

# Select skills: principles for a new Migration Occupations in Demand List

## Review of the Migration Occupations in Demand List

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Department of Education, Employment and Workplace Relations

Department of Immigration and Citizenship

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## List of acronyms

ABS	Australian Bureau of Statistics
ANZSCO	Australian and New Zealand Standard Classification of Occupations
ASCO	Australian Standard Classification of Occupations
CSL	Critical Skills List
DEEWR	Department of Education, Employment and Workplace Relations
DIAC	Department of Immigration and Citizenship
GSM	General Skilled Migration program
LSIA	Longitudinal Surveys of Immigrants to Australia
MODL	Migration Occupations in Demand List
NOM	Net Overseas Migration
SOL	Skilled Occupation List
VET	Vocational Education and Training

## Summary

The review of the MODL purpose and methodology aims to make MODL a more strategic tool in identifying medium to long term skill needs (rather than being based on current skill shortages) where migration is an appropriate solution.

This issues paper looks at the drivers for a review, highlighting a number of issues around the composition and operation of the current MODL and the economic and demographic challenges facing Australia in the future.

In that context, the paper puts forward for comment, principles that would underpin a new MODL to position the independent skilled migration program to better deliver the high level skills Australia needs for a 21<sup>st</sup> century economy, while the sponsored program responds to immediate skills demands felt by employers:

- i) The MODL targets skills of high economic value to Australia*
- ii) The MODL complements domestic skill supply and maximises skill utilisation*
- iii) The MODL is prospective*
- iv) The MODL should not be driven by short term employment cycles*
- v) The MODL needs to take account of other migration arrangements*
- vi) The MODL is evidence based and underpinned by a robust and transparent methodology*

## Introduction

At the start of this year, in response to the unfolding global recession, the Minister for Immigration and Citizenship, Senator Chris Evans, introduced a series of changes to processing arrangements for visa applicants under the GSM program. The purpose of the reforms was to ensure that the program is more tightly targeted to our skill needs during a period of weak labour demand, including by shifting the focus of the program from independent to employer and State sponsored migration. Among the changes was the introduction of a CSL. Un-sponsored applicants whose nominated occupation was on this list were given priority ahead of other applicants.

Senator Evans also announced the government would conduct a review of the MODL. Since its introduction in 1999, the MODL has been the primary targeting mechanism for selecting skilled migrants from among the pool of visa applicants. The decision to introduce the CSL and review the MODL signalled that the government felt the MODL was insufficiently responsive to changes in economic conditions.

The terms of reference for the review are:

To examine and report on:

1. The role and purpose of the MODL in targeting skill needs in relation to the General Skilled Migration Program to complement the supply of tertiary-qualified Australians.
2. A proposal for a new methodology and structure for MODL to meet its intended purpose, taking account of (i) the medium to longer term needs of the Australian labour market, (ii) skill supply through domestic tertiary education.
3. The implications for policy and administration of any proposed changes to the MODL arrangements.
4. The introduction of the ANZSCO into ABS and DEEWR work and the implications and timing of its introduction into MODL and the CSL.
5. Key dates and time frame for any changes which may result from the review.

The review is being conducted jointly by DEEWR and DIAC. This Issues Paper was prepared by officials from both departments, with assistance from Treasury and Professor Gerald Burke of Skills Australia.

This is the first of two Issues Papers being released for public comment as part of the review. This paper covers the following topics:

- background on the MODL
- economic and demographic challenges facing Australia
- need for a new MODL
- proposed principles for a new MODL.

The second paper, to be released in September, will put forward options for:

- a new MODL methodology
- the role of MODL in the GSM assessment process
- transition arrangements to the new MODL.

The government will consider the outcomes of the review in October, with an announcement to follow shortly thereafter.

Comments on this Issues Paper are invited using the questions posed at Attachment A. Responses, and any queries, should be directed to:

Ms Miranda Lauman  
Director, MODL review  
Department of Immigration and Citizenship

Email: [miranda.lauman@immi.gov.au](mailto:miranda.lauman@immi.gov.au)  
Phone: 02 6264 2525

and received no later than Friday, 28 August 2009.

## Background to the MODL

The MODL was introduced on 1 July 1999 to advantage visa applicants under the GSM program whose nominated occupation was on the list. Its original intention was to improve the selection chances of highly skilled visa applicants whose age and English language proficiency worked against their relative chances of selection but whose occupation was in demand by Australian employers.

The MODL is a sub-set of a larger list, the SOL. A person wishing to apply for a visa under the GSM program must nominate an occupation listed on the SOL at the time they apply. Their skills are then assessed by the relevant Australian assessing authority. The precise assessment conditions vary from one occupation to another. Those who satisfy the assessing authority that they meet the requirements are then awarded points as follows:

60 points	for highly skilled occupations where training and/or qualifications specific to the nominated occupation are required and there is a specialised assessing authority for that occupation
50 points	more generalist degree level occupations and highly skilled occupations for which there is no specialised assessing authority
40 points	occupations requiring diploma level qualifications

As part of its prescribed methodology (see below), only 60 point occupations can be included on the MODL. For occupations that are included on the MODL, additional points are awarded as follows:

20 points	12 months work experience in an occupation which is closely related to the nominated occupation and a job offer in the MODL occupation
15 points	12 months work experience in an occupation which is closely related to the nominated occupation

For an independent skilled visa – sub-classes 175 and 885 – the pass mark in the GSM points test is currently 120 points (see Attachment B for details). Inclusion of an occupation on the MODL thereby confers on the applicant a significant advantage, ensuring they need only a further 40 or 45 points to meet the pass mark. For young applicants – those aged less than 30 years – whose nominated occupation is on the MODL the additional points can meet the passmark as long as they meet the English language threshold.

To improve the quality of the independent skilled program, changes which increased the English language threshold to a score of 6.0 in the International English Language Test for offshore applicants, regardless of their occupation on 1 July 2009, will be extended to apply to onshore applicants from 1 January 2010. Onshore applicants who nominate a trade occupation will also be required to pass a 'job ready' test from this date.

### ***How are occupations placed on the MODL?***

The MODL is a federal legislative instrument, specified by the Minister for Immigration and Citizenship under the *Migration Regulations 1994*. While responsibility for MODL rests with the Minister for Immigration and Citizenship, he takes advice from the Minister for

Education, Employment, and Workplace Relations which is based on research undertaken by DEEWR into skill shortages and the application of other agreed criteria which are outlined below.

### Box 1 Methodology for determining occupations on the MODL

Criterion 1:

- Existence of national skill shortage based on the results of DEEWR's Skill Shortage Research Program which includes consultation with employers, industry bodies, professional associations and (as necessary) State and Territory Governments.

Criterion 2:

- 60 point SOL occupations only.

Criterion 3:

- At least 1500 persons employed in the occupation at the 2006 Census.

Criterion 4:

- The unit group has an annual average unemployment rate<sup>1</sup> (raw data) below that of the corresponding annual average unemployment rate (trend data) for Australia;<sup>2</sup>
- In instances where this is the only MODL criterion that an occupation does not satisfy, advice will be sought from the relevant industry body or professional association on its inclusion or non-inclusion on the MODL.

