



COVERSHEET

Minister	Hon Andrew Little	Portfolio	Immigration
Title of briefing	Future of the Skilled Migrant Category	Date to be published	15 January 2024

List of documents that have been proactively released

Date	Title	Author
April 2023	Future of the Skilled Migrant Category – Final Proposals	Office of the Minister of Immigration
5 April 2023	Future of the Skilled Migrant Category – Final Proposals DEV-23-MIN-0049 Minute	Cabinet Office
7 October 2022	Future of the Skilled Migrant Category: Consultation document	MBIE
10 February 2023	Future of the Skilled Migrant Category – Public consultation outcomes and next steps	MBIE
1 March 2023	Future of the Skilled Migrant Category – Final Decisions: Draft Cabinet paper	MBIE
10 March 2023	Future of the Skilled Migrant Category – Final decisions: Cabinet Paper for Ministerial Consultation	MBIE
29 March 2023	Skilled Migrant Category and the Green List: Final Cabinet papers for lodging	MBIE
19 April 2023	Decisions on future use of the LQEA	MBIE

Information redacted

YES

Any information redacted in this document is redacted in accordance with MBIE's and MFAT's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld for reasons of protection of privacy of natural persons, free and frank opinions, and confidential advice to Government.



BRIEFING

Future of the Skilled Migrant Category – Final decisions: Cabinet Paper for Ministerial Consultation

Date:	10 March 2023	Priority:	High
Security classification:	In Confidence	Tracking number:	2223-2933

Action sought		
	Action sought	Deadline
Hon Michael Wood Minister of Immigration	Provide feedback on the advice on an additional option. Circulate the draft Cabinet Paper for Ministerial Consultation, subject to the outcome of the above.	13 March 2023
Hon Ginny Andersen Associate Minister of Immigration	Copy attached for your information	N/A

Contact for telephone discussion (if required)			
Name	Position	Telephone	1 st contact
Melanee Beatson	Acting Manager, Immigration Policy (Skills and Residence)	Privacy of natural persons	✓
Nita Sullivan	Senior Policy Advisor		

The following departments/agencies have been consulted
Multiple agencies were consulted in the development of the Cabinet paper.

Minister's office to complete:

Approved

Noted

Seen

See Minister's Notes

Declined

Needs change

Overtaken by Events

Withdrawn

Comments



BRIEFING

Future of the Skilled Migrant Category – Final Decisions: Draft Cabinet paper

Date:	10 March 2023	Priority:	High
Security classification:	In Confidence	Tracking number:	2223-2933

Purpose

To:

- Provide further advice on an option that would grant residence to people who worked for six years in New Zealand on an Accredited Employer Work Visa (AEWV) earning above median wage.
- Provide an updated draft Cabinet paper. Subject to your views on the above, the aim would be to circulate the draft Cabinet paper for Ministerial consultation from 13-30 March, before consideration at Cabinet Economic Development Committee (DEV) on 5 April.
- Update you on a request from the Department of Corrections for a residence pathway for Corrections Officers, and work with Maritime NZ on certifications that will meet the registration skill proxy under the simplified points system.

Executive Summary

We provided initial advice in response to your request regarding an additional option for skilled residence. Under this option, people would be eligible for residence if they worked in New Zealand on an AEWV for three years earning at least median wage and then, after applying a rigorous labour market test, spent a further three years on an AEWV (“3+3 option”). This would be an alternative to implementing the maximum continuous stay.

A 3+3 option residence pathway represents a significant shift from both the current Skilled Migrant Category (SMC) and the proposed simplified points system, which clearly focus on individual skills rather than labour market gaps. The policy and operational implications are not entirely clear, given the time available.

Our initial assessment is that developing a meaningful labour market test for residence would be challenging. Employers are best placed to assess the availability and suitability of candidates, but also have incentives to reduce the time and cost of recruiting people. A strengthened labour market test is also not compatible with facilitating employers’ ability to recruit migrants in the short-term. If you wish to look at policy interventions to strengthen the labour market test, we will require more time to understand the implications of these choices across visa settings. Under a 3+3 option, you may also choose to bring forward other checks to the temporary stage, e.g. English language and medical checks, if the driver is to not have people settled without a pathway to residence.

