



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS,
DEFENCE AND TRADE

TRADE SUBCOMMITTEE

**Reference: Enterprising Australia - planning, preparing and profiting from trade
and investment**

MONDAY, 2 APRIL 2001

CANBERRA

BY AUTHORITY OF THE PARLIAMENT

INTERNET

The Proof and Official Hansard transcripts of Senate committee hearings, some House of Representatives committee hearings and some joint committee hearings are available on the Internet. Some House of Representatives committees and some joint committees make available only Official Hansard transcripts.

The Internet address is: **<http://www.aph.gov.au/hansard>**

To search the parliamentary database, go to: **<http://search.aph.gov.au>**

JOINT COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

Trade Subcommittee

Monday, 2 April 2001

Members: Senator Ferguson (*Chair*), Mr Hollis (*Deputy Chair*), Senators Bourne, Calvert, Chapman, Cook, Gibbs, Harradine, Hutchins, Sandy Macdonald, O'Brien, Payne and Schacht and Fran Bailey, Mr Baird, Mr Brereton, Mrs Crosio, Mr Laurie Ferguson, Mr Hawker, Mr Jull, Mrs De-Anne Kelly, Mr Lieberman, Dr Martin, Mrs Moylan, Mr Nugent, Mr O'Keefe, Mr Price, Mr Prosser, Mr Pyne, Mr Snowdon, Dr Southcott and Mr Andrew Thomson

Subcommittee members: Mr Prosser (*Chair*), Mr O'Keefe (*Deputy Chair*), Senators Chapman, Cook, Ferguson, Hutchins and O'Brien and Fran Bailey, Mr Baird, Mr Hollis, Mrs De-Anne Kelly, Mrs Moylan and Mr Andrew Thomson

Senators and members in attendance: Senators Ferguson, Hutchins and O'Brien and Mr Baird, Mr O'Keefe and Mr Prosser

Terms of reference for the inquiry:

To inquire into and report on increasing Australia's trade and investment through initiatives for economic expansion, in particular:

- The role of development agencies in economic expansion such as the Industrial Development Agency in Ireland and the Economic Development Board in Singapore;
- Reasons for the success or otherwise of development agencies in establishing countries and regional areas as economic leaders;
- The comparative role of such development agencies to existing agencies in Australia;
- Incentives and impediments to foreign investment in Australia such as transport systems, taxation, telecommunications infrastructure, production costs, industrial relations structures, legal systems, federal systems of government and research and development initiatives;
- The adequacy of a skilled workforce in Australia particularly in new growth areas such as, though not limited to, financial services, information technology, E-business, education, pharmaceuticals and health care, and the competitiveness of that workforce; and
- Opportunities for encouraging inward investment and promoting export sales.

WITNESSES

ELLIS, Mr Bill, First Assistant Secretary, Land Transport, Department of Transport and Regional Services.....93

GREIG, Ms Justine, Director, Strategic Personnel Planning and Research, Defence Personnel Executive, Department of Defence.....80

HERMANN, Mr Maurice Lindsay, Assistant Secretary, Science Industry and External Relations, Department of Defence, Defence Science and Technology Organisation.....80

KEARNS, Dr Graham Richard, Head of Industry Division, Defence Materiel Organisation, Department of Defence80

O'GRADY, Mr Christopher, Director, Rail Enterprise, Department of Transport and Regional Services.....93

ONG, Commander Peter, Deputy Director, Strategic Personnel Planning, Defence Personnel Executive, Department of Defence.....80

POPHAM, Mr John Robert, Director-General, International Materiel, Department of Defence80

**RIZVI, Mr Abul Khair, First Assistant Secretary, Migration and Temporary Entry Division,
Department of Immigration and Multicultural Affairs 67**

**WATERS, Mr Bernard, Assistant Secretary, Business Branch, Department of Immigration and
Multicultural Affairs 67**

Subcommittee met at 10.09 a.m.**RIZVI, Mr Abul Khair, First Assistant Secretary, Migration and Temporary Entry Division, Department of Immigration and Multicultural Affairs****WATERS, Mr Bernard, Assistant Secretary, Business Branch, Department of Immigration and Multicultural Affairs**

CHAIR—This inquiry arose out of the continuing interest of the trade subcommittee in expanding Australia's trade and investment. The subcommittee looks forward to receiving important and significant evidence over the course of the inquiry to assist in its deliberations. On behalf of the trade subcommittee, I welcome representatives from the Department of Immigration and Multicultural Affairs. The subcommittee prefers that all evidence be given in public, but should you at any stage wish to give any evidence in private, you may ask to do so and the subcommittee will give consideration to your request.

Although the subcommittee does not require you to give evidence on oath, I advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses. The subcommittee has a submission from the Department of Immigration and Multicultural Affairs—submission No. 14. I now invite you to make a short opening statement, if you wish, before we proceed to questions.

Mr Rizvi—Thank you for the opportunity to appear before the committee. Three of the major terms of reference of this inquiry are highly relevant to the immigration portfolio. In particular, immigration policy and programs have an important role to play in assisting with attracting foreign investment, developing a skilled work force and inward investment and export sales. Our submission to the committee has been structured around these three major themes.

The department's principal aim in its administration of Australia's immigration program is to maximise its contribution to Australia's wellbeing, in terms of Australia's economic, social, environmental and humanitarian interests. To obtain maximum benefit from immigration, policy and processes must keep pace with a dual reality. Firstly, we must enable faster entry of the rapidly increasing volume of people who will make a positive contribution to Australia and, at the same time, we must act to prevent the entry of the rising numbers of those who seek to undermine and defraud the immigration program or pose a threat to the community. A balance must be achieved between these two sometimes conflicting objectives.

The department has implemented significant policy and process changes in the skilled migration, business and temporary entry programs in recent years. This has enhanced Australia's capacity to attract foreign investment, to create new and expanding markets for our goods and services and take advantage of the rapidly increasing international movement of people. Research commissioned by the department indicates that the reforms to skilled migration are delivering major economic and budgetary benefits. The shift towards younger migrants with higher skill and English language levels is estimated to deliver some \$5.3 billion in improved living standards to Australians by 2007-08. The 2000-01 migration program is expected to contribute positively to the Commonwealth budget bottom line to the tune of about \$270 million per year over the next five years.

The employment performance of recent skilled migrants has improved dramatically, along with their income, health and housing experience. Australia was attracting more skilled persons in the late 1990s than it was losing, indicating that we are not experiencing a brain drain—indeed, we are experiencing a brain gain.

Almost all managerial, professional and trade occupations, including occupations subject to strong international demand—for example, computing—show a significant net gain in numbers. The department has also implemented significant changes to temporary residence, overseas student, working holiday-maker and visitor programs. Visa grant numbers for all of these programs are at record levels and continue to grow strongly. These programs make a very substantial contribution to Australia and are supported by government, business and industry.

The key outcomes of these programs include the fact that the demand for key skills by Australian businesses under the skilled temporary entry program has increased by over one-third since streamlined arrangements were introduced in 1995-96. The largest single occupation group in the skilled temporary entry stream, as in the permanent skilled migration intake, is in the area of information, communications and technology. The package of measures recently announced by the Prime Minister, including the ICT immigration measures, will continue to improve Australia's competitiveness in attracting skilled ICT professionals.

Overseas student visa numbers increased to a record level in 1999-2000 and that record will be exceeded significantly in 2000-01. The overseas student industry is, of course, now a major export industry. Visitor and working holiday-maker numbers also achieved record levels in 1999-2000 and those records will also be exceeded significantly in 2000-01.

The recent changes in policy and processes, which have delivered positive economic outcomes, have been characterised by rigorous research and evaluation and close liaison with stakeholders. The department's proactive liaison with state governments, industry and business groups has been instrumental in achieving these results. The department is keenly aware of the continuing need to ensure that Australia maintains its competitive advantages in attracting skilled people and investment and, to this end, a number of new research studies and policy reviews have been instituted, principally in the temporary entry area, where net movements now outnumber net permanent movements.

In addition, we are currently implementing a full program of policy development and legislative change and are actively working on a number of system changes, including a range of new e-commerce processing initiatives, which will also be important in maintaining a responsive immigration program. I thank members for their attention, and my colleague and I will be pleased to answer any questions.

CHAIR—Thank you. I would like to pose the first question to you. I note a steady increase in the business visitor entry category, but particularly a dramatic increase of 20.6 per cent, as I recall, between July and December 2000. Am I right to assume that that was directly linked to the Olympics?

Mr Rizvi—It would be partly related to the Olympics, but I think it is also part of a general trend that is going on in any case.

CHAIR—But why would it be that high? Did the Olympics probably give us a focus?

Mr Rizvi—Undoubtedly, the Olympics were important.

CHAIR—Have you noticed any trend, after the Olympics, that business entries have been maintained?

Mr Rizvi—Permanent business entry, long-term temporary business entry and short-term business visitors are all continuing to increase, including through the period after the Olympics.

Mr BAIRD—Thank you for the run-down. I, for one, welcome the open approach in trying to attract business visitors. I suppose the interest of this committee is: to what degree do you facilitate people who want to invest in the country? There are different levels—from the guy who has sold up his coffee shop in Belgrade and wants to come down and set up a similar place in Australia, to a large corporation that wants to set up a branch in Australia and send a whole lot of people here. How easy is it for people to come via each stream? Firstly, how easy is it to come via the corporate stream, where people want to establish their operations here? How long does it take for those visas to be processed? Secondly, how easy is it to come via the stream for the smaller type of investment?

