

1 March 2021

Committee Secretary
Joint Standing Committee on Migration
PO Box 6021
Parliament House
Canberra ACT 2600

By Email: migration@aph.gov.au

Inquiry into Australia's skilled migration program – Terms of Reference 1 (a) and 2

Dear Sir / Madam,

As the voice of private capital, the Australian Investment Council is pleased to present this response to Joint Standing Committee on Migration's *Inquiry into Australia's skilled migration program*. This submission is in response to 1 (a) and (2) in the Terms of Reference to this inquiry.

The Australian Investment Council is the voice of private capital. Private capital investment is continuing to evolve and has played a central role in the growth and expansion of thousands of Australian businesses and represents a multi-billion-dollar contribution to the Australian economy. Our members are the standard-bearers of professional investment and include private equity (PE), venture capital (VC) and private credit (PC) funds, alongside institutional investors such as superannuation and sovereign wealth funds, as well as leading financial, legal and operational advisers. These members include both Australian domestic and offshore-based firms.

Private capital fund managers invest billions of dollars into Australian companies across every industry sector of the economy every year. Australian-based PE and VC assets under management reached \$33 billion in 2019 with an additional \$13 billion in equity capital available to be invested in the short-term. The private capital industry is contributing to Australia's economic recovery and the development of Australia's industries of the future. Companies that partner with private capital fund managers contribute 1 in every 9 new jobs in Australia and provide 2.6% of our nation's GDP.¹

The Australian Investment Council is supportive of policy initiatives and reforms that help to ensure our economy is competitive, innovative and able to support Australia now and into the future. In particular, we encourage reforms that help to expand the pipeline of talent and entrepreneurship to support fast-growth businesses that will sustain employment across all sectors of the Australian economy and contribute to economic growth.

The effective management of the COVID-19 pandemic has placed Australia in a favourable position for attracting a greater market share of investment and skills that are critical for supporting investment into businesses that will drive innovation and transition our nation to a highly skilled knowledge-based economy. To this extent, skilled migration will play a pivotal role in providing the essential skills that will fill the gaps in knowledge and expertise while a pipeline of talent is developed from within our domestic economy.

To this extent, it is critical that Australia takes advantage of its position as an attractive investment destination to attract the right mix of skills and investment that will make an optimal contribution to jobs and economic growth in the short, medium and long-term.

While Australia transitions into a knowledge-based economy, skilled migration will continue to play a pivotal role in providing the experience and knowledge that will build a sustainable nation for the future. There is a window of opportunity while Australia has a comparative advantage and a reputation as a 'safe nation' to attract the best and brightest talent onshore. Various skilled migration programs and incentives, along with a concentrated effort to attract exceptional talent are critical for re-establishing Australia's position as an innovation nation.

¹ Deloitte Access Economics (2018) *Private equity: growth and innovation*, April



We look forward to participating in any future discussion about the themes set out in this submission as part of the government's work on skilled migration. If you have any questions about specific points made in our response, please do not hesitate to contact me or Brendon Harper, the Australian Investment Council's Head of Policy and Research, on 02 8243 7000.

Yours sincerely

Yasser El-Ansary
Chief Executive



Summary of Recommendations

Recommendation 1: *Attract the best and brightest talent*

The Council recommends government boosts the offshore marketing of its Global Talent programs, alongside the Global Business and Talent Acquisition Taskforce (**GBTAT**), to encourage some of the world's best and brightest skilled talent to move to Australia, and at the same time, encourage skilled Australians with valuable offshore experience in leading technology and innovation ecosystems to return home.

Recommendation 2: *Extend visas for foreign students*

The Council recommends government extends visas for foreign students who graduate from Australian universities in disciplines where there are skills shortages, allowing them to stay and work in Australia to build a pipeline for a new, knowledge-based economy.

Recommendation 3: *Increase the ratio of investment into VCPE to 20% for the Significant Investor and Investor Visas*

The Council recommends the ratio of investment into VCPE for Significant Investor and Investor Visa holders is increased from 10% to 20% under the Complying Investment Framework to provide investment into jobs and economic growth at no impact to the volume of capital invested under the program.

Recommendation 4: *Fast-track the establishment of 'STEM Schools'*

The Council recommends government further embeds STEM skills into the Australian school curriculum, from primary school years through to tertiary education and fast-track the establishment of 'STEM schools', modelled on Sydney Science College in Epping.

Recommendation 5: *Support infrastructure and national areas most in need*

The Council recommends government introduces incentives for investment into regions and areas most in need based on a similar model to the United States' economic 'Opportunity Zones'.

