

CORRECTED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2011–12

Melbourne — 20 May 2011

Members

Mr N. Angus

Mr P. Davis

Ms J. Hennessy

Mr D. Morris

Mr D. O'Brien

Mr M. Pakula

Mr R. Scott

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Witnesses

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

Mr H. Ronaldson, Secretary,

Mr J. Strilakos, Chief Financial Officer,

Mr R. O'Brien, Director, Aviation and Investment, and

Mr D. Latina, Director, Business Engagement, Department of Business and Innovation.

The CHAIR — I welcome Mr Rob O'Brien, director, aviation and investment, Department of Business and Innovation; and Mr David Latina, director, business engagement, Department of Business and Innovation. I now call on the minister to give a brief presentation of no more than 5 minutes on the more complex financial and performance information relating to the budget estimates for the aviation industry portfolio. The remaining time is then available for questions in the aviation industry portfolio.

Overheads shown.

Mr RICH-PHILLIPS — Thank you, Mr Chairman. I am pleased, again with my DBI hat on, to talk about the other portfolio, being the responsibility for the aviation industry. This is the first time the Victorian government has had an aviation industry portfolio, and it reflects the government's belief that aviation and aerospace are important sectors for the Victorian economy. They are sectors where Victoria has historically led in Australia. Much of this country's aerospace manufacturing was pioneered in Victoria; indeed, even the flight training sector was largely pioneered in Victoria. So there has been a strong history over decades of aerospace industry developing in this state. We believe it has a further potential, and my role as minister for aviation is largely an advocacy and coordination role across government. Basically, similar to technology, similar to DBI portfolios generally, the key areas relate to investment attraction, export development, skills development in the sector, and infrastructure/capability development in the sector.

We will go to the first slide, thanks, David, the first of two. This highlights the government's key commitments in the aviation industry portfolio. The first is a commitment of \$20 million over four years to the Regional Aviation Fund. This is to support the development and enhancement of operational infrastructure at regional airports over the next four years. An element of that is the government's commitment of \$5 million towards the redevelopment of Bendigo Airport. I am happy to talk further to the committee about that. The third element on the slide is our commitment of \$150 000 towards a feasibility study for an identification of the potential and possible sites for a Geelong regional airport, noting that the current Grovedale airport at Geelong is scheduled to close very soon, which will leave Geelong without its own regional airport, and of course Geelong will be one of the few large regional cities in Victoria not to have its own airport. So that feasibility study has been committed to by the government.

If we go to the next slide, just in terms of the structure within the department, the budget for this portfolio is included within the sector development output, and in terms of performance measures it contributes towards the general DBI performance measures around investment attraction and export promotion. Mr Chairman, I will leave it there, and I am happy to take the committee's questions.

The CHAIR — Thank you, Minister.

Mr PAKULA — I am going to have a wild stab and suggest you are going to ask a population question.

The CHAIR — I like to be predictable; thank you, Deputy. Obviously aviation is a very significant contributor to regional economies and we are seeing significant growth in both Melbourne and the regions, and I would ask, Minister: how have predictions concerning population growth shaped the budget for the 2011–12 and out years?

Mr RICH-PHILLIPS — Thank you, Chair. Again I guess I would approach this question largely in the way I did for the technology portfolio. We see this as a high-value-added sector of the economy and one where further development of the sector will drive Victoria's productivity performance. Again I go back to — and I do not need to repeat it for the third time — the slowing trend in population growth in the out years compared to what it has been in recent years and the impact that will have on Victoria's economic growth unless productivity is boosted.

On your point, of course one of the objectives of the Regional Aviation Fund is to develop infrastructure in regional Victoria to underpin our tourism performance and to underpin access to our regional cities. Of course those cities have continued to grow through recent years, and we believe there is increasing demand for good air access to those cities, particularly from interstate as well as intrastate operations. Again it is largely industry driven and productivity driven, similar to the technology portfolio.

Mr PAKULA — Minister, I want to ask you a question about the jet fuel pipeline to Avalon project. I did ask the Minister for Public Transport about this the other day. I notice that he hideously misrepresented my

position in the *Geelong Advertiser* the following morning, but I suppose that is part of the caper. Can I, just for the record, say that the Labor Party would be very pleased if Avalon became an international airport so no-one can misrepresent us again.

The CHAIR — That is a change of position, isn't it?

Mr PAKULA — No, it isn't at all. But we are also, as I know you have always been, Minister, interested in the notion of competitive neutrality from government. I just want to ask you about the jet fuel that might flow down this pipeline. Is that fuel that would be diverted from Melbourne Airport? If it is, have you established what the impact would be on the Melbourne Airport of diverting a portion of its fuel supply to Avalon?