We are already in unprecedented territory in terms of managing volumes, i.e. no caps and processing to demand. Across the Green List, Sector Agreements and the simplified points system, more people are expected to move from temporary work visas to residence than ever before.

An open residence offering could lead to a further significant increase in eligibility for residence, particularly at the lower skill end. AEWV data shows that even with the new median wage criteria, the proportion of applications approved to work in New Zealand across skill levels remains roughly the same as pre-COVID, with almost half of all applicants working in ANZSCO skill level 4-5 (lower-skilled) roles. A 3+3 option could help to stabilise the labour market, but shortages in certain sectors are likely to persist given trends of people moving into other roles once they gain residence. A residence offering might also increase the pipeline of temporary workers.

On balance, we continue to recommend a higher threshold for skilled residence than for temporary work, to help manage impacts on productivity and working conditions, absorptive capacity and the risks of displacement, particularly in the case of an economic downturn. If a 3+3 option is preferred, we would recommend that it is considered in the context of inter-agency work on the Government Policy Statement and specifically absorptive capacity, rather than in isolation.

Recommended action

The Ministry of Business, Innovation and Employment (MBIE) recommends that you:


- a **Indicate** if you would like to pursue a “3+3 option” further

Agree / Disagree

- b **Agree** to consult on the draft Cabinet paper with your Ministerial colleagues from Monday 13 March to Thursday 23 March, if there are no significant changes to policy proposals following this advice

Agree / Disagree

Privacy of natural persons



Melanee Beatson
**Acting Manager, Immigration Policy (Skills
and Residence)**
Labour, Science and Enterprise, MBIE

Hon Michael Wood
Minister of Immigration

10 / 03 / 2023

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Background

1. On 1 March 2023, we provided a draft Cabinet paper *Future of the Skilled Migrant Category – Final Proposals* for your consideration [2223-2602 refers]. This draft reflected your feedback on advice in our briefing of 10 February [2223-1771 refers] and points raised in agency consultation.
2. At the meeting with Immigration officials on Monday 6 March, you asked for further advice on an alternative option where, if people worked for three years on an AEWV earning at least median wage and then, after applying a rigorous labour market test, spent a further three years on an AEWV, they would be eligible for residence.
3. We have previously provided advice on similar options that would rely on the median wage as the key skill threshold and on the labour market to self-regulate beyond that:
 - In our early advice [2122-4410 refers], we provided a “Time-based” option that would grant residence to people that have worked in New Zealand on an AEWV earning at least median wage for e.g. five years. This proposal was limited to migrants working in ANZSCO Level 1-3 (skilled) roles. The basis for this approach would be to address medium-term labour-market needs and avoid having migrants onshore without a pathway to residence. We advised against this option at the time because it represents a relatively low skill threshold; there is no ability to manage volumes; and it was assessed to create relatively high immigration risk, as people are willing to game settings or tolerate poor conditions to gain residence. We recommended that, if this option was preferred, stronger controls could be considered at the temporary stage. The full analysis provided at the time is attached at Annex One.
 - In our briefing in February [2223-1771 refers] we provided advice in response to feedback during consultation requesting a “long residence” pathway. On balance, we recommended retaining a gap between eligibility for temporary work and residence over a long residence model. This advice acknowledged that there is not enough evidence to categorically determine the impact of open residence settings on the labour market or the skilled economy. However, maintaining a gap enables greater flexibility to manage impacts on productivity and working conditions, absorptive capacity, and the risks of displacement, particularly in the case of an economic downturn, ^{Free and frank opinions} [redacted]. If residence settings prove to be too tight, it is easier to widen eligibility than to take things away – particularly given immigration settings tend to have a long lag time. The full analysis provided at the time is attached at Annex Two.

