

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into the 2022-23 Budget Estimates

Melbourne—Friday, 13 May 2022

MEMBERS

Ms Lizzie Blandthorn—Chair

Mr Danny O'Brien—Deputy Chair

Mr Rodney Barton

Mr Sam Hibbins

Mr Gary Maas

Mrs Beverley McArthur

Mr James Newbury

Ms Pauline Richards

Mr Tim Richardson

Ms Nina Taylor

WITNESSES

Mr Tim Pallas MP, Minister for Economic Development, and

Ms Danni Jarrett, Chief Executive Officer, Invest Victoria, Department of Treasury and Finance.

The CHAIR: I declare open these public hearings, this time with the Treasurer, for the portfolio of economic development. We welcome you again. For the record, I will go through the statement.

I ask that mobile telephones please be turned to silent.

Again, I acknowledge the traditional Aboriginal owners of the land on which we are meeting. We pay our respects to them, their elders past, present and emerging as well as elders from other communities who may be with us today.

On behalf of the Parliament, the committee is conducting this Inquiry into the 2022–23 Budget Estimates. The committee's aim is to scrutinise public administration and finance to improve outcomes for the Victorian community.

I advise that all evidence taken by the committee is protected by parliamentary privilege. However, comments repeated outside this hearing may not be protected by this privilege.

Witnesses will be provided with a proof version of the transcript to check. Verified transcripts, presentations and handouts will be placed on the committee's website.

Minister, I invite you to make an opening statement or presentation. This will be followed by questions from the committee again.

Visual presentation.

Mr PALLAS: Thanks, Chair, and thanks, committee members. It is great to be with you again. Following on from our discussions on the Treasury portfolio, I now have the opportunity to talk about the role that the economic development portfolio has been playing and will continue to play in Victoria's economic recovery. The lead agency of this portfolio is Invest Victoria, the state government's investment attraction agency, which is responsible for leading new entrant foreign direct investment and investment opportunities of state significance, enhancing the business investment environment, developing and providing whole-of-government levers such as facilitation services, strengthening the governance of investment attraction activities and providing central coordination for the state's investment pipeline.

Our foreign direct investment attraction performance continues to demonstrate success despite uncertainty in the global environment due to the pandemic and geopolitical unrest. Globally there has been a decline in FDI available and competition has increased, but Victoria continues to attract significant FDI. Most notably, investments out of the USA and Europe are growing and comprise an increasing proportion of Victorian FDI. In 2021 Victorian government-supported investments from Europe and the USA are expected to generate \$1.16 billion in capex and 2190 full-time equivalent jobs in our state, up from \$420 million capex and 1450 FTE in 2020, so a quite remarkable upswing there. Victoria is continuing to support this strong investment pipeline while also providing resources and support to generate investments from other key markets.

Invest Victoria has secured investments that will contribute to building the state's future. I will give you some examples of those investments. HESC is the world's largest liquefied hydrogen export demonstration project. It successfully completed its demonstration of the supply chain earlier this year, making Victoria the world's first jurisdiction to demonstrate the export of liquefied hydrogen to Japan. Global game studio Keywords is establishing its headquarters and development studio in Victoria, creating 130 new high-skilled jobs within three years, drawing on Victoria's deep creative talent pool, including games developers, graphic artists and designers; and Singapore's top-tier tech firm, NCS, is establishing its next cloud centre of excellence in Melbourne, creating 500 new digitally skilled jobs in Victoria and focusing on innovation, technology advancement, artificial intelligence and 5G-enabled internet of things applications, advanced analytics and cloud.

Another key priority for the economic element portfolio is to enhance the business investment environment in Victoria. To this end, Invest Victoria has been leading and implementing both the Research and Development Cash Flow Loans initiative and the Venture Growth Fund. Both are contributing to economic recovery and long-term growth by addressing the ongoing challenges to access capital for startups and SMEs. The Venture Growth Fund will inject sustainable capital into the Victorian startup ecosystem to aid future growth and job creation. It will also further develop the skills of the local venture capital market and encourage co-investment in Victorian startups. The R and D Cash Flow Loans initiative produces up to \$50 million in low-interest loans to Victorian SMEs that are claimants of the commonwealth government's R and D tax incentive. The impact of the loans has been immediate and enabled jobs growth and/or technology upgrades for a total of 58 loan recipients so far.