Criterion 5:

- EITHER
  - the unit group has a 5-year (past) employment growth<sup>1</sup> (trend data) greater than the average for all ASCO Major Group 1-4 codes; OR
  - the unit group has a projected 5-year employment growth in the top half of the 378 (currently) DEEWR-specified occupations;<sup>3</sup> OR
  - the occupation is in *persistent* National Shortage, as measured by an occupation being assessed by DEEWR as being in national shortage for at least 3 consecutive years or in shortage for 5 (including the latest) of the 10 most recent years.

1 The 'past' quarterly employed persons and unemployment rate data used for this document are from the ABS's Labour Force Survey data.

2 An estimated annual average unemployment rate (Australia) for the 4 quarters is calculated from Table 1 in the ABS Cat. No. 6202 (*Labour Force, Australia*).

3 Employment growth outlook data used are DEEWR projections five years forward. DEEWR projections are based in part on forecasts from economic forecasting organisations, especially the Centre of Policy Studies, Monash University, recent employment growth, industry trends, and qualitative information on occupational developments.

The skill shortage research undertaken by DEEWR is ongoing and extensive, involving a survey of employers who have recently advertised for workers in skilled occupations and analysis of a range of occupational supply and demand factors for each occupation. An independent review of the research methodology was undertaken by the ABS in 2006

which was satisfied that the sampling method used was cost effective and targeted in providing qualitative indicative information on skill shortages.

Based on this work occupations are assessed (noting any metropolitan/regional differences) to determine whether they are in shortage. DEEWR uses an employer recruitment definition of shortage and it recognises that vacancies remaining unfilled does not necessarily indicate a shortage of skilled workers. Consequently, the Department rates each occupation against the following definitions.

Shortage	Employers are unable to fill, or have considerable difficulty filling vacancies for an occupation, or significant specialised skill needs within that occupation, at current levels of remuneration and conditions of employment, and in reasonably accessible locations
Recruitment difficulty	Some employers have difficulty filling vacancies for an occupation. There may be an adequate supply of skilled workers but some employers are unable to attract and recruit sufficient, suitable workers for reasons which include: specific experience or specialist skill requirements of the vacancy; differences in hours of work required by the employer and those sought by applicants; or particular location or transport issues
No shortage	Research has not identified any significant difficulty filling vacancies

The assessments are validated through consultation with key industry bodies, unions and professional associations and are undertaken on a six monthly basis to ensure changing labour market conditions are identified.

The MODL methodology was reviewed in 2005. Arising from this one change was made to expand the fifth criterion to allow a third option of persistent national shortage (as evidenced by DEEWR research). Under the previous criteria it was difficult for most trade occupations to be included on the MODL, as the long-term employment trend for these occupations was zero or declining employment. It was evident from several indicators (e.g. the DEEWR Skilled Vacancy Index) that there was strengthening demand for trades from the early 2000s but this was not reflected on the MODL until the criteria were expanded.

Table 1 shows the number of occupations listed on the MODL at each change to the list since July 1999.

**Table 1 Number of Occupations on the MODL, 1999 to present**

Date	Occupations added	Occupations withdrawn	Occupations on the MODL
July 1999			17
April 2000	18	6	29
May 2001	21	3	47
April 2002	3	24*	26
October 2002	0	7	19
March 2003	1	4	16
December 2003	0	3	13
May 2004	13	0	26
September 2004	13	0	39
May 2005	17	0	56
November 2005	4	0	60
December 2005	5	0	65
March 2006	16	0	81
September 2006	9	4	86
July 2007	10	1	95
May 2008	12	1	106

\* reflects the removal of 21 ICT specialisations

The growth in occupations on MODL reflecting strong demand for skills over the five years to 2008, particularly in response to demand from the resources sector. This was particularly evident in trades occupations. However, changes in the number of occupations on the MODL lag changes in the unemployment rate (which, itself, is a lagging indicator of economic activity), and there have been some periods when MODL has moved in a counter cyclical direction.

### ***How important is the MODL in selecting skilled migrants?***

There are a number of ways in which to illustrate the importance of the MODL as a targeting mechanism. The first of these is to examine the share of independent GSM visa grants going to primary applicants with MODL points. Table 2 shows that this has increased from 24 per cent in 2004-05 to 63 per cent in 2007-08. There are two reasons for this. First, is the expansion in the number of MODL occupations since 2004. The second is an increase in 2005 of the pass mark in the points test from 115 to 120, which made the MODL points more valuable.

The table also shows that the proportion of visa grants awarded to those with 40 or 50 point occupations is small and fairly constant, at around one in ten visa grants. Among the 50

point occupations are some of high potential value, including mining production manager, biochemist, environmental research scientist, geologist and urban and regional planner. The restriction of MODL to 60 point occupations (criteria 2) and the inclusion of these occupations as 50 points on SOL because there are no specialised approved assessing authorities places them at a relative disadvantage. This issue is one for both the SOL and MODL and is returned to in the section on the need for a new MODL.

The role of MODL in the GSM assessment process will be explored as part of the second Issues paper.

**Table 2 Composition of independent GSM visa grants, by occupational points, 2004-08**

Year	40 point occupations	50 point occupations	60 point occupations, no MODL points	60 point occupations, with MODL points	Total
	%	%	%	%	%
2004-05	0.9	7.6	67.8	23.7	100.0
2005-06	0.8	9.1	42.4	47.7	100.0
2006-07	0.3	7.8	31.3	60.6	100.0
2007-08	0.5	11.5	25.2	62.9	100.0

Source: Department of Immigration and Citizenship

A second way of assessing the importance of the MODL is to examine the proportion of visa applicants that would not have met the pass mark without MODL points. An analysis of the 2008-09 independent GSM caseload is shown in Table 3, sub-divided into offshore and onshore applicants.

**Table 3 Reliance on MODL points amongst independent GSM applicants 2008-09 (to end of May 2009)**

	Offshore	Onshore	Total
Failed points test	75	115	190
Passed on MODL points	4032	410	4442
Passed without MODL points	1485	4472	5957
Unknown	93	82	175
Total	5685	5079	10764
Total excluding Fail and Unknown	5517	4882	10399
Per cent passing on MODL	73.1	8.4	42.7

Source: Department of Immigration and Citizenship

It can be seen from this data that MODL is more important to offshore than onshore applicants. The 2007 changes to the GSM points test increased the ways in which applicants, particularly onshore applicants, could obtain additional points without relying on MODL. This strategy was aimed at broadening the base of occupations in the GSM program. Points for strong English language skills, completing an Australian doctorate, masters and honours degree were also increased and points were available for the first time for skilled work experience undertaken in Australia.

Despite these changes, enrolments in MODL focused courses continue to grow. This may be attributed to MODL points being seen as an 'easier' pathway to permanent residence in Australia than pursuing a high level qualification or investing in improving English language skills.