Mr Rizvi—In the corporate group, certainly the processes are highly streamlined. We work closely with the Department of Industry, Science and Resources, which has primary carriage of the area of regional headquarters arrangements, to develop regional headquarters agreements, which enable larger corporations to establish operations in Australia. The visa processing in respect of that area is quite rapid.

With regard to the so-called coffee shop person, there are threshold criteria that need to be met for the entry of those persons on a permanent basis. Usually, a person who is looking to establish or buy a small coffee shop in Australia will not meet the normal permanent entry arrangements for business migration. Those people can enter Australia under what is known as long-term temporary entry arrangements, and if they are able to successfully establish their business in Australia, they are able to then apply for an established business in Australia visa and remain.

Mr BAIRD—What happens if their business is unsuccessful? Have they got to leave? In fact, I have got one such case in my electorate at the moment: a small business which has not been successful and now they have been given notice to leave the country with all their family members. I have had a face-to-face meeting with them. They sold up everything they had—I think it was in Italy—and came down to Australia to meet the requirements. We allowed them in and, for various reasons, the business has not taken off, and they are required to leave. Is it the norm that if the business does not succeed they have to go?

Mr Rizvi—Where a person has entered on a long-term temporary entry basis, they have essentially been given a commitment by the Australian government for a visa for the period that they were granted, and if at the end of that period there are no visas for which they are eligible, they are required to depart.

Mr BAIRD—Isn't that a little tough? Small businesses have difficulties on a daily basis. But when we actually encourage people to come here and they meet the criteria and sell up everything and move, and they have their kids in schools here and so on, is it fair to tell them then to leave because their business goes under? Shouldn't it be that if they meet the requirement to set up a business, then that is enough? What was said to me by this guy was, 'Look, this business, because of the location et cetera, has been unsuccessful and I need to regroup and establish another one. But as soon as the business went down, out came the letters saying, "You have got to leave the country."' They pulled the kids out of school. These people have been here for several years.

Mr Rizvi—I do not believe the letter would have been in response to the business being unsuccessful. The letter would have been in response to the visa period expiring, if they were here on a long-term temporary entry basis. They are given four years to establish the business. If they are able to establish the business in that four years, apply and meet the criteria, they are then able to obtain permanent residence. But, when they entered Australia, they were given no greater commitment by the Australian government than the offer of four years, and they were aware of the requirements for permanent entry at the point that they got their temporary entry visa.

You are absolutely correct to say that the long-term temporary entry visa for establishing a business in Australia is indeed pushing the boundaries of immigration policy. And there is the question of how far we ought to be pushing down that route. The toughness aspect of it that you identify is certainly very true. And exactly where we take this particular policy is something that really does continue to occupy our minds.

CHAIR—On the point that Mr Baird raised, part of the criteria is that the business must have a certain turnover, as I recall, and employ a certain number of people. I have a venture in my electorate and they subcontract out their laundry. Obviously, this is the smart way to go—the way to survive in business is to subcontract. But none of the contractors can be counted as employees—even the cleaning of the motel in the morning is done entirely by contractors. The business owner has failed to meet the criteria for the number of people he must employ and he is in all sorts of trouble now, simply because those subcontractors are not counted. I put it to you that with a company such as A.V. Jennings, the people it employs on site are subcontractors, yet it is deemed to be a very, very big building company. Why does the department not at least have a more favourable view in regard to people associated with a business being employed by that business?

Mr BAIRD—If people employ members of their own family, apparently that is not counted either, as I understand it.

Mr Waters—The intention of the program is very much one of generating business in Australia and the employment of Australians and the generation of exports. When the people come in, they are told of the requirements: if they are in a regional area, it is the employment of two Australians; if they are elsewhere in Australia—in a city—it is the employment of three Australians.

CHAIR—So generating employment is the intention?

Mr Waters—To generate employment and exports is a key policy feature.

CHAIR—So in this case, there is no question that they are generating employment by having subcontractors do the cleaning and the laundry and those sorts of things—it is counted, is it?

Mr Waters—Subcontractors are not generally counted, although the department does have some flexibility to be able to count—

CHAIR—But clearly, if the business was not there, they would not have the work.

Mr Waters—That is true.

CHAIR—Why are they not counted?

Mr Waters—It is a question of how you count them. I look at it in terms of the person who cleans my house, for example. They work for me for three hours a week. Am I creating a job? I am helping to create a job, but it is more like a 12th of a job, rather than a single job.

CHAIR—I think, in political terms, we call them full-time equivalents, don't we?

Mr Waters—That is right.

CHAIR—Can't we work it back that way?

Mr Waters—The department is quite flexible where there is sufficient contract employment and there are no doubts about the bona fides of the arrangement.

CHAIR—All you have told me is that you are flexible.

Mr Waters—We are flexible.

CHAIR—In these situations, people need a bit more comfort than you being flexible. Anyway, Mr Baird, I am sorry to cut in on your question.

Mr BAIRD—That is all right; it is a good point. Just finally, to what degree do you work with Invest Australia and Austrade, and even the ATC, in facilitating the visas which have a pure commercial investment/trade interest? Do you work as a team on this?

Mr Rizvi—We certainly have close contact with the ATC and with Invest Australia in the area of regional headquarters. Where you are talking about a clear-cut case of a person coming to genuinely assist in the generation of investment in Australia, those sorts of cases are processed relatively easily and rarely do difficulties arise. The difficulties tend to arise where the cases are much more marginal, and we find that generally Invest Australia, the ATC and others are rarely interested in the marginal cases where the difficulties tend to arise.

Mr BAIRD—In terms of Invest Australia, do you have constant dialogue with them?

Mr Rizvi—We certainly work with them in areas such as the regional headquarters arrangements and those sorts of areas.

Mr BAIRD—Thank you.

Senator FERGUSON—Who determines who qualifies as a business skilled migrant?

Mr Rizvi—That is determined by the Immigration decision maker against the criteria that are set out in the act and regulations.

Senator FERGUSON—What sort of criteria are they?

Mr Rizvi—We can perhaps leave a complete copy of the business skills application booklet, which goes through the full details of what is required. In essence, what is required is that the person must be able to demonstrate a substantial background in business—having run a successful business—and must be able to meet a points test which identifies various features of a person who is likely to be successful in Australia as a businessperson. The person must also have sufficient funds to be able to transfer to Australia to enable them to generate a business operation in Australia. But we can provide the full details for you.

Senator FERGUSON—So you cannot get in as a skilled migrant without being a business migrant as well?

Mr Rizvi—I think we need to distinguish between skilled migrants who enter under a different category and business migrants who enter under a business category. Skilled migrants—skilled stream migrants—are also required to pass a points test. That points test relates to, firstly, whether they have recognised vocational skills, and that is assessed by the relevant assessing bodies in Australia. For example, if the person is an engineer, they must be assessed by the Institution of Engineers as meeting Australia's requirements. Secondly, they get points for their age and, thirdly, they must have at least vocational level English. If they meet the pass mark on the points test, they receive a visa.

Senator FERGUSON—Let me give you an example of two cases concerning Zimbabwean farmers. One of them has no money because they do not let them bring any out of the country, but he is tremendously skilled in his work. Zimbabweans are considered to be some of the most technologically advanced farmers in the world, as well as having access to cheap labour—so they have two things going for them! So one of the farmers has no money but has considerable skills and wants to come to Australia; another has money and has skills. Would you accept either of them under the business skills migration program?

Mr Rizvi—They would both be eligible to apply and if they met the criteria they would get a visa.

Senator FERGUSON—I know they can apply, but I would like to have some idea of whether they would succeed.

Mr Rizvi—It is not possible for me to give you details of that without knowing the details of the case. I can say that if they are applying under the skilled migration program, they are required to have their skills assessed by the relevant assessing body in Australia. If they meet Australia's requirements in terms of a recognised skill, if they are under 45 years of age, and if they have vocational level English, they would stand a good chance of being visaed.

Senator FERGUSON—Is one of the criteria tertiary education?

Mr Rizvi—That would depend on the relevant occupation in which they were seeking to have themselves assessed. An engineer, for example, would have to have tertiary qualifications, I think, under the requirements of the Australian Institution of Engineers.

Mr BAIRD—Is farming regarded as a skilled occupation for migration purposes?

Mr Rizvi—As a general rule, no, but a farm manager who has skills in managing farms may well meet the requirements. But I am not sure that being a 'farmer'—and that is it—is actually identified in the list of skilled occupations.

Senator FERGUSON—I would be very keen to find out. I know a lot of farm managers who are not nearly as skilled as the farmers who appoint them.

Mr BAIRD—That sounds a bit unfair.

Senator FERGUSON—I will be very interested to see what the criteria are, because it could be that those who make the rules do not understand the industry.

CHAIR—Working holiday visas for younger people who come to Australia are particularly useful in getting crops off in the horticultural areas or whatever. The effective tax rate for an Australian worker in that position is 13 per cent whereas I am informed that the tax rate for a foreign worker is something like 26 per cent. What are the comparable tax rates for workers who visit other countries?

