

Australian Constructors Association

Migration, Pathway to Nation Building

February 2023

The Australian Constructors Association (ACA) welcomes the opportunity to contribute to the Joint Standing Committee on Migration's inquiry into the role of permanent migration in nation building.

This submission emphasises issues of labour supply and productivity, and their intersection with migration policy. Our overarching message is that migration policy should be calibrated to productivity growth objectives, rather than to gross labour force numbers. While filling labour shortages is important, there needs to be more focus on leveraging the migration program to enrich the nation's skills base with world-leading capabilities.

About us

Established in 1994, ACA is a trusted voice for the construction industry. We are the only representative body covering the three key sectors of the industry—vertical, horizontal and services. Collectively, our members construct and service over 90 per cent of the value of major infrastructure projects built in Australia.

The productivity imperative

The fundamental challenge facing Australia's construction industry is an imbalance between supply and demand. Quite simply, the community's built environment needs are outstripping the construction industry's capacity to deliver.

Demand-side pressures continue to grow

The development sector, both public and private, is now suffering from diseconomies of scale—that is, as population density increases, it costs more per capita to deliver built environment outcomes. These diseconomies are most visible in the large and complex 'megaprojects' that require expensive delivery strategies (such as tunnelling) in Australia's major cities.

Yet as the industry struggles to keep up with baseline population growth, it is facing an additional set of demand drivers. Chief among these is the renewables transition. On any estimate, the goal of net zero implies a colossal amount of construction activity over the coming decades.¹ That is to say nothing of other demand-side shocks, such as the 2032 Olympics, the 2026 Commonwealth Games, or the renewed focus on domestic investment in the context of a changing geopolitical landscape.

¹ Construction Skills Queensland, *Queensland's Renewable Economy: investment, jobs and skills*, 2022.

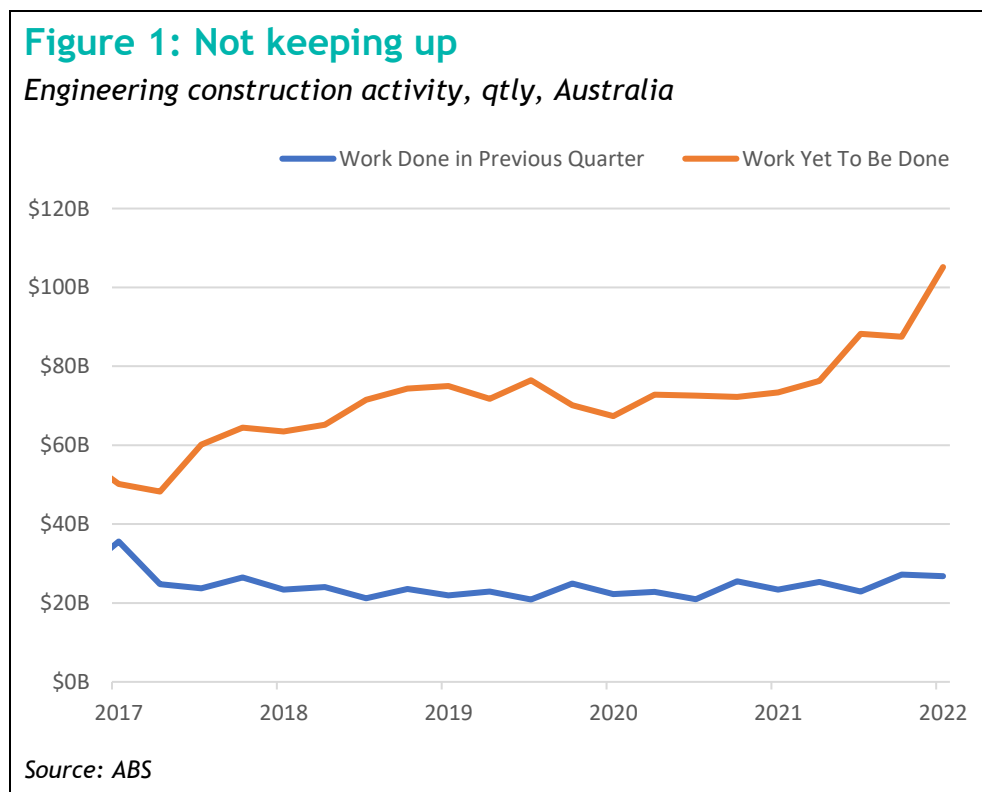
These fundamental demand-side pressures are being compounded by a range of other factors that will inevitably impose additional burdens on the construction industry.

