



**COMMONWEALTH OF AUSTRALIA**

**JOINT PARLIAMENTARY  
COMMITTEE**

on

**PUBLIC WORKS**

**Reference: East Coast Armament Complex, Point Wilson, Victoria**

**CANBERRA**

**Thursday, 14 May 1998**

**OFFICIAL HANSARD REPORT**

**CANBERRA**

JOINT COMMITTEE ON PUBLIC WORKS

Members:

Mr Tuckey (Chair)

Senator Calvert  
Senator Ferguson  
Senator Murphy

Mr Richard Evans  
Mr Forrest  
Mr Ted Grace  
Mr Hatton  
Mr Hollis

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JOINT COMMITTEE ON PUBLIC WORKS

*East Coast Armament Complex, Point Wilson, Victoria*

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Thursday, 14 May 1998

Present

Mr Tuckey (Chair)

Senator Ferguson

Mr Forrest

Senator Murphy

Mr Hatton

Mr Hollis

Committee met at 8.32 a.m.

Mr Tuckey took the chair.

**CHAIR**—I declare open this hearing on the proposed East Coast Armament Complex, Point Wilson, Victoria. We were to begin with Mr Lloyd McCullum from Deflog International, but his plane has been delayed so we will begin with the Defence witnesses. We might interrupt that, if everyone is happy enough to take Mr McCullum's evidence when he arrives, and then come back.

Getting down to the formalities of the matter, I would like to open this hearing which continues earlier hearings conducted in Geelong on the 13 February, in Canberra on the 26 March and in Eden on the 27 April into the East Coast Armament Complex. The committee is examining two options relating to the location of this facility, namely, Point Wilson in Victoria and Twofold Bay in New South Wales. Having already conducted three hearings on this proposal, the committee would now like to clarify a few outstanding issues relating to the shipping and transportation of explosive ordinance and the estimated cost involved in relocating the proposed facility from Point Wilson.

I would now like to call representatives from the Department of Defence to provide further information in relation to the committee's examination of the ECAC proposal. The committee would like to explore in greater detail the question of the transportation of explosive ordinance and the cost of possible relocation of this facility and other associated matters.

[8.33 a.m.]

**COX, Commodore Timothy Harvey, Director General, Maritime Development, Department of Defence, Russell Offices (B-4-05A), Canberra, Australian Capital Territory 2600**

**KELLY, Brigadier Garry Ross, Director General, Project Delivery, Department of Defence, Campbell Park Offices (CP3-3-03), Canberra, Australian Capital Territory 2600**

**LANE, Mr Alan, Team Leader, Commercial Support Program In House Bid, Royal Australian Naval Armament Depot, Orchard Hills, Kingswood, New South Wales**

**Mr Lane**—I am from the Department of Defence, and I am currently the team leader of the commercial support program in house bid for explosive ordinance maintenance and distribution. Formerly, I was the manager of the Royal Australian Naval Armament Depots, including Point Wilson.

**CHAIR**—Who will be leading for us this morning?

**Mr Lane**—Thank you, I will. I have prepared a few overhead slides and some background to the issue as it will directly affect any future decisions on the importation of Commonwealth and Defence assets.

The key starting point really was this decision in 1994 to co-locate the Navy's ammunition and de-ammunition facilities with the existing import facilities. Through this location, three facets would be possible in the way of business. It would provide a strategic capability in the east of Australia, one less vulnerable to attack, in proximity to Defence's wholesale storage sites and the Australian defence industry's manufacturing plant. Secondly, it would provide sufficient area and infrastructure to conform to the NATO principles and defence's security and safety provisions. The third point was a guaranteed flow of material through a Commonwealth controlled site.

My purpose today will be to analyse the requirements, methods, alternatives and costs involved in the importation of the bulk explosives. To set the scene for this, a short bit of history will put Point Wilson in perspective.

There was an important phase that started in 1939 as far as the history of Point Wilson is concerned. The Commonwealth exercises powers under regulation 66 of the national security regulations which really empower it to operate on behalf of the nation in the way of importation of explosives. During these years, considerable amounts were brought into Melbourne, as they were into other ports in Australia. But Melbourne became the focus point because it was the centre of the manufacturing industry, both defence and commercial—the commercial being at Deer Park which is still there today.

Very large quantities came in. The states placed an enormous amount of pressure on the federal government, the Commonwealth government of the time, through its port agencies and the premiers as they did not believe that this was acceptable. The pressure really continued through from 1939 to 1943. I have here a copy of the memorandums of those meetings. In 1943 the Prime Minister established a review by august people, including reps from the states and various other people, to analyse the need for the Commonwealth to have its own capability. It recognised the need to allow the services to meet their requirements in support of the nation, but it had grave concerns for the safety of the community at large.

This continued for quite some time. Then, during World War II, there were quite a number of accidents that occurred—as happened in World War I. There were eight notable accidents in all that occurred—three major accidents with bulk explosives in World War I, and then five in World War II. A couple of these were the *Port Chicago* accident in San Francisco and the *Texas City* in the United States, and there was another one in the Pacific. There were very large losses of life. The templates for safety distances from these accidents were actually placed over the Port of Melbourne as a representative sample, and it was found that the conditions that prevailed were still relevant—albeit we had no accidents—and that there would have been catastrophic results on the current ports in Melbourne, as indeed in the other states.

By 1948 a recommendation was made that in peace or in wartime the Department of Defence required a facility of its own in which it could actually enact its powers to do its business—as indeed the states did—so Point Wilson came into being from that point in time, as did a number of the Commonwealth regulations that supported it. These were the area acts which allowed the Commonwealth to have its powers where it operated in ports. The Explosive Act 1961 was also put into place more strongly for the transportation to coincide with this same thing. That sets the scene where the government really became its own business importer of explosives.

I will set a couple of scenes of where I come from today. In the way of safety, Defence adopted the NATO principles in 1981. You have heard quite a lot about these. These brought on a form of risk analysis associated with safety distance criteria, and you have no doubt seen many references to green, yellow and purple lines. These made the Department of Defence license its activities according to stringent principles to identify the associated risks.

In 1988 the parliamentary accounts committee reviewed Defence's activities in these areas of regulatory control and very strongly reinforced the need for Defence to be very accountable for its actions for safety, both within itself and particularly to the public. Two regulations that were strongly reinforced then were the Defence Instruction (General) 07-1 which were the safety principles for storage and handling, and Defence Instruction (General) 01-4 which was the safety policy for transportation.

The bottom line of these required Defence to be very accountable to the minister in terms of any risks to the public or to public property that went beyond those prescribed in the principles and to recognise, in the form of waivers, any risks to departmental personnel that were outside those. One of the most notable waivers we have had, of course, is Sydney Harbour, where the minister has been allowing us to operate under the authorisation of a public risk waiver. The way we are expected to review these things, to get through all these instructions and regulations, is by consequential analysis, not by risk hazard analysis, and therein probably lies a significant difference in the way the states and the Commonwealth may view certain conditions.

The states authorise areas to conduct their business. They use risk hazard analysis and they accept tolerable levels of risk. The Department of Defence is expected to do consequential analysis, and when we exceed those levels of consequence we place those before the minister to accept any risk. That just sets the scene on the way I would be looking at the problem of importation of explosives.

*Overhead transparencies were then shown—*

Coming to the first point about proximity to Defence's storage capabilities, they still remain largely concentrated in the east. You can see Myambat, Kingswood and Bogan Gate—Kingswood is actually the RAAF component—and you can see that the high concentration in the east. Some of it is in the east and then there is Point Wilson. Our west capability represents, by volume, five per cent. Our concentration of explosives storage is certainly in the east, and it is certainly to the southern part of the country.

In support of that, ADI import black powder through Point Wilson to their factory at Benalla. That is in aid of their production, and it is usually in the form of two containers a year that come in to Point Wilson. The situation really is that that is the proximity requirement. Defence requires an import that conforms to the NATO prescriptions—and I might talk a bit about the NATO prescriptions.

What this relationship diagram depicts is the requirement to berth the ship that comes into Australia. The green and the yellow lines are depicted for 1,000 tonnes which has been referred to as the requirement that would be on board a ship—

**CHAIR**—For the record, could you put 'NEQ' into words?

**Mr Lane**—Net explosive quantity. It is the gross weight of the explosive.

**CHAIR**—I am not sure that it has ever got on the record.

**Mr Lane**—I have depicted those apart. In the case of Point Wilson, you would be aware that those two arcs overlap but I have shown them for relationship diagrams by virtue of choices that might be available either on split or, if it were a single site, they



could move within those boundaries. But the relationship for the activities is the ship berths with 1,000 tonnes. That is made up of the commercial freight combined with the Defence freight as it comes to Australia.

There is the distance you need. You will see the green and the yellow lines. I have depicted those because the green line is that line within which people in the open are at high risk of fatality; and in the yellow, within buildings. Buildings will receive large consequences of the event and people inside would be injured. I think we have been down the green and the yellow, but I would be happy to explain those if you wish.

What really happens then is that the ship discharges from this point and the containers need to be taken somewhere. In the main, the largest single shipment that Defence have had is 70 containers in one single shipment. The average annual is 85, but we had one large shipment of 70. That represents the sort of poundage we would need to handle in the way of a licensed site. Those containers go to a site and that drives a 200-tonne requirement.

In the case of Point Wilson, it is viewed within these arcs. At that site we store and inspect those containers. In the case of Point Wilson we empty those containers. We empty the containers and put them on the backs of trucks which are dispersed to a number of sites. But, in the main, the bulk of it goes, as I depicted earlier, to Myambat and Orchard Hills at Kingswood. That is the main receiver of the ammunition.

We do the truck loading and the document preparation here. From there, the convoys are assessed and go into an area where the trucks are parked. In the area that the trucks are parked we consolidate the convoy and we placard. I have described that. If we were to drop a piece of ordnance, or if anything were suspect in accordance with the safety principles I alluded to earlier, it would go to a separate area and we would conduct special requirements over those to ensure safety. So the requirement for the purposes to import is 1,000-tonne berth site, a 200-tonne parking area for 70 containers and truck-waiting positions for 20 tonnes.

**CHAIR**—You are taking a circumstance that occurred once when 70 containers were unloaded and making that the typical situation. Why is that?

**Mr Lane**—The licence is inflexible in that it needs to cater for the circumstances. As a business requirement, it does not particularly drive the cost. You would see that if it did drive the land acquisition, you would then be looking for solutions such as dividing that site into two—so you would look at other options. It would depend on what the circumstances were, but you would still have to be able to cater for 200 tonnes, otherwise you have got nowhere to put that sort of peak load. It certainly does not drive transportation costs, but it is the amount of land you need to buffer your safety around.

If you wished to use safety criteria in a land situation, you could split that site into

two sites and call them 100-tonnes sites, but you would have to have intra-distance between the two. So it would be very inflexible with that 200 tonnes and if you have not got it, the alternatives are not there.

**CHAIR**—But my question really is: why does Defence have to import 70 containers in one shipment? No manufacturer would do that if their total annual demand was only 80 containers. They would not build a warehouse for a 12-month supply to be delivered in one delivery. ‘Just in time’ is the fundamental of business today. In a logistical sense, why would you run your business on that basis?

**Mr Lane**—The situation that exists with explosives is that they are coming from essentially two main sources: the USA and Europe. They come off single contracts that have been purchased, and the situation is that these normally sit in very dedicated facilities over in short supply in the United States and Europe. The shipping company actually aggregates those loads to achieve economy in shipping because the shipping costs are enormously high. There are a limited number of ships available on the world market that can cater for these. They are very small and they are in limited supply, and it really is a question of economies in shipping plus the ability to cater to them. You are also paying to hold these over in storage sites. So while these are being held on your behalf, ex-production, there is no ‘just in time’ when you are manufacturing explosives; they are production runs. So either they are coming out of ex-stock that is available for you at the time, or they are a specific production run that has been organised with either the Ministry of Defence or the United States.