Mr Rizvi—I am not a tax expert. I would have to take that on notice to see what we can find out in respect of tax arrangements. The arrangements in terms of Australia's taxation situation is, I think, as you have described it. I would not have details on the taxation arrangements for short-term workers going overseas, but we can take that on notice and try to obtain that information.

CHAIR—It is just that I am informed that employers wanting to get young people are very keen to get foreign workers because they actually want to work. They inform me that it is grossly unfair that one worker working on one row of the orchard gets taxed at one rate and the next worker, because he is a foreign worker and a young person travelling around the world, gets—

Mr O'KEEFE—Gets paid cash.

CHAIR—They can't nowadays. They get taxed at a much higher rate, and it causes a fair bit of animosity in the orchard.

Mr Rizvi—I understand what you are saying. As I said, those go to matters of taxation policy, on which we are really not in a position to comment.

Senator O'BRIEN—I want to ask about labour agreements. In your submission at 2.28, you say:

A Labour Agreement is a formal arrangement negotiated between the employer and the Commonwealth ...

Then you have a chart that shows the type of agreement, the number of labour agreements, the number of permanent visas allowed and the number of temporary visas allowed. Do I take it then that in agriculture, for example, there has been one agreement and 350 temporary visas under that agreement?

Mr Waters—That is correct.

Senator O'BRIEN—And in finance and accounting there have been two agreements and 3,180 visas granted under those two agreements?

Mr Rizvi—I think that is the maximum number of visas allowed. They would not necessarily represent the numbers that have actually been granted. That is the ceiling.

Senator O'BRIEN—So these are the ceilings. I read it as being the number of visas that had been allowed. I took that to mean granted.

Mr Rizvi—It may eventually be the case, but at this stage that is the ceiling. Exactly where they are up to against that ceiling is something that we could provide you with if you wanted that.

Senator O'BRIEN—I would appreciate it if you could give us a breakdown between the particular agreements. I noticed that, as individual categories, information technology and tourism and hospitality have

got by far the most. Most of the others, excluding radiography, have one or two agreements and defence has four.

Mr Rizvi—Some of the labour agreements are relatively small. We have been very keen to encourage industries to develop larger and broader labour agreements because, obviously, there are much greater efficiencies associated with developing larger agreements. The agreements in the finance and accounting industry involve a substantial number of companies.

Senator O'BRIEN—So where it says in your submission, 'negotiated between the employer', I should not take that literally?

Mr Rizvi—It could be a group of employers or an association of employers. Indeed, that is something that we encourage.

Senator O'BRIEN—I am trying to understand it in the context of that terminology which I deliberately read at the start, because it indicated to me that there was an individual employer—or two in the case of finance and accounting—with a very large number of beneficiaries of the agreement. Can you take on notice the number of visas that have been issued under individual labour agreements in each of the categories?

Mr Rizvi—Under the individual labour agreements, I think we could provide those figures.

Senator O'BRIEN—You have automotive listed as having two agreements. I want to know how many visas have been granted for each of them—and the same for the 12 ICT agreements.

Mr Rizvi—We can provide them at the broad industry level. It would be more difficult for us to provide it down to the individual employer level in that we would need to seek the permission of the employers to reveal their—

Senator O'BRIEN—I am talking about by agreement. Where you have a group of employers under one agreement, presumably that would specify the types of skills that are required.

Mr Rizvi—Yes.

Senator O'BRIEN—If you could let us know what the skills are and, if it is not commercial-in-confidence, what the employing group is so that we can understand where that skills shortage is in the context of this inquiry.

Mr Rizvi—Okay.

Mr BAIRD—Were those tourism and hospital numbers related to requirements for the Olympics?

Mr Waters—That would have included the Olympics.

Mr O'KEEFE—You will be aware that this committee has had a particular interest in South America for the last 18 months or so. In our report arising out of a subcommittee visit we were highly critical of DIMA. In some evidence given to the committee you were classifying countries as having a high overstay rate and when we went to see what the overstays were we found that they were people who were allowed to stay by virtue of

a change in status or something but you still classified them as overstays. That did not seem to be very sensible to us. We made a number of recommendations, given that it was identified as an emerging market. Are you aware of the recommendations we made and any particular responses the department might have made in respect of South America coming out of that work?

Mr Rizvi—We are certainly aware of the report of the committee. We have made our own response in contributing to the response being coordinated by the Department of Foreign Affairs and Trade. We input our material to that some time ago. I understand that that response has not yet been tabled. It is difficult for me to go into the details of that response until it is tabled.

With regard to the overstayer issue, I think I should make the distinction which we tried to make very carefully in our evidence. You need to distinguish between overstayers—persons who have breached the law—and persons who fit within what we describe as the non-return rate—persons who apply for a visit visa, give us evidence that all they intend is a genuine visit and then upon arrival change their minds. The Migration Act and regulations allow that to occur to a degree. Where visitors from a particular country do that in a very disproportionate way, we become concerned about the evidence that they originally presented to us when they applied and told us that all they intended was a genuine visit. There are countries in South America where the non-return rate has increased quite significantly and we are seeking to investigate those further to see how we should deal with it.

We take the committee's point about our servicing arrangements in South America and we are taking steps to improve that. But I would not say that improving our arrangements in South America is going to be entirely easy, because it is a source of a very substantial number of visitors who tell us at the point of applying that all they intend is a visit and then upon arrival change their minds. We naturally become concerned when that happens.

Mr O'KEEFE—It is a balance that has to be found. We presented our report in the context of identifying a country that we think Australia has very significant opportunities with and that, for a whole range of reasons, is not being properly exploited. Immigration policy visa issuing was one of the areas that we felt could be improved.

Mr Rizvi—We accept the criticism of the committee in the sense that it can be improved, and we are assiduously working to improve it.

Mr O'KEEFE—I will await the response with interest. I am aware it is not yet out. In relation to that, I have had a particular interest in facilitating the exchange of young people, be it students or be it working holiday-makers. I notice in your list the countries for which we are working on working holiday-maker arrangements—which is terrific—but there are no South American countries on that list. Is that a bit sophisticated for them just at this point?

Mr Rizvi—As a general rule the guidance the government has provided us with is that we should be negotiating working holiday-maker agreements with countries with which generally we already have the electronic travel authority—that is, the government has assessed the visitor immigration risks out of those countries to be relatively low. If immigration risks objectively assessed out of South American countries were to decline, then we would certainly be looking to negotiate working holiday-maker agreements with those countries as well.

Mr O'KEEFE—In a general sense, the thrust of this inquiry is to look at the way Australia is coordinating a proactive approach to encouraging investment, trade opportunities, exchange and all that. In your department, if you come across people expressing reasons for wanting to come to Australia or wandering into embassies saying, 'I want to go there because'—for example, people who are now interested in Australia post the Olympics—if somebody gets the bright idea, for instance, that we ought to have a post-Olympic marketing strategy and DIMA ought to be helping facilitate this, what happens in your department to actually set something going so that your ideas are listened to by somebody? What is the process? Does anybody write a letter or a memo, or does a minister get visited? What happens?

Mr Rizvi—Certainly the minister will get visited, and he receives delegations from many people in that area. We have a number of arrangements with key partners in government who have the primary role in terms of promoting, for example, tourism. We work very closely with the Australian Tourism Commission and we work very closely with DISR on these areas. It is through that very close work with those that, for example, we have been able to assist the tourism market out of China to grow very dramatically to levels about which most people would say, 'Well, that's surprising. I didn't realise China had grown that much.' I believe that has been very much due to the close work that we have done with the other tourism agencies.

Mr O'KEEFE—I am certainly comfortable with the fact that another agency might identify an opportunity and say, 'We've got to facilitate this.' DIMA's primary responsibility is to guard the borders and facilitate; I understand that. But are there situations in which your people have identified, for instance, that we could really boost Chinese tourism, and have taken the proactive role? Or are you responding in your close work with the other agencies to opportunities they identify and develop, saying to you, 'We need you to help us make this happen.' Is there any of the reverse process?

Mr Rizvi—I think there are many examples of where we have taken the initiative in those areas in that regard. The bulk of the new working holiday-maker agreements that we have negotiated have been entirely the initiative of the department of immigration. The prequalified institution trial, which is trying to assist growth in the overseas students area, was entirely an initiative of the immigration portfolio. Many of the changes that we have planned for 1 July associated with overseas students were our initiative. The use of the Internet to process student visas was entirely our initiative. There are many examples and I could give you many more.

Mr O'KEEFE—That is fine, that is a good answer. Thank you.

Mr BAIRD—I understand that one problem in relation to our education visas, where we are bringing all these people from overseas and training them, is the fact that when they have completed their training they have to return, whereas, in a lot of the competitive countries that are bidding for the educational training business, they are able to stay 12 or 18 months. Have you looked at the implication of that? I have got quite a bit to do with the tourism school at Manly. Apparently, the best graduates are always taken by hotels in America and so on because they simply cannot stay. I hear lots of complaints about that part of it. Are you aware of this or not?

Mr Rizvi—We are very aware of it. There is quite a deal of myth about a lot of that situation.

Mr BAIRD—I am sure it is not myth. I am actually chairman of the advisory committee so I can tell you that it is true that the best people they have got usually end up in the United States because they are offered jobs straight away. They come out to Australia, they graduate and then they cannot stay. That is the best of them. You see them; they are the ones who come top of the tree. They are off to the States on these big

salaries and so on. People say it is a great pity for the quality of our industry that we bring people out for training and they cannot stay.

