa holders who are already working in regional areas. Because of this, there will be no effect on the numbers of workers or people living in these areas.

What are the implications of this initiative for meeting the skill needs of regional employers? By reducing the quota for the ENS program, the Government has given regional employers some advantage in competing for prospective foreign workers, relative to the metropolitan areas. Would-be migrants contemplating sponsorship as a 457 visa holder and then transferring to a permanent residence visa under the RSMS, may be more inclined to work in a regional area. The government has given further impetus to such reasoning by announcing that it will henceforth give a high priority to RSMS applications. It stated that it would:

*Fast track permanent residency for temporary business (subclass 457) visa holders who have spent two years in regional Australia and where their employer will continue to sponsor them for a further two years. This will make it easier for 457 visa holders to remain in the region where they have been living and working.*⁶⁶

The increase in the RSMS program will have some problematic effects. As the CFMEU has pointed out, this 'permanent residence' visa can in fact be cancelled by DIAC if the visa-holder leaves the sponsoring employer within two years after the visa grant. DIAC claims it seldom exercises its discretionary power to cancel permanent resident visas where the visa-holder leaves the sponsoring employer. The union argues that the existence of the power to cancel permanent residence visas rather than its exercise is the real issue, on the ground that this greatly reduces the bargaining power of RSMS visa holders, effectively turning them into bonded labour.⁶⁷

The perverse upshot of this mobility constraint on RSMS visa-holders is that those working outside the resources states of Western Australia and Queensland are effectively prevented for two years from moving to skilled jobs in Western Australia and Queensland.

Another concern arising from the government's expansion of the RSMS program is the implications for the thousands of 457-visa holders likely to be recruited over the next few years under the new EMA arrangements. Any opening up of the RSMS program will increase the prospects of these EMA visa holders obtaining permanent residence through employer sponsorship.

One troubling prospect is that expansion of the RSMS program could open the door for the semi-skilled workers recruited under the EMAs to apply for permanent residence, should they find regional employers prepared to sponsor them under the RSMS visa subclass. This is because DIAC currently allows employers to sponsor semi-skilled workers under the RSMS program, under 'exceptional circumstances'. The employer has to make a case for why these circumstances hold for each nomination.⁶⁸ To judge from Table 11, relatively few employers have been prepared to make this case so far, since there were fewer than 200 persons with sub-trade occupations issued with RSMS visas in 2009-10. But with a construction boom in regional areas the situation could change rapidly.

3.7 Recommendations for reform

The analysis presented in this report shows that there is ample scope to better target the permanent and temporary entry skilled visa subclasses and, in the process, reduce their size and contribution to NOM. We understand that DIAC is about to review the permanent entry employer-sponsored visa subclasses, and thus that some of the criticisms made above may be attended to. We hope that the following suggestions will contribute to the reform process.

3.7.1 The temporary-entry visa subclasses

The prime focus must be on the temporary-entry visa subclasses. As Tables 3 and 5 show they were the dominant source of the growth in NOM between 2004 and 2008 and are likely to remain the main source of NOM to 2013–14. By this time the DIAC forecasts indicate that the temporary resident visa subclasses will constitute 89,700 of the total NOM of 187,600.

The main reason for the explosion in NOM from those holding temporary visas to 2008 has been the increased propensity of these visa holders to stay on in Australia. They have been attracted to do so by the opportunities created by successive governments for them to work here and to apply for permanent residence. But what the Australian Government gives it can also take away, as is attested by the Labor Government's reforms to the rules covering the access of former overseas students to the points-tested visa subclasses.

The government has now largely severed the privileged connection between study in Australia and permanent residence and, as a consequence, the number of students coming to Australia has sharply declined, thus reducing NOM from this source.

