

VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2014–15

Melbourne — 23 May 2014

Members

Mr N. Angus

Ms J. Garrett

Mr D. Morris

Mr D. R. J. O'Brien

Mr C. Ondarchie

Mr M. Pakula

Mr R. Scott

Chair: Mr D. Morris

Deputy Chair: Mr M. Pakula

Staff

Executive Officer: Ms V. Cheong

Witnesses

Mr G. Rich-Phillips, Minister responsible for the Aviation Industry,

Mr H. Ronaldson, Secretary,

Mr J. Strilakos, Chief Finance Officer, and

Ms M. van Rooden, Deputy Secretary, Trade, Manufacturing, Aviation And Employment, Department of State Development, Business and Innovation.

**Necessary corrections to be notified to
executive officer of committee**

The CHAIR — We will resume the hearings with hearing no. 45 — aviation. I welcome back the minister, the Honourable Gordon Rich-Phillips, Mr Ronaldson and Mr Strilakos, and I now welcome from the Department of State Development, Business and Innovation the Deputy Secretary, Trade, Manufacturing, Aviation and Employment, Ms Marion van Rooden.

The minister now has an opportunity for a brief presentation of no more than 5 minutes on the budget estimates for the aviation portfolio.

Overheads shown.

Mr RICH-PHILLIPS — Thank you, Chairman. I thank the committee for this opportunity. I have a slide presentation, but again I will keep it fairly brief so we can move to questions. The role in the aviation industry portfolio is largely an industry advocacy one, but it is also an industry development role in a similar way to the technology portfolio. What we have in the first slide is a thumbnail sketch of the industry within Victoria to give an example of the types of activities which are encompassed in Victoria and also to give the committee a bit of an understanding of the opportunities which exist in the aviation/aerospace sector for Victoria and for Australia.

Boeing and Airbus have both forecast that over the next 20 years we will see demand of around 11 000 new high-capacity commercial aircraft required in the Asia-Pacific region as we see growth in Asia-Pac over the next two decades — around a trillion dollars worth of orders for those two companies, but importantly an enormous skills demand as a consequence: around 200 000 aircrew required, around 200 000 ground crew required. There is enormous opportunity for Australia in provision of skills training but also in the provision of some of those support services to that expanding fleet in the Asia-Pacific.

This slide gives a quick thumbnail of some of the elements of the aviation/aerospace sector here in Victoria, where it is focused on the infrastructure — our two 24-hour, curfew-free major airports — the fact that we have airlines like Jetstar and Tiger based here in Victoria; the fact that we lead in aviation training for Australia here in Victoria, particularly pilot training in the export market, which I am happy to talk about later; the fact that we have very well-developed capabilities in aerospace manufacturing, which have been on display particularly in the last couple of months with some great export opportunities.

Moving on, one of the centrepieces of the aviation portfolio is the Regional Aviation Fund, which was a commitment of \$20 million over four years by the Victorian government, with \$5 million a year ongoing for the upgrade of regional airport infrastructure across the state. I am happy to talk about that in more detail if the committee wishes. I think we have had 21 projects approved under that fund, of which 15 have been announced. I was very pleased to be with the member for Lowan yesterday at Nhill on the South Australian-Victorian border opening one of those projects.

In terms of some of the other opportunities we are focusing on, one of the big ones is AIR 5428, which I would be happy to take a question about. This is the Australian Defence Force's pilot training requirements over the next 25 years, of which there is a great opportunity for that to be based in Victoria. It is a multibillion-dollar opportunity, creating literally hundreds of jobs. The Victorian government is working very closely with bidders, working very closely with Wellington shire around securing that project for Victoria.

Likewise, we see the growth and expansion of Avalon Airport as a great opportunity for the state. The irony is that we are now at a point in 2014 where after four decades of debate Sydney is finally sort of saying it wants to have a second airport. We have a second airport with Avalon. It is running as a domestic airport currently and it has great opportunities to expand further. The Victorian government is working very closely with that.

