Recruiting Immigrant Workers

AUSTRALIA



OECD

Recruiting Immigrant Workers: Australia 2018



BETTER POLICIES FOR BETTER LIVES

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Foreword

This review of Australia' labour migration policy is the eighth of a series conducted by the OECD Secretariat as a follow-up to the 2009 High Level Policy Forum on International Migration. The rationale for this initiative was the recent growth in labour migration observed in many countries and the likelihood that recourse to labour migration would increase in the context of demographic ageing. Prior to the 2008-09 economic crisis, many countries had made substantial changes to labour migration policies with a view to facilitating recruitment from abroad. With the introduction of these changes, more prominence was accorded to the question of their effectiveness and more broadly, to the objectives of labour migration policy in general. Although the economic crisis put a damper on labour migration movements, it did not stop them entirely, and interest in labour migration policy is unlikely to diminish in the near future.

The central objective of labour migration policy is to help meet those labour market needs which cannot be satisfied through tapping domestic labour supply in a reasonable time frame, without adversely affecting the domestic labour market and without hindering development prospects in vulnerable origin countries. Although the objective itself can be easily stated, specifying the criteria for assessing the success of policy in achieving it is a complex matter. It involves evaluating how well labour market needs have been identified and whether migration has had an impact on the labour market, both of which are analytically difficult.

This series of reviews addresses the question of whether labour migration policy is effective in meeting labour market needs without adverse effects, and whether the policy is efficient. To address these questions, this review aims to analyse two key areas: i) the labour migration system and its characteristics, in terms of both policies in place and the labour migrants who arrive; and ii) the extent to which it is responding to the current and forecast needs of the domestic labour market, as well as any impact on the latter.

The focus is specifically on labour migration while other categories of migration – family and humanitarian for example – are not covered by this review.

Immigration plays a key role in addressing skill and labour shortages in specific occupations in Australia. The country faces a similar discussion as other OECD countries regarding effective labour migration policy and the selection of migrants to address specific skill needs. In this context, Australia requested that the OECD review its labour migration policy with a focus on the recently introduced expression of interest system to manage skilled migration (SkillSelect), the shift towards demand-driven migration and the transitions from temporary to permanent migration.

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Table of contents

Acronyms and abbreviations 13

Executive summary 15

Summary and recommendations 17

Chapter 1. **Context for labour migration to Australia** 33

Current labour market conditions 34
Migration in the context of population ageing 40
The contribution of immigration to Australia 43
Notes 53
References 54

Chapter 2. **Evolution and characteristics of labour migration to Australia** 59

Overview of migration policy 60
Permanent migration 62
Temporary migration 72
Business Innovation and Investment Programme 83
Notes 88
References 89
Annex 2.A1. Additional figures and tables 93

Chapter 3. **Main tools and actors in Australia's labour migration policy** 97

History of labour migration policy 98
Key tools used in managing labour migration 100
Key actors in the management of labour migration 109
Notes 114
References 115

Chapter 4. **The growth of demand-driven migration in Australia** 117

The growing importance of demand-driven migration in Australia 118
Employer-sponsored migration 119
State/territory nominated migration 128
Meeting regional skill needs through demand-driven migration 137
Implications of the growth of demand-driven migration 140

Notes 150
References 151
Annex 4.A1. Alternative measures of cyclicality 153

***Chapter 5.* Skillselect – Australia's expression of interest system 155**

Introduction 156
SkillSelect selection process....158
Selecting the best candidates 164
Improving the mix of occupations....169
SkillSelect is associated with efficiency gains in visa processing....175
Notes 180
References 181
Annex 5.A1. Additional information on points score in SkillSelect 182

***Chapter 6.* Temporary migration with work rights and pathways from temporary migration to permanent residency 185**

Temporary migration with work rights is on the rise 186
The two-step migration model is gaining ground....201
Notes 208
References 209
Annex 6.A1. Labour market outcomes of permanent migrants 211

Figures

Figure 1.1. Evolution of harmonised unemployment rates in Australia and in the OECD, 1999-2016.... 35
Figure 1.2. Unemployment in Australia by states and territories.... 36
Figure 1.3. Firms facing skill shortages in selected countries 37
Figure 1.4. A significant number of vacancies remain unfilled in 2016.... 38
Figure 1.5. Enrolment in higher education by student origin and apprentice and trainee commencements, 2001-15.... 40
Figure 1.6. Share of persons 65 and over per 100 people of working age (20-64) in OECD countries, 2015 and 2050.... 41
Figure 1.7. Components of population growth, percentage increase on previous year, 1984-2016.... 42
Figure 1.8. Net overseas migration: Permanent and temporary migration shares.... 42
Figure 1.9. Proportion of foreign-born persons and their children in OECD countries, 2015.... 43

Figure 1.10. Adult population distribution between states and territories and share of foreign-born, 2016 44
Figure 1.11. Share highly educated among native and foreign-born 15-64 year-olds who are not in education, 2015 46
Figure 1.12. Employment rate by place of birth, 2016 47
Figure 2.1. Permanent migration flows to OECD countries, 2015 60
Figure 2.2. Permanent migrant annual flows, 1984/85 to 2015/16 63
Figure 2.3. Annual grants under the skill migration stream, 2004/05 to 2015/16 65
Figure 2.4. Skilled independent, top 20 occupations, 2004/05 and 2015/16 67
Figure 2.5. Employer nominated and regional sponsored migration schemes visa grants, 2004/05-2015/16 71
Figure 2.6. Temporary migration flows by subclass, 2005/06-2015/16 73
Figure 2.7. Process for obtaining 457 subclass visa 75
Figure 2.8. Subclass 457 grants (principal applicants) by ANZSCO skill levels, 2005/06-2015/16 79
Figure 2.9. Subclass 457 visa grants, by sector, 2005/06-2015/16 80
Figure 2.10. Subclass 457 temporary grants, by intended location, 2005/06-2015/16 80
Figure 2.11. Minimum investment thresholds in selected OECD and EU countries, 2017 84
Figure 2.12. BIIP grants for nine main countries of origin, 2015/16 85
Figure 2.A1.1. Skilled independent visas, top 20 occupations, 2004/05-2015/16 93
Figure 3.1. Visa cost for selected schemes in selected OECD countries, 2014 109
Figure 4.1. Permanent skilled migration by visa category (visa grants per year) 118
Figure 4.2. Employer-sponsored migration 123
Figure 4.3. Subclass 400 and 457 visa grants, 2013-15 125
Figure 4.4. Responsiveness of employer-sponsored migration to economic conditions 126
Figure 4.5. Responsiveness of employer-sponsored migration to economic conditions, by application location 127
Figure 4.6. State Migration Plans (SMPs) 131
Figure 4.7. State and territory nominated migration, 2015/16 133
Figure 4.8. STN migrants by characteristics and nominating state/territory 134
Figure 4.9. Regional settlement of recent migrants, by visa type 137
Figure 4.10. Interstate mobility of permanent migrants 138

Figure 4.11. Skill profile of permanent skilled migrants by visa category 142
Figure 4.12. Skill profile of permanent skilled migrants by visa category and whether nominated occupation on SOL 142
Figure 4.13. Marginal effect of nominated occupation on labour market outcomes 146
Figure 4.14. Number of permanent visa grants by characteristics of nominated occupation 148
Figure 4.A1.1. Alternative measures of business cycle fluctuations 154
Figure 5.1. SkillSelect expressions of interest 159
Figure 5.2. SkillSelect invitations 162
Figure 5.3. SkillSelect visa applications and grants 164
Figure 5.4. Points distribution of EoIs and visa grants in SkillSelect 165
Figure 5.5. Percentage of EoIs receiving an invitation by time since EoI submitted and points score 166
Figure 5.6. Percentage of EoIs receiving an invitation by time since EoI submitted and other characteristics 167
Figure 5.7. Nominated occupation for EoIs and visa grants by subclass, 2015 169
Figure 5.8. Skilled independent visa grants by nominated occupation 171
Figure 5.9. Change in the share of occupations in total skilled independent EoIs and visa grants through SkillSelect (percentage points change from previous year) 173
Figure 5.10. EoIs and visa grants for accountants by points score 174
Figure 5.11. Processing times for successful grant applicants, by visa subclass 176
Figure 5.12. Processing times for successful subclass 189 applicants, by points score 177
Figure 5.13. Pre-SkillSelect pipeline 178
Figure 5.14. Labour market outcomes, six months after grant of permanent visa 179
Figure 5.A1.1. Average points score by attribute and subclass in SkillSelect, 2012-14 182
Figure 5.A1.2. Points required and achieved in SkillSelect 183
Figure 6.1. Grants of temporary work visas or non-economic visas with work rights, 2006-07 to 2015-16 187
Figure 6.2. Working holiday makers in selected OECD countries, 2007-15 188
Figure 6.3. Working Holiday Maker programme, grants – primary and reviews, 2005/06-2015/16 189

Figure 6.4. Trends in working holiday maker visa grants by region/country of citizenship 190
Figure 6.5. Employment of WHMs in Australia by country of origin, 2008..... 191
Figure 6.6. International students enrolled in OECD countries, 2014..... 193
Figure 6.7. Student visa grants by type, 2008/09-2015/16 194
Figure 6.8. Main countries of origin of students, 2008/09 and 2015/16..... 195
Figure 6.9. Living costs and educational costs for international students in selected OECD countries, 2012 196
Figure 6.10. Employment of international students, 2016 or 2014..... 197
Figure 6.11. Duration of job-search periods for post-graduate schemes in different OECD countries, 2014 198
Figure 6.12. Temporary Graduate visa grants, 2007/08 to 2015/16 199
Figure 6.13. Next visa granted to temporary graduate visa holders, 2014/15 or 2015/16..... 200
Figure 6.14. Share of permanent skilled migrants applying onshore by visa category and year..... 202
Figure 6.15. Permanent visa grants by previous visa held, 2010/11-2015/16..... 203
Figure 6.16. Permanent visa grants by previous visa held and country of origin, 2010/11-2015/16 204
Figure 6.17. Permanent visa grants by previous visa held and by skill level and age, 2010/11-2015/16 205

Tables

Table 1.1. Estimated net fiscal impact on Australian budget, by visa category, 2010-11 52
Table 2.1. Summary table of skilled permanent migration visa categories and selection methods..... 64
Table 2.2. Key temporary programmes..... 73
Table 2.3. Compliance monitoring for temporary work 457 visa, 2007-16 79
Table 2.A1.1. Points grid for business and innovation (Provisional) visas 94
Table 2.A1.2. Investor policy criteria and conditions..... 95
Table 3.1. Occupations in CSOL, SOL, MLTSSL and STSOL by ANZSCO skill level, 2015-16..... 105
Table 4.1. Processing priority for skilled migration programme 119
Table 4.2. Requirements and restrictions for employer-sponsored visas..... 120

Table 4.3. Requirements and restrictions for Skilled Nominated (subclass 190) visas by state/territory 129
Table 4.4. Labour market outcomes of STN migrants by nominating state/territory 135
Table 4.5. Marginal effect of nominating state/territory on labour market outcomes 136
Table 4.6. Differences in interstate mobility across visa categories among permanent skilled migrants 139
Table 4.7. Characteristics of permanent skilled migrants by visa category 141
Table 4.8. Labour market status of permanent skilled migrants by visa category 143
Table 4.9. Difference in labour market outcomes compared with skilled independent migrants 145
Table 5.1. Visa types nominated in EoIs 160
Table 5.2. Annual ceilings for selected occupations 170
Table 6.A1.1. Labour market outcomes for onshore/offshore permanent migrants 212

Acronyms and abbreviations

ABS	Australian Bureau of Statistics
ACT	Australian Capital Territory
ANMAC	Australian Nursing and Midwifery Accreditation Council
ANZSCO	Australia New Zealand Standard Classification of Occupations
AUD	Australian dollar
AVCAL	Australian Venture Capital and Private Equity Association Limited
AWPA	Australian Workforce and Productivity Agency
BIIP	Business Innovation and Investment Programme
CAAIP	Committee to Advise on Australia's Immigration Policies
CSAM	Continuing Survey of Australian Migrants
CSOL	Consolidated Skilled Occupation List
DIBP	Department of Immigration and Border Protection
ENS	Employer Nomination Scheme
EoI	Expression of interest
FWO	Fair Work Ombudsman
IELTS	International English Language Testing System
ITA	Invitation to apply
LMT	Labour Market Testing
MAC	Migration Advisory Committee
MACSM	Ministerial Advisory Council on Skilled Migration
MLTSSL	Medium and Long-term Strategic Skills List
NEET	Not in employment, education or training
NOM	Net overseas migration
NSW	New South Wales
NT	Northern Territory
NUMAS	Numerical Multifactor Assessment System
PACT	Pay and Conditions Tool
PIV	Premium investor visa
RCB	Regional Certifying Body
RSMS	Regional Sponsored Migration Scheme

SA	South Australia
SIV	Significant investor visa
SMP	State Migration Plans
SOL	Skilled Occupation List
SSRM	State Specific Regional Migration
STN	State/territory nominated
STSOL	Short-term Skilled Occupation List
SVP	Streamlined Visa Processing
SWP	Seasonal Worker Programme
TSMIT	Temporary Skilled Migration Income Threshold
TSS	Temporary skill shortage
WA	Western Australia
WHM	Working holiday makers

Executive summary

Australia is a county built by immigration. Persons born abroad represent 28% of Australia's population, third highest share among OECD countries. When the children of immigrants are also taken into account, persons who have at least one foreign-born parent or are foreign-born themselves represent 46% of Australia's population. Largely driven by its selective migration policies, migrants in Australia have a high education level both in comparison with migrants in other OECD countries and with native-born Australians. Overall, migration is making an important economic, demographic and labour market contribution as migrants bring valuable skills in occupations and sectors which face shortages as well as in regions where skilled labour supply is more scarce.

The increasing focus on economic and skilled migration since the eighties has led to a substantive growth of the skills stream, which comprises all permanent labour migration programmes. The size of the skills stream was multiplied by five in the past two decades and is today twice the size of the family stream. This trend is to some extent the result of growing demand-driven migration.

One model does not fit all needs in Australia. Special attention has been paid over the years on the regions and their ability to attract and retain skilled migrants. Still today, retention of migrants is an issue for some states and territories where state and territory nominated migrants record high mobility rates within a short period from arrival, despite the requirement to live in their nominating state for at least two years. In contrast, employer-sponsored migrants have lower mobility rates, a finding at least partly explained by their relatively better short-term labour market outcomes. To improve retention, the requirement to stay in the state could be raised and more strictly enforced.

SkillSelect, Australia's Expression of Interest system was introduced in 2012 with the objective to reduce waiting times and the backlog of visa applications while raising the quality of the selected candidates. Initial evidence from the operation of SkillSelect suggests that the new system performs well in comparison with similar systems in Canada and New Zealand. It has increased the efficiency and has cut the time spent

processing points-based visa applications. Efficiency gains derive from the design of the new system which ensures a small pipeline of visa applications awaiting processing but also its capacity to screen out applicants who are unlikely to be successful so that far fewer visa applications are rejected. However, in the current system, there is little incentive for highly skilled applicants to validate a higher points score which may affect the extent to which the system selects the most skilled and suitable.

Non-labour migration categories with work rights, notably working holiday makers and international students, make an increasing contribution to specific sectors of the economy. Some concerns remain with respect to the conditions of work, especially for working holiday makers and recent measures were introduced by the government with the objective, among others, to curb exploitation and informal employment.

The post-study work visa, introduced in 2013, gives up to four years to some visa holders to find a job. A partial and preliminary assessment of the outcomes of this visa seems satisfactory. Former graduate visa holders represent 14% of all new permanent visas issued to principal applicants in 2015/16, and up to 23% of skilled independent and skilled regional permanent visas granted. Foreign graduates of Australian universities, whose numbers have also grown over time, represent the majority of new skilled regional visa grants in the past five years.

Australia has a complex but well-functioning and efficient system for the management of labour migration. Labour migration policy uses a large variety of tools to select candidates through a points test on the basis of their skills and their willingness to work and live in regional Australia, while providing safeguards for Australian citizens and residents. Visa application fees are high in Australia by OECD standards but they ensure that the system is well funded. Most importantly, performance monitoring is embedded into the design of the migration system and migration policies are evaluated on the basis of surveys and rich administrative data. These evaluations help adjust migration policies or fully reform them with the objective to make them more attuned to the needs of labour markets and the economy, while addressing any associated challenges. The recent abolition of the 457 temporary skilled migration visa and the introduction of two new temporary skill shortage visas with tighter eligibility conditions and stricter safeguards are inscribed in this continuous effort to adapt the labour migration system and strengthen its positive outcomes. The success of these new visas will depend on their specific conditions and the way they will be implemented.

Summary and recommendations

Immigration has played a major role in Australia for many decades

Australia has always been a nation of immigrants. In 2015, the share of the foreign-born population (28%) was the third highest among OECD countries, behind only Luxembourg and Switzerland. The share of immigrants in the total population increased by 4 percentage points over the past ten years and immigrants make a notable contribution to the demographics, the labour market and overall to the economic and social life of Australia.

Immigration helps address demographic imbalances and labour market needs…

Australians have one of the longest life expectancies in the world. The number of individuals aged 65 and over, per 100 people of working age (20-64), is expected to climb from 25% in 2015 to almost 41% in 2050, although it will still be well below that in many OECD countries. Alongside, participation of Australians in the labour market is expected to decline over the next 40 years. The Australian Government has adopted an aspirational goal of 69% labour force participation (of persons aged 15 and over) by 2025 to meet the projected demand for labour drawing on both the native population and immigrants. Net overseas migration (NOM) has a significant impact on population projections and consequently on the labour force. Over the past three decades, NOM has accounted for 51% of the population increase.

…as well as skill shortages, including at the regional level

Immigration is seen as a key tool to address skill and labour shortages in specific occupations. The share of immigrants with a high level of education in Australia is 47%, the fifth highest among OECD countries. This is the result of years of immigration policies that select candidates on the basis of their qualifications, skills and English proficiency, among others. Immigration policy, through State Migration Plans, is designed to address

skill shortages and recruitment difficulties which exist at the national level and within states and territories.

The overall economic impact of immigration is positive

Foreign-born people have higher skills, participation rates and somewhat higher average hours worked than natives. Estimates based on different scenarios of NOM suggest that by 2050, migrants will on average be making a per capita contribution of approximately 10% more to Australia's economy than residents. The existing empirical evidence does not find a negative effect of immigration on the Australian native-born and previous migrant cohorts as a whole. However, this does not rule out some possible effects on specific segments of the labour force. More specifically, some concerns have been expressed regarding the possible impact of the rising numbers of temporary migrants with working rights such as international students, working holiday makers and graduates with job-search visas on the job prospects of young labour market entrants. The existing evidence is rather limited and inconclusive and further research should be conducted to thoroughly investigate this question.

Labour migration is managed through a complex, but well-functioning and effective system

Australia manages its annual intake of permanent migrants through the Migration Programme which comprises the economic, family and special eligibility streams. Temporary migration includes visitors (tourists), students, working holiday makers, temporary work visas and the special category reserved for citizens of New Zealand. Permanent and temporary labour migration comprises a large number of categories and subclasses (visas) in comparison with most other OECD countries. A plethora of tools are used to manage labour migration, select candidates on the basis of the points test, their skills and their willingness to work and live in regional Australia, while providing safeguards for Australian citizens and residents. This creates a complex system which is nonetheless effective in ensuring a good supply of skills and addressing labour market needs. Frequent consultations and reforms are meant to address challenges and enhance the positive impact of immigration. Data collection, policy monitoring and thorough evaluations are embedded in the migration system.

The skills stream has grown over time and its composition has changed

The increasing focus on economic and skilled migration since the 1980s has led to a substantive growth of the skills stream, which comprises all

permanent labour migration programmes. With 128 550 visas allocated in 2015/16, the skills stream represented more than two thirds of the total Migration Programme of that year and has consistently grown over the past 20 years. In 2015/16, it was twice the size of the family stream, five times its size two decades before and 32% bigger in absolute terms relative to 2005/06.

Many categories of labour migration are managed through a points system. While this ensures that most primary migrants have the skills which Australia needs, this is not the case for their dependants who make up just over half the skill stream admissions and do not themselves undergo points assessments. Secondary applicants have full access to the labour market. Nonetheless, only a very small number of points are attributed according to the skills of secondary applicants, hence half of all migrants in the skill stream may, in practice, have lower levels of skills than primary applicants.

Demand-driven permanent migration has grown sharply…

Australia's permanent skilled migration system has traditionally been supply-driven, but in recent years demand-driven migration has grown and represents today close to half of the permanent skilled migration programme. Grants of employer-sponsored visas have grown both in absolute numbers and relative importance and in 2015/16 totalled 48 250 primary and secondary visa grants, three times the number of employer sponsored visas granted in 2005/06. Visa grants under the state/territory nominated (STN) scheme (a permanent residence visa offered to persons nominated by an Australian state or territory government agency) have also grown substantially, representing 19% of all permanent skilled visas in 2015/16. At the same time, the share of supply-driven programmes, notably skilled independent migration, has declined, to just above one third of all migrants under the skill stream in 2015/16, down from 51% in 2005/06.

…and this is also the case for demand-driven temporary migration

The uncapped demand-driven 457 subclass visa, which will be abolished in March 2018, is currently the largest temporary work migration programme in Australia and one of the largest temporary migration schemes in OECD countries considering the population size of the host country. This visa category was designed to address labour shortages by allowing genuinely skilled overseas workers to enter Australia temporarily when employers were unable to find an appropriately qualified Australian citizen or resident to fill a position. The steep growth in 457 grants until 2008/09

reflected strong economic conditions in Australia and was followed by a sharp decrease with the onset of the global financial crisis. Grants of 457 visas started rising again after 2009 and peaked at more than 125 000 grants in 2011/12 and 2012/13. From 2013/14 onwards, the annual number of 457 visas granted remained below 100 000 visas per year.

Demand-driven migration is associated with better labour market outcomes, at least in the short run…

The shift towards demand-driven migration has led to an improvement in the short- to medium-term labour market outcomes of migrants. Employment rates of employer-sponsored permanent migrants are, as expected, much higher than those of other categories of labour migrants at six months after arrival. Those of skilled independent and STN migrants are lower and do not converge rapidly. A year and a half after arrival, employer sponsored migrants have employment rates 3 to 5 percentage points higher than those of STN and skilled independent migrants, and they also face the lowest unemployment (1.7%). In addition, employer-sponsored migrants are not only more likely to be employed in their nominated occupations (as it would be expected) but are also less likely to be over-skilled than the other two migrant groups, and these outcomes do not change much with time since arrival. Nonetheless, to date there is no research to clearly establish whether employer-sponsored migrants maintain their advantages in employment, lower incidence of overqualification and higher earnings in the longer term.

…and lower average skill levels

The rise in demand-driven migration has been associated with a decline in the average skill level of the skilled migration intake, along with a growing share of migrants whose nominated occupation is not on the Skilled Occupation List (SOL), which determines occupations for which skilled independent migrants can be hired. Around 85% of skilled independent migrants arriving between 2013 and 2015 had an occupation on this list, compared with less than 40% of employer sponsored and 60% of STN migrants. Occupations that were not on the Skilled Occupation List, although still skilled, tended to be at a lower skill level than SOL occupations for all visas.

The cyclicality of employer-sponsored migration within a capped overall skilled migration programme implies that the share of independent skilled migrants increases during downturns, so the average skill level of the migrant intake increases. This may not necessarily have adverse labour

market consequences, as vacancies for highly skilled workers tend to fluctuate less over the economic cycle than those for trades workers. The only point of concern may be that graduates of Australian universities, who represent half of all skilled independent visas granted in the period 2010/11-2015/16, are in direct competition with recent Australian graduates, who are currently facing rather limited labour market opportunities. Evidence from the latest Graduate Careers Australia survey shows that just above two thirds of persons graduating with a bachelor degree in 2014 had a full-time job four months after graduating, a record low for the past 3.5 decades. Although available research has not demonstrated a negative impact of foreign graduates of Australian universities on native youth so far, this should continue to be monitored.

Temporary migration is addressing labour demand and is closely linked to the business cycle

Temporary visa grants, and even more so those which go to offshore candidates, are particularly responsive to the business cycle and adjusted very quickly to the downturn caused by the global financial crisis of 2008-09. In contrast, permanent employer-sponsored migration fluctuated less and likewise adjusted more slowly to the economic recovery, with a lag of six to 12 months. This is most likely due to longer visa processing times and the large proportion of temporary employer-sponsored migrants who go on to receive permanent residency.

Concerns regarding the impact of the 457 programme and integrity led to its abolition

Recent reviews of the 457 visa programme have expressed concerns regarding integrity with respect to the mechanism underlying the 457 programme. Recent work has highlighted some evidence of abuse and exploitation of foreign workers under this scheme. Partly to respond to these concerns but most importantly to ensure that temporary immigration does not hurt Australian citizens and residents' labour market outcomes, the Australian Government announced in April 2017 the abolition of the 457 programme, effective from March 2018, and the introduction of a new temporary skilled migration visa. The temporary skill shortage (TSS) visa has two streams, a short-term and a medium-term stream with a maximum validity of four years (for the medium-term stream). The recently announced efforts of the Department of Immigration and Border Protection (DIBP) to collect tax file numbers for employer sponsored migrants and match them with the Australian tax office records are likely to

reduce any pay-related exploitation of temporary skilled workers, as expressed in recent reviews of the 457 scheme.

Efforts are being made to strengthen safeguards with the new temporary skill shortage visa

The new temporary skill shortage visa will be subject to tighter eligibility conditions (a slightly higher English language requirement and stricter work experience requirements) and stricter safeguards. In addition, the list of occupations eligible for recruitment from abroad has been significantly reduced with the announced reforms. Prior to the reforms, sponsors were required to show that they were making efforts to train Australian citizens and residents in order to ensure that employing overseas workers was not seen as an alternative to training domestic workers in the specific skill area. Their contribution was either 2% of their annual payroll into an industry training fund or a 1% of their annual payroll into training for Australians in their workplaces. This training requirement was difficult to enforce and will be replaced in March 2018 by a levy which will contribute to the new Skilling Australians Fund. This levy will be paid by employers who hire temporary (temporary skill shortage visas) or permanent employer-sponsored migrants. The government expects an estimated funding of AUD 1.2 billion over the first four years of the Fund's operation which will be matched with funds from states and territories and will be invested in apprenticeships and traineeships. It is expected that the Fund will support up to 300 000 apprentices in high-demand occupations over the next four years.

Although the exact details of the functioning of this Fund have not yet been made available, evidence from other OECD countries shows that this approach is not always successful in promoting skill development. To avoid this happening in Australia, the training will have to be of high quality, and closely linked to employers' needs and concentrated in areas and occupations in which there is a limited supply of skills. At this stage, the available information on the functioning of this fund is not sufficient to discuss its possible effectiveness.

Labour market testing applies only to certain groups but this is not an issue in the case of Australia

A labour market test (LMT) was re-introduced in November 2013 for sponsors of subclass 457 visas obliging them to test the local labour market prior to lodging a nomination and fill in a template with information on their efforts to recruit workers already in Australia. Contrary to practices in other

OECD countries, there is no fixed time period for the duration of the advertisement or the number of minimum advertisements. In practice the labour market test is subject to a wide range of exemptions for example cases where international trade obligations apply and all high-skilled occupations of the Australian and New Zealand occupational classification (Skill Levels 1 and 2) except those in the nursing and engineering professions. The March 2018 changes will introduce a mandatory LMT requirement and limit exemptions to cases where international trade obligations apply. Such discretionary LMT is not an issue in the current Australian context of low unemployment and a dynamic labour market, while the conditions of its application could be easily modified by the authorities to make it more stringent if labour market conditions changed in the future or if there were concrete concerns for specific sectors and/or population groups.

Complex labour agreements are available for semi-skilled foreign workers

Labour agreements between the Australian Government, represented by the DIBP and employers, are generally effective for three years and used for a small share of temporary and permanent visas and allow for exceptions relating to skill levels or language requirements. They are granted to cases where a clear labour need has been demonstrated but it is not possible for such business to sponsor a 457 visa. Existing agreements are numerous and can be at the company, industry, designated (subregional) areas as well as project level. The conditions under which the agreements are concluded vary greatly across cases. An industry agreement might be considered if the DIBP has received a number of similar submissions from firms within an industry and there is evidence of ongoing labour shortages within that industry. Small businesses, which may not have the resources to negotiate a labour agreement directly with the Australian Government, may benefit from a designated area migration agreement, which is represented by a state or territory nominated entity and responds to their unique economic and labour market conditions by entering into an overarching agreement with the Australian Government. As part of the process for the validation of the agreement parties conduct a form of labour market testing. From May 2009 labour agreements became the only migration pathway for semi-skilled labour. To improve the transparency of the labour agreement process, employers are required to consult, or make genuine efforts to consult, industry stakeholders, including relevant trade unions and peak industry bodies, during the development of their agreement with the authorities. The complexity of the process to establish a labour agreement might actually serve to discourage the recruitment of semi-skilled foreign labour.

High visa fees ensure that the system is well funded

Visa application fees are high in Australia by OECD standards and they have slightly increased following the most recent changes in the 2017/18 budget. The fee is AUD 3 670 for primary skilled independent migrants and will reach AUD 1 150 for the short-term stream of the TSS visa and AUD 2 400 for the medium-term stream of the TSS visa. An extra cost is associated with the skill assessment which constitutes the first stage of the application process and can go up to AUD 1 050 for some occupations. Although high, visa fees ensure that the system is well funded and they represent a mechanism which preselects candidates with genuine interest to migrating to Australia.

Different approaches are needed in the different regions to improve the labour market outcomes of migrants

Migration to regional areas (i.e. in states and territories and in some cases, outside the metropolitan areas), which is one of the priorities of the Skilled Migration Programme, is encouraged by: priority processing rules; the allocation of additional points to points-tested applicants who are nominated by a state/territory or family member in a regional area or who have studied in the specific region; and the incentives provided for migrants on temporary or provisional visas living in regional areas to attain permanency. Although differences exist between states and territories, overall, state/territory nominated (STN) migrants tend to have poorer labour market outcomes than skilled independent migrants, partly due to differences in their characteristics. State Migration Plans, which indicate the occupations most in demand in each state/territory, are of limited usefulness in shaping the skill profile of the intake because many states/territories fail to attract enough applicants in the targeted occupations. Attracting applicants with better characteristics would be particularly useful for the Australian Capital Territory, where very few STN migrants have occupations on the State Migration Plans and migrant characteristics seem to be important drivers of poor labour market outcomes. By contrast, in the states of South Australia and New South Wales individual characteristics of the migrants play a relatively minor role in explaining poor labour market outcomes. Providing better support services for new STN migrants may be more important in improving labour market outcomes in those states.

Retention of migrants is an issue for some states/territories

STN migrants record high mobility across states within a short period from arrival, despite the requirement to live in their nominating state for two

years. Around 8% of STN principal migrants had moved to another state/territory within 18 months of arrival. By contrast, employer-sponsored migrants have relatively low interstate mobility. Most of the difference in mobility between these two migrant groups is due to differences in personal characteristics, but better short-term labour market outcomes for employer-sponsored migrants also play a small role in keeping them in the state where they held their first job. Even after such differences have been accounted for, STN migrants are 3.6% more likely to move interstate than employer-sponsored migrants.

Retention beyond the two-year period of required stay in the state/territory should be further analysed. If STN migrants have worse characteristics than other migrant groups and retention is low, there may be a need to reconsider some of the parameters of this scheme. For instance, a longer stay requirement would both increase retention, but would also discourage candidates who would anyway leave from applying in the first place. More detailed information on the precise geographical location in the Continuing Survey of Australian Migrants would be required to conduct analysis of the determinants of interstate mobility in order to lift the obstacles which hinder retention.

Australia's investor visas are subject to high thresholds

Australia's Business Innovation and Investment Programme targets a mix of financial and human capital as well as entrepreneurial skills. Within this programme, the investor streams are subject to minimum investment thresholds, and while the premium investor visa and significant investor visa schemes do not require a points test they do impose minimal non-financial eligibility criteria. Applicants for the all investor streams need to be nominated by a state or territory government or Austrade (for the significant investor and premium investor visa only). The minimum investment threshold for the investor visa (AUD 1.5 million, or about EUR 1 million) places Australia above the median threshold of other OECD countries with schemes for investors. The investment threshold for the premium investor category (AUD 15 million, or close to EUR 10 million) is the highest minimum floor among all OECD countries with such investment schemes, but take up has been null so far.

Detailed information on investments should be collected to systematically assess the investor schemes

There is currently limited information on the economic benefits of this category of migration programmes in Australia and other OECD countries. Close monitoring of changes to admission criteria and complying investment framework and the associated benefits, a pre-requirement for such thorough evaluation, is currently missing in the Australian system, as is also the case in most OECD countries. In the case of Australia, this is partly due to the fact that the four-year significant investor scheme was only introduced in late 2012 and hence it is too soon to have a proper evaluation of its impact. Efforts should start by collecting information on the economic impact of the investment and should continue with a rigorous evaluation which should determine whether the investment would have occurred anyway. The analysis could also establish the threshold at which there is a clear benefit, and the conditions for such visas in order for the programme to benefit Australia and its resident population.

The two-stage migration process is gaining importance

Onshore applicants represent an important and growing share of employer-sponsored migrants, and they are becoming increasingly important in other permanent skilled categories. Over the period 2010/11-2013/14, holders of 457 temporary visa holders represented two thirds of all employer-sponsored permanent visa grants, suggesting that the 457 programme, despite integrity-related concerns, may have been quite successful in attracting migrants with the rights skills who address specific skill needs. Likewise, 59% of the persons who entered with a 457 visa over this period, received an employer-sponsored permanent visa while an additional 10% got an skilled independent permanent visa. The conditions, notably English proficiency, for employer nominated visas which apply to onshore candidates are typically lower than those to offshore candidates which implies that the skills of onshore candidates may be lower than those applying from abroad. Analysis shows that their lower skills are not associated with weaker labour market outcomes for this group of immigrants relative to others mainly because they come with a job offer in hand. However, it could be that their lower skills have an impact on their labour market outcomes in the longer term.

Non-economic temporary programmes with work rights are growing and address specific labour demand

Australia's working holiday makers and work and holiday schemes are designed to encourage cultural exchange and build close ties between Australia and eligible countries. Working holiday visa holders have labour market access for up to 12 months but generally work is limited to six months with any single employer. Changes introduced in January 2017 enable them to work for the same employer for up to a year if certain conditions are met. Total grants under these schemes have grown by 86% in the past decade, reaching 214 600 entries in 2015/16 or 3.7% of the population aged 15-34. Working holiday makers contribute notably in the tourism and agricultural sectors and in regions where there is a clear shortage of low-skilled workers.

Clarifications introduced in the 2015/16 budget imply that most working holiday makers should be considered as non-residents for tax purposes and as a result, their total income is taxable, in contrast to usual practices until then. Recent changes, effective from January 2017, introduced a flat tax rate of 15% to all working holiday makers who earn up to AUD 37 000 and whose employers are registered with the Australian Taxation Office. Data collection through the tax authorities should allow the monitoring of the working holiday makers schemes and could mitigate the risk of exploitation of these foreign workers. The effects in terms of take-up of the schemes, tax evasion, working hours and supply shortages in the sectors concerned will have to be evaluated in the coming years.

International students represent a valuable source of skilled migration

Migration for study is an integral part of the international education sector, which is one of Australia's largest export industries. A total of close to 300 000 student visas were granted in 2015/16, an increase of 62% since 2005/06. In 2014, international students represented 20% of all higher education students and 5% of students enrolled in vocational education and training. Graduates of Australian universities represent the majority of new skilled regional visa grants over the period 2010/11-2015/16 (53%) and account for 23% of new skilled independent visa grants. Together with those who transition through the temporary graduate (job-search) visa, they represent half of all skilled independent visa grants.

Concerns remain about their employment during studies and their labour market outcomes after graduation

International students have work rights of up to 40 hours every fortnight during their studies and many of them use this right. The possibility to work, and notably in sectors which are related to their field of study, is indeed one of the factors which attract students to Australia. Such experience may also increase the chances of them staying and working in Australia after graduation. Efforts should be made to closely monitor this work, the hours declared by international students and the conditions in which their work as recent inquiries have brought attention to cases of underpayment and work beyond the legal limit. Students should be provided with all the necessary information about their work rights and obligations, and fines on employers should be introduced and enforced in cases of violation of the law. The government has strengthened action in this regard, with the establishment of the Migrant Worker Taskforce which will develop strategies across the government to fight the exploitation of vulnerable migrant workers.

In addition, some concerns exist with respect to the labour market outcomes of recent foreign graduates who stay in Australia for work purposes after graduation. In particular those in less-demanded education fields tend to have poorer outcomes than those of Australian graduates with similar qualifications. Further analysis should examine whether this gap persists in the medium-run. If so, it may be necessary to introduce additional requirements for graduates in academic fields where there is an over-supply to ensure higher skills and quality.

The use of post-study work visa for graduates seems satisfactory

Foreign graduates of Australian universities have the right to stay in the country following their studies, and find a job that gives them access to a temporary or permanent visa. Australia's post-study visa programme for graduates (the temporary graduate visa, subclass 485) was introduced in 2013 with the objective to facilitate the transition from school to work for foreign graduates and support the retention of international students in Australia. It replaced the skilled graduate visa which granted this right only to graduates in fields related to occupation on the Skilled Occupations List and was in that sense too restrictive. The post-study work stream of the Australia's job-search visa is the most generous of all job-search visas offered by OECD countries. It offers up to four years to graduates of Australian universities who have at least a Bachelor degree.

It is still fairly early to conduct a thorough evaluation of the effectiveness of the job-search visa given that it was only introduced in 2013 and that it gives up to four years to some visa holders to get a job. Nonetheless, some assessment is possible based on new visa grants by previous visa held by applicants. Former graduate visa holders represent 14% of all new permanent visas issued to principal applicants in 2015/16. However the contribution of the job-search visa varies among different types of permanent visas. Former job-search visa holders represent 23% of both skilled independent and skilled regional permanent visas granted to primary applicants in 2015/16, whereas their contribution is smaller among STN visas, 18% and minimal among employer-sponsored visas (2%).

SkillSelect has increased efficiency and has cut processing times…

SkillSelect was introduced in 2012 as a response to the growing backlog of visa applications and the long waiting times and with the objective to raise the quality of the selected candidates. A secondary objective was to introduce flexibility in the skilled migration programme to adjust to changing economic conditions by changing the skill mix or speeding up the selection process if needed. Under SkillSelect, intending migrants submit an expression of interest (EoI) for a skilled migration visa and a points test is used to rank EoIs for the purpose of issuing invitations to apply (ITAs) for a visa, while the process of issuing ITAs varies between visa categories. SkillSelect can also be used by employers and state/territory governments to nominate potential migrants.

Currently around 5 000-6 000 EOIs are received each month and 3 000-4 000 ITAs typically issued each month mainly for skilled independent and state and territory nominated visa subclasses. The volume of ITAs is defined by the needs identified in the Migration Programme.

SkillSelect has increased the efficiency and has cut the time spent processing points-based visa applications, and performs well in terms of processing times compared with similar systems in Canada and New Zealand. The EoI/ITA design means that the pipeline of visa applications awaiting processing is small and can be controlled in a flexible way to match staff availability. It also helps to screen out applicants who are unlikely to be successful so that far fewer visa applications are rejected. Moreover, candidates who do not receive ITA do not need to be contacted again, which also saves time to DIBP staff. Most importantly, candidates with the best attributes receive ITAs more quickly, which may be important in encouraging high-quality candidates to lodge an application before they receive an alternate offer elsewhere.

…which is important in attracting the best candidates

For skilled independent migrants, SkillSelect's automatic process of issuing invitations selects the best applicants from among the pool of EoIs. Those with the highest points score will receive an invitation more quickly than other applicants. However, these applicants are less likely to lodge an application than those who have lower points and have received an ITA. It is possible that candidates with the highest scores are more likely to have better outside options and receive offers in their home countries or elsewhere while waiting for a response to their application in Australia. If this holds and high qualified applicants decide not to lodge a visa application in Australia soon after receiving the ITA, then this implies that shortening the time it takes to issue the ITA may be important to maximise the probability that they choose to come to Australia.

Applicants points scores are likely to be underestimated

There appears to be little incentive for high-quality applicants to strive for a higher points score, as the overall difference in likelihood of receiving an ITA and processing times by points score is small. A majority of EoIs (and therefore of visa grants) just meet the minimum pass mark of 60 points, although this score may not reflect the true skills of applicants. The effects of rationing of places for accountants from mid-2015 onwards suggest that many applicants with 60 points are underestimating their true points score. As points scores are the key selection mechanism for SkillSelect, the extent to which they reflect the true quality of applicants is important to ensure the best candidates are selected. More explicit advice should be given to intending applicants that having a higher points score will increase their chances of success. In addition, further research on the perceived barriers and costs to proving a higher points score (for example, having to verify work experience) may be warranted.

Occupational diversity has not increased following the introduction of SkillSelect

SkillSelect seems to have had a limited effect on the occupational diversity of the skilled independent migrant intake. An initial increase in occupational diversity has been offset to some extent by substitution between closely-related occupations to get around monthly ceilings on some in-demand occupations. The imposition of binding ceilings for more occupations would increase occupational diversity, but the desirability of such a change would depend on the accuracy of forecasts of future skill needs. The current system of setting most occupational caps at 6% of the employment stock is blunt and not sufficiently transparent.

Summary of the main recommendations for Australia

A. Further improve the selection of candidates and their labour market outcomes

- Identify the barriers Skill Select candidates face in verifying additional points, especially those related to work experience and provide information and incentives to SkillSelect candidates to verify their full points score.
- Introduce stricter conditions and English language requirements for employer-nominated candidates who go through the temporary residence transition stream.
- Raise the additional points for degrees and English language skills of secondary applicants currently attributed to raise the level of the overall intake.

B. Improve the management of temporary labour migration

- Maintain the labour market testing, as a simple and low-cost tool which can be easily adapted to act as a safeguard for domestic labour force in a downturn.
- Ensure there is a clear link between allocation of funds from the new Skilling Australians Fund and the geographic areas and sectors facing limited supply of skills.
- Consider making visa issuance contingent on training provision in sectors where such arrangement seems possible.
- Maintain (or further increase) visa application fees and fees paid by sponsors which help naturally discourage recruitment and select candidates with genuine interest to migrating to Australia, while ensuring that the system is well funded.

C. Promote migration and immigrants' retention in regional areas

- Collect more migration-related information at the regional (states and territories) level and ensure this is taken into consideration in the migration planning at the national level. Such information should also be used to analyse the determinants of interstate mobility and promote retention.
- Consider raising the stay requirement for STN migrants in order to increase retention while discouraging people who would anyway leave from applying.
- Allow for state-specific approaches regarding the selection of skilled immigrants and improve the post-arrival support states provide in order to improve their labour market outcomes.

Summary of the main recommendations for Australia *(cont.)*

D. Promote the integrity of the system and improve compliance

- Closely monitor the trends in WHMs and international students and their conditions of work, hours worked and mitigate the risk of underpayment and under-declaration.
- Organise campaigns to inform immigrants, including WHMs and international students, of their work rights, including precise and clear information to WHMs who have been affected by the recent tax-related changes.

E. Collect detailed data and conduct analysis to inform future reforms on a number of important issues

- Monitor and evaluate the effectiveness of the newly established Skilling Australians Fund in promoting skills development of the domestic labour force.
- Pursue analysis of migrant transitions through different visas and their long-term labour market outcomes by linking various data sources, including administrative data, and link them to selection criteria. Use the rich data available on the characteristics and outcomes of migrants in the skilled migration programme to evaluate the different visas. Test whether the gap in labour market outcomes in favour of employer-sponsored migrants persists in the longer term.

Chapter 1

Context for labour migration to Australia

This chapter presents the context for labour migration in Australia by discussing recent labour market trends and the impact of the mining and construction boom on employment outcomes. Moreover, it discusses skill shortages and the role that migration plays in addressing them. The possible impact of migration on the labour market is discussed. The chapter continues by highlighting the contribution of migration to demographic change and population growth and concludes by summarising the overall impact of immigration in Australia.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

This chapter examines recent developments in the Australian labour market with the objective to identify the role that labour migration is playing in the specific context. Immigration helps address labour shortages in skilled occupations as well as in states and territories where there is unmet demand for specific types of work. The contribution of immigration in Australia's population and demographics is also examined. Finally, the chapter includes a short literature review of the economic impact of immigration in Australia.

Current labour market conditions

The mining and construction boom have mitigated the impact of the crisis

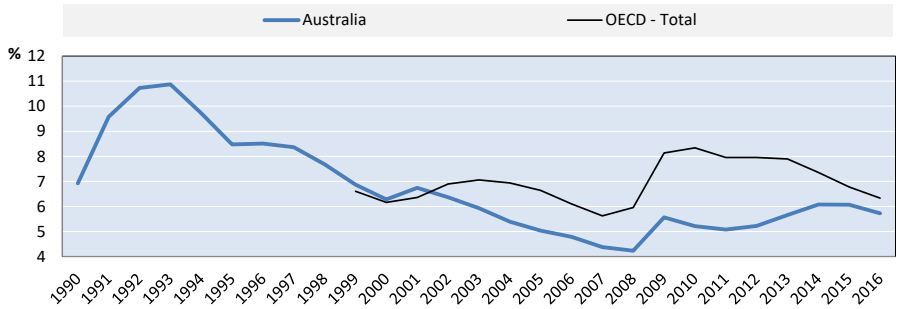
The mining boom started in 2003 with the appreciation of commodities like iron ore and coal that followed the boom in the construction sector. Both contributed to substantially moderate the effect of the global financial crisis which affected most countries in 2007-08. As a result, Australia was only moderately affected by the downturn and records today relatively favourable labour market conditions. The unemployment rate stands at least half a percentage point below the rate observed for the OECD as a whole since 2002 (Figure 1.1). In 2016, the unemployment rate was 5.7%, a decrease from the 6.1% rate recorded in 2015, the worst year of the recent economic crisis. It has not yet returned to its pre-crisis levels but is well below the rates observed in the 1990s when it oscillated between 7% and 11% of the labour force. Among the unemployed, 23.7% have been looking for work for at least 12 months, a share below that observed for the unemployed living in the OECD area as a whole (30.5%).

Nonetheless, some population groups are doing less well in the labour market. Among the population aged 25-64, the workers with low educational levels have 25% lower probability of being in employment than persons with tertiary education. In contrast, the female employment rate at 67.4%, although below that of men (77.5%), is well above the OECD total average (59.4%) and on an upward trend.

Every fourth person in employment works part-time. The incidence of part-time work is higher among female workers (38%) than among male workers (15%) but for both groups, the country ranks third among OECD countries in terms of the incidence of part-time work. Part of it is involuntary. In 2016, 6.6% of male workers were working part-time because they could not find a full-time work, the highest share among all OECD countries. Similarly, in 2016, 11.5% of female workers are involuntarily working part-time, the fourth highest prevalence in the OECD behind Italy, Spain and France.

Figure 1.1. Evolution of harmonised unemployment rates in Australia and in the OECD, 1999-2016

Percentage of the active population aged 15-64



Source: OECD.Stat Main Economic Indicators accessed 5 July 2017.

Youth are having difficulties accessing the labour market

The youth employment rate has not recovered to its pre-crisis level but remains high at 58.4% in 2016. In the OECD, only Iceland, Switzerland and the Netherlands have 15-24 year-olds with higher employment rates than in Australia. In 2015, the share of youth who is not in employment, education or training (NEET) is at 11.8% below the 15.4% OECD total average. Nonetheless, it is still 1.4 percentage points above its 2007 level. Both the inactive and unemployed components of this group at risk have increased between 2007 and 2016. Half of all young people are out of employment, education or training at some point in time, and 16% remain as such for a year or longer.

The Graduate Outcomes Survey-Longitudinal shows that undergraduate full-time employment four months after completing their degree increased to 71% in 2016 from 69% in 2015. This represents the second year of growth but still a low performance compared with 2008, when 85% of undergraduates were in full-time employment four months following graduation. Post-graduates also find it more and more difficult to find work and moreover full-time work, especially if they are post-graduate research graduates: their full-time employment rate fell by 15 percentage points between 2008 and 2015, passing from 88% to 73%. The probability to be in full-time employment after graduation for post-graduate decreased from 90% in 2008 to 83% in 2015.

The end of the mining boom has led to changes in labour market performance of the regions

In 2016, South Australia, Tasmania, and Western Australia record unemployment rates of 6% and above (Figure 1.2). This represents a considerable increase over the last decade for Western Australia (+3 percentage points) and South Australia (+1.6 percentage points), both regions that had benefited from high labour demand during the mining boom. The increase in the unemployment rate has also been particularly high in Queensland (+1.9 percentage points).

