

# **Reforming skilled occupation lists**

**Submission to consultation on the draft Core Skills Occupations List, May 2024**

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## Overview

We welcome the opportunity to make a submission to the consultation process for the draft Core Skills Occupations List (CSOL) being prepared by Jobs and Skills Australia.

The final CSOL adopted by government will determine which occupations are eligible for the Core Skills stream of the new Skills in Demand visa, which will replace the Temporary Skill Shortage visa. That visa will permit employers to sponsor migrants for a four-year visa, subject to paying a minimum salary of \$70,000 a year (up from \$53,900 a year previously). Sponsored workers will also have a pathway to permanent residency.

Past Grattan Institute work has shown that temporary sponsored visas should prioritise high-skill, high-wage workers, rather than attempt to target particular occupations deemed to be in shortage. Targeting higher-wage migrants will better address most genuine skills shortages. And, more importantly, targeting high-skilled migrants for temporary sponsorship would also improve Australia's permanent skilled migrant intake, because it would increase the pool of high-skilled applicants. One in four permanent skilled visas already go to temporary skilled visa-holders already in Australia.

The proposed Core Skills Occupations List unnecessarily restricts temporary skilled visas to a subset of all highly-skilled, high-wage occupations. Of the 730 skill level 1, 2, and 3 occupations in the

Australian and New Zealand Standard Classification of Occupations (ANZSCO) 2022 framework:

- Only 183 occupations are listed on the 'Confident On' list, which Jobs and Skills Australia is confident should be on the CSOL.
- 307 occupations are on the 'Targeted for Consultation' list, including software engineers, internal auditors, carpenters, and painters.
- 214 occupations are on 'Confident Off' list, including ICT project managers, nurse managers, and chiropractors.

In total, there are 128 skill level 1, 2, or 3 occupations where Australian workers reported a median income of \$70,000 or more in 2021 which Jobs and Skills Australia are confident should not be included on the CSOL. Under this proposal, Australia would risk missing out on many talented migrants who could not be sponsored for a visa because their occupation would not be on the CSOL.

The CSOL should instead include all skill level 1, 2, and 3 occupations, expanding the range of jobs eligible for employer sponsorship and boosting the pool of highly-skilled applicants for permanent skilled visas. The government's recent decision to raise the temporary Skilled Migration Income Threshold (TSMIT) to \$70,000 a year ensures that only higher-wage workers would be eligible for temporary sponsorship through the Core Skills pathway.

## 1 The Core Skills Occupations List should prioritise high-skill, high-wage jobs, not short-term shortages

### 1.1 Jobs and Skills Australia is advising government on the occupations eligible for employer sponsorship

The federal government plans to replace the Temporary Skill Shortage (TSS) visa with a new Skills in Demand (SID) visa, which will include:

- A Specialist Skills Pathway, which targets highly skilled professionals earning more than \$135,000 a year in any field except trade workers, machinery operators, drivers, and labourers.
- A Core Skills Pathway, available to employers to sponsor migrant workers in occupations on a new Core Skills Occupations List and earning more than \$70,000 a year.
- An Essential Skills Pathway as a more regulated pathway for sponsoring lower-paid workers in a limited subset of occupations, which will be developed in consultation with state and territory governments, unions, businesses, and migrant workers.

Jobs and Skills Australia is providing advice to government on which occupations are eligible for temporary sponsorship for the Core Skills Pathway of the new Skills in Demand visa.

Migrant workers sponsored for the new Skills in Demand visa will also have a pathway to permanent residency.<sup>1</sup> Therefore the CSOL may also determine which occupations are eligible for permanent employer-sponsored visas under future reforms to be announced by government.<sup>2</sup>

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1. Australian Government (2023, p. 46).

2. Eligibility for permanent employer-sponsored visas is also restricted to migrants with experience in particular occupations. See: Coates et al (2021, Chapter 7).

### 1.2 Occupation lists should prioritise high-skill, high-wage jobs, not short-term shortages

Temporary skilled migration needs to be flexible to help fill skills shortages and help the economy adjust to shocks. But an effective temporary skilled visa program also lifts the bar for Australia's permanent skilled migrant intake by increasing the pool of high-skilled applicants.