Once they are available, they notify you that they are available for delivery. The shipping company aggregates Defence’s requirements and the commercial requirements to achieve optimum premiums in cost-saving shipping because they are very dear to ship. So you are achieving in a logistic sense. You are paying the costs of one-time production runs or availability. The costs would be incurred in the United States and, obviously, there is pressure for storage facilities and for you to take your products away when they are ready, otherwise you will be paying through the manufacturer and the shipping costs, and shipping costs are extremely high on the formula.

**CHAIR**—I want to pursue this for a minute because you refer to one-time production runs. Are you therefore advising us that all of the ordnance that is used in Australia’s military activities is specialist to the point that no other country uses the same sorts of guns, missiles or things of that nature? Do they have to make a special production run? Are these manufacturers only manufacturing for Australia?

**Mr Lane**—No. They are manufacturing for whatever countries are approved to have those weapons systems.

**CHAIR**—Why is it that they have to run all our stuff off at once? I will take you one step further—and there is further evidence to be taken. In Eden the port authority

people from New South Wales were rather casual about this aspect. They said that they regularly handle single and small multiples of containers of HE in both directions—they come in and they go out on normal shipping. That was focused in Western Australia recently where, due to the industrial problems, a particular ship had to be sent around to *Stirling* base or somewhere to unload a single container which was otherwise going to be unloaded in the port of Fremantle simply because they did not want it sitting on the wharf for any unlimited period.

Irrespective of that, we seem to be spending a huge amount of money on land, buildings and a wharf facility for what you have just told us is basically one delivery a year when, obviously, all those costs could be reduced if we could take multiple deliveries through other delivery mechanisms which other people seem to do.

**Mr Lane**—I will be coming to that in a moment—what the state licences are by choice to that issue. Coming to Sydney and the single largest hazard division, what they really did not mention in that was that they were talking about hazard division class 1.3. Explosives are in four hazard divisions, and these segregate them by the types of consequences they are managed to. Hazard division 1.1 is high blast items that throw out large quantities of high velocity debris, blast and fragments, and that is mass detonation. Division 1.2 is similar effects but no mass detonation, so they are actually happening in smaller quantities. A lot of artillery ammunition is in that category. Hazard division 1.3 is essentially flame. These are things that throw out a flame hazard only. And 1.4 is small arms and safety distances.

If you look at the comparative assessment, at the statement that may have been made there, Brothers Dock in Sydney, for hazard division 1.1, which is the high blast items, is 1.6 tonnes. For hazard division 1.3 it is 30 tonnes, but that is only flame hazards. The situation in the case of Brothers would be that if they have a combined load of flame hazard and high blast items, the consequences would be aggregated. So if half the load were 1.1 and half were 1.3, the result would be the same as a total 1.1 event. They are moving flame type of items. Just to give you an order of battle, they are talking of a radius here for their 1.6 tonnes of 200 metres. For the 1.3 alone it would be in the order of 60 to 90 metres. If you look at the sorts of criteria we are talking about and see the distance proportionately, we are not really talking about the same thing.

**CHAIR**—They are talking about 1.6 tonne minimum of the most dangerous, if we could use a simple terminology.

**Mr Lane**—Yes.

**CHAIR**—In the 70 containers that come in, what is their category?

**Mr Lane**—1.1.

**CHAIR**—They are all the highest?

**Mr Lane**—When they are loaded together they are in the main 1.1. There are very small amounts of—

**CHAIR**—I will come back to that question. I understand your previous advice that if there is some of that in a load then it is all categorised at that. But if they were not all in the same load that provision would not apply. Would you tell us how many of the 70 would come into the 1.1 category if they were all stacked as separate containers, if they were all isolated for the purpose of counting?

**Mr Lane**—I could not answer that accurately. I could give you an indication but I could not give you a very accurate answer.

**CHAIR**—What is it?

**Mr Lane**—Three-quarters of them, 75 per cent, would be hazard division 1.1.

**CHAIR**—Okay.

**Mr Lane**—The reason being that most of the other items that require 1.3 are actually manufactured in Australia. ADI do a great deal of the propellant type of items within Australia. It is special to type HE that we are actually importing, in the form of missiles, torpedoes and artillery rounds, so they are HE. So predominantly it would be 1.1.

**CHAIR**—Our annual consumption of that type of equipment is of the order of 70 containers, is it?

**Mr Lane**—Actually it is 85 containers annually. That 70 containers was a single shipment purely for licensing purposes—

**CHAIR**—I understand that.

**Mr Lane**—and 85 is our annual consumption, in three to four shipments per year.

**CHAIR**—On the cost benefit of this single delivery, you have mentioned overseas storage, which I find a little hard to understand because I would have imagined that you could order in smaller quantities because there must be some form of continuous production run in the place of manufacture. But, putting that aside, how much calculation is available to the committee as to the additional freight charges and storage charges overseas versus the capital cost and administrative cost of this large facility in Australia for this one-off delivery? If not, can it be made available?

**Mr Lane**—I have not got a specific detailed breakdown of that sort of information.

**CHAIR**—Obviously the exercise has been done because you have said to us this is the most cost-effective way of doing it.

**Mr Lane**—What I have said is that the shipping and transport cost per se are really driven by economic values that are run by the shipping company to achieve the maximum economies that we can.

**CHAIR**—But that is a trade-off, isn't it? It is either we spend the money here and pay the interest on it or we pay someone else so that we can deliver it in smaller quantities. What I am asking you is what information is available to show us which of those is the most attractive arrangement in the circumstances.

**Mr Lane**—I really cannot give you a specific breakdown on that. I can actually show you the costs that attend some of these decisions that you might make in the way of alternative arrangements. I can give you these sorts of costs as I go through. You can see what the transport costs are.

**CHAIR**—The evidence must be there. You might choose to give us some further evidence on that. Please carry on. I know I have taken a bit of your time but I am interested in the cost-benefit analysis.

**Mr FORREST**—I would just like to ask if it is Mr Lane's intention, going back to that overhead with the concentric circles, to go beyond that to the transport phase?

**Mr Lane**—Yes. I am really just trying to set the scene of what the requirements are, what the options are that may be available, and attend some of the costs to those options.

The current system as it evolves with the shipping is that the shipping company—in this case it is Wridgways as a contractor—is aggregating the quantities, both commercially and defence, through the USA and Europe to arrive at a point of time when there is an economic load, predictably, for a shipment to Australia in order to achieve the economy. In the main, this economy is achieved by the sharing of the commercial loads. They inherently represent the largest amount of the containers.

I will just put up an amplification here of the last ships. That is the last six ships that came into Australia. It will show you the commercial breakdown and the Commonwealth breakdown when they were arriving in Port Alma. The system as it occurs at the moment is that Wridgways actually are looking ahead to achieve premiums in shipping costs, being the single largest cost driver in the model. What they are doing is looking for two levels of ships, either the smaller type or the larger type—the smaller type being in the order of 60 containers and in the larger type we had 110 containers. You can see it is the commercial shipments that are achieving the economies of scale for defence because they are in among the greater majority of those shipments.

**Senator FERGUSON**—Any reason why you always have your shipments in the first months of the year?

**Mr Lane**—Not that I am aware of. I think they are probably just when the ships are available.

**Cdre Cox**—They are voyage numbers rather than months.

**Senator FERGUSON**—Are they? I am sorry, I thought they were months.

**CHAIR**—Could I also ask for some clarification—the metric tonne capacity of the ship is the total, is it?

**Mr Lane**—Yes.

**CHAIR**—So that is the capacity of the ship?

**Mr Lane**—That is the NEQ—the net explosive quantities that would have been on her, not the capacity of the ship in tonnage.

**CHAIR**—I am trying to get the figures worked out. The first column—that was not what was actually delivered, was it?

**Mr Lane**—No, this was when it came to Port Alma.

**CHAIR**—That is what it had on board?

**Mr Lane**—That is what it had on board, that is its total, and there is the breakdown between the Commonwealth's contribution in explosive content and the commercial content.

**CHAIR**—Which was still on board but not delivered, not necessarily taken off the ship.

**Mr Lane**—That is right.

**CHAIR**—I see, and that is just the total of the two.

**Mr Lane**—Yes. We have been talking about what these ships are carrying; they are carrying in the order of 300 to the highest 800 tonnes.

**CHAIR**—On arrival?

**Mr Lane**—Yes, on arrival in Australia.

**CHAIR**—The left-hand column is what was to be—

**Mr Lane**—To Point Wilson.

**CHAIR**—Yes, but not necessarily to be unloaded.

**Mr Lane**—At Point Wilson.

**CHAIR**—I am still a bit confused. The left-hand column: if it was the Commonwealth requirement, was it unloaded or was it all military requirement and going somewhere else?

**Mr Lane**—All military.

**CHAIR**—So the left-hand is military, not really Commonwealth.

**Mr Lane**—Yes.

**CHAIR**—We obviously did not take 138, or did we? That is tonnes, not containers. So that was actually what came off the ship for us on those particular voyages.

**Mr Lane**—Yes. The typical voyages start in Europe, they come through England and go to the east coast of the United States and on some occasions the west coast. They do their collection. They come through New Zealand and deliver if necessary, then into Port Alma. That would have been the load when it first arrived on the Australian station. It would have delivered the commercial content. Some of that commercial content would have still remained aboard because it then goes to Point Wilson and it will sometimes have deliveries to Burnie in Tasmania. So part of that load in the right-hand column or the middle column would have been either for Port Alma for discharge or ultimately for Burnie.

**Mr FORREST**—Where is Port Alma?

**Mr Lane**—It is 60 kilometres south of Rockhampton.

**CHAIR**—So that is another dedicated commercial unloading point for these types of ships.

**Mr Lane**—Yes.

**Mr HOLLIS**—And there is Burnie as well.

**Mr Lane**—I have a list of all the licences around Australia which I will give you in a moment, but that gives you a typical idea of the loads we have been discussing.

**Senator MURPHY**—Concerning what you said in regard to the green and blue lines and the licence conditions, I am curious about the Burnie aspect because the port is right in Burnie. It is probably only 300 metres maximum to the town centre.

**Mr Lane**—They are the decisions. I will talk about those in general terms.

**Senator MURPHY**—Before you take that off, with regard to the NEQs in tonnages, how many tonnes are there per container?

**Mr Lane**—Typically, defence containers would have in the order of three to five tonnes. They are very low. Commercial would probably have in the 12 and up to as high as 17 because they are concentrated products.

**Mr HOLLIS**—Where is the commercial amount unloaded?

**Mr Lane**—Normally in two sites, Port Alma or Burnie. The route of the ship is Port Alma, Point Wilson and then Burnie.

**Mr HOLLIS**—So there are no commercial quantities unloaded at Point Wilson.

**Mr Lane**—There are a few. Olin-Winchester can have up to four because they have a storage site in there and they manufacture at Geelong. They can take four containers from time to time and that is stored on site at Point Wilson. ADI can take up to, say, two containers of black powder which is unloaded there, and sometimes there is Ballantynes. So the odd small commercial shipments come off there as well.

