

Introduction

Referral of Work

- 1.1 On 2 November 2006 the proposed redevelopment of the propellant manufacturing facility at Mulwala, NSW was referred to the Public Works Committee for consideration and report in accordance with the provisions of the Public Works Committee Act 1969 (the Act).¹ The proponent agency for this work is the Department of Defence.
- 1.2 The Hon Bruce Billson MP, Minister for Veterans Affairs and Minister Assisting the Minister for Defence informed the House that the estimated out-turn cost of the proposal is \$338.7 million. Subject to parliamentary approval, the works will commence by mid-2007 with the objective of having them completed by the end of 2011.

Background

- 1.3 The Mulwala had its origins in 1942 as a result of the findings of an Australian study mission to the United States to look into the opportunity for the manufacture of nitrocellulose powder in Australia. Since the plant

1 Extract from the Votes and Proceedings of the House of Representatives, No. 138, Thursday 2 November 2006

was commissioned in late 1943, a number of other explosive and ordnance factories have closed, with production capabilities being transferred to Mulwala. Currently the Mulwala facility produces double and triple base propellants, high explosives and rocket motors.²

- 1.4 Through Australian Defence Industries Limited (ADI), a former government business enterprise, the Commonwealth owned and operated the Mulwala facility – the sole Australian manufacturer of propellant and high explosive for use by the Australian Defence Forces (ADF) until 1999³.
- 1.5 In 1999, ADI Limited was corporatised and acquired by Transfield Holdings Limited and Thales Australia (at that time Thomson CSF) in equal share. Subsequently on 12 October 2006, the Federal Treasurer approved the acquisition of Transfield Holdings interests in ADI by Thales Australia⁴. ADI no longer exists as a corporate entity having been merged with Thales Australia.
- 1.6 Thales Australia as the operator of the Mulwala facility is seeking a safer, more environmentally friendly, more reliable and cost efficient propellant plant that is capable of meeting the future propellant needs of the Australian Defence Force.⁵

Site

- 1.7 The Mulwala facility is situated on the western edge of the township of Mulwala in New South Wales. Mulwala lies on the Murray River, 215 kilometres north-east of Melbourne and 100 kilometres west of Albury.⁶
- 1.8 The site covers some 1,029 hectares.⁷

Options Considered

- 1.9 A Strategic Review of the Mulwala facility conducted in 1999 considered 5 options for providing Defence with an indigenous munitions manufacturing capability. These included:

2 Appendix C, Submission No. 1. paragraphs 7 and 8

3 *ibid*, paragraph 2

4 French to complete ADI takeover, *The Australian*. 2 October, 2006

5 *Volume of Submissions*, Submission No.3, Thales Australia

6 Appendix C., *op. cit.*, paragraph 45

7 *ibid.*, paragraph 46

- refurbishment of existing plant, machinery and buildings;
- the closure of the facility and the transfer of all capability to the Benalla ammunition factory;
- partial closure of the facility and the transfer of the manufacture of nitrocellulose, propellant and solvent to Benalla;
- total replacement of the nitrocellulose, solvent, and propellant processes and implementation of improvements in the other areas that were identified in earlier studies; or
- replacement of the essential areas of the nitrocellulose, solvent and propellant processes and the implementation of improvements to the more recently acquired production areas.⁸

1.10 In the view of the department, the fourth option was preferred. It provided the most effective use of capital, reduction of the Commonwealth's risk and consideration of whole of life costing. This option was approved by government.⁹

Inquiry Process

1.11 The Committee is required by the Act to consider public works over \$15 million¹⁰ and report to Parliament on:

- the purpose of the work and its suitability for that purpose;
- the need for, or the advisability of, carrying out the work;
- whether the money to be expended on the work is being spent in the most cost effective manner;
- the amount of revenue the work will generate for the Commonwealth, if that is its purpose; and
- the present and prospective public value of the work.¹¹

1.12 The Committee called for submissions by advertising the inquiry in the *Weekend Australian* and the *Border Mail* on Saturday, 11 November 2006. The Committee also sought submissions from relevant government

8 *ibid.*, paragraph 20

9 *ibid.*, paragraph 21

10 *Public Works Committee Act 1969*, Part III, Section 18 (8)

11 *ibid.*, Section 17

agencies, local government, private organisations and individuals, who may be materially affected by or have an interest in the proposed work. The Committee subsequently placed submissions and other information relating to the inquiry on its web site in order to encourage further public participation.

Inspection and Hearing

1.13 Under the terms of the Act, the Committee may not convene at any place outside Australia and its external Territories. Where a public work is to be carried out outside Australian and its external Territories, the Committee:

...shall consider the work on the basis of plans, models and statements placed before it and of evidence (if any) taken by it.¹²

1.14 On Friday 2 February 2007 the Committee received a confidential briefing from officers of the Department of Defence on the costs of the proposed works to be undertaken at Mulwala on site. This was followed by a public hearing also held at Mulwala.¹³

12 *ibid.*, Part III, Section 18B

13 See Appendix D for the official Hansard transcript of the evidence taken by the Committee at the public hearing on Friday 2 February at Mulwala.