



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE LEGISLATION
COMMITTEE

ESTIMATES

(Consideration of Budget Estimates)

WEDNESDAY, 4 JUNE 2003

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SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE LEGISLATION COMMITTEE

Wednesday, 4 June 2003

Members: Senator Sandy Macdonald (*Chair*), Senator Hogg (*Deputy Chair*), Senators Chris Evans, Ferguson, Payne and Ridgeway

Senators in attendance: Senators Allison, Bartlett, Jacinta Collins, Chris Evans, Faulkner, Ferguson, Ferris, Heffernan, Hogg, Sandy Macdonald and Marshall

Committee met at 9.07 a.m.

DEFENCE PORTFOLIO

In Attendance

Senator Hill, Minister for Defence

Department of Defence

Portfolio overview and major corporate issues

Mr Ric Smith, AO, Secretary of Defence

General Peter Cosgrove, AC, MC, Chief of the Defence Force

Vice Admiral Russ Shalders, AO, CSC, RAN, Vice Chief of the Defence Force

Budget summary, financial statements and improvement initiatives

Mr Lloyd Bennett, Chief Finance Officer

Mr George Veitch, First Assistant Secretary, Business Strategy

Mr Greg Welsh, First Assistant Secretary, Financial Services

Capital budget: major capital equipment and major capital facilities projects

Mr Mick Roche, Under Secretary, Defence Materiel

Mr Peter Dunn, AO, Head, Management Information Systems

Dr Ian Williams, Head, Land Systems Division

Ms Kim Isaacs, Director General, Material People and Performance Branch

Air Vice Marshal John Monaghan, AM, Head, Aerospace Systems Division

Ms Shireane McKinnie, Head, Electronic Systems

Ms Ann Thorpe, Head, Materiel Finance Division

Mr David Learmonth, Head, Industry Division

Rear Admiral Kevin Scarce, AM, CSC, RAN, Head, Maritime Systems Division

Ms Janis Cocking, Research Leader, Undersea Platform Systems

Air Vice Marshal Norman Gray, AM, Head, Airborne Surveillance and Control Division

Major General Peter Haddad, AM, Commander Joint Logistics

Outcome 1: Command of operations in defence of Australia and its interests

Output 1.1—Command of operations

Output 1.2—Defence Force Military Operations and Exercises

Output 1.3—Contribution to National Support Tasks

Major General Ken Gillespie, AO, DSC, CSM, Head Strategic Operations Division

Rear Admiral Mark Bonser, CSC, RAN, Commander Australian Theatre

Air Vice Marshal Kerry Clarke, AM, Head Capability Systems Division

Mr Kevin Pippard, Director Business Management Australian Theatre

Outcome 2: Navy capability for the defence of Australia and its Interests

Output 2.1—Capability for major surface combatant operations

Output 2.2—Capability for naval aviation operations

Output 2.3—Capability for patrol boat operations

Output 2.4—Capability for submarine operations

Output 2.5—Capability for afloat support

Output 2.6—Capability for mine warfare

Output 2.7—Capability for amphibious lift

Output 2.8—Capability for hydrographic and oceanographic operations

Vice Admiral Chris Ritchie, AO, RAN, Chief of Navy

Rear Admiral Rowan Moffitt, RAN, Deputy Chief of Navy

Mr Stephen Wearn, Director, General Navy Business Management

Outcome 3: Army capability for the defence of Australia and its interests

Output 3.1—Capability for special forces operations

Output 3.2—Capability for mechanised operations

Output 3.3—Capability for light infantry operations

Output 3.4—Capability for army aviation operations

Output 3.5—Capability for ground based air defence

Output 3.6—Capability for combat support operations

Output 3.7—Capability for regional surveillance

Output 3.8—Capability for operational logistic support to land forces

Output 3.9—Capability for motorised infantry operations

Output 3.10—Capability for protective operations

Lieutenant General Peter Leahy, AO, Chief of Army

Mr Lance Williamson, Director General, Corporate Management Planning, Army

Major General Duncan Lewis, Commander, Special Operations Command

Outcome 4: Air Force capability for the defence of Australia and its interests

Output 4.1—Capability for air combat

Output 4.2—Capability for combat support of air operations

Output 4.3—Capability for strategic surveillance

Output 4.4—Capability for maritime patrol aircraft

Output 4.5—Capability for airlift

Air Marshal Angus Houston, AO AFC, Chief of the Air Force

Ms Grace Carlisle, Assistant Secretary, Resource Planning, Air Force

Outcome 5: Strategic policy for the defence of Australia and its interests

Output 5.1—Strategic and international policy, activities and engagement

Output 5.2—Military strategy and strategic operations

Mr Shane Carmody, Deputy Secretary, Strategic Policy

Ms Myra Rowling, First Assistant Secretary, Strategic and International Policy

Dr Ralph Neumann, First Assistant Secretary, Capability, Investment and Resources

Air Vice Marshal John Blackburn, AM, Head, Policy Guidance and Analysis

Outcome 6: Intelligence for the defence of Australia and its interests**Output 6.1—Intelligence**

Mr Ron Bonighton, Deputy Secretary, Intelligence and Security

Mr Steve Merchant, Director, Defence Signals Directorate

Ms Margot McCarthy, Head, Defence Security Authority

Mr Frank Lewincamp, Director, Defence Intelligence Organisation

Outcome 7: Superannuation and housing support services for current and retired defence personnel**Output 7.1—Superannuation and housing support services for current and retired defence personnel**

Mr Jon Collings, Assistant Secretary, Strategic Business Management

Defence Science

Dr Ian Chessell, Chief Defence Scientist

Inspector General

Mr Claude Neumann, Inspector General

Public Affairs

Ms Jenny McKenry, Head, Public Affairs and Corporate Communication

Mr Murray Domney, Assistant Secretary, Public Affairs and Corporate Communications

Corporate Services

Mr Alan Henderson, Deputy Secretary, Corporate Services

Commodore Michael Smith, AM, Director General, The Defence Legal Service

Mr Mike Scrafton, Head, Infrastructure

Mr Mike Pezzullo, Assistant Secretary, Strategic Planning and Estate Development

Brigadier Peter Hutchinson, Director, General Infrastructure Asset Development

Mr David Kenny, Head, Information Systems

Mr Ken Moore, Head, National Operations

Mr Patrick Hannan, Chief Information Officer

People**Defence Personnel**

Rear Admiral Brian Adams, AO, Head, Defence Personnel Executive

Mr Peter Sharp, First Assistant Secretary, Personnel

Mrs Sue Parr, Director General, Personnel Policy and Employment Conditions

Air Commodore Tony Austin, AM, Director General, Defence Health Service

Mr Mal Pearce, Director General, Military Compensation

DHA

Ms Alice Dobes, Assistant Secretary, Treasury and Tax Management

Mr Ken Moore, Head, National Operations

Mr Charles Oakenfull, Assistant Secretary, Personnel Services

Defence Housing Authority

Mr Richard Bear, General Manager, Development and Sales

Mr John Brocklehurst, Manager, Resources and Financial Policy

Department of Veterans' Affairs**Portfolio overview****Corporate and general matters**

Outcome 1—Eligible veterans, their war widows and widowers and dependents have access to appropriate compensation and income support in recognition of the effects of war service.

1.1—Means tested income support, pension and allowances

1.2—Compensation pensions, allowances etc

1.3—Veterans' Review Board

1.4—Defence Home Loans Scheme

Mr Bill Maxwell, Division Head, Compensation and Support

Mr Geoff Stonehouse, Division Head, Health

Ms Peta Stevenson, Acting Branch Head, Defence Links, Compensation and Support

Dr Keith Horsley, Senior Medical Adviser

Mr Mark Johnson, Branch Head, Disability Compensation, Compensation and Support

Ms Jeanette Ricketts, Acting Branch Head, Income Support, Compensation and Support

Ms Olivia Witkowski, Acting Branch Head, Housing and Aged Care, Health

Mr Paul Pirani, Branch Head, Legal Service, Compensation and Support

Mr Arthur Edgar, A New Military Compensation Scheme, Compensation and Support

Mr Bruce Topperwien, Executive Officer, Veterans' Review Board

Outcome 2—Eligible veterans, their war widows and widowers and dependents have access to health and other care services that promote and maintain self-sufficiency, wellbeing and quality of life.

2.1—Arrangement for delivery of services

2.2—Counselling and referral services

Mr Geoff Stonehouse, Division Head, Health

Mr Barry Telford, Branch Head, Health Services, Health

Mr Wes Kilham, Branch Head, Younger Veterans and VVCS, Health

Mr Chris Harding, Specialist Business Adviser, Business Analysis and Development Unit, Health

Dr Graeme Killer, AO, Principal Medical Adviser

Mr John Fely, Acting Branch Head, Health e-business, Health

Ms Olivia Witkowski, Acting Branch Head, Housing and Aged Care, Health

Outcome 3—The service and sacrifice of the men and women who served Australia and its allies in wars conflicts and peace operations are acknowledged and commemorated.

3.1—Commemorative activities

3.2—War cemeteries, memorials and post-war commemorations

Mrs Felicity Barr, Division Head, Corporate Development

Ms Kerry Blackburn, Branch Head, Commemorations, Corporate Development

Air Vice Marshal Gary Beck, AO (Retired), Director, Office of Australian War Graves

Outcome 4—The needs of the veteran community are identified, they are well informed of community and specific services and they are able to access such services.

4.1—Communication and community support To the provider and veteran community

Mrs Felicity Barr, Division Head, Corporate Development

Mr Geoff Stonehouse, Division Head, Health

Ms Carol Bates, Branch Head Strategic Support Branch, Corporate Development

Ms Olivia Witkowski, Acting Branch Head, Housing & Aged Care, Health

Outcome 5—Current and former members of the Australian Defence Force who suffer an injury or disease which is causally related to employment in the ADF are provided with compensation and rehabilitation benefits and services.

5.1—Incapacity payments, non-economic lump sums

5.2—Medical, rehabilitation and other related services

5.3—Individual Merits Review

5.4—Advisory and information services

Mr Bill Maxwell, Division Head, Compensation and Support

Mr Mark Johnson, Branch Head, Disability Compensation, Compensation and Support

Mr Arthur Edgar, Military Compensation, Compensation and Support

Ms Peta Stevenson, Acting Branch Head, Defence Links, Compensation and Support

Output group 6—Provision of services to the Parliament, Ministerial services and the development of policy and internal operating regulations—attributed to outcomes 1 to 5.

Dr Neil Johnston, Secretary

Mrs Felicity Barr, Division Head, Corporate Development

Ms Carolyn Spiers, Branch Head, People Services, Corporate Development

Mr Sean Farrelly, Branch Head, Resources Branch, Corporate Development

Ms Gail Urbanski, Acting Branch Head, Parliamentary and Corporate Affairs

Mr Paul Pirani, Branch Head, Legal Service, Compensation and Support

Mr Bob Hay, Chief Information Officer, Compensation and Support

Ms Karin Malmberg, Director, Budgets, Resources Branch, Corporate Development

Mr Dermot Walsh, Director, Output Pricing and Ownership, Corporate Development

Australia War Memorial

Outcome: Australians remember, interpret and understand the Australian experience of war and its enduring impact on Australian society.

Mr Mark Dawes, Assistant Director, Branch Head, Corporate Services

Mr Mark Whitmore, Assistant Director, Branch Head, National Collection

Ms Helen Withnell, Assistant Director, Branch Head, Public Programs

Ms Rhonda Adler, Head, Finance Section

Ms Leanne Patterson, Assistant Manager, Finance Section

Ms Liz Holcombe, Executive Officer, Corporate Services

CHAIR—I declare open this meeting of the Senate Foreign Affairs, Defence and Trade Legislation Committee. I welcome Senator Robert Hill, the Minister for Defence, General Cosgrove, Chief of the Defence Force, Vice Admiral Shalders, Vice Chief of the Defence Force, Mr Ric Smith, Secretary of the Department of Defence, and officers of the Defence organisation.