The Environmental, Social and Governance (ESG) agenda is one important source of additional demand. Procurers and policy makers are increasingly looking to construction as an avenue to achieving social objectives. The labour intensity of construction makes it an ideal site for skilling and training interventions, while its carbon intensity makes it an obvious target for decarbonisation efforts. In addition, governments are leveraging public investment in support of economic policy—particularly in regional Australia—as well as in respect of supply chain security and sovereignty. Improving the culture and safety of the industry are also growing areas of focus for government clients.

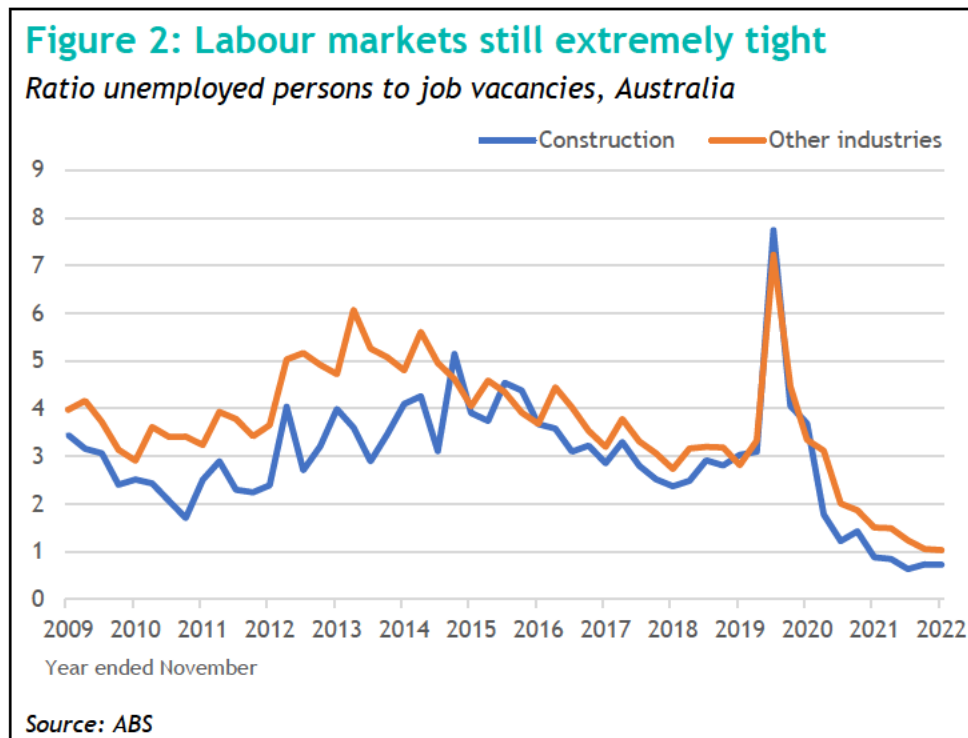
These are important and necessary areas of reform. Yet the reality is they add non-trivial costs—both in terms of time and money—to construction projects. When combined with the sheer scale of expected capital investment, these factors make for an unprecedented construction demand profile over the coming years and decades.

Hitting supply-side limits

The industry has limited scope to absorb this increased demand simply by scaling its operations. In fact, the aggregate data suggests we are already falling behind (**Figure 1**). Over the last five years, the forward pipeline of committed engineering works increased from \$50 billion to over \$100 billion. Yet the amount of work actually done stagnated at around \$25 billion per quarter. In other words, as the volume of commissioned construction work has increased, the industry has been unable to lift its work-rate commensurately.