One of the other areas of growth and opportunity is maintenance, repair and overhaul — MRO — operations in Victoria. This slide highlights some of the recent developments: BAE Systems moving into civil aircraft maintenance, which is an expansion for BAE; with the Victorian government securing the Jetstar Dreamliner base here in Victoria, with Virgin tech development providing line maintenance for Virgin. We also have substantial capability and opportunity elsewhere in the industry. One of the things I would highlight to the committee is while much of the aviation industry in Australia is seen in the context of the Qantas group and the Virgin group, of the aircraft fleet in this country — around 15 000 aircraft — only around 3 per cent are actually operated by the Virgin and Qantas groups. The vast majority are operated by smaller operators, including heavy commercial aircraft, as well as the plethora of smaller aircraft. All of them need training, all of them need

airport support, all of them need maintenance, so there is a vast industry beyond the headlines we see around Virgin and Qantas.

Moving on — I am conscious of the time — research and training is an important area for the Victorian government. I am happy to talk further about that. I will leave it there Chairman. I am happy to take the committee's questions.

The CHAIR — Thank you, Minister. We have until 10.45 for questions. Again, Minister, can you outline to the committee the budget initiatives in the aviation portfolio which will contribute to growth and jobs in the coming year and over the forward estimates period?

Mr RICH-PHILLIPS — Thank you, Mr Chairman. I guess I would go straight to the Regional Aviation Fund in talking about investment in infrastructure, which has important benefits for regional communities. I said in my slide presentation that we have approved funding for 21 projects from the Regional Aviation Fund spread across Victoria, of which 15 have been announced and another 6 remain to be announced. These projects are targeted at practical operational improvements at regional airports, making those airports more usable for regional communities, because we see the benefits of having those hubs in our regional communities — be it for tourism operations, emergency services, air ambulance operations, firefighting, fire suppression, fire-spotting operations, police air wing operations as well as business operations in regional communities.

One of the best examples of that is the upgrade the Victorian government has committed to Bendigo with the City of Bendigo, which has led to the establishment and growth of a jet charter service based out of Bendigo. This is attached to one of the largest veterinarian practices in Australia, based in Bendigo. It provides swine veterinarian services up and down the east coast of Australia using corporate jets based out of Bendigo. If it was not for projects like the Regional Aviation Fund project at Bendigo, that business could not be based in Bendigo and could not operate up and down the east coast of Australia.

Yesterday when I was out with the member for Lowan, Hugh Delahunty, at Nhill I heard from the local hospital. One of the great benefits of the upgrade project we opened at Nhill was a redevelopment of the main east-west runway, a 160 000 commitment by the Victorian government. That airport supports the delivery of gynaecological services to the Nhill hospital. Those services are not from Melbourne; those are from Adelaide. On a monthly basis a gynaecological surgeon flies from Adelaide to the Nhill Airport to provide services into that hospital. That highlights why those facilities and having them available on a 24-hour basis, with instrument approaches, with night lighting, is incredibly important for service delivery into those communities. As I said, that is a \$160 000 investment by the Victorian government, 75 per cent of that project cost. It is a modest investment for what delivers very substantial benefits to those regional communities, both obviously in job creation with the work and with the flow-on benefits.

Mr SCOTT — Minister, in your presentation you made reference to Avalon Airport. As I am sure you are aware, when the coalition was in opposition there was a promise made to deliver a dedicated aviation fuel pipeline to Avalon. I would be grateful if you could direct us to anywhere in the budget that this particular promise is being acquitted.

Mr RICH-PHILLIPS — I thank Mr Scott for his question. I say to Mr Scott that he is too late; that was in the government's first budget. It was funded in the government's first budget in 2011. We have entered into —

Members interjecting.

The CHAIR — Order! The minister has the call.

Members interjecting.

The CHAIR — Mr Ondarchie, thank you! When we are all ready, the minister can resume his answer.

Mr RICH-PHILLIPS — Thank you, Mr Chairman; I appreciate it has been a long two weeks. That was funded, Mr Scott, in the government's first budget, and the government has entered into an MOU with Avalon Airport, and there are certain triggers in that MOU for the construction of that pipeline. That requires a contribution from the airport; it also requires a contribution from the pipeline operator for that spur off that.