Just as student stays here should be about education, so workers recruited to Australia on temporary work visas should only work here temporarily. The temporary-entry (457) visa subclass is now functioning more as a pathway to permanent residence. Recent reforms which purport to require employers to contribute funds for training domestic workers where 457 visas are employed have little meaning if half or more of the 457-visa holders subsequently gain a

permanent residence visa after being sponsored by their employer for an ENS or RSMS visa. The result is a permanent reliance on these immigrants for the skills in question. The program should be returned to its original objective of filling temporary skilled vacancies that cannot be filled locally. If employers wish to nominate a 457 visa holder for an ENS or RSMS visa they should only be permitted to do so if they can justify why no compensating skill transfer to local workers has occurred during the 457-visa holder's service.

The second recommendation goes to our concern that most 457 visa holders are being sponsored by employers located in the major cities and are then being nominated for an ENS visa. The issuance of 457 visas should be limited to areas and occupations where there is a documented shortage of the skills in question. It does not make sense, at a time when the government is trying to better target its skill program, to allow employers to sponsor as many persons for 457 visas as they like, even if they are located in Sydney or Melbourne, regardless of the state of the labour market for the occupation in question in those cities.

There is already a precedent in place with the rules covering the issuance of 457 visas to medical doctors. These can only be issued to designated areas of need, which excludes most metropolitan locations. There are other well-established precedents for limiting the issuance of 457 visas to particular places and occupations. They include the new rules determining the occupations states are allowed to sponsor under the state-sponsored visa subclasses.

A third measure concerns the EMAs. As noted, it is the government's present intention to allow all those sponsored under an EMA to apply for permanent residence under the RSMS or ENS visa subclasses, if they can find an employer to sponsor them. This right threatens to undermine the key rationale for the EMA, which is to provide contractors with access to overseas labour resources during the short-lived construction phase of the resources boom Mark 2. If members of this group of 457 visa holders are allowed to seek out other employers for a ENS or RSMS nomination, or with the same employer in another Australian project, the EMAs will have created a new body of permanent migrants. To avoid this outcome, when a particular project is completed under an EMA, this should mean the end of the rights of the 457-visa holder to stay in Australia. It is also time to remove the 'exceptional circumstances' provisions in the RSMS scheme which allow employers to make a case for sponsoring semi-skilled migrants. This loophole should be closed before the EMA arrangements create a large pool of such workers potentially interested in permanent residence in Australia.

As regards working holiday makers and visitors, the rules on their access to employment in Australia should be reformed. The multiple pathways now available into the Australian workforce, on a temporary basis as 457-visa holders or as skilled permanent residence visa holders should be removed. Such persons should have their access to these visas limited to application offshore on the same terms as other overseas residents. The effect of these measures would be to diminish the leakage from these programs into NOM. As Table 3 shows there was a serious excess of arrivals over departures amongst these visa holders in the years to 2008. Table 5 shows that DIAC expects a continued surplus through the years to 2013–14, by which time it is forecast that working holiday makers will contribute 19,800 to NOM and visitors 22,200.

DIAC is currently projecting that the temporary entry visas will contribute 89,700 to NOM by 2013–14 (see Table 5). The combination of these reforms would sharply reduce this figure.

3.7.2 The permanent-entry visa subclasses

In the case of the permanent-entry visa subclasses, the only way that NOM from these visas can be reduced is by reducing the number of visas issued in each program year. As Table 5 shows, DIAC forecasts that only about 3000 Australian residents with skilled permanent residence visas will leave Australia in 2011–12 and 2013–14 and just 2000 of those with family visas.

The ENS and RSMS visas urgently need to be reformed. At present they allow employers to decide on 46,000 of the 125,800 skilled visas to be issued in 2011–12 (Table 6). As indicated, the English language and credential assessment requirements for these visas, as well as the range of occupations eligible, lack the rigour now required for the points-tested and state-sponsored visas. Given that permanent residence is involved, the standards should be no less than those required for the points-tested visas. The government should also cull the very wide range of occupations eligible for nomination, especially for employers located in the major metropolises.