Increasing the TSMIT from \$53,900 to \$70,000 a year will ensure that employer sponsorship is only available to higher-skill, higher-wage workers. Therefore, unduly restricting the occupations listed on the CSOL risks Australia missing out on many talented migrants who cannot be sponsored for a visa because their occupation is not on an occupation list.

Occupation lists should therefore prioritise high-skill, high-wage workers, not occupations deemed to be in shortage. Otherwise, Australia risks missing out on many talented migrants who cannot be sponsored for a visa because their occupation is not on an occupation list.

#### 1.2.1 Temporary skilled migration addresses skills shortages, but also drives the composition of the permanent intake

Currently, Australia's temporary skilled migration program seeks to fill skills shortages in the labour market. Temporary skilled migrants bring different skills and typically complement the work of incumbents rather than competing with them, boosting local workers' wages on average. Addressing genuine skills shortages helps the economy, and the labour market in particular, to adjust to shocks.<sup>3</sup>

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3. Coates et al (2022b, p. 24).

But temporary skilled migration also drives the composition of permanent skilled migrant intake, which generates a large long-term economic dividend. One in four permanent skilled visas go to temporary skilled visa-holders already in Australia.<sup>4</sup> More than half of migrants granted permanent residency are already in Australia on a temporary visa. The proportion of those already in Australia rises to more than 70 per cent for permanent skilled migrants and 90 per cent of all permanent employer-sponsored visa-holders.<sup>5</sup> Even modest changes in the skill level of the pool of applicants applying for permanent skilled visas offers enormous economic payoffs to Australia.<sup>6</sup>

Offering temporary sponsorship for high-skilled workers capable of attracting high wages is the best way to satisfy both these objectives.

First, targeting high-skill, high-wage workers is likely to address most genuine skills shortages, since workers in genuine shortage are likely to attract a wage premium over time, and workers who attract high wages are likely to be harder to train quickly when in short supply.<sup>7</sup> Shortages are particularly likely to emerge where employers cannot find candidates with enough experience or with the appropriate intangible skills, which may not be easily remedied by increasing the number of graduates with the relevant qualifications.<sup>8</sup>

Second, targeting high-wage workers for temporary sponsorship would also help Australia reap the broader economic benefits of temporary skilled migration by targeting high-skilled migrants who will go on to form much of the applicant pool for permanent skilled migration.

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4. Coates et al (2022b, Figure 2.2).

5. Coates et al (2021, p. 10).

6. Coates et al (2022b, Chapter 3).

7. See Coates et al (2022a, Figure 2.1).

8. See Coates et al (ibid, Section 2.4.1).

### 1.2.2 Increasing the TSMIT to \$70,000 ensures the Core Skills pathway is only available to skilled workers

The increase in the TSMIT from \$53,900 to \$70,000 a year, as recommended by Grattan Institute, will ensure that the Core Skills Pathway for temporary sponsorship is only available to higher-skill, higher-wage workers. The threshold is rightly set below median full-time earnings since temporary skilled visa-holders are often younger, and therefore in the early stages of their career, earning lower incomes.<sup>9</sup> TSS visa-holders with higher starting salaries have much stronger wage growth while in Australia, especially those who started on more than \$70,000 a year.<sup>10</sup>

### 1.2.3 Australia still can't effectively identify skills shortages

Identifying occupations in shortage and using temporary sponsorship to fill them is difficult, if not impossible, to effectively apply in practice. It is extremely difficult to quickly and reliably identify skills shortages in individual occupations.<sup>11</sup>

Currently, Jobs and Skills Australia defines an occupation as in shortage 'when employers are unable to fill, or have considerable difficulty filling, vacancies for an occupation or cannot meet significant specialised skill needs within that occupation, at current levels of remuneration and conditions of employment, and in reasonably accessible locations'.<sup>12</sup>

Even with JSA's improvements to the measurement of skills shortages, Australia lacks timely data to identify skills shortages in real time.

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9. Coates et al (2022b, p. 77).