Figure 1.2. Unemployment in Australia by states and territories

Number and percentage of the active population aged 15-64



Note: The statistics are for the fourth quarter of the years indicated.

Source: Australian Bureau of Statistics, Labour Force, Australia.

Skills shortages are evident in a small number of occupations…

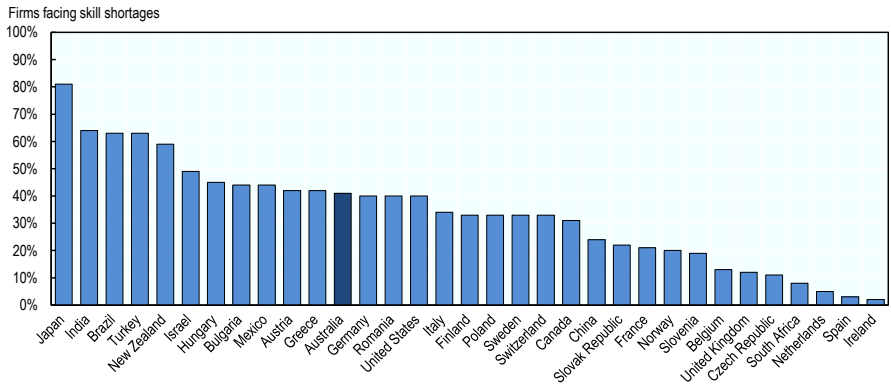
A survey conducted by Manpower suggests that relative to employers in other OECD countries, Australian employers have more difficulties meeting demand for workers with specific skills. Figure 1.3 shows that 41% of employers in Australia report that they have difficulties filling vacancies. This places Australia well above the OECD average (and the overall average of the 42 countries covered by the Manpower Survey, 38%) and among the top ten OECD countries possibly facing labour shortages.

Skill shortages and recruitment difficulties (difficulties in attracting and recruiting workers even if there is adequate supply but due to reasons such as specific skills or experience) exist at the national level and within states and territories. During the period 1986-2015, national skill shortages have ranged from as little as four occupations to up to 102 in one single year (DoE, 2016a). Within states and territories, there can be shortages between metropolitan areas (capitals of states and territories) and regional areas

(non-metropolitan). In 2015, across the four major categories of occupations (manager, professionals, technician and trades and community and personal service workers), there were 11 occupations (e.g. audiologist, automotive electrician, roof tiler, hairdresser) nationally rated as skill shortage occupations and two occupations (construction estimator and pastry cook) facing recruitment difficulties.

Figure 1.3. Firms facing skill shortages in selected countries

As a percentage of all firms with ten or more employees



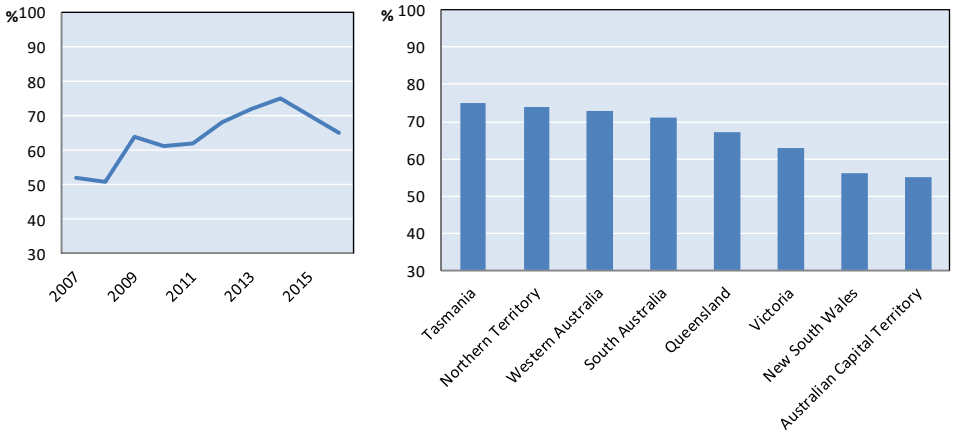
Note. Firms are classified as facing a skill shortage if they report having difficulties filling jobs.

Source: Manpower Talent Shortage Survey (2014).

According to Australia's official evaluation (DoE, 2016a), skill shortages were rather limited in 2016 and usually, there were more than enough suitable applicants for vacancies in most skilled occupations. At the same time, according to the Survey of Employers who have Recently Advertised, the proportion of vacancies filled decreased for the second consecutive year in 2016 (Figure 1.4, Panel A). In the period 2006-16, employment growth was higher for professionals (+37%) than for technicians and trade workers (+7%). Over the decade 2005-15, the increase of 24% in student enrolment in the higher education system might have led to some surplus labour capacity at the new graduate level. In 2016, most skilled occupations have enough suitable applicants. Only three professions are in shortage according to the Department of Employment: audiologist, optometrist and sonographer. This is a lower number than at any time over the past decade. While technicians and trade workers experienced modest employment growth, levels of training for these occupations were also lower so that 23 of them are classified in national shortage in 2016.

Figure 1.4. A significant number of vacancies remain unfilled in 2016

A. Proportion of vacancies filled, 2006-16 B. Proportion of vacancies filled by location, 2016



Source: Department of Employment (2016), "The Skilled Labour Market: A Pictorial Overview of Trends and Shortages".

There are marked recruitment differences across states and territories and between metropolitan and regional areas. In 2013-14, the proportion of vacancies filled in metropolitan areas was 75% compared to 70% in regional areas. Eastern states are the most affected by difficulties in filling job vacancies while Western Australia seems to experience surplus skilled labour (Figure 1.4, Panel B). In 2015, there were 12 occupations in shortage across the State of New South Wales with another 5 and 2 specific to metropolitan and regional areas. The entire State of Victoria had 14 occupations facing shortage and another 3 and 5 in metropolitan and regional areas. On the other hand, Queensland had state-wide skill shortages in 11 occupations and 7 in regional areas. To further illustrate the diverse situations of various states, Sonographers are listed as being in skill shortage in all three states but not nationally. Air-condition mechanics are in shortage sate-wide in Queensland and NSW but only in metropolitan areas in Victoria. Regional employers continue to attract fewer applicants and fill a lower proportion of vacancies than metropolitan employers, though the recruitment gap is closing.

The changing structure of Australia's economy, namely the decline of the mining sector and the growth in demand for services, is associated with these differences between regions in the unmet demand for skilled labour or the existence of skilled labour surpluses.

The concept of focusing planning efforts on specialised occupations was first raised in the Australian workforce futures strategy (Skills Australia, 2010) which defined a "specialised occupation as one where specialised skills, learned in formal education and training, are needed at entry level and the impact of market failure is potentially significant". As the labour market is less able to adjust quickly, there are certain occupational areas where the risk of shortages, or indeed oversupply, needs to be better identified and addressed. The overarching aim was to reduce mismatches between the supply of skills and labour demand and raise the capacity of the country to respond quickly to skill shortages. A discussion of the way specialised and in-demand occupations are identified and how foreign labour is selected to address such needs is presented in Chapters 2 and 3 of this review.

Future skill shortages are possible but less so among professionals

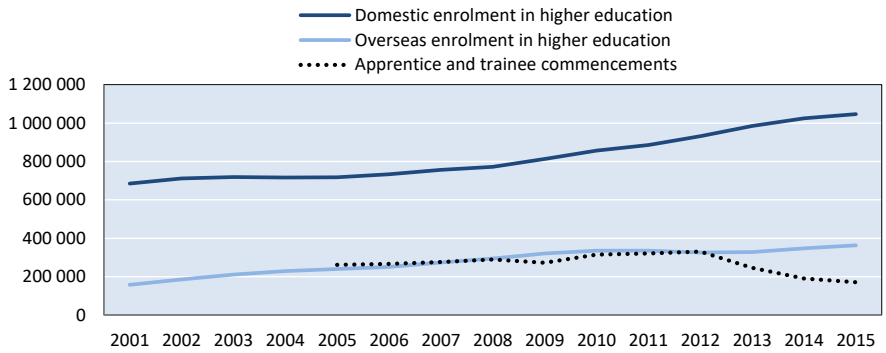
The 2015 Intergenerational Report (Commonwealth of Australia, 2015) estimates that Australia's working-age population will grow at 1.3% per year, and it would reach 23.8 million in 2054-55, up from 15.8 million in 2014-15. Economic projections in the same report plan on a 1.5% annual increase in the real GDP growth per person over the next 40 years, the same pace as the one observed over the last 40 years. This growth will rely primarily on increasing productivity, more than on other components like the evolution of the participation rates in the labour market or the evolution of the age composition of the population. The government would need to monitor skill needs to allow for these productivity improvements to occur.

In its *Employment Projections to November 2020*, the Department of Employment (DoE, 2016b) plans for a total employment growth of 8.8% within five years, with strong employment growth among professionals (+14.5% or close to 400 000 workers) and a lower employment growth for technicians and trade workers (+5.5% or close to 100 000 workers). For the latter category, there are immediate high needs for construction workers in the dynamic residential building sector in the eastern states. In a longer-term perspective, the demand for long-term care workers is expected to increase rapidly: as a share of the working population it is set to increase by 140% by 2050 (OECD/European Commission, 2013).

Despite considerable growth in needs for skilled labour, significant shortage in professional occupations are unlikely to re-emerge in the short-term as the higher education system supplies qualified workers in sufficient numbers. Figure 1.5 shows that over the period 2001-15, enrolment in higher education by domestic students grew by 53% and enrolment by overseas students grew by 131%. The high current level of enrolment will lead to a high number of qualified workers entering the labour market in the coming years. As for technicians and trades workers, if their employment

growth prospects are lower, some specific sectors traditionally employing them are likely to have difficulties to fill vacancies; this is due to the continued weakness in new supply through the apprenticeship and traineeship system in which new enrolments have nearly halved between 2012 and 2016, and sometimes because of low pay and difficult working conditions offered (DoE, 2016a). Overall skill provision is reinforced by vocational on-campus and online training.

Figure 1.5. Enrolment in higher education by student origin and apprentice and trainee commencements, 2001-15



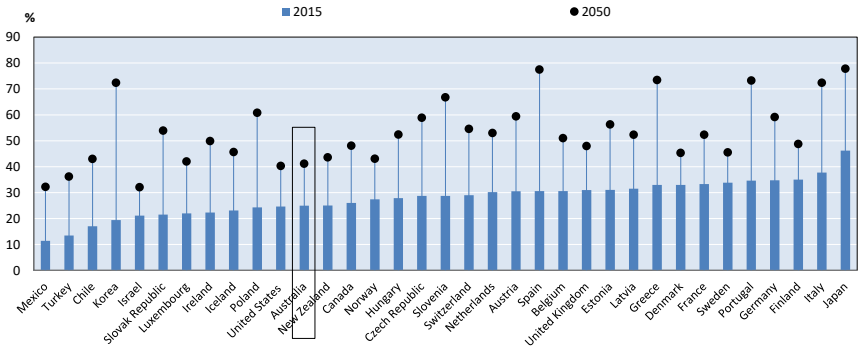
Source: Department of Education and Training, Higher Education Data Cube and Apprentices and Trainees Data Cube.

Migration in the context of population ageing

Australians have one of the longest life expectancies in the world. The number of Australians aged 65 and over is projected to more than double by 2050 compared to 2015. The number of individuals aged 65 and over per 100 people of working age (20-64) is expected to climb from 25% in 2015 to almost 41% in 2050, although it will still be well below that in many OECD countries (Figure 1.6). Total fertility rate of 1.9 births per woman is below the replacement level, below that of New Zealand and the United States but still well above that in many European countries.

Demographic pressure and the need to address skill needs to ensure economic growth are articulated through the intergenerational report[1] that is produced once every five years since 2002. The report typically analyses the three long-run drivers of economic growth – population, workforce participation and productivity. During the 1990s, Australia's productivity growth was especially high, with an estimated average of 2.2% growth per year. However, it is expected to decline to an average of 1.5% over the next 40 years.

Figure 1.6. Share of persons 65 and over per 100 people of working age (20-64) in OECD countries, 2015 and 2050



Note: The projections for old-age dependency ratios used here are based on the most recent "medium-variant" population projections.

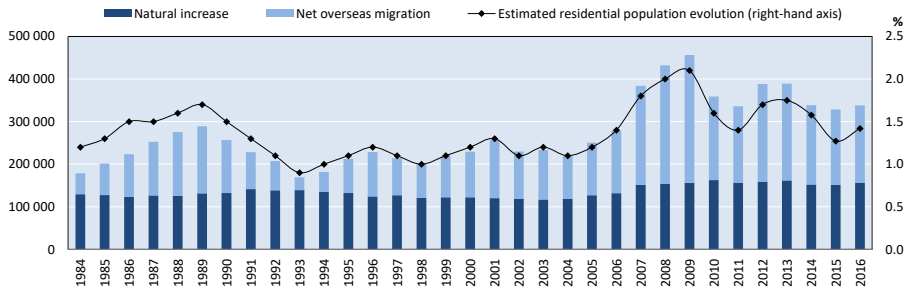
Source: UNPD database, World Population Prospects, 2015 Revision.

Among the factors explaining the slower economic growth expected in the next 40 years are the lower projected population growth and declining participation rates. By 2055, the participation rate for Australians aged 15 years and over is projected to fall to 62.4%, compared with 64.6% in 2014-15 and this despite the fact that female participation and that of older workers is expected to rise considerably by 2055. The Australian Government has adopted an aspirational goal of 69% labour force participation by 2025 to meet the projected demand for labour drawing on both the native population and migrants.

Net overseas migration is a main driver of population growth

Net overseas migration (NOM)[2] is the net gain or loss of population through immigration to Australia and emigration from Australia. NOM is comprised of permanent migration (including skilled and family) and temporary migration (including temporary skilled and students) besides a smaller category including mainly Australian and New Zealand citizens. NOM has a significant impact on population projections and consequently participation.[3] The central assumption of the intergenerational report is that the endogenous need for NOM will be 215 000 people a year beyond the current forward estimates, which is based on current permanent migration intake settings. Over the last three decades, the contribution (in percentage terms) of natural increase and NOM to population change has been cyclical but the magnitude of NOM changes have been more pronounced. Between 1991 and 2005, population increase was negative (year on year change) but has remained annually positive since then before dropping from a peak of 2.1% in 2009.

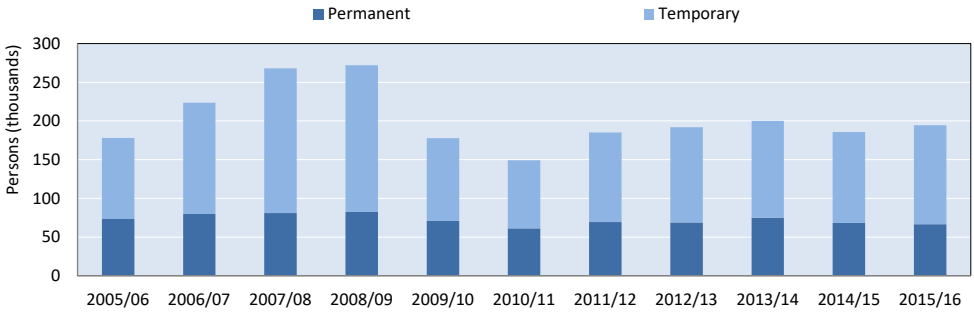
Figure 1.7. Components of population growth, percentage increase on previous year, 1984-2016



Source: ABS Demographic Statistics (3101.0), June 2014.

Over the past three decades, NOM has accounted for 51% of the population increase. Temporary migration, including visitors, has contributed more than one quarter of the total contribution of NOM to population. As seen in Figure 1.8, the share of temporary migration in net migration has been increasing and reached a peak in 2009 before slowing down due to the financial crisis. Yet temporary migration has averaged 57% of total net migration since 2005. The increasing importance of temporary migration within Australia's overall migrant intake may suggest that the Australian Government may have a lower ability to adjust population levels and population growth in the medium to longer term through the migration programme and NOM than it was the case when the majority of migration flows were of a permanent nature (Migration Council Australia, 2015).

Figure 1.8. Net overseas migration: Permanent and temporary migration shares



Note: Of the three components of NOM – temporary, permanent and other – the third is not shown here.

Source: ABS (June 2016) and DIBP (unpublished).

The contribution of immigration to Australia

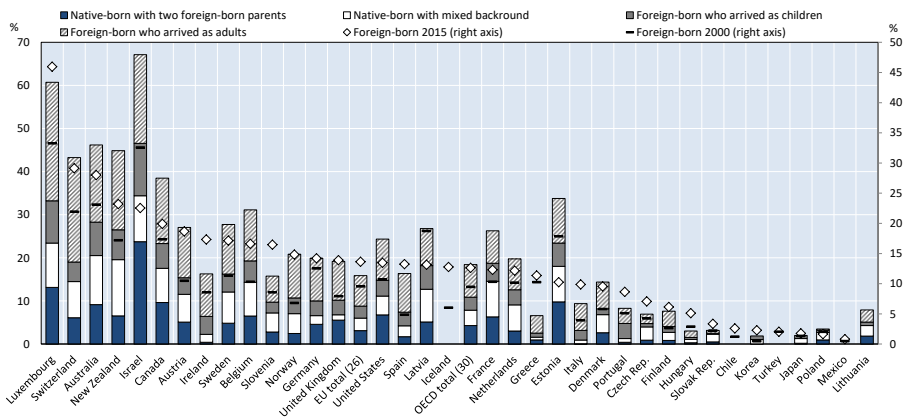
Australia is a country settled by immigration and migration has been and continues to be an important component of Australia's population, economy and social life. According to a recent study by the Migration Council (Migration Council of Australia, 2015), migration will be contributing AUD 1 625 billion to Australia's GDP. Moreover, migration will have added 15.7% to Australia's workforce participation rate 21.9% to after tax real wages for low skilled workers and 5.9% in GDP per capita growth. Overall, by 2050, each individual migrant will on average be contributing approximately 10% more to Australia's economy than existing residents.

Migrants represent an important share of Australia's population and are contributing to its labour market

About 28% of Australia's population was foreign-born in 2015, up from 23% in 2000. This places Australia just third among OECD countries, behind Luxembourg and very close to Switzerland (Figure 1.9). When the children of immigrants are also taken into account, persons with a migration background (those who have at least one foreign-born parent or are foreign-born themselves) represent 46% of Australia's population. Only two OECD countries have a higher share of their population with a migration background: Israel (67%) and Luxembourg (61%), while New Zealand and Switzerland rank just behind Australia (45% and 43% respectively).

Figure 1.9. Proportion of foreign-born persons and their children in OECD countries, 2015

Percentage of the total population



Note: The data on the shares of the population by place of birth or place of birth of the parents are for the year 2013.

Source: OECD/European Union (2015) and OECD (2017).

The majority of migrants in Australia settle in the big cities of Sydney, Melbourne, Brisbane, Perth, Adelaide and Canberra. The share of migrants living in big cities increased from 62% in 1947 to 83% in 2006, outpacing the move towards big urban centres among natives (Hugo, 2011). Urban areas (both small and large ones) hosted 94% of all migrants in 2006, versus 86% for native-born persons. Foreign-born persons represent 33% of the population in New South Wales and Victoria, and 32% of the population of the Australian Capital Territory (Figure 1.10). But the highest share of migrants in the population is found in Perth and more generally the State of Western Australia (38%). Migration to some regions seems to be a more recent phenomenon. Migrants who arrived in Australia in the past five years, represent more than a quarter of all migrants in the Northern Territory and 23% in the Australian Capital territory, but only 17% in South Australia.

Figure 1.10. Adult population distribution between states and territories and share of foreign-born, 2016



Note: Data refer to the population age 15 and above.

Source: Australian Bureau of Statistics, Australian population census, 2016; Labour Force Survey, 2016.

Migrants in Australia have overall a very high level of education and tend to be more highly educated than the native-born population. The share of persons with higher education among migrants is well above that among the native-born. Close to half of all migrants in Australia (47%) had completed tertiary education in 2013, versus 29% for the native-born (Figure 1.11). Moreover, the gap in higher educational attainment between migrants and natives increased between 2006 and 2013, mainly reflecting a faster rising education level of migrants relative to natives (9 versus

3 percentage points increase for the two groups respectively over the same period). Australia ranks fifth among OECD countries when it comes to the share of migrants with tertiary education, behind Canada, Israel, Ireland and Luxembourg and well above the OECD average of 34%.

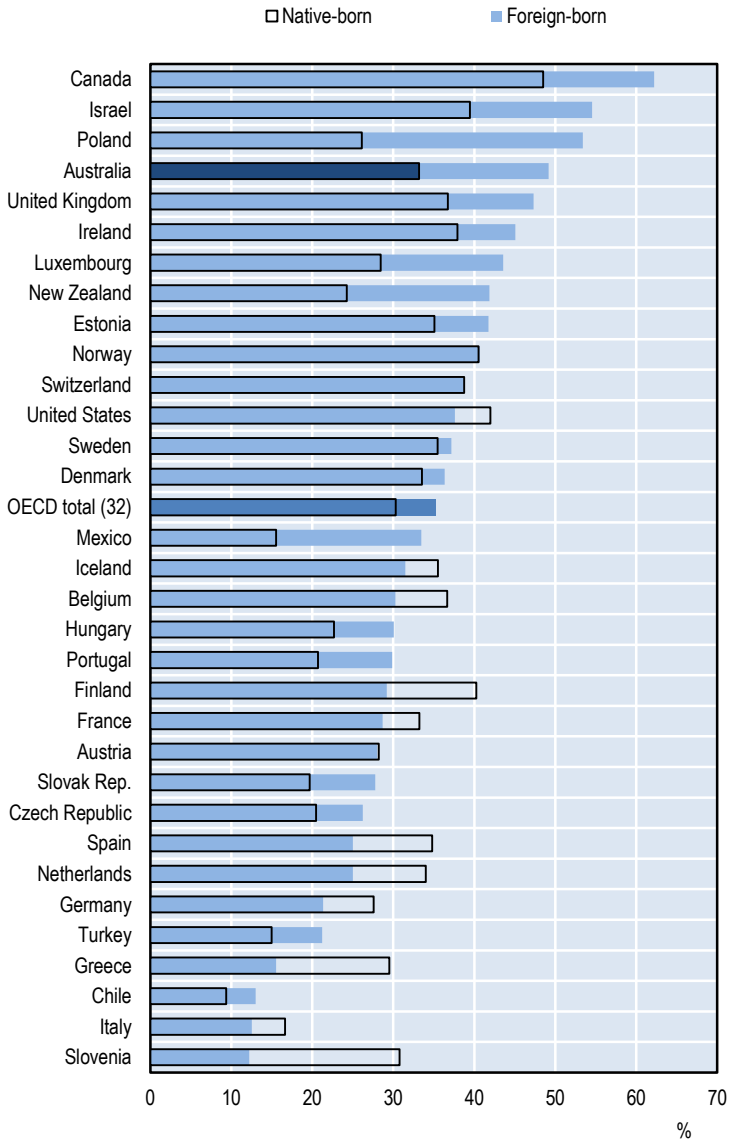
Permanent labour migrants (those in the skill stream, see Chapter 2 for a description) tend to be more highly educated than permanent family migrants. More than half (54%) of permanent labour migrants in 2011 had at least a bachelor degree, versus 35% for family migrants (ABS, 2013a). Sharp differences also exist between primary and secondary applicants. Within the permanent skill stream, the share of persons with at least a bachelor degree reached 68% for primary applicants, versus 37% for secondary applicants. Points-tested migrants also tend to have higher levels of educational attainment than employer-sponsored and business innovation and investment migrants (Productivity Commission, 2016).

Migrants are fairly well integrated in Australia's labour market. Their employment rate stands at 70% in 2016, just 3 percentage points lower than that of the native-born (Figure 1.12). This is well above the average employment rate of migrants across OECD countries. However, differences exist between migrant groups. In general, female migrants, secondary applicants, migrants in the family stream and those from non-English speaking countries tend to have lower employment and higher unemployment rates than other groups of migrants (Productivity Commission, 2016).

It is well established that the reason for migration (work, study, family or humanitarian) is a strong determinant of migrants' labour market integration in the host country (OECD/European Union, 2014). The same holds for their level of educational attainment and most importantly the country where education has been completed. Migrants' proficiency in host-country language is also an important explanatory factor of their labour market outcomes.

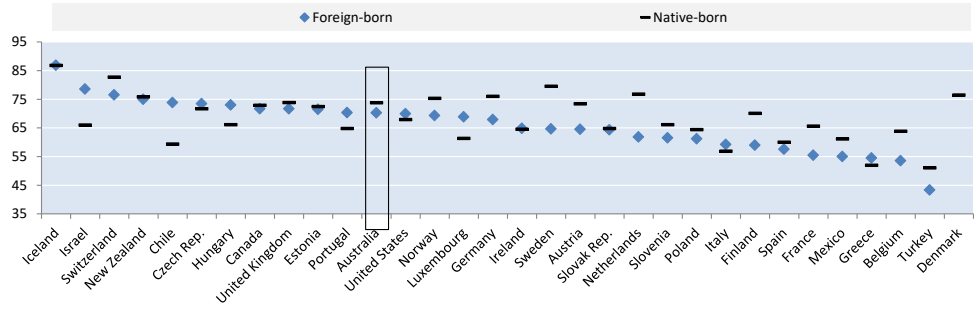
Labour market outcomes of immigrants tend to improve with length of time in Australia. Evidence from the 2016 Characteristics of Recent Migrants Survey (CORM) shows that in November 2016, 65% of the 1.7 million recent migrants and temporary residents had a job. Migrants who had been in Australia for a longer time and had obtained Australian citizenship had a higher employment rate, of 77%. In contrast, the employment rate of temporary residents was 59%.

Figure 1.11. Share highly educated among native and foreign-born 15-64 year-olds who are not in education, 2015



Source: European countries and Turkey: Labour Force Surveys (Eurostat); Australia, Canada, Israel, New Zealand: Labour Force surveys; Chile: Encuesta de Caracterización Socioeconómica Nacional (CASEN); Mexico: Encuesta Nacional de Ocupación y Empleo (ENOE); United States: Current Population Surveys.

Figure 1.12. Employment rate by place of birth, 2016



Note: The population refers to the working-age population (15-64). The data for Canada and Turkey refer to 2008 instead of 2007. The data for European countries and Turkey refer to the first three quarters only, except for Norway, Portugal and Spain where it refers to the full year. Countries are ranked by increasing order of the 2016 values of the foreign-born employment.

Source: European countries and Turkey: Labour Force Surveys (Eurostat); Australia, Canada, Israel and New Zealand: Labour Force Surveys; Chile: Encuesta de Caracterización Socioeconómica Nacional (CASEN); United States: Current Population Surveys; Mexico: Encuesta Nacional de Ocupación y Empleo (ENOE).

One of the reasons explaining why migrants tend to have lower labour market outcomes, especially wages, than native-born persons is the fact that their qualifications and experience are discounted in the Australian labour market. Chiswick and Miller (2010) use 2001 US census data to examine the determinants of male migrant earnings and employment. They find that migrants from non-English-speaking countries have lower returns to education than native-born persons and migrants from English speaking countries, mainly because of lower language proficiency.

Cai and Liu (2012) examine wages and the returns to different characteristics for different migrant groups and natives. They examine wages along the entire wage distribution not just at the means. They show that migrants from English-speaking countries have on average higher wages than the native-born, but migrants from other countries fare less well than the Australian born. This wage gap is mainly due to lower returns to education and experience. Breuning et al. (2013) confirm this result using panel data to control for unobserved differences or heterogeneity between migrants and non-migrants. Contrary to other studies, they find a wage gap at the time of entry for male migrants from English speaking backgrounds compared to native-born Australians. However, wages converge over time. The authors also find that recent cohorts experience lower wage gaps with natives, reflecting Australia's migration policies selecting mainly skilled

migrants and other factors such as more work-ready migrants among recent cohorts.

Using data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey, Islam and Parasnis (2014) show that migrants in Australia have a higher average wage than natives, which reflects their more favourable labour market characteristics. Their analysis underlines the importance of education in determining wage differences between migrants and natives. Regardless of their occupation and education level, migrants however receive lower returns to their education with the exception of blue-collar workers at the top of the wage distribution.

A recent study by To et al. (2017) shows male migrants from OECD and English-speaking countries earn a higher hourly wage than male native-born Australians and female migrants from these countries earn a similar wage as female native-born Australians. Migrants from non-OECD and non-English speaking countries earn a similar wage compared to native born Australians, but controlling for their education level reverses this result and these migrants have lower earnings than native-born workers. This wage gap tends to decline with time spent in Australia.

Immigration does not seem to hurt natives' and existing residents' labour market outcomes

The impact of immigration on the labour market outcomes of natives and other residents has been the subject of a long-standing debate among economists across the world. Evidence from a number of countries seems to suggest that average effects tend to be small (either positive or negative) and usually close to zero or non-statistically significant. The possible effects of immigration depend on the characteristics of the migrant intake, the actual size of immigration, its geographic concentration, the prevailing economic conditions and the complementarities or substitutability between the work (and characteristics) of natives and migrants. The type of methodology used to estimate the effects is also important as well as the extent to which externalities are accounted for.

Estimating the impact of immigration on wages and employment of natives and existing migrants is difficult in practice. There are methodological constraints such as the difficulty in fully capturing the nature of heterogeneous migrant flows and in accounting for the endogenous selection of immigration into specific geographic zones. In addition to these elements, it is important accounting for possible out-migration of natives or other migrant groups following the influx of new immigrants in a specific location. Moreover, the extent of any displacement effects depends on prevailing economic conditions. For instance, a large influx of immigrants

during economic recession is more likely to have some displacement effect than that during better economic times.

Researchers have focused on the impact of immigration on Australians and permanent residents' wages and employment, trying to establish whether migrants are substitutes or complements to existing residents. Several studies on Australia since the early 1990s have consistently pointed out to the absence of adverse impacts of migrants on employment or earnings either in aggregate or on native workers. The results appear to hold true both in the long- and short-term and across a range of data sources and model specifications (Pope and Withers, 1993; Addison and Worswick, 2002). The earlier studies involving limited assumptions of local labour markets such as the study by Adison and Worswick were improved in more recent analyses which use skill levels instead and look at the national market.

Parasnis et al. (2006) finds that an immigrant flow or positive supply shock that increases the number of workers in a defined skill group by 10%, increases the hours worked by more than 1% and weekly income by 3%-4%. In a similar vein, Islam and Fausten (2008) finds that migrant workers are complements to native workers but this is likely more true for unskilled than skilled workers. Using the production theory framework, Parasnis (2010) finds that capital and native labour are substitutes while capital and migrant labour are complements in production.

Using a national labour markets approach, Bond and Gatson (2011) find that an immigrant inflow that increases the number of workers in a particular skill group by 1% increases the weekly earnings of natives in that same skill group by about 0.4%. This positive wage elasticity is higher if only migrants who completed recently their education or qualifications overseas.

This finding is also supported by simulation studies by Docquier, Ozden and Peri (2010). They find an average impact of immigration on wages between 1990 and 2000 in Australia of 1.7% or 0.17% per year. The effects however differ, whether one considers low and highly skilled natives and residents. The impact on high-skilled wages for the period was –1.1% while for low–skilled wages the result was + 4.5%. However, when emigration is taken into account and the effect of net migration was considered, the corresponding average effects were 1.5%, -0.8% and 3.9%. The effect of net migration is clearly positive for Australia.

A key limitation of many of the studies estimating the effects of immigration is that they cannot separate the relative impact of various migrant streams – labour, family and humanitarian. Furthermore, even within labour migration it is not clear how to separate out the impact of permanent versus temporary labour migrants especially given the sizeable

growth in the numbers of the latter over the last decade. Few studies in Australia or elsewhere have attempted to analyse such impact by reason for migration and particularly relating to temporary workers, a category that can encompass temporary skilled and unskilled workers, seasonal workers, working holiday makers as well as international students with labour market access. In the Australian context, only Tan and Lester (2012) looked at the labour market impacts of international working holiday programmes using survey data while McLeod and Maré (2013) analysed the impact of all temporary migration programmes in New Zealand on a number of native groups including youth and beneficiaries.

More recent research was undertaken in the context of the Productivity Commission 2016 report (Productivity Commission, 2016) by Breunig et al. (2016) and confirms previous findings, by showing that at the aggregate level, recent immigrants had a negligible impact on wages, employment and participation of the existing labour force.

Although effects – if any – seem to be small on average, this does not exclude that some population groups may have experienced more sizeable effects than others. Concerns have been expressed in Australia about the possible impact of immigration on the labour market prospects of youth. According to the Productivity Commission (2016) report, the share of international students, working holiday makers and migrants on temporary graduate visas categories out of Australia's youth labour force increased from 14% in 2004/05 to 27% in 2013/14. These groups together with young permanent migrants (aged 15-24) represented more than 13% of total youth employment (15-24) in 2015.

However, the precise impact on young labour market entrants of temporary migration with working rights has not yet been thoroughly investigated and the existing evidence has been rather inconclusive.

The overall economic impact of immigration in Australia tends to be positive…

The contribution of immigration to Australia's economy has been well established but estimates of its size vary greatly across the different models used. Earlier attempts to model the economic impact of Australia's migration policies (APC, 2006) found an overall positive but small economic effect of migration, consistent with previous Australian and overseas studies. Most of the economic benefits associated with an increase in skilled migration accrue to the immigrants themselves and to the owners of capital. This study further found that migrants are not very different in relevant respects from the Australian-born population and, over time, the differences become smaller and that positive effects from additional skilled

migrants arise from higher participation rates, slightly higher hours worked per worker and the up-skilling of the workforce. An increase of skilled immigration by 50% (an additional 39 000 skilled immigrants each year over the period 2004/05 to 2024/25) could lead to an extra 3.3% population growth, 4.6% real GDP growth GNP per capita growth by 0.71%. This effect would mainly operate through increased labour force participation and a more highly educated labour force.

A recent report (Migration Council of Australia, 2015) analyses the economic impact of immigration on the basis of its effects on population growth, skills supply, labour force participation and productivity. The report goes beyond previous comparable studies to allow for economies of scale in infrastructure, take into account fixed natural resources and semi-endogenous growth from education and research and development. It uses two migration scenarios until 2050: the first one assumes continuation of the current migration trends, whereas the second one assumes zero migration. In the absence of migration, Australia's population in 2050 would be 24 million, whereas it would be 38 million if the migration programme would continue as it is today. In addition, migration would add 15.7% to Australia's labour force participation rate and 6% to GDP per capita growth. The most recent projections (Productivity Commission, 2016) suggest that by 2060, if NOM continues at the long-term average rate and with a similar migrant composition (young age structure and skilled profiles), real GDP per capita would be about 7% higher than under a zero NOM scenario.

…and the same holds for the fiscal impact

Whether immigrants are net contributors to or a net drain on public finances is a topical issue in many migrant receiving countries. Depending on the assumptions made and the methodology used, estimates of the fiscal impact of immigration vary, although in most countries it tends to be small in terms of GDP and is around zero on average across countries (OECD, 2013). Given that Australia is a traditional settlement country with 27.6% of the population born abroad, this is an important question though it does not dominate public discourse to the extent it does in some other OECD countries.

The DIBP has worked with Access Economics over many years to develop the Migrants' Fiscal Impact Model to inform the Commonwealth government budget, both in terms of revenues and outlays (OECD, 2013).[4] The Australian Treasury uses a similar simplified model to forecast the revenue impact of migrants on the Budget. The model has a 20 year horizon but for the rolling budget planning purposes (or the forward estimates), it is estimated for the next four years with a no policy change scenario (Cully, 2011). It also happens that the most reliable data are for the first four years after settlement in Australia

after which migrants are largely assumed to converge to Australian averages for labour market and other outcomes (DIAC, 2011).

The Australian Productivity Commission (2006) synthesis made an overall assessment that, on average, employed migrants earn more than non-migrant Australians, suggesting that immigration adds more to tax revenues than it adds to public expenditures. The DIBP's model highlights the importance of duration of residence, as immigrants' outcomes tend to converge with those of the native-born over time.

Table 1.1. Estimated net fiscal impact on Australian Budget, by visa category, 2010-11

Entry category	Visa grants in 2010-11	Net fiscal impact (AUD million)				
		Period of settlement in Australia (years)				
		1	2	3	10	20
Family	54 543	212	60	43	201	146
Labour (including accompanying family)	113 725	747	839	915	1033	1154
Humanitarian	13 799	-247	-69	-62	-12	48
Total permanent	**182 067**	**712**	**829**	**896**	**1221**	**1349**
Temporary labour (business long stay)	**90 120**	**889**	**955**	**383**	**441**	**586**

Source: Adapted from Cully (2011).

Despite the heterogeneity of migrant populations and vast differences in tax and benefit systems, the OECD used a common analytical framework to look at broad similarities and dissimilarities in comparing immigrants tax and social security contributions versus use of government services and receipt of social transfers (OECD, 2013). This framework used a different approach in that it uses a static accounting approach and not long-term fiscal implications and is based on past cohorts rather than recent arrivals. The data comes from household labour force surveys as well as data on the surveyed persons' country of birth. The modelling results of net fiscal impact in Australia is positive for immigrants only, native only and mixed households as in many other OECD countries but immigrant only households have relatively less net impact than the two other types of households.

Notes

1. Successive intergenerational reports have been important in focusing public attention on some of Australia's longer term challenges and spurring some significant policy adjustments even as other long-term challenges have developed. This report is viewed as a social compact or agreement between the generations – children, grandchildren, parents, grandparents and each other (Commonwealth of Australia, 2015).
2. NOM is categorised by the visa attached to the movement that "triggered" the NOM arrival or departure. For the purposes of NOM, a long-term arrival/departure is currently counted as in/out for at least 12 months (cumulative) within a 16 month window and referred to as the 12/16 month rule (ABS, 2013b).
3. The compilation of NOM is a joint exercise between the Australian Bureau of Statistics (ABS) and the department, with the ABS responsible for calculating preliminary and final NOM estimates and DIBP responsible for NOM forecasts.
4. The model allows for a detailed analysis of the effect of *new* arrivals on the Australian Government Budget with separate analyses for the main visa categories for permanent migration, and the main temporary labour migration visa. The fiscal impact is modelled over a 20-year period and accounts for return migration. The model only examines immigrants themselves and not any children born after arrival in Australia.

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Chapter 2

Evolution and characteristics of labour migration to Australia

This chapter presents a detailed picture of labour migration to Australia in recent years. It starts with a summary of the evolution of labour migration policy and its objectives and continues with a detailed presentation of the different categories of permanent and temporary labour migration, as well as the specific conditions and process applicants have to follow in order to be granted a permanent or temporary visa. Moreover, the chapter discusses recent trends for the different categories of permanent migrants and highlights the shift from a supply-driven system to rising demand-driven labour migration in recent years.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

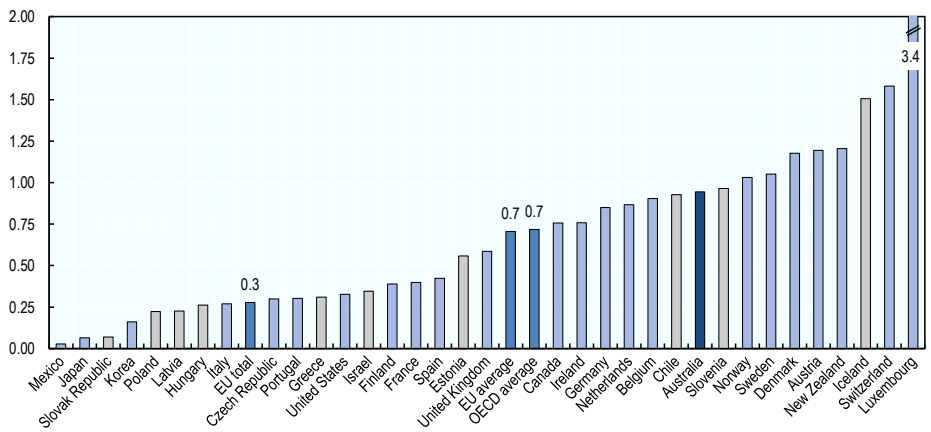
Overview of migration policy

Australia manages its annual intake of permanent migrants through the Migration Programme which comprises the economic, family and special eligibility streams.[1]. These streams encompass broad visa categories and the corresponding specific visa subclasses. The Migration Programme has been designed to meet Australia's economic and social needs, by addressing Australia's immediate and future skill shortages. The 2015/16 Migration Programme consisted of 189 770 places, within the planning level of 190 000, which was retained for the following two years. More than two-thirds (128 550) of these places were reserved for the skill stream, which includes labour migration, as this is defined in OECD countries. An additional 57 400 places were attributed to the family stream and the remaining were allocated to the – small in size – special eligibility stream.

The 2016/17 Migration Programme planning remained unchanged relative to the previous five years, at 190 000 places with the same composition in terms of streams and visa categories. Permanent migration flows represented 0.9% of the total population of the country, placing Australia above the OECD average of 0.7% and above other immigration countries such as Canada, Germany and Netherlands, but below New Zealand (Figure 2.1).

Figure 2.1. Permanent migration flows to OECD countries, 2015

Percentage of the total population



Note: Data for countries in grey are not standardised. EU average is the average of EU countries presented in the chart. EU total represents the entries of third-country nationals into EU countries for which standardised data are available, as a percentage of their total population.

Source: *OECD International Migration Database*.

In addition to permanent migration, Australia has a large intake of temporary migrants who are also contributing to specific occupations and sectors and help address skill needs. This chapter provides an overview of permanent and temporary migration schemes, discusses their specific policy goals and objectives and highlights the broad trends in the past decade. Two categories of temporary migration which are officially designated as non-economic ones but in practice have work rights, working holiday makers (WHM) and international students are examined in detail in Chapter 6 of this review. New Zealand citizens, who enjoy free movement to Australia, also contribute to immigration but are not counted under Australia's permanent migration programme. As their movement is not subject to Australia's migration policy, they are not covered in this review but a short description of the Trans-tasman agreement is provided in Box 2.1.

Australia's migration policy has two main objectives: first, to protect the country's sovereignty, security and safety by managing its border and second to support a prosperous and inclusive society, and advance Australia's economic interests through the effective management of the visa and citizenship programmes and provision of refugee and humanitarian assistance (DIBP, 2014b). The individual programmes (permanent and temporary ones) have their own objectives which fit under these broader overarching migration policy objectives. The skill stream for instance aims at attracting high quality migrants whose skills make a direct contribution to Australia's economic well-being.

The net result of Australia's migration policies together with population growth saw the doubling of Australian population between 1945 and 2014 with the arrival of about 8.5 million permanent migrants and refugees. Reflecting these flows over time, Australia is also today one of the OECD countries with the highest proportion of persons born overseas as already shown in Chapter 1.

Box 2.1. Trans-tasman agreement and New Zealand citizens

Free movement of citizens and residents between Australia and New Zealand has been the norm since the early part of the twentieth century. This was formalised through the 1973 Trans-tasman travel arrangement. However, a law change in September 1994 introduced the requirement for New Zealand citizens to obtain a visa to enter Australia. The Special Category visa SCV (subclass 444), a temporary visa that lets New Zealand citizens stay and work in Australia as long as they remain a New Zealand citizen, was introduced. On presentation of a New Zealand passport and passenger card at the border, a SCV is issued subject to health and character checks.

A new social security arrangement in 2001 between the two countries saw the specification of new conditions for payment of age pension, disability support pension and care payment to New Zealand citizens in Australia. New Zealand citizens arriving after 2001 are no longer

treated as permanent residents of Australia and hence are not eligible for a range of social security provisions (including income support). To gain access to these benefits, they must apply for and be granted an Australian permanent visa. Within the bilateral agreement, New Zealanders qualify for enrolment in the Medicare programme and can study in educational institutions paying the same domestic fee rate as Australians, but are not eligible for student loans or for work in the government. This has created a migrant population in Australia with limited rights and entitlements in comparison with those granted to Australians and permanent residents and no clear pathway to Australian citizenship (Smith, 2014). The changes announced in February 2016 are meant to address these concerns by determining a pathway for permanent residence and eventual citizenship (implemented from July 2017) to New Zealand citizens who had arrived after 2001 under certain conditions. They should have AUD 53 000 over five consecutive years between 2001 and 2016. It is estimated that up to 100 000 of the 305 000 New Zealand citizens who arrived to live in Australia since 2001 could meet the criteria and get a new pathway to citizenship.[1]

The number of New Zealand citizens moving to Australia is responsive to economic conditions in Australia (Department of Labour, 2012). As of September 30, 2015, there were a total of 661 550 New Zealand citizens (SCV holders) present in Australia.[2] Trans-Tasman departures were lower in 2010 than in the 1970s, if New Zealand's population size is considered. Return of New Zealanders from Australia is also considerable. About four workers returned to New Zealand for every ten going to Australia.

Generally, New Zealand citizens have a high labour-force participation rate (78.2% in July 2012) compared with those born in Australia (68%) and an unemployment rate just below that of persons born in Australia (4.8% versus 4.9%).[3]

Until June 2017, New Zealanders were not counted under Australia's permanent migration programme but the comparative figures for 2013/14 reveal 27 274 New Zealand citizens entered Australia as permanent settlers under the Trans-Tasman Travel Arrangement. The proportion of New Zealanders who cite work as a primary reason for entry into Australia is almost half – somewhat similar to proportions of work-related free movement within the European Union (OECD, 2014b). The 2007 Dynamics and Motivation for Migration survey of New Zealand estimated that of those who responded to the question of moving to Australia, nearly half of those cited employment as a reason. The Dynamics and Motivation for Migration survey was an ad hoc supplement to the Household Labour Force Survey for the March 2007 quarter. If such work related free movement were to be included, almost a third of permanent migration in Australia could be classified as labour related migration.

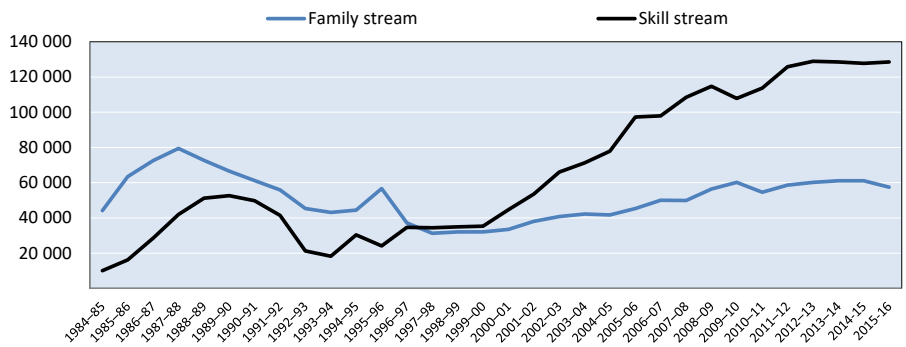
1. http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=11592375.
2. https://www.border.gov.au/ReportsandPublications/Documents/statistics/temp-entrants-newzealand-sept15.pdf.
3. https://www.border.gov.au/about/corporate/information/fact-sheets/17nz.

Permanent migration

The increasing focus on economic and skilled migration since the 1980s has led to a substantive growth of the skills stream over the last three decades. In 2015/16, the skill stream represented more than twice the admissions under the family stream (Figure 2.2). However, it must be noted

that the skill stream also includes secondary applicants or dependents that made up just over half the skill stream admissions. During the period 2004-15, secondary applicants averaged 52% of all skill stream entries and for most of the period their number was higher than that of primary applicants. Secondary applicants also include children of migrants, hence explaining their high share in migration flows.

Figure 2.2. Permanent migrant annual flows, 1984/85 to 2015/16



Note: The figures refer to principal and secondary applicants.

Source: Various population flows publications and annual reports, Migration Reporting, DIBP.

The Migration Programme is set annually, following broad consultation across Australia, and taking into account community views, economic and labour market forecasts, international research, net overseas migration as well as economic and fiscal modelling. The total number of places within the programme is broken down into planning levels for each stream and visa category. The annual planning level and composition of the streams is decided and set as outcome targets within the preceding year's budget framework. The extent to which the outcome targets are achieved reflects on the annual performance of the department. The difference between the targets and the actual outcomes in terms of admissions constitutes variation in performance for the department.

Table 2.1 summarises the three main permanent skill migration visa categories specifically highlighting categories that require applicants to enter via the new SkillSelect system and the method used to select candidates (more details on the tools used to select and admit skilled migrants are provided in Chapter 3 of this review). The first, formerly the General Skilled Migration stream, comprises the skilled independent, skilled state/territory sponsored and skilled regional visa categories. These are the main supply-

driven permanent migration channels into Australia. A second category, the permanent employer-sponsored category, enables Australian employers to sponsor overseas skilled workers for permanent residence to fill skilled vacancies. The third, Business Innovation and Investment Programme allows skilled migrants to engage in business or invest in Australia.