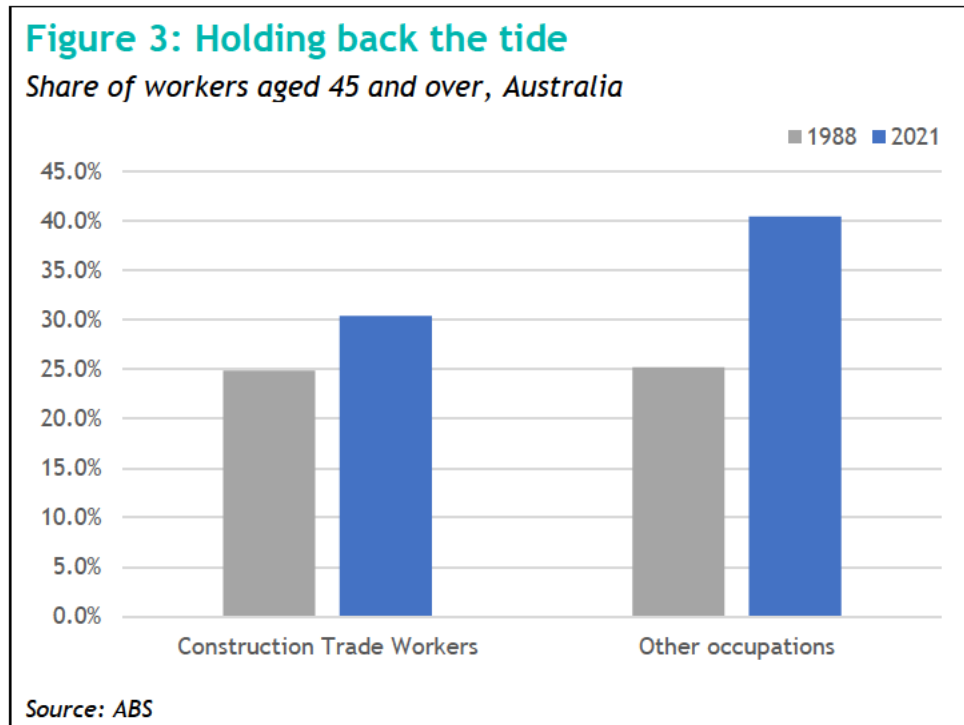
Labour supply is the key limiting variable here. Figure 2 shows that labour markets are unprecedentedly tight. Usually there are around three unemployed people for every job opening in the construction industry. Today that ratio stands at less than one.



It would be a mistake to think these are temporary effects of the pandemic. While COVID-induced labour market distortions are particularly acute in the immediate term, they are dwarfed by much deeper forces operating on much longer timeframes. There are two roots to this challenge: the age profile of our industry and the patterns of demographic ageing.

The ageing population is a well-known phenomenon; less well-known is its implications for labour markets. Declining fertility is driving up the average age of labour forces across the world and Australia is no exception. In the 1980s about 25 per cent of the Australian workforce was aged 45 or older. Today, that age bracket accounts for 40 per cent of all workers. Soon enough, they will be in the majority. This means people of prime working-age are a shrinking segment of the overall population.

The construction industry is especially exposed to this trend. Two-thirds of construction trade workers are aged 18-44 and male. That demographic makes up only 22 per cent of all other occupations. As older workers have been taking an ever-larger share of employment, the construction industry has been resisting the trend—its over-45 segment has grown much more modestly (Figure 3).



While popular attention is often directed to the shortage of trade roles in construction, it is important to emphasise the most critical risks surround ‘white collar’ labour supply. A recent Infrastructure Australia report² found that two-thirds of occupations relevant to public infrastructure are likely or potentially in shortage; half of these are engineers, scientists and architects. Going forward, the report expects a shortfall of 89,000 project managers, engineers, scientists and architects, compared to 29,000 tradespeople and labourers.

