



**COMMONWEALTH OF AUSTRALIA**

# **JOINT COMMITTEE**

of

**PUBLIC ACCOUNTS**

**Reference: Review of the Jindalee Operational Radar Network Project**

**CANBERRA**

**Monday, 3 March 1997**

**OFFICIAL HANSARD REPORT**

**CANBERRA**

## JOINT COMMITTEE OF PUBLIC ACCOUNTS

### Members

Mr Somlyay (Chairman)

Mr Griffin (Deputy Chairman)

Senator Coonan	Mr Anthony
Senator Crowley	Mr Beddall
Senator Gibson	Mr Broadbent
Senator Hogg	Mr Laurie Ferguson
Senator Watson	Mr Fitzgibbon
	Mrs Stone
	Mr Vaile

The terms of reference for this inquiry are:

As part of its statutory responsibility to examine reports from the Auditor-General, the Committee shall inquire into and report on Audit Report No. 28, 1995-96, Jindalee Operational Radar Network (JORN) Project, Department of Defence (June 1996) and any circumstances connected with matters raised in the audit report.

The committee's inquiry will focus on:

1. the management of the project by the Department of Defence
2. the performance of Telstra Corporation Ltd in its capacity as the prime contractor for the JORN project

**WITNESSES**

<b>ARNOTT, Ms Jillian Mary, Solicitor, Telstra, 231 Elizabeth Street, Sydney, New South Wales</b> .....	<b>119</b>
<b>MORRISON, Mr Malcolm Leslie, National General Manager, Telstra Applied Technologies, Telstra, Building M8, 770 Blackburn Road, Telstra Research Laboratories, Clayton, Victoria</b> .....	<b>119</b>
<b>PRELL, Mr James Arthur, Partner, Mallesons Stephen Jacques, 525 Collins Street, Melbourne, Victoria</b> .....	<b>119</b>
<b>ROBERTSON, Mr Noel Francis, General Manager, Strategic Planning and Development, Telstra, 5/242 Exhibition Street, Melbourne, Victori</b> .....	<b>119</b>
<b>YELLAND, Mr Lindsay James, Group Managing Director, Telstra, 231 Elizabeth Street, Sydney, New South Wales</b> .....	<b>119</b>

JOINT COMMITTEE OF PUBLIC ACCOUNTS

*Jindalee operational radar network (JORN)*

CANBERRA

Monday, 3 March 1997

Present

Mr Somlyay (Chairman)

Senator Gibson

Mr Beddall

Mr Broadbent

Mr Georgiou

Mrs Stone

The committee met at 9.47 a.m.

Mr Somlyay took the chair.

**CHAIR**—I now open today's public hearing which is part of the inquiry being conducted by the Joint Committee of Public Accounts into the Jindalee operational radar network project. This inquiry was initiated in response to Audit Report No. 28 of 1995-96 from the Commonwealth Auditor-General. The report contained concerns about the management of the JORN project by the Department of Defence and the performance of the prime contractor, Telstra Corporation. Today, we will take further evidence from Telstra.

I would like to remind witnesses that the hearings today are legal proceedings of the parliament and warrant the same respect as proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence given today will be recorded by *Hansard* and will attract parliamentary privilege. I refer any members of the press present to a committee statement about the broadcasting of proceedings. In particular, I draw the committee's attention to the need to report fairly and accurately the proceedings of the committee. Copies of the committee statement are available from the secretariat staff present at this hearing.

**ARNOTT, Ms Jillian Mary, Solicitor, Telstra, 231 Elizabeth Street, Sydney, New South Wales**

**MORRISON, Mr Malcolm Leslie, National General Manager, Telstra Applied Technologies, Telstra, Building M8, 770 Blackburn Road, Telstra Research Laboratories, Clayton, Victoria**

**ROBERTSON, Mr Noel Francis, General Manager, Strategic Planning and Development, Telstra, 5/242 Exhibition Street, Melbourne, Victoria**

**YELLAND, Mr Lindsay James, Group Managing Director, Telstra, 231 Elizabeth Street, Sydney, New South Wales**

**PRELL, Mr James Arthur, Partner, Mallesons Stephen Jacques, 525 Collins Street, Melbourne, Victoria**

**CHAIR**—Welcome. From the committee's perspective, the main purpose of this session is to examine the new management arrangements for the completion of the JORN project and, in particular, the potential continuing involvement of Telstra in the project. Mr Yelland, do you wish to make a brief opening statement to the committee before we proceed?