The committee has before it particulars of proposed expenditure for the service of the year ending 30 June 2004, documents A and B, and the portfolio budget statements for the Defence portfolio. The committee will consider particulars of proposed expenditure for the Department of Defence, the Defence Housing Authority and the Department of Veterans' Affairs, in that order.

The committee will consider the estimates for Defence beginning with the portfolio overview and major corporate issues. We will then move on to outputs, business processes and people. When written questions on notice are received, the chair will state for the record the name of the senator who submitted the questions, and the questions will be forwarded to the department for an answer. The committee has resolved that the deadline for the provision of answers to questions on notice taken at these hearings is Tuesday, 22 July 2003. I remind my colleagues that any questions on notice must be given to the secretariat by close of business this Friday.

Witnesses are reminded that the evidence given to the committee is protected by parliamentary privilege. I also remind witnesses that the giving of false or misleading evidence to the committee may constitute a contempt of the parliament. The Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise.

An officer of a department of the Commonwealth shall not be asked to give opinions on matters of policy. However, you may be asked to explain government policy, describe how it differs from alternative policies and provide information on the process by which a particular policy was selected. An officer shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to the minister. Minister, do you or any officer wish to make an opening statement?

Senator Hill—No.

[9.10 a.m.]

Department of Defence

CHAIR—Are there any questions for the portfolio overview?

Senator CHRIS EVANS—I thought the committee would be interested in the first place in having a bit of a summary from General Cosgrove on the Iraq situation—for instance, which troops have returned home and who is still deployed inside Iraq. I think that would be a useful starting point. I am happy then to follow up with some specific matters.

I would like to place on record my thanks for the cooperation extended by the minister's office to the opposition during the period of the engagement and in particular my appreciation of Ken Gillespie's briefings which were very helpful to Mr Crean and me. We appreciate very much his efforts at the ends of very tiring days coming in to brief us after having spent the day briefing the government and everybody else. I know he worked extremely long hours like so many of your senior officers. I do want to place on record our appreciation of that and to the minister's office as well for the cooperation in facilitating that. General Cosgrove, perhaps we

could start with a bit of a summary of where you think we are at and how we are going in terms of returning troops home and who is currently deployed.

Gen. Cosgrove—I thank Senator Evans and the committee for an opportunity to very briefly acquaint you with the operations of the Australian Defence Force over the last several months culminating in their successful participation in the campaign in Iraq. You correctly note that our people remain there and it remains a place where there are plenty of challenges, hazards and work to be done.

Several months ago we deployed Army, Navy and Air Force assets into the gulf, initially as a predeployment. Subsequently the decision was taken that they should engage in the combat operations in Iraq. Our people performed magnificently at sea, in the air and on land. As their chief I am enormously proud of their accomplishments. I pay great compliments to those people in Australia at every level, from depots through to headquarters here in Canberra, for the way that they supported our people abroad. But of course tremendous credit must go to those soldiers, sailors and airmen and airwomen who represented the country so successfully and who were in the position of returning home safely. The record of the Australian Defence Force is quite public as to the operations they participated in and already some people have been recognised officially, with no doubt others to follow in the fullness of time.

In a series of welcome home ceremonies over the last several weeks we have received home the majority of the troops who were sent there for the specific purpose of predeployment followed subsequently by combat operations but left in place others who will continue supporting reconstruction tasks in Iraq. We still have two ships there, HMAS *Kanimbla* and HMAS *Sydney*. We have recently received home from the Navy ships *Anzac* and *Darwin* and the clearance diving team, who returned on Friday last and were greeted in Perth by the Chief of Navy. They performed particularly well, as the committee will remember, in the clearance of Umm Qasr port and the other waterways in Iraq. I draw to the attention of the committee that *Kanimbla* also is due home next month, on about 17 July. I remind the committee that it was some of the crew of *Kanimbla* who found and seized sea mines that were due to be released into the gulf, to the enormous hazard of all shipping in the gulf—a disaster prevented.

The committee will be interested to know that No. 75 Squadron of the Royal Australian Air Force returned home to a tumultuous welcome at Tindal. Those aircrew who operated our fighter bombers in the gulf performed magnificently, with great discrimination and judgment, and we are very proud of their efforts. They are the first Australian fighters to serve in combat essentially since Korea. I want to pay tribute at this point also to the supporting men and women of the Royal Australian Air Force who kept those fighters in the air with a tremendous serviceability rate.

The committee will be aware that remaining in the gulf, however, are C130s and P3s who continue support tasks, in the case of the C130s, around the gulf countries, and particularly in and out of Iraq, with urgently needed military and humanitarian stores. Those C130s are due to remain with a frequent review by government as to the ongoing employment of them. They are due to remain as part of our overall ongoing effort in the rehabilitation of Iraq. P3 aircraft continue maritime patrol tasks in the gulf. Presently they are in support of a carrier battle group. Their general task is the surveillance of shipping in the gulf region. Whether that is

central to the security of the carrier battle group or to the general awareness of events in the gulf is a matter of day-to-day tasking for them. They are due to remain until the anniversary of their deployment to the gulf which, if memory serves me, is about January 2004.

In addition to the Air Force elements I have just described, remaining in the gulf are the air traffic controllers who were deployed immediately after the combat operations in Iraq had subsided to a point where this was possible. Our air traffic controllers are operating the military side of Baghdad International Airport. There are 58 of them, comprising 13 air traffic controllers and 45 support staff in that overall traffic control contingent. That job continues. We are looking at how long that job will continue. It is not yet plain when, say, a contractor will take over Baghdad International Airport for all air operations. At the moment our people will continue until further notice.

The headquarters that we co-located with Headquarters Central Command in Qatar is in a base area in Kuwait—a small element—and a forward element is in Baghdad. This corresponds with the deployment of the major coalition headquarters. There is an American forward headquarters in Baghdad. We co-located there. There is an element in Camp Doha in Kuwait—we are there—and an element remains with the remnants of Headquarters Central Command in Qatar. Apart from those few personnel who remain to put stores on aircraft and ships bringing home stores that were needed for the combat phase of the operation, I have described to you pretty much the deployment of our troops for the rehabilitation task in Iraq.

I thank the senator for the opportunity to speak about our people. I close by saying that it was indeed the professionalism and the skill of 2,058 magnificent young Australians that have produced a safe and very professional outcome for the ADF participation in operations in Iraq. Thank you, Mr Chairman.

CHAIR—Thank you, General Cosgrove.

Senator CHRIS EVANS—Thank you, General Cosgrove. I am sure that on behalf of the committee I can indicate that we are all very grateful for the efforts of ADF personnel and their success. I think that getting 2,000 people deployed overseas and getting them all back safely has to be regarded as a remarkable achievement. Even if they were just going on holiday, that would be so. Getting them back from a war zone is a remarkable achievement, and I am sure all Australians are proud of their efforts and grateful that it was achieved without loss of life. You point correctly to the fact that we still have a large number of troops involved in a very dangerous situation. I know that a number of people have put to me that it is perhaps more dangerous now than before in some sense because of the potential for guerilla attacks and those sorts of things. Would you outline to the committee the numbers of ADF personnel deployed under Operation Catalyst who are likely to remain in the region, how long they are likely to remain in the region and when decisions will be taken about withdrawing? What will be the triggers for those people withdrawing?

Gen. Cosgrove—I will refer to notes.

Senator Hill—Whilst the general looks up his notes, you will recall that the P3 maritime surveillance team went there for a period of 12 months as part of the war against terror. The war in Iraq overtook that but the government has not departed from its original intention that that would be a 12-month commitment, and aircraft and crews will be rotated during the

course of that 12 months. In relation to the ships, *Kanimbla* will be the next ship to return, leaving the area of operations this month. The government has not made a decision on whether it will be replaced. At that point there will be one ship remaining doing maritime surveillance work at the northern end of the gulf.

Senator FERGUSON—Minister, are they still the P3s or are we using the AP3s?

Senator Hill—The AP3s. They swapped them.

Senator CHRIS EVANS—When do the 12 months expire?

Senator Hill—January.

Senator CHRIS EVANS—So you have effectively made the decision that they will come back at the end of that 12-month period?

Senator Hill—We have made the decision that it will be a 12-month commitment. We announced that some time ago. We could always make a decision for another 12-month commitment, but it was to be a specific 12-month commitment. General Cosgrove, are you right to go on?

Gen. Cosgrove—Yes. We are still terming our contribution in the Middle East as Operation Falconer. It will transition, at a time decided by government, to Operation Catalyst. So the numbers I am describing and am about to mention now—apart from those personnel who are there in the act of repatriating equipment, the rear party elements—are those who are there on a task of supporting the rehabilitation of Iraq. The current commitment includes an Australian national headquarters of approximately 60 personnel headed by the Australian National Commander, Air Commodore Bentley. There is a naval component with approximately 350 sailors and soldiers who are embarked on the sea transport ship, HMAS *Kanimbla*, with a Sea King helicopter, Army landing craft and an Army air defence attachment and a specialist explosive ordnance team. A further 230 personnel are embarked on the Royal Australian Navy frigate HMAS *Sydney*. Approximately 350 sailors and soldiers are embarked on the sea transport ship HMAS *Manoora* en route to assist with the repatriation of equipment and stores to Australia. Again in the Navy area, there is a small command and logistics support element.

Moving on to Air Force, there is an Air Force component of about 150 personnel deployed with three RAAF C130 Hercules transport aircraft. About 150 personnel are deployed with two RAAF P3-C Orion maritime patrol aircraft and there is an air combat support element of 58 personnel responsible for providing air traffic control services at Baghdad International Airport. Inside that Air Force component, there is a small command element of about 25 personnel.

Moving on to other components, a security detachment of approximately 70 Army personnel is protecting the Australian representative office in Baghdad. A 12-person team is supporting the work of the Iraq survey group seeking evidence of Iraq's program of weapons of mass destruction. Just to make sure that information for the committee is consistent, the overall strength of that team is 13; the other person is a DFAT person. A small number of ADF personnel are working in specialist roles with the coalition provisional authority and a small

number of ADF personnel are working in liaison roles with coalition forces. When I say 'small numbers' I am talking about four or five—no more than that.

Senator CHRIS EVANS—So that adds up to over 1,000?

Gen. Cosgrove—Yes.

Senator CHRIS EVANS—And that will obviously be significantly reduced when the *Kanimbla* returns if it is not replaced.

Gen. Cosgrove—*Manoora* is there temporarily.

Senator CHRIS EVANS—Yes. I gather that the *Manoora* is just doing a couple of trips up and back to collect equipment. Is that correct?

Gen. Cosgrove—Up to two trips. We are going to see how much we can cram on to *Kanimbla* and *Manoora* and scheduled aircraft that we have already contracted. If we can do all that and save *Manoora* another trip, that would be good.

Senator CHRIS EVANS—But there is not intention for the *Manoora* to be deployed up there other than to transport equipment back?

Gen. Cosgrove—Not at this stage but it is an option for government in the light of whatever is the ongoing maritime presence, if any.

Senator CHRIS EVANS—So is it the potential replacement of the *Kanimbla*?

Gen. Cosgrove—At some stage down the track we might have two ships, one ship or none. I don't want to be crass about this but, if government decided that we would keep one ship there, *Manoora* is an option for a tour of duty.

Senator CHRIS EVANS—And when is the *Sydney* due to return?

Gen. Cosgrove—I think it is August, if I do my sums correctly.

Senator CHRIS EVANS—I gather from what you have said that no decision has been taken on what ship, if any, will replace *Sydney* when its tour of duty has finished.

Senator Hill—No, we haven't addressed that. The military always has contingency plans, but government has not addressed it.

Senator CHRIS EVANS—You indicated earlier that the air traffic controllers will come out when the contractor takes over Baghdad airport. Is there a time line on that?

