

VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2014–15

Melbourne — 12 May 2014

Members

Mr N. Angus

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Mr D. Morris

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Mr C. Ondarchie

Mr M. Pakula

Mr R. Scott

Chair: Mr D. Morris

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Witnesses

Mr D. Hodgett, Minister for Manufacturing,

Mr H. Ronaldson, Secretary,

Mr J. Strilakos, Chief Financial 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 — Welcome, everyone, back to hearing no. 7 for the estimates hearings of 2014: the portfolio of manufacturing. We continue with Minister Hodggett, Mr Ronaldson and Mr Strilakos, and I welcome from the Department of State Development, Business and Innovation the Deputy Secretary, Trade, Manufacturing, Aviation and Employment, Marion van Rooden.

The Minister now has no more than 5 minutes to make a brief presentation on the budget estimates for the manufacturing portfolio.

Overheads shown.

Mr HODGETT — Thank you, Chair and committee. I will again try to skate through this as quickly as possible, if I can, and then leave adequate time for questions. In relation to the first couple of slides, Victoria's manufacturing sector makes a significant contribution to the state's economy of just under \$26 billion — 25.6 billion. However, its contribution to gross state product has declined over a period. Putting that slide into context, there has been a long-term trend over a number of challenges where the gross value-added and the share of gross national product has declined, which is reflected in that slide. In large part, the decline in national share is due to different industry mixes. Victoria has been more dependent on protected industries such as textiles, clothing, footwear and automotive, which have been declining in size over the period. It has a smaller resource processing sector as part of manufacturing than other states, so it did not benefit as much from the mining boom. While Victoria has a large food processing sector, New South Wales, for example, has more metal processing machinery and equipment in its manufacturing sector.

As the next slide shows, the Victorian manufacturing industry employs just under 280 000 people, representing just under 10 per cent of the state's workforce. It is the largest employer of full-time employees. Victoria's share of national manufacturing employment has remained at just over 30 per cent since 1995. It is important to note that not all manufacturing industries have experienced a decline in employment. Food processing employment has increased over the period, while employment in motor vehicle manufacturing parts has declined. So we need to put this into the context of recognising the challenges but also that there are many industries where there have been significant increases over the time.

The point is that whilst many firms are facing those challenges, and the auto sector is one that we are all familiar with, they will still require significant structural adjustment. It is important to note that I am confident that despite its decline in contributions to the Victorian economy and employment, the manufacturing industry will remain one of the largest industries in Victoria and one of the largest employers.

A key challenge is that the high Australian dollar has impacted on export levels. There are any number of challenges, many within our control and many outside our control — outside of state and federal control. It would be nice to be able to control the Australian dollar, but we cannot necessarily do it. Again, if you put it into context though there are plenty of companies that are doing terrifically. Marand is one example of a Victorian company that is exporting advanced manufacturing products, having secured a multimillion dollar long-term contract for supply of the vertical tail fins for the F-35 joint strike fighter project. The Victorian government recently released its Food to Asia action plan which will build on Victoria's strength to boost exports of premium quality foods and beverages.

I should just touch on trade missions. Since coming to office in 2010 the government has led many trade missions for Victorian companies to look at and get into export investment opportunities and global markets. Manufacturers have participated in many of these missions, including the areas of food and beverage, agribusiness, fashion, textiles and life sciences. We continue to do those. It is a great program delivering some great outcomes. I would be happy to elaborate more on that later on.

Our implementation of the 2011 manufacturing strategy has continued over the last year with key programs being delivered for the manufacturing industry. IMT — Investing in Manufacturing Technology — is one of those great programs, with 24.8 million over four years to help businesses increase productivity and competitiveness. I will go through the figures for those later on.

Manufacturing Productivity Networks — that is \$7.5 million being rolled out over four years. The Businesses in Transitions program is 3 million over four years. There are automotive new markets. Just touching on GRIIF and MNIIF, the Geelong and Melbourne's North Innovation Investments Funds that were set up in the wake of Ford's closure, they are going great guns as well, delivering some good outcomes.