**Mr Yelland**—I would be pleased to do that, Mr Chairman. I have provided a confidential letter to the committee. I just would summarise that Telstra has entered into a contract with a new joint venture entity owned 50 per cent by Lockheed Martin and Transport Defence Systems from Australia. That contract is for the management of JORN going forward. That contract has been assented to by the Department of Defence and they also are a party to one of the contracts that were signed therein. It is not in fact one contract, it is a number of contracts. I will go through those contacts in more detail if we are able to go to an in camera session.

The construct also provides for the ability for Telstra to novate to the new venture its rights and obligations under the contract and it also extends the completion date of the project to the year 2001.

**Mr GEORGIU**—We have now met on a number of occasions. I would just like to set some background for the committee. What comes through your submission of 20 December and all the transcripts is a sheer puzzlement on anyone's part about why Telstra would have entered this contract in the first place. It is admitted by Telstra that it had no expertise in defence related matters. It is admitted that, for instance, the nature of the contract was in Telstra's view—and it comes through in your statements—essentially unsound in terms of its construction.

We have pursued this matter on a number of occasions and you have taken the

approach that I have an enormous amount of sympathy with in the first instance of saying that you were not there. It is quite clear from your submissions that your knowledge of the project has actually expanded over the course of the committee's interaction with you. I would like to press the point: given everything, why did Telstra enter into the JORN contract?

**Mr Yelland**—At the time, as you have pointed out, I was not there and the documentation—

**Mr GEORGIU**—But I expect you would have found out since—I really do—and you should have pursued this point.

**Mr Yelland**—I have read the documentation, I have read the board report, and I have looked back through the project minutes and I have even looked back through the correspondence between the parties prior to the agreement to proceed—that is Marconi and Telstar and Telstra et al.

As near as I can ascertain, I think it is reasonable to assume that obviously all the parties positively entered into the JORN contract on the basis that they assumed it was genuinely a risk share contract. In other words, the development was going to be undertaken by Telstra as the prime contractor and there would be risk. It was never assumed that the project would go to ceiling. That is probably a fundamental commercial, shall we say, concern that we might learn from in the development of future defence contracts.

I guess, therefore, the costs and any potential overrun would have been shared in a proportion of 60 per cent and 40 per cent by the Commonwealth and Telstra. Within that construct, I think it was reasonable to assume that Telstra was looking to provide the wide area communications which back in those days were not as easy as they might appear today because we were dealing with a technology which is now at least one generation old. And now, of course, I think they are immaterial, and I have alluded before to the fact that Telstra does have a credible ability to deploy infrastructure in Australia in remote and difficult circumstances.

Also it did need, I suspect, an organisation of some financial stability and ability to be able to put together a project of the scope and dimension that was envisaged because we did not have the technical capability to do this design work in Australia. That was why we took Marconi as a partner and, of course, the construct with the Commonwealth reflected that. That is why we did the joint venture with Lockheed to set up Telstar and why we, in fact, formed Telecom Applied Technologies—to realise the potential future of the intellectual property that would come from that project.

**Mr GEORGIU**—What you are telling me is that it was exclusively a board decision, arrived at by the board with no inducements and no incentives from the

government. You just took it as a strict commercial decision.

**Mr Yelland**—Yes, I believe that to be the case. Certainly, Telstra had a relationship with the government as a wholly owned government entity without any plan to privatise at that point. Therefore, I can imagine the discussions being of a nature that is not possible in today's environment. Certainly, I believe that was done with good faith and honest intent.