The final reason reiterates the point above. The current structure of the points test makes the acquisition of MODL points more important to offshore than onshore applicants. Onshore applicants can acquire points through the time they have spent in Australia in work or study. This includes 10 points for Australian work experience, between 5 and 25 points for Australian qualifications, and 5 points if those qualifications were acquired in regional Australia.

The various combinations of points accruing to work and study experience in Australia means that onshore applicants have an easier passage to permanent residence than offshore applicants, such that many can meet the threshold *without* MODL points. For example, someone who came to study in Australia towards a 60 point SOL occupation requiring a VET qualification would satisfy the 120 point pass threshold if they were less than 30 years of age, had Vocational English and spent a year working in their nominated occupation at a skilled level (usually completed while on a Skilled Graduate 485 visa):

- SOL occupation (60 points)
- Age (30 points)
- English proficiency (15 points)
- Australian work experience (10 points)
- Australian qualifications (5 points).

### ***Who comes through under the MODL?***

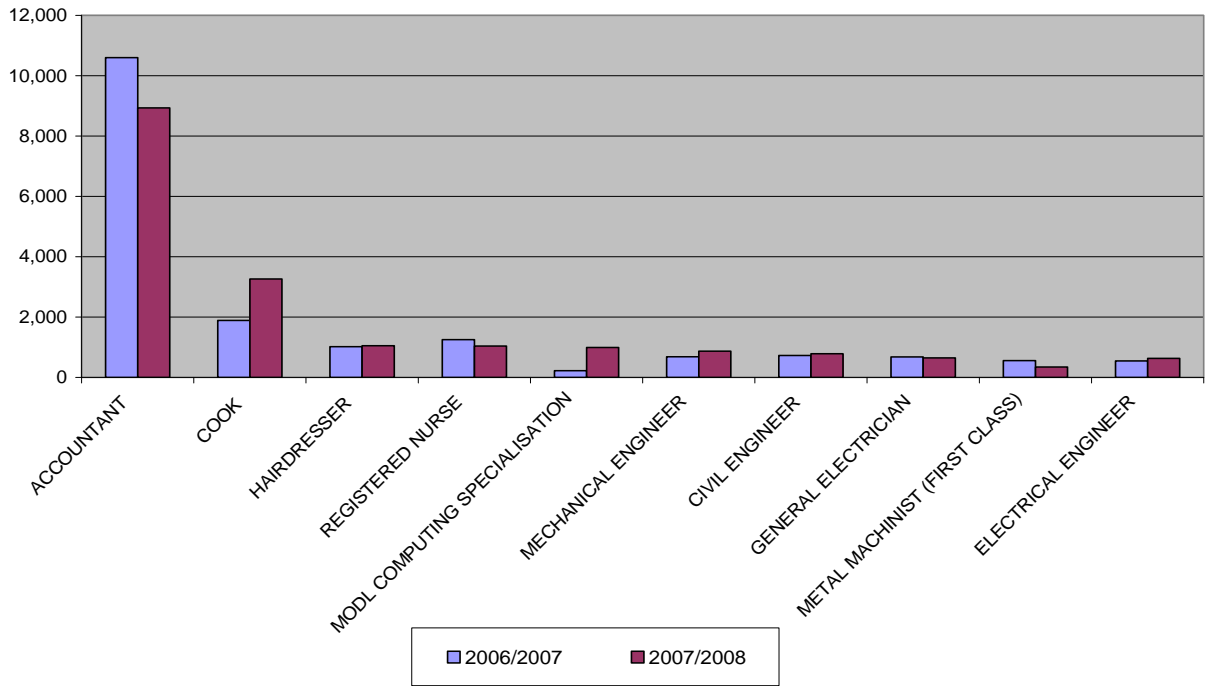
Applications for visas through the independent GSM program are supply driven. No occupations are capped and there is currently no legislative mechanism that allows for capping in this way. However the introduction of the CSL in January 2009 did introduce a tool for prioritising applications from applicants in certain occupations. Figures 1 and 2 show the top 10 occupations coming through the GSM program with and without MODL. In the three years to 2007-08 the program delivered 28 800 accountants, 6500 cooks, 2800 hairdressers, 800 bricklayers, 600 plumbers and 300 carpenters.

The number of those nominating accountancy as their occupation represents an average of almost 6 per cent per annum of the ABS Labour Force Survey estimate of employment (around 165 000 in May 2008) in the occupation. For cooks, the figure is also around 6 per cent but for hairdressers it is less than 2 per cent per annum.

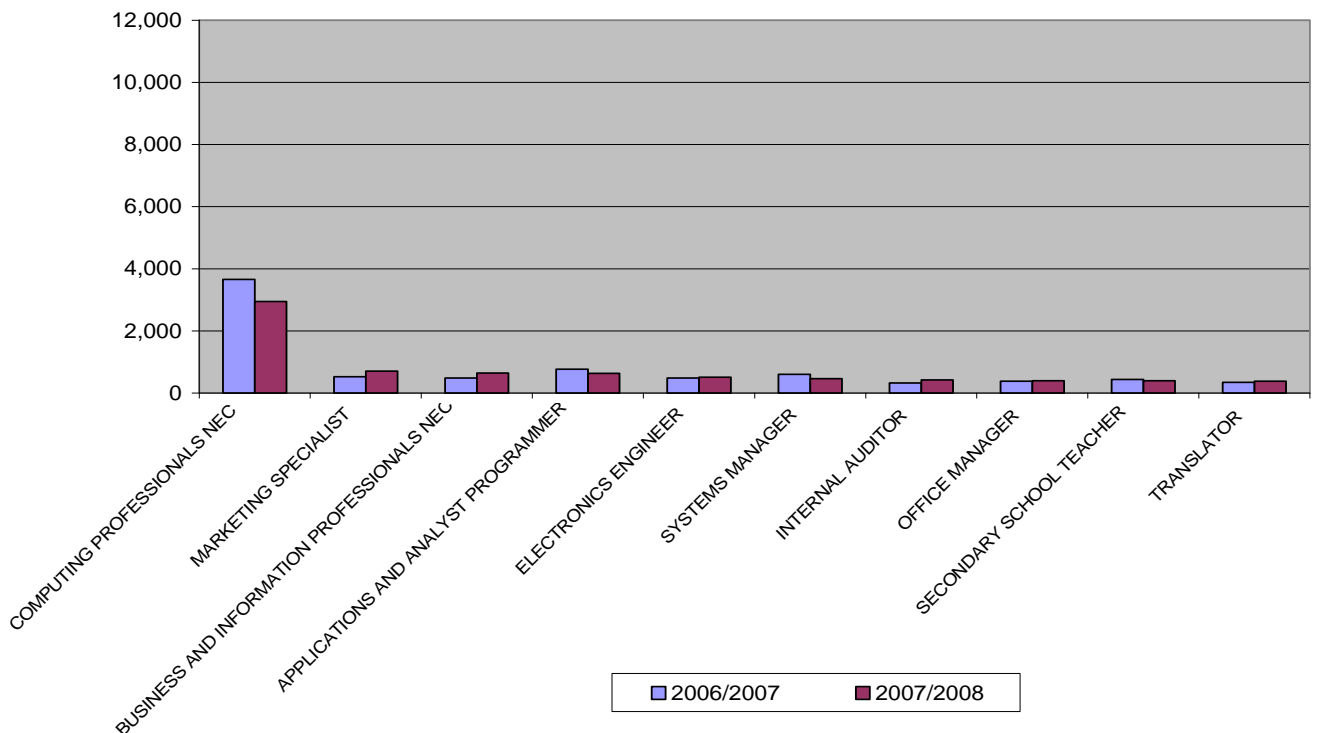
MODL was originally introduced to serve the dual purpose of awarding additional points to applicants skilled in occupations in shortage in line with the GSM aims of targeting the

program to young, skilled migrants who would contribute to the needs of Australian employers and make a sound economic contribution and as a tool to prioritise applications within the General Skilled Migration program. However, as the MODL has grown, so to has the percentage of applicants nominating a MODL occupation, rendering it relatively ineffective as a prioritising tool.

