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JOINT COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

Defence Subcommittee

Thursday, 27 February 2003

Members: Senator Ferguson (*Chair*), Mr Brereton (*Deputy Chair*), Senators Bolkus, Cook, Eggleston, Chris Evans, Harradine, Hutchins, Johnston, Sandy Macdonald, O'Brien, Payne and Stott Despoja and Mr Baird, Mr Baldwin, Mr Beazley, Mr Bevis, Mr Byrne, Mr Edwards, Mr Laurie Ferguson, Mrs Gash, Mr Hawker, Mr Jull, Mr Lindsay, Mrs Moylan, Mr Nairn, Mr Price, Mr Prosser, Mr Scott, Mr Snowdon, Mr Somlyay and Mr Cameron Thomson

Subcommittee members: Mr Scott (*Chair*), Mr Price (*Deputy Chair*) Senators Chris Evans, Ferguson (*ex officio*), Sandy Macdonald and Payne and Mr Baldwin, Mr Beazley, Mr Bevis, Mr Brereton, Mr Edwards, Mrs Gash, Mr Hawker, Mr Lindsay, Mr Nairn, Mr Snowdon, Mr Somlyay and Mr Cameron Thompson

Senators and members in attendance: Senators Ferguson and Hutchins and Mr Price and Mr Scott

Terms of reference for the inquiry:

The Department of Defence report for 2001-02

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Subcommittee met at 9.05 a.m.

GARDE, Major General Greg, AM, RFD, QC, Head, Reserve Policy, Department of Defence

LEAHY, Lieutenant General Peter Francis, AO, Chief of Army, Department of Defence

LEWIS, Major General Duncan Edward, Commander, Special Forces, Army, Department of Defence

RETTTER, Brigadier Paul Bernard, Director-General, Preparedness and Plans, Army, Department of Defence

SLATER, Colonel Michael David, Director-General, Personnel, Army, Department of Defence

WILLIAMSON, Mr Lance Brian, Director-General, Corporate Management and Planning, Army, Department of Defence

YACOUB, Brigadier George, Director-General, Joint Ammunition Logistics Organisation, Army, Department of Defence

CHAIR—I welcome you all here this morning and declare open this public hearing on the review of the Defence annual report 2001-02 by the Defence Subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade. The committee will scrutinise the following four areas of defence operations: firstly, the ADF counter-terrorism capability; secondly, Army capability and readiness; thirdly, financial management and performance; fourthly, Defence participation in the F35 project.

The events of September 11 and the Bali bombing have demonstrated the need for effective counter-terrorism capabilities. In response to September 11 the government doubled its Tactical Assault Group—TAG—capability with the establishment of TAG (East) and the Incident Response Regiment, the IRR. TAG is a special forces unit trained to conduct counter-terrorism activities in a range of situations including the recovery of hostages. The total expenditure over four years to support this capability is \$219.4 million. The total over four years to fund the IRR is \$121.1 million.

The committee will examine the capabilities and the recruitment, training and performance targets set for both the TAG and IRR. The Army is subject to a high level of operational tempo which is displayed through a range of operational deployments. One of the key challenges facing Army is ensuring that there are sufficiently trained personnel to meet the demands created by the high operational tempo. The committee will scrutinise Army on how it is meeting the challenge of personnel shortfalls and ensuring that overall capability is not compromised. The section on financial management and performance will examine the Defence budget in general and consider the adequacy of the broad range of performance indicators.

The final section on the F35 joint strike fighter will review the capability of the new aircraft and compare the performance of the F35 with the FA18 and the F111. In addition, the committee will examine the proposed transition arrangements from the FA18 and F111 to the

F35. The final period of the review, starting at about 2.15 this afternoon will include the Secretary of Defence and the Chief of Defence Force who will respond to a range of more general issues. Before introducing the witnesses I will refer members of the media, who may be present at this hearing, to the need to fairly and accurately report the proceedings of the committee.

I now welcome representatives from the Department of Defence. 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. Would you like to make an opening statement?

Lt Gen. Leahy—I have an opening statement that relates to output 3, Army capabilities. That is performance information against the targets from the annual report 2001-02. With your indulgence I will go through some of the salient points of that. As you would no doubt know, the performance summary highlights the key activities of Army in the period and I would certainly draw attention to the fact that there is a large number and a wide scope of operations that Army has been involved in. In almost every case Army has demonstrated the high standards of training, skill and capability both in my observations on visits and in the reports we get back from allied commanders. I know from the observations of your committee, as you have visited our troops in the field and on operations, that they are continuing to perform well.

Another thing we should note in general terms is the significant action taken over the reporting period to increase Army's counter-terrorist and incident response capabilities. As you have indicated, there will be some more questions on that and we are quite prepared to discuss aspects of that. I also note that Defence has had a high operational tempo and that has had some impact on Army's ability to meet all our preparedness requirements, in particular some issues relating to concurrency—that is, while some of our capabilities have been committed on operations, our ability to train them for their other tasks has been somewhat curtailed. That is a problem not only internal to Army but for the Defence Force.

There were discussions earlier this week about the commitment of Navy assets to operations which I note has reduced our ability to conduct high-level amphibious training. Similarly, some issues with the RAAF C130s and their commitment on operations has reduced our ability to conduct parachute training and to remediate the 3rd Battalion and prepare it for its primary tasks.

We will also make some note on ammunition requirements as providing some restrictions. There are two issues there: both the Army ammunition study and the ADF explosive ordnance reserve stockholding study. We have come a long way in our work on both those issues. Whilst I still have some reservations about ammunition, the picture is looking much better.

The summary in the annual report highlights the success that Army has achieved in the development and delivery of training. We have been accredited by the ACT Accreditation and Registration Council for our training organisation. We are also making great strides in the introduction of technology into training via the introduction of technology based training and distance education. That is really achieving both high training standards and also some significant savings.

I have mentioned some of the difficulties that we have faced. All of those are subject to mitigation of risk. I will just briefly talk about logistics, personnel, combat weight, deployability and resources. Firstly, as to logistics, we have highlighted in the paper that the logistic support force has been enhanced by an additional 642 regular positions. Let me stress at this stage that they are liability positions and it will take us some time to add the actual asset—that is, the people—to those positions. We have identified deficiencies there and we are acting to improve our logistics which, in effect, improves our sustainment.

With regard to personnel, we have had some personnel problems and we have put in place remediation initiatives over the last 12 months. We have seen improved recruiting and that has been as a result of very focused recruiting in some of the critical trades listed in the papers in front of you. We are also seeing significantly improved retention. I am relatively happy with the state of Army personnel at the moment. There are shortages in specialist trades and we are intensively managing them.

With regard to combat weight and deployability, this section highlights four equipment projects enhancing our capability: ASLAV, Bushranger, the M113 upgrade and night fighting equipment. Again, good steps are in place in all of those areas. Finally, in the papers we have highlighted resources as an area at some risk and we are actively managing within Army to redistribute resources to meet the changes associated with the war on terrorism and the need to enhance other activities, including domestic security.

Mr Chairman, I could now speak in a little bit of detail to each of the suboutput and the reports. The special forces in 2001-02, the suboutput partially achieved their preparedness directed tasks and training requirements. As mentioned in the preamble, they were restricted due to concurrent operations and the need to develop a second Tactical Assault Group.

As you would be aware that second TAG, known as TAG (East), has been stood up and it now resides in Sydney. During the reporting period, the SASR also conducted highly successful operations in Afghanistan. The 4RAR Commando has been transitioning to a full-time commando capability and, as I have just mentioned, it is providing TAG (East). That regiment also provided the parachute company capability while 3RAR Para was in East Timor. In all, it has been a busy but successful period for the special forces suboutput.

Regarding mechanised operations, in 2001-02 the outputs and performance targets were only partially achieved and this was due to some problems with equipment shortfalls, personnel deficiencies in key trades and some sustainability issues, particularly in relation to ammunition. We have a credible level of capability available for all of the military response options. The major personnel deficiencies across the board are in mechanised vehicle crewman trades and support trades, including signallers and medical and maintenance personnel. They are critical trades in most of the suboutputs.

As to light infantry operations in 2001-02, we substantially met all directed performance targets. Some preparedness tasks were assigned to other suboutputs, due to limitations imposed by commitments to East Timor. As I mentioned, the parachute company group tasking could not be achieved by 3RAR Para and was undertaken by 4RAR Commando. I also mentioned earlier the lack of C130 aircraft for parachuting and amphibious training capabilities has provided some restrictions on our ability to meet targets.

With regard to Army aviation operations, we substantially met the 2001-02 targets. Due to some limitations—which were essentially the commitment to operations in East Timor, where we have a detachment of Black Hawk helicopters, and a high operational tempo—some directed military response options required sustainability issues to be addressed, and again I think they are in hand. We were not able to achieve all of our light infantry operations and the support from the aviation suboutput. This was substantially due to shortages again in key personnel, which has restricted our capability to conduct all training and preparedness tasks.

In the papers there is some mention on the rate of effort and aircraft hours. I will be prepared to talk about them during the discussion. The major one, which you have probably already taken note of, is that the Black Hawk underachieved only by nine per cent. The major impact there was, as I have already mentioned, the commitment in East Timor. We have also had some difficulties with airframe cracking, which has meant that we have not been able to fly the number of hours that we anticipated. We have a rigorous maintenance program in place now and I am starting to see the light at the end of the tunnel for the aircraft cracking. Of course, throughout, our primary concern has been safety. There is also some mention of shortages of pilots. There have been low pass rates but Air Marshal Houston and personnel from Navy and Army are working very closely now, and I am satisfied that remedial assets are in place to improve the provision of pilots to Army.

We partially achieved the directed performance targets on ground based air defence. There are some equipment, personnel and ammunition deficiencies and deployments throughout the period of the report have also meant that we have been a bit low on achievement. We have had RBS70 troops deploy on HMAS *Manoora* and *Kanimbla* during Operation Slipper, and there are elements of this suboutput deployed on Operation Bastille right now.

We have had some success in meeting our personnel shortages. There was a very directed personnel recruitment program. You might have seen it on television. We have recently added 32 additional missile numbers, reducing the liability within the regiment. I am very impressed with the type of targeting we are able to do for these types of trades.

We substantially achieved all of our targets for combat support operations. There are some limitations again due to equipment issues and the personnel deficiencies but, as I have mentioned, we are taking steps in those trade deficiencies, including intelligence analysts, signals personnel, medics and linguists. The logistics area has substantially achieved, and I have already talked about the steps that we have taken in mitigation to put an extra 642 positions within this suboutput.

We have partially achieved the directed preparedness performance targets for motorised infantry operations, again affected by some equipment shortfalls, personnel deficiencies in the key trades that I have been mentioning all the way through, and some minor sustainability issues. In protective operations there are no formal preparedness targets so it is a bit hard to report against that, but noting the interest of some members of the committee in the reserves, I think the reserves are delivering the potential for good capability. With the changes recently to legislation and some work that we have in development through a combat force sustainment model and roles and tasks for the reserves, I think we have a good future for the reserves and a good focus for them.

Army reserves are currently making a major contribution to operations in that we have just had a reserve company return from Rifle Company Butterworth and we also have a reserve company in East Timor. It is the first time since the Second World War that a complete combat subunit of reservists has deployed. From everything that I have heard and observed of them in East Timor, it has been a resounding success.

Mr Chairman and members of the committee, that completes my opening statement. We would be happy to take your questions.

CHAIR—Thank you very much. Are there any other comments? If not, I hand over to my colleagues on my left.

Mr PRICE—To take up where you left off, are those companies blended companies or were they formed companies in the reserve that were deployed?

Lt Gen. Leahy—The company that has deployed to East Timor is a blended company, predominantly from the brigades in New South Wales and southern Australia. They are completely reservists. It is not as though we have put a structure of regulars there. They are reservists who have volunteered, who have gained permission and authority from their employers. We were conscious that we needed to train them and they had a substantial period of training. I visited them in East Timor late last year, which was I think about a month after they had arrived. They had already been through all their preparedness training in southern Australia, but then spent a considerable period of time with 5/7RAR Mechanised in Darwin. Frankly, I could not tell the difference between them and the regular companies when I saw them in East Timor, and that was the reporting that I was getting from their commanders. They were doing a fantastic job. I think it is a really significant advancement on what we have been able to do. In particular it highlights the success of the changes to legislation under the Reserve Act.

Mr PRICE—Could I suggest, Chair, with your indulgence, that maybe Major General Lewis may want to step us through the new arrangements for special operations and what that means.

Lt Gen. Leahy—Mr Price has asked a question on the arrangements for special operations. I wonder if I could give some preamble to that.

Mr PRICE—No problem.

CHAIR—Yes.

Lt Gen. Leahy—I think we would all be familiar that the changes to our special operations arrangements are aimed at enhancing our special forces capability. The government in December last year noted that there was an increased need for joint interagency and coalition operations in terms of special operations. It was announced on 19 December that we would establish the Special Operations Command to ensure that we had increased responsiveness to threats of terrorism. We have taken quick steps since that date. The headquarters is already under way. It is not complete but it is already under way and General Lewis will be able to talk to you about that.

We are seeking, as part of the ERC submission, supplementation for additional full-time personnel, including equipment, facilities and operating costs and I expect that that will be

considered as a normal part of the ERC submission. I am not able to discuss the details of the finances, as obviously they have not been approved yet. We will be building on the existing special forces program to attempt to minimise costs and we have a high degree of confidence in the validity of the figures—(1), that they have been substantially agreed by the Department of Finance and Administration and, (2), from our recent experience with the development of 4RAR Commando and TAG (East), that it is essentially much of the same sort of thing again, so we are fairly confident with the figures.

Mr PRICE—Without pressing the point, are you able to give us a range?

Lt Gen. Leahy—I would rather not at this stage. Can I say, though, that we were able to revise the initial estimates down. It might be a little strange to hear that but we came up with some early figures and, with further scrubbing over, we have been able to make some reductions in the initial figures. The main elements of the command are that it will be equivalent to the other environmental commands—that is, we have Air Command, Maritime Command and Land Command. We now have Special Operations Command, known as SOCCOM. Special Operations Command is Land Command, Air Command and so on. General Lewis is SOCAUST. We are still trying to figure out if we can make something frivolous out of that.

Mr PRICE—What is it?

Lt Gen. Leahy—SOCAUST. Perhaps I will leave it to the committee to come up with something frivolous. The core elements of the command are the Special Operations Headquarters. SASR is part of the command with the TAG and a Special Operations Command and Control Element—or SOCC—which provides the command element from that regiment to command the TAG. There is also 4RAR Commando, again with the TAG and a SOCC. Additional to 4RAR Commando we are going to add a commando company and that will be developed over time. The command will incorporate the existing 1 Commando Regiment. It has just taken under command the Incident Response Regiment. We will be adding to that a Combat Service Support Group to assist it in its logistics and, again, that issue of sustainability.

We expect that the command will be mature no later than January 2006 and that will be full maturity. Elements of the command will reach maturity before that. We are also considering the relocation of an army helicopter unit to Sydney to provide additional support to the Tactical Assault Group. That is something that we are working through at the moment. In the meantime we will be providing additional effort from that helicopter unit to ensure that training can proceed.

Some other points of note are that this is a joint command and that the headquarters, which will be located both in Sydney in the existing headquarters and here in Canberra, will consist of Army, Navy and Air Force officers. The command will be responsible to me in the normal way with Land Command for raise, train and sustain functions. General Lewis has recently been invited to sit on my board—that is the Chief of Army Senior Advisory Committee—so that we can ensure that those functions of raise, train and sustain are properly fulfilled.

The only other point I would make is that obviously for operations it is through COMAST and through the CDF. That is the broad outline of the command and we can go into a bit more detail. As I say, I seek your indulgence not to deal with the financial figures because they are yet to be considered by the ERC.

Mr PRICE—Are all the recruits to the new commando company coming from within existing Army ranks?

Major Gen. Lewis—Yes. At this point they are, although we do expect that the field will expand in the next year or two. Currently, they are all from Army ranks.

Mr PRICE—Have any personnel gone from the Incident Response Regiment into the new commando company?

Major Gen. Lewis—Not to my knowledge. There may be individuals. There may be one or two who have volunteered to do that but not to my knowledge, no.

Mr PRICE—Will the company have counter-terrorist capability that the ADF presently does not have?

Lt Gen. Leahy—No. Can I just clarify the issue of company? Do you mean the command or the company inside 4RAR?

Mr PRICE—The new commando company.

Lt Gen. Leahy—The new commando company will not have capabilities that we do not have already.

Mr PRICE—What capability will the commandos have?

Lt Gen. Leahy—It is predominantly what we call the green role inside the commando; that is, the ability to conduct predominantly offensive operations and defensive operations using a variety of insertion means, including air and sea. Think of them essentially as a rifle company beefed up. They are more in number and they have heavier weapons and the ability to deploy by a variety of means.

CHAIR—As you have built up TAG, what has happened to the units that they have come from? Obviously people have been transferred in to form the TAG and IRR. What is happening behind that to their capabilities?

Lt Gen. Leahy—We have taken a conscious decision in these early stages of building up this capability that we will have to move forces from predominantly the other light infantry and infantry suboutputs to reinforce this capability. Obviously the capability has some priority, as has been directed by government, and we see this is a primary responsibility to fill. We have taken the decision that we will move people from the other suboutputs into this unit.

We have done that because the type of soldier that is required in special forces is not one that you would normally get from off the street. We have found that the type of soldier required, particularly in SASR, needs to be very competent with his military skills and needs a high degree of confidence in his own skills and ability. Frankly, those who are a little bit older, more mature and have seen a few things and done a few things, do a much better job. We are focusing on those sorts of soldiers. We are moving them from the other suboutputs and it is our task now to fill in behind them. Do you want to add anything to that?

Major Gen. Lewis—The manning of this additional commando company is, in the first instance, coming largely from within 4RAR already. You may recall that unit was expanded in size for the deployment to Timor, so when it came back from Timor it was fully manned and flush with soldiers. That is the first source and the other sources are from the other suboutputs, as General Leahy has mentioned.

CHAIR—Can you explain, in relation to a TAG call-out, what are the protocols for the Commonwealth or states to call out the TAG?

Major Gen. Lewis—The Defence Force, as you are aware, is the force of last resort with respect to the resolution of a siege hostage situation. I presume your question relates to a siege hostage situation.

CHAIR—Yes.

Major Gen. Lewis—In that instance, there are several ways in which call-out can be effected. Any of the jurisdictions, the various states, may apply to the Commonwealth requesting support, in which case the Commonwealth will contemplate that and may comply and call-out of the Defence Force. Secondly, the Commonwealth may act in its own interest where it may call out the Defence Force to protect its own interest. They are the two broad areas. There are several other permutations relating to territories and states. The two major situations are whether a state requests of the Commonwealth for call-out or whether the Commonwealth acts on its own behalf.

Under the Defence Act there is a series of steps that must be gone through, which you are probably aware of, requiring the Governor-General in Council, finally, to sign off and authorise the calling out of the Defence Force. When that is done, the TAG is then deployed forward to an incident site and engagement with the local police forces that are deployed at the incident site begins.

CHAIR—They operate in conjunction with the state police.

Major Gen. Lewis—That is correct. Where a site is designated to be a counter-terrorist incident, the police will nominate a police forward commander. That police officer is the authority for that area and he remains the authority throughout, whether the Defence Force is acting within the area or not. The police officer is in charge. At some point the police officer may come to the view that the incident has deteriorated to such a point that, with his civil resources, he can no longer resolve the incident and will call on the Defence commander present, who is the commanding officer of the TAG, to resolve the incident.

If that is done in a deliberate and time allowing way, then approval for that employment of the Defence Force will be sought through the minister to government. If, however, time does not allow—if there is a cataclysmic collapse of the situation—then the Military Commander (Forward), in conjunction with the police commander, can launch the Defence Force in an assault on his own call, but he needs to satisfy a number of legal requirements, obviously, before that is done.

Senator HUTCHINS—Have you had occasion to do that recently at all?

Major Gen. Lewis—No, not operationally. We practise this regularly. There are several levels of exercise: national exercises, which are the highest level. Then we have a number of what we call operational exercises. In both those cases the military commander and the police commanders work together at an incident site and practise this very important process of handing over responsibility to the military officer while he executes the job if it has to be done, and handing back to the policeman as soon as the job is done. That particular process is very well rehearsed and it has been in place for many years.

CHAIR—How interoperable will TAG be with state police? Probably the further question is, how interoperable are the police forces all around Australia and how interoperable would TAG be with state police as to communications, other systems and logistic support?

Senator HUTCHINS—Training as well.

Major Gen. Lewis—The interoperability of the state police forces one with another is an issue and it is being addressed through the agencies of the National Counter-Terrorism Committee at this time. It is not bad, but there are clearly areas for improvement. As to interoperability between the ADF TAGs and the police forces, similarly there are some areas where there is not commonality but in the main we try to establish a common set of standards for things such as communications equipment, weapon systems, logistic support systems and so forth. I will cite you an example currently. There is the issue of acquiring chemical and biological suits. There is agreement between the states and the Commonwealth that there will be some degree of commonality in those suits to make sure we do not have people with different sorts of equipment.

With respect to training, you should be aware that the Commonwealth runs some training courses for all police forces, so the police forces from the various jurisdictions will send members to a common training facility which is run under the auspices of the National Counter-Terrorism Committee. With respect to training between the ADF and police forces, we have over many years had police training at ADF facilities with ADF personnel and, of course, when we get into the situation of exercising, then we habitually exercise with the police forces of the various jurisdictions.

CHAIR—As part of the training with TAG, will they be training with state forces all around Australia or will the state come down to Sydney to train? You have the New South Wales police force on hand, but what about training with other forces around Australia?

Major Gen. Lewis—Training goes both ways. Police officers individually may attend a course which could be run under the control of the National Counter-Terrorism Committee but at a defence facility—for example at Swanbourne, where that has traditionally taken place. Conversely, you do find that the TAGs, both East and West—remembering we now have two—will deploy to a jurisdiction for an exercise. We have a busy schedule of exercising coming up this year.

Mr PRICE—Does each state police force have its own assault team? Where is the demarcation between what they do and what you provide in the ADF?

Major Gen. Lewis—Each state police force does have some capability with regard to resolution of a siege hostage situation.

Mr PRICE—Sorry, I should have phrased the question in those terms.

Major Gen. Lewis—In the larger states, the capability is quite well developed and well resourced. In the smaller states, where the resources are more meagre, their capability is more modest. The first point I would make is that we do not have a uniform capability within police across the country. That is not a criticism. It is a fact of the size of the resources available to the various jurisdictions. With regard to the ADF TAGs, I stress again that we are only there as a force of last resort and it is most important that an incident be resolved by the civil authority where it can. To that extent, there has been considerable effort made by the various police forces and the federal government to enhance the capability of police forces. The AFP is involved in this as well, of course. There has been an enhancement of civil policing capacity to manage this but, as a last resort, we will continue having two military tactical assault groups available to be used if and when required.

Senator HUTCHINS—In a situation where you are invited in by a state police force, who is in command of that situation? When you are invited in, does that mean you are in charge?

Major Gen. Lewis—No. The law provides that when the Defence Force is called out to a situation designated as a counter-terrorist situation, the police forward commander remains in control of that area where the incident is taking place at all times. He is in charge. Perhaps I should go over the process of handover again, to explain how it works. At some point the police commander will come to the view that his civil resources can no longer manage. At that point he will engage the ADF TAG commander and say to him, 'It is my view that I cannot resolve this. I now would like to hand the situation over to you.' That handover does not absolve the police forward commander from continuing and enduring control over the entire operation. All he is saying is, 'I am subcontracting the resolution of this incident to you.' The ADF commander, with authority from his higher command, coming up through the CDF up to the minister and to government, will then execute the resolution plan and resolve the incident by force. As soon as the incident is resolved, there is handback. It is a formal signing of a document. There is a sheet of paper that the two commanders sign, saying, 'I am now handing back to the police commander,' and the police commander then assumes the full responsibility for the area. But at all times he is responsible and, should he decide at some point that the ADF is no longer required, he will just say, 'I require handback,' and he will take control.