Table 2.1. Summary table of skilled permanent migration visa categories and selection methods

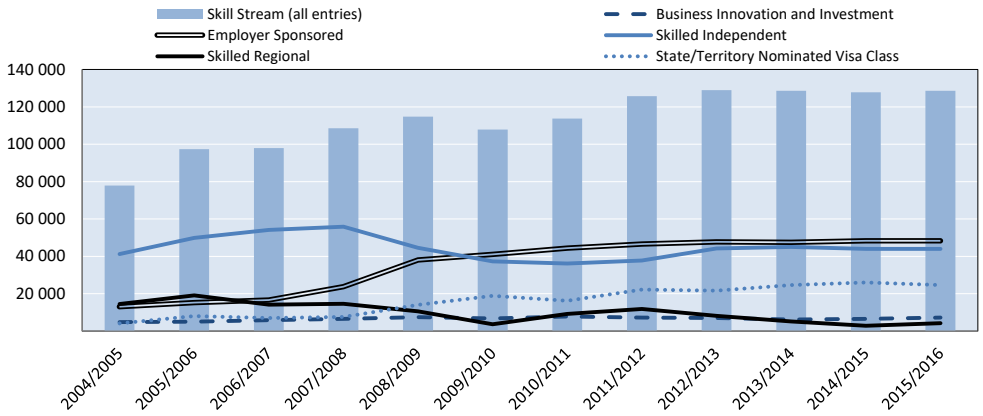
Visa category*	Subclass	Admission method		SkillSelect	SkillSelect pool	Selection method	Invitation to Apply	Labour market testing
Skilled Independent and Nominated								
Skilled Independent (P)	189	Points Test	Expression of Interest	√	√	Auto ranking	√	
State & Territory (P)	190	Points Test	Expression of Interest	√	√	Nomination	√	
Skilled regional (p)	489	Points Test	Expression of Interest	√	√	Nomination	√	
Distinguished Talent (P)	858	Selection criteria	-	×	×	Nomination	√	
Employer Nominated								
Employer nominated (P)	186	Selection criteria	-	×	×*	Nomination	√	
Regional State Migration Sponsored (P)	187	Selection criteria	-	×	×*	Nomination	√	
Business and Investment								
Business innovation (p)	188	Points Test	Expression of Interest	√	×	Nomination	√	
Entrepreneur (p)	188	Selection criteria	Expression of Interest	√	×	Nomination	√	
Investor (p)	188	Points Test	Expression of Interest	√	×	Nomination	√	
Significant investor (p)	188	Selection criteria	Expression of Interest	√	×	Nomination	√	
Premium investor (p)	188	Selection criteria	Expression of Interest	√	×	Nomination	√	
Business innovation, Entrepreneur (P)	888	Selection criteria	-	√	×	-	√	
Investor, Significant & Premier investor (P)	888	Selection criteria	-	√	×	-	√	
Business Talent								
Significant Business History (P)	132	Selection criteria	Expression of Interest	√	×	Nomination	√	
Venture Capital entrepreneur (P)	132	Selection criteria	Expression of Interest	√	×	Nomination	√	

Note: *: Employers can use the pool to select candidates. The letters p and P denote provisional residence visa and permanent residence visa. The provisional visas provide pathways to permanent residence. Generally, in all the visa categories, eligible family members are permitted to accompany the principal applicant and have access to labour market, public education and healthcare.

Source: OECD Secretariat.

Australia's permanent skilled migration system has traditionally been supply-driven, but in recent years demand-driven migration has grown and represents today close to half of the permanent skilled migration programme. Grants of employer-sponsored visas have grown both in absolute numbers and relative importance and in 2015/16 totalled 48 250 primary and secondary visa grants, three times the number of employer sponsored visas granted in 2005/06 (Figure 2.3). Visa grants under the state/territory nominated (STN) scheme have also grown substantially, representing 19% of all permanent skilled visas in 2015/16. In contrast, the share of skilled independent migration – Australia's main supply driven scheme – has declined. Skilled independent migrants represented just above one third of all migrants under the skill stream in 2015/16, down from 51% in 2005/06, highlighting again Australia's transition from a purely supply-demand driven migration system to a hybrid system where demand-driven migration is playing an increasing role.

Figure 2.3. Annual grants under the skill migration stream, 2004/05 to 2015/16



Note: Distinguished talent is included in the total but not displayed in the graph as it accounts for less than 1% of all flows. The figures refer to principal and secondary applicants.

Source: DIBP permit data on permanent grants and 2015-16 Migration Programme report.

Skilled independent migrants

The skilled independent visa (subclass 189) is the main supply-driven visa in Australia and is not subject to sponsorship or nomination requirements. It is a points-tested visa that allocates points according to a human capital grid with six key selection factors. To be eligible, an applicant must have achieved minimum of Competent in English-language (e.g. a score of at least 6 in each of the four test components (speaking, reading, listening and writing in an IELTS test).[2] Points, however, are not awarded for Competent but 10 points are granted for Proficient English and a maximum of 20 for Superior English. An applicant should be 45 years or less (it was reduced from 50 years to 45 on the 1st July 2017). Skilled employment experience related to a nominated skilled occupation or a closely related[3] skilled occupation obtained in Australia and overseas also contributes to the candidates score. Higher-level qualifications obtained in Australia or in a foreign university that is of a recognised standard can get a maximum of 20 points (20 points are awarded for a Doctorate). Since September 2016, five additional points can be obtained if a degree (degree, diploma, advanced diploma or trade qualification) included study for at least two academic years at an Australian educational institution in STEM, specific ICT or related fields which were identified as being in shortage in Australia.[4] Bonus points are also awarded for other factors such as credentialed language, regional study and spousal characteristics (five points for partner's English, skill qualifications or age). No additional points are

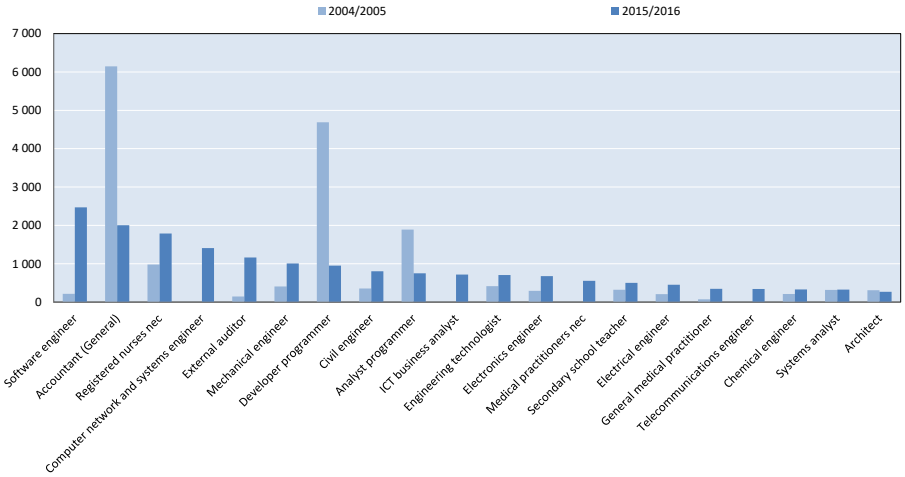
attributed for a job or job offer as in New Zealand and Canada that have comparable selection systems. Professional experience acquired in Australia is awarded additional points relative to that acquired abroad. For instance, applicants with 3-4 years of experience in Australia are awarded 10 additional points, whereas applicants with overseas experience would need to validate 5-7 years of experience to get the same number of points.

The points grid in place since 1979 was subject to major changes in 2010/11 and the new test established then did not give undue weight to any one factor and recognised a broader range of skills and attributes. The changes introduced in 2010/11 to the points test focused on better English language skills, more extensive skilled work experience, higher level qualifications obtained in Australia and overseas and young age. Very importantly, it was decided then that no points would be awarded on the basis of an applicant's occupation, although all applicants would still be required to nominate an occupation on the Skilled Occupation List. Candidates must score at least 60 points to be eligible to submit an expression of interest and eventually be invited to apply for a visa. A detailed discussion of the process can be found in Chapter 5 of this review which focuses on the new SkillSelect system.

Over the decade of 2004-14, 20 occupations dominated about three-fourths of the skilled independent visa admissions (Figure 2.A1.1). General accountants (27%) dominated this occupational distribution followed by software and applications programmers (8%) and cooks (7%). The presence of registered nurses and general medical practitioners in the list reflects Australia's high proportion of practising nurses and doctors per capita well above the OECD average (OECD, 2015). Considerable share of the top 20 occupations is in the fields of technology and engineering as well. If all the information technology occupations in this list were grouped together (including software engineers) they account for close to one-fifth of the total and engineering occupations alone to about one-tenth.

However, top occupations for skilled independent migrants have changed considerably between 2004/05 and 2015/16 (Figure 2.4). Accountants, developer and analyst programmers, motor mechanics and system administrators have all decreased the most in percentage terms compared to their respective entries at the start of the decade. On the other hand, occupations such as Software engineers, computer network and systems engineers, external auditors and general medical practitioners saw the biggest increases. The huge rise in software engineers (over 600%) could be related to a change in category (e.g. a jumping from the occupations of developer/analyst programmers) during this period, but this cannot be examined with the data in hand.

Figure 2.4. Skilled independent, top 20 occupations, 2004/05 and 2015/16



Note: The figures refer to principal and secondary applicants.

Source: DIBP.

To prevent the domination of certain occupational groups leading to skewed occupational distributions, SkillSelect imposes occupational ceilings for some groups when needed. In 2015/16, 75 occupations have ceilings with the median ceiling being just over 1 000 places.[5] Some of the occupations with the highest ceilings were registered nurses (13 872), secondary school teachers (8 352), electricians (7 772), motor mechanics (6 108), software programmers (5 364) and plumbers (5 130). Of this list, just one occupation, namely Accountants, had reached the ceiling of 1 000, while many IT-related occupations (e.g. software programmers, network specialists, and business and systems analysts) were the closest to the ceiling. Take-up in most occupations appear well below the ceiling and in the case of registered nurses the actual take-up was 14% of the published ceiling. Occupation ceiling values are based on a percentage of stock employment figures for each occupation provided by the Australian Bureau of Statistics, and represent the number of people employed in Australia in each occupation. The multiplier of 0.4% currently used reflects consensus with respect to the standard replacement rate in any given occupation. However, the exact process for setting the percentage is not known and it is unclear whether the process involves consultation with industry, unions and training institutions.

Once the limit is reached for a particular occupation group, no further invitations for those occupations will be issued in that programme year with remaining programme places allocated to other occupation groups even if they have lower scores. If the ceiling is reached, those still in the EoI pool with skills in that occupation group, continue to be eligible for the next year's programme given that the EoI is valid for two years.

Skilled state/territory sponsored and skilled regional categories

The two categories that serve regional migration needs are the skilled state/territory sponsored visa (subclass 190) and the skilled regional visa (subclass 489). The points test and submission of expression of interest are common in the two categories. Both involve a test in which applicants are allotted points similar to the skilled independent visa for selection that include criteria such as nomination to an occupation on the relevant skilled occupations list; a suitable skills assessment for that occupation; less than 50 years old (until end of June 2017, 45 years since 1st of July 2017) and at least competency in English. State and territory governments can select anyone from the expression of interest pool, so long as they meet the points test pass mark (60 points) and other criteria as specified in their State Migration Plans (SMP) which help address specific skill shortages and local labour market needs.

State migration plans were part of the skilled migration reforms announced in February 2010. These plans agreed between the state or territory with the Australian Minister for Immigration and Border Protection provide a targeted approach for the types of occupations and corresponding number of visa places to be nominated by each jurisdiction. SMPs are intended to address specific skill shortages and local labour market needs. Victoria was the first state to implement a SMP on 3 November 2010 followed soon after by the others. State and territories are able to nominate only those applicants whose nominated occupation is included on their respective SMPs. However, states and territories have the possibility to allow other specialised occupations facing shortages which are not specified in the Plans.

The skilled state/territory sponsored visa (subclass 190, STN visa hereafter) is a permanent residence visa offered to those who have been nominated by an Australian state or territory government agency with the right to live and work in any part of the state or territory that makes the nomination. Residential conditions imposed vary between states and territories but typically involve a commitment to live and work in the jurisdiction for two years. A detailed discussion of STN migrants and their outcomes is provided in Chapter 4.

The skilled regional (Provisional) visa (subclass 489) includes the former skilled Australian family category. This visa allows skilled workers provisionally into Australia for up to four years. It requires nomination by an Australian state or territory government agency to live and work in *specified regional areas*. Alternatively, prospective 489 visa holders should be sponsored by an eligible relative living in a *designated area*. For instance in Victoria State, *specified areas* include all specified postal code areas except the Melbourne metropolitan area. Similarly, under *designated areas*, there are exceptions specified in all states except in the case of Victoria where the entire state is included. In this case it means that a relative living in any part of Victoria State could nominate a migrant, as long as other selection criteria are met.

The skilled regional visa includes three pathways to permanent residence. The first, the invited pathway, concerns persons who have been invited by a state/territory or eligible relative. The other is the Extended Stay Pathway, where the applicant must have previously held one of four provisional visas[6] for at least two years. Essentially under the previous provisional visas, an applicant must have lived in a specified regional area for at least two years or must have worked full time in such an area for at least one year. Both pathways lead to permanent residence through the skilled regional (Residence) visa (subclass 887). The third is the Subsequent Entry Pathway that enables residence for a family member of someone who holds a skilled regional visa or any of the four provisional visas under the Extended Stay Pathway.

Distinguished talent programme

The distinguished talent programme is a small substream of the Migration Programme's Skill stream, with an allocation of 200 visa places in 2015/16. The programme has averaged around 183 places over the decade. This visa is intended for individuals seeking permanent migration to Australia on the basis of an internationally recognised record of exceptional and outstanding achievement in a profession, sport, the arts, academia or research. Internationally recognised sports people comprise the major share of visas granted in this category, followed by people with exceptional talent in the arts. A smaller proportion of visas are granted to professionals or persons in academia. Applicants do not apply through the SkillSelect system.

Permanent employer-sponsored visa programmes

Australia is different to New Zealand and Canada in that it has a separate stream for demand-driven skilled migration that operates outside

the two-stage expression of interest (EoI) system. The clear split between the supply- and demand-driven streams was decided in February 2010 with the objective to select independent skilled migrants for a specific set of nominated occupations needed to meet medium to long-term skill needs while responding to the need for a non-points system to cater to more immediate needs and cover those already having employment or job offer in hand. They too, however, require nomination and meet skill thresholds and not merely demonstrate a job offer. Applications for this category are lodged online outside of the SkillSelect system. Nonetheless, employers can access and select candidates from the SkillSelect database.

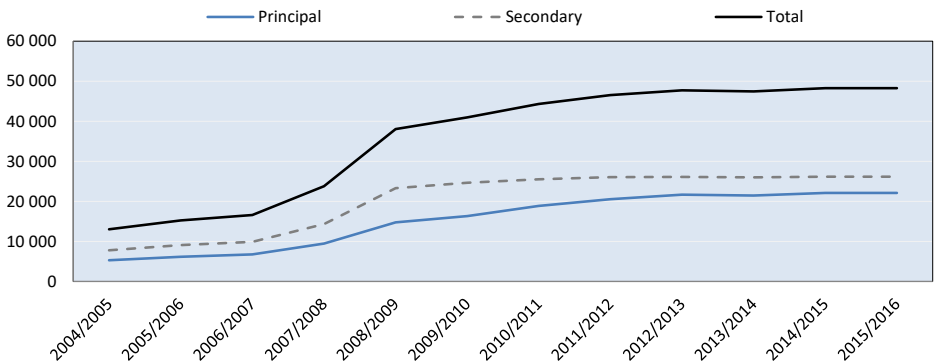
The employer sponsored category comprises the Employer Nomination Scheme (ENS, subclass 186) and the Regional Sponsored Migration Scheme (RSMS, subclass 187). The ENS is available to employers located anywhere in Australia, while the RSMS enables Australian employers in regional areas to sponsor workers for permanent residence to fill skilled vacancies in their businesses. The RSMS encourages migration to areas outside the major metropolitan centres of Brisbane, the Gold Coast, Sydney, Newcastle, Wollongong and Melbourne. It is designed to improve Australia's ability to compete globally by overcoming genuine skill shortages in regional labour markets. Both these demand driven programmes complement the state/territory nominated streams for meeting regional and local skill needs.

Employers can identify workers for nominations either directly through their own channels or gain access to the SkillSelect database and select migrants who have expressed an interest in being sponsored by an employer on a permanent or temporary basis. Only those who meet the eligibility requirements for one of the skilled permanent residence streams can enter the SkillSelect database. The SkillSelect service is free and employers must register to use SkillSelect. Employers can search the SkillSelect database for potential employees by qualifications, work experience etc. and contact them for discussing job opportunities and sponsorship. They are not, however, obliged to sponsor an intending migrant found through the system. Once nominated by an employer, applicants do not need to continue under SkillSelect to receive an invitation to apply for a visa. Applicants still need to meet skill requirements similar to those specified for independent skilled migrants and generally be under 45 years (since 1st July 2017, 50 years old before that date) unless they are entitled to specific exemptions for instance for reasons such as being nominated as a senior academic at a University or a religious minister (e.g. priest). The age requirement is less restrictive (50 years) for those who apply under the Temporary Residence stream which refers mainly to subclass 457 visa holders who have worked for at least two out of the three years leading to visa application in the same

occupation with their nominating employer, who wants to offer them a permanent position in that occupation.

Over the period 2004/05-2015/16, about 430 199 migrants entered under the employer sponsored visa categories (Figure 2.5). A total of 48 250 visas were granted in 2015/16, which represents an almost threefold increase relative to the 2004/05 level. Secondary applicants accounted for more than half of these entries throughout this period.

Figure 2.5. Employer nominated and regional sponsored migration schemes visa grants, 2004/05-2015/16



Source: DIBP permit data on permanent entries for 2004/05–2014/15, 2015-16 Migration Programme Report.

An important share of employer-sponsored permanent visas is granted to 457 temporary work visa holders. In fact, 457 visa holders who apply for ENS or RSMS visas are exempted from a skills assessment if they have worked for the nominating employer for two years. This means that 457 visa holders who transition to permanent migration through ENS or RSMS may never have their skills assessed against Australian standards, although they are nonetheless entitled to work in their occupation. Consequently, such migrants may have different qualifications and skills, professional experience and English proficiency to other individuals (both Australians and other migrants) employed in the same occupation (DoE, 2014). A detailed analysis of the characteristics and labour market outcomes of employer-sponsored migrants relative to those of other permanent visa holders is conducted in Chapter 4.

The changes to the employer sponsored skilled migration programme (permanent and temporary) announced in April 2017[7] aim at ensuring that this programme better meets better meets local skill needs, increasing the

quality and economic contribution of skilled temporary migrants and addressing public concerns about the displacement of Australian workers.

Temporary migration

Skilled temporary residents make a significant contribution to the Australian workforce. Their temporary entry furthers Australia's economic relations within an increasingly global workforce and helps businesses to internationalise Australia's workforce and society. By meeting specific skill needs in Australian businesses, particularly in regional areas, skilled temporary residents help Australia to remain a strong competitor in the international market (DIBP, 2014a).

Temporary migration is managed through a number of temporary resident visas which are designed for purposes such as work, study, working holidays or other specialist activities that are of benefit to Australia. On the other hand, visitor visas are mostly used by people visiting Australia for holidays, tourism, recreation, or to see family and friends. Temporary visa programmes are organised under two categories: economic objectives directly related to work and non-economic objectives that further Australian national interests, but which may allow access to employment under certain conditions. These non-economic categories are discussed in detail in Chapter 6 of this review. Table 2.2 below lists the different subcategories, distinguishing between economic and non-economic visas, and provides additional information on the basic process and main requirements for each subclass.

Prior to the 1990s, Australia had low temporary migration flows both in comparison with its permanent migration intake and relative to other OECD countries. A government inquiry in 1996 found that sudden increases in the demand for skills and intense international competition for skilled labour meant that permanent migration channels could not adequately meet such needs. The 457 temporary visa was introduced then with the objective to better respond to short-term and changing skill needs and changing economic conditions.

Total temporary migrant flows more than quadrupled during the decade of 2005/06-2015/16 (Figure 2.6). The steep growth in the 457 visas until 2008/09 reflected strong economic conditions in Australia and was followed by a sharp decrease with the onset of the global financial crisis. Grants of 457 visas started to rise again after 2009 and peaked at more than 125 000 grants in 2011/12 and 2012/13. From 2013/14 onwards, the annual number of 457 visas granted remained below 100 000 visas per year. In the period from 2005/06 to 2015/16, the share of working holiday makers (WHM) has grown and temporary work-related migrant flows.

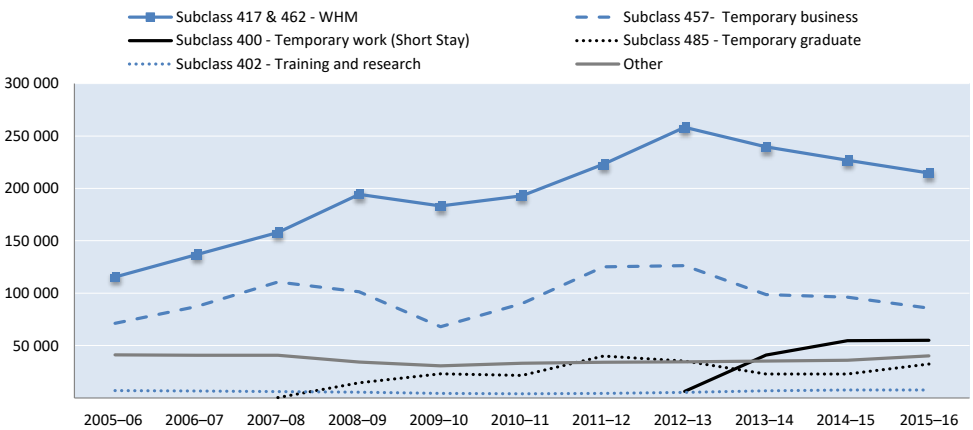
Table 2.2. Key temporary programmes

Temporary programme	Subclass	Sponsor	Nomination	LMT	MSR
Economic					
Temporary work (Skilled) visa (subclass 457) includes Intra-company transfers	457	√	√	√	√
Temporary graduate programme (Subclass 485) Graduate work, Post study work	485	×	×	×	×
Temporary work (Short Stay specialist) visa (subclass 400) In Australia's interest, Short-term specialised work	400	×		×	×
Temporary activity visa (Subclass) 408 Research, entertainment, sports, religious worker, domestic worker, etc	408	√ *	×	×	×
Training (Sub class 407) Occupational trainee, Professional development	407	√	√	×	√*
Temporary work (International Relations) visa (subclass 403) Govt agreement, Foreign govt agency, Domestic worker (diplomatic), Seasonal worker	403	√*	√	×	×
Non-economic					
Working holiday maker (subclass 417 & 462)	417 & 462	×	×	×	×
Working holiday, work and holiday Student visa (subclass 500)	500	×	×	×	×
Visitors visa (subclass 600) business visitor	600				

Note: * 408: Sponsorship required if stay exceeds three months; 403: Sponsorship required for seasonal workers, letter of support for others; 407: Wages must meet minimum federal award rate; 417: Dependent child not allowed. Sponsor: Employer; Nomination: Nominating an eligible occupation; LMT: Labour Market Test; MSR: Market Salary Rate.

Source: Compiled by the OECD Secretariat, http://www.border.gov.au/ReportsandPublications/Documents/statistics/migration-trends-14-15-full.pdf.

Figure 2.6. Temporary migration flows by subclass, 2005/06-2015/16



Note: The figures refer to principal applicants only. 408: Sponsorship required if stay exceeds three months; 403: Sponsorship required for seasonal workers, letter of support for others; 407: Wages must meet minimum federal award rate; 417: Dependent child not allowed.

Source: Compiled by the OECD Secretariat.

Temporary (Skilled) Work visa (subclass 457)

The temporary work (Skilled) visa (subclass 457) which will be abolished in March 2018 is by far the largest temporary work migration programme in Australia. This programme is designed to address labour shortages by allowing genuinely skilled overseas workers to enter Australia temporarily when employers are unable to find an appropriately qualified Australian to fill a position. The programme is uncapped and fully demand-driven. A subclass 457 visa may be granted with a validity period for up to four years for occupations on the Medium and Long-term Strategic Skills List (MLTSSL) and for up to two years for occupations on the Short-term Skilled Occupation List (STSOL) with no limits to further renewal. Workers can bring any eligible dependants with them to Australia and such dependants enjoy full access to work and study. They also enjoy the right to multiple entries in and out of the country during the period of validity of their visa.

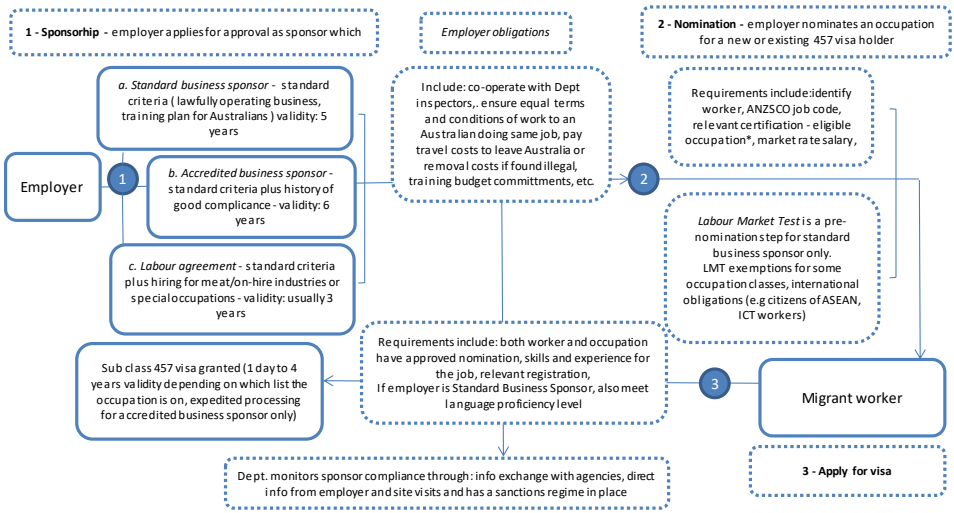
A set of minimum criteria need to be satisfied. Candidates must demonstrate an overall score of at least 5 in the International English Language Testing System (IELTS) test and a minimum score of 4.5 in each of the four test components (speaking, reading, listening and writing). The Language requirement is exempt only when candidates are an Intra-corporate transferee to which an international trade obligation applies and have an income over AUD 96 400. In addition, workers can only be employed to fill positions in certain eligible skilled occupations identified on the MLTSSL or STSOL and show evidence (e.g. assessment by registered training organisation, employer references) that they possess the skills for that nominated occupation. Applicants must also seek to obtain mandatory registration, licensing or professional membership where required within 90 days of arrival or visa grant for those onshore.

A three-stage process is followed for the issuing of a 457 visa (Figure 2.7). As a first step, the employer must apply for a standard business sponsorship status, which identifies the details of the business besides assessing their commitment to recruiting and training investment for local workers (see Box 2.2 for sponsor requirements and obligations). In the second stage, the sponsor is then able to nominate an occupation from the MLTSSL or STSOL for a prospective or existing subclass 457 visa holder. Finally, the person nominated to work in the nominated occupation applies (online), for the subclass 457 visa. A visa is issued if conditions relating to skills and experience and registration – if in a regulated occupation – are satisfied.

Most employers sponsor subclass 457 visa holders to work in Australia as a standard business sponsor, as an accredited business sponsor or under a labour agreement. The key difference between the first two relates to the history of good compliance with regulations. This compliance history

provides the accredited sponsor an additional year (six years in total) of validity to the sponsorship status compared to five years for standard sponsors besides availing priority processing of visa applications. Industry labour agreements may apply in the case of employers wishing to recruit workers for the meat, on-hire, dairy, pork, fishing, snow sports, or restaurant industries, or the occupation of Minister of Religion, or have requirements that cannot be met through a standard business sponsorship. Businesses granted access to a labour agreement have a sponsorship status validity equivalent to the duration of the labour agreement, at this stage generally three years. Businesses operating outside Australia, to secure sponsor status, have to demonstrate how their 457 worker will establish, or assist in establishing, a business operation on their behalf in Australia with overseas connections, or help fulfil contractual obligations. Proof for this could include business expansion plans or a contract with an Australian party.

Figure 2.7. Process for obtaining 457 subclass visa



Source: OECD Secretariat.

When genuine attempts to secure local labour (citizens and permanent residents) do not yield results, the labour agreement serves to overcome such shortage of workers. Labour agreements are developed between the Australian Government, represented by the DIBP and employers. Generally effective for three years, are used for a small share of temporary and permanent visas and allow for exceptions relating to skill levels or language requirements. They are granted to cases where a clear labour need has been demonstrated but it is not possible for such business to sponsor a 457 visa.

Existing agreements are numerous and can be at the company, industry, designated (subregional) areas as well as project level. The conditions under which the agreement is concluded varies greatly across cases. An industry agreement might be considered if the DIBP has received a number of similar submissions from an industry and there is evidence of ongoing labour shortages within that industry. Small businesses, which may not have the resources to negotiate a labour agreement directly with the Australian Government, may benefit from a designated area migration agreement, which is represented by a state or territory nominated entity and responds to their unique economic and labour market conditions by entering into an overarching agreement with the Australian Government. As part of the process for the validation of the agreement parties conduct a form of labour market testing.

From May 2009 labour agreements became the only migration pathway for semi-skilled labour. To improve the transparency of the labour agreement process, employers are required to consult, or make genuine efforts to consult, industry stakeholders, including relevant trade unions and peak industry bodies, during the development of their agreement with the authorities. The complexity of the process to establish a labour agreement might serve to discourage the recruitment of semi-skilled foreign labour.

Box 2.2. Employer sponsorship of temporary foreign workers and corresponding obligations

A standard business sponsor must meet several conditions and a key one is to meet the *prescribed training benchmark* which is to spend a minimum proportion of payroll costs in training for each year of sponsorship validity. There are many ways of meeting this benchmark and could include: i) payments for Australian employees to undertake a formal course of study, ii) payments to registered training organisations to deliver face-to-face training to Australian employees that will contribute to an Australian Qualifications Framework qualification.

A sponsor accreditation scheme was introduced in 2011 for certain standard business sponsors. Accreditation recognises that many Australian businesses have a long history of good dealings with the DIBP including lodging a high volume of good quality, decision-ready applications and an excellent record of compliance with relevant laws. In addition, accredited sponsors must show continued business activity with a minimum AUD 4 million turnover for each of the three years preceding the application; have a domestic workforce comprising at least 75% Australian citizens and permanent residents; have sponsored at least 30 subclass 457 visa holders in the last 12 months; have been an active subclass 457 visa sponsor for the past three years (with a break of no more than six months, not due to any sanction). For such accredited sponsors, the agreement is valid for six years, and sponsors are entitled to priority processing of all nominations and applications.

Box 2.2. Employer sponsorship of temporary foreign workers and corresponding obligations *(cont.)*

Both standard and accredited sponsors must comply with sponsorship obligations which are in place to ensure that overseas skilled workers are protected from exploitation and that the programme is being used to meet genuine skills shortages and does not undercut local labour wages and conditions. For standard business sponsors and for parties to a labour agreement, this obligation starts to apply as soon as the sponsorship is approved and ends five years after the day on which the person or business ceases to be an approved sponsor.

Responding to concerns about integrity aspects and the continued growth of the temporary worker programme, several policy changes were made on 1 July 2013 that included tightening of conditions for sponsors. The key regulatory changes pre and post 1 July 2013 are highlighted below (more details on the policy tools affected by the 2013 changes can be found in Chapter 3 of this review):

Prior to 2013	**Post-2013**
Commitment to *invest in training*: benchmarked via spending an equivalent of at least 2% of their payroll in payments to an industry training fund that operates in their industry or at least 1% of their payroll in the provision of training to employees of their business who are Australian citizens or permanent residents	Training benchmark is an on-going and enforceable requirement (set in legislation and enforced by the DIBP) rather than a commitment; also sponsors are obliged to maintain records relating to training
Demonstrating *genuine skill need:* not possible to refuse a subclass 457 nomination even where the position was being presented as more skilled than it was	Decision maker must be convinced that the job is genuine and the tasks outlined correspond to the tasks for the nominated job
Unlimited *number of workers* could be sponsored	Fixed number of workers according to the sponsorship application with provision for change through variation to sponsorship agreement
Proof of *market salary rate* is limited to specific workplace	Proof extended to include wider region
The *market salary assessment exemption* threshold is AUD 180 000	Exemption extended to AUD 250 000
Primary sponsored person was engaged only as an "*employee" of the sponsor* or an associated entity of the sponsor	Employees must now be employed by their sponsor in a direct 'employee-employer' relationship
Sponsors are obliged *not to recover certain costs* (e.g. recruitment or sponsorship costs) from a primary or a secondary sponsored person	Sponsors are now required to pay certain costs (e.g travel costs to leave Australia) and prohibited to recover any costs
Some occupations are *exempt from English language requirements* specific to subclass 457	English language exemptions removed unless conditions met (e.g. salary is over the ELSET amount, citizen of specific countries, completed at least five consecutive years of full-time study where the instruction was delivered in English)
	Requirement is now aligned to the definition for the permanent Employer Nomination Scheme
The *enforcement framework* includes administrative sanctions (to bar a sponsor or cancel the approval of a person as a sponsor), an infringement notice scheme and a civil penalty scheme	Framework extended to enforceable undertakings, which is a court-enforceable promise made between the minister and a sponsor (to help avoid substantial legal costs)
D*uration of sponsorship for start-up business* same as for standard sponsors	Limited to 12 months for start-up sponsors
No labour market test (LMT) is required	LMT was introduced for some employers to provide evidence of attempts to recruit locally before nominating overseas workers under the subclass 457 programme unless exempted (e.g. Labour agreements, ASEAN citizens, specific occupations)

Besides the regulatory changes that came into effect in July 2013 (summarised in detail in Box 2.2), a series of reviews undertook a thorough evaluation of the 457 programmes and a number of changes were introduced. A review by a Senate Committee in June 2013 (Senate 2013) was followed by a comprehensive independent review of the programme in September 2014 (Azaria et al., 2014). The independent review focused on the compliance regime, balancing business needs for skills and programme integrity, viability of deregulation and the appropriateness of current compliance and sanctions.

The government responded by supporting most of the recommendations made by the independent review. Many of the changes introduced were related to key regulatory tools which are dealt with in more detail in the next chapter of the review. In 2016, a further set of changes was introduced. Starting July 1, 2016, the volume of application cases that a sponsor must file to qualify for Accredited Sponsor status was reduced to ten over the past 24 months, instead of 30 in the past twelve months, hence extending the possibility to become accredited sponsors to more employers. Furthermore, the definition of cases was expanded to include both nomination and visa applications. From November 2016 the grace period allowed for subclass 457 visa holders to remain in Australia after their employment ceases, was reduced from 90 days to 60.

Monitoring compliance of sponsors has been a key objective in the reforms of the 457 programme that have been introduced over the years. The data available for the period 2007-13 that predates the review, shows that the number of sponsors monitored as a proportion of active sponsors decreased from 47.8% to 11% in 2010/11 and to 8% in 2011/12.Sponsors who were monitored and formally sanctioned or had their sponsors status cancelled, though increased from 3% to 11% at the end of this period. However the overall proportion of sponsors who were penalised was at its maximum of 1.4% during 2007. The data appears to indicate that non-compliance may not necessarily be a significant issue.

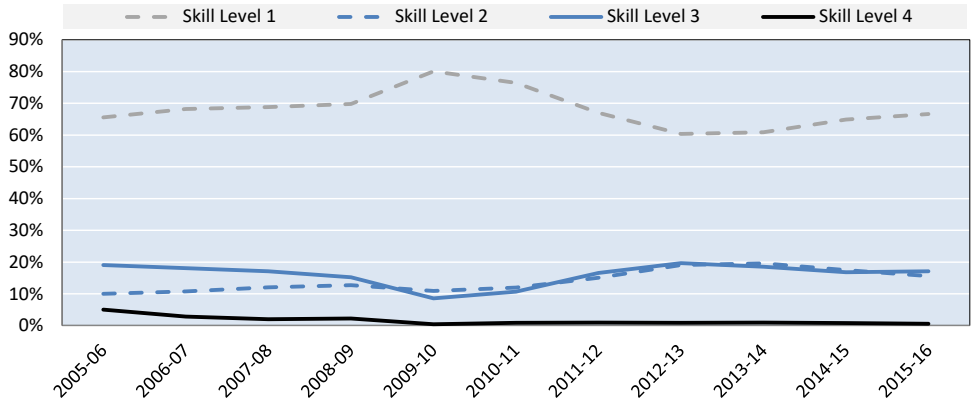
As shown in Figure 2.8, most 457 visa grants over the past ten years have been at ANZSCO (Australia New Zealand Standard Classification of Occupations) Levels 1-3 and the bulk of the flows are indeed at Level 1, which is the highest skill level.[8] Visa grants at Skill level 1 showed resilience to the 2008 downturn, reached a peak level in 2009/10 and decreased thereafter until 2012/13. Since then they have increased steadily but are still below their 2009/10 levels.

Table 2.3. Compliance monitoring for temporary work 457 visa, 2007-16

	Number of final monitoring outcomes in this year	Total sponsors at 30 June in previous year	% of sponsors monitored	% of monitored cases with outcome of cancellation or sanction	% of all sponsors with outcome of cancellation or sanction
2007	6 427	15 348	47.9	1.9	0.8
2008	6 235	18 868	40.6	2.2	0.7
2009	3 756	19 269	19.9	4.8	0.9
2010	2 360	18 186	12.2	8.3	1.1
2011	2 025	18 536	11.1	4.6	0.5
2012	1 519	22 440	8.2	11.9	0.8
2013	2 559	30 035	11.4	10.6	0.9
2014	2 165	35 250	7.2	17.1	1.1
2015	2 048	36 485	5.8	16.7	0.9
2016	1 308	34 496	3.6	35.0	1.3

Source: Reproduced from Azaria et al. (2014) and DIBP.

Figure 2.8. Subclass 457 grants (principal applicants) by ANZSCO skill levels, 2005/06-2015/16



1. Level 1 has a skill level that matches bachelor degree and above or at least five years of formal experience, Level 2 requires diploma or associated degree or three years of formal work experience and Level 3 requires NZ/Australian Level 4 certificate or three years of formal work experience.

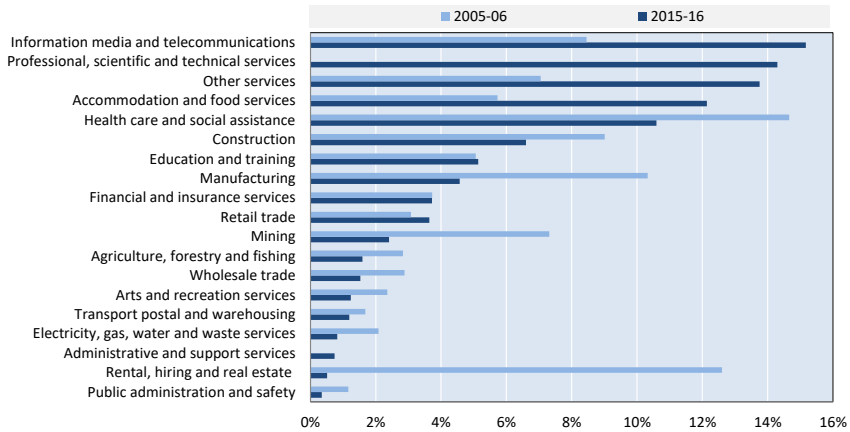
2. Skill levels are not available for secondary applicants.

3. Level 5 not shown due to small numbers.

Source: DIBP, Pivot Tables Subclass 457.

Five sectors account in 2015/16 for two thirds of all 457 visa grants: health care and social assistance, accommodation and food services, other services, professional, scientific and technical, information media and telecommunications (Figure 2.9). The last four sectors have gained importance in the past ten years.

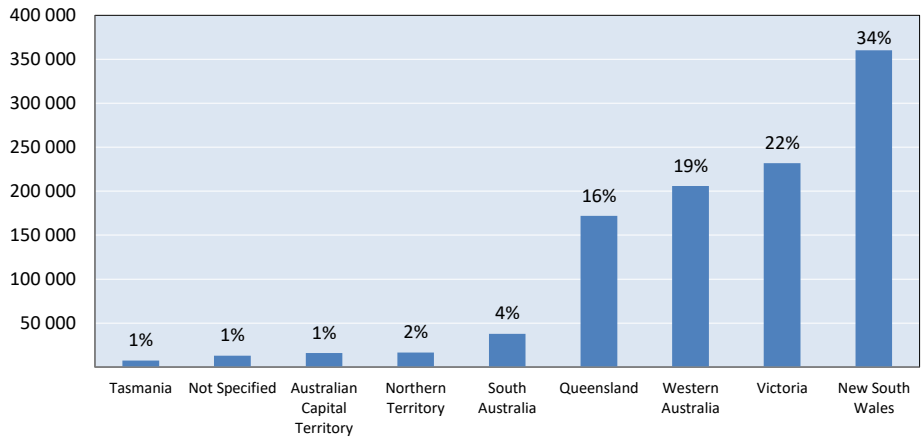
Figure 2.9. Subclass 457 visa grants, by sector, 2005/06-2015/16



Source: DIBP.

Most subclass 457 workers went to work in the large states of New South Wales, Victoria, Western Australia, Queensland and South Australia (Figure 2.10). These states were the destination for 90% of subclass 457 entries during the 2005/06-2015/16 period.

Figure 2.10. Subclass 457 temporary grants, by intended location, 2005/06-2015/16



Source: DIBP.

As part of the March 2017 changes to the employer sponsored skilled migration programme, the 457 visa will be replaced with the new temporary skills shortage (TSS) visa from March 2018. This new visa will comprise two streams. The first, short-term stream will allow nomination of occupations on the Short-term Skilled Occupations List (STSOL) that will replace the CSOL and second the Medium-term stream which will use the Medium and Long-term Strategic Skills List (MLTSSL) that replaces the current SOL. The maximum visa validity for the two streams will be two and four years respectively. Renewal for the short-term stream will be limited to once while the Medium term stream will provide the possibility to transition to permanent residence after three years. Other changes include removing English language salary exemption thresholds, mandatory LMT as well as matching of migration data with tax records.

Seasonal Worker Programme

The Seasonal Worker Programme (Special programme visa – subclass 416) primarily aims to fulfil development objectives for countries of origin, while satisfying labour needs of Australian employers who cannot recruit locally. The programme is open to persons over 21 years old who are citizens of and residents in Timor-Leste, Fiji, Kiribati, Nauru, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu or Vanuatu. Intergovernmental memoranda of understanding (MOUs) were signed by the Australian Government and the governments of these participating countries to enable the citizens who are residents of these countries to participate in the programme.

The Department of Employment is the lead agency for this programme, with DIBP supporting the programme by managing the visa application process, monitoring visa compliance and providing assistance with training in participating countries. Applicants must be invited by an approved special programme sponsor who is an approved employer recruiting seasonal workers for the specific industries and who secures a special programme agreement with the Department of Employment intended to safeguard the rights and welfare of low-skilled vulnerable workers. The visa allows applicants to work in Australia usually for 14 weeks to six months or a maximum of seven months. Selected candidates can work anywhere in Australia in the specific industries. Family members are not allowed to accompany workers and the emphasis is on circular migration. Employers are responsible for the cost of travel – return airfare and domestic transfers. For all periods of employment, approved employers must guarantee a minimum average of 30 hours work per week to seasonal workers.

In 2015/16, the SWP had 4 490 approvals. The Australian programme has evolved more slowly compared to New Zealand's Recognised Seasonal

Employer policy. Among the reasons cited for this slow take up are that Australia's scheme was a government-led initiative with the primary objective of contributing to its aid development programme in the Pacific while addressing unmet demands for labour in the horticulture industry was a secondary aim (Bedford et al., 2017).

The Pacific Seasonal Worker Pilot Scheme was introduced in 2009 involving 1 623 workers (from East Timor, Kiribati, Papua New Guinea, Samoa, Tonga and Vanuatu) and 22 approved employers (DoE, 2013). Following an evaluation, the programme was mainstreamed into the SWP in July 2012 and allocated 10 450 places to horticulture until 30 June 2016. The SWP also set aside 1 550 places to trial industries of aquaculture, cane, cotton and tourism over the three years from July 2012.

The programme was expanded and became uncapped in June 2015 (DoE, 2015). Previously Australia, like New Zealand, had capped its quotas at below 0.1% of the total population. Other significant changes increased the programme's flexibility in programme. The approved employer is still responsible for bearing transport costs upfront but can now recover the amount over AUD 500 from these costs over the course of the employment. Seasonal workers recruited from Kiribati, Nauru or Tuvalu can be employed for up to nine months recognising their additional travel costs and the requirement for employers to guarantee a minimum of 14 weeks of employment has been removed. Further, the programme has been extended to agriculture and accommodation industries trialling arrangements with other tourism industry sectors and occupations in Northern Australia. In 2016, the SWP was moved under the Temporary Work (International Relations, subclass 403) visa in order to highlight the co-operation with origin countries. There were no further changes to sponsorship requirements.

Non-economic temporary residents with work rights

Working holiday makers and international students form the biggest categories of non-economic temporary residents with work rights. Their numbers have risen sharply in recent years and many of them stay in Australia after the end of their first (or second) visa as WHM and after graduation for international students. These categories, the visa requirements, the trends in visa grants as well as their role in the two- (or multiple-) step migration model of Australia are examined in Chapter 6.

Business Innovation and Investment Programme

Business skills visas have been in operation in various forms since 1992, but the Business Innovation and Investment Programme (BIIP), Australia's current migration programme for investment and business, was established in 2012. The BIIP is designed to increase entrepreneurial talent and diversify business expertise in Australia by targeting talented migrants who can contribute to Australia's economy through innovation, investment and business.

Reflecting the types of migrants targeted, the BIIP has five streams within a provisional visa (subclass 188): business innovation, entrepreneur, investor, significant investor and premium investor. Pathways to permanent residence are available for each stream. The selection process and requirements for entry and subsequent stay varies across the programme and its different streams.

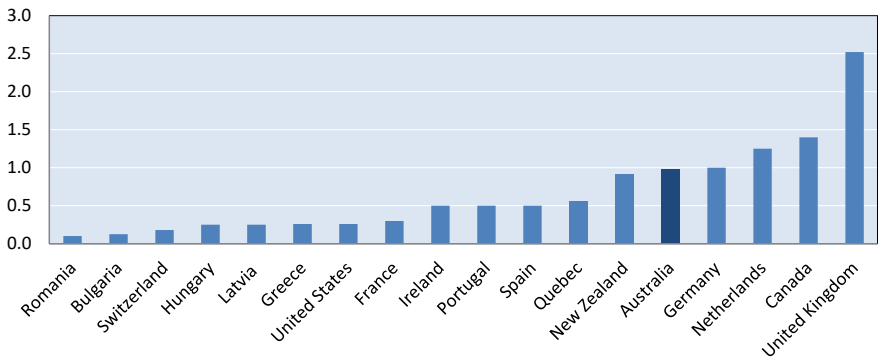
The BIIP involves a two-stage visa process. Candidates must first submit an expression of interest (EoI) through SkillSelect and be nominated by state or territory government or Austrade before being invited to apply for the provisional visa. Applicants in the business innovation and investor streams must score at least 65 points (the pass mark) in the points test to be eligible to apply for a visa. The points test, however, does not apply for those applying to the premium investor, the significant investor and the entrepreneur visa categories whose eligibility is still based on a set of selection criteria. The points are awarded for a number of factors such as age, English language ability, qualifications, experience in business or investment, net personal and business assets, business turnover and innovation (further details on the points grid can be found in Annex 2.A1). For example, under the business innovation stream an applicant must have had an ownership interest in a business with an annual turnover of at least AUD 500 000 (in two of the previous four years prior to invitation). Or in the case of entrepreneurs, have an enforceable agreement for securing at least AUD 200 000 from an approved source, including state or territory government. In comparison to the points grid for skilled independent candidates, there are certain differences. For instance, BIIP applicants 55 years old and more will get no points for age but can still apply if their nominator considers they will provide exceptional economic benefit and can meet the pass mark from other human and financial capital attributes. Furthermore, there are no criteria related to experience in a nominated occupation or minimum vocational English proficiency as is the case for the skilled independent category.

