

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Budget estimates 2020-21 (Pallas)

Melbourne—Tuesday, 1 December 2020

MEMBERS

Ms Lizzie Blandthorn—Chair

Mr Richard Riordan—Deputy Chair

Mr Sam Hibbins

Mr David Limbrick

Mr Gary Maas

Mr Danny O'Brien

Ms Pauline Richards

Mr Tim Richardson

Ms Nina Taylor

Ms Bridget Vallenge

WITNESSES

Mr Tim Pallas, MP, Minister for Economic Development,

Mr David Martine, Secretary, and

Mr Chris Barrett, Chief Executive Officer, Invest Victoria, Department of Treasury and Finance.

The CHAIR: We thank you very much for joining us again, Treasurer, for the consideration of the economic development portfolio. We have 5 minutes allocated for a brief presentation, and then questions will follow from the committee. Thank you.

Mr PALLAS: Thanks very much, Chair. Following on from the budget discussion, I would now like to take the opportunity to talk about the role that the economic development portfolio will play in Victoria's economic recovery. In this short presentation I will provide an overview of the key budget initiatives for the economic development portfolio, which are also central components of the Victorian government's jobs plan, and provide a short update on our investment attraction performance targets during this year, which is of course a year like no other.

Visual presentation.

Mr PALLAS: As we made clear in the jobs plan, job creation is at the heart of our economic recovery. Through this budget the economic development portfolio will support jobs growth by focusing on attracting international investment and unlocking Victoria's business investment and growth. To support international investment attraction the budget includes \$80 million over the next three years for targeted financial incentives to secure the best international companies in the world, foster innovation and increase productivity. Attracting international businesses to Victoria will be critical to our recovery because they create local jobs. For example, although foreign-owned firms account for just 0.5 per cent of all businesses in Australia, they contribute close to 9 per cent of employment and around 30 per cent of business expenditure on research and development. To unlock Victorian business investment and growth this budget invests \$25.7 million in the Venture Growth Fund to partner with private investors on a venture debt facility and back startups to scale. It also provides up to \$50 million for research and development cash flow loans to support Victorian SMEs that currently qualify for the commonwealth's R and D tax incentive to develop products, services and technologies that are vital to the future growth and sustainability of the economy.

Perhaps even more important than the budget investment I just mentioned is the strategy that underpins it. In March this year I released the Victorian *International Investment Strategy*, which sets out the strategic approach to facilitating the highest quality international investment to create jobs. The strategy identifies the types of companies that we should focus our efforts on to bring the most value to Victorians, including those with a track record of research and development and those that will help plug key supply chain gaps that we have in our local market. The strategy also identifies particular sectors that we should devote the most attention to—those that play to Victoria's existing and considerable strengths. These five priority sectors include technology, agrifood, health, clean energy and advanced manufacturing. The analysis of priority sectors, as you may note, was a critical input into the development of the jobs plan.

The Victorian government has also been proactive in assessing the impact of COVID-19 on the economy and also the *International Investment Strategy*. Invest Victoria, the agency responsible for investment attraction, commissioned Deloitte to conduct an independent review of the strategy. The review basically validated the priority sectors and focus and recommended minor adjustments to account for COVID-19 such as, leading in, our focus on health and further incorporating key trends such as a renewed global focus on economic sovereignty.

I am pleased to inform the committee that the external review of Victoria's *International Investment Strategy* found that Victoria's investment volumes to date have largely held up, despite an increasingly tumultuous foreign direct investment market globally. As you will see, in budget paper 3, Invest Victoria achieved all of its budget

paper 3 investment targets: 5241 new jobs, \$2.3 billion in new capital investments and 24 new headquarters or research and development centres were secured via government facilitation services in 2019–20.

Further solidifying Victoria as Australia's technology capital, the ICT sector remains a dominant job creation sector from FDI, representing about 20 per cent of jobs created in the last 12 months. These investments bring new technologies to the state as well as a strategic capability uplift. Invest Victoria, supported by the Victorian trade and investment network, informed me that despite the global pandemic interest in investing in Victoria continues to be strong, particularly from companies in regions where coronavirus cases are continuing. This will be and has been a challenging year, but I am sure that the opportunities that we are unveiling through this strategy and through economic development will serve the state well into the future.