“3+3” option

4. The proposed 3+3 option would represent a significant change in approach and impacts from the current proposals. We understand that this option:
 - is based on the idea that a rigorous labour market test applied at two points across three years would show that people’s skills are valuable to the economy;
 - is driven by concerns that, if the maximum continuous stay is extended beyond three years, people may already be too well-settled; and
 - would sit alongside the skilled residence pathways already proposed, meaning that the higher skilled a person is, the faster their pathway to residence.
5. The comments below set out our initial thinking on this specific proposal, rather than repeating earlier advice on similar options.

Adding a “time-served” pathway would represent a fundamental shift in approach

6. Residence is a permanent commitment to accommodating people – and their families – in the economy regardless of how conditions change. The current SMC and the proposed changes have a clear focus on individual skills rather than labour market gaps. The skill threshold is set at a level where people are expected to bring benefits to New Zealand, regardless of economic conditions and current skill shortages. The Green List and Sector Agreements play a complementary role as occupation-based tools that can be targeted to address critical skill shortages, offering a streamlined residence pathway as an attraction mechanism.
7. There are trade-offs to be made around the maximum continuous stay and the impact on migrants and employers. Offering residence to anyone who can work on an AEWV for six years as an alternative to a maximum continuous stay would be a significant shift in approach. Given the time available, we are not fully clear about the policy and operational implications. If you want to explore this option further, we would propose to come back to you with additional advice. We would also advise engaging with Australia on a no-surprises basis, given the freedom of movement under the Trans-Tasman Travel Arrangements (TTTA).
8. There are key questions around the relative impact on absorptive capacity of temporary work versus residence – questions that are being considered as part of work on the Skilled Migrant Performance Framework and inter-agency work on the response to the Productivity Commission’s report on Immigration (Government Policy Statement/population work). We would recommend any significant changes in approach are aligned to that work.

Developing a meaningful labour market test for residence would be challenging

9. The 3+3 proposal is based on rigorously applying a labour market test. The current AEWV labour market test is important, **Free and frank opinions** Employers are required to advertise the role to New Zealanders and can decide whether New Zealand applicants are suitable for the role. Immigration New Zealand does not make any judgement about whether their reasons for declining New Zealanders are acceptable or not.
10. The labour market test reflects its focus on current labour market gaps and on facilitating access to people who can fill them, as opposed to the longer-term focus of the proposed skilled residence settings. Some of the roles recruited for now will not be needed in the future, because of changes in technology and workforce needs.
11. An appropriate labour market test for residence would look different. Our initial assessment is that developing a meaningful labour market test for residence would be challenging – and particularly so after three years where there is an incumbent in the role. Employers are best placed to assess the availability and suitability of candidates, but also have incentives to reduce the time and cost of recruiting people. A strengthened labour market test is also not compatible with facilitating employers’ ability to recruit migrants in the short-term.
12. A range of ideas were explored under the AEWV, e.g. requiring employers to show how they are investing in recruiting New Zealanders, technology and improving training and conditions; and drawing on third parties to assist with skill matching of New Zealanders. These were not implemented because of the challenges of developing objective measures that could be applied across a range of business, and the relative impact of such measures on enabling employers to recruit migrants quickly.
13. One concern raised in discussions was about requiring a migrant to stand-down under the proposed maximum continuous stay, if they will be replaced by another migrant. This policy is driven by reducing the risks to the migrant of staying long-term without the rights and benefits of residence. It also builds in an effective labour market test, i.e. employers can continue to recruit migrants, but they must advertise the role and this may increase incentives to look to the existing New Zealand labour market first. This may be less efficient,

but in general three years is a long time for an employee to stay in a role. If there are persistent gaps in sectors, we recommend taking a targeted approach, e.g. using available tools to develop bespoke pathways, rather than a general approach.

Other changes may also be appropriate at the temporary work stage

14. As we have previously advised, an alternative to close the gap between temporary work and residence is to raise the bar at the AEWV stage. In general, we recommend against this, as it is harder and would compromise employers' ability to fill immediate gaps. However, under a 3+3 option that led to residence, you may also choose to consider bringing forward other checks to the temporary stage, e.g. English language, medical and national security checks, if the driver is to not have people settled without a pathway to residence.