The government is backing groundbreaking companies to create local jobs, to help workers learn new skills and secure Victoria's position as a global investment destination. This year we announced a \$40 million boost to the International Investment Attraction Fund, which will help to attract high-quality international investments into the state and encourage global firms to set up in Victoria. This will create local jobs, boost Victorian manufacturing and support new opportunities for local businesses to grow and develop. We are also backing startups with the \$20 million Equity Investment Attraction Fund. This is a pilot program designed to attract and retain high-quality companies by providing funding in return for an equity stake, and this will ensure that not only are we luring the world's brightest innovators to Victoria but also ensures that Victorians get their share of the success. Competition for investment has never been tougher in the global market. The Victorian government trade and investment office network will be expanded with a further \$5 million boost to investment and skills attraction and further position Victoria as a key player on the global stage.

Invest Victoria met its 2020–21 targets, with 5740 FTE direct jobs, \$2.813 billion in capital investments, \$297 million in wages and \$496 million in innovation expenditure. Wages and innovation expenditure were new measures for 2020–21 and significantly exceeded targets. We have reviewed this and made amendments to 2022–23. Thank you for your time, and I am happy to take questions.

The CHAIR: Thank you. Mr O'Brien.

Mr D O'BRIEN: Thank you, Chair. Welcome back—Minister, this time. BP3, page 87—as part of a general order you are jointly responsible for reporting on the performance of functions of agents-general and commissioners for Victoria. Have you been briefed or received any reports raising concerns about the performance of the Frankfurt office?

Mr PALLAS: Well, I am responsible for the FDI component of our trade and investment offices. I do not manage the administration of those offices. That is a matter for the Minister for Trade, so I would suggest you direct that question to him. Those matters would not in the ordinary course of things be raised with me. The trade and investment offices, as you would understand, are under the umbrella of Global Vic, and they are managed out of DJPR.

Mr D O'BRIEN: Under the Act and under the general orders, sections 11(3) of the Act are jointly and severally administered by you with the Minister for Trade, and that relates to the commissioners overseas. So I am just asking: have you received any briefing or concerns about the Frankfurt office?

Mr PALLAS: The answer is—'Have I?'

Mr D O'BRIEN: Yes.

Mr PALLAS: I can answer it directly, no, and on the issue of who manages the day-to-day administration, it is under DJPR, and it is managed by the Minister for Trade.

Mr D O'BRIEN: So we have agents-general or commissioners for Victoria in both London and Frankfurt. Why, then, are we spending \$12.8 million to establish an office in Paris?

Mr PALLAS: I think it is vitally important that we recognise that we have got an incredible opportunity in terms of what is going on with regard to our relationship with France. The decision to open a new office in France really reflects its importance as a partner for Victoria, whereby French organisation plays a pivotal role

in delivering projects in renewable energy, in construction, in transport technology and innovation. It is an enormous opportunity—

Mr D O'BRIEN: Treasurer, you could say that about Germany or indeed probably most of the Western European nations. What I am asking is—we have got an office in Frankfurt, we have got a budget heading towards \$170 billion of debt, we are in deficit for the next few years—why are we spending \$12.8 million on a new office in Paris when we have already got one just 587 kilometres down the road. It is the distance from Melbourne to Mildura from our existing office?

Mr PALLAS: Distances in Europe are somewhat constrained than Australia's, but let me make the very clear point: in terms of two-way trade with France, it is \$1.8 billion. In terms of our capacity to see what is one of our biggest capital investors—foreign direct investment providers—it is France, and we have got a great opportunity in terms of our engagement with France. So if you look at the competition that is going on for FDI at the moment, look at New South Wales, look at the massive growth that they have recently announced in their trade and investment offices. Mr O'Brien, if your suggestion is that we should effectively be happy with the level of activity in investment that we have got, I would take exception to it. I think we need to increase—

Mr D O'BRIEN: I did not say that, and indeed as I said, you could establish these offices in any one of the Western European countries—indeed more in Asian countries for that matter.

Mr PALLAS: France are vitally important for renewable energies, they are vitally important for the investment they make in transport, they are vitally important for innovation, and I just want to spend 1 minute taking you through recent success stories.

Mr D O'BRIEN: I actually only get 7 minutes, Minister, so I am going to stop you there.

Mr PALLAS: Thirty seconds?