The CHAIR: Thank you, Treasurer. I will hand to Ms Pauline Richards, MP.

Ms RICHARDS: Thank you again for the presentation and to your officials for joining us this morning. I am going to take you to the jobs plan, as outlined in budget paper 2, chapter 3, starting on page 39. I am interested in learning more about the main output initiatives that will support you to deliver against the Victorian *International Investment Strategy*. In particular I am interested in understanding or asking you to present to the committee some more about the investment attraction package.

Mr PALLAS: Thanks very much. I think the key in the jobs plan, which is the centrepiece of the budget, is to understand that jobs sit at the very heart of every intervention that the government is making. It is one of the key features of the plan that we are deliberately seeking to play to Victoria's strengths, recognise what those strengths are and not just simply be a recipient of overtures from a wide variety of investors but be a bit strategic about where we see the greatest economic opportunity. That is not to say that we want to push away potential investors, but it also recognises that we have to focus our effort around the long-term economic uplift that investments make in our state.

One of the defining strengths of this state is that we are exceptional at attracting global investment. Leading companies from right around the world like what they see in Victoria, and they want to be part of it. That is something that I think we can all be proud of, but we cannot take it for granted. In March this year, just as the pandemic was taking hold around the world, I launched the *International Investment Strategy* for the state. That strategy recognises that, even though there was no shortage of interest from international businesses knocking on the door, we have a real opportunity to more actively pursue those companies that add the most value to our local economy and to our community.

We know that good strategy is about choices, and the Victorian *International Investment Strategy* really provides the framework to guide Victoria's own investment choices when it comes to incentivising international investment. So our strategy identifies the priority sectors and also the capabilities that we want to develop further here in Victoria and pinpoints the best global regions and the campaigns and the companies that we need to target.

As part of that strategy, we are focusing on investments that realise and enhance our capabilities—those things that we are innately good at, that we have demonstrated a clear competence and capacity and indeed are nation leaders at: promoting cooperation in research, development and commercialisation, addressing supply chain gaps and, of course, strengthening our venture capital ecosystem, and enhancing linkages into the global economy and global value chains. So we are also going to focus on encouraging investment that helps the government achieve our own goals, so for the state of Victoria that includes those that activate priority precincts and regions—recognising that economic growth is amplified out of these areas; support our Big Build infrastructure agenda; and of course improve the way that we deliver our health services.

Invest Victoria, as the agency that is responsible for economic development and attracting foreign direct investment, utilises a range of financial and non-financial levers to encourage further investment in our state to support, of course, opportunities of state significance. In the 2021 budget there is the inclusion of an \$80 million investment attraction package, which is aimed to utilise our capacity to offer targeted financial incentives to secure high-quality international business investment to support local jobs and to ensure that those jobs continue to grow, and foster innovation and enhance essentially Victoria's productivity growth. While the funding will support Victoria's ability to deliver on our investment strategy, I would also point out that Invest Victoria draws predominantly non-financial investment levers to attract investment.

All too often this focus is, ‘Well, what financial support have you given to attract?’. Overwhelmingly, eight out of 10 times, it is not investment attraction support. We are not putting money into it. We are getting people here because we work hard at getting them here. We go out and we get those that we think will assist us and we facilitate access into the domestic market by opening the appropriate avenues for land identification, employment capacities, where skills are best and helping facilitate our planning regimes as well. So it is all about making sure that we work cooperatively with potential investors. And these services range, of course, as I have indicated, to supporting business, understanding local planning and regulatory frameworks, identifying suitable site locations and linking them to our world-class research and development—so showing them that there is value that we can use, that we can bring, innately embedded into our economy to assist their businesses to grow, and advising them on how best to secure local skills and talent when they set up shop here. And Invest Victoria really is the best in business when it comes to attracting investment to this state.

Ms RICHARDS: Thank you, Treasurer. You mentioned that the Victorian FDI, the foreign direct investment market, has held up well compared to other jurisdictions. Can you provide some examples of some tangible projects for the committee, to provide us with a perhaps deeper understanding of the types of global businesses that are seeking to set up here?