When those triggers are met, that is the basis for the construction. We have provided funding, and we have entered into the MOU for that to progress when the airport is ready for it to progress.

Mr O'BRIEN — I would like to ask you, Minister, to call someone to call up that centrepiece you called the Regional Aviation Fund slide. I could ask you questions and get you to talk about some of the commitments to Kyneton, Stawell, Hamilton, Warrnambool, Cobden, Colac, Edenhope and Nhill. Unfortunately I could not be with you yesterday; I know the member for Lowan was there, but I was here. What I would like to ask you about is that you have got there on that map Lethbridge. I was wondering if you could provide any information about the project to be undertaken at the Lethbridge Airpark and how that will benefit western Victoria, in particular the south-west.

Mr RICH-PHILLIPS — I thank Mr O'Brien for his question specifically about Lethbridge but also for his support of this program. I know Mr O'Brien has been a very strong advocate for projects within his own region, which covers a fair whack of the state in the west and south-west. As you will see on the map, a number of the projects in this program have been delivered in Mr O'Brien's electorate, and he has been a very strong advocate for those projects, so I thank Mr O'Brien for his work in that regard.

Specifically in relation to the Lethbridge project, which is a commitment by this government of a little over a million dollars in funding for the upgrade of Lethbridge Airpark, which is between Ballarat and Geelong, prior to the government coming to office in 2010 we made a commitment to undertake a feasibility study with respect to the provision of a regional airport for Geelong. That was in response to the then pending closure of the Geelong Grovedale airport as part of the development of the Armstrong Creek residential area and the recognition that, notwithstanding the presence of Avalon as the major airport in the Geelong region, Geelong needed to have and wanted to have a facility suitable for general aviation operations which would serve the Geelong community. This is of course because most of Victoria's major regional centres have regional airports, and Geelong, with the closure of Grovedale, would be one of the few not to be served by its own regional airport, so we committed to undertake that work in opposition, and that work was delivered in the government's first budget and subsequently undertaken in 2011 and 2012. What that study proposed were a number of options: long term, the development of a new greenfield airport for the Geelong Basin; certain expansion of operations at Avalon Airport; and the upgrade of Lethbridge Airpark.

Last year — in the middle of last year, just under 12 months ago — the government, along with Golden Plains shire, committed to the upgrade and development of Lethbridge Airpark as a general aviation airport for the Geelong Basin. This is a commitment, as I said, of a little over \$1 million to provide for the realignment of the main runway and to provide for the sealing of that runway. To date that has been a grass runway; it will now be a bitumen runway. It will have lighting; it will have a fuel facility. It will be available for use by emergency services, particularly the helicopter air ambulance. It will be a major boost to general aviation capacity in the south-west, in the Geelong region, following the closure of the Grovedale airport.

That project is well under way, and I understand it will be completed sometime in the next couple of months, as they work through the winter period. Obviously that is subject to change as we see days like today, but that project is well under way and will be completed shortly. It will provide that general aviation capacity for Geelong which has been missing since the closure of the Grovedale airport.

Ms GARRETT — Minister, I refer to your presentation and the frequent references to Avalon Airport. I ask: can you advise the committee about the most recent passenger trends for Avalon Airport?

Mr RICH-PHILLIPS — I say to Ms Garrett that Avalon Airport has around 500 000 passenger movements a year. It has the Jetstar domestic services between Avalon and Sydney, and Avalon and Brisbane, which the Victorian government last year worked with the airport to retain. The reason we did that is because we see the future development of Avalon Airport, with its expansion into international operations, as being in the state's strategic interest. We worked with Jetstar and we worked with Avalon — with the airport operators — to ensure the continuation of those services while the airport works to achieve international status.

Earlier this year we saw the execution of an MOU between Avalon Airport and the Hainan Group around the development of freight and ultimately passenger services at Avalon. Indeed, that was delivered during the course of the Premier's and the Prime Minister's trade mission to Asia. That was a great development for Avalon.