10. Coates et al (ibid, Figure 2.6).

11. See Coates et al (2021).

12. Jobs and Skills Australia (2023, p. 5).

### 1.3 All high-skill, high-wage occupations should be eligible for temporary sponsorship

Many high-skill, high-wage occupations are currently excluded from the draft CSOL, and would therefore be ineligible for employer sponsorship under the Core Skills Pathway.

We recommend that temporary sponsorship should be available to all skill level 1, 2, and 3 occupations. Doing so would broaden the pool of applicants eligible for sponsorship, and improve the skill level of the pool of prospective applicants for permanent skilled visas.

The recent increase in the TSMIT to \$70,000 a year ensures that only higher-skilled workers can be sponsored by employers.

#### 1.3.1 The proposed CSOL excludes many high-wage occupations

The proposed CSOL unnecessarily limits temporary skilled visas to a subset of all highly-skilled, high-wage occupations.

In total, there are 128 occupations where workers in Australia who had a median income of \$70,000 or more in 2021 are on the 'Confident Off' list (Table 1.1).

For example Nurse Manager, with a median income of \$117,000 in 2021, is not on the proposed list. Nor is ICT Project Manager, which had a median income of \$146,000 in 2021.

As described above, targeting high-wage jobs, rather than particular occupations, would maximise the broader economic benefits of temporary sponsorship of skilled migrants to Australia.

#### 1.3.2 Some construction trades that are needed to help build homes are not on the 'Confident On' list

Australia has an acute shortage of housing.<sup>13</sup> The long-term solution to the housing crisis is to build more houses.<sup>14</sup>

But Australian home-building activity is being held back, in part, by a lack of skilled and semi-skilled tradespeople.<sup>15</sup> Unless things change, Australia is unlikely to meet the government's objective of building 1.2 million homes over the five years to 2029.

Despite this, the draft CSOL has a number of skilled trades used in home building listed as 'Targeted for Consultation', rather than being on the 'Confident On' list. These include: Electrician (Special Class), Air-conditioning and Mechanical Services Plumber, Floor Finisher, Roof Plumber, Bricklayer, Plasterer (Wall and Ceiling), Glazier, Carpenter, Wall and Floor Tiler, Painter, and Roof Tiler.

The fact that so many skilled trades that are in strong demand highlights that identifying occupations in shortage and using temporary sponsorship to fill them is difficult, if not impossible, to effectively apply in practice.

Another factor that makes measuring shortages in the construction sector particularly difficult is that data on construction wages may not be a good guide to what's happening in the labour market, due to a high proportion of sub-contractors.<sup>16</sup>

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13. National Housing Supply and Affordability Council (2024).

14. Coates and Moloney (2023).

15. Reserve Bank of Australia (2024, p. 19).

16. The construction industry has the highest proportion of independent contractors of all industries (Grattan analysis of ABS (2023)). Work done by self-employed people, such as subcontractors, is out of scope of the Wage Price Index.

**Table 1.1: Many high-paying occupations are not on the draft Core Skills Occupations List**

35 highest-paid occupations on the 'Confident Off' list, full-time workers

<b>Occupation</b>	<b>Median income</b>	<b>Number in occupation</b>	<b>Occupation skill level</b>
Futures Trader	\$192,500	66	1
Financial Investment Manager	\$186,100	7,783	1
Stockbroking Dealer	\$185,300	4,182	1
Production Manager (Mining)	\$181,100	9,765	1
Footballer	\$158,000	747	3
Insurance Risk Surveyor	\$154,000	823	2
Financial Market Dealer	\$151,900	1,077	1
Corporate Treasurer	\$148,900	4,220	1
ICT Project Manager	\$146,200	44,466	1
Ship's Officer	\$137,600	369	2
Regional Education Manager	\$133,500	1,336	1
Public Relations Manager	\$132,100	8,677	1
Financial Dealers nec	\$129,100	10,170	1
Specialist Managers nec	\$128,800	28,665	1
Economist	\$128,000	2,771	1
Real Estate Agency Principal / Real Estate Agency Licensee	\$124,400	5,267	2
Marine Transport Professionals nec	\$118,800	379	2
Telecommunications Engineer	\$118,300	2,344	1
Nurse Manager	\$117,100	14,496	1
Ship's Master	\$116,600	2,155	2
Railway Station Manager	\$115,200	817	2
Television Presenter	\$115,100	234	1
Financial Institution Branch Manager	\$114,700	7,881	2
Emergency Service Worker	\$110,300	1,250	3
Marine Surveyor	\$109,200	363	2
Art Director (Film, Television, or Stage)	\$109,100	171	1
Security Consultant	\$107,500	920	3
Health and Welfare Services Managers nec	\$104,900	18,477	1
Financial Brokers nec	\$103,600	513	2
Lift Mechanic	\$102,700	2,671	3
Chiropractor	\$102,100	1,815	1
Education Adviser	\$102,000	7,165	1
Commodities Trader	\$101,900	1,844	2
Policy Analyst	\$101,900	11,282	1
Health Information Manager	\$101,100	1,324	1