Mr D O'BRIEN: No.

Mr PALLAS: You do not want to hear about how good it is dealing with France?

Mr D O'BRIEN: What will the \$12.8 million be spent on?

Mr PALLAS: Okay. Well, that is not all for the Paris office. That is essentially all for the Global Vic. trade and investment strategies that the state is putting in place, so part of that will be for France but it would be the minority, not the majority of that \$12 million.

Mr D O'BRIEN: Can we get a breakdown of that?

Mr PALLAS: We cannot, because at the moment we have not yet worked out exactly what the cost of establishing an office is. We have to find a location, we have to work out the rent. In due course of course we will be able to provide it to you, but not until we have established the office. You know, in December 20—

Mr D O'BRIEN: Okay. Well, no. If you cannot tell me, Minister, then you cannot keep going, because that is the question I asked. Pertinent to that, though, is staffing and everything. I mean, Minister, *parlez-vous français*?

Mr PALLAS: *Je parle français couramment.*

Mr D O'BRIEN: So is there any chance that the Treasurer might one day end up as the commissioner for Victoria in Paris?

Mr PALLAS: *Malheureusement, non.*

Mr D O'BRIEN: See, you are beyond me now, because I only had the one line.

Mr PALLAS: 'Unfortunately, no'. The Treasurer will never inflict his attempt—his hopeless attempt—at French on the French. I do not think that would help our trade and investment strategy whatsoever.

Mr D O'BRIEN: All right, never; righto. Well, it might be one other minister, perhaps, who is going to retire. Can I move on? Again, under the *Agent-General and Commissioners for Victoria Act* the commissioners can report on any matter specified by you. Have you sought or received any advice from the commissioner to greater China about Beijing's response to the cancellation of the Belt and Road agreement?

Mr PALLAS: Have I received any advice from where?

Mr D O'BRIEN: From our commissioner in China about Beijing's response.

Mr PALLAS: Not specifically—and by 'our' you mean the commonwealth government's decision to terminate those arrangements?

Mr D O'BRIEN: I actually did not say 'our'—the decision since the termination, I said.

Mr PALLAS: Put that to one side. The practical consequence is that we are finding in a geopolitical sense our engagement with China becoming increasingly difficult, and that is not exclusively around this issue of Belt and Road.

Mr D O'BRIEN: Of course not.

Mr PALLAS: It is around a much broader interaction of issues. But we continue to have valuable interaction in China. We have seen a bit of a softening out of the foreign students coming from China. But yes, it is harder, but it has not ground to a halt.

Mr D O'BRIEN: Has China or our commissioner proposed any alternative agreements since the Belt and Road agreement was terminated?

Mr PALLAS: Not to my knowledge, no.

Mr D O'BRIEN: Okay. Can I quickly ask Ms Jarrett, perhaps: of the companies that have been helped through Invest Victoria in the last three years, have any of them, and if so how many, since left Victoria?

Ms JARRETT: Not that I am aware of, no.

Mr D O'BRIEN: Okay. Can you also say—and perhaps take this on notice—how much of the Venture Growth Fund has actually been expended already?

Ms JARRETT: Well, the Venture Growth Fund was announced last year. Fund managers were appointed late last year, so they are working through a pipeline of potential candidates for taking venture growth.

Mr D O'BRIEN: Can I get it on notice if any of the money has been spent?

Ms JARRETT: Sure.

Mr D O'BRIEN: Thank you.

The CHAIR: Thank you, Mr O'Brien. Ms Richards.

Ms RICHARDS: Thank you, Treasurer. I would like to explore the subject of equity investment funds and in particular refer you to budget paper 2, page 13, where it states that the Victorian government is investing \$20 million in an equity investment attraction pilot. Could you please explore for the committee how this fund will support Victoria's economy and recovery?

Mr PALLAS: Yes. Thanks very much, Ms Richards. I think it is important that we recognise that there is no single or simple way by which we attract investment and interest in this state. The thing that I do want to pay tribute to Invest Victoria for is that they work really hard on relationships. They look at what the appetite in the market for a variety of interventions looks like, but they do what I describe as after-sales service particularly well. We have a great reputation as a state in being able to manage a lot of the investments that come into the state. About eight in 10 investments are not actually supported with cash investments; they are people who come here because it sits strategically with their ambitions and expectations and we have got a great story to tell in Victoria. So international investment is key, really, to attracting new opportunities, and it is an important

driver that can strengthen innovation, productivity, job creation, and it can also improve the diversification of the Victorian economy. International investment is also critical to building and expanding Victoria's ecosystem, bringing in new and innovative companies that will create economic spillovers, improving economy-wide innovation, create wider economic benefits and support the growth of Victoria's innovative and priority industries.