Though much improved, the rules applying to the points-tested categories contain one glaring anomaly. This is the continuation of the skilled Australian-sponsored visa subclass, which as noted, still allows relatives living in Melbourne to sponsor their relatives on concessional terms. The state-sponsored visa subclasses have also been better targeted to occupations genuinely in demand in the respective states. There remain anomalies in size of the visa allocations to South Australia and Victoria. These appear to reflect historic allocations rather than the priorities of skills required in the resources boom Mark 2.

Action on these fronts could reduce the skill program by 20,000 to 30,000 a year. In combination with the much greater reductions potentially available through reform of the temporary-visa subclasses, a cut of some 90,000 in NOM is quite feasible. It would deliver a far better targeted inflow of migrants, as well as give further incentives to employers to recruit domestic workers and, where temporary migrants are utilised, to ensure that their skills are transferred to domestic workers.

Section Four

4.1 Wasting the resources boom dividend on city building

The mineral boom Mark 2 will generate pressures for structural change in the Australian economy. The appreciation of the dollar flowing from resources exports will put other industries that are up against overseas suppliers of goods and services at a disadvantage. Likewise the competition for labour within Australia, especially in the construction occupations, will increase the costs that all industries will have to pay for such labour, including those already struggling to cope with a higher Australian dollar.

To the extent that the industries subject to the competitive pressures referred to, including manufacturing and tourism, need less labour it might be concluded that there will be less need for a high migration intake, given that the operational requirements of the resources industries for labour are relatively limited.

Our recommendation for a reduction in migration is partly based on this judgement. In addition, to the extent that lower migration to Australia's major metropolises would reduce city-building activities, it would take some of the heat out of the construction labour market – the labour market most in danger of overheating during the construction phase of the resources boom.

Some economic commentators favour allowing the full force of these pressures for structural change to run their course. The economics editor of *The Australian*, Michael Stutchbury, is among the most vocal. Stutchbury is afraid that the Labor Government will waste tax revenue from the resource boom by protecting states and regions being left behind in Australia's patchwork economy. In his view, resources should be allowed to flow to where they can be most productively used. He writes that: 'this requires policy discipline and a flexible economy that allows the mining boom to draw workers and capital from the squeezed industries and regions'.⁶⁹ This also appears to be the Treasury view, if not stated so bluntly.

There is widespread support for such views among economic commentators and, to a degree, amongst business groups. Almost none, however, (Stutchbury included) acknowledge that a reduction in immigration to the major metropolises would make sense in this context.

4.2 Business interests and metropolitan growth

Organised business interests have argued for higher rather than lower migration in recent years. This is because a wide range of industries have benefited from growth in the size of Australia's domestic market. They include such heavyweights as the banking and media industries. These industries are aware that the rate of aggregate economic growth is about to decline because of the impending retirement of the baby boomers. They also know that one sure way to arrest this decline is to boost immigration. This helps explain why the peak business group, the Business Council of Australia, has been relentless in its advocacy of population growth. In its submission to the Sustainability inquiry, the Council declares that, should the rate of population growth decline:

*Our economy would become even more specialised and dependent on resources exports and more like a 'branch economy' of the region.*⁷⁰

Manufacturing interests have joined this chorus, especially the Australian Industry Group, whose CEO is Heather Ridout. This comes through strongly in the *Issues Paper on Productivity and Prosperity* chaired by Ridout and prepared for the Sustainable Population Strategy cited earlier. The report regards rapid population growth as a defence against pressures for structural change or, in other words, as a form of industry protection. It states that:

*For long-term balance and stability, Australia should remain a country that makes things both for domestic and international consumers. Growing the workforce and the economy through population growth can accommodate an expanding mining sector to expand without squeezing out the other sectors on which many Australians depend.*⁷¹

The property and development industries have a particular interest in continued metropolitan growth. Their representatives, such as the Housing Industry Association and the Committee for Melbourne, have predictably lobbied strongly for high migration.