**Figure 1 Top 10 MODL Occupations in the GSM Program**



**Figure 2 Top 10 Non-MODL Occupations in the GSM Program**



In December 2008, the Minister for Immigration and Citizenship, announced improvements to the Skilled Migration program to make it more responsive to the changing needs of the economy. These changes, which were introduced from 1 January 2009, ensure that applicants who are sponsored by a State or Territory government or have skills listed on the CSL are given priority processing. The CSL was developed in consultation with the State and Territory governments, with the intention of reflecting the requirements of industry and targeting skills in critical need across a number of sectors.

Applicants whose occupation is not on the CSL and who wish to apply for permanent migration, have the option of obtaining sponsorship from an employer, or from a State or Territory government.

### ***What do we know about migrants who nominate under the MODL?***

Information on migrant outcomes is available from the LSIA.

Data from the third LSIA – a survey conducted in 2005 of 9000 recent migrants – was used by Birrell and colleagues in their 2006 Evaluation of the General Skilled Migration Categories to briefly examine the impact of MODL. Migrants were assigned to MODL jobs or not based on their occupation prior to migration, and those occupations on the MODL as of May 2005. The researchers' assessment was:

- there was no difference in employment status between migrants in a MODL job and those who were not
- migrants in a MODL job were much more likely to report that they were using their highest qualification in their job, an indicator of a better job match.

In response to these findings the points test was adjusted in the 2007 General Skilled Migration reforms to award MODL points only where an applicant had been recently employed in that occupation or a closely related skilled occupation. The flow on effects of this policy change are yet to be seen in the GSM program, and would not be expected to be evident until the 2009-10 intake.

Further work on this topic, drawing on the second wave of the third LSIA and on the 2006 Census, will be published in a forthcoming research paper.

## **Economic and demographic challenges facing Australia**

The Australian economy is currently in the midst of a significant economic downturn – its first since the early 1990s – brought on by the global recession.

Australia was one of the last developed nations to go into a downturn, a result of the very high prices paid for its mineral commodities in recent years and the smaller exposure of our leading banks to “toxic” assets. Being “ahead of the curve”, policy makers in Australia had opportunity to put in place counter-cyclical measures to moderate the impact of the global downturn. Interest rates have been aggressively cut by the Reserve Bank by 4.25 percentage points since September 2008. The government introduced an \$A10.4 billion Economic Security Strategy in October 2008, followed in February 2009 by the \$A42 billion Nation Building and Jobs Plan, followed in turn by further stimulus measures announced in the 2009-10 Budget.

The economic strategy for the 2009-10 Budget is to invest in physical, and human, infrastructure – roads, railways, ports, the national broadband network, and skills and higher education – so as to boost employment now, but also to ensure the economy does not, in recovery, encounter the same constraints on capacity that it faced towards the end of the last boom.

These measures appear to have paid dividends. At this stage, the scale of the downturn is much more moderate than in other advanced countries. Even so, unemployment is forecast in the 2009-10 Budget to reach 8.5 per cent, around one million people, by early 2011. There has already been a sharp rise in unemployment. In February 2008, the seasonally adjusted unemployment rate was 3.9 per cent, the lowest level in almost 35 years. Just over a year later, the seasonally adjusted figure for July 2009 has risen to 5.8 per cent. There has also been a decline in average working hours, pushing up the rate of under-employment (people wishing to work more hours). In total, more than one in ten people in the workforce are now either unemployed or under-employed.

### ***Future labour force growth and the long-term framework for migration***

In a longer term context, Australia's population is ageing because of many years of below-replacement fertility rates and increasing longevity. As a consequence, in the coming years (without immigration) more Australians will begin to retire than join the labour force. From that point, immigration will be a key source of net labour force growth.

A reasonable level of growth in the working age population is desirable because it will limit the rise in the “dependency ratio” of those not of working age to those of working age. Treasury's Intergenerational Reports have highlighted the very significant increases in health and welfare expenditure we face over the next forty years, arising in part from the ageing of our population. The Intergenerational Reports have also identified the contribution of the three “P's” (productivity, participation and population) to addressing these future challenges. Well targeted skilled migration can make a significant contribution in each of these areas, by helping to create a growing labour force with the skills and aptitudes we will need over the longer term.

Demographic and econometric analysis by Professor Peter McDonald of the Australian National University indicates that long term annual NOM averaging between 150,000 and

230,000 will contribute most to the dependency ratio over the next forty years. Long term NOM much lower than this range would incur considerable opportunity costs. NOM consistently higher than this range, while it would result in a bigger population, would have little additional impact on the dependency ratio.

Based in part on this analysis, the Government is moving to develop a long term immigration planning framework. Within the framework, it will be important that those skilled migrants we choose are not only young and healthy but also have a high level of education, language and skills. This will ensure that skilled migration contributes both to labour force growth and to the productivity of our labour force.

### ***Skills for a 21<sup>st</sup> Century economy***

Adapting to an ageing population is only one of the challenges facing Australia in coming years.

The immediate challenge is moving the Australian economy back onto its long-term growth trajectory coming out of the current downturn. It is important that skill shortages do not act as a brake on the recovery. The downturn has seen a decline in apprenticeship commencements which will flow through to fewer completions in years to come. Investment by the government in major infrastructure projects means that there will be continuing strong demand for many trades occupations and there is a potential therefore for the reemergence of significant shortages.

These concerns relate to medium term productivity issues associated with recovery in key sectors and lower apprenticeship numbers. The likely level of demand for resources from China combined with demographic challenges suggest demand for skills may not be met through domestic sources and that this may impact on recovery.

There are three longer-term challenges.

First, all advanced countries are evolving towards knowledge-based economies, ones where higher order skills across all dimensions – cognitive, communication and technical – will be in greater demand and continue to place the tertiary education system at the centre of Australia's economic progress.