The government knows that foreign direct investment is an important tool that supports domestic manufacturing. It bolsters Victoria's supply chain capabilities and certainty, and of course it creates jobs for years to come. So the state is very lucky to have Invest Victoria as its high-performing and globally competitive investment promotion agency, and I am not just saying that because Ms Jarrett is sitting next to me. I am very proud of the work they have done and the achievements that they have been able to notch up in a very short period of time.

At the most basic level, Invest Victoria operates in a highly competitive global environment to leverage its existing suite of products and services such as facilitation and grant-based incentives to attract foreign direct investment into the state, to remain responsive to the changing needs and typography—typology, really, of global investors. There must be a focus on continuing improvement and there is a need to monitor the offerings of the most sophisticated jurisdictions for investment attraction. So we are looking at what the other jurisdictions around the world are doing, we are looking at what is working for them and we are looking at what can properly be transported into a domestic context for the purposes of investment attraction.

I note that domestic and international competitors have also become engaged in their investment attraction efforts in recent years, further underscoring Victoria's need to continually innovate its offering; we cannot stay still in this space. To build the suite of supports that Invest Victoria has to offer, the budget provides funding to establish a \$20 million equity investment pilot fund to attract interstate and international companies to Victoria. The equity investment fund starts up ecosystems, creates high-value jobs and can also lead to an agglomeration of economies where businesses benefit from proximity to other like-minded businesses and like-engaged businesses. What we are seeing in the biotech industry is a classic illustration of that. This makes it easier for businesses to retain labour and technology while the opportunities of innovation and financing grow. The benefits of this are felt right across the economy. The companies that this fund will seek to attract are young, they are highly innovative and they are agile companies with high growth potential.

The equity investment pilot fund will complement and build on this government's existing commitment to supporting start-up industries. This is vitally important. We are starting to move into areas where we are encouraging entrepreneurship and, might I say, moving up the risk spectrum, including the Venture Growth Fund and bolstering the state's innovative start-up ecosystem. It is vitally important that we create a dynamic, interventionist and agile sector, and you can only do that if you demonstrate that the state is similarly so disposed in terms of how it engages with these sectors. The portfolio of start-ups to be supported through this fund is envisaged to really align with Invest Victoria's priority sectors outlined in the *International Investment Strategy*. The priority sectors that this fund will seek to support include the digital sector, medical technology, energy, biomedical, advanced manufacturing and agriculture, and the fund will also encourage sovereign manufacturing capabilities by attracting companies that will support rapidly growing businesses, including supply chains that underpin economic resilience. This pilot will not only provide an additional and attractive option to entice companies to invest in Victoria but it will also provide an opportunity for Victorians to benefit from that success. The use of equity-based incentives will allow Victoria to maintain its competitiveness. Equity is already utilised as an investment attraction tool by other countries and jurisdictions globally such as Singapore and Ireland and is also used domestically within Australia.

So it is an exciting fund that has got the potential to deliver lots for Victoria. I want this state to be an innovation leader, not just in terms of the industries that we are growing but by the methodologies and strategies that we adopt in order to attract these companies to Victoria. If they do not see a government with a predisposition to supporting them in their aspirations, if they do not see a government that sees itself as a partner in their growth strategies, then of course there will be plenty of other jurisdictions that will demonstrate much more agility. So we have to constantly challenge ourselves, and this fund is just one demonstration of that effort.

Ms RICHARDS: Thanks, Minister. That is really energising and fascinating actually. I would like to refer you again to budget paper 2, page 13, and ask that you explain a little bit more for the committee about the types of projects that will be supported by this fund.