4.3 Population growth and the metropolitan economy: the case of Melbourne

Of all Australia's big cities Melbourne appears to be the most vulnerable to the pressures for structural change flowing from the resources boom. Victoria's mineral and energy resources are either of little international value, as with brown coal, or nearing the end of their life cycle, as is the case of Bass Strait oil.

Yet, Victoria (and Melbourne in particular) has been booming in recent years. Tables 12 and 13 detail two indicators of this boom. One is employment growth. In the past two years (since March 2009), Victoria's share of Australia's employment growth was 36 per cent (Table 12). Yet Victoria's share of employment in Australia by March 2011 was just 25 per cent. The second is Melbourne's extraordinary strength in housing construction, relative to the rest of Australia. Table 13 shows that, for the last three years, Melbourne's share of building approvals has been well above the city's share of Australia's population.

Victoria largely evaded the economic impact from the global financial crisis. According to the ABS National Accounts, Gross State Product (GSP) grew by 4.8 per cent in Victoria in 2009–10, well above the level for Australia of 2.3 per cent (and even that of WA, which grew by 2.5 per cent).

Table 12: Employed persons by state, March 2009 and March 2011 by share of Australia

	March 2009 (‘000)	March 2011 (‘000)	Increase	Share of Australia's increase (per cent)	Share of Australia's employed work force in March 2011 (per cent)
Victoria	2,693.7	2,889.9	196.2	36.2	25.2
NSW	3,430.7	3,625.6	194.9	36.0	31.7
WA	1,184.5	1,225.8	41.3	7.6	10.7
QLD	2,259.0	2,317.8	58.8	10.9	20.2
Rest	1,342.1	1,392.8	50.7	9.3	12.2
Australia	10,910.0	11,451.9	541.9	100.0	100.0

Source: *Labour Force Survey*, ABS, Catalogue no. 6202.0

Table 13: Building approvals for new, private residential dwellings, Melbourne and Australia, 2008-09 to 2010-11

	Melbourne	Australia	Melbourne's share (per cent)	Melbourne's share of population mid-2010 (per cent)
2008–09	31,300	127,577	24.5	
2009–10	41,070	155,100	26.5	18.3
2010–11(9 months to March 2011)	35,128	117,052	30.0	

Source: *Building Approvals, Australia, ABS, Catalogue no. 8731.0, March 2011*

Victoria's apparent economic health is not due to the success of Victorian industries in selling goods and services into international markets. Victoria's exports of goods and services in current prices were \$31.4 billion in 2001–02. By 2009–10 they had reached \$32.6 billion. The one export success has been the sale of education services, or the overseas student industry, which in 2009–10 was estimated to have generated \$5.9 billion in export revenue, making it by far the state's largest export industry. On the other hand, total imports of goods and services to Victoria have grown rapidly, from \$46.1 billion to reach \$65.7 billion in 2009–10.⁷² This means that the state's deficit on international trade in 2009–10 was \$33.1 billion.

What then, is the secret of the state's apparently robust economic outcome? The Governor of the Reserve Bank, Glenn Stevens, has speculated that it may be due to extra employment stimulated by the mining boom, such as extra workers in the headquarters of mining companies located in Melbourne.⁷³ Stutchbury wrestles with this issue too. Like Stevens he concludes that metropolitan growth reflects the service employment needs associated with the mining boom.⁷⁴

With all due respect, these explanations are myopic. Melbourne's rapid employment growth is mainly in the people-servicing industries that are directly linked to population growth. This grew by a massive 600,000 between mid-2000 and mid-2010. During the period 2000 to 2009, employment in Melbourne grew by 440,000 or 26 per cent. Nearly half of this growth occurred in three industries: 72,000 in construction, 82,000 in health and social assistance and 51,000 in education and training. The percentage change in employment over the nine years for each of these three industries was 64 per cent, 56 per cent and 45 per cent, respectively. Meanwhile, manufacturing employment in Melbourne declined by 50,000, or by 18 per cent.⁷⁵