Mr PALLAS: Sure. Well, we are having plenty of success at the moment, I have got to say, and I am thrilled that we are. I am absolutely thrilled at the professionalism and the regard that economic development is held both in the investment community broadly but also within the public sector, because those partnerships, those linkages, are critical to that success. So we are looking, of course, to identify high-quality international companies that continue to charge ahead and to establish Victoria as a great place to invest, and that is a huge vote of confidence in the future of the Victorian economy. So to paint a picture of the types of investment that we facilitated in Victoria over the course of the pandemic, I will provide some recent examples that you will note are completely in line with the Victorian international investment strategy. These include XRHealth and Slalom.

In June I was pleased to announce that, despite the challenges of the pandemic, XRHealth, a global developer in virtual reality telehealth platforms, founded in Israel, chose Victoria to establish an Asia-Pacific headquarters and fulfillment centre, in Melbourne. That investment is set to create up to 90 new jobs, providing new or additional employment opportunities for clinicians and allied health professionals right across metropolitan Melbourne—and regional Victoria for that matter. The technology that that company brings to us will allow clinicians to design what is a unique treatment plan for their patients and virtual reality exercises and monitor progress through real-time, data-driven dashboards for the duration of their recovery journey. It really is a sign of technology being applied for the welfare and the wellbeing of the Victorian people and perhaps something that we can see will ultimately be exported to the world.

Additionally, the Victorian government also announced in June that cutting-edge tech-consulting firm Slalom will establish its Australian headquarters in Melbourne to support their Asia-Pacific headquarters—200 new jobs over the next two years. Valued at \$1.5 billion and headquartered in Seattle, Slalom works with over half of the Fortune 100 companies. It is a top-tier carrier on Amazon Web Services, Google Cloud, Microsoft and Salesforce.

Over the last 12 months 15 high-tech international companies have invested or increased their investment in Victoria. They have strengthened Victoria’s capabilities in emerging tech areas such as cybersecurity, artificial intelligence and data analytics. Now, all of these investments are in line with our investment strategy and all of them are creating high-value jobs in Victoria. I can tell you that this is really the living embodiment of the broad ambition that our jobs plan has for Victoria: find our strengths, play to our strengths and make every opportunity a winner by facilitating it with appropriate policy interventions, and never waste a moment of effort and activity identifying where companies can bring value to the state and we can bring value to their businesses.

Ms RICHARDS: Thank you, Treasurer.

The CHAIR: Thank you, Treasurer. Mr Danny O’Brien, MP.

Mr D O’BRIEN: Thank you, Chair. Minister, you were just talking about the international aspect of the portfolio, seeking to make Victoria a great place to invest. I know the government has made much of its relationship with China, and we currently have significant trade tension, let alone diplomatic tension, with China, so the question I have is: what representations have you made to your Chinese counterparts to have them

overturn the very, very punitive bans on trade that we are experiencing and that affect Victorian producers, particularly most recently in wine and barley and others?

Mr PALLAS: I think it is particularly important that we make sure that our engagement with China at the moment is pre-empted upon a common view with the commonwealth about making sure that we maintain respectful and mutually beneficial trading arrangements. I know that the minister for trade has had many interactions with his federal counterpart. I think one of the keys that we are very keen to ensure is that in this difficult time we speak with one voice around the engagement with China, and that is that of course we support free, fair and mutually beneficial trade arrangements. To the extent that those messages are being conveyed through our business offices, they remain in place, and we do not support the imposition upon the state of Victoria—or, might I say, the rest of the nation—any trade restrictions.

Mr D O'BRIEN: Minister, you have just talked about the importance of speaking with one voice as a nation. Has the Victorian government's policy changed? Because that was not the position two years ago when you sign the MOU on the Belt and Road Initiative, when you went explicitly against commonwealth policy.

Mr PALLAS: No, we did not. The commonwealth signed a Belt and Road agreement with the Chinese government in 2017.

Mr D O'BRIEN: It did not sign the Belt and Road Initiative MOU the you have signed, Treasurer, and you know that.

Mr PALLAS: It did not sign the same agreement, no. But it has signed a Belt and Road agreement. Indeed on multiple occasions they have signed multilateral and bilateral agreements with China. Our Belt and Road agreement, which is on the public record, is about mutually beneficial trade arrangements and sharing skills and expertise, but it makes no commitment. It is about recognising that we are better by working cooperatively together—hardly a principle that I would have thought you would oppose and certainly one many of your constituents would see great value in.

