

Information Being Released  
OIA 20150188

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THE TREASURY  
Kaitohutohu Kaupapa Rawa

Reference: T2013/748

SH-2-2-6

Date: 25 March 2013

To: Minister of Finance  
(Hon Bill English)

Associate Minister of Finance  
(Hon Steven Joyce)

Deadline: Tuesday 26 March

### **Aide Memoire: Skilled and Safe Workplaces Ministers' Meeting - March 26**

The Skilled and Safe Workplaces Ministers are meeting at 7.30pm on Tuesday 26 March. This aide memoire provides you with our brief comments on the key agenda items.

#### **Item 2: Immigration's contribution to labour supply**

This paper provides a summary of recent immigration and labour supply trends, and discusses some of the policy options that could be used to influence those trends.

Implicit in the comparison of these trends is the question of whether or not our current levels of inward migration represent a barrier to employment for New Zealanders (we note that the paper does not consider the impacts of outward migration). Previous research has concluded that migration does not adversely impact employment opportunities for New Zealand workers, but sustained and high levels of unemployment has led the Ministry of Business, Innovation and Employment (MBIE) to revisit this question. However:

- There is not currently any evidence that the number of temporary migrants are displacing low-skilled New Zealand workers, or that the current level of access to skilled migrants is preventing employers from training local workers.
- The short-term policy suggestions are largely aimed at tightening current immigration policy settings. This carries large known and unknown risks, particularly in light of the Canterbury rebuild.
- We think that a greater understanding of the impacts of temporary migration on employment opportunities for local workers should be established before developing further work on tightening policy settings.

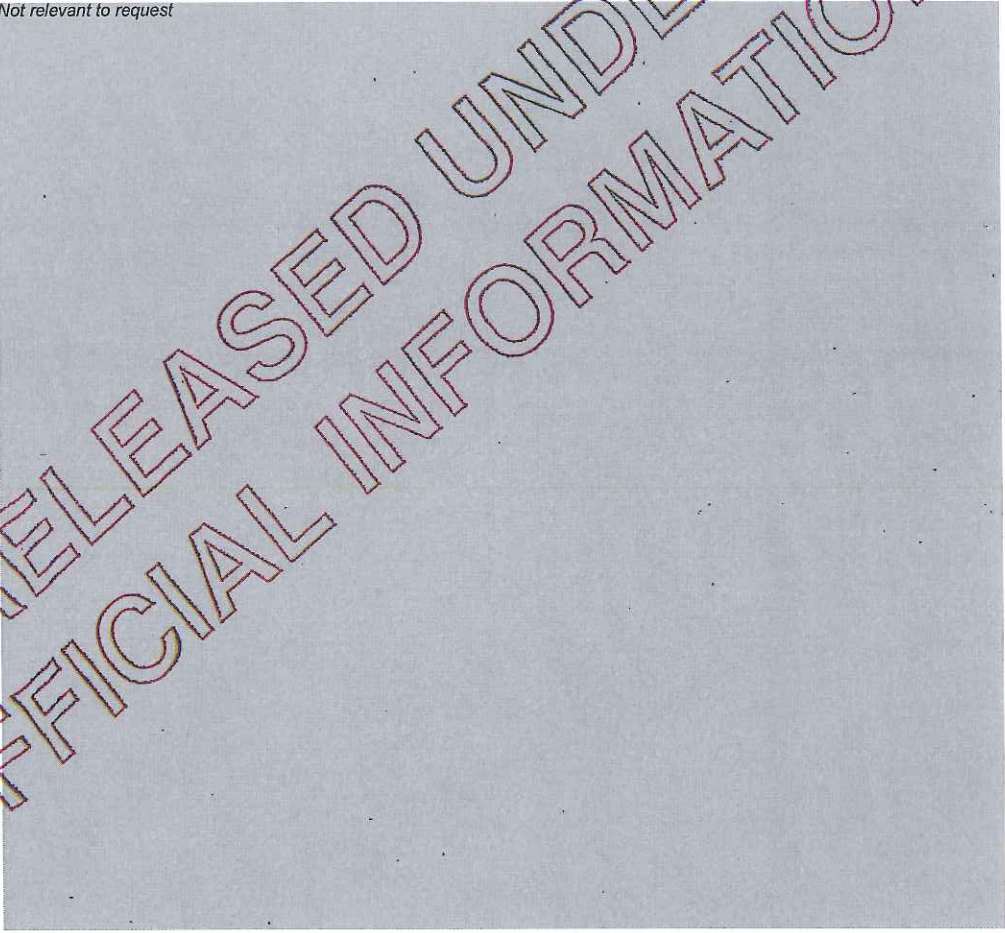
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Some of the proposals, particularly the medium-to-long-term ones, are targeted at smoothing out flaws in the current system. We see merit in investigating these proposals further, such as:

- Developing better responses to skill shortages and improving the operation of the labour market test,
- MBIE and TEC jointly engaging with industry on 2-3 skill priority areas, and moving to a single skilled shortage list.

We also encourage using the Skilled and Safe Workplaces group as an opportunity to look into solutions that go beyond immigration policy settings.

*Not relevant to request*



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*Withheld under s9(2)(g)(i)*

**Ben McBride**, Team Leader, Labour Market & Welfare, 04 917 6184

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**Immigration Act 2009: Miscellaneous Amendments**

**Responsible Person:** Ben McBride (917 6184)

**First Contact Person:** Withheld under s9(2)(g)(f)

**Purpose**

1. This paper seeks Cabinet's agreement to a number of amendments to the Immigration Act 2009 (the 2009 Act).
2. Most of the proposed amendments reflect gaps that have been identified as a result of new technology and the shift from the Immigration Act 1987, or are to clarify existing provisions in the 2009 Act.

**Comment**

3. We support the recommendations in this paper.
4. The primary amendments relate to strengthening the search and compliance powers of immigration officers, and to the collection of biometric information. As some of these proposals would lessen the reliance of immigration officers on police officers for carrying out their duties, they may generate public comment. However, these proposals are consistent with previous Cabinet decisions on immigration policy.
5. The majority of the remaining proposals are largely technical in nature, or are designed to clarify existing provisions and improve the effectiveness of the 2009 Act.

**Treasury Recommendation**

6. We recommend that you support the recommendations in this paper.

Title	Pg.	Recommend	Fiscal Implications (\$m GST excl.)					Treasury Comment
			12/13	13/14	14/15	15/16	Out years	
Immigration Act 2009: Miscellaneous Amendments		Support	<i>Operating</i>					We support the recommendations in this paper.
			-	-	-	-	-	
			<i>Capital</i>					
			-	-	-	-	-	

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## Immigration Act 2009 Amendments: Additional Proposals

**Responsible Person:** Ben McBride 917 6184

**First Contact Person:** *Withheld under s9(2)(g)(i)*

### Purpose

1. This paper seeks agreement to make further amendments to the Immigration Act 2009 (the Immigration Act). The most important of the proposals seeks to enhance the protection of lawful, temporary migrant workers from employment exploitation.
2. As the remaining proposals are less significant, this briefing will focus predominantly on the policy mentioned above.

### Background

3. The Labour Inspectorate in the Ministry of Business Innovation and Employment has looked into the problem of temporary migrant workers, including students, being employed on conditions below minimum standards.
4. They have recognised that they have not performed effectively as a regulator in this area, and are taking a number of steps to change this. Two of the proposals in this Cabinet paper form part of this shift: to include the exploitation of temporary migrant workers as an offence in the Immigration Act; and to make employers who hold residence visas liable for deportation if they exploit temporary migrant workers.
5. The other initiatives, not part of this Cabinet paper, include working more closely with Immigration New Zealand (INZ) and IRD to establish a greater intelligence function, and a review of the Labour Inspectorate's capacity and capability.

### Comment

6. We support the recommendations in this paper; however, we note that legislative change is only a partial solution, and that improvements to the performance of the regulator will also be required.
7. Significantly increasing the penalties associated with breaching employment minimum standards when employing temporary migrants, as this proposal would do, will have some discouragement effect. However, this does not address the underlying problem of the regulator having a limited ability to identify and investigate employment standards breaches. Therefore, the efficacy of this legislative change will depend on the performance of the regulator improving through other processes, such as increasing its intelligence capability.
8. This legislative change creates an enforcement tool for breaches of employment standards within the Immigration Act, which INZ has responsibility for enforcing. There will need to be a high-degree of coordination between INZ and the Labour Inspectorate in these cases to identify and properly enforce the legislation.
9. While the costs of this legislative change and its enforcement can be met within existing baselines, other processes that will likely be required to see a significant improvement in enforcement may require additional funding in the future. For example, through a review of the capacity of the Labour Inspectorate.

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10. Additionally, this change only applies to temporary migrant workers, creating a substantial difference in the penalties for breaching minimum employment standards in relation to temporary migrants and New Zealand residents. However, this difference may be justified based on the more distinct vulnerability of temporary migrant workers, and the observation that cases involving temporary migrants are typically more severe.

**Treasury Recommendation**

11. We recommend that you **support** the recommendations in this paper. We note that the proposals to protect temporary migrant workers from exploitation are only a partial solution, and that the outcome of other supporting processes may have financial implications.

The following table goes into the Executive Summary of the paper

Title	Pg	Recommend	Fiscal Implications (\$m GST excl.)					Treasury Comment
			12/13	13/14	14/15	15/16	Out years	
Immigration Act 2009 Amendments: Additional Proposals		<b>Support</b>	<i>Operating</i>					We support the recommendations. We note that the proposals to protect temporary migrant workers from exploitation are only a partial solution, and that the outcome of other processes may have financial implications.
			-	-	-	-	-	
			<i>Capital</i>					
			-	-	-	-	-	

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## Refugee Quota Programme 2013/14 to 2015/16 and arrangement with Australia to resettle refugees

**Responsible Person:** Ben McBride (917 6184)

**First Contact Person:** *Withheld under s9(2)(g)(i)*

### Purpose

1. This paper seeks confirmation of New Zealand's agreement to resettle up to 150 refugees annually who are subject to Australia's offshore processing legislation (referred to as 'transferees' to differentiate from refugees as nominated by the United Nations High Commissioner for Refugees (UNHCR)).
2. It also seeks agreement to the make-up of the three-year Refugee Quota Programme for 2013/14 to 2015/16.

### Background

3. On 9 February 2013 the Prime Minister announced that New Zealand will resettle up to 150 transferees from Australia's offshore processing centres in Papua New Guinea, who are subject to the 'no advantage principle'. *Withheld under s6(a)*

### Comment

4. We note that the agreement with Australia has already been announced, and that this Cabinet paper merely deals with its implementation. From this perspective, we support the recommendations in this paper. *Withheld under s6(a)*
5. Currently the annual quota for the Refugee Quota Programme is made up of 750 refugees referred by the UNHCR. Given that the quota is to remain at 750, the resettlement of 150 transferees from Australia will result in a corresponding reduction of our commitment to the UNHCR. Therefore, even though this arrangement has already been well publicised, there is likely to be further comment as a result of its confirmation and reduction in our commitment to 600 each year. This would bring our annual commitment below that of the United Kingdom and Finland, but still above that of Denmark and the Netherlands.
6. We suggest you ask the Minister of Immigration if he has considered a response to any comment by the UNHCR or other refugee organisations.

### Treasury Recommendation

7. We recommend that you **support** the recommendations in this paper. But we note that confirmation of the agreement with Australia is likely to cause public comment.

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Title	Pg	Recommend	Fiscal Implications (\$m GST excl.)					Treasury Comment
			12/13	13/14	14/15	15/16	Out years	
Refugee Quota Programme 2013/14 to 2015/16 and arrangement with Australia to resettle refugees		Support	<i>Operating</i>					We support the recommendations in this paper. <i>(Withheld under s6(a))</i>
			-	-	-	-	-	
			<i>Capital</i>					
			-	-	-	-	-	

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Reference: T2013/1525 SH-2-2-6-5-1  
Date: 7 June 2013  
To: Minister of Finance  
(Hon Bill English)  
Deadline: Before meeting with the Minister of Immigration (Hon Michael Woodhouse)

### Aide Memoire: Briefing on Upcoming Cabinet Paper on Immigration Funding Review

#### Purpose

The Minister of Immigration has produced a Cabinet paper which recommends a number of changes to the way that immigration services are funded. We support most of the recommendations in the paper. Withheld under s9(2)(1)(iv)

We understand that the Minister of Immigration intends to consult with you on this paper before it proceeds to EOI. Withheld under s9(2)(1)(iv) This Aide Memoire gives you our position on the proposed changes.

#### The preferred option consists of moderate changes to the current system

We have previously briefed you on the four options being considered (T2013/41 refers). The upcoming paper recommends that Cabinet approve 'Option 2' which involves:

- Changing the 'Migrant Levy' to an 'Immigration Levy' which will extend it to successful applicants for temporary visas. This will be used to cover more of the general costs of immigration services, including settlement services and the Immigration Advisers' Authority.
- Including the Visa Application Centre service fee in the immigration fee schedule.
- Rescinding a 2006 Cabinet decision that artificially constrains the funding of compliance activity. The new funding approach would see refugee compliance being Crown funded, and non-refugee compliance being fees funded, and
- Allowing INZ to require audits of third parties (like employers & training providers) who are suspected of breaching their obligations. Where an audit is required, the third parties will be required to pay for the audit.

We support these recommended changes. We think they address some of the deficiencies in the current funding model without being an overreaction to the temporary deficit in the INZ memorandum account.

