

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Budget estimates 2020-21 (Pakula)

Melbourne—Thursday, 3 December 2020

MEMBERS

Ms Lizzie Blandthorn—Chair

Mr Richard Riordan—Deputy Chair

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Mr Gary Maas

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WITNESSES

Mr Martin Pakula, MP, Minister for Trade,

Mr Simon Phemister, Secretary, and

Ms Penelope McKay, Associate Secretary, Department of Jobs, Precincts and Regions, and

Ms Gönül Serbest, Chief Executive Officer, Global Victoria.

The CHAIR: Thank you, Minister Pakula, again, for appearing before the committee today. This time we are moving to consideration of the trade portfolio. We invite you to make a 5-minute presentation, and this will again be followed by questions from the committee.

Visual presentation.

Mr PAKULA: Thank you, Chair. Thanks, committee. Exports are vital to the economy. I think that goes without saying. They contribute 12 per cent of our GSP. They support 330 000 jobs, and before COVID our export performance had been extremely strong. We had total exports growing by 6.2 per cent over the year to 2019, and they reached a record high of over \$57 billion. International ed was our largest services export in 2019. It generated \$13.7 billion in export revenue for the state in that year. It supported almost 80 000 jobs in 2018, and we attracted a quarter of a million international students in 2019.

The pandemic has had a significant impact on exporters, including severe disruptions to freight and global supply chains. Air freight costs have risen by between 40 and 800 per cent above pre-COVID levels. And the impacts are becoming more apparent as more data becomes available, with total exports declining by 3.1 per cent in Victoria in 2019–20 compared to the previous year. But we have still done better than some other states, including New South Wales, Queensland and South Australia, which have all had drops of between 4.5 and 5.2 per cent over the same period.

There is a relatively greater impact on service exports, likely driven by the significant falls in international education and tourism exports, which reflects a reliance on face-to-face delivery and international travel.

Tourism and international ed, our two largest exports, are expected to be 78 per cent and 43 per cent lower respectively in 2020. We have a strong and resilient and diverse export base so that will help ensure that exports contribute to economic recovery while the manufacturing and food sectors drive growth in goods exports. So for example, pharmaceutical exports in fact grew by over 40 per cent year on year in 2019–20—they are worth \$2.8 billion—and agricultural exports have generally shown very strong resilience. But international education has been massively impacted by the pandemic, with an estimated loss of \$5.8 billion in export revenue in 2020 alone—hardly surprising given that it is extremely difficult if not impossible for people to come here. So the need to maintain our reputation for quality education, and as a safe and welcoming study destination, is critical to stemming those losses. I hope I am not boring you, Mr O'Brien.

Mr D O'BRIEN: Never!

Mr PAKULA: In terms of international students and the international ed sector, we have currently got about 120 000 international students in Victoria—that is less than half of what we would probably normally have—but many of them are working in casualised industries that have been impacted by the shutdowns. That is why we announced the International Student Emergency Relief Fund which at 24 November had supported over 33 000 students with payments of up to \$1 100. It has also supported food relief for international students to Foodbank, OzHarvest, SecondBite and through the City of Melbourne's Our Shout program. We have enhanced support through the Study Melbourne Student Centre. We have a Victorian Higher Education State Investment Fund which provides \$350 million to support universities with capital works et cetera. And in terms of our overseas network, in the last financial year Global Victoria supported Victorian firms to achieve over \$700 million in export sales through participation in various programs, outbound and inbound trade missions, and international delegates visiting Victoria in connection with the inbound trade mission program.

I will talk very briefly about the Export Recovery package which is in the budget—\$15.7 million divided into three programs: \$5.6 million for digital market connectivity to enable virtual trade missions and e-commerce

opportunities, \$2.5 million for freight stabilisation for exporters, and \$7.6 million for the Global Gateway program to support high performing Victorian exporters to stabilise and adapt to recovery. Up to 150 companies will have access to grants of up to \$50 000 under that program. And in terms of international education, there will be a short-term economic recovery action plan with funding of \$24 million to position the sector for recovery, and that will pave the way for a new multiyear international ed strategy planned for May 2021. I might leave it there, Chair, so that members can ask me some questions.

The CHAIR: Thank you very much, Minister, and I will pass to Mr Gary Maas, MP.

Mr MAAS: Thank you, Chair, and thank you, Minister. If I could take you to budget paper 3, page 101, and the export recovery plan. I was hoping that you would be able to take the committee through how the export recovery plan will help Victorian exporters to adapt and to recover from the impacts of COVID.

Mr PAKULA: Well, thanks, Mr Maas. I will not go back through the stats. Needless to say, exports are fundamental to our prosperity and our recovery. Since 2015–16, the trade facilitation service run by Global Vic have been accessed by more than 9500 companies. It has facilitated \$2.5 billion, nearly, in new exports—a lot of that from regional Victoria—and for every million dollars in export revenue, six jobs are supported. So those export outcomes have supported up to 14 000 jobs in the economy. As I said, the pandemic has had a massive effect on exporters, including severe disruptions to freight and global supply chains. We have seen the closure of international borders to personal and business travel. That has had a massive impact on service exports, particularly international education and tourism, but also connection to global markets more generally.

We have seen a really significant increase in air freight costs. That has squeezed margins, it has decreased competitiveness and it is why that export recovery package that I referenced in the presentation has been developed. We need to address the logistics and supply chain issues that exist and create some new export channels. It has been designed to help business addresses the significant impact of international border closures on their exports. It will connect businesses to international markets through virtual trade missions for the time being as well as assistance to adapt export strategies to respond to the rapidly changing global marketplace that we are seeing. That will be delivered by Global Vic through those three key programs I referenced: the Global Gateway voucher program, which is supporting high-performing Victorian exporters to stabilise and pivot their business models for recovery—and as I said, businesses will have access to grants of up to \$50 000 for tailored professional services to support their export strategies; a virtual trade mission and e-commerce support program to help connect Victorian businesses to new digital markets, and Global Vic will facilitate those virtual trade missions to help reintroduce our products and services to the fastest- and strongest-recovering international markets, including those in Asia; and the Victorian freight stabilisation fund, which is all about keeping the exports flowing and maintaining connections to markets, and again Global Vic will support exporters to address their air freight capacity constraints and help them to adapt to a COVID-normal freight environment. So that will assist firms to adapt and reset their export strategies to increase their collaboration with global companies and to tap into the global acceleration of digital economic transformation and promote the faster adoption of those into production and goods and services delivery. All of that, the Global Gateway and those virtual trade mission and economic support programs, is now up on the Global Vic website, so exporters can find out more about them there.

In addition to that, we are also supporting our international network of trade and investment officers. We have got 23—the largest of any state in the country—and they are all around the world. Successive governments have maintained the international VGTI office operations as really important drivers of global engagement and economic outcomes. They have really successfully driven trade investment outcomes for Victoria. There is a lot in there. Exports are going to be vital to recovery, and we are doing as much as possible in this package to support our exporters.

Mr MAAS: Thanks, Minister. If I could take you to the topic now of Victorian export outcomes and refer you to budget paper 3, page 263, and the performance measure for export sales generated from participation in government programs, would you be able to give the committee an explanation of the 2019–20 outcome?

Mr PAKULA: Yes. Look, the 2019–20 outcome is \$709 million in exports, and it is higher than the target of \$550 million because of higher than anticipated reported export outcomes from companies that were supported by our department in the last 12 months. It was a strong outcome in spite of the impact of COVID-19 and I think a reflection of the value that Global Vic brings to the economy and to our exporters. Global engagement and

international trade are incredibly important in creating jobs and growing the economy. Global Vic has got a really strong set of programs and initiatives to boost Victoria's international engagement and competitiveness and to encourage businesses to drive exports. Those programs include both inbound and outbound trade missions as well as dedicated business engagement through that network of 23 offices that I referenced. In the last financial year Global Vic delivered 25 outbound and inbound trade missions that involved over 550 companies. They were in key sectors like food and beverage, medical technology and ed tech. It also supported 590 international delegates to Visit Victoria to connect with our businesses and industries through the inbound trade mission program. Global Vic also developed the export skills, the knowledge and the capability of businesses and encouraged them to find new pathways to markets like ecommerce. A number of virtual trade missions have also been delivered since the onset of COVID-19, and that is in addition to the in-real-life trade missions, for want of a better term. And there will be a comprehensive program throughout 2020–21.