Senator HUTCHINS—I am sure you have done a run-through on what might happen in a circumstance like that. Are you still in control of your troops—not necessarily you personally, but your position?

Major Gen. Lewis—Yes.

Senator HUTCHINS—Are you able to tell them to act differently from what the police on the ground want them to do?

Major Gen. Lewis—At all times, irrespective of the situation, military personnel remain under military command. That is an axiom. The other axiom is the primacy of the civil authority that we were talking about just a moment ago. But the axiom of military personnel—soldiers, sailors and airmen—remaining under military command is an inviolate situation. They will always respond to the orders given by their military superior officers.

Senator HUTCHINS—I am sure you would have workshopped this. Who would have been in control in a situation during the Olympics. Say one of the Israeli competitors was held hostage. Is that going to be special operations or police?

Major Gen. Lewis—The police. It is first and foremost a police matter. It is always a police matter, but at some point the police may come to the view that a call-out and a utilisation of the ADF is required. At that point, under the Defence Act, part III, the ADF may be used in what is called the Defence Force aid to the civil authority. The use of force is permissible under those circumstances, but of course there are restrictions on the use of force. It must be the minimum force necessary, it must be used only for the minimum amount of time, and so on.

CHAIR—Could you explain the operation of part IIIAAA of the Defence Act and its application to TAG. It deals with the utilisation of the defence forces to protect Commonwealth interests and states and self-governing territories against domestic violence. Could you explain the implication of that part of the Defence Act relative to a TAG operation?

Major Gen. Lewis—It is necessary for me to make a comment about the history of this first. We have a Defence Act which, as you know, goes back to 1903. That was reviewed in 2000, and part IIIAAA was then inserted. The adjustment that was made through part IIIAAA was a further tightening of the manner in which the ADF can be employed in support of the civil authority. I should explain also that there are two ways in which the ADF can become engaged in the community. One is under defence aid to the civil community; what are called DACC tasks. In those instances there is no prospect or no likelihood of the use of force. The second way in which the Defence Force can be used is a Defence Force aid to the civil authority—DFACA—and under those provisions there is expectation that the use of force may be required. They are quite separate provisions.

Part IIIAAA provides that a designated incident may be identified and rated such that there is a need for a call-out of the Defence Force to assist the civil authority to resolve that incident. That call-out process goes through the steps I have mentioned: either it is state initiated to the Commonwealth—that is, the state asks the Commonwealth—or the Commonwealth initiates in its own interest. The Governor-General in Council then signs off, saying the call-out is authorised. It will be for a specific area, and this is where the changes emerged in part IIIAAA. It was quite specific in terms of the geographic area; there has to be a designated area. An example might be that within the precincts of Parliament House there is an incident. In the past it was nonspecific and there would just be a general call-out for the ADF to the ACT, for example. Now we have to actually specify where this incident is taking place and the area within which the ADF can act in support of the civil authority. There are certain powers that are given to the ADF within that designated area. They relate to the powers of arrest and the powers of search, and it is quite complicated with regard to who can do what and under what circumstances.

Senator HUTCHINS—So your officers and soldiers are indemnified if they search or arrest someone?

Major Gen. Lewis—Absolutely, providing it is within the law. If any soldier is to act outside of the law of Australia, then he is liable in the same way as any of us sitting in this room.

CHAIR—Are there any legislative restrictions on TAG being called upon to undertake a pre-emptive strike against terrorist cells within Australia?

Lt Gen. Leahy—I think I should take that question, Chair. That would obviously be, as General Lewis has described, an issue for government to decide. As you have heard, there is a very clear and well-controlled method for the call-out of the special forces and the TAG and any other elements of the ADF. I do not think it is a question that either of us would feel comfortable answering. Essentially the question is one for the government of the time to decide and to direct the ADF.

CHAIR—So it would be a decision taken by the security committee and if the intelligence indicated there was a terrorist cell—

Lt Gen. Leahy—As General Lewis described, the authority is the Governor-General in Council.

Senator HUTCHINS—Things would have had to really collapsed for the police force to call you in, would they not?

Lt Gen. Leahy—Again, as we have been explaining, the special forces—

Senator HUTCHINS—Perhaps ‘collapsed’ is the wrong term. If things had become really bad—

Lt Gen. Leahy—We are the force of last resort. I would have expected a whole range of other activities to have occurred in what is essentially a hypothetical situation. The decision is not ours; it is one for government.

Mr PRICE—I still have some arcane questions, and I apologise. I understand the Prime Minister asked the CDF to look at a role for the reserves in counter-terrorism. Where has all that got to?

Lt Gen. Leahy—You are right, Mr Price. We are preparing within Defence at the moment a paper for submission through the minister to the cabinet to deal with the issue of the reserves. The phrases used at the time in December last year dealt with antiterror and homeland security. We are looking at a role for the reserves in both those areas. There is a series of steps we would go through. We have already heard that it is the primary responsibility of the civil authorities. There are functions for the special forces and many of those functions for the special forces, as I am sure you will appreciate, are very specialist. These are not functions that you can maintain by other than people who are able at very short notice to move and who are able to devote very significant amounts of time and effort to training. Essentially it becomes a full-time career of very dedicated specialised members of the ADF. Beyond that we anticipate that there may be some functions, but obviously those functions for members of the ARA—other than special forces—and the Army Reserve would be limited by the time that we would have to call them out, the time for them to assemble, the time for us to give them specialist training and specialist equipment and the time they are able to devote over a long period of time to get to that high standard.

We are not seeing that there would be positions for the reserves in the special forces, apart from perhaps a few specialists or people who are able to meet those requirements. We do see that there are potential tasks for the reserves, both in antiterror—but I do see them as being limited—and in homeland security, where I think there would be more tasks available for them. The way we are thinking at the moment—and these papers are not finalised—it would be something like the forces that the reserves provided for the Olympics. We would be able to call them out and have them provide some security, perhaps in a cordon sense, and some specialist—but not highly specialised—search capabilities, as we saw during the Olympics with searches of venues, searches of vehicles and so on. We are developing those papers. I saw the latest version of the paper yesterday. It is not yet complete and I expect we would be going forward to government in the next month or so. There are definite tasks, but I have some concerns at the specialised nature of them and the ability for the reserves to be able to achieve that.

Mr PRICE—The one role you mentioned was in the prevention role. Do you also have any roles in mind for the reserves post an attack or incident?

Lt Gen. Leahy—We certainly do. One of the areas that we are developing is what we call consequence management—that is, how we manage after an attack and how we combine all the state, federal and military authorities together to make sure that we deal with the issues that arise from an attack. Again, if those consequences were prolonged there would be a very significant role for the reserve. If I can use the example of Operation Bali Assist, reservists were involved in that. We would see reservists, particularly medical specialists and others who were able to respond, being employed. If the consequence were prolonged we would be looking at getting formed reserve units involved. But if these things are going to happen, they will happen very quickly and perhaps the consequences will be fairly contained. So we would have to match that against the ability of the reservists to fall out. We will be able to enhance that ability of the reserves through the new form of reserve service, the high-readiness reserve. We now have legislation to provide for that, but there will be some natural limitations.

Mr PRICE—I will be happy to get into that, but in a slightly later session. In terms of the work that is currently being done on the submission, can you give the committee an idea of what numbers of reservists may be involved in this counter-terrorist role? You do not have to be precise.

Lt Gen. Leahy—We are anticipating that the high-readiness reserves would be in the order of a couple of thousand. Inside that—

Mr PRICE—In terms of their counter-terrorist role?

Lt Gen. Leahy—I am just trying to position it. The maximum would be a couple of thousand inside the high-readiness reserves, but we do not see that this would be the only task for high-readiness reserves. It would be somewhat, and probably considerably, less than that. I am not happy at the moment to give you exact figures, in that we have still to determine the exact nature of the tasks.

Mr PRICE—I appreciate that.

Lt Gen. Leahy—Of course, the paper has not been finalised so I am only speaking in a draft sense. We would see a requirement for this type of security to be provided around the country—that is, certainly in the major capital cities and in areas where there might be an incident. I am not going to be very helpful here, Mr Price. Certainly considerably less than a couple of thousand.

Mr PRICE—Unfortunately it is not a sin these days.

Lt Gen. Leahy—I guess if you thought about a company in major capital cities, something around 300 to 500.

Mr PRICE—To what extent has there been consultation with reservists about these possible new roles? Has there been any community consultation? In both cases, what is proposed? In terms of these new roles, will reservists require additional legal powers, authority to perform them?

Lt Gen. Leahy—If I can deal with the issue of consultation, this paper has just returned from land command, where land command command the 2nd Division, which is predominantly a reserve division. There has been full consultation and I am happy with the level of agreement from our commands, particularly the reserves, and their ability to do this. Might I say that there is a considerable degree of enthusiasm for them to participate, in both this task and other tasks that are emerging under a broader study called 'Roles and tasks for the reserves', and they include companies that would be available for tasks such as protection in more conventional operations. There is a high degree of confidence that the consultation has determined that the reserves are capable of doing this and indeed are keen to do it. In terms of the legal aspects, reservists on operations have exactly the same rights, responsibilities and obligations that regular members of the force have.

CHAIR—How would the Incident Response Regiment be called upon to deliver services? How would we call them out and what sort of a scenario would that involve?

Lt Gen. Leahy—The Incident Response Regiment, as I have explained, belongs now to General Lewis, and I will ask him later to add to this. The Incident Response Regiment has a range of capabilities, generally structured around chemical, biological, radiological and nuclear. Those capabilities are for counter-terrorist but also for conventional operations. We see that the IRR will be able to perform both of those functions. Indeed, they are supporting Operation Bastille at the moment, a conventional operation to assist our troops. We have within the organisation not only the CBRNE capability but also a capability for an emergency response squadron. That squadron is essentially our firefighters, who are normally located at airfields or other high targets or high-value properties and perform those functions generally described as conventional, both domestic and offshore, but also the counter-terrorist type role.

In the counter-terrorist type role, they would be able to deal with what we call a compound incident. Rather than just a siege hostage incident, it might be a siege hostage incident and also some attempt by the terrorists to contaminate the site by the use of chemical or biological or nuclear material. Perhaps if we thought of something like the sarin attack in the Tokyo subway or other sorts of things that have actually happened around the world, we would see that the civil authorities would be involved, perhaps there would be call-out, the special forces would be

involved and, as part of that, the IRR would deploy to control, contain and deal with the consequence of such an incident.

CHAIR—Could you see an example where the TAG and the IRR would be called out together?

Lt Gen. Leahy—I would see—and this is why we have positioned the IRR inside Special Operations Command Australia—that that would be a normal procedure. Just as we have discussed the primary responsibility of the state police forces, the Incident Response Regiment also serves only as an adjunct to those capabilities and those increasing capabilities within the civil authorities, through EMA but also the state authorities, and I think I saw on television last night Premier Carr observing some of the new capabilities resident inside the New South Wales civil services for chemical and biological response.

CHAIR—So they are quite different to the TAG in many ways? They are an incident response unit in biological-radiological, whereas the assault group is more going into a situation which has more physical danger?

Lt Gen. Leahy—I would not discount the physical danger to those in the IRR. I would note that they are located in Holsworthy. They are co-located with 4RAR Commando, who provide TAG (East). We are conducting training with TAG (West). They are an integral part of that capability. They would be in and around the assault. Obviously if you go into a dirty room, for example, you would go in there and they would be among the first on the spot to make sure that we contain whatever the incident might be. Duncan, would you like to add to that?

Major Gen. Lewis—Mr Chairman, if you take your mind back to the period of the Olympic Games, you will recall that we established an organisation called the JIRU, the Joint Incident Response Unit. In many respects, the Incident Response Regiment is a product of that. We recognised, even before September 11, that there was an increasing connectivity between CBR—chemical, biological, radiological—weaponry and terrorism. That was the reason JIRU was raised during the Olympics.

That connectivity between terrorism and these chemical, biological, radiological agents of course still exists, and it is highly likely that some form of siege hostage situation may develop where terrorists are involved and at the one time there are chemical, biological or radiological agents present. You hear much discussion currently about weapons of mass destruction and how awful it would be to contemplate a terrorist attack that involved these sorts of agents. The Tactical Assault Group, the TAG, is there to resolve by force a siege hostage situation. It is not technically equipped for the business of searching, in a technical sense—high-risk search—identification of agents and then the rendering safe of those agents and, of course, the issue of decontamination of people or material that might be affected by such a weapon. It is for that reason that there is a symbiotic relationship between the TAG and the IRR. As you have mentioned, the two now act together and it is most likely when the TAG deploys that half a step behind will be the IRR, ready to step forward with the TAG to resolve the incident, and they will of course be going directly for those agents which are a threat to the community.

CHAIR—What sort of notice to deploy are the TAG and IRR personnel on? What sort of readiness do they have—an hour or a day?

Lt Gen. Leahy—I characterise it as very short and appropriate.

Mr PRICE—How many personnel does the IRR currently have? What are its recruitment targets for each year to 2005? What are the problems in getting full strength? What effect does the impact of lower numbers have on the capability of the Incident Response Regiment? Could you tell us what the mix of support staff is? Are they uniform or are they civilian and are they fully recruited?

Lt Gen. Leahy—Mr Price, I will try to answer those questions as best I can.

Mr PRICE—Sorry. I thought I would get them all out.

Lt Gen. Leahy—I will not be able to answer them all in the detail I am sure you want and, if you will excuse me, I will take some aspects on notice.

Mr PRICE—That is fine.

Lt Gen. Leahy—Currently the total number in the IRR is 245. That is against a target of 309 to be achieved by December 2005. The recruitment targets I cannot tell you. I will have to get back to you on that. Concerning the lower numbers of the capability, obviously, we are not able to achieve the mature state. I think what we are able to achieve now is a very credible capability within the IRR. In terms of the mix of support staff, they are predominantly Regular Army. There are some General Reserve personnel in there and some Reserve on full-time service. I think you would also be aware that we are getting very good technical support from DSTO. I will ask Brigadier Retter for the number.

Brig. Retter—I think the agreed number—and I will have to confirm this—is in the order of 21 personnel total from DSTO to provide around the clock 24/7 coverage.

Lt Gen. Leahy—If you will forgive me, Mr Price, that is all the detail I can give you at the moment. We will check the *Hansard* and make sure we get the other questions.

Mr PRICE—That is fine. Some distinguished former commanders of special forces have always indicated that the size of your Regular Army is critical to appropriate recruitment of people for special operations. Do you have any comment to make about that general proposition? Does the size of the Regular Army impact on your ability to recruit for special operations?

Lt Gen. Leahy—With response to the general proposition, I would agree. Obviously, if you want to grow a specialist force, you need to have the base to do that. As a general proposition, it is correct.

Mr PRICE—Do you have a comment about the base being adequate? It is not a flippant question. The special operations are very serious undertakings.

Lt Gen. Leahy—It is certainly not a flippant question. Over the last 12 months and over the next—I think we expect the Special Operations Command to be mature in early 2006—we are going to be asking a lot, both in operations but also in terms of expansion of capabilities for

Special Operations Command. I have expressed in this room just recently that in the short term I am confident we can achieve both our operational tasks and the expansion and development tasks that have been given to us, but I do have some concerns in the longer term and that applies to the size of the base.

As we look at Army, we quite often think of it in terms of a pyramid. If you are building towards the top, you had better make sure that the bottom is strong enough and solid enough to support what you are going to put at the top. We have asked Special Operations Command to grow in the order of 700. It is not only the Special Operations Command that has to grow; Army needs to be able to experience what that might mean for us. I have some concerns about other parts of the Army, in particular our enabling force—that is, the force that trains us, sustains us, and provides us with our logistics. They are working very hard. I think there are some real issues that we need to consider in the longer term about our ability to sustain both the types of tasks and the numbers of people that we are being asked to put into these specialist areas.

I am not prepared yet to speculate on what that might mean. I do know that there are some pressures, and we have already directed inside Army headquarters that we do some very careful and proper modelling so that we can scope the problem. I note that there are some very well respected defence commentators who have recently made suggestions as to increases in the Army. I love their sentiments, but I am not ready to say in any definitive sense just where we need to go. But, please, let me say, I like their ideas.

Mr PRICE—I think you have repeated that point just for the record.

CHAIR—Regarding the deployment overseas of some Incident Response Regiment personnel, what is that doing to our capability back here at home?

Lt Gen. Leahy—Mr Chairman, this is something that we have been very conscious of. In all of the preparations for any of our deployments, we look at the concurrency requirements—that is, the ability to carry out properly, adequately, and safely the tasks that are extant on us. I am confident that the numbers that we have sent overseas will be able to perform the tasks that are required of them there properly, safely and well, and that we have also adequate capabilities back here in Australia to perform the tasks that we might require.

CHAIR—We will now have a short adjournment.

Proceedings suspended from 10.11 a.m. to 10.27 a.m.

Mr PRICE—Do you have to find money for special operations within the Army budget? Obviously people are translated. Is that a difficult question?

Lt Gen. Leahy—No, it is quite an easy question to answer, Mr Price. It is new money. These were additional tasks. We have sought supplementation certainly in the case of TAG (East) in the IRR. It is fully funded and, as I have explained, I am reluctant to talk about the funding.

Mr PRICE—That is fair enough.

Lt Gen. Leahy—It is to go before the ERC. It is a new task. We would expect that there would be supplementation.

Mr PRICE—Would we be able to get a breakdown when you are through that hurdle?

Lt Gen. Leahy—Yes.

CHAIR—Our topic now is the Army capability and readiness. We started off this morning the same and you are aware of the same requirement in terms of the evidence you give. Are there any opening statements that you would like to make on this subject?

Lt Gen. Leahy—No, Mr Chair. I think the opening statements I gave on performance and targets covered some personnel and readiness issues and I am happy to take your questions.

Mr PRICE—To be frank with you, when General Moylan first started talking about the new possible arrangements of this high-readiness reserve I was very sceptical. You have now introduced new categories of reserves: high-readiness, active and stand-by. Earlier you indicated that out of the 16,000 Army Reserve we are going to have 2,000 high-readiness.

Lt Gen. Leahy—We are anticipating something in that order, yes.

Mr PRICE—They do not get any extra money for this high-readiness category, do they, or has that not been determined?

Lt Gen. Leahy—That has not been determined. Mr Chairman, could I have your indulgence to see if we could bring General Greg Garde to the table. Greg is in charge of reserve policy.

Mr PRICE—As a matter of philosophy, could I pose the same question that I posed to General Cosgrove. I would have thought, in terms of fitting a soldier for his task, there are not only individual skills that that soldier has to learn, but being competent requires training within that unit. You cannot just be individually competent. To be effective, you have to be effective with your colleagues, whether that is a platoon or a company or whatever. It seems to me, with that philosophy, there is a natural contradiction in terms of labelling people ‘high-readiness’. They may not have had that unit training that complements, tops off, the individual training. My understanding, in terms of answers to the questions, is that there will be no single unit designated high-readiness in the reserve of 16,000-odd people.

Lt Gen. Leahy—If I could start, in an impressionistic sense, and then I will ask Greg to talk in more detail of the policy. The policy in terms of high-readiness reserve and the conditions of service that may be attached to that has not been determined.

Mr PRICE—When will it be determined?

Lt Gen. Leahy—Shortly. I will leave that to Greg. In a philosophical sense, I agree with you that if we ask more of the reserves, we should be offering them more. We are certainly, within Army, preparing our position in relation to the high-readiness reserves and it does encompass an enhanced conditions of service package so that we can reward them; that there is an incentive there; and also that they are equipped to do the tasks that we might ask of them.

In relation to unit training and being able to work as part of a group, again I agree with you that we envisage basically two types of high-readiness reserves. The first are those who bring

individual skills. They are reservists who are currently deployed on operations, such as medical specialists and those other people that it is very difficult for us to maintain inside the regular force.

Mr PRICE—Put aside the glamour units.

Lt Gen. Leahy—I have mentioned to you the roles and tasks of the Reserve. We see that there is a provision to reinforce, and that is likely to be individuals; also to round out, and that is to provide units, and the confusion might be in the size of the unit. Again, in a theoretical sense I do not envisage large reserve units being in the high-readiness reserve. I do see smaller units, perhaps a section or a platoon. We have talked this morning about company groups that might be available for either conventional operations or for these homeland security tasks. At about the company level and below is where we would be targeting.

Mr PRICE—Can I be clear? We are not talking about a formed unit of the Reserve. You are talking about a blended unit, aren't you?

Lt Gen. Leahy—No. I am talking at company and below, being a specific task against reserve units. They would be tasked to form an habitual relationship with regular units and to either reinforce or round-out those units, and they would as a matter of course train with them, exercise with them and, when and if required, operate with them.

Mr PRICE—What proportion will be slots or round-out, as you say, and what proportion will be formed units?

Lt Gen. Leahy—We have not completed the staff work for me to be able to give you what I would say would be a satisfactory answer. Rather than speculate, it would be most likely company and below, inside unit-level regular formations.

Mr PRICE—Out of, basically, the five brigades of reserves, you are looking for one company to be used either as slots or—

Lt Gen. Leahy—No. Really this is speculation, so this is why I am reluctant to give you any detail. We need to be able to confirm what these roles and tasks are. We have done a lot of work on it. If you recall, our task is, through the white paper, to provide a brigade offshore on operations. Through our combat force sustainment model, what we need to do is confirm what support we need from the reserves in first, second and perhaps subsequent rotations. I would be suggesting that we look for a reserve battalion sized unit if possible to provide a company or something less than a company. Each brigade would be providing a number of subunits or squads within the organisation.

Mr PRICE—Do you wish to add anything, Major General Garde?

Major Gen. Garde—To add to what the chief was saying, the high-readiness reserve initiative is important for active reservists. Admission to high-readiness reserve status is contemplated based on the availability and competency of the individual reservist and it will reflect an important career aspiration for the soldier. High-readiness reserves are contemplated on a national footing. As we look towards the introduction of the scheme, the first step is to encourage individual reservists to come forward. As General Leahy was indicating, when we

see the response and when we look at the regional distribution of reservists, it will be appropriate to address the subunits and capabilities that we will be addressing. As we look to the introduction of the new scheme, we will see reservists coming forward with different trade skills in different areas. When that is under way, that will be the time when decisions can be made about what collective groups of high-readiness reserves are to be raised.

Mr PRICE—I am glad it is being clarified this morning, but the answers today are in contradiction to questions I have put and answers I have had on the *Notice Paper* in relation to high-readiness reserves. I did not bring them with me this morning but I am happy to go and have a look. They are in contradiction to the answers.

Lt Gen. Leahy—That is probably as a result of the fact that we are developing this policy now. We are trying to determine what can be achieved and what our obligations would be to make sure that this will work. We are only talking in a philosophical sense, but I think it is because the policy is developing.

Mr PRICE—When will the end point be, and is this a decision that will be made within the ADF or does it ultimately need to go to government to be ticked off? And when will the ADF component, if it is only a component, be completed?

Major Gen. Garde—The ADF will of course act in accordance with government decisions.

Mr PRICE—I am not suggesting otherwise.

Major Gen. Garde—And the high-readiness reserves will be raised to address the capability needs of the Defence Force. We are at the commencement of this process at this time, but we do see high-readiness reserves contributing to ADF capability; this is part of the enhancement program for reserves to gain additional capability for the ADF through a reserve contribution.

Mr PRICE—You have not answered when you believe that the proposal will be completed.

Lt Gen. Leahy—Could I take that? Army has a fairly large part of the responsibility, and most of the reservists are ours. My view would be that we have the go-ahead from government now in that the legislation exists.

Mr PRICE—So you do not need the government to sign off?

