

# VERIFIED VERSION

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Inquiry into budget estimates 2013–14

Melbourne — 24 May 2013

#### Members

Mr N. Angus  
Ms J. Hennessy  
Mr D. Morris  
Mr D. 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 A. Ferrington, Executive Director, Aviation, and  
Mr J. Strilakos, Director of Finance, Department of State Development, Business and Innovation.

**The CHAIR** — We will now resume the hearings. I welcome Mr Andrew Ferrington, Executive Director, Aviation, to the table. Minister, a 5-minute presentation on the most complex matters in the aviation portfolio.

**Mr RICH-PHILLIPS** — The aviation portfolio is very much focused as an advocacy and coordination portfolio. The Victorian government, under both Premier Baillieu and Premier Napthine, sees the portfolio, sees the industry as an important opportunity for Victoria in terms of growth. Victoria is recognised as having the critical mass of this industry in Australia, having manufacturing founded here, a lot of flying training founded here and the air force founded here — a very strong base upon which to build. The government has committed to working with the industry to grow that industry.

In terms of spend for us as a department and a government, it is not a large spending portfolio. The key portfolio commitment is around the Regional Aviation Fund, which is an infrastructure program that has been in place since 2011. We have some additional funding allocated in this year's budget, targeted particularly at skills development and skills development initiatives.

#### **Overheads shown.**

**Mr RICH-PHILLIPS** — In terms of just a quick overview of the industry, the slide up on the screen gives a very broad overview of the key sectors of the industry. Obviously air services, both scheduled and non-scheduled services. The Victorian government has a big focus through Tourism Victoria and the minister for tourism on attracting air services to the state, which is outside this portfolio. Other areas of the industry are the aerospace sector, and manufacturing and development. Aerospace has been a great success story for Victoria, with companies such as Boeing, Marand, GippsAero et cetera. Aviation services is another — airport operations, provision of planning services et cetera, MRO services into the aviation industry; and aviation training being the fourth element. Again this has been a very strong area for Victoria. We have a lot of natural competitive advantages in aviation training in this state, particularly pilot training. There are great opportunities with the Asian market in terms of attracting pilot training opportunities into this state for a whole lot of reasons.

Both Boeing and Airbus are forecasting enormous growth in aviation in the Asia-Pacific over the next two decades — around 11 000 new aircraft required, well over \$1 trillion worth of investment in aircraft in the Asia-Pacific over the next two decades. All those aircraft require crews — flight crew, cabin crew, maintenance crew — and enormous infrastructure around those, which highlights the opportunities in this region for Victoria and for Australia.

In terms of where we are focused this year, as I said, we have a big advocacy role within the portfolio. It is not a big spending area. Skills development and industry capability development are the areas we are focusing on. That is a very quick presentation. I am happy to take questions.

**Mr ANGUS** — Minister, in your presentation you referred to the Regional Aviation Fund. Could you elaborate for the committee on some of the progress made to date in relation to that fund?

**Mr RICH-PHILLIPS** — I thank Mr Angus for the question. In 2011 the government committed \$5 million per annum ongoing to fund the Regional Aviation Fund. The purpose of the fund was to assist operators of public use regional airports, and there are 80 or thereabouts around Victoria, with upgrades and enhancements to those facilities, recognising that many of them are quite old. In fact some of that infrastructure dates from the Second World War. It was built by the commonwealth for the war and has not been upgraded. The operators, typically councils, do not have the capacity to upgrade those facilities.

The Regional Aviation Fund was put in place to assist those operators to upgrade those facilities, partly for the training market. I am happy to talk further about pilot training opportunities, but obviously having infrastructure around the state that supports pilot training is important. We are a compact state. That is an advantage for training. Within 1 hour's flying time of Melbourne you can access any number of regional facilities, which is important.