Recommendation 6: *Implement a national co-investment program*

The Council recommends government establishes a national co-investment program to support ongoing investment into early-stage Australian businesses and Australian entrepreneurs.



Introduction

This submission addressed points 1(a) and 2 of the inquiry.

1. *The purpose of the skilled migration program and whether it is meeting its intended objectives, including:
a) If any immediate adjustments are necessary in the context of the future of work and pandemic recovery;
and*
2. *Australia's international competitiveness in attracting entrepreneurs, venture capital, start-ups, and the best and brightest migrants with cutting edge skills.*

The impact of the COVID-19 pandemic on every corner of the Australian economy has clearly been significant. The comprehensive nature of the government's public health response has allowed Australia the opportunity to benefit from being part of the 'first-mover' group of nations emerging from the COVID-19 pandemic, while many other developed economies continue to endure ongoing widespread shutdowns and restrictions on business activities. Given the competitive position in which Australia finds itself, there is a unique opportunity to reimagine and reshape the nation for the future and to support this by continuing to grow investment into innovation and technology as building blocks for a more dynamic and agile economy. To effectively capitalise on Australia's comparative advantage, the recovery must be underpinned by a comprehensive plan by government to bring about meaningful policies and economic reforms for long-term prosperity. In our view, the three pillars of Australia's future economic prosperity must be:

1. maximising the penetration and utilisation of technology as an enabler of economy-wide productivity growth and job creation;
2. going 'narrow and deep' in developing industries where Australia is, or could be, a world leader; and
3. supporting Australia's entrepreneurs and fast-growth businesses to create Australia's next generation of world leading businesses. The recommendations outlined in this submission focus on these pillars and opportunities to secure Australia's future prosperity.

Australia's skilled migration approach can form part of government's policy initiatives to drive our future economic growth and prosperity. The recommendations below focus on aligning the current regime with raising Australia's position as an attractive destination for attracting entrepreneurs and highly-skilled migrants who can make a positive contribution to the Australian economy in the short to medium-term.

Australia in a global context

Through strong leadership and fortuitous geographical separation, Australia has weathered the COVID-19 storm relatively well. While the pandemic halted Australia's record period of uninterrupted economic growth, strong and decisive government intervention appears to have prevented a deep recession. This provides an opportunity to accelerate our transition into a more knowledge-based, high value-adding economy. The government's modern manufacturing initiatives are a positive step in this regard.

Despite a high standard of living, Australia has a long way to go in its journey into a knowledge-based economy. The latest available rankings of economic complexity, developed by Harvard University's Center for International Development, ranked Australia 87th globally – the lowest ranked of all developed economies and lower than many developing countries. Since 1996, when Australia was ranked 57th globally for economic complexity, our standing has continued to deteriorate. Furthermore, Harvard University concludes that "Australia is less complex than expected for



its income level. As a result, its economy is projected to grow slowly”,² with Australia’s growth projection to 2027 ranked 94th out of the 133 countries assessed.

This result is backed by the 2019 Global Innovation Index (GII), which ranked Australia 22nd globally, down from 20th in 2018, behind nations such as the USA, Republic of Korea, China and Iceland. “The 2019 GI found Australia to be weak across knowledge and technology outputs, creative outputs, and business sophistication, relative to the top 25 innovation nations globally.”³

These respected economic measures show much more needs to be done if Australia wants to build and future-proof a sustainable and growing economy that can attract talent and capital from international markets. It is therefore important that the economic challenges Australia faces are recognised and tackled through leadership in long-term and visionary policy reforms.

Industry as a whole has a role to play in informing and engaging with all sides of politics on these challenges. This includes the private capital industry, which invests in a wide range of Australian businesses, be they early-stage tech start-ups or long-established agricultural or manufacturing businesses. In particular, the Council’s members seek to invest in high-growth companies that use that capital to expand their workforce, increase sales growth and engage in new research and development.

Private capital and job creation

More broadly, Australian jobs and industry rely on a steady flow of foreign capital to support investment into growing businesses across all sectors of the economy. Australia’s demand for capital continues to be greater than the domestic supply. As a result, Australia is a net importer of capital. Private capital firms are an important vehicle for attracting (domestic and) foreign capital into Australia and into Australian businesses.