Lt Gen. Leahy—Obviously we will inform the government of what we are doing, but in broad terms the legislation exists and it is up to us now to get ahead and enact our part of that. As General Garde has mentioned, we are still developing the conditions of service for the high-readiness reserves. I am hopeful that inside Army we would develop our view of that and put it forward to reserve policy and for consideration in senior defence committees, at the same time using our combat force sustainment model and the roles and tasks study for the reserves. I would be disappointed if we do not have a fairly clear view of a way ahead by the middle of this year.

Mr PRICE—You are anticipating that it will be wrapped up by the middle of the year?

Lt Gen. Leahy—No.

Mr PRICE—When will all the proposals be concrete and about to be implemented?

Lt Gen. Leahy—I cannot give you an exact answer. As I say, I am hopeful that we will have a really good position by the middle of the year, and I would be disappointed if we do not.

Mr PRICE—I thought the paper *Defence 2000* made quite clear the heightened requirements of Army and the need in particular for sustainment and the role that reserves might play in that. This is not being done at what one might call breakneck speed.

Lt Gen. Leahy—We are working on this, and we are coming up with some really good propositions—ones that have promise. I would ask that you understand that these are significant changes in current and past practice, so we are doing this clearly and properly. I do not think we are dragging the chain at all. I would be happy to answer your questions again about midyear and say that we have achieved a lot.

Mr PRICE—How do you interplay high-readiness reserves and temporary full-time service for reserves in this model that you are developing? How do they interplay?

Lt Gen. Leahy—Currently we have in the order of 500 general reservists who are performing full-time service duties for us. I mentioned in my opening statement that we have personnel shortages in a number of specialist areas. The full-time service personnel generally tend to fill in those specialist slots at particular rank levels. Some of them have transferred from the Regular Army to the General Reserve, so we are able to capitalise on their expertise. Of those 500, about 100 are those who are in the company of 5/7RAR on operations in East Timor. With the high-readiness reserves, what we will get are people who can perform those full-time service functions and also be available in the high-readiness reserves. There will be a very strong interchange between the two. I have not yet determined the exact interchange, but I think we will actually increase the numbers of people available to support and sustain, as you have mentioned.

Mr PRICE—Some are going straight in because they have been trained up and are filling a slot, but others are requiring some training before they are able to do that. For those high-readiness units, does the proposal envisage that at some point, in terms of getting them up to their state of readiness, there will be a period of full time added on? In other words, will you have the individual training that gives you the high readiness, then later on have a slab of full-time training and then, bang, they're off?

Lt Gen. Leahy—To be able to maintain the competencies and the standards required, we would anticipate that a high-readiness reservist will have to give more than a normal reservist in terms of training, exercises and so on. Yes, I anticipate that there will be a bigger call on the reservists. That is why not all of them would be able to achieve this. That is why we are modestly aiming at about this 2,000 figure. We see that these could be people who are just out of university or waiting to go into university who have a bit of extra time to give us. Because of family or career commitments, some might have to withdraw from it. I see it as quite a fluid group of people that will come in, spend a bit of time and then go out—and perhaps come in a little bit later as their personal circumstances change.

Mr PRICE—In terms of the answers to the questions on notice—no additional equipment, no upgrading of equipment for high-readiness reserves—

Lt Gen. Leahy—Which questions are these?

Mr PRICE—I put some on the *Notice Paper*, and the answer was that there would be no net additional expenditure. I appreciate that, if you are changing the conditions of service, there would be, and I totally support that, but the thinking at the time was that these high-readiness individuals and units are being generated with no net additional expenditure.

Lt Gen. Leahy—Could I ask Brigadier Retter to answer that. He has the details.

Brig. Retter—Once the two issues come together—that is, the combat force sustainment model is matured to a point where we believe that we have locked down some of the issues you are alluding to, and specific tasks for the high-readiness reserve soldiers and perhaps subunits within that construct are clear—we will then, as we do with all of our units, adopt the risk management approach, which says that, if we require a unit to deploy relatively quickly to do a particular task, it will have and hold the appropriate amount of equipment to do that. If, on the other hand, it is required—or we anticipate—that it will have a significant amount of time to undertake further collective training before it is deployed, then it will have less equipment, because we anticipate that during that work-up period we can once again risk-manage that approach and move equipment and/or skill sets where we need to into the organisation. There is nothing new in that. That is what we do across Army today in meeting operational contingencies of any sort.

Mr PRICE—Some of my frustration is that you would be aware that the committee brought down its *From phantom to force* report, which had focused on some aspects of the Reserve. To date—I think more than two years later—we have still not had a government response to that report.

Brig. Retter—To elaborate on my previous answer and to give an example, where we have reservists employed in units and formations where their readiness and preparedness requirements are increased compared to those formations that might be involved in protective tasks with a lower readiness requirement, you will see a distinct difference in the amount of equipment that they hold. That is indicative of the approach that I alluded to, that we match the resources that we provide to formations and units directly to the preparedness requirement.

CHAIR—I have a question on the personnel shortage profile. At what level, or in what specialised areas, are the shortages occurring? Is it in ranks? Is it in specialised areas?

Lt Gen. Leahy—There are two broad areas, which I will cover. In the other rank area we have some trades which we look at each month. They are specified as critical trades. That is where we have problems. I can talk about them in general terms. They tend to be those associated with logistic areas, people who work in our warehouses, people involved with some of the medical trades—in particular, med assists—some linguist areas and a whole range of areas in relation to communications, telecommunications and computers. We monitor those very closely.

As I mentioned earlier, we had some difficulties with missile numbers in 16 Air Defence. We have targeted them with a recruiting program through the Defence Force recruiting office. We have regular meetings of subject matter expert working groups to try and focus on what the problems are, to look at what sort of tools we can use to improve the attraction into those trades and how we can use people transferring from other parts of the Army. We have a very successful program called Stay Army which essentially tells people, 'Don't leave the Army; just change your job inside the Army.'

That has been enormously successful in the last couple of years. It is a reactive web page which is available. It is worth having a visit to see the sorts of things that are available for people. In the other rank area, they are the sorts of areas we have. We have some reasonable steps in place to try to rectify the problems we have. Some of these problems, though, are community problems. If you are trying to get your computer repaired, I guess you are having about the same luck that I am in getting someone to come and look at it. We are finding that those sorts of things are very attractive outside. We have to be competitive and attract people to those trades inside as well.

The other area is in the officer ranks. These tend to be specialists. I mention dentists, nurses, doctors, chaplains and pilots. Again, some of those also have community shortages. We are working as best we can with professional groups, particularly on the medical side of things. I did mention in my introductory remarks that the Chief of Air Force, as the manager of ADF aviation, has recently taken on some responsibilities and taken some very positive steps to improve the success rate of pilot trainees and also the flow of pilots—to rectify some of the issues we have there. They are the two broad areas we have difficulties in.

CHAIR—Is rapid promotion one of the issues? Do you see people leaving and creating shortages because of the perceived slowness of promotion within the ranks?

Lt Gen. Leahy—No. Again, I will deal with it in the two broad areas of officers and other ranks, or soldiers. I suspect that people are not concerned about rapid promotion as long as it is them being rapidly promoted. My view inside the officer rank is that the promotion rates are good. Indeed, for the higher ranks we are quite rapidly promoting people through. For other ranks it has tended to be a bit slow.

You might be referring to some difficulties we had a few years ago. There was a bit of a bottleneck at warrant officer class 1 and warrant officer class 2. I will shortly ask Colonel Slater to talk about that in detail. My understanding is that that has largely gone away and that people are being promoted fairly quickly. I have a concern that we are moving people through too quickly—that they are not getting the experience and we are not retaining them for long enough. I would ask the acting D-G Personnel to speak on that.

Col. Slater—There is little that I can add from what the Chief of Army has just said. That is a very accurate summary of our current situation. Specifically on the problem we did experience a few years ago with warrant officers, that has been resolved—to such an extent now that we are finding it difficult to find warrant officers to serve on for longer and also to give commissions to and have them serve as officers in areas where it is in our interests to retain their special skills.

Lt Gen. Leahy—There is another area that I do have some concerns about. We have been, for some time now, suffering shortages of officers on graduation out of the Royal Military

College. It has been in the order of about 25 per cent for three or four years. That is of particular concern to me because that is where we start our young officers. We have had difficulties recruiting them. I might note, though, that this year the Royal Military College, for the class starting in January, is overfull. The class at the Australian Defence Force college for Army is almost fully subscribed. I mention it because we do have a bubble, in that for the last three years we have been short about 25 per cent of officers.

Mr PRICE—That is direct entry?

Lt Gen. Leahy—Both direct entry and from ADFA.

Mr PRICE—Right.

Lt Gen. Leahy—My concern is that that is our investment in the future. You will shortly see the Defence Force recruiting office commence a new scheme called the Officer Tertiary Recruitment Scheme. We intend going out to undergraduates in universities and saying, ‘How about it? We would like you to join the Army Reserve and we will train you in our university regiments. That will mean you will get some pay for doing it and, at the end of your degree, we will invite you to join the Royal Military College and waive the normal first six months of the 18-month course because of your reserve service. On completion successfully of your time at RMC, we will commission you as a lieutenant and we will start paying off some of your HECS.’

I am very hopeful that will be an attractive proposition, not only for the young students but also for the mums and dads who would be keen to see what might come of that. Our studies and surveys are indicating clearly that young men and women are not all that keen on committing themselves too early to a long-term career. They like to stay around home. They like to be around their friends. I think we can meet those requirements. I also think it would be good for us in that we will get a variety of undergraduates from a variety of different degrees. It will take a couple of years to kick in, but I am hopeful that it will be a positive source of young graduates into the ranks of the lieutenants.

CHAIR—If you have had these shortages for the last few years—you described it as a ‘bubble’—then I guess at the other end of the command chain you have a challenge to keep people retained at certain levels so that you do not get that bubble flowing through for the next 10 years.

Lt Gen. Leahy—There are a couple of bubbles in the system, and you can track them. This is one that is coming. We have a bubble out there at the captain and major rank numbers at the moment. We have to actively manage that. I do not think they have the sort of impact that you were talking about. That is one of the areas where we are looking to promoting warrant officers into the ranks of captain. They are well suited to the task that we ask of them. There are things we are concerned about and things we actively manage, but they are not severe problems.

Mr PRICE—Sydney university has a university regiment.

Lt Gen. Leahy—They have.

Mr PRICE—Is it the only university in Sydney.

Lt Gen. Leahy—No, there is the University of New South Wales.

Mr PRICE—Does that have one?

Lt Gen. Leahy—Yes, and Adelaide. There is a variety. They are well situated in the major universities around the country. We have to be careful, though, that we do not just focus on the major universities. We are going to look at cooperative arrangements between the university regiments from other places of higher education.

Mr PRICE—I am just thinking of students who go to the University of Western Sydney, which is a very large university. Working-class areas often provide a lot of recruits. They often desire a military career and do not always get an opportunity. Does that mean the person has to travel to whichever campus they are doing it at and then travel into either New South or Sydney to fulfil their military component? Is that an impediment?

Lt Gen. Leahy—There are other Army Reserve units in Western Sydney.

Mr PRICE—Not a lot, I have to tell you.

Lt Gen. Leahy—Not a lot, yes, but we are looking for those sorts of opportunities so we can make this as widely available—

Mr PRICE—So they can do it with another reserve—

Lt Gen. Leahy—Yes. There is a new scheme, and we are looking to make it as flexible as possible. I should add that we are only looking this year for 30 or 40. In its mature state it is probably only going to take 50 or 60.

Mr PRICE—I think it is a good idea.

Lt Gen. Leahy—It is going to be quite selective. I am really very up-beat about it. I think it is pretty exciting. It is going to solve a problem but it also extends the military further into the community and broadens our base with different degrees.

CHAIR—Can I touch on the issue of ammunition shortages, which I think, General, you spoke about in your opening address. To what extent is preparedness adversely affected by shortfalls in equipment, as well as in ammunition?

Lt Gen. Leahy—If I could deal with ammunition first, I have some remarks which, if I run through them, might answer that query and some others that might come up. Army use ammunition in two ways: firstly, there are our reserve stocks, which are held for operations and contingencies—that is, when we might deploy to conduct operations—and secondly, we have training stocks which we use to achieve directed levels of operational capabilities. They are the things we do inside Army to prepare our forces to go off on operations.

Both types of ammunition use have been subject to recent study. The ADF explosive ordnance stockholding study is ongoing. Army are participating fully in that and that is essential study. We are very satisfied with the progress of the study, which will determine the ammunition

required as reserve stock for operations and contingencies. The Army ammunition study, which deals with the ammunition that Army need to train with so we can conduct operations, is now closed, having commenced in 2001. The results of that study were combined with work in Army headquarters, and I considered that in December last year at CASAC.

What we now have within Army is an agreed set of endorsed training ammunition requirements which are clearly and directly linked to the achievement and maintenance of those directed levels of capability. Unfortunately, prior to that, there had been no clear methodology to determine our requirement for ammunition. Indeed, our annual usage of training ammunition tended to be based on what we had used the year before, on the basis of: 'Can I have that again, please?' Obviously that was a flawed process as it did not allow us to comprehend the changes in ammunition required as the tasks and the capability requirements changed. It also was predicted on an automatic use of previous years' shortages: what we did not have last year, we did not get again this year. It also did not account for price rises, technical suspensions of ammunition or postponed ammunition deliveries. Until recently, our consumption—and again I will be a bit vague on figures, if you do not mind, because some of these things will go directly towards capability—had been somewhat less than \$100 million.

The Army ammunition study submitted three major reports during the study period and, in general terms, our methodology was to review our capability requirements—that is, what government was asking of us—to look at our doctrine and to look at our training methods, including an increased use of simulation, where we are able to make some, but not major, savings in ammunition use. You still need to get on a range and fire the ammunition but you can do preparatory work using simulation. And then we asked our senior field commanders to tell us what they wanted.

We analysed all those reports and we then took into account advances in simulation—what we called benchmarking—which was the experience and practice of our major allies, changes to the operational tempo that had occurred over the last 12 months or so, and our physical capacity to get onto the ranges and actually shoot the ammunition; that is, taking into account enough fuel and water, the range availability and the range space. We then looked at some prospective changes to force structure.

What I think we have now as a result of the Army ammunition study and the work in Army headquarters is a very robust methodology with which we can forecast our ammunition requirements. This will become an iterative process and part of our normal business practices, and we will accurately be able to forecast our requirements to Brigadier Yacoub's area, the joint ammunition logistic agency.

What are the results? Well, not surprisingly, given the press reports and problems that have been evident inside Army about calls for more ammunition, the CASAC endorsed solution recommends a substantial increase in the allocation of ammunition. Again I prefer not to talk about the exact dollar figures, but it is clear that we have been underconsuming on ammunition, chronically, and we now have a very solid basis on which to go forward and to clearly identify our requirements.

Those requirements have been passed to the joint logistics ammunition area. We are also taking them forward inside the committee process. Can I give a word of caution, though. We are not looking for immediate results. Ammunition does take some time to acquire. There is

generally a long lead time offshore. We need to get it into the country. We need to do what we call an S3 on it, which is safety and suitability for service. That does take some time, and our primary requirement is that this stuff is safe to train with, but I am confident now that we can match identified verifiable requirements for ammunition and training, we can look at the types through the ADF explosive ordnance stockholding study—what we need to keep in reserve in case of operations—and the picture is much better.

I acknowledge clearly that there have been difficulties with ammunition. Some of them were quite public last year. We are in a much better position now and with this new methodology we have a very solid foundation with which to go forward.

CHAIR—What about equipment and the sort of equipment?

Lt Gen. Leahy—There are shortages again of equipment, and it is clearly mentioned through the performance statements here. They tend to be in the primary areas of B vehicles—that is, our trucks—some communications equipment, some night-fighting equipment and some C vehicles, as we call the engineer vehicles. But in almost all cases, except for B vehicles and maybe some areas of communications, I am confident that we have steps in place. I ask Brigadier Retter to give some more details on this as it is the area of his primary responsibility.

Brig. Retter—Just to elaborate on the generalised comments, many of the issues of equipment shortfalls confronting Army today are attributed to three factors, effectively: the expansion of operational commitments in recent years; the ageing nature of Army's fleets—we have over 200 major fleets; we have had a lot of them for a significant period of time—and some structural changes to Army as a result of the white paper. The operational tempo for Army continues to increase, as does the emphasis on specialist capabilities, such as the special forces which we talked about this morning. These additional requirements are placing additional pressure on our existing equipment fleets. Notwithstanding the point that was made earlier—that we have bought new and received additional funds to buy specialist equipment—we still have to provide, shall we say, the bread-and-butter equipment issues from our fleet holdings.

In addition, and as General Leahy has alluded to, we have done a significant review in the last 12 months of exactly what equipment we hold across the Army in our repair pools and in our regional training pools, the aim being to attempt to quantify and clarify exactly what equipment we are holding where and match it with what we believe the requirement to be, based upon preparedness requirements. That sounds like a reasonably simple exercise. It has turned out to be far more complex as we have gone into it. And, as I have said, for Army it is complicated by the fact that we are very much geographically dispersed and that a lot of our fleets are spread across each of the outputs, as opposed to perhaps in Navy and Air Force, where they tend to be very much located in discrete areas.

What are we doing about the problem? Having identified that we have shortages in some areas and that some of our fleets are old, the approach we have taken is to address the problem through both major capability improvements out of the Defence Capability Plan. In Army we have an annual Army minor capital program and we target that to address what we would call specific shortages, which we rate from one to whatever the number is, based upon preparedness requirements, and the ongoing review of equipment holdings where our aim is to cross-level. In other words, if we find that a unit on high readiness requires a piece of equipment, the hard decisions have to be made by the Chief of Army in terms of whether he is going to take a piece

of equipment from one part of the Army and move it somewhere else to address the deficiency. If I had to talk about the areas of greatest need, it would be in our B vehicle fleets. That is because they are ageing fleets and, as you would be aware, we do have a significant program coming down through the Defence Capability Plan, which is Project Overlander. That will address that issue in due course. In the interim, Army are actively engaged in putting in place plans to mitigate the age of our fleet and keep it running until such time as we receive new equipment.

CHAIR—What is the B classification?

Brig. Retter—Trucks and land rovers, predominantly.

CHAIR—That would be a contract that you are looking at.

Lt Gen. Leahy—That is a very major Defence project under the DCP. There are thousands of trucks, land rovers and trailers out there.

Brig. Retter—It is a project that is due to kick in, from memory, around about 2006 and 2007. It is going to address fleets in the order of 11,000 vehicles all up. It will extend over a period of six to seven years. It is one of the major projects in the DCP.

Lt Gen. Leahy—It is not only Army. These are also B vehicles for the other services.

Mr PRICE—In view of the updated white paper, does Army have a view about the projects it would like to see accelerated, given that the government has said now it is going to change it? I also understand that the government is going to withdraw money from the capital budget to spend on operations. To what extent are Army projects in the Defence Capability Plan going to be pushed back to allow money to go on operations?

Lt Gen. Leahy—I am more interested in the Army projects that are being pushed ahead. We are seeing more being asked of Army through the TAG, through the IRR. We are seeing advances there. The government have given some indication that they wish to accelerate the purchase of the additional troop lift helicopters, so Army has a considerable task, through the extant DCP, because that will deliver out to the year 2008 or 2010 significant enhancements to Army capabilities. In areas that we had identified, there were some deficiencies—primarily, in combat weight, and I mentioned those four projects in my opening remarks, and in areas of logistics, where projects such as the provision and distribution of water, fuel and medical support are significant enhancements to our capability.

If I look at the difficult task facing the Army in the future, apart from operations, it is introducing these new capabilities. It is a task that I relish and one that Army headquarters and, I know, all of the commands within Army are working at. In terms of your question about what projects will be cut or moved about, it is clear that those decisions are still to be made, and certainly, in terms of my view of what the minister said yesterday and my attendance at senior Defence committees, we have not taken those decisions. We have talked about the need to see what we might need to do. All of us would agree that these are going to be terribly hard decisions because what we have in the ADF is a relatively well-balanced force that enables us to provide government with a good range of options for the types of challenges that face us in the future.

You mentioned that there might be some movement of funds out of the capital budget into the operations budget. Again, no decision has been taken in that area. There is certainly a debate but we have not made any decision and I do not think government has made any commitment.

Mr PRICE—Do you have a new schedule for the troop lift helicopters?

Lt Gen. Leahy—We are responding to government at the moment to try and give some advice on what acceleration might mean in terms of the type of helicopter; in terms of the demands on Army to provide not only the helicopter—my concern is obviously the helicopter as a capability—but the complete package of what we call the fundamental inputs to capability of the facilities: the doctrine, the training and all those other things that go with it. There is no firm schedule to bring it forward. There is a desire from government to bring it forward and we are providing advice on that now.

Mr PRICE—Why has the cost gone up by \$150 million in one year?

Lt Gen. Leahy—The cost of what?

Mr PRICE—The troop lift.

Lt Gen. Leahy—Frankly, it was underestimated in the DCP.

CHAIR—Can I ask about the operational tempo and the effect that that is having on training and preparedness in relation to personnel.

Lt Gen. Leahy—If we talk about Operation Citadel, which is East Timor, broadly 1,000 are involved there. If we talk about Operation Bastille, it is somewhat less than 1,000 from the land forces, with predominantly special forces involved there. There are small numbers with the UN around the world and there is Operation Bel Isi in Bougainville. Try as I might, I get to about, or just over, 2,000 people deployed overseas. Compared to the size of the Army—you can do the sums yourself: 2,000 out of 26,000 plus the reserves—it is not an enormous number.

If you take it in those terms, we are coping and we are coping well. It is focused in certain areas. I am watching with interest to see how the special forces are coping with the demands that we place on them. Frankly, everything I see—I will ask General Lewis for his view as well—says that they are doing magnificently. The health indicators that we look at in terms of the organisational health of the unit are very strong. I am pretty happy that we can keep doing what we are doing. I do look at some of the more detailed requirements of training. Whilst members of the special forces are off doing their Green role, their conventional role, they are not able to do some other level of training. We are watching the promotion courses and the specialist skills that people need across the Army but, in general terms, we are coping well with the operational tempo and we have strategies in place to deal with it and to make sure that we can deal with the concurrency issues. We also have this long-term development of our people through promotion and development courses. It is a reasonably good situation. Duncan, perhaps you would like to give some more details.

CHAIR—Before you do, Major General, could you add to your answer on how personnel, particularly the SASR, are coping with the high level of operational tempo. We have had

reports—you see reports from time to time—of the stress on them and their families. More importantly, there are the personnel themselves.

Major Gen. Lewis—We are blessed within the Special Operations Command with a large number of very highly competent, highly committed and highly capable young men. It is clear that we have been asking a great deal of those soldiers and the officers that command them over the last three or four years. For that reason, we manage this particular issue very closely. It is one of the highest priority matters in any commander's mind within the Special Operations Command.

I am pleased to report to you that, while we are working the soldiers very hard, we have managed to implement satisfactory rest arrangements. For example, the current group that are deployed in the Middle East had a very satisfactory break over the Christmas period. They were back in Australia—from operations in the main; I cannot speak for every one of them, but the group as a whole—for about seven or eight months of last year. Providing we continue to manage it—and we will continue to manage it very closely—we are in a sustainable situation.

One of the concerns that the Chief of Army just mentioned is training in the higher level skills. It is rather ironic but an operation can stuff around a very good training program, which is one of those ironies of military service. Every now and again it is necessary to get back into your training program and hone up those higher level skills that are so necessary for operational success. I expect that over the next period we would need to start looking at getting back into a routine training program on the higher level skills. I do not think they are at alarming levels at this stage; it is just a matter of management.

Lt Gen. Leahy—I would add that one of the macroindicators we look at is the separation rate. The current separation rate is in the order of 10.25 per cent per year. In January 2002 it was 12.2 per cent.