Ms GARRETT — By way of supplementary, in terms of recent trends, perhaps I should be more specific. Over the last five years, Minister, has there been an increase in passenger use of the airport or a decrease, and if so, what was the movement?

Mr RICH-PHILLIPS — As I said, there have been around 500 000 movements at Avalon. Data on trends is published by Airservices Australia on its website, and that is available there. There are around 500 000 passenger movements with those Jetstar services. The Victorian government is very supportive of the continued development of Avalon, as is the commonwealth government, and it would be good if the opposition was also supportive of the continued development of Avalon.

Ms GARRETT — It would be good if the minister answered the questions as they are asked — —

Members interjecting.

Mr ANGUS — Minister, in your presentation you touched on various aspects of aviation training and so on. How is the government working with industry to take advantage of Victoria's aviation training capabilities and export these into Asia?

Mr RICH-PHILLIPS — I thank Mr Angus for his question. Aviation training is one of the great opportunities for the Victorian aviation industry for a couple of reasons. Victoria has some very strong natural attributes. We have, with the exception of today, typically good weather compared to many of the alternative flying training centres in the United States and Europe — we have pretty benign weather. We have comparatively benign terrain, which makes for good pilot training. We have uncongested airspace, by comparison again with Europe and North America, and we have a product which is recognised globally, and particularly in the Asia-Pacific region, as very good — well regulated, acquitted to international standards and well regarded throughout the region.

We have seen our export flying training business grow and flourish. We have a number of large operators in Victoria providing export pilot training, including out of Mangalore in regional Victoria. We have Singapore Technologies providing pilot training for Chinese carriers out of Ballarat, and we also have a number of flying schools, including CAE Oxford Aviation Academy, which is the world's largest flying training provider, based at Moorabbin Airport, also providing export pilot training into the Chinese market.

The Victorian government, through our trade mission program, has been working with a number of those carriers which have participated in a number of those missions to open up opportunities through Asia — in Singapore and Vietnam, in the Indian market and in the Chinese market — because in those markets, particularly the Chinese market, there is a great growth opportunity, and our flying training providers have already demonstrated that they have the capability to expand and provide the product that those markets want.

A recent example is one of our flying training operators at Moorabbin, Tristar Aviation, which in terms of size is a second tier provider, has received certification from the Vietnamese aviation authorities to provide pilot training for Vietnamese pilots, which will take place here in Melbourne, Victoria. So there are a number of opportunities in those export markets which we have worked with flying training providers to harness.

The other side where we see great opportunities in pilot training is the AIR 5428 project that I spoke about before. The Australian Defence Force and the Australian government have determined that they want to have combined tri-service pilot training covering air force, army and navy in one location, and are currently in the marketplace seeking a 25-year contract to be provided either on base in a military environment or in an off-base option.

The Victorian government has been very strong in its advocacy to the commonwealth, to the defence minister and to the Prime Minister and worked very closely with bidders who are looking at Victorian solutions to that tender to see that provided in Sale, either on base at the RAAF base at East Sale or off base at the civilian airport at West Sale, and using the other infrastructure which exists in the region. For example, there are airports at Yarram and Bairnsdale which could be used as satellite facilities for that. We believe there is a very strong case for Sale to be chosen by the commonwealth as part of that project. The military base at Sale is already home to air force officer training, to the School of Air Traffic Control and to the Central Flying School for instructor training. We believe the basic flying training would fit alongside that very well and that Sale has a very strong claim.

As part of our work with the bidder which has publicly announced the Victorian proposal, Team 21, which is a consortium of Lockheed Martin and Pilatus, we are looking at on base East Sale and off base West Sale. The Victorian government has indicated to the commonwealth and to bidders that as part of a successful Victorian outcome we will provide support through the Regional Aviation Fund and the Regional Growth Fund for infrastructure upgrades at the civilian airport, between \$5 million and \$20 million depending on which solution is chosen, whether it is on base or off base. Our investment would be at the civilian airport, and that is a very competitive proposition compared with alternatives in other states. We believe Sale and Victoria are very well placed on a merit-based competition, and we look forward to that contract being awarded in due course in 2015.