The private capital industry has been a consistent and significant contributor to economic activity and job creation through the role of investment capital being deployed to support the growth and expansion of thousands of Australian businesses across every sector of the national economy. Australia’s private capital industry represents 2.6 per cent of Australia’s GDP output each year, and private capital-backed businesses create 1 in 9 new Australian jobs according to independent analysis by Deloitte Access Economics.⁴

The Australian Investment Council’s own analysis shows that the VC sector alone is a large potential employer of highly-skilled jobs that are aligned to the future knowledge-based economy. The 172 portfolio companies in 8 of Australia’s larger VC funds had 1478 job vacancies at 31 December 2020. Engineers across a range of disciplines, IT and Web design specialists, C-suite professionals, Marketing directors, Product developers and HR professionals were amongst the sought-after roles.

Many of these roles were with companies underpinned by technology in industries aligned with government’s priority sectors for advanced manufacturing which include:

1. Resources technology and critical minerals processing
2. Food and beverage
3. Medical products
4. Recycling and clean energy
5. Defence
6. Space.

A steady flow of investment into industries supported by technology is consistent with the investment into venture capital over the past decade which shows IT has been the main investment sector for the industry (**Figure 1.**)⁵

² Harvard University’s Center for International Development *Atlas of Economic Complexity*, accessed at 25 January 2021

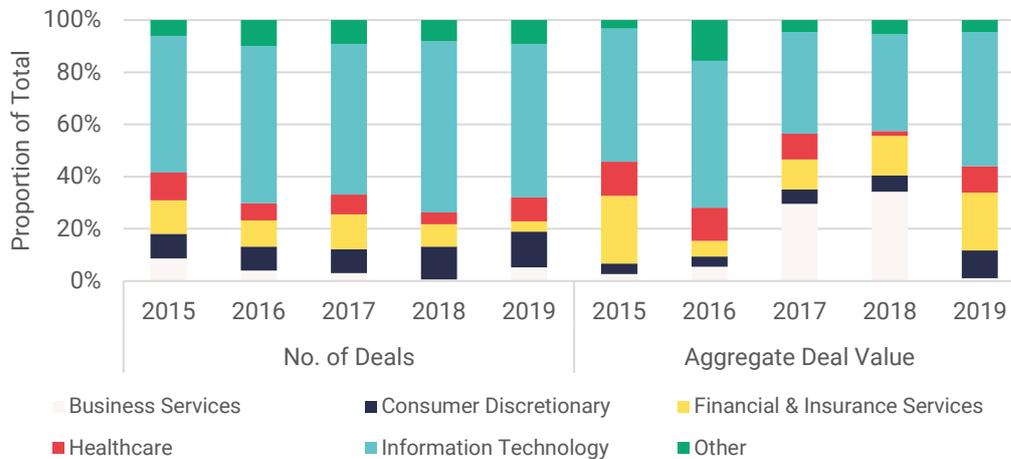
³ Senate Select Committee on Financial Technology and Regulatory Technology, (2019) *Issue Paper*, p.3

⁴ Deloitte Access Economics (2018) *Private equity: Growth and Innovation*, April

⁵ *Preqin & Australian Investment Council Yearbook 2020*



Figure1: Venture Capital Deals in Australia by Industry, 2015 - 2019



Source: Preqin & Australian Investment Council Yearbook 2020

Venture capital drives innovation

At this critical juncture it is essential to support the transition of our economy to provide for the prosperity of generations of today and into the future. Innovation draws upon knowledge and skills that build competitive and sustainable businesses that create highly skilled jobs and increase productivity. It has the ability to generate high-value economic output and to lift global competitiveness. Achieving material gains in innovation and technology will generate sustainable economic and income growth for all, and position the Australian market with a competitive edge against other developed economies around the world. In turn, this will enhance the attractiveness of Australia to domestic and offshore investment capital.

Innovation investment in Australia is driven by VC funding. This funding that is matched with highly valuable strategic and operational advice and guidance to the founders and management teams of early-stage and fast-growth businesses. This model of working in partnership is often the 'x-factor' that can help innovative early-stage businesses realise their domestic and global expansion ambitions. The expansion and growth of such businesses leads directly to more revenue and sales, greater levels of investment into innovative market-leading research and development, and ultimately, is the key driver behind the creation of new jobs.

Australia's VC ecosystem has facilitated the growth of countless companies. These include companies now worth over \$1 billion, including Afterpay, Airwallex, Canva, 10x Genomics, ZipMoney and Zook. Seventy-five per cent of Australian companies that have grown to be worth \$100 million or more have maintained their headquarters in Australia.¹⁶ This shows their dedication to Australia and willingness to employ local talent and contribute to local employment and economic growth. Australia's VC ecosystem has facilitated the growth of companies such as Afterpay, Airwallex, Canva, 10x Genomics, ZipMoney and Zook which are now each worth more than \$1 billion.