In terms of business and tourism access to centres, there have been some great business developments around some of our regional airports which would not happen if we did not have the facilities that were suitable for things like corporate operations. On the south-west coast in places like Warrnambool there are businesses that are based there operating corporate aircraft that could not be based there if the airport was not suitable. Likewise we are seeing developments at places like Bendigo. There is a big operator at Bendigo, a big veterinary

business, that I understand services most of the piggeries on the east coast of Australia. It is a very substantial veterinary business that operates a couple of corporate jets to run that business out of Bendigo. It could not do it if it did not have a suitable airport. So it is important that the state invest in those facilities.

Over the course of this program we have made a number of investments, including in the Latrobe Valley \$1.25 million to support the work of GippsAero, and I am happy to talk about GippsAero later; Edenhope, upgrading the airport for air ambulance access, and I know Mr O'Brien is particularly interested in and was a strong advocate for that project; likewise with Cohuna in northern Victoria; Donald; Warrnambool, as I have said; Stawell; Benalla, an upgrade to Benalla airport which has assisted in attracting the World Gliding Championships in 2016, which will bring tourism investment into the area; Bendigo, which was one of the leading investments announced by the state, \$5 million into that project, and we are working with Bendigo council on that; and Colac, which I was pleased to announce a couple of weeks ago, about \$180 000 investment into Colac to seal the runway there which will facilitate their air ambulance operations.

**Mr PAKULA** — Minister, I just want to ask you about this 'supporting the aviation industry' headline when you talk about education and skills. Skills become very important when you look at the issue of aircraft maintenance jobs. As you know, apart from GSK, which we have already talked about today, and Ford, which we have already talked about today, there is the pending loss of a huge number of Qantas maintenance jobs. I saw reports this week that the bringing forward of the Jetstar Dreamliner 787 would involve 100 jobs. What can you tell us about whether or not those jobs will be Victorian based and whether or not the fund that you have referred to here would help with the attraction of jobs such as that?

**Mr RICH-PHILLIPS** — I thank Mr Pakula for the question. On the issue of those 787 aircraft jobs I can say that the government is engaged with Qantas and Jetstar in discussions around that, and as recently as this week I have had meetings on that issue. More than that, I am obviously reluctant to say at this point in time, but we are keen to attract and facilitate as many of those jobs in Victoria as possible. A program like the Dreamliner creates a range of opportunities. It is not just maintenance jobs. There are things like pilot training and flight simulator elements associated with that program. There are things which people do not think about, such as cabin door training simulators for cabin crew to be trained. So a lot of infrastructure is required around the introduction of a new type of aircraft like the Dreamliner. We will work closely with Qantas and Jetstar, and both companies will be getting the Dreamliner at various points.

The funds in the budget that Mr Pakula referred to around skills are not for facilitation in that sense, in the way that government might traditionally facilitate investment. What we are seeking to do with those funds appropriated in this budget for this portfolio is to develop skills programs. One of the key challenges in this sector is continuing to attract young people into it. This is the same issue that exists in the technology portfolio. It is about getting young people to do the fundamentals of science, engineering, maths, et cetera at secondary school and then go on to tertiary or trades training relevant to either the tech portfolio or the aviation portfolio. The challenge is the same — engaging people at that secondary level. Some of those funds will go towards that. So those funds are not facilitation funds as you would understand them.

**Mr PAKULA** — Just to follow up on that, if those funds are not facilitation funds in terms of the attraction of those maintenance-type jobs — and I am pretty sure the Regional Aviation Fund is not to attract those kinds of funds; it is for other things, as you have outlined — what specific outputs, initiatives or investment attraction funds, for want of a better term, do you have within your purview that can help with the attraction or retention of those maintenance jobs? What levers have you got in that regard?

**Mr RICH-PHILLIPS** — As I think Mr Pakula would appreciate, given his previous roles, those types of activities are not necessarily undertaken on a portfolio basis. These large strategic investments, whether they be aerospace or elsewhere, are considered more broadly by government and broader resources are considered for that.

**Mr O'BRIEN** — Minister, I would like to refer you to budget paper 3, page 41, where it has the supporting the aviation industry initiative, which is described further on page 44 as 'supporting the aviation industry through investment in education and skills'. I was just wondering whether you could elaborate further on this initiative for the benefit of the committee.