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Withheld under s9(2)(f)(iv)

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Withheld under s9(2)(g)(i)

**Ben McBride**, Team Leader, Labour Market & Welfare, 04 917 6184

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THE TREASURY  
Kaitohutohu Kaupapa Rawa

Reference: T2013/1564

SH-4-1

Date: 11 June 2013

To: Minister of Finance  
(Hon Bill English)

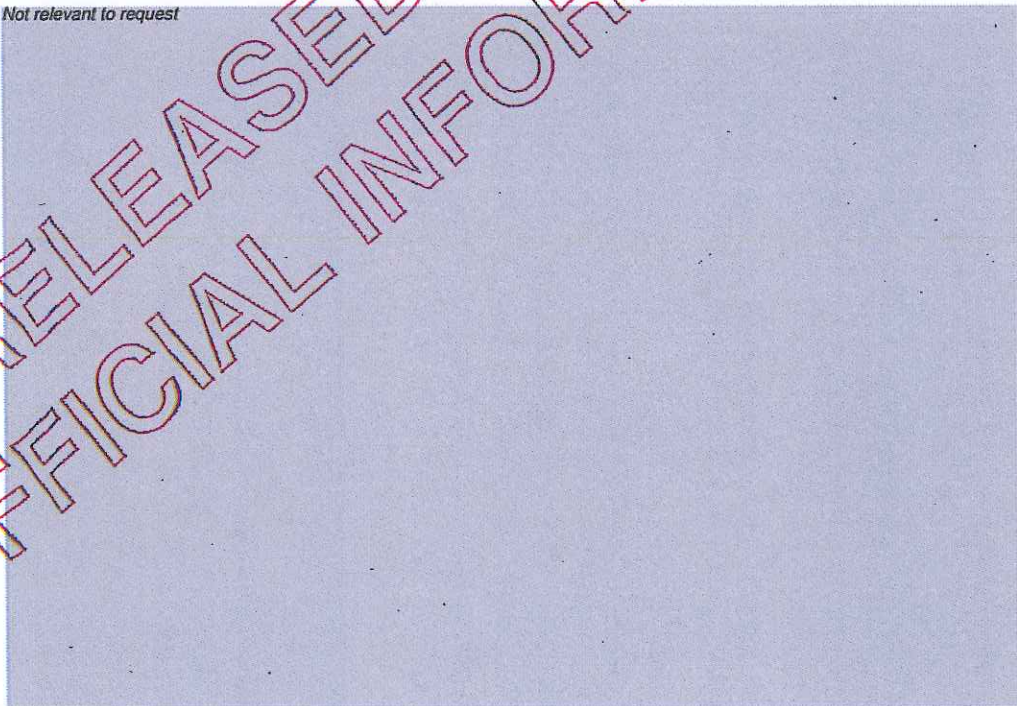
Associate Minister of Finance  
(Hon Steven Joyce)

Deadline: Prior to 7.30pm, Wednesday 12 June

**Aide Memoire: Skilled and Safe Workplaces Ministers' Meeting -  
June 12**

The next Skilled and Safe Workplaces Ministers' Meeting is being held from 7.30-8.00pm Wednesday 12 June in Room 7.2 Executive Wing. This Aide Memoire provides our comment on the key agenda items.

*Not relevant to request*



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*Not relevant to request*

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**Item 5: Business Migration**

*Withheld under s9(2)(f)(iv)*

We think Ministers should have a discussion around appetite for risk when it comes to business migration policy settings. For instance, giving a greater weight to applicants who have more experience in owning a business may shut out younger entrepreneurs

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looking to bring ideas to New Zealand. Currently it is difficult to assess entrepreneurial ability ex ante, however, Stats New Zealand and MBIE are exploring more effective ways of doing so.

**Item 6: Addressing migrant exploitation**

Cabinet has recently agreed to legislative change designed to protect migrants who are employed on conditions below minimum standards. The efficacy of this legislative change will depend on the performance of the regulator improving through other processes, such as increasing its intelligence capability. In this regard, we support the initiative of the Labour Inspectorate to act as a more strategic regulator, and to work more closely with Immigration NZ and Inland Revenue.

Due to the lack of available intelligence or data, it is not clear from an outside perspective whether the problem of most harm is concentrated among temporary migrants, or spread among the general population. That is, it is not clear whether the agreed to changes to the Immigration Act are sufficient, or whether wider changes to Employment Relations legislation is required. We think you should test with the Minister of Labour whether wider legislative change is necessary, or whether operational changes underway will be enough to shift behaviour.

Withheld under s9(2)(g)(i)

**Ben McBride**, Team Leader, Labour Market & Welfare, 04 917 6184

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### International Education Export Sector: Suite of Three Papers

**Responsible Person:** Fiona Carter-Giddings, Manager, Labour Market and Welfare, 04 917 7021

**First Contact Person:** *Withheld under s9(2)(g)(i)*

#### Purpose

1. Minister Joyce and Minister Woodhouse are presenting a suite of three papers that propose a range of related regulatory changes to the export education sector. These changes are intended to help New Zealand's export education remain internationally competitive while also supporting the Government's ambitious goal to double the value of the sector by 2025.

#### Comment

2. Competition for international students is intensifying across the world, and in this context it is important for our policy settings to be at least in line with our main competitors if we are to maintain and increase our market share of international education. At the same time, reputational risks to the NZ Education brand are important to control. We know that even minor incidents can have an outsize impact on the perception of our education sector overseas, which is crucial in attracting new international students.
3. We are broadly supportive of the policy direction of these regulatory changes, and think they address the right issues. However we do have some concerns about the cost-benefit analysis underpinning two of the papers, which we raise below.

#### Immigration Industry Partnerships

4. This paper proposes to establish a model of devolved visa processing for certain tertiary providers. The tertiary providers will carry out visa checks that were previously done by Immigration New Zealand (INZ), and decentralising some of these tasks is intended to facilitate more efficient student visa processing.
5. In the 2014 academic year, a pilot scheme will test the key features of this model, with a view to rolling it out more widely in the 2015 academic year. We think it will be important to have a robust evaluation process of the results of this pilot scheme. We also recommend that a formal Cabinet report back on the pilot is included.
6. We also think there is some uncertainty about the various benefits and costs associated with this policy. The table below summarises our comments on the gaps in the analysis. These would be important issues to evaluate at the end of the pilot programme.

Claim	Comment
This model will provide noticeably faster Visa processing	- Some visa processing functions will still be carried out by INZ under this partnership model, such as health and character checks. This means that it is unclear if visa processing times will be as much faster as envisioned. The paper does not outline how much quicker the process will be under the new model, thus it is

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	difficult to ascertain whether the marginal improvements to processing are outweighed by the increased risks with devolved decision-making.
Streamlined visa processing will make NZ less likely to lose students to overseas competition	- It is perhaps intuitive that this will be a marketing advantage. However, there is no evidence in the paper that the benefit from faster visa processing is the most important factor in the decision of a prospective student choosing between (for example) the University of Auckland and the University of Sydney.
Costs to tertiary providers and their likely uptake of such a model	- The paper acknowledges that this model will impose some additional compliance costs on tertiary providers. It will be important to assess how significant these costs might be and whether many providers are likely to see sufficient benefit to take up this partnership model. If providers do take up this opportunity there is the potential that they may pass on some of their additional costs to international students in the form of higher tuition fees. It is not clear however from the paper whether the trade-off (faster processing against higher fees) will be worth it to international students.
Residual monitoring by INZ will be sufficient to mitigate the risks of decentralised Visa processing	- Decentralising some of the regulatory decision-making has inherent risks. INZ proposes to mitigate these by establishing robust monitoring and assurance and reviewing a sample of about 5% of providers' decisions to ensure they meet quality standards. The paper does not outline how the figure of 5% was derived or any judgement as to whether this proportion will be enough to mitigate the risks of devolving decision-making.

#### Work Rights for International Students

7. This paper puts forward proposals to relax the conditions under which certain groups of international students are allowed to work during their studies. Proposal One aims to relax the eligibility requirements for English language students to undertake part-time work during their studies. This represents a national roll-out of the Canterbury Work Rights Initiative.
8. The Canterbury Work Rights (CWR) Initiative was intended to serve as a trial before Ministers considered extending the same relaxed requirements nationwide. This paper does not provide a comprehensive analysis of that trial, other than to suggest that work rights were not a strong incentive in students' decision to study in Christchurch.
9. The major risk from this proposal is that students with low English language ability will be more likely to face exploitation in the labour market. These are not only damaging for those individuals, but can have wide-ranging impacts on our reputation as a safe destination for international students. The CWR found that around 40% of those eligible to work remained unemployed despite looking for work. Relaxing the requirements may make this problem worse by increasing the pool of international students competing for work while studying.

#### Treasury Recommendation

10. We recommend that you **support** the recommendations in these papers.
11. We recommend that you **discuss** the evaluation of the Industry Partnership pilot scheme with Minister Woodhouse, to consider whether a more formal report-back process may be of use.

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International Students' Work Rights		<b>Support</b>	<i>Operating</i>					We support the policy direction, but note that it creates some risks around the labour market exploitation of international students.
			-	-	-	-	-	
			<i>Capital</i>					
			-	-	-	-		
Immigration Industry Partnerships with Education Providers		<b>Support and Discuss</b> the Evaluation of the Industry Partnership pilot scheme with Minister Woodhouse.	<i>Operating</i>					We support the policy direction, but note that it creates some risks due to devolving some visa processing to tertiary providers.
			-	-	-	-	-	
			<i>Capital</i>					
			-	-	-	-		
International Students: Proposed Legislative Amendments Relating to Pastoral Care		<b>Support</b>	<i>Operating</i>					We support the changes to strengthen the Code of Practice for Pastoral Care.
			-	-	-	-	-	
			<i>Capital</i>					
			-	-	-	-		

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## Business Investor Migration

**Responsible Person:** Carolyn Palmer, Acting Manager, Labour Market and Welfare, 04 890 7262

**First Contact Person:** *Withheld under s9(2)(g)(i)*

### Purpose

1. This paper proposes changes to business and investor migration policies. These changes are designed to improve New Zealand's ability to attract high-value migrants who can contribute their entrepreneurship and invest their capital in our economy.
2. Business categories are being changed to more actively select migrants that can create innovative business with potential for export growth and job creation. This is being done by introducing an explicit points system to assess applicants, replacing the current system where a business plan is assessed holistically.
3. *Withheld under s9(2)(f)(iv)*
4. These changes address some of the problems with the status quo, so we think they should be pursued. However, the changes are also fundamental and may have some attendant risks, so it would be prudent to evaluate their impact as soon as possible.

### Comment

5. We are supportive of the overall intent and direction of the changes proposed in the paper. However, on the whole we think that there is little evidence provided that gives a sense of the likely overall economic impact of these changes.
6. The paper doesn't explain the position it reaches on some key trade-offs it raises. For example:
  - There is an expectation that the new points criteria for business migrants will be able to actively incentivise applicants to improve the quality of their proposals rather than drop out. This isn't substantiated, but more importantly the risk of reduced quantity isn't balanced against the benefit of increasing the quality of the pool of applicants.
  - *Withheld under s9(2)(f)(iv)*
  - No information is provided on how these changes stack up against the business and investor migrant policies of our key competitors, particularly Australia. It also isn't clear how these new policies could help advance the Government's broader priorities, such as housing affordability and the Business Growth Agenda.
7. The policy changes also come with some acknowledged risks, and we think that they are not addressed in much detail in the paper. For example:

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• Withheld under s9(2)(f)(iv)

- The points system for business migrants is currently skewed towards older, experienced people with business ownership or management experience. However this may risk cutting out young, mobile migrants with entrepreneurial vision, who are punished twice due to both lack of experience and their age. Alternately, the points system may have the perverse impact of forcing these younger business migrants into regions, where the risks and costs of failure are likely to be higher.
- Under the status quo business migrant applicants can purchase business plans from immigration advisors which suffice to meet the minimum standards for acceptance. The new points system may address this problem, but the paper doesn't explain how.

8. Some of these impacts may be difficult to assess in advance, but they are important to evaluate the effectiveness of these changes. To ensure that these policies remain fit-for-purpose into the future, it may be helpful to suggest an explicit review of the business and investor categories, in particular so that the efficacy of the new points system can be assessed.

**Treasury Recommendation**

- 9. We recommend that you **support** the recommendations in this paper.
- 10. We recommend that you **raise** some of the key trade-offs and risks that we have highlighted in your discussions with your colleagues.
- 11. We recommend that you **propose** that an evaluation of the Business and Investor migrant categories is carried out in 2016, to determine the effectiveness of the changes, with a report back to Cabinet at the end of 2016. Immigration NZ could collect the necessary data in the interim to inform this evaluation.

The following table goes into the Executive Summary of the paper:

Title	Pg	Recommend	Fiscal Implications (\$m GST excl.)					Treasury Comment
			13/14	14/15	15/16	16/17	Out years	
Business Investor Migration		Support the recommendations, but raise some of the risks highlighted in this briefing.	Operating					This paper proposes changes to business and investor migrant policies. We agree with the overall direction, but some key trade-offs and risks aren't addressed in detail.
			-	-	-	-	-	
Capital								
-	-	-	-	-				

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**Treasury Report:** Treasury Working Paper: Migration and Macroeconomic Performance in New Zealand

Date:	26 March 2014	Report No:	T2014/477
		File Number:	SH-2-2-6

**Action Sought**

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Note the contents of this report	None

**Contact for Telephone Discussion (if required)**

Name	Position	Telephone	1st Contact
<i>Withheld under s9(2)(g)(i)</i>		<i>Withheld under s9(2)(a)</i>	<input checked="" type="checkbox"/>
Anne-Marie Brook	Principal Advisor, Macroeconomic & Fiscal Policy	04 917 6213 (wk)	<input type="checkbox"/>
Fiona Carter-Giddings	Manager, Labour Market and Welfare	04 917 7021 (wk)	<input type="checkbox"/>

**Actions for the Minister's Office Staff (if required)**

Return the signed report to Treasury.

Enclosure: Yes (attached)

[Migration and Macroeconomic Performance in New Zealand: Theory and Evidence \(Treasury:2862804v1\)](#) [Add to worklist](#)

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**Treasury Report: Treasury Working Paper: Migration and  
Macroeconomic Performance in New Zealand**

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**Executive Summary**

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On 8 April, a Treasury Working Paper titled "Migration and Macroeconomic Performance in New Zealand" is due to be published. This paper is written by Julie Fry, a New Zealand economist who was commissioned to research this topic in 2013.

The paper considers all the potential effects of immigration on the NZ macroeconomy. It concludes that the evidence points to modest, rather than large positive effects from immigration. It also concludes that immigration has likely had moderate negative effects on the housing market, and may plausibly have contributed to NZ's persistently high exchange and interest rates, although this isn't established empirically.

The Treasury agrees with the assessment of the evidence in the paper on the whole. However, on a number of policy positions raised in the paper, we either disagree with the author's judgments or would place a different emphasis on the potential options available to improve the contribution of immigration to the NZ economy.