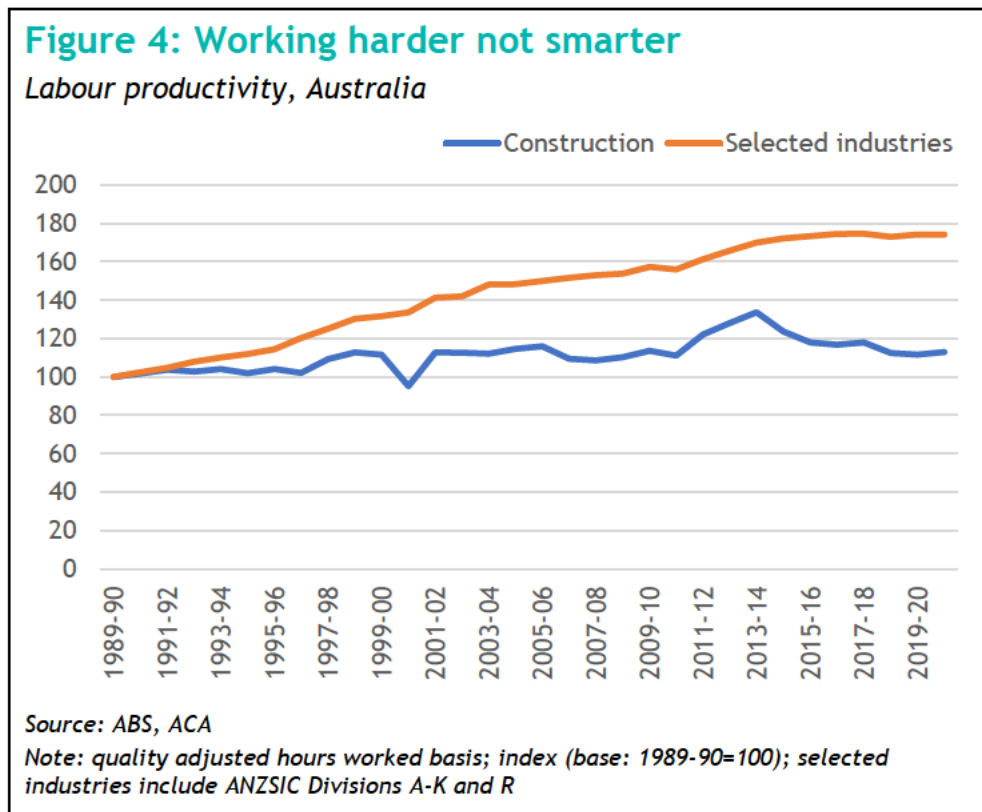
In summary, advanced economies everywhere are facing increasingly constrained labour markets and this trend will challenge construction more than most industries. As we progress through the middle half of this century, construction firms will find it increasingly difficult to maintain business models that simply reproduce the existing paradigm. We simply must find ways to deliver built environment outcomes with much fewer labour inputs. This is much easier said than done.

The productivity gap in construction

Construction is a notoriously cyclical industry. This environment requires firms to maintain an agile posture that enables them to quickly flex their output to match market conditions. This need for flexible efficiency favours lean business models and fragmented supply chains.

² Infrastructure Australia, *Infrastructure workforce and skills supply: a report from Infrastructure Australia’s Market Capacity Program*, October 2021.

This paradigm is not conducive to productivity growth. Where other industries has found ways to produce more things with less people, construction simply has simply thrown more manhours at the problem (Figure 4).



The role of migration—a productivity lens

Migration is often proposed as a direct solution to labour market issues. A common assumption is that any structural deficiency in labour supply can be resolved by simply importing workers in sufficient numbers to fill the gap. Yet this ‘quantitative’ strategy yields only short-term outcomes at best.

In the medium-to-longer term, any quantitative gains from migration on the supply-side are offset on the demand-side because every new migrant needs a new home, a little extra road to drive on, another seat at the theatre, and so on. In addition, as the Productivity Commission has noted,³ migrants get old too, so the strategy requires ongoing—and ultimately unsustainable—increases in migration. Migration is therefore no panacea for declining labour force participation.

That said, migration has an important role to play in contributing to the future success of Australia’s economy. However, this contribution lies less in increasing the sheer quantity of labour, than in improving the more qualitative dimensions of the labour force.

³ Productivity Commission, *A 'Sustainable' Population? - Key Policy Issues*, Chapter 13, 2011.

Our key proposition is that migration must be primarily viewed as a lever for productivity growth, rather than a channel for increasing the size of the labour force. We consider this productivity perspective has been historically under-emphasised in Australia's 'actually existing' migration policy.

The need to view migration as primarily an instrument of productivity policy is particularly acute in construction. The construction industry will only be sustainable to the extent that it can become more productive. And while many factors influence productivity, having access to talented and creative professionals across the value chain is a key ingredient.

While Australia's education system is a critical element in this, foreign labour markets are an indispensable source of talent. It is through the migration channel that the Australian construction industry can best absorb leading practices from around the world. It is in this way that migration policy can make the most meaningful contribution to ensuring the construction industry can continue to meet the nation's built environment demands.