Open residence settings would be expected to significantly increase residence volumes around the median wage level

15. The current proposals rely on setting an appropriate skill threshold to manage volumes. The combination of moving to processing to demand, combined with new residence pathways available under the Green List and Sector Agreements, are expected to see more people gain residence annually than ever before.
16. A 3+3 option would be expected to significantly increase volumes further, particularly at the lower-skilled/semi-skilled end – potentially including those who would not be eligible for residence in comparator countries. The median wage tempers this to an extent. However, so far, the impact of the median wage threshold on skill levels is unclear. AEWV data shows a significant clustering at the median wage level, and the proportion of applications across skill levels remains roughly the same as pre-COVID, with almost half of all applicants working in ANZSCO skill level 4-5 (lower-skilled) roles.

AEWV numbers are tracking high

17. Despite the new median wage threshold, the number of AEWVs issues since reopening in July are tracking higher than pre-COVID levels. It is unclear whether this is the result of pent-up demand or if these volumes will continue:
 - 39,864 AEWVs were issued between 4 July 2022 and 8 March 2023. 35,877 of these were above median wage.
 - September to December 2022 arrivals of non-New Zealanders on work visas were the second-highest for the same period in the last decade.
 - Net migration in November 2022 was +6,000. If that volume was maintained across the year, it would be comparable to the unprecedented levels of net migration in 2019.

Open residence settings may not address labour market gaps...

18. The labour market could be expected to stabilise once positions are filled. We have limited data on where people go after gaining residence, but anecdotally there are occupations where people tend to move on as soon as they gain residence (a complaint some employers made about the impact of the 2021 Residence Visa, e.g. chefs). This means that there may be persistent labour shortages even though the working population may increase. Open residence settings may also reduce incentives for employers to move to higher-wage, higher-productivity models, which would increase the attractiveness of roles (e.g. because of highly motivated migrants willing to work under poorer conditions).

...and drive demand beyond labour market need

19. Access to residence is an incentive for many temporary migrants. Many of our large-volume migrant source countries have strong "push" factors, meaning opportunities may be greater here than in their home countries. Open residence settings may drive uptake for temporary

visas beyond what's needed to meet genuine labour market gaps, i.e. the pipeline could grow. This may in turn affect the incidence of migrant exploitation. Evidence is limited given its hidden nature, but research shows some people are willing to pay for job offers or participate in wage recycling to achieve residence.

Not implementing the maximum continuous stay may be preferable in the short term

20. An alternative approach is to allow people to stay and work in New Zealand on eligible visas indefinitely. Compared to pre-COVID, the clear threshold set out in the proposed settings would support people to make decisions about their options from the outset. We continue to consider that a maximum continuous stay is important to manage the risks for migrants, but this would likely have a less significant impact across the immigration system than creating a pathway to residence for this cohort – at least in the absence of work on the relative impact of immigration and the investments required to align with long-term absorptive capacity.

A key choice is around starting tighter or looser

21. A key choice is whether to start conservatively and loosen settings later if they prove too tight; or to start with more open settings and tighten later if needed. We recommend seeing how proposed settings play out before choosing to open up further:
- We are already in unprecedented territory in terms of managing residence volumes, i.e. no caps and processing to demand. Across the Green List, Sector Agreements and the simplified points system, more people are expected to move from temporary work visas to residence than ever before.
 - If residence settings prove to be too tight, it is easier to widen eligibility than to take things away. There is also a long lag on immigration settings; the general principle of grandparenting means the “tail” of people eligible for residence would be long.