There has been some growth in employment in business services linked to the resources industries in the eastern metropolises. It is very hard to put a figure on this growth. The ABS does not provide estimates of the interstate sale of services by industry. However, the ABS does estimate the value of exports to overseas countries by industry. In the case of Victoria, exports of business services, including legal, accounting and management consulting services, as well as technical services (including engineering and architecture), fell from \$1.9 billion in 2007–08 to \$1.5 billion in 2009–10.⁷⁶

There is a similar story to be told in South-East Queensland, where population growth from interstate and overseas migration has also given a major impetus to that area's surge in city-

building and people-servicing industries. In both locations, population growth has fuelled the boom and created a buoyant labour market, which migrants have contributed to.

This pattern could well continue with the resources boom should high immigration be sustained. The resultant impetus to economic activity will be a conducive setting for a continued urban expansion in Melbourne and South-East Queensland, if that is where migrants concentrate, based on providing additional housing, related infrastructure and a further boost to the service industries. This will depend, of course, on the willingness of the Federal Government and the resource states to support the massive diversion of government funds required, much of which will be drawn from the corporate tax revenue generated by the resources industry. What will there be to show for this capital widening expenditure? The principal outcome will be much enlarged cities and millions more people all keen to share the bounty from Australia's finite non-renewable resources.

The population-induced boom in Melbourne has shrouded the evidence concerning the city's deteriorating capacity to sell goods and services against international competition. It has also hidden the city's poor productivity record. Our analysis has mainly addressed the long-term productivity implications of reliance on city building and people servicing. However, there is evidence that Victoria's recent boom (largely attributable to population growth in Melbourne) has been accompanied by a sharply declining rate of labour productivity (relative to the rest of Australia). As a recent survey of the evidence states:

Victorian labour productivity growth has fallen by 2.1 per cent points from 2.8 per cent across 1994-95 to 1999-00 to 0.7 per cent across 2004-05 to 2009-10. Australian labour productivity growth has fallen by only 1.5 per cent points from 2.5 per cent across 1994-95 to 1999-00 to 1.0 per cent across 2004-05 to 2009-10.⁷⁷

Whether this recent decline in labour productivity is a precursor of the long term outlook in a city-building economy remains to be established. This is not an issue that governments or business organisations seem willing to investigate.

4.4 Investing the resources dividend for the future

Ordinary people have been largely disenfranchised from debate about these issues. Their interests are not being articulated or acted upon by those elected to represent them. As a consequence, the views of ordinary people can never match those of the business lobby or the media commentators pressing the case for growth in the domestic market. Nevertheless, a succession of opinion polls indicates widespread opposition to further population growth in the major cities. The most recent poll is that commissioned by the Productivity Commission. The Commission asked city residents: 'How would you feel about having more people living in your suburb or community and the increase in housing required for this'? Of those living in capital cities 52 per cent answered that they 'would not like it' and 11 per cent that they 'would like it'. Oddly, the rest did not care or had no opinion.⁷⁸

The cut in NOM we have advocated would go some way to meeting the preferences of Australian city dwellers. A NOM of around 90,000 a year would mean an Australian population of around 31 million rather than 36 million by 2051 (under the Big Australia assumptions).

There are other benefits which might accrue from such a population policy. Advocates of high migration always insist that infrastructure expenditure should be increased to provide for the numbers they recommend. The problem is that the backlogs in infrastructure provisions for Sydney, Melbourne and South-East Queensland are already large and the bill will grow enormously if the Big Australia scenario comes to pass.

An alternative approach would be to reduce the scale of city building (through lower migration) and put the funds saved into training our workforce and investing in knowledge intensive industries. This idea is akin to the Sovereign Fund arrangements employed by the Norwegian Government to harvest some of the revenue from that country's rapidly depleting North Sea oil resources. The Australian Government insists that it wants to promote productivity as a means of increasing Australians' standard of living. However, if it were serious about this objective it would not be endorsing a population policy which implies diverting scarce resources from enhancing the human capital of the domestic workforce.