As the Minister for Manufacturing I should touch on VIPP, the Victorian Industry Participation Policy. It promotes awareness of competitive local suppliers on major public projects across the state, and it is important to make that point. VIPP encourages import replacement by raising awareness of competitive local suppliers, increasing investment in local industry development and employment opportunities. They are not major projects under my delivery as are those in the previous portfolio we talked about, but the Monash Children's hospital, Ravenhall prison and East-West Link are all projects identified as opportunities for local content as well as five VIPP strategic projects already under way across Victoria with a total value of \$5.5 billion. They are 50 new trams; the Victorian Comprehensive Cancer Centre; the Regional Rail Link; Melbourne Park and Bendigo Hospital, which are all great opportunities for local content.

I might just skip the next one. We talked about challenges earlier. They will continue to impact on manufacturing in the coming years. We need to recognise the challenge but put our efforts into programs that support. I am happy to come back and talk about the \$155 million growth fund that has been set up. There are a number of things on that slide that we are doing to assist businesses as they transition.

The next slide is only about the budget; I will skip over that. I will quickly touch on defence if I can before I conclude. This is the first time that we have earmarked \$8.7 million to be committed to implementing the strategy over the next four years in relation to securing the future Victorian defence industry. I think there are some wonderful opportunities in defence; we continue to pursue them and I am happy to talk about some job-creating projects in defence manufacturing.

Finally, in summary we have a manufacturing plan. The landscape has changed. Things are different. We continue to review, upgrade and develop that over time. We are doing a piece of work around that at the moment and we look forward to launching that at some stage in the not too distant future as we move from where we were probably two or three years ago to the current environment we face today and the challenges we face today. That is a quick overview of manufacturing and its importance to the state. I will be happy to take questions.

The CHAIR — Thank you, Minister. We have until approximately 3.50 p.m. — 23 minutes or so — for questions and I will again kick off. Can you outline to the committee the budget initiatives in this portfolio that will contribute to the growth of Victorian jobs both for the coming year and over the forward estimates period?

Mr HODGETT — Certainly, Chair. Going back to the snapshot of Victorian manufacturing I provided in the presentation, it is still very important to the Victorian economy. Around 280 000 people are employed across 25 000 businesses. That is nearly 10 per cent of the state's workforce. It is a major driver of research and development, a major driver of innovation, a major exporter and a major contributor — I can go back over the figures if you like — to the state's GSP and export. It is very important.

In terms of some of the programs that we offer, there is one I mentioned. We have a manufacturing strategy. I keep saying that anyone who knows me knows I hate reports that just get written and sit on shelves and attract dust. They might be good for policy development or ideas, but unless they have some outcomes attached to them they deliver very little. The manufacturing strategy we have involves some \$58.1 million that has been rolled out over a number of programs over four years. My favourite, or the flagship, is IMT, the Investing in Manufacturing Technology program. That is one that supports Victorian manufacturers to transform their operations by adapting new technologies that improve their productivity and competitiveness.

This fund is 3 for 1 funding. It is always oversubscribed, so it is very good. In fact we are probably looking at trying to put some further investment into it because it has a great take-up rate. The recent figures show that over four rounds it has now delivered — and I think my figures might be slightly out of date because we have rolled out a number of other announcements in round 4 — some \$66 million in new technology processes and equipment with a combined investment of millions and millions of dollars. Over 500 jobs have been created now and certainly over 592 or 600 or 700 transition-to-higher-value roles. It is a program that works; it is one that we will continue to invest in. I could give you any number of examples where this is creating jobs across businesses right across the state. We have done these IMT announcements in regional and rural Victoria; we have done them in metropolitan Melbourne. We have done them in our north, south, east and west. It is a great program that works. I am happy to elaborate but that probably touches on some of the things we are doing to create jobs and support investment in Victoria.

Mr PAKULA — Minister, I was glad to hear you use the term ‘local content’ in your presentation, because as far as I can tell it is not a term that appears anywhere in the budget papers. We have heard from other ministers about this infrastructure program that the government is rolling out but so far we have heard very little about what local content obligations will be part of that. Can you take the committee through what specific local content requirements there will be on that infrastructure program so that we do not have a repeat of the local content fiasco at Webb Dock?

Mr HODGETT — I do not accept the premise of the question in relation to Webb Dock.

Mr PAKULA — We will come back to that.

