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Dr Kate Sullivan
The Secretary
Joint Standing Committee on Migration
Inquiry into temporary business visas
PO Box 6021
Parliament House
Canberra ACT 2600

Dear Dr Sullivan,

RE Supplementary submission

This note provides supplementary information and input to the Committee as suggested by the Committee Chair during my evidence on 17 May 2007. As you know, the Committee had to compress the time available for my evidence.

1. 457 visas and labour arbitrage

I undertook to provide the source for my statement that one Indian IT services outsourcing company has publicly acknowledged that labour arbitrage in higher-wage countries (ie undercutting local market rates) is central to the business model of Indian IT services outsourcing companies (Proof Hansard, 17 May 2007, page M45).

The following quote is from Tata Consultancy Services (TCS) Vice-President Phiroz Vandrevala:

“Our wage per employee is typically 20-25 per cent lesser than US wage for a similar employee”, Vandrevala said. “Typically, for a TCS employee with 5 years experience, the annual cost to the company is \$60,000-\$70,000, while a local American employee might cost \$80,000-\$100,000. This (labour arbitrage) is a fact of doing work on-site. It’s a fact that Indian IT companies have an advantage here and there’s nothing wrong in that.The issue is that of getting workers in the US on wages far lower than local wage rates.”

Source: Shelley Singh, US visas are not a TCS-specific issue, *Businessworld* (India) magazine, June 2003.

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This quote is cited in the US report “Outsourcing America’s Technology and Knowledge Jobs”, by Ron Hira, EPI Briefing Paper No 187, Economic Policy Institute, March 28 2007.

TCS operates in Australia, along with other Indian outsourcers and offshorers such as Infosys, Satyam and Wipro. As well, large multinational providers of IT services to the Australian marketplace such as IBM and Accenture now have a large and growing Indian-based workforce of IT programmers and other IT professionals. Some or all of these firms will bring foreign IT workers to Australia to work for different lengths of time. These workers will mainly be on 457 visas or possibly other temporary business visas like the 456 visa (see 3 below).

Around 40% of all 457 visas in ICT occupations are granted to Indian nationals, according to DIAC data, and the Immigration Minister says total visa grants in ICT are likely to grow by 35% in 2006-07. This will mean around 5,700 visas issued in this financial year.

The margin for labour arbitrage is narrower in Australia than in the US but is still present. Australian ICT wages are lower than ICT wages in the US and the UK, and in recent years wages for Indian ICT workers have increased at relatively faster rates.

2. 457 visas sometimes used to train foreign ICT workers

I undertook to provide the source for my statement that Indian IT services outsourcing firms themselves admit that temporary work visas like 457 visas are used to train their own foreign workers to take work back to India and other low wage-cost countries (Proof Hansard, 17 May 2007, page M45).

The following quote is from an executive in an unnamed offshoring company, reported in an authoritative UK study in 2007:

“The on-site team get a real appreciation of the client’s needs – which the offshore team don’t get – so we rotate them. Essentially, it’s like a cultural training scheme with domain knowledge being rotated. Although you can write accurate specifications, what is missing from those specifications is the business context in which they sit and you can really only pick that up by working closely with the client.

We actively rotate people back to India and bring some of the offshore team on-site. Mobility is the core of it – we like to move people around from project to project. (Offshoring company 1, US)

Source: J. Millar and J.Salt, IT migration – in whose interests? *Population, Space and Place* 13, 41-58 (2007), p54.

In the 5 years to 2005-06, 457 visas have been granted to some 7,000 Indian nationals in ICT occupations. For some proportion of these, their sponsoring companies will have used the 457 visa as a means for training their foreign workers and improving their familiarity with Australian client firms and business culture – in other words, improving the competitiveness of Indian-based companies and those with some of their workforce India-based.

The point is that the use of 457 visas for this purpose is inevitable and increasing with businesses engaged in the growing international trade in services. Policy on 457 visas needs to be made based on the fact that this is how the visa is used, and not the fiction that all 457 visa-holders have skills that are missing in the Australian marketplace, and train Australian workers in these so-called missing skills.

3. Wage rates paid to some Indian ICT workers while in Australia

I undertook to provide a clipping from *The Australian* from a few years ago regarding wage rates paid to some Indian IT staff while they were in Australia. This is attached. According to the 02 September 2003 story on ANZ Bank IT staff in India and Australia:

Exhibit

Staff transfer to the other country for periods of weeks or months, and Indian staff in Australia are paid an extra living allowance because of higher costs.

The article implies Indian staff are paid Indian rates plus an extra “living allowance” while in Australia. It does not state what visa the Indian staff were on while working in Australia. It may have been the 456 visa which has no minimum salary requirement unlike the 457 visa which did have an MSL in 2003 (the 457 visa MSL for ICT professionals was the same as for all 457 visa-holders up to February 2004).

The 456 visa rules allow visa-holders to work in Australia as employees in certain circumstances. These 456 visa “employees” can lawfully be paid salaries below the 457 MSL applying to their occupation.

The Committee might like to establish with DIAC whether the practice of working as employees on 456 visas is permitted for foreign nationals on intra-company transfers into Australia, and the extent to which it occurs especially in the ICT sector.

4. Establishing actual salaries paid to ICT workers on 457 visas (vs salaries approved by DIAC)

If DIAC is unable to provide the Committee with data on actual salaries paid to these workers, the Committee might like to request this data directly from some of the main firms employing these workers.

In the US, two Senators on the Senate Judiciary Committee Subcommittee on Immigration, Border Security and Refugees, have recently written to major employers of H-1B visas seeking this salary data and other data directly from these businesses. Here is the link to the 14 May 2007 media release plus letters from Senators Grassley and Durbin, and their letter is attached (2) for the information of the Committee:

Exhibit.

http://grassley.senate.gov/index.cfm?FuseAction=PressReleases.Detail&PressRelease_id=5380

Regarding 457 wages data, it might be helpful for the Committee to request a distribution of 457 visa holders by salary ranges as well as the average wage of 457

visa-holders at an individual firm. This is because the average salary figure can be distorted by a small number of unusually high or low figures.

Yours sincerely

Bob Kinnaird
Director