There are also some communications risks associated with the release of this paper, and we outline the steps we will take to mitigate these. In particular, the media release accompanying the paper will include the standard Treasury Working Paper disclaimer that this is not policy advice, and the views in the paper are strictly those of the author and do not necessarily reflect the views of the Treasury.

**Recommended Action**

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We recommend that you:

- a **note** that on 8 April, the Treasury Working Paper "Migration and Macroeconomic Performance in New Zealand" will be published
- b **note** that this paper concludes that the net macroeconomic effects of NZ's current migration policy settings are uncertain, although the most robust available evidence suggests that they are probably small
- c **note** that there are some communications risks associated with the release of this paper, and that the Treasury will take steps to mitigate these risks

Fiona Carter-Giddings  
**Manager, Labour Market and Welfare**

Hon Bill English  
**Minister of Finance**

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**Treasury Report: Treasury Working Paper: Migration and  
Macroeconomic Performance in New Zealand**

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**Context**

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1. On 8 April, a Treasury Working Paper titled "Migration and Macroeconomic Performance in New Zealand" is due to be published. This paper is written by Julie Fry, a New Zealand economist who was commissioned to research this topic in 2013.
2. This paper was commissioned by the Macroeconomic Policy team in Treasury, with the intention of facilitating a thorough investigation of the evidence to promote a balanced consideration of the issues in the area.
3. In the course of the drafting and preparation of this paper, the author has consulted and engaged with the Treasury, officials from MBIE's immigration policy and research teams and academic researchers in this area.
4. This report informs you about the findings of the paper, its policy implications, and the communications issues associated with its publication.

**Findings of the Paper**

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5. The paper starts by noting that while New Zealand's immigration framework is generally well-regarded, the fundamental changes to immigration policy in the 1980s and 1990s were made on the basis that they had the potential to deliver major beneficial impacts for the economy. However, subsequent evidence has led to a reassessment of these policy expectations. In particular, Computable General Equilibrium (CGE) models of the impact of immigration on NZ have been inconclusive.
6. In part this reflects the fact that the net effect of immigration is inherently difficult to measure. For instance, if there are large positive and large negative effects, then these may offset each other and result in a small net effect, even though this may mask the actual dynamics of the impacts on the economy.
7. As a result, the paper individually considers all the potential effects of immigration on the NZ economy, and makes a judgement about the strength of the evidence supporting each effect. This leads to a judgment about the strength of the overall case for large positive and large negative effects based on this evidence.

**The Case for Large Positive Effects**

8. The paper argues that on the whole, the evidence points to modest, rather than large positive effects from immigration. However, it notes that it is possible that some of these effects operate with long lags, or require a larger population than New Zealand currently has.
9. Here is a brief summary of the main evidence considered:
  - Labour Market Utilisation: Migrants tend to be more qualified than New Zealand-born, but have poorer outcomes in the labour market. Consistent with overseas patterns, this is likely because of the costs of immigrant adjustment. In addition, only a small proportion of migrants address specific skill needs in the economy.
  - Agglomeration & Connectedness: The level of inward migration hasn't been sufficient to deliver serious increase in the economies of scale and productivity

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that may be possible in a larger economy. In addition, though migrants can facilitate better connections between their destination and home markets, to date the effect on trade, tourism and capital flows has been modest.

- Population and Fiscal Effects: Migrants may slightly mitigate the impact of population ageing, but for this effect to be material the inflow of migrants would need to be many times greater than it is at present. Similarly, there may be modest fiscal benefits insofar as migrants on the whole are more likely to be of working age and in good health. But across their life, the net fiscal impact is similar to that of the locally-born population.

**The Case for Large Negative Effects**

10. The paper argues that on the whole, immigration has likely had moderate negative effects on the housing market. It also raises the possibility that meeting the infrastructure needs of migrants may divert resources from more productive activities and have significant impacts on exchange rates and interest rates, although this is difficult to establish empirically.
11. Here is a brief summary of the main evidence considered:
  - Housing Market Impact: Across the OECD, housing prices are strongly correlated with population growth and in NZ immigration has made a material contribution to domestic population growth. The available evidence suggests that immigration is likely to have had a causal impact on house prices in NZ, although this partly reflects other features of the market which prevent housing supply from being fully responsive to demand.
  - The Reddell Hypothesis: Two recent papers by Michael Reddell raise the possibility that immigration may have had large negative macroeconomic effects. The hypothesis is that persistent excess demand created by relatively high levels of inward migration in conjunction with our low national saving rate, has increased demand for infrastructure and diverted resources from more productive activities, imposing significant macroeconomic costs via higher interest rates and exchange rates, and lower productivity growth. The paper considers this to be a plausible hypothesis, but notes that much more analysis would be required to provide empirical support for this conclusion.

**Policy Implications of Paper**

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12. On the whole, the paper concludes that the net macroeconomic effects of NZ's current migration policy settings are uncertain, although the most robust available evidence suggests that they are probably small. In this context, the paper briefly considers the merits of reducing, maintaining or increasing NZ rate of immigration. The paper suggests that a "Least Regrets" approach to migration policy would suggest that it is important to improve the economy's ability to adjust to population increase.
13. The paper also raises the possibility that there may be a case for "risking the seemingly small benefits...in order to determine whether larger benefits may be obtained...following the adoption of a lower immigration target". There is a suggestion that a lower burden of evidence may be justified to reduce immigration numbers, as the policy is more easily reversible.
14. Lastly, the paper notes that its scope has been restricted to the macroeconomic effects of immigration and that these are only a subset of the wider range of effects that should be considered when formulating immigration policy.
15. On the whole, The Treasury agrees with the assessment of the evidence in the paper. We agree that there is merit in considering the overall level of immigration in the

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context of thinking about counter-cyclical macroeconomic policy. We raised this as a possibility in our Economic Narrative, shared with you last year (T2013/2924 refers).

16. However, there are a number of places where we would put a different emphasis from the policy positions reflected in the paper. In particular:
- We disagree with the conclusion that we should require a lower evidentiary threshold for decreasing than increasing immigration. The paper provides no evidence for its claim that a reduction in immigration would be a more reversible policy. In addition, levels of net migration are often outside the control of policymakers, and affected by exogenous global economic trends, rather than being a tap that we can turn on and off.
  - We would put greater emphasis on the fact that immigration policy should not be conceptualised only as a macroeconomic lever. The paper itself notes that it doesn't consider a range of other possible effects of immigration, ranging from microeconomic impacts on particular markets through to questions about settlement and cultural identity. A full consideration of these broader effects is crucial before drawing any broad judgments on desired levels of immigration.
  - We note that the paper doesn't raise the possibility of improving state sector institutions and policies to increase the possible positive effects of immigration. We note that this is the focus of much of the work of Immigration NZ, and would also be an implication of the "Least Regrets" analytical framework posited by the paper.

**Communications Risks and Mitigation**

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17. Other economic research on the impacts of immigration has attracted media attention and commentary. Examples include a paper published by the Reserve Bank in December 2013 and a paper published by the NZIER in February 2014, both of which were reported on in the NZ Herald.
18. In that context, it is highly likely that after this Treasury Working Paper is published, it will attract media attention. Some of the key themes of the paper that may get particular scrutiny are:
- The paper makes claims about **the impact of immigration on the housing market**. Given that the cost of housing has been an issue of much public debate in recent months, this may attract comment.
  - The Reddell Hypothesis considered in the paper has the implication that immigration is one of the causes of **NZ's persistently high interest rates**. In light of political attention on monetary policy as the economic recovery picks up, this may attract comment.
  - The paper starts by outlining that policy expectations for immigration were originally very high, and concludes that the net impact has been small. This could raise questions about whether our **immigration policy has failed to deliver on its intentions**.
  - The conclusion of the paper raises the possibility that **we should reduce inward migration in order to manage the economic cycle**. This would represent a fairly substantial shift from the policy status quo, and so may attract media comment.
19. In order to respond to some of these potential areas of inquiry and mitigate the risk that this will be viewed as Treasury's policy position we will take a number of steps:

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- The media release accompanying the release of the paper will stress that this is not policy advice, and is the opinion of an independent contractor who is not a Treasury employee. This will emphasise the disclaimer that is attached to every Treasury Working Paper by default. This is: "The views, opinions, findings, and conclusions or recommendations expressed in Treasury Working Papers are strictly those of the authors and do not necessarily reflect the views of the Treasury."
- We will emphasise that the overall conclusion of the paper is that the impacts of migration on the NZ macroeconomy are uncertain, and that the paper itself cautions against using its findings to determine migration policy.
- We will develop an internal Q & A document to ensure that we have considered answers to questions that we think are likely to be posed by the media once this paper is publicly released.

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**MINISTRY OF BUSINESS,  
INNOVATION & EMPLOYMENT**  
HIKINA WHAKATUTUKI



**THE TREASURY**  
Kaitiaki Takekōwhiri

**Joint Report:** New Zealand Residence Programme: Initial Advice

<b>Date:</b>	16 May, 2014	<b>Report No:</b>	T2014/890
		<b>File Number:</b>	SH-2-2-6

**Action Sought**

	<b>Action Sought</b>	<b>Deadline</b>
Minister of Finance (Hon Bill English)	Note the contents of this report	Before meeting at 3.00pm on Monday 19 May 2014
Minister of Immigration (Hon Michael Woodhouse)	Note the contents of this report	Before meeting at 3.00pm on Monday 19 May 2014
Minister of Economic Development (Hon Steven Joyce)	Note the contents of this report	Before meeting at 3.00pm on Monday 19 May 2014
Associate Minister of Immigration (Hon Nikki Kaye)	Note the contents of this report	Before meeting at 3.00pm on Monday 19 May 2014

**Contact for Telephone Discussion (if required)**

<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1st Contact</b>
Withheld under s9(2)(g)(i)		Withheld under s9(2)(a)	✓
Fiona Carter-Giddings	Manager, Labour Market & Welfare, The Treasury	04 917 7021 (wk)	
Withheld under s9(2)(g)(i)			
Christine Hyndman	Manager, Immigration Policy, MBIE	04 901 8575 (wk)	

**Actions for the Minister's Office Staff (if required)**

Return the signed report to Treasury.

**Enclosure:** No

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**Joint Report:** New Zealand Residence Programme: Initial Advice

Executive Summary

The New Zealand Residence Programme (NZRP) is a tool to control the number of people who are granted the right to live permanently in New Zealand by setting a target range of permanent residence approvals and the proportions of places allocated to different streams of migrants. The current three-year target expires on 30 June, 2014.

The three parameters of the NZRP where Cabinet can make choices are: the overall target range, the composition of the target range and the duration of the target. There are economic, social, fiscal, and operational trade-offs associated with making changes to each of these parameters, or with maintaining them at status quo levels. Treasury and MBIE recommend setting a shorter NZRP target with a duration of one or two years.

This would enable a more thorough review of the strategic direction of immigration policy and how the NZRP operates to contribute towards those goals. This report also presents some of the key policy trade-offs, and the impact that immigration and the NZRP can have on them.

Recommended Action

We recommend that you:

- a **note** that the New Zealand Residence Programme (NZRP) is an important lever for the government in achieving its goals for immigration policy, though not the only factor that influences net migration overall.
- b **note** that Cabinet needs to make a decision about the next NZRP target by 30 June.
- c **note** that the three parameters of the NZRP that Cabinet can make decisions about are the overall target range, the composition of the target range and the duration of the target.
- d **note** that setting the NZRP involves economic, fiscal, and social tradeoffs which are influenced by the Government's broader objectives for immigration policy.
- e **discuss** the possibility of setting the next NZRP target for fewer than three years, to allow a fuller consideration of tradeoffs and evidence.

Fiona Carter-Giddings  
Manager, The Treasury

Christine Hyndman  
Manager,  
Ministry of Business, Innovation  
and Employment

Hon Bill English  
Minister of Finance

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**Joint Report: New Zealand Residence Programme: Initial Advice**

**Purpose of Report**

1. On Monday 19 May, Ministers are meeting to discuss immigration and the New Zealand Residence Programme (NZRP). This briefing provides Ministers with some initial, high-level advice on NZRP against the backdrop of immigration policy's broader economic and social objectives.
2. The current, three-year NZRP target expires on 30 June 2014. Cabinet needs to decide on the number, structure and duration of the next NZRP target by then.

**The Context of the NZ Residence Programme**

3. The NZRP is a tool to control the number of people who are granted the right to live permanently in New Zealand in a year. It does this by setting a target range of permanent residence approvals and the proportions of places allocated to different streams of migrants.
4. The current NZRP target was set in 2011, with an overall target range of 135,000 – 150,000 over three years. This overall target range is split into four streams:
  - **Skilled/Business:** For skilled workers, investors and entrepreneurs (and their immediate family).
  - **Capped Family:** For parents of New Zealand citizens and residents
  - **Uncapped Family:** For partners and dependent children of New Zealand citizens and residents.
  - **International/Humanitarian:** To meet international and humanitarian commitments (e.g. Pacific Access Category and refugees).
5. The intended proportions of the streams were 60% for the Skilled/Business stream, 30% for the Family streams, and 10% for the International/Humanitarian stream. The following table shows that the projected actual approvals for the last three years have deviated from those targets. However, the measurement of individuals under these categories is imprecise, and may mask the actual skill levels of people coming in under the different streams.