Corrections Officers

22. Department of Corrections (Corrections) officials recently contacted MBIE to:
- clarify how wage calculations are made under the AEWV. Corrections Officers receive a guaranteed shift allowance (in addition to their base salary) and Corrections would like this to be included in the wage calculations for this occupation. This appears to require a simple operational fix, and we are working with Corrections and Immigration New Zealand and to resolve this issue.
 - request a residence pathway for Corrections Officers. We have provided Corrections officials some initial guidance on the relevant information and process for considering occupation-based residence pathways, including signalling the Green List review later in the year. We understand that Corrections will be advising their Minister of this request and expect that the Minister of Corrections will raise this through the Ministerial consultation process.
23. We had considered Corrections Officers, which were raised during consultation, and most are considered not likely to be eligible for the simplified points system. We did not highlight it as a gap, because:
- it is an entry-level position and low-skilled role (ANZSCO skill level 4) and there is no relevant qualification or experience required.
 - entry-level corrections officers earn around the current median wage, with more senior officers earning more.
 - historically, low volumes have gained residence through the SMC (between 2017-2019, only 13 gained residence through SMC, with a further six through the Residence from Work pathway); and the temporary visa numbers for this occupation have also been

low, relative to other occupations (93 on Essential Skills/Talent visas between 2017-2019).

- of limited overseas recruitment during Covid, retention issues and an ageing workforce have been identified as the primary drivers of the shortage.

Maritime Certifications

24. We are also working with Maritime New Zealand to assess the maritime certifications that would meet the registration skill proxy under the simplified points system. We intend to update the list of eligible registrations, and to incorporate it into advice about essential ferry services under the Transport Sector Agreement.

Next steps

25. Attached is a revised draft Cabinet paper, updated with tracked changes following your feedback and further advice on implementation. Some gaps remain, including around implementation of a five-year AEWV and timing (if you choose to proceed with this).
26. If the recommendations remain the same following your consideration of the advice above, we recommend you circulate the draft Cabinet paper for Ministerial consultation from Monday 13 March to Thursday 23 March. The aim is to lodge a final paper on 30 March for consideration at DEV on 5 April. The key milestones are set out below.

Date	Milestones
Monday 13 March	Ministerial consultation begins
Thursday 23 March	Feedback from Ministerial consultation due
Wednesday 29 March	Revised Cabinet paper provided to Minister
Thursday 30 March	Cabinet paper lodged
Wednesday 5 April	Cabinet Economic Development Committee
Tuesday 11 April	Cabinet (Final Cabinet before recess)

27. If you would like to update the recommendations, we will update the Cabinet paper and come back to you with revised timelines.

Annexes

Annex One: Previous advice on a time-based option

Annex Two: Previous advice on a “long residence” option

Annex Three: Draft Cabinet Paper

Annex One: Previous advice on a time-based option

Below is an excerpt from Briefing 2122-4410 on a time-based option, for your reference.

Option 1: Time-based – ANZSCO Levels 1-3 + five years in New Zealand leads to residence

1. This option would provide residence to people in ANZSCO Level 1-3 roles after five years working on an AEWV (or equivalent) in New Zealand. The basis for this option is that five years demonstrates a medium-term labour market need. It broadly represents an approach like the United Kingdom, where migrants are eligible for permanent residence after five years (and the threshold is managed at the temporary visa stage); and the ‘settled’ component of the 2021 Resident Visa.
2. The key difference from eligibility for the AEWV is that roles that are ANZSCO Level 4-5 occupations, which require minimal formal training, would not be eligible, unless they met the income threshold for the separate twice median wage pathway. If all occupations were included, it would likely be an attractive pathway for lower skilled migrants. The top three ANZSCO Level 4-5 roles that were approved for (temporary) Essential Skills visas in 2019 were dairy cattle farm worker (almost 4,000), retail supervisor (more than 3,000) and truck driver (more than 1,000), but only a small proportion of these would have been eligible for residence under the current SMC settings which require them to earn 1.5 times median wage to be eligible.¹
3. The key advantages of this option are that it provides the highest level of certainty for migrants; and reduces the pool of migrants settling onshore without a pathway to residence (as ANZSCO 1-3 migrants on an AEWV will meet threshold by default).
4. The key disadvantages are that:
 - It represents the lowest skill threshold. Median Wage and ANZSCO Level 1-3 are already components of the SMC. If there is no additional test applied, it will represent a lower threshold than currently, and it would likely result in higher numbers.
 - A five-year wait for residence could act as a disincentive to highly skilled people not willing to wait for residence (or who could secure residence more quickly in a comparator country).
 - It creates a relatively high immigration risk, as people are willing to game settings. (e.g. non-genuine jobs, or jobs inflated to Level 1-3 roles) or tolerate poor conditions for residency, although this risk is moderated by the length of time.
 - It relies heavily on ANZSCO as a key eligibility test. Opportunities to streamline ANZSCO assessments, and reduce processing times, will be limited if it is the primary skill test.
5. If this option was preferred, we would recommend considering stronger controls at the temporary stage, but this might affect our ability to fill short-term and “surge” labour market needs.