**Mr GEORGIU**—But essentially it was a commercial decision?

**Mr Yelland**—Sure.

**Mr GEORGIU**—Given that it was a commercial decision, what is your estimate of how much the JORN will end up costing Telstra?

**Mr Yelland**—Again, I do not believe it is possible to know how much it will cost Telstra or any other party at this time until the thing is built and operational. We have of course estimated what it will cost and how much it will cost into the future, and I would be happy to share those figures with you later if we go in camera.

**Mr GEORGIU**—You are saying that it is impossible to tell how much the project that started off at around \$1 billion will wind up costing?

**Mr Yelland**—Yes, it is possible to estimate it, but I think that is what it would be—an intelligent estimate of the cost going forward.

**Mr GEORGIU**—I am sorry, I did not follow that. Can you give us an estimate of what the cost of the project will be? It started off being a \$1 billion project and Telstra, even now, is into significant losses. Can you tell us what the run out cost of the project will be?

**Mr Yelland**—I can share with you the construct of the arrangements going forward, which will reveal for you our estimate of the cost to complete and, therefore, the cost of the project. I would prefer to do that in an in camera session.

**CHAIR**—I think the people and the parliament have a right to know the extent to which the money allocated for this project has been expended and any liabilities you have entered into for the future. At the moment, Telstra's budget is public money and the parliament has a right to know, and this committee will not be satisfied until we do know.

**Mr Yelland**—The nature of the commercial transactions between the parties are confidential. I can share with you those numbers and any other numbers you might want, but I would need to do that in camera.



**Mr BEDDALL**—But if Telstra is now preparing itself for a third public float, surely that information will be made available in the prospectus.

**Mr Yelland**—The information that you are seeking is commercial-in-confidence. It may need to be made public or appear in the documentation for the float. I guess these and all other provisions are detailed in our accounts, some of which are public and some are not, because of the nature of disclosure and ASX and government rules.

**Mrs STONE**—What is your main concern about giving us the sorts of figures we are now asking for? What is it you fear most if they were made public at this time?

**Mr Yelland**—It is just the commercial-in-confidence nature of the figures. The figures are the figures. We have estimates of them. To the extent that the estimates come true, I guess they will be proved right or wrong. I think it is important that I do not speculate on the numbers.

**Mrs STONE**—So your concern is that you might get it wrong in terms of the numbers?

**Mr Yelland**—Not really. I am sure I could couch it in the form of an estimate. The fact of the matter is that the numbers are commercial-in-confidence. I think you need to understand the detail surrounding the numbers and not just deal in overall numbers, to the extent that they may or may not be available.

**Mr GEORGIU**—Do you have any insight into further problems with the project since the last time we spoke and since you wrote your submission? Is the picture as rosy or as light a hue as it was in December? In particular, you mentioned lines of code going from 500,000 to 900,000: has that increased? Have you got any further insight into the project?

**Mr Yelland**—I do not think that has increased, no. To answer your question more generally, I do not think that, since the date of my last appearance before this committee, there has been any new information which would cause us to increase the cost to complete.

**Mr GEORGIU**—You are saying that all the inquiries into the project that have been conducted since December 20 have not shed any more light nor shown that there are any more significant problems than the ones you saw in early December and late December?

**Mr Yelland**—There have not been any material changes, no. There have been some things that are incremental to the price and some things which are decremental to the price but there has been nothing material.

**Mr GEORGIU**—I have one last question on the money: can you tell us what published data there is on Telstra's liabilities over JORN? Can you tell us what is public, so that we can assess what could be commercial-in-confidence?

**Mr Yelland**—I am not aware of anything that is public, other than press releases that we may have made from time to time. They made the documentation associated with the contract confidential, including the contract with the Commonwealth, so it is difficult for me to suggest what is in the public domain. There has been speculation about provision in the June accounts and I think we have announced that. There were three announcements—\$210 million, \$211 million and \$213 million—but I think the actual amount is \$211 million.