CHAIR—Is this in the SAS?

Lt Gen. Leahy—No, this is across the Army. In general terms we have improved by two per cent per year in terms of the number of people staying in the Army.

CHAIR—Are there figures for the SAS?

Lt Gen. Leahy—I am sure we could get them. I do not have them in detail.

Major Gen. Lewis—I do not have them with me. I have seen them recently. Generally speaking the separation rates are just fractionally lower than the average in the Army. Issues to do with marital separations and that sort of thing are no different to the rest of the community standard. We use those measures obviously as an indicator of the health of the unit. I do not see, at this point, any alarming trend.

Mr PRICE—General Lewis, you have the SAS deployed or pre-positioned in the Middle East for a possible operation against Iraq. It is noticeable that there is no media coverage of Australians who are over there, compared to the Americans. The Americans have media covering their training and preparations and what have you. Given that there are divided

opinions back home, is it not important that there be media coverage of those troops who have been sent over there?

Lt Gen. Leahy—I can answer that. This is not my primary area of expertise. You are correct that there is no media coverage of many of our forces deployed in the Middle East. Much of that is to do with operational security and the locations of where they are. Much of it is also to do with the nature of the work they might be doing and the difficulties we would have getting the media to them and supporting them. It is also largely a product of the media support plans from the major coalition partner. There will be media coverage from Australian journalists who have been attached to elements of the coalition force. Whilst it may not be directly with Australian forces, there is the ability for Australian journalists to cover the predeployment.

Mr PRICE—So there is already Australian media over there attached to the US forces?

Lt Gen. Leahy—I cannot confirm that, but in my discussions in the house over the last couple of days I am aware of journalists who have done some civil training and journalists who are talking about placements with coalition forces in the Gulf.

Mr PRICE—Is that Australian journalists?

Lt Gen. Leahy—Yes, Australian journalists.

Mr PRICE—I have some military justice questions which I propose to put to the CDF and to the secretary, but I am interested in the approach Army has to incidents involving military justice. The most recent one, of course, was the East Timor investigation. It is fair to say that the ADF have taken a very rigorous approach to that investigation. But in terms of informing the public about it, it is like drawing teeth. There always has to be some leak to which the department responds. It seems to me to bring unnecessary questions about the credibility of the investigations.

Lt Gen. Leahy—I will deal with the issue of the East Timor investigation. You are right; it has been rigorous. That has been a very deliberate process inside Army. The allegations, made over two years ago now, were serious and let me stress that they were just that: allegations. Until the investigations are complete we are not at liberty to discuss them in detail. That is essentially why we have not been discussing them. Army and, indeed, Defence has taken a very serious and very deliberate approach to this. The investigations have been and will continue to be investigated as seriously, rigorously and vigorously as we can.

Once the investigations are complete, consistent with security and consistent with personal privacy, we will talk about them and I will be quite prepared to talk about the process as well as some of the details of them. What I can say is that the majority of the allegations have proven to be unsubstantiated. I put out a press release last week to confirm that there have been charges preferred in one instance under the Crimes Act and there are a couple of other allegations we are continuing to investigate. I would really not like to talk in more detail about it because we have people involved in it and we are still pursuing this.

Mr PRICE—I am interested in the process. Could we just talk generically about the process? Police will often, particularly if the matters are serious, advise that they are investigating

something. Does the Army have a philosophy of announcing that there is an investigation? How does it work?

Lt Gen. Leahy—One of the differences between a civil and a military investigation is that, under the Defence regulations and the types of investigations we conduct, the ability for our investigators to interview someone against whom an allegation has been made is constrained. They can only interview them under oath once, so of necessity that tends to be right at the end of the investigation. That is something that constrains the way we do things.

I have some concerns about that because it takes a long time for notice of the allegation to get to an individual. It is not only in this case but in other cases and I think it is something we need to look at. We are following the process very deliberately and very properly and this has taken a long time. It has involved interviews both within and without Australia. It has involved now over 300 people being interviewed. We are going to get this one right.

Mr PRICE—Would you agree with me that the current constraints place in question the very rigour of the investigation which you are asserting and I certainly accept? In the absence of information it always gives rise to speculation, which I am trying to suggest is counterproductive to what you are trying to achieve.

Lt Gen. Leahy—In part I agree with you. But essentially we also need to protect the people who, in this case, have been largely proven innocent. I would have been very reluctant to have come out in September of 2000 and said, 'Here are the allegations,' when I now know that the allegations are unsubstantiated. That is one of our primary concerns—that we do not spread what were false allegations or rumours or innuendo at the time. We need to make sure we find out what happened and make sure we protect our people.

Another thing I would add is that I look at those 1,000 people serving in East Timor right now and I think of those thousands who have served there over the last three years and all I see is fantastic young Australians doing their bit for their country and doing their bit for East Timor. A small number of possibly substantiated allegations should in no way detract from what our soldiers, sailors and airmen have done up there.

Mr PRICE—I do not think it does.

CHAIR—You might like to pursue that a bit later in the afternoon with the secretary, Mr Price. We are getting very short of time and I am conscious we are a little over time. I do not want to cut you off on that line of questioning, but I know it is one that you will continue to pursue.

I thank the panel from Defence for their attendance here today. If you have been asked to provide additional material, would you please forward that to our secretary.

[11.31 a.m.]

BENNETT, Mr Lloyd, Deputy Secretary and Chief Finance Officer, Department of Defence

VEITCH, Mr George Ernest, First Assistant Secretary, Business Strategies, Department of Defence

WEBER, Mr Graham Anthony, Acting Assistant Secretary, Accounting Policy and Practices, Financial Services, Department of Defence

WELSH, Mr Gregory, First Assistant Secretary, Financial Services, Department of Defence

CHAIR—I welcome representatives from the Department of Defence to today's hearing. 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. Would you like to make an opening statement to the committee?

Mr Bennett—Yes. Given the complexity of the Defence budgeting process, I thought it may be helpful if I took you through how we currently do it. I would welcome questions during that process. I also have copies of the slides that I am about to show, for future reference.

CHAIR—Thank you.

Mr Bennett—What I would like to cover today is the work we have done on the revised business model, the work we have done as a result of the cost attribution work within Defence and the way we have aligned that cost attribution work to provide a group and capability view of the budget information, and the work we have done on a revised budget estimates framework to meet some of the government's requirements and the move to provide each of the groups with a rolling 10-year budget, which gives them a greater degree of certainty in the guidance.

Slides were then shown—

Mr Bennett—I think the key requirement of the CFO is to provide capability managers and other stakeholders with the financial tool kit that makes things understandable and promotes responsibility, and this requires making something that is complex simple and making the obscure highly visible and the individual responsible. There is a slide that gives you an idea of how we have achieved that.

As the next slide shows, we are also well under way with work on the decision support model, which is a way of making sure we can provide more timely cost variations when we do mount operations et cetera. We have also done a fair bit of work on financial reporting. You would be aware from previous inquiries of the significant work we have done on cash management—that we have now adopted a just-in-time cash drawdown. We are the first agency

to do that, and in fact DOFA have invited Mr Veitch to talk to other CFOs about how we have done that and to work with an interdepartmental committee in that regard.

Turning to the next slide, just by way of some background, as everyone appreciates we are managing around \$50 billion in assets. We have a total work force approaching the 90,000 mark and we have a rolling ten-year investment program that is also worth around the \$50 billion mark.

As the next slide shows, there can be confusion in terms of what numbers are really being spent on defence. In a sense, the bottom line is the price to government, exclusive of things like capital use charges—\$13.2 billion. The breakdown is illustrated on the slide.

CHAIR—Could you explain for my benefit the capital use charge of \$5.1 billion?

Mr Bennett—Yes. In a sense, that was a charge used to promote efficiency in asset management. In practice, I think what has happened is that, because they effectively give you the money to pay for the capital use charge, it is something being withdrawn this financial year.

Mr PRICE—Why is it being withdrawn?

Mr Bennett—I am interpreting here. I think it is because they are seeing it as a circular flow—that it has not really achieved a significant gain in promoting efficiency. There are other means of doing that.

The next slide provides a 10-year view of the growth in the budget and gives you an understanding of the white paper impact, what government has allocated to Defence over the next 10 years and what the growth is; the fact that Defence funding was increased by \$500 million in 2001-02 and a further \$500 million in 2002-03, and then by the average of three per cent per annum in the growth thereafter. In addition, we have increases to the funding base to support operations like East Timor et cetera.

CHAIR—To what extent does the exchange rate affect a graph such as the previous one?

Mr Bennett—We are expected to identify where foreign exchange movements are likely to occur in terms of contracts, and then we have an arrangement—again, it is like a no-win, no-loss arrangement—that we either receive supplementation for movements in forex or we hand back money if it is a favourable movement in foreign exchange.

CHAIR—How do you manage the exchange rate variations—forward contracts for purchase of equipment and so forth? Are you hedging?

Mr Bennett—We do not use any hedging instruments. The government policy is that for foreign exchange risk management we have to provide advance reporting of where all the potential risks or movements may be. When we are setting up the contracts, we also have to establish that we have given appropriate consideration to foreign implications of that. In the broad, that is what we are expected to do to meet the government's revised foreign exchange risk management.

CHAIR—How have you been managing that one lately?

Mr Bennett—I will pass that to Mr Welsh.

Mr Welsh—Thank you. The Commonwealth policy, as Lloyd said, is that Finance and Treasury prefer to manage this on a whole-of-government basis—for example, expenses which outflow from Defence are measured against revenues which inflow to the Commonwealth. The Commonwealth will manage this on a whole-of-government basis. As Lloyd suggested, our primary risk management is to assess the implications of the contracts that we go into and to communicate those issues to and work through them with Finance. Then they take an overall responsibility.

Mr Veitch—From a budgeting perspective—whether it be the budget or the additional estimates—the budget is struck at a certain exchange rate for each of the foreign currencies; when we move to the next budget milestone, we adjust the budget for the movement in the exchange relevant to that benchmark. As Mr Bennett explained, it works on a no-win, no-loss basis. If it costs Defence more for movements in exchange, we are supplemented for it. If there are savings, if it moves the other way, we return that back to the Department of Finance and Administration. The system works fairly well.

Mr Bennett—This is a chart showing, as a percentage of GDP, that in those terms there has been no real growth in the Defence budget. That is because of growth in the wider economy. I will flip to the next page. What we are trying to do, and what we are doing, is make sure that we get the balance right between three major areas in the Defence budget. We are trying to make sure that we have a sustainable level of current capability balanced against our future acquisition program. We have to balance by the investment in major capital, by the employee work force, and in the operating expenditure. Given the life cycles within Defence, that is very important. We are capital intensive, it is a long acquisition cycle, and it is also an organisation that demands we grow employees in the military services. It takes time to train and develop those skills and it is important that we get that balance.

One of the other challenges we have is that some of our price increase mechanisms relate to the non-farm GDP price deflator as opposed to CPI or even high-tech price movements. It behoves us to manage very closely, given that we know we are going to face funding pressures in those areas. I will flip to the next page.

In terms of the efficiencies of Defence, these charts show the decline in numbers over the years of both the military and civilian staff, with some recent increases. In effect, the ADF has reduced from over 70,000 people some 15 years ago to around 50,000, with an intent to bring that up to 54,000 in the white paper. Without dwelling on too much detail, I will flip to the next page. When we talk about ‘increased operational tempo’, this chart shows pretty clearly the number of people involved in active service overseas. It gives you an idea that Defence must have produced some economic reforms and efficiency gains in real terms to deliver that sort of operating capability, despite reductions in both military and civilian numbers. I will flip to the next form where we refer to the Defence Capability Plan, which is a \$50 billion investment program over 10 years.

CHAIR—Before you go to that, I would like to go back to the reforms and downsizing of the work forces. Military staffing is uniformed people and the other one is civilian staffing?

Mr Bennett—Yes.

CHAIR—The civilian staff is reflecting downsizing and then there is the increase recently. With new technologies, haven't there been efficiency gains in conducting administration from the civilian side?

Mr Bennett—I think the efficiency gains are reflected in that decline. Given that we are achieving all of the operational increases with a reduced civilian work force, I think it shows that real gains have been made. In the press recently, Ric Smith—the secretary—announced a staffing freeze on civilian numbers. That is because we are doing the trend analysis and making sure we take almost pre-emptive action. We are always looking at where we can gain efficiencies in the process. We are trying to deliver capability, in effect, so it is reducing the cost of capability.

CHAIR—It seems to me that both of those lines are mirroring each other, yet we do not seem to have picked up.

Mr Bennett—There is some compounding in there, because there has also been a move within the military numbers to move more of them into front-line roles and there has been civilianisation of some of those roles. There is a cost displacement in more active military roles, and that has required an increase in civilian numbers. In a sense, that might be partially masking efficiency gains.

CHAIR—Civilianisation of some things that were previously uniform jobs. Is that what you are saying?

Mr Bennett—Correct, yes. We might flip onto the next one. The capability planners are making sure we have balance in future acquisition, so we look at that in terms of land forces—where we are going with the Army and the armed reconnaissance helicopters—and through a range of areas there. It is a way of making sure that we have all of the initiatives—be they unapproved, identified or tagged—and an understanding of the program cost of that. We also have a significant improvement in understanding the through-life costs of the capability and making sure they are reflected in the program and in the budget.

CHAIR—The top 10 projects consume about \$30 billion. Is the joint strike fighter included in those projects?

Mr Bennett—Yes, it would be. I will flip to the next page. Do you have a page called 'Development of BORIS'? That stands for 'Budget and Output Reporting Information System', if you are questioning the pedigree.

CHAIR—It is not from Russia?

Mr Bennett—No, not from Russia with love! It is a tool which, in combination with various business rules, provides a very systematic and visible way for groups to understand, down to a weapons system level, what their budgets are for the next nine years. One of the problems that I encountered when I first joined Defence was that people did not necessarily have a good view of their budget. That meant that they limited some of their spending and, therefore, did not achieve some of their targets. This way we are giving them greater future certainty.

We have again stressed that it gives people a deeper understanding by the investment in capital, by the personnel and by their operating costs. We have also introduced a way of allowing them to do phasings to reflect their business, instead of doing a pro rata, month-on-month spend, and separated out what items they directly manage versus what items they consider are portfolio managed, so that they can concentrate on those areas of most gain or pain for themselves. That, I think, is helping to give people the tool kit for managing it that I talked about in the introduction. It also allows us to start thinking about how we can tag individuals to be responsible, either at a group level or at a capability level, for delivering that.

Stepping into the future, this somewhat more complex diagram is a way that we want to move from the manual ready reckoner based way of developing costs for changed tempo or changed operations into a more systematic modelling approach developing those numbers. We have a working concept of this now that has provided a basis for getting consensus within Defence that the costing models will work, the structures will work, et cetera. You will note that it is a way we can work from the strategic threat assessment and the impact analysis, down through the preparedness, understanding and looking at activity level indicators and scaling factors to come up with an understanding by force elements of sub-outputs, as it were—what the operating capital cost changes will be.

We have already got to the point in the concept model of understanding the direct and indirect cost inputs by fundamental inputs to capability, which starts to provide some tools to allow us to track anomalies, et cetera in that. This, in my mind, represents a huge step forward in our understanding of costs.

CHAIR—I want to understand that model. You have the cost basis of force elements and then you have the third area in the middle. That meets on the strategic threats and that line coming down and across. If the strategic threats change and that is an issue that has to be addressed, you can feed back into those systems to identify additional costs and how that would impact.

Mr Bennett—Yes.

CHAIR—You have two sides to this flow chart.

Mr Bennett—That is right. A key element to it is making sure that the way we think financially is the way the military think in terms of their building blocks for operations, so that we can get a common view and a financial term here. Obviously it requires human intelligence to interpret what strategic threat will mean in terms of risk assessment. There is no computer model which generates that. Then the chiefs work through the capability and preparedness management issues. But then they have respective modelling systems in the respective services that allow them to look at what the scaling factors and variables will be. The section in the middle, the force element forecasting model, is a way of bringing those two views together. At the moment I stress that it is on the historical costing level, but we have the concepts that are moving us forward to that future modelling and dynamic modelling situation as well.

CHAIR—Was this developed after the white paper?

Mr Bennett—Yes, very much so. It is something which has been developed in the last six months. This is probably hard to read on the screen, but in the handouts it will be clearer. What

we have done is provide the total cost of defence capability, excluding the capital use charge, and then split that across each of the capabilities. That is the second line on the chart. In the third line, you see the sub-outputs. This work was tabled for the first time, but not in this sort of visible format, in the PAES document, where we have provided a fully audited cost of sub-output and capability.

If we flip to the next page, you can see how we have taken the costs of that particular capability, we can see what the direct capability cost is and we can also see what the enabling or support groups costs are. We can drill down through that. For the first time we have a group view of contribution to capability as well as a direct capability contribution which is a very significant supporting factor for the introduction of the internal customer supplier agreements. The real benefit of this is that it now gives everybody a much greater level of visibility of the costs to those capabilities and what each of the supporting groups is expected to deliver. That way it also helps in the internal negotiation process, as you set the group budgets each year as well.

CHAIR—If there is any change or increase in a budget, you know exactly what area it is coming from by the use of this model.

Mr Bennett—That is right. If somebody is putting up their hand for more money, you can see whether you can contain that within the particular capability or whether you have to look at some other areas to pull it from, as you make sure it still adds up to the original number.

Flipping to the next page, that allows each of the enabling groups, such as CSIG, to look across each of their business areas and, by each of their activities, look at the breakdown of costs and what their costs of activity are. That is a useful tracking and reporting tool, and is obviously a very useful tool for when we start doing some of the zero based budgeting work within Defence as well. We can see there that is a reasonable allocation of costs by activity to a supporting group, for instance.

CHAIR—Through this process can you identify where savings could be made?

Mr Bennett—Yes. You can look at it against the priorities that you could deduce from the strategy map, for instance. You can see whether the priorities of spend, and the trend of that spend, line up to those priorities. It is a very smart way of starting to sieve through what was otherwise a very complex set of numbers to identify potential targets for savings. I stress that in a lot of cases that is perhaps a rebalancing and a tweaking at the detailed level of where the money is being spent over time. I would also stress that a number of groups have made particular progress in the development of their own activity and product costing work as well.

Mr PRICE—How do you go across programs, for example, to track personnel costs and what is happening there?

Mr Bennett—Each capability has programs identified with it, so it is a matter of defining whether it is 100 per cent attribution of personnel costs for that program to particular capability, or whether it is a shared attribution of cost across a couple of capabilities. Again, one of the benefits of this approach is that we have a rules base which is now built into the system, which allows you to do that. It allows you to see immediately the impacts of that wherever it may occur across the model, as you crunch those numbers.

Here we have an example within DMO across each of those areas as well. Again, I hope it gives you a sense that we can track—by group, by subcomponents in group and by activity—where the costs are being incurred and how they are performing in a budget sense, either in accrual terms or, shortly, in cash terms at each of those activities. It helps us in CFO to have a better understanding and it helps each of the group and capability managers have a better understanding of what they are doing.

I will flip on now to the new outcomes framework. The government announced in November of last year that they want to do a cash spend by program. What we have been able to do is align the work we were already doing with the intent of their program and to deliver that several months ahead of time. Within the Air Force, I can break that down into successive details of the sub-outputs. Then, say, within air combat, I can look at the air strike or the tactical fighter operations and then, within the decision support system, look at the direct and indirect costs of that. But it equally allows us to understand exactly where the money is being spent on a daily basis or a monthly basis, to provide that in advance to DOFA and then to do the draw downs of cash.

It is interesting to note that Mr Veitch has been invited to address other agency CFOs about how we have done this and also to work on the interdepartmental committee in the subsequent implementation of this. The feeling is that, given the complexity of Defence, our requirement for flexibility and our requirement for working capital, if we can make it work so relatively painlessly here, it sets a good example for the others to follow. Most people want a good understanding of that sub-output view of the world and where the money is being spent.

Here is the DMO view of what the strike reconnaissance and the tactical fighter systems programs would be. If I flip onto the next page, this demonstrates how we get alignment of the organisational view and the outcome or capability view. We can then drill that down so that by either view we ultimately arrive at a view of the costs of running the Hornets or the Hawk lead-in fighters and what their contributions here are.

I will flip onto the next page. What we are working towards now is that full view of the direct costs by capability and by group. In fact, we can roll that out over the forward years. I stress that in all of these slides the numbers are indicative; they are illustrative. They are not real numbers in any sense, but they give you a sense of how it works. I think you will find that this allows a very meaningful debate for the internal customer supplier agreements, down to a very detailed level of what the variations would be in direct costs and whether, in the longer run, some of the indirect costs are out of balance as well if there are changes.

To give you an idea, from effectively the day I joined to having a working concept in place took us about 12 months. The actual build of the working concept took about eight weeks and we anticipate that it will be in the order of eight months to develop an operational model, once we commission the start of that program.

At this point, I will flip onto the strategy map diagram. The key point I want to make about the strategy map is this. People have questioned whether this is an overly graphic or complex diagram, but it does give you a very good view of what is important for Defence. That allows us a reasonableness test of whether our priorities are aligned to the key issues and risks which this model identifies. In that sense it is an extremely useful tool and has been very beneficial in the work we are doing.

I might flip on through to the balance scorecard. The way we bring all of this work together, especially at a senior committee level, is through a very comprehensive scorecard reporting system. I stress that this is colour-coded for visual impact, not to represent the actual state of play of any capabilities. By sub-output we can see the short-, medium- and long-term status of each of those capabilities. If people are not able to achieve operational levels of capability, that starts changing the scoring factor from green through to red, depending on that gap analysis. That also provides us with a way of (a) identifying that issue quickly at a senior level and (b) also making sure we have alignment of resource allocation to fix those problems, given that they are aligned to the strategy threat assessment, et cetera.

I hope that gives you a sense of how we are now starting to manage the process in Defence and how we have brought to the budgeting process a lot more systematic rigour and discipline that this year will give each of the groups their rolling 10-year budget on 1 June. That is an unparalleled achievement in Defence.

CHAIR—Has this only been developed in the last couple of years? It has taken a couple of years.

Mr Bennett—Last year.

Mr PRICE—Why is Defence paying the repayment of equity?

Mr Bennett—Sorry, which page?

Mr PRICE—2002-03 budget. It mentions the capital use charge \$5.1 billion and repayment of equity of \$660 billion.

Mr Veitch—As part of the last budget, the government required that Defence sell some of its surplus properties around Australia. There was a list of properties identified which are being progressively sold. The dividends for that are being returned to the government by way of an equity payment.

Mr PRICE—Wasn't it the case that Defence used to retain the proceeds of its land sales?

Mr Bennett—We retained approximately about one per cent, in certain years, of asset sales for our own use. During this period I believe we will retain anything over a certain target amount. Mr Veitch may have more detail.

Mr Veitch—The policy in essence, up until last year, was that Defence would retain up to the value of one per cent of its budget in asset sales to contribute towards cost pressures. That policy was suspended temporarily last year to sell a number of properties to make a contribution to the budget generally and to assist with the boost in Defence funding in that year. The government will consider shortly—and I cannot go into the details here today—what the policy will be from financial year 2003-04 onwards.

Mr PRICE—Just to check the maths, the Chief of Army told us that he hopes to get approximately 2,000 high-readiness reserves out of his reserves. Given that reserves are costing \$950 million, that comes out of a cost of \$475,000 per high-readiness reserve. Is that right?

Mr Bennett—I am not familiar with what the Chief of Army said.

Mr PRICE—He said he is looking to approximately 2,000 high-readiness reserves. If Army reserves are costing you \$950 million per annum, which is most unfair—you devoted all that to high-readiness reserves as the output—the cost per high-readiness reserve is \$475,000, isn't it?

Mr Veitch—I am unaware of the details that underpin that cost. I would have to take it away and look at it.