¹ Only around 500 principal applicants in ANZSCO 4-5 occupations were granted residence across skilled visa types in 2019 (and a much lower number through the SMC).

Summary of Option

Option 1: Time in New Zealand leads to residence (least restrictive option)	
Headline	“A pathway to residence for migrants who demonstrate commitment to working in New Zealand”
What does this approach target?	<ul style="list-style-type: none"> • Roles where there is a medium-term labour market need • Avoids having migrants onshore without a pathway to residence
Eligibility	<ul style="list-style-type: none"> • Job/offer at ANZSCO 1-3 (= “skilled”) • At least 5 years in New Zealand on an AEWV or equivalent
Possible options/variations	<ul style="list-style-type: none"> • Remove ANZSCO test (= simpler to assess, but not recommended as increases pool of unskilled people onshore who are more vulnerable to economic shocks/downturns)
Who misses out?	<ul style="list-style-type: none"> • ANZSCO levels 4-5 (= “unskilled”)
Key pros	<ul style="list-style-type: none"> • Avoids risk of migrants settling onshore without a pathway to residence (migrants on an AEWV meet threshold by default) • Highest level of certainty for migrants • Simple
Key cons	<ul style="list-style-type: none"> • Lowest skill mix (relies on ANZSCO only) • Fixed time requirement: <ul style="list-style-type: none"> ○ represents a low threshold for those who arrive with low human capital ○ may deter highly skilled migrants, who could move straight to residence in other countries • High immigration risks – increased incentives to game, people are willing to put up with poor conditions to get residence • Relies heavily on ANZSCO assessment, which is the is most difficult to assess
Numbers	<ul style="list-style-type: none"> • Relies on labour market to manage numbers – expected to be significantly higher • No control of numbers or ability to target, unless the threshold is lifted at the AEWV stage
Fast-track option	<ul style="list-style-type: none"> • Fast track limited to Green List and twice median wage only
Time to implement	<ul style="list-style-type: none"> • 4-6 months to implement • Low urgency – almost all eligible people onshore would be eligible for the 2021 Residence Visa, people coming in from offshore would need to spend 5 years on AEWV
Recommendation	<p>Not recommended</p> <p>If a time-based option was preferred, further work would likely be needed to better manage demand at the AEWV stage (i.e. to lift the skill threshold and manage numbers). Time in New Zealand is incorporated as part of other options (with Option 2 variable).</p>

Annex Two: Previous advice on a “long residence” option

Below is an excerpt from Briefing 2223-1771 responding to consultation feedback requesting a “long residence” option, for your reference.