**Mr GEORGIU**—That is currently in your accounts?

**Mr Yelland**—As at June. By the way, it is not the extent of the overrun of the project as I detailed it for you last time, because there was a situation at that time where, because of a number of things including tax treatment in previous years, that was—

**Mr GEORGIU**—That is the estimate for the liabilities over how many years—to the completion of the project or for one year?

**Mr Yelland**—I am unable to say what the current provision is, because we are about to file with the ASX within the next few days, and this matter was raised before Senate Estimates last week. You may or may not know that there was some discussion about that, and I am advised that we are not supposed to reveal the numbers publicly before filing with the ASX. That will occur within the next few days.

**CHAIR**—Is there anything we need to know about the new arrangements that may not have been covered in your submission of last Thursday? For instance, has the dispute over GEC Marconi's \$44 million claim been resolved?

**Mr Yelland**—Yes, it has.

**CHAIR**—How?

**Mr Yelland**—Can I handle that in camera because, again, the contract with Marconi is commercial-in-confidence?

**CHAIR**—What about intellectual property under the new arrangement?

**Mr Yelland**—You will find that the rights are very much as they were before, and, again, we can discuss that. I think the intent is to have a new agreement. Isn't that right, James?

**Mr Prell**—It is certainly covered by the new agreement, so the arrangements will change slightly but only as between—

**Mr Yelland**—Perhaps we can discuss that in camera. I am told that there is a new agreement.

**CHAIR**—Do any other members want to ask any questions?

**Senator GIBSON**—Mr Yelland, if you are going to disclose information to the ASX in a few days time, what is going to happen between now and then that you cannot tell this committee?

**Mr Yelland**—I do not think that I said that we were going to disclose the information to the ASX in a few days time. To the extent that we would be required under ASX rules, I am advised that we would do so at that time, and speculation before that date is not appropriate. In other words, theoretically, the accounts are not finalised until they are filed.

**Senator GIBSON**—What is going to change between now and then with regard to Telstra's liabilities for this particular project?

**Mr Yelland**—I do not know; I suspect very little.

**Senator GIBSON**—I am puzzled as to why you cannot tell us what the situation is on the public record now.

**Mr Yelland**—I have been advised that our accounts are confidential until they are filed and I think that I need to honour that commitment to the company.

**CHAIR**—We will accept that, Mr Yelland. You must be very keen on visiting Canberra because we will certainly have you back as soon as you file those accounts.

**Mr GEORGIU**—Can I just get one clarification? After you actually file those accounts, you will be able to disclose everything that we have asked you in public?

**Mr Yelland**—To the extent that we are required under ASX or if you need to know information about the contracts, I am prepared to do that in camera.

**Mr GEORGIU**—I am interested primarily in the magnitude of the loss that Telstra is going to sustain.

**CHAIR**—And ultimately the public purse.

**Mr BEDDALL**—Mr Yelland, my concern is broader. This inquiry is basically a

continuation of other inquiries that we have had into defence procedures. I noticed that you made a comment in your evidence about future projects that Telstra may have with the Department of Defence. What were the broad lessons that you have learnt from this experience that may guide you in future projects with the Department of Defence?

**Mr Yelland**—Several of those are actually covered in the audit report. To the extent that the contractual arrangements that we have implemented adhere, I think, very closely to the recommendations of the auditor—in fact, implement now almost all of them—I think that there are a number of things which are worthy of lessons learned, and I think it is important to learn those lessons. For example, the concept of R&D, or an R&D related project, being done in either a risk share or the construct of this project is, perhaps, a less appropriate way to do it. One would suspect that a better way might be to do the R&D on a cost plus basis and then to write specifications which can be implemented as part of a fixed price environment.

The other thing that would have been important to learn is that something of this scope and dimension which requires a lot of scientific development might have been better done in an iterative build manner rather than going for a large and significant development right off. There was the development at Alice Springs—the proof of the concept which continues to work well today—but the nature of this radar, wherein so many areas it approached either fundamental laws of physics or was dealing with human-machine interfaces which, at the time it was conceived, were not well understood, I think indicates that it might have been better had those issues been resolved before committing to a fixed price contract.