Mr PRICE—Is the maths right?

Mr Veitch—That is what I am saying: I am not prepared to answer that question because I do not know the detail. All I can say is that within our global budget the Army has a funding allocation for both its permanent work force and its reserves. There are a number of policies within that to enhance the reserves and the cadets. The Chief of Army initiatives will be managed within that funding envelope.

Mr PRICE—Would you do me a favour and take that on notice and confirm whether or not my maths are correct?

Mr Veitch—Yes, I will.

Mr PRICE—Thank you.

CHAIR—Can the current and projected Defence budgets meet the needs of the increased readiness, enhanced mobilisation capabilities and a whole lot of other subtopics—more and better strategic lift, improved logistics, improved engineering capability and improved long-range communications? Can the current and projected Defence budgets meet these needs?

Mr Bennett—We are in the budgeting process at the moment so I cannot really speak to the detail, but we have submitted for ministerial and the ERC process the rolling 10-year defence management and financial plan which sets out the cost of the capabilities we require over that time and the amount of moneys we require. It is up to us to cut our cloth according to the amount of money provided in that 10-year plan.

CHAIR—What about in terms of efficiencies? We had a program of outsourcing quite a lot of non-core activities. Are we still running with that, or is that completed?

Mr Bennett—We are still looking at outsourcing opportunities where they provide realisable, harvestable cash savings. The primary concern of Defence is first to make sure we gain the benefits of any efficiency gains; then we look subsequently to outsourcing opportunities. We have a number of administrative savings programs being looked at at the moment.

Mr PRICE—Previously with outsourcing they did not look at a reorganisation or a capturing of a more efficient operation; it just went to an outside bid, an internal bid, that had to assume changes in efficiencies that were not in place.

Mr Bennett—No, I think you will find that when they went to outsourcing they would look very much at making sure that those delivered demonstrable benefits and savings in the program. We just have a different way of looking at it, at the moment, given that the savings are now coming from more complex cross-boundary resolutions and things like that. It does not allow us to take just one whole lump out of Defence; we have to look across several groups and into end-to-end process improvement now.

Mr PRICE—Are you doing that improvement prior? I understood you to say that you are actually doing that prior to the consideration about retention internally or putting in—

Mr Bennett—Yes, we think it makes sense to make sure Defence has identified and achieved any administrative improvements that it can.

Mr PRICE—I always thought that was a big deficiency in the prior methodology.

Mr Bennett—Yes.

CHAIR—You may not be able to answer this question, but I want to ask about the Defence Housing Authority, which comes under the budget here, and the sale and lease-back program—building new houses and then selling them and leasing them back. At the time, that was meeting the request—mainly from the defence personnel themselves—to be off base rather than on base. Has there been any reassessment of that in light of the increased tempo or has there been any substantial change in the requests coming from the personnel themselves?

Mr Bennett—I do not think we, in CFO, can really answer that sort of question. Defence has a primary concern to make sure we balance the requirements of accommodation for military people. That is the overarching concern we have. You would have to ask the people directly involved in that area.

CHAIR—Yes.

Mr PRICE—What is the total to date of the figure of \$660 million—that is, over the years since it has been introduced? ‘Return on equity’, it was called, was it not?

Mr Bennett—The repayment of equity. In a year-to-date or pro rata sense we are on target to achieve that.

Mr PRICE—No, I apologise. Yes, I accept that. When was it first introduced? What is now the total, including this \$660 million?

Mr Veitch—It was only introduced for this current financial year. This is the first time we have returned an equity of that size in a sense. There are some residual amounts in the forward estimates. Other than that, no, up until just recently, we would have retained the proceeds from those asset sales. We are hoping to go back to some sort of similar arrangement, but we need to go to government for that.

Mr PRICE—Going back to the prior arrangements is not guaranteed at this stage.

Mr Veitch—It is not guaranteed, but it is a decision for government. We will put proposals to government and they will make a decision.

Mr PRICE—This was introduced last year. How much is projected through the forward estimates for Defence repayment of equity?

Mr Veitch—There is this amount here which you currently see.

Mr PRICE—But that is for one year.

Mr Veitch—Yes, and a very small tail that carries forward into the forward estimates. It will be somewhere around \$100 million. It is not a continuing requirement by any means.

Mr PRICE—That is for all the out years—\$100 million over the out years.

Mr Veitch—No, just a small tail into next year—the next couple of years. It is a very small amount. With the bulk of it—the \$600 million-odd, at least—I would chance my arm and say about 80 per cent to 85 per cent is in this financial year.

Mr PRICE—I am not very good at numbers, you might have gathered. In total, \$760 million is what you are saying the government has. It projected \$660 million for this financial year and you are on target to meet that. In the out years there is a further \$100 million, so that is \$700 million.

Mr Veitch—I would not like to be as specific as 760, to the exact hundred, but that is of the order. It might be another \$20 million or \$30 million either side of that. I would say probably up to about \$700 million.

Mr PRICE—Will you take that on notice.

Mr Veitch—Yes. I am prepared to take it on notice. In fact, Mr Price, I have the numbers here. The number is \$89 million next year and \$148 million the following year. It is on page 49 of the Defence portfolio—additional estimate statements for 2002-03.

Mr PRICE—So it is a projected \$900 million hit on Defence in total.

Mr Veitch—It is \$900 million. I am not sure just—

CHAIR—Asset sales.

Mr PRICE—Yes. But it goes to Treasury.

CHAIR—Yes.

Mr PRICE—The updated white paper that was released yesterday projects some changes in the Defence Capability Plan. Clearly some things will be accelerated in the priority changes. I understand they will work out, but I thought in answer to some questions yesterday it was

indicated that some money may be transferred from the Defence Capability Plan into operating costs under the different budget headings.

Mr Bennett—It is hard for us to quote any detailed answer during the budgetary process in terms of any rebalancing. That is again for the government to decide on what that may be.

Mr PRICE—I do not think it would be unique to this government or any government to either advance a project or delay a project. What would be of concern to the committee is a principle of siphoning off capital works into operating expenditure, because of its significant impact on defence.

Mr Veitch—I am not aware of any siphoning off out of the Defence Capability Plan into the other areas. I would point out that the Defence Capability Plan also included provision for the personnel and operating costs that come with new equipment. As new projects are contracted and enter service, we do transfer from the Defence Capability Plan the people and operating costs. That was a very good decision, on reflection, because what it means is that the whole-of-life capability is costed and funded.

Mr PRICE—I am not talking about that. I am talking about siphoning.

Mr Veitch—No, I am not aware of any of that. In fact I would say it is quite the opposite—that the government stresses the retention of the funds that were set aside for that specific purpose. There is a very strict regime that we go through in terms of reviewing the capability plan and in tracking the expenditure against projects.

Mr PRICE—I hope not to have to quote your words.

Mr Veitch—As I said, I am unaware.

Mr PRICE—I was not after that additional amplification or qualification. I do not think we have done justice to the changes you outlined to us this morning. You are indicating that, not too far down the track, the system will be implemented and working. The committee might appreciate an informal opportunity to come and have a look at it when it is up and running and working. That will give us a better understanding of the breadth of the changes.

Mr Bennett—We are talking to the minister's office about briefing various committees on the work that is under way. It is important for people to get a view of what we mean by finance transformation improvement, given the emphasis on financial management in Defence.

CHAIR—Thank you for your attendance and I concur with what my colleague Roger Price said.

Mr PRICE—Sorry, you mentioned the cuts to civilian staff. When has it come into place? What categories of staff does it apply to?

Mr Bennett—We mentioned a temporary freeze in recruitment as opposed to cuts.

Mr PRICE—Sorry, the temporary freezing.

Mr Bennett—I forget the exact date but it has only been a matter of a few weeks that it has been standing. It is only a temporary measure whilst we do some further analysis and work.

Mr PRICE—Could it apply to support staff for military operations—people like counsellors and psychiatrists?

Mr Bennett—We have been very careful to make sure that exemptions exist for any critical roles during that period, with particular emphasis on key scientific, engineering and financial staff. It is a matter of people putting forward their exceptions for that general rule.

Mr PRICE—How does it apply to people who are on contracts?

Mr Bennett—There is a clause for non-continuing temporary staff, et cetera that, in general, during the temporary freeze, will not be extended. But again I stress that for critical roles there is an exception clause; group heads are authorised to submit requests through to the secretary during this period. It is not anticipated that the temporary freeze will last very long. It is a temporary freeze.

Mr PRICE—How long is it taking to process those requests?

Mr Bennett—My understanding is that they are processed very quickly. I do not know the exact time frame. I have submitted a couple and they have gone through within a matter of days.

Mr PRICE—Okay.

Mr Veitch—I was going to take on notice an earlier question about the reserves costs. Mr Williamson from Army is back and probably can give you the answer to those questions.

Mr Williamson—In regard to Mr Price's question, I will take the figure of \$975 million for the cost of the Reserve as about right. As you would appreciate, the reserves are scattered through the Army's subprograms. From memory of the inquiry on the Reserve about two years ago, that figure is about right. Most of the costs for the Reserve are sitting in subprogram 3.10, Protective ops, which is \$732 million worth of expenditure in 2001-02. As I said, there are reservists scattered through the others. If I take a reserve force of 16,000 through the billion dollars, that is about \$60,000 per head.

Mr PRICE—In some senses it was unfair, but if you are looking for a real output from the reserves—and clearly the high-readiness reserves are that output—to gain 2,000 high-readiness reserves effectively is costing you that money. Whilst there have been changes to the reserves, particularly under Minister Scott, which have been supported, the real issue is whether you are getting value for money out of your reserves. I am not reflecting on the reserves themselves. Often the biggest test is whether you can use them. If you are getting 2,000 out of that expenditure, that tends to beg the question about the reserves per se. I think that is the wrong direction.

Mr Williamson—We are trying to get better value from the reserve force we have. This is a new role and task for the current reserve force, so it is an enhancement to current roles and

tasking. Really the additional cost we are talking about is more the cost associated with their new role and the task of the high-readiness reserve. We are building on the reserve force.

Mr PRICE—High-readiness reserves are slots, formed units or blended units out of the Reserve. I can say that the \$950 million is being used to generate those forces—in broad terms, 2,000. It is an awfully high cost. By the way, I have all these finance people here. You cannot see them but they are nodding their heads.

Mr Williamson—I am part of the game. The comparable analogy, though, is special forces on the regular force base; it is not quite the same.

Mr PRICE—There is a debate about the extent to which you need to reform the reserves. Happily, reservists are prepared to embrace that debate. Whilst I can welcome some of the changes that have taken place today, I think there has been an avoidance of real reform in the reserves. That really means cutting back numbers and getting useable people that can not only fill slots but be deployed in formed units and be used in manoeuvre training with regular units. That is a debate, but I might continue to use that \$475,000.

Mr Williamson—That might be a distortion of the figure.

Mr PRICE—It is a useful debating point. Thank you for coming back. I appreciate that very much.

CHAIR—Thank you once again for your attendance here today, your submission and your presentation. I concur with my colleague that perhaps we need to return to this revised business model. It will take us a little time to get our minds around it. It certainly is impressive but we will need some more time to really assimilate just how this works and what questions may flow from the committee over time. If you have been asked to provide additional material, would you please forward that to the secretary. There may be one or two outstanding details. You will be sent a copy of the transcript of your evidence, to which you can make corrections of grammar and fact. Once again, thank you for your presentation and thank you very much for your time, which we value very much.

Proceedings suspended from 12.23 p.m. to 1.04 p.m.

CARMODY, Mr Shane, Deputy Secretary Strategic Policy, Department of Defence

HOUSTON, Air Marshal Allan Grant, AO, AFC, Chief of Air Force, Department of Defence

ROCHE, Mr Mick, Under Secretary Defence Materiel, Department of Defence

SHALDERS, Vice Admiral Russell Edward, AO, CSC, RAN, Vice Chief of the Defence Force, Department of Defence

CHAIR—Although the subcommittee does not require you to give evidence on oath, I should advise that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses. Is it your wish to make an opening statement to the committee before we proceed to questions?

Air Marshal Houston—No, Mr Chairman.

CHAIR—In this session we are focusing on Defence's participation in the joint strike fighter project, focusing on the F35 capability, transition from current platforms to the F35 and Australian industry involvement. The F35, as I understand it, is a single-engine and also a stealth bomber in its development phase, and in the time before the first phase of that development it may be tested in flight?

Air Marshal Houston—Yes, Mr Chairman. The joint strike fighter has been in development for some time now. The first part of the program was a fly-off between two aircraft that were produced by the Lockheed company against two aircraft that were produced by the Boeing company. They were technology demonstrators. Essentially, they had to fulfil the requirement of being able to fly supersonically and being able to take off and land vertically. The fly-off was an extensive program and the winner was the Lockheed product. That happened back in November 2001.

Following that, the US government made a decision to proceed with the joint strike fighter program. As you would be aware, there are up to about 3,000 aircraft on the order books at the moment. It is anticipated that the program will eventually evolve into the largest air combat program in the 21st century. It is entirely possible that this might be the last large family of air combat aircraft.

In terms of the operational aircraft and where the program goes from now, the first part of the program is to develop some test aircraft. There will be 22 of them. Some of them will be for flight testing; some of them will be for ground testing. I think it is in the order of 14 flight test articles and eight ground test articles. After that phase is complete, the first operational aircraft will be delivered in 2008. That aircraft will be delivered to the US Air Force and it will be in the conventional take-off and landing phase or configuration.

One thing I should point out at this stage is that the joint strike fighter is a family of three different types of aircraft or versions of the aircraft. One is a conventional take-off and landing aircraft, which is what the US Air Force will be taking delivery of. There is also a carrier

version, which the US Navy will be taking delivery of. And there will be a short take-off, vertical landing version, which the US Marine Corps and the RAF will be taking delivery of. The deliveries to all three services will commence in the time frame 2010 through to 2012. At the moment, plans are that, if the Australian government decides to commit to acquisition of the aircraft, we would probably have our first deliveries in about the 2012 time frame. Clearly, it is a very large program and deliveries will continue for a number of years through the next decade.

CHAIR—What are the names of the participating countries in the joint strike fighter?

Air Marshal Houston—We have the United Kingdom, who are a phase 1 partner. We have Italy, who are a phase 2 partner; the Netherlands are also a phase 2 partner. Then we have a series of phase 3 partners: Australia, Norway, Denmark, Canada and, finally, Turkey. They will be the only partners in this program. Everybody else has missed the boat in terms of gaining the benefits of being part of the system's development and demonstration phase that we have signed up to. I would point out that the decision thus far commits us to that phase, the systems and development and demonstration phase of the program. It does not commit us to actually physically acquiring the aircraft.

CHAIR—Is any of that development phase being conducted by defence industries within Australia or is it all being developed overseas?

Air Marshal Houston—I will get Mr Roche to address the industry aspects.

Mr Roche—The actual testing on the aircraft itself is largely going to be done in the United States. The first aircraft will be built in the US, but many of the components of those aircraft will be made in the participating countries and possibly elsewhere. There is still some discussion going on about the role that DSTO might have in fatigue testing; that has not yet been resolved.

CHAIR—In terms of the capability of the F35, how does that compare with our current platforms, the F111 and the FA18?

Air Marshal Houston—It is a marked increase in terms of raw capability and it will be also much cheaper to operate than the current aircraft we operate. I suppose one of the most expensive parts of operating an aircraft system through the years—like the F111 or the FA18—is the in-service costs. The in-service costs of running the aircraft are about two-thirds of the total cost of the whole program, so we anticipate that the costs of operating the joint strike fighter, the F35, will be in the order of 50 per cent of what it costs to operate the current fleet. That is because we are moving into fifth-generation aircraft technology and also because the concept of the aircraft is to minimise costs. I think that, for the first time ever, an air combat aircraft is being produced with cost as one of the most important criteria for maintaining and managing the program.

In terms of the raw capability, if I could call it that, this aircraft will have on-board sensors that are far superior to anything that exists in our current F111s or FA18s. The radar will be a very high technology, advanced, electronically scanned radar. There will also be electronic warfare sensors and electro-optical sensors, together with the ability to be able to take on board information from other sensors external to the aircraft, such as AEW/C, air warfare destroyers or

anything else that is connected up to the aircraft through its Link 16 system. Link 16 is a data link system that will give the pilot situational awareness that we can only dream about now. The aircraft will have an integrated approach to receiving all that information. With the sensor fusion—the fusion of all the information from the sensors—the pilot will have all of the information presented on one display. He will be able to filter the information he needs against that which he does not need. His situational awareness will be far superior to that for anybody operating the current generation of air combat aircraft.

The other huge advantage that the pilot of an F35 will have is the fact that he is operating an aircraft that has been designed as a stealth aircraft. That means it is very hard to detect. It will be very difficult to pick up on radar. It will also be very difficult to pick up by the use of other sensors. If, for example, you had a JSF F35 going against an F111 or FA18—the current generation of air combat aircraft—the F35 pilot, because he is so situationally aware and is in this very stealthy aircraft, which is almost invisible to other sensors, will detect the other aircraft first; he will be in a position to then engage that aircraft first with the stand-off weapons that are carried in the bomb bay.

In terms of stealth, the point I also want to emphasise is that it is not just the stealth of the aircraft that we are talking about; it is also the stealth that is provided by being able to carry the air-to-air weapons and, indeed, the air-to-ground weapons in a bomb bay. Because the missiles are carried in the bomb bay, they do not increase the radar cross-section of the aircraft. If you have a look at all the other aircraft that are flying around at the moment, with the exception of the F22 that the Americans operate—and it is extraordinarily expensive—all the weapons are carried under the wings. As a consequence of that, the radar cross-section is increased and there is no stealth advantage, even if the aircraft has some low-visibility technology built into it.

Finally, in relation to the way the weapons will be integrated into the system, it will be an aircraft that is highly flexible and capable of being employed in a very versatile way in the air-to-air role or in the air-to-ground role.

CHAIR—Was any comparison done in terms of the long-term viability of the F35 and the UAVs? I know they are still in the developmental stage, but you could say that both technologies—the stealth F35 and the UAVs—are in the early stage of their development. It is a very long-term project. What I am getting at is this. Will F35s be replaced by UAVs in their lifetime? Should we not perhaps look more at that possibility or is there a substantial reason why we should still go for piloted aircraft as part of the capability?

Air Marshal Houston—At this stage of the development of uninhabited air vehicles, they are not a replacement for manned aircraft. That is most clearly seen in the air combat environment. Uninhabited combat air vehicles are in their infancy in terms of development. They will evolve eventually into highly capable platforms. At this stage, what we are looking at is the uninhabited combat air vehicle being developed for the air-to-ground role. The air-to-air role—the control-of-the-air role—is a much more complex problem, a much more complex environment. There is nothing on the drawing board at this stage to cater for that particular task. The uninhabited combat air vehicle development at the moment is oriented fairly and squarely towards striking heavily defended targets where you would not want to risk the life of a pilot. I think that technology will eventually evolve into a reasonable capability to strike targets.

I should mention here that the Air Force is finding it quite expensive to operate two air combat platforms. We operate the F111 and the FA18. We will be able to operate the F35, which is a multirole aircraft, to do what both the F111 and the FA18 do now, and we will be able to do it more cheaply than currently. If we were to have, say, additional uninhabited combat air vehicles, for example, there would be additional complexity and additional expense in running two separate types of platforms. I think that eventually, if we are talking beyond about 2030, uninhabited combat air vehicles will be very much at the fore. I would expect that the joint strike fighter family of aircraft will eventually be replaced by uninhabited combat air vehicles, but there are still huge challenges to overcome in the control of the air environment.

Mr PRICE—How many F111s and FA18s do we have?

Air Marshal Houston—At the moment, we operate 71 FA18s and 28 F111s, so almost 100.

Senator FERGUSON—In the case of the F35s, I understand there are variants proposed. Are we only going to get one variant? Has that been decided?

Air Marshal Houston—We have not actually made any firm decisions on that at this stage. However, the thinking within the Air Force and the Department of Defence is that the aircraft that is best suited to our requirements is the conventional take-off and landing aircraft that will be operated by the US Air Force. Of course, if we go down that route, there is also the added advantage of having something that is totally interoperable with the United States Air Force. Given our most likely operating areas, we see that as an advantage for that particular version.

Senator FERGUSON—Is there likely to be a great degree of variation between an F35 that is a conventional take-off and landing aircraft as opposed to one that is a short take-off and landing aircraft?

Air Marshal Houston—The third version is called the short take-off and vertical landing aircraft. The conventional take-off and landing aircraft will have, I would suggest, good take-off and landing characteristics, but it will be conventional and will require a runway. The important difference between the two will be the fact that the short take-off and vertical landing version will be more expensive to operate than the conventional take-off and landing aircraft, because clearly you have the added complexity of the vertical take-off and landing requirement. All indications are at this stage that that will be significantly more expensive than the conventional take-off and landing aircraft. In fact, the cheapest aircraft in the family looks like being the conventional take-off and landing aircraft.

Mr Roche—All three aircraft will look pretty similar. The difference between the vertical take-off and landing aircraft and the conventional aircraft is in the addition of a lift fan and directional nozzles for controlling the jet thrust, and that is all internal to the aircraft. The one difference that will be obvious, I suppose, is that the Navy version has a slightly greater wing area than the other two versions.

Senator FERGUSON—When is the scheduled delivery date of the first of these aircraft to the Australian Air Force?

Mr Roche—There is no date yet, because there has not been an order placed by Australia.

Senator FERGUSON—When the order is placed, when is the first date that we could expect to receive one of these aircraft?

Air Marshal Houston—We have to go through the SDD phase, but we would anticipate going to government with a—

Mr PRICE—Sorry, the SDD phase?

Air Marshal Houston—This is the systems development and demonstration phase. Once we are into that, we would anticipate that we will have a lot more information to hand and we will go to government, as originally planned under the Air 6000 project in the 2007 time frame.

Senator FERGUSON—But you already have a planned phase-out period of the FA18s for 2012, haven't you?

Air Marshal Houston—No. The current plan for the FA18 is to commence phase-out in the 2012 to 2015 time frame. Clearly, is a need to look at the FA18 and the F111 and determine how we do the most effective transition into the joint strike fighter, if that is the aircraft the government decides to buy.

Senator FERGUSON—Currently we have a phase-out period of 2012 to 2015?

Air Marshal Houston—Yes.

Senator FERGUSON—We have a replacement plane that we have not ordered yet. We have a situation where it would not seem as though it was possible to get a new plane prior to 2012. I do not know whether we have ever had, in my lifetime, any aircraft that have actually been delivered on the date that they were first expected to be delivered. Am I being too unkind or not?

Air Marshal Houston—No. First of all, the F111 is currently planned to go through to 2020.

Senator FERGUSON—Yes, I understand that.

Air Marshal Houston—However, the FA18 is planned to go through to withdrawal between 2012 and 2015. The JSF is planned to be delivered in 2012. There are a lot of variables, and we are studying those in detail. Clearly, the fatigue life left on the FA18 is something we need to look at in more detail; there are certain things that we could do to extend the life of the FA18 beyond 2012-15 if we had to. Our preference would be to transition the FA18 and F111 into the joint strike fighter and avoid the great expense of having to cater for an interim aircraft. An interim aircraft would be very expensive. The preference would be to transition into the joint strike fighter. We are studying all of that. A lot of work is being done on it now, and over the last 18 months a lot of work has been done in that area. We anticipate that we will be in a position by about 2005 to have a very clear way ahead as to how we transition from the two types we have now to the one we are likely to have in the future.