Mr Rizvi—If I might explain why I referred to the word ‘myth’: it is true that many overseas students—and, indeed, Australians graduating from Australian universities—get attracted to the United States. We do not believe, though, that those issues are related to visas. Those issues are related to the level of remuneration—

Mr BAIRD—Can they stay or can’t they stay?

Mr Rizvi—They can stay.

Mr BAIRD—You and I must have a talk, then.

Mr Rizvi—Perhaps we should. If I might just explain: they can stay under a number of categories. They can stay under the employer nominated categories—if an overseas student is already here, meets the requirements for an ENS visa and is nominated by an Australian employer, they are able to stay. The Prime Minister announced on 26 February 2001 that, from 1 July 2001, those persons who complete their qualifications in Australia will be able to apply from within Australia—which they can already do—and be granted their visa in Australia from 1 July 2001. Those arrangements are very much leading the world in that area. If an overseas student in America, for example, finished a tourism course of the type that you have described and sought to remain, they would actually find it very difficult to do so. They would have to find all sorts of contrived ways of doing it. They would not be able to stay on the basis of their skill.

Mr BAIRD—Mr Chairman, I would ask that we have the chairman of the college I am talking about come and give evidence to this committee, outlining the problems that they have had on just that issue, because it is symbolic of the larger issue—if you do not mind.

Mr Rizvi—That is a matter for the committee. All I can say is that I can only describe our current arrangements, and I can only describe what the Prime Minister announced on 26 February 2001.

Mr BAIRD—It is good that the Prime Minister is always proactive. I support that.

Mr O’KEEFE—Forgive my ignorance, but in your submission, at page 62 in 3.11, in relation to ETAs, you say:

... consideration will be given to whether the United States, Canada or the Schengen States have offered visa waiver status to the country under consideration.

Who are the Schengen States?

Mr Rizvi—They are the western European states who have formed a common immigration arrangement. It is most of western Europe.

Mr O’KEEFE—One other quick point, if I may. Page 31 of your submission relates to ETAs. Supplementing a little bit of what you said to me before about the South American emerging market—and I am aware that you have a response sitting with the minister at the moment—you say that it will be expanded to a number of countries, subject to the analysis of how it is performing at the moment. On page 61 you imply that there is going to be a holding period while the ones that have been granted ETA are assessed to see how

it works. That makes sense. But going to our concern about beefing up the South American opportunity, are the Brazilian and Argentinian ETAs in that holding period being considered or are they waiting for it to be evaluated before you expand into South America?

Mr Rizvi—You have put me in a very difficult position there in that our response—

Mr O'KEEFE—It is in the response?

Mr Rizvi—It is in the response. Those things are being assessed. Certainly the committee's recommendations are being given close attention. Announcements will be made as soon as the response is made.

Mr O'KEEFE—I did not want to put you in that position, I understand that.

Mr Rizvi—I can assure you that those issues are being very closely examined by us.

Mr O'KEEFE—And you have picked up from this morning that we have not forgotten about it.

Mr Rizvi—Neither have we.

CHAIR—We had better wrap it up there. Thank you for your attendance here today. Can you forward to the secretary the extra information that you have undertaken to provide. You will receive a copy of the transcript of your evidence to which you can make corrections of grammar and fact. Thank you very much.

[10.55 a.m.]

GREIG, Ms Justine, Director, Strategic Personnel Planning and Research, Defence Personnel Executive, Department of Defence

HERMANN, Mr Maurice Lindsay, Assistant Secretary, Science Industry and External Relations, Department of Defence, Defence Science and Technology Organisation

KEARNS, Dr Graham Richard, Head of Industry Division, Defence Materiel Organisation, Department of Defence

ONG, Commander Peter, Deputy Director, Strategic Personnel Planning, Defence Personnel Executive, Department of Defence

POPHAM, Mr John Robert, Director-General, International Materiel, Department of Defence

CHAIR—Welcome. The subcommittee prefers that all evidence be given in public, but should you wish at any stage to give evidence in private you may ask to do so and the subcommittee will give consideration to your request. Although the subcommittee does not require you to give evidence on oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses. The subcommittee has, from the Department of Defence, submission No. 11. I now invite you to make a short statement before we proceed to questions.

Dr Kearns—Thank you very much. I will not take up our scarce time with a formal statement as such except to say that we certainly do welcome the opportunity for the exchange this morning. We are, in effect, covering three baskets of issues that relate to each other in our submission to you. Those relate to the incentives and impediments to foreign investment in Australia in such areas as research and development, the adequacy of a skilled work force, and the opportunities for encouraging inward investment and promoting export sales. Accordingly, the representation you have here today covers the various areas of Defence that deal with those kinds of issues. Obviously, we hope we will be able to help you with your inquiries this morning. Along the way you will find that a number of the areas that we are working on and that relate to your interests are work in progress, and we think there are some things that are going well. There are other things we believe we need to do better, and we would be very happy to discuss all of that with you.

CHAIR—Thanks for that. I note in your submission that you point out the Australian defence industry is increasingly dependent on the same European and American multinationals. Hasn't that always been the case?

Dr Kearns—It is a broad statement. For a long time Defence, because of the nature of our procurement business—that is, there is a very large high technology element in it—has depended a great deal on international sources of technology. That means that we have been importers—as well as, to a degree, producers within Australia—of international technology. For that reason, overseas equipment manufacturers have always featured very significantly in the sources of supply for Defence. A major objective of ours is how to team with those players to ensure that work that is of value here is done within those major orders we place. The major changes that have been occurring in our dependence on international companies for

international technology have really been the major changes that are occurring in those companies. The process of globalisation, as you know, has produced very significant consolidation in a number of major sectors, but the defence sectors internationally are a very good example of that. Huge consolidation has occurred in the United States, and now there has been very significant consolidation in the European market. That obviously changes the face of the companies that we deal with when we go out to the international market.

CHAIR—Is it the case with Defence that you are stuck with the way it has always been? I raise the case in point that, when the Defence Force, on lease, acquired the INCAT ferry to transport our troops to East Timor, that was closely monitored by other defence capabilities around the world as to the ability to move not only people reasonably quickly but also equipment. Why wouldn't we go to industry, lay down our specification and then tell them not how to build their boats but to use new and different ideas?

Dr Kearns—One of the major things that have been occurring over the past year—you would be aware of some of the big changes in Defence—is the formation of the Defence Materiel Organisation out of the former Defence Acquisition Organisation and the Support Command. Not only has the creation of this new organisation been a major structural change, but in tandem with that have been some very substantial acquisition reform measures. The government has not been satisfied with the kind of performances it has been seeing from Defence in the major capital area—I will name that in particular—and a major element of what has been happening in the last year has been to define, and now to roll out, changes to the way we do our acquisition business. One particular example of that is in the area of specifications. We have committed ourselves, as we get into our new procurements, to move much more rigorously towards functional and performance specifications linked to operational concepts documents, without the same elements of telling people how to produce the product. It would be fair to say that our doctrine has been for some time to pursue functional and performance specifications. It would also be fair to say that we have not always adhered to that as rigorously as we should, and so you will find our specifications had mixtures of detailed 'how to' in them as well. So this has been a major commitment for us to pursue as we get into our new projects.

CHAIR—Thank you.

Mr O'KEEFE—I have a couple of questions. In the development of projects for the frigates and the submarines in particular, and maybe the F18s as well, there has been a very high emphasis by the government of the day on Australian industry development. Has that worked, in your view? Are we at the point now where we can actually build ships, we can build submarines, we can assemble aircraft competently? Have we had any success at all in these fields?

Dr Kearns—I think the short answer to that is yes, we have, and I think that applies particularly in maritime projects of the ones you mentioned initially—the cases of FFG and submarines. I will not go into the other aspects of the issues as they are played out in the public domain, but a key point is the very high levels of local content that have been achieved in those maritime projects in particular. I mean of the order of 70 per cent by value, as a rough figure of local content. I do not think there is any doubt, particularly in that area, that Australian industry has been able to demonstrate that it can perform very cost-effectively. The chairman mentioned earlier the case of INCAT and we see therefore in other maritime areas, the fast ferry market, phenomenal international performance by that whole sector—Austal and others as well as INCAT. So I think there has been a very strong performance in that area. I would say that in the aircraft area it is less so. There are some very good niche areas of technology in the aerospace area, but not to the same degree. If we look at an aerospace project, we do not see the same degree of Australian industry participation. That is one

of the big challenges in front of us, because aerospace projects are now a lot bigger in major capital equipment, as a share, than they were 10 years ago.

Mr O'KEEFE—With the submarines: although I have not followed it any more closely than what I read in the media, I have often read that the combat system was part of the problem that needed rework. As I recall it, the combat system was US supplied. How have we gone about the process of getting the Americans to actually supply a combat system that works according to specification, and how have they explained the lack of performance of their combat system?

Dr Kearns—I am not sure I am going to be the right person to answer the question. It may be that we will need to provide some information for the record if you would like us to pursue it further. Certainly, a major element of what has happened is the commencement of a get well program for the submarine combat system that has involved looking at alternative combat systems solutions whilst various upgrades and fixes have been worked with the original suppliers. The exact nature of the claims and the alternative claims that are made about the original combat system is something which I think we would need to provide for you separately if you wanted us to pursue that.