On balance we do not recommend a long residence pathway

1. Before consultation, we provided advice on a time-based option (equivalent to a long residence pathway), which would grant residence to people that have worked on a relevant visa in New Zealand for a period, on the basis that the length of time worked demonstrates a medium-term skill need. This option would effectively rely on the median wage as the key skill threshold (with the potential for a higher wage bar for ANZSCO 4-5 roles) and on the labour market to self-regulate beyond that.
2. There is mixed evidence on the risks, benefits and effectiveness as levers of either a market-based time served threshold for residence, or a higher bar skill threshold for residence (such as the current or proposed SMC points or Green List occupation-based thresholds). The labour market long residence path is generally better for employers and migrants and is supported by a general argument that it is efficient to retain workers in the economy that have maintained employment over the medium term, rather than replace them with new temporary migrants where there is an ongoing domestic workforce gap. Maintaining a higher threshold for skilled residence arguably keeps a higher ‘replacement’ cost tension on the use of migrants for some roles, aligns with lifting the aggregate skill level of the permanent workforce, and provides more flexibility to respond to economic cycles and shifts, infrastructure pressures, or a changing domestic workforce flow. There is a judgement to be made between the two based on weighting of different objectives, assumptions about how the labour market will operate, and risk tolerance given uncertain future developments and mixed evidence of some impacts.
3. Many of the potential impacts that feature in arguments for either approach, such as infrastructure pressures, attraction or potential wage suppression, apply to the combined impact of both temporary visa settings and residence settings and populations. For example, workers need houses whether they are temporary workers (who may be replaced in future years) or permanent additions to the New Zealand workforce. The question is what difference granting residence makes to these pressures or benefits.
4. Some of the key considerations used in arguments for and against a lower threshold for residence include:
 - **Alignment with lifting productivity and a skilled workforce:** New Zealand’s productivity is relatively low.² This is a multi-faceted issue covering many portfolios and potential levers such as skill development, capital markets and industry investment. The Immigration Rebalance median wage threshold aims to support the transition to a higher-productivity, higher-wage economy and workforce through lifting the overall skill level of migrants and reducing the numbers of lower skilled migrants. There are very few barriers to recruitment above the median wage, so skills in this range can come to New Zealand freely. In this situation, skill levels will fluctuate with market need based on temporary access, while shifting people to residence adds them to New Zealand’s permanent workforce composition. For the many roles just over the median wage, this will include migrants able to get jobs, but potentially some with limited formal training or skill development (at the point of application) that are not the main target for attracting high skills.

² According to the Productivity Commission’s report *Productivity by the Numbers* (May 2021), New Zealanders work longer hours: 34.2 hours per week compared with 31.9 hours per week in other OECD countries. And New Zealanders produce less: \$68 of output per hour, compared with \$85 of output per hour in other OECD countries.

- **Managing absorptive capacity:** The levers available to manage absorptive capacity are to restrict migration to non-New Zealanders, or to manage policies to align with expected population growth over the medium to long term, e.g. increased investment in housing, infrastructure, social services and environmental protection. New Zealand’s population has grown comparatively rapidly over last 30 years (around 2.5% per year, compared to the average OECD average growth of 1.55% per year). The “migration boom” between 2014 and 2020 contributed two-thirds of population growth, peaking at 70,000 net migration in 2019 (compared to a long-run historical average net migration of around 20,000 people annually). The perception was that net migration volumes were unsustainably high and that investment was not keeping up.

Turning a temporary worker into a resident does not increase infrastructure pressures if that resident is not then replaced by another temporary worker (i.e. the total workforce size does not change). There may be potential pressures on services (such as welfare and education, though likely offset by economic value) and potential population pressures as residents are more likely to bring family, or if there is an increase in the total workforce.

- **Managing economic impacts and individual outcomes:** Some stakeholder feedback focused on the evidence for the economic and labour market benefits or risks of migration. There is some evidence for impacts at the aggregate (generally net positive for the economy), sector and individual level. Relevant evidence includes:
 - i. The positive economic impact of migration is greater for high-skilled, high-productivity sectors, both through the direct impact on productivity and contribution to tax, and indirect impact on knowledge, skills and innovation.³
 - ii. There is evidence that migrants with a student visa as their first visa in New Zealand earn less over the long term than those starting on work visas, resident visas or New Zealanders, even when controlling for factors like age.
 - iii. The Productivity Commission report on Immigration⁴ did not find systematic job displacement, but it notes that concerns about displacement of local labour in the event of a future economic “shock” or cyclical down-turn in the economy are real. MBIE research shows that migrant workers, ethnic minorities, disabled people, Māori and Pacific people are particularly vulnerable to poor labour market outcomes in a recession.