Gen. Cosgrove—Not necessarily come out. We always knew that there was an intention in the ORHA, and I guess now in the coalition provisional authority, that as much of the infrastructure operation as possible should be done by Iraqis or by contractors. At the moment, there is no arrangement to do that at Baghdad International Airport on the military side of the airport, so a military team—in fact, RAAF—is operating that side of the airport. It is unclear to us when an alternative arrangement will be possible. We could be operating the military side of Baghdad International for another couple of months. After that it is possible that we will be asked to continue to operate air traffic control services at another air field elsewhere in Iraq.

Senator CHRIS EVANS—In terms of the C130s, what is the prognosis for them?

Gen. Cosgrove—It is an open-ended month by month review.

Senator Hill—Basically, it depends on the value of the tasks that might be assigned to them. We were told before the phase we are moving into now that there was a shortage of transport aircraft. So we decided that, rather than bringing them home, at this stage it would be better to rotate crews and, if necessary, aircraft and use that capability as a contribution to the next phase. How long we maintain that will really depend on the need.

Senator CHRIS EVANS—Who determines the need? Who authorises what they do? What are they doing currently, given that our military needs have obviously diminished?

Gen. Cosgrove—The authorisation for their day-to-day tasks sits with their command element, which is now in Qatar. Broadly, their tasking is governed by a concept of operations which I have approved within the guidelines that the government applied some time ago. They speak about where they may operate and where they may not. Plainly, operations in and out of Iraq are both necessary and authorised. They are also authorised in any of the Gulf States where there is a need to move stores. As you might imagine, there are other areas which are not within the concept, so they would not be tasked to operate there.

Senator CHRIS EVANS—Whose stores are they moving and what sorts of stores? They are not moving our stores now, I gather.

Gen. Cosgrove—They have been helping with the centralising of stores that we had in various locations in the gulf—bringing them in for sea transport, for example. That phase, which lasted several weeks, is pretty much over. They are now carrying coalition stores. Moment by moment, I could not tell you what stores they are carrying, except to say they will be those that the overall coalition air component commander considers necessary to be moved around the theatre.

Senator CHRIS EVANS—Are they still military stores rather than humanitarian aid stores? I am trying to understand.

Gen. Cosgrove—They may be humanitarian stores. It is simply a question of whatever are the priority stores for the day to be moved within the coalition.

Senator Hill—They have carried both, obviously.

Senator CHRIS EVANS—That is what I am trying to get a feel for.

Senator Hill—It is an evolving picture—and so are we. That is why we will make a decision on a month by month basis about whether the aircraft should remain in the area. As we move into this reconstruction phase, I give you the example of airports. Efforts are being made to bring in radar and other traffic control equipment for airports. That is not a humanitarian aspect; it is part of the reconstruction. If we can assist in that regard, we will as well. There will come a time when civilian transport will take over that task. Already civilian contractors are starting to fly into Iraq. One of them is doing it three times a week now, with transport aircraft. Obviously, when civilian capability takes over the military option then we will bring our forces back.

Senator CHRIS EVANS—But currently they are tasked to transport both military supplies and humanitarian aid as required. Is that a fair summary?

Gen. Cosgrove—Yes, that is.

Senator CHRIS EVANS—I am not trying to be clever; I am trying to understand what they are doing.

Gen. Cosgrove—They will take whatever is authorised and required by the coalition air component commander. If that is military stores, so be it. Otherwise, it could be humanitarian stores or people.

Senator CHRIS EVANS—Can you take me through the security detail. Which unit are they out of and what is their role?

Gen. Cosgrove—The security detachment overall comprises 30 or so infantry soldiers, 15 or so armoured corps soldiers operating three armoured vehicles—ASLAV variants—and some logisticians and signallers et cetera. Their duty is to provide close protection to the Australian representative office and accommodation in Baghdad and close personal protection for the movement of diplomats, delegations et cetera—Australians with business in Baghdad.

Senator CHRIS EVANS—Which units are those out of at the moment?

Gen. Cosgrove—The armoured corps soldiers are from the 2nd Cavalry Regiment. The infantry soldiers are from the 2nd Battalion, Royal Australian Regiment. I imagine that the others are from a grab bag of Army units—I could not tell you in detail where they were from.

Senator CHRIS EVANS—What is the timing on their stay likely to be?

Gen. Cosgrove—I imagine that they will be there between four and six months as individuals. But, again, we will be reassessing on a rolling basis the need and, as we get close to what might be their time for rotation, obviously if there is a further need we will prepare more and dispatch more to provide this security detachment.

Senator CHRIS EVANS—So that will really depend on the security situation inside Baghdad?

Gen. Cosgrove—That is correct.

Senator CHRIS EVANS—Could you give me a bit of an assessment of what the security situation is like currently inside Baghdad?

Gen. Cosgrove—It is still very dangerous. There are what I would characterise as attacks by small groups and individuals. These are politically motivated or criminal acts. It is hard sometimes to distinguish whether an attack is somebody disturbed in a criminal activity or somebody politically motivated. Shootings, firing of rocket propelled grenades—those sorts of attacks.

Senator CHRIS EVANS—Have there been any incidents involving our troops inside Baghdad?

Gen. Cosgrove—Several. There has been no injury to any of our troops or to, for example, our diplomatic representatives. There have been some near misses, as I would describe them, but there has been nothing that would constitute a major incident.

Senator CHRIS EVANS—How many people are they protecting inside Baghdad? How many have we got deployed forward now?

Gen. Cosgrove—I am unclear on the exact number of people in our mission but it is a handful.

Senator CHRIS EVANS—You said earlier that some of your command people had moved forward from Qatar to Baghdad. What is likely to occur there—is it your intention to move all our command forces to Baghdad or are they likely to stay in Qatar?

Gen. Cosgrove—The coalition leader, the United States, is still working out what its mix of headquarters will be in the region. The intent, I think, for wider liaison in the Middle East and the gulf, in the CENTCOM area of operations, is to leave a small headquarters element in Qatar. The intent to control operations inside Iraq is to have a headquarters in Baghdad. And the intent to service operations in Iraq is to have an American headquarters in Kuwait, at Camp Doha. With those three activities we are looking for an optimum mix of our own representation there. Plainly, with Afghanistan still being an operation under way and Iraq looking like it will need quite some time with a military presence, we see virtue in having representation at this forward headquarters in Qatar. We also obviously see a need to have people co-located with the major coalition headquarters in Baghdad. Kuwait will remain a friendly country and a staging base for us as well as for the broader coalition. It seems inevitable we will have some presence in each location. The exact size and mix is still to be established.

Senator CHRIS EVANS—I am just trying to see where we might be at, say, the end of the year or a bit later—I am not trying to put a time frame on it. Would it be fair to say that in that longer term we would only intend leaving perhaps a ship as part of the multinational interception force?

Senator Hill—No, that has gone.

Gen. Cosgrove—The minister points out that that has essentially folded with the lifting of sanctions. There will be some new construct.

Senator CHRIS EVANS—I will come to that later as to what we are now calling some of these things, because I have got quite confused. If you look at the budget papers, it is quite confusing. I will give you the opportunity to explain to me where Falconers starts and Catalyst stops in a sec.

Senator HOGG—That was going to be my question!

Senator Hill—That should take a bit of time.

Senator CHRIS EVANS—I am sure you are really looking forward to explaining it, too. I am just trying to get a sense of what we will have left inside Iraq after the original period of time. It seems that we have the potential for a ship to be involved in the multinational interception force—under whatever title that may have in the future. We would obviously have the security detachment as long as the situation required. We obviously have the survey group WMD element. But apart from that it looks like most of the others will be coming out, apart from what you said about the air traffic controllers. Is that a fair summary?

Gen. Cosgrove—Yes, except that I would not want to be entered on the record saying what our final shape of contribution would be. We are still looking very carefully at what tasks might pop up that we could contribute to. There has been no suggestion to government nor

commitment, but it is evolving on almost a weekly basis. We are seeing the new coalition provisional authority starting to take shape and have effect, and whether that drives new requirements we do not know.

Senator CHRIS EVANS—I am not trying to commit you; I am just trying to get an understanding of what the size of our commitment is likely to be. But you are saying that effectively you may have other requests for—and the minister likes to use this term—‘niche capabilities’.

Gen. Cosgrove—Important capabilities that we can uniquely fill.

Senator Hill—It is not just us—a whole range of nations across the world are addressing the same questions—and on almost a daily basis we get reports of different countries agreeing to commit different force elements to the next phase in Iraq. We are continuing to review what the most useful contribution is that we can make for the future. So the composition and structure of our force will change, but, because we have not made decisions beyond that which we have outlined today, it is difficult for us to commit ourselves as to either the size or the period of operation.

Senator CHRIS EVANS—I understand that. I am just getting a feel for it. I did not expect you to give a definitive answer. But has the government taken any decision about the broad parameters of its commitment to Iraq?

Senator Hill—No. We will not be providing a broad based peacekeeping force. We are prepared to provide forces to meet niche capabilities—which are really smaller force elements where we believe we can add value—as determined from time to time.

Senator CHRIS EVANS—General Cosgrove, do you want to have a go at explaining to me what the operation is called now?

Gen. Cosgrove—It is called Operation Falconer.

Senator CHRIS EVANS—What happened to Catalyst?

Gen. Cosgrove—That is coming.

Senator CHRIS EVANS—Didn’t we announce Catalyst some months ago?

Gen. Cosgrove—In order to have a seamless changeover to make sure that, in a legislative sense, there is always a seamless transfer of conditions of service, it is a particularly careful calculation: to get your conditions of service set for the new one and then to declare one finished at the same moment as the other starts so there is no air gap. That is the process that we are in now. All people in Iraq and nearby are adequately covered under Operation Falconer conditions of service and will be adequately covered by the appropriate conditions of service for Catalyst when Catalyst is declared by government instructing me to declare it.

Senator HOGG—When you declare that, will the allocation that has already been made for Falconer under the budget be transferred to Catalyst? Is that the way to read the allocations in the budget?

Senator Hill—We said in the releases in conjunction with the budget that the funding that we had did cover Bastille, which was the lead-up operation; it did cover, and is still covering,

Falconer, which was the conflict itself; and for this financial year it is intended to cover Catalyst, which is the post-conflict phase.

Senator HOGG—But there is no specific allocation in the budget for Catalyst as such, whereas there is a specific allocation for Falconer.

Senator Hill—That is right.

Senator HOGG—So am I to assume that the unused part of Falconer will become the allocation for Catalyst?

Senator Hill—Yes, in effect.

Senator HOGG—So there is going to be no increase over and above—

Senator Hill—You will then say to me, ‘But if you haven’t yet committed to the full detail of your Catalyst force over this financial year, how can you be confident?’

Senator HOGG—Good question, Minister.

Senator Hill—The answer is that we cannot. If government makes decisions that commit forces beyond the money that has been provided, then we would seek to be supplemented—

Senator HOGG—That could be addressed at additional estimates.

Senator Hill—in the usual way, as we have on previous occasions.

Senator HOGG—Currently, under Bastille and Falconer, for 2003-04, there is something like \$198 million in round figures. So that would be the expected expenditure.

Senator Hill—There was one bucket of money budgeted for over three years, which is intended to cover the three separate operations. Whether it will be adequate to meet all of our commitments for Catalyst in this financial year will ultimately depend on the full level of the force commitment to Catalyst.

Senator CHRIS EVANS—I understand that, Minister. We had a discussion about some of these things last time. I remember when it was called Operation Slipper; we have Bastille, we have Falconer, we have Catalyst—but apparently the Catalyst has not occurred yet. I am sure that is not what I understood last time. I understand what General Cosgrove said about allowances et cetera being tied to—

Senator Hill—You could change the rules of engagement and the conditions of service and so forth within one operation, but that is basically more confusing than separately naming them. We are trying to provide less confusion now rather than more. So the war against terror was one operation, and that was Operation Slipper. The pre-deployment and lead-up to Iraq, which was clearly a different type of operation, was therefore separately named, and it was named Bastille. The conflict in Iraq, again, was obviously different and separately named, and that was Falconer. And the post-conflict phase, which is clearly different in function again, has therefore been separately named as well.