The three investor streams are mainly differentiated by the investment thresholds: AUD 1.5 million for Investors, AUD 5 million for significant

investors (Significant investor visa, SIV) and AUD 15 million premium investors (Premium investor visa, PIV). For the latter two, the investment thresholds are the only selection criteria mainly as there is no points test applied in those cases. The types of permitted investments are specified within a complying investment framework set by Austrade.[9] A comparison of the minimum investment thresholds for investors' visas in a number of OECD countries shows that Australia's minimum threshold (AUD 1.5 million/EUR 985 000) is high in relative terms (Figure 2.11). With the introduction of the premium investor category, Australia now has an investment visa with the second highest threshold of all OECD countries (after Luxembourg) and close to four times that for the United Kingdom, which has otherwise the highest minimum investment threshold.

Figure 2.11. Minimum investment thresholds in selected OECD and EU countries, 2017

In euros



Source: OECD Secretariat calculations.

The provisional SIV allows applicants and their family members to travel in and out of Australia but there are requirements for the presence of visa holders in Australia. The visa holders are required to live in Australia for at least 40 days per year while on a provisional visa, or their spouse must live for at least 180 days in a year. Applicants must also continue their business and investment activity in Australia after the conclusion of their provisional visa. They have the possibility to move between states or territories, but in order to do so, they have to get support from a nominator in the new state/territory and agree with the relevant jurisdictions that they will switch nominators.

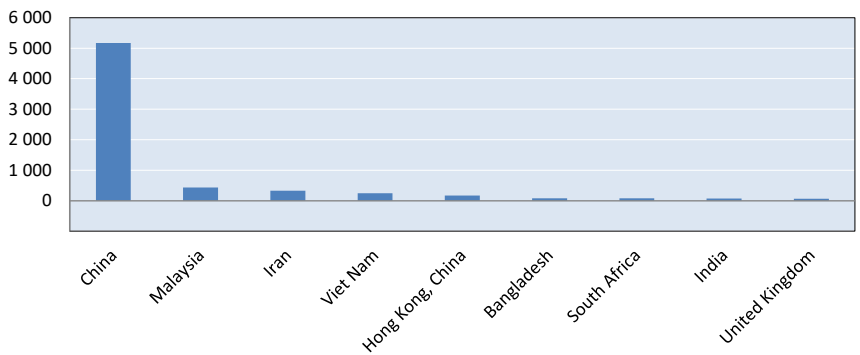
The provisional visa allows stay for up to four years. Applicants under the investor, premium investor and entrepreneur visa (subclass 188) cannot

apply for extension of provisional visas but provisional visa holders for business innovation and significant investor can do so without taking the points test again. An extension for an additional two years for the former and two extensions of two years each (total of eight years) are possible for the latter. The objective is to give additional time to facilitate applicants' business or investment work.

Provisional visa holders are then required to meet prescribed business and investment thresholds in Australia, such as business assets and employment creation, before becoming eligible to be granted a permanent residence BIIP visa (subclass 888). A new expression of interest or invitation to apply is not required for the second stage. The nomination by any state or territory remains valid for this purpose unless it has been specifically withdrawn (refer to Tables 2.A1.1 and 2.A1.2 in the annex for business and investor policy criteria).

Across the BIIP, ten countries of origin (countries of birth), constituted 90% of total flows over the last decade to 2014 (Figure 2.12). During the period 2004-16, China dominated with 61% of all grants. This is in line with the growth in High Net Worth Individuals,[10] or potential migrant investors, coming from the Asia Pacific region (Capgemini and RBC, 2013). The top non-Asian countries in the significant investor subclass were the United Kingdom and South Africa with 7.5% and 4.3% of all visa granted over the 2004-16 period.

Figure 2.12. BIIP grants for nine main countries of origin, 2015/16



Note: The figures refer to principal applicants only. Country of origin refers to applicants' country of birth.

Source: DIBP permit data on permanent grants to 2014/15. Note: includes primary and secondary applicants.

Typically, OECD countries do not publish statistics by specific visa category on the amounts invested or the sectors where investment takes place and how these evolve over time. Australia is not an exception to this. Only Canada has had a systematic evaluation of its programme and based on that evaluation the federal investor migration programme was closed in 2014 (Ramasamy, 2016). The United Kingdom's MAC also collects, to some extent, this information. Overall however, there is limited information on the economic benefits of this category not only in Australia but also in other OECD countries. In addition, frequent changes to criteria or investment thresholds imply that countries are continuously recalibrating their policy mix. Although the value of such schemes is not properly estimated, countries are usually motivated by a number of reasons such as access to low cost investment capital, employment generation and innovation or even financing infrastructure and public debt (Ramasamy, 2016).

Existing evidence in Australia does not clearly demonstrate that migrants in this category have a higher economic impact than those in other skilled categories, partly due to the fact that the four-year significant investor scheme was only introduced in late 2012 and hence it is too soon to have a proper evaluation of its impact. For an informed decision to be taken regarding the continuation of the significant investor visa and premium investor visa schemes and the establishment of the requirements for these schemes, it is necessary to perform a rigorous assessment of the economic impact of the investment and most importantly to evaluate whether such investment would have occurred anyway, without the need for a special visa targeting investors. Close monitoring of changes to admission criteria and complying investment framework and the associated benefits, a pre-requirement for such thorough evaluation, is currently missing in the Australian system, as is also the case in most OECD countries. Efforts should start by collecting such information and should continue with a rigorous evaluation which should also determine the threshold at which there is a clear benefit for Australia.

Also within the BIIP, direct permanent entry is available for business and entrepreneur applicants under the business talent visa (subclass 132) that has two streams. The significant business history stream is for high-calibre business owners or part-owners who want to do business in Australia, have net business and personal assets of at least AUD 1.5 million and an annual business turnover of at least AUD 3 million. The venture capital entrepreneur stream, on the other hand, is for people who have sourced venture capital funding locally from a member of the Australian Venture Capital and Private Equity Association Limited (AVCAL).

The key difference between the venture capital entrepreneur visa (subclass 132) and the entrepreneur stream of the BIIP (subclasses 188 and

888) is that the latter is a provisional to permanent visa while the former is direct to permanent residence. This is in recognition that the entrepreneur visa is aimed at attracting enterprises that are earlier in their commercialisation process (hence the lower funding threshold). The provisional period provides an opportunity for the entrepreneur to develop their business and demonstrate entrepreneurial activity in order to meet requirements for permanent residence. In contrast, the venture capital entrepreneur visa is aimed at attracting business owners at a later stage of commercialisation who wish to significantly grow their enterprise (with a need for greater funding and the capability to obtain it). In contrast to the other streams within the BIIP, the 132 streams place a relatively greater emphasis on targeting human capital and entrepreneurial skills already in the country rather than just financial capital (Ramasamy, 2016).[11]

Notes

1. Mostly grants under subclass 151 Former Resident visa. https://www.border.gov.au/ReportsandPublications/Documents/annual-reports/annual-report-full-2015-16.pdf.
2. Language ability is one selection factor and according to the International English Language Testing System (IELTS) is graded as Functional, Vocational, Competent, Proficient and Superior English.
3. E.g. in the same Australia New Zealand Standard Classification of Occupations (ANZSCO) unit group.
4. This was part of the Supporting Innovation through visas strategy initiated in December 2015 under the National Science and Innovation agenda.
5. Occupational ceilings for 2015-16, https://www.border.gov.au/Trav/Work/Skil.
6. Provisional skilled – Independent Regional Visa (sub class 495), provisional Skilled-Designated Area Sponsored Provisional visa (subclass 496), provisional Skilled – Regional sponsored visa (subclass 475) or provisional Skilled – Regional sponsored visa (subclass 487).
7. https://www.border.gov.au/WorkinginAustralia/Documents/reforms-australia-permanent-employer-sponsored-migration-programme.pdf.
8. The five skill levels in ANZSCO are defined in terms of formal education and training, previous experience and on-the-job training. Generally Skill levels one and two are considered skilled, while positions at skill level three, four or five are considered semi, low or unskilled respectively.
9. Austrade's role is to advance Australia's international trade and education, investment, and tourism interests by providing information, advice and services
10. HNWIs are defined as those having investable assets of USD 1 million or more, excluding primary residence, collectibles, consumables, and consumer durables.
11. This trend started with the Start-Up Chile initiative and Canada's Start-up visa.

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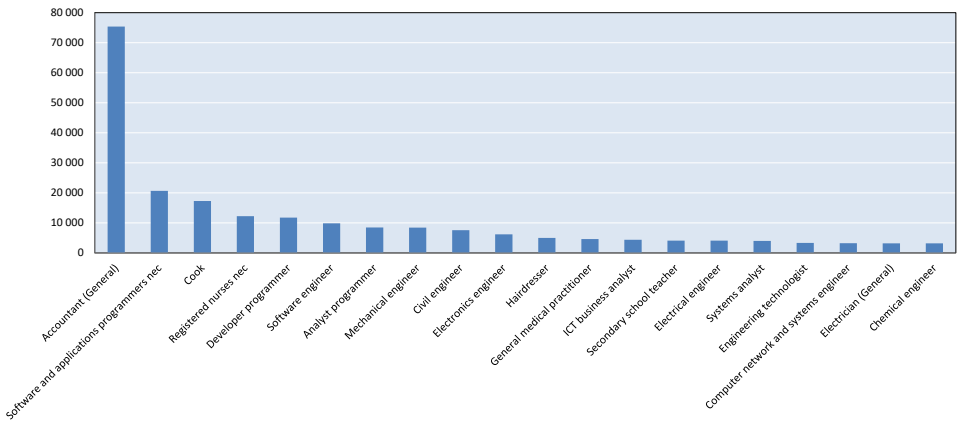
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Annex 2.A1

Additional figures and tables

Figure 2.A1.1. Skilled independent visas, top 20 occupations, 2004/05-2015/16



Note: The figures refer to principal applicants only and includes all visas granted between 2004/05 and 2015/16.

Source: OECD calculations based on DIBP permit data on permanent entries for 2004/05-2014/15.

Table 2.A1.1. Points grid for business and innovation (Provisional) visas

Factor	Description	Points
Age	18–24 years	20
	25–32 years	30
	33–39 years	25
	40–44 years	20
	45–54 years	15
	55 and older	0
English language	Vocational English	5
	Proficient English	10
Qualifications	Australian trade certificate, diploma or bachelor degree by an Australian education institute; or a bachelor qualification recognised by an education institution of a recognised standard	5
	Bachelor degree in business, science or technology by an Australian institution; or a bachelor qualification by an education institution of a recognised standard	10
Special endorsement	The nominating state or territory government agency could decide that your proposed business is of unique and important benefit to the state or territory where the nominating government agency is located	10
Financial assets	Net business and personal assets of you, your partner or you and your partner combined in each of the preceding two years of at least:	
	AUD 800 000	5
	AUD 1.3 million	15
	AUD 1.8 million	25
	AUD 2.25 million	35
Business turnover	Annual turnover in your main business during a period of at least two years of the preceding four fiscal years of at least:	
	AUD 500 000	5
	AUD 1 million	15
	AUD 1.5 million	25
	AUD 2 million	35
Business innovation stream only	You have held one or more businesses before you were invited to apply for the visa for:	
Business experience	Not less than four years within the preceding five years	10
	Not less than seven years within the preceding eight years	15
Investor stream only	Eligible investment of at least AUD100 000 held for:	
Investor experience	At least four years before the time of invitation to apply for the visa	10
	At least seven years before the time of invitation to apply for the visa	15
Business innovation qualifications	Evidence of registered patents or registered designs	15
At the time of invitation to apply for the visa:	Evidence of registered trademarks	10
	Evidence of formal joint venture agreements	5
	Evidence of export trade	15
	Evidence of ownership interest in a gazelle business	10
	Evidence of receipt of grants or venture capital funding	10
State or territory nomination	Special endorsement (limited places)	10

Source: http://www.border.gov.au/Trav/Visa-1/188-?modal=/Visas/supporting/Pages/188/the-points-table.aspx.

Table 2.A1.2. Investor policy criteria and conditions

		AUSTRALIA Investor visa streams		
Programme name		**Investor**	**Significant investor (2012)**	**Premium investor (2015)**
Admission requirements - *Investment*	**Investment capital**	AUD 1.5 million	AUD 5 million	AUD 15 million
	Minimum duration	4 years	4 years	4 years
	Complying investment	State or territory nominated securities	At least AUD500 000 in venture capital and growth private equity funds which invest in start-ups and small private companies, at least AUD 1.5 M in approved managed funds investing in emerging companies listed on the ASX, a 'balancing investment' of at least AUD3 million in managed funds that may invest in a range of assets, including ASX-listed companies, Australian corporate bonds or notes, annuities and commercial real estate	Australian securities exchange listed assets, government or semi-government or corporate bonds or notes, Australian proprietary limited companies, Real property in Australia excluding residential property, Deferred annuities issued by Australian registered life companies, State or territory government approved philanthropic contribution
	Conditions on investments	State or territory nomination	State/territory or Austrade nomination. Direct investment in residential real estate will continue to be prohibited and indirect investment in residential property through managed funds will now be strictly limited. Investments must not be used as security or collateral for a loan	Austrade nomination. Excludes residential property. Applicant or family members aged at least 18 must agree not to bring any action against the Commonwealth for any loss relating to complying investment. Investments must not be used as security or collateral for a loan
Admission requirements - *Applicant*	**Points test**	Min 65/185	n.a.	n.a.
	Minimum net worth	AUD 2.25 million	AUD 5 million	AUD 15 million
	Experience	Experience running a qualifying business or managing eligible investments worth at least AUD 100 000 (in 1 out of the last 5 years), at least 3 years' experience of direct involvement in managing one or more qualifying businesses or eligible investments >4 yrs investment experience = 10 > 7 years investment experience = 15	n.a.	n.a.
	Age	<55 (if 55 or over the nominating state or territory can support age waiver if the investment has strong economic significance but only 0 points)	n.a.	n.a.
	Language knowledge	No minimum requirement though points awarded for vocational English and proficiency	n.a.	n.a.
	Stay in Australia	Intention to live for at least two years in the state or territory in which the designated investment has been made	Genuine and realistic commitment to reside in the state or territory that nominated, continue business and investment activity in Australia after the conclusion of provisional visa, live in Australia for at least 40 days per year (calculated cumulatively) for the duration of provisional visa, or spouse to live for at least 180 days per year (calculated cumulatively) for the duration of principal's provisional visa	Genuine and realistic commitment to continue business and investment activity in Australia after the conclusion of provisional visa
	Eligibility restrictions	Not have a history of involvement in business activities of a nature not generally accepted in Australia		
Permit - *Applicant*	**Initial**	4 years and 3 months - provisional visa. No extension allowed	Live in Australia for at least 40 days per year (calculated cumulatively) for the duration of provisional visa, or spouse to live for at least 180 days per year (calculated cumulatively) for the duration of principal's provisional visa. Allowed two extensions of two years each (so total provisional period of 8 years) in order to fulfill investment criteria	4 years and 3 months provisional visa - but no minimum days per year specified. No extensions allowed
	Permanent residence	Yes	Yes	Yes
	Conditions for permanent residence	Designated investments held continuously for 4 yrs. State/territory nomination remains valid. No role swapping between primary and secondary applicants	Designated investments held continuously for 4 yrs. Role swapping allowed - secondary applicant can switch to being primary applicant to qualify for permanent residence. State/territory nomination remains valid.	Designated investments held continously for 4 yrs. State/territory nomination remains valid. Role swapping allowed - secondary applicant can switch to being primary applicant to qualify for permanent residence. Can apply for permanent residence after 12 months
	General conditions	Meet health, character requirements, sign Australian values statement and no outstanding debts to Australian Government	Meet health, character requirements, sign Australian Values statement and no outstanding debts to Australian Government	Meet health, character requirements, sign Australian Values statement and no outstanding debts to Australian Government

Chapter 3

Main tools and actors in Australia's labour migration policy

This chapter provides a brief description of the tools that are used in Australia to manage both permanent and temporary labour migration. It discusses the safeguards present in the migration system, such as labour market testing, occupation lists, income thresholds and training obligations for employers hiring migrants. Recent changes to the tools used for labour migration are also discussed. Finally, the chapter provides an overview of the actors who are involved in labour migration management.

History of labour migration policy

Australia has had "managed" immigration policy for over 200 years. However, it was after World War II that a systematic immigration programme was developed to primarily meet population needs, meet labour shortages, protect Australia from external threat and create industrial capacity.[1] Arthur Calwell, the first Minister for Immigration in 1945, declared that Australia must "populate or perish" (DIBP, 2015a). In 1945, the Ministry for Immigration was established and the government launched the first Migration Programme to increase Australia's population by 1% per annum, and thereby achieve an annual growth rate of 2%. The Migration Programme has been maintained by each succeeding government and is adjusted to take account of changing economic, social and political environments (DIMA, 2001). For instance, the immigration programme has played a major role in providing the labour and capacity for Australia to undertake major infrastructure projects such as the Snowy Mountains Hydro-electric Scheme (DIBP, 2015a).

Simultaneously the White Australia policy, introduced at the turn of the century, was gradually toned down since 1949 (Productivity Commission, 2015b). This reversal started with the abolition of the European Language detection test in 1958, until its formal abolition in 1973.

The focus of policy changes from the 1970s-1980s was on skills and meeting labour market needs and opening migration to non-European countries. In 1973, legislative changes to citizenship criteria allowed all migrants, regardless of race or origin, to apply for Australian citizenship after three years of residence. In 1978, following wide public debate, new immigration policy features included relaxation of the criteria for family reunion, a more consistent approach to migrant selection and an emphasis on attracting people who would be a positive gain to Australia. It also committed to three year plans to replace annual immigration targets, an average net gain of 70 000 per annum and the application of immigration policy without discrimination.

In 1979, a points based system was introduced called the Numerical Multifactor Assessment System (NUMAS) that assigned weights to factors such as occupational and language skills as indicators of potential successful settlement outcomes. This points grid was revised in 1982 strongly favouring applicants with skills and personal qualities of benefit to Australia, and those with close family ties. Maintaining the economic focus, the 1988 Report of the Committee to Advise on Australia's Immigration Policies (CAAIP), the Migration Programme trifurcated permanent migration into three streams – family, skill and humanitarian – complemented with emphasis on the development of a research capacity,

better procedures to achieve the numbers set by the Migration Programme and revision of the migration categories to achieve national social and economic objectives. The National Office of Overseas Skills Recognition was also established as part of major reforms to the system of overseas skills recognition.

In 1992, two new visa classes were introduced so that state and territories could sponsor "Business Skills" migrants. The next big change was brought through the 1996 July 3 announcement to increase the share of the skill stream. The shift in favour of the Skill Stream is designed to support the "overall objective of promoting migrants with high level of vocationally specific skills who can quickly find employment in their occupation" (Ven et al., 2014). The following year, a stand-down period of two years was also introduced before migrants could become eligible for social security support payments.

The 1990s also saw the need to acknowledge the growing importance of temporary migration. In 1996 a new temporary short-term skilled migration visa (457 subclass temporary business entry visa) (Cameron, 2011) was created. For regional Australia, where skills shortages have traditionally been acute, two national programmes were designed. The Regional Sponsored Migration Scheme (RSMS), introduced in1995-96, allowed employers in designated areas to nominate temporary residents already in Australia or someone overseas to fill a skilled position for a minimum of two years. The State Specific Regional Migration (SSRM) was, on the other hand, developed to assist state and territory governments to "...address skill shortages, attract overseas business people to establish ventures in their regions, and encourage a more 'balanced' settlement of Australia's skilled migrant intake" (Phillips and Spinks, 2012).

There was also considerable effort towards facilitation of pathways for multi-stage migration process (Ven et al., 2014). In recognition of the role of students in future skills supply, policy changes in 2000 enabled overseas students who have studied in Australia to apply onshore to migrate permanently. Following the Birell et al. (2006) report, changes were made in 2007 to place emphasis on language proficiency and relevant work experience. Accordingly, a temporary graduate visa (485) was introduced in 2007 to give international students time to gain the language skills and employment experience they needed to apply for permanent residency. Such graduates were given 18 months if they had finished up to two years of higher study in Australia. The subclass 485 was further refined to include the post-study work stream that provided temporary visa for durations of two to four years (more details on this can be found in Chapter 6 of this review).

In 2008-09, in the wake of the global financial crisis, the Australian Government conducted a review of permanent skilled migration.[2] The review identified "the need for a shift in focus away from 'supply driven' independent skilled migration towards 'demand-driven' migration, in the form of employer and government-sponsored skilled migration".[3] The key rationale behind this was that the skilled independent category had been the major component of the Skilled Migration Programme focussed solely on the supply side without linkages to labour market demand. The employer sponsored pathway was thus seen as much better suited to addressing the short-term cyclical demand for specific skills, as it is a faster, more targeted method of moving migrants into specific employment (Department of Immigration, 2010).

As a result, changes were made to the system to apply priority processing arrangements for sponsored migrants rather than those opting for independent points-based skilled migration. Further changes included the phasing out of existing skills lists and their replacement with the Skilled Occupation List to fill structural needs. Thus the emphasis changed towards a "hybrid system" covering both supply- and demand-driven skilled permanent migration (Cully, 2011). This shift towards demand-driven migration is discussed in Chapter 4 of this review.

Part of the new changes required the introduction in 2012 of a new, two-stage application process for points-based visas, including some business and investment visas. The process involves an electronic Skilled Migration Selection system, known as SkillSelect, through which applicants submit Expressions of Interest (EoI) for specific skilled migration visas following which invitations to apply can be issued in line with the number of visa places available. A detailed description of the new system and an analysis of its outcomes are conducted in Chapter 5 of this report. The present chapter presents the key tools used in managing labour migration especially temporary work and describes the various key actors involved in designing and implementing migration policy and the Migration Programme.

Key tools used in managing labour migration

Australia uses a plethora of tools to manage temporary labour migration, with some of them being also used in the management of permanent labour migration. Until April 2017, when the temporary work 457 visa was announced to be abolished, there were several requirements that both employers and skilled migrants had to meet certain requirements in order to achieve admission under the temporary worker programme. These requirements are specified through a number of policy tools and set in legislative instruments. All these tools were the subject of consideration by

the independent review of subclass 457 (Azaria et al., 2014) and some of them will be revised and/or strengthened with the introduction of the temporary skill shortage (TSS) visa announced in April 2017. With the exception of the occupational skill lists and the training benchmarks, all the other tools discussed in this section relate mainly to the temporary work subclass 457 and the new TSS.

A discretionary labour market testing

As part of the ongoing reforms to the Temporary Work subclass 457, labour market testing (LMT) was reintroduced in November 2013. Sponsors are required to test the local labour market prior to lodging a nomination and must provide information with their nomination about their attempts to recruit Australian worker. They also have to demonstrate how they have determined, on the basis of these attempts, that there is no suitably qualified and experienced Australian citizen, Australian permanent resident or eligible temporary visa holder such as a working holiday makers.

Evidence of LMT in the last 12 months must be presented at the time of nomination. The mandatory evidence includes information about attempts to recruit Australians, including the details and expenses of any advertising conducted. Optional evidence includes information such as labour market research, expressions of support from government employment agencies or information about the sponsors' participation in job and career expositions. If an Australian citizen or permanent resident has been retrenched or made redundant by the sponsor, within the four months prior to lodging a nomination, information about those redundancies or retrenchments must be provided especially efforts taken for LMT after those redundancies had occurred. A template for evidence of summary of domestic recruitment efforts by sponsors[4] asks about advertisement efforts in the last 12 months but, contrary to practices in other OECD countries, there is no fixed time period for the duration of the advertisement or the number of minimum advertisements as found in several other jurisdictions (OECD, 2014).

In practice, the LMT requirement is limited due to a range of exemptions in place. LMT is not applied in the case of all high-skilled occupations of the Australian and New Zealand occupational classification (Skill Levels 1 and 2) except those in the nursing and engineering professions. Other exemptions to the LMT are granted to cases related to Australia's international trade obligations. These exemptions can include a nominated worker who works for an associated firm in an ASEAN nation or is a citizen of a WTO country (in line with Australia's international commitments) who has worked for the sponsor for the last two years or the nominated occupation is listed on the DIBP's website as an "Executive or Senior Manager" and the nominee will be responsible for the entire or a

substantial part of the company's operations in Australia. Therefore, the testing applies principally to trades and technical roles, community workers and administrative workers as well as the protected occupations of engineering (including shipping engineering) and nursing.

Although these exceptions make the LMT discretionary, this does not seem to be an issue of concern in the Australian context of relatively favourable labour market conditions and a dynamic labour market. The conditions of LMT application could be easily modified and its use could be strengthened if labour market conditions changed in the future and it became imperative to provide support to specific groups in the workforce or specific economic sectors. The April 2017 changes to the temporary skilled migration programme expand the mandatory LMT requirement for all cases of the new temporary skill shortage (TSS) visa and limit exemptions only to cases where international trade obligations apply.

Ensuring similar working conditions for migrants and natives through a market salary rate...

With a view to ensuring that migrant workers have parity with domestic workers with regard to terms and conditions of employment, the notion of "Market Salary Rate". The rationale is to ensure that migrant workers are treated no less favourably than an Australian (or permanent resident) doing equivalent work in that workplace in that location and hence also serve as a safeguard for Australian workers, ensuring that they are not displaced by cheaper temporary foreign work. The market salary rate applies to 457 visas as well as the Employer Nomination and Regional Sponsored Migration Schemes.

In July 2013, the annual earnings increased from AUD 180 000 to AUD 250 000 and remained at that level until today, except during the period between April 2014 and June 2015 when it was set again at AUD 180 000. There is no requirement to establish Market Salary Rate when remuneration is beyond the threshold of AUD 250 000, as those workers are deemed high skilled and hence are able to negotiate appropriate terms and conditions.

An important change introduced in 2013 was to replace the need for comparing terms and conditions of similar occupations in the same workplace to those in the wider regional locality. The intention was to overcome situations where an employer could pay a 457 visa holder the same rate as colleagues in the same workplace but not necessarily a genuine market rate. The Joint Submission of the Department of Employment and the Fair Work Ombudsman to the independent review of 2014 highlighted the fact that the Department of Employment, which has a key role in labour

market analysis, does not hold data on salary rates for individual occupations, industries or regions which would enable reliable market comparators.

…and the Temporary Skilled Migration Income Threshold

The Temporary Skilled Migration Income Threshold (TSMIT) was implemented as part of the 2009 reforms to the subclass 457 visa programme to replace the Minimum Salary Level and is specified in a Legislative Instrument. The TSMIT serves at least two purposes. First, it acts as a proxy for a skilled occupation and second as a reasonable minimum salary for migrant workers to support themselves in the absence of eligibility for government benefits and assistance. If the market salary rate for a position is below the TSMIT, an employer cannot nominate this position to be filled by a subclass 457 visa holder, since that would not be commensurate with positions requiring skilled and experienced workers. While ANZSCO is the primary indicator that a position is skilled, the tasks listed for many occupations are open to interpretation, making it difficult for the DIBP to refuse nominations for low skill level positions that have been incorrectly classified as a higher skill level occupation. Therefore, the TSMIT works as a secondary indicator alongside the ANZSCO skill level.

The TSMIT was initially set based on research conducted by the Department of Immigration and Citizenship on the minimum salary necessary for visa holders to support themselves in Australia. To ensure that TSMIT keeps pace with wage growth across the Australian labour market, the TSMIT is indexed annually (provided Ministerial approval is given) in accordance with the Average Weekly Earnings data released by the Australian Bureau of Statistics. Currently the TSMIT stands at AUD 53 900 per year.

There are conditions under which exemptions can be made from the TSMIT threshold. An exception is permitted where "the Minister considers it reasonable to disregard" the TSMIT through an "out clause". The "out clause" can be substantiated by a sponsor through evidence of what an equivalent Australian worker in a "typical working week" would receive by way of penalties, allowances and overtime, beyond the base rate, which when included in a total salary would demonstrate that the occupation meets the threshold. This calculation may be similar to calculating an annualised salary in some industrial awards. This does not change the need for the guaranteed minimum earnings to be above the TSMIT but it does change the assessment of eligibility of the nomination.

The Independent review released in February 2017 retained the existing TSMIT of AUD 53 900 per year (Azarias, 2016). The key reason for

retaining this level was that the detailed labour market analysis needed to reduce reliance on rigid regulation through instruments like the TSMIT had not yet been conducted. The 2014 independent review had recommended that the Ministerial Advisory Council on Skilled Migration (MACSM) (for some details on this Council, see the next section in this chapter) would do this analysis through its proactive engagement with key stakeholders but given that that the MACSM is not yet fully operational in that respect, the TSMIT level has been retained.

Skilled Occupation Lists ensure only skilled migrants are admitted

Australia had until the recent reforms announced in April 2017, two occupation lists – the Skilled Occupations List (SOL) and the Consolidated Skilled Occupations List (CSOL) – applicable across permanent and temporary skilled migration streams.[5] The Skilled Occupation List (SOL) was relevant for independent points-based skilled migrants, family sponsored points tested visa and temporary graduate visas. For all others, including points-based skilled migrants who are nominated by a state or territory under a State Migration Plan, the Consolidated Skilled Occupation List (CSOL) was applicable. The Department of Education and Training has the responsibility for the makeup of the SOL.[6]

The suitability of occupations for inclusion on the SOL is assessed through a two-step process. The first step involves the use of four criteria. These are the following: long lead time (several years of study or training), high use (high fit between skills and use), high risk (short supply of such skills can disrupt the economy) and high information (quality of information that is adequate to inform the first three criteria). An occupation is shortlisted for further consideration if it meets two of the first three criteria, plus the fourth criterion.

The second step involves assessing the medium to long-term skill needs of the economy for each occupation identified in step one, to determine if the occupation would benefit from independent skilled migration. An occupation will successfully pass step two if a surplus of skilled workers is unlikely in the medium to long-term. The assessment in the second step is based on a wide range of indicators in addition to views of stakeholders. Over time, occupations can be removed from the list if they are expected to be in surplus in the medium to long term. Recent examples of exclusions include School Principals and Pharmacists whose domestic supply was expected to increase in the medium term.

The DIBP is responsible for the development of the CSOL and the Department of Employment is involved in an advisory role in this process. The CSOL forms the basis for two lists operating at the level of the states –

the State Occupation List and the Supplementary Skilled List. The State Occupation List includes occupations that are in demand in the state. Migrants seeking nomination by the state for skilled migration must have a nominated occupation on this list. Occupations that are not on the State Occupation List but are included in the CSOL constitute the residual Supplementary Skilled List. This list of occupations has not been identified as being in shortage but at the discretion of states can be made available to applicants who can demonstrate employment outcomes or family links to support human capital and economic objectives of the states' skilled migrant programme. The list is used at the discretion of the state and takes into account factors such as studies undertaken in the state or work experience in a skilled occupation in the state for a minimum time period or having immediate family members permanently residing in the state. Besides these conditions, states may also apply planning levels.

A comparison of the recent skilled occupation lists (Table 3.1) shows that most of the 190 occupations in the SOL list are represented in the CSOL as well. The CSOL has a much larger number of occupations (378) at ANZSCO skill level one and two occupations at level four. The expansive CSOL list reflects the fact that it caters to a range of permanent and temporary programmes – the employer nomination scheme, state sponsored migration, 457 temporary visas, and occupational trainee visa categories.

Table 3.1. Occupations in CSOL, SOL, MLTSSL and STSOL by ANZSCO skill level, 2015-16

ANZSCO level	CSOL	SOL	Overlap	MLTSSL	STSOL
1	378	135	131	132	158
2	104	13	12	9	50
3	165	42	42	42	55
4	2	0			2
Total	649	190	185	183	265

Source: DIBP.

While the CSOL supposedly reflect occupations in-demand, it has not been developed as a result of an analytical and consultative exercise as the one that the SOL undergoes. The 2013 Senate committee (The Senate, 2013) received very little detailed evidence or insight regarding the process for listing occupations on the CSOL and recommended a specific list for the subclass 457 taking into view regional labour market needs. The 2014 independent review recommended that the CSOL be retained at ANZSCO level 3 and above taking into consideration occupations that exist in the

market but not in the ANZSCO and refining the list where there were integrity issues.

In April 2017, it was announced that the SOL will be replaced by the new Medium and Long-term Strategic Skills List (MLTSSL). The new list will contain occupations that have been assessed as being of high value to the Australian economy and aligning to the government's longer term training and workforce strategies. It will be revised based on outcomes from the Department of Education and Training's 2017-18 SOL review. The MLTSSL will apply to all new employer sponsored visas and regional skilled scheme from March 2018.

Following the April 2017 announcements, the CSOL will be replaced by the new Short-Term Skilled Occupations List (STSOL). The STSOL will be updated every six months based on advice from the Department of Employment. According to the most recent announcement about the new STSOL, 216 occupations were removed from the new list and access to 24 occupations mainly related to farming and agriculture were restricted to regional Australia.

A comparison of the two recently released occupation lists shows that the cumulative total of occupations on both lists have reduced to 448 mainly coming from reductions in the STSOL. The occupations at skill level one continue to dominate both lists at around 70% and 60% respectively. Further, there is no overlap between the two lists as was the case previously with the exception of one occupation.[7]

Skills are assessed against Australian standards

A skills assessment is required for permanent skilled migration to Australia and more specifically for skilled independent/State or territory sponsored, employer nomination scheme, regional sponsored migration scheme, temporary graduate visa, and research and study. It is also required for the 457 visa. The main purpose of skills assessments is to determine the employability of a prospective migrant in a nominated occupation by assessing the applicant's qualifications and skills against the Australian standards for entry to that occupation.

In the first instance, an occupation from the relevant occupation list must be nominated. Until the 2017 reform, the relevant lists were the SOL and the CSOL which contained a list of assessing authorities that can undertake the assessment for general professional and trades occupations. Both qualifications and experience related to the nominated ANZSCO occupation are assessed. An applicant must hold a post-secondary or higher educational qualifications at the required educational level, in a field highly relevant to the nominated occupation as well as at least one year of

employment experience obtained in the last five years that is relevant to the nominated occupation. For example, if the occupation "physiotherapist" is nominated, a degree in physiotherapy would meet this requirement, but a degree in commerce would not. The employment experience gained must relate explicitly to having demonstrated skills related to the practice of physiotherapy for a period of at least one year.

Mandatory licensing and registration requirements may apply to some occupations and further information on these requirements are prescribed under each such occupation. In many occupations, applicants must be registered with, or obtain a license from, a local authority in the state or territory where they want to practice their occupation. For instance, if the nominated occupation is a Nurse, a skills assessment must be obtained from the Australian Nursing and Midwifery Accreditation Council (ANMAC) even if currently registered to work as a nurse in an Australian state or territory.

Holders of the temporary graduate visa (subclass 485) are exempted from work experience assessment provided they have acquired their relevant qualifications for the nominated occupation from an Australian educational institution.

Employers hiring migrants are required to provide training to Australian and permanent residents

Employers who sponsor permanent or temporary migrants are required to show that they have taken efforts to train Australian citizens and residents in order to ensure that employing overseas workers is not seen as an alternative to training domestic workers in the specific skill area. Initially, sponsors had to commit to one of the following two training benchmarks: either make a contribution of an amount equal to at least 2% of their annual payroll into an industry training fund or spend at least 1% of their annual payroll into training for Australians in their workplaces for the term of their sponsorship. On 1 July 2013, this requirement became a sponsorship obligation set in legislation, rather than a commitment and was subject to ongoing monitoring and enforcement by the DIBP.

Different reviews stressed the complexities in administering and enforcing training benchmarks. The 2014 Independent review proposed the concept of a "social licence" (Azarias et al., 2014) in which sponsors of overseas workers contribute funds to the employment and training of disadvantaged Australians on a simpler proportional system based on the number of 457 workers in each workplace and scaled according to the size of the business. In the end, the training requirement was announced to be replaced in March 2018 by a levy which will contribute to the new Skilling

Australians Fund. This levy will be paid by employers who hire temporary (temporary skill shortage visas) or permanent employer-sponsored migrants. The government expects an estimated funding of AUD 1.2 billion over the first four years of the Fund's operation which will be matched with funds from states and territories and will be invested in apprenticeships and traineeships. It is expected that the Fund will support up to 300 000 apprentices in high-demand occupations over the next four years.

The exact details of the functioning of this Fund have not yet been made available and as a result, it is not possible to discuss the possible effect. Evidence from other OECD countries shows that this approach is not always successful in promoting skill development. In the United States, employers who hire highly-skilled migrants on H1-B visas must pay a fee which is used to fund training programmes with the objective to promote skill development of the domestic workforce and address skill shortages. In the first decade of the 2000s, USD 1 billion funded skills training and STEM education across the country. However, the distribution of these funds did not prioritise areas with the highest demand for H1-B visas. Ruiz and Wilson (2013) show that metropolitan areas that had the highest demand for H-1B workers received on average in terms of (ETA skills) grants only about USD 3 per working-age person, compared to USD 15 received by metro areas with a lower demand for H-1B visas. Improving the match between training grants and demand for H1-B visas requires good knowledge of the occupations in which there is demand for H1-B visas and the involvement of employers in decisions about the allocation of grants funds.

Given the size of the expected funds relative to the Australian population, it is possible that the effect of the Fund will be greater than that of the H1-B visas in the United States. To ensure the Fund has a positive impact, the training will have to be of high quality, and closely linked to employers' needs and concentrated in areas and occupations in which there is a limited supply of skills. The exact functioning and effectiveness of the Fund remain to be seen.

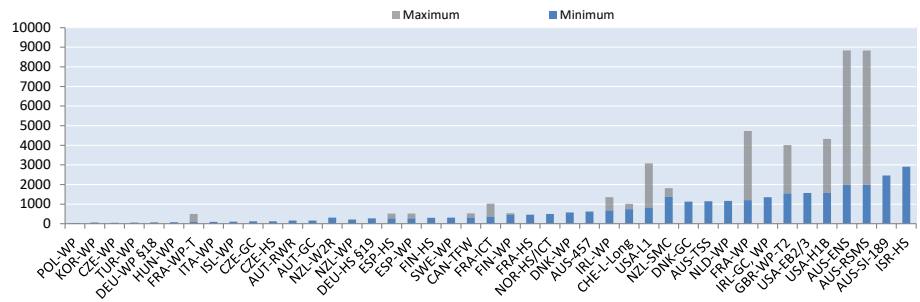
High visa fees

Visa application fees are high in Australia by OECD standards (Figure 3.1). Minimum visa fees for the employer sponsored category and the RSMS amount to a minimum of EUR 2 000, while fees for skilled independent visas start at EUR 2 500. Fees slightly increased following the most recent changes in the 2017/18 budget. These are above the respective fees for HB1 and HB2 and three visas in the United States, or the Tier work permit in the United Kingdom. Fees are much lower for temporary visas, such as the 457 one (currently EUR 621) but this will change with the

introduction of the new TSS visa. The fees will be EUR 770 for the short-term stream of the TSS and EUR 1 600 for the medium-term stream. An additional cost is associated with the skill assessment which constitutes the first stage of the application process and can go up to EUR 700 (AUD 1 050) for some occupations. Although high, visa fees ensure that the system is well funded and they represent a mechanism which preselects candidates with genuine interest to migrating to Australia.

Figure 3.1. Visa cost for selected schemes in selected OECD countries, 2014

In euros



Source: OECD Secretariat analysis of national fee tables, 2014.

Key actors in the management of labour migration

Department of Immigration and Border Protection

The election of the new Australian Government in 2013 brought changes to the department and its responsibilities. The Department of Immigration and Citizenship was renamed the Department of Immigration and Border Protection (DIBP). Settlement and Multicultural Affairs was transferred to the Department of Social Services, while the Adult Migrant English Programme moved to the Department of Industry. The Australian Customs and Border Protection Service became a portfolio agency under the immigration and border protection portfolio.

On 13 May 2014, the government announced the establishment of an Australian Border Force with the formal objective to protect the Australian community from transnational criminal threats posed by illicit imports and to facilitate the movement in and out of Australia of legitimate goods, services and people. From 1 July 2015, the front-line functions of the DIBP and the Australian Customs and Border Protection Service were

consolidated into the Australian Border Force, brought together within the Department of Immigration and Border Protection (DIBP, 2014).

The new Department of Immigration and Border Protection (DIBP) has the mission to protect Australia's border and manage the movement of people and goods across it. The DIBP helps promote and advance Australia's economic prosperity and social cohesion by facilitating trade, travel and migration.

Department of Education and training

The Department of Education supports the Australian Government's participation and productivity agenda through qualifications recognition activities that enhance student and labour mobility. The department assists the Minister for Education to fulfil his responsibilities under the Migration Regulations 1994 (Migration Regulations), which require him to approve an assessing authority for an occupation prior to its specification as a nominated occupation by the Minister for Immigration. Assessing authorities are usually peak bodies (e.g. Australian Computer Society) that are responsible for establishing or applying nationally-recognised professional standards within Australia. Besides playing regulatory and accreditation roles, such assessing authorities also undertake skills assessments for occupations.

Skills assessments can be a very efficient and effective tool in determining if a prospective migrant has qualifications and skills commensurate with Australian standards for the nominated occupation. Assessing authorities must provide evidence that can convince the department that the occupational standards applied in their skills assessments are appropriate to the practice of the occupation in Australia and are not more lenient or excessive than standards an Australian citizen or permanent resident must meet. Occupational standards include qualifications and skills, professional experience and English language proficiency. More details about the skills assessment can be found in Box 5.4 (Chapter 5) of the review.

The Department of Education is responsible for providing advice to the Minister for Immigration and Border Protection on the composition of the SOL. The SOL identifies occupations that would benefit from skilled migration for the purpose of meeting the medium to long-term skill needs of the Australian economy. The methodology and criteria for this annual assessment is explained later in this chapter under the section about the tools used to manage labour migration in Australia. This assessment function was performed by the Australian Workforce and Productivity Agency (AWPA) until 2014.

Regional certifying bodies

Regional certifying bodies must provide advice on the employer nomination under the Regional Sponsored Migration Scheme Direct Entry stream before the DIBP can approve it. A certifying body is an organisation which has been approved for this purpose by the Minister for Immigration and Border Protection. Nominations for the temporary residence transition stream and the agreements stream do not require a regional certifying body (RCB) assessment.

Department of Social Services

The Department of Social Services works to improve the lifetime wellbeing of migrants and refugees settling in Australia by responding to their specific needs, encouraging their independence and participation in the Australian community. The Department of Social Services supports a productive, harmonious and diverse society for all Australians through services that include:

- Information provision such as Settle in Australia
- Settlement services including translation, interpretation, grants for NGOs, complex case support services (a programme which provides specialised and intensive case management services to humanitarian entrants with exceptional needs)
- A national programme to assist refugees and humanitarian entrants settle in Australia.

Ministerial Advisory Council on Skilled Migration

The Ministerial Advisory Council on Skilled Migration (MACSM) is an advisory board and is supported by resources in the Department of Immigration and Border Protection. The Ministerial Advisory Council on Skilled Migration was reconstituted in 2015. It is a tripartite body that comprises unions, business and state and territory government representatives. The Minister for Immigration and Border Protection appoints MACSM members who meet on a quarterly basis. The members provide advice to the Minister for Immigration and Border Protection on Australia's temporary and permanent skilled migration programmes and associated matters. For instance, the advice relates to specific matters such as visa and policy settings, size and composition of permanent and temporary migration and their impact on net migration levels, skill shortages and occupation lists.[8] The Independent review of 2014 had recommended that besides a tripartite composition, the MACSM should be supported by

labour market analysis capability in order to ensure that ongoing changes to the subclass 457 are evidence based.

Fair Work Ombudsman

All workers in Australia are covered by basic working rights and entitlements as set in the Fair Work Act 2009 and other related legislation. The Fair Work Ombudsman (FWO) administers these laws and helps provide education, information and advice, assist resolve workplace complaints, and conduct investigations. The Fair Work Ombudsman provides a number of resources for all workers including visa holders and migrant workers. For instance, the Pay and Conditions Tool (PACT) provides information on pay rates, shift calculations, leave arrangements and notice and redundancy entitlements. The information resources are provided in 27 languages. The FWO also helps with dispute resolution between workers and employers through mediation and where this fails makes referral to legal action. Furthermore, Fair Work inspectors act as Migration inspectors with regard to monitoring certain aspects of the subclass 457 visa arrangements. In particular, these inspectors check that visa holders are paid the agreed market rate and that their job title and description matches what was stated in their application. The inspectors also ensure that sponsoring employers co-operate with the FWO and DIBP on compliance with monitoring.

Migrant Workers' Taskforce

In October 2016, Australia's Government announced the establishment of the Migrant Workers' Taskforce as an expression of its commitment to protect vulnerable workers. The taskforce is supported by the Department of Employment and counts a number of departments and agencies as members. The objective of the taskforce is to identify areas for possible improvements in law, law enforcement and investigation in order to fights cases of migrant workers' exploitation.

Austrade (Australian Trade Commission)

In October 2014, changes to the significant investor visa (SIV) programme and the introduction of a premium investor visa (PIV) were made as part of the Government's Industry Innovation and Competitiveness Agenda. Austrade was tasked with developing a new Complying Investment Framework for both investment programmes. Austrade has three primary on-going responsibilities under the SIV and PIV: to nominate potential SIV applicants (along with the states and territories); develop the new PIV programme and be the sole nominator; and assess the Complying Investment

Framework design on an ongoing basis to ensure the programme achieves its objectives over time.

Outreach network

Incorporating labour migration into human resource strategies would usually be expected to be an employer initiative. Some outreach schemes may now get them thinking about it. One example is the Australian Outreach Officers Network for three different stakeholder groups – regions, industries, and national unions. The Outreach Officers are posted out or operate from departmental offices and provide information about skilled migrant recruitment, immigration options for managing skill shortages, employer obligations, and migrant worker rights.

Office of the Migration Agents Registration Authority

The Office of the Migration Agents Registration Authority, a discrete office attached to the DIBP, regulates the activities of the Australian migration advice profession in order to provide consumers of migration advice services with appropriate protection and assurance. An advisory board comprising a diverse range of stakeholders supports the Authority. As at 30 June 2014, there were 5 212 registered migration agents who were authorised to provide immigration assistance as defined in the Migration Act 1958.

Notes

1. http://www.australia.gov.au/about-australia/australian-story/changing-face-of-modern-australia-1950s-to-1970s.
2. *See* Press Release, Chris Bowen MP, Migration Program Gives Priority to Those with Skills Most Needed (Dec. 17, 2008), http://www.minister.immi.gov.au/media/media-releases/2008/ce08123.htm.
3. http://www.loc.gov/law/help/points-based-immigration/australia.php.
4. https://www.immi.gov.au/Visas/Documents/domestic-recruitment-summary-template.pdf.
5. This review assesses the system in place until the recent reform which took place in 2017 and analyses the data on migration which occurred under the old system. As a result, the description of the system refers to the old system in place while some references are made to the changes introduced in 2017 in the relevant sections of the report.
6. https://www.education.gov.au/skilled-occupations-list-sol.
7. Child Care Centre Manager.
8. https://www.finance.gov.au/resource-management/governance/register/body/112591/.

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Chapter 4

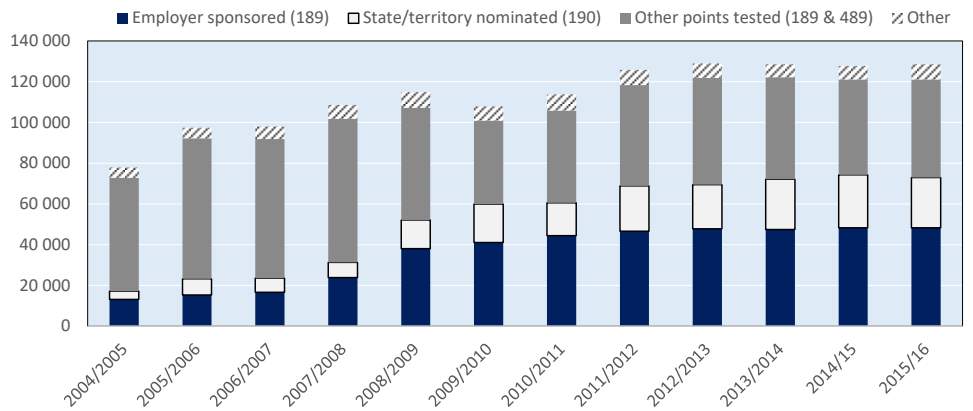
The growth of demand-driven migration in Australia

This chapter examines the shirt of Australia's labour migration system from a purely supply-driven system to demand-driven migration. It demonstrates the rise in employer-sponsored visas, assesses the responsiveness of this type of migration over the economic cycle and analyses the implications of the growing employer-sponsored migration for the labour market outcomes of migrants. The chapter also examines how demand-driven migration helps respond to regional skill needs in Australia.