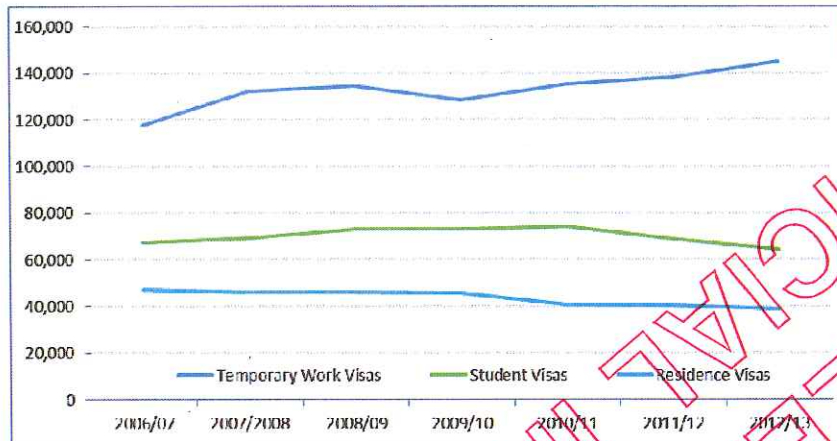
Table One: NZRP 2011/12 – 2013/14 target ranges and proportions compared to projected actual numbers

Residence stream	Target approvals low	Target approvals high	Projected Actual Approvals	Target stream proportion	Projected Actual proportion
Skilled/Business	80,700	89,925	63,173	60 %	51.3 %
International/Humanitarian	9,750	11,475	9,452	10 %	7.7 %
Capped Family stream	14,850	16,500	16,433	30 %	41 %
Uncapped Family stream	29,700	32,100	33,996		
<b>TOTAL</b>	<b>135,000</b>	<b>150,000</b>	<b>123,054</b>		

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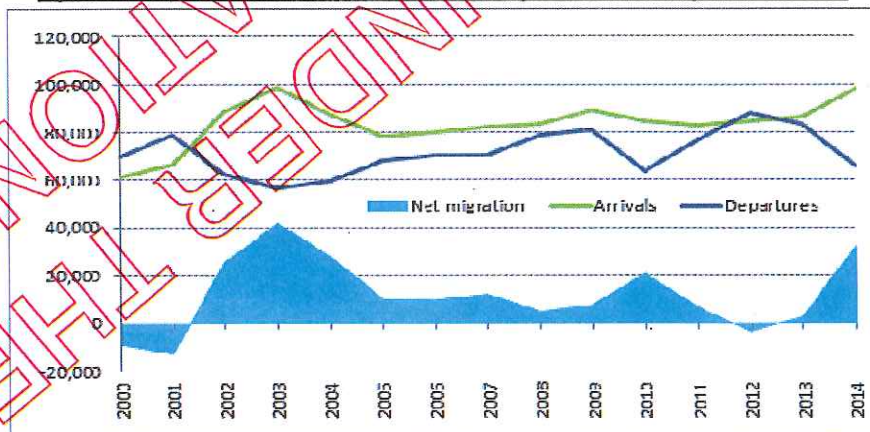
6. The numbers approved under the NZRP each year, while large (around one percent of the population) on an international scale, are a small proportion of the numbers of people who are approved on temporary visas, which give the right to remain in New Zealand for several months or a few years. The graph below shows the annual number of permanent, temporary and student visa approvals going back to 2006/07.

Figure 1: Approved temporary, student and residence visas, 2006/07 – 2012/13



7. The government can control permanent and temporary visa approvals as they are directly subject to immigration policy. However, these decisions are only a part of the factors that influence the total net migration numbers, which is the balance between the numbers of people entering and leaving NZ on a permanent or long-term basis. This is in part because of the fluctuating numbers of New Zealanders leaving and returning to the country. In addition, it is because Australian citizens and residents have an unrestricted right to live and work in New Zealand.

Figure 2: Total permanent and long term arrivals and departures and net migration 2000-2014



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Choices about the Structure of the NZ Residence Programme

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8. Cabinet needs to agree on the next NZRP target before 1 July 2014. There are essentially three parameters of the NZRP where Ministers can make choices:
  - **Overall Target Range:** This has been set at the average annual level of 45,000 – 50,000 for many years, but can be reduced, increased or kept the same.
  - **Composition of the Target Range:** The current target is 60% for the Skilled/Business stream, 30% for the Family streams and 10% for the International/Humanitarian. However, as noted earlier, the actual proportions of residence approvals have deviated from these target ranges over the last three years.
  - **Duration of the Target Range:** Cabinet agreed to set a multi-year target for the first time in 2011. Prior to that, the NZRP was set annually every year going back to 2001.
9. There are economic, social, fiscal, and operational trade-offs associated with making changes to each of these parameters, or with maintaining them at status quo levels. Although net migration impacts in any single year are only indirectly related to NZRP decisions, they can have a significant cumulative impact over time. Therefore, these decisions are an important lever for the government in achieving its goals for immigration policy.
10. In 2011, the NZRP decision was made in the context of an agreed "Strategic Direction for Immigration" that had previously been decided on by Cabinet in 2010 (CAB Min (10) 33/14 refers). This context strengthened the objective that the NZRP should focus on increasing national productivity over time, rather than primarily focussing on meeting quantity targets. There is merit in evaluating the performance of the NZRP to explore whether it is effectively meeting that strategic objective.
11. For this reason, we recommend that Ministers discuss the possibility of setting a shorter NZRP target with a duration of one or two years. This would allow officials to review the strategic direction of immigration policy more fully, and report back to Ministers with more thorough advice on some of the trade-offs and choices.
12. It would also enable a review of the purpose and structure of the NZRP to determine how well it is contributing towards that strategic direction. This would include assessing its interaction with temporary migration and the benefits of having target ranges, rather than caps. It would also explore whether new technologies and mechanisms for measuring outcomes might provide better means of either managing immigration or classifying applications.

Key Trade-Offs Underlying Decisions on Immigration Policy

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13. The decision to be made about the NZRP is related to more fundamental trade-offs about the intended role of immigration settings. This section presents some of these key trade-offs, and the impact that immigration can have on these broader economic and social questions.

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**Labour Market Productivity versus Demand Side Macroeconomic Pressure**

14. Granting residence to skilled migrants can increase New Zealand's human capital by helping meet skill shortages in a growing economy, improving productivity by reducing search costs for employers, and increasing the diversity and innovation of the workforce. These effects can improve labour market productivity over time, which contributes to New Zealand's overall economic productivity.
15. At the same time, positive net migration can create demand-side pressure, particularly during a period of economic upturn. For example, it is likely that permanent migration has contributed to demand pressure in the housing market (alongside long term temporary migration), and had an impact on public services like health, education and the benefit system.

**Economic Growth Objectives versus other Social, Fiscal and Humanitarian Objectives**

16. Some categories of the NZRP contribute directly to the Government's economic objectives, such as categories in the Skilled and Business stream, which are designed to bring in individuals with high levels of human and financial capital. Other temporary student and work visas are also designed to support growth in specific sectors of the economy, like tourism, export education and the horticulture/viticulture industries.
17. Other categories may have less direct economic benefit, and pose a greater fiscal cost to New Zealand, such as Family and International/Humanitarian streams. However, these are important complements and bring a range of social, cultural, and international and reputation benefits to New Zealand. Immigration may also have impacts on labour market wages and participation.

**Flexibility versus Stability**

18. There are policy and operational benefits to maintaining stable immigration targets, in clearly signalling New Zealand's commitment over the longer term to the world and allowing the public and private sectors to proactively prepare for future increases in temporary and permanent migrant flows.
19. However, this can reduce the ability to flexibly and rapidly respond to changes in the external economic environment which can change the context for immigration policy. This can risk our immigration policy tools not achieving their intended objectives over the medium and longer term.

**Balancing the Quality and Quantity of Migrants**

20. For many immigration categories, including those covered by the NZRP, there is a trade-off between the quantity of migrants and their quality. For example, for the Skilled/Business categories skill level is currently measured by qualifications, English language ability, relevant work experience, and experience in New Zealand. Approving a higher number of applicants in any given category, beyond a certain point, could mean approving more low-quality applications.

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Reference: T2014/1053 SH-2-2-6-4  
Date: 6 June 2014  
To: Minister of Finance (Hon Bill English)  
Deadline: Before Cabinet on Monday 9<sup>th</sup> June

**Aide Memoire: Recognised Seasonal Employer Scheme -  
Cabinet Paper**

On Monday 9 June, Cabinet will consider a paper titled "Recognised Seasonal Employer Cap for 2014/15". An earlier version of this paper was considered on 19 May, where Cabinet deferred consideration and invited a group of Ministers to report back with a revised paper (CAB Min (14) 17/11 refers).

This briefing explains the Recognised Seasonal Employer (RSE) Scheme, outlines the decisions that Cabinet is being asked to make, and sets out Treasury's recommendations.

**Context of the RSE Policy**

The RSE is an immigration policy that allows the horticulture and viticulture industries to employ up to 8,000 workers annually for seasonal employment. Workers can be employed for up to seven months per year (or nine months for Tuvalu and Kiribati nationals).

The RSE scheme is designed to support the seasonal labour market needs of the horticulture and viticulture industries, which have a goal to double in size by 2020. It is also an important element of our relationship with the Pacific, and support development outcomes for the nations that send workers to New Zealand on this scheme.

The current governance arrangement for the RSE scheme requires employers to provide evidence to Immigration NZ (MBIE) and Work and Income (MSD) that they made genuine efforts to employ local workers, including current welfare recipients. The governance group, including industry representatives, sets the regional allocation of the current cap of 8,000 RSE workers, and approves individual visas for employers at a regional level.

**Decisions Sought from Cabinet**

On 29 May, a group of Ministers (Hons Joyce, Bennett, Guy, and Woodhouse) discussed the RSE scheme and agreed to submit this current revised paper. The proposals are designed to more actively encourage employment of New Zealanders in the industry, in the context of increased work obligations on beneficiaries and high unemployment in some regions, particularly Hawke's Bay and the Bay of Plenty.

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Cabinet is being asked to make two decisions, and advise the Minister of Immigration on the desired level of the RSE cap:

- 1) Introduce a New Zealand RSE Scheme: Currently employers have to fund half the cost of RSE workers' airfare, and provide them with pastoral care and access to accommodation. It is proposed that a pilot scheme be introduced that would require employers to do the same for local workers.
- 2) Strengthen the Governance Process: It is proposed that Work and Income's views are given more weight, by removing industry representatives' direct role in setting regional allocations.
- 3) Note options on the RSE Cap for 2014/15: The current annual national cap is 8,000. Essentially, the options are to:
  - a. leave the cap at 8,000
  - b. increase the cap to 9,000 or 10,000
  - c. establish separate regional RSE caps

**Recommendations and Comment**

The Treasury agrees that it is important to continue ensuring the horticulture and viticulture industries support the local labour force as they expand. The NZ RSE Scheme may address some of these barriers, and strengthening the role of Work and Income in the governance process may help ensure that employers have made genuine attempts to hire beneficiaries.

However, neither of these policy changes will address the most important disincentives that welfare policy may have on beneficiaries being available and willing to work. The RSE issue is one example of a larger problem with the ability of the benefit system to help people find temporary work. An example is any uncertainties created by the lag between the end of a period of work like seasonal employment, and re-entry to the benefit system. Another example are institutional incentives for Work and Income to prioritise long term employment over temporary work, even when temporary or seasonal work may be the best locally available option.

Lastly, it is important to recognise that a key imperative for this policy is to ensure that employers have the workforce they need to operate and grow their businesses effectively. World Bank research suggests that migrant workers can be more productive than local labour. In light of the other policy measures being put in place, we think increasing the RSE Cap to 10,000 is a sensible way to both support the industry and signal the Government's commitment to its expansion.

The Treasury recommends that you:



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- **Support a pilot NZ RSE scheme:** Directing officials to design a pilot scheme is one potentially useful initiative to improve the RSE policy. However, such a scheme would not be straightforward to implement, and should be trialled before being rolled out nationally. A risk of this scheme may be that it creates separate categories of seasonal work within the local workforce, or that there is pressure on employers to extend this potentially costly scheme to more of its workforce.
- **Support the proposal to strengthen RSE Governance:** This proposal would strengthen the relative decision rights of government agencies relative to industry when making national and regional allocation decisions. This may make it more difficult for some employers to access RSE workers, but would strengthen the expectation that the industry should support the local labour market.
- **Support an increased RSE Cap of 10,000:** It is important to recognise that the horticulture and viticulture industries want to grow, and the certainty of a skilled seasonal labour force is important for their long-term planning. Increasing the cap would recognise that this scheme has an important role to play in supporting the growth of these industries and the Government's Pacific development objectives.

Withheld under s9(2)(g)(i)

Fiona Carter-Giddings, Manager, Labour Market & Welfare, 04 917 7021

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**New Zealand Residence Programme 2014/15 – 2015/16**

**Responsible Person:** Fiona Carter-Giddings, Manager, Labour Market and Welfare, 04 917 7021

**First Contact Person:** *Withheld under s9(2)(g)(i)*

**Purpose**

1. This paper seeks Cabinet agreement to planning ranges for permanent residence visa approvals to New Zealand for 2014/15 and 2015/16. It also proposes a first principles review of the New Zealand Residence Programme (NZRP) to inform decisions on the size, structure and duration of the NZRP from 2016/17 onwards.

**Comment**

2. The current three-year NZRP expires on 30 June, 2014. On 19 May, a group of Ministers met to discuss options for the next NZRP that Cabinet would need to agree on.
3. Treasury and MBIE recommended that a shorter two-year NZRP be set (T2014/890 refers). This would allow time for officials to review the operation of the NZRP against the context of broader migration flows and immigration policies. It would also mean that Cabinet decisions about the NZRP would be taken out of alignment with the electoral cycle.
4. This paper seeks Cabinet's agreement to a two-year NZRP planning range with the same average target levels and composition as the current NZRP. It also directs officials to undertake a first-principles review of the NZRP and report back to Cabinet by November 2015.

**Treasury Recommendation**

5. We recommend that you support the recommendations in this paper.

*The following table goes into the Executive Summary of the paper*

Title	Pg	Recommend	Fiscal Implications (\$m GST excl.)					Treasury Comment
			13/14	14/15	15/16	16/17	Out years	
New Zealand Residence Programme 2014/15 – 2015/16		Support	<i>Operating</i>					This paper sets a two year target for the NZRP, with the same average level and composition as the expiring three year target. It also directs officials to undertake a first-principles review of the NZRP and report back to Cabinet by November 2015.
			-	-	-	-	-	
			<i>Capital</i>					
			-	-	-	-	-	

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## Primary Sector Trainees and Technical Changes to Immigration Settings

**Responsible Person:** Fiona Carter-Giddings, Manager, Labour Market and Welfare, 04 917 7021

**First Contact Person:** *Withheld under s9(2)(g)(i)*

### Purpose

1. This paper proposes a pilot of a new primary sector trainee visa for Chilean nationals. It also makes three technical changes to immigration setting which will: facilitate the entry of high-end music acts; improve the prioritisation of Investor Category visa applicants; and make it easier for those on temporary work visas to transition to Skilled Migrant permanent visas.