Senator CHRIS EVANS—Except when you make administrative decisions to say that, for the purposes of an operation, people serving on Operation Bastille will be taken to be serving on Operation Falconer.

Senator Hill—This is the environment in which we are operating. So the P3s that we sent as part of the war against terror were on Operation Slipper. When the conflict in Iraq started, they were force-assigned to support that operation, so they were part of that operation as well.

Senator CHRIS EVANS—I have no difficulty with that. But in terms of the budget it is very confusing as to what we are funding and what those budget items mean—I will come to that—because there is no mention of Operation Catalyst other than a reference. There is no funding allocated to it. I obviously want to explore that with you. But I do want to understand the other side of that: this allowance question of what conditions of service apply on which operations. I want to get clear in my mind the chronology of these operations, when one has supplanted another, what the differences in conditions were and what this means for the budget line items.

Senator Hill—We can answer those questions but we do ask you to appreciate that part of the difficulty is the timing of the budget in conjunction with the end of the war.

Senator CHRIS EVANS—I appreciate that. Can someone tell me when Slipper started and when it finished? Have we still got anyone deployed on Slipper, or has that folded? Can we do the same for Bastille, Falconer and Catalyst so that it is clear on the record what has happened with these various titles? Who is best to help us with that?

Senator Hill—You ask the specific question and we will have a go at answering.

Senator CHRIS EVANS—Is Operation Slipper still an active operation?

Gen. Cosgrove—It is dormant.

Senator HOGG—When did it become dormant?

Gen. Cosgrove—When we rolled our forces that were deployed on Slipper—the ships and the P3s—into Bastille-Falconer.

Senator HOGG—Is there a specific date for that? Roughly?

Gen. Cosgrove—I suppose when the government committed to forward deployment.

Senator CHRIS EVANS—So that would have been in February?

Gen. Cosgrove—No.

Senator CHRIS EVANS—January?

Gen. Cosgrove—I was going to say 10 January but we can refer to *Hansard* because I gave you an accurate answer last time.

Senator HOGG—Roughly.

Senator CHRIS EVANS—So Slipper was rolled into Bastille?

Gen. Cosgrove—Yes. There may be a different date when I signed the order transferring them from Slipper to Bastille-Falconer, so it may not actually be 10 January but it would be in that time frame.

Senator HOGG—In that order?

Gen. Cosgrove—Yes.

Senator CHRIS EVANS—And there are now no elements of the ADF deployed formally under Operation Slipper, even though Operation Slipper still exists.

Senator Hill—I wonder whether it would help if we developed for you a schedule of the operations, the dates and the conditions of service. The conditions of service in some instances can differ within an operation, depending on the type of task that is being given.

Senator CHRIS EVANS—No, I understand that, Minister. That is why I thought that would not have been the driving thing in terms of the operation. I understood that. That is why I did not think that the conditions of service would have necessarily been the determinant of when one changed the operations. I thought it would be driven by more macro factors.

Senator Hill—The primary driving influence is the different type of operation, and that is why we have been at pains to draw a distinction between the prewar commitment and the war commitment. The postwar is not quite as clear because there is obviously a transitional phase. Prewar and war, it was very clear: it was either that the government had made a decision to committing forces to war or not, or in this instance to forcibly enforcing the UN resolutions. We can do that now and bring up various people and seek to set it all out for you, or if you prefer we will give you a schedule.

Senator CHRIS EVANS—I would appreciate a schedule.

Senator Hill—We can prepare a schedule for you during the day and we could go on with it tomorrow, if that would suit you.

Senator CHRIS EVANS—That would be helpful, Minister. I have to take you up on that helpful suggestion because it would be useful. I want to come back to it in terms of the budget—

Senator Hill—I understand.

Senator CHRIS EVANS—as a different issue but, if we could be clear about that, I would appreciate the schedule. As you say, that may well save us a lot of time.

Gen. Cosgrove—Senator Evans, could I correct something. I understand the device we used was to dual assign the C130s and the P3s to Operation Slipper. Whilst Slipper is dormant in that there is no work taking place against that operation name, we kept the assets dual assigned. The cost attribution, however, was only singular at any given time, so it was singular against the primary operation, Bastille-Falconer. We will provide you with this schedule.

Senator CHRIS EVANS—So at some stage you changed the costing from Operation Slipper to Operation Bastille on the P3s. I will wait on the schedule before I ask more detailed questions about some aspects of that, but I want to understand what we are saying about Operation Catalyst. When does Operation Catalyst come into effect?

Gen. Cosgrove—The answer is that it is likely to be soon, but the issue for resolution between the department and the government is the total nature of service, the conditions of service and the rules of engagement. We are working through those with the government. I would anticipate that some time in the month of June Operation Catalyst will be formally declared.

Senator CHRIS EVANS—So at the moment we are operating on the basis that it is Falconer?

Gen. Cosgrove—That is correct.

Senator CHRIS EVANS—So those still serving in the gulf are under the conditions and terms of engagement of Falconer?

Gen. Cosgrove—Correct.

Senator CHRIS EVANS—I assume you would have changed the terms of engagement somewhat.

Gen. Cosgrove—The rules of engagement are the same at the moment. As you will have noted through the campaign, they have been fairly restrictive on our people, so we have no qualms about them having Operation Falconer rules of engagement.

Senator HOGG—Are they likely to change under Catalyst?

Gen. Cosgrove—Yes, they are.

Senator HOGG—In what way?

Gen. Cosgrove—They will probably become more restrictive because of the changed nature of tasks envisaged for the duration of Operation Catalyst.

Senator CHRIS EVANS—Yes, because the rules of engagement for Falconer are clearly war-fighting rules of engagement, aren't they?

Gen. Cosgrove—Yes. I would point out to you that, with the withdrawal of our combat troops from Iraq, the people who remain essentially operate in a protective and defensive role. So the very nature of their job inhibits what they will do, but that will be matched with appropriate rules of engagement to suit the mission for Operation Catalyst when Catalyst is stood up.

Senator CHRIS EVANS—We will come back to that when we have the schedule and when I am clear on it. Now might be a good time to ask a few questions about the health of ADF personnel deployed to Iraq. I have asked questions at the welcome home celebrations and it seems that they have been generally very healthy while they were away—and remarkably so. There seem to have been reports of nothing more than cuts and abrasions which seem quite remarkable given the large number of people and the potential for industrial accidents let alone anything involving a conflict. I want to come to the more general point about the monitoring of their health conditions. Is it fair to say that generally there were no major health issues arising from the deployment?

Gen. Cosgrove—That is correct, Senator.

Senator CHRIS EVANS—What was the worst of it, in the sense of what was experienced?

Gen. Cosgrove—I think one chap had a motorcycle accident and ended up with stitches in his leg. It was thought better to bring him home than to leave him there. We had another person with chest pains. That person was brought home. I think it was shown not to be a life-threatening condition but it was thought best to bring him home.

Senator Hill—Someone had appendicitis.

Senator CHRIS EVANS—So things of that nature?

Gen. Cosgrove—Yes, of that nature.

Senator CHRIS EVANS—What about more widespread infections, diseases et cetera? Was there any exposure to or experience of any infectious diseases by troops?

Gen. Cosgrove—I have the duty doctor here but I don't think we need to refer to him. On this, I think there was a dose of flu or something on one of the ships, but that is what happens in tight environments like that.

Senator CHRIS EVANS—That was probably following the minister's visit.

Senator HOGG—Probably a flu injection.

Senator CHRIS EVANS—Parliament House is the generator of most flu in Australia. As you know, there has been a great deal of concern and issues arising from the previous Gulf War and I just want to get an understanding of what medical testing, monitoring and support measures are in place to deal with returning troops. How are we going to monitor and assess any impacts that might have occurred? I want to get a sense of the ADF response and follow up to the deployment.

Gen. Cosgrove—I will start and then ask Air Commodore Tony Austin to pick up on any details you want or which I have missed. Prior to departure from the Middle East all members were examined by a medical officer and debriefed by a military psychologist. Personnel were also provided with a homecoming guide setting out the situations they may experience when they return. Medical records for ADF members deployed in the Middle East are updated to alert medical staff to ongoing requirements for postdeployment monitoring. Requirements for postdeployment management are treatment of diseases known to be prevalent in the Middle East; monitoring for a range of medical conditions; and psychological debriefing and ongoing psychological support if required. When members deployed, their families were provided with literature about issues they might experience when the member returns and our Defence Community Organisation, the National Welfare Coordination Centre and defence psychologists are available to support families during the homecoming phase.

All personnel are medically examined three months after returning to Australia and provided with appropriate treatment if required. All people in the ADF undergo an annual health assessment, and every five years a comprehensive health review, in order to maintain their operational fitness. That is what I would tell you on the health side. Of course, particular issues are treated as they emerge. Important factors are that service medical personnel for individuals who have been away, have in the file of the individual an alert to monitor them for any issues that might arise as a result of their service.

Senator CHRIS EVANS—Do I take it from that that there is no examination immediately on their return but that it will occur three months after their return? Is that a fair summary?

Gen. Cosgrove—Prior to departure from the Middle East all ADF members were examined by a medical officer and debriefed by a military psychologist. So it happens before they come home.

Senator CHRIS EVANS—So there was a full medical examination before they returned to Australia?

Gen. Cosgrove—A medical examination. I would not know the extent of it.

Senator CHRIS EVANS—Perhaps the air commodore might like to help us.

Air Cdre Austin—With our concerns following the initial Gulf War and the subsequent decision that was made to conduct a Gulf War veterans health study, Defence Health Service has been in constant contact with the Department of Veterans' Affairs and their scientific advisers to work out the best strategy to monitor our returning forces. We are examining the possibility of conducting a longitudinal health study on ADF members returning from the Middle East. The meeting to scope that will be taking place tomorrow. It will conduct a literature review of the projected problems. It will review the strategies that are being adopted by our coalition partners, in particular the US and the UK, in the health monitoring of their deployed forces. On that basis we will come up with a strategy, but I suspect that that will result in us conducting a proactive longitudinal review study of our people who deployed. So there may in fact be further medical interventions over and above those that CDF has outlined to you.

Senator CHRIS EVANS—Thanks for that; that is encouraging. Can I just get a sense, though, of the medical examination that has occurred for people before they return from the gulf. Was it a full medical examination or just a bit of a health check?

Air Cdre Austin—It was a health check. I would not call it a comprehensive physical and biochemical examination of the individuals. The reality of the circumstances is that we could not do that, nor were there any clinical indicators to warrant such a degree of intervention.

Senator CHRIS EVANS—That was done by ADF medical personnel deployed with—

Air Cdre Austin—That is correct. All ADF elements did deploy with ADF medical officers to provide primary health care.

Senator CHRIS EVANS—Now that they have returned, after three months they will have a full examination. Could you elaborate on that?

Air Cdre Austin—The intent of that examination is to do blood tests, because certain infectious diseases that they may have been exposed to may not in fact manifest themselves on the testing until a period of at least six weeks after return. It will also provide an opportunity to check whether the individual has experienced any symptoms or signs that are of concern. It will also permit us to do a review of the psychological profiling. As the CDF mentioned to you, they do receive a psychological screening tool prior to departing from the area of operations, and the three-month period gives us an opportunity to check back to see whether anything has changed and to offer support services if the individual member feels that is warranted.

Senator CHRIS EVANS—Explain to me what that psychological screening involves? I do not want any great detail.

Air Cdre Austin—The screening is using a standardised questionnaire format as the pre-screening tool. From memory, that is composed of three separate tools integrated into one. What we are looking for firstly are any signs of exposure or any self-reported history of

exposure to what is potentially a traumatic event in the eyes of the individual, and then a tool is used that is designed to elicit post-traumatic stress disorder or stress syndrome. So the questionnaire is focused on those issues, but it also has a broader element about how the individual is feeling in response to what they have experienced.

Senator HOGG—Does that psychological testing and screening extend to the families as well? It may well be that a Defence person has difficulty settling back with their family.