The growing importance of demand-driven migration in Australia

Like Canada and New Zealand, Australia's permanent skilled migration system has traditionally been supply-driven, with most skilled migrants entering through the points-based system as independent migrants. However in recent years demand-driven programmes, notably employer-sponsored and state/territory nominated[1] migration, have gained greater prominence. Grants of employer-sponsored visas have grown in both absolute numbers and relative importance and in 2015/16 totalled more than 48 250 primary and secondary visa grants (Figure 4.1). This is three times the number of employer sponsored visas granted in 2005/06. Visa grants under the state/territory nominated (STN) scheme have also grown substantially, representing in 2015/16 19% of all permanent skilled visas. At the same time, the share of supply-driven programmes, notably independent skilled migration, has declined. In 2015/16, skilled independent migrants represented one third of all permanent visa grants, down from 51% in 2005/06. In addition, temporary demand-driven migration, of which subclass 457 visas are the largest component, has grown to comprise around 100 000 visa grants (primary and secondary applicants) per year in 2014.

Figure 4.1. Permanent skilled migration by visa category (visa grants per year)



Note: Includes principal and secondary applicants. "Other points tested" includes skilled independent (189) and skilled regional (489). "Other" includes business innovation and investment and distinguished talent visas.

Source: OECD calculations using visa grants data from the Department of Immigration and Border Protection.

The shift towards demand-driven migration has resulted – at least partially – from a change in government policy so that employer-sponsored (together with state/territory nominated) visas (priority 1, 2 and 3) are processed ahead of independent skilled and family-sponsored visas (priority 4), regardless of when the application is lodged (Table 4.1). This means that if sufficient applications are received for employer-sponsored or state/territory nominated visas to fill the overall cap for the skilled migration programme, no places will be offered to those in lower priority groups. As a result, within the overall target for the Skilled Migration Programme, the number of independent skilled migrants accepted in any time period will be determined in large part by the number of applications for demand-driven visas (although there is an annual cap on the number of visas issued under the state/territory nomination scheme).

Table 4.1. Processing priority for skilled migration programme

Priority	Group	Estimated processing time
1	Regional Sponsored Migration Scheme – employer-sponsored migrants to regional areas	5-8 months
2	Employer Nomination Scheme – general employer-sponsored migrants	5-8 months
3	Nominated by state/territory government– within this group, priority given to those lodging applications through SkillSelect	3-12 months
4	Applications with nominated occupations on the Skilled Occupation List (including Independent Skilled and family-sponsored migrants) – within this group, priority given to those lodging applications through SkillSelect From July 2017, this category corresponds to applications with nominated occupations on the Medium and Long-Term Strategic Skills List (MLTSSL).	3-12 months
5	All other applications	n.a.

Source: Department of Immigration and Border Protection website.

This chapter will examine the operation of the demand-driven components of the migration system to see how the numbers and characteristics of migrants vary with economic conditions and how well the programmes are operating to address skills and labour shortages, including a focus on regional areas. The chapter will finish with a discussion of the implications of the rise of demand-driven migration for the overall labour migration programme, both in terms of numbers and composition.

Employer-sponsored migration

There are three main visa types for employer-nominated migration. Temporary migrants are sponsored under the subclass 457 temporary work (Skilled) visa, while permanent migrants may be sponsored through the employer nomination scheme (ENS, subclass 186) or the regional sponsored migration scheme (RSMS, subclass 187). Each of the permanent schemes has multiple streams: the general direct entry stream; the temporary transition stream, which provides a pathway for employers of subclass 457

visa holders to sponsor them for permanent residency; and the agreement stream, where employers who are suffering from genuine and systematic skills shortages but are not able to sponsor migrants through standard arrangements can enter a labour agreement with the government (see Chapter 2 for a discussion of these agreements). Table 4.2 shows the eligibility criteria, cost and processing times for each visa subclass. Employer-sponsored migration is largely limited to skilled or semi-skilled migrants. A seasonal guest-worker scheme for lower-skilled migrants in horticulture and selected other industries was piloted in 2008 and expanded in 2012, but has had limited take-up (see Box 3.1).

Table 4.2. Requirements and restrictions for employer-sponsored visas

	Employer Nomination Scheme (subclass 186)	Regional Sponsored Migration Scheme (subclass 187)	Temporary Work (Skilled) (subclass 457)
Visa type	Permanent	Permanent	Temporary
Age of applicant	<50 years (exemptions apply) (45 years with the 2017 reform)	<50 years (exemptions apply) (45 years with the 2017 reform)	No restrictions
Eligible occupations	CSOL	CSOL	MLTSSL and STSOL
Job characteristics	Full-time for at least 2 years	Full-time for at least 2 years	None
Labour market testing	None	None, but required to obtain advice from Regional Certifying Body that position is genuinely needed and cannot be filled by locals	Yes (but exemptions apply for some higher-skilled occupations)
Employer must meet training benchmarks	Yes	Direct entry: No Temporary transition: Yes	Yes
Salary restrictions	Market salary	Market salary	Market salary, which must be at least as high as TSMIT
Geographical restrictions	None	Outside Gold Coast, Brisbane, Newcastle, Sydney, Wollongong and Melbourne	None
English language competency	Direct entry: Competent Temporary transition: Vocational	Direct entry: Competent Temporary transition: Vocational	Vocational
Visa application fee	AUD 3600	AUD 3600	AUD 1080
Employer nomination/ sponsorship costs	AUD 540	Nil if in designated regional area, but must pay for advice from Regional Certifying Body	AUD 420 sponsorship plus AUD 330 nomination
Processing times	5-8 months	5-8 months	5-10 months
Processing priority group	2	1	n.a.

Note: TSMIT = Temporary Skilled Migration Income Threshold, currently AUD 53 900 per year.

Source: Department of Immigration and Border Protection website.

Box 3.1. Seasonal Worker Programme

The Seasonal Worker Programme serves a dual purpose: meet development objectives for sending countries and needs of Australian employers who cannot recruit locally. Intergovernmental memoranda of understanding (MOUs) signed by the Australian Government with participating sending countries enables their citizens to participate in the programme. The programme is open to workers from Timor-Leste, Fiji, Kiribati, Nauru, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu or Vanuatu.

To participate in the Seasonal Worker Programme (Special programme visa – subclass 416), applicants must be over 21 years and be invited by an approved special programme sponsor. The sponsor must be an approved employer recruiting seasonal workers for the specific industries and must secure a special programme agreement with the Department of Employment intended to safeguard the rights and welfare of low-skill vulnerable workers. This agreement process includes labour market testing ensuring that Australian workers are not affected.

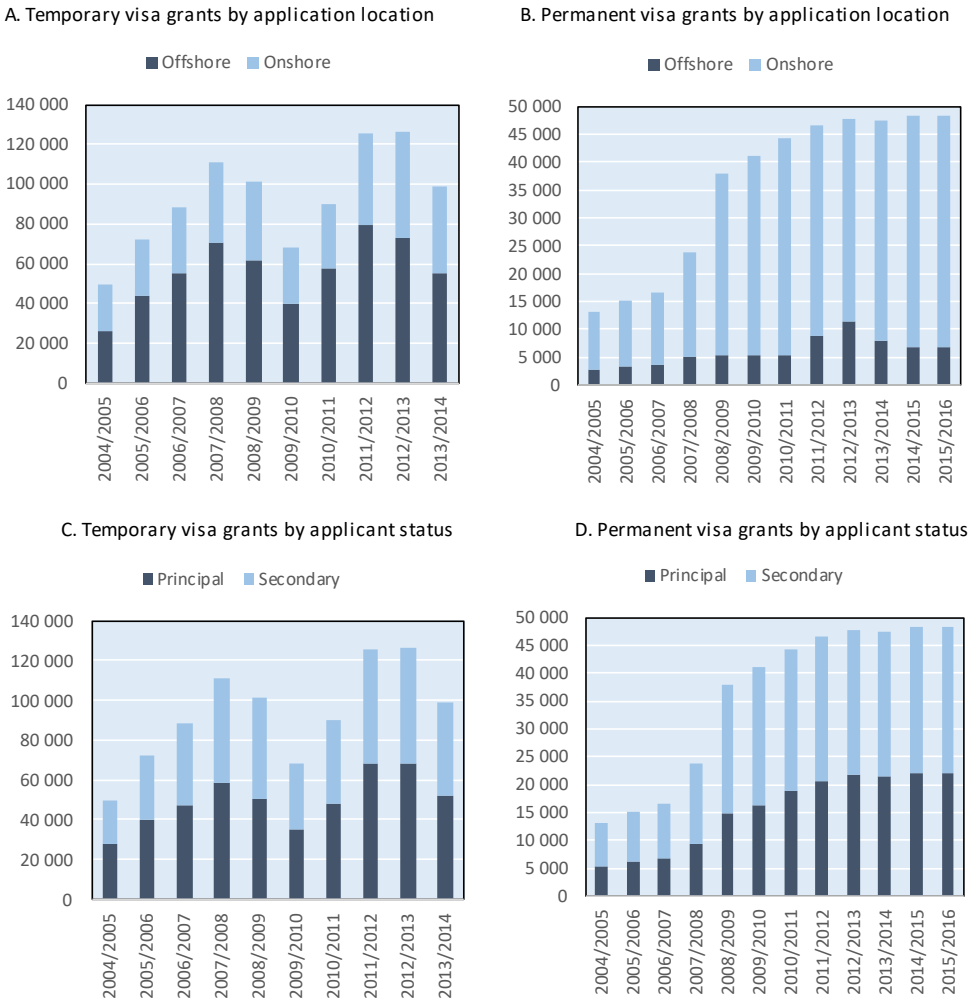
The visa allows applicants to work in Australia usually for 14 weeks to six months or a maximum of seven months and work anywhere in Australia in the specific industries. Family members are not allowed to accompany workers and the emphasis is on circular migration. Employers are responsible for the cost of travel – return airfare and domestic transfers. For all periods of employment, approved employers must guarantee a minimum average of 30 hours' work per week to seasonal workers.

Australia undertook a pilot programme called the Pacific Seasonal Worker Pilot Scheme in 2009 that involved 1 623 workers (from East Timor, Kiribati, Papua New Guinea, Samoa, Tonga and Vanuatu) and 22 approved employers (DoE, 2013). After the pilot phase evaluation, changes were made in June 2015 to make the programme flexible, including extension to other sectors, with a view to increasing take-up by employers. The new Seasonal Worker Programme (SWP) was uncapped with no limit set (DoE, 2015) as Australia, like New Zealand, had earlier capped its quotas at below 0.1% of the total population. Other significant changes included: the approved employer is still responsible for bearing transport costs upfront but can now recover the amount over AUD 500 from these costs over the course of the employment; seasonal workers recruited from Kiribati, Nauru or Tuvalu can be employed for up to nine months recognising their additional travel costs; the requirement for employers to guarantee a minimum of 14 weeks has been removed. Further, the programme has been extended to agriculture and accommodation industries trialling arrangements with other tourism industry sectors and occupations in Northern Australia.

In July 2012 the SWP was allocated 10 450 places to horticulture until 30 June 2016. The SWP also set aside 1 550 places to trial industries of aquaculture, cane, cotton and tourism over the three years from July 2012. In relation to New Zealand's Recognised Seasonal Employer (RSE) programme, the SWP appears to be slower in take-up. In 2014/15 under RSE policy, 11 677 horticulture and viticulture visas were granted against an average of 9 340 during the period 2007-15. A likely reason is the availability of WHM workers available to Australian workers despite some evidence that the seasonal workers are on average significantly more efficient than WHM workers (Leith and Davidson, 2015).

There has been a large increase in employer-sponsored migration over the last decade (Figure 4.2). Permanent employer-sponsored migration increased sharply in the late 2000s, with no sign of a downturn during the global financial crisis. Temporary employer-sponsored migration seems to have been more sensitive to the economic downturn, falling considerably between 2007/08 and 2009/10. The introduction in 2013 of the subclass 400 visa for temporary employment in jobs lasting less than three months may explain part of the decline in the use of subclass 457 visas in the most recent year (see Box 3.2). The majority of employer-sponsored migrants are recruited onshore. This proportion is particularly high for permanent migrants, with 80-85% of visas granted to onshore applicants. Of these, OECD analysis of DIBP visa grants data show that almost 80% were granted to temporary migrants already holding subclass 457 visas and about 15% to those with a student or graduate visa. Around one quarter to one third of visas granted under the permanent programme were under the RSMS. Secondary applicants make up around half of all visa grants.

Figure 4.2. Employer-sponsored migration



Note: Panels A and B include both principal and secondary applicants. Temporary visa grants includes subclass 457. Permanent visa grants includes Regional Sponsored Migration Scheme and Employer Nominated Scheme.

Source: OECD calculations using visa grants data from the Department of Immigration and Border Protection.

Box 3.2. Short stay activity visa (subclass 400): A substitute for a subclass 457 visa?

The temporary work (short stay activity) visa, subclass 400, was introduced in early 2013. It allows visa holders to live and work in Australia for up to three months (or six months if there is a strong business case) in any 12 month period to undertake short-term, highly-specialised, non-ongoing work (i.e. work that will be finished within six months), to participate in an event, or in limited other circumstances, such as assisting after a natural disaster. The visa cannot be granted for a short-term contract in position that will last more than six months, to rotate employees through an ongoing position, or for most work in the entertainment industry. Visa holders are not sponsored by an employer, but must prove that they can support themselves and their family for the duration of their stay. Family members may accompany the visa holder, but cannot work or study (some exemptions on studying).

Since its introduction, grants of subclass 400 visas have risen significantly. It now rivals subclass 457 visas in terms of quarterly visa grants (Figure 4.3, Panel A), with subclass 457 visa grants falling slightly over the same period. As it is not strictly an employer-sponsored visa, subclass 400 visa grants are not subject to labour market testing. The visa is also cheaper and quicker to obtain than a subclass 457 visa. As such, there has been some concern that employers may be avoiding labour market testing by substituting subclass 400 for subclass 457 visas.

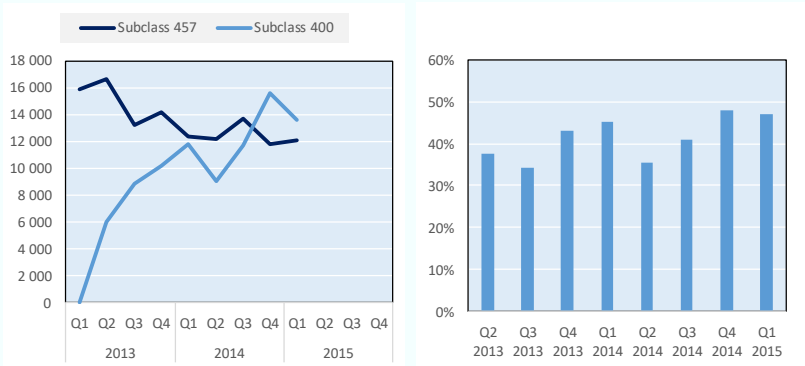
However, while information on the characteristics of subclass 400 visa holders is scant, the available information about visa grants from 2013-15 suggests that the rapid growth of subclass 400 visa grants has not, by and large, been as a substitute for subclass 457 visas. Subclass 400 visa holders tend to be older (35% are aged 40 years or older compared with 18% of subclass 457 visa holders) and less likely to be citizens of English-speaking countries (23% compared to 35%). More than 50% of subclass 400 visas granted in the period 2013 to 2015 were granted to citizens of six countries: India (13%), the United Kingdom and the United States (9% each), China, Indonesia and the Philippines (7% each).

The industry composition of visa grants is also different between the two visa subclasses. Around half of all subclass 400 visa grants are for the arts, recreation or other services, compared with 16% of subclass 457 grants over the same period. By contrast, three in ten subclass 457 visas are granted for the hospitality, health or construction industries, compared with only 5% of subclass 400 visas. The industry composition of subclass 400 visas does not appear to be converging with that of the subclass 457 visa over time. Panel B of Figure 4.3 shows the proportion of visa grants that would need to change industry for the industry distribution of subclass 400 visas to be the same as that of subclass 457 visas, where a value of 100% indicates that both visas have the same industry composition. If anything, the industry composition of visa holders is becoming less similar over time.

Box 3.2. Short stay activity visa (subclass 400): A substitute for a subclass 457 visa? *(cont.)*

Figure 4.3. Subclass 400 and 457 visa grants, 2013-15

A. Quarterly visa grants by visa subclass B. Industry dissimilarity index



Note: Includes principal applicants only. Industry dissimilarity index shows the proportion of visa grants that would need to change industry for the industry distribution of subclass 400 visa grants to be the same as that of subclass 457 visa grants.

Source: OECD calculations using visa grants data from the Department of Immigration and Border Protection.

Employer-sponsored migration over the business cycle

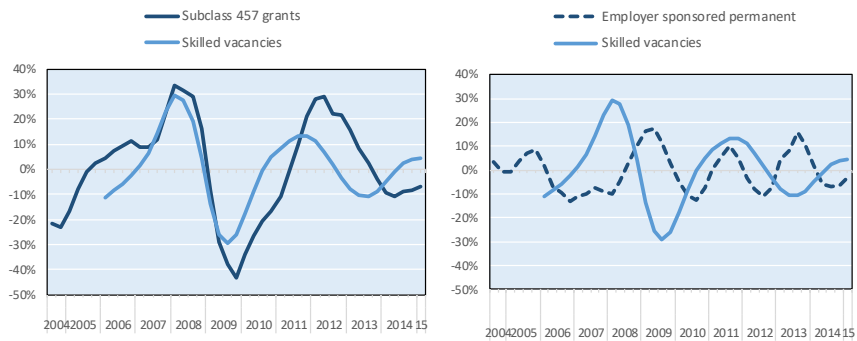
If employer-sponsored migration is driven by the inability of employers to find suitable applicants among the Australian population, it should be sensitive to changes in economic conditions over the business cycle. In this section, data on visa grants for employer-sponsored migrants are filtered to remove seasonal fluctuations and long-term trends, so that what is left shows fluctuations over the business cycle. These are compared to an indicator of fluctuations in skilled vacancies over the business cycle to determine how quickly migration flows adjust to economic downturns and upswings. The method used to filter the data and a comparison of different business cycle indicators are shown in Annex 4.A1. The results shown below are largely unchanged using different filters and indicators.

Employer-sponsored migration appears to be highly sensitive to cyclical fluctuations (Figure 4.4). This is particularly the case for temporary visa grants, which adjusted almost straight away to the downturn caused by the Global Financial Crisis of 2008. Permanent visa grants adjusted more

slowly, with a lag of 6-12 months. This difference in response times is likely due to longer processing times for permanent visas in comparison with temporary visas (2-3 months for temporary visas compared with 5-8 months for permanent visas). Typically, temporary visa grants fluctuate more (as a percentage deviation from trend level) than permanent visa grants. Some of the fluctuations in permanent visa grants in the years between 2011 and 2014 that appear to be counter-cyclical may be due to the lagged effects of peaks and troughs in temporary visa grants, given the large proportion of temporary visa holders who go on to permanent sponsorship.

Figure 4.4. Responsiveness of employer-sponsored migration to economic conditions

Cyclical components of quarterly data on labour migration and skilled vacancies
(% deviation from trend)



Note: Visa grants are for principal applicants only. See Annex 4.A1 for detailed description of methods used.

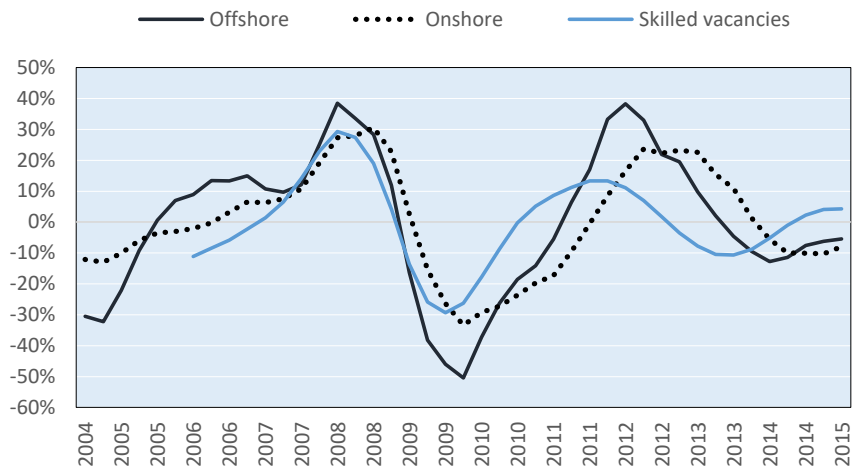
Source: OECD calculations using visa grants data from the Department of Immigration and Border Protection.

Figure 4.5 shows that temporary visa grants to offshore candidates adjust more quickly than for those issued onshore and exhibit slightly greater fluctuation over the business cycle. For permanent visas, onshore grants seem to be more cyclical, although as speculated above, they appear to be influenced both by economic conditions and by earlier temporary visa grants.

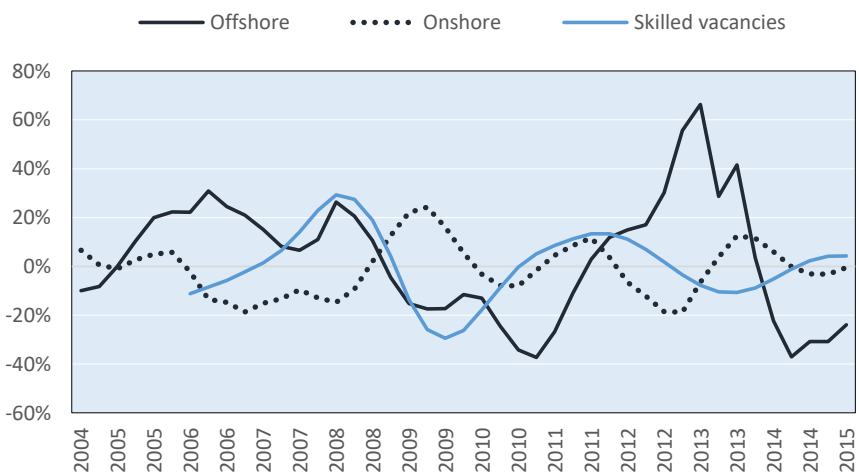
Figure 4.5. Responsiveness of employer-sponsored migration to economic conditions, by application location

Cyclical components of quarterly data on labour migration and skilled vacancies
(% deviation from trend)

A. Temporary visa grants



B. Permanent visa grants



Note: Visa grants are for principal applicants only. See Annex 4.A1 for detailed description of methods used.

Source: OECD calculations using visa grants data from the Department of Immigration and Border Protection.

State/territory nominated migration

State and territory governments can nominate intending migrants under the state/territory nomination (STN) scheme for a permanent (subclass 190) or provisional (subclass 489) visa. STN visas are points-tested and not tied to specific job vacancies within the nominating state/territory. Like Independent Skilled migrants, applicants must have minimum of 60 points. However, applicants get additional five points for being nominated for a subclass 190 visa and 10 points for a subclass 489 visa. Requirements for English language, age and qualifications are the same as those for Independent Skilled migration. Table 4.3 outlines the requirements for subclass 190 visa applicants for each state/territory. Requirements for provisional (four year) subclass 489 visa applicants are similar, but visa holders must live and seek work in a regional or low-growth metropolitan area if they wish to be considered for a pathway to permanent residency.

Table 4.3. Requirements and restrictions for Skilled Nominated (subclass 190) visas by state/territory

	New South Wales	Victoria	Queensland	South Australia	Western Australia	Tasmania	Northern Territory	Australian Capital Territory
Applicants with access to wider list of occupations than SMP	High ranking applicants (based on points score, English ability and work experience)	Graduate from Vic university; PhD graduate	Graduate with Qld Masters or PhD	Graduate from SA university; SA resident for 6-12 months; immediate family in SA; 85+ points	None	Graduate from Tas university; medical professional with 6 months' work in Tasmania	Evidence of good employment prospects in NT; graduate of NT university; close family in NT; NT resident for 3-6 months	ACT resident for 3 months; genuine job offer; close family in ACT; graduate from ACT university
Residents from other states/territories	No special requirements	Must have job offer	2 years' work experience in nominated occupation	Not eligible	Must have job offer	Must have job offer plus 5 years' work experience	No special requirements	Not eligible if lived in another state/territory in last 12 months
Other		Some SMP occupations for graduates require job offer			Some SMP occupations require job offer			ACT residents have lower English requirements
Evidence of financial capacity	No	Yes	Yes	Yes	Yes	No	For offshore or interstate applicants	For offshore applicants
Application process	Separate application to state required	Separate application to state required	SkillSelect applicants contacted by state	Separate application to state required	SkillSelect applicants contacted by state	Separate application to state required	Separate application to territory required	Separate application to territory required
Fee for state/territory application	AUD 300	None	AUD 200	AUD 200	AUD 200	None	None	AUD 300
Residence requirement after arrival	2 years	2 years	2 years	2 years	2 years	2 years	2 years	2 years

Note: SMP = State Migration Plan list of eligible occupations.

Source: State/territory government websites, current as at December 2015.

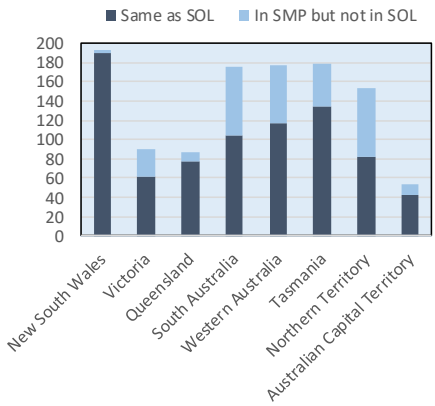
Applications are made by submitting an expression of interest through SkillSelect (see Chapter 5) and indicating a willingness to be nominated by a particular state/territory. In most states/territories a separate application must be made directly to the state/territory around the same time as the EOI before an applicant will be considered for nomination. In Queensland and Western Australia, SkillSelect applicants who have indicated a preference for those states are contacted directly by the state and asked to submit their state application. Most states/territories charge a small application fee for state/territory nomination, in addition to the visa fee imposed by the DIBP. State/territory governments then nominate their preferred candidates, who receive an invitation to submit a visa application. State/territory governments are not involved in visa processing.

Until the 2017 reform when the CSOL was still the list to use, STN migrants had to have a nominated occupation listed on the CSOL. In addition, each state/territory maintains an occupation list for nominated migrants, called the State Migration Plan (SMP) and general applicants for state/territory nomination are, in theory, required to have a nominated occupation on the SMP. In practice however, states/territories can nominate any applicant with a points score of at least 60 and a nominated occupation on the CSOL, regardless of whether or not their occupation is on the SMP. Numerous explicit exemptions also apply, typically for existing residents or graduates from universities in the state/territory. In most states/territories, SMPs appear to be used as a guide to intending migrants about what occupations are most in demand in each state/territory rather than to strictly screen applicants. Victoria aside, a large proportion of the migrant intake in 2014 under the STN programme was in occupations outside the SMP (Figure 4.6, Panel A). This was particularly stark in the ACT where less than 10% of migrants had occupations on the SMP. In large part, the occupational composition of the STN is likely to reflect the occupational composition of applicants, with smaller states/territories facing a trade-off between nominating migrants with desirable occupations and meeting quotas for the overall intake.

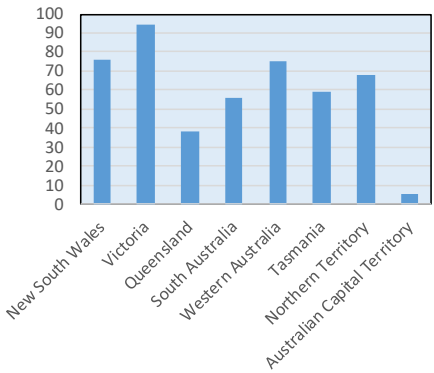
The extent to which SMPs reflect the national SOL varies across states/territories (Figure 4.6, Panel B). The New South Wales (NSW) SMP is almost exactly the same as the SOL, whereas South Australia (SA), Western Australia (WA) and the Northern Territory (NT) include many occupations in their SMPs that are not on the SOL. Victoria, Queensland and the Australian Capital Territory (ACT) are relatively selective in their use of SOL occupations and their SMPs include a relatively small number of occupations (predominantly healthcare professionals in Queensland and the ACT).

Figure 4.6. State Migration Plans (SMPs)

A. Number of occupations in SMPs



B. Percentage of 2014 STN visa grants with nominated occupation on SMP



Note: SMP = State Migration Plan; SOL = Skilled Occupation List. Occupations are at 6-digit ANZSCO. SMP and SOL are for 2014/15. Visa grants are for principal applicant only.

Source: OECD calculations using information from state/territory government websites (current as at December 2015) and visa grants data from the Department of Immigration and Border Protection.

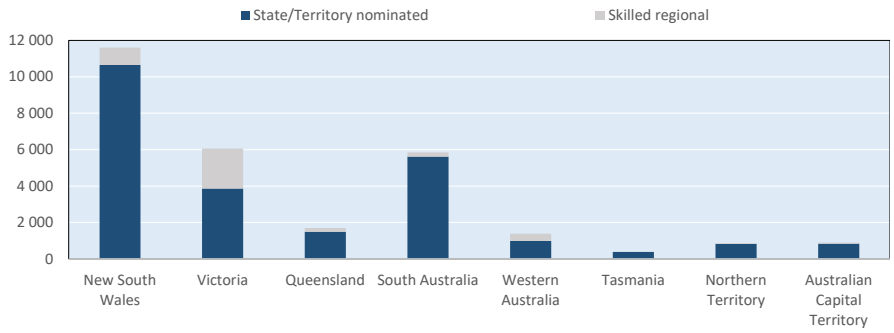
As well as the general requirements for a STN visa, each state and territory can impose additional requirements for applicants for state/territory nomination. Applicants currently residing in other states/territories are often required to have additional work experience or a job offer. South Australia and the ACT do not accept applications from intending migrants who are currently residing in other states/territories (but do accept applications from overseas applicants), likely due to the increased risk of them returning to their original state/territory of residence after receiving a permanent visa. The same applies for overseas applicants for STN visa in ACT who have a spouse/partner or other dependent who has lived or studied in another Australian state or territory within the last 12 months. In South Australia, state residents or overseas applicants who completed their Australian qualification outside South Australia in the last three years, cannot apply for an STN visa and have to apply for a provisional 489 visa (some exceptions apply). Most states/territories also require evidence that the intending migrant can financially support themselves and their family for an initial period. All states/territories require that migrants live in the nominating state/territory for at least two years after the visa is granted, or for the full duration of a four-year provisional subclass 489 visa. Retention is supposed to be monitored by state/territory governments through a survey sent to new

migrants within the first two years of arrival. In addition, STN migrants are required to inform the state's relevant immigration authority of any change of circumstances within the first two years of living in the state, including a change of address or change of investment, business, employment. For instance, ACT requires STN migrants to complete settlement surveys 6, 12, 18 and 24 months after arrival. However, the residence requirement does not seem to be widely enforced and information on the survey that STN migrants are expected to respond to is not available. As discussed in the next section, STN migrants have a higher rate of interstate mobility than most other permanent migrants. Data from the 2013 and 2014 cohorts of the Continuing Survey of Australian Migrants show that around 8% of STN principal applicants moved to another state/territory within 18 months of arrival.

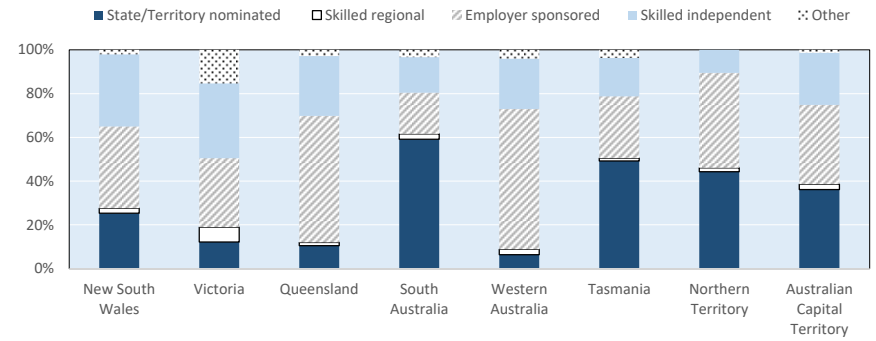
Figure 4.7 shows that nearly two-thirds of STN migrants in 2013/14 were nominated by NSW or WA. However, the relative importance of STN migration is higher in SA and the ACT, where STN migrants make up close to half the skilled migration intake. States where the demand for places is high (NSW, Victoria) tend to issue more provisional subclass 489 visas which require visa holders to live outside Melbourne, Sydney, Brisbane, Perth, Canberra and some surrounding areas. Smaller states, where subclass 489 visa holders can live anywhere in the state/territory, often use the offer of a permanent subclass 190 visa rather than a provisional visa as a way of attracting applicants.

Figure 4.7. State and territory nominated migration, 2015/16

A. Number of visa grants by state/territory



B. Composition of total permanent skilled visa grants by visa category and state/territory



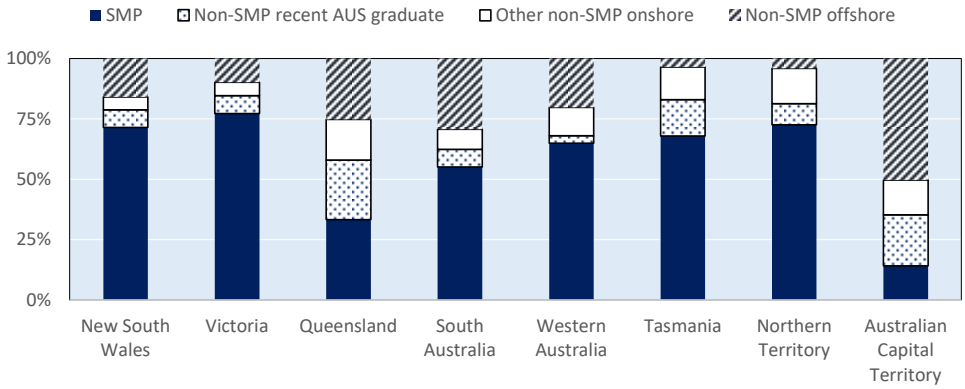
Note: Includes principal and secondary applicants. "State/territory nominated" includes permanent STN migrants. "Skilled regional" includes provisional STN migrants as well as family-sponsored migrants. "Other" includes business innovation and investment and distinguished talent visas.

Source: OECD calculations using visa grants data from the Department of Immigration and Border Protection.

Interstate variation in STN migrant characteristics and outcomes

As outlined above, each state/territory defines its priorities for intending STN migrants in terms of occupations and other characteristics (recent graduates, existing residents, etc.). However, the final composition of the intake will also depend on the pool of intending migrants who indicate a preference for that state/territory. Figure 4.8 suggests that some states/territories have difficulty attracting enough applicants with their priority characteristics. In particular, the ACT, SA and Queensland appear to take a relatively large proportion of offshore migrants in non-SMP occupations.

Figure 4.8. STN migrants by characteristics and nominating state/territory



Note: SMP = Nominated occupation on the 2014/15 State Migration Plan. Recent AUS graduate is defined as onshore applicants with an Australian qualification aged 15-24 with a bachelor or postgraduate degree or aged 25-34 with a postgraduate degree.

Source: OECD calculations using data from the Continuing Survey of Australian Migrants 2013, 2014 and 2015 cohorts.

Labour market outcomes for STN migrants also vary considerably across states/territories, which is the result of their different characteristics, but also the local labour market conditions among other factors (Table 4.4). Of the larger states/territories, migrants in Victoria tends to have the best labour market performance, despite having a relatively high state unemployment rate. Close to 90% of STN migrants to Victoria are employed after six months and almost 60% of those are working in their nominated occupation. By contrast, just over one third of employed migrants to SA are working in their nominated occupation, and close to half of those with a job are actively searching for another job, indicating a relatively high level of dissatisfaction with their current employment situation.

Part of the interstate discrepancy in labour market outcomes is due to differences in underlying labour market conditions. However, even after controlling for the state/territory unemployment rates, Victoria performs better than the other states/territories in most regards. Table 4.5 reports the difference in labour market outcomes between each state/territory and Victoria after controlling for local unemployment rates and migrant characteristics. The results suggest that at least part of the difference in employment outcomes across states/territories is due to the characteristics of migrants: Victoria seems to be selecting migrants with characteristics that improve their likelihood of being employed quickly compared with most

other states/territories. However, differences in migrant characteristics and local labour market conditions between states do not explain all of the differences in migrants' labour market outcomes between states. As shown in Table 4.5, the likelihood of employment is significantly lower in NSW and SA, the likelihood of working in the nominated occupation is significantly lower in NSW, SA, WA and the ACT and the likelihood of looking for other work while employed (an indicator of job dissatisfaction) is significantly higher in NSW, SA, WA and both territories. By contrast, labour market outcomes are generally similar to Victoria in Queensland and somewhat better in Tasmania (although the sample sizes for both states are relatively small). This implies that there are other, unobserved, characteristics which determine labour market outcomes and which differ between states. For instance, it could be that there is an issue of self-selection, with more motivated migrants and those with higher unobserved ability and strive choosing to go to Victoria, or it can also be that differences in the quality of support services and access to networks and good quality jobs is better in Victoria than in other states.

Table 4.4. Labour market outcomes of STN migrants by nominating state/territory

Percentage of total STN migrants

	New South Wales	Victoria	Queensland	South Australia	Western Australia	Tasmania	Northern Territory	Australian Capital Territory
Labour force status after 6 months:								
Employed	83.4	87.3	84.6	76.2	84	93	93.9	82.6
Unemployed	12.9	10.3	13	19.6	12.7	4.5	5	14
Of those employed:								
Working in nominated occupation	41.4	58.2	53.9	34.1	48.2	48.9	55.2	42.3
Over-skilled	46.9	26	35.2	53.2	38.8	32	40	36.1
Employed FT	79.9	78.5	77.6	68.4	82.6	76.7	90.2	79.6
Self-employed	3.7	3	4.9	5.3	4.4	5.4	2.4	2.7
Actively looking for work	38	30.5	33.9	47	34.2	25.9	29.5	32.8
Average state/territory unemployment rate	5.7	6.2	6.2	6.8	5.2	7.2	4.5	4.4
Sample size	811	1030	314	1039	1167	81	125	376

Note: Over-skilled is defined as working in an occupation with a skill-level lower than the nominated occupation. Employed FT is defined as working 35 or more hours per week.

Source: OECD calculations using data from the Continuing Survey of Australian Migrants 2013, 2014 and 2015 cohorts. State/territory unemployment rate is from the ABS Labour Force Survey.

Table 4.5. Marginal effect of nominating state/territory on labour market outcomes

Percentage-point difference with Victoria

	% employed		Of all employed:			
			% working in nominated occupation		% actively looking for work	
	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2
New South Wales	-6.4***	-5.3***	-17.2***	-16.3***	11.1***	9.7**
Queensland	-2.6	-2.2	-4.3	-3	3.2	2.9
South Australia	-6.1***	-4.2**	-23.5***	-18.8***	10.4***	8.0***
Western Australia	-10.0***	-2.1	-11.3***	-12.5***	13.2***	14.0***
Tasmania	7.2***	4.2	-8.2	-2.2	-10.2**	-9.5**
Northern Territory	-0.1	3.1	-4.8	-3.2	12.9**	14.0**
Australian Capital Territory	-216.3***	-4.2	-17.8***	-12.3**	16.8***	13.6**
Includes controls for:						
Unemployment rate	Yes	Yes	Yes	Yes	Yes	Yes
Migrant characteristics	No	Yes	No	Yes	No	Yes

Note: Results shown are marginal effects from probit regressions. ***, ** and * indicate that marginal effect is significantly different to base category (Victoria) at 99%, 95% and 90% confidence levels, respectively. Unemployment rate is annual state/territory rate. Migrant characteristics are gender, age, education level, whether has an Australian qualification, self-assessed English-language ability, whether nominated occupation is on the SOL or SMP and whether applied for visa onshore.

Source: OECD calculations using data from the Continuing Survey of Australian Migrants 2013, 2014 and 2015 cohorts.

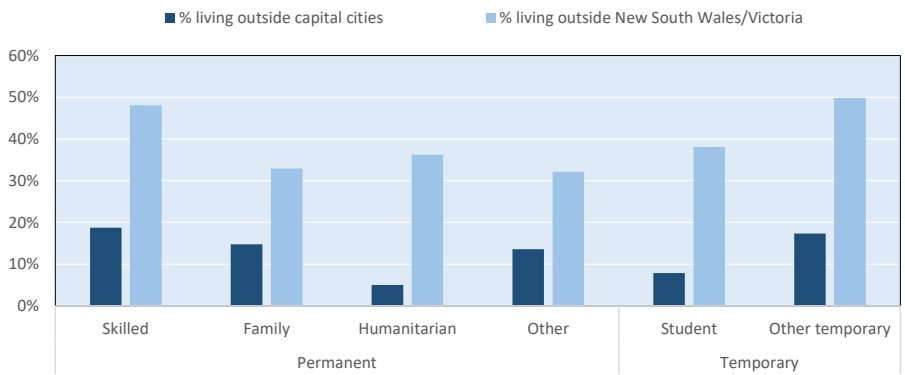
Anecdotal evidence from DIBP staff involved in visa processing indicates that Victoria is the most popular choice for intending STN migrants. While this may be partly due to better labour market outcomes in general, it is notable that Victoria, along with Tasmania and the NT, does not charge an additional fee for processing STN applications. This may increase the size and quality of the pool of potential applicants, allowing Victoria to choose more applicants with characteristics that best match the state's needs. At the same time though, there may be a negative self-selection in the states which do not charge additional visa application fees, with less skilled and qualified migrants applying there given that they have anyway a low probability of being granted a visa. However data on the number and characteristics of applicants submitting expressions of interest for state/territory nomination are not available and hence disentangling between the different possible channels is not possible. Attracting applicants with better characteristics would be particularly useful for the ACT, where very few STN migrants have occupations on the SMP and migrant characteristics seem to be important drivers of poor labour market outcomes. By contrast, in SA and NSW characteristics play a relatively minor role in

explaining poor labour market outcomes. Providing better support services for new STN migrants may be more important in improving labour market outcomes in those states.

Meeting regional skill needs through demand-driven migration

A key impetus for the growth of demand-driven migration during the 2000s was to recruit migrants to move to states or regions experiencing labour and skill shortages (Hugo, 2008a, 2008b; Cameron, 2011). Skilled migrants are more likely to settle outside capital cities and outside the two largest states than other types of migrants (Figure 4.9), due in part to a specific focus on attracting migrants to regional areas within the demand-driven parts of the skilled migration programme. Migration to regional areas is encouraged by priority processing rules (where regional visa subclasses are processed ahead of those for non-regional areas), allocating additional points to points-tested applicants who are nominated by a state/territory or family member in a regional area or who have studied at a regional university, and providing incentives for migrants on temporary or provisional visas living in regional areas to attain permanency.

Figure 4.9. Regional settlement of recent migrants, by visa type



Note: Migrants arrived 2009-13. Other temporary includes mainly temporary work visas (subclass 457) and working holiday makers.

Source: ABS Characteristics of Recent Migrants, November 2013.

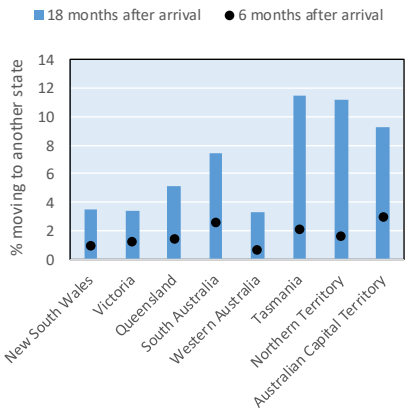
There is little existing evidence on the effectiveness of demand-driven migration in meeting regional skill needs. Hugo (2008b) argues that State-Specific and Regional Migration scheme, a precursor to the STN scheme, was partially successful in diverting migrants to regional areas but that

retaining migrants in these areas once they have obtained permanent residence is difficult without sufficient employment opportunities and adequate support services.

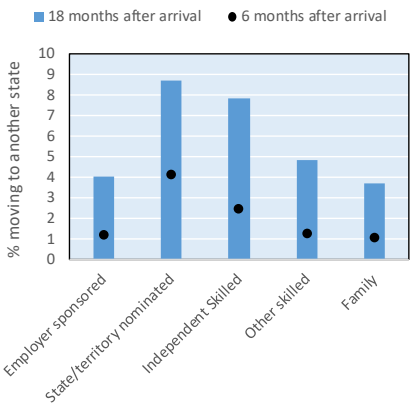
More recent analysis is hampered by the lack of detailed information on the geographical location (regional versus metropolitan) of recently-arrived migrants in the publicly-available Continuing Survey of Australian Migrants (CSAM). Nevertheless, the same data source shows that a small minority of migrants move to another state/territory within a short time of their arrival in Australia (Figure 4.10). Interstate mobility is highest in the smaller states/territories and among STN and Independent Skilled migrants, despite STN migrants being required to stay in their nominating state/territory for two years after arrival. By contrast, only 4% of employer sponsored permanent migrants moved interstate within 18 months of arrival.

Figure 4.10. Interstate mobility of permanent migrants

A. By state/territory of arrival/visa grant



B. By visa category



Source: OECD calculations using data from the Continuing Survey of Australian Migrants 2013 and 2014 cohorts.

Various factors influence the likelihood that migrants will settle and remain in regional areas (DIBP, 2014). These include the availability of good quality employment options, both for the principal applicant and their spouse, as well as the availability of affordable housing, healthcare, education and settlement services. Social connectedness, which is enhanced by the length of time in Australia, living in a small town and having children, also plays an important role (Wulff and Dharmalingam, 2008).

Table 4.6 shows that much of the difference in interstate mobility between employer-sponsored and skilled independent migrants can be attributed to differences in personal characteristics. In particular, skilled independent migrants are more likely to apply offshore, have higher education and are more likely to be without a partner or children, all of which are associated with higher interstate mobility. Better labour market outcomes within six months of arrival among employer-sponsored migrants play a relatively minor role in explaining differences across visa categories in interstate mobility, which accords with Hugo's (2008a) argument that employment is a necessary but not sufficient condition for regional retention. STN migrants remain significantly more likely to move interstate than employer-sponsored or independent skilled migrants, even after controlling for observable characteristics. It is possible that the remaining difference can be attributed to the characteristics of the geographical location in which they settle or a lack of social connectedness that is not observable in the CSAM dataset.

Table 4.6. Differences in interstate mobility across visa categories among permanent skilled migrants

Marginal effect of visa category on likelihood of principal applicant moving to another state/territory within 18 months of arrival (percentage points)

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Compared with employer sponsored:						
State/territory nominated	4.7***	4.5***	3.5***	4.4***	4.7***	3.6***
Independent skilled	1.6***	1.8***	0.7	1.3*	1.5**	1
Controls for:						
State/territory characteristics	No	Yes	No	No	No	Yes
Personal characteristics	No	No	Yes	No	No	Yes
Own employment status	No	No	No	Yes	No	Yes
Partner and family characteristics	No	No	No	No	Yes	Yes

Note: Marginal effects are from probit regression equations. *** and ** indicate that marginal effect is statistically significant at 99% and 95% level, respectively. "State/territory characteristics" includes dummies for state/territory of residence at six months and state/territory unemployment rate; "personal characteristics" include age, gender, education, self-assessed English skills, born in non-English speaking country, whether has an Australian qualification, onshore applicant and skill-level of nominated occupation; "own employment status" includes whether or not employed and/or overskilled at six months; "partner and family characteristics" includes whether had a partner and children under 18 at 6 months and partner's employment status at 6 months.

Source: OECD calculations using pooled data from the Continuing Survey of Australian Migrants 2013 and 2014 cohorts.

The analysis in this section has highlighted the differences that exist in terms of the composition of migrants, their labour market outcomes and their retention across Australian states and territories. Small states and those with less attractive labour market and living conditions may have a hard time competing with big cities and large states. They have to use incentives to attract people, as it the case for small states which tend to use more permanent subclass 190 visas rather than provisional visas. However, the issue of retention during the two-year period and beyond that, is an important one and is not addressed with this kind of measures. A crucial question is whether the current Australian system benefits the entire country and is effective in meeting the needs of all different states. The analysis in this section shows that less attractive regions are still using mostly supply-driven migration and have a harder time recruiting migrants onshore and retaining temporary migrants than more attractive states. There are hence implications for the role of regional migration in the context of the increasingly used two-step migration model and the differences that exist in transitions from temporary to permanent residence between states.

Implications of the growth of demand-driven migration

Characteristics of demand-driven migrants

Compared to independent skilled migrants, demand-driven migrants tend to be older, less educated, less likely to hold an Australian qualification and more likely to be men (Table 4.7). The vast majority of employer-sponsored migrants apply onshore, compared with around half of STN migrants and three-quarters of independent skilled migrants. However, analysis of visa pathways presented in Chapter 5 shows that most onshore applicants for employer-sponsored visas had previously held a work visa, whereas most onshore independent skilled applicants previously held student or graduate visas, suggesting that employer-sponsored migrants are more likely than the other categories to have previous skilled work experience in Australia. Employer sponsored migrants are also more likely to be born in a main English-speaking country than other skilled migrants.