Mr HODGETT — Perhaps we can come back to that and have a discussion around that. In terms of VIPP and in terms of a figure put around it in the budget, VIPP is very important for us. Wearing my manufacturing hat and without breaching cabinet solidarity, I can say we have some great discussions and debates around the cabinet table. I wear the hat of manufacturing minister, and I will always argue for the best possible outcomes in terms of local content, local content, local content. Some of the Treasury officials, as you would well know, might have different arguments on price, and I think overall we need to have the best value for the Victorian taxpayer. I can talk about a couple of examples of projects that have gone on for which we have had great outcomes in terms of local content. During 2012–13 there were five VIPP strategic projects under way across Victoria totalling \$5.55 billion — 50 new trams, the Victorian Comprehensive Cancer Centre — —

Mr PAKULA — I put that requirement on the trams.

Mr HODGETT — We are working together in a bipartisan way! I am glad we share the same values around VIPP. There was also the regional rail link, the Melbourne Park redevelopment and Bendigo Hospital. Collectively these five projects have committed to achieving an average local content of 93 per cent, representing \$2.87 billion in orders for local industry over that time. Outcomes of this project will be recorded in future years, so we have a reporting mechanism there. Can I reassure you and the committee that as well as wearing the local content hat at every opportunity across every portfolio — I continually ram the message home — I am actually looking at trying to, at every opportunity, strengthen VIPP. Was it in January or July last year?

Ms van ROODEN — July.

Mr HODGETT — The then manufacturing minister made changes to strengthen the local content, and I will look at every opportunity to do that. I understand the arguments about being prescriptive on certain projects. On some projects you can get much higher local content and others you might not be able to. In fact there was one manufacturing example that was given to me in relation to defence manufacturing, where the specific protective metal that is used is not available here in Australia. If I had demanded 100 per cent VIPP on that project, it just could not have been delivered. It is difficult to be prescriptive, but rest assured, Mr Pakula, at every opportunity and on every project I am arguing for local content, local content, local content, and I will continue to do so.

Mr PAKULA — I note that you appear not to be able to give us a run-down of what the requirements will be for this infrastructure investment that has been announced in the budget — unless I missed it — but you said you did not accept the premise of my question as it related to Webb Dock. The fact is that a group of local manufacturers, including Keppel Prince, missed out on that work because it was won by a multinational and the work is expected to go to China and Korea. I am wondering what part of the premise of my question you do not accept, because that is the bare fact of the matter. I am wondering how you are going to prevent that happening again unless you have some level of prescription in regard to all of these infrastructure projects that are in the pipeline.

Mr HODGETT — The Victorian Industry Participation Policy requires short-listed bidders on contestable infrastructure projects to demonstrate that they have considered using competitive local suppliers. They must demonstrate that. Since 1 January 2013 VIPP has targeted contestable goods and services, which are those products under important stress where we are competitive, such as rolling stock, glass and facades, electrical and mechanical equipment, structural steel, and design and drafting services. The work packages under the various projects that make up the \$23 billion in infrastructure projects will undergo contestability assessments through the Victorian Industry Participation Policy to identify the particular goods and services where bidders

should actively consider using competitive local business in the supply chain. We want people to use local wherever possible. We have mandated that they have to consider it. We want that as much as possible.

Here are a few examples. The other key Victorian projects that could benefit manufacturers in the state budget — —

Sorry, that is actually just outlining the projects, so I will not waste your time there. The \$8.5 to \$11 billion Melbourne rail link, including a link to Melbourne Airport — —

Sorry, I am just describing actual cost of those, so I can come back to you with some figures on those.

I move on to Webb Dock. That was the part of your question that I took exception to, Mr Pakula, because it was not factual. The Port of Melbourne's Port Capacity Project is a significant infrastructure development for the state, and it will deliver that longstanding benefit here. In terms of some of the works going on down there, there are a number of work packages that are local by their nature, being earthworks or road construction, and there are a number of great opportunities for competitive local businesses to participate in the project, particularly once Webb Dock operators are announced. To ensure competitive local businesses are able to secure work on the project, the Port of Melbourne Corporation has introduced the Industry Capability Network — ICN — to both BMD and McConnell Dowell, the contractors down there. As you would know, the government funds ICN to do exactly that — to connect competitive local suppliers with public and private sector buyers on major projects such as the port capacity project. The Port of Melbourne is also going to introduce the new port operators to ICN in due course.