I would, however, like to draw a point out of this in terms of how we do business in the future: I think we need to avoid going for the one big bang approach, where you specify a very highly capable system that needs to be fielded at the outset at the initial point of delivery. There is a much greater interest now in pursuing more iterative development, where you get something that is good in the water or in the air at the start and then have a development path, rather than running the risk of major schedule delay by trying to go for the full solution that you might want at the outset. That is a major lesson that we have learnt as we have reflected over our earlier projects.

Mr O'KEEFE—You can see from the approach of this committee and the terms of reference that we are very much trying to focus on the way Australia can be proactive. Obviously, we consider Defence to be a prime player in Australia's opportunities. For many years I have had, for instance, the ADO factory at Bendigo just on the outskirts of my electorate, and I have been really impressed there by the way they shifted their design capability to move into products that would have an after-market in civilian application, coming on from defence application. Is Defence playing a role in not only trying to find external markets for good Australian developments such as that but also assisting these companies to develop their civilian, after-market sales as well? Have you got ideas, or do you provide leads or influential people in other countries that can help out in this way? In other words, is there a proactive role played by Defence?

Dr Kearns—I think the answer is yes, we do play a proactive role. There are some things we could do better in that area, and I am happy to talk through some of that. Our major proactive role has been in assisting defence companies to find external export markets for similar defence products. We are particularly well placed to be able to do that, because we are a defence organisation and we talk to other defence organisations which are potential customers for the product. So a lot of our effort has been directed in that area—rather more, I would say, than in the area of finding alternative civil markets, for which we are not as well placed to provide that facilitation. I would just further the point a little more by saying that I think one of the important things for us, as we get into our new contracts, is to incentivise companies in the way they pull the local Australian industries into the international market—in other words, to have the international companies work for us in that area. They do that and we have had some success in that area, but I think there is more to do in that area.

CHAIR—Perhaps I can take up the theme of my colleague and particularly the terms of our inquiry. I recall attending the launch of the first Customs boat, the *Roebuck Bay*, in Fremantle. The Chairman of Austral Ships, John Rothwell, said, ‘The reason why Customs got these boats for the price they got them at was that they set the specification that they required and then they did not come along and try and tell us how to build our boats.’ My question is: is that a bit of a criticism of Defence? Would you be better, in a lot of areas—the replacement or otherwise for the Fremantle class is coming up—to say to the open market, ‘This is what our specification is’? Then the reverse can happen. You have almost got a civil contractor, a la what is happening in the United States a bit, doing defence work, rather than doing a bit of defence work and trying to see if you can find another market. Clearly, it would seem that the success of the American defence contractors is that, in the main, they are in the civil market and do defence work as well.

Dr Kearns—I think the short answer is yes, but John may want to say something.

Mr Popham—Perhaps I could answer that. I think it is a mix of both. Certainly, we are now placing a greater focus on the use of functional specifications, where we do not tell the company how we want this thing built but we tell them, ‘This is the performance that we expect you to meet. Go away and do it.’ It is fair to say that there have been some purchases in the past where we have been in there and meddled. That has occurred, but we are trying now to turn that around and specify quite clearly, ‘Functionally, this is what we want. These are the performance standards that we expect you to meet. Go away and do it.’ What that means for local companies is that they will try and use more a commercial product to meet that need, and so I think your comment is a valid one. Where we can specify functionally and say to the company, ‘Go away and do it,’ then they will try to use commercial product, maximise their return and meet our functional requirement.

Dr Kearns—If I can add a little more flavour to that point as well, there are particular opportunities in those parts of the defence solution that require information systems technologies, because in that area the civil economy takes the lead and we draw a great deal, of course, on what is being made available through information technology hardware and software skills. And I think that has been very much the flavour of, say, the command support systems, which have been a real success in the way the more recent acquisition techniques—I mentioned that more iterative acquisition earlier—have been applied in that area, and this is feeding skills that can feed into other sorts of markets beyond defence markets.

Mr O’KEEFE—Justine, you mentioned that you are in the people business. All the submissions coming to us are identifying skill shortages. As this has been such a proactive and building industry in the last 15 years, I would have thought that skilled people would have been attracted to high tech defence stuff. How have we got into the situation, firstly, where even this industry is complaining of a lack of skilled people and, secondly, what do you see us being able to do about it?

Ms Greig—To go one step back, Defence has been analysing the problem for some time in terms of shortages as they relate to ADF occupations. Building from that, we are now looking at the impact of that on defence industry supply of those skill sets and also the very large impact of commercialisation; that is, we need to retain enough in-house capability to manage the commercialisation process as well as ensure that there is some level of agreement with industry that those skills can be provided. How did we get into this situation? We have done a lot of research as compared with other organisations in Australia. We believe that the barriers in terms of defence are even higher than they are, perhaps, in other industries, and I will explain why.

Firstly, in terms of attracting to defence per se, there are changes, if you like, in the attitudes of Australian youth, which is one thing we are taking very seriously. In relation to expectations of conditions of employment, they want much more autonomy, much greater flexibility. Defence is traditionally seen as quite

conservative, traditional in that way. So what we have identified is that there are barriers in terms of defence. The extent to which you can say that that affects defence industry is an unknown. That is something that we are trying to investigate—whether there is a perception in the Australian youth that defence industry as well holds those stereotypes. At the moment we are not quite sure of the answer to that, but the solution in terms of working around that issue is to put together some much longer-term agreements with defence industry to train and provide those people. So it is not just training and education, it is the provision and attraction of those people from universities, from schools and starting at a much earlier point in time—at school age children.

Senator O'BRIEN—I was interested in parts of your submission that relate to new incentives on R&D spending. Can you tell the committee which cooperative research centres Defence has an active interest in and whether the cooperative research centre model is a successful one for Defence?

Dr Kearns—I will ask Mr Hermann to help us on that one.

Mr Hermann—There are eight cooperative research centres that Defence is involved in. The Defence Science and Technology Organisation, DSTO, is involved in seven of those. The centres are the CRC on advanced composite structures; enterprise distributed systems technology; welded structures; polymers; satellite systems; sensor signal and information processing and photonics. The one that DSTO is not involved in but the Defence Materiel Organisation is involved in is on microtechnology. DSTO finds these extremely beneficial, in two ways. First of all, it allows us to tap into other sources of R&D rather than trying to do everything ourselves. It allows us to see what is in industry, what is in the universities, and to work with those people. It is also a good way of maybe not commercialising technology but getting our technology out into the wider industry and community as well. Any technology that is developed into CRC becomes the corporate property of all the members of that CRC. So whilst sometimes we are looked at to see what we are commercialising, a lot of it now is actually common property through these CRCs.

If I can go on from what was mentioned on development, we also find it a way of developing our staff, because it allows them to see what is in universities. Sometimes they will be able to lecture on those particular areas in universities as a result of their involvement in CRCs. In some ways this keeps their minds active in different areas than it would if they were just sitting in DSTO. Maybe that is not the best way of putting it, but it gives them variety in their job.

Senator O'BRIEN—Some exposure.

Mr Hermann—Yes, more exposure to what is going on in industry and the universities. Overall we find the CRCs very profitable. We are actually commencing a review in my branch right as we speak. We are drawing up a terms of reference just to confirm what is, I suppose, a gut feeling that we believe we are getting very much more than value for money from the CRCs. We are trying to do a more quantitative assessment right at the moment.

Senator O'BRIEN—Off that topic for the moment, a subject that exercises my mind is the issue of potential free trade agreements. There has been some discussion recently about our potential participation in NAFTA. What are the ramifications for our defence industries of such participation?

Dr Kearns—I think one of the most important words I would use here is the word 'sustainability'. One of our priorities is a sustainable defence industry, and we believe that an important element of that is that the industries that are supplying to us here are also active participants in the international market because that is where so much of the continuous and larger market lies, of course. Therefore this inquiry is very much about

things that are very important to us. Obviously, we would hope that any free trade agreement does make it easier for our companies to participate in the international market, including outside of narrowly defined defence products, and that would be a major win for us.

On the flip side, we have had a long experience of importing international defence technologies, so that is not a new thing for us. There are certain areas of industry capability that are of strategic importance to us to maintain—as any country requires—to be able to provide operational support for their forces. Ultimately our bottom line is one of a war fighting capability. We need in situ capabilities in industry here to be able to support the war fighter. So that places some boundaries around the areas where we could not lose that capability here. Outside of that boundary, the international flow of goods is something that we see our industries can only benefit from.

Senator O'BRIEN—So presumably Defence is being consulted about the ramifications of free trade agreements, generally speaking, and NAFTA in particular?

Dr Kearns—Yes, we are involved in the interdepartmental process that looks at those free trade agreements.

Senator O'BRIEN—One of the issues that exercises my mind—you talked earlier about Jervis Bay and I know that Incat are talking up the possibility of some joint venture with the United States with the cats. Whether that is fanciful or real, I do not know. The Jones Act is an impediment. Is that a matter that Defence is addressing in the context of consultation about NAFTA?

Dr Kearns—I do not know that they have got to the point where those issues have been discussed. Can we take that on notice, because I do not know that discussions have reached the point where they have got into that. I will say that the Jones Act is something that we are acutely aware of. I would like to give you a response to that separately, if you would be happy with that.