Mr PALLAS: Yes, thanks. Look, the Victorian government has long recognised the importance of vibrant innovation ecosystems underpinned by an environment where early-stage, technology-focused companies can consolidate their ideas and can grow—and they can consolidate their ideas by working together. So, anchored by LaunchVic and Breakthrough Victoria, the government has made a quite considerable investment in initiatives that support the development of innovative companies. We recognise that start-up ecosystems have the ability to create high-value jobs and can lead to agglomeration economies where businesses benefit from their proximity to each other—that is, ‘each other’ like-minded businesses. It creates benefits right across the economy and makes it easier for businesses to retain labour and technology.

So reflecting on this, a primary focus of the Equity Investment Attraction Fund is aimed at targeting high-growth potential in earlier stage companies seeking additional capital. So the portfolio of startups to be supported through the fund is envisaged to align with Invest Victoria’s priority sector: digital, energy, biomedical, advanced manufacturing and agriculture. Those are the areas that we are progressively and have expressly identified as priority sectors for activity, and they are outlined in the *International Investment Strategy*. Invest Victoria has a strong track record of supporting high-growth companies, and this will be no different. Invest Victoria will work with VGTI investment managers and overseas commissioners to proactively target eligible companies for equity funding.

Ms RICHARDS: Thanks, Minister. With less than 1 minute left, I think I will leave that there. That is great, thank you.

The CHAIR: Thank you, Ms Richards. Mr Hibbins.

Mr HIBBINS: Thanks, Chair. Minister, I just want to ask you about two projects which I believe fall under the economic development portfolio. The first one is Uber Air, or Uber Elevate. It was obviously announced with much fanfare that we would have flying taxis in Melbourne. You know, we pumped up their tyres, and a year later they sold it off to someone else. Is the Victorian government still in dialogue with the now owners of the Uber Air division, or is that agreement still in place?

Mr PALLAS: I will throw to Ms Jarrett to answer that question.

Ms JARRETT: So the focus for us is working with a number of different proponents in the advanced aerial mobility sector, which Uber Air was involved with. So our focus at this stage is really around working through the development of that sector rather than with the Uber Air company as such.

Mr HIBBINS: Yes. So there is no time frame for flying taxis to be in operation in Melbourne?

Ms JARRETT: No committed time frame as yet.

Mr HIBBINS: Great, thank you. The second project I want to ask about is the hydrogen energy supply chain, so this is using coal to create hydrogen and then exporting it. My understanding now is that it is currently at the pilot phase and that the next phase is a decision whether to proceed with commercial operations. Now, if that decision is made, my understanding is that those operations would not begin until 2030. So can I just ask for an update? Is it still going to be a consideration that we would be exporting hydrogen produced by fossil fuels, coal—dirty hydrogen—from Victoria in the 2030s?

Mr PALLAS: Well, I think it is pretty clear from our partners that unless the emissions issues are adequately dealt with they will not be receiving it. The government recognises that a vital part of the commercialisation of hydrogen means that we do need to get on top of the emissions issues, and indeed quite considerable efforts and advances are being made. That HESC pilot project is a world-first pilot program that is going to test an international supply chain. Mr Hibbins, I know there are a lot of people who want to jump to the end technology. The electrolysis technology holds great potential, but it will require a long development time frame. The electrolysis technologies will improve, and they are improving, but establishing a supply chain through the HESC project, the world’s first international supply chain—

Mr HIBBINS: Can I just ask—time is of the essence. I just want to know in terms of—when you say getting on top of the emissions issues, what does that mean for you? What would getting on top of the emissions issues—

Mr PALLAS: Well, any commercial-scale facility will require carbon sequestration to ensure that it is environmentally sustainable. It will not occur unless and until that precondition is met.

Mr HIBBINS: The amount of emissions from the project, what do you take as environmentally sustainable? Is that net zero? Is that zero emissions? Is that a certain level of emissions from fossil fuels accepted?

Mr PALLAS: Well, that will be the subject of our engagement with our partners, but it will be within acceptable levels of emissions. Our aim is to get to a zero-emissions technology, yes.

Mr HIBBINS: Is that using carbon capture and storage?

Mr PALLAS: It could be one of a number of technologies, yes.

Mr HIBBINS: Okay. Thank you, Minister.

The CHAIR: Thank you, Mr Hibbins. That concludes the time we have set aside for consideration of the economic development portfolio. We thank you for your time in this capacity today. The committee will follow up on any questions which were taken on notice in writing, and responses will be required within five working days of the committee's request. The committee will now take a 5-minute break before moving to consideration of the industrial relations portfolio.

Witnesses withdrew.