⁶ A unicorn a year: More than 50 Australian startups founded since 2011 are valued over \$100 million: *Smart Company*, May 24, 2019



Skills and Talent

Australian businesses need access to the world's best talent. Where local companies cannot access the necessary talent, they can be forced to relocate overseas, taking with them jobs and revenue.

Skills and talent (and capital) are the lifeblood of growing and innovative businesses. Australia has a golden opportunity to be a destination of choice for high calibre talent through its attractive lifestyle, stable political system and future growth opportunities. The government's Global Business and Talent Acquisition Taskforce (**GBTAT**) and tertiary education reforms are positive steps towards acquiring and generating the skills required in the future.

As the pipeline of talent is grown within Australia, there are currently skills and talent gaps within the private capital sector which need to be filled as a priority. An Australian Investment Council analysis of the 172 portfolio companies from 8 of Australia's larger VC funds (representing approximately 30% of the VC industry)⁷ showed 1498 job vacancies, at 31 December 2020.⁸ Jobs requiring IT and engineering skills dominated the job vacancies accounting for approximately one-third of the roles. The analysis also showed that at the Director or Vice-President level, special and specific qualifications such as Scientists, Engineers, Operations and Strategic Management were the skills most in demand.

While Australia builds a local talent base, there has a need to attract the best and brightest talent from offshore. This is particularly true with a number of developed countries implementing restrictive migration regimes and continuing to struggle to contain the COVID-19 pandemic. To this extent, the current environment may be conducive to attracting the Australian diaspora who may have developed specialist skills overseas to return home.

Recommendation 1: *Attract the best and brightest talent*

The Council recommends government boosts the offshore marketing of its Global Talent programs, alongside the Global Business and Talent Acquisition Taskforce (**GBTAT**), to encourage some of the world's best and brightest skilled talent to move to Australia, and at the same time, encourage skilled Australians with valuable offshore experience in leading technology and innovation ecosystems to return home.

Build the next generation of local talent

To compete against the world's best, Australia needs to attract and retain the world's best talent. This is particularly true for Australia as a net importer of capital and highly skilled talent. Education reforms, particularly in STEM disciplines, will help build the next generation of local talent. This will complement the shorter-term immigration reforms.

Skilled migration has been a key feature of Australia's migration system, playing an important role in generating economic growth for successive decades. Australia has had a long history of supportive policies to attract business entrepreneurs. However, the rising global mobility of workers and heightened competition for talent means that it is important for Australia to have policy settings that are effective in attracting a critical mass of "new economy" skilled workers. The global search for talent is compounded by ever-more-rapid changes brought about by technology and innovation. Australia has to stay competitive to attract and retain the best and brightest. The Council is supportive of the government's Global Talent – Sponsored and Independent Programs. While it is still early days in the lifecycle of

⁷ Preqin Pro date at 30 June 2020

⁸ Source: Australian Investment Council analysis.



these policies, the Council believes that they represent a step in the right direction for Australia's future capability around skills development. Further refinement of skilled migration occupation lists will play an important supporting role in identifying those specific niche skills that Australia should prioritise in order to build future growth.

Australia has a strong record of attracting foreign students to tertiary education. Many of these students arrive on visas that are valid for the duration of their studies, and then return to their home countries to develop their careers once their education here is completed. This pipeline of talent represents a potential source of the skills needed to address labour shortages in the short to medium-term.

Recommendation 2: *Extend visas for foreign students*

The Council recommends government extends visas for foreign students who graduate from Australian universities in disciplines where there are skills shortages, allowing them to stay and work in Australia to build a pipeline for a new, knowledge-based economy.

Increase investment allocation to private capital in the Business Innovation and Investment Program

The private capital industry continues to view the Business Innovation and Investment Program as an important part of the Government's plan to reposition Australia as an innovation-focused, knowledge-driven economy. The new Complying Investment Framework for the Significant Investor Visa that was introduced in 2015 has successfully managed to bridge the gap between investor risk appetite and allowing the Government to direct investment into the productive economy particularly into emerging Australian companies to expand business and create jobs. Now the program has reached a stage of maturity, the Council believes there is scope to increase the compulsory Venture Capital and Private Equity (VCPE) investment to support jobs and economic growth. The Council further notes that when the Enhanced SIV regime was announced, the Government indicated that it expected that the compulsory VCPE investment component would increase to \$1m, (20%) within two years (that is, by mid-2017). Currently, a gap remains in our nation's capacity to provide VCPE investment into high growth potential Australian businesses that are on the verge of commercialising and 'taking-to-market' breakthrough technologies. Creating a deeper pool of capital that is available to support the investment that is required by those businesses should therefore be a priority for our economy as Australia emerges from the COVID pandemic. Entrepreneurs who enter Australia on the Significant Investor Visa will help generate new and sustainable business opportunities within the Australian economy into the future and every effort must be taken to attract and retain that talent.