The other areas, I guess, include things like splitting it up and making it more modular so that that kind of iterative thing could be done. You could, perhaps, upgrade a component part of the radar as new technology became available in the future. For example, we know that computing power increases by approximately 30 per cent over every 18 months, and for the kind of larger processing machines that we are talking about, it might have been better to try and take advantage of that in the future, rather than try to build it in day one.

The other area, I guess, is in telecommunications. At the time that this project was conceived, I do not think we knew what bandwidth of telecommunications would be available to the desert sites. It is only as part of our risk mitigation project, where we started laying fibre to some of these sites—I would point out that it really needed someone like Telstra to be able to do that—that we were able to take advantage of some of these things.

**Mr BROADBENT**—Mr Yelland, after the recent signing of the contracts that you have now signed is there any estimate of the Commonwealth exposure to losses—the Defence exposure to losses—or Telstra's? Have you got an accurate figure now on what Telstra's exposure to losses will be? I would just say, in regard to your remarks, that there

is no doubt about the quality of the project. That is not in doubt. It is the cost of the project I am trying to find out.

Is there any fixed estimate of the loss to Telstra at this stage, even after the signing of the contracts? I notice that there are a number of funds that you have placed before the committee that are extras in regard to the signing of those contracts. It is accepted, but is there any further estimate of that cost to any of those bodies? I will just extend the question so it can be answered: after the signing of the contracts did that make any difference to the exposure to any of those organisations?

**Mr Yelland**—I do not know whether you have talked to Defence about arrangements that they may have with us, but again their agreement with us is commercial-in-confidence. I will explain the differences there if that is what you have in mind. With regard to Marconi and Telstar, no, there are no differences; there are with the other contractors. To the extent that we have concluded the negotiations with Marconi there is now known work scope and a fixed price for that contract as well. I will be happy to tell you how much when we go into in camera.

**Mr BROADBENT**—Mr Yelland, has the signing of the contract helped the situation any?

**Mr Yelland**—Yes, I believe it has. There are a number of things which have occurred. Firstly, the contract could not come into effect until the Commonwealth agreed to the contract, because they have the right, naturally, to determine the arrangements. Yes, I think it will make a difference, because we did need to have someone like Lockheed or Transfield—but mainly the expertise from Lockheed—involved in closing out the management aspects of the project, to ensure that the risk did not escalate, especially at integration and test. I think this contract enables that to occur. It does not guarantee it, of course, but to the extent that we are acting responsibly in managing to that end, then I think that is what we are obliged to do, collectively.

**Mr BROADBENT**—So the signing of the contracts is really only another step along the way—along with a lot of other steps?

**Mr Yelland**—Yes, that is true. But you may recall that I have alluded to the strategic importance of the contracts as well, because JORN will need to be maintained on into the next century and I think it is necessary to have a robust and strong company to perform those functions. Telstra's strategic interests in our future probably do not lie in defence contracting, and therefore I think it was appropriate that we take the opportunity to transfer those projects, not only JORN, which were associated with defence contracting to a new construct where they could be done—not only in Australia, by the way, but also in Asia.

**Mr BROADBENT**—So at this stage we can be sure that the Commonwealth is

still exposed to losses—Defence is still exposed to losses—with no fixed figure and Telstra is still exposed to losses with no fixed figure, even though we have paid out quite considerably for that contract to be signed?

**Mr Yelland**—Theoretically, I think you would have to say that the Commonwealth—the Department of Defence—is not exposed to further losses because they now have a fixed price contract with penalties which are capped, potentially, for the future. But we need to discuss that, perhaps, in camera.

**Mr BROADBENT**—But there is no estimate of that fixed price contract?

**Mr Yelland**—Yes, there is.

**Mr GEORGIU**—But you cannot tell us?

**Mr Yelland**—Correct.

**Mr GEORGIU**—Can I just take you to the Telstra press statement, which says:

Mr Yelland said that the combination of the agreement with Lockheed . . . should ensure the successful completion of the \$1 billion project on or before the agreed date for final acceptance by the Commonwealth.