Mr Roche—To add to what Air Marshal Houston had to say, being a partner in the program as we are, it does give us some early advantages in relation to delivery. If the government is to

make a decision around the 2005-06 time frame, as is currently planned, then, on what we know of the program, we believe that delivery starting in around 2012 is possible. You have made the comment that you are not aware of any aircraft program that has come in on time. I guess it is a very brave call at this stage. But due to the amount of expenditure up-front on this program, particularly with the concept demonstrators—we have had, I think, a total of four aircraft fly—they actually did that on time. That was on schedule and within budget, and both companies' demonstrators flew to the agreed performance specifications. While I think there is some criticism of JSF as a paper aeroplane, one of these concept demonstrators has achieved, in a single flight, vertical take-off, supersonic flight and a vertical landing, which is a pretty good effort for a paper aeroplane.

The amount of attention that has been paid to this program not only by the United States but by the eight partner countries, in terms of reporting and management and so on, is I think at a level that no-one has experienced before. All of the milestones and dates and the performance are out there; they are very open. While you would be brave to bet the house on it, this program, I believe, given the amount of effort that has gone in up-front, has a better chance of succeeding than just about any other program we have seen that is like it.

Senator FERGUSON—If you put your house on it, Mr Roche, I will feel a lot more confident.

Mr Roche—I said I would not put my house on it.

Air Marshal Houston—I would just add that I have had extensive discussions with my US Air Force counterparts on this same subject. If you have a look at the United States Air Force, they have exactly the same situation we have. They have an ageing fleet of F16s and F15s. They have F16s that are running out of fatigue life now and will do through the next few years. They have made the decision to go for a transition into the joint strike fighter. As Mr Roche said, there is an incredible amount of pressure being applied by not only the partner countries but also the US Air Force to have the aircraft delivered on time.

CHAIR—You are really looking for seamless transition. I guess there is going to be a point in the next three to five years when you have to make that decision as to whether you can keep the FA18s and F111s in service long enough to await the successful delivery of the F35s. There must be a point somewhere in there when you may have to look at some other interim measure of some other aircraft if the life of the FA18s and F111s is not going to reach out to the arrival of the new aircraft, because of developmental problems in, as you call it, the paper aircraft. We will call it the F35.

Air Marshal Houston—One of the things we are looking at—and indeed we have been looking at it for a long time—is the way we should manage the FA18 and the F111. We have great assistance from DSTO in terms of gathering a lot of data on the fatigue of both platforms. In fact, the work that has been done on the FA18 has been state-of-the-art work. We now have to gather all of that data and assess that data. By 2005 we are going to be in a position to know precisely how long we could keep the FA18 going. It is true to say that the 2012-15 planned withdrawal date is based on quite old data. What we are getting is the latest data so that we know precisely how long the FA18 can keep going.

Mr PRICE—When will you be in a position to know that?

Air Marshal Houston—In 2005. I do not know if you have seen the test down at Fishermans Bend. That test has just been completed in the recent past. There is now a need to analyse all that data. That is just one part in a very complex process of examining all aspects of the fatigue life of both platforms—and, indeed, all the other risks that we are dealing with in this very complex transition from the two existing platforms to the new platform in the future. We believe that we will be in a very good position to make that decision by 2005. Making a decision now would be premature, because we are going to have a lot more information in the future.

Mr PRICE—Could I just be clear. I may have misunderstood. With all the testing and the gathering of data, it will take up to 2005 before you have the answers?

Air Marshal Houston—Fatigue testing is very complex. We need to know—we need to understand completely—the fatigue characteristics of the FA18 and the F111 the way we operate them. What has happened down at Fishermans Bend is that that has been replicated using data from in-service aircraft; it has been fed into a test article, an FA18; and it has been put through its paces to simulate how the aircraft might last well into the future. The testing on that program has just finished. There is now a need to gather all that data together, analyse it, pull together all the information we have on other matters and present the information. We think that will take until about 2005.

Mr Roche—That date dovetails quite nicely with some of the key milestones in the JSF program too. By that stage they will have had the first engine run and by the end of 2005 the first flight of the initial aircraft will take place.

Air Marshal Houston—Mr Price, included in some of the issues we are looking at is the fact that there are things that can be done to the FA18 to extend its life. For example, we could replace the centre barrel of the aircraft. That is the fuselage part of the aircraft. The Canadians are proceeding with a program to do just that. We would prefer to avoid that because it is technically risky and expensive. Our preference would be to have a smooth transition into the JSF. But if we have to, that is one of the options we can look at. That is why it is going to take a little while to get all the information together.

Senator FERGUSON—Of some 2,500-odd aircraft required for the United States and 150 for the United Kingdom, how early in the production line could Australia expect to be receiving its first aircraft?

Mr Roche—By the time we were looking at our first aircraft, there would be at least 500 aircraft built.

Senator FERGUSON—There will be 500? So if we are getting aircraft No. 501, for instance, how long after the initial in-service for the United States would it take for them to get to aircraft No. 501? How long would it take the production of these aircraft to get to 501?

Mr Roche—The first production aircraft go into service in 2008 with the United States Air Force. We are talking there about a four-year period.

Senator FERGUSON—Four years after?

Mr Roche—Yes.

Senator FERGUSON—They are talking of the first production aircraft set for 2008. 2011 is the initial in-service date for US aircraft.

Air Marshal Houston—What happens is that the first operational aircraft comes into service. It then has to go through an extensive program of testing to qualify it in all its various roles. I would imagine that first aircraft will go to Edwards Air Force Base and will go through a very involved program of operational test and evaluation. There will then be all the training and work-up of the people who are going to man this brand-new platform. That will all take time.

While that is going on, operational aircraft will be delivered. As the capability is formed up into squadrons, wings and so on, it will not be operational in the first instance. In 2011 the US Air Force will be ready to go to war with this aircraft. I think that is what we are talking about. There will be a certain level of operational capability but there will not be an operational level of capability to go to war until 2011.

Senator FERGUSON—We get our first aircraft in 2012. Are we likely to have Australian Air Force pilots who have already been involved in joint training projects with the United States Air Force in the United States so that, when we first get the aircraft, almost immediately they will be able to go into service? Or do we have to go through the same process of a year or two years before they go into service?

Air Marshal Houston—We have not looked at any of those aspects. That is clearly one of the things we would have to do. At this point we are focused on the SDD—systems, development and demonstration—phase. We are looking at the more basic aspects of transition into the new platform. Clearly, part of our transition plan needs to address those sorts of aspects. In answer to your question, yes, we would have to do some testing. There is a laid down series of test phases we have to go through in accepting new equipment into service. We have to make sure that what we are buying is essentially what we have contracted for. Following that, or in parallel with that, we would have to train up our own people. Then, as with the US Air Force, there would be a period before we attained an operational level of capability.

Senator FERGUSON—You can probably see why I am asking these questions.

Air Marshal Houston—Sure.

Senator FERGUSON—It is possible that we could get to 2012 and have a slippage of two years. It has happened in the past. Mr Roche is very confident that everything is up to schedule now, but there is nothing to say that things will not slip further down the track. You are then up to 2014. You then have to get the aircraft here, train your pilots and go through your own period of testing.

Air Marshal Houston—Yes.

Senator FERGUSON—I presume before you get operational you will need a squadron of them anyway. You are more than likely not going to have half-and-half. You have already said that you want to try and phase out the FA18s between 2012 and 2015. If it pushes out at all, something has to give somewhere. You may have to extend the life of your FA18s and your F111s. F111s will already be the longest lead strike aircraft in history, I would imagine, because

they will have been in operation for 50 years by the time we get to 2020. I do not think that has happened too often in the past.

CHAIR—You are going well at 50.

Senator FERGUSON—I am going very well at 50, but I have a few parts that do not work as well as they used to.

Mr PRICE—You have not been fatigue tested though!

Senator FERGUSON—We may have a situation where, if things go out, you have an enormous strain on the last years of life of those existing aircraft. Are you going to have some lowering of our capability in that end period? I will not be here asking the questions; somebody else will. We have to have some indication of where the Air Force is going to be in the event of a pushing out of the time frame of the first arrival of the aircraft and the sort of period there is before it actually goes into service. The best we could expect would probably be 18 months or so after they are first delivered. I would have thought that would be a reasonable amount of time. If it gets pushed out for a couple of years you are then looking at 2015-plus. Can you see where I am heading?

Air Marshal Houston—Certainly, I can see where you are headed. They are the sorts of variables. They are the sorts of things we are looking at. There is the fatigue of the existing air frames. There is the schedule for introducing the new aircraft. There are the acceptance-testing requirements. Then there is the business of training. Bear in mind that we will be using simulators to train our people. It is not the way it has been done in the past. Then there will be a period of time where we need to work up the operational squadrons and so forth. We need to look at all that.

Government has not made a decision at this stage to buy the aircraft. Certainly the government has indicated that there is an intention to buy the aircraft, if it lives up to its promise. That is the sort of work that is going to be done between now and when that decision is made. Yes, there are risks in terms of the transition period, but I assure you that we are doing an incredible amount of work to better understand some of the issues you have just raised with us. It would be premature of me now to say that we are going to do this or we are going to do that. Once we have defined the problem, we will come up with the options and will then decide on the best solution to take us forward.

Mr Roche—I wonder if I could just add a couple of points to that. First, I think the chance of an unpleasant surprise occurring in 2012 as opposed to becoming apparent earlier is really quite small. Because of the visibility we have of this program and because of the incremental way in which it is being delivered, I think we will get significant notice of difficulties with the program. The second point I would make is that, in relation to the existing aircraft, there is not a particular technological barrier to extending their life. It is cost related. As the air marshal said, there are things we can do to the FA18s that we would prefer not to do, but we can replace the centre barrel. There is a large amount of replacement that can take place that can keep those aircraft going. In a technical sense, there are already some very broad-brush strategies there to deal with slippage.

Air Marshal Houston—I would like to add that a lot of the technology in the joint strike fighter comes not only out of that technical demonstrator phase that we had with the two aircraft flying but also from the F22 program. The F22 was also manufactured by Lockheed, and a lot of the technology that has been developed for that program will be used in the joint strike fighter program. It is a slightly different beast from some of the programs of the past.

CHAIR—You had a question.

Mr PRICE—I am not sure who it is to—perhaps Vice CDF. How do we know what capability we will require out of the joint strike fighter? What is the correct type? How do we know whether we need two types, not just one? How do we know whether some of the capability we seek can be delivered from missiles off a naval platform? I think the chair raised the issue of unmanned vehicles. I accept your proposition that they are not going to be aircraft replacements, but they already have a capability of delivering offensive weapons, and presumably in 10 years they will have a much higher capability. How is all that being managed and decisions being made? What is the process?

Vice Adm. Shalders—Mr Price, your question probably relates to the capability development process. I can talk to that in boring detail, but that is probably not what you want. To answer the specifics that you have asked, I might ask the Chief of Air Force to describe how we got to this point.

Mr PRICE—We are saying that at the moment we think it is going to be 100 and it is going to be the conventional type. Why? Why isn't it 120? Why isn't it 80 with an air warfare destroyer and unmanned vehicles? What process allows you to work through and come out with answers?

Air Marshal Houston—Obviously we have a reasonable capability development process where we look at all these things a long time in advance from when decisions are made. In terms of why we are going for a manned multirole aircraft, first of all—

Mr PRICE—It is not so much whether it is manned, but why not some manned aircraft and some unmanned aircraft?

Air Marshal Houston—Essentially, in the time frame to replace both the FA18 and the F111, we are looking for a manned aircraft—a manned, multirole aircraft that can do both the job of the F111 and the job of the FA18. Bear in mind that the F111 is not just there to do land strike. It is also very valuable in the maritime environment. It has a very good maritime strike capability. It can also be used for long-range air defence, although it is not optimised for that role. The FA18 is a multirole platform that can do control of the air. It can also do air-to-ground strike work and so on. We have found that, essentially, the cost of operating two different platforms in that environment is very great. When the white paper came out in 2000, there was a statement in there. If you have a look at it, the requirement for strike is confirmed and the requirement for air combat is confirmed. The air combat capability was confirmed as being up to 100 aircraft and there was a statement in there that that was the most important capability for Australia because control of the air was required before you could do anything else. In other words, if you are going to do conventional operations you have to have control of the air.

Given the importance of that capability at this time in the development of technology, the only option for controlling the air is provided by air combat aircraft and air warfare destroyers in the maritime environment. We have already made the judgment that the best way to confront that requirement in Australia's specific circumstances—and a lot of work has been done on that—is to have a balance between air combat forces and air warfare destroyers.

Mr PRICE—What I am trying to say is this. Why aren't we looking at an extra air warfare destroyer, hypothetically, or maybe not having any air warfare destroyers and having more of these planes? How is the decision being arrived at that we will have air warfare destroyers, F35s, but no unmanned aircraft?

Vice Adm. Shalders—Your question goes to how much capability is enough and what are the options to provide that capability.

Mr PRICE—Yes.

Vice Adm. Shalders—How much capability is enough is a difficult decision.

Mr PRICE—It is a fair point, but we have been battered for three days about this theology about defence of Australia, what that means and whether it is more. Most people are coming to the view that, whatever you want to think about the past, more is being expected. That means that the capability that you traditionally had—particularly maritime, particularly air—may not be sufficient in what the government is now asking of you.

Vice Adm. Shalders—The sort of force options testing that your question goes to is something that we spend a lot of time doing. I heard Army, for example, this morning, talking about some of the experimentation they are doing. The question as to how much capability is enough and what sort of capability best meets the needs that you have identified is something that we have spent a great deal of time and effort trying to resolve. In the instance of the joint strike fighter, we believe that this particular platform will satisfy that capability requirement. We have not yet made the decision, of course—

Mr PRICE—You are certain at this stage that this platform will provide the capability and that you will need only one type? You will not need to look at the other types available in F35?

Vice Adm. Shalders—If I could just make a point about numbers, which might be where you are heading, I will then ask the Chief of Air Force to comment. We have not made a decision yet on the numbers of platforms of this particular type.

Mr PRICE—I understand that.

Vice Adm. Shalders—The white paper mentioned a figure of up to 100. It may be that; it may be more; it may be less. We are not at the point yet where we can actually come to government and say what that figure should be and therefore what the total capability might be.

Air Marshal Houston—I would stress that all we have signed up to at this stage is the development and demonstration phase of the joint strike fighter. What we are also going to be doing over the next three years, before government has to make a decision on such issues as

numbers and so on, is a number of studies that look at the balance of forces issue, numbers and so on. A lot of conceptual work needs to be done. A lot of work needs to be done in conjunction with DSTO. We will probably do a bit of experimentation. At the end of all of that, we will have a much better idea of exactly what we need in terms of numbers and so on. We have not looked at those sorts of aspects at this point.

Mr PRICE—So more than one type is not specifically ruled out at this stage. There are a lot of benefits in having just one type of F35, but you are not specifically ruling out having two? Has that decision been made?

Air Marshal Houston—Intuitively, with manned air combat aircraft, we want only one type. We want one type because essentially in the past we did not have air-to-air refuelling so we needed a long-range bomber and we needed a shorter-range fighter aircraft. The way air combat aircraft have evolved is that you now have capabilities, like the joint strike fighter, that can perform what bombers used to do and what fighters used to do, all in the one platform. We have done enough work in the past to confirm that one multirole platform with the appropriate weapons is the way to go to satisfy that air combat capability. What we now need to do is further experimentation against the approved and endorsed scenarios we have—the force options testing—and establish the right balance between the other capabilities that contribute to the control of the air. We then need to work out numbers and all the rest of it. That work is still to be done.

CHAIR—Probably what the committee is driving at in terms of the transition to the F35 is this. If that is the way the government decides, the experience we have seen in many of the transitions to a new platform with new technology is that they have involved a greater length of time than anyone had estimated. From Australia's point of view, the Oberon class submarine to the Collins class submarine transition left us with a gap in our capability whilst the Collins class was brought on stream and the Oberon phased out.

Reading from some of this material here, Hugh White was suggesting that we may have to look at an interim solution as a serious option to fill in this gap between the F111 and the FA18. Something like the Super Hornets or the F22s may have to be part of our planning, or at least may need some work now before we get to 2005. I suppose we could be confident about all the planning that is going on, but we need to be absolutely assured that we do not get a Collins class submarine scenario emerging in the Air Force in terms of capability 10 years hence. That is our responsibility as a committee here—to make sure those sort of things are being thought of over at Defence.

Air Marshal Houston—Yes. What we are talking about here is apples and oranges. I accept the fact that the committee has some concerns in respect of that program you mentioned. However, what we are talking about here is a program that is going to be the largest program for manned combat aircraft in the 21st century. The whole future of the US Air Force, the US Navy aviation arm and the US Marine Corps aviation arm revolves around that program. As I said earlier, the program leverages off not only the demonstrator phase but also the F22 program. The committee can have a fair degree of confidence that the way this program is running—and thus far everything we have seen is that the program is going exceedingly well—means we are basically going to have the aircraft in reasonable order and in reasonable time. I do not think that we are going to have the huge delays that have bedevilled previous projects. However, we are looking at all that in great detail.

People keep raising the issue that we will need an interim. I would resist that unless our strategic circumstances demand it at the time. I would resist that because the best way for Australia is to have a smooth, seamless transition from what we have now into what we are going to in the future. We do not have to make any decisions at this point. There is a lot of speculation at the moment out in the community, but we are going through, in a very rigorous way, all the information available to us. We will give advice to government in 2005 as to the best way to proceed for the future. You can feel very confident that there will be a rigorous process and we will come up with the best decision for Australia.

Mr Roche—We have already mentioned the fact that this program is quite unusual in terms of the up-front investment that has been made and the stage it has reached already—and, indeed, the degree of scrutiny it is subject to. The other critical point here is that time is on our side. By 2005 we will have a much better feel for how this program is going. There should be, by that stage, a lot of concrete evidence of whether or not it is going to achieve its deadlines. We have plenty of time between 2005 and the earliest withdrawal date for the FA18s to make alternative arrangements if there should be any slippage in this program. We still have open the option to extend the life of the FA18s. That can be taken up at that stage or we can look at alternatives—although, as the air marshal said, it is far too early to be considering that. There is quite a planned timetable with more than adequate time to make decisions and to take alternative action if things do not turn out as we expect. That is the difference from previous programs.

Senator FERGUSON—I was 10 minutes late getting here, so if this question has been raised please let me know. The radius of the new F35 is 600 miles or thereabouts. The aircraft it is replacing—or one of them, the F111—has a 1,000-mile radius. Is there any concern in the Air Force itself about a reduction in the radius it operates in, bearing in mind the proposed purchase of this F35? One of the implications is, of course, that it can be used as a stealth fighter. If you are going to need to use it for any longer-range operations—other than a radius of 600 miles—it is going to require either extra fuel tanks or air-to-air refuelling, which would certainly reduce the level of stealth operations, because of radar connections with extra aircraft involved, or tanks, which will affect performance anyway. Given our geographical position in the world, what was the Air Force's reaction to getting an aircraft with a much smaller radius of operational area?

Air Marshal Houston—There is nothing that replaces an F111. As you mentioned earlier on, the F111s are advancing in age. By 2020 they will be 50 years of age. The point is that we are now getting into a regime where we are going for a multirole air combat aircraft which, with air-to-air refuelling, can do what is required. Having said that, there is the option of putting drop tanks on the F35 joint strike fighter. But, as you correctly observed, as soon as you do that you reduce your stealth capability—although drop tanks can be jettisoned. There are a number of options. The one I prefer is the use of air-to-air refuelling to enhance the range of the joint strike fighter. Having said that, the other thing that I should perhaps stress is that the F35 joint strike fighter will also be able to use its stealth characteristics to go into the target. The F111 does not have any stealth characteristics whatsoever. In terms of the sorts of threats that are likely to present in the future, the F35 is going to be much more survivable in that environment than the F111.

Senator FERGUSON—Is a stealth capability high on the Air Force's list of priorities or is that one of the lower considerations in deciding what sort of aircraft you want?

Air Marshal Houston—In answer to your question, if you have a look at the contenders that we were looking at in Air 6000, the one that had the stealth characteristics was the F35. The F22 also has stealth characteristics, but it is much more expensive than the F35. In the battlefield right now, stealth is a huge advantage. In the battlefield of the future, it will also be vitally important. I put it up there as a very high priority in terms of the characteristics that we are looking for in a future air combat aircraft.

Senator FERGUSON—If we were to choose the air-to-air refuelling capability on these, does that mean that we would also have to upgrade our air-to-air refuelling capability in numbers? Currently, we have the 707s, and that is it, isn't it?

Air Marshal Houston—At the moment, our air-to-air refuelling capability is quite limited. We have old 707 aircraft.

Senator FERGUSON—Two, is it?

Air Marshal Houston—We have three tankers. As you know, they did a great job in Kurdistan.

Senator FERGUSON—Yes, they did.

Air Marshal Houston—However, we are going to replace those three 707s with probably four to five wide-body aircraft. They will have a much greater offload capacity than our current 707s.

Senator FERGUSON—Have you chosen what sort of aircraft yet?

Air Marshal Houston—No. We are obviously at a fairly delicate stage of looking at the options.

Mr Roche—The type of aircraft we are talking about is the Boeing 767, the Airbus A330 or possibly something a little smaller than that. To add to the point made by the air marshal about the range of the F35, I think it is important to recognise that this aircraft is not a stand-alone aircraft. It will be part of a system. It will work not only with the air-to-air refuellers, but also—as the air marshal mentioned earlier—with AEWG, with the ability to share pictures that are being derived from sensors on AEWG. Taken as part of a system, we are talking about an aircraft with an immense capability—certainly one that represents a very significant advance on the F111.

CHAIR—I wanted to pursue a line of questions in relation to the F35 and the F22. When you look at the F22 coming on stream soon—and it has all round greater stealth capacity and probably a greater redundancy, having two jet engines rather than one—there must be some other considerations. Are there considerations that were looked at in relation to the determination to be made in terms of participating in the F35 project?

Air Marshal Houston—The first thing I would raise is cost. What can we afford? The F22 is prohibitively expensive. If we were to go down that route, with the sort of money that is available for air combat capability, I do not think we could buy too many of those aircraft. The

other aspect you need to be aware of is that, despite its incredible air superiority capability, at this point it is not a multirole aircraft. It is a control-of-the-air aircraft. It was designed to dominate the airspace, not to attack targets. I know that the US Air Force is currently looking at doing that, but the capability does not exist at this stage.

CHAIR—Could you expand on the capability of the F22 against the F35 in terms of attack?

Air Marshal Houston—If we go back a generation to when the US Air Force was looking at bringing in the F15 and the F16, the F15 was going to be the air superiority aircraft and the F16 was going to be the multirole aircraft. The US Air Force bought the F15 and the F16. Now we are on a generation, the US Air Force is sticking with its original concept of buying the F22 for the control-of-the-air role and the F35 for the multirole work. In other words, it is an F16-FA18 replacement. Going back a generation, Australia looked at buying F15s, FA18s, F16s and a few other types of aircraft. We decided at that stage that our needs were best met by the FA18, because it was a lot cheaper than the F15 and it had the multirole capability. The F22-F35 debate is very similar, as things stand at the moment. I am sure that eventually the F22 will evolve into having some form of strike capability, but it is likely to be not as flexible and versatile as the F35. Again, I come back to the business of cost. In terms of all the contenders for Air 6000, the F35 was one of the cheaper options and the F22 was the most expensive. In terms of operating costs, once the F35 is brought into service we are probably looking at costs, as I said, that are about half the cost of operating F111s and FA18s.

Mr Roche—The cost of the F22 is over three times the cost of an F35.

CHAIR—And it is single role, while the F35 is dual role.

Mr Roche—Absolutely.

Mr PRICE—I want to ask about a previous briefing from your OIC Missiles. I notice that, in *Australia's National Security: A Defence Update*, the minister has talked about continuing a dialogue with the US about missile defence. Do you have a dedicated team that looks at missile defence?

Air Marshal Houston—At this stage, that is very much a policy part of the ship. I do not have people that delve into policy; I am not into the more practical aspects of that at this stage. I will ask Shane Carmody to come forward, because essentially that is part of his responsibilities at this stage.