**Mr RICH-PHILLIPS** — I thank Mr O'Brien for the question. In part this question and my answer go to the matters discussed with Mr Pakula. One of the big challenges that the industry repeatedly raises with me is attracting young people, getting a workforce, developing a workforce, because unfortunately aviation and aerospace as a career is not the attraction it once was. There are a lot of other sectors competing for young people's attention. In fact in one sense I am conflicted as technology minister because there would be equal draw by the technology portfolio on the same pool of young people that the aviation industry is seeking to attract.

What we are looking to do through some of the funding allocated in this year's budget is actually develop, in the same way as we have for ICT and more recently for biotech and small tech, programs which encourage, firstly, secondary school students, as I said, to undertake those science, technology, engineering, maths subjects which actually give them access to technology-related careers, whatever they are, and then specifically to attract them down pathways in the aviation industry.

In the education system here in Victoria there are a number of secondary schools which are running fantastic aviation education programs. Brentwood Secondary College is one; Frankston High School in my electorate is another; Eumemmerring Secondary College, my old school, was actually looking at putting one together. So there is a lot of interest in secondary schools in these programs, and we are looking to develop a program which will assist in highlighting aviation as a career and in creating opportunities for young people to engage with the aviation industry and consider it as a career to ensure that we actually do have a pipeline of people coming into the industry. If we are to continue to grow the industry, we need that pipeline.

**Mr SCOTT** — I would actually like to follow on the issues of skills within the aviation industry. Minister, as I am sure you are aware, the interim report of the Vertigan report dealt with the issue of whether services should be delivered by the government sector or outside the government sector. Certainly media reports on the final report dealt with this issue. You touched upon programs within secondary schools. I would like to seek some understanding of the sort of measures that you were discussing with both the last two questions, to what degree they will be provided within the public sector and to what degree they will be looking outside the public sector to provide those services in skills training.

**Mr RICH-PHILLIPS** — I thank Mr Scott for the question. It is a really interesting question Mr Scott has raised because one of the challenges in this particular industry — and it is probably not unique to this industry, but it is becoming more prevalent in the industry — is a substantial change in the type of skills that are required. Mr Pakula asked particularly around maintenance skills and referred to the 787, the new Boeing platform. That is a composite aircraft. It was the first large-scale composite aircraft to enter service, and the skills required to maintain that aircraft are very different from the skills which traditionally have been taught in aeroskills courses. The types of courses that Kangan, for example, offers have typically been around sheet metal work, traditional aircraft construction techniques, and composites relevant to the 787 are very, very different.

Added to that is the fact that a lot of those skills and a lot of those processes are proprietary. Boeing, for example, has specific ways of manufacturing particular composites for particular things and those are not generic skills that can be taught at Kangan or elsewhere. They are OEM skills specific to that manufacturer, specific to that type of aircraft et cetera. The challenge is creating an environment where we can access that skills base and teach those skills. One of the things the government is doing, and last year I announced with Premier Baillieu, is the launch of the national aviation services precinct concept. That is very much targeted at firstly developing a critical mass around our aviation industry and services industry but also accessing those unique capabilities that OEMs have that we cannot otherwise access, so that we can develop that skills base. That will more than likely require participation by the private sector in addition to our public sector providers, because the generic skills we have been teaching are not enough on their own anymore because the industry has been changing so much.

**Mr SCOTT** — Where my question went in part to the Vertigan report, I would just simply like to ask the minister whether he has read the report.

**Members interjecting.**

**The CHAIR** — I will allow the question, but I think it is probably a rather tenuous link.

**Mr RICH-PHILLIPS** — I say to Mr Scott that I am not aware of the Vertigan report making its way into the Department of State Development, Business and Innovation for the minister for aviation to read.

**Members interjecting.**

**The CHAIR** — When we are all done.

**Mr ONDARCHIE** — Minister, on slide 2 you talked about your role as industry advocacy. I am just wondering — given you and I have had a lot of discussions about aerospace and the aviation industry over a number of years — could you tell us more about how that works in a practical sense, your role in advocacy as aviation minister?