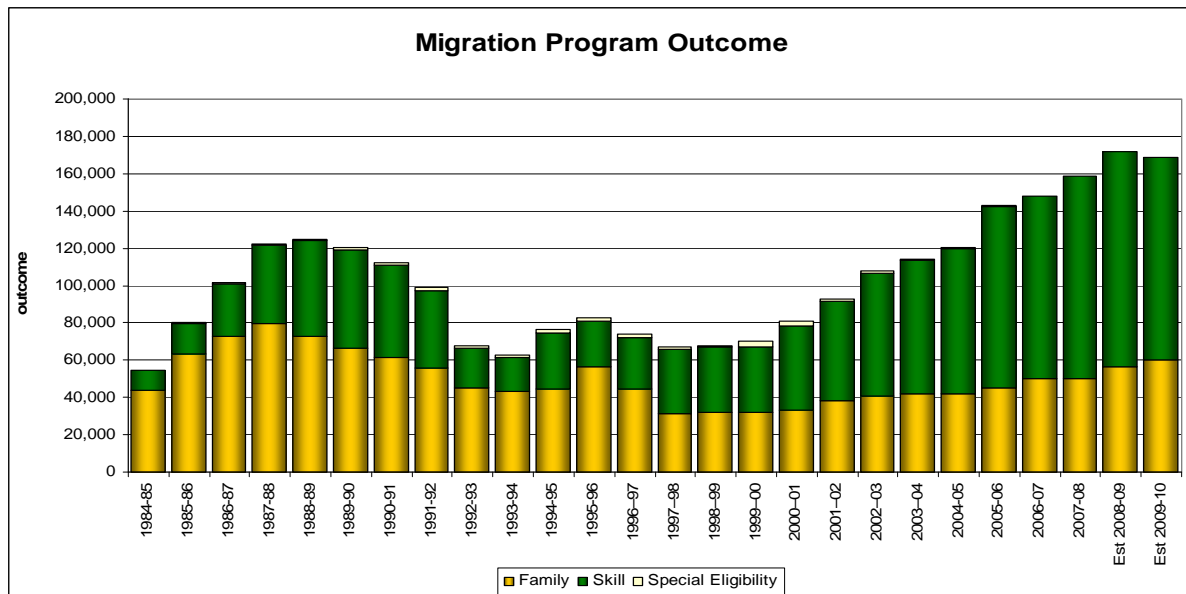
A second longer-term challenge will be making the adjustment to environmental sustainability through lowering carbon emissions and securing a viable potable water supply. This will require new technologies, and therefore the development of new skills and the adaptation of existing skills.

Finally, it is likely that there will be continuing strong demand for Australia's mineral resources, particularly from China as it continues the transition towards an industrialized economy. In the most recent boom, inadequate transport infrastructure and a shortage of some skills caused production and distribution bottlenecks.

### ***The economic contribution of skilled migration***

Australia has had high levels of permanent migration in recent years, as can be seen from Figure 3. The share of skilled migrants in the migration program has also increased, and now accounts for around two thirds of the total.

**Figure 3 Migration program outcomes 1984-85 to 2009-10**



It is well established in Australia that migrants make valuable contributions to the economy, including to the bottom line of the Commonwealth Budget by paying more in taxes than they consume in government services. The contribution migrants make to the economy can be examined through the prism of the 3Ps of population, participation and productivity.

Immigration adds to the population, so long as the scale of it exceeds any outflow of Australians heading abroad. In addition to the population migrants also boost the level of aggregate demand in the economy, raising GDP and creating new jobs. As immigrants are heavily concentrated in the 18-44 year age range, a second consequence is that it partly attenuates the increasing dependency ratio associated with an ageing population.

Migrants as a whole, and skilled migrants in particular, have high labour force participation rates, thereby giving a double boost to labour supply. There are two reasons for this. First, is an age effect, as per above, with migrants more concentrated in those age groups with the highest rates of labour force participation. Second, migrants as a whole have relatively high levels of educational attainment, which is also associated with high labour force participation rates. Available evidence also indicates that immigration does not increase unemployment rates for residents in the medium to longer term.

The contribution of migrants to productivity is the final sphere. This area is the least well understood. Empirical studies have estimated that migration has a small positive impact on growth in Australian GDP per capita, implying there are discrete productivity gains. These may come about through various channels. Foremost would be migrant quality, i.e. skilled labour with high productive potential. It is also argued that migrants contribute disproportionately to innovation and entrepreneurship and to the opening up of new trade markets. Offsetting these positive effects is adding labour inputs to a given capital stock tends to put a brake on wage growth and lower average labour productivity. Overall, paying greater heed to the selection of skilled migrants is likely to yield a bigger productivity dividend.

The focus on permanent skilled migrants tends to over-state the extent to which they presently feature in the total intake of permanent and temporary migrants and the contribution they make to labour supply and productivity growth. Figure 3 shows that for the

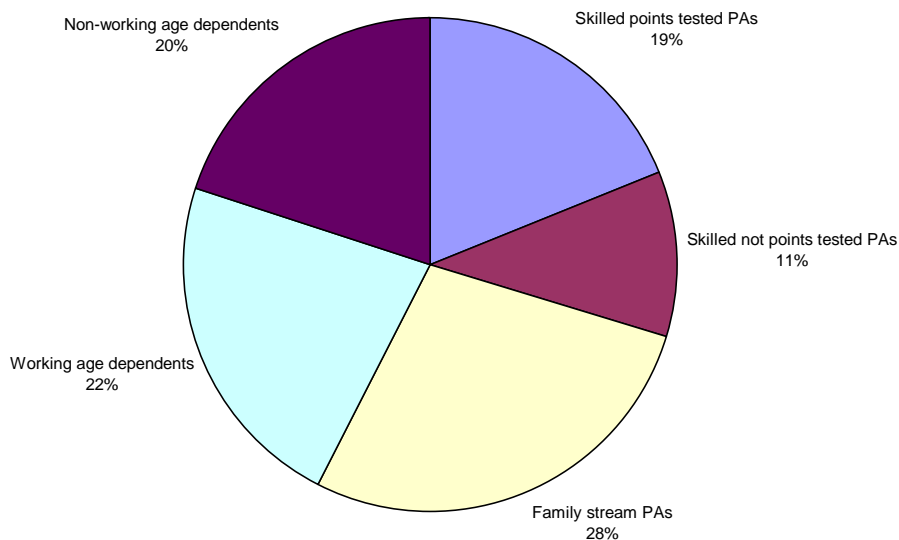
permanent migration program as a whole, the proportion of these who were primary applicants who came through the independent general skilled stream – the only category to which the MODL applies – was 19 per cent in 2008-09.

An important shift in recent years has been high uptake of the temporary skilled migrant 457 visa subclass. The other important shift, one signaled by the growth in temporary skilled migrants, has been the much greater weight given to employer demand-driven migration. This was extended in January this year with the introduction of priority processing which focuses on employer sponsored permanent migrants ahead of independent general skilled migrants.