Air Cdre Austin—No, the actual surveillance tool is not administered to the family. However, prior to deployment, the members are given a deployment guide, which is quite a comprehensive document that goes into all of the possible problems they may experience prior to deployment, during deployment and on return to their families. They are encouraged to provide that document to their spouses or partners or family members. The aim of that document is to heighten the awareness of the families about what signs may be significant. Through the Defence Community Organisation they can certainly access social workers and, through them, the regional mental health support teams if the family is concerned about any aspect of the behaviour of the partner who has returned from the deployment.

Senator CHRIS EVANS—You talk about the post-traumatic stress tool that you use. Could you explain that to me? Is this to identify potential post-traumatic stress in personnel?

Air Cdre Austin—The diagnosis of post-traumatic stress disorder, by definition, is a retrospective diagnosis: it requires that a set of symptoms be present for a period in excess of six months before you can use that label. The role of the ADF mental health program is in fact to prevent the development of post-traumatic stress disorder or post-traumatic stress syndromes in our personnel. It is a multifaceted approach which hinges on education: firstly making people aware of what factors may or may not cause them concern and then education to make sure that have a realistic understanding of the circumstances that will confront them when they deploy, to take away the element of fear or uncertainty. It then provides them with access to a robust group of counsellors so that hopefully they feel comfortable and confident to present early, at the first signs of problems developing, so that we can then use focused intervention strategies to treat the symptoms. So the whole thrust of this is to prevent the development of post-traumatic stress disorder, which is a chronic and difficult to manage condition.

The tool that we are using is a questionnaire. As I mentioned earlier, it looks at two things. Firstly, it looks to see whether the individual has perceived that they have been exposed to an event that is significantly outside their expectation or their normal experience—in other words, something to which they may adversely react. Secondly, it then looks at how they are responding to that, because we all know there is enormous individual variation—an event which may be quite traumatic to one individual may in fact be deemed quite normal or quite acceptable to another. So it is a broad-brush screening tool that works in two ways. Firstly, it gathers data, which works as a base line for the individual. Also, in a sense it is an education tool because it makes the person aware of what the potential range of symptoms are. Following the administration of that tool, they are then interviewed by a psychologist and given an opportunity, in quite an unstructured way, to discuss any concerns that they may have. That is an important part of the interaction. Firstly, it may pick up those people who are not being entirely honest or forthright in their questionnaire. Secondly, it also establishes a

degree of personal rapport between the member and a psychologist so that hopefully the door is seen to be open if any problems develop later on.

Senator CHRIS EVANS—When do these interviews occur?

Air Cdre Austin—The interviews occur prior to departure from the area of operations.

Senator CHRIS EVANS—So you were able to do that before they came back?

Air Cdre Austin—Yes. The tool is actually administered prior to them coming home—before they actually leave the theatre, when their thoughts are fresh.

Senator CHRIS EVANS—You are able to do that with all the deployed troops?

Air Cdre Austin—The goal is certainly to achieve 100 per cent administration. I have no reason to believe that will not be achieved.

Senator CHRIS EVANS—I was not saying you might have missed one person, but you are able to get your resources into the area of operations?

Air Cdre Austin—Yes. We either embed psychologists within the units themselves or deploy psychology teams specifically to conduct these interviews prior to the units coming out. So once a unit is identified to return to Australia, a suitable team will deploy, integrate into the unit, conduct the interviews, pick up any problems that may be present and then the people return.

Senator CHRIS EVANS—So we have embedded journos and embedded psychs now—what next? If you have identified concerns or if you have people whom you think might need assistance, what follow-up occurs when the people are back in Australia?

Air Cdre Austin—That is a question I was hoping to get because I think that is something that we have actually come a long, long way within the ADF—

Senator CHRIS EVANS—Senator Faulkner will rap me over the knuckles if I am asking questions that you are hoping to get. It will ruin my reputation.

Air Cdre Austin—Having sat through this previously and having perhaps not fared quite so well, it is nice to get one that I am hoping for.

Senator CHRIS EVANS—We will come to anthrax in a minute, so that will even the ledger.

Air Cdre Austin—I would be bitterly disappointed if you did not.

Senator CHRIS EVANS—You are prepared, so I am happy to meet the expectation.

Air Cdre Austin—Seriously, what we have done is recognise the increasing importance of psychological problems in deployed forces. There is no doubt that that is our No. 1 priority within the defence health arena at present. A bunch of significant initiatives have taken place. The first is that the Defence Force Psychology Organisation has now been transferred to within the Defence Health Service branch. That is a significant initiative because it allows us to adopt a much more holistic approach to managing mental health issues. Rather than having two organisations perhaps working at cross-purposes, we now come under the one umbrella of the ADF mental health strategy. That strategy has worked proactively with the Australian Centre for Posttraumatic Mental Health. It is a specialist centre based in Melbourne,

predominantly funded by the Department of Veterans' Affairs. That has allowed us to develop world's best practice in terms of identifying problems, hopefully preventing problems, and then treating them once they arise.

The main thrust of that is, firstly, the formation of regional mental health teams. They are multidisciplinary teams involving doctors, psychologists, social workers and nurses. They are regionally based; they are well known to the base commanders and to the health providers in the regions. We are also conducting intensive education programs of our leaders and our senior personnel within the ADF to recognise the symptoms of problems so that they can be sensitised to evolving issues and they can recommend early intervention before the problem becomes serious or entrenched. Whilst it is untested in the sense that we have not been through a major conflict since that program was put online, I am very confident that it will make a significant difference for our personnel.

Senator CHRIS EVANS—Has that program operated in other defence force environments?

Air Cdre Austin—Certainly it has, Senator. The American and British forces have found exactly the same type of profiles as we have experienced in Australia—that mental health issues are a significant by-product of involvement in both peacekeeping and warlike activities. They are putting a similar investment of effort into that. The Australian Centre for Posttraumatic Mental Health has international links, and we work very closely with our coalition partners to pick up the best elements of their practice, allowing that there are cultural differences. Also, in terms of the survey tools we use, we try to seek commonality where possible so that we can do data comparisons to monitor our success rates with them. We are running a significant number of workshops and working groups specifically looking at mental health. In fact, we ran one recently with the Department of Veterans' Affairs under the auspices of the Links project, and had invited speakers from Canada and South Africa to give us insight into how they are managing their issues in their respective countries.

Senator CHRIS EVANS—I turn to the inoculation question. Prior to the deployment, there was some reluctance to discuss what inoculations were administered. As you know, there has been a debate about what inoculations were administered prior to the previous Gulf War. I think the government made an exception on anthrax because of some concern and publicity about it. Are we able to identify now what ADF personnel were vaccinated against?

Air Cdre Austin—Again, I refer to the potential complications of deployment into areas of operations. One of the issues that has received a fair degree of publicity recently has been the possible linkage of a Gulf War syndrome type condition to multiple immunisations. There is no scientific evidence extant that proves that linkage. In fact, recently the Medical Research Committee in the United Kingdom has formally released a paper saying there is no evidence to support that linkage. However, we are mindful of that and, as such, we are particularly careful about recommending immunisations. The goal is clearly for us to use the minimum number of immunisations that are consistent with providing safety for our deployed personnel.

Within the ADF we require a baseline series of immunisations. They are routine and are administered to all people who are potentially deployable. When we look at a particular

activity, we then make specific recommendations of what immunisations need to be added to that routine regimen. In this particular case, anthrax, as we know, was one of those vaccinations. The other one, mencevax, was given to all people who deployed, to cover meningococcal meningitis. The use of other vaccines on top of that depended on the nature of the duties. They were the only two that were recommended routinely for people deploying. However, we did have a small number of people whose job it was to be involved in sensitive site examination. These were people who were actually looking for weapons of mass destruction, storage or manufacturing plants, and they did receive extra vaccinations—in particular, plague, and a small number received immunisations for smallpox.

Senator CHRIS EVANS—Plague—is that the name of the vaccination?

Air Cdre Austin—Yes. It is known colloquially as bubonic plague but it is an agent which is a potential biological weapon.

Senator CHRIS EVANS—Yes. So all deploying personnel were inoculated with anthrax and mencevax?

Air Cdre Austin—Yes.

Senator CHRIS EVANS—In addition to those two, certain people were required to have antiplague inoculation and smallpox?

Air Cdre Austin—That is correct.

Senator CHRIS EVANS—Were all deploying personnel required compulsorily to have mencevax as well as anthrax?

Air Cdre Austin—Yes, that was a requirement.

Senator CHRIS EVANS—Did the same conditions apply, General Cosgrove, in terms of your orders with regard to those not willing to undertake inoculations being returned?

Gen. Cosgrove—That is correct.

Senator CHRIS EVANS—So those conditions applied to anthrax and mencevax?

Gen. Cosgrove—Mencevax, yes.

Senator CHRIS EVANS—In terms of these other injections, Air Commodore, what numbers are we talking about in terms of the personnel required? Were the numbers very small?

Air Cdre Austin—They were quite small. The number of people to whom plague was administered was approximately 280, and the number of people for smallpox was less than 200.

Senator CHRIS EVANS—They obviously were not specialists or WMD searchers. Were they ground troops? Who were we administering them to?

Gen. Cosgrove—Typically incident response regiment soldiers and some of the special forces who might encounter sensitive sites.

Senator CHRIS EVANS—They would be the two main groups?

Gen. Cosgrove—Yes.

Senator CHRIS EVANS—Incident response and special forces.

Air Cdre Austin—It also included those people who were in direct support of those elements, and that may have included small elements of air crew and medical personnel.

Senator CHRIS EVANS—So there may well be people from all three armed forces who might have had these inoculations?

Air Cdre Austin—Yes.

Senator CHRIS EVANS—What are your baseline inoculations, Air Commodore?

Air Cdre Austin—The baseline or routine vaccinations are ADT—that is adult diphtheria—and tetanus; the measles, mumps and rubella; polio; hepatitis A and B; and typhoid. That recommended list is based on the Australian civilian recommendations from the *Australian Immunisation Manual*, which is our baseline document, and then augmented in the case of hepatitis A and typhoid, the two that are unique to the military.

Senator CHRIS EVANS—But most deploying personnel would have had those well before deployment?

Air Cdre Austin—Correct.

Senator CHRIS EVANS—And they would have been part of their regular boosters or what have you?

Air Cdre Austin—Correct. The object is to firstly ensure that members maintain currency with their immunisations. Remember that with most of these the immunisation schedule is several years between booster shots, and in some cases much longer. If they are identified to deploy, the intent is always that the notification of deployment will be of sufficient length to allow us to give vaccinations in accordance with the manufacturer's recommendation. What we do not want to do is to shorten the administration regimen or increase the number of shots. In the case of ADF members it would be extremely unlikely that they would receive more than perhaps two immunisations on any one time line or one event.

Senator CHRIS EVANS—For deploying personnel what was your procedure in terms of anthrax and mencevax? Were they given as one inoculation? Can they be combined? Were they separate?

Air Cdre Austin—No, they would be given as separate inoculations. Again, the *Australian Immunisation Manual* gives us guidelines on which immunisations can be co-administered and which ones need to be given separately. In general, anthrax and mencevax may well be administered on the same day at two different locations. That would be acceptable.

Senator CHRIS EVANS—So they were administered concurrently but not in the same dosage?

Air Cdre Austin—That is correct. Although preferably, given enough time, we would like to split the vaccinations into separate occasions because we are careful to monitor the side effects from the immunisations. If you give two agents simultaneously and if a reaction subsequently develops, it is difficult to then determine which agent caused the reaction.

Proceedings suspended from 10.25 a.m. to 11.15 a.m.

CHAIR—Senator Collins has some questions in the portfolio overview and Senator Bartlett does as well. We will go to Senator Collins first and then to Senator Bartlett.