**Mr HOLLIS**—Can you answer what may appear a stupid question? If the bulk of explosives coming into Australia are commercial and unloaded at various points, why can't we unload the defence component—which is not even a quarter, it is a small amount of commercial if you look at that first one, 23 defence, 365 commercial—why couldn't we have taken the 23 defence off at the same place that we took off the 365 commercial? Why are we looking at a separate defence establishment to unload a small amount of explosives when the bulk of the explosives are commercial? Why couldn't we take them all off at the one place? Why are we having these separate ports all around Australia?

**Mr Lane**—I will address that in detail when I discuss the ports.

**Mr HOLLIS**—I hope you address it in a lot of detail and not a little bit of detail because that seems to me to be the crux of the matter.

**Mr Lane**—I will be happy to address that.

**Senator MURPHY**—The NEQ is the net explosive quantity, is that right?



**Mr Lane**—Yes.

**Senator MURPHY**—In terms of tonnage, the NEQ has the same application to the commercial tonnage as it does to the defence tonnage.

**Mr Lane**—Application in what sense?

**CHAIR**—In the NEQ sense.

**Senator MURPHY**—If it blew up.

**Mr Lane**—It is one aggravated event, yes. There is no difference.

**Mr HOLLIS**—It would kill the same number of people.

**Mr Lane**—Yes. They are exactly the same.

**CHAIR**—NEQ is the measure, whatever the explosive?

**Senator MURPHY**—That is what I understood. I just wanted to make sure I was right.

**Mr Lane**—Yes, they are the same bang.

**Mr HATTON**—The destination of most of the commercial stuff, is it to Western Australia to the mines, or is it dispersed through the country?

**Mr Lane**—It varies. Some goes to Western Australia. I have not got a detailed list. It is actually interstate and within Queensland. Some goes to Victoria. Tasmania, obviously, has consumption within their regions. Certainly the stuff coming off in Queensland is distributed intrastate and interstate—I do not have specific details.

**Mr HATTON**—Is the bulk of it taken off at Rockhampton?

**Mr Lane**—Yes. It just depends what the size of the shipment might be to Burnie. I have not got the breakdown of what was delivered to Burnie, but that would not be very difficult to obtain. When I talk about the ports, I would appreciate talking about the specifics of that in camera, if I might.

**Cdre Cox**—It is all right. It can go in the main evidence.

**Mr Lane**—All right. Coming to the point of the alternatives that might be available to the question we put, that covers the import side. I will now cover the transport side and then I will come to the ports.

Defence's requirements for road transport are governed by those factors as shown up there. Essentially, it is the explosive regulation for the Commonwealth that governs the situation plus defence instructions. That was the instruction I referred to earlier, as it requires us also to be conscious of the various state activities.

The Commonwealth has obviously written its regulations very heavily around the military and the distinction between them is that we are right in between that. The features that we would have are packaging and labelling and the formal appointment of those points down there, and of course the high security situation. I have a slide that draws out the specific points that might be addressed in transportation.

Essentially the distinction that rests between the Commonwealth's way of doing business and the commercial way of doing business is really in those matters. We provide armed escort vehicles and we have a high degree of training and technical knowledge which is applied. In fact, if you look at the sites I was referring to, the relationship where containers and trucks are done, they are the activities that are checked over the product coming in. We check that those stores are correctly classified. They are described and marked according to their laid down international standards and we do very high validations prior to going on the road. This occurs at the point of discharge. This comes back to one of the activities. That is why we have been talking about adjoining ports in which we can conduct these activities, that is, those inland or adjoining sites where we need to conduct these activities.

**Senator FERGUSON**—If we are dealing in high explosives, depending on whatever level it is, if commercial levels at times are the same as defence levels, why on earth would we have different requirements for defence than for commercial ones?

**Mr Lane**—They may not be described as higher, but they may be described as different.

**Senator FERGUSON**—Are they higher?

**Mr Lane**—Possibly in some cases. In some cases, I would say the states could probably point out a few areas where theirs are higher. We remain conscious of the safety standards in all those conditions because we cannot ignore the requirements of the states. We have to make sure that we are conscious of both those requirements, but they are very military specific in that they cover that. One of the key issues that we are trying to achieve at the end of the day is a clear guarantee that the products are as described and are presented to the transport area such that emergency response personnel can respond adequately. We provide hazard advice on the technical aspects of the weapons.

**Senator FERGUSON**—I would hope that commercial operators would do the same thing.

**CHAIR**—Whilst they are the conditions, do they apply equally ex-Point Wilson as they would Port Alma?

**Mr Lane**—Yes, except that you would need an area in which to do those activities.

**CHAIR**—What are the circumstances at Port Alma?

**Cdre Cox**—Can you address Port Alma as a facility, and what complications are there at Benalla?

**Mr FORREST**—In doing that, can you explain why Port Alma cannot be the ECAC?

**Mr Lane**—Yes. These are the licensed state berths that we are dealing with. They are the current licences that exist. Port Alma is 1,000 tonnes. Burnie is 300 tonnes with no detonators.

**CHAIR**—Where is Port Alma? I am just trying to find it.

**Cdre Cox**—It is the one that is not listed.

**Mr Lane**—It is not there, but we are going to talk about that.

**CHAIR**—So 25 kilograms is 25 kilograms. That is a very small amount.

**Mr Lane**—Yes.

**CHAIR**—Fisherman Island in Brisbane is 300 tonnes.

**Mr Lane**—Yes. Port Alma is not actually licensed in the sense that I would talk about. It is an authorised port for 1,000 tonnes of dangerous goods and it is done by risk hazard analysis. What actually happens is that the Queensland government then send that independent risk hazard analysis around for all interested parties to comment and then it goes to cabinet to endorse it. So it has received endorsement that they will accept that risk hazard analysis, and that is the basis of it. So it is not licensed per se to NATO. It uses some principles of NATO, but it is an authorised port.

**CHAIR**—Is where we see that ship where the explosives would be unloaded?

**Mr Lane**—Yes. They can unload there or at another berth there and this one here as well. There are actually three berths.

**CHAIR**—What do those tanks contain? Is that fuel?

**Mr Lane**—That is Mobil. The list down the bottom represents the distinction where we would have our problems.

**Cdre Cox**—We used this facility for Tandem Thrust last year, to off-load ammunition under a public risk waiver. It also presents us with some navigational difficulties—or it did for that exercise, with a large ammunition ship that we anchored offshore: we transported it in by smaller landing craft that berthed there under a public risk waiver. It does not comply with the NATO regulations.

**CHAIR**—So the ship containing the stuff that is going to go to Port Wilson on your behalf berths there?

**Cdre Cox**—Yes.

**Mr HOLLIS**—How often does a ship come in there? How often is that port used to unload ships in a year?

**Mr Lane**—Almost daily.

**Mr HOLLIS**—Daily? I meant for ammunition ships.

**Mr Lane**—It is very active. I have got some figures from the port.

**Mr HOLLIS**—Daily?

**Mr Lane**—It is very high: many times a week.

**Mr HOLLIS**—Are you saying that every time a ship comes in there with explosives a paper has to go to the Queensland cabinet to get approval?

**Mr Lane**—No. They have endorsed the principle; they have authorised the use of that port for that activity.

**CHAIR**—They have licensed a 1,000-tonne ship to pull in there.

**Mr HOLLIS**—So it is being used daily to unload explosives.

**Mr Lane**—If not daily, then certainly every couple of days.

**Senator FERGUSON**—Not armaments, though, but explosives?

**CHAIR**—We leave the armaments on the ship and send them all the way to Point Wilson.

**Mr HOLLIS**—Yes, to Point Wilson—where we are going to spend over \$100 million.

**Cdre Cox**—All our ships today are carrying ammunition, sitting in Sydney Harbour.

**CHAIR**—Let us put this into two categories. I do not think we are really concerned about your ships. Someone did ask the question about why that cannot be ECAC. I do not know that we are really looking at the ammunitioning and de-ammunitioning of naval vessels, in the context of the questions we are asking now. We are really focusing on the importation of your requirements and where that might be done for substantially less money than at Point Wilson—presuming that, for instance, Twofold Bay is the better proposition for your specific requirement. Am I correct in saying the focus of our attention at the moment is an economical way of obtaining your import requirement?

**Senator FERGUSON**—It is just that this morning is the first some of us have ever heard of Port Alma.

**CHAIR**—It is the first time I have heard of it.

**Mr HOLLIS**—It is the first time that all of us have ever heard of it.

**Mr Lane**—The point I come from is providing the Commonwealth with identified risk, which is the way I am expected to look at this port in terms of what it can provide for the safety principles that we have inherent in our business. The area of the land mass is about 490 metres. That gives you an idea of the proximity of the items. In our requirements, we very much look for people who are not essential to the operation. If all the people working in that area were essential to the operation of unloading explosives, they would represent a risk inherent with their job. We say that they are not essential to the operation: they are meat workers, salt workers.

The overhead shows that a public road has transgressed there. There are private houseboats in the region. There is a fishing ramp and a public road. There are tanks privately owned by Mobil. People are working on salt, and there are people in meat and export. The other thing is that you could from time to time have explosives ships coming in with other deliveries, such as concrete, meat or tallow. In that mode of consequence, for Defence to adopt that utilisation, we would be in public risk waiver, and we would seek the minister's permission.

**CHAIR**—Whilst there has got to be an increased hazard in unloading a ship as compared to it standing there, the reality is, as you have given us evidence about already, that as that ship proceeds to unload at that point, it is carrying your ammunition, which is to go on to Point Wilson.

**Mr Lane**—Yes.

**CHAIR**—Whilst for everything else we have heard it all looks a bit terrifying, the reality is that if some accident occurs in the process of unloading commercial requirements then all your ordinance is going to explode anyway.

**Mr Lane**—Yes.

**CHAIR**—Because it is on the ship.

**Mr Lane**—Yes.

**Senator MURPHY**—With regard to defence explosives versus commercial explosives—and I noticed before in terms of the licences for some of the ports there were no detonators, et cetera—I would have thought it is probably the practice that none of those explosive loads would carry detonators as well. Wouldn't that be the case?

**Mr Lane**—The containerised examination is done in compatibility groups. Explosives are broken into various compatibility groups and certain compatibility groups cannot be shipped with other compatibility groups. They can be in the same ship, but they may have to be in separate containers. So there are stringent rules about that.

**Senator MURPHY**—In terms of live ammunition versus the stability of the ammunition—I do not know the technical terms for some of this—what is the risk factor or the potential for ammunition and explosives being shipped to explode? Is some of the ammunition or explosive from the defence point of view ready to fire? If it were dropped, would it explode, or is there a situation where it has to be armed, so to speak? As I understand it, in a very limited way, all torpedos, rockets, et cetera, when they are carried even on a ship, are decommissioned or are not commissioned until the time that they are actually about to be sent on their way. Is that right?

**Mr Lane**—The explosives that are coming in in the way of integrated weapons, missiles and torpedos are in exactly the same state as they are on a warship. They have their means of operating, so they have their initiators, their boosting arrangements and their main fill, but they are not armed. They require very many forces—electrical, electronic and physical—in arming arrangements. So there is an inherently high degree of safety built into the weapons to achieve separation of the chain of explosives. But they are certainly in the integrated state in which a warship would use them, but they are not armed or live in that sense.

**Senator MURPHY**—That is what I was trying to understand in so far as the safety aspect of it is concerned—commercial over Commonwealth explosives.

**Mr Lane**—But they are inherently weapon systems as opposed to bulk explosives.

**Senator MURPHY**—I understand that from another safety point of view—if someone knocked them off or whatever. I am just trying to understand, if you like, the net capacity of those explosives to explode any more than, say, a commercial explosive might explode. I would have thought that, in the case of some commercial explosives, it is more likely that there is a greater potential for some of those to go off than it is, say, for some of the defence weapon systems.