Mr RICH-PHILLIPS — I thank Mr Pakula for his question. He did raise the issue of competitive neutrality, which is a fair point to raise. I would address that point first by saying this: successive Victorian governments back over a long period of time have provided support in various forms to Melbourne Airport, obviously, and I can reflect on my own experiences some 15 years back in my involvement with the Victorian government in a lot of cooperative marketing-type activities which are ongoing and have been ongoing continuously for the past probably 20 years. So it is not unusual for the Victorian government to be providing assistance to airports, and indeed the previous government, the Brumby government, I understand provided some \$8 million to Avalon airport for infrastructure improvements.

Mr PAKULA — Was that in connection with the airshow?

Mr RICH-PHILLIPS — There is a history of governments providing infrastructure support, upgrades et cetera to the two airports. The Baillieu government has made a contribution of \$3 million to allow Avalon Airport to connect to the jet fuel pipeline that currently — I was going to say, 'runs past their property'; I actually think it cuts the corner of the Avalon site as it flows from the refinery at Geelong up to Melbourne. Our contribution is a fixed \$3 million towards a spur line off that pipeline which will allow Avalon Airport to access fuel that is refined and sent down that pipeline.

As to the availability of fuel in the pipeline, as to the supply of fuel to Avalon versus Melbourne, that is a commercial contractual matter between the fuel suppliers and the respective airports. In providing this grant of \$3 million we have facilitated the connection to infrastructure. The issue of fuel supply is a commercial one for the suppliers and the two airports.

Mr MORRIS — Minister, can I go to the sector development output in BP 3, page 156, and ask you: what is the government doing to address skills shortages within the aviation industry?

Mr RICH-PHILLIPS — I thank Mr Morris for his question. This is one of the areas that the government believes is a key area for the aviation industry, an area where the government can play a role.

There are a number of elements to the aviation sector and to the skills picture in terms of Victoria. There are some areas where Victoria has performed very well, and members of the Legislative Council would have heard me speak about the flying training sector where Victoria has had a very vibrant training market and vibrant export market. We have in Victoria some very good natural advantages. We have comparatively good weather. You would not always know that in Melbourne, but compared to Europe and the United States we have very good weather. We have uncongested airspace compared again to Europe and the United States and indeed Asia, and we have good facilities located on the perimeter of the Melbourne basin — easily accessible training facilities, which is something Sydney does not enjoy. There are limited flight training facilities in the Sydney basin compared to Melbourne. We did enjoy a cost advantage when the Australian dollar was buying US52 cents or US55 cents — we had a very strong cost advantage. We no longer have that cost advantage. We still have other natural advantages in the flight training market, and that remains an important export sector for Victoria.

The other side of the skills picture relates to, I guess, trade skills, skills for maintenance, repair and overhaul operations. One of the objectives of the government is to attract more MRO operators and activities to Victoria. One of the challenges there is to ensure that if we attract operators to Victoria, we have the people who are qualified and skilled to take the jobs that result. One of the challenges of course, very similar to the technology portfolio, is attracting a pipeline of people that actually wish to work in the sector.

The government committed before the election to the completion of a feasibility study into an aviation training academy, which was work under way when we came to government, and that work is now with government — it has been received by government. But the bigger question for us, and basically the proposal, is around the establishment of a training facility. A bigger question for us, though, in a similar way to the technology portfolio, is establishing the pipeline of people that will come to that facility.

This is a recurring issue that I have noted when going around and talking to existing MRO and lighter maintenance operators in Melbourne. Over the last couple of months I think I have visited and met with all the major MRO operators as well as a number of the airlines in relation to their needs. One of the challenges is not so much the training facilities that are available as getting people who are interested in taking that training in the first place.

We have introduced some good programs in the technology area around attracting people into technology training and tertiary education, and we need to do some similar programs, in my view, around attracting people to aviation and aerospace. Some of our secondary schools in Victoria do that now; they have aviation programs. It is a small number of schools. Frankston, in my electorate, is one. I understand that Hallam secondary, which is a very good school — I know it very well — is also interested in a similar program. Again, we see getting interest at a school level as key to ensuring that we have people coming into training and ultimately being available for the sector.

Mr PAKULA — Chair, with your extreme indulgence, and noting that I did not take my opportunity for a follow-up on the last question, before I ask my question could I just ask for one tiny bit of detail on that answer?

The CHAIR — I am sure the minister is capable of responding.

Mr PAKULA — Have you made any decision about where the academy is going to be yet?

Mr RICH-PHILLIPS — The government has literally just received the feasibility study — I might say literally within the week, I think — and no decisions have been made.

The CHAIR — So, Mr Pakula, you can guarantee to me on the basis of the courtesy that I have just displayed to you that we will have no more histrionics during the course of the day?

Mr PAKULA — Yes, Chair. But not during Mr Dalla-Riva; absolutely not.