Table 4.7. Characteristics of permanent skilled migrants by visa category

Percentage

	Employer sponsored	State/Territory nominated	Independent skilled
Female	31.1	34.3	39.7
Aged 15-24 years	13	18.5	28.9
Aged 25-34 years	53.3	61.2	59.4
Aged 35+ years	33.7	20.3	11.7
Onshore application	94.4	54.4	70.1
Tertiary education	60.2	86.7	90.1
Australian qualification	46.1	49	60.7
Speaks English very well or better	78.7	82.1	78.6
Born in a main English-speaking country	28.5	10.7	10.7

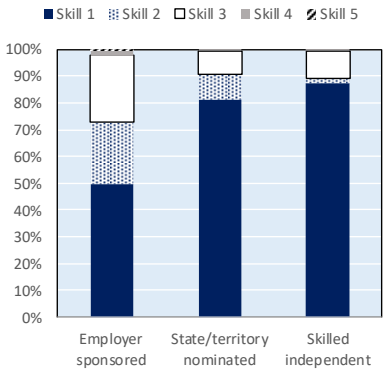
Source: OECD calculations using data from the Continuing Survey of Australian Migrants 2013, 2014 and 2015 cohorts.

The skill profile of migrants also varies by visa category (Figure 4.11). Employer-sponsored migrants are, on average, nominated in lower-skilled occupations than STN or skilled independent migrants, with only half nominated in occupations at the highest skill level. However, differences across visa categories are much smaller when looking at the actual skill level of those employed six months after arrival. This is because points-tested migrants are more likely to be over-skilled (i.e. working in an occupation with a lower skill level than the nominated occupation). Among those employed six months after arrival, only 11% of employer sponsored migrants were working in an occupation at a lower skill level than their nominated occupation compared with 29% of skilled independent and 40% of STN migrants.

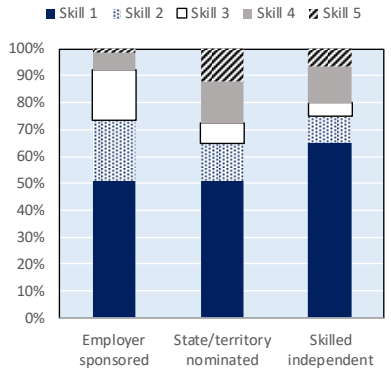
As well as having a different skill profile and as expected given the conditions of entry, demand-driven migrants are less likely than skilled independent migrants to have a nominated occupation on the SOL. Around 85% of skilled independent migrants arriving between 2013 and 2015 had an occupation on the SOL, compared with less than 40% of employer sponsored and 60% of STN migrants (Figure 4.12).[2] Occupations that were not on the SOL tended to be at a lower skill level than SOL occupations for all visa categories.

Figure 4.11. Skill profile of permanent skilled migrants by visa category

A. Nominated skill level



B. Actual skill level of those employed at six months after arrival



Note: Actual skill level is only shown for those who are employed at six months after arrival.

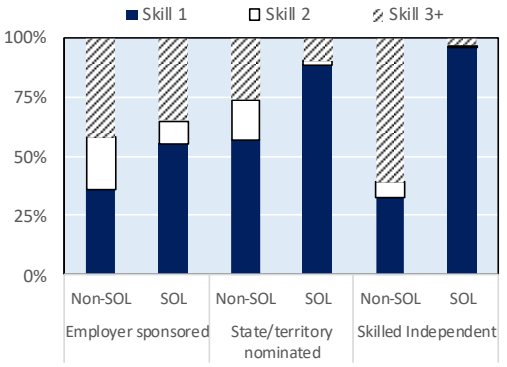
Source: OECD calculations using data from the Continuing Survey of Australian Migrants 2013, 2014 and 2015 cohorts.

Figure 4.12. Skill profile of permanent skilled migrants by visa category and whether nominated occupation on SOL

A. Percentage of migrants with nominated occupation on SOL



B. Skill level of nominated occupation by whether on SOL



Note: SOL = 2014/15 Skilled Occupation List.

Source: OECD calculations using data from the Continuing Survey of Australian Migrants 2013, 2014 and 2015 cohorts.

Labour market outcomes

Employer-sponsored migrants are required to have a job offer prior to being granted a visa, so it is unsurprising that their immediate labour market prospects are better than STN or skilled independent migrants. Table 4.7 shows that employer-sponsored migrants perform considerably better than STN or skilled independent migrants on a range of labour market indicators in the six months after arrival (Table 4.8). Over time, employment and unemployment rates tend to equalise between the visa categories as more skilled independent and STN migrants find work and some employer sponsored migrants leave their sponsoring employer. However, employer sponsored migrants have still employment rates 3-5 percentage points higher than those of STN migrants and skilled independent, and they also face the lowest unemployment (1.7%). In addition, employer-sponsored migrants are more likely to be employed in their nominated occupation and less likely to be over-skilled than either skilled independent or STN migrants, and these rates do not seem to change much with time since arrival. Of the three categories examined, STN migrants have the lowest chance of being in a job that matches their qualifications. Rates of dissatisfaction with the current job (as measured by the proportion of those employed currently looking for another job) tend to rise over time for demand-driven visa holders, but are still considerably lower for employer-sponsored than STN migrants.

Table 4.8. Labour market status of permanent skilled migrants by visa category

	Employer sponsored		State/territory nominated		Skilled Independent	
Time since visa grant:	6 months	18 months	6 months	18 months	6 months	18 months
Labour force status:						
Employed	97.4	96.1	84.8	91.8	87.1	92.8
Unemployed	0.9	1.7	12	4.8	8.8	3.4
Of those employed:						
Working in nominated occ.	69.4	66.5	48.4	48.4	56.9	57.5
Over-skilled	9.8	11.6	39.3	38.1	28.9	27.2
Employed full-time	97	95.8	80.4	86.9	82	86.9
Self-employed	2	6.1	4.1	7.5	4.9	9.2
Actively looking for work	7.4	14.1	34	32.1	26.5	23.1

Source: OECD calculations using data from the Continuing Survey of Australian Migrants 2013 and 2014.

At least some of the observed differences in labour market outcomes across visa categories are likely to be due to differences in migrants' characteristics, reflecting selection policies for different visa types (such as the points system). Several characteristics have been found to be associated

with good labour market outcomes for migrants to Australia. Better English-language ability is associated with a higher probability of employment, labour market participation and having a better quality and higher-paying job. Women typically have lower participation and employment rates than men. Migrants with higher levels of education, from English-speaking countries and those who have spent some time in Australia prior to permanent migration tend to perform better than others (Piracha et al., 2012; Mahuteau and Junankar, 2008; Cobb-Clark, 2000; van de Ven and Voitchovsky, 2015; Productivity Commission, 2015).

Table 4.9 shows the difference in labour market outcomes between demand-driven and skilled independent migrants, before and after accounting for differences in their personal characteristics. In accord with research on earlier cohorts of migrants by Cobb-Clark (2000) and Mahuteau and Junankar (2008), the results show that employer sponsored migrants have better employment outcomes than skilled independent migrants even after accounting for differences in their characteristics. However, the difference between categories declines over time, suggesting that the initial benefit of having a job offer has only a short-term effect on the likelihood of employment. After adjusting for characteristics, STN migrants have similar labour market performance to skilled independent migrants, particularly 18 months after arrival. One area where significant differences with skilled independent migrants remain is in the matching of migrants to their nominated occupation. Employer sponsored migrants remain substantially more likely to be employed in their nominated occupation and less likely to be over-skilled than skilled independent migrants, while STN migrants have poorer matches.

One of the key implications of the rise of demand-driven migration is a decline in the average skill level of the skilled migration intake, along with a growing share of migrants whose nominated occupation is not on the SOL. However, no previous studies have examined the impact of migrants' nominated occupation on labour market outcomes. Figure 4.13 shows that, other things equal, having a nominated occupation on the SOL has little impact on employment or unemployment, but greatly increases the likelihood that migrants will be working in their nominated occupation and reduces the likelihood of being over-skilled. By contrast, having a highly-skilled nominated occupation (skill level 1 relative to skill level 3) is associated with a poorer job match (higher probability of over-qualification and lower likelihood to work in the nominated occupation), although this effect declines in magnitude over time since arrival. After 18 months, migrants with a higher skilled nominated occupation are more likely to be working full-time and less likely to be self-employed than those with a lower skilled nominated occupation. These results suggest that the growing

share of migrants without an occupation on the SOL may lead to a decline in the quality of job matches, but this might be offset by better job matches achieved by the growing share of lower skilled migrants, at least in the short term.

Table 4.9. Difference in labour market outcomes compared with skilled independent migrants

Marginal effects from probit regression models (percentage points)

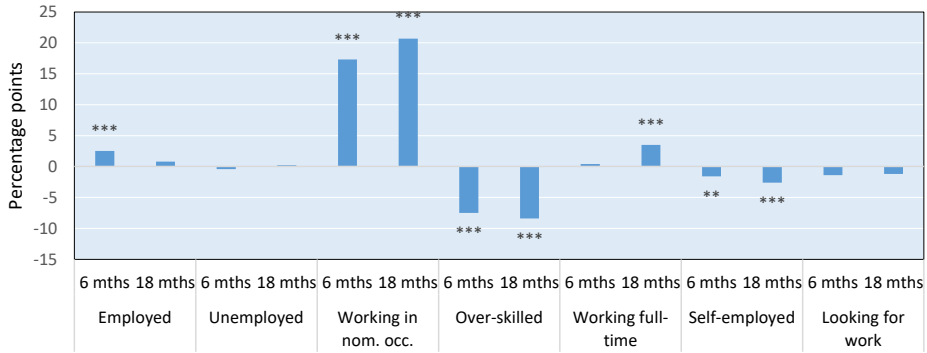
	Employer sponsored				State/territory nominated			
	Unadjusted		Adjusted for characteristics		Unadjusted		Adjusted for characteristics	
Time since visa grant:	6 months	18 months	6 months	18 months	6 months	18 months	6 months	18 months
Labour force status:								
Employed	10.4***	3.3***	9.4***	2.6***	-2.3***	-1	0.4	-0.1
Unemployed	-7.9***	-1.7***	-6.7***	-1.0*	3.2***	1.4***	0.8	0.6
Of those employed:								
Working in nom. occ.	12.5***	9.0***	21.6***	18.8***	-8.6***	-9.2***	-3.9***	-3.7**
Over-skilled	-19.1***	-15.6**	-18.1***	-15.2***	10.4***	10.9***	7.3***	7.5***
Employed full-time	15.0***	9.0***	13.1***	8.6***	-1.5	0	-2.8**	0.3
Self-employed	-2.9***	-3.1***	-4.3***	-4.7***	-0.8	-1.7**	-0.1	-1.5
Looking for other work	-19.1***	-9.0***	-15.9***	-7.9***	7.5***	9.0***	5.3***	5.5***

Note: Table shows marginal effect of visa category compared with skilled independent migrants. ***, ** and * indicate that marginal effect is statistically significant at 99%, 95% and 90% level, respectively. Results for working in nominated occupation, being over-skilled, working full-time, self-employment and job search are conditional on being employed. Characteristics adjusted for are gender, age, education, Australian qualification, self-assessed English language ability, state/territory of residence, onshore application, skill level of nominated occupation and whether nominated occupation is on the 2014/15 Skilled Occupation List.

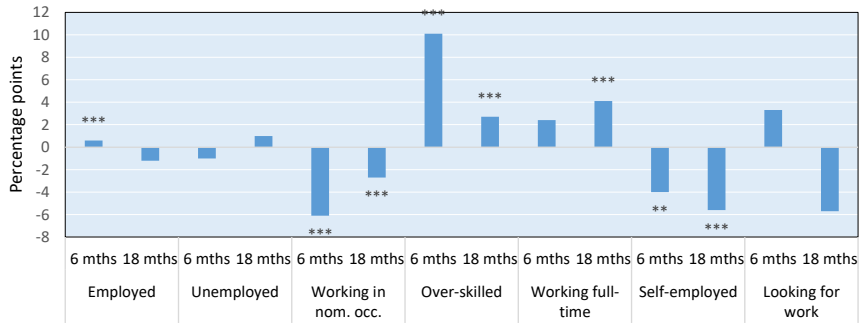
Source: OECD calculations using data from the Continuing Survey of Australian Migrants 2013 and 2014.

Figure 4.13. Marginal effect of nominated occupation on labour market outcomes

A. Having a nominated occupation on the 2014/15 SOL



B. Having a nominated occupation at skill level 1 (compared with skill level 3)



Note: Figure shows marginal effects from probit models for skilled independent, employer sponsored and STN migrants. *** and ** indicate that marginal effect is statistically significant at 99% and 95% level, respectively. Results for working in nominated occupation, being over-skilled, working full-time, self-employment and job search are conditional on being employed. Regressions also include controls for gender, age, education, Australian qualification, self-assessed English language ability, state/territory of residence, onshore application, visa category, whether nominated occupation is on the 2014/15 SOL and skill level of nominated occupation.

Source: OECD calculations using data from the Continuing Survey of Australian Migrants 2013 and 2014.

Econometric evidence on the rise of demand-driven migration and its impact on labour market outcomes for skilled migrants is rather scant. Van de Ven and Voitchovsky (2015) analyse the impact on migrant employment outcomes of reforms to the points system for skilled independent migrants alongside the rise of employer-sponsored migration between 2005 and 2009. They find that employment rates for skilled migrants improved relative to those of family migrants over this period by 12 to 14 percentage points, of

which about 5 percentage points was due to the shift to employer-sponsored migration, while the rest was the result of changes to the points system. They argue that changes to the points system to place greater emphasis on language skills and education and refinements to skilled occupation lists resulted in improved outcomes for skilled independent migrants, whose characteristics were better matched to employer needs. Meanwhile, the tightening of the points system meant that weaker candidates who may have previously applied as skilled independent migrants were pushed to find a job and apply for employer sponsorship. The overall impact of these changes on short-term labour market impacts was positive.

The evidence reviewed in this section relies mainly on the Continuing Survey of Australian Migrants and its predecessor, the Longitudinal Survey of Immigrants to Australia. Both surveys examined outcomes for permanent migrants within the first 18 months of arrival/visa grant. The results show that employer-sponsored migrants perform better, and STN migrants perform worse, than skilled independent migrants, although the differences tend to decline over time. However, questions remain about the longer-term impacts of the shift to demand-driven migration. Future work, possibly using linked administrative and longitudinal census data, should pursue these questions further.

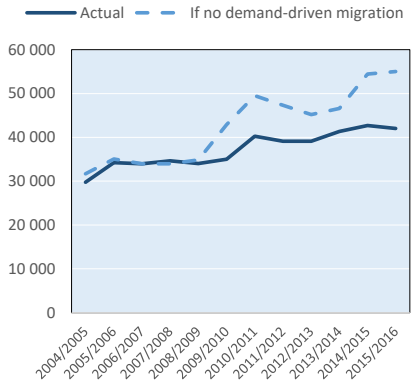
Implications for migration planning

As the demand-driven component of the skilled migration programme increases, the average permanent skilled migrant has a lower education level and a less skilled nominated occupation, is older and less well-matched to the SOL, but despite that, immediate labour market prospects may be improving (or at least not deteriorating). Migration to Australia is still more selective than in most other OECD countries. The overall impact on the labour market and the economy is unclear.

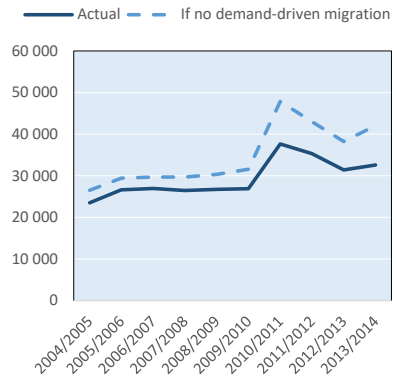
The impact of demand-driven migration on the skill and occupational mix of migrants is considerable. Figure 4.14 estimates the number of permanent visas that would have been granted for occupations at skill level 1 and on the 2015/16 SOL if the demand-driven component of the skilled migration programme was replaced by skilled independent migrants, assuming that the additional skilled independent migrants shared the characteristics of the actual intake of skilled independent migrants. In total, there have been around 40 000 fewer migrants with skill level 1 occupations and 54 000 fewer with occupations on the 2015/16 SOL than would have been the case in the absence of demand-driven migration. This simple estimation should be read of course with caution as nothing guarantees that additional places in the independent skilled stream would have been filled by such high-skilled candidates.

Figure 4.14. Number of permanent visa grants by characteristics of nominated occupation

A. Occupation at skill level 1



B. Occupation on 2015/16 SOL



Note: "If no demand-driven migration" assumes that demand-driven component (employer sponsored and STN) is replaced by independent skilled migrants.

Source: OECD calculations based on visa grant data from the Department of Immigration and Border Protection.

To some extent, the increase in lower skill-level occupations within the skilled migration programme over the past five years reflects structural changes in the Australian economy, notably the mining investment boom that induced employment growth in the mining and construction industries where trades skills are in particular demand (Downes et al., 2014). However, recent falls in commodity prices have seen declines in mining employment (ABS, 2015). While the ratio of trades to professional and managerial vacancies in Department of Employment internet vacancy statistics has remained relatively constant, to the extent that the SOL reflects the medium- and long-term skill needs of the Australian economy, the increase in the share of skilled migrants with an occupation that is not on the SOL raises some concerns about how the influx of lower skill-level migrants will fare in the medium and long term. Having an occupation on the SOL seems to have little impact on short-term employment and unemployment likelihoods but improves job matching. More research is needed on the relative labour market performance of migrants by different visa categories beyond the 18-month window provided by the current CSAM dataset, which is impossible for the time being with the data currently available.

The cyclicality of employer-sponsored migration within a relatively stable cap for overall skilled migration also means that the mix of visa

categories varies considerably over the business cycle. During downturns the share of demand-driven migrants falls and that of independent skilled migrants increases, so the average skill level of the migrant intake increases. This may not necessarily have adverse labour market consequences, as vacancies for highly skilled workers tend to fluctuate less over the cycle than those for trades workers. However, many independent skilled migrants are recent graduates and compete with recent Australian graduates for available vacancies, rather than experienced Australian workers. Employment rates of Australian graduates fell sharply during the Global Financial Crisis and continued to fall until 2014 (Graduate Careers Australia, 2015). As such, counter-cyclical increases in skilled independent migration induced by reductions in demand-driven migration have the potential to adversely impact both new migrants and recent Australian graduates.

In conclusion, Australia has oved over time from a purely supply-driven system to demand-driven migration. Employer-sponsored visas have grown totalled 48 250 primary and secondary visa grants in 2015/16, 38% of all permanent visas granted in that year and three times the number of employer sponsored visas granted in 2005/06. In contrast, skilled independent migrants represented just above one third of all migrants under the skill stream in 2015/16, down from 51% in 2005/06. Demand-driven migration is also reflected in the growing number of 457 subclass visa grants, which have been highly responsive to the economic cycle. Demand-driven permanent migration is associated with better labour market outcomes than supply-driven permanent migration, at least in the short-run, but further analysis should be undertaken to analyse whether this advantage remains in the longer term.

Notes

1. While state/territory nominated migration is points-based, it shares many of the features of other demand-driven programmes. In particular, the size and composition of the intake (as long as applicants have at least 60 points and the overall program is under the annual cap) is determined by state/territory governments, not the federal government.
2. The existence of skilled independent migrants with a nominated occupation that is not on the SOL could be as the result of changes in the SOL between the time when the application was lodged and the time when the visa was issued, or reporting errors in the CSAM dataset.

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Annex 4.A1

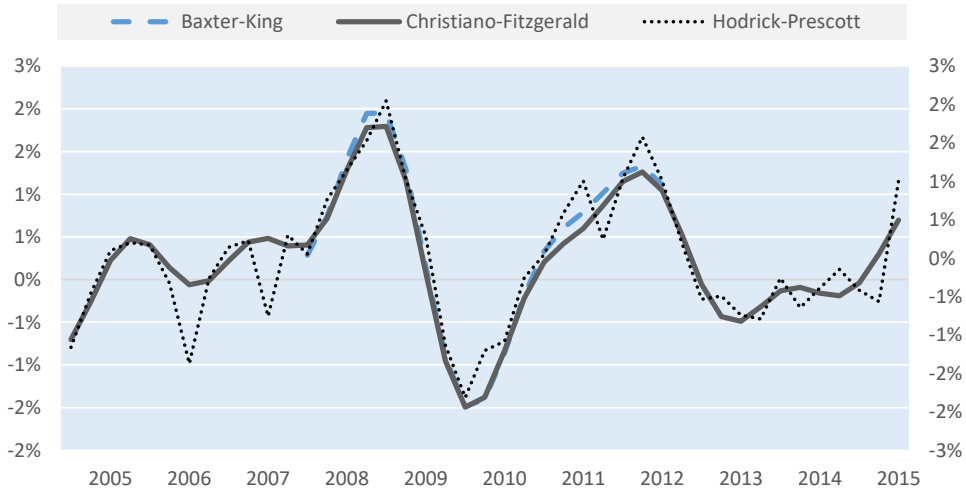
Alternative measures of cyclicality

The sensitivity of migration flows to the business cycle are examined in Chapter 4 using quarterly data on visa grants and economic conditions that have been filtered using a Cristiano-Fitzgerald (CF) filter. Cyclical components derived from the filtered data are then divided by trend figures to show the percentage deviation from trend. The CF filter has the advantage of providing a smoother series than the Hodrick-Prescott filter, and does not require the discarding of the start and the end of the series like the Baxter-King filter. However, Panel A of Figure 4.A1.1 shows that using an alternative filter has little impact on the timing or size of business cycle fluctuations shown in the smoothed series for aggregate hours of work.

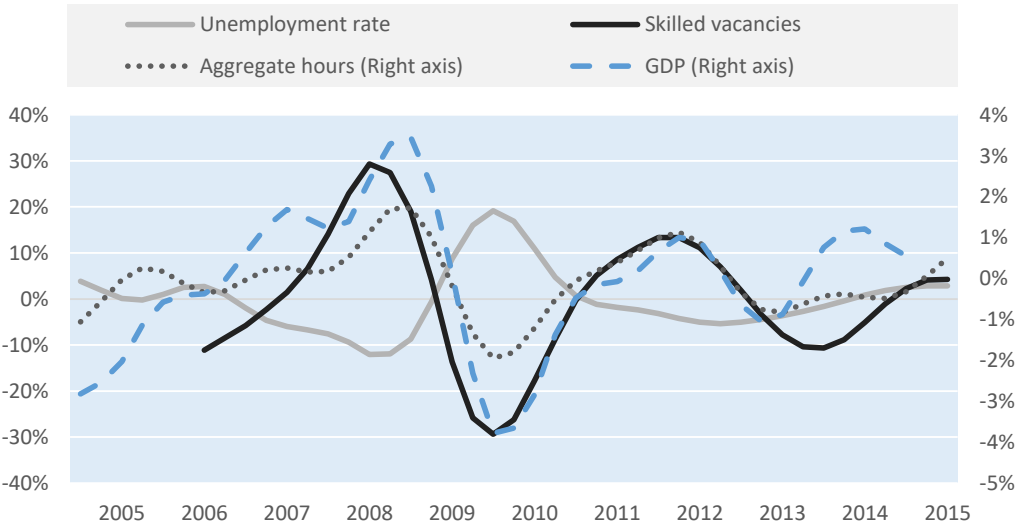
The main measure of business cycle volatility used in the chapter is aggregate hours of work, with unfiltered data taken from the Labour Force Survey. Aggregate hours of work was chosen as the principal indicator because it takes into account labour market adjustment at the extensive and intensive margin. However, using alternative measures of labour market conditions, such as the unemployment rate or number of skilled vacancies, or aggregate economic conditions, such as GDP, is likely to have little impact on the results (Panel B of Figure 4.A1.1), particularly the timing and magnitude of the downswing associated with the Global Financial Crisis.

Figure 4.A1.1. Alternative measures of business cycle fluctuations

A. Cyclical component of aggregate hours of work using different time-series filters
(% deviation from trend)



B. Cyclical component of alternative measures of labour market and economic conditions
(% deviation from trend)



Note: All data are quarterly. Panel B: all measures use the Cristiano-Fitzgerald filter.

Source: OECD calculations using data from the ABS National Accounts and ABS Labour Force Survey.

Chapter 5

Skillselect – Australia's expression of interest system

This chapter focuses on SkillSelect, Australia's expression of interest system introduced in July 2012. It provides a detailed description of how the system operates and assesses the way the new system has affected processing times and efficiency of labour migration management. Moreover the chapter examines how SkillSelect has affected the occupational mix and provides preliminary evidence on its impact on the labour market outcomes of migrants.

Introduction

The Australian Government introduced a new model for selecting skilled migrants – called SkillSelect – in July 2012. SkillSelect allows intending migrants to submit an expression of interest (EoI) for a skilled migration visa. Each EoI is assessed against a points-based score and if it meets the pass mark enters the SkillSelect pool. Once in the pool, applicants can be invited to apply either on the basis of their position in the points score ranking (skilled independent and skilled regional visa) or on the basis of other characteristics (state/territory nominated visas). Skillselect may also be used for employer sponsored visas and employers may access the SkillSelect pool.

Prior to the implementation of SkillSelect, all applicants for points-based visas that met the minimum points requirement, character and health tests, and nominated an occupation on the SOL[1] were granted a visa, within the limit of annual target. However, an oversupply of qualified applicants compared with the number of places available led to the development of a large queue and long processing times. By contrast, SkillSelect allows the government to match the number of invitations (and therefore visa applications) to the number of places available and to prioritise the applications having the highest settlement potential. New Zealand was the first country to adopt an EoI system in 2003 and Canada adopted a similar system in 2015 (see Box 5.1).

In 2011, the then Minister for Immigration argued that SkillSelect would allow greater flexibility for the skilled migration programme to adjust to changing circumstances by "altering the skill composition of [the] workforce, and speeding up or slowing down recruitment as circumstances change" (Bowen, 2011). Other anticipated benefits of moving to SkillSelect include improving targeting to ensure that the best candidates are chosen and that skilled migrants have the characteristics that will equip them for labour market success; ensuring that applications are received across a wide variety of in-demand occupations; providing employers and state/territory governments with database of intending migrants, with migrants able to indicate their willingness to live and work in regional Australia; and streamlining visa processing by matching visa applications to available places (Department of Immigration and Citizenship, 2012).

This chapter will examine the operation of SkillSelect since its introduction in 2012. The next section outlines the SkillSelect selection process in detail. The chapter then examines how well the system is performing against some of the objectives outlined at its inception: selecting the best candidates; improving the occupational mix of the migration intake; streamlining visa processing; and improving labour market outcomes.

Box 5.1. EoI/ITA schemes in Canada and New Zealand

A Points Based System (PBS) has been in vogue for several decades. Following Canada the PBS has been adopted in other settlement countries and more recently across several OECD countries in Europe (United Kingdom, Netherlands, Denmark, Austria and in the German Land of Baden Württemberg-pilot) and Asia (Korea and Japan). However, faced with backlogs and oversubscription, the settlement countries have devised and refined an expression of interest (EoI) model to address these issues as well as retaining greater control over attributes of those selected and how many to be admitted at any given time. An up to date and detailed comparison of the EoI systems in the different countries can be found in Belmonte and Chaloff (2017).

The EoI model, pioneered by New Zealand in 2003, envisages a two-step process where applicants meet minimum requirements including a "qualifying pool-mark" using the PBS as a basis for scoring. Such applicants, in the first instance, submit an expression of interest for consideration by immigration authorities. All eligible EoIs received into a skill "pool" are ranked and sorted and those who meet the minimum floating "pass-mark" are, as a second step, then Invited to Apply (ITA) for a permanent residence visa. Subject to checking validity of points claimed and meeting admissibility requirements, a final decision to approve the visa is made.

Canada introduced the Express Entry, its version of the expression of interest model, in January 2015. Applicants must be eligible for any one of the skilled migrant visa programmes to submit an electronic profile or expression of interest. Those without a job offer must register in the Job Bank vacancy database, managed by Employment and Social Development Canada, within a month of submitting their profile. All profiles in the pool are then scored according to a Comprehensive Ranking System (CRS) which not only provides points for individual factors but innovatively for interactions as well (e.g. age and work experience). Ministerial Instructions on the eve of every draw determine the floating minimum pass mark and numbers to be chosen for that draw and accordingly those on and above this mark are invited to apply for a residence visa.

There are interesting variations to the systems in New Zealand and Canada. In New Zealand, within the Skilled/Business residence stream, the EoI serves a single skilled migrant category and the category of Investors 2; during the period 2012-16, the EoI has been used also for the Family steam, in particular for the parent visa. In Canada, Express Entry is the gateway to all its skilled migrant visa categories – the Federal Skilled Worker Programme (FSW), Canadian Experience Class (CEC), Federal Skilled Trades Programme (FSTP); it may be used also for the Provincial Nominee Programme (PNP, which becomes "enhanced" via Express Entry). It is now used however outside the economic class. New Zealand has a points grid that determines an applicant's points score prior to submitting the EoI. Canada's entry requirements are slightly complex and differ for its various programmes and the FSW also have to secure a minimum 67 marks (from a previously existing points grid) to submit an EoI. Once the EoI profile is submitted, the points score in Canada is automatically generated through a CRS. In Canada, the importance of a job offer has been significantly reduced while in New Zealand an offer of employment gives to 50-60 points and this can further increase if other requirements are met.

Box 5.1. EoI/ITA schemes in Canada and New Zealand *(cont.)*

In Canada and New Zealand, EoIs are automatically sorted, ranked and invited to apply based on rules built into the draw mechanism. Up until October 2016, New Zealand has used a semi-automatic system for choosing who should get an ITA: scores of above 140 points in New Zealand triggered an auto-pass, while the rest of the applicants went through a second-order manual sorting that prioritised those with job offers. While in the pool, under both systems applicants can improve their points score, with the difference being that in New Zealand applicants' EoI profiles are valid for just 6 months and in Canada for a full year. Moreover, in Canada, staying in the pool, candidates increase their visibility to employers through the linked job platforms to which Express Entry gives access.

Both systems also promote their pool of potential migrants to employers seeking suitable skilled migrant workers. In Canada, Express Entry uses a public employment service database called Job Bank with a restricted access section for Express Entry profiles Job Bank can provide active matching between skills and vacancies (Job Match). Profiles of Canadians and permanent residents are prioritised for the first 30 days, after which period the automatic matching extends to Express Entry candidates. In New Zealand, the Expression on Interest pool is not directly linked to a job vacancy database; however employers interested in recruiting skilled migrant workers may use a dedicated immigration database for matching, called SkillFinder. Vacancies will be matched with profiles of potential migrants who have registered to the NewZealandNow portal. New Zealand has also created a reserve pool in which are held those who have not made the cut off but are assessed as having potential. Such applicants may be offered a temporary nine month Skilled Migrant Category (SMC) Job Search visa.

As of writing, the European Union is contemplating the use of an expression of interest model in which migration would take place only after the potential migrant has received an employment offer. The EoI is cited as an explicit consideration under the European Agenda for Migration towards facilitating skilled migration (European Commission, 2015).

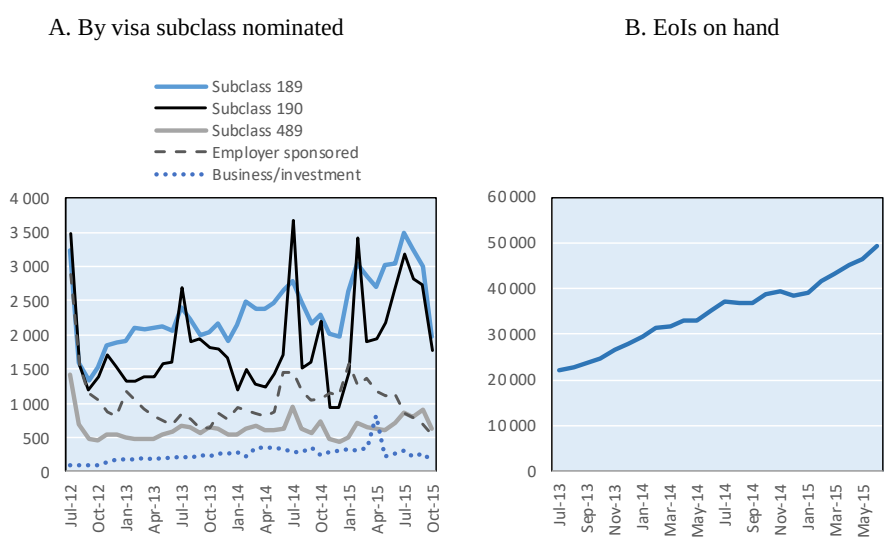
SkillSelect selection process

SkillSelect allows intending migrants to submit an expression of interest (EoI), which lists their personal details, qualifications, work experience, English-language proficiency, nominated occupations and preferences for work in various regions of Australia; partners' skills are also taken into account although the points attributed for them are very limited. SkillSelect is compulsory for those intending to apply for skilled independent (subclass 189), skilled – nominated (subclass 190) or skilled – nominated or sponsored (Provisional) (subclass 489) visas, as well as some business and investment visas (subclasses 132 and 188). Migrants interested in employer sponsored visa may also express their interest in Skillselect, although this is not compulsory.

Figure 5.1 shows that most EoIs are for skilled independent or state/territory nominated visas. Indeed, almost 90% of EoIs submitted since 2012 list one or both of these subclasses. Currently around 5 000-6 000 EoIs

are received each month. EoIs nominate their intended visa type and cannot be offered an invitation to apply for a visa subclass that they have not nominated. The majority of EoIs nominate only one visa type (applicants are not required to rank their selection), although this proportion varies across visa types (Table 5.1). For example, around half of EoIs which nominate subclass 489 also nominate another visa subclass, typically subclass 190 (likely because subclass 489 is a provisional visa and subclass 190 a permanent visa under the state/territory nomination scheme). Very few EoIs for business and investment visas also nominate another visa type. EoIs remain current for two years or until the intending migrant has been granted a permanent visa, during which time applicants are able to update their details. The permanence of an EoI in the pool is for a longer time in Australia than in New Zealand and Canada, where applicants stay in the pool for up to six months and one year respectively. In addition, in Australia, as well as in Canada, candidates can update their profile and information for the period during which they remain in the pool. As the number of EoIs received currently outnumbers the number of invitations issued, the stock of current EoIs in the pool waiting for an ITA has been growing steadily since the introduction of SkillSelect, and in mid-2015 was around 50 000 (Figure 5.1, Panel B).

Figure 5.1. SkillSelect expressions of interest



Note: EoIs may list more than one visa subclass.

Source: OECD calculations using SkillSelect data provided by the Department of Immigration and Border Protection.

Table 5.1. Visa types nominated in EoIs

Percentage of EoIs nominating each visa type also nominating other visa types, 2013-15

	Subclass 189	Subclass 190	Subclass 489	Employer-sponsored	Business/ investment
Only one visa type	76.5	63.1	50.6	77.5	96.7
Other visas nominated:					
Subclass 189	..	27	24.2	13	0.3
Subclass 190	21.5	..	43.8	18.2	0.3
Subclass 489	6.5	14.9	..	11.7	0.3
Employer-sponsored	5.8	10.2	19.1	..	3.2
Business/investment	0	0	0.1	0.8	..

Note: Columns sum to more than 100% because EoIs may nominate more than one visa type.

Source: OECD calculations using SkillSelect data provided by the Department of Immigration and Border Protection.

Box 5.2. Cleaning and analysis of SkillSelect data

Most of the analysis in this chapter uses administrative data from SkillSelect provided to the OECD by the Department of Immigration and Border Protection. Each expression of interest (EoI) submitted on the SkillSelect system is allocated a unique identifying number. However, these numbers do not uniquely identify individual applicants. EoI can list multiple visa types but only one nominated occupation. Applicants who wish to apply for more than one nominated occupation must therefore submit more than one EoI. Applicants might also have submitted multiple identical EoIs by accident during the submission process.

In order to analyse the operation of SkillSelect at the individual applicant level, "duplicate" EoIs were removed from the dataset. Duplicates were identified as EoIs that were submitted on the same date with identical data on the applicant's birth year, birth country, passport country, education, relationship status, English test proficiency, points score and visas applied for. These accounted for around 4% of EoIs. Of the duplicate EoIs, around half listed the same nominated occupation, while half listed different occupations.

This data cleaning process is likely to have removed a small number of EoIs that were not actually duplicates but were EoIs submitted on the same date from applicants with identical characteristics. It is also likely to have missed some duplicates where applicants submitted otherwise-identical EoIs on different dates. However, the effect on the final results presented in this chapter is likely to be minimal.

Each EoI is allocated a points score based on his/her age, education and work experience, among other factors (see Figure 5.A1.1). A detailed discussion of EoI and point-based systems can be found in Belmonte and

Chaloff (2017). The points score may be used to rank EoIs for the purpose of issuing invitations to apply (ITAs) for a visa. The process of issuing ITAs varies between visa categories:

- Skilled independent (subclass 189): the highest-ranked EoIs who meet the minimum pass mark of 60 points are periodically (currently twice a month) invited to submit a visa application, as long as their nominated occupation appears on the relevant skilled occupation list and the monthly or annual cap for that occupation has not been reached. Where two EoIs have the same points score, priority is given to the EoI with the earliest visa date of effect. The process of issuing ITAs for skilled independent visas is fully automated with no scope for staff to use discretion when issuing ITAs.

- State/territory nominated (subclass 190): State and territory governments issue ITAs to their preferred applicants who meet the minimum pass mark (60 points) (see Chapter 4 for a detailed discussion of state/territory nominated migration). While technically the nominated occupation should be on the relevant State Migration Plan, in practice states/territories can and do issue an ITA to anyone with a nominated occupation on the CSOL.[2] There is no requirement for the highest-ranked candidates to be given priority.

- Skill regional (subclass 489): same as for the skilled independent, but ITA are allocated only after processing the EoI for skilled independent. If no more places are available, ITA for skilled regional are issued.

- Employer sponsored: employers can source an applicant who has nominated that he/she would like to be considered for employer sponsorship. Until the 2017 reform which included changes in the occupation lists, the nominated occupation should be on the CSOL. Normal requirements for employer sponsorship, including labour market testing under the 457 visa (which is no longer in SkillSelect) in some cases, also apply (see Chapters 2 and 3 for a detailed discussion of the different requirements).

- Business Innovation and Investment Programme: candidates must first submit an EoI through SkillSelect and be nominated by federal agency, state or territory government before being invited to apply for the provisional visa. They should also satisfy all other requirements for the different schemes within the Business Innovation and Investment Programme.

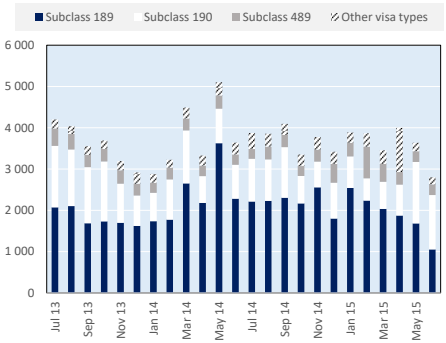
The priority processing rules (presented in Chapter 4) ensure the allocation of visas within the targets set by the Migration Programme.

Applicants in the regional sponsored migration scheme and those nominated by a state or territory are given priority over skilled independent applicants.

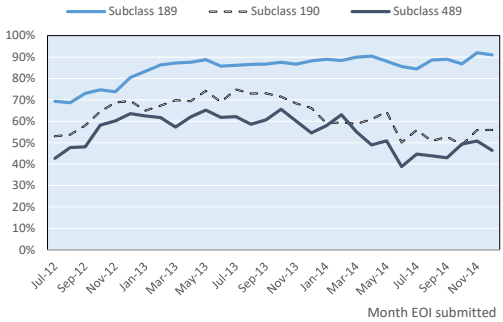
The minimum pass mark for the different invitation rounds by visa subclass is presented in Figure 5.A1.2. Like EoIs, the bulk of ITAs issued are for skilled independent visas (subclass 189) and state and territory nominated (STN) visas (subclass 190) with around 3 000-4 000 ITAs typically issued each month (Figure 5.2). The chances of receiving an ITA are high (around 90%) for skilled independent EoIs, but lower for STN and 489 applicants. The apparent reduction over time in the likelihood of receiving an ITA in these two subclasses may reflect the longer time taken to receive an ITA, rather than a reduction in the overall likelihood of receiving an ITA: many of the EoIs shown in Figure 5.4 are still current and may yet receive an ITA before their two-year validity period runs out.

Figure 5.2. SkillSelect invitations

A. Monthly invitations issued by subclass



B. Proportion of EoIs that receive an invitation



Note: Panel A: Other visa types include business/investment and employer-sponsored visas. Panel B: Includes only EoIs with a points score of 60 or higher for subclass listed. Invitations are for the visa subclass listed.

Source: OECD calculations using SkillSelect data provided by the Department of Immigration and Border Protection.

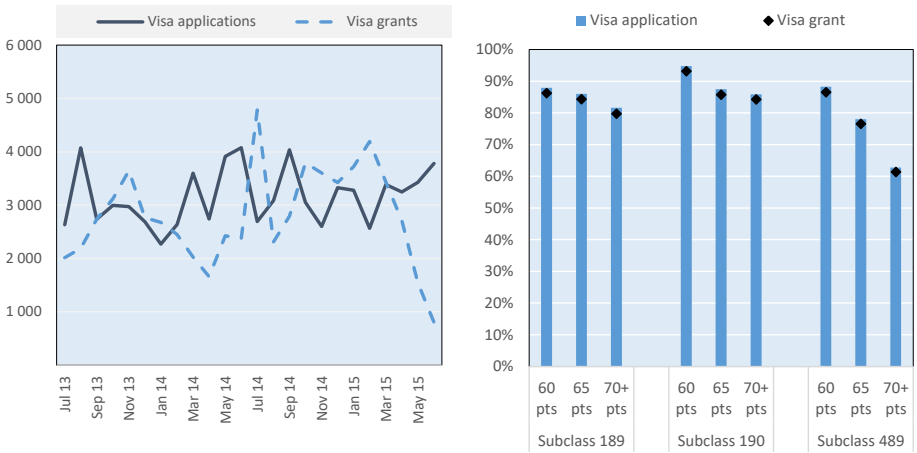
Once an intending migrant has received an ITA, they have 60 days to lodge a visa application, which may seem rather short. As substantial documentation, including a skills assessment, is required to lodge a visa application, applicants are advised to have all their documentation prepared prior to submitting an EoI and should have also undertaken the skills assessment. In fact, a skills assessment and English language test should be taken prior to submitting an EoI, and for points-tested visas these requirements predate any ITA. If they do not lodge an application within the

60 days limit, the ITA will lapse and they will have to wait to receive a new ITA. If they receive two ITAs for the same EoI but do not lodge an application, their EoI will be removed from the pool of current EoIs.

Figure 5.3 shows that the number of visa applications lodged through SkillSelect varies between 3 000 and 4 000 per month, but that the number of visas granted fluctuates more widely. In particular, there is typically a drop-off in visa grants at the end of the financial year (from July to June), presumably to allow adjustment to meet annual targets. Most ITAs result in a visa lodgement, although the rate of conversion varies across visa subclasses and points scores. Applicants with higher points scores tend to be less likely to lodge an application. It is not possible to tell whether this is because they have better outside options (e.g. they have been offered a job in their home country or a visa to another country) or if they are less likely to meet the requirements for application lodgement. The points score reported in Figure 5.3 is self-reported and although candidates have first to undergo a skill assessment and provide the reference to this assessment together with their EoI, it is not clear to what extent authorities cross-check the validity of skill assessment reference with the competent bodies. If some candidates exaggerate their points score to improve their chances of getting an ITA they may find themselves unable to substantiate their claim when it is time to make a visa application. However, anecdotal evidence from DIBP staff involved in visa processing suggests that this is a fairly rare occurrence. Hence, if high qualified applicants decide not to apply, soon after receiving the ITA, then this implies that shortening the time it takes to issue the ITA may matter at least for some of them. Highly qualified applicants receiving an ITA for a subclass 489 visa (which is a provisional visa) may also decide not to lodge an application in the hope of getting an ITA for a permanent visa (although it is not possible to tell if this has occurred from the data used in this chapter). Once an application has been made, there is very little difference in visa grant rates between applicants or visa subclasses. On average, 98.1% of visa applications from ITAs issued between 2012 and 2014 resulted in a visa grant.

Figure 5.3. SkillSelect visa applications and grants

A. Monthly applications and grants B. Proportion of invitations that lead to application and grant



Note: Panel B: Invitation years 2012-14.

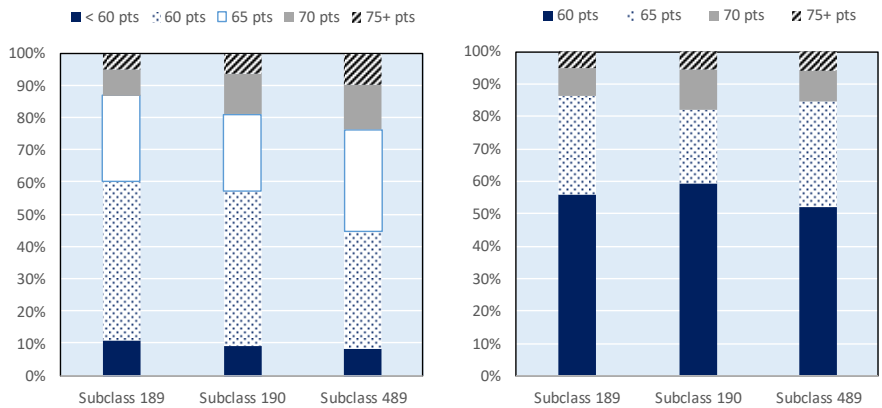
Source: OECD calculations using SkillSelect data provided by the Department of Immigration and Border Protection

Selecting the best candidates

For skilled independent visas, SkillSelect automatically chooses the best-ranked candidates to receive an ITA first, as long as they have nominated an occupation that is on the SOL. This should mean that the quality of visa applicants is higher than if all candidates with 60 points or more were allowed to lodge a visa application, as was the case prior to June 2012. However, the average quality of visa applicants will depend on the quality of the pool of EoIs, especially where the vast majority of EoIs are likely to receive an ITA. The points allocation of EoIs tends to be skewed towards 60 points (Figure 5.). The average points score is higher for subclass 190 and 489 visas because bonus points are allocated to applicants for these visa types. Overall, just under half of EoIs for points-tested visa have a points score of 60 points, while almost 95% of EoIs have a points score of 70 points or less. Around 6% of EoIs for points-tested visas have a points score of less than 60, making them technically ineligible for an ITA. However, it is possible to update a current EoI if personal circumstances change, so some applicants may put in an EoI with a low points score with the aim of updating their points score in the future, after completing a new qualification for example.

Figure 5.4. Points distribution of EoIs and visa grants in SkillSelect

A. Points distribution of EoIs by visa subclass B. Points distribution of visa grants by visa subclass



Note: For EoIs submitted in years 2012-14.

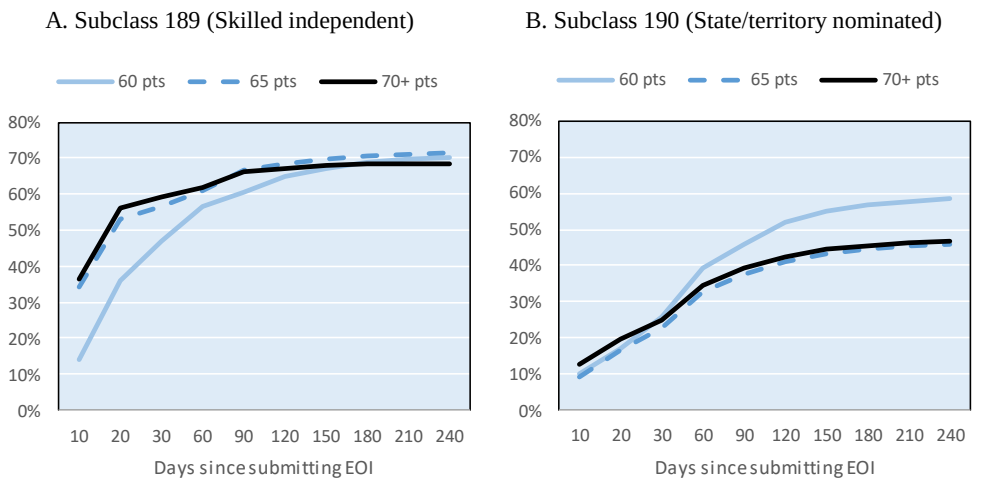
Source: OECD calculations using SkillSelect data provided by the Department of Immigration and Border Protection

For skilled independent visas, the minimum pass mark for each invitation round has been unchanged at 60 points since July 2012.[3] Figure 5.4 shows that 50-60% of visas are granted to applicants who just meet the 60 points minimum, and less than 20% have more than 70 points. Given there are millions of well-qualified potential migrants around the world, this raises questions about why the distribution of points scores in SkillSelect is skewed towards 60 points. It is likely that intending migrants with points scores of more than 60 points do not feel that the additional administrative burden of proving a higher points score is merited given that the pass mark has been unchanged for a long period and the chances of receiving an invitation are already high. For example, applicants aged 25-32 years with at least proficient English and a Bachelor degree from an Australian university will reach 60 points without having to provide proof of work experience, non-English language skills or a professional year in Australia, even if doing so would boost their points score.