What is the agreed date for final acceptance by the Commonwealth? Is there one?

**Mr Yelland**—It is 31 December 2001.

**Mr GEORGIU**—And that has been agreed by the Commonwealth?

**Mr Yelland**—I am advised that the final date for acceptance will be set on a date which is ‘significantly before that date’.

**Mr GEORGIU**—So has there been an agreed date for final acceptance by the Commonwealth? You say that the project will be completed:

. . . on or before the agreed date for final acceptance by the Commonwealth.

Is there an agreed date?

**Mr Yelland**—The agreed date is to be determined as a date prior to 31 December 2001.

**CHAIR**—There are financial incentives built into the system that are realised with early completion.

**Mr Yelland**—As I understand it, under one construct going forward—namely, if it gets novated—that will be the case.

**Mr GEORGIU**—I have a problem with that, because I asked Air Commodore Hedges last time whether or not there was an agreed time and he said, ‘No, there is not.’

**Mr Yelland**—Okay. There is a procedure which will be undertaken over the next four months, which is the process that the new managers of the project will go through, and they will determine the estimate to complete. The estimate to complete will be prepared in both financial and time terms—in other words, a baseline schedule. It is anticipated within the current construct of the contract that that date will be before 31 December 2001.

**Mr BROADBENT**—Mr Yelland, how can you have a fixed price for it when you have not got a date for when it is going to be finished? The incentives that are built around this have to fit in with timing and costs. So we have got the incentives in place, but we have not got the costs in place?

**Mr Yelland**—Correct.

**Mr BROADBENT**—So how can you have incentives?

**Mr Yelland**—We know basically what the run rate of the project is, and that is how we have to close it out.

**Mr GEORGIU**—I think you have got us on that one. We are all sitting here saying, ‘Wow!’

**Mr Yelland**—We obviously have an estimate to complete now and we will go through a process over the next four months.

**Mr BROADBENT**—But you said to me that there is a fixed price, and now you say that we have an estimate to complete. Have you got a fixed price or have you got an estimate to complete?

**Mr Yelland**—The fixed price, I guess, is for the Commonwealth, because the fixed price obviously is the ceiling price of the contract plus the agreed variations.

**CHAIR**—You mean Defence?

**Mr Yelland**—Sorry, Defence. Our price may vary, but we do not anticipate it to vary by very much. Perhaps I can explain that construct later to you.

**CHAIR**—How is Telstra planning to disperse its losses on JORN?

**Mr Yelland**—It is not possible under the accounting rules, as I understand it, to disperse losses. I think one has to realise the losses in the year in which they are encountered. I think that is the accounting treatment we will give it.

**CHAIR**—Who pays for the losses, in other words? Is it the Commonwealth or the people who are out there paying their telephone bills?

**Mr Yelland**—If the company loses money on this or any other project, clearly in the end, we will return potentially less dividend to shareholders. I think that is a logical conclusion.

**Mr GEORGIU**—Is it?

**CHAIR**—Is there a cross-subsidy in Telstra from other areas of Telstra over JORN?

**Mr Yelland**—No. I do not believe so. It is separately accounted within the company, if that is what you mean, and in the Commonwealth process, the use of the accounting system that they have stipulated means that project costs can only be charged to the project as allowable costs if they use that accounting system.

**CHAIR**—Any losses are a straight reduction in dividend to the Commonwealth?

**Mr Yelland**—When you say the Commonwealth in the wider context, and to the extent that they may not be recovered, yes, I think that is probably a correct conclusion.

**Mr BROADBENT**—Will this process enable Telstra to eventually be removed from the project of JORN?

**Mr Yelland**—Yes. There is a provision in the contract for us to novate the JORN project to the new company and we have the right to novate.