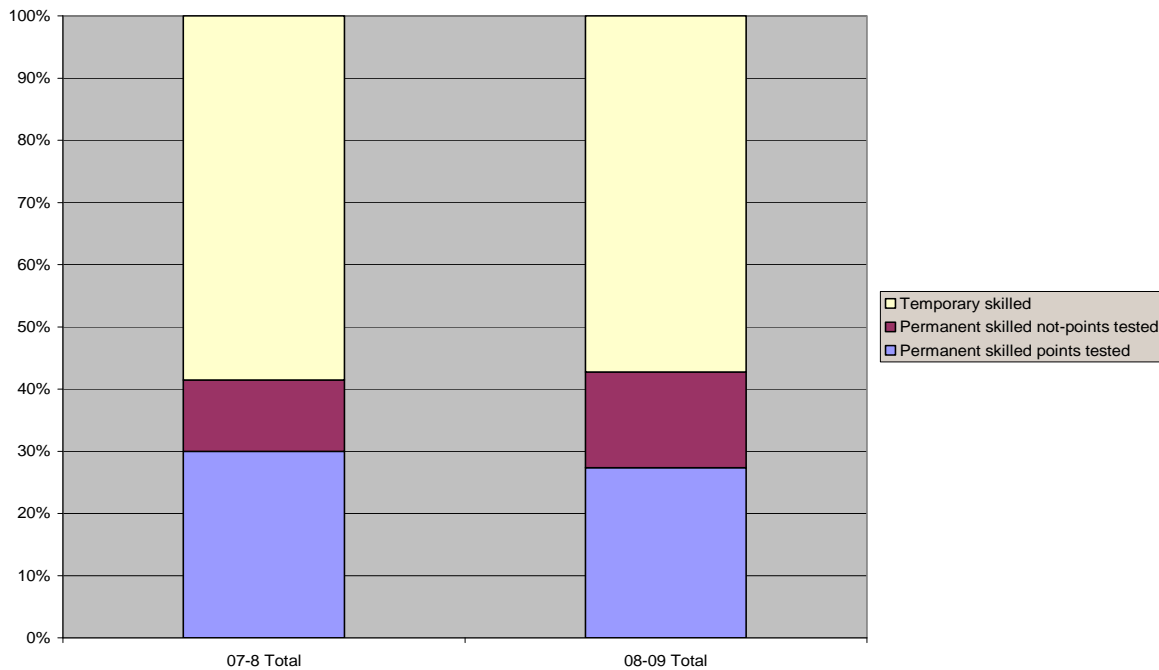
Figure 5 shows that, among primary applicants, the independent general skilled stream accounted for 27 per cent of all skilled visa grants both permanent and temporary in 2008-09. The proportion was somewhat higher, at 30 per cent, for visa grants awarded offshore.

Taken together, these two figures indicate the extent to which permanent and temporary migration programs have become demand-driven.

**Figure 4 Composition of visa grants, 2008-09 permanent skilled migration**



**Figure 5 2007-08 and 2008-09 permanent and temporary skilled migration intake**



Given the expansion in employer demand-driven migration, an argument can be made that there are too many policy instruments pulling in the same direction of using migration to meet short-term skill and labour needs.

A balanced migration program would be one where the independent permanent skilled component served medium to longer-term, nation building interests, while the permanent sponsored and temporary visa classes serve shorter-term interests and enable the economy to adjust to cyclical capacity constraints.

If this is accepted, it would suggest a new MODL would have the objective of being more targeted and selective than at present, focused on the productivity gains from skilled migration.

## The need for a new MODL

There are several reasons for developing a new methodology for MODL, some of which have been highlighted in the preceding analysis. It is also important to clarify the purpose and role of MODL within GSM and this will be explored in the second Issues Paper. One thing which is important to recognise is that MODL cannot, on its own, address immediate skill shortages and its aim should be to deliver skilled migrants who make a significant contribution to the needs of Australian employers and the Australian economy.

First, it is clear there are significant lead times between emerging evidence of an occupation being in shortage and the time migrants enter the country under that nominated occupation. This can be of the order of two years at which point the occupation may no longer be in shortage. This illustrates the existing MODL methodology is responding to changes in the economic cycle rather than focussing the GSM on skills needs in the longer term and there are costs associated with this for both migrants and employers.

Second, the restriction of MODL to 60 point occupations means this tool cannot be used to target migrants with skills in 40 and 50 point occupations which may be of high value to the economy. Geologist and urban and regional planner are recent examples of occupations in demand that have not been able to be included on MODL due to the lack of a specialised assessing authority. As these occupations are ineligible for MODL, applicants with these skills may be unable to secure visas because of the structure of the points test. However, any moves to include 50 or 40 point occupations in the MODL would need to address the risks associated with generic skills assessment of these occupations.

Third, there is no requirement or obligation on the visa applicant to work in the nominated occupation after arrival in Australia (in the same way Australian students do not have a requirement to work in the occupations for which they have trained). While such a requirement would clearly be very difficult to practically enforce it does highlight a weakness in the MODL purpose. If the fit between nominated and subsequent occupation is low it suggests, *prima facie*, that the MODL is not assisting the resolution of skill shortages. However, the fit would also be affected by other factors, such as the required level of English attainment of skilled migrants, which research suggests is a key determinant of whether migrants obtain employment in their nominated occupation.

Evidence on this point is fairly thin. The ABS 2007 Survey on the Labour Force Characteristics of Recent Migrants finds recently arrived migrants more likely to be employed in lower-skilled occupations than their pre-migration job, though over time the differences are narrowed.

MODL is a blunt instrument for helping resolve skill shortages and data indicating the concentration of visa grants in a small number of occupations suggest it is not appropriately delivering skills to meet the needs of Australian employers. Other strategies are likely to be more efficient and responsive to the economic cycle than changes to MODL. The main migration channels are temporary skilled migration visas and employer sponsored visa classes. These are designed to be demand-led programs. Their main desirable features are:

- processing times and transition times are much faster than under the General Skilled Migration program

- there is a direct 1:1 match between the skills employers need and those held by migrants
- the demand for these visas moves in line with the economic cycle and therefore with skill shortages and surpluses.

In her paper, “What is a Skills Shortage?” (NCVER, 2007), Sue Richardson argues that we need to distinguish skill shortages depending upon how those shortages arise, how they may be remedied, and how important they are from a public policy perspective. The current MODL only identifies occupations in national shortage and does not deal with these wider issues. Also, as discussed above, it is a blunt instrument for addressing those shortages it has identified.

Where labour or training markets adjust relatively slowly, skill shortages may persist for an extended period in a closed market, with medium term consequences for economic growth and potential long term adverse consequences for affected industries.

In general, temporary and employer-sponsored skilled migration should be the primary channel for addressing short to medium term skill shortages. However, in cases where labour or training market adjustments may be prolonged and costly, it may be appropriate to include consideration of medium term skill shortages in the methodology for the new MODL as (all else equal) there may be a case for preferring migrants who can address medium term skill shortages.

DEEWR has historical listings of skill shortages which provide useful evidence about persistence of shortages. The table on the next page indicates, for selected occupations, the number of years in the past decade that shortages have been identified.

## Proposed principles for a new MODL

The previous section outlined the need for a new MODL, one designed to deliver high value, nation building skills for Australia through an independent visa program that is not the major source of skilled migration, but supports a demand driven employer and State sponsored skilled program. This section puts forward some broad principles that would underpin a new MODL to give this effect.