I think the example you are referring to, McConnell Dowell went to market — this is in relation to a steel contract — seeking bids to supply marine piling steel. It received bids from a range of domestic and international operators. The design requirements for the range of steel products required has meant that the local market has been unable to meet the value-for-money equation — the value-for-money considerations. Value for money is always the primary consideration when spending public money. Now I would argue if costs are close, I would always encourage people to go to the local supplier, but I would also argue that it is not right for ministers to be getting involved in bidding processes and competitive processes. I would encourage the port to use as much local content — of course I would, wearing my manufacturing hat — but if you do not meet the value-for-money considerations, which is a primary consideration when spending public money, then you are not necessarily going to win every bit of work.

We are committed to ensuring local industry capabilities are promoted to project components, and that is why I have actively encouraged the Port of Melbourne to meet with ICN and open up as many opportunities as possible for local businesses. They are the facts in this matter.

Mr ANGUS — Minister, I refer you to budget paper 3, page 51, and the heading there 'Securing the future — Victoria's defence and security sector strategy 2014–2018', and you also had a slide in your presentation which you very briefly touched on. Minister, can you advise the committee what the government is doing to support the local defence industry to capitalise on domestic and international business opportunities?

Mr HODGETT — Thanks, Mr Angus. I know time is of the essence here, but you might want to bring up slide 10 as I speak. The Securing the Future of Victoria's Defence and Security Industry Strategy supports the delivery of our 2010 election commitments and allows for the development and implementation of operational programs that complement the strategy, and specifically the department — DSDBI — defence industry unit will develop and enact programs that support Victoria's defence sector. I have been in the job a relatively short period of time — a bit over 12 months in the ministerial portfolio responsibility for manufacturing — but I have always thought and always had discussions with my staff about the opportunities that present themselves in defence manufacturing. I mentioned Marand before; there are some companies out there that are taking great advantage of opportunities to get work, which of course helps them grow jobs and invest here, and a lot of the work is overseas.

In this year's budget \$8.7 million has been budgeted for the implementation of this strategy over the period 2014 to 2018. That strategy is going to focus on defence industry of strategic importance to the state's economy and enable Victoria to capitalise on those opportunities for defence sector growth, both domestically and internationally. It will target high-return major defence projects in Australia and internationally, boost the competitiveness of the state's defence industry and sustain those at-risk capabilities. For example, we have

BAE Systems in Williamstown, a naval ship builder, and the Thales military vehicle designer and manufacturer in Bendigo — both very good at what they do but they need a pipeline of work, and we will go into bat for them to try and secure as much defence work as we can.

The strategy will assist defence businesses to participate in the domestic and global supply chains of governments and prime defence and aerospace contractors, support collaboration between industry and Victoria's research community — I could go on and on and on. There are a number of opportunities here — significant opportunities for Victoria's defence industry. They are in the pipeline. I think the 2009 defence white paper anticipated expenditure of around \$200 billion on defence equipment and support between 2011 and 2020, of which it is estimated approximately 90 billion will be spent in Australia. We will continue to chase those contracts, we will continue to support our manufacturers there. These companies, I have visited many of them across northern, eastern and southern Melbourne — all around. You would be surprised how many businesses you could drive past every day and think, 'What are they doing? They are connected into defence in some way'. There is one out our way — I think it is in Heidi Victoria's electorate — in Bayswater doing some work for the JSF as well. I think these are great opportunities. We are not going to win them all, but we need to be in there having a shot at them and supporting it.

Again, this is the first time ever that we have actually had separate funding budgeted for the implementation of the strategy rather than it being a pool. I think it gives us a great opportunity to chase some of that work. I am not sure if anyone else wants to elaborate.

Mr ONDARCHIE — Is that the Bushmaster up there?

Mr HODGETT — I think it is.

Ms van ROODEN — The Bushmaster or the — —

Members interjecting.

Mr ONDARCHIE — You could borrow the shadow minister's laser pointer and point it to us — —

Mr HODGETT — Hopefully it was a Victorian-manufactured laser pointer.

Mr SCOTT — Through you, Chair, Minister, I refer you to the Cranbourne-Pakenham rail corridor project, which I understand involves the procurement of trains. Minister, I am interested to know how the new unsolicited proposal guidelines ensure that local content is maximised.

Mr HODGETT — Mr Scott, I will talk a bit about the project and about the process we have set up. The details of that are probably best directed to the Treasurer, but I will do my best job at talking about it from the — —

Mr SCOTT — I am specifically interested in how it relates to — —

The CHAIR — Order!