Senator O'BRIEN—Okay. The other issue is the importance to our strategic defence of a merchant navy, if I can put it that way. How does defence planning on industry link into that mood, or is that entirely removed from Defence's consideration and a matter which is the responsibility, say, of Transport or another department?

Dr Kearns—We certainly are users of civil transportation assets. It has not been such a large factor in driving our acquisition strategy, but going back to an earlier response—

Senator O'BRIEN—Obviously it is not acquisition, because it is an adjunct to the property of Defence where you have a merchant navy available—East Timor was an example—to fill a gap in the logistic chain, usually. I just wondered how that was factoring into Defence's thinking—or should I be asking that question of Transport?

Dr Kearns—There is an issue of operational planning, in which Defence has a major interest and, of course, the *Jervis Bay* is a perfect example, in a way, because that was taken up as a lease arrangement before the decision to commit it. It was not just at the moment when we realised that there was an actual urgent need. That is an example of where the planning process has come into play and brought that vessel on to our order of battle. There is an operational planning issue for us that is very important. We do not have the right people here to answer that further, but I can certainly tell you that that is a real issue, and the *Jervis Bay* is a good example of the practical face of that.

Mr Popham—In a very broad sense, there are people in the department that are looking at national preparedness. They do factor in the civil infrastructure to meet that need, such as the aviation industry and such as the merchant navy.

Senator O'BRIEN—Yes. The merchant navy is one that is topical, and I ask it because it is relevant to this inquiry and it touches on defence preparedness. I am seeking to establish the linkage, if any, with your department's role in this. There is a debate now about single and continuing voyage permits and the effect on coastal trade vessel investment. Is that a matter which you would leave to the Department of Transport, or would Defence be entering into that debate within the government to brief the government on those sorts of issues?

Dr Kearns—If we can give you advice separately on this for the record, it would be more helpful, because other areas have much more knowledge of that side of our planning processes. If you would be happy with that, we will provide you with a further response.

Senator O'BRIEN—Yes, I am certainly happy for you to take it on notice and give us a much more fulsome answer.

Mr O'KEEFE—Summarised in the guts of what the Senator is saying—forgive me for taking words out of your mouth—with the SVP system there is the likelihood that our coastal trading, shipping structure will diminish completely. Does Defence care whether we have a coastal maritime merchant navy or not? Is that the guts of what you are asking?

Senator O'BRIEN—Sort of. I think I will leave my questions as they stand.

Dr Kearns—It is a good focus question, and we will get you a response on that.

Mr BAIRD—Page 99 lists defence related exports. What percentage of these exports would be as a result of our offset program?

Mr Popham—You have mentioned page 99—I am a bit confused.

Mr BAIRD—It is defence related exports.

Dr Kearns—Are you looking at the pie chart?

Mr BAIRD—Yes, I am actually looking at the list. There is a total of \$18 million.

Mr Popham—In table 1?

Mr BAIRD—Yes, that is right.

Mr Popham—Table 1 is the controlled items and it is titled, 'Defence related exports, exports of defence and strategic goods' and it totals \$18 million.

Mr BAIRD—Yes.

Mr Popham—The question was: how much of these—

Mr BAIRD—How much would be as a result of the offset program?

Mr Popham—I have to say that I do not have the answer to that. We can break the export down for you, but how it relates back to an AAI program on the back of a major project, I would have to take that question on notice.

Mr BAIRD—How is the offset program working? Do you have the same targets or is it aimed to increase the Australian content?

Mr Kearns—We have discontinued the old offset program, and I think this was not just a Defence event. Going back to DITAC and the days of the department in that guise, there were similar arrangements that they were involved in. Essentially, there were reports that found that not to be, on the whole, a highly effective program, although in the exports to US data in recent years I believe that exports that resulted from offset arrangements did feature, so it did have some successes.

Our focus over the past decade has been much more heavily on local content programs that meet identified defence needs for support of the capability and now increasingly identifying export opportunities that have some contractual meaning—not just promissory notes—as additional elements in our Australian industry involvement program. So we do continue to recognise, and we are giving more of a push, to the export undertakings that bidders offer and that we secure in contract when we go into our major capital program. So we are seeing a bigger push on the export front in that way, but we are not re-establishing the old offset credits machinery with multipliers and the whole overhead of tallies that had been used in the old system.

Mr BAIRD—Ten years on, do you have any data which would support how successful you have been in one versus the other? Can you list the degree to which the new arrangements have stimulated the growth of industries within Australia versus that from the offset program, and on what basis has there been an evaluation of the two approaches?

Mr Kearns—What would be able to do is give some further information on what the offset scheme produced. I can certainly also provide you information on what the local content programs have produced in terms of industry throughput of work. For instance, there is now roughly \$11,000 million to \$12,000 million of Australian industry local content work in play in existing contracts at varying stages of completion. What is really newer in the program is to push the export element additional to local content. That, I think, has not received a lot of attention in recent years, but is now receiving attention. For example, it is an important element in the Air 87 Armed Reconnaissance Helicopter project, which is now in the request for tender period. So this is more in the nature of new things we are doing, for which the metrics will become more evident over the next couple of years. But I can provide you with information on the local content work that has been generated and also with what we have on the export work from the old offsets credit scheme. We can pull out that data for you.

Mr BAIRD—So no-one has actually done a review, 10 years on, comparing the two programs?

Mr Kearns—They were doing very different things, and I am not sure which would be the common metric. We could certainly do dollar valuations, but I am not sure that that would really capture what the committee would be looking for.

Mr BAIRD—We are really looking at the whole question of investments in Australia and what incentives there are for it. It was seen that defence spending was one of the ways of encouraging investment in Australia. I suppose that you are looking in different dimensions, such as is the export potential, which is also worthwhile, but perhaps there are also benefits in terms of manufacturing in Australia as a result of your program.

Mr Popham—A very important point to make here is that that 10, 15 or 20 years ago when the broad offsets policy existed, we often did not look at the long-term support arrangements against our major projects. We have really changed that around now so that when we place a contract for the purchase of a major system we are also going to contract for the long-term support work to be done in Australia. So in terms of investment in Australia, I think that has been a major shift from what we did some years back.

Mr BAIRD—What about the ratios of, say, the purchase of a new warship? Have the ratios gone up of the Australian content on those vessels as they were, if that is an appropriate example? I am sure that that would be more likely to have a high Australian content versus, perhaps, a submarine—to use a controversial case—or an aircraft?

Dr Kearns—The maritime area is traditionally very high—about 70 per cent or higher. When we go into something like the replacement patrol boat, I would expect that to be considerably higher than 70 per cent of contract value. Those have been and will continue to be—I would hope—at that high level. At the aerospace side, it is much lower. I will put a very broad boundary around it, but you would be looking at the 0 to 20 per cent boundary of Australian industry work as a percentage of contract value.

What has happened of note in the major capital program, which is the largest single component of Defence's spending, is that we are buying more aircraft—C130Js, lead-in fighters, airborne early warning control aircraft, now the armed reconnaissance helicopter. So that element has grown, and the consequence of that is that the participation of Australian industry has fallen in the last five years.

Mr BAIRD—But if we look at the air component of it, has the percentage shifted then?

Dr Kearns—Yes, it has. If you look at the aircraft component for local content, I believe that the AEW&C contract has the highest yet level of local content of any of the current aerospace contracts on our database. So the trend is good, but we would be keen to pursue this more aggressively in our industry programs by placing more weight on the international market participation, on the exports, than we have in the recent past.

Mr BAIRD—How do you plan to do that?

Dr Kearns—One of the things we are doing is broadening the rules for a bidding company to bid an industry package for a requirement, such as for the armed reconnaissance helicopter. The message we are sending out to industry now is to not necessarily to confine it purely to the local content for that platform, but if there is gainful other industry investment in Australia, including in the export area—we are making a major thrust on that—that provides a benefit to defence capability, this is appropriate as we look at their industry program. We are doing that in the early stages, but we are making that a very clear message with the armed reconnaissance helicopter project, and that is a \$1 billion plus project.

CHAIR—In relation to the export of Metal Storm, where is that at and what role did Defence play in that, if any?

Dr Kearns—I will just instance one. It is possible that my colleagues might be able to help me out further on this. As you are probably aware, Metal Storm has received funding from DARPA in the US, the US defence research and development agency. We played a role through our staff in our embassy in Washington in helping to establish the contacts that then led through Mike O'Dwyer's activities there to the DARPA contract. So that is a case where we assisted that particular project. I think there was a *4 Corners* program not that long ago in which one of our people who is over there and who assisted in that process was interviewed. As far as the Australian requirement is concerned, I do not have enough knowledge on that, but Mr Hermann could help us.

Mr Hermann—There is currently an agreement being negotiated between DSTO and Metal Storm to look at two issues: firstly, direct research on which we can work collaboratively with Mike O'Dwyer and his people on developing further aspects of the Metal Storm technology; and, secondly, a three-way agreement between us, the US DARPA organisation and Metal Storm on doing research that more the US is concerned about. Those agreements are almost ready to be signed. The chief defence scientist has them on his desk at the moment to look at the final draft. We are hopeful that they will be signed within the next couple of weeks. There is what we call an alliance meeting with Metal Storm later this month up in Brisbane. That brings us together with Metal Storm and Metal Storm's backers to go through how we are helping the company, what we are doing. That has been ongoing. I am new to the job, so I will be going to the first one, so I cannot go through exactly the sorts of issues that will be discussed. It is aimed at trying to get further collaboration between Metal Storm and us, building on the strengths of both organisations.