The objective of a new MODL is to identify applicants for skilled migration who have the best prospects for making a productive contribution to Australia due to their high level skills which correspond strongly to Australia's ongoing needs.

The MODL should be the primary migration instrument for identifying longer term skills needed in independent migrants. This recognises the role of the permanent and temporary sponsored visa classes in meeting the immediate and short-term skill requirements of employers.

**Table 4 Skill Shortages for selected occupations in the past 10 and 20 years**

ASCO Code	Occupational Title	No. of years occupation has been in national shortage in past:	
		20 years	10 years
<b>Mining, Building and Engineering</b>			
2112-11	Geologist	5	5
2121-11	Architect	3	3
2124-11	Civil Engineer	7	7
2127-11	Mining Engineer	7	4
<b>Business and Information</b>			
2211-11	Accountant	11	8
<b>Health and Community</b>			
1295-11	Childcare Coordinator	14	10
2323-11	Registered Nurse	16	10
2385-11	Physiotherapist	18	9
2386-11	Speech Pathologist	7	7
<b>Engineering Trades</b>			
4112-11	Metal Fitter	12	9
4114-11-15	Aircraft Maintenance Engineers	5	4
4122-11	Metal Fabricator (Boilermaker)	14	8
<b>Automotive Trades</b>			
4211-11	Motor Mechanic	15	9
<b>Electrical and Electronics Trades</b>			
4311-11,13	Electrician	11	8
<b>Construction Trades</b>			
4411-11	Carpenter and Joiner	7	7
4414-11	Bricklayer	9	8
<b>Food Trades</b>			
3322-11	Chef	16	9
4512-13	Pastrycook	16	10

Source: Drawn from historical lists of skill shortages prepared by DEEWR and its predecessors.

Sponsored applicants will remain first priority in the GSM program. That reinforces the importance of MODL as the main selection mechanism for the balance of places available in the skilled stream. Introduction of the new MODL will involve phasing out the existing MODL and the CSL, with transition arrangements to be determined.

### ***i) The MODL targets skills of high economic value to Australia***

Skills are acquired through a mixture of education and training and experience. For individuals, there are strong returns to education, especially at graduate and post-graduate level, and to occupational tenure.

From the perspective of the economy skills of high value are likely to be those which are:

- highly specialised, occupation specific and taking a long time to learn
- vital in production, distribution processes or service industries
- deployed for the uses intended
- likely to underpin innovation or improved productivity.

A key question is whether eligibility for occupations to be included on MODL should be restricted to 60 point occupations. Currently, for occupations which attract 40 or 50 point occupations, the skills assessment is general, that is, it determines whether an applicant has the level of education required to work in the occupation in Australia and does not include a consideration of the suitability of that education to the nominated occupation. While the economic value of some occupations which attract only 50 or 40 points may be unquestioned, if applicants are unable to work in their nominated occupation or another equally skilled position, they are prevented from being of high economic value as defined above.

The issues of skill level and value are sometimes difficult to measure, and there are a number of options about how we regard the level of skill and economic value of each occupation. The extent to which the MODL should play a part in contributing skills to the Australian labour market in occupations for which shortages have been persistent also requires consideration.

The ANZSCO includes a concept of skill level, ranking occupations according to a five point scale. The application of the skill levels in ANZSCO is based on advice from employers, training bodies, professional associations and others but examination of educational attainment data from the ABS Survey of Education and Work suggests the skill level allocations in ANZSCO are indicative in nature.

Assessment of economic value could be considered to be reflected in what employers are prepared to pay for skills. An earnings threshold below which occupations could not be placed on the MODL could be considered. This is presently applied to occupational lists in both New Zealand and the United Kingdom. Concerns about this relate to issues around payment for hours and conditions of employment such as compensation for split shifts, dangerous conditions and work in particular locations as well as persistence of shortages in some key, but relatively low paying occupations which market mechanisms have not addressed. It is also important that the independent skilled stream does not create incentives to undermine the salary floor being introduced for temporary sponsored skilled migrants through the 457 visa regime.

An alternative option for determining high value would be to specify a mixture of required qualifications and occupational experience. This is already done to an extent but further development of this concept could be considered.

Research undertaken by DEEWR indicates employers' unmet skill needs are generally for workers who have significant relevant experience.

Should the focus of the MODL be broadened in this way, it may also be appropriate to rename the tool to reflect the importance of a migration program that targets applicants with a range of high value skill sets, not just occupations.

## ***ii) The MODL complements domestic skill supply and maximises skill utilisation***

Adjustment costs could be imposed on industry, existing local employees and young entrants to the labour market if the flow of skilled migrants into different occupations is out of proportion to the size and needs of an industry. For example, an unmanaged flow of skilled migrants into a particular occupation may increase the difficulty for young entrants to gain a job in that occupation.

Skilled migration needs to be considered in combination with the supply of skills that come through domestic education and training. As part of the government's Education Revolution, and under the auspices of the Council of Australian Governments, targets have been set to boost the educational attainment of young Australians.

While education and training imparts many generic skills, equipping individuals to transfer between occupations throughout their working life, the extent of people working in occupations which are not at all related to their skills and training represents wastage and the misallocation of valuable resources. A key factor contributing to skill shortages is wastage of qualified workers to unrelated occupations. This is equally true of migrants and those who are domestically trained, however there is some evidence that migrants are more likely to find themselves in a lesser skilled job than that for which they are qualified, although the match improves the longer migrants work in Australia.

Further, the concentration of visa grants in a relatively small number of occupations suggests a need for consideration to be given to the relative contribution of skilled workers through domestic supply and skilled migration.

The accountant example provided earlier in this paper shows a relatively large size of the migrant intake in this occupation as a proportion of occupational employment. Consideration could be given to the introduction of ceilings or caps on places for individual occupations. This could be done on the basis of the size of the occupational labour market or consideration could be given to the appropriateness and feasibility of developing a migration to training rate concept. However, this latter concept is likely to be difficult and may be counter productive if the desired outcome of the program is higher migration intakes in occupations where domestic training numbers have been historically low.

### ***iii) The MODL is prospective***

The current methodology for the MODL is primarily retrospective, identifying occupations in skill shortage and where demand for labour has been strong. Although partial weight is given to prospective labour demand through the consideration of whether an occupation is projected to have strong employment growth over the next five years, this factor has relatively small impact on the overall determination and can be outweighed by other factors.

Revising MODL to have a prospective approach would be an innovative approach to skilled migrant selection internationally, however, there are clearly inherent complexities associated with it.

It is not possible to forecast skill shortages with any degree of precision, however a methodology that places greater emphasis on the likely future demand for skilled occupations is a better approach given the time lags inherent in the independent migration process. Work undertaken to produce a prospective basis for the MODL would be undertaken in consultation with the work of Skills Australia to ensure consistency and to meet principle ii) of complementing domestic skill supply and maximising skill utilisation.

The DEEWR work which is already used in the MODL methodology, and which models employment growth figures for each occupational unit group, could be used to rank occupations. The employment projections are based on a range of factors, including forecasts from economic models, recent trends and occupational developments, the extent to which the occupation is concentrated in industries which are themselves growing. Replacement needs (demand for new workers resulting from people leaving the occupation) would need to be part of this approach.