Notes: Occupation size is full-time workers in 2021. Median income is from the 2021 Census, in 2021 dollars. 'nec' is 'not elsewhere classified'.

Source: Grattan analysis of draft Core Skills Occupations List and ABS (2022).

#### 1.4 The CSOL should include all skill level 1, 2, and 3 occupations

The range of skilled occupations eligible for temporary skilled visas should be expanded to all skill level 1, 2, and 3 occupations. This would open the Core Skills employer-sponsored pathway to migrant workers in a broader range of jobs.

This change is likely to maximise the economic benefits from temporary skilled migration for the Australian community.

Offering sponsorship for all high-wage jobs would allow firms to quickly and easily address shortages where they emerge for high-skilled jobs. Restricting temporary sponsorship to high-wage jobs would make sponsorship simpler, which in turn would allow firms to fill skills shortages faster.

Not all skills shortages will emerge in high-wage jobs. But skills shortages that emerge in low-skill, low-wage jobs are much more likely to be resolved quickly. Australia's flexible labour market and vocational education and training sector should be able to supply most in-demand skills, especially for lower-skilled jobs. After all, there are fewer barriers to entry for most lower-paying jobs.

This change would ensure Australia had access to a larger share of the global talent pool of people seeking to migrate. It would also make temporary skilled migration less cumbersome and complex.

#### 1.5 The long-term aim should be to abolish occupation lists for sponsored visas

Grattan Institute has previously recommended that Australia's long-standing practice of using occupation lists to select which jobs qualify for temporary and permanent sponsorship should be

abandoned.<sup>17</sup> Instead, the focus should be on attracting skilled migrants who earn a high wage.

This would better target migrants with valuable skills, simplify and speed up the sponsorship process, offer clearer pathways to permanent residency for temporary sponsored workers and recent graduates, and boost Australian government budgets by about \$125 billion over the next 30 years.<sup>18</sup>

Using occupation lists to determine whether a job is eligible for sponsorship is administratively cumbersome. Defining a skills list by occupation is also too inflexible in a rapidly changing labour market. It creates uncertainty for migrants and businesses, and can be unnecessarily slow and burdensome.

For instance, workers with skills and experience in new and cutting-edge jobs that are not on the latest ANZSCO list, such as artificial intelligence engineers, would be eligible for a temporary sponsored visa under the new the Specialist Skills Pathway only if they earned more than \$135,000 a year. This may result in some young, highly-skilled workers in emerging occupations that are paid below this threshold being unable to get a temporary sponsored visa.

However, it is not appropriate to open temporary and permanent employer-sponsorship to all occupations while the wage threshold for permanent sponsorship continues to be set at \$70,000 a year.

If the wage threshold was increased to \$85,000 for permanent sponsorship, as previously recommended by Grattan Institute, then employer-sponsored visas could be opened up to all occupations.<sup>19</sup>

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17. Coates et al (2022b).

18. Estimate for abolishing occupation lists and raising the minimum sponsoring wage to \$85,000 a year for permanent employer-sponsored visas. See: Coates et al (ibid, Figure 3.12).

19. Ibid (Chapter 3).

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