Minister, late last year the previous government announced that Air India would be starting direct flights. I think that was meant to start in November. I know it was delayed a bit, but we are now six months further on and the direct flights, as I understand it, have not commenced. I am assuming that we have paid no money, but I ask if you could clarify that, and could you just give us an indication of when you anticipate those direct flights to commence?

Mr RICH-PHILLIPS — On the issue of Air India, I should clarify the responsibilities within the department. As with governments going back the last 15 years, the issue of direct flights and attracting direct flights is within the tourism portfolio, as it has been in the past. I know it was that way under the Kennett government and also the Brumby and the Bracks governments. My involvement with airlines is generally their presence on the ground here in terms of their maintenance needs et cetera.

Mr PAKULA — There wasn't an aviation portfolio before that, that is why I have — —

Mr RICH-PHILLIPS — No. That separation remains, because there is a natural synergy between what we do in tourism and attracting air services. I might add that one of the great reasons why successive governments have been very keen on attracting air services is that they do underpin our investment performance. One of the key issues in attracting a company to invest in Victoria is being able to get to Victoria, and it is much easier or a much stronger selling point if a foreign investor can fly direct into Melbourne rather than having to fly via Sydney and take a domestic flight. For the last 20 years Victorian governments have been very strong on promoting air services, not only for their tourism benefit but also for their investment attraction benefit. However, the way that is done is through the tourism portfolio, so I cannot give you any specifics on Air India.

Mr ANGUS — Minister, I refer to budget paper 3, page 156, which contains the 'Industries and innovation' output schedule, and I ask: what is the government doing to support the development of aviation infrastructure?

Mr RICH-PHILLIPS — I thank Mr Angus for his question. This goes to the issue of the government's Regional Aviation Fund, which was announced last year pre-election and which has been delivered in this budget. It is a commitment of \$20 million over four years to provide for the upgrade of regional aviation infrastructure. It is the first time there has been a program of this size for regional aviation infrastructure in Victoria. The reality is that a lot of aviation infrastructure in Victoria is very old. Some of it — a considerable amount of it — dates from the Second World War. A lot of it has had no upgrades since the Second World War, so there is a desperate need for some infrastructure enhancements throughout regional Victoria.

Some work was done by the previous government, and I acknowledge that, because prior to that very little work had been done on regional aviation infrastructure. One of the problems was that in the early 90s, I think, a lot of these facilities were transferred from the commonwealth to local government with no funding stream for their ongoing upkeep. They are now largely local government assets, and there has not been a lot of support. I acknowledge that the previous government — John Brumby in particular, as a minister in DIIRD — ensured that the department put a lot of work into that area. Not as much happened after Mr Brumby moved on to bigger things, but there was work done by the previous government, and I certainly knowledge that.

Mr PAKULA — Twenty-six million worth over the last four years.

Mr RICH-PHILLIPS — In terms of our fund, we have ongoing funding. This initial amount is \$20 million over four years. We committed \$5 million to the Bendigo Airport upgrade. I stress that the fund is devoted to airport infrastructure. The guidelines are being finalised at the moment, and they will be very similar to the guidelines that operated previously. Basically we are looking to enhance the operational infrastructure that we have at Victorian airports, including things like runway upgrades, taxiway upgrades, lighting, navaid upgrades et cetera — things that increase the usefulness of our airport infrastructure.

Last week I had the opportunity to visit both Mangalore and Bendigo. Bendigo has a solid proposal on the table, and they are looking for some commonwealth funding. We have indicated that our funds are available when they are ready to proceed with the works for the airside upgrade. They are also looking at some elements around taxiways and apron works, which would be applicable under our \$5 million commitment. Mangalore also has a number of opportunities where upgrades could be delivered under this fund. Once guidelines are in place, on 30 June, we look forward to receiving applications from facilities that are seeking upgrades. The criteria will basically be public use facilities for airside infrastructure upgrades.

Mr PAKULA — Minister, your pre-election policy document promised that the government would bid for the Red Bull Air Race. It was not that we would look into the feasibility of it; it was that we will bid for the Red Bull Air Race. The budget now has it as doing a feasibility study into whether or not we can bid for the Red Bull Air Race. I am wondering why that change has happened and why in fact what I thought was a fairly watertight commitment to bid for the race has now been replaced by a budgetary commitment to do a feasibility study into, I assume, whether it would be possible?

Mr RICH-PHILLIPS — I am happy to clarify that matter. The government remains committed to seeking the Red Bull event. The reality is that the Red Bull Air Race series is currently suspended. It was suspended last year and is not currently operating, but in the event that the series is recommenced, the Victorian government will be seeking an event here. Funds have been provided for the Victorian Major Events Company, again through the Minister for Tourism, as with other major events that are operated in this state, but our intention remains. As I say, this series needs to be recommissioned, and if that occurs, Victoria will be seeking an opportunity to host one. We have indicated Corio Bay as a prospect, and the Premier is very keen on seeing the event over Corio Bay. If the event is recommissioned, we will be looking to seek a Victorian race.