**Mr Lane**—The defence weapon systems are inherently made to very high levels of classifications and safety standards. I would not think that they would be infinitely higher or different from commercial explosives.

**CHAIR**—Can I put it another way? They are less likely to initiate an explosion, but, of course, if something else initiates it, they are going to contribute to the outcome.

**Mr Lane**—Absolutely.

**CHAIR**—What about rail connection at Port Alma? How far away is the railway line? Might I add, so that I do not have to ask another question, in terms of your safety arrangements, to what extent do you use rail, and is that considered safer because often there is less opportunity for collision and things of that nature?

**Mr Lane**—In the main we do not use rail very much. Predominantly, we use road transport in Australia.

**CHAIR**—Is it considered safer because of smaller quantities or compared with the dedicated route, et cetera, of rail?

**Mr Lane**—The situation was army, or Defence, established a line haul service that is dedicated and is trained to move explosives. It is that dedicated service under the Defence line haul service that moves the majority of explosives, and they do so according to the explosives' regulations. So, they are properly certified and trained and the drivers are assessed as competent. So there is a lot of risk minimisation and control built over it, and they are certainly trained for response capability. That is a dedicated explosives' group that move explosives at the moment, and they move most of the explosives.

In previous times when we used trains, we had very great difficulty because of secondary distribution problems and areas that could be licensed in which to do it, particularly when the rail gauges were very different. We had very great problems—

**CHAIR**—Yes, I understand that.

**Mr Lane**—with explosives going into places like public sidings and things. So they were certainly not seen, a number of years ago, as actually operating to the licensing requirements that we would have. They really tended not to meet the same requirements as

we could with trucks.

**CHAIR**—That is interesting because controversy around shifting explosives into the mining areas in Western Australia arose a few years ago and the public attitude was that it would be better on rail where you have a dedicated route and, hopefully, less opportunity for collisions and things of that nature. There was major public resistance to these explosives for the mining sector being carried by road when rail was available.

As one of the options which you will no doubt address in a minute, there is the possibility of unloading some of this requirement on the west coast. With the Nullarbor railway, of course, you could have a major explosion on most parts of that and you would have to wait a week to find out that it had happened because it is so remote compared, even, with the road.

**Mr Lane**—Are you happy with the Port Alma—

**CHAIR**—Yes, but you are not aware how close the rail is.—

**Mr Lane**—About 30 kilometres is the actual line.

**Cdre Cox**—It is almost to the highway from the crossroads, and there is a small facility that is owned by the Queensland government—somebody owns that facility there—on the main road, which is an ammunition storage depot, and the railway line is just the other side of that.

**Mr Lane**—The state government—right on there—loads in an area of a spur line. There is where they load the explosives—30 kilometres away.

**CHAIR**—They have a facility?

**Mr Lane**—Yes. There has been lots of talk off and on about actually bringing the rail into Port Alma. It is on again, off again. I am not sure of the state of it. At some stage, if business gets high enough, it could very well be something they will do.

The Bajool facility, which would be an area we would look at to support that to do the truck loading—to gather up the trucks, the convoys, the safety inspections, which is 30 kilometres away—does not meet our requirements. We would certainly have problems with Bajool in that inside, again, there are lots of commercial operators, plus a factory next door. What we would be looking for with something like that, to relieve that pressure, is land. We really have a requirement for areas of land to establish the safety distances that we require to do our business. At the moment it does not suit our formula.

I will come to *Stirling*. At *Stirling* the wharf is that area marked in red to the north of the island, and the—



**CHAIR**—Would you point to that? The colours are not coming out too well.

**Mr Lane**—I am sorry.

**CHAIR**—Yes, that is it.

**Mr Lane**—That has a 100-tonne licence at the moment. This area abutting there is our storage facilities. They are unmanned, and they have our assets, that five per cent I showed earlier. They are, in the main, navy's operational stocks for the west in there. The first manned sites are these particular areas there which are office complexes, et cetera. We could notionally increase that berth to 1,000 tonnes, and we would have to throw the yellow arc to here, obviously, and we would have to manage internally the problem of people on the island. As well as that, we would also need to establish some of the capital capability to conduct the operations there. We do not have ready places. We have spots that could be licensed, but we do not have sites that are actually fit for putting containers in, and we would have to develop a method by which we could retrieve the containers.

It is a very short wharf, extremely short, as opposed to Point Wilson which is 2.7 kilometres in length. It therefore offers opportunities at a cost-effective level to look at retrieval—little mules that might be able to retrieve it—but there is some capital investment required.

**CHAIR**—In that regard, we have already authorised some works relating to ammunition storage on the island. Obviously, whilst that is proceeding, if you needed more, there would be some cost benefit in doing it at the same time?

**Mr Lane**—Yes. The factor is, though, that the majority of ammunition again is consumed in the east—89 per cent.

**CHAIR**—We understand that. That then becomes a freight transfer arrangement.

**Mr Lane**—Exactly.

**CHAIR**—I continue to point out, if it were at Rockhampton or the west coast, the transport task—if one were to look at the commercial sector—would be back loading in both of those cases.

**Mr Lane**—Obviously, back loading premiumises the costs—

**CHAIR**—Then one must look at how you train commercial people to handle it, but it is back loading.

**Mr Lane**—Yes.

**CHAIR**—Albeit on rail or on road.

**Mr Lane**—Rail does not have quite such a back loading problem. You have got secondary distribution sites and you would have to discuss security and safety and a number of other things. But rail is not prohibited. It certainly is covered within the explosive regs.

**CHAIR**—The point I am making is that, in either context, the initial demand for that is in the opposite direction. From Western Australia and from Rockhampton, everything coming to Sydney would be back loading in terms of the cost.

**Mr Lane**—Yes.

**CHAIR**—If you had a commercial service, be it rail or road.

**Mr Lane**—Yes. You would be looking for a back load to premiumise it. It is very expensive by truck. So when you look at cost differential which is—

**CHAIR**—Myambat, by the way, is another storage area somewhere in the vicinity—

**Mr Lane**—In the Hunter Valley.

**CHAIR**—It is in the Hunter Valley?

**Mr Lane**—Yes. It has just had large capital investment in storage bays. It is, far and away, as you saw in that other diagram, very much the largest holder. These are the—

**CHAIR**—So that is further north. In looking at Point Wilson, we are actually looking at a delivery of even further distance than Kingswood?

**Mr Lane**—Yes. I can depict the distances that you have got. By way of a quick overview, that is the route. There is the Port Alma trunking, the Myambat relationship—Orchard Hills, Benalla, Point Wilson—and there is the west relationship. That is the overview of it.

**Mr FORREST**—Why is Benalla a destination?

**Mr Lane**—That is ADI's manufacturing unit. I will throw up these overheads to look quickly at these trunking routes. That will be Point Wilson and the distances. So Point Wilson to Myambat, Orchard Hills and Benalla, that would be your relationship. That loop that you see here is driven by B-doubles, the big articulated vehicles. They can go one way but not the other.

**CHAIR**—Say that again: B-double have to go in a circular route, haven't they?

**Mr Lane**—Yes, very much so. They, of course, give you the economies of scale that you are looking for. So those are the sorts of distances there.

**Mr FORREST**—Where is Orchard Hills?

**Mr Lane**—Kingswood, at Penrith, 50 kilometres west of Sydney.

**CHAIR**—But that is primarily the servicing facility and some storage, whereas Myambat is storage?

**Mr Lane**—No, it is both. It is very much a guided missile storage.

**CHAIR**—At Kingswood?

**Mr Lane**—Yes, and conventional storage. That is one CAMD, which is 14 per cent. Kingswood is 15 per cent. Bogan Gate is an overflow from Kingswood, which is out near Parkes, and it is really because of an overflow of licence capacity. So this right-hand side would normally be in Kingswood, and it is very large as well. Those two sites are predominantly the largest. That would be the west. There are substantially longer distances, about three times—

**Mr FORREST**—Which route is taken from Benalla to Mildura?

**Mr Lane**—It has not got a road. It is a back road, a back route. It is very much an unnamed highway, a country type of route.

**Mr HATTON**—Given that we have actually got an army presence in the north, the 1st Brigade—two-thirds moved from Holsworthy to the north—what are we doing when moving the stuff up to Darwin?

**Mr Lane**—In fact, the largest consumption is at Puckapunyal and, with the school of artillery, et cetera, scheduled to move there, they will be the single largest user in ADF terms, through the light armour artillery.

**Mr HATTON**—Given that there are problems with native title claim on Bradshaw, when Bradshaw comes into play and they have got a year round exercising area, will we need to move more ammunition up to that area?

**Brig. Kelly**—There will be a requirement for additional training there. It is fair to say that what you have seen here are the wholesale routes. There are retail routes to Townsville and to Darwin in particular for army, which perhaps Alan could address.

**CHAIR**—Logistically, nevertheless the question is: if you were unloading your imported supplies at Port Alma, would it be sensible to retail out of Port Alma with some limited transfer capacity direct to Townsville and Darwin?

**Brig. Kelly**—It could be, providing you had the storage areas.

**CHAIR**—For the transfer area?

**Brig. Kelly**—Retail operates very much on the just-in-time principle, which you mentioned before.

**Cdre Cox**—The storage area in Darwin is not all that large. I have not got the information with me. It is not significantly large.

**Mr Lane**—No. It is very small, and Townsville is very small. They have less than three months resupply capability. Large exercise movements would be grid reference delivered. They would actually be placed to the reference. They are specials. So if Shoalwater Bay had a requirement there, they would be delivered to Shoalwater Bay to be consumed in the exercise.

**CHAIR**—I am sorry to do this, but we are concerned that Mr McCullum might have other commitments because he was to be our first witness. If you do not have any objection, we will break with your evidence at this point and ask Mr McCullum to give his evidence. He has come from Sydney for us.

[9.42 a.m.]

**McCULLUM, Mr Lloyd, Managing Director, Deflog International Pty Ltd, Level 2, 161 Walker Street, North Sydney, New South Wales 2060**

**CHAIR**—Mr McCullum will discuss his company's involvement in the transportation of explosive material to and within Australia. Welcome, Mr McCullum. You have submitted a CV which will become part of our record. You might wish to speak to that briefly. As you have probably gathered, the committee has been looking at expenditure related to the creation of an east coast armament complex at Point Wilson and has expressed concerns as to the distance involved for the servicing of naval ships in particular, considering that they are based in Sydney.

The issues that are of concern at the moment are that if a facility were created closer to Sydney for the ammunitioning and de-ammunitioning of naval ships, how the defence forces would then deal with their need to import relatively large quantities of armament in ships that are, in fact, as it appears, fully loaded with that sort of equipment for different destinations around the world. We are extremely interested, therefore, in all of the alternatives to that arrangement that might reduce the capital cost of having two separate facilities, if that becomes, in our mind, a better option. So we are very interested in your experiences and the sorts of quantities that you have imported on behalf of anybody.

**Mr McCullum**—Prior to setting up this company nearly three years ago, I was for three years the general manager of Ridgeways in Australia so I am familiar with the Ridgeway charter ships. Basically the majority of what we move in now comes in on commercial regular liner services. Some of it comes in on the Ridgeway charter ship. There appears to be a move from defence to order direct on the manufacturers for the manufacturers to deliver to Australia. At present, an example of that are 81 millimetre mortars to come from South Africa that will be moving on a regular liner container ship from Durban to Fremantle. We will rail them from Perth through to Parkes, break the containers at Myambat and then deliver the pallets of mortars to Myambat from Parkes. We use a fair bit of rail on the explosives coming in through Port Alma. A lot of explosives out of Port Alma go to Bajool, the magazine there used by Dyno-Westfarmers ICI. A lot of the ICI TNT that comes in at 120 or 140 tonnes at a time ends up with defence, but it is brought in by ICI.