**Mr RICH-PHILLIPS** — I thank Mr Ondarchie for that question. As I said at the outset, this is not a big-spending portfolio. It is a portfolio where my role is as a figurehead, a point of contact, within the Victorian government for concerns and areas of interest for this industry. One of those key roles is as an advocate for interests of the industry, both within the Victorian government but also externally. A good example of where this has come into play has been the discussions between the Victorian government and the commonwealth related to Avalon Airport.

The opportunity we have for Avalon Airport to become Melbourne's second international airport — the prospect of having two 24-hour, curfew-free international airports — is very attractive for Victoria. We are in the fourth decade of Sydney having a discussion about whether it wants a second airport. We have got the infrastructure there. With certain approvals it can be an international facility. The commonwealth have agreed to that, and that was as a consequence of work undertaken through this portfolio in working with the commonwealth Department of Transport and the commonwealth Department of Defence, because it is actually a defence facility, which makes it a slightly more complex proposition.

Likewise there are issues surrounding Point Cook. Point Cook is a former air force base, but it is also the home to RMIT's pilot training business. It is an export business; RMIT trains a lot of foreign pilots at that facility at Point Cook. But it remains officially a Department of Defence facility, and there are challenges around RMIT's occupancy of that site, that facility. The Victorian government has advocated on their behalf with the Department of Defence around access to various buildings and so forth on that site.

More broadly, another example is the Civil Aviation Administration of China. One of the major aerospace players in Victoria, GippsAero, is seeking Chinese certification for their aircraft. In meetings with CAAC, which are largely around the Chinese authority recognising the certification provided by the Australian authorities, the Victorian government has played a role in advocating for that recognition and the recognition of the GA8 to go into the Chinese market. That is the type of advocacy work that this portfolio entails with different governments, domestic and elsewhere.

**Mr PAKULA** — Just a quick one on the Regional Aviation Fund, which you referred to before. Can you just remind the committee how much is available per annum within that fund for spending and whether those funds have been fully expended, and if not, what has been the level of the underspend?

**Mr RICH-PHILLIPS** — Yes. The commitment to RAF is \$5 million per annum ongoing. There are some underspends and they relate to timing largely. Approval is given for a project but until the agreement is signed and the funds drawn down there are timing differences. It is probably easier for the committee if we give you that information on notice rather than try and read out a list and have you make sense of it.

**Mr PAKULA** — I would be happy with that.

**Mr RICH-PHILLIPS** — There are a number of projects which have been funded — Latrobe Valley, Warrnambool, Cohuna, Edenhope, Stawell, Colac, Benalla — and probably another four or five still being assessed, Bendigo being the big one for the \$5 million commitment. Any underspend is largely a timing issue rather than lack of interest in the fund.

**The CHAIR** — Is there a supplementary?

**Mr PAKULA** — Yes. I am happy to take it on notice, but just so I am clear. When you say an underspend on timing, are you saying that if everything happened in the time that it was meant to, then the full 5 million

would be spent, or is there less than \$5 million in allocations being made each year and then there is an underspend on that as well?

**Mr RICH-PHILLIPS** — Depending on what you mean by ‘allocation’. The appropriation is 5 million. Projects are funded under that. For example, the first one announced was Bendigo, which is \$5 million. That was the first year’s allocation. Off the top of my head, Latrobe Valley is 1.25 million, I think Warrnambool was 2 million et cetera. We will give you a reconciliation of it.

**The CHAIR** — Thank you, Minister. That concludes hearings on the aviation industry portfolio. I thank you for your attendance this morning. I thank Mr Ronaldson and his departmental officers for their attendance. Where there were questions on notice — I think there was one in the Assistant Treasurer’s portfolio and the most recent question as well — we will write to you seeking that further information. If we could possibly have a response within 21 days of receipt of that letter, that will assist the timely reporting to the Parliament. Thank you for your attendance this morning. That concludes the hearing.

**Witnesses withdrew.**