**Mr BROADBENT**—Is there a timing on Telstra's removal from the process?

**Mr Yelland**—Yes. There is a process and I really need, I think, to go through that process with you and to identify the dates and the milestones for you.

**Mr BROADBENT**—At that time will all future exposure to costs for JORN be transferred to Defence—the bottom line?

**Mr Yelland**—No.

**Senator GIBSON**—Lessons for the future, Mr Yelland: in answer to Mr Broadbent's questions earlier you said that Telstra welcomed the formation of this new



joint venture and the contracts you have signed with them. You commented that Telstra is pleased that Lockheed, in particular, is part of that deal because of their expertise in the area. Is one of the lessons that we, as a Commonwealth, should learn out of that is that maybe Lockheed or someone similar to Lockheed should have been part of the project from the very start for, firstly, their project management expertise and, secondly, their technical expertise with this particular technology?

**Mr Yelland**—That calls for conjecture—

**Senator GIBSON**—I know that.

**Mr Yelland**—I am really, perhaps, not ideally equipped to comment. However, I will have a stab at it. I think the comments that you make are valid. This was a major undertaking for any organisation in Australia and there had been no project of the size and scope which had so much R&D and development, especially in an electronic arena, associated with it, so those skill sets did not exist in Australia. Whereas, in the UK to a greater extent and the US, especially, both in over the horizon radar and in other large government projects including the NASA projects and projects like the Millstar projects, that expertise was available.

The other area, of course, alluded to earlier by Mr Georgiou was the construct of the extent to which computers are used to achieve an end result. The software tool sets that we are using to do that originally came from Lockheed and were part of the formation of the joint venture with Telstar and, more recently, from another company in the United States called Rational that has been a world leader in the development of the iterative build AIDA computer language test sets. We are now able to take advantage of those and they are available primarily from the US. One could, I believe, suggest that in the area of the technical development from a computing viewpoint, a US partner might have been worthwhile. From large electronic project skill management viewpoints, I think that Lockheed or another company might have been worthwhile. With regard to HF capabilities, our own DSTO, in particular, has a worldwide reputation in that area and obviously does excellent work. Together with Marconi, on paper it was probably the right construct.

**Mr BROADBENT**—Is the design phase of the project now complete?

**Mr Yelland**—Yes, fundamentally, including sign-off on most of the acceptance tests which the radar will need to pass to be accepted by the Commonwealth.

**Mr BROADBENT**—So we have moved a long way down the track in the last six months?

**Mr Yelland**—We sure have, but not far enough.

**Mr GEORGIU**—2001 is not a long way away, though.

**Mrs STONE**—I think I asked this question earlier on in the inquiry but we have a gained a bit more experience on this since then. One of the original aims of the project was to develop Australian industry capability to support over the horizon operations and so on. Of course, going right back, there was that strong sense that an Australian major player would help facilitate a course aimed at strategic and Defence Force capability. At this stage, have you got any sense that we have achieved that objective? Have we, in fact, in bringing in these overseas specialists, acknowledged failure in that regard? Or are we significantly better informed and more independent in our research and development than we were originally?

**Mr Yelland**—I think it is a very important point that you raise because one of the fundamental constraints that we had in trying to reach arrangements with other people was that we wanted this to remain in Australia. I know that Telstra is only acting commercially now and, therefore, we are tainted with that. But the issue was that we did have a genuine desire that the capability should survive and exist in Australia. Furthermore, fundamental to this was another constraint we were facing within the company with what is called a cliff edge staff project. At the end of JORN we will have had several hundred people working on a big Defence contract. Then we will go into a maintenance mode and may or may not have other Defence contracts. So, what are we going to do with those people? Ideally, their skills and talents should not be lost to the country, even though it may not have been possible to keep them in Telstra if our strategic interests had changed. Of course, the maintenance of the JORN going forward will, hopefully, mean less people are needed than were needed to build it. Certainly, one would hope that.