Indeed Figure 5.5 shows that, while EoIs with higher points scores receive an ITA for a skilled independent visa sooner than those with 60 points, within five months of submitting an EoI the likelihood of receiving an ITA is identical across points score categories. Among EoIs for state/territory nominated visas, there is no difference in the likelihood of receiving an ITA within the first three months after submitting an EoI. As

described in the previous section, the selection process for STN visas allows state/territory governments to pick any candidate as long as they have at least 60 points and nominate an occupation on the State Migration Plan. It may be that applicants who have already received assurance that they would be nominated by a state/territory government are more likely to put in an EoI with a points score of 60 points than those that put in an EoI through SkillSelect without first contacting a state/territory government. It may also be that the points allocation does not fully reflect the needs of state and territories which may give greater importance to features which are not weighted in the points test, e.g. a job offer.

Figure 5.5. Percentage of EoIs receiving an invitation by time since EoI submitted and points score



Note: Includes EoIs submitted between July 2012 and December 2014 and invitations issued up until September 2015. Invitations and points score are for specified visa subclass.

Source: OECD calculations using SkillSelect data provided by the Department of Immigration and Border Protection.

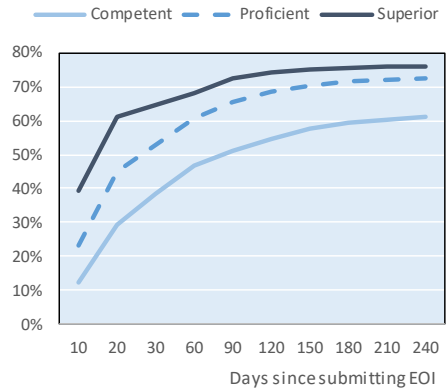
Looking at other attributes (Figure 5.6), the likelihood of receiving an ITA is higher for those with the best proficiency in English and for onshore applicants, who are more likely to have Australian qualifications, work experience and social networks. Candidates with a doctorate degree are substantially more likely to receive an ITA for a state/territory nominated visa, probably reflecting a stated preference for intending migrants with doctorates within some State Migration Plans (see Chapters 2 and 4). However, those with a doctorate are less likely to receive an ITA for a skilled independent visa after the first three months. It may be that those

with a doctorate have better outside options and so are more likely to withdraw their EoI (withdrawals are not captured in the data in Figure 5.4). The points system is also weighted towards work experience rather than qualifications. Compared with having a Bachelor degree, having a Master's degree adds no points and having a Doctorate adds five points. By contrast, one year of Australian work experience or three years of overseas work experience also adds five points. Allocating places based on points scores alone (as is the case for Skill Independent migrants) is therefore likely to see applicants with lower qualifications but more work experience (especially that acquired in Australia) favoured over those with higher qualifications but less work experience. Unfortunately work experience is not observable in the data used for the analysis in this chapter.

In summary, while there is very little rationing of ITAs by points scores in SkillSelect (outside the first few months after submitting EoI), the candidates with the best attributes for labour market success from among the pool of available EoIs are, by and large, receiving ITAs in preference to candidates with poorer attributes. This is particularly the case with STN visas, where points scores do not appear to be being used at all to select potential migrants, but education, English language ability and Australian residency are important factors in determining the likelihood of receiving an ITA.[4] In addition, candidates with the best attributes receive ITAs more quickly, which may be important in encouraging high-quality candidates to lodge an application before they receive a better offer elsewhere.

Figure 5.6. Percentage of EoIs receiving an invitation by time since EoI submitted and other characteristics

A. English proficiency – subclass 189



B. English proficiency – subclass 190

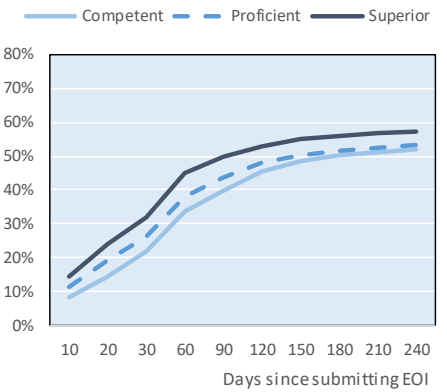
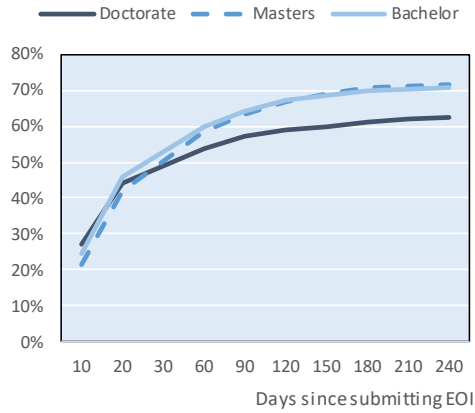
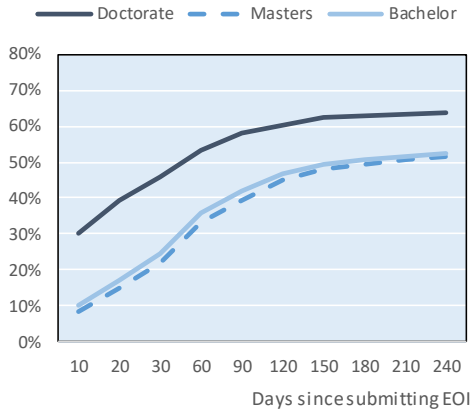


Figure 5.6. Percentage of EoIs receiving an invitation by time since EoI submitted and other characteristics *(cont.)*

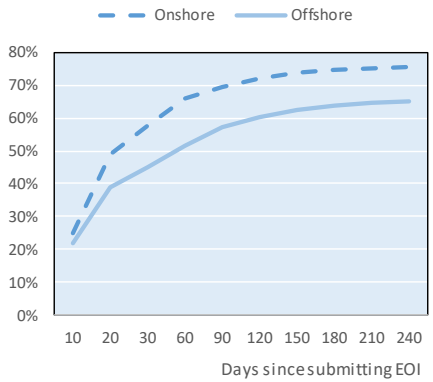
C. Highest qualification – subclass 189



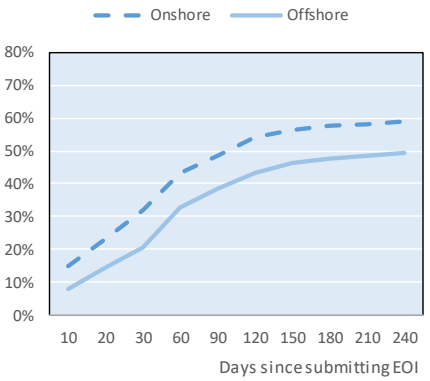
D. Highest qualification – subclass 190



E. Residence location – subclass 189



F. Residence location – subclass 190



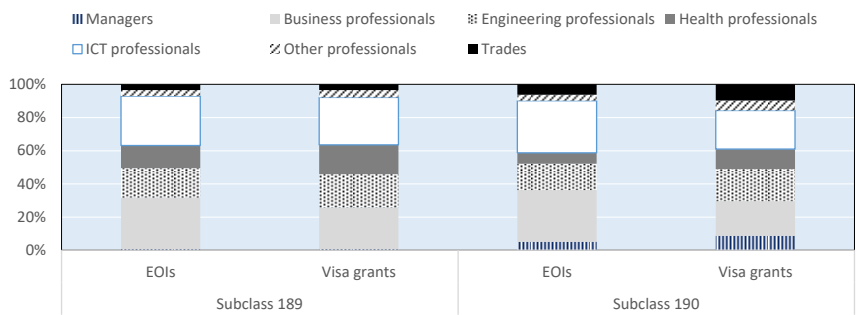
Note: Includes EoIs submitted between July 2012 and December 2014. Invitations are for specified visa subclass. Figures include only those who have a points score of 60 or higher for specified visa subclass. Bachelor includes those with Honors degrees or postgraduate diplomas.

Source: OECD calculations using SkillSelect data provided by the Department of Immigration and Border Protection.

Improving the mix of occupations

Each SkillSelect EoI nominates one occupation (at ANZSCO 4-digit level) for which the intending migrant should have completed a Skills Assessment. Applicants can make a claim against multiple occupations only by putting in additional EoIs, but it appears that only around 2% of applicants put in EoIs for multiple occupations. Figure 5.7 shows the spread of nominated occupations for subclass 189 and 190 EoIs and visa grants made in 2015. The vast bulk of EoIs and visas granted are for a relatively small number of occupations: business professionals (mainly accountants), engineers, health professionals (mainly nurses) and ICT professionals. The occupational composition of visa grants echoes that of EoIs closely both for subclass 189 and subclass 190, but more so for the latter. This stems from the fact that occupation does not impact the probability of receiving an ITA for the 189 subclass. In contrast, nominated occupation is valued by states and territories (either for occupation on their SMPs or through a job offer) and hence matters more for subclass 189 applicants.

Figure 5.7. Nominated occupation for EoIs and visa grants by subclass, 2015



Source: OECD calculations using SkillSelect data provided by the Department of Immigration and Border Protection.

SkillSelect allows the government to ration places in the skilled independent programme by nominated occupation. This is done by setting annual ceilings for all occupations on the SOL so that the highest-ranked applicants are offered an invitation only if the annual ceiling for their nominated occupation has not been exceeded. In some occupations where demand for places greatly exceeds the annual ceiling, a monthly ceiling may be imposed to allow places to be offered across the year (see Box 5.3). The list of annual ceilings for occupations as well as details about monthly ceilings are published on the website of the Department of Immigration and Border Protection. Occupational ceilings do not apply to state/territory nominated or employer sponsored applications through SkillSelect.

Box 5.3. Occupational ceilings

Annual ceilings on occupations on the SOL are set by the Department of Immigration and Border Protection, based on input from the Department of Education and the Department of Employment. In general, the annual ceiling is equal to 6% of the national stock of employment in each occupation. However, since 2013/14, a minimum ceiling of 1 000 has been imposed. The annual ceiling for accountants has also been reduced over time, from 4% of the stock of employment in 2012/14 to around one-quarter in 2015/16.

Seven occupations, listed in the Table 5.2, have been subject to monthly ceilings since the introduction of SkillSelect. Monthly ceilings affect the selection of migrants through SkillSelect in three ways. First, if a ceiling has been imposed in a particular month, the highest-ranked EoIs for that occupation are offered an ITA only until the ceiling has been reached. Second, if the number of EoIs for capped occupations or the quality of applicants is very high, the imposition of a ceiling may have the effect of pushing up the effective pass mark (or the lowest points score of those who were offered an ITA within the ceiling) for that occupation for that month. Third, if the annual ceiling for visa grants in the capped occupation has been reached, no places may be offered for that occupation in that month.

Table 5.2. Annual ceilings for selected occupations

	2012/13	2013/14	2014/15	2015/16
Accountants	10440	9720	5478	2545
Chemical and materials engineers	120	1000	1000	1000
Electronics engineers	480	1000	1000	1000
Other engineering professionals	540	1000	1000	1000
ICT analysts	1800	1380	1620	1536
ICT programmers	5160	4800	5004	5364
Telecommunications engineers	480	1000	1000	1000

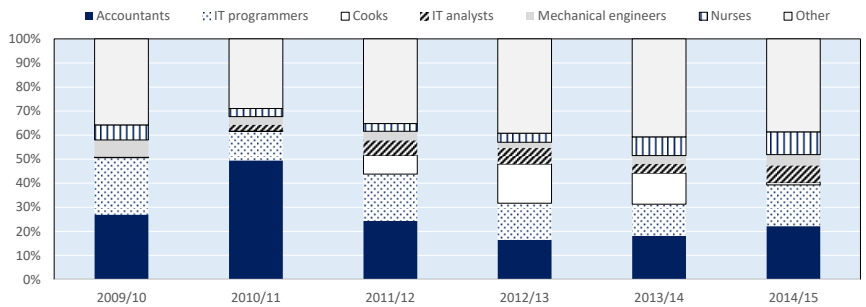
Source: DIBP website.

Compared to the previous system for selecting independent skilled migrants, the occupational ceilings in SkillSelect should result in a broader mix of occupations, with less concentration of nominated occupations in the occupations where demand for places exceeds the annual ceiling. The quality of applicants in these capped occupations should also improve as places are rationed to the highest-ranked applicants. However, the analysis of changes in the occupational mix of migrants from SkillSelect is complicated by the fact that the list of occupations allowed for skilled independent migrants was narrowed considerably in July 2011, a year prior to the introduction of SkillSelect. This means that some of the change over time in the occupational mix of the migrant intake will be due to changes in the SOL, rather than the operation of SkillSelect.

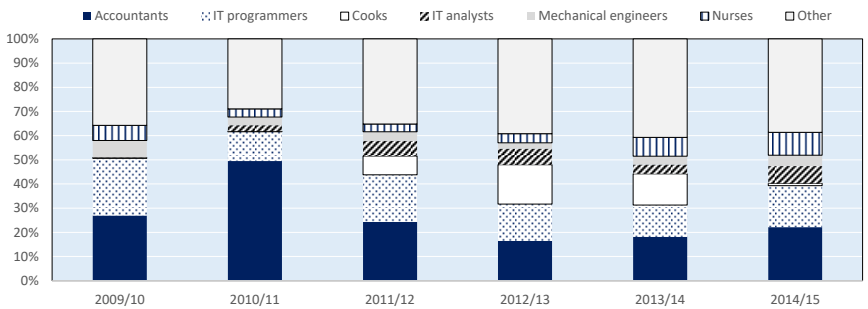
Figure 5.8 shows the proportion of skilled independent visa grants by nominated occupation. When examining occupations at the 4-digit ANZSCO level, which is the level at which occupational ceilings are imposed through SkillSelect, it appears that the occupational mix has become more diverse over time. Occupational diversity appears to have been increasing from 2011 onwards, possibly reflecting changes to the allowed occupations, notably the removal of cooks from the SOL. But this trend has continued since 2012/13, with the proportion of visa grants to the top four occupations falling from 58% in the three years prior to the introduction of SkillSelect to 50% in the first three years after its introduction. However, looking at occupational diversity at the 2-digit ANZSCO level paints a different picture. While the proportion of visa grants to the top four occupations fell steadily between 2009/10 and 2012/13, it has risen in the two most recent years (Panel B, Figure 5.8).

Figure 5.8. Skilled independent visa grants by nominated occupation

A. Occupations at 4-digit ANZSCO level



B. Occupations at 2-digit ANZSCO level



Note: Principal applicant only. Occupations sorted from largest to smallest in 2011/12. Skill Select introduced from 2012/13 onwards. Data for 2014/15 year are to March 2015.

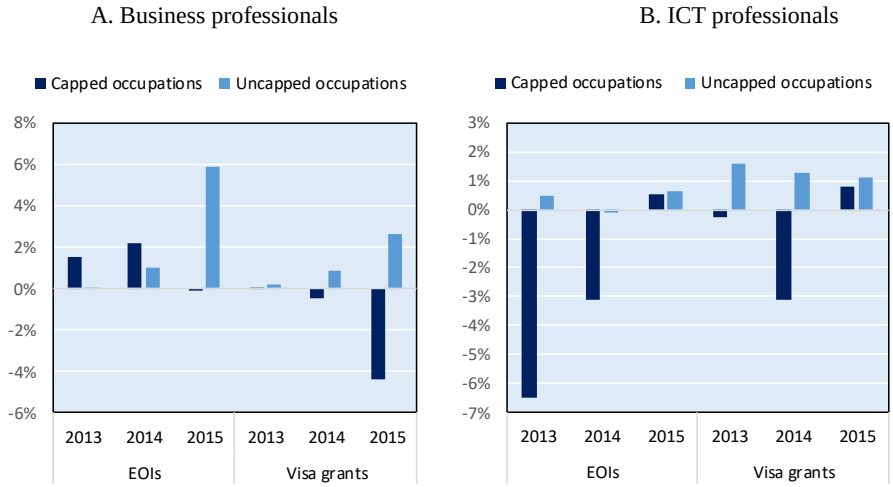
Source: OECD calculations using visa grants data provided by the Department of Immigration and Border Protection.

Three of the top four occupations include occupations for which monthly ceilings have been imposed over the life of SkillSelect: business professionals, engineers and ICT professionals. On the face of it, these trends suggest that candidates are possibly adapting their application to these ceilings. There could be some substitution between occupations, so that declines in capped occupations are offset by increases in closely-related occupations. Figure 5.9 shows how the share of business professionals and ICT professionals in total skilled independent EoIs and visa grants has changed over time. Over a period where the ceiling for accountants fell by 75%, there was a clear increase in both EoIs and visa grants for non-capped business professionals (largely auditors) (Panel A). The imposition of binding ceilings for IT programmers and analysts, on the other hand, does not seem to have led to a big increase in EoIs for closely-related occupations despite the share of EoIs for capped occupations falling considerably (Panel B). Nevertheless, there is evidence of a partial shift in visa grants from capped to uncapped ICT occupations.

Whether occupational diversity should be one of the objectives of immigration policy remains an open question. Currently, it seems that the annual ceilings are not particularly binding, so that the occupational diversity of the intake reflects the occupational diversity of EoIs rather than the relative labour market opportunities for different occupations. An examination of accountants shows that when monthly ceilings become binding and the minimum pass mark is increased above 60 points, the quality of applicants – as measured by their points score – increases markedly. If occupational diversity is one of the objectives of the skilled migration programme, then the imposition of binding ceilings for more occupations would increase occupational diversity, but the desirability of such a change would depend on the accuracy of forecasts of future skill needs. The current system of setting most occupational caps at 4% of the employment stock is blunt and not sufficiently transparent.

As the largest occupational group in the skilled independent intake and one for which the annual ceiling has been declining substantially over time, an examination of accountants provides a good opportunity to see how SkillSelect works in allocating scarce places to the best qualified applicants. As discussed in Box 5.3, the annual ceiling for accountants has fallen continuously over the life of SkillSelect from more than 10 000 in 2012/13 to around 2 500 in 2015/16. The pass mark to enter the pool for accountants remained at 60 points during 2013 and 2014, but increased from mid-2015 onwards as the ceiling became more binding. If the attributes of EoIs for accountants remained unchanged over this period, it could be expected that the "quality" of accountant receiving ITAs (and subsequently visa grants) should have increased markedly.

Figure 5.9. Change in the share of occupations in total skilled independent EoIs and visa grants through SkillSelect (percentage points change from previous year)



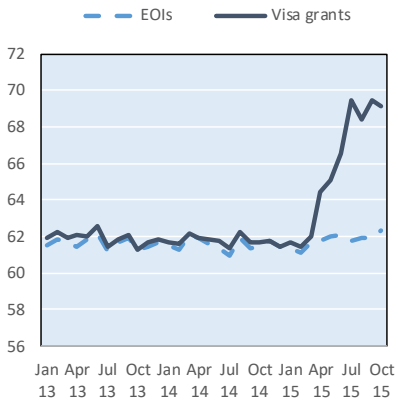
Note: Includes EoIs and visa grants for subclass 189 with at least 60 points.

Source: OECD calculations using SkillSelect data provided by the Department of Immigration and Border Protection.

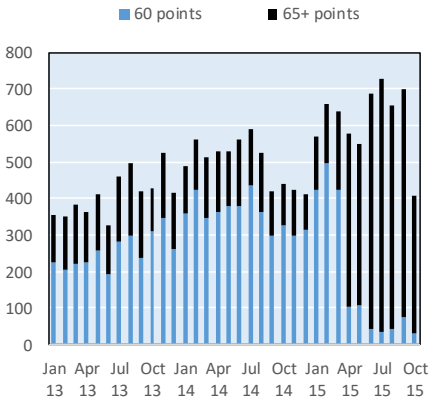
However, Figure 5.10 shows that the average points score of EoIs and visa grants for accountants remained almost unchanged until early 2015. The proportion of accountants with a points score of only 60 points increased over the same period. This suggests that the falling ceiling for accountants was offset by a decrease in the pool of EoIs with more than 60 points, leaving the average points score unchanged. Since early to mid-2015 the average points score for visa grants for accountants has increased markedly and very few intending migrants with a point score of 60 points have been offered places. From May 2015 onwards, the minimum pass mark for accountants to receive an ITA has increased above 60 points. But even prior to that, the imposition of monthly ceilings for accountants seems to have pushed the average points score higher. The diminishing likelihood of receiving an ITA with a point score of 60 points has led to a dramatic shift in the points scores of EoIs, with the proportion with 60 points falling to less than 10% from June 2015 onwards. The overall number of EoIs for accountants has not fallen, suggesting that intending migrants who may have otherwise put in an EoI with 60 points are instead putting in an EoI with a higher points score. They were making the extra effort to validate their higher points, in contrast to the general situation demonstrated in the previous sections of this chapter.

Figure 5.10. EoIs and visa grants for accountants by points score

A. Average points score



B. Monthly number of EoIs by points score



Note: Accountants are those with a nominated occupation of ANZSCO 2211.

Source: OECD calculations using SkillSelect data provided by the Department of Immigration and Border Protection.

This raises questions about why so many applicants appear to be putting in EoIs with 60 points when their true points score is higher. It may be that they perceived that there was little additional benefit in proving a higher points score prior to the introduction of rationing. In many ways this was true, as most EoIs with 60 points did go on to receive an ITA and the difference in processing time by points score is minimal. However, it is possible that perceptions about the need to show a higher points score are based on a misunderstanding of the minimum pass mark displayed on the SkillSelect website. Intending applicants may believe that they are only required to prove a score of 60 points. Points scores are a key rationing mechanism in SkillSelect, so consideration should be given to making it clear to intending applicants that having a points score higher than 60 points is beneficial in order to encourage applicants to use their true points score in their EoI. A simple way to do this would be to provide information the SkillSelect website about the average time taken in recent months to receive an invitation by points score. Further research into the barriers and costs associated with verifying a higher points score (particularly for work experience which carries a relatively high weight in the points system) may also be warranted.

SkillSelect is associated with efficiency gains in visa processing

SkillSelect includes several features that potentially increase the efficiency of visa processing both for applicants and the administration. The automated process for allocating ITAs (for subclass 189 and family-sponsored 489 applicants) should allow intending migrants to find out quickly about the likely outcome of their application, reducing the likelihood that they will receive a job or migration offer elsewhere. Because SkillSelect is a fully online system, visa applications are pre-filled with information from the EoI, saving time for applicants and administrators, as well as reducing errors. Despite the fact that SkillSelect introduced a new step preceding the visa application, the time spent in the pool may be compensated by the fact that visa applicants are much more likely to meet the requirements for being granted a visa than under the pre-SkillSelect system because the EoI/ITA process screens out most of the candidates likely to be unsuccessful prior to the application stage. Those lodging an unsuccessful EoI are not contacted about the status of their application, which means that processing staff do not need to issue as many "rejection" letters as in the past. As these are around three times more time consuming to prepare than successful visa grants, this generates considerable processing efficiencies. Applicants do not incur in any additional costs when filing an EoI. Some costs (e.g. skill and language assessment) are just covered earlier in the process, but applicants would have incurred these costs anyway.

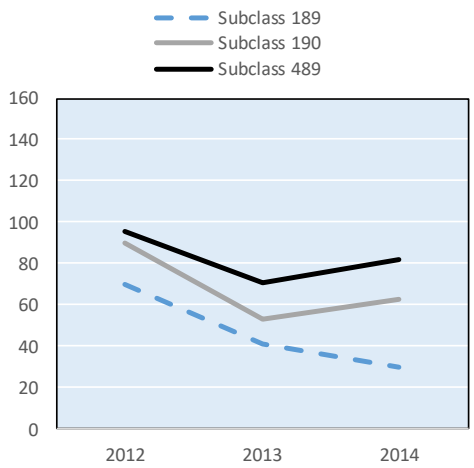
SkillSelect also allows DIBP greater control over the number of visa applications awaiting processing because the number of ITAs issued each month can be increased or decreased rapidly. This allows for better planning for periods of the year when staff may be absent (such as during the Christmas/summer holidays) and avoids the build-up of a large stockpile of unprocessed applications. In addition, because applications are fully electronic, the processing workload can be shared and moved easily across staff in different geographical locations in a way that was not possible when paper applications were used.

While no comparable data are available on pre-SkillSelect processing times, Figure 5.11 shows that average processing times have fallen significantly over the period in which SkillSelect has been operating. The time between submitting an EoI and receiving an ITA for those that go on to receive a subclass 189 visa fell by more than half, to around one month on average for EoIs submitted in 2014. Falls were also recorded between 2012 and 2013 for subclass 190 and 489 applicants, although times rose again in 2014. This may reflect the reduced likelihood of receiving an ITA for these subclasses from late 2013 onwards, as applications which do not receive an ITA would still appear in the process and would increase processing times.

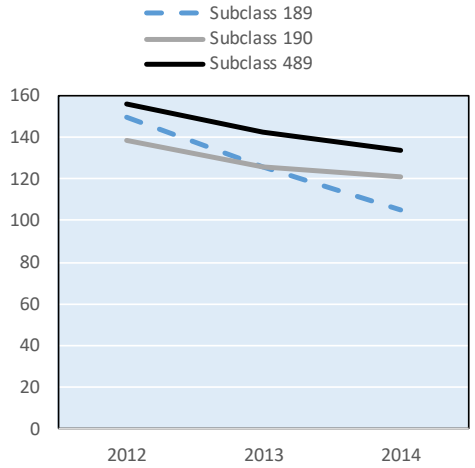
After receiving an ITA, intending migrants have 60 days to submit a visa application with accompanying documentation of their claims. The time between receiving an ITA and a visa grant has also been falling over time, however it is not possible to tell with the data available whether this is the result of applicants lodging their applications faster or because visa applications are being processed more quickly by the DIBP.

Figure 5.11. Processing times for successful grant applicants, by visa subclass

A. Average days between EoI and ITA



B. Average days between ITA and visa grant

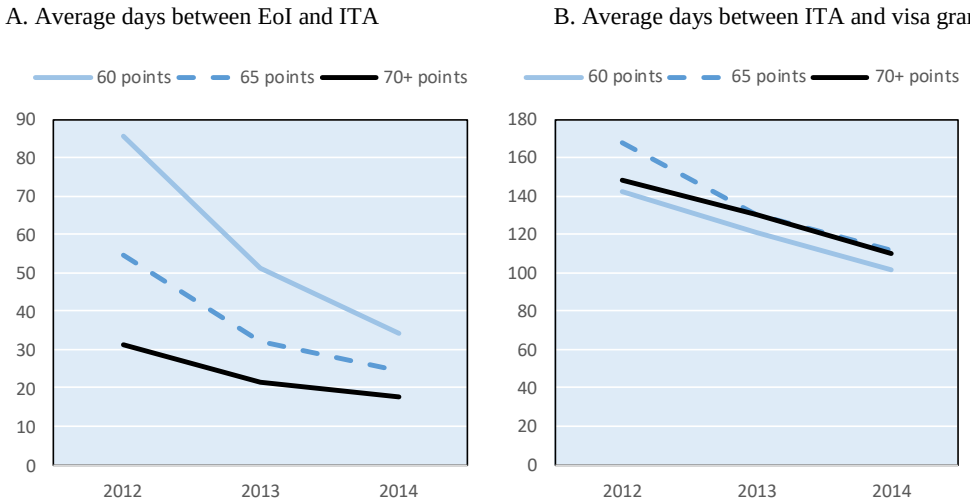


Note: Year is the year when the EoI is submitted. No data are available on the average days between ITA and application lodgment or between lodgment and visa grant.

Source: OECD calculations using SkillSelect data provided by the Department of Immigration and Border Protection.

The highest-ranked applicants for subclass 189 visas receive an ITA more quickly than those with the minimum 60 points (Figure 5.12). However, as the time between EoIs and ITAs has fallen across all points score categories since 2012, the total difference in processing times is small: 34 days on average for those with 60 points compared with 18 days for those with 70 points or more. This highlights the relatively small incentive for applicants to submit an EoI with a higher points score, given the higher administrative burden of proving a higher points score. Once an application has been lodged, the differences in visa processing times by points category are relatively small.

Figure 5.12. Processing times for successful subclass 189 applicants, by points score



Note: Year is the year when the EoI is submitted. Data on the time between application lodgement and visa grant were not available.

Source: OECD calculations using SkillSelect data provided by the Department of Immigration and Border Protection.

The design and operation of SkillSelect suggests that it is likely to have reduced visa processing times, however in the absence of comparable data on pre-SkillSelect processing times it is impossible to determine whether this is the case in practice. SkillSelect appears to perform relatively well against similar EoI/ITA systems in other OECD countries. The average processing time in New Zealand, after applicants are invited to submit a full residence application, is about six months, compared with around four months between ITA and visa grant for successful subclass 189 visa grants in Australia. Canada's Express Entry aims to process all residence visas in under six months. Around 87% of all ITAs issued under SkillSelect in 2014 that resulted in successful visa grants were finalised within six months and 99% within one year.

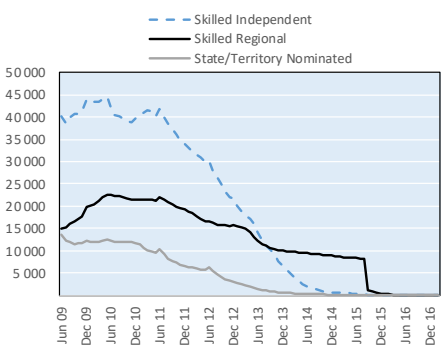
One of the main advantages of an EoI-ITA system like SkillSelect is the elimination of the so-called "pipeline" of applicants who have met the minimum requirements to receive a visa but are waiting for their visa to be processed. However, the transition to SkillSelect involved dealing with the existing pipeline. Figure 5.13 shows that at the time when SkillSelect commenced, approximately 53 000 pre-SkillSelect applicants were awaiting processing of their visas. After the introduction of SkillSelect, pipeline

applications were processed only if there were sufficient places available after SkillSelect applications had been processed.

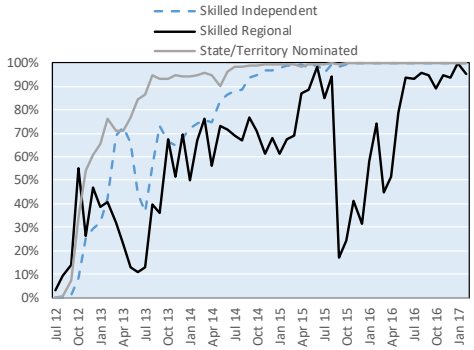
Over time, the pipeline has shrunk so that, as of mid-2015, only skilled regional (family sponsored) applicants remain in the pipeline and the proportion of visa grants for skilled independent, state/territory nominated and skilled regional visas coming through SkillSelect has increased to close to 100%. In September 2015, the remaining pipeline applications were cancelled under a so-called "cap and cease" determination and applicants had their application fees refunded.

Figure 5.13. Pre-SkillSelect pipeline

A. Number of pre-SkillSelect applications on hand



B. Proportion of monthly visa grants through SkillSelect

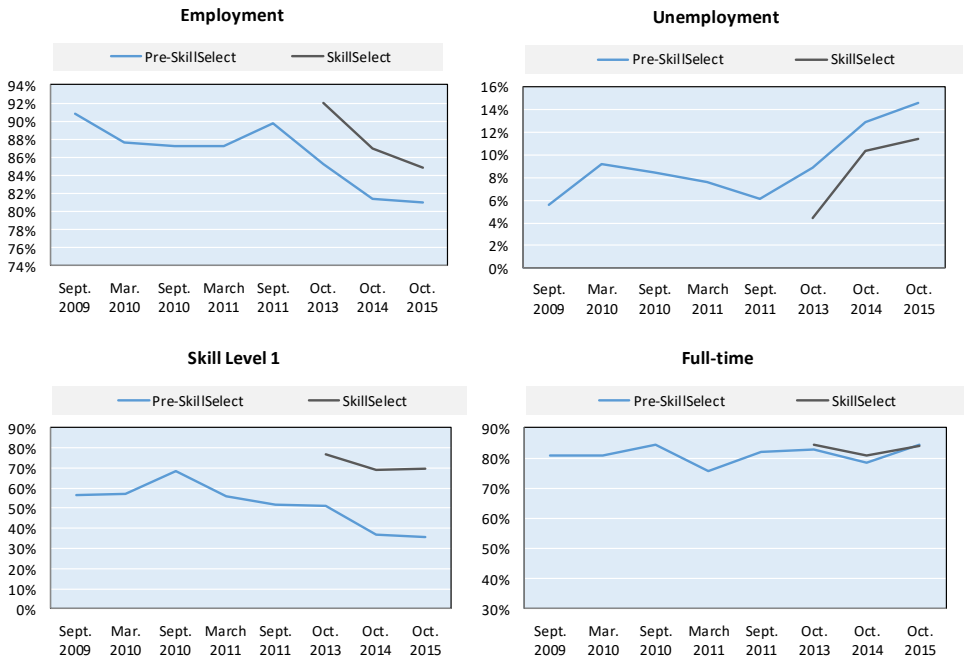


Note: Principal applicants only.

Source: OECD calculations using data provided by the Department of Immigration and Border Protection.

An important question regarding SkillSelect is whether it has led to improved labour market outcomes of skilled migrants. Figure 5.14 presents a preliminary analysis of the labour market outcomes of recent migrants as measured in the CSAM. The analysis focuses only on skilled independent primary visa holders and traces their labour market outcomes over the period 2009 to 2015. A distinction is made between those visa subclasses which are subject to SkillSelect (subclass 189) and those which are not (subclasses 175 and 885). Overall, independent skilled migrants who have gone through the new selection system have higher employment, lower unemployment and are employed in more highly skilled jobs than those were selected with the old system after the introduction of SkillSelect (2013).

Figure 5.14. Labour market outcomes, six months after grant of permanent visa



Note: Only skilled independent visas are included in this analysis which is conducted for primary applicants only. Skill Select comprises visa subclass 189, while pre SkillSelect comprise the 175 and 885 subclasses. Skill level 1 comprises all high-skilled occupations according to the ANZSCO classification. Full-time employment and skill level is estimated for employer persons.

Source: OECD calculations using data from the Continuing Survey of Australian Migrants 2013, 2014 and 2015.

In conclusion, SkillSelect has increased efficiency and has cut processing times, which is important in attracting the best candidates. Most importantly, candidates with higher scores are more likely to be invited to apply and they also receive ITAs faster than those with lower points. However, more information and incentives should be given to candidates to validate all their points. A majority of EOIs (and therefore of visa grants) just meet the minimum pass mark of 60 points and this score may not reflect the true skills of applicants. SkillSelect was initially associated with an increase in occupational diversity but this was later on offset to some extent by substitution between closely-related occupations to get around monthly ceilings on some in-demand occupations.

Notes

1. The Australian SOL has been replaced as of April 2017 by the Medium and Long-term Strategic Skills List (MLTSSL), available at http://www.border.gov.au/Trav/Work/Work/Skills-assessment-and-assessing-authorities/skilled-occupations-lists/mltssl.

2. Australian CSOL has been replaced as of April 2017 by the Short-term Skilled Occupation List (STSOL), available at http://www.border.gov.au/Trav/Work/Work/Skills-assessment-and-assessing-authorities/skilled-occupations-lists/combined-stsol-mltssl.

3. The pass mark for the small number of skilled regional (Family sponsored) ITAs was 65 for most of the invitation rounds during 2014 and 70 for three rounds in mid-2014. However, it has been 60 points for most of 2015.

4. Anecdotal evidence suggests that State/Territory governments select candidates for the STN scheme based, in part, on their occupation. Unfortunately data on the State/Territory of nomination are not available from SkillSelect to test whether some occupations (for example, those on the State Migration Plan) are selected in preference to others.

References

Belmonte, M. (2017), "Expression of Interest (EoI) Systems in Comparison: Building Blocks of a Migration Management Tool", presented at the OECD Working Party on Migration meeting, June 2017, Paris.

Bowen, C. (2011), *Skilled Migration Reform to Support Australia's Growing Economy*, Minister for Immigration and Citizenship media release, 10 May 2011.

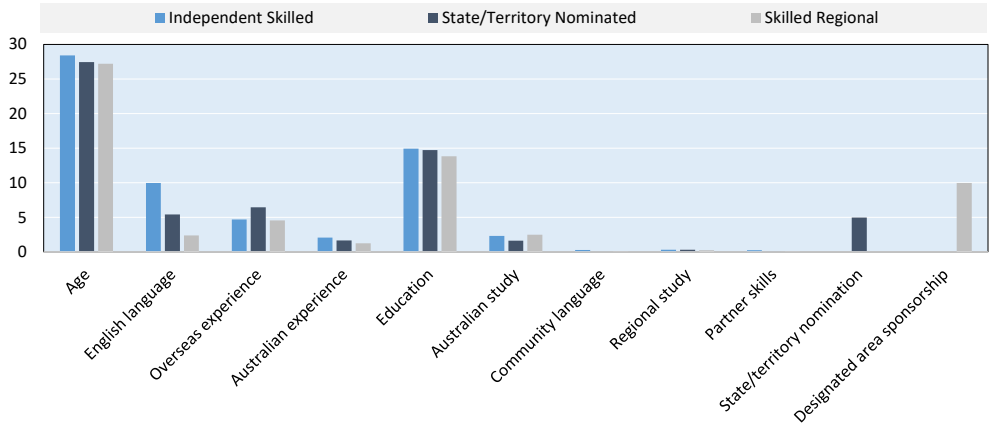
Department of Immigration and Citizenship (2012), *Annual Report 2011/12*, Department of Immigration and Citizenship, Canberra.

European Commission (2015), "A European Agenda on Migration", Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions.

Annex 5.A1

Additional information on points score in SkillSelect

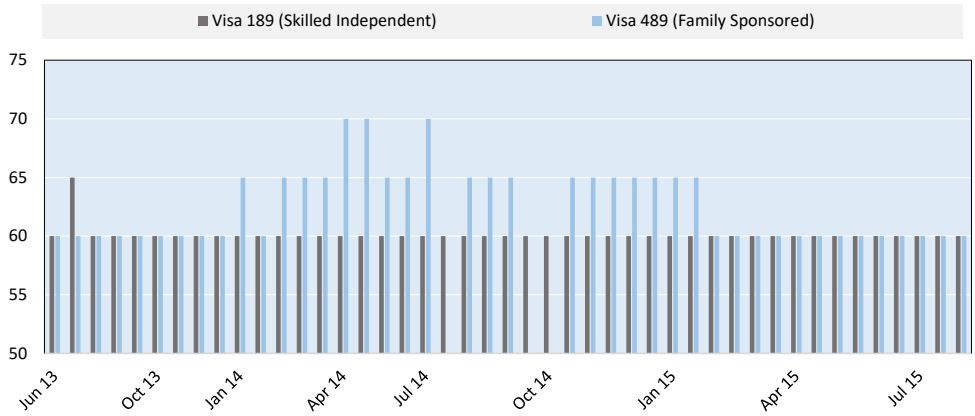
Figure 5.A1.1. Average points score by attribute and subclass in SkillSelect, 2012-14



Source: OECD calculations using SkillSelect data provided by the Department of Immigration and Border Protection.

Figure 5.A1.2. Points required and achieved in SkillSelect

Minimum pass mark for each invitation round, by visa subclass



Note: Information is missing on pass mark for some invitation rounds.

Source: OECD calculations using SkillSelect data provided by the Department of Immigration and Border Protection.

Chapter 6

Temporary migration with work rights and pathways from temporary migration to permanent residency

This chapter focuses on temporary migration with work rights, notably working holiday makers and international students. First, the chapter presents recent trends in these two categories of temporary migration and examines their contribution to the labour market. Second, it analyses transitions from temporary to permanent visa categories and demonstrates the growing importance of two-step migration and the increasing share of permanent visas granted to onshore applicants. Finally, the chapter provides a preliminary evaluation of the temporary graduate visa which works in similar ways to post-graduation job-search visas in other OECD countries.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

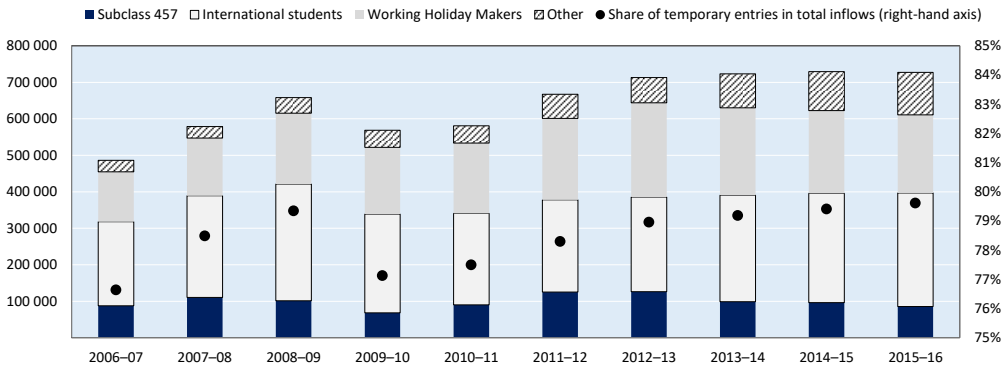
Temporary labour migration has increased in Australia in the past years, except during the period of the economic crisis. This has been mainly driven by the rise in the 457 visas, but also the strong increase of working holiday visas. This section examines first the recent trends of temporary migration with working rights, namely working holiday markers and international students and changes in policies that concern these groups. It also examines the options graduates have if they wish to stay in Australia, notably the job-search visa for graduates of Australian Universities (the temporary graduate visa, 485). Finally, the chapter discusses transitions from temporary to permanent migration which is gaining ground in Australia.

Temporary migration with work rights is on the rise

The growth of temporary migration with work rights is important in itself as it represents a growing share of all migrant flows, but also because it increasingly serves as a pathway to permanent migration. The labour market contribution of temporary migration which includes students and working holiday makers who have work rights, has grown by 50% between 2005/06 and 2015/16, reaching 727 400 visas in 2015/16 (Figure 6.1). This trend has been mainly driven by the rise in working holiday makers and students grants, which are also the biggest categories. The growth of the "other" category reflects the introduction of the temporary (short-stay) work visa (subclass 400) which is for work for three months (or six months in very specific cases). In 2015/16, 55 000 temporary short-stay work visas were issued, versus 85 600 for 457 visas (see Box 4.2 in Chapter 4 for a discussion of subclass 400). As a result of this growth in temporary work-related migration, these temporary migration flows (including students and WHM) represented 80% of all flows in 2015/16, up by 3 percentage points relative to the mid-2000s.

Gregory (2014) argues that there is in Australia a large pool of migrants on temporary visas who have work rights. Excluding New Zealanders, he estimates that about three quarters of a million potential workers can be found in this pool, which according to his estimations accounts for just under 2% of Australian employment.

Figure 6.1. Grants of temporary work visas or non-economic visas with work rights, 2006-07 to 2015-16



Note: Excludes airline, shipping and superyacht crews. The share is calculated out of total grants under the Migration Programme (hence including both the family and the skill streams). The other category includes 400 subclass visa holders as well as 401, 402, 420, 423, 419, 442, 470, 471, 485 subclasses visa holders. It should be noted here that the WHM visas are granted for up to one year, so they are not necessarily equivalent to 457 or students visas which are usually granted for the entire year.

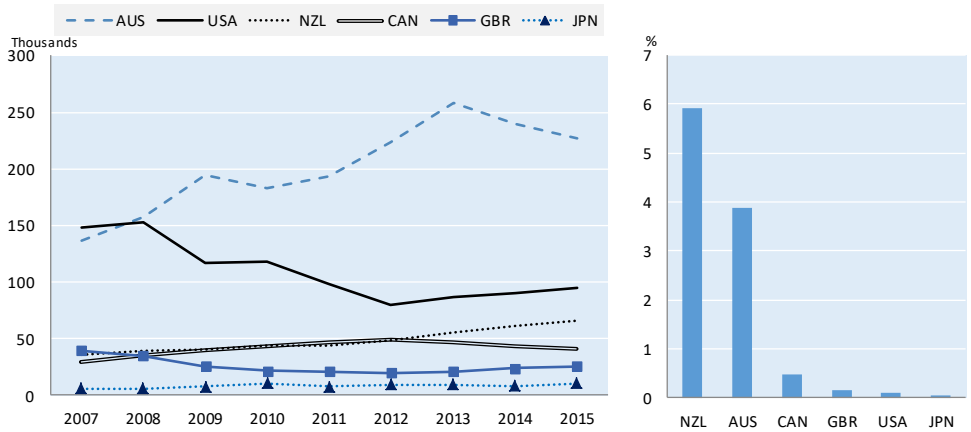
Working holiday makers have grown sharply

Working Holiday Makers (WHM) visa grants, a non-economic temporary migration category with work rights, has dominated temporary migration flows. Annual WHM visa grants have almost doubled between 2005/06 and 2015/16, reflecting a strong demand for such experience from youngsters in a number of countries. It also reflects the growing numbers of WHM agreements that have come into effect over this period, although the numbers involved in these agreements are relatively small. Australia is the most attractive destination of WHM among all OECD countries. In fact, in 2015, total grants were twice as many as the total WHM visas in the other five main destinations of WHM, namely the United States, New Zealand, Canada, the United Kingdom and Japan (Figure 6.2). Nonetheless, Australia ranks second behind New Zealand when WHM are expressed as a share of the population aged 15-34.

Figure 6.2. Working holiday makers in selected OECD countries, 2007-15

Panel A. Numbers of WHM in OECD countries, 2007-15

Panel B. WHM in Australia, 2010/11 as a share of the population aged 15-34



Note: Only countries with more than 100 trainees or working holiday makers are included. The share of population 15-34 is calculated for 2010/11.

Source: *OECD International Migration Database* for WHM and *Database on Immigrants in OECD Countries 2010/11* for the population aged 15-34.

The Working Holiday Maker (WHM) programme, introduced in 1975, provides a temporary entry point for young persons who want to combine their holiday and work in Australia for up to a year. The objective of the programme is to encourage cultural exchange and closer ties between Australia and eligible countries. Working holiday visas are the result of formal agreements between countries,[1] which, on a reciprocal basis, place caps or quotas on the annual numbers of each others' nationals who are entitled to such visas. The Australian Government takes into account a range of factors when considering signing an agreement with new partner countries, including the ability of the prospective partner to offer reciprocity to Australians, and the strength of any cultural and people-to-people links (DIBP, 2015a).

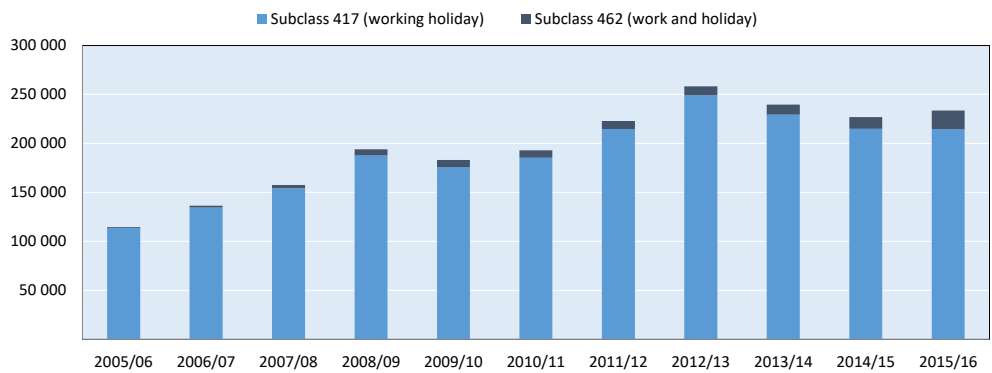
The WHM programme includes the working holiday (subclass 417) and work and holiday (subclass 462) visas. A fundamental difference between these two visas is that the first is uncapped with no annual limits whereas the other is capped with annual quotas. To obtain these visas, applicants must be outside Australia when applying (online or on paper), must be between 18 and 30 years old and should not have a dependent child

accompanying them during their stay in the country. The 417 subclass permits up to four months study or training, allows for up to six months work with any one employer and multiple entries into the country during the validity of the visa. The 462 visa subclass, established in 2005, allows first-time WHM visa holders to work in regional Australia for a period of three months and allows access to a second WHM visa if the first one was spent in regional Australia. Participants are otherwise limited to accessing a single WHM visa in their lifetime.