Senator JACINTA COLLINS—I have a couple of brief questions in relation to SIEVX. I am asking them in the overview because they are cross-services questions, so they do not fit with a particular service. It may well be necessary for you to take them on notice in any event, but I have passed up a copy of a document provided to the Senate from the Finance and Public Administration Committee, dated 21 May this year. That was when we were provided finally with a copy of the brief that went to the Prime Minister on 24 October 2001. It had, as its headline on the second-last page of the document that I have passed up, the information to the extent that the boat sank in Indonesian waters.

We are advised by officers of PM&C that the information that was presented in that brief to that effect was gathered in consultation with a number of agencies. Defence is the final agency that I wish to ask whether any information they provided to PM&C led to the conclusion underlined on the first page of the brief to the Prime Minister that the boat sank in Indonesian waters. On the basis that I am asking a question which dates back to briefings that were prepared by PM&C to the Prime Minister for 24 October 2001, I will not be surprised if there is no-one relevant to assist me here at the moment.

Senator Hill—We will have to take that on notice. It is not easy to say, on the basis that there has been a constant flow of information between agencies and departments, what was taken into account at what time in preparation of what briefing. This is now a long time ago. We will give you a considered answer.

Senator JACINTA COLLINS—I hope that that consideration will look into whether there was any information at that point in time at hand to Defence that indicated a view or belief that the ship did sink in Indonesian waters, given the absence of any evidence to that effect consequentially.

Senator Hill—I would prefer to give a considered answer rather than try to force people. ‘Best guess’ answers are not appropriate.

Senator JACINTA COLLINS—As I indicated, I anticipated that would need to go on notice. Further to that, another question in relation to SIEVX relates to an answer that I received from the last round of estimates to my question No. W43, which asked for the nature of Royal Australian Navy investigations into the owner of SIEVX. The background to that question was that the AFP had advised us that they believed some of the information in terms of where the vessel may have sunk had been obtained by the Royal Australian Navy from the company found to have owned SIEVX. The answer that I received was that there had been no Royal Australian Navy investigations into the owner of SIEVX. In this round of estimates I have asked the AFP to please explain why they understood that the Royal Australian Navy had found information from the company found to have owned SIEVX when Navy is telling us that no such investigation occurred. I am asking this at the cross-services level now in terms of whether there is any information from Defence regarding the company that owned SIEVX.

Senator Hill—You are asking whether we would wish to reconsider our answer in the light of what the AFP officials have apparently said. We will take that on notice and give you a considered response.

Senator JACINTA COLLINS—There are two aspects. It may have been a way of dealing with the matter to just keep it very neatly within how my question had been framed. My question was: ‘Please detail the nature of RAN investigations into the owner of SIEVX.’ The answer was: ‘There have been no RAN investigations into the owner of SIEVX.’ My question on this occasion is a bit broader than that. What I am seeking to understand from Defence is what we know about the owner of SIEVX and the location in which that vessel may have sank.

Senator Hill—The latter of those two has been exhaustively dealt with. I am not sure whether the question of the ownership has been. We will get together the team that spent many months in helping the Senate on this particular matter and see whether they can add something further.

Senator BARTLETT—I wanted to pursue Senator Evans’s line of questioning in the health area. I think he will continue down that path as well. I was interested in some of the answers you gave, Air Commodore Austin, about the fairly comprehensive approach you are now trying to take in terms of psychological debriefing and those sorts of things. You mentioned the Gulf War veterans health study from the first Gulf War, which came out after the troops had been deployed. Did any of the findings or preliminary results of that health study help to inform your plans for how you did things this time?

Air Cdre Austin—Certainly, we were very mindful of the findings from that study. If you remember, the main outcome was that it showed there was no Gulf War syndrome as such, but it did identify that there was an excess incidence of psychological problems, stress, anxiety and post-traumatic stress disorder, and an associated increase in substance abuse, mainly alcohol, amongst veterans who had served in that campaign. So being very mindful of the importance of the psychological issues, that was one of the main drivers for us to put in place those protocols that I have previously outlined to you—that is, the provision of psych support for some elements of the deployed force; to work here in Australia by pushing forward the ADF mental health strategy and the various initiatives that are included in that, and the psychological debriefing of the members prior to leaving the area of operations and the follow-up.

Senator BARTLETT—One of the recommendations in the report, as I understand it, was for the department to develop a minimum health data set that you collect routinely in a standardised way on everybody before active deployments. Was that part of the various things you did prior to the deployments this time?

Air Cdre Austin—There are two elements to our response to that. The first is that all members of the ADF undergo an annual health assessment and every five years undergo a comprehensive health assessment. So that provides a baseline data set for all men and women of the active duty force. Secondly, prior to deployment, each and every member must be declared medically fit to deploy on this particular operation. That involves a questionnaire and a focused examination from a medical officer. So we do have a pre-deployment baseline set to

cover those aspects, and they are followed up on return in two ways—firstly through that three-monthly health check that I have previously alluded to, and secondly by that baseline process of the annual health assessment and the five-yearly comprehensive health assessment.

Senator BARTLETT—So you have now developed procedures for more clearly documenting exposures during active deployments, including things like immunisations and preventive medications?

Air Cdre Austin—With the monitoring of immunisations, that is done routinely by data entry into the member's medical record and each of the environmental commands maintains a database of what immunisations have been given to individual members. The other issue with that in terms of environmental threat exposure has been of concern to us, particularly in light of the previous Gulf War where it was alleged members were exposed to a whole range of environmental threats ranging from such things as smoke from oilwell fires, dusts, the threat of biological agents through to things like depleted uranium. Being mindful of the fact that in some cases we did not have a good exposure dataset for the people during the original Gulf War, from the outset in this activity we have put more emphasis on monitoring the environmental threats in the locations where all our forces have been deployed. In reality, we have had to piggyback the coalition efforts. The US military has had a very robust system of putting environmental people on the ground to conduct routine soil, water and air sampling and they are linking that with geospatial data information so they are able to identify where an individual is at any point in time and what environmental threats were at play in that location, even down to things like overlaying satellite imagery to show the presence or absence of oil fire smoke plumes. We have access to that data for our deployed personnel where the Americans did the monitoring.

Senator BARTLETT—Would there be any areas where our personnel were placed for which we have not been able to get data?

Air Cdre Austin—I cannot answer that because I have not seen the full dataset. We are in the process of acquiring that from the US. I am not aware whether there were such locations.

Senator BARTLETT—Do you have it and are you analysing it at the moment?

Air Cdre Austin—No. We are in the process of acquiring that data from the American forces.

Senator BARTLETT—Was it part of the planning beforehand of where people were deployed that we would be able to accurately assess some of those environmental conditions and where they were?

Air Cdre Austin—As part of the decision making process as to where our forces will be located, there is a request that an environmental threat analysis be conducted and I have a group of people devoted to that task. They look at the environmental threats and that factor is given to our operational colleagues in making decisions as to where best to situate the force. For example, in Kazakhstan our environmental threat analysis showed that there was a high incidence of previous mining sites where radioactive ores had been mined. There were slag heaps and dumps of uranium mining by-products. We made ourselves aware of the location of those facilities and we embargoed our people from going near them. We were able to neutralise that environmental threat by knowledge and prior planning.

Senator BARTLETT—You mentioned depleted uranium. I am sure you would be aware that that is an issue of some controversy—

Air Cdre Austin—Certainly.

Senator BARTLETT—in terms of exposure of our troops or anyone else to the after-effects of areas where DU weapons have been used. Is it the view of Defence that there is no health risk from exposure to depleted uranium?

Gen. Cosgrove—I am quite confident that the way we employed our people would not have led them into exposure of any significance to DU effects.

Senator BARTLETT—In terms of the question I asked, is the department confident that depleted uranium is not a health problem?

Gen. Cosgrove—That was not my answer, Senator.

Senator BARTLETT—I know that.

Gen. Cosgrove—I said that the issue of where they were operating is obviously a first issue. I would say to you that I am confident that there would be minimal, or not a significant, threat to them from the residue of DU rounds from where they were operating.

Senator BARTLETT—I will ask the more general question: does the department have a view about it being a health risk, and presumably an area you try to avoid steering the troops towards?

Air Cdre Austin—The issue of depleted uranium has received quite considerable attention around the world. In 2001 the Department of Veterans' Affairs conducted a literature review of all the scientific literature on depleted uranium and basically came up with the conclusion that it did not represent a significant threat to Australian veterans who had participated in that campaign. There are several guiding documents out there that we are using as authoritative sources of information, in particular the studies done by the Royal Society in the UK. They have published a report in two parts. Part one came out in 2001 and addressed the issues of depleted uranium as a source of radiation and looked at the possible adverse health effects of that. The second part of that report specifically looked at uranium in terms of its toxicology as a heavy metal. Embedded within that report was a gradation of exposure, an exposure chart which could be used to determine whether someone had received a significant exposure to DU as part of their military activities. We intend to administer a similar survey tool to our people returning from Iraq but we anticipate that, as CDF has commented, there will be no ADF members who in fact will enter into the higher exposure categories—categories 1 and 2—just by the nature of the military activities they participated in.

The issue is that there is a group of people who believe that the medical or health threats from DU have been underestimated by these reports. The Royal Society has basically said that more research is required. However, it adopted an extremely cautious approach in looking at the health threats to the point where it was able to say that, even if the exposure of individuals was 100 times greater than the data they had used in determining the risk factor, the risk of either (a) increased cancer rates or (b) kidney damage from the toxicology would at worst be twice that of the baseline population. Allowing that this is an extremely low prevalence

condition, it would be almost impossible to detect such a trend in the ADF population, given our small numbers.

The conclusion I reach is that we need to be cognisant of depleted uranium and we need to administer the survey tool to our people to identify any people who may have had a higher than anticipated exposure. If those people have been exposed, then we propose to do urinary depleted uranium screening on those people, which will allow us to quantify their risk. If, as we expect, we show no baseline exposure in these people, then we can assure them that the risk to their health is statistically negligible.

Senator Hill—I have just answered a question on notice which I presume Air Commodore Austin wrote which said that for the future, in the light of the fact that there is ongoing research as is always the case in any topical matter of medical science, if research leads us in any way to modify our doctrine then that would be the case. In other words, we will keep on top of the research and make decisions on the basis of the best medical evidence that is available at the time. I think it is fair to say that we act conservatively in that regard. As science evolves, we will take into account the revelations.

Senator BARTLETT—I have a question which circles back to the veterans health study. I know it came out after the deployment happened but the report had a recommendation about consideration being given to measures to reduce the adverse psychological impacts of deployment related activities, especially in relation to better psychological preparation for the possibility of chemical or biological weapons attack. How does that recommendation fit into what occurred with the anthrax vaccinations occurring after the ships had disembarked and, reportedly, troops not being aware before they left that they would be required to take them?

Air Cdre Austin—CBR training has obviously received a high profile within Defence following the September 11—

Senator BARTLETT—CBR?

Air Cdre Austin—That is chemical, biological and radiation threat issues, traditionally known as nuclear, biological and chemical defence issues within Defence—NBCD. All the ADF members receive training in this particular facet of warfare and are made familiar with the threats and the protective measures that we offer them. Prior to this deployment into Iraq people were mindful that these had the potential to be a significant threat to our deployed personnel. The force preparation included education on these matters which was designed to increase people's level of knowledge and to decrease their anxiety levels.

Senator BARTLETT—So you did not feel that waiting until the vessels had actually left before vaccinating generated any problem in terms of psychological preparation?

Air Cdre Austin—The issue of the anthrax vaccination has been addressed in this committee previously, including the time lines. I would have to say that, clearly for some individuals, the decision to administer the anthrax vaccination was a source of concern for them and, as a consequence of that concern, a small number elected not to have the vaccination.

Senator BARTLETT—That was 52, wasn't it?

Air Cdre Austin—I believe that is the final number, yes. So in the case of those individuals it is difficult to know whether their decision not to take the vaccine was based on a lack of knowledge or fear of what they were potentially about to be exposed to in the line of combat, or whether it was a fear about the safety aspects of the vaccine. It is very difficult for us to know what was going through the minds of the individuals who made that decision. It is probably not fair to draw a parallel and say that, because these people refused, our preparation in terms of the chemical, biological and radiation threats was inadequate.