Therefore we had a situation where we needed to try to create an entity which was based in Australia, which had the ability to complete the JORN and then maintain it going forward and, more importantly, which was able to enjoy Defence contracting or commercial contracting from either a different geographical area or a different marketplace. It was clearly not possible, in the feast and famine nature of Defence contracting, to move forward without having this significant problem with staff.

The arrangements we have been able to come to with the setting up of the new organisation will involve, within that company, a number of offshore bids which are already being contemplated and which we are already working on with them. Therefore, I am hoping that we will be able to establish a fairly vibrant company which will move forward and take part, not only in Australia but in a wider sphere geographically, in Defence contracting and related tasks. So, yes, it is the provision of not only the intellectual property but also the capability to develop things on and beyond JORN which I think is important and which I hope we manage to enshrine in the current arrangements.

**Mrs STONE**—Do you believe you have succeeded or will succeed with that particular objective of having that capability in Australia, given this new arrangement and

even though Telstra is withdrawing?

**Mr Yelland**—Yes and, in fact, specifically with the people that are already here. The new managers took over from 17 February. What they have done, effectively, is to come in and work with the existing management. They are not taking work offshore and they are not changing the program in such a fundamental way as to be, shall we say, speculating or working in a different location.

**CHAIR**—Going back to the signing of the prime contract, it is fairly unusual—in other industries, anyway—for the subcontract to be signed concurrently with the prime contract. Did Telstra have a chance to independently investigate or evaluate the subcontractor? Did you have any reservations?

**Mr Yelland**—Are you referring to the original signing of the contract?

**CHAIR**—Yes.

**Mr Yelland**—My understanding of the documentation is that discussion had been going on between the parties for some considerable time. Clearly, the bid construct was one whereby we bid with Marconi in particular. Certainly, the construct of putting together the joint venture had been discussed prior to the signing of the contracts; in fact, the contracts were basically signed on the same day. It is common, I think, in Defence contracting to bid with partners and that is effectively what Telstra thought it was doing.

**CHAIR**—So you, or the people who were there at the time, were happy with the past record and performance of the subcontractor? I presume you would have been otherwise you would not have signed it.

**Mr Yelland**—That is correct.

**CHAIR**—When these things happen, like the new arrangements you have entered into, there is some disruption to staff. Could you tell us what has happened to the staff who have been involved in this on Telstra's part? Will they have an opportunity to continue on the project with the new management team?

**Mr Yelland**—The arrangements were communicated to the staff at a meeting which I had. The arrangements basically are that, whilst we have managers in the project—and for the foreseeable future we have Lockheed managing the project—we have entered into a management contract with the new joint venture company for that purpose. When I announced to the staff that that would be the case we also had discussions with Telstra's unions. There are three unions involved in this particular situation. I believe the arrangement, or the outcome, was satisfactory.

If we executed our right to novate, for a large number of the staff—and it is not

guaranteed that everybody will be offered a job, but a significant number will be offered a job in the new venture—the terms and conditions under which they will work in the new venture will not be the same as at Telstra: in quantum, they will be equal to or greater. In other words, the packages may not be exactly the same as what we have within Telstra with our work practices and payment schedules and the like but, within the new environment, in quantum—in absolute dollar terms—they will not be less advantageous to the staff. To the extent that Telstra has very generous redundancy provisions in its arrangements with staff we will agree, and have agreed, to keep fixed the amount that accrues to any one individual. But, of course, that amount will not increment should they work with the new organisation. Should they leave the new organisation for redundancy reasons within a reasonable period, that will be at Telstra's cost.

**CHAIR**—I just wanted that on the record.

**Mr Yelland**—The interests of our staff have obviously been paramount in negotiating this. It has been one of the more difficult issues to pull off concurrently with such contractual changes, as you can imagine. I think they have shown great tolerance and forbearance during this time of change because processes such as this are not highly motivating for people working on a project. So it has been necessary to make sure that we tried to do some extra things.

**CHAIR**—We will take a short break. Could I ask everybody to leave the room, apart from the committee and the witnesses, while we go in camera.

*Evidence was then taken in camera -*