Mr HODGETT — Yes. The 2 to \$2.5 billion Cranbourne-Pakenham rail corridor project is under way and will directly benefit local manufacturers by, as you would know, removing level crossings, installing high-capacity signalling and delivering 25 new generation trains. Victoria has expertise in manufacturing next generation trains and trams, and that is why we have set a 30 per cent minimum local content target on every one of the 25 new trains that will be built for the project. Mr Pakula made a comment before, and I was pleased with the support he gave to trains and trams. We will continue to do that. We have got capabilities here, and we need to continue to try and get that local content as much as possible. The consortium delivering the Cranbourne-Pakenham rail corridor is working with the Department of State Development, Business and Innovation, and the Industry Capability Network to make sure competitive local manufacturers get fair access to bid in the supply chain.

In relation to the unsolicited bid proposal that has been set up and announced by the Treasurer, we, as any government, have a number of proposals — we do not pretend to have a monopoly on all the good ideas. We talk to business and industry regularly and seek input from those, and we have businesses come to us with proposals and ideas. To be fair to everyone, we wanted a process where we could assess those unsolicited bids

in a fair way to all. What the Treasurer has done is set up a framework, if you like, to look at assessing those bids and how they would move through that.

One particular thing in that is the uniqueness of a project. We do not want someone coming to us saying, 'We could build Fed Square East for you' when there are any number of builders who could do that; there has to be an element of uniqueness to it. I am happy to get you that framework if you like, Mr Scott. It will outline in more detail the whole process of unsolicited bids. I do not know if I can add anything to that because it is announced and comes under the Treasurer's domain.

Mr O'BRIEN — You had that slide up before, Minister. It may be classified information. If it is, I understand you would not be able to tell us it. But I think you had the Joint Strike Force Fighter, or the JSF up there, which has got some interesting opportunities for Victoria. Could you elaborate on those opportunities, and specifically, are you able to tell us if that strike force fighter will have any laser capability?

Mr HODGETT — Thank you for the question. I might focus my comments on the defence industry and our advocacy for the commonwealth procurement. Make no mistake about it: Victoria's defence industry contributes around \$1.5 billion annually to Victoria's economy. It generates around \$171 million in exports and directly employs around 6000 Victorians. The sector is globally integrated, with more than 300 businesses supplying products and services to domestic and international markets through global supply chain networks. There are significant opportunities in the pipeline, as I said in a previous question. Our planned expenditure through the defence capability plan 2011–12 and equipment support plans is estimated at \$200 billion. Of this — and again I make the point I made before — an estimated \$90 billion will be spent in Australia, with opportunities for Victoria's industry estimated at \$22 billion.

I continue to advocate, the government continues to advocate strongly for Victorian industry to secure major commonwealth defence contracts. I will mention a couple if I can. The AIR 5428. That project is to provide the Australian Defence Force with a new pilot training capability. Victoria is well placed to secure that work. It is a competitive process so we are not guaranteed, but we think we are in the best position to secure that. In line with our election commitment to secure the project in Gippsland, the government is actively supporting bidders and the commonwealth government has been advised of our support offers. If we could get that up in Sale, that would be a terrific win for Victoria.

A decision by the commonwealth government is now pending regarding the preferred tender for the 1.5 billion LAND 121 phase 4 project to deliver the core of the ADF's operationally employable light protected vehicle fleet. I think Thales is well placed to fight for that work. The LAND 400 — there is much debate about it in the public arena at the moment. The LAND combat vehicle program will provide an integrated suite of LAND combat vehicle systems for the Australian army, aiming for delivery about 2025. Again, significant investment there — billions and billions of dollars. As a government we will continue to actively engage with the commonwealth on behalf of local industry with the objective of securing that work here in this state.

There are projects with the SEA 1654 and SEA 1180 patrol boats, submarines and future frigates. The list goes on and on. In answer to your question, Mr O'Brien, I am sure they would have the most modern, sophisticated laser tracking system.

Mr O'BRIEN — Don't go into classified information, and keep fighting for Victoria, Minister. Thank you.

The CHAIR — That concludes the hearing for the manufacturing portfolio. I think there was one question on notice regarding local content, but the committee will write to you, Minister, with regard to that. We do request a written response within 21 days. I thank the minister, the secretary and departmental staff for their attendance. That concludes the hearing.

Committee adjourned.