Mr PAKULA — To clarify, if I understand your answer, is your answer that if the Red Bull Air Race series recommences, you will be bidding, and the feasibility study is more about the feasibility of where it might be or where the bid might be centred on? I am trying to work out what the purpose of the feasibility study is if you decided to bid.

Mr RICH-PHILLIPS — I think the language is probably a little clumsy. Basically some funds have been provided to the Victorian Major Events Company to do the preparatory work to get things moving, but everything is contingent of course on whether the race series is reintroduced, which is obviously outside the scope of the control of the Victorian government.

Ms HENNESSY — No small feat to deliver on that promise!

Mr D. O'BRIEN — Looking forward to it in Corio. Thank you, Minister. Whilst we are all getting along so well I would say that another advantage the Victorian aviation industry has is a minister who understands the aviation industry so well, particularly from a practical perspective.

Members interjecting.

Mr D. O'BRIEN — We are looking forward to your continued appearance before the estimates committee over future years. In relation to budget paper 3, page 16, what are the benefits of the Victorian government's commitment to the 2011 Australian international airshow to the aviation industry portfolio?

Mr RICH-PHILLIPS — The Australian national airshow is an event supported through DBI under the auspices of my colleague the minister for manufacturing and export, Mr Dalla-Riva, but of course it is incredibly important to the aviation and aerospace sectors. It is often seen as an airshow, and for the general public it is a fantastic airshow. I hope that some of the members of the committee had an opportunity in March to view the event.

Mr ANGUS — Yes.

Mr RICH-PHILLIPS — Unfortunately it did fall on a sitting week, but it was a fantastic spectacle, as it is every second year. More than being just an airshow, it is a major trade exhibition for aerospace and defence. It is an important opportunity to bring to Victoria key players in the aviation and aerospace sectors. Through the course of the week or 10 days surrounding the airshow the Victorian government had the opportunity to host a number of key players in the aviation and aerospace sectors to promote opportunities for investment in Victoria and engagement with Victorian aviation and aerospace companies. On the whole it was a very successful event in engaging the international aerospace community with the Victorian aviation and aerospace sectors.

A number of deals were announced at the exposition, and I am sure the minister for manufacturing and export will speak more about those this afternoon. It is a great opportunity. It is one of the great aviation exhibitions in the world. There are a limited number in this region — Singapore is the other one, and Avalon, and then you are off to Europe. There are a limited number of these major headline events around the world, and Victoria is very fortunate to have one. The government is committed to retaining that event at Avalon and ensuring that the aviation and aerospace sectors benefit from it, as they have this year.

The CHAIR — We will take one final, very short question.

Mr PAKULA — As a former Minister for Industry and Trade I utterly concur with your last answer, Minister.

In regard to the Regional Aviation Fund, which you have already commented on, there is \$20 million in there over four years as you have said, and, as I interjected at some point, there was actually \$26 million spent on regional aviation projects between November 2006 and the state election. I suppose our concern would be that the \$20 million, if the previous trend is continued, may not be enough. Can regional airports also potentially access funding through the Regional Growth Fund, as far as you are aware, if the 20 million proves not to be sufficient?

Mr RICH-PHILLIPS — I thank Mr Pakula for his question. I guess the intent of our Regional Airports Fund, to draw a distinction between this and the funding of the previous government, is that it be ongoing funding. Rather than there being one pot of money and there may or may not be another one, the intent is to have an ongoing flow of funds. I am not in a position to comment on the RGF; that is with the Deputy Premier. The purpose of this fund is to ensure that there is some money quarantined within regional Victoria for aviation infrastructure. My limited knowledge of the RGF would suggest that there would not be an impediment to other funds from the RGF, but that is a matter for the Deputy Premier.

Mr PAKULA — Or the Premier, as Mr Davis calls him.

Mr RICH-PHILLIPS — The purpose of this fund is to ensure that there are funds that are set aside specifically for aviation infrastructure.

The CHAIR — I think Mr Pakula has been trying to verbal me.

Mr PAKULA — You just misspoke once, I recall.

The CHAIR — I do not recall it that way, but that is all right. Minister, thank you for demonstrating your great knowledge of this industry. I thank the officers from your department for their attendance. It has been a good briefing on the aviation industry. I note that there were some outstanding issues where questions were taken on notice through this set of hearings. We will follow up with you in writing at a later date. If there are any unasked questions, we will forward those to you for a written response. The committee requests that written responses to those matters be provided within 21 days of our letter.

Witnesses withdrew.