The Rebalance and other policies put weight on the argument that limiting labour supply will incentivise employers to invest in New Zealand workers or new business models. Where temporary workers are available, but access to residence is limited, there is a theoretical incentive to invest in a slightly under-skilled or higher reservation wage New Zealander that can be retained in the sector, rather than having to replace a temporary migrant worker after a medium-term period. This may be counter-productive where there is no supply of domestic workforce despite employer efforts. There is limited New Zealand evidence of impacts either way.

- **Managing the supply of migrants:** A pathway to residence is often cited as a requirement to attract workers willing to move themselves and their family across the world. This is anecdotally true for skills in global demand and settings have been tailored to provide assurance for the highly skilled. There is evidence that supply of some occupations, including those that fall between the median wage and SMC thresholds, are not significantly restricted by only a temporary pathway, with roles like carpenters coming in with relatively few transferring to residence.

³ Productivity Commission: *Immigration by the Numbers* (April 2022)

⁴ Productivity Commission: *Immigration – Fit for the Future* (April 2022)

Residence pathways also act as a pull factor, augmenting the attraction of New Zealand to many migrants compared to their home situation. There was a growth in migrant numbers in lower paid roles that were often less attractive to New Zealanders in the last decade. While there is a job requirement for residence, it does not follow that increased attractiveness will directly result in higher residence levels if the labour market does not need them. However, there may be additional incentive for some employers to seek a migrant over a New Zealander where they are willing to work for a lower rate **Free and frank opinions** As above evidence on this impact is mixed and anecdotally more sector specific.

We do not know the impact of changes to immigration settings since the borders closed will have on migrant flows. Despite the new median wage threshold, the temporary work visa approvals (AEWVs) since reopening in July are higher than pre-COVID levels. It is unclear whether this is the result of pent-up demand or if it will continue. September to December 2022 arrivals of non-New Zealander on work visas were the second highest for the same period in the last decade.

- **Responding to economic cycles and shifts:** A key difference between temporary and resident visas is the ability to reduce the number of temporary migrants in the workforce if labour market demand falls. In practice, in most cases of economic downturn the immediate response will be to reduce the inflow of new workers and this may address the workforce pressures. Releasing temporary migrants from roles where a domestic workforce is now available will naturally lag as they can stay in roles until their current visa expires. A resident visa further locks in workers into the economy, reducing flexibility for a shorter-term response. People at higher skill levels are more likely to be able to transfer their skills if the labour market changes including if there is an economic downturn.

5. Given the range of unknowns, a key choice is whether to start conservatively and loosen settings later if they prove too tight; or to start with more open settings and tighten later if needed. We recommend retaining the higher skill threshold for skilled residence:

- The higher threshold is aligned with the higher skilled workforce and economic goals.
- The threshold still provides residence for high skilled migrants who are likely to add value to New Zealand long-term.
- Employers retain access to the workers they need through a high trust, low labour market testing temporary work visa (above the median); while retaining some tension to look for New Zealanders at mid skill levels.
- It minimises additional risk of driving the uptake of migrants willing to work for lower reservation wages or into non-genuine jobs, particularly from countries with strong “push” factors.
- We are already in unprecedented territory in terms of managing demand for skilled residence visas, i.e. no caps and processing to demand. A further significant change to the potential volumes coming through residence could be considered in the context of interagency work on the relative impact of immigration and the investments required to align with absorptive capacity (e.g. Government Policy Statement/population work).
- If residence settings prove to be too tight, it is easier to widen eligibility than to take things away. There is also a long lag on immigration settings; the general principle of grandparenting means the “tail” of people eligible for residence would be long.

6. Changes under the Immigration Rebalance, particularly the new AEWV median wage threshold, and proposed skilled residence settings aim to narrow the gap between eligibility for temporary work visas and residence, while meeting wider social and economic objectives. As previously advised, we expect the removal of the planning range for skilled residence,

and no caps on Green List volumes, will mean larger volumes of people moving to residence each year than pre-COVID. However, we continue to recommend apply a higher bar for residence from temporary work settings.

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