

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON
TRANSPORT AND REGIONAL SERVICES**

DEFENCE SUBMISSION

TO THE

**INQUIRY INTO PRIVATISATION OF REGIONAL
INFRASTRUCTURE AND GOVERNMENT BUSINESS ENTERPRISES
IN REGIONAL AND RURAL AUSTRALIA**

**FUTURE OF THE MULWALA PROPELLANT
PRODUCTION FACILITY**

**Department of Defence
November 2003**

The modernisation of the government-owned Mulwala propellant production facility will retain an indigenous military-grade gun propellant manufacturing capability in Australia over at least the next 20 years and provide regional employment and community benefits.

Under a Deed of Cooperation between Defence and ADI Limited, the facility's operator, which was signed on 31 October 2003, ADI will manage the modernisation project. In addition, the Government is seeking to transfer the ownership and operation of the Mulwala facility to the private sector. Under the Deed, ADI will submit to the Government a privately funded proposal to modernise the facility and to supply propellants to the Australian Defence Force for 20 years. Defence will assist ADI in evaluating the modernisation proposals, with the Government to consider these in mid-2004.

Background

The Mulwala facility is situated on the New South Wales side of the Murray River, approximately 100 kilometres west of Albury, and occupies an area of 1,029 hectares. Mulwala is owned by the Australian Government and operated on its behalf by ADI Limited under a lease arrangement. Originally transferred to ADI in 1989 when ADI became a government-owned company, the facility was transferred back to Defence in 1993. The plant employs about 370 people directly and 300 indirectly, and contributes approximately \$20m per annum to the local economy.

The Mulwala facility is the primary producer of propellant and high explosive for use in Australian Defence Force munitions. The propellant and high explosive is supplied to ADI's ammunition factory at Benalla, in northern Victoria, for incorporation into finished munitions. Mulwala processes chemicals procured from both overseas and local suppliers to produce the propellant and high explosive for small arms ammunition, artillery projectiles, naval projectiles and bombs. ADI uses the spare manufacturing capacity of the Mulwala plant to make substantial sales of propellants and chemicals to the non-Defence market. Revenue from these commercial sales is shared with the Government.

The propellant and solvent production areas of the plant were built in the 1940s and are inefficient because of outmoded machinery and the use of batch production techniques. The high explosive and acid production processes were established on the site using both new and reconditioned plant. This was part of a major rationalisation of the explosive ordnance production infrastructure around Australia in the early to mid-1990s.

On 9 July 2001, the Government announced that the indigenous production capability at Mulwala was to be retained and updated.

Project Strategy

The Government is seeking to transfer the ownership and operation of the Mulwala facility to the private sector. ADI will submit a privately funded proposal to own, modernise, maintain and operate the Mulwala facility and to provide propellants to the ADF via a 20-year supply agreement. This proposal will be evaluated in accordance with the Australian Government's private financing policy.

Construction is expected to commence in 2005, with the commissioning of the new plant planned for 2008 and operations continuing until at least 2028.

Regional and Social Impact

Within the scope of works for the modernisation, there will be ample opportunity for Australian industry involvement, such as design engineering, piping systems, material handling systems, alarm systems, lighting, road works and civil construction work. The

major elements of the manufacturing plant will most likely be imported, but the suppliers of such systems will be informed that they should use local design and manufacturing expertise wherever possible.

The existing plant will continue to operate during the modernisation work. Consequently, there is likely to be a commensurate increase in local employment to enable both the old and the new plant to be operated concurrently. Some 200 new jobs may be created during the construction period. Accordingly, the local economy is expected to benefit substantially during the period of the modernisation.

It should be recognised that new commercial opportunities for the output of the facility might arise since the modernised facility will be more efficient. This may enable ADI to better compete against international producers who currently have a productivity edge over the existing plant. This, in turn, may generate greater output from the facility thereby enhancing employment opportunities.

Options available to modernise the plant range from replacement of the current propellant facilities with a state of the art, highly automated production plant to refurbishment of existing facilities with limited automation sufficient to overcome any occupational health and safety and environmental issues, or any combination in between.