Senator BARTLETT—Have you done any follow-up with those people, obviously to avoid it happening again next time, to see what the reasons were, given that they would have had that Canberra training?

Air Cdre Austin—I am not aware of any specific follow-up through the health system of those individuals. A commitment was made on the part of the ADF that those individuals would not suffer prejudice as a result of their actions. I would have concerns of how you would do such a follow-up without the perception, perhaps, that these people were being singled out and that the issue was ongoing for them. Suffice to say, one of the factors in play that I believe aggravated the situation with anthrax was the requirement that I had put in place that a signed consent form be gained by us before we administered the vaccine, which was perceived by some people as an indication that this vaccine was dramatically different from others that they had received or that there was a greater risk associated with its administration. In fact, that was not the case. The very reason we put in place the requirement for the signed consent form was to try to negate the very fact that you raised, which was a lack of knowledge on the part of individuals about the threat they were to be confronted by.

In a sense, the very initiative we had brought in to ensure that the population was better educated and had a clear understanding of what they were being administered in the case of some individuals, I would have to say, appears to have backfired by increasing their anxiety. But we are addressing that issue; we are now going to make it more apparent to people that even in receiving their routine immunisations there is a process of consent that is taking place. We are really just saying that, for all medications or vaccinations that we administer to people, there is a process of consent on their part. In some cases, we may require that to be signed if the information we are imparting is complex or where we believe there is potential for confusion. It was mentioned during the Gulf War study that some individuals on board certain ships were adamant that they had received an anthrax vaccination during the original Gulf War when they had not done so. We were very mindful of the fact that there was confusion on their part, which was contributing to their psychological anxiety. It was an action on our part to reduce that very anxiety that I believe was a cofactor in the problem we experienced with anthrax.

Senator BARTLETT—Thank you for that.

Senator CHRIS EVANS—That is an argument for just telling people what to do rather than consulting them and getting their consent.

Air Cdre Austin—Indeed, Senator.

Senator CHRIS EVANS—In terms of those personnel that did not elect to take the anthrax, were the refusals purely about anthrax or were they about mencevax as well?

Air Cdre Austin—We had no patients refusing mencevax that I am aware of.

Senator CHRIS EVANS—So perhaps it was not the consent process then; perhaps it was more concern about anthrax.

Air Cdre Austin—We did not require a signed consent form for the mencevax. Mencevax has been a routine immunisation for operationally deployed personnel for quite some time. Whilst it is not a routine baseline immunisation, it is a routine predeployment immunisation. I believe that there were not the psychological factors involved. As I said, we did not require a signed consent form for that.

Senator CHRIS EVANS—For instance, when did the sailors who were deployed get their mencevax inoculations? Was that also while they were at sea?

Air Cdre Austin—I will have to take that on notice, I do not know.

Senator CHRIS EVANS—As I understand it, you did not offer the anthrax inoculations—as was the evidence from General Cosgrove and others last time—until they had actually sailed. I am just trying to be clear about whether mencevax was offered at the same time or whether it was done prior to them sailing?

Air Cdre Austin—I would suspect so, but I cannot confirm it at this stage. The mencevax was probably administered prior to the deployment of the ship, because the mencevax protects against meningococcal meningitis. That is an environmental threat; that is a disease which is a characteristic of that part of the world and it would have been identified through our environmental threat analysis. I suspect it would have been a prerequisite requirement for those ships to deploy onto the MIF regardless of whether they had subsequently been redeployed onto Bastille and Falconer.

Senator CHRIS EVANS—Can you check whether or not mencevax was a precondition for deployment on the MIF. Could you also take on notice for me whether or not the inoculations for mencevax occurred prior to departure or whether they also occurred onboard?

Air Cdre Austin—Certainly, Senator.

Senator CHRIS EVANS—General Cosgrove, the last time we spoke about this, at great length, you were talking in the order of 10 or 12 personnel who had been deployed to the gulf who initially refused inoculations and you were having discussions with others who had expressed some concerns. I understand now from an answer we got to a question placed on notice that, in fact, there were 52 who refused—is that correct?

Gen. Cosgrove—That is correct.

Senator CHRIS EVANS—Where did those 52 come from? Were they all from the Navy?

Gen. Cosgrove—They were mostly Navy. There was one or two Air Force and perhaps one Army, as I recall.

Senator CHRIS EVANS—Have you got the figures?

Gen. Cosgrove—I am advised by Air Commodore Austin that there were 10 from RAAF and zero from Army.

Senator CHRIS EVANS—I remember reading something in the press saying there were eight RAAF.

Gen. Cosgrove—On the note I have there were 10 RAAF and zero Army.

Senator CHRIS EVANS—So the other 42 were Navy—is that correct

Gen. Cosgrove—Yes.

Senator CHRIS EVANS—Were they all off the *Kanimbla*?

Gen. Cosgrove—No. Do you really want to know the break-up of the ships, Senator? At this stage of the game, I do not think it is particularly useful to delineate by ship. If I could reply to you on notice, that might be a better way of doing it.

Senator CHRIS EVANS—If you want to take on notice which ships they came off, I am happy with that. Had the RAAF personnel been deployed?

Gen. Cosgrove—Yes, I think they were.

Senator CHRIS EVANS—Were they already in the Middle East?

Gen. Cosgrove—Yes, they were.

Senator CHRIS EVANS—So they had been deployed to the Middle East before they were offered their inoculations as well?

Gen. Cosgrove—Yes.

Senator CHRIS EVANS—Why was that?

Gen. Cosgrove—Because they had been deployed on a previous operation or an operation that anticipated Operation Bastille.

Senator CHRIS EVANS—So these were RAAF personnel who were already in the gulf?

Gen. Cosgrove—That is correct.

Senator CHRIS EVANS—I did not know that we had RAAF personnel there.

Gen. Cosgrove—We had the P3s there.

Senator CHRIS EVANS—Of course. It was not thought necessary to inoculate them against anthrax while on Operation Slipper, or whichever it was at the time, but it was for Bastille—is that right?

Gen. Cosgrove—That is correct.

Senator CHRIS EVANS—Were those 10 RAAF personnel flown out of the Middle East?

Gen. Cosgrove—In the same way that anybody else was who was a refusal. After an appropriate period of discussion, when it was obvious that that was their final decision, they were moved back routinely on aircraft that were operating in and out of the gulf.

Senator CHRIS EVANS—When did that occur?

Gen. Cosgrove—I do not have a date available. It was over a period of time, perhaps in late February.

Senator Hill—If you want us to be more explicit, we would need to take time.

Senator CHRIS EVANS—If there is someone from the Air Force here who can help us, that is fine. Otherwise, I will put it on notice. Would it be easier to have someone from the Air Force respond?

Senator Hill—We might have to get someone to look back at the records. Over what period do you want to know about?

Senator CHRIS EVANS—I am interested in when that occurred. I understand what happened with the Navy deployment, but this is a slightly different case.

Senator Hill—There were Navy people over there as well who came back. They were deployed on other missions. They were there under the MIF. Some of them declined to take the anthrax injections, as was their choice, and they were brought back.

Senator CHRIS EVANS—Were all those who returned flown off the ships or did you dock?

Gen. Cosgrove—I am not sure how they came ashore. If you would like that level of detail, we would need to provide that for you subsequently—whether they docked by walking off the ship or whether they were flown off.

Senator CHRIS EVANS—Is there somebody in the Navy who can give us some of the details about what happened in the Navy operation? I want to ask a few questions about that to follow up the discussion from last time. It is up to you, obviously.

Senator Hill—You ask the question, and we will decide whether we have someone here who can answer it.

Senator CHRIS EVANS—I did ask the question: how were the Navy personnel returned? Were they flown off or did they dock?

Senator Hill—The Navy personnel who were already in the gulf?

Senator CHRIS EVANS—Both subsets—those who were in the gulf and those who were on their way to the gulf.

Vice Adm. Ritchie—The people who were on their way to the gulf were returned via another ship to Christmas Island and they were flown from Christmas Island back to Australia. The people in the gulf—I think it was a culmination of when ships were in ports in the gulf—were landed and left there when the ship sailed. I think there were probably a few people flown ashore by helicopter.

Senator HOGG—How were the replacements for those people brought in?

Vice Adm. Ritchie—They were flown to the gulf.

Senator CHRIS EVANS—Did you put the people taken off the ship on the way to the gulf onto another ship?

Vice Adm. Ritchie—Yes.

Senator CHRIS EVANS—Was it an Australian Navy ship?

Vice Adm. Ritchie—Yes. It was the ship that was up in Relex. The *Kanimbla* went through the Relex area. The ship that was in Relex rendezvoused with the *Kanimbla*, and people were

transferred across. They stayed there for a day or two. Then they were landed on Christmas Island and flown back home.

Senator CHRIS EVANS—So you did a ship-to-ship transfer at sea of the personnel?

Vice Adm. Ritchie—Yes.

Senator CHRIS EVANS—Senator Hogg opened up the question I was going to ask about how you replaced personnel—you had quite a large number of personnel to replace.

Vice Adm. Ritchie—We sought volunteers from ships of similar class. We were sort of overwhelmed with volunteers. Those people were sent forward on the normal logistic movement that ran to and from the Middle East AO throughout the duration of the operation.

ACTING CHAIR—Air Marshal Angus Houston has some answers to questions you asked earlier.

Senator CHRIS EVANS—About the Air Force?

ACTING CHAIR—Yes.

Air Marshal Houston—You would recall that the P3s deployed in January were deployed against Operation Slipper. The people were not inoculated at that stage. They were going to a location where perhaps the threat was a little less. When they were actually brought into Bastille, the P3 people were inoculated last of all. At that time, 10 people said they did not want to take the vaccination. They were then returned to Australia by the normal logistic movement, and 10 other people were force prepared, took the vaccinations and went out to replace those people. It was as simple as that.

Senator CHRIS EVANS—Were the refusals in the RAAF only for anthrax or for mencevax as well?

Air Marshall Houston—It was only for anthrax.

Senator CHRIS EVANS—Admiral Ritchie, how many came off the *Kanimbla*?

Gen. Cosgrove—I have some figures here, if you like, Senator: HMAS *Kanimbla*, eight; HMAS *Darwin*, 19; HMAS *Anzac*, 15.

Senator CHRIS EVANS—So the *Kanimbla* did not end up being the largest group. I know that last time the focus was on the *Kanimbla*. Who was already in the gulf?

Vice Adm. Ritchie—*Darwin* and *Anzac* were already in the gulf.

Senator CHRIS EVANS—Had they had the mencevax inoculation earlier or was that part of this process as well?

Vice Adm. Ritchie—I do not know the answer to that question but I think you can safely assume that they had it before they were deployed to the gulf.

Senator CHRIS EVANS—In terms of the inoculation process, particularly in the Navy, you indicated last time, General Cosgrove, that there were some discussions going on. We ended up with eight coming off the *Kanimbla*. There were a large number who initially expressed some reservations. Is that correct?

Gen. Cosgrove—Yes, I do not have any information about what that number was at one time but, if you recall, at the time we discussed this last, it was during the process of administering the inoculations. As I mentioned then, the figure was moving around.

Vice Adm. Ritchie—I think that is recorded in the last *Hansard*. We did talk specifically about the numbers who had expressed some concern, and then after they were counselled we got down to the first three.

Senator CHRIS EVANS—Did we have any who had started the inoculations—as I understood it, there was some who—

Vice Adm. Ritchie—Yes, I think there were one or two who took one and maybe there were some who took two and then would not take the third.

Senator CHRIS EVANS—Are there any medical implications from not completing the course, other than not getting full coverage?

Air Cdre Austin—No, there are no adverse health effects at all from that. A series of inoculations stimulates an immune response. The first shot primes the immune system and you get a short, low-peak response; the second shot gives you a larger response which lasts for a longer period of time; and the third shot gives you a similar level of response but makes it more enduring. So that may be anything from one year through to a full lifetime, depending on the immunisation.