Mr Carmody—The dialogue that we have with the United States on issues like missile defence is a policy level dialogue. As the Chief of Air Force said, it is not a dialogue concerning missiles and things as such. It is more a dialogue in terms of broad policy parameters.

Mr PRICE—Given that the government has clearly signalled an intention to seriously look at this, what are the next steps for the department or the ADF?

Mr Carmody—The government has highlighted in the update document that missile defence is an emerging area of importance—particularly linking missile defence with the proliferation of weapons of mass destruction and the issues of terrorism and so on. The next step, I think, will be continuing dialogue with the United States on what its plans are for missile defence. Whilst

the United States has indicated quite broadly its interest in missile defence—and we note movements in US policy on missile defence—the policy and our involvement is still not very mature, so I think it is continuing dialogue.

Mr PRICE—How many RAAF and materiel people do we have in the United States at the moment and, in relation to the F35 program, how many will we have in addition over the next few years?

Air Marshal Houston—In the F35 joint strike fighter development and demonstration phase we have a national deputy on the program in the United States. Regarding the precise numbers of people working on materiel projects in the United States, I would like to take that on notice because I do not have the detail to hand.

Senator FERGUSON—As I understand it, in a combat situation, the United States plans are that they would use the F22s to go in and clear opposition aircraft out or to gain air superiority, and then the F35s would go in and be used as bombers virtually for the enemy on the ground. What are our plans? Are we only going to use F35s in conjunction with somebody who has F22s? Do we have other plans, in a combat situation? That is what I am concerned with. If the US think they need the F22s to get air superiority and then send in the F35s, and we only have F35s, what are our plans?

Air Marshal Houston—Obviously we are talking hypothetically about what the likely scenario might be. But let me assure you that the F35 is going to be a very capable air combat aircraft. The US Air Force will have the F22. That will be the best air superiority or control-of-the-air platform in the world. There will be no doubt about that. The F35 will also be very good in that environment and in the strike role. I would submit that what we are getting is something that is far superior to what we currently have, the FA18-F111 combination.

As I said before, with the sort of situational awareness that the pilot will have—which comes from the on board and off board sensors; it will be data linked into our system—and, added to that the stealth characteristics, I think what we are going to have is a very effective air combat aircraft that can be employed very successfully and very effectively in either the control-of-the-air environment or in the strike role. I am confident that it will meet what we require for Australia well into the future.

Senator FERGUSON—With respect, Air Marshal, they have been our front-line aircraft now for 30 years or more. We would hope to get something better if we were getting something new after that long, wouldn't we?

Air Marshal Houston—Absolutely. Mr Roche said the F22 was three times more expensive than the F35—

Senator FERGUSON—I do understand that.

Air Marshal Houston—and, given our strategic circumstances, the way we might employ the aircraft against the strategic tasks that we have identified in recent times, I think the F35 is precisely the sort of capability that we need. It has great flexibility, it is highly versatile and very adaptable, and it has very impressive capability. I think our people will get the very best out of that capability when we field it in the next decade.

CHAIR—I would like to add to that. I notice there is a comment:

... all other nations in the JSF program, the F35 will be a second tier aircraft behind a more highly performing fighter design.

Is that an accurate comment? That came from Derek Woolmer.

Air Marshal Houston—No, I do not accept that at all. In fact, certainly for the United States Air Force, they are going for a mix of F22 and F35. The US Navy will eventually be going for the F35, I think, in a similar way that we are. Denmark, Holland—those nations—will be going exactly the same way that we are. Denmark and Holland currently operate the F16 in exactly the same way that we operate the FA18. They see the solution to their long-term needs as being one multirole aircraft and that will be the F35. I would submit that there are very few nations on the planet that can afford to go for the F22-F35 mix.

CHAIR—What is Defence doing to maximise Australian industry involvement in the joint strike fighter project?

Mr Roche—This program is unusual in a number of ways. One of the ways in which it is unusual is the involvement of industry. We have involved industry at a much earlier stage and in a different way to previous programs. This program will not be about assembling F35s in Australia in the way that we have assembled previous aircraft in Australia. It is about allowing Australian companies to become part of global supply chains, so that, rather than having a short production run of maybe 100 aircraft, the companies that do take part in this project and get some share of the action will be looking at a market of at least 4,000 aircraft and possibly up to 6,000 aircraft. This is about depth rather than breadth and it is about sustainability.

As I said, we have involved industry at the earliest stage. We have involved the industry department and are working closely with them. There is an industry department person on the project team now. At an early stage I think we identified some 350 Australian companies in a database. We have brought together these companies in groups and facilitated visits from Lockheed Martin and other of the first tier contractors. At this stage we have a series of mechanisms to keep these companies fully involved. There is an industry advisory council chaired by Mr Ken Peacock, formerly of Boeing, which comprises both industry and government representatives and a range of industry capability teams that we are facilitating. We already have, I think, 81 Australian companies who are named in the global project arrangement set up in the US to facilitate the release of technology. There are already 26 requests for quotations—RFQs—that have been issued to Australian companies, and 20 technical assistance agreements. There is a very significant range of Australian companies that have been engaged at the earliest possible stage.

I want to make the point that that engagement is at all levels of capability. It involves mission systems, pylons, launchers, adaptors, cockpit software, airframe, vehicle systems and logistics and support. It is a range of companies from high-tech aerospace—Hawker de Havilland at one end—to Varley Engineering up in the Hunter that makes vehicles for the mining industry and is going to be asked to quote on support vehicles for the JSF program. We are putting a huge amount of effort into making sure that Australian industry is fully engaged in this, and the results to date have been pretty encouraging.

The guiding principle in all of this is that this is not about subsidies or support; this is about ensuring that Australian industry has the chance, on a level playing field, to compete against global countries and to get their products out onto the world stage. At this stage the indications are very encouraging.

Senator FERGUSON—The Australian Industry Group Defence Council said that Australia should expect to get an acceptable commercial return on its investment of \$A300 million. What is an acceptable commercial return?

Mr Roche—I would expect to see work of around that amount in the early stages. There are some much more bullish estimates of what can be achieved. Our focus at this stage is on making absolutely certain that Australian companies have the visibility and the chance to compete. Being on the project and having a national deputy, we have visibility of the contracts that have been let virtually on a weekly basis, so that we know where the contracts are going and are able to monitor that.

Air Marshal Houston—Mr Chairman, could I make one correction. I think I might have said that an FA18 was cheaper than an F16. Certainly that is what my associate back there said. What I meant to say was the FA18 was cheaper than the F15.

CHAIR—Thank you for your attendance here today. If you have been asked to provide additional material, would you please forward that to the secretary. You will be sent a copy of the transcript of your evidence, to which you can make corrections of grammar and fact. Once again, we thank you for your time. We do value that. We know how valuable it is to you in these times which we are confronted with as a country now, and we do, for that reason, even more so value the time that you have given the committee this afternoon. Thank you very much.

Air Marshal Houston—Thank you, Mr Chairman. It was our pleasure, and thank you for your interest.

[2.27 p.m.]

COSGROVE, General Peter, AC, MC, Chief of the Defence Force, Australian Defence Force

SMITH, Mr Richard Campbell, AO, Secretary, Department of Defence

CHAIR—I welcome the Secretary of the Department of Defence and the Chief of the Defence Force to today's hearing. 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. Do you wish to make an opening statement to the committee?

Gen. Cosgrove—No, thank you, Mr Chairman.

Mr Smith—Mr Chairman, should you wish to discuss the issue that was foreshadowed on the diarchy, then I could make a statement which I would hope would be helpful.

Mr PRICE—I have no interest. Well, it is here to stay!

CHAIR—We had better let Mr Smith make his statement.

Mr Smith—Really I only wanted to do so because I understood that that is what you were interested in, but if that is not the case—

Senator FERGUSON—No, please do. It was raised yesterday.

Mr Smith—The term 'diarchy', while it derives much from part 9A of the Defence Act, in fact has no specific legislative basis. Rather, it has become a commonly used term to describe the relationship between the secretary and the CDF, both under the Minister for Defence. The diarchy is a governance structure unique in the Commonwealth public service. It reflects the amalgamation of what were previously discrete entities, those several departments and a separate service organisation that now comprise the ADF, into the one defence organisation. The diarchy reflects the individual responsibilities and accountabilities of the secretary and the CDF, and also their joint responsibilities and accountabilities, in ensuring that the Defence organisation delivers to government the outcomes that go to meeting the goal of defending Australia and its interests.

The diarchy has been a flexible and successful mechanism since the 1970s through which the Defence organisation has delivered results to government. Within this diarchy the secretary is the principal civilian adviser to the minister and carries out the functions of a departmental head. In that context, the secretary exercises the statutory responsibilities referred to, such as the responsibilities under section 57 of the Public Service Act and the responsibilities under section 44 of the Financial Management and Accountability Act, in relation to the efficient, effective and ethical use of resources. The minister would look to the secretary for primary advice on departmental issues and on the proper use of resources in the Defence organisation.

Under the diarchy, the CDF commands the ADF and is the principal military adviser to the minister. This role arises directly from section 9(2) of the Defence Act, whereby the CDF commands the ADF under direction of the minister. In this regard, the minister would look to the CDF for primary advice on matters that relate to military activity, including operations. This model can be presented simplistically, because the secretary and the CDF also have joint responsibilities and accountabilities in respect of the administration of the Defence Force. In that regard, the minister would look to either or both, the secretary and/or the CDF, for advice.

The manner in which the diarchy operates is further set out and clarified in directions given to the secretary and the CDF by the Minister for Defence. In the past, the minister issued separate directions to the secretary and the CDF. Since the mid-nineties, it has been the practice that the minister has issued a joint ministerial directive to the secretary and the CDF. The joint directive provides detailed ministerial direction to both officers on how the minister expects them to conduct their business in delivering defence outcomes to government. In particular, the joint ministerial directive is used to detail the respective roles, responsibilities and accountabilities of the secretary and the CDF, to detail ministerial expectations and to detail pragmatic implementation changes. Consequently, the joint ministerial directives issued from time to time are critical in identifying how the diarchy is to operate in practice.

The diarchy is a collegiate, cooperative and adaptive governance arrangement, subject to directions issued by the Minister for Defence, which in practice has the flexibility to satisfy changing needs and to meet challenges as they emerge in delivering those Defence outcomes for government.

Mr PRICE—I guess the only issue about the diarchy I have is that in no other organisation would you have the senior executives changing so rapidly. Whilst I understand you can clog up a promotion or create a promotional bottleneck as far as CDF is concerned, the price you can pay is continuity and being challenged to have responsibility for a problem or change and seeing those changes through to the end. There have been cases of a six-year appointment and shorter appointments. I do not know what the answer is. It is probably somewhere in between. But if there is a weakness, that is what I would identify as the weakness.

Gen. Cosgrove—You make a strong point. I hope they are listening.

Senator FERGUSON—Here is your chance to make a pitch!

Gen. Cosgrove—Just in our recent history, there are some good examples of CDFs who have long tenures. That has been obviously to the benefit of the government and the Defence Force. There is also, however, a very strong issue of a secretary basically helping to train a CDF in those joint administrative responsibilities and also in policy in whole of government areas. I can recall some secretaries with long tenure who have spanned two or three CDFs, and there is that benefit to it. We have always thought that there is a need to rejuvenate the office of CDF if it is to be done properly, that it is a 100 per cent job with a burnout factor. There is also the fact that the technology of warfare changes quite dramatically. CDFs are supposed to understand that, and it is easier if you are of a generation that has proposed and absorbed the technology rather than one who is struggling to understand it.

On balance, Mr Price, the tenure ought to reside more on the official side with the secretary. I hope everybody is listening to that too.

Mr PRICE—We are not taking bets. In relation to the annual report, one of the more important initiatives taken by the ADF was the institution of the Inspector-General of the ADF; not the one that does all the management reviews but the one in relation to welfare and military justice issues. Maybe I am not very adept at going through it, but I could not find a section devoted to his or her role. If it is absent in this report, would you consider it appropriate that in the next report there be a section devoted to his or her office and the performance of his or her office?

Gen. Cosgrove—I could probably table that if the committee wished.

Mr PRICE—Is it in your annual report?

Gen. Cosgrove—No. I could table it here.

Mr PRICE—Okay.

Gen. Cosgrove—I listened to your discussion with Chief of Army this morning. On spec I brought along the ‘Role and functions of Inspector-General of the Australian Defence Force’.

Mr PRICE—I understand that, but I thought there would have been a section in the annual devoted to the performance of his office.

Gen. Cosgrove—I am sorry. I misunderstood.

Mr PRICE—In relation to the Judge Advocate General’s office, as you know, given our two reports associated with military justice, I understand there has now been a review of what was the old legal office, now Defence Legal Service. Would there be any problem with the committee getting a copy of that review—not today but in the fullness of time?

Gen. Cosgrove—We will take that on notice. If it is possible to comply, we will. We will certainly write in reply soon.

Mr PRICE—The Judge Advocate General in his latest report refers to the director of military prosecutions. I accept that both the government and the ADF have agreed now to the institution of that office but there does not seem to be any sign of when we will actually have a director of military prosecutions. In our reports we highlighted that one of the impacts of a director of military prosecutions would be that they would be critical or otherwise of the investigative processes leading up to the laying of charges. That is something that would be of great benefit, given the current circumstances of the case that I raised with the Chief of Army.

Gen. Cosgrove—The issue of the evolution of the director of military prosecutions is that we are on the threshold of making those appointments. Following on from the issues of several years ago, when the Burchett review recommended the strong consideration of a director of military prosecutions, we took that recommendation. We have considered the military justice systems in Canada and the UK and the responsibilities of the Commonwealth and some state directors of public prosecution. As a result of that we came up with a concept which has passed by the Chiefs of Service Committee and been agreed.

We now are in the throes of establishing a director of military prosecutions proposal as a statutory appointment by the Minister for Defence. He will have the following functions: to prefer charges; prosecute at courts martial and Defence Force magistrate trials; represent chiefs of service at the Defence Force Discipline Appeals Tribunal; assist on behalf of the Department of Defence on matters before the High Court and the Federal Court; provide advice to COs, units and the chain of command on disciplinary investigations as required; provide advice to service investigators as required; act as counsel assisting courts and boards of inquiry; furnish guidelines to legal officers and the service police with respect to prosecutions; and to assist in training of legal officers, service investigators and other ADF members.

We are very comfortable with those functions at chiefs of service level. In the matter of our recommendation to government that it be considered as a statutory appointment, naturally that would be a matter for the minister but that is our thinking at the moment. This would give the office holder that necessary separation from the ordinary command and officer development chains within the Defence Force, and a certain perceived and actual level of independence.

Mr PRICE—Legislation I presume would be required to institute the office. Do you have an idea when it will pass all the hurdles of government approval, legislation and start date for the office?

Gen. Cosgrove—It may be that the initial appointment is made as an interim while we are awaiting the raising of legislation making it a statutory appointment.

Mr PRICE—But that will mean that as soon as an interim appointment was made, it would be effective.

Gen. Cosgrove—Absolutely. There will be a bedding-in period but I hope it will be very short. We would expect it to be in operation without delay after the appointment of an individual.

Mr PRICE—I understand some decisions are contingent upon government, but do you have a rough idea about when you would hope to see that appointment?

Gen. Cosgrove—I have asked the Vice-Chief with the service chiefs to man the office. There has been an interview of individuals to fill the primary office as the director. There is obviously now a process of making an overture to the successful candidate to establish the conditions of the office. This is a matter of only weeks, perhaps months. I imagine we would have an office established by the middle of the year. I am getting a sign from the Director-General of the Defence Legal Service that my advice to you is correct. About the middle of the year we would expect the individual to be operating.

Mr PRICE—I know we spoke with Chief of Army about the reserves. I note in Minister Vale's press release that all reservists have now been moved to one of the new categories. I am not sure that is correct. Have all reservists now been designated high readiness? I did not think that was the way it was going to work.

Gen. Cosgrove—I would have to take that on notice. That would be an issue involving, as you can well imagine, about 20,000 active reservists of the three services. To find out whether

they had been desktop designated might be one thing. To find out whether they were aware of their new status would be a second issue.

Mr PRICE—If you could clarify that for me on notice I would be grateful.

Gen. Cosgrove—Yes.

Mr PRICE—Could I take you back to a question that I asked the former Vice CDF at the last hearings. One of the critical things in the white paper was that Army should be able to mount a brigade operation and sustain it and a concurrent battalion. There were legitimate questions about whether Army at that stage, or even today, would be able to fulfil that. The Vice CDF was quite adamant that could be done. Chief of Army today says that the sustainment model from the Army is not finished; it is a work in progress. How can we be confident today that we are able to do that, when the very model that allows you to do it is still in progress?

Gen. Cosgrove—In my third year in Canberra I would say to you that both are correct.

CHAIR—You are sounding like a politician!

Gen. Cosgrove—The Vice-Chief was adamant that it could be done and he is right. We could mount the initial brigade for a six- or 12-month tour of duty at the end of the preparations before any operation. In that time we could make the necessary reinforcing arrangements to relieve that brigade, as is inherent in the wording of the white paper, with another brigade of not exactly the same capabilities but very similar capabilities. That brigade itself could then do a six- or 12-month tour of duty.

There was some discussion, indeed conjecture, about the sanctity of what we had been using as a six-month tour of duty. That is a device where we believe, given the nature of the task, it is appropriate both to reduce the amount of separation time between service men and women and their loved ones and, secondly, to create a wider reservoir of people with operational experience. It is a convenience and we could quite readily revert to what was, as you would recall, in the sixties and before, the more normal tour of duty being 12 months.

At the 12-month mark, as the vice-chief adamantly maintained, we would be able to continue to send forward brigades whilst working up further brigades for rotation. This does, indeed, rely on the use of reservists. That is part of the Army's sustainment model the Chief of Army referred to: work in progress and a very complicated but achievable goal in terms of developing the reserve and the high readiness part of the reserve in a prioritised way to meet those sorts of goals.

Senator FERGUSON—This is a question to both you gentlemen. You would no doubt be aware there was some criticism yesterday in relation to the extent of consultation in relation to the defence update 2003. Could you tell us, in your opinion, how extensive the consultation process was? Not only how extensive was the consultation process, but what sources in Defence actually contributed to this document?

Gen. Cosgrove—I cannot speak for the detail inside parts of the organisation but principals were involved in a number of different drafting and consideration exercises. I believe there would be no member of the Chiefs of Service Committee or no principal advisory member of

the Defence Committee who could claim to be uninvolved or whose view was not sought and heard particularly in the earlier drafts of the defence update; remembering that later drafts were submitted for whole of government consideration.

Senator FERGUSON—Yes, I do understand that. What about departmental secretaries?

Mr Smith—I can confirm there was very wide consultation across government, other government agencies on this paper. Indeed, it went on through December and January. As to consultation outside of the defence organisation, we did not of course undertake the great community consultative process of the white paper. This is a different kind of a document. But I can say that in the three months I have been here, during which time this document was being drafted, I met with most, if not all of the opinion makers and opinion offerers on strategic issues and listened to them carefully, and some of that is reflected in there.

Senator FERGUSON—The criticism came from Brigadier Wallace yesterday who was, at a certain period, land commander of special forces. Could someone in his position reasonably be expected to be consulted over this sort of paper?

Gen. Cosgrove—Was Brigadier Wallace referring particularly to this document?

Senator FERGUSON—No, he was referring to the previous one; he was referring to the white paper. He was not referring to this, but could he have reasonably been expected to be consulted for that white paper?

Gen. Cosgrove—He could have, but whether the fact that he felt underconsulted—if I could put it in that sense—was a flaw in the process or something reprehensible is very arguable. The Army was consulted in a fairly engaged way.

Senator FERGUSON—This was during your period as Chief of Army, wasn't it?

Gen. Cosgrove—Yes. The Deputy Chief of Army was closely involved in the iterations of drafts of the white paper. Army had significant input to the thoughts and some of the material outcomes of those thoughts in the white paper. I have no reason to think that at that time—I am only speaking for Army at that time—the same did not apply for Air Force and Navy. There was a particular style of deriving the white paper which was to have a small group responsible for authorship, but, recalling back to the publication of the white paper, there was wide satisfaction that the philosophical underpinnings of the white paper seemed to be pointing in the right direction. That was widely accepted both within and outside the ADF. Certainly the sorts of systems and capabilities and platforms and the like that were included seemed to be also very logical. There is always, as there has been, some discussion about the quantum or the quantifying of the cost of capabilities but in relation to those first two issues, the philosophy of it and the capability outcomes, I recall at the time considerable satisfaction.

I also am aware that Brigadier Wallace feels that some of his expertise was not appropriately exploited. He is a very good retired officer for whom I have great respect. We agree on many things; on some we disagree.

Senator FERGUSON—The question is, if you are producing a paper which deals with strategy, to what level you go down through the forces to seek input; whether the input is only

made by very senior people within the armed forces in conjunction with people from the department, or do you actually filter it down much further when you are talking about strategy rather than on the ground issues?

Gen. Cosgrove—It is a good point to make, Senator. I consider that where those who were deriving the outcomes of strategy sought advice on capabilities that would have been in the brigadier's particular area of expertise. I was Chief of Army. I was very satisfied with the Army or land force outcomes of the white paper in terms of the philosophical underpinnings and the capabilities that it pointed to. I was aware that Brigadier Wallace felt some frustration at his role or lack thereof in his own view. As I say, I have a great deal of time and respect for him and his views, but we do not agree on all things.

CHAIR—In relation to that comment and the white paper, it is to do with capability goal and the comment in here at 8.12 is:

We decided, however, against the development of heavy armoured forces suitable for contributions to coalition forces and high-intensity conflicts.

When you reflect back on that today, would that still be something you believe is a valid position which was taken in the white paper, to do with the development of a heavy armoured force—against heavy armoured forces?

Gen. Cosgrove—Very much so. This does not stop us having niche capabilities which represent those high-order land force capabilities which provide, at some critical part of the battle, a very emphatic and decisive capability. What the white paper, in my reading of it, at that point suggests is that we would not so direct or emphasise the structure of the Army as to, say, characterise it by being heavy armoured forces. It was simply not on our radar screen that we would be involved in mechanised operations to the exclusion of those other operations that our more balanced force enables us to perform. Simply, in our region the number of places where you would get optimum effect out of a force which emphasised heavy armoured capabilities is very small, so we seek to structure in a general way more for our region whilst having niche capabilities suitable either to resolve emphatically particular military conflict situations or to contribute to coalitions.

Mr PRICE—You know the committee produced its report *From phantom to force*, that looked at changes to our Army, almost two years ago. I think there are 12 recommendations in it. Why has it taken two years to respond to that, at such a heightened tempo of ADF activity? It is still not responded to, but why has it taken more than two years to date?

Gen. Cosgrove—The issue of why the committee has no particular response I would have to take away, because it seems to me that a response has been drafted. The report has had excellent value in that it has informed the sorts of developments you see. Some of the recommendations were not taken up or, rather, were not ones we favoured. I think one of the recommendations of the report was a rather radical approach to the reserve, and we have decided instead to change the orientation of the reserve from the role that you saw and had concerns about—in other words, a reserve that was somewhat underpowered and focused solely on issues of defence of the homeland, before terrorism—and migrate that role to one of contributing to near term operational requirements. We have further migrated it, as the Chief of Army foreshadowed this morning, into a protective security and response role focused on protection against terrorism

threats. Both of these, I think, would have found favour with the committee as it contemplated the report. Why you have not received a response is another issue, but there has been some very gratifying work done to meet some of the concerns expressed in your report.

Senator FERGUSON—General, as chair of the main committee, I have written to the minister in the past week wondering when we will get the response. I imagine that Mr Smith and others will take that up as well.

Mr PRICE—How many personnel have now been returned from the Gulf in response to this issue about immunisation? Have you got the latest figures?