Mr SCOTT — Minister, I will be kind in how I describe this. I certainly appreciate your undoubted personal enthusiasm for the aviation portfolio, but the reporting of it and the resources that are dedicated to it specifically as opposed to some of the other outputs within the department are fairly opaque in the budget papers. While there are some specific funds, I would be grateful for information on whether there are any performance measures in the budget papers which specifically relate only to your portfolio and not to others?

Mr RICH-PHILLIPS — I thank Mr Scott for his question. In a certain perspective it is slightly ironic, because having sat on that side of the table for one or two years and had discussions around performance measures and around the materiality of performance measures and the desire for performance measures to be material to expenditure, I will say to Mr Scott, as I have done previously, there are not specific performance measures for this portfolio in recognition of the relative size of the portfolio compared to other elements of the department.

This portfolio contributes to the overall jobs and investment targets as set down in the budget papers. As I said at the outset, the functions for this portfolio is largely around advocacy and support for the industry as well as some specific programs. There is the Regional Aviation Fund, which is an ongoing program of nominally \$5 million a year. Obviously that varies depending on the phasing of particular projects. There is the funding which was supported by government last year of \$4.5 million over two years, which was obviously disclosed specifically in last year's budget rather than this year's budget. That is the level of specific funding of programs in the portfolio. It is modest funding in terms of programs. As I said, the role is very much around advocating and supporting the industry, and because it is modest funding the outcomes of the portfolio are reported in the aggregate investment and jobs numbers for the department in the investment attraction, facilitation and major projects output.

Mr SCOTT — By way of supplementary, I note your answer relating to the modest level of staffing and resources. I would be grateful if you could provide to the committee an update of what are the resources within the department in terms of staff that are allocated specifically to the aviation portfolio?

Mr RICH-PHILLIPS — I am happy to take that on notice, Mr Scott. The staff who work in the aviation area also work in the defence area for Minister Hodggett in his manufacturing portfolio. In terms of hard splits between them, the group that Ms van Rooden oversees encompasses both areas, so there is not aviation exclusively or defence exclusively; there is an overlap, but we can give the committee some information in that regard.

Mr ONDARCHIE — Minister, I refer you to slide 5 that you showed in your presentation, particularly about MRO. You know I have a passion for the aviation industry like you do. Could you talk to us about the investment attraction outcomes achieved in Victoria, particularly in relation to the 787 Dreamliner that you were talking about?

Mr RICH-PHILLIPS — I thank Mr Ondarchie for the question. This is a matter that was raised by Mr Pakula last year when it was a prospective project for Victoria. We saw the attraction of the Jetstar 787 Dreamliner base as one of the great opportunities for the aviation and aerospace portfolio, because the Dreamliner represents the future direction of aviation and aerospace in Australia and around the world. As Mr Ondarchie would be aware, it is largely a composite airframe. Large components of it are manufactured here in Melbourne, at Boeing Aerostructures at Port Melbourne. We saw the attraction of that project to Victoria as being of strategic value. The project is a \$100 million capital commitment by Jetstar, it is the creation initially of 100 jobs with the Dreamliner fleet and obviously as that aircraft comes into greater service in Australia, we would expect to see that grow.

Getting that based here, getting the flight simulation capacity based here and getting the maintenance based here was of strategic importance because we already have, through that Boeing Aerostructures facility, manufacturing capability in composites which has been developed over a period of time. That facility is the only facility in the world providing those components to Boeing in the United States, from Port Melbourne. We are now developing maintenance capabilities around those composites as well, which will position our industry very strongly as we see further composite airframes come into service over coming years. It is a very important project for Victoria. The Victorian government was delighted to work with Jetstar and the Qantas group to secure it here and to now see it up and running.

The CHAIR — Thank you, Minister. That is the end of the time available for the aviation portfolio. I think there was one question regarding staffing which you have agreed to take on notice. We will write to you, and a response within 21 days would be of assistance. I thank the secretary and departmental staff for their attendance today. That concludes the hearing.

Witnesses withdrew.