### Comment

2. The new Agricultural Trainee visa will apply to migrants sponsored or funded by the Chilean government to work and study in the agricultural sector. These visas will not be labour market tested. However, the risks are minimal as these places will be offset against Chile's allocation of Working Holiday Scheme places, so it won't increase the net amount of migrants from Chile on temporary work visas.
3. The proposal to make it easier for temporary work migrants to transition to Skilled Migrant permanent visas will mean that Immigration New Zealand will not have an additional opportunity to test whether there is a New Zealander available for the job.
4. However, we agree with the paper's assessment that the risks to NZ employment are minimal. This is because those on Essential Skills temporary work visas are working in occupations that have been deemed in immediate or long-term shortages. By reducing uncertainty for these skilled migrants we can increase the chance to retain their skills in the country.

### Treasury Recommendation

5. We recommend that you **support** the recommendations in this paper.

The following table goes into the Executive Summary of the paper

Title	Pg	Recommend	Fiscal Implications (\$m GST excl.)					Treasury Comment
			13/14	14/15	15/16	16/17	Out years	
Primary Sector Trainees and Technical Changes to Immigration Settings		Support	<i>Operating</i>					This paper proposes a pilot of a new agricultural trainee scheme and three technical changes to immigration settings. The Treasury agree with the judgements in the paper and supports these policy proposals.
			-	-	-	-	-	
			<i>Capital</i>					
			-	-	-	-	-	

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Reference: T2014/1332  
Date: 22 July 2014  
To: Minister of Finance (Hon Bill English)  
Deadline: None  
(if any)

SH-2-2-6

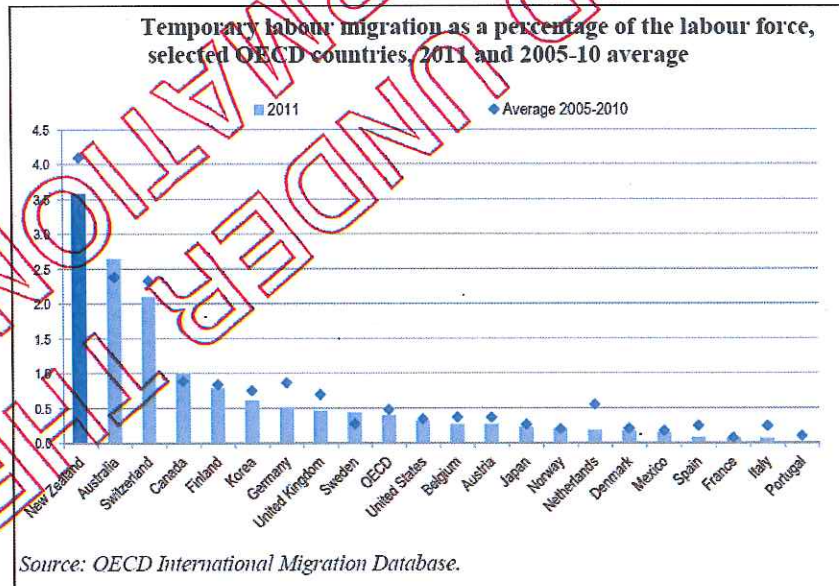


## Aide Memoire: OECD Report - Recruiting Immigrant Workers: New Zealand

On 9 July, the OECD published a report titled "*Recruiting Immigrant Workers: New Zealand*". The report surveyed the New Zealand labour migration system and found that by and large, the system is functioning well, but there are some areas that could be the focus of further policy attention and reform. This briefing highlights some of the key findings and recommendations of the OECD's report for your information. It then highlights some recent and upcoming decisions on migration policy that can be considered in context of these findings.

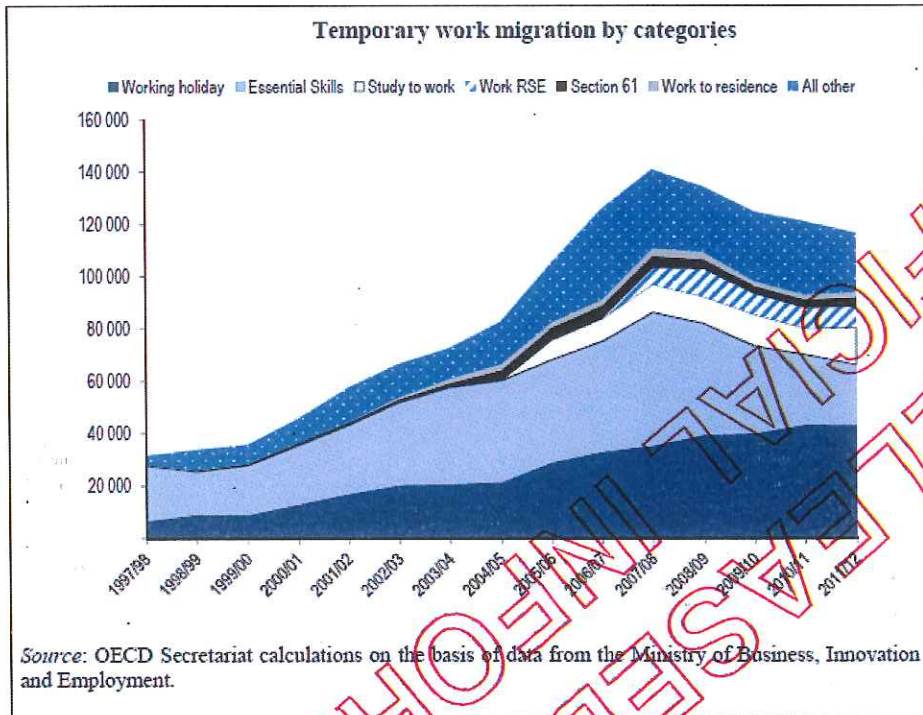
### The Context for Labour Market Migration to New Zealand

- New Zealand has one of the highest migrant flows in the OECD. Permanent labour migration is three times the OECD average, and in 2011 temporary labour migration flows were 3.6% of the size of the workforce, by far the highest flow in the OECD.



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**Temporary Labour Migration to New Zealand**



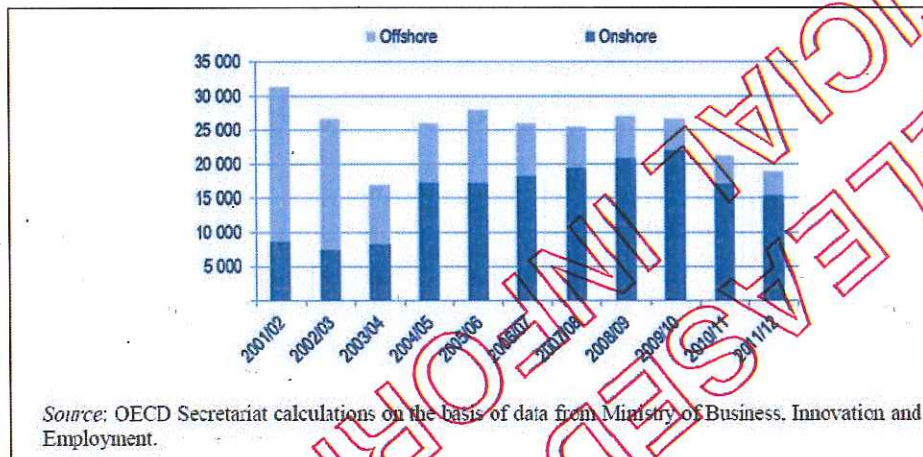
- The Essential Skills visa was traditionally the single largest category of temporary labour migration. Numbers receiving this visa have declined since 2007/08, most likely as a result of the fact that these visas are labour-market tested to give priority to the local workforce. As a consequence, numbers under this category are sensitive to demand in the economy and will have been affected by the impact of the Global Financial Crisis.
- The Working Holiday Scheme is currently the largest single component of temporary migrant flows. In 2012/13, 49,000 individuals were admitted under this scheme, adding 2% to the working-age population and 8% to youth population in the same age range. Working Holiday Makers have work rights (with some restrictions), but the visas are not labour-market tested.
- Only Australia receives more international students per capita than New Zealand, and the majority reside in Auckland. While international students are not technically labour migrants, many possess work rights and nearly 60% tend to work in low-skilled jobs in retail, accommodation, and food services.

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**Permanent Labour Migration to New Zealand**

- Over the last decade, about 45,000 individuals per year obtained permanent residence. About half of the total annual numbers are labour migrants and their families. A distinguishing feature of this system is that increasingly migrants approved for permanent residence under skills and business categories are already on-shore. This is indicative of the fact that employment or a job-offer in a skilled profession has over time come to weigh heavily in the points system used to select permanent migrants.

Total Migrants under the Skilled Migration Category by Approval Location



- In 2011/12, 94% of labour migrants approved for residence were already in New Zealand. The main visa categories they transitioned from were temporary work visas, primarily the Essential Skills, Study-to-Work and Work-to-Residence visa categories.

**The OECD's Key Recommendations and Recent and Upcoming Policy Decisions**

In addition to a range of empirical findings (some of which are described above) the OECD's report also draws some broad conclusions about how to improve New Zealand's labour migration system:

- **Improve the Infrastructure for Migration Management:** The report notes that the target levels for permanent migration could be better linked with labour needs, and occupational shortage lists could be better linked with overall skills development plans.
- **Aim for a Better Balance in Managing Temporary Labour Migration:** The bulk of temporary migrant flows seem to go into low-skilled occupations that are unmanaged. This stands out in contrast to the tight system of labour-market tests that are used to filter skilled temporary migrants.

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- Adjust the Admission Criteria for Permanent Labour Migrants: Only a select set of occupations are given considerable weight in the admission of skilled migrants. One option that could be considered is to give more points for work experience in NZ and rewarding higher English language competency.

In general, Treasury thinks that these recommendations correctly indicate areas where there is scope to improve current policy settings. However, we consider that some of the OECD's more specific policy conclusions don't directly follow from the empirical analysis they present, and the interactions between these changes aren't considered in depth by the report.

The findings and recommendations of the OECD's report are important context for a number of recent and upcoming decisions on migration policy:

- New Zealand Residence Programme (NZRP): Cabinet recently agreed to set a two-year target for residence approvals, and directed officials to undertake a review of the NZRP and report back to Cabinet by November 2015 (CAB Min (14) 23/12 refers). As a result, MBIE has begun work on a Strategic Policy review of immigration which will include consideration of labour market effects and the transitions between temporary and permanent migration.
- Recognised Seasonal Employer Scheme (RSE): Cabinet also recently agreed to increase the RSE cap from 8,000 to 9,000 and strengthen the governance arrangements of the scheme (CAB Min (14) 19/9 refers). A group of Ministers have been invited to report to Cabinet by August 2014 with a proposal to ensure that local labour is being effectively utilised in the horticulture and agriculture industries.
- Working Holiday Scheme (WHS): Cabinet was recently informed of the fact that the annual overall cap of 52,000 WHS places was exceeded in 2013/14 (CAB Min (14) 23/13 refers). As a result, the Minister of Immigration will shortly be reporting to Cabinet with a proposal on the future management and overall level of the WHS cap. The Treasury will provide a more thorough briefing on this proposal in coming days.

Withheld under s9(2)(g)(i)

Hayden Fenwick, Team Leader, Labour Market & Tertiary, 04 917 6969

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## Migrant Settlement and Integration Strategy

**Responsible Person:** Hayden Fenwick, Labour Market & Welfare, 04 917 6969

*Withheld under s9(2)(g)(i)*

### Purpose

1. This paper seeks cabinet's agreement to a new NZ Migrant Settlement and Integration Strategy and a governance arrangement to oversee and drive progress towards improved migrants' outcomes.

### Comment

2. In December 2013, the Controller and Auditor-General (OAG) published a performance audit of how well Immigration New Zealand and other agencies supported new migrants to settle and work in New Zealand. It concluded that the governance structures that have been put in place are not functioning as intended and a more strategic approach to spending the \$17 million spent across government in settlement services was important.
3. This paper addresses the recommendations of the OAG's performance audit. It proposes a strategic outcome framework, indicators to measure progress, and proposes that the Skilled and Safe Workplaces CEs group provide governance over the delivery of the strategy.
4. The Treasury's view is that the framework and indicators proposed highlight the correct areas that Immigration NZ will need to focus on to improve migrant settlement outcomes. The challenge will be ensuring that as the strategy is implemented, agencies can coordinate effectively to deliver the services that are required to achieve these outcomes.

### Treasury Recommendation

5. We recommend that you **support** the recommendations in this paper.

*The following table goes into the Executive Summary of the paper*

Title	Pg	Recommend	Fiscal Implications (\$m GST excl.)					Treasury Comment
			13/14	14/15	15/16	16/17	Out years	
Migrant Settlement and Integration Strategy		Support	<i>Operating</i>					This paper seeks agreement to a 'NZ Migrant Settlement and Integration Strategy' and a governance arrangement to oversee progress. It responds to the Auditor-General's performance audit in December 2013.
			-	-	-	-	-	
			<i>Capital</i>					
			-	-	-	-	-	



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Reference: T2014/1359  
Date: 29 July, 2014  
To: Minister of Finance (Hon Bill English)  
Deadline: None  
(if any)

SH-2-2-6-4



## Aide Memoire: Working Holiday Scheme - Future Management of the Cap

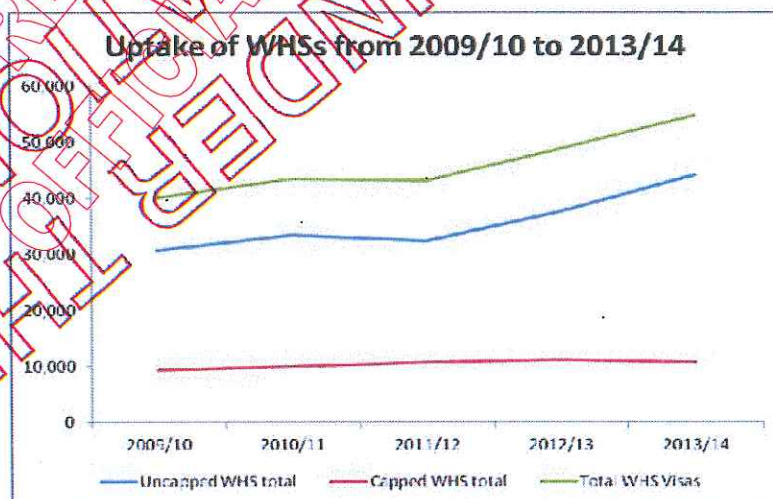
We understand that the Minister of Immigration will shortly be submitting a paper to Cabinet titled "Working Holiday Schemes – Future Management of the Cap". This follows Cabinet's earlier consideration of this policy on 7 July (CAB Min (14) 23/13 refers).