CHAIR—Is this yet another Australian invention that went straight to the States because we were too slow off the mark?

Mr Hermann—I have not been involved in it long enough to know about that. I did have a talk to Mike O'Dwyer about three years ago. It so happened I was in the United States at the time. We had been trying to get together and we both happened to be there at the same time. I do not believe that is the case. Certainly he did come to us. DSTO was doing some business, but it required such a level of effort and had such great consequences that he went to the US quite early in his involvement on the technology. I do not know that you could characterise it as us not getting in early enough. I think Mike O'Dwyer, being the businessman that he was, also went to the US very early—so it was both.

Dr Kearns—It is probably fair to say that, when something like this comes along, a question for us is: what is our requirement at that stage? Do we actually have a need to replace something or to develop something new? Do we have a funding wedge to be able to do that? My impression has been that we did not have a funding wedge for that kind of capability at that stage, so there was not an automatic market slot or a current running tender that he could tender for in terms of major purchase by Defence.

CHAIR—But then Australia would have had something that the other guys did not have.

Dr Kearns—It could well be. As Mr Hermann has pointed out, we have got these activities under way with DSTO. What we do not have, though, is large, loose buckets of cash where we can move them into a—

CHAIR—I am aware of that. I congratulate your people for introducing Australians to contacts overseas, but that is sad in a way. It is sad in the way that we are aggressive in introducing our business to markets rather than firstly looking at what we can do to gain the market potential here and gain the real value from an idea, a business, an export or whatever.

Dr Kearns—I certainly would have to say that we have to keep connected with this because this is very fundamental technology. I can at least point to the connection that is being developed with DSTO.

CHAIR—It is just in this one. This is probably the most unique technology that has come about for a long, long time and, when you look at the Americans and their Star Wars and their goodness knows what else, in a lot of ways this has great potential, whether it is for missile defence or whatever, and it was invented here.

Dr Kearns—That is very true. Sometimes we think of ourselves as having a large budget capacity as a single buying organisation, but even the US research and development budget alone is—I am probably rusty on this—probably \$US30,000 million to \$US40,000 million, and that is not counting their capital investment budget. Some countries have more flexibility to take up these things than others do. As I say, we have a tight program and there was not that current opportunity to be able to slot it into something we had going at the time. But that does not mean that we are not interested. As you have heard, we do want to maintain that technology connection as we look at the potential of it for us.

Mr Hermann—The other thing on the Metal Storm was that it was recognised quite early that the major markets were going to be overseas. We are only a small player in any acquisition that could be received from that. We supported Mike O'Dwyer going overseas and working with the DARPA organisation, which is part of the defence organisation over there, because it added credibility to his technology, which the American system would not recognise if it were done purely in Australia.

CHAIR—They would recognise it if it gave them some degree of pain and it literally shot them out of the sky.

Mr Hermann—Yes, but we do have a constant problem in the US of 'not invented here' syndrome. They do automatically downgrade their consideration of foreign technology because they do favour their own, and that is an ongoing concern. But I would also point out that Mike O'Dwyer has been very keen to keep the intellectual property and all the commercial rights to Metal Storm technology in Australia. He has maintained that it is an Australian company and his major backer, now that he has floated, is an Australian company as well. I know Mike is very keen that that continue.

Mr O'KEEFE—The committee has taken a particular interest in South America as an emerging market. I visited the INVAP installation in Bariloche just before Christmas. As you are aware, they have the Lucas Heights contract. What I was astounded to find down there was that that is only half their business. The other half of their business is constructing and launching satellites and cameras. They have an extraordinary Southern Hemisphere capability of viewing the globe and providing all that satellite based information. It struck me that I do not know whether Defence has already identified a possible opportunity to do a little more with South America arising out of the INVAP contract, but we certainly have been wanting to encourage that east-west exchange in the Southern Hemisphere. Firstly, I was wondering if that was something you were pursuing coming off that contract? Secondly, we are talking to the rail people shortly and one of the things that will come up is Alice Springs to Darwin. What is Defence's position on that? Have you actively pushed that project for Defence reasons, or are you leaving it to Transport to sort out? What has been your view on that?

Mr Popham—I will answer the first question in respect of South America. I am not sure whether it has come off the Lucas Heights contract or not, but we certainly are looking seriously at the export opportunities into South America. There are some Chilean Navy people coming out to see the department in the next few weeks, and we are expecting a call from someone from a Venezuelan procurement agency. Certainly, based

on the discussions we have had with Austrade, and also with our people in the US, we certainly see South America as a significant area to pursue.

Mr O'KEEFE—Is INVAP on your radar screen? Is there some sort of cooperation or development of a relationship with them?

Mr Popham—I am not sure about that.

Mr O'KEEFE—Can you come back to us on that?

Mr Popham—Yes, we can.

Dr Kearns—This is something which we will take away from this session this morning. I would like also to take on notice the question on Alice Springs to Darwin. I think I know the answer, but I really should check on that as we are not quite the right people to give you the answer. If you are happy, I will take that on notice and give you a formal answer.

Mr O'KEEFE—Thank you.

CHAIR—Thank you very much for your attendance here today. Could you forward the extra information you have offered to the secretary? You will be sent a copy of the transcript of your evidence in *Hansard* to which you can make corrections of grammar and fact. Thank you for your attendance.

[11.47 a.m.]

ELLIS, Mr Bill, First Assistant Secretary, Land Transport, Department of Transport and Regional Services

O'GRADY, Mr Christopher, Director, Rail Enterprise, Department of Transport and Regional Services

CHAIR—I welcome representatives from the Department of Transport and Regional Services. The subcommittee prefers that all evidence be given in public, but should you at any stage wish to give evidence in private you may ask to do so and the subcommittee will give consideration to your request. Although the subcommittee does not require you to give evidence on oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the representative houses. The subcommittee has asked you to reappear to enable questions to be asked about the railways.

Mr O'KEEFE—Have you had a briefing from the guys who were here last week on where we are coming from? Is there anything you want to open up with?

Mr Ellis—No, thank you. We had a debrief from Sue Elderton, who appeared this time last week, and we have just managed to get a chance to look at the *Hansard* record. We have seen a couple of your questions relating to Alice Springs to Darwin and the very high speed train.

Mr O'KEEFE—The thrust of this inquiry is to look at Australia's investment opportunities and how we might better coordinate and develop those, even to the point of whether we need a coordinating international development agency or economic development agency a la Singapore or a la Ireland. That was the rationale for and context of some of my questions on the high speed train and Alice Springs to Darwin in particular. To take the example of the high speed train project, as we understand it the department was not recommending that project. We understood it to be based on an investment of, say, \$1 billion by the government sector and \$3 billion or \$4 billion by the private sector, quite a lot of which would have been capital attracted from overseas. Is that the sort of process by which the department takes a proactive role in encouraging investment? Are those assumptions wrong? Does this come into your consideration at all? That was the thrust of what I was asking in respect of that project.

Mr Ellis—The government decided not to proceed with its approach in terms of the Sydney to Canberra very high speed train—the speed rail proposition. Speaking in lay terms, it was a private commercial proposal by a proponent which would have involved government assistance, and the decision was taken and announced towards the end of last year, from memory.

The further work that the Commonwealth is just getting under way is a scoping study for Brisbane through to Melbourne, covering various routes. That scoping study will aim at up-front work in the requirements for government contributions—I use that in the broad—from state governments, the ACT government and the Commonwealth government to get to a point in the future when a commercial proponent may or may not come forward. What I am saying is that, in terms of very high speed passenger trains, there is a recognition that there will probably be a role for the Commonwealth government, for the state and ACT governments and for a commercial private sector operator, for want of a better word. Two levels of government and a strong

commercial interest are required. That did not go to part of your question but, in terms of the picture, the Commonwealth will facilitate that particular development, probably over the next 18 months to two years.

Mr O'KEEFE—Mr Wheelens, in his response to the question, outlined the past as the department sees it. Basically it has been an aviation and road based transport vision for Australia and, in terms of long distance travel, high speed trains were not really likely to become part of the equation. I hope I am not misconstruing what he said.

Mr BAIRD—Burling.

Mr O'KEEFE—I am, or I am not? Did you get the same impression? I thought that was what he said. That being the case, whether or not we should have the fast train or not is not actually the point. The point is: when you are evaluating these things, are they seen as part of Australia's potential to attract investment and develop the nation? Or are they assessed as something you think will or will not be profitable and that the government will or will not have to put a bucket of money into to make happen?

Mr Ellis—That is a very complex question you have just put on the table. I am not too sure about your interpretation of the previous conversation. The way that I would put it would be that the department works within the framework of government policy. The government of the day sets its policy and funding arrangements. On the transport side there is a roads program, a rail program and the type of decision that I just mentioned about the very fast train. I think what you might be getting to is whether the department has a particular advocacy role. Is that right? That is what I think I heard you say.

Mr O'KEEFE—Yes.

Mr Ellis—Our role is to give the best advice to the government that we can within the resources and the framework at any particular point in time, be it on road funding for particular roads, be it on the future of competitive rail freight services or be it on the prospective future of very high speed passenger train services.

Mr O'KEEFE—Let us try to define this a little better. The aviation people, in their submission to us and in their general behaviour, have seen strong opportunities for Australia from the deregulation of aviation and from promoting more and more liberal access to Australia, and in their submission to the committee they have made strong points about the multiplier flow-ons from those things. The roads people will always tell you about the economic multipliers of particular bits of infrastructure. Where is the rail division? Does it see rail as having any role in this investment potential of Australia? Let us assume that Alice Springs to Darwin actually goes ahead and gets built. Is your department playing any role in developing a strategy about what marketing of Australia could be done off that, or is your position one of containing the government's investment in it?

Mr Ellis—If I could break that question into two bits: in general, there are four elements to the Commonwealth's rail reform agenda and I could just briefly enunciate those. Mr O'Grady could then make a comment about the Alice Springs to Darwin. Is that okay?

Mr O'KEEFE—Sure.

Mr Ellis—The Commonwealth's broad agenda is to establish seamless track access arrangements for interstate operators, and we are doing that primarily through the establishment of the ARTC. In other words, there would be a one-stop shop for commercial operators to come in. These are freight services. I think I

would have to say that the Commonwealth's primary focus in terms of existing rail infrastructure and operations is on interstate freight, not interstate passengers. The second leg is the introduction of commercialisation and private sector involvement in the rail industry. As an example of that, the government has announced an intention to sell off National Rail. The third leg is better uniformity of interstate rail operational systems, trying to get common operational protocols, et cetera. The Commonwealth is doing that with the rail operators, both public and private, right now. The final leg is to improve the infrastructure for interstate rail through the announced \$250 million rail upgrading program. In broad terms, that is where we are sitting at the moment and that is where the department's endeavours are directed. Mr O'Grady will answer in terms of the other part of your question.

Mr O'Grady—To give it some context: as everyone would be aware, this project has had a very long history. The current proposal, which we are hoping will come to fruition very shortly, is basically a private sector initiative sponsored by the Northern Territory and South Australia. It is estimated to cost \$1.2 billion, of which the Commonwealth is contributing \$190 million, so our actual financial contribution is relatively minor in the overall scale of the project.

Senator O'BRIEN—Don't you have guarantees on top of the \$190 million?

Mr O'Grady—No. We are entering into the nitty-gritty of the negotiations at the moment but we do not envisage our commitment going beyond \$190 million. We have got a straight-out grant of \$165 million, which is basically the Federation Fund and there was some additional appropriation. There is this recent top-up package, when one of the consortium participants withdrew; the Commonwealth's share of that is \$26.4 million. The arrangements that we are seeking to enter into with the Northern Territory is that we will be providing that payment to the Northern Territory and they will enter into the arrangements with the consortium. We are one step back from the actual consortium, so we anticipate that our obligations, the Commonwealth's exposure, will be capped at the \$26.4 million. In that context, our role in terms of project promotion and the like is quite limited, really. It is a matter for the private consortium and particularly the Northern Territory to promote the trade opportunities that may flow from the project.

Mr O'KEEFE—As an example of the context in which I raised this last week: in Canada I met with the world head of McCain's food, who had just won the contract for supplying chips to McDonald's in Asia and was planning to grow the potatoes in Tasmania and Victoria. But, because of the imagery of Melbourne coming out of the MUA stuff and all that, he had decided that he could not possible risk the transport out of Victoria, so he was going to New Zealand to grow the spuds. I happen to be a proponent of Alice Springs to Darwin—whether it is smart or not, I am—so I drew him a map and said, 'Look, we are going to have this railway line here and you will have the option of ships out of Melbourne or trains up to Darwin and fast ships from there.' His response to me was, firstly, 'Well, that is the first I have ever heard of that'—this is two years ago— and, secondly, 'If you guys actually build that, I will grow all the spuds in Victoria, South Australia and Tasmania.' It struck me then that somebody who is involved in this thinking about rail infrastructure ought to be identifying and attempting to do something about this perception that is around the place. What Mr O'Grady is saying is basically, 'We are a limited player in that project, so we are leaving the marketing and the promotion of the project to the major players in it.' I take that to mean that our department of transport, in the rail division anyway, does not see itself as having much of a role, whereas the aviation people openly market externally—or claim to—the benefits that come off their policy changes or their privatisations or whatever.

Mr Ellis—Perhaps I can confirm your observation in a different way. The aviation role is an external one. There is a domestic aviation policy and process, but in terms of international air services there is a clear

external role for Australia's interests and that is unambiguous. That is there. And that is one significant element that I think Tony Wheelens was bringing to the fore. It is also clear that we do not have an external role in promoting the development of Australian railway systems. That, I believe, results from our domestic focus, as distinct from requiring interaction with other countries or other carriers as such. I can confirm that we do not see our role with those private sector proponents as promulgating or promoting those infrastructure projects abroad.

Senator O'BRIEN—I wonder if I might ask a brief question, because I have got to leave. Mr Ellis knows I ask a lot of questions of this department at other venues. I want firstly to apologise that I could not be here last week when your full team was here, because I would like the department to address a question that goes beyond the rail area. There is nothing in your submission that touches on maritime transport and its importance to our strategic trade interests. I would like to know why that is. I can speculate and suggest that it is because the government has given up on maritime transport and is happy for our maritime transport task to be handled by foreign companies. But rather than my doing that, perhaps you could take it on notice the general question: why does the submission not deal with that, and what importance, if any, does the department attribute to the maritime transport task in the context of the terms of reference of this inquiry?

Mr Ellis—I think that we will take that on notice.

CHAIR—On the point you made earlier about interstate rail freight and your focus not being on passengers, I would have thought that the capacity for passenger transport between the major capital cities down the east coast would be a matter for consideration. Can I have your comments on that? You do not have runways to worry about with a train, at least—runways that are supposedly sinking into the water, at that.

Mr Ellis—I think that is a little unfair, Mr Chairman.

CHAIR—Well, it was in the paper. The papers say some terrible things, don't they?

Mr Ellis—I think I would attempt to answer that question by saying that the Commonwealth's policy is not to be engaged in train operations. We have the ARTC, which is establishing the below track regime—with an open access regime—so that if there are any freight or passenger operators that wish to use that regime there is a capacity for those organisations to come and go. The Commonwealth also has sold and commercialised any of its previous interests in passenger train operations. Therefore, in my view the Commonwealth is interested in providing the basic infrastructure, the track stuff, but not interested, in a policy directive sense, in the movement of passengers between points, be they on the eastern coast or across Australia. The fact that there are passenger trains operating is noted, but apart from hoping those commercial operations continue to provide services for people that wish to use them, we do not have a direct policy engagement.

CHAIR—I am not talking about the ownership of rolling stock. Governments plan for where airports will be and the infrastructure into and out of those airports. My question is: what focus—in the same way—have we got, and continue to have, on passenger rail transport in the medium to longer term on, particularly, the east coast? It is impractical east-west, but certainly on the east coast.

Mr Ellis—We do not have any particular focus on the passenger movement between the capital cities on the east coast.

Mr O'KEEFE—Apart from the scoping study, which is—

Mr Ellis—It is very much forward-looking and not in the short to medium term. I might add that that is about a high-speed passenger train service. The question that was put was, in my reading, related to existing technology and existing rail operations.

CHAIR—No. Unless we eventually, in my view, get to a high-speed train, from a passenger's point of view it will not work. None of us have got so much time that we can sit on a train for hours on end; the only way to do it is to get on a plane and get there quickly.

Mr Ellis—I would certainly agree with that, but I would also pick up the point that was made that the scoping study is a focus on high-speed passenger train prospects.

Mr O'KEEFE—Don't undersell yourself totally. You have got a little nibble still going on there. Let's hope it goes somewhere.

Mr Ellis—It is a challenging task.

Mr O'KEEFE—I understand. I am very much on the public record as being appalled by the decision we have taken, but that is another story for another day. Can we go back to Alice Springs to Darwin. From what I have read, there seems to be an idea that, if that railway is built, Darwin will be established as a deep water port, and we have a strategy of linking ourselves into the world hub of super container freight by fast freight up to a hub point, such as Singapore, from Darwin. Your colleagues last week made quite a point of Supermarket to Asia, the focus in the department on the transport chain—and facilitating the transport chain—as something the department is doing that is proactive towards exports and focused on making it happen. Is the department thinking about Darwin, and Alice Springs to Darwin, in the context of that Supermarket to Asia kind of strategy, or is that not on the radar screen? Have you basically not felt that it was going to happen, so you have not thought about it? What is the situation?

Mr Ellis—I have no doubt that Sue Elderton would have mentioned the Supermarket to Asia as being of interest. Whether there is a particular impetus that they have focused on from the time when the movement of freight over that line will come into effect is something that I think I would have to take back and ask the question on. That would, I think, build in the two time frames: one for the new railway line to become operational, and then, secondly, how that might impact on anything that they are doing in terms of the broader external exporting focus. Rather than risk making something up, I would prefer to take that particular question on notice, and we will get something out of Ms Elderton.

Mr O'KEEFE—Okay, thank you.

CHAIR—There being no further questions, I would like to thank you for your attendance here today and the follow-up. Would you send our secretary the extra material that you undertook to send. You will be sent a copy of the transcript of your evidence, to which you can make corrections of grammar and fact. Thanks for your attendance.

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

That the Subcommittee authorises the publication of evidence taken by it at the public hearing this day.

Subcommittee adjourned at 12.12 p.m.