On the train from Bajool, we normally run anything from 30 to 50-odd containers down to Halidon, which is another Queensland state government magazine, and the containers get unpacked at Halidon. They will go to Western Australia from there or to Myambat or wherever. You will find that the commercial manufacturer of ammunition is often now tasked to deliver to Myambat. We are moving ammunition from the UK and the US and, as I say, we have done one from South Africa, but there will be more to move next year. We use a variety of ports depending on the limits and where the cargo is

originating, but certainly for the larger quantities the only way to get it here is a charter ship.

The only way that is viable is if there is enough military and commercial explosive to warrant the ship coming down, because the company that charters the ship has to pay in the order of \$US3,000 to \$US3,500 a day for the ship, plus fuel. That ship does only about nine knots so it takes a couple of months to get here from Europe and it has a crew of six. As I heard previously, it normally comes to Port Alma first, discharges a lot there at Point Wilson and then loads Dyno and ICI product out of Point Wilson and across then to Burnie.

**CHAIR**—So that is the reason it visits Burnie: primarily to deliver.

**Mr McCullum**—To deliver Australian-made explosives to Burnie because it is very hard to transport them out of Melbourne. Sometimes if the ship goes into dry dock, the one ship that will carry it is out of action for a couple of months. Eighteen months ago I had a job from Dyno-Westfarmers. Pasminco in Tasmania was almost out of explosives and I got approval to fly an aircraft with 11 tonnes of blasting explosives that we loaded at Brisbane.

There is an explosive area at Brisbane airport for loading. We loaded 11 tonnes of blasting explosives and had the exemptions. We flew off down the coast and landed at Devonport. They closed the airport for an hour while we unloaded the explosives on the runway. So Tasmania, despite its size, does consume a fair amount of explosives. It is amazing.

**CHAIR**—You almost presented a chicken and egg situation to us a moment ago. We have had evidence to the effect that the manufacturers overseas dictate the fact that large quantities must be delivered at one time. You have more or less said to us that, in fact, the only way that one of these ammunition ships can economically visit Australia is if defence provides a large component of the cargo. Is it your view from your commercial experience that, if these cargoes came more regularly in smaller quantities, they could arrive here quicker and, in fact, probably cheaper?

**Mr McCullum**—Certainly for some explosives. You get up into what is called 1.1 type explosives. It is hard to get that moved on commercial liner services. There are only a couple of lines that will carry it.

**CHAIR**—So these mortars that you referred to are not 1.1?

**Mr McCullum**—No, they are 1.2. They will be moving on a regular liner service out of Durban to Fremantle. We cannot bring them around the east coast because the ship calls at Melbourne next, and in Melbourne, with its low limit of 25 kilos, there is no chance of coming through with half a container.

**CHAIR**—Will the unloading in this case be in Fremantle, or does that ship have to move around to the naval base or something like that?

**Mr McCullum**—No, we will be unloading at Fremantle. We put up a case as to how we would be handling it, and the port authority has signed off that, as long as there are no more than two containers being handled at a time. Once those two containers are off the dock, the next two can come off.

**CHAIR**—They are not concerned as to the quantity on the ship but what might be on the dock for a period of time?

**Mr McCullum**—It is not to stay on the dock; it has to be moved straight off. You put up the program as to how it is going to be handled and the amount of explosives you have. You can often get an exemption to exceed the limit depending on the handling capability and what the product is. That is important. So the Chief Inspector of Explosives in Western Australia plus the Fremantle Port Authority review it and decide on the limit that they will allow for the movement.

**CHAIR**—You mentioned that there is a very limited number of container liner trade that will handle 1.1. Are those you know fairly regular visitors to Australia, or are they intermittent?

**Mr McCullum**—They are, but it is not so much the line, it is also the route they take and the amount that you are moving. I have had to move hand grenades which are 1.1 to the UK for the UK Ministry of Defence.

**CHAIR**—From Australia?

**Mr McCullum**—From Australia. It was a small load for a trial in the UK. You can do it with one liner out of Darwin that is going direct to Hull. It is not going to call anywhere—that is fine—you do not have all the different port limits and transit licence requirements. These particular grenades went through New Zealand and then P&O went to Lisbon in Portugal, Zeebrugge in Belgium, and then across to Tilbury. The Tilbury limit, I think, was about 24 tonnes, and we had nothing like that. You have to pick the route that is going to give it the clearances to get through because some ports, like Melbourne, are very low. You have to find the liner that will carry it and then the ports it is going to call at that are satisfactory for the 1.1.

**CHAIR**—The advantage of these dedicated ships is that, because of their nature, they only call at 1,000-tonne NEQ ports. The downside is that there is cost in their slowness?

**Mr McCullum**—Yes.

**Mr HATTON**—Why do they run them at only nine knots? Is there a safety factor here, or are they just slow barges?

**Mr McCullum**—No, they are just small Danish coastal vessels, really. Danish coasters is the sort of class that they are in—1,200 or 1,800 tonne vessels.

**Mr HATTON**—Given that they take so long to get there, would the relative cost of \$US3,350 be able to be brought down if there were a better class of vessel used—if it were faster and so on?

**Mr McCullum**—Yes, but the capital cost also goes up.

**CHAIR**—The 1,000 tonne NEQ indication is that they are very small vessels. They are not big vessels, and I guess one of the reasons is that no-one wants to risk a big vessel with that amount of explosives on it.

**Mr HOLLIS**—Is the shipment from Durban to Fremantle a regular shipment? You were talking about the mortars coming there.

**Mr McCullum**—It is a regular line, yes.

**Mr HOLLIS**—How often?

**Mr McCullum**—Every three weeks.

**Mr HOLLIS**—Does it always carry mortars?

**Mr McCullum**—No, but it will next year. For about three months, it will carry mortars on each sailing.

**Mr HOLLIS**—Would that be a couple of containers?

**Mr McCullum**—No, it would probably be about four containers. There are 21 or 24 containers to be moved.

**Mr HOLLIS**—Are they moved from the dock at Fremantle to the railway?

**Mr McCullum**—To Kewdale.

**Mr HOLLIS**—And they get put on the train at Kewdale?

**Mr McCullum**—Yes.

**Mr HOLLIS**—And then they come across the Nullarbor?



**Mr McCullum**—They come across with escort on the dedicated train and they will come off at Bogan Gate as parts.

**Mr HOLLIS**—It is a dedicated train?

**Mr McCullum**—No. They will all be together, but it is a through train.

**Mr HOLLIS**—Yes. How often will that happen—every couple of weeks?

**Mr McCullum**—It will be within two days of the vessel arriving.

**CHAIR**—What is your experience with freight rates? We raised the issue of back loading. Accepting that it is ammunition and therefore has a special rate anyway, do you find you can negotiate competitive arrangements with rail versus road when there is a back loading situation?

**Mr McCullum**—Certainly, there is no doubt that rail is more cost effective. The first lot of mortars that came in were needed in a hurry, and they were trucked from Fremantle to Graytown in Victoria. The cost of that was something in the order of \$14,000, whereas we can rail across to the east coast for about \$3,500. The contract we have for the mortars is for about \$1,500 a container.

**CHAIR**—So rail is charging you \$1,500 per container for transporting the mortars?

**Mr McCullum**—Yes.

**CHAIR**—What sort of tonnage is in those containers?

**Mr McCullum**—I think it is 17 tonnes.

**Mr HOLLIS**—Did you have a special contract with the road transport as against the rail? Did you have to sign a special lease with them?

**Mr McCullum**—No. In each state there are certain trucking companies that are licensed to carry explosives, and you contract with them. They often have some back loading ones coming out of the west, but to move the number of containers needed for the mortars we would need a fair few trucks. It would take half the explosive fleet in Australia, and you would need to position them in the west at the one time if all the containers were going to arrive on the one ship.

**CHAIR**—If, for instance, we were unloading one of these 1,000 tonne NEQ ships at *Stirling* base and they had storage, you could then take from that storage on a more regular basis, on a biweekly basis or something. What sort of road rates would you anticipate would be available on a back loading basis, accepting that you have \$1,500 a

container available on rail? Would they seek to compete?

**Mr McCullum**—No, they could not do that.

**Mr FORREST**—Who makes a decision then about road or rail? Is that left to you, or do Defence have some say in this?

**Mr McCullum**—Defence have a say in it when the contract is signed. The contract is really written between Defence and ADI, and then ADI issue a back-to-back contract on the manufacturers. Defence, as I understand it, issues a contract on ADI to provide 44,000 rounds of mortars, as an example, delivered at Myambat as per the schedule. ADI then write a back-to-back contract on the manufacturer to produce these rounds delivered at Myambat. So the manufacturer and ADI will come to me and ask for a cost effective way of moving it and pricing. Where possible, I come up with two or three options which will develop two or three different pricing structures, and together we evaluate and take one that suits.

**Mr FORREST**—Sounds like an insurance company lawyer's picnic. If something goes wrong with all of those connecting, who is responsible for the mishap when it occurs? There must be some protocols about who bears the ultimate responsibility.

**Mr McCullum**—People have their own separate cover for an accident. We are covered as far as our liability if we are negligent but, if the product through a fault in manufacture goes bang, then that is on the manufacturer or ADI, whoever the contract is on.

**Mr FORREST**—But ultimately—say there is a derailment—

**CHAIR**—The railway is responsible.

**Mr FORREST**—But how is that locked up? It is probably more on rail transport where a mishap is likely to occur—

**Mr HOLLIS**—Given the condition of rail, it is.

**Mr FORREST**—The condition of the rail.

**Mr HOLLIS**—Do you have special dealings with rail? Are there any special requirements placed on them?

**Mr McCullum**—Under the Commonwealth's regulations for explosives there are aspects dealing with rail under that code, essentially. You have got specific safety requirements as far as rail, both under the Australian code and under the Commonwealth code.

**CHAIR**—Personally, I would still think that rail represents better opportunities from a safety viewpoint to the general public because, whilst we do have collisions and things on rail, the incidence and the opportunity is substantially reduced compared with road traffic. We are here, amongst other things, to look at the cost, and the evidence before us is that this type of ordinance is being transported by rail at what would appear to be a very competitive rate, which is very significant in what we are trying to find out.

**Mr McCullum**—Out of Port Alma, Queensland Rail will run a dedicated explosives' train. That is built up in a hard stand area at Bajool. They have a spur there where you build up the explosives' train. They hook up the locomotives and, at a certain time, they know that it has got green lights all the way. It goes straight through to Halidon near Toowoomba. That is a dedicated one that has less risk of anything happening because the line is specifically cleared all the way through. That is why it has to leave, whether it is 13½ minutes past the hour or whatever. That is the time it has to go to fit into the pattern.

**Mr FORREST**—I suppose what I was thinking, Mr Chairman, is that it is not cheaper because there is a loophole there, a weakness. The road is locked in. There is the escort and all of that cost but, with rail there could be a faulty railway line and the indemnity has not been locked in.

**CHAIR**—As I understand it, from what we have just been told, when the Commonwealth does its own business—as we frequently do with our specially trained operatives—we would carry our own risk. Whereas, if we use any of these commercial operatives, they are obliged to insure their component of the risk. So, in dollar terms—and that is a secondary consideration, probably a tenth rate consideration compared to something going off—the fact is that the Commonwealth is better off at those freight rates because we are not carrying our own risk. But that is in simple dollar terms which, as I have said, does not compare with ensuring that the general public is safe during the process.