Gen. Cosgrove—I am caught betwixt and between with my committees here. I have undertaken to the Senate legislative committee that I will furnish them with a complete list, and I am not yet in a position to write to them.

Mr PRICE—The same information will be fine.

Gen. Cosgrove—Can we give that at the same time?

Mr PRICE—That is what I am saying, yes. In relation to the nuclear biological chemical suits, have all personnel been issued with those and do they have a time of life? For how long can they be used?

Gen. Cosgrove—That is quite a technical question which probably revolves around the sort of environment the suits are in, the wear and tear on the suit because of the environment and the exposure to any agents they are meant to repel or protect against. The issue of how long a suit would last under certain circumstances I might again need to provide to you separately. On the issue of the provision of protective equipment or suits, all of our people have been trained on them. I will not go into the numbers per person, but all will have access in the next day or two to the minimum requirement leading up to the optimised requirement for suits in the next few days. If I was to say to you that there is a minimum requirement, you could probably imagine what that was. Given the reasonably scrambled nature of getting our people away, we have been working towards an optimised issue procedure to our people.

Mr PRICE—I raised the issue with the Chief of Army about media coverage of the forward deployed forces. Should the government take a decision to join in an attack in Iraq, will our Australian media have prudent access to Australian troops on operations, where that is appropriate?

Gen. Cosgrove—It is the minister's full intention to do whatever the Australian government can to allow media access to those parts of our force where it is suitable, safe and reasonable for them to go. An example would be that we have ships, and we can see absolutely no obstacle to having our media report on our ships. It becomes an issue where some of our elements are in other countries. The attitude of the country to any media—ours or anybody else's—has to be taken into account, and we would be working with those friendly countries for their approval for our media to be with those of our forces that are resident in those countries.

Understandably, in a coalition, the coalition wants some registration of media, wherever they are from, and has an expectation that coalition partners would collaborate in that respect. From

our point of view, we would be wishing any of our media that were interested in visiting and reporting on events in the region to be involved in a registration process with a senior coalition partner on behalf of all of the coalition members. That said, it would be our intention that if it was the wish of our media to specifically visit Australian forces—with the proviso of those things I said earlier—that that be done. Finally, on our special forces, there would be the constraints of their operating environment, which may mean limitations as to what part of the special forces such media representation could visit.

Mr PRICE—Regarding Iraq, has there been any discussion with our potential coalition partners about an Australian commitment to peacekeeping operations post any conflict?

Gen. Cosgrove—There has been a very substantial liaison between Australia and the United States, in particular, which is well and truly part of the record. The issue of whether or not we are involved in the hypothetical situation of a rehabilitated Iraq is very much a policy issue and I could not comment on that in this forum.

Mr PRICE—I accept that it is a policy issue and maybe you cannot go any further. But so that I understand, there have been discussions but no decision has been made?

Gen. Cosgrove—The whole hypothetical of an Iraq that does not comply with resolution 1441, the whole of the subsequent hypothetical has been discussed.

Mr PRICE—Thank you.

Senator FERGUSON—General, you came in at the tail end of our discussions with Air Marshal Houston in relation to F35s. You were CDF at the time that the decision was made to go ahead with the potential purchase of the F35s. As the overall Chief of Defence Force, do you have any concerns about any blow-out of delivery? If we decide in 2005 or 2006 to purchase these planes, do you have any concern about the potential lessening of our capabilities that might be caused in any delay in the delivery of those planes?

Gen. Cosgrove—I have the usual concerns about any blow-out that might stretch an existing and ageing capability. I can assure you that our expectations of that are that there will be minimal blow-out. It will not be catastrophic. I heard Air Marshal Houston tell you why he felt that, and I agree with him. Secondly, I do not know whether he said this, but I am sure he would not mind me saying that we, of course, have hedging approaches against any minor slowdown in the delivery of our F35s, if that is the decision government takes, remembering that at the moment we have bought an option.

CHAIR—Last night on the news, following the release of the Australian national security defence update, there was a suggestion—and I did not think it was the way it was put by the minister—that North Korea may have or may be developing capability to reach Australia with an intercontinental ballistic missile. Was the news reporting of that one of hypothetical assumption or something based on a bit more fact?

Gen. Cosgrove—The secretary will take that up in a moment. I saw the program—if we are talking about the same program—and it was very much a hypothetical of, if the trend continued, future possibility; you combine a nuclear capability with a long-range missile development program. That was my impression of what was asked and answered there.

Mr Smith—I think there was a spin on that report. The minister said:

We don't believe that they've—

that is North Korea—

tested a missile that would reach Australia at this time but we certainly believe that they have missile programs underway which would have that range.

CHAIR—I think it was the inference that came from it. There was a map of Australia and a kind of reach down and the arc that followed which would suggest to some of those who are not as well informed that perhaps they had that capability. I was interested in your comments in relation to that.

Mr PRICE—In relation to cooperation in the war against terrorism, are we trying to assist Indonesia in its counter-terrorist capability? Are we assisting their police force and are we assisting Kopassus?

Mr Smith—We are certainly assisting the Indonesian government as a whole under the auspices of the MOU on counter-terrorism that was concluded a little over a year ago. That describes the cooperation between agencies. That has certainly happened during the past year on a much higher level than previously. We have been working with the police in a great deal of detail, especially since Bali. In the course of the work that the police have done—the AFP in particular—post Bali, I believe they have contributed to the Indonesian National Police capability. As to Kopassus, as the minister said yesterday and as we have suggested in the paper that was released yesterday, the update, that is an issue that we appreciate is important because if it comes to counter-terrorist capabilities, real capabilities, in the event of an incident, that is where the capacity to do real things lies. As the paper says, we will have to consider some sort of a dialogue with them about that in the national interest.

Senator FERGUSON—I would like to talk about East Timor. I noticed in this paper there is talk that, although we are providing 25 per cent of the peacekeeping force at present, we intend to draw it down over the next two years. It then goes on to say, 'Australia will continue to assist East Timor when the peacekeeping operation comes to an end.' Do you have any idea when the peacekeeping operation is intended to end? I would have thought it was a fair way down the track. If we are going to draw down, how significant is that going to be? If there is going to be a peacekeeping operation, does that mean we will be providing a much lower percentage of the peacekeeping force, or will the peacekeeping force itself be drawn down in the same way that it has, for instance, in Bougainville?

Gen. Cosgrove—The draw-down hereafter of the peacekeeping force will not comprise the same rather dramatic steps down that have taken place over the last several years. I will speak for the Australian contribution. The plan would be for Australia to maintain the nucleus of a battalion and for that nucleus to be added onto by other troop-contributing nations to maintain a battalion in the border area of the west of East Timor. That would remain basically the presence in that area, together with another entity—possibly with a strong Portuguese component—in the remainder of East Timor until the middle of June 2004 when, at this stage, on the most recent formal consideration of the end of the peacekeeping mission, the force would withdraw, leaving in place potentially—and, of course, this is a matter for the East Timorese, as well as for the

government—a training arrangement which presently Australia shares with the Portuguese and, to a lesser degree, the New Zealanders.

Senator FERGUSON—Is that what is meant by Australia continuing to assist East Timor when the peacekeeping operation comes to an end?

Gen. Cosgrove—Our military relationship is a little wider than simply that presence. It is a defence cooperation program entity and it will, if it continues the way it is now, involve East Timorese servicemen and, in the future, service men and women coming to Australia for professional training. It will possibly involve groups of East Timorese coming to our training facilities for collective training. As I foreshadowed, it probably has—if the East Timorese wish it—a small Australian training team presence of some nature in East Timor for the foreseeable future.

Senator FERGUSON—What are the numbers we have in East Timor at present?

Gen. Cosgrove—Under that category?

Senator FERGUSON—No, right now, the 25 per cent.

Gen. Cosgrove—About 1,000.

Senator FERGUSON—Are we the largest indirectly?

Gen. Cosgrove—We are, yes, but not by a tremendous amount. The Portuguese have a strong representation there as well. There are 1,000 because we have folks in headquarters and we provide some niche logistic and other support capability still that bump our numbers up a little.

Senator FERGUSON—You said the draw-down will be less dramatic than it has been in the past. If we have roughly 1,000 there now, how many would you expect we would still have at June 2004?

Gen. Cosgrove—If you allow me to be approximate, I would imagine no more than about 500 at the next draw-down, which is at this stage due for the end of this year.

Senator FERGUSON—Not knowing what our other requirements might be in the next couple of years, it still is a significant rotation of people that are required to service our obligations in that peacekeeping force, isn't it?

Gen. Cosgrove—Yes. The simple point is that now, because we have been doing this for a while, we have no great pressure on the vast majority of those 500. Where it gets tricky is the more specialised 10s and 20s who might represent a unique or quite sparsely populated employment category in, say, the Army, where they are returning perhaps for multiple tours.

Senator FERGUSON—Are we still using reservist medical people, for instance?

Gen. Cosgrove—We are. I do not know whether the Chief of Army mentioned this, but we have a reserve rifle company as part of 5/7RAR. We did not need to do that, but we really

wanted to do that to provide an underscoring on their excellent capability when given a little bit of top-up training.

Senator FERGUSON—What is the duration of the reservist deployment?

Gen. Cosgrove—The reservists are doing the whole time to make their time under full-time service worthwhile. Six months.

Senator FERGUSON—Six months.

Gen. Cosgrove—The way we are achieving that is to rotate a couple of the regular rifle companies of that unit through on shorter tours. I do not step back from that. It was a good initiative and one I am pleased the government was able to agree to.

Senator FERGUSON—Thank you.

Mr PRICE—I did not ask General Leahy, but could I ask you—I am certainly speaking for myself, but I suspect for the committee—when the sustainment model for the Army is completed this year, would it be possible for us to have a briefing?

Gen. Cosgrove—Yes. Because it is a bit of a blueprint, it would be at that level of confidentiality which might invite the committee to go into a closed session, simply because it says this is how we do business and that blueprint is not something we would put on the Web, say.

Mr PRICE—I was hoping it might be at Army somewhere and that would not be a problem.

Gen. Cosgrove—I am sure the Chief of Army would have no difficulty, provided we could keep it at that level.

Mr PRICE—Mr Smith, are the figures that the CPSU have suggested—that 1,200 people on temporary contract will be affected by your freeze—correct figures?

Mr Smith—The intention of the freeze was not to put those 1,200 people out of jobs. If their managers make the right approach to me for an exemption then they will not be put out of a job.

Mr PRICE—What is the duration of the freeze?

Mr Smith—I decided on the freeze because I wanted to get a much more complete understanding of where the growth was occurring in civilian numbers, both APS ongoing and non-ongoing, and private service providers. I wanted to know where the growth was, why it was occurring and over what period. I have some work going on. I had hoped it would be finished by the end of this month but I am looking now at perhaps mid-March. When I understand the reasons for the growth and where it has occurred then I will be in a position to decide what we need to do about it; whether it is justified or whether it needs to be managed down.

CHAIR—Can I thank you, Secretary and Chief of Defence Force, for your attendance here today. We really do appreciate it, given your very busy schedules. If you have been asked to

provide additional material, would you please forward that to the secretary. You will be sent a copy of the transcript of the evidence to which you can make corrections of grammar and fact.

Mr PRICE—Could I, for the record, repeat my thanks to General Cosgrove for the opportunity to be at HMAS *Waterhen* to farewell the naval divers. I really appreciated that.

Gen. Cosgrove—Thank you, Mr Price. Thank you, Mr Chairman.

[3.23 p.m.]

ADAMS, Rear Admiral Brian, AO, Head, Defence Personnel Executive, Department of Defence

APPLETON, Brigadier Christopher George, Director-General, Defence Education and Training Policy, Department of Defence

CHAIR—Welcome. 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. Is there an opening statement you would like to make?

Rear Adm. Adams—I have come here on the understanding that we are to answer questions about the Career Transition Assistance Scheme. I have a statement which may pre-empt some of your questions. I could go ahead and make that if you wish, Mr Chairman.

CHAIR—Yes, please proceed.

Rear Adm. Adams—I should begin by acknowledging that your committee, in May last year, made three recommendations: one was about conducting a performance audit on the scheme; the second was about providing outsource services for ADF personnel as part of the scheme; the third was about access to specialised employment services. The department has responded. We put that to the minister assisting. She has agreed that is to be forwarded to the Prime Minister, but it has not yet been tabled, so I understand I am not at liberty to discuss that in detail. That said, the revised Transition Assistance Scheme was put in place in July 2001. It has been going for about a year and a half and we are about to start the next round of it this year. Our commitment and our desire are to do better in helping our people. Our aim is to reduce the number of people who need to transition to civilian careers but, when they do, to do it better for them. The commitment and the desire have not diminished.

Obviously, we have not conducted a formal audit of how the process is going, but anecdotally it seems to be going well. Brigadier Appleton has some detail. If you wish, he could talk to you about that. We have amended some of the services provided. I am not certain whether I need to go back over the tiered approach; I think the committee went through that. The three tiers are there. What we provide in each tier is where some improvement is being made.

There are 22 resettlement officers around Australia now, complemented by a framework of resettlement officers within ADF units to facilitate the scheme. CTAS, however, is not the only scheme we have to assist people's transition into civilian life. We have a Defence Assisted Study Scheme and there is a considerable body of work which, Mr Chairman, you are probably aware of from experience, about aligning defence training better with the civilian system and getting it accredited. That is all I would like to say, as a broad overview of where we are going. The bottom line is, we have continued with the scheme. It still attracts a great deal of interest and priority and we intend to maintain that interest and priority.

CHAIR—Brigadier Appleton, did you want to add anything?

Brig. Appleton—Mr Chairman, if you sought any articulation of those two other features that the head spoke of—that is, the Defence Assisted Study Scheme or the national training framework alignment—I would be happy to provide some amplification.

CHAIR—The report has gone to the minister assisting and will be tabled once it has cleared all appropriate approvals.

Rear Adm. Adams—Certainly.

CHAIR—Obviously, with the increased tempo under which Defence operates today overseas, the transition and management back into home bases and into the civilian work force, if people are transitioning out of Defence, is becoming an increasing issue and probably an expectation of the broader community. We would certainly look forward to a report on the audit of where it is at at this stage. In terms of the health side of the monitoring of people on return from operations in Afghanistan, in the Gulf and in Timor, is that a program that is running well? Is it a continuing program of monitoring the health for a number of years and, if so, for how long? If someone went in 1999 to Timor, would they still be subject to some monitoring? Have any unusual conditions appeared in members who have been serving overseas?

Rear Adm. Adams—Certainly this is a topical matter. I am not aware of any specific issues arising out of East Timor service. I know there to be a report or a study of the so-called Gulf War syndrome which is with the minister assisting. I understand there is an intention to release that soon. In terms of current employment, the service chiefs in particular have reviewed the briefing processes for people before they deploy and looked at what we are doing for people when they return. We have asked our soldiers the question: are we happy with it and have we done enough? The answer must be: we are looking to see whether we should be doing more and, if so, what.

There is the question of standardisation, making sure that a person in one service is receiving equal treatment to another. There has been the Defence mental health strategy approved and that is still being put in place, but there is a strong link between pre-deployment, post-deployment and that mental health study. In short, it is a topical interest. There is a considerable amount of work going on, but it is still a work in progress. Certainly I understand the service chiefs to be generally happy that they are doing what is appropriate for people at this stage. I am not going to sit here and say to you that it is perfect or that we cannot do more or that we cannot improve it. I am sure we can.

CHAIR—In terms of the forward deployment of troops that we have now, and building on the experience of the Gulf War which led to the issue of Gulf War syndrome, which has been the subject of a health study and then treatment for those who presented with that syndrome to doctors, are we able to identify quite easily and quickly those people who have gone to the Gulf? In other words, are the records computerised or are they still manual records of those who have been forward-deployed? Why I ask is because I remember at the time that identifying those who had been to the Gulf was quite a challenge. The syndrome appeared five to six years later but we had to start to do the work following their return from the Gulf.

Rear Adm. Adams—My experience in this is fairly limited. It is similar to yours. The identification of those people who went to the Gulf was not easy, but we achieved it. We have PMKEYS, the automated system. It is still very much being implemented. In July last year it

was introduced to the Army as the last of the three services, so there is still a great deal of work to do. But my expectation is that the identification of people and where they have served will become easier as time goes on. Right now it is not totally automated and would still require a degree of careful management and some manual work. That would be my expectation. I would take that on notice, perhaps, and I might confirm that with you to ensure that I am not misleading you in saying that.

CHAIR—There were personnel who, for their own reasons, did not want to be protected from possible exposure to anthrax. In terms of World Health Organisation clearance, are we confident that the anthrax vaccination does not have any side effects? In other words, which health authorities—USDA or our own health authorities—have cleared that vaccination?

Rear Adm. Adams—I would have to rely on my recollection of the evidence given to the Senate legislative committee on that one. I certainly heard the Director-General of the Defence Health Service refer to the fact that there was a level of clearance by a body in the United States which had been accepted at some level in Australia. It is going beyond the bounds of my knowledge. I would have to take that on notice and get back to you.

CHAIR—The committee would be interested to know if that was cleared and whether any of our relevant bodies in Australia have had any comment in relation to vaccinations.

Rear Adm. Adams—It has certainly been done, to some degree. I would like to take that on notice to ensure that I give you an absolutely correct technical answer to that.

CHAIR—In terms of education and job opportunities, when people are separating from the Defence Force and going back into civilian communities, and the skills that they have are Defence skills, what sorts of programs do we have in place? Is that in that report that will come out shortly?

Brig. Appleton—As the head mentioned, our core policy is the transition scheme but it is augmented by the Defence Assisted Study Scheme and the provisions of the alignment with the national training framework. Could I talk to the feedback that we have received about the performance of CTAS so far? Admiral Adams referred to the fact that this is a scheme which is approaching only the 18-month mark and there has not been any comprehensive performance audit of this system yet. It is too early. However, what my desk officer did towards the end of last year was to contact by phone 110 people who had used the service in the previous 12 months for their feedback.

Overwhelmingly—in all but six cases—they expressed satisfaction or better with the provisions of the service. All bar one had secured employment within two months of departing the service. But there is an element of many people choosing their separation date based on having arranged a further career, rather than that reflecting any particular magnificent credit on the scheme. The one despondent correspondent, if I can use the term, was a serviceman who 11 months after his separation was still not in employment. He was a serviceman who had been discharged on medical grounds and, in that regard, he was being individually managed by the Department of Veterans' Affairs under the transitional management arrangements system, with which you would be familiar, Mr Chair.

CHAIR—We certainly look forward to that report as it clears all the approval processes. As you would be aware, we will be taking a very close interest in the personnel matters, given the increased tempo at which our ADF is operating at the moment and look like they will be for some time. Their families back home was the only other question I had. What sort of auditing have you had in terms of the families and the support for families of those personnel who have been deployed for extended periods overseas? I have an idea of what has been done, but is there an audit or feedback for the Defence support for the families?

Rear Adm. Adams—There is not an audit process but we are not short of feedback, and I should say that part of it is because of organisations like the Defence Families Australia, the former national consultative group of service spouses. We are fortunate to have very active national conveners who work very closely with us and who are not reticent in letting us know when families have views about the quality of our service.

There is no doubt that the extent of the deployments we have had has placed an increased focus on the service we provide to the broader Defence community organisation. In the level of person in charge, a civilian in charge, we have raised the DC level and we have added a policy-making body to it to try and come to grips with it—instead of just providing the service, to hear what the community is saying and look at whether our policy is adequate. They are both new developments. But certainly, for example, we are looking at the child-care centres, community centres, that sort of policy.

In short, it is an area we are rightfully placing more emphasis on. I think the people in it have done some marvellous things. In deployment briefings from Western Australia, for example, in the case of Navy, the families seem to be appreciative and seem to welcome what we have done. Certainly in deployments—that is the current focus—supporting a family of deployed people is an area where we know we can do more and we are looking at that. Does that answer your question?

CHAIR—Yes, thank you. In relation to housing, the policy was—and this is coming from the Defence personnel themselves—to move off base. People have been scattered into the communities and where, once upon a time, in times like this the communities were more together on base, in support of each other, now they are scattered into the community—not that the community would not be supportive, but they do not have that same rapport that they would have on a base. In this increased operational tempo, have there been any comments from the personnel or the families themselves that they would like to be back on base? Have we gone a full circle on this, or is there still a general agreement that they want the option more and more to live off base?

Rear Adm. Adams—Mr Chairman, there are two points. One, I know of no such comment. That is not to say they may not have made it. I am not aware of it. I think the issue with housing is more of quality, and certainly providing they are getting the quality, which DHA has been doing a good job in providing over the years, I do not think people care too much where it is, providing it is sufficiently close to their place of work. I think more to the point, though, wherever the families are, and this harks back to your previous question about the DCO, I think our problem is to ensure that there is that sense of community, of the Defence community, particularly if your spouse or family member is deployed, and that is the challenge which is on the DCO, and which is why we boosted it to ensure we do have people who can provide that sense of community.

A heavy burden falls upon some very hardworking people around Australia, and I think you would be familiar with the way it is organised. Defence Families Australia does a very good job in assisting that process. There is the national welfare coordination centre as part of the theatre command. There is a variety of organisations involved in this. I might sound like a bit of a cracked record here, but I know we are doing a lot, I know we are producing results. Is it enough? Probably not. Can we do more? Well, I know General Cosgrove has an expectation of the Defence personnel executive that we will explore that and do whatever it takes.

CHAIR—In terms of contact with DHA, where they decide they want to put housing, is there a coordination of the experience to ensure that they do not say, ‘Well, it’s pretty cheap to put it out here,’ or are they aware of the fact that it needs to be close to the place of work? Rather than say, ‘There’s some cheap land out here. Let’s put it out here,’ but it is miles from the place of work, are there good linkages there?

Rear Adm. Adams—As HDPE here, I can speak as a member of the board of directors of DHA. I know that DHA are not in the business of plonking people wherever it might suit them, regardless of their wishes or the Defence Force wishes. They do not do that. Defence Families Australia is very active in that. Certainly from my own inspections in Perth at the end of last year, the quality of housing and its location, I do not believe there is a problem. The problems of location of housing come more out of an issue where a person is posted to, say, recruiting in Perth and then gets a second posting to try and give them geographical stability—hence at HMAS *Stirling*—and they are a bit closer to the city of Perth rather than *Stirling*. That produces problems, but they are not insurmountable. In short, no, I know of no effort, unintentional or otherwise, on the part of DHA to do other than situate Defence people where they wish to be.

CHAIR—Relative to their work. Okay.

Brig. Appleton—This is outside my particular area of responsibility, but the recent development by DHA at the Royal Military College Duntroon has seen 122 homes built on service land there, which was a departure from DHA convention, which I think reflects a really good relationship between DHA and the service in terms of being able to provide the housing where service people want to be able to use it. The particular demands of working at RMC and at the Defence Academy, for example, are such that the staff’s families are best provided for if they are able to live close to where they are working. There is a very good arrangement in place now.

Senator FERGUSON—And it would give them a chance to get home for evening meals at Duntroon. I remember that was one of the issues that was raised at Public Works.

CHAIR—We could probably go on for some time on questions, but we will look forward to those audits and reports as they become available. Can I thank you for your time here this afternoon. I know your time is valuable and I know the committee appreciates the time you have given to be with us here this afternoon. If you have been asked to provide additional material, would you provide that to the secretary. You will in due course be sent a copy of the transcript of your evidence, to which you can make corrections of grammar and fact. Once again, I thank you for your evidence and your time. It is valuable, I know.

Resolved (on motion by **Senator Ferguson**):

That the committee authorise publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at the public hearing today.

CHAIR—Before declaring the public hearing closed, I thank our Hansard reporters, some of whom have been with us for three days, for their untiring efforts, and also our secretariat and support here today, and the security guards and parliamentary staff who have helped to make sure this public three-day hearing has run smoothly and without major incident, albeit a small one.

Subcommittee adjourned at 3.46 p.m.