This briefing explains the background to this paper, the policy it proposes, and the Treasury's position on the proposal.

### Background and Context to Paper

New Zealand currently has 41 Working Holiday Schemes (WHSs) in operation, of which 27 are capped and 14 are uncapped. In 2008, Cabinet agreed to an overall cap of 52,000 for all WHSs to protect labour market opportunities for New Zealanders (CAB Min (08) 32/7 refers). *(Withheld under s9(2)(g)(iv))*

In the 2013/14 fiscal year, the overall cap of 52,000 was exceeded following a steady increase over the last three years. As the graph below shows, this increase has been driven primarily by growth in number in uncapped WHSs.



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The table below shows the five countries whose WHSs are the largest and the growth of those schemes grown over the last five years.

Country	Percentage of Total Uncapped WHS Numbers in 2013/14	Percentage Growth of WHS between 2009/10 and 2013/14
Germany	28%	74%
United Kingdom	25%	15%
France	16%	117%
United States	7%	8%
Ireland	5%	5%

Withheld under s6(a)



**Treasury Comment**

The Treasury's view is that the cap proposed by the paper does nothing to address the increase in WHS numbers. As the analysis above shows, the overall growth has been substantially driven by growth in uncapped schemes, particularly the Germany, France and United Kingdom WHSs.

The Cabinet paper argues that the uncapped schemes should remain uncapped, as they are with higher income countries whose participants generally provide economic benefits to New Zealand. Evidence suggests that for the most part, WHMs do not appear to have had a significant impact on the local labour market. This is particularly the case when they come from high income countries, who tend to work for a lower proportion of their time in New Zealand.


On balance we think *there should be an overall cap on uncapped WHSs* to control their growth. We acknowledge that the current evidence suggests that uncapped WHSs

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have not yet had a significantly negative impact on the labour market. However, we think leaving these schemes uncapped has a number of risks:

- **Regional Effects:** WHMs are more likely to displace New Zealanders when unemployment is higher. Given the geographical distribution of WHMs employment, there may be concentrated impacts on the labour market in certain regions. 2009 data showed that about 20% of WHMs work in Auckland where job competition would be higher. Other significant areas of WHM employment include Bay of Plenty and East Coast which also have higher than average levels of unemployment.
- **Youth Employment:** According to the OECD, WHMs add 8% to the youth population in the same age range. Although past evidence hasn't conclusively shown an impact on employment, this was conducted in an environment where the overall number of WHMs was lower and labour market conditions for low-skilled youth were better. There is a risk that continued growth in WHMs may pose more of a risk to youth employment in the future.
- **Projected Strength of New Zealand Economy:** The New Zealand economy continues to demonstrate strong growth relative to other developed countries. If this continues then it is possible both that more individuals will be attracted to travel here on uncapped WHMs and that incentives on individual WHMs would change so that working becomes more attractive relative to their employment prospects at home.

Withheld under s5(a)



**Recommendations**

You may have the opportunity to discuss this policy proposal with you colleagues prior to the Cabinet paper being submitted. The Treasury recommends that you:

- a) **note** that the overall cap proposed by this paper does not address or control the growth in uncapped WHMs
- b) **either:**
  - i. **propose** that there should be an overall numerical cap for WHMs, that includes capped and uncapped schemes

OR

  - ii. **propose** that there be a regular report on the numerical growth in uncapped WHMs in order to more closely monitor the labour market impact of these schemes

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- c) **propose** that officials be directed to explore the feasibility of capping the WHSs that are currently uncapped.

Withheld under s9(2)(g)(i)

Hayden Fenwick, Team Leader, Labour Market & Tertiary, 04 917 6969

RELEASSED UNDER THE OFFICIAL INFORMATION ACT  
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Reference: T2014/1828  
Date: 31 October 2014  
To: Minister of Finance (Hon Bill English)  
Deadline: None  
(if any)

SH-2-2-6-4



### Aide Memoire: Extension to China Working Holiday Scheme

This briefing provides you with information relating to a proposed extension of the China Working Holiday Scheme (WHS). This would extend the length of time that Chinese Working Holiday Makers (WHMs) are able to work for the same employer from three to six months. Withheld under s9(2)(g)(i)

[Redacted]

However we understand that they will send you a copy of this paper for your information.

The China WHS is a visa that allows Chinese citizens between the ages of 18 and 30 to travel to New Zealand for up to one year and work temporarily during their stay. There are 1,000 places available under this scheme annually. Currently, the policy doesn't allow Chinese WHMs to work for the same employer for more than three months.

The extension is an intended solution to increased demand in the tourism sector for employees that are fluent in Chinese languages, who can assist them to serve the burgeoning tourist market from China. If the permitted duration of employment is increased to six months, then tourist operators will be able to hire Chinese WHMs to work over the peak season.

This raises two potential risks:

- There is a risk that this may lead to some displacement of local workers. Jobs that require Chinese language ability aren't likely to create employment for local workers, but this extension applies to all industries and regions. However we think this risk is likely to be small, in part because the China WHS is capped to 1,000 people annually.

Withheld under s6(a)  
[Redacted]

Withheld under s6(a)  
[Redacted]

This is an issue that you have expressed some interest in, and we plan to provide you with a briefing in coming weeks that will address this in more depth.

Withheld under s9(2)(g)(i)  
[Redacted]

Hayden Fenwick, Team Leader, Labour Market & Tertiary, 04 917 7021

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**Treasury Report:** Employment Recovery and Welfare Objectives:  
Implications for Immigration and Labour Market Policy

<b>Date:</b>	11 December 2014	<b>Report No:</b>	T2014/1835
		<b>File Number:</b>	SH-2-1

**Action Sought**

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	<b>Note</b> the contents of this report.  <b>Forward</b> a copy of this report to the Associate Ministers of Finance, and the Ministers of Social Development and Immigration.	None.

**Contact for Telephone Discussion** (if required)

Name	Position	Telephone	1st Contact
<i>Withheld under s9(2)(g)(i)</i>		<i>Withheld under s9(2)(a)</i>	✓
Hayden Fenwick	Team Leader, Labour Market and Welfare	04 917 6969 (wk)	

**Actions for the Minister's Office Staff** (if required)

<p>Return the signed report to Treasury.</p> <p>Refer a copy of the signed report to the offices of Hon Bennett, Hon Joyce, Hon Tolley, and Hon Woodhouse.</p>
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Enclosure: No

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**Treasury Report: Employment Recovery and Welfare Objectives:  
Implications for Immigration and Labour Market  
Policy**

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**Executive Summary**

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The New Zealand labour market has shown signs of a strong recovery, but there is a downside risk that this economic growth may not continue to lead to robust employment growth. This potential constraint on labour demand is a concern for those who are vulnerable in the labour market. This is an important consideration in the context of the new Better Public Services Target which aims to significantly reduce welfare dependency by 2018.

Over recent years immigration inflows have continued to grow. Part of this trend has been due to growth in temporary work migration, and the pattern of employment for these migrants varies by visa-type, by region, and by industry. To date, empirical evidence in New Zealand hasn't demonstrated that migration has had a large impact on the employment and wages of local labour. However, we consider that continued growth in temporary work migration may constrain the employment prospects of low-skilled New Zealanders.

We acknowledge that the domestic labour market objectives of immigration policy need to be balanced against other economic objectives, such as supporting the growth of industries like tourism and export education. We end this report by outlining a range of upcoming decisions where Ministers will have the opportunity to consider these trade-offs. We also outline some ongoing work that aims to improve current policy settings which have overlapping labour market, immigration and welfare objectives.

**Recommended Action**

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We recommend that you:

- a **note** the contents of this report;
- b **indicate** if there are any issues we raise here that you would be interested in receiving more information on;
- c **forward** a copy of this report to the Associate Ministers of Finance, and the Ministers of Social Development and Immigration.

Hayden Fenwick  
Team Leader, Labour Market and Welfare

Hon Bill English  
Minister of Finance

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**Treasury Report: Employment Recovery and Welfare Objectives:  
Implications for Labour Market and Immigration  
Policy**

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**Purpose of Report**

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1. This report responds to requests from you for information about relationships between immigration, labour market conditions and the impacts on the welfare liability. It provides you with evidence about the labour market recovery, its interaction with welfare policy objectives, and the size and potential impact of immigration flows.
2. This report also informs you about a range of ongoing and upcoming policy choices for which this economic context is relevant. We have consulted on the contents of this report with both MSD and MBIE and we suggest that you forward a copy of this report to the Associate Ministers of Finance and the Ministers of Immigration and Social Development.

**Employment Recovery and the Government's Welfare Policy Objectives**

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**Employment Recovery and Labour Market Efficiency**

3. The New Zealand labour market has continued to show strong signs of recovery from the trough of the recession. Labour market statistics from the September 2014 quarter showed that the unemployment rate has continued to decline to 5.4% despite a high participation rate and growth in working age population. This is a sign that employment growth in the economy is strong.
4. As this economic recovery continues, some key questions remain about the extent to which unemployment will continue to decline to pre-crisis levels. One question is about the likely speed of the employment recovery, which can be measured by estimating the speed at which the actual unemployment rate returns to the natural rate of unemployment. A second question is whether the increase in unemployment during the downturn was primarily cyclical or structural, that is, to what extent was the increase explainable by broader economic conditions as opposed to the matching efficiency of the labour market.
5. Research published in a Treasury Working Paper<sup>1</sup> examined the rate of adjustment between the actual rate of unemployment and the natural rate of unemployment. It found that over the past two decades, the average underlying natural rate of unemployment has been 4.5%, but the average unemployment rate has been 6.2%. The speed of adjustment between the two is slow, although the speed typically increases in the aftermath of recessions.
6. This finding is consistent with the idea that during economic recoveries, job creation rapidly recovers due to cyclical economic activity. Some recent research suggests that this is likely to be the case in New Zealand, and that the relatively longer period of increased unemployment from 2007 to 2013 was attributable to the longer economic

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<sup>1</sup> Razzak, W (2014). *New Zealand Labour Market Dynamics: Pre- and Post-global Financial Crisis*, NZ Treasury Working Paper 14/03.

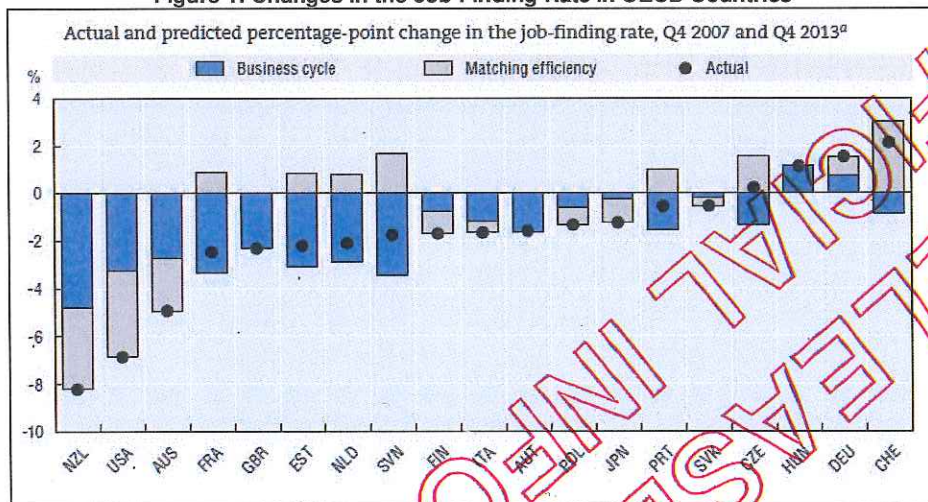


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downturn, rather than reflecting any underlying deterioration of the matching efficiency in the labour market.<sup>2</sup>

7. However, other research provides some indications that the underlying efficiency of the labour market may have declined through the downturn. The Reserve Bank has published research<sup>3</sup> that suggests that labour market matching efficiency declined to a historical low from 2009 to 2012. The OECD has also recently reported that New Zealand's deterioration in matching efficiency was amongst the worst across developed countries between 2007 and 2013.