Working holiday visa holders who have performed specified work in an eligible regional Australian area for a minimum of three months (88 days) while on their first working holiday visa can apply for a second working holiday visa while being in the country or outside. Specified work includes work in the agriculture, mining, and construction industries. Until recently, WHM could work with a single employer up to six months. Changes introduced in January 2017, allow for work with the same employer for up to a year, conditional on working for the last six months in a different region.

WHM grants have increased steadily over the decade peaking in 2012/13 (Figure 6.3). By 2015/16, the grants had increased by 86% to 214 600 in comparison with 2005/06 with the majority of the grants under the more established working holiday agreements. However, the share of the newer Work and Holiday Programme reached its highest share of 9% in 2015/16.

Figure 6.3. Working Holiday Maker programme, grants – primary and reviews, 2005/06-2015/16

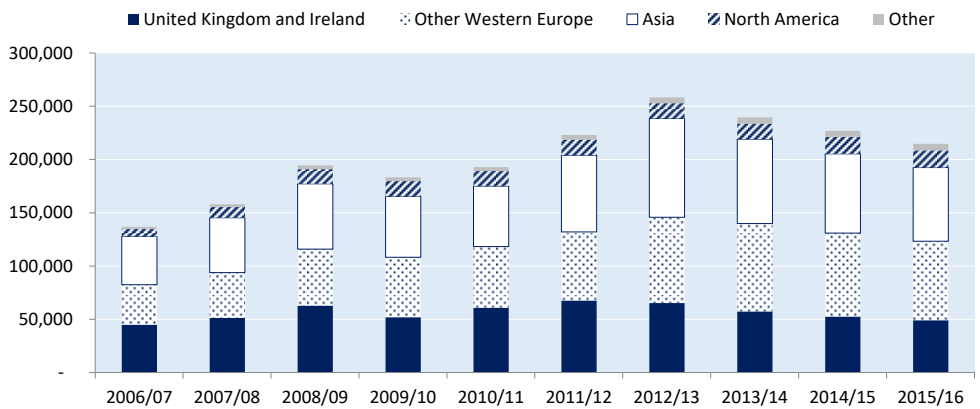


Note: The figure includes primary grants and reviews.

Source: DIBP.

Close to two thirds of WHM come from Europe, with 40% of them coming from the United Kingdom and Ireland (Figure 6.4). However, the numbers of British and Irish nationals WHM have been declining since 2012/13. WHM from other Western European countries have risen in recent years, reaching a peak in 2013/14. WHM from Asia represented more than one third of all entries in 2015/16. The United Kingdom, South Korea, Germany, Ireland and Sweden accounted for two-thirds of the subclass 417 grants (for the period to 31 Dec. 2014) while the United States alone dominated the 462 subclass grants over the same period (nearly two-thirds of those grants in 2013/14). Most WHMs stayed in two locations while about one in five WHMs stayed in five locations. In their subsequent movements, growing proportions of WHMs left urban areas for regional areas. But they tend to choose big cities for their first stay.

Figure 6.4. Trends in working holiday maker visa grants by region/country of citizenship



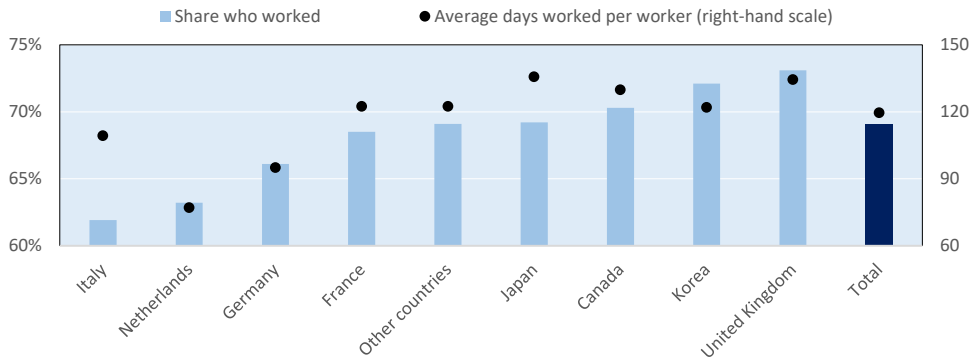
Note: Other includes Eastern Europe, Central and South America and Middle East. The figure includes both first and second visa grants.

Source: DIBP, Working Holiday Maker visa programme reports 2011 and 2016.

WHM are making an important contribution in agriculture, especially in regional Australia and in the tourism sector. They contribute to responding to labour needs in low-skilled occupations mainly in seasonal agriculture and services, including tourism. The most recent source of information on the experience of WHMs while in Australia is a 2008 survey cited by Tan et al. (2009). According to this source, 69% of WHMs worked while in Australia, with average of 120 days worked for those who were employed,

in an average of 2.3 jobs (Figure 6.5). The most popular occupations for WHMs were farm hand (27%), waiter (13%), cleaner (8%), kitchenhand (5%), bar attendant (5%) and sales assistant (4%). In the 2008 WHM Survey, many WHMs who were employed worked in low-skilled occupations. Of the total number of jobs (29 182) in which WHMs worked, 40.6% were in regional areas, with the remaining (about 60%) in capital and metropolitan areas.

Figure 6.5. Employment of WHMs in Australia by country of origin, 2008



Source: Tan et al. (2009).

While the rationale behind these programmes is initially cultural and social in nature, they appear to produce a large supplementary source of labour and may therefore have economic implications. The cumulative impact of such schemes can be a concern if flows become substantial and are concentrated in specific local areas (OECD, 2014). While the make-up of such flows and the average time spent between work and holiday varies over time and by country of origin, working holiday schemes are also becoming a channel, in some countries, for temporary workers.

The most recent evaluation of the impact of the WHM scheme is that in Tan and Lester (2012), which finds a positive impact of WHM on the Australian economy and total employment. In addition, the study finds that WHM tend to spend more than they earn while in Australia. The Employers WHME Survey conducted in 2008 shows that 90% of local employers tried to recruit native people to do the jobs for which they hired WHMs, but a big share of them (49%) found it very difficult or somewhat difficult (32%) mainly because local workers were not available or because they did not have the right skills for this type of work.

According to a 2016 report by the Productivity Commission (Productivity Commission, 2016), the WHM programme is successful in meeting many of its objectives. Overall, WHM contribute more to expenditure than to earnings, but the difference between the two is small and hence the overall impact on demand for Australian workers is rather limited. Employers who use the scheme are satisfied with the scheme and WHM are also fairly happy with their experience.

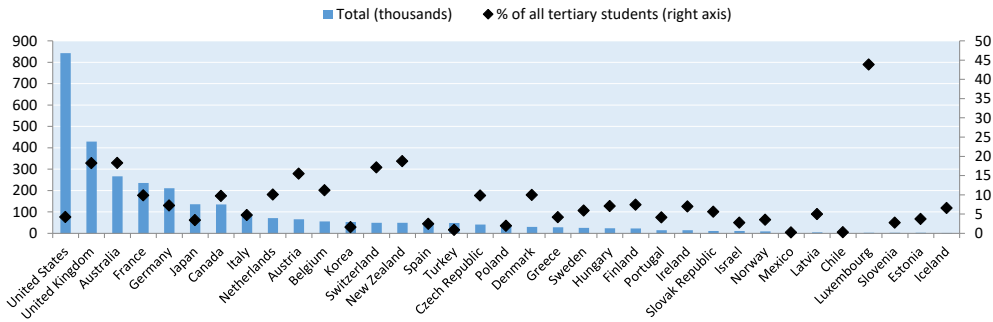
In the 2015-16 budget, the government proposed tax-related changes in order to promote the social and cultural intent of the WHM programme against a pure work focus which seemed to be the case in recent years. To that effect, the government clarified previous rules establishing the tax status of temporary WHM. Until the 2015-16 budget was passed, WHM were usually treated as residents and hence had a zero tax rate for taxable income of up to AUD 18 200, while for a non-resident this rate goes to 32.5 cents for every dollar. The recent changes, effective from January 2017, introduced a flat tax rate of 15% to all working holiday makers who earn up to AUD 37 000 and whose employers are registered with the Australian Taxation Office. The effects of this change remain to be seen, but there is some concern that this might lead to tax evasion and some form of informal labour if employers and WHM agree to declare fewer hours of work. In addition, it may lead to labour shortages in some sectors, such as tourism and agriculture, if employers face difficulties in attracting WHM who will find this experience less beneficial than in the past.[2] On the other hand, it is possible that following these changes, the data collected by the tax authorities will allow the monitoring of the WHM schemes and could help fight against exploitation of these foreign workers.

Australia is the top third OECD destination for international students

Australia's student visa programme is an integral part of the international education sector, which is one of the country's largest export industries generating a total income of AUD 16.3 billion in 2013/14 (Productivity Commission, 2015). The enduring links formed between Australia and students also support ties with key partner countries. The number of student visa holders in Australia on 30 September 2016 was 470 810, an increase of 10.6% compared with 425 740 a year earlier (DIBP, 2016).

Australia is the top third destination of international students among OECD countries, behind the United States and the United Kingdom (Figure 6.6). International students represent 18% of all students in tertiary education, which places Australia in the same rank as the United Kingdom and just behind New Zealand (19%), but well behind Luxembourg, where 44% of university students are international students.

Figure 6.6. International students enrolled in OECD countries, 2014



Note: Data refer to the year 2013/14. Data for the Czech Republic, Israel, Italy, Korea, the Slovak Republic and Turkey refer to foreign students instead of international students. Data for Canada, Iceland and Mexico refer to 2013 instead of 2014 and the change refers to 2012-13.

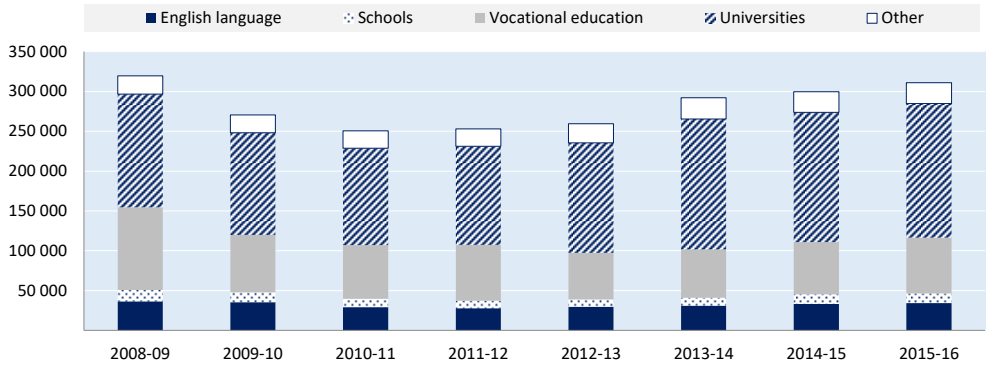
Source: *OECD Education at a Glance Database*.

The student programme is demand-driven and there is no cap on the number of student visas which can be granted. Applicant students should have a Certificate of Enrolment (COE) in an approved educational institution and should comply with the Genuine Temporary Entrant (GTE) requirement during the visa application assessment process.

The number of primary grants and renewals grew by 62% between 2005/06 and 2015/16 reaching 310 845 (Figure 6.7). Over this period, close to half of all grants were to students in higher education, while the share of students in VET training rose from 16% to 23% over the same period. In 2014/15, around 36% of all grants were issued to students intending to study[3] in New South Wales followed by Victoria at 29% reflecting concentrations in the states with relatively stronger economic conditions.

The significant decline in total grants in the period between 2008/09 and 2011/12, possibly reflects a number of factors, including the Global Financial Crisis, increased competition from other countries, the increasing strength of the Australian dollar, student safety concerns, education provider closures and immigration integrity concerns (DIPB, 2015b). One of the concerns over that period was that students were using the student visa programme to live and work in Australia rather than obtaining a degree. In 2011, the Knight Review was commissioned by the government to examine the student visa framework and ensure its settings were positioned to respond to current and future challenges.

Figure 6.7. Student visa grants by type, 2008/09-2015/16



Source: DIBP, Student visa and temporary graduate visa programme trends, 2008-09 to 2015-16.

The student visa programme has since undergone significant reforms (i.e. the Knight Review and the 2013 Assessment Level Framework Review) which relate both to the actual visa processing and elements which have implications for the composition of students admitted in Australia in terms of country of origin and institutions and the level at which they enrol. The Chaney Review (Commonwealth of Australia, 2013) in 2013 further highlighted the urgent need to develop a more co-ordinated government approach to international education in Australia (Productivity Commission, 2015).

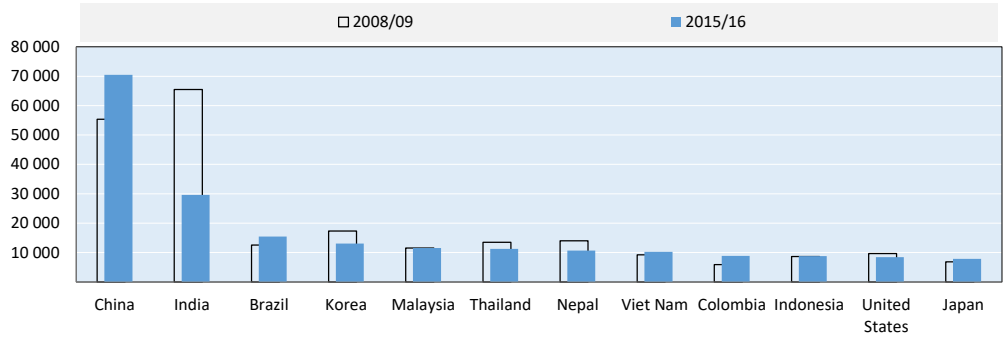
Between 2010/11 and 2015/16, the overall number of student visa grants increased by 24% to a total of nearly 310 845 with much of the growth coming from students enrolled in universities while those enrolled in language courses dropped significantly in 2009/10 and have remained below their 2008/09 level since (Figure 6.7). During the same period, the proportion of higher education grants from offshore increased by 81% to 101 460. The contribution of some key origin countries (India, Pakistan, Philippines, Vietnam, Thailand, Nepal and China) significantly increased during this period (Figure 6.8).

The Streamlined Visa Processing (SVP) was introduced in 2012, initially for higher education, but was subsequently extended to more varied courses and education providers. In the new system, students enrolled in eligible courses, had to satisfy a lower set of requirements, notably related to English language proficiency and their financial means. The adoption of the Streamlined Visa Processing, has had important implications for applicants form a number of countries. For instance, prior to

November 2011, a student from China or India generally had to provide evidence of up to 36 months of funds with his student visa application (equivalent to approximately AUD 120 000). From March 2014, these students needed to provide evidence of up to 12 months of funds (equivalent to approximately AUD 40 000) with their student visa application if that was processed under the old framework.

One in five international students in Australia is from China, while one in ten is from India (Figure 6.8). Korea and Brazil are the next two countries of origin with 13 000 international students each, followed by Thailand, Malaysia and Vietnam, each with more than 10 000. These seven countries account for more than half of all international students in Australia.

Figure 6.8. Main countries of origin of students, 2008/09 and 2015/16

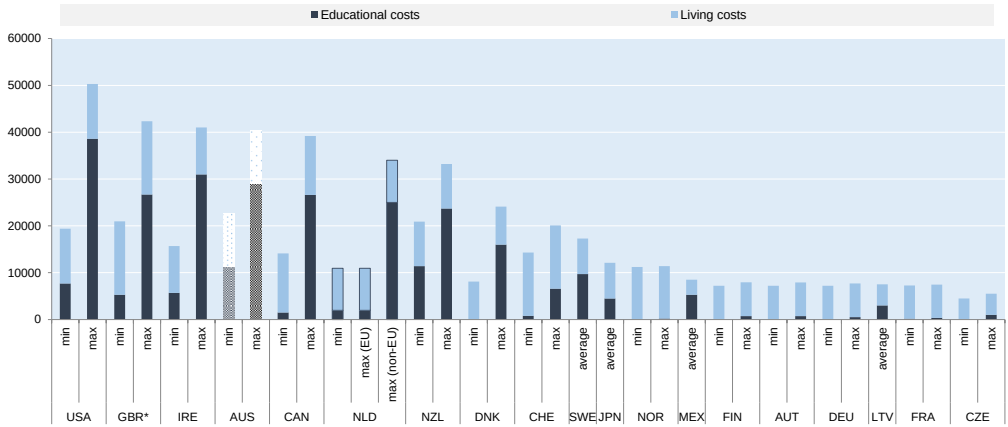


Source: DIBP, Student visa and temporary graduate visa programme trends, 2008-09 to 2014-15.

The cost of studying in Australia is high, in comparison with the other main OECD destinations of international students (Figure 6.9). The minimum cost, EUR 22 000, is the highest of all OECD countries. The total annual cost of studies (including tuition fees and living expenses) can be as high as EUR 40 000, which places Australia close to Canada and Ireland, and somewhat above New Zealand and below the United Kingdom. Despite this high cost, international students are satisfied in Australia. Nine out of ten students participating in the National Survey of International Students Studying in Australia declare to be satisfied or very satisfied with their overall experience in Australia. The reputation of the education system, of higher education providers and Australian qualifications, as well personal safety and security and the quality of research are the top factors attracting migrants to Australia to study.

Figure 6.9. Living costs and educational costs for international students in selected OECD countries, 2012

In euros



Note: * Excludes Scotland, min refers to lower bound of educational costs, max refers to an upper bound of educational costs. For the Netherlands the maximum possible fee refers to international students from non-EU countries.

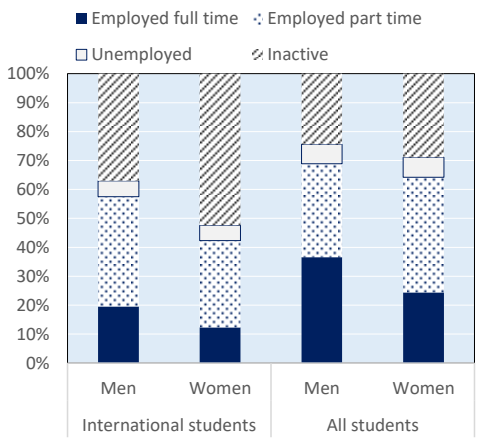
Source: OECD (2013), *Education at a Glance 2013: OECD Indicators*, OECD Publishing, Paris, http://dx.doi.org/10.1787/eag-2013-en; Usher, A. and J. Medow (2010), "Global Higher Education Rankings 2010. Affordability and Accessibility in Comparative Perspective, Higher Education Strategy Associates", Toronto; and national governmental and university websites. For the Netherlands the source is Nuffic.

Many students work to finance their cost of living and studying. In fact, the possibility to combine work and study is an important reason for choosing Australia as their study destination. International students are allowed to work a maximum of 40 hours per fortnight during non-holiday periods, and unlimited hours during school holidays. A fortnight means a period of 14 days commencing on any Monday and ending on the second following Sunday. The subclass 574 Postgraduate research student visa imposes no limit on the number of work hours per fortnight.

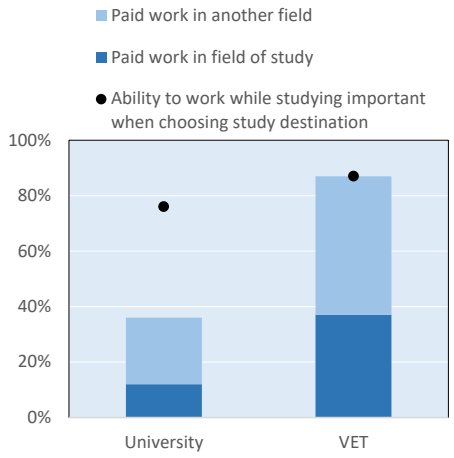
In 2016, 57% of all male international students had a job, and a 42% of female foreign students (Figure 6.10). About one third of employed male international students had a full-time job, versus 29% among female international students. Fewer international university students work than VET students and both are more likely to work in a field which is not related to their studies.

Figure 6.10. Employment of international students, 2016 or 2014

A. Labour force status of students, 2016



B. Employment experience of international students, 2014



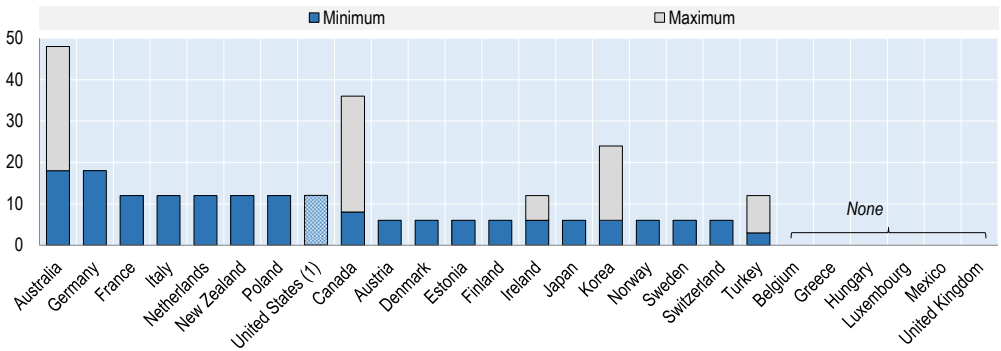
Source: Panel A: International students: Temporary student visa holders from ABS Characteristics of Recent Migrants, November 2016. All: Aged 15-74 enrolled in non-school qualifications (no restriction on birthplace or citizenship) from ABS Education and Work, May 2016. Panel B: Department of Education and Training, 2014 International Student Survey.

Job-search visas offer up to four years for graduates to get a work-related visa

As in many OECD countries, foreign graduates of Australian universities have the right to stay in the country following their studies for a certain period, work and look for a job which will give them access to a work-related permit. Australia's job-search visa programme for graduates (the temporary graduate visa, subclass 485) is the most generous among OECD countries as it allows graduates to stay in Australia for a period which can go from 18 months to four years (Figure 6.11). In comparison, students in Korea and New Zealand have up to two years while in Canada this can go up to three years. In the United States, the optional practical training allows graduates to stay and work for up to 12 months in jobs related to their degree. However such visa grant is not automatic as is the case in all other OECD countries with job-search visa schemes for graduates. The optional practical training visa can be extended to up to 36 months for graduates in the fields of science, technology, engineering and mathematics. For many European countries, the maximum duration of a job-search visa is 12 months (France, Ireland, Italy, the Netherlands and Poland).

Figure 6.11. Duration of job-search periods for post-graduate schemes in different OECD countries, 2014

In months



1. In the United States, the OPT is not granted to all graduates and can vary from 12 months (for most subjects under certain conditions) to up to 36 months for graduates in the fields of Science, technology, engineering and mathematics.

Source: OECD Secretariat analysis.

The Temporary Graduate visa (subclass 485) was introduced in 2013, following the 2011 Knight review of the student visa programme (Australian Government, 2011; DIPB, 2015b). Only graduates in fields related to occupations on the Skilled Occupation List (SOL) were eligible for the Skilled Graduate visa which existed prior to the 485 one. This requirement was quite restrictive and had to be lifted for the job-search visa for graduates to support attracting and retaining graduates in Australia.

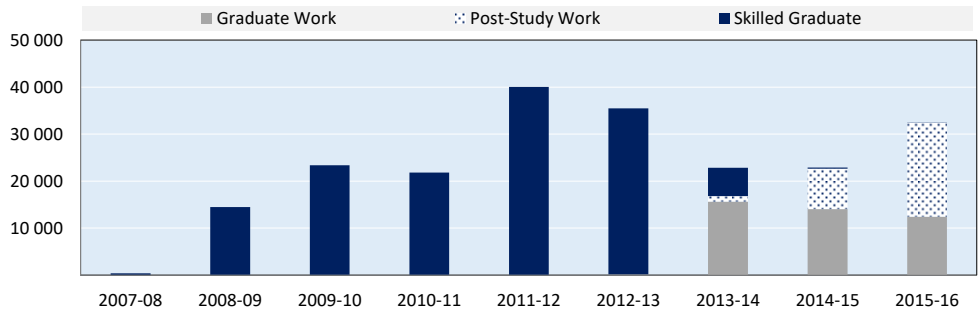
The job-search visa has two streams. First, the Graduate Work stream offers a stay of 18 months to graduates with skills and qualifications that closely relate to an occupation on the SOL and a skills assessment from a relevant agency.[4] The second stream, the Post-Study Work stream, is intended for students who graduate with a higher education degree (Bachelor's and above requiring a minimum of three years of study) from an Australian education provider (on or after 5 November 2011), regardless of the field of study. This stream is only available to students who applied for, and were granted, their first student visa to Australia on or after 5 November 2011. A visa in this stream can be granted for up to four years depending on the visa applicant's qualification.

Applicants in both streams can apply either onshore or from offshore. They should be less than 50 years old, should have already been in Australia

holding an eligible study visa and prove course completion and finally, they should meet the English language requirement.[5] Visa holders can be accompanied by dependents and secondary applicants who have the right to work and study in Australia.

The number of graduate visa grants reached its peak in 2011/12 to decline afterwards and around 2013, when the old job-search visa was replaced by the new temporary graduate visa (Figure 6.12). In 2015/16, new grants reached 32 450, an increase of 42% which is driven by the rise in the graduate-work stream which represented close to two thirds of all grants. Offering students the possibility to stay in Australia and search for a job is a factor which attracts them to Australia (see CIE, 2014 which provides evidence of an increase of 11% in the number of international students, following the introduction of the job-search visa in New South Wales).

Figure 6.12. Temporary graduate visa grants, 2007/08 to 2015/16



Note. This figure includes both primary and secondary applicants. Primary holders represent at least three quarters of these visas granted.

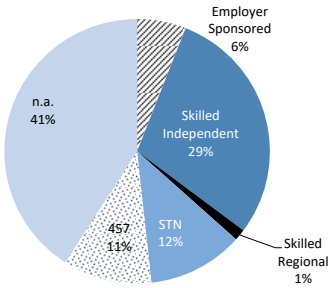
Source: DIBP, https://www.border.gov.au/ReportsandPublications/Documents/statistics/student-temp-grad-programme-report-2015-16.pdf.

Assessing the effectiveness of such job-search visas is difficult in most OECD countries, primarily because of the lack of detailed data which enable following up individuals in different permits over time. In addition, in the case of the Graduate visa in Australia, such an assessment would be preliminary because this visa was introduced in 2013 and it can give up to three years to visa holders to get a permanent or temporary work-related visa. Hence, more time would be needed to thoroughly evaluate this scheme and administrative data which follow individuals over time should be used to answer this question.

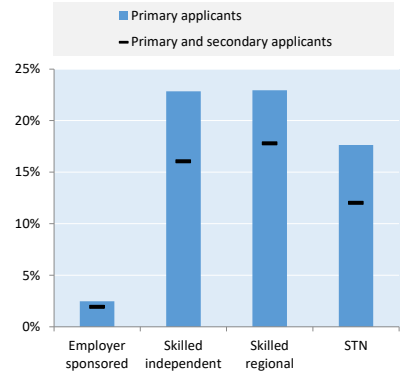
Given these constraints, this section uses the data available to answer some basic questions. First, what are the next visas held by holders of the Graduate visa? This can be answered only for those who have changed status in the short period of observation. Panel A of Figure 6.13 uses data on permanent and 457 visas in 2015/16 granted to holders of Temporary Graduate visas and expresses them as a share of all Graduate visas granted in 2013/14. The analysis is conducted for primary applicants only. Although this calculation has some limitations, it suggests that 29% of Graduate visa holders have transitioned into a skilled independent visa and an additional 12% into an STN visa. The share of those going into employer sponsored visas is just 7.5% (both employer sponsored and skilled regional visas). By comparison, in France, close to two thirds of persons with job-search visas issued in 2013-14 had switched to a labour residence permit within a short period (OECD, 2017).

Figure 6.13. Next visa granted to temporary graduate visa holders, 2014/15 or 2015/16

A. Visas granted to former 458 visa holders



B. Previous visa of new permanent visas, 2015/16



Note: Panel A shows new grants by category (permanent and 457) to previous holders of Graduate visas in 2014/15 as a share of Graduate visas granted in 2013/14. Both primary and secondary applicants are included. n.a. stands for non-available. The figure in Panel B reports the share of Graduate visa holders in new permanent visas granted in 2015/16, both for primary and secondary applicants and primary applicants only.

Source: OECD Secretariat analysis based on data from the DIBP.

An alternative way to evaluate the contribution of the search visa for graduates to permanent migration is to examine the previous status of persons switching to a permanent visa in 2015/16. When only primary applicants are considered, former graduate visa holders represent 23% of both skilled independent and skilled regional permanent visas granted in

2015/16 (Panel B of Figure 6.13). Their contribution is smaller among STN visas (18%) and minimal among employer-sponsored visas (2%). As a comparison, the respective contribution of the search year for domestic graduates to skilled permanent migration in the Netherlands (the knowledge migrant scheme) was 60% in 2013 (see Chapter 5 in OECD, 2016). Estimates for France show that job-search visa holders represented at least 16% of all labour migration flows and 20% of permanent labour migration flows in 2014 (OECD, 2017). Given that the Australian job-search visa has a longer duration and hence the estimated contribution here should be seen as a lower bound, the Graduate visa seems to be fairly successful in supplying skilled graduates to permanent migration.

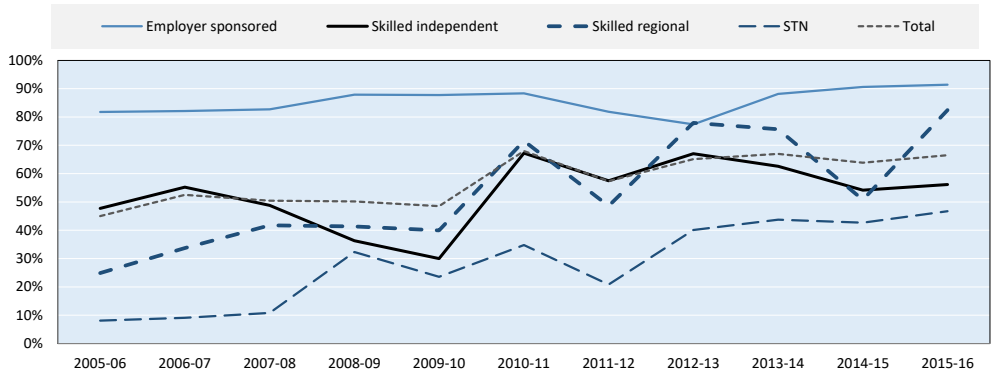
The two-step migration model is gaining ground

Growing importance of onshore visa grants

Onshore applicants have always been a large source of employer-sponsored permanent migration, but they are also becoming increasingly important in other permanent skilled categories as well (Figure 6.14). In 2015/16, two thirds of all permanent visas (primary applicants only) were granted to onshore candidates. This share, although growing, is still somewhat below that in New Zealand, where 94% of labour migrants admitted for residence were already in the country in 2011/12 (OECD, 2014). Labour Force Survey data indicate that one third of permanent resident visa holders who arrived in Australia between 2000 and 2010 and were still in the country in November 2010, held at first a temporary resident visa (ABS, 2011).

Differences exist across permanent migration visas. As expected, the share of onshore applicants who get a visa is highest for employer-sponsored visas (91%) and has been fairly stable over the past ten years, except a small decline in 2011-13. The share of onshore applicants in STN visa grants has been increasing steadily and significantly over the past ten years, going from 8% in 2005/06 to 47% in 2015/16. The importance of onshore applicants has also grown among skilled independent migrants, although there is some variation from one year to the other. More than 63% skilled independent visas were granted to onshore candidates in 2012/13 and 2013/14, but their share dropped somewhat to 56% in 2015/16. These trends highlight the importance of the two-step migration model in Australia, in which migrants enter first with temporary work visas or visas granting them some work rights (e.g. students) to transition later on to a permanent visa, at least for a share of them.

Figure 6.14. Share of permanent skilled migrants applying onshore by visa category and year



Note: This figure includes primary applicants only.

Source: DIBP.

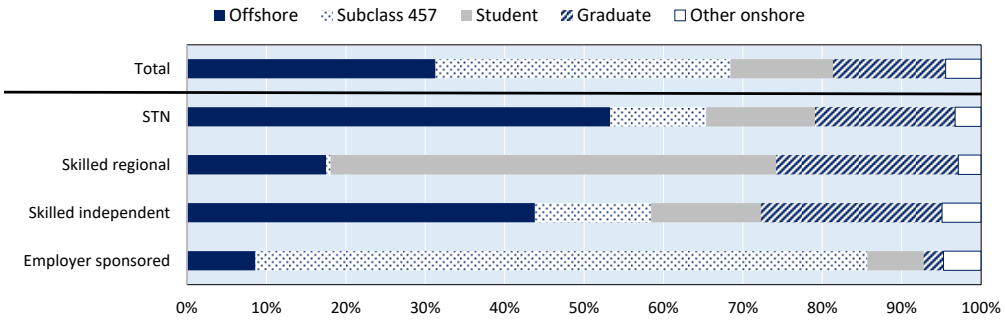
Transitions from temporary to permanent visas are becoming popular

According to direct transitions data,[6] holders of 457 visas account for 37% of permanent labour migration flows (only primary applicants) in 2015/16 (Figure 6.15). This figure is higher than that estimated by the ABS (ABS, 2009) which found that close to one quarter of all skill stream permanent visas were granted to persons who previously held a 457 visa. In addition to 457 visa holders, students and job-search visa holders contribute with 26% to new permanent work visas.

Sharp differences exist both across the different types of skilled migration and across nationalities. As already shown, onshore candidates represent the vast majority of employer-sponsored visas and 457 holders dominate this group in 2015/16. More than three quarters (77%) of employer-sponsored permanent visas were attributed to former 457 visa holders, while only 8.6 were attributed to candidates applying from offshore in 2015/16. In contrast 457 visa holders represent only a small share (13%) for all other permanent visas. The pathway from a student visa to skilled regional dominates all other pathways to this visa (representing 56% of all new skilled regional visas) and represents 14% of new skilled independent visas. Former students had a pathway to skilled regional visas until 2015 which may explain why this pathway dominates all other transition into skilled regional visas. In addition, it may be that students who have spent

some years in a regional area, have made contacts and have hence a higher chance to be nominated for that specific area. To fully understand this pathway, it would be important to compare the area where education was acquired to the one for which the skilled regional visa is granted, which is not possible with the data made available. Students and graduate visa holders also contribute significantly to other labour migration categories. Notably, these two groups account for 37% of all new skilled independent visas.

Figure 6.15. Permanent visa grants by previous visa held, 2010/11-2015/16



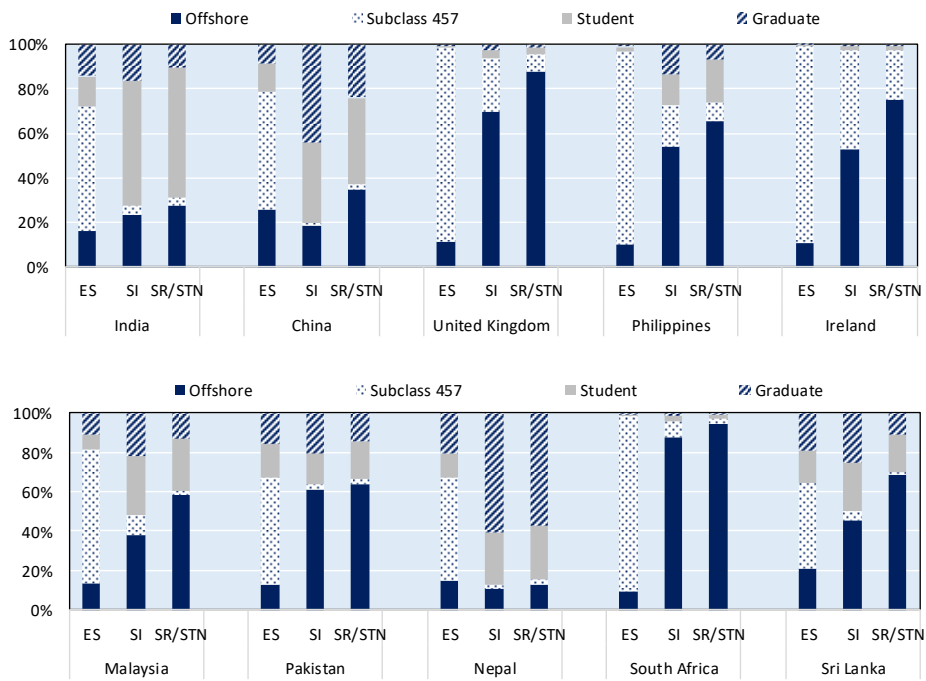
Note: Principal applicant only. Previous visa is last substantive visa held for onshore applicants, hence only direct transitions are captured here, not the entire visa pathway people follow.

Source: OECD calculations using visa grants data from the Department of Immigration and Border Protection.

However, the pathways used differ significantly across countries of origin. Figure 6.16 presents permanent visa grants over the period 2010/11-2015/16 by previous visa held for the first ten nationalities of permanent skilled migration over this period. British, South African and to a lesser extent also Irish and Pakistani skilled independent visa holders come directly from abroad. For these nationalities, offshore candidates represent between 50 and 70% of all skilled independent visa grants. Although transitions from 457 visas are the main pathway to employer-sponsored migration for all the nationalities in Figure 6.16, the magnitude of the contribution of 457 visas differs across countries of origin. The vast majority (90%) of employer sponsored visas are granted to 457 visa holders for nationals of the United Kingdom, the Philippines, Ireland and South Africa. In contrast, or nationals of India, China, Pakistan, Nepal and Sri Lanka 457 visa holders represent 55% or less of all employer sponsored visas.

The main pathway to a skilled independent or a skilled regional/STN visa for Indian nationals is that through a student visa (56% and 58% respectively). The student-skilled independent and student-STN/Skilled regional pathways are also quite popular among nationals of China, Malaysia and Nepal (30% for the latter two and 40% for China). Many Chinese and Nepalese nationals transition into a skilled independent visa through a temporary graduate visa (44% and 60% respectively).

Figure 6.16. Permanent visa grants by previous visa held and country of origin, 2010/11-2015/16



Note: Principal applicant only. Previous visa is last substantive visa held for onshore applicants. SR/STN groups the results for the Skilled regional and STN categories.

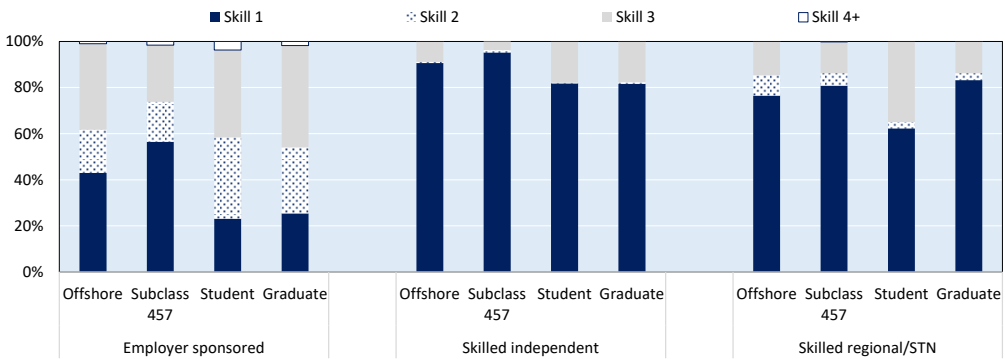
Source: OECD calculations using visa grants data from the Department of Immigration and Border Protection.

Figure 6.17 (Panel A) presents the skill level of the nominated occupation for the main visa pathways leading to permanent visa categories. First, focusing on employer sponsored visas, offshore and student/graduate

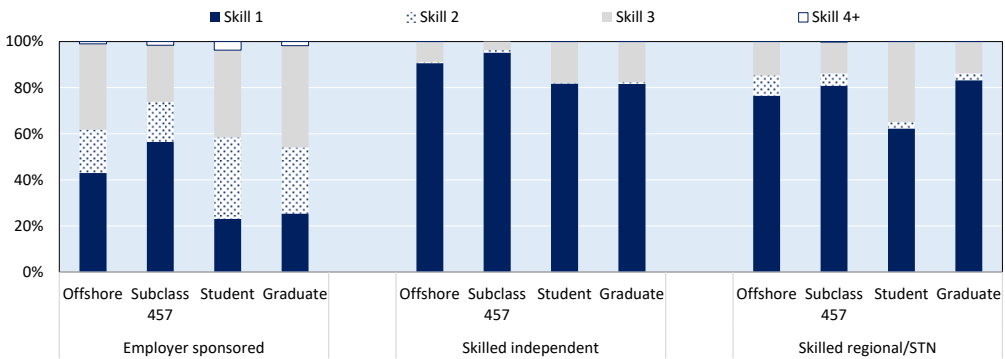
pathways seem to be used by lower skilled migrants, while those coming through 457 visas tend to have higher skill levels. Holders of 457 visas transitioning into skilled independent visas, tend to have more highly skilled nominated occupations than other groups. This may be because 457 are typically older (see Panel B of Figure 6.17). In contrast, those coming from a student or graduate visa tend to be less skilled applicants. They possibly go through the points test because of the number of points attributed to Australian qualifications and possibly their relatively young age.

Figure 6.17. Permanent visa grants by previous visa held and by skill level and age, 2010/11-2015/16

Panel A. By skill level of nominated occupation



Panel B. By age group



Note: Principal applicant only. Previous visa is last substantive visa held for onshore applicants.

Source: OECD calculations using visa grants data from the Department of Immigration and Border Protection.

Half of all new 457 visas were attributed to applicants applying from offshore in 2014/15. Among those applying from Australia, students represented 29% of new 457 visas, while working holiday makers represented 26% of 457 grants.

Does multiple-step migration improve employment outcomes?

The increasing importance of the two-step or multiple step migration model poses a number of important policy-related questions. First, does it affect the time it takes for immigrants to obtain a permanent visa, hence settling in Australia in the long-term? Second, does it have an impact on the characteristics and skills of migrants settling in Australia? Does it change the pathways migrants take to obtain permanent residence? And finally, what are the implications of all these possible changes for the labour market outcomes of migrants in the short to longer term.

Answering these questions however requires data on complete pathways of individuals linked with subsequent labour market outcomes, which are not currently available. Gregory (2014) conducts a careful analysis of impact of the two-step migration model in Australia on the labour market integration of migrants. He argues that two-step migration widens the time it takes for immigrants to attain permanent residence and creates a pool of temporary migrants with work rights who will not necessarily all obtain permanent residence. His study finds that the two-stage migration process has been accompanied by a rise in the incidence of part-time employment in the first years after arrival, especially for immigrants from non-English speaking countries, whereas. no much change has occurred for those coming from English speaking countries. Preliminary analysis using the Continuous Survey of Australia's Migrants (CSAM) provides some evidence on differences in labour market outcomes between migrants applying onshore (hence those who are going through a two-stage migration process) and those applying from abroad. The results in the Annex 6.A1 (Table 6.A1.1) show a lower probability to be in their nominated occupation for employer-sponsored permanent migrants who apply onshore, but this outcome improves with time in Australia. At the same time, they're also more likely to be looking for another job 18 months after they have received a permanent employer-sponsored visa. In contrast, onshore migrants in points-tested permanent visas seem to have better labour market outcomes than those who come from abroad. They are more likely to be employed and work in their nominated occupation both 6 and 18 months after their visa was granted, less likely to be overqualified for their job and less likely to be looking for a job.

In conclusion, the fast growing numbers of WHMs make an important contribution to certain sectors, notably tourism and agriculture and in regions where there is a clear shortage of low-skilled workers, while they do not seem to have displacement effects on the native-born. Recent changes introduced in the 2015/16 budget both on WHM grants and tax evasion will need to be monitored. Former international students and graduates who transition through the post-graduation job-search visa constitute an important source of skilled labour migration. Preliminary evidence suggests that the use of the job-search visa for graduates is satisfactory as former holders of this visa represent close to one quarter of both skilled independent and skilled regional permanent visas.

Notes

1. There are currently 19 eligible countries for WHM: Belgium, Canada, Cyprus,[*,**] Denmark, Estonia, Finland, France, Germany, Hong Kong (including British National Overseas passport holders), Ireland, Italy, Japan, Republic of Korea, Malta, Netherlands, Norway, Sweden, Taiwan and the United Kingdom. The eligible countries for Work and Holiday are: Argentina, Bangladesh, Chile, China, Hungary, Indonesia, Malaysia, Poland, Portugal, Spain, the Slovak Republic, Thailand, Turkey, the United States, and Uruguay. Agreements with Israel, Papua Guinea, Greece and Vietnam are waiting to be activated.

   * Note by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

   ** Note by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

2. http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview201516/Holiday.

3. Location identified by the state where the education provider is registered.

4. E.g. Australian Computer Society ACS, Australian Association of Social Workers AASW.

5. E.g. an overall score of at least 6 with a minimum score of 5 in each of the four test components (speaking, reading, listening and writing) in an IELTS test that has been undertaken in the three years immediately prior or being a citizen of the United States, United Kingdom, Canada and New Zealand.

6. These calculations are based on data on grants of permanent visas by previous visa held by applicants (mainly principal applicants) provided by the DIBP.

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Annex 6.A1

Labour market outcomes of permanent migrants

The Continuous Survey of Australia's Migrants (CSAM) collects information on recent migrants to Australia who have been granted a permanent or provisional visa since 2009. Their labour market outcomes are observed both six and 18 months after settlement (i.e. arrival for offshore applicants and possession of permanent residence for onshore ones). It is possible to distinguish between onshore and offshore applicants but also to identify those with an Australian qualification (hence to identify former students). In addition, the survey contains detailed information on the year of arrival in Australia which makes it possible to construct a variable measuring the time new permanent migrants have already spent in Australia. The survey also includes detailed information on various personal characteristics which affect labour market outcomes, such as gender, education level, age, and English language ability. Moreover, the analysis can be conducted separately for employer-sponsored permanent visas and permanent visas which are based on points test. Although the analysis with CSAM data is only partial, it is still useful in investigating the differences between on shore and offshore permanent migrants and for onshore ones, by duration of stay. The results of a preliminary analysis are presented in Table 6.A1.1 below.

Table 6.A1.1. Labour market outcomes for onshore/offshore permanent migrants

	Employer-sponsored permanent visas				Points-tested permanent visas			
	6 months		18 months		6 months		18 months	
Employment								
Onshore	-0.023	-0.015	-0.026	-0.02	0.093***	0.096***	0.030***	0.032***
Years since arrival		-0.007***		-0.005		-0.003		-0.002
Nominated occupation								
Onshore	-0.105**	-0.124**	-0.108*	-0.121**	0.042**	0.091***	0.044*	0.098***
Years since arrival		0.026**		0.016		-0.054***		-0.057***
Skilled occupation								
Onshore	-0.01	-0.008	-0.001	0.007	0.015	0.067***	0	0.054***
Years since arrival		-0.002		-0.008		-0.046***		-0.045***
Over -qualified								
Onshore	0.026	0.03	0	-0.001	-0.014	-0.056***	-0.008	-0.057***
Years since arrival		-0.006		0		0.042***		0.046***
Looking for another job								
Onshore	-0.021	-0.02	-0.062*	-0.065*	-0.069***	-0.064***	-0.062***	-0.094***
Years since arrival		-0.002		0.003		-0.005		0.032***
Wages								
Onshore	0.196***	0.240***	0.187***	0.230***	0.018	0.053**	0.018	0.054**
Years since arrival		-0.048***		-0.048***		-0.040***		-0.042***

Note: Results shown (except for wages) are marginal effects from probit regressions. Results on wages are OLS coefficients from a Mincerian equation on wages. ***, ** and * indicate that marginal effect is significant at 99%, 95% and 90% confidence levels, respectively Migrant characteristics are gender, age, education level, whether has an Australian qualification and self-assessed English-language ability.

Source: OECD calculations using data from the Continuing Survey of Australian Migrants 2013, 2014 and 2015 cohorts.

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AUSTRALIA

Australia has always been a nation of immigrants. More than one quarter of its population in 2015 was born abroad. Immigrants make an important economic and demographic contribution and help address skill and labour shortages. Labour migration is managed through a complex, but well-functioning and effective system which sets and respects annual migration targets. In recent years, the labour migration system has shifted from a mainly supply-driven system to a system where demand-driven migration represents close to half of the permanent skilled migration programme and demand-driven temporary migration has also risen sharply. In addition, two-step migration has gained ground in recent years. The review examines the implications of these changes for the composition of immigrants and their labour market outcomes. Moreover, it discusses recent changes in the tools used to manage labour migration and provides a detailed analysis on the impact of the introduction of SkillSelect on the efficiency of the system. Finally, the review discusses the extent to which the current labour migration system responds to the labour market needs of Australia's States and Territories.

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