Appendix I: **Labour-force projections at 90,000 net overseas migration for Australia by age and sex 2010 to 2021, using Australian participation rates of 2010 and Swedish participation rates of 2005**

Sex and age	Labour-force participation rates		@Australian 2010 rates ¹			@Swedish 2005 rates ²			Difference between Australian and Swedish scenarios 000s
	Aus. 2010 %	Sw. 2005 %	2010 000s	2021 000s	Change 2010–2021 000s	2010 000s	2021 000s	Change 2010–2021 000s	
<i>Males</i>									
15–19	55.0	33.0	422.5	420.1	-2.4	422.5	252.2	-170.3	-167.9
20–24	83.4	70.0	673.4	672.7	-0.6	673.4	564.6	-108.8	-108.1
25–29	90.8	89.0	743.5	775.2	31.7	743.5	759.9	16.4	-15.3
30–34	91.9	94.0	696.5	810.6	114.1	696.5	828.9	132.4	18.2
35–39	91.7	95.0	734.9	811.5	76.6	734.9	841.0	106.1	29.5
40–44	91.2	93.0	705.2	742.5	37.3	705.2	757.5	52.3	15.0
45–49	89.8	92.0	702.5	729.7	27.2	702.5	747.7	45.2	18.0
50–54	87.9	90.0	640.3	698.2	57.9	640.3	714.8	74.5	16.6
55–59	80.2	86.0	527.7	610.6	82.9	527.7	654.8	127.1	44.2
60–64	61.6	68.0	372.2	437.3	65.1	372.2	482.8	110.6	45.5
65–69	31.3	42.0	141.4	195.6	54.2	141.4	262.1	120.7	66.5
70 +	7.7	10.0	70.7	106.2	35.5	70.7	138.4	67.7	32.3
Total males			6430.9	7010.2	579.4	6430.9	7004.6	573.7	-5.7
<i>Females</i>									
15–19	57.8	41.0	422.0	419.8	-2.2	422.0	297.8	-124.2	-122.0
20–24	75.9	69.0	587.6	583.5	-4.0	587.6	530.3	-57.3	-53.3
25–29	74.4	84.0	596.1	608.8	12.7	596.1	687.1	91.0	78.4
30–34	71.3	85.0	535.9	607.9	72.1	535.9	725.0	189.2	117.1
35–39	72.5	89.0	585.9	631.4	45.5	585.9	775.3	189.4	143.9
40–44	76.3	90.0	593.4	613.9	20.5	593.4	723.7	130.3	109.8
45–49	79.8	89.0	632.2	649.3	17.1	632.2	724.0	91.8	74.7
50–54	76.8	87.0	570.0	613.7	43.7	570.0	695.1	125.0	81.3
55–59	64.6	80.0	432.6	499.9	67.3	432.6	619.2	186.7	119.3
60–64	42.8	58.0	260.3	315.0	54.8	260.3	427.0	166.7	111.9
65–69	17.5	30.0	80.6	114.5	33.9	80.6	196.0	115.4	81.4
70 +	2.5	5.0	29.6	41.6	12.0	29.6	82.4	52.8	40.9
Total females			5,326.2	5,699.4	373.2	5,326.2	6,482.9	1,156.7	783.5
Total persons			11,757.0	12,709.6	952.6	11,757.0	13,487.5	1,730.4	777.8

¹ Australian 2010 labour-force participation rates based on ABS detailed monthly Labour Force Status data, data cube ST LM2

² 2005 Swedish participation rates are derived from ABS article titled Labour-force participation: an international comparison, catalogue 4102.0, 2007

Source: Based on population projection generated by CPUR, based on following assumptions:

NOM: 2007 to 2010 244000; 2011, 172000; 2012 on 90,000

Fertility 2.0 in 2007 down to 1.92 in 2011; 2012 on 1.9

Emigration/immigration age pattern—base assumption

Longevity: low—males 87.7, females 90.5

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