Now, in the current environment, where projections are that if a trade war with China were to play out to its worst-case scenario, a 6 per cent reduction in national GDP, we do not want to exacerbate that situation. We want to send clear and consistent messages, and we will act in cooperation with the federal government. The trade minister is dealing with the federal trade minister, and we support the commonwealth's approach to try and get this relationship on an even keel and to make sure that we work in a mutually beneficial and cooperative way.

Mr D O'BRIEN: Minister, the MOU signed in 2018 specifically—and I am talking about article II, number I—says parties will enhance, among other things, unimpeded trade. We clearly do not have unimpeded trade at the moment. And article IV of the MOU says:

The Parties will settle differences in the interpretation, application or implementation of this MOU through friendly consultations.

My question again is: what friendly consultations have you or your government had with the Chinese authorities to get Victoria's products back into their market?

Mr PALLAS: Well, we of course entered into this agreement in good faith and we hope and we expect and we believe that over the long term the state will continue to get the value of this agreement. But might I say it puts us in a position where we can at least demonstrate that the state is advocating for exactly the same things that the commonwealth is advocating for. You will see nothing in the quote that you have just played out to us, Mr O'Brien, that diverges in any way from what Minister Birmingham is saying, the Prime Minister is saying or anybody else.

Mr D O'BRIEN: I just find this sudden cooperation with the commonwealth astounding given how unilaterally Victoria operated on the Belt and Road initiative from all the other states, against DFAT advice, and from the commonwealth and—

Mr PALLAS: Well, I do not accept your presentation of that matter.

Mr D O'BRIEN: Well, you might not accept it, Minister, but it is the fact—

Ms RICHARDS: Excuse me, Chair, I have got a point of order.

The CHAIR: Sorry, Mr O'Brien, there is a point of order.

Ms RICHARDS: I am just checking, Mr O'Brien, if I could please, through the Chair, have a budget paper reference for this line.

Mr D O'BRIEN: Chair, I was responding to the minister's first answers about international investment.

The CHAIR: If you could keep your questioning to the budget, as it obviously is scrutiny of the budget papers that are before us and not a broader ranging task that is before this committee at this point in time. Your questions prompted the Treasurer's answer, but I would ask that you keep the committee focused on this—

Ms Vallence interjected.

The CHAIR: Bridget, Ms Vallence, I am talking to Mr O'Brien. If you could keep your scrutiny on the budget papers, that would be appreciated.

Mr PALLAS: Look, I do not want there to be any misunderstanding here. We are working cooperatively with the commonwealth in terms of ongoing discussions with Chinese authorities about these issues and we are hopeful that the matters can be resolved quickly. We would condemn any imposition by any country, as indeed the sentiments of that agreement that you have quoted mentions, that would make it harder for Victorians to sell their products. This is a position that we have expressed of course to the federal trade minister and, when we get the opportunity, we will express through our trade missions in China. It is an irrefutable principle that the community's and our capacity to trade with China in a fair and unimpeded way is in the nation's interests, and we hope that the commonwealth can re-establish mutually beneficial engagement going forward.

Mr D O'BRIEN: Speaking of condemning the trade barriers and having the friendly consultations that I referred to earlier, you may have seen the tweet yesterday from a Chinese government official Twitter account. Do you condemn that as an impediment towards good trade between the two countries?

The CHAIR: Sorry Mr O'Brien, again I would I remind you that we are here to scrutinise the budget papers and not people's Twitter accounts. If you could keep your questions to the budget papers—

Mr D O'BRIEN: It is not a person's Twitter account, it is one of our major trading partners, Chair. Budget paper 3, page 84, is about trade.

The CHAIR: Thank you, Mr O'Brien. I am sorry, but your time has expired.

Mr D O'BRIEN: So you are not going to let the Treasurer answer that question?

The CHAIR: I will pass the call to Mr David Limbrick, MLC.

Mr D O'BRIEN: How convenient.

Mr LIMBRICK: Thank you, Chair. And thank you again, Treasurer, for your presentation today. I would like to learn a bit more about the international investment attraction fund. When a multinational company wants to invest they have got lots of places in the world they can choose; right? So what do you see as Victoria's unique proposition that we are selling? Why would they choose to invest here instead of New South Wales or New Zealand or Singapore or America? What have we got going for us that is so special that we can market to these companies?