**Mr McCullum**—That is still covered under the Commonwealth's risk because I am operating under an appointment from Defence to move Commonwealth explosives.

**CHAIR**—Okay. Your firm would not find it extremely difficult if you got a phone call tomorrow that said, 'There are 70 containers of requirement sitting in America or England or somewhere else, and we do not particularly want to use a dedicated ship because that represents other problems for us. Can you get it here in reasonable time and at reasonable cost by other means, not necessarily in one delivery?' Would your firm consider that an impossible difficulty if it were one-one?

**Mr McCullum**—If it were one-one coming southbound, yes.

**CHAIR**—You would see it as extremely difficult?

**Mr McCullum**—Yes.

**CHAIR**—So you are really saying to us that the dedicated ship is a requirement?

**Mr McCullum**—For one-one out of Europe coming this direction, yes.

**CHAIR**—And America?

**Mr McCullum**—You can move some one-one off the west coast in small quantities. Up to probably five or seven tonnes I have done.

**CHAIR**—We have been told that is roughly what a container would contain.

**Mr McCullum**—We move ADI propellant, which is 1.3 smokeless powder. We move four to five containers. We export four to five containers a month to North America.

**CHAIR**—By regular shipping services?

**Mr McCullum**—Yes, by regular shipping line. That is class 1.3. But to give you an idea of some of the complexities: the Thai army ordered tank ammunition from Royal Ordnance in the UK and specified that it had to have Australian ADI's propellant in it. So we were tasked to get about 28 tonnes of propellant to Royal Ordnance in Wales. The only way to do it was by using a regular liner service to the US west coast, to California, truck it across country to New York.

It then had to cross the border into Canada. There is no safe haven in Canada. There is a safe haven at Plattsburgh in upper New York state, so you hold the container on the trailers there. Two hours before the ship sails from Montreal is when you cross the border, and you get to Montreal two hours before the ship sails and it goes from there direct into Liverpool on another liner service. It is an expensive way to do it, but it is—

**Mr HOLLIS**—It must have been very expensive propellant, back to Thailand to chase a few elephants around.

**CHAIR**—We should not complain about it. They specified our propellant.

**Mr HOLLIS**—Yes, I know.

**Mr McCullum**—A straight line is not necessarily always the way you can go.

**CHAIR**—On the other hand, when one measures the cost of some of these rockets and missiles and things like that in millions, I guess it becomes relative. Are there any other questions from members of the committee?

**Mr McCullum**—I might just add one comment. On Mr Lane's slide, some of those commercial explosives in his column could have been destined for defence. For instance, on the last vessel there, I had five containers which were not down as Commonwealth because they were consigned to the UK Ministry of Defence, British Aerospace. They were for the antitank missiles that they were doing for their hot weather trials at Woomera and Mount Bundy. I had the contract for moving those around Australia. So they would have been in the list of commercial because they were not consigned to the Department of Defence here.

**Mr HOLLIS**—Where would have they been unloaded?

**Mr McCullum**—They came off at Port Alma. We took the containers to the state government magazine at Halidon and held them there for four or five weeks, unpacked the containers, and then ran an explosives truck through to Woomera to meet the British team when they flew in.

**Mr HATTON**—When Operation Tandem Thrust was on, or the Kangaroo exercises—and we have these regularly—does the amount of business you are doing increase greatly during those periods of time?

**Mr McCullum**—Yes, with the Singaporeans and others that want stuff moved.

**Mr HATTON**—And do you sublet some stuff for the Australian forces as well, in addition to the chartered material that is being brought in, when we have these major exercises? Are there extra lots of munitions that you are tasked with bringing in?

**Mr McCullum**—Not noticeably, and not for Australian defence, no.

**CHAIR**—Does anyone have any further questions? No. Mr McCullum, thank you very much and thank you for giving us your time. It is greatly appreciated and it is very helpful to the committee.

**Mr McCullum**—My apologies for this morning but I was rear-ended by a little old lady.

**CHAIR**—You did not have any of your product in the boot, did you?

**Mr McCullum**—She smashed up the rear bumper. I got out to talk to her and what does she do? She presses the button down on the driver's door, winds the window up and just takes off. I arrived at the airport as the plane was leaving so I am sorry I was on a later one.

**CHAIR**—Thank you very much. We greatly appreciate your attendance.

[10.12 a.m.]

**COX, Commodore Timothy Harvey, Director General Maritime Development, Department of Defence, Russell Offices (B-4-05A), Canberra, Australian Capital Territory 2600**

**KELLY, Brigadier Garry Ross, Director General Project Delivery, Department of Defence, Campbell Park Offices (CP3-3-03), Canberra, Australian Capital Territory 2600**

**LANE, Mr Alan, Team Leader, Commercial Support In House Bid, Royal Australian Naval Armament Depot, Orchard Hills, Kingswood, New South Wales 2747**

**CHAIR**—Thank you for accommodating us. Mr McCullum no doubt has other commitments or may, in fact, have a plane booking to get back to his damaged motor car, so it was good to have proceeded with that. We are back on track now and Mr Forrest has indicated that he wants to raise one question immediately.

**Mr FORREST**—I am starting to get a bit concerned about all this ordnance being shipped all around the nation. It is obviously being exploded somewhere. I would like to know where. The mind boggles. Does someone keep track of all that?

**Mr Lane**—The bulk of the ammunition that is moving around is for practice requirements, for validation, and training, in the main. It is moving into either training ranges or on board ships, in the case of navy. Some of that is training ammunition or it is part of the docking cycle, so it is moving on and off. It is taken off before they are docked, so it is moving in the re-supplying of those ships which we discussed in some detail. Army and air force are using their ammunition in exercise programs on their exercise ranges. That would be the comment I would make.

**Cdre Cox**—I will answer two other bits for you. Firstly, in Tandem Thrust we used the dedicated ammunition ship *Kilauea*, which belonged to the United States navy, which could not dock anywhere in this country. We anchored it off Townsville and off Port Alma and transported ashore from that. Two other things I would ask you to consider is that navy would not be comfortable operating outside the NATO safety procedures for any of our ammunitioning and de-ammunitioning of ships. We have to be very careful that those principles are recognised in that we are doing it regularly and, despite the commercial way business is done, I think that we have a requirement to stick to our safety principles so we ensure the safety of people that we have in ships and working in our facilities. I would ask also so that you remember that what we set up as far as ammunition, although commercially attractive in times of peace, might not necessarily be quite so useful and helpful in times of conflict when some of the commercial options that may have been attractive during peacetime are no longer quite as easy to access during times of conflict or contingency.

**CHAIR**—Picking up on that last point nevertheless, is it not the downside of Point Wilson that your availability of ammunition to load into a ship is just so far away from any perceived conflict? It has been suggested that the further north we go with storage the more vulnerable it might be to attack from the north. But when one considers a guided missile frigate with eight missiles on it, surely we would be wanting to be able to re-ammunition that in a conflict in a situation much further north than Point Wilson?

**Cdre Cox**—That is correct, but they are carrying 40. The FFG is carrying 40 missiles.

**CHAIR**—They are carrying 40 that they can access? Is it that they have only eight available to the launcher at any one time?

**Cdre Cox**—That is the Anzac class. The Anzac class with its current configuration of sea sparrow has an eight-cell sea sparrow container. Eventually that eight-cell container will carry 32 missiles. We have the ability to replenish the guided missile frigates with missiles at sea. We would not have with Anzacs. We would have to have facilities to replenish in the north, if necessary. We would cart them there by rail or road, whichever was convenient, and place them on board for those that we could not transport by sea.

**CHAIR**—But getting down to the fundamentals, in terms of the ammunitioning and your statement, the ammunitioning and de-ammunitioning arrangements can be achieved at Twofold Bay for your Navy requirement and, in fact, that is substantially closer operationally to Sydney in peacetime. I have personally taken a view that that arrangement is better in wartime because of the proximity to where you would be based and that that is therefore a significant factor in terms of your operational capacity as a navy. Then, of course, we come back to focus on how these items are imported. Is that a reasonable summation?

**Cdre Cox**—Yes, sir. The other thing about this in time of conflict concerns some of the requirements of public risk that a government would be willing to waiver as far as loading and unloading. But I think we still have to have a concept of safety that embraces principles that are well proven for ammunitioning and transferring of ammunition. The NATO principles have been proven to have a good track record.

**CHAIR**—Taking that one step further in terms of Twofold Bay, as we investigated it the other day all of your ships and their NEQ potential can be accommodated there. It would appear that the surrounding forest would give very substantial protection assuming, as part of this inquiry, we establish that land would be available within the forest for your initial storage capacity, which is similar to what was to be granted at Point Wilson. Your buffer zones of public lands, which I think you have indicated you would prefer possibly to own in some cases, are adequate. Maybe over time if some of the Kingstown activity were to be relocated, it probably would accommodate that within the land mass. Again, is that a reasonable summation?

**Cdre Cox**—Yes. I think that we have one exception. In time of contingency we would probably want to load 100 tons at Twofold Bay, but we would do that with a public risk waiver and I do not think that is an unreasonable way of doing business.

**CHAIR**—No, and furthermore, probably for that odd occasion we could evacuate the woodchip mill.

**Cdre Cox**—We would do it on Saturday, but there are options of getting around that particular problem.

**CHAIR**—In terms of the navy's fundamental requirement, do we have most options covered at Twofold Bay?

**Cdre Cox**—And *Stirling*.

**CHAIR**—And *Stirling*. So we are really now trying to look at the import and export aspects of it, considering that at Eden you indicated to us that that could add \$30 million. The Twofold Bay option is \$30 million more expensive because you are having two separate facilities. We are trying to find out whether there are alternatives to that as part of our recommendation because that is a substantial extra cost. That is where we are at.

**Cdre Cox**—Sure. I think that it is the 1.1 rather than the 1.2. A lot of the stuff that Mr McCullum was talking about is this 1.2, which is not the 1.1

**CHAIR**—Yes. Nevertheless, it is established beyond doubt that, under present procedures, all the 1.1 turns up at Point Alma and sits in a boat while we take out whatever else, and then we crank the boat up and take it all the way down to Point Wilson. When is it a risk? Only when it is coming out of the ship? I doubt that is an acceptable argument. Looking at the photograph of Point Alma, it looks less safe than Twofold Bay to me. The reality is that it is being used and the ships are actually berthing there with the largest loads they have while they are on the Australian coast.

**Cdre Cox**—That is right.

**Mr FORREST**—I got a bit confused there, Mr Chairman. If Point Wilson goes ahead, this function of Port Alma would not be needed anymore.

**CHAIR**—Yes, it is. It would continue because of the commercial part.

**Mr HOLLIS**—The commercial stuff all comes in there.

**Mr FORREST**—That scenario you have described could still happen with Point Wilson fully operational?



**CHAIR**—Yes. In fact, it would and does. Mr Lane, we will go back to your presentation and, again, I apologise for interrupting you.

**Mr Lane**—That is fine. I do not really have a lot more. One thing came up in the way of costs when you were talking and we were just finishing off the west and I showed the costs of transport between the various models. The other major costs that would be applied would be extra shipping costs. The ships are actually hired for a period of time. Really, you pay for the time and you pay until they get the next load. There are very few loads out of Western Australia—virtually none—so you would have a premium of shipping in the order for the time of the transit over to the west and then return to pick cargo up on the east or go to Singapore. You would be looking for \$400,000 for those shipments. That would probably be added to your shipping costs. Your ongoing operating costs would be there, in the main.