Figure 1: Changes in the Job-Finding Rate in OECD Countries



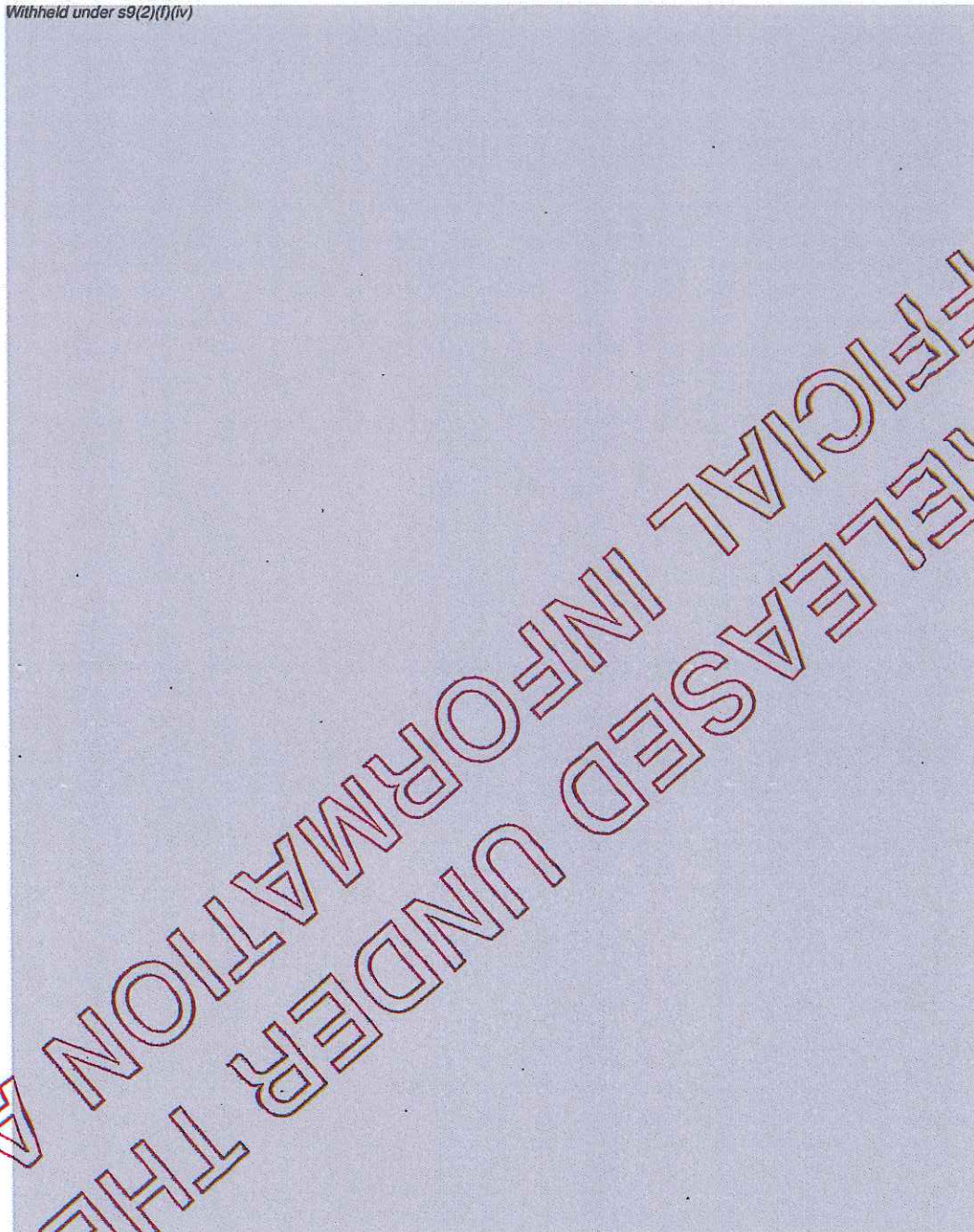
8. We would interpret these signals of a decline in labour market efficiency with caution. To date, most aggregate labour market data doesn't bear out this contention, and so we would suggest that this should be interpreted as a downside risk. If economic data over coming quarters showed the decline in unemployment tapering off while wage inflation began to pick up, this could be interpreted as a stronger signal that there has been a general decline in matching efficiency.
9. The importance of this potential scenario is that the economic recovery may not necessarily lead to employment recovery. This risk should be particularly a concern for groups of the population who are young, unskilled and/or with weak labour market attachment. These groups are always likeliest to be adversely affected by cyclical downturns, and the long term consequences of labour market detachment can hinder both personal and broader economic recovery.
10. Despite the strong aggregate performance of the labour market, indicators for some vulnerable groups continue to be of concern. For example, the unemployment rate for Māori and Pacific Peoples remains high at 12.2% and 11.7% respectively. The unemployment rate for 15-29 year-olds is also high at 10.5%. Ensuring that the economic recovery leads to strong employment growth for these groups should be a priority.

<sup>2</sup> Borland, J (2014). *Recent Unemployment Experience in New Zealand*, NZ Treasury Working Paper 14/01.

<sup>3</sup> Craigie, R, Gillmore, D, & Groshenny, N (2012). *Matching Workers with Jobs: How well is the New Zealand Labour Market Doing*, Reserve Bank of NZ Bulletin, 75(4)

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Withheld under s9(2)(f)(iv)



14. However, against the backdrop of employment recovery that may be slower than anticipated, policies that can affect labour demand are also important to consider. In particular, labour market and immigration policy settings are complementary areas that can have an impact on job creation and in some cases may create barriers to the employment of lower-skilled New Zealanders.
15. As far as possible, the objectives of welfare, labour market and immigration policy should be aligned. The rest of this report sets out some issues that are directly related to the overlap between these policy areas.

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Immigration Flows, Labour Market Displacement, and Impacts on the Welfare Liability

The Current Growth in the Level of Migration

- 16. Over the past year the net inflow of migrants has grown consistently. In the year to September 2014, the net gain of 45,400 was the largest ever annual inflow from migration. This headline Statistics NZ figure measures permanent and long term (PLT) migration, defined as arrivals to or departures from NZ where individuals are intending to stay or be away for 12 months or longer.
- 17. Over the long-term, the level of PLT migration is cyclical. Figure 3 below shows that net migration of Australian citizens has been fairly stable over a long period of time. The recent surge has been partly driven by a net decline in the number NZ citizens departing, which immigration policy cannot directly control. But importantly, it has also been driven partly by a net increase in arrivals from citizens of countries other than NZ or Australia. This is significant, as these flows are directly influenced by immigration policy.

Figure 3: Net Migration to NZ by Citizenship (1994-2014)

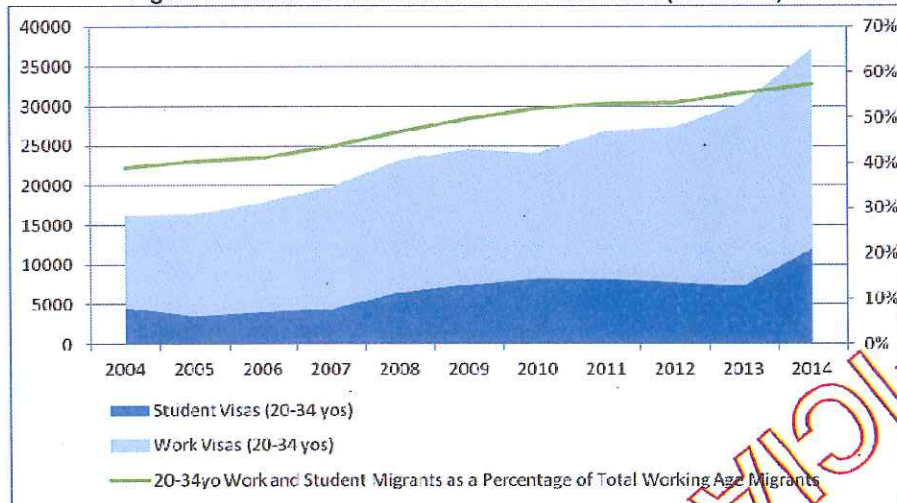


- 18. Migrants are an important part of our labour force. Temporary labour migrants make up 3.6% of the workforce, which is by far the largest proportion in the OECD. In recent years, there has been a significant increase in temporary work migration, and a larger concentration of this has been in groups that are likely to have high rates of labour force participation.
- 19. For example, Figure 4 below shows that over the last ten years, the total annual amount of migrants on work and student visas between the ages of 20 and 34 have increased by about 20,000. In addition, these groups now make up almost 60% of all working age migrants (aged 15 and over), an increase of 18 percentage points over the last decade.

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Figure 4: Growth in Student and Work Visa Arrivals (2004-2014)



20. Some of this group will be subject to labour-market tests, or won't be eligible to work on their visa, but many will not have these restrictions on their labour market participation. Perhaps surprisingly, only around 20% of people who are on temporary work visas are subject to a labour market test.
21. An appendix to this report provides you with a diagram that gives you a snapshot of all labour market stocks and flows in the year to September 2014. Of note is that the size of the net working age migrant inflow (51,357) is close to the net flow of people moving from unemployed to employed status (47,633).
22. The pattern of employment of migrants varies by region, by visa-type, and by industry.<sup>4</sup> Some examples of these patterns are:
  - The regions where temporary migrants have the largest share of employment are Auckland (5%), the Bay of Plenty (5%), Tasman/Marlborough (6%), and Otago (7%).
  - Almost half of the months worked by international students are in the Food and Beverage Services industry (29%) and Retail Trade (15%). By contrast, those on Essential Skills visas (which require a labour market test) and family migrants (who typically have open work visas) are spread more evenly across industries.
  - Some of the industries where the highest proportion of employment growth is attributable to temporary migrants are in agriculture and horticulture, hospitality and packaging services.

#### Labour Migration and Displacement of Local Workers

23. The large number of work eligible migrants in New Zealand raises an important question about the impact of this trend on the employment opportunities for local labour. The basic microeconomic intuition is that migration increases the supply of labour, and so may reduce employment and wage growth for local labour. But the degree of this effect is debated, and depends on the extent to which migrant labour is a substitute or a complement for local labour.

<sup>4</sup> McLeod, K & Mare, D (2013). *The Rise of Temporary Migration and its Impact on the Labour Market*, MBIE.

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24. The prevailing international consensus in the economic literature is that there is a small but significant effect of migrants on the wages and employment of locals. Also, in general there is more substitutability between migrants and low-skilled workers than migrants and high-skilled workers.<sup>5</sup> This may be in part due to the tendency of migrants to find employment in occupations that require lower qualifications than they possess, in effect competing downwards in the labour market with locals who are less skilled.<sup>6</sup>
25. The existing empirical studies of this effect in New Zealand show that on aggregate, migrants have not had negative effects on the employment and wages of locals. However, this research also suggests that family category visa holders have had measured effects on the employment of locals, and that migrant-intensive industries may have impacts on employment and wages in other industries in the same regions.
26. Despite the lack of strong evidence of displacement to date, we think going forward there is a risk that migration may act as a constraint on the employment of low-skill New Zealanders. Some of the reasons why include:
  - Much of the NZ economic literature on displacement studies a period before 2011, when economic conditions were stronger and the labour market tighter. Under these conditions, displacement effects would have been less likely.
  - There has been strong growth in the number of migrants with work rights who may compete with lower-skilled New Zealanders. For example, under the Working Holiday Schemes, around 55,000 young people came to NZ in 2013/14 who had relatively open work rights. In addition, work rights have been extended to a larger proportion of international students, who are likely to work in low-skill jobs.
  - The domestic economy continues to demonstrate strong growth relative to other developed countries. If this continues then it may incentivise more migrants to come to New Zealand, and working here becomes more attractive relative to their employment prospects at home.
27. This suggests to us that there is reason to be concerned about the impact some of our current immigration policies may be having on the labour market prospects of low-skill New Zealanders.
28. Immigration policy often involves trading off domestic labour market objectives with other policy objectives. Temporary migration can often be an effective way to address skills shortages, and immigration policy has been used recently to support the growth of important industries like tourism and export education.
29. The challenge is to ensure that over time immigration policy settings do not lead to a reliance on migrant labour, particularly if this comes at the expense of employment opportunities for vulnerable segments of the domestic labour force.
30. In addition, from a dynamic productivity perspective, we consider that migration shouldn't provide a 'path of least resistance' for growth in certain sectors of the economy. By this we mean that temporary migration shouldn't act as a lever that keeps labour costs in certain industries down to the extent that it dulls incentives to invest in capital or increase working conditions to attract local labour.

<sup>5</sup> Longhi, S, Nijkamp, P, & Poot, J (2005). *A Meta-Analytic Assessment of the Impact of Immigration on Wages*, Journal of Economic Surveys, 19(3).

<sup>6</sup> Maani, S and Chen, Y (2012). *Impacts of a High-skilled Immigration Policy and Immigrant Occupational Attainment on Domestic Wages*, Australian Journal of Labour Economics, 15(2).

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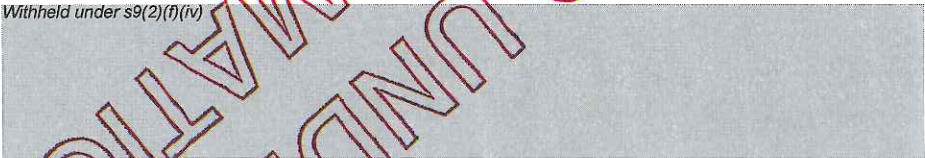
31. Upcoming policy decisions may provide you with an opportunity to address these trade-offs, and ensure that you are comfortable with the balance that is being struck between these various objectives. There are also opportunities to ensure that policy settings within the status quo are working effectively to encourage the Government's employment objectives. A number of these decisions are set out in the next section.

Implications for Ongoing Labour Market and Immigration Policy Choices

32. There is a range of ongoing work that MSD and MBIE are doing which aims to improve current labour market and immigration policy settings to encourage employment of local labour. This will lead to a number of upcoming policy decisions that Ministers will consider in coming months for which the economic context explained above is relevant.
33. Below is a brief overview of some of this work and upcoming decision points for your information. We will provide more detailed briefings on these through normal channels as they arise, but we can provide you with more information on these earlier if you are interested.

**Immigration Policy**

34. MBIE is currently undertaking a strategic review of immigration policy settings. One particular area of interest that has emerged is the extent to which labour market objectives are balanced against other goals like foreign policy, tourism and export education.
35. This work will inform the setting of the next target for the New Zealand Residence Programme, a decision that Cabinet will consider in late 2015. Directly, this tool only controls the number of people that are granted the right to live in NZ. But indirectly, residence visa policy influences the incentives on migrants to move to New Zealand on work and student visas earlier in the immigration pipeline.

36. *Withheld under s9(2)(f)(iv)*
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37. Work and Income and Immigration NZ are currently progressing a project that aims to engage with employers in five industries where there is a high incidence of temporary migrants and they consider more could be done to employ beneficiaries and local workers. The industries where this is being piloted includes Aged Care Nurses, Retail and Hospitality Management, Dairy Cattle Workers, and Truck Drivers. Over time, the objective is to encourage employers to fully utilise NZ jobseekers and to discourage industry reliance on migrant labour.

**Labour Market Regulation and Policy**

38. The enforcement of current labour market regulation is an ongoing issue. There is evidence that there may be increasing pockets of non-compliance with some employment and health and safety standards and many migrant workers are at increased risk of exploitation in industries like dairying, residential care and construction. To the extent that this is occurring, it is harmful for workers, both migrant and domestic. But in addition, there is a risk that employers that comply with employment standards may be being undercut by less productive employers that willfully do not. Cabinet will consider policy proposals that seek to strengthen the enforcement of employment standards in early 2015.

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39. The Government has indicated that it is interested in expanding the use of more active labour market levers, such as extending the \$3K to Christchurch scheme to other regions. This may be a useful way to align geographical mismatches between unemployment and job opportunities. But it will be important to ensure that policy of this sort incentivises people to move who otherwise wouldn't, and that the opportunities they find assist them to move into long-term employment. Decisions on this scheme may be sought through the Budget 2015 process.