Mr PALLAS: If you are okay, Mr Limbrick, I will throw to Mr Barrett, who is responsible for actually attracting international investment.

Mr LIMBRICK: Excellent.

Mr BARRETT: Thank you, Treasurer; thank you, Mr Limbrick. I think there is some difference in how you do this in a post-COVID environment versus a pre-COVID environment, and in some ways the post-COVID environment has given us some additional advantages in attracting investment, we feel, because we think that Australia as a whole, and Victoria, particularly with our success in suppressing the virus, has given us a great

opportunity to say, ‘This is a great place to do business’. Often quality of life is a very strong element that we seek to promote when we are trying to attract investment from overseas and a skilled workforce, and the skilled workforce and quality-of-life metrics are very closely related. People need to want to come here in skilled labour and investors need to want to come here. I just wanted to draw attention to that as a post-COVID element.

Pre-COVID, and these I think all persist, were elements around our skilled workforce; again, as I mentioned, about the quality of life more generally; about Melbourne being a great place to live and to work and to raise a family and the number of times that Melbourne has been featured as the world’s best city for many years running. So it is a lot of those more qualitative measures, and then on top of that obviously a very strong record on jobs performance, a very strong record on growth performance, a very strong infrastructure program—housing, residential construction—and strong policies in relation to clean energy, for example. I could go on for a while because that is my job, but those are the things I draw attention to.

Mr LIMBRICK: A lot of these things are dependent on us opening up our borders again. From what I have heard from both the Premier and the Treasurer we could be in a situation where our borders are closed a lot longer than possibly other places in the world, depending on when a vaccine or some sort of treatment is available. Doesn’t that possibly put us at a severe disadvantage for this type of investment? Like, multinationals would not want to invest here if our borders are not open to international visitors and workers and stuff, would they?

Mr BARRETT: We have been pleasantly surprised by the way, as the Treasurer said in his opening remarks, the investment volumes have held up so far. Certainly the volumes have held up but also the number of inquiries. Certainly we have been very busy in dealing with incoming inquiries, and perhaps a little busier than we expected to be during this period of time. I think it is true that sometimes closing the final deal, signing the final deal, does require a visit, and so obviously we are very hopeful that the borders will be open and businesspeople will be able to do that. Depending on the size of the deals that they are closing, they may even be prepared to come and do a period of quarantine to be able to close those deals if the deals are big enough and important enough. So we have not seen the slowdown so far. That may come, but we are pretty confident so far about how it is tracking.

Mr LIMBRICK: And just with regard to these strategic sectors that we have chosen as our strengths, that is looking at what we have historically been good at, but I imagine that the world is going to look very different once we open up after COVID. How are we confident that those strengths that we have had will still be strengths in the future and that we are not actually selecting the wrong industries to be targeting?

Mr BARRETT: Thank you. We were very alive to that, Mr Limbrick, as we went through this process. I think, as the Treasurer mentioned in his opening remarks, one of the first things we did as the pandemic hit was undertake a review. As the Treasurer might have mentioned, the international investment strategy was relatively recent, it was only launched in March, right in the teeth of the arriving pandemic, but as we went through the review, and that took three or four months—a very substantial exercise undertaken by Deloitte Access Economics consultants. They did some international benchmarking of what other investment attraction bodies were doing, and their view was that in fact the sectors that we had were largely fit for purpose but we might want to lean in in a couple of areas, health and biomedical being one of those particular areas. That in turn, just to take an example, informed I think a lot of the investments that you see in the jobs plan particularly in that space and that the Treasurer mentioned in his opening remarks.

Mr LIMBRICK: So how flexible are these industries? If you want to change this, if we discover that we open up and things are quite different, are we flexible here? Can we change—

Mr BARRETT: Yes is the short answer.

The CHAIR: Sorry to interrupt again, Mr Limbrick, but the time for your questions has expired and the time for consideration of the economic development portfolio has also expired. We thank you for appearing before the committee in relation to this portfolio today. The committee will follow up on any questions taken on notice in writing, and responses will be required within 10 working days. We will take a short 5-minute break to allow for the change of witnesses at the table before moving to consideration of the industrial relations portfolio.

Witnesses withdrew.