Recommendation 3: *Increase the ratio of investment into VCPE to 20% for the Significant Investor and Investor Visas*

The Council recommends the ratio of investment into VCPE for Significant Investor and Investor Visa holders is increased from 10% to 20% under the Complying Investment Framework to provide investment into jobs and economic growth at no impact to the volume of capital invested under the program.

As outlined in the *Australia 2030 Prosperity Through Innovation* report⁹ released by Innovation and Science Australia, growth in jobs and occupations requiring STEM skills are outstripping overall employment growth across the economy. While skilled migration will help to address skills shortages in the near future, building a workforce from within Australia with relevant STEM skills will contribute to employment and future economic growth. In the longer-term, building a pipeline of future employees with STEM skills from the Australian school system would help to increase the job prospects for Australians in the future.

⁹ *Australia 2030: Prosperity Through Innovation*; Innovation and Science Australia 2017, Australian Government, Canberra



Recommendation 4: *Fast-track the establishment of 'STEM Schools'*

The Council recommends government further embed STEM skills into the Australian School curriculum, from primary school years through to tertiary education and fast-tracks the establishment of 'STEM Schools' modelled on Sydney Science College in Epping.¹⁰

Question 2:

If any immediate adjustments are necessary in the context of the future of work and pandemic recovery.

Help areas in most need

With Jobkeeper payments ending on 28 March, 2021, there will be areas such as South Australia and western New South Wales that will need extra support to create jobs within regional communities.

The Government could provide additional support to specific areas of the economy to support new ventures and innovative businesses in industries where Australia has a comparative advantage or in areas most in need. This is particularly true for some businesses located in regional and rural areas of Australia, despite the fact that regional Australia contributes one third of national output and is home to 8.8 million people. The New England Renewable Energy Zone, near Armidale, NSW is an example of a project that will bring investment and growth to the region. The project is expected to attract \$12.7 billion in investment, support 2000 construction jobs and 1300 ongoing jobs to the New England region.¹¹

Government could encourage similar initiatives to tackle the issue of regional under-development similar the Opportunity Zones program in the US.¹² These provide a blueprint for launching programs which couple government funding and private capital, directing it towards specific areas of need. The Australian Business Securitisation Fund is another positive example of encouraging higher levels of business lending into a specific sector, the SME market in this case, to ensure a continuous flow of funding for this sector. Such a pragmatic policy approach, coupled with strong industry consultation, could be effective in unlocking new sources of capital for investment into SMEs and high growth businesses more generally.

Recommendation 5: *Support infrastructure and national areas most in need*

The Council recommends government introduces incentives for investment into regions and areas most in need based on a similar model to the United States' economic 'Opportunity Zones'.

¹⁰ [Sydney Science College](#)

¹¹ [New England Renewable Energy Zone](#)

¹² [Opportunity Zones, US Economic Development Administration](#)



Encourage equity co-investment into high growth Australian businesses

The timing is appropriate now to establish a new co-investment fund that can support the expansion of the funding pipeline for Australia's innovation ecosystem.

Australian jobs and industries rely on a steady flow of capital to support investment into growing businesses across all sectors of the economy. Australia's demand for capital continues to be greater than domestic supply and as a result, Australia is a net importer of capital and relies on foreign investment to support local business and production growth. Private capital firms are an important vehicle for attracting both domestic and foreign capital into Australia and into Australian business.

The COVID-19 pandemic has challenged every sector of the Australian economy. Government initiatives have provided much needed assistance with the financing of some sectors of the business community. The government's Coronavirus SME loan guarantee has assisted businesses with turnovers up to \$50 million obtain traditional finance, for example credit from a bank, where this might have otherwise not been available. Similarly, the Australian Business Growth Fund (**ABGF**) is a positive initiative. The genesis of the policy drivers for the ABGF was to respond to a defined market failure in respect of established small and medium-sized businesses having access to debt financing, and the need to often provide the family home as collateral. The ABGF provides equity finance for SMEs with the eligible turnover between \$2 million and \$100 million.¹³ Industry analysis suggests that the ABGF's investments are typically more than \$20 million.¹⁴

While useful and valuable, these initiatives do not assist early-stage businesses and businesses with low or no revenue. Some of these businesses were also ineligible for broader support initiatives, for example the Government's JobKeeper program which was not available to start-up companies without a sales history.