That is very large, not because of that \$3,000 a day that Mr McCullum mentioned. You just do not count the day; you have to count the elapsed time until the cargo. I have spoken to the shipping company which says that very little cargo goes out of the west. That is their estimate on the sorts of extra costs that you have—about \$100,000 per shipment. That is probably your next largest cost, added to your transport costs and, of course, capital investment in the west to achieve the improvements.

**CHAIR**—We understand that capital investment in the west is possibly the lowest cost option of those that we have had put before us to date and that has got to be offset against that arrangement with the shipping company.

**Cdre Cox**—The Queensland government is accepting risk in Port Alma that we would not. When we did Tandem Thrust, we had two military pre-positioned ships that we could not put in to Gladstone and we had to put them at the smelter wharf, Boyne wharf. The United States navy took out an insurance liability policy for \$1 million that these ships would not take the facility out if they blew up, because the ammunition in those ships was in containers and not in reasonably significant amounts. I do not recall the figure, but it was not in magazines. We run into this risk analysis problem each time.

**CHAIR**—We have got a very interesting situation, nevertheless. I just cannot follow the logic of a situation that says that it is all right to have a ship sitting at Port Alma with all this stuff in it because that is the measure of the risk, not each container as it comes off. The measure of the risk is what is in the ship, isn't it? The 1,000 tonne NEQ?

**Mr Lane**—To the product.

**CHAIR**—Yes. The reason we have to have a 1,000 tonne NEQ is that there is the likelihood of a ship turning up alongside the berth with 1,000 tonne NEQ on board. We are never going to unload 1,000 tonne NEQ. We allow that to arrive at Port Alma, but we

say that to unload it there is too risky. I really think the logic of that does not add up in terms of the whole operation.

**Brig. Kelly**—I imagine that is a question for the Queensland government more than for ourselves. The question basically comes back to something that Mr Lane touched on early in his presentation. That was that we decided way back that we would control the facilities for the unloading of ammunition. We have also decided that we would prefer to control all of the safeguarding and the safety arcs associated with that. That is what has driven us towards Point Wilson in the past.

**CHAIR**—But, Brigadier Kelly, you do not. We have had substantial evidence that you are using private contractors—or somebody is—for a substantial amount of your import, apparently under regulations and with considerable safety.

**Brig. Kelly**—I cannot comment on that but I can only presume—

**CHAIR**—You cannot deny it; the reality is we have just got the evidence.

**Brig. Kelly**—I cannot. Clearly this committee is going to require us to examine the options, and it is interesting that none of the options that have been mentioned today was on the short-list of five that the interdepartmental committee looked at. So these options that we are currently discussing were presumably excluded on the basis of the points I just mentioned: controlling the facility with the Commonwealth and controlling the safeguarding arcs. If we make a decision when we review all this that Point Wilson is still our preferred option, it will be on the basis of those and of the strategic requirement in wartime.

**Mr HOLLIS**—Some of us on this committee also suspect that we were not adequately briefed on all the possibilities. I have a dreadful suspicion that Defence had decided that Point Wilson was where it was going to be and that they thought that they would bring us down to Geelong and give us the evidence, we would rubber stamp it and all would be well. For example, today is the first time I had heard of Port Alma. In fact, I said to Mr Forrest, ‘Where is it?’ and he said that he was too embarrassed to ask. None of us knew where it was. None of us knew that that was a possibility. Today is also the first time I learnt that ships were also going to Burnie, and all sorts of other things.

The longer this inquiry goes, the better expert I am becoming on moving explosives around Australia. Again, to support my colleague here, it is a moveable feast. It just seems to me that the railways are moving explosives around, the roads are, they are on ships, they are going to ports all over the place. Whether we should have been told this, or whether we should have done more detective work, I do not know. I just suspect that a hell of a lot of things were not told to us, and perhaps with good reasons or because people thought it was not terribly important to our deliberations. I just say that it has been a wonderful education to me. I am actually thinking of writing a thesis on the movement

of explosives around Australia with the information I have been given.

**Brig. Kelly**—Your point is absolutely correct. We took you to Geelong to justify the type of construction and the scope of construction that we would undertake there on the basis that it was at the end of a very long process of defining that as the best location.

**Mr HOLLIS**—But this committee had never been involved in that. Whatever went on anywhere else, in the final analysis it is this committee that actually makes a recommendation to parliament. That is why I say that, at the least, some way along the track we should have been informed about some of these other things—if not possibilities, then some of these things about how explosives come into this country and move around this country.

**Cdre Cox**—I regret to say that you are probably not the only one that has had an educational experience in this particular subject. I think the brigadier and I are both in the same boat.

**Brig. Kelly**—We have never, as part of this process, considered Port Alma. When you asked us to look at the other options, other than Geelong, we went back to the five that the interdepartmental committee had been given to look at. Now there are other options, and some of them have been discussed today, but they were clearly excluded as part of a very comprehensive process. My concern is that we are taking little bites at it around this table—all very legitimate questions—but I am concerned that perhaps we are not looking at the total picture that caused them to be excluded in the first place.

**CHAIR**—Let me just say that we too have some fundamental limitations in that we are here to approve capital works, but the whole logistics and the cost to Defence of moving ammunition has been quite substantially exposed in this inquiry. It occurs to me that the current shipping arrangements could arise with those sorts of additional costs, but then, as we are well aware, there is the opportunity for transshipment, say, through Singapore, where you only use your little boat. One only has to spend five minutes in Singapore harbour to realise just how many ships and sizes of ships there are. There were tiny tankers coming down from Singapore to service fuel requirements in the north-west, to my knowledge, which operate very cheaply with very small crews. It appears to me that in this whole operation the cost benefit of transshipment, say, in Singapore or one of the other transshipping points and of a little ship just running down with ‘our load’ may be practical. It may not be. It is really a bit outside our fundamental task, but you cannot differentiate them.

I would like to ask you, as a consequence of this and, again, personally, what you would say to this committee saying, ‘We want to split this inquiry in two, look at the Twofold Bay-Point Wilson aspect from the point of view of the navy’s immediate requirement to get out of Sydney and make some report on that, and then say we want to go further into this secondary stage’? What does the committee think of that proposition? I

am putting it up here because I do not want what is now becoming quite complex to delay your specific needs. Does anybody wish to comment on that?

**Senator MURPHY**—With regard to the comment that was made about us taking little bites at things and that we are not looking at the big picture as to why some of these other places were excluded, I, for one, do not see it that way. We were given a paper—which I was talking to Mike about—that went through the exercise of ‘the good, the bad and the ugly’ in terms of why places were excluded, and it demonstrated to us the reasons and the justifications for ending up at Point Wilson. But, in so far as the cost is concerned, we are charged with the responsibility of looking at the capital cost of achieving a shift from Sydney to somewhere. Therefore, we started to ask questions about why not here, taking account of other considerations, and to ask for an explanation on that.

As part of that there has been disclosed, as the chairman say, a whole host of other, associated things. Although it is not necessarily our responsibility to make a decision on them, it would seem that they are also important considerations. I guess that when it comes down to the expenditure of public money, whether it is in Defence or somewhere else, we ought to look at some of those other matters. I do not think you can just say that we have heard what I think is different evidence from a private individual with regard to transportation—and that is in part only. I say that probably very naively, without sufficient knowledge to make any judgment about that, but on the face of it it would appear that that would contradict some of the things that Defence have told us. In trying to get to an understanding of the process involved and then to make a decision about where you expend significant public moneys for the location of an armament depot, my personal view is that I would like to get a bit more information. I cannot recall the time frame in which you have to shift out of Sydney—

**Cdre Cox**—It is the end of 1999. In answer to your question, we were expecting to go to Point Wilson to do ammunitioning anyway. Provided you are comfortable with it, we can use it and keep it as an import-export facility, if you accept that the Commonwealth should own its own import-export facility. It is my belief, and our consistent position, that we should at least control an import-export facility if some modest work could be done at Point Wilson to ensure that the wharf is intact whilst these other possibilities are investigated. That buys us time, and that decision does not have to be made today.

**Brig. Kelly**—My organisation has been working on the basis that we will approach this as probably two projects for some weeks now. The main difficulty is that we have changed the goal posts on this project a number of times over two governments and over about five years. We are probably creating much confusion by calling it ECAC—it is no longer ECAC. It was going to be ECAC when it was Kingswood relocated to Point Wilson.

I am comfortable that we can get out of Sydney in time, as the Commodore has said. I am comfortable that there is no-one in my organisation who has a set agenda here. We will look at Eden. As an operationally preferred area, I believe that Eden provides great benefits, provided we can satisfy all the other requirements relating to road transport, the environment, and so on. We can examine the import options again and, as I said, if we come back to Point Wilson as our recommendation, it would be on the basis of those strategic considerations rather than cost because, clearly, *Stirling*, for one, provides a cheaper capital solution, but it may not be the best strategic solution.

Over the last couple of presentations we have attempted to keep a base rate because I was afraid that we were giving you so many different figures we were creating confusion. The figure we have given you for the Point Wilson works, at this stage, is \$30 million because that is what we say the import cost is. Included in that is still a relatively large contingency because of the unknowns we talked about and a relatively large acquisition of land cost, which may not be of that magnitude. So the \$30 million may be below that, perhaps \$22 million or something like that. I do not know; we have not gone into that degree of detail.

**CHAIR**—I think the reality is—and I am speaking for myself and, I am sure, for the rest of the committee—that, for those of us who have looked at it, we think that there are a lot of pluses for the navy or for the services at Twofold Bay. But we would have difficulty going to the minister and saying, ‘We think this is the better option, but it is going to cost you another \$30 million,’ particularly as a lot of that money is being spent to service a commercial requirement. There are obviously offsets in steaming time and in operational efficiency. There is an offset—and I do not know what it might be—in some revenue being delivered from Twofold Bay that certainly will not be available in Point Wilson—that is, the commercial use of that. As Mr Hollis quite properly said, there is a social benefit in job creation at Eden but, in the case of defence, that should not be a high consideration for us, and I agree.

That is why we are looking at how else all these things could happen. Port Alma is a very interesting proposition, notwithstanding that it seems to be a bit peculiar in the way it has been utilised. But it is being utilised. In fact, while those boats continue to call there, all the dangers exist. Fundamentally, the \$70-odd million which has been put before us is your estimate of cost to deliver an ammunitioning and de-ammunitioning public facility at Twofold Bay. It is then a question of the additional cost, wherever it is spent, to have an import facility.

**Brig. Kelly**—The cost of the total function at Point Wilson was \$73 million. If we put the ammunitioning and de-ammunitioning functions at Twofold Bay, I think the figure was \$104 million. That includes works at Twofold Bay and at Point Wilson for the import function.

**CHAIR**—Let us stop at Twofold Bay for a moment. I understood that the numbers

there, admittedly without a—

**Brig. Kelly**—It was \$55 million for the navy requirement at Twofold Bay.

**CHAIR**—How did we get up to \$104 million then?

**Brig. Kelly**—That was to retain the Commonwealth requirement at \$30 million at Point Wilson, and it includes the \$10 million for the navy lighters for top-ups and the \$9 million sunk costs. We have included the \$10 million and the \$9 million as a common factor in all options.

**CHAIR**—So we are really looking at \$50-odd million at Twofold Bay as the minimum.

**Brig. Kelly**—Yes. And we would be looking at something approaching \$30 million more than our proposal to split it between Twofold Bay and Point Wilson. As I said, if we proposed Point Wilson, it would be on the basis on strategic grounds. I guess it would be up to the department to determine whether it wanted to spend extra money on that basis. An analogy might be the bare base airfields that we build in the north which are not used very often but are considered to be a strategic asset. It would be seen in that light. Certainly, *Stirling* is cheaper—it is only \$79 million—but it has other disadvantages, including the cost of transport.