Recalibrating the migration system

Resetting migration policy

Australia's skilled migration system is a passive tool that simplistically filters the flow of people who decide to apply for an Australian visa. In the global market for talent, we behave as if we are a 'price setter'—assuming we have the market power and differentiation to choose who we like from the global pool of talent. This assumption is completely untenable. Australia stands in line with many other countries competing for the world's best skills and we do little to force our way to the head of that queue.

Broadly speaking, our view is that migration policy should become far more strategic in its efforts to support economic outcomes—particularly productivity growth. This means seeking out and attracting talent from the best labour markets in the world. The policy stance needs to shift from reactive to proactive—we need to be targeting the world's best universities with compelling graduate programs; working much more closely with foreign industry bodies; delivering major promotional events in key locations. Businesses need more scaffolding to help them reach and engage with foreign workers.

Some industries seem to do a much better job at scaffolding than others. For example, foreign medical professionals have a long history in Australian healthcare. This no doubt reflects the sophisticated and embedded International Medical Graduate and Overseas-Trained Doctor programs that operate in Australia. These centralised industry-wide programs have a proven track record in absorbing large quantities of highly-skilled professionals. There is merit in exploring how these models can be transferred to other industries, such as construction, which have similarly high barriers to entry.

We also consider that migration policy has much to learn from the way the Australian Government approaches the attraction of financial capital. An entire agency—Austrade—is dedicated to supporting Australian businesses in finding foreign investment, to say nothing of the myriad trade envoys and official foreign affairs artifice. The same cannot be said of human capital, yet it arguably stands to be the more important input to Australia's future economic prosperity. The Australian Government should take the same approach to attracting human capital as it does to attracting financial capital.

Streamlining the migration system

Beyond the broad policy posture, there are significant frictions in the migration system that work against both Australian employers and prospective immigrants. While we welcome the government's efforts to streamline the visa process under Ministerial Direction 100, the complexity, constraints and administrative burden in the current arrangements continue to present significant barriers to engaging with the system.

This is particularly the case around market testing requirements and the skills classification. The Skills Priority List does not comprehensively address the breadth of contemporary occupations in the construction industry. Each visa class has associated legislation that defines conditions and associated occupations, making them difficult to navigate.

The accreditation framework around engineering qualifications (the 'Washington Accord') is outdated. The capability exists within the accrediting body (Engineers Australia) to analyse a wider range of overseas qualifications and identify gap training requirements. This could unlock a larger pool of overseas-trained graduates. The Country Education Profiles produced by the Department of Education provides a strong starting point for the development of a simple and standardised approach to gap training in Australian content for overseas-trained engineers.

From a trade-skill perspective, the inability to deliver and assess high risk work licenses offshore presents a significant barrier to migration. Simplified trade testing regimes are also needed and should be developed in close consultation with the relevant trade bodies. The lack of national harmonisation in trade licensing is a considerable barrier to both overseas and internal migration.

A more seamless and streamlined process with simplified entry requirements would increase employer engagement. Providing easier pathways to Permanent Residency would ensure Australia both attracts and retains key skills by keeping valued residents in the country. In particular, we consider there is little justification to maintain skill-related visa requirements for employer-sponsored visas and instead support a simpler approach based upon minimum salaries. The model that exists under the Labour Agreement stream should apply to all Employer Sponsored visas.

Post-settlement and integration

The migration process cannot stop at the arrival lounge. Post-arrival integration is the key challenge facing migrants seeking to enter the construction industry. From the migrant's perspective, the Australian recruitment process is foreign and opaque. The key issue is that construction firms place a very high premium on local experience and local networks, and there is little systematic assistance available to migrants. The support that is available is little more than a patchwork of variable quality migration services.

A more integrated and centralised approach—as seen in the healthcare industry—could provide mechanisms to help migrants clear this initial hurdle. Migrant integration services are particularly critical for the workforce in regional and remote communities, which are facing increasingly acute skills shortages given the profile of infrastructure demand.

Two obvious opportunities would be an industry-wide internship program and a short course to familiarise and adapt migrants to Australian conditions and processes. Existing peak bodies such as Engineers Australia are well placed to deliver these services.

We are committed to working with the government and unions to create the migration settings that can help drive the productivity growth needed to achieve a sustainable construction industry in Australia.

CONTACT

Jon Davies

Chief Executive Officer, Australian Constructors Association