Scaling-up and fast-growth businesses can bring significant employment and economic benefits that will flow to all sectors of the Australian economy. It is therefore critical that the current generation of entrepreneurs is supported and encouraged to drive innovation and contribute to the next wave of employment and economic growth. Without this support, Australia risks losing the next generation of new, internationally competitive Australian businesses and becoming an innovation laggard.

While Australia's private capital industry had experienced strong growth before the COVID-19 pandemic and is currently able to support Australian entrepreneurs and start-ups, the industry's ability to continue to do so over the medium term is constrained for the following reasons:

- 1) History showing investment into innovation and research falls after a crisis, despite being a key economic driver;
- 2) Early evidence of 'capital rationing' and some risk aversion materialising;
- 3) Constraints on access to institutional investment from superannuation funds due to a heightened focus on maintaining liquid positions and uncertainty in relation to future valuations; and
- 4) COVID-19 restrictions hampering the ability of fund managers to connect with (potential) investee businesses and institutional investors. This is particularly acute for new funds that do not have established relationships.

Without support, private capital fund managers will be forced to ration their available committed capital, with the result being a potential slow-down in future investments into Australian businesses and entrepreneurs. This will result in

¹³ https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/bd/bd1920a/20bd79

¹⁴ <https://legalvision.com.au/australian-business-growth-fund/>



Australian ideas and Australian companies either not being funded to the extent necessary domestically or being forced to relocate offshore. At this time, it is vitally important that the private sector partners with the government to maintain the capacity to assist the innovation ecosystem, emerging entrepreneurs and their businesses.

Establish a new co-investment fund

A meaningful and proven way that the government can work with the private sector to boost investment for Australian entrepreneurs and Australian businesses over the medium-term is to utilise well proven co-investment funding programs. The timing is also appropriate now to establish a new co-investment fund that can support the expansion of the funding pipeline for Australia's innovation ecosystem.

The proposed co-investment fund would have very little, or no, impact on the federal budget. It would potentially require an allocation of funding from the budget, which would amount to a capital account investment which would essentially be budget neutral.

This program could be modelled on established structures using qualified fund managers. For example, the Biomedical Translation Fund (**BTF**) is a program structure that is well recognised within government as a leading private and public sector collaborative model and could form the basis for a new national co-investment fund. There are alternative models for such programs which could assess the merits of a structure that is based on a 'fund-of-funds' type approach, versus direct investment into underlying investee businesses. The private capital industry is open to canvassing the relative merits of each approach, which takes account of the priorities of the government in this area of policy.

Government co-investment to support early stage and high growth businesses is a well-tested policy response. Co-investment programs are heavily used in the UK, USA, Canada, New Zealand, Germany, France and many other countries across the globe. Domestically, various co-investment programs exist at the state level, complemented by targeted national programs.

Recommendation 6: *Implement a national co-investment program*

The Council recommends government establishes a national co-investment program to support ongoing investment into early-stage Australian businesses and Australian entrepreneurs.

Objective of a new co-investment program

The objective of a new co-investment program would be to support the functioning of the Australian VC investment market through the current dislocation and to maintain the sectors ability to support highly innovative Australian businesses and entrepreneurs in the early-stage and start-up phases.

The building momentum of Australia's private capital industry – of which VC is one component – growing to \$33 billion in assets under management in 2019,¹⁵ is testament to its role within the Australian economy. The industry's contribution to the domestic economy through employment and GDP illustrates the important role it can play in helping drive our economic recovery and creating meaningful, high paid jobs for Australians. Analysis by Deloitte Access Economics has shown that 1 in 9 new Australian jobs are created by private capital-backed Australian businesses.¹⁶

While the private capital industry has committed funds available to support short-term investment over the next one to two years, the COVID-19 pandemic has created uncertainty in respect of access to funds over the medium-term (as discussed above). Without government support, there is a risk of losing a generation of highly innovative Australian businesses to other markets.

¹⁵ Prequin and Australian Investment Council, *Yearbook 2020*

¹⁶ Deloitte Access Economics (2018) *Private equity: growth and innovation*, April.