Senator CHRIS EVANS—In terms of people's concern about the inoculation process, by consenting to the first, you do not concede there is any greater risk? I am not arguing that there is, but effectively they had started the process.

Air Cdre Austin—That has really been the nub of the thing. The anthrax vaccine is very, very safe. Its side effect profile is not significantly different from the routine immunisations that every man, woman and child receives in Australia as part of our recommended immunisation regimen. So we do not envisage any possible complications from someone completing a full course of anthrax vaccination. So someone who has received one shot, you could argue intellectually, is slightly less at risk but, if the risk is zero, then it is one-third of zero.

Senator CHRIS EVANS—Have you any record of any adverse reactions from the inoculation process for either anthrax or mencevax?

Air Cdre Austin—We have no record of any complications from the mencevax vaccine; it tends to have a very benign side effect profile in most people. The anthrax vaccine that was used during Op Slipper included a batch which seemed to have had a higher than expected rate of complications, but I emphasise that these were short-term complications. They were, in a sense, an exaggeration of what you would normally see, so we are talking about a mild febrile illness, local pain, tenderness and feeling a bit feverish. We saw that in a higher rate in a particular group in Afghanistan than we had anticipated and, as a consequence of that, we suspended the use of that vaccine. We then used a different batch of vaccine and had a lower rate of localised side effects from it.

It is very difficult to be honest or to be completely objective about the assessment of side effects. Even with the routine immunisations given here in Australia, if you give someone a

form and say, 'I want you to record side effects from this vaccine,' then you will see that approximately 30 to 40 per cent of people will record something on that form that they attribute to receiving that immunisation. If you use the data of those people who present to a medical facility saying, 'I have experienced something which I think is a side effect,' then the numbers rapidly drop to approximately one to three per cent. So it is very difficult. I had this discussion with one of my staff yesterday because we are very interested in being proactive on this to try and get the data set that is alluded to in the Gulf War study, but it is very difficult to draw the line as to what constitutes an adverse effect to the vaccine unless we are talking about the extremes, at either end, of zero symptoms or an incapacitating symptom that results in restriction of duties or sick leave.

Senator CHRIS EVANS—So, effectively, it is a question of whether what they record is causal or just the fact that they are having—

Air Cdre Austin—I was looking through some of the records yesterday from one of the ships. Whilst I have not had a chance to talk to the medical officer involved, it appeared to me that there was a baseline viral illness in many of the ship's company, just a cold, which as you know causes symptoms. Many of the people who were reporting to the sick bay were reporting symptoms that were very similar to those of a common cold. Whilst they as individuals may feel that those symptoms were aggravated by the immunisation, it would be very difficult to be objective about that.

Senator CHRIS EVANS—You said the batch you had some concerns about was used as part of the deployment to Afghanistan.

Air Cdre Austin—Yes.

Senator CHRIS EVANS—When you said you went to another batch was that of the same vaccine or was this the British-American manufactured—

Air Cdre Austin—It was exactly the same vaccine from the same source. When we receive vaccines we receive a batch number, because they are literally manufactured in a batch, and there is an associated time expiry on those vaccines. We monitor that information so that we can rapidly detect any deviation from expected side effect profiles. We certainly noticed an increased rate in this particular group of exaggerated symptoms such as febrile or flu-like illnesses on the part of these people. As a consequence, as I said, we suspended that. In moving vaccines from their point of production to the point of delivery, it is important that they be maintained within certain temperature parameters. That is often difficult to monitor. With that particular batch of vaccine, there was, with hindsight, some concerns that the so-called cold chain may have been breached. It does not make the vaccine unsafe; it cannot result in any significant adverse impact on the individual. It simply reduces the efficacy of the vaccine.

On the second batch of vaccine that we received into Afghanistan we had a computer data logger attached to that batch which did show a minor deviation in the temperature. As a consequence of that we deferred using that vaccine until we had been able to send samples back to the manufacturer and have it tested to see if was still effective and unlikely to cause adverse effects. We were assured that the vaccine was still effective and safe, and we

continued to use it. We saw a side effect profile that was lower than what we had seen with the previous batch.

Senator CHRIS EVANS—In terms of the Bastille-Falconer deployment, were there any adverse reactions, beyond the minor, from the inoculations?

Air Cdre Austin—No.

Senator CHRIS EVANS—Admiral Ritchie, we had this process of negotiation and discussion on the ships with those who were concerned about the inoculation. Can you tell me when that was finally resolved in terms of *Kanimbla* and the other ships? How long did this go on for?

Vice Adm. Ritchie—I think it went on in all ships for about a week, with people being counselled and told by the medical officer what the vaccination entailed. By the end of that week, if people had not agreed then they were returned.

Senator CHRIS EVANS—When were the last of them returned from the Navy deployment?

Vice Adm. Ritchie—I could not tell you off the top of my head.

Senator CHRIS EVANS—Perhaps you might take that on notice.

Senator Hill—The issue went on for some time because there were a series of injections and we could not really rule the line under the issue until—

Vice Adm. Ritchie—It certainly did for second and third—that could be a month later.

Senator Hill—I think there were very few, if any, weren't there, that declined in the end?

Vice Adm. Ritchie—There were some in *Kanimbla* with the second.

Gen. Cosgrove—We could not make that reply that we spoke about at the previous hearing until the last inoculation for the last person was due and either accepted or refused.

Senator CHRIS EVANS—I think what you are telling me is that it is fair to assume that most refused at the first barrier rather than the third.

Gen. Cosgrove—Yes.

Vice Adm. Ritchie—But you could not be sure until—

Senator CHRIS EVANS—No, I accept that in terms of the totality of the picture, but the majority of your refusals were on the first inoculation. Admiral, I think you described it as a couple who refused afterwards.

Vice Adm. Ritchie—Could I correct something I said earlier. You asked whether mencevax was given prior to ships departing Australia. It turns out that for *Kanimbla* it was, but for *Anzac* and *Darwin* it was not, and it was given in the theatre.

Senator CHRIS EVANS—So mencevax was not considered necessary for the MIF operations?

Vice Adm. Ritchie—Apparently not. It was given when the Operation Falconer health plan was issued.

Senator CHRIS EVANS—But that was able to be done, in the case of the *Kanimbla*, before they sailed?

Vice Adm. Ritchie—In the case of *Kanimbla* it was able to be done before.

Senator CHRIS EVANS—Air Marshal Houston, are you able to help me with the dates of when those RAAF personnel were returned?

Air Marshal Houston—I would have to take that on notice. I think it was some time in March.

Senator CHRIS EVANS—And they were all personnel who had already been deployed as part of Operation Slipper?

Air Marshal Houston—Yes, they had been there for a little while and they all refused on the first vaccination.

Senator CHRIS EVANS—General Cosgrove, have there been any formal procedures lodged by personnel returned arising out of the inoculation process?

Gen. Cosgrove—There is the issue of the sailor who alleged there had been some pressure put on him by his superiors, and that has been investigated. I would need to ask the Chief of Navy where that has got to.

Vice Adm. Ritchie—There was one sailor who redressed against many things, but essentially he was looking for an investigation into the process. As the chief said, there was an accusation of harassment. That has been investigated by a senior legal person. The commanding officer of the ship that the sailor is now serving on has looked at that investigation and given his response to the sailor. The sailor has exercised his right—this happened about 10 days ago—in that he has up to 28 days in which he can decide whether or not he wishes to refuse that particular answer and ask a higher authority to have another look at the case. At the moment he is in that period of trying to determine whether he will take that option.

Senator CHRIS EVANS—So I understand that properly, Admiral Ritchie, was the redress procedure allocated to a Navy senior legal person or—

Vice Adm. Ritchie—The way the process works throughout the Defence Force is that if you wish to make a complaint you seek to redress whatever the grievance is through your commanding officer. The commanding officer then has cause to investigate it to see whether or not there were any grounds. In this case, because of the publicity that had been given to the fact that this sailor was going to do this, particular care was taken to make sure that that investigation was conducted thoroughly. So an investigating officer was appointed who was an RAN Reserve QC.

Senator CHRIS EVANS—He compiled a report on his investigation. I did not quite understand the role—

Vice Adm. Ritchie—He investigates it on behalf of the commanding officer. He then has presented his report to the commanding officer and the commanding officer has read the report and then decided whether or not there were any grounds in that report for him to

redress the sailor's grievances. He then gives the sailor that particular decision, whatever that may be.

Senator CHRIS EVANS—So the investigating officer does not actually make a decision; they provide a report to the current—

Vice Adm. Ritchie—He provides what he considers to be the facts of what had happened, yes.

Senator CHRIS EVANS—And that went to the captain of the ship that the sailor is now serving on, which is not the *Kanimbla*, I gather?

Vice Adm. Ritchie—It is not the *Kanimbla*, no.

Senator CHRIS EVANS—And that captain then decides whether any action is required and what action is required.

Vice Adm. Ritchie—He decides whether he can or cannot redress the grievance in the way in which the sailor has requested, and he then passes on that decision to the sailor. The sailor then has 28 days to decide whether he accepts that or whether he wishes to take it to a higher authority. Eventually he can go to the Defence Force Ombudsman.

Senator CHRIS EVANS—But the redress decision is made in the first instance by the captain of the ship?

Vice Adm. Ritchie—By the commanding officer.

Senator CHRIS EVANS—And is the report of the investigating officer referred up the chain of command as well or just to that person?

Vice Adm. Ritchie—In a formal sense it is referred to the commanding officer.

Senator CHRIS EVANS—Are you able to tell us anything about that report?

Vice Adm. Ritchie—I am not sure whether I should, because I would probably be the next step in the chain.

Gen. Cosgrove—It is important for the Chief of Navy not to be so aware of the circumstances until it becomes apparent that the sailor will or will not accept the outcome. If the sailor does not accept it and refers it on, the Chief of Navy then needs to have a totally fresh approach to the issue. In that regard, he should not know the outcome until the sailor has had a chance to consider the ship's captain's determination or response.

Senator CHRIS EVANS—I am not trying to interfere in the process. I do not want to subvert the process if Admiral Ritchie is potentially going to have a role in it. I just want to understand this: is the report made available up the chain of command?

Gen. Cosgrove—Only if the sailor wants to seek further redress not granted at a lower level. It would come to the Chief of Navy at some stage and then to me, and beyond me, as the Chief of Navy said, to the Defence Force Ombudsman.

Senator CHRIS EVANS—Given that Admiral Ritchie indicated that you had taken particular care or were aware that there was some publicity surrounding this case and there were therefore some sensitivities et cetera, I am just trying to understand whether senior officers are aware of the findings of the report. I am trying to understand the process. Clearly,

you would have taken an interest in the matter because, as you say, the sailor was on the *7.30 Report* and there was a deal of public comment about the inoculation process. Has the report of the investigating officer been made available to CDF, the minister, Chief of Navy currently or not?

Gen. Cosgrove—And that is because of the process, Senator.

Senator CHRIS EVANS—So you have not seen it?

Gen. Cosgrove—No.

Senator CHRIS EVANS—Admiral Ritchie, you have not seen it yet?

Vice Adm. Ritchie—I have seen the letter that has been written by the commanding officer to the sailor, and I can say to you that that gives me no particular cause for concern.

Senator CHRIS EVANS—Are you able to tell us what the commanding officer has recommended?

Vice Adm. Ritchie—No.

Senator Hill—I think this is a bit unwise whilst a matter is current. It is one thing for the committee to inquire as to the process in these matters and to satisfy themselves that the process is being followed, but getting into the merits or determinations and so forth while there are still further phases is a bit unwise.

Senator CHRIS EVANS—That is why I phrased the question as whether he was able to. I am not demanding it; I was trying to get a sense of—

Vice Adm. Ritchie—I wouldn't say that, because the ball is now back in the sailor's court and it is up to him.

Senator CHRIS EVANS—So our formal decision from his current commanding officer, who obviