

Hon Grant Robertson

MP for Wellington Central

Deputy Prime Minister

Minister of Finance

Minister for Infrastructure

Minister for Sport and Recreation

Minister for Racing



Dr Ganesh Nana
Chair
Productivity Commission
PO Box 8036
The Terrace
Wellington 6143

12 April 2021

Dear Ganesh

TERMS OF REFERENCE FOR AN INQUIRY INTO IMMIGRATION SETTINGS FOR NEW ZEALAND'S LONG-TERM PROSPERITY AND WELLBEING

On behalf of myself and the Minister of Immigration, I am pleased to refer to you the terms of reference for an inquiry into Immigration Settings for New Zealand's Long-Term Prosperity and Wellbeing.

The disruption caused by COVID-19 has provided us a rare and unique opportunity to focus an inquiry on an area that makes a significant contribution to New Zealand's labour market, culture and society – immigration settings. This inquiry will enable New Zealand to strategically optimise its immigration settings by taking a system-wide view, including the impact of immigration on the labour market, housing and associated infrastructure, and the natural environment.

As you will be aware the government is needing to make decisions in real time on some immigration matters in the wake of COVID-19. This inquiry will complement this work being led by the Minister of Immigration, including a review of the Skilled Migrant Category visa. It will be important for the Commission to engage with the relevant agencies throughout the inquiry so that your findings and recommendations take account of, and can influence the ongoing policy work.

I wish you all the best as you commence this inquiry and look forward to your findings.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Grant Robertson'.

Hon Grant Robertson
Minister of Finance

Terms of Reference – New Zealand Productivity Commission Inquiry into Immigration Settings for New Zealand’s Long-Term Prosperity and Wellbeing

Issued by the Minister of Finance and the Minister of Immigration (the “referring Ministers”).

Pursuant to sections 9 and 11 of the New Zealand Productivity Commission Act 2010, we hereby request that the New Zealand Productivity Commission (the “Commission”) undertake an inquiry into immigration settings for New Zealand’s long-term prosperity and wellbeing, with a focus on working-age immigration policy.

Context

Immigration is a topic that introduces both significant opportunities and challenges to the economic development of New Zealand. On one hand it makes a significant contribution to New Zealand’s labour market, culture and society. As the Commission’s earlier work has identified, before the COVID pandemic more people were entering New Zealand’s labour market through permanent and long-term migration than from the school system.¹ Some New Zealand firms, industries and regions also rely heavily on migration to meet their skill and labour needs.

Many migrants settle smoothly and prosper, as New Zealand permanent residents, citizens, or valuable temporary workers whose time here is of mutual benefit to them and New Zealand. Migrants can bring to New Zealand a highly valuable diversity of skills, talents, knowledge, experience, international connections and financial, social and cultural capital. International students also make an important contribution through the fees they pay and, for PhD students in particular, the knowledge they produce during their time in New Zealand.

However, questions have from time to time been posed about the economic and other impacts of New Zealand’s working-age immigration settings. These questions cover matters such as:

- the impact of large increases in net migration (and hence rapid population growth) on housing markets and associated infrastructure, on social cohesion and on the natural environment;
- the impact these increases in aggregate demand are having on macroeconomic phenomena such as interest and exchange rates and GDP growth, and on New Zealand’s international competitiveness;
- how New Zealand should think about meeting future skill or labour shortages;
- whether the skills of migrants are being well-matched with the jobs available in New Zealand, and how these skills are assessed and recognised (tertiary qualifications, wages offered etc);

¹ See Figure 4.6 (p.100) of NZPC (2017), *New Models of Tertiary Education: Final report*. Retrieved 03 March 2021 from www.productivity.govt.nz/inquiries/new-models-of-tertiary-education

- how to attract and benefit from investor migrants and entrepreneurial migrants whose skills, experience, capital and international connections can support New Zealand’s economic and social progress, including via creating new businesses and improving New Zealand’s reach into higher-value industries;
- whether the value that New Zealand derives from migration is constrained by the complexity of our immigration system;
- the treatment of migrant workers by some employers, and concerns about the wellbeing of those workers;
- the effect of access to migrant labour on firms’ incentives to:
 - make productivity-enhancing adjustments (e.g., adopting technological solutions or other forms of capital investment);
 - develop the skills of existing and future domestic workers in their own firm or industry; and
 - make efforts to attract new domestic hires;
- perceptions that any “crowding out” of domestic workers by migrant workers will disproportionately affect New Zealanders who lack work experience and qualifications – a group in which Māori and Pacific peoples are over-represented;
- the impact of migration on labour demand and wages in particular areas or sectors;
- the length of time migrant workers remain in New Zealand; and
- the use of the student visa as a pathway to residency, and the labour market impact of international students’ in-study and post-study work rights.

The temporary closure of the border in response to the COVID pandemic provides an opportunity to consider the value to New Zealand of working-age immigration policy, and look for ways to increase that value, including over the long term (5–10+ years).

While immigration policy settings do not dictate the movement of New Zealand citizens, their migration – both volume and composition – significantly influences the net impact of immigration settings. This movement is therefore important context for this inquiry, as is the freedom of movement (in normal times) of Cook Islanders, Niueans, and Tokelauans and Australians to and from New Zealand.

Purpose and scope

Having regard to the context outlined above, the referring Ministers request the Commission to undertake an inquiry to explore what working-age immigration policy settings would best facilitate New Zealand’s long-term economic growth and promote the wellbeing of New Zealanders.

In keeping with its legislative purpose, the Commission’s focus should be on immigration policy as a means of “improving productivity in a way that is directed to supporting the overall well-being of New Zealanders, having regard to a wide range of communities of interest and population groups in New Zealand society”.²

² Section 7 of the Productivity Commission Act 2010 refers. Retrieved 03 March 2021 from www.legislation.govt.nz/act/public/2010/0136/latest/DLM3104328.html.

The Commission should define working-age immigration policy settings broadly, to include settings relating to:

- visas with a labour market test as well as those with open work rights (including for Working Holiday visa holders and student visa holders);
- temporary visas as well as residence visas; and
- migration that is a direct consequence of working-age migration (including partners, dependent children and parents).

The Commission should aim to provide concrete advice on how immigration affects labour market outcomes and the overall wellbeing of New Zealanders, including through productivity growth, the development of skills, levels of capital investment and labour market opportunities among different groups. It should assess evidence on the impact of low-skilled migration on wages, working conditions and business models in relevant sectors, and consider the impact on those sectors of reduced access to migrant labour, including any lessons learned from border closures due to COVID-19.

The Commission should provide recommendations on how immigration policy, institutional arrangements and other settings could be enhanced including by:

- assisting smoother macroeconomic, housing and infrastructure adjustment to net migration and population growth;
- encouraging better matching of jobs and migrant skills, commenting where possible on how skills and labour market gaps should be identified and assessed;
- promoting higher productivity in New Zealand firms, including through:
 - making productivity-enhancing adjustments (e.g., adopting technological solutions or other forms of capital investment);
 - attracting entrepreneurial and investor migrants who will create and invest in high-growth firms;
 - promoting utilisation in the labour market of migrants' diverse talents, skills, experience and international networks; and
 - supporting the performance of New Zealand's science and innovation systems;
- encouraging strengthened development of skills and education among New Zealand citizens and permanent residents;
- supporting an inclusive labour market, recognising that migration to New Zealand might affect wages and workforce participation differently for different groups;
- achieving optimal interaction between temporary and permanent migration, noting that some temporary migration is an established pathway to residence;
- supporting successful settlement of migrants in New Zealand;
- protecting the wellbeing of temporary migrants while in New Zealand; and
- contributing positively to the wellbeing of current and future New Zealanders.

In describing how to achieve these goals the Commission should provide recommendations, where possible, about potential adjustment mechanisms or transition pathways for key sectors.

In carrying out this work, the Commission should:

- be explicit about any assumptions and judgements it makes for the purpose of this inquiry about the nature and goals of immigration policy and their relative weighting or importance;
- take into account reform work already underway in the immigration and vocational education systems;
- seek to quantify its assessments and proposals, drawing on existing and new empirical research from New Zealand and overseas, while also considering how COVID may affect historic trends;
- be clear about how and when migration volumes, and migration mix or composition, matter to policy design, and the Government's levers and trade-offs in seeking to influence both;
- take an economy-wide perspective, considering where changes to regulation and policy outside the immigration system would remove impediments to New Zealand realising potential productivity gains from migration;
- take into account long-term transitions including the impact of climate change and the changing nature of work;
- consider the role of non-government agents and infrastructure, including social and community infrastructure, in contributing to positive outcomes from immigration;
- articulate the trade-offs involved in different policy choices, and any significant distributional impacts for different population groups or regions; and
- acknowledge that immigration and movement of persons has an important role in underpinning New Zealand's international connections and relations with other countries. In many cases New Zealand has special immigration obligations due to international agreements and other international political commitments, for example, with Australia, the Pacific and other countries.³ In the Pacific context, immigration also supports development objectives in the region. The Commission may recommend changes to these settings (except where specifically out of scope) but before doing so should take into account the potential reputational and foreign and development policy impacts of change. The Ministry of Foreign Affairs and Trade is available to discuss these issues with the Commission.

We encourage the Commission to include case studies, at its discretion, on industry sectors that are facing change (including rapid growth) due to decarbonisation, technological or demographic drivers.

The Commission should also consider:

- how concepts within Te Ao Māori, or the inclusion of Māori perspectives and cultural values, can assist New Zealand in thinking about immigration policy; and
- how the Crown can honour Te Tiriti o Waitangi and the mana of Māori in its development and application of immigration policy, to ensure it reflects the interests and aspirations of tāngata whenua as whānau, hapū and iwi.

³ For example, New Zealand has 45 reciprocal Working Holiday schemes with other countries that often form part of the wider architecture that supports our bilateral relationships and trade agreements.

Exclusions

The following matters are out of scope:

- immigration policy settings for refugees and asylum seekers;
- immigration policy decisions undertaken specifically in response to the COVID pandemic;
- institutional funding arrangements for Government immigration agencies;
- day-to-day operational decision-making by Government agencies; and
- the freedom of movement (in normal times) of Cook Islanders, Niueans, and Tokelauans and Australians to and from New Zealand. This freedom of movement is, however, important context for the Commission to consider when analysing the likely impact of potential immigration policy changes on the size and composition of New Zealand's population.

Inquiry format, consultation and timeframes

In undertaking this inquiry the Commission should endeavour to select modes of consultation and publication formats that will support a wide range of New Zealanders to share their perspectives.

The Commission should ensure that Māori can provide input into the inquiry at all stages and through a range of channels and organisations. It should also consult widely with Pacific communities, migrant and ethnic communities, relevant government agencies, local authorities, skills organisations including international education organisations, the social partners (the New Zealand Council of Trade Unions Te Kauae Kaimahi and Business New Zealand) and the general public.

The Commission should produce outputs during the course of the inquiry that facilitate engagement with the broadest range of groups and communities. It must also publish a draft report and/or discussion document, for public comment, followed by a final report that must be presented to referring Ministers by 30 April 2022.