In being prospective, the focus would be on the anticipated strength of labour demand. It may be possible for this work to be considered in tandem with information about labour supply, although supply side estimates are more complex.

A prospective time frame of 3 to 5 years may be appropriate given the lags in the migration process and this time horizon could allow consideration of occupations on the MODL to be cognisant of changes in skill supply through domestic tertiary education and training based on past and current enrolment and completion patterns.

### ***iv) The MODL should not be driven by short term employment cycles***

As was illustrated in the background section, the number of occupations on the MODL has varied over the course of its ten year history.

In line with the intent for MODL to be more forward looking and be targeted at high value skills which are in demand over the longer term, it is desirable that it be relatively stable and not subject to significant six monthly changes.

Uncertainty about the inclusion of occupations on MODL and the six monthly revisions focussed on immediate skills needs make it difficult for those who are contemplating migrating to Australia to plan. Coupled with the time lags associated with the independent skilled program and the increased focus on the sponsored component of the program to address short term skill needs, this suggests the need for a more stable MODL which is set

against medium-long term skill needs rather than the more variable, cyclical demand for occupation specific skills.

**v) *The MODL needs to take account of other migration arrangements***

The methodology underlying a revised MODL and its interaction with the points test need to reinforce the role of independent migration to supplement, rather than drive the skilled migration program.

An option flagged above to target higher value skills through MODL is include a work experience threshold as well as a skills requirement. This would be consistent with the findings of DEEWR's skill shortage research that higher value accrues through greater experience and with the points allocated for specific work experience in the GSM points test. By definition, most recent graduates would fail to meet this requirement. Consideration could be given to requiring former students to be sponsored on a temporary visa for a certain time after graduating before being eligible for independent migration. While this option would need to take account of the impact on local graduates and possible rorting which could result from such as requirement, the imminent changes to the 457 program under the Worker Protection Act address many of the concerns about the potential for exploitation of temporary sponsored workers.

These pathways should be clear and provide appropriate opportunities for study in Australia and for permanent residence for those who meet the needs of the Australian economy and labour market. These settings should not however provide low hurdles for those seeking permanent residence.

**vi) *The MODL is evidence based and underpinned by a robust and transparent methodology***

The existing methodology for MODL is documented, transparent and involves a sound evidence-based process for determining which occupations meet the selected criteria. A new MODL should preserve this approach, though it will require a new methodology to give effect to its revised purpose and principles.

It would also be useful to consider:

- the scheduling of future MODL updates on a regular basis, perhaps annually
- the respective roles of DEEWR and DIAC
- the involvement of stakeholders and of independent experts in the process.

A particular weakness at present is inadequate data on the labour market outcome of recent migrants, and the extent to which migrant skills are put to good effect, either in their nominated occupation or one closely related. Evidence about the labour market outcomes of migrants selected on the basis of their skill would be one of the factors taken into account in reviews.

The ABS does a biennial survey of recent migrants – defined as those arriving in Australia in the past ten years – though this does not capture visa class information. For this reason, DIAC has instituted a new bi-annual survey of recent migrants. The first round of this survey will take place in September 2009, with further rounds to follow each six months. The survey

will capture the initial labour market outcomes of new permanent residents and former overseas students who remain in Australia. Subject to meeting necessary quality standards, this survey could become a significant source in informing updates to the new MODL.

DEEWR already prepares data on future labour demand by occupation. A supporting research study is examining international experience in forecasting skill needs/shortages, but quality data on anticipated labour supply arising from the balance of newly qualified tertiary students against those leaving the occupation or retiring from the labour market is required.

## Conclusion

By placing a strong emphasis on the capacity of the sponsored program to cater for immediate skills needs, the Government intends to reposition independent skilled migration as a program to meet medium to long term skills requirements. The objective of the MODL review is to examine whether the results being delivered by the current methodology and how it is weighted in the GSM assessment process are meeting these needs in a changing labour market. Responses received to this Issues paper will inform the recommendations of the review on the purpose and methodology that should underpin the MODL into the future.

## Attachment A      Issues for consultation

*Do you support the need for a new MODL?*

*Do you support the proposed MODL principles?*

- i) The MODL targets skills of high economic value to Australia*
- ii) The MODL complements domestic skills supply and maximises skill utilisation*
- iii) The MODL is prospective*
- iv) The MODL should not be driven by short term employment cycles*
- v) The MODL needs to take account of other migration arrangements*
- (vi) The MODL is evidence based and underpinned by a robust and transparent methodology*

*Are there additional principles for a new MODL that you would propose?*

*Do you have preliminary views on how a new MODL might be given effect?*

*Are there any comments on the role of the MODL within the GSM points test that you wish to make?*

*Do you have additional comments on the MODL?*

## Attachment B General Skilled Migration points test

### Occupation

Skills assessment in 60 point occupation	60 points
Skills assessment in 50 point occupation	50 points
Skills assessment in 40 point occupation	40 points

### Age

Under 30 years	30 points
30-34 years	25 points
35-39 years	20 points
40- 44 years	15 points

### English language

Proficient English (Score of 7.0 in each component of IELTS)	25 points
English language threshold, either: Competent English (Score of 6.0 in each component of IELTS) OR Vocational English (Score of 5.0 in each component of IELTS) for onshore applicants with a trade	15 points

### Work experience

Skills assessment in 60 point occupation and 3 years related work experience in last 4 years	10 points
Work experience in any skilled occupation for 3 of the last 4 years	5 points

### Australian work experience

Work experience in Australia in nominated or closely related skilled occupation for 1 year of the last 4 years	10 points
Completed professional year in nominated or closely related Occupation	10 points

### Australian educational qualifications

Australian doctorate	25 points
Australian masters degree or undergraduate with honours	15 points
Australian study requirement met	5 points

### MODL

MODL occupation with 12 months recent work experience and an offer of full-time employment	20 points
MODL occupation with 12 months recent work experience	15 points

### Designated language

Appropriate skills in a designated language	5 points
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### Regional study in Australia

Met Australian study requirement at a regional campus	5 points
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**Partner skill qualifications**

Partner is included in GSM application and meets threshold Skill, age and language requirements 5 points

**State or Territory Nomination**

Sponsored by a State or Territory for a sponsored GSM visa 10 points

**Family Sponsorship**

Sponsored by family in regional Australia for temporary GSM visa 25 points

**Pass and Pool marks for General Skilled Migration**

<b>Visa</b>	<b>Pass mark</b>	<b>Pool mark</b>
Skilled – Independent (Migrant) visa (subclass 175)	120	100
Skilled – Sponsored (Migrant) visa (subclass 176)	100	80
Skilled – Regional Sponsored (Provisional) visa (subclass 475)	100	100
Skilled – Independent (Residence) visa (subclass 885)	120	120
Skilled – Sponsored (Residence) visa (subclass 886)	100	100
Skilled – Regional Sponsored (Provisional) visa (subclass 487)	100	100