I will just give you a couple of examples of how trade missions have benefited local companies: 360biolabs is a specialty laboratory supporting the clinical trial sector. It employs 48 people in the Burnet Institute. It conducts sample analysis for diagnostics, for therapeutics, for vaccines in a whole range of disease areas, and it is comprised almost entirely of exports due to the attraction of conducting clinical trials here in Australia. It has participated in trade missions to China, Japan, Korea, Taiwan, Israel and the USA and participated in a number of virtual trade missions to Korea, the US and Europe. As a result of participation in those programs, 360biolabs has attracted a large number of clients from China, Taiwan, Korea and the USA, so that is one example.

KeyOptions is another. It is a Victorian tech and development organisation that provides world-leading disruptive technology solutions, headquartered here in Victoria. It employs 15 people here but has offices in Melbourne, Canberra, London and Santiago, and it is currently combining its own technology with a unique COVID-19 testing solution to provide highly accurate data for pandemic control and contact tracing. It has also participated in a number of trade missions and other Victorian government trade programs, including the virtual delivery of a London Tech Week program back in September and trade missions to Singapore for Big Data World and CommunicAsia, and they have utilised our office in the Middle East. As a result of those programs it has now opened that office in London—it contributes significantly to its export success—and it has secured a major deal in Indonesia, so some really great outcomes as a result of the work of Global Victoria.

Mr MAAS: Great. Thanks, Minister.

The CHAIR: Thank you, Mr Maas. Thank you, Minister. Mr Danny O'Brien, MP.

Mr D O'BRIEN: Thank you, Chair. Minister, I want to talk about trade and global engagement—budget paper 3, page 84. The Belt and Road MOU with China commits both parties to unimpeded trade and to resolve disputes through 'friendly consultations'. What actions have you taken or will you take through the budget process to have punitive tariffs and trade restrictions on Victorian products lifted under the Belt and Road MOU?

Mr PAKULA: I will make a couple of points. Ultimately the diplomacy that is required for the lifting of some of those improper tariffs et cetera—the commonwealth has already indicated they will be taking it to the WTO, and I support that. So I have spoken to—

Mr D O'BRIEN: I am not sure they have specifically said that, but anyway.

Mr PAKULA: No, no. So I have spoken to Senator Birmingham on a couple of occasions, and I have to say that he and I are in very strong alignment. I am also happy to indicate to the committee that I have had a detailed conversation with the Chinese Consul General to convey Victoria's concerns, and Brett Stevens, the Victorian commissioner in Shanghai, who was on that conversation, has also had two direct meetings with the NDRC in China again to convey Victoria's concerns.

Mr D O'BRIEN: Have we got any response in respect of those discussions you have had?

Mr PAKULA: Well, yes, there was a response—

Mr D O'BRIEN: A positive response?

Mr PAKULA: but I think it is self-evident that the restrictions remain in place. So ultimately the work that the commonwealth is doing in terms of the diplomatic and WTO appeals that they are making is very

important. As I said, I have spoken to Senator Birmingham on a couple occasions now, as recently as last week, and indicated my support for the work that he is doing, and I would hope that those restrictions, particularly the ones that have been announced most recently, which will have a significant impact not just on Victorian producers but on producers around the country—I would hope that that process that the commonwealth is engaged in through the WTO will lead to the resolution of some of those concerns.

Mr D O'BRIEN: Minister, I know as well as anyone that international trade is not an easy gig, but given the MOU specifically talks about delivering unimpeded trade and has a dispute mechanism that is very basic, is it actually worth the paper it is written on?

Mr PAKULA: Well, that agreement is about more than trade. It is about a range of different issues. It relates to infrastructure, it relates to technology, it relates to investment, joint research, pilot programs, knowledge sharing, capability building, and it is about the relationship. I would make the point to you, without having it in front of me, I would suggest also that ChAFTA has some pretty significant commentary in it in regard to unimpeded trade which would apparently not be being adhered to either. I am sure that the commonwealth would not be contemplating tearing ChAFTA up as a consequence of the fact that there are tariffs being imposed apparently in contravention of it.

If the point is that having a good relationship at state-to-sovereign-government level, whether it is through Belt and Road, ministerial visits, construction partnerships and the like, I think it is apparent that that does not immunise any state or territory from difficulties that exist in the relationship at sovereign level.

Mr D O'BRIEN: Yes, I get that, Minister. But it is also pretty rich for the state government to have an agreement with a sovereign foreign government adverse to the decision of the federal government and then when things get nasty just say, 'Well, that's for the federal government to sort out, because that is a government-to-government issue'. I mean, you cannot say that this MOU is going to deliver jobs for Victoria and then when things get hairy nothing actually can be done about it.

Mr PAKULA: Well, I am not saying that, for starters. Let me say at the outset, I do not accept necessarily the premise in regard to it being adverse to the interests or desires of the commonwealth. I think that is—

Mr D O'BRIEN: Well, it specifically was. The federal government has said time and again that they did not support you signing the Belt and Road agreement.

Mr PAKULA: And I think previous witnesses before this have indicated that maybe that was not always the case, but I do not want to get in the weeds on that.

Mr D O'BRIEN: Even your own federal Labor colleagues do not support signing Belt and Road.

The CHAIR: Mr O'Brien, your time has expired. I will pass the call to Mr David Limbrick, MLC.

Mr LIMBRICK: Thank you, Chair, and thank you, Minister and team again. A number of years ago I went to a McDonald's restaurant in Tokyo and I was very excited to see on the placemat a picture of a beautiful green hill—

The CHAIR: Do you have a budget reference, Mr Limbrick?

Mr LIMBRICK: and it said, 'All of our beef patties are raised in Victoria, Australia'. I could not help noticing that in your presentation you mentioned a dramatic increase in meat exports. What is driving that increase in meat exports? Where is the demand coming from?

Mr PAKULA: Well, there has been—

Mr RIORDAN: Polwarth, Mr Limbrick. Polwarth.

Mr PAKULA: I will confess to not being an expert on global meat consumption habits, but I—

Mr LIMBRICK: We are selling it to somewhere.

Mr PAKULA: Well, meat exports are being sold nationally, I think. My advice is that the key markets for our meat products are the United States, China and the Middle East, and there is I think a global desire for protein and probably a global reduction in the number of jurisdictions that can provide it at scale. Certainly South America is a great competitor of ours in terms of the sale of meat products into overseas markets, and I know that there are a number of Victorian abattoir owners who are actively trying to access international markets. Certainly there is a great desire from a lot of those to have better access to the China market, which is apparently seemingly problematic at the moment. But those markets are the most beneficial for us in terms of meat, as I am advised by Global Victoria.

Mr LIMBRICK: Thank you, Minister. Another thing that was mentioned in your presentation was the new office in Vietnam to look at new opportunities in South-East Asia. What sorts of opportunities are we expecting to see from Vietnam?

Mr PAKULA: Look, the opportunities for collaboration between Victoria and Vietnam are very strong—on one small level, even the work that the Australian Grand Prix Corporation has been doing with the Vietnamese Grand Prix in terms of providing our expertise and support there. I was in Hanoi a year or two ago meeting with some of the big conglomerates there. There are some significant partnerships already between our education providers, I think Swinburne being one and RMIT being another—so education, e-commerce, food and beverage and what you would broadly describe as livability services. There is a great appetite in South-East Asia for Victorian expertise in a range of areas. It is not just about selling meat and dairy, although we went to the trade show in Ho Chi Minh City and there were a huge number of Victorian food exporters in terms of meat, dairy, cereals, probiotics, honey. So there are some really great food and beverage opportunities as well, but some of those really big opportunities are in the services sector.

Mr LIMBRICK: Okay. I do not have a lot of time left, so I might just leave it there. Thank you.

The CHAIR: Thank you, Mr Limbrick. That concludes the time for consideration of the trade portfolio. We will again take a short break before moving, with you, Minister, to consideration of the business precincts portfolio. Thank you.

Witnesses withdrew.