**Improving the Way that Government Works with Employers**

40. In June this year, Cabinet agreed to increase the number of places under the Recognised Seasonal Employer Scheme from 8,000 to 9,000. When making this decision, MSD and MBIE were given joint sign-off on regional allocation of this cap and work was commissioned to develop a NZ seasonal worker programme that encouraged the horticulture and viticulture industries to increase their employment of local workers. Work is continuing to develop these options along with the industry, and it will be an important pilot of the ways that government can work more actively with businesses to encourage employment.
41. The Canterbury Skills & Employment Hub has been operating since November 2012, an initiative that has trialled new ways of helping employers meet their requirements for workers while ensuring that the domestic labour market is well tested. The main features of the model are the front-loading of the immigration labour market test and a closer relationship between Immigration NZ and Work and Income to broker relationships with employers, employees and tertiary providers.

*Withheld under s9(2)(f)(iv)*

**Next Steps**

42. Much of the information in this report provides a high-level overview of more detailed work that the Treasury and other agencies have been progressing in recent months. We can provide you with more detail on specific elements of the data or research presented here if that is of interest.
43. As specific policy decisions in this area emerge over coming months, we will continue to brief you through normal channels while emphasising how these decisions sit within the broader context that we have outlined here.

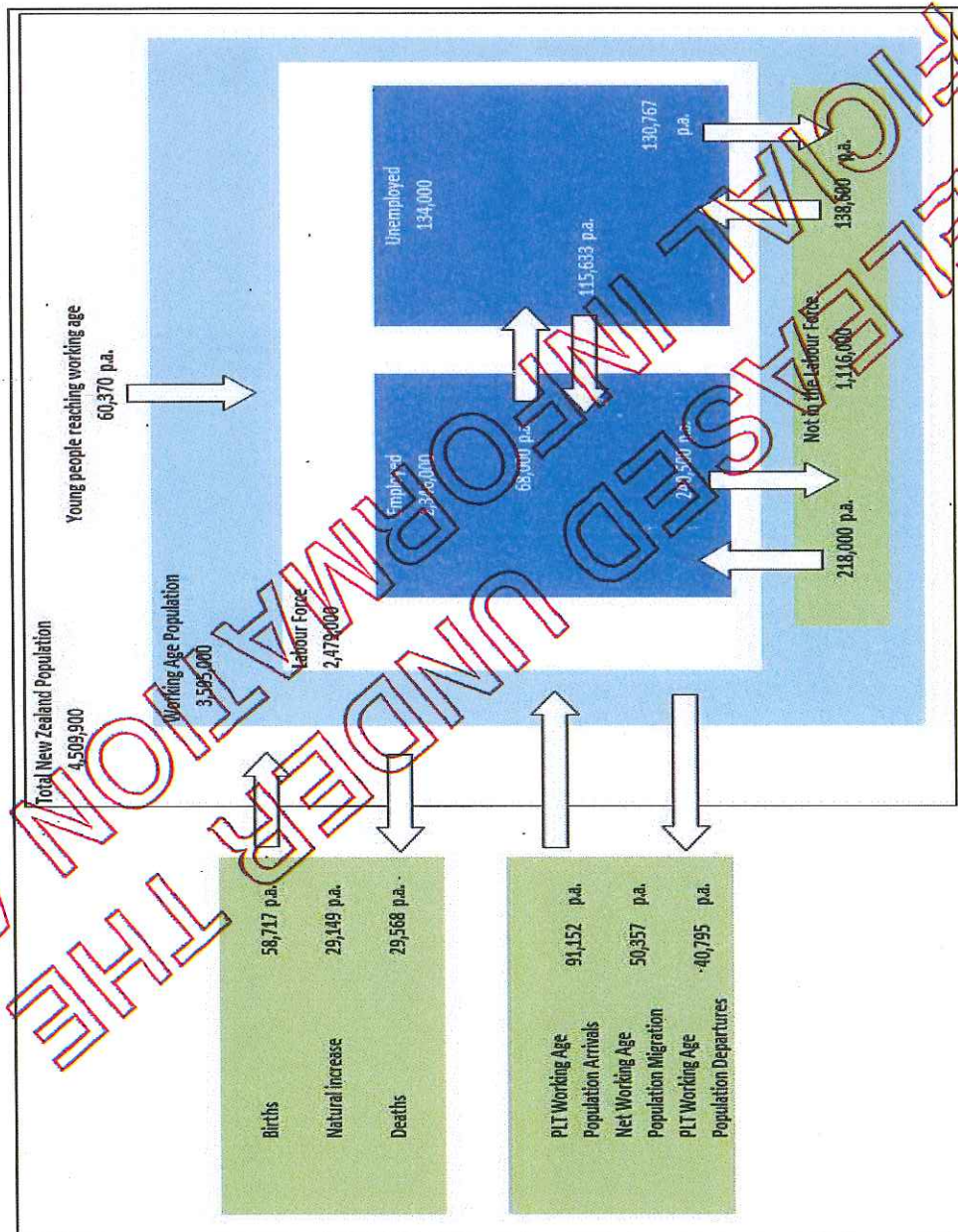
44. *Not relevant to request*

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Appendix: Annual Aggregate Labour Market Flows at September 2014

In this diagram:

- The flows between labour market states are annual estimated flows in the year to September 2014.
- The stocks of working age population (aged 15 and over), labour force, not in the labour force, employed, and unemployed are measured by seasonally adjusted average figures for the three months to September 2014.
- The total population is the estimated resident population at June 2014.





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Reference: T2015/371 SH-2-2-6-6  
Date: 4 March 2015  
To: Minister of Finance (Hon Bill English)  
Deadline: Before STR Committee Meeting on 9 March

### **Aide Memoire: Cabinet Strategy Committee Discussion on Immigration**

On 9 March, the Minister of Immigration will be presenting a paper to the Cabinet Strategy Committee titled "*Maximising the Contribution of Immigration Towards Economic Growth*". This paper aims to support a conversation amongst Ministers about strategic policy choices in the Immigration portfolio over the medium term.

Hon Woodhouse would like to focus discussion on three main questions:

- Is the immigration system attracting the best skills to support economic productivity?
- How is the immigration system managing the increasing pool of temporary and low-skilled migrants?
- How can the immigration system facilitate access to New Zealand while managing the increasing risk it is being exposed to?

This briefing provides you with a brief overview of each of these main areas, and some policy implications that you may like to raise with your colleagues at STR. This summarises many of the themes we have provided you information on in the last year.


The attached appendix provides you with some contextual information on recent migration trends that you may find useful.

#### **Is the immigration system attracting the best skills to support economic productivity?**

High skilled migrant labour increases the average productivity of the labour market, and this is the micro-economic channel through which many of the benefits of migration accrue. However, in recent years there is some evidence that the average skill level of labour migrants has declined. For example, there has been a decrease in the proportion of international students being approved for residence with Bachelor degrees, and an increase in the proportion of all resident approvals who are former international students.

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Withheld under s9(2)(f)(iv)



**How is the immigration system managing the increasing pool of temporary and low-skilled migrants?**

New Zealand has large flows of labour migrants and recently the number of work-eligible migrants has been increasing while the proportion of these migrants subject to a labour market test has been falling. As we have recently briefed you,<sup>1</sup> we consider that there is a risk that continued growth in temporary and low-skill migration will have an impact on the labour market outcomes of low-skilled New Zealanders.

Withheld under s9(2)(f)(iv)

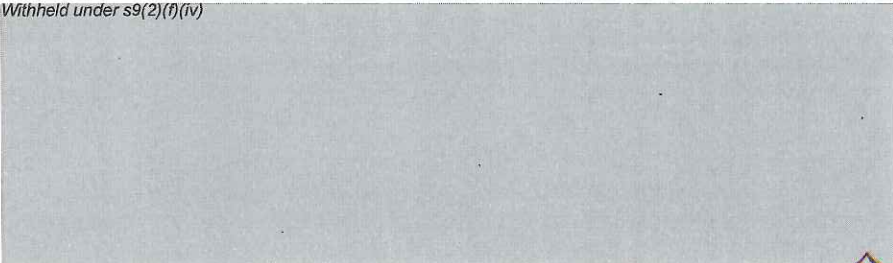


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<sup>1</sup> Employment Recovery and Welfare Objectives: Implications for Immigration and labour Market Policy (T2014/1835)

**IN-CONFIDENCE**

Withheld under s9(2)(f)(iv)



**How can the immigration system facilitate access to New Zealand while managing the increasing risk it is being exposed to?**

Immigration NZ (INZ) is increasingly processing more passengers from countries that pose higher risks to New Zealand; numbers from these countries have increased by 45% between 2006 and 2014. This creates a volume-related pressure for the border management system and increases the country's exposure to risks as we continue to try to facilitate access to New Zealand for more tourists and migrants.

Withheld under s9(2)(f)(iv)



- There are two immigration funding initiatives to be considered by Ministers in Budget 2015. One of these is a capital initiative that seeks to provide more funding for INZ's Vision 2015 programme, which is intended to help complete the shift to a model where most customers will interact with the organisation online. The second is primarily an operating initiative that seeks to improve the organisation's ability to manage New Zealand's exposure to immigration risk, primarily by providing more human resources to its border operation functions.

Withheld under s9(2)(g)(i)



Hayden Fenwick, Team Leader, Labour Market and Welfare, 04 917 6969

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## Immigration Policy Changes to Support the Canterbury Rebuild

**Responsible Person:** Hayden Fenwick, Labour Market and Welfare, 04 917 6969

**First Contact Person:** *Withheld under s9(2)(g)(i)*

### Purpose

1. This paper proposes three changes to immigration policy to streamline visa processes in ways that are intended to support the Canterbury rebuild. These changes are:
  - a. Extending the maximum duration of Essential Skills (ES) visas for low skilled temporary workers from one to three years. This change would be time-limited to applications in 2015 and 2016.
  - b. Introducing an accreditation scheme for labour hire companies that want to hire migrants to work in the construction sector.
  - c. Removing the Variation of Conditions (VoC) requirement for ES visa holders. This means that migrants in this category will not have to stay with the employer that offered them the job that was the basis of their visa approval. This change would be time-limited and apply until the end of 2017.

### Comment

2. The Treasury supports the proposal to extend the maximum duration of ES visas to three years for low-skilled migrants. This allows employers and migrants more certainty that they will be able to continue their employment arrangement for a longer duration. This should help increase the labour supply to cover the peak of the forecast labour demand for the rebuild. These visas will still be subject to a labour market test, so we don't think this is likely to have negative impacts on the employment of local labour, particularly given the low unemployment rate in the Canterbury region.
3. The Treasury also supports the proposal to introduce an accreditation scheme for labour hire companies that want to hire migrant workers for the construction industry. Migrant workers have been more likely to be exploited in Canterbury and labour hire companies are disproportionately found to be breaching employment standards. The accreditation scheme is similar to those used in some existing immigration policies, and will complement other action the Government is taking to reduce the incidence of labour exploitation in Canterbury.
4. The Treasury has concerns about the proposal to remove the VoC requirement for ES visa holders. This effectively removes the labour market test for migrants moving within the Canterbury labour market, and means that employers who would not have been able to access migrant labour previously will now be able to. This creates a risk that roles that previously would have been able to be filled by local labour, would now be filled by migrant workers.
5. The paper argues that this risk is mitigated by the low unemployment rate, and that this change is necessary to assist labour market flexibility in Canterbury. But the current process where migrants have to apply for a VoC is not onerous – almost all applications are approved within 24 days. However, the existence of this requirement is likely to dissuade migrants from applying to move between employers when they know that their application is unlikely to be approved.

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**Treasury Recommendation**

6. We recommend that you:
- a. **Support** the recommendations that seek to extend the maximum duration of ES visas for low-skill migrants from one to three years.
  - b. **Support** the recommendations that seek to introduce an accreditation scheme for labour hire companies that want to hire migrants to work in the construction sector
  - c. **Raise** the risk that removing the VoC requirement for ES visaholders will potentially lead to fewer employment opportunities for local labour.

The following table goes into the Executive Summary of the paper

Title	Pg	Recommend	Fiscal Implications (\$m GST excl.)					Treasury Comment
			14/15	15/16	16/17	18/19	Out years	
Immigration Policy Changes to Support the Canterbury Rebuild		<p><b>Support</b> the proposals to extend the Essential Skills visa and introducing an Accreditation Scheme for labour hire companies.</p> <p><b>Raise</b> the risk that removing the Variation of Conditions requirement may undermine the labour market test and have an impact on employment opportunities for local labour.</p>	<i>Operating</i>					This paper proposes three changes to immigration policy to streamline visa processes in ways that are intended to support the Canterbury rebuild.
			<i>Capital</i>					
			-	-	-	-	-	

IN-CONFIDENCE

## Future Direction of the Immigration System

**Responsible Person:** Hayden Fenwick, Labour Market and Welfare, 04 917 6969

**First Contact Person:** *Withheld under s9(2)(g)(i)*

### Purpose

1. This paper seeks Cabinet's agreement to a direction for immigration policy that focuses on maximising the contribution of the migration system to economic growth.
2. It follows on from a discussion at the Cabinet STR Committee in March this year, where the Minister of Immigration introduced these themes and signalled the development of this strategy.

### Comment

3. We have previously briefed you on the development of this strategic approach to migration policy in advance of the discussion at STR earlier this year (T2015/371 refers).
4. There are three areas where the Minister of Immigration is proposing that policy can improve to help increase the contribution of the migration system to economic growth. The Minister is proposing a programme of work in each of these areas, which is likely to lead to specific policy decisions for Cabinet in coming months about.
  - The contribution of migration to the labour market;
  - The attraction, selection and integration of investors and entrepreneurs; and
  - The ability of the immigration system to better facilitate the entry of people whilst more efficiently managing risk.
5. We support the direction that this paper signals and it is consistent with our recent advice to you about the risk of continued growth in low-skill migration and the opportunity to facilitate more high-skill migrants to New Zealand.
6. We will work with MBIE to ensure that as this work programme drills down into specific policy, it retains this focus on the key strategic issues where the migration system needs to shift.

### Treasury Recommendation

7. We recommend that you **support** the recommendations in this paper.

*The following table goes into the Executive Summary of the paper*

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Title	Pg	Recommend	Fiscal Implications (\$m GST excl.)					Treasury Comment
			14/15	15/16	16/17	18/19	Out years	
Future Direction of the Immigration System		Support	<i>Operating</i>					This paper outlines a work programme for immigration policy which emphasises the contribution of the migration system to economic growth. We support this direction and the more specific changes in policy that it signals.
			-	-	-	-	-	
			<i>Capital</i>					
			-	-	-	-	-	

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