**CHAIR**—Unless we can address that.

**Brig. Kelly**—Exactly.

**CHAIR**—And we are looking now at \$1,500 a container.

**Brig. Kelly**—I have heard that evidence, but I cannot comment on it.

**CHAIR**—Fair enough. As I said, it starts to drift a bit outside your specific responsibility.

**Brig. Kelly**—This is only going to get more complex, I regret, because the explosive ordnance storage and transport function is being commercialised in the next couple of years.

**CHAIR**—We have just heard some evidence from one of them.

**Mr FORREST**—Is it actually an extra \$30 million, or is it the \$30 million being spent earlier than normal? Running through some of those figures that Brigadier Kelly was referring to, hasn't it just advanced rather than being an extra? Isn't it being spent earlier than it would have been anyway?

**CHAIR**—If we look at the table available to us here and, firstly, at the ‘Commonwealth requirement millions’—which is, I think, the storage capacity to handle, in the short term, containers unloaded from ships—that is put at \$30 million at Point Wilson in both cases and at \$5 million at *Stirling*. Then you get what they refer to as the ‘navy requirement’, which is more or less a reconstruction of the wharf, which is \$24 million at Point Wilson and \$55 million at Twofold Bay. At Twofold Bay you are using the *Stirling* option as \$55 million. Then we have the ‘lighters for navy top-ups’ which is \$10 million across the board. It is very interesting because I understood that \$10 million was needed because of the lack of proximity to Point Wilson, and one would think that nipping down to Twofold Bay for a top-up would be a better option than spending \$10 million on a lighter—but there you go. The development costs of the approval process is \$9 million across the line in each case. The sums of that are: \$73 million for Point Wilson because of the lower cost of upgrading the existing wharf—

**Mr FORREST**—By how much on the wharf?

**CHAIR**—It is \$24 million compared with \$55 million. That still allows for the doubling-up of their storing capacity at Point Wilson and Twofold Bay, which ceases to exist if other options such as Port Alma or *Stirling* base are considered. Should we be saying that Twofold Bay is a better navy option at \$55 million compared with \$24 million at Point Wilson and we should continue to pursue the other issue, or have we got to stack it all up in one recommendation?

**Senator MURPHY**—Brigadier Kelly, you mentioned the commercialisation of the transport. What is going to be commercialised specifically?

**Mr Lane**—The commercial support program is now working towards issuing a statement of requirement for the commercial market testing of storage, maintenance and distribution of ADF-EO.

**Senator MURPHY**—Of storage, maintenance and distribution?

**Mr Lane**—Yes.

**Senator MURPHY**—I would be rather interested as to whether that is the proposal for the long-term future, given Commodore Cox’s view that they could make some of them temporary. I would be interested to know: how temporary, and over what period of time could you get away with some smaller expenditure at, say, Point Wilson? How might that fit in? If there were to be commercialisation of the transport and storage, et cetera, I would also be interested to hear some evidence from potential commercial operators and, if they were offered the option of taking up the responsibility to ship in those containers, whether it could be done within the existing port facilities that Australia has already? Maybe we could get Mr McCullum to provide us with the information as to the 85 containers per annum.

**CHAIR**—Yes. I think that point is pretty serious. Just how much should we be investing at this time in onshore facilities if, within two years, somebody else really—

**Brig. Kelly**—I am not sure that the commercialisation includes the import and wholesale. I think it relates mostly to the retail function.

**Mr Lane**—To the wholesale storage and distribution.

**Brig. Kelly**—The reason I raised it was to indicate that Benalla could have a continuing and greater importance if ADI were to be successful in that tender. For example, if the south-east of Australia is of continuing importance, I cannot see that any commercial operator would be able to provide a more cost-effective solution than to use our existing storages at Myambat, Kingswood and Bogan Gate.

**Senator MURPHY**—What worries me about all of this is that, if we continue down the road of commercialising—and, in a lot of cases, privatising—assets, the Commonwealth can expend a lot of taxpayers' dollars in specialist facilities that it will ultimately sell at significantly reduced prices because of their very nature. I would be interested to know, if it were to be commercialised, whether commercial operators would be prepared to expend the money to provide the facilities, taking account of all the NATO and other requirements in terms of security, et cetera, and whether there are, at this point in time—given that we are going to move down that road—people who might be prepared to do that. Rather than the Commonwealth expending \$20 million, \$30 million or \$50 million—whatever the case—it might be that we make some lower level expenditure and see what is about. Defence may have proceeded down that road already—I do not know.

**Brig. Kelly**—I do not believe that any operator could find it cost-effective to provide our storage at another place when we are prepared to provide our facilities as government furnished facilities. I do not believe the intention is to sell them to the operators. It would remain a Defence facility.

**CHAIR**—I think Senator Murphy is really saying that if this is so imminent, there should be an input from interested or successful tenderers as to how they would manage the onshore activities and import, and how they would do it. It really comes back to the question I put earlier: is the \$55 million at Twofold Bay just for the jetty, or does it include costs for some onshore storage?

**Brig. Kelly**—It is onshore storage.

**CHAIR**—So, basically, looking back at Point Wilson, we are looking at some duplication because we need it in both places?

**Brig. Kelly**—We would reduce significantly the onshore storage at Point Wilson. Most of the cost at Point Wilson—or a large proportion of the cost—would be upgrading



the wharf.

**Cdre Cox**—You want us to revisit the minimum short-term option for that?

**CHAIR**—Certainly. In all of this we need to know what the patch-up costs would be at Point Wilson. We visited storage facilities that are there and one of the greatest problems was that the doors were too small. Obviously, in a long-term facility you would do other things, but there are basic situations there that could accommodate a short-term requirement. There are storage facilities there. They have all the bunding and everything around them but were a bit small, for example, to get a missile through the door. Those sorts of activities would do it. I am advised that we have to vacate this room shortly. Could members, therefore, tell me what questions they believe should be answered as a result of today's discussions?

**Mr HATTON**—This relates to Brigadier Kelly and Commodore Cox: \$30 million is a lot of money. If a split decision is made to develop Point Wilson and Twofold Bay, that is a serious decision in terms of money. Have you any idea at all how long it would take to cover that \$30 million in cost, in terms of the extra steaming time?

**Brig. Kelly**—Yes. I answered some questions about it last time.

**Mr HATTON**—I was not here.

**CHAIR**—I think it was 19 years to repay the Point Wilson expense and seven to repay the *Stirling* expense.

**Brig. Kelly**—That is correct.

**Mr FORREST**—It is too long.

**Mr HATTON**—In terms of this complex, can you look at it in two different ways: firstly, as an ECAC and, secondly, just as an armaments complex? If you look at the Point Wilson option, it is an armaments complex rather than being in these cases.

**CHAIR**—I think the point was made that it is not. The original proposition was that everything shifted down there. The current proposition is, no, everything stays where it is, but there is an upgrade of the unloading and loading facility.

**Mr HATTON**—I understand that, but we have been looking at an ECAC—an East Coast Armament Complex. The emphasis that started the rethink is: how do you get it up the east coast instead of down to Melbourne? It is too far away in steaming time. Whereas Brigadier Kelly seems to be saying that, in terms of the initial push with this thing, it is an armaments complex. Strategically, the best place is out of the way in Point Wilson, in terms of the way it has been viewed previously. Would that be accurate?

**Brig. Kelly**—From a strategic point of view, I was thinking more about the point of entry—the wharf, its location in proximity to our storage areas and our manufacturing capability in the south-east of Australia. I would be happy to call it two separate things from this point—firstly, the Navy requirement and, secondly, an import-export requirement. Basically, we have been doing that in-house now since the second investigation that we had here.

**CHAIR**—Myambat is another name that has just appeared within our evidence, yet that seems to be fundamental because that is the major area of storage. That, again, is much closer in terms of retail to Twofold Bay. We have agreed already that we should be told—if I can use the word—what a patch-up arrangement of Point Wilson would cost. Mr Forrest, have you got any specifics that you would like addressed?

**Mr FORREST**—I concede the patience that Defence have had for a long time on this. But, if we intervene now, I heard Brigadier Kelly say quite clearly that that could be lived with.

**CHAIR**—A two-stage approach.

**Brig. Kelly**—To progress now to examine Twofold Bay while doing any works—or perhaps no works—at Point Wilson, to satisfy the requirement to be out of Sydney by the end of 1999? Yes, we can do that.

**Mr FORREST**—And for an overall better result, albeit extra money. It is unusual for this committee to take that approach but, if it is a better result—

**CHAIR**—Strangely enough, the initial outlay would be less, but you would still have the overhang of how you are going to handle import.

**Brig. Kelly**—Yes. When we brought this to the committee, we did not talk of wartime or peacetime because our solution fitted all the requirements. If we are going back to look at some of these other options, we will have to re-examine the wartime requirements. You mentioned before the staging through Singapore and so on. They may not be options under different circumstances, and so we should not just relate this to peacetime.

**Mr FORREST**—But my original question was that, in the event that that money is spent at Point Wilson and then, at the end of the day, if Point Wilson is decided upon, then that money is not wasted. It would not be spent and then be ripped out again and respent.

**Brig. Kelly**—I suspect that to operate there for another two years would require very little expenditure. What we were attempting to do was to give it another 30 years of life. The difficulty will arise if, in investigating the environmental aspects of Twofold Bay,

or any other aspects, it becomes unworkable.

**CHAIR**—Yes. We have a few pretty solid questions there to the state authorities, who admitted that there is a substantial amount of environmental work that has been done on the basis of a very similar jetty. They say there are no problems. Firstly, we have had that done for us—at somebody's cost and hopefully not our own. The other issue that still overhangs, as was told to us down there, is the \$8 million of moneys that the state and federal governments are prepared to contribute, based on other background. In fact, the promise from the federal government overall was about \$60 million to assist in the social problems of forestry reserves down there. Again, we are considering that this proposition does add that to it. Anyway, Senator Murphy, have you any particular questions you would like answered?

**Senator MURPHY**—I would like to know the time frame for, and the extent of, the proposed commercialisation program.

**CHAIR**—Yes. Mr Hatton?

**Mr HATTON**—No, thank you, Chair.

**CHAIR**—I think most of the other questions have been raised in today's proceedings but, very seriously, because of all the options that start to come up on the import side of things, please remember that, whilst Singapore might be a problem, they did have little submarines running around between Sydney and Melbourne in the last war, and no doubt they would be a lot more sophisticated today. So the line of communication of your little ship or your big ship becomes more vulnerable the longer you have it in the ocean.

**Senator MURPHY**—Just one more thing: assuming that there is going to be some work done in regard to Eden, I would be interested in knowing what type of wharf would be proposed to be built—a pylon wharf, or what?

**CHAIR**—We have evidence about that. One of the factors is that it will be 700 metres long, simply to comply with the NEQ requirements. That means that it does not interfere with the adjacent woodchip mill in terms of its daily operations. I think we have covered that. Again, we thank you for your cooperation. I have a feeling that together we are going to do a good job and that everybody might be the winner. To conclude formally now, I thank Mr Lane, who has helped us with the advice he has given us today. I would like to thank the all witnesses for appearing before us today.

Resolved (on motion by **Mr Forrest**):

That, pursuant to the power conferred by section 2(2) of the Parliamentary Papers Act 1908, this committee authorises publication of the evidence given before it at public hearing this day.

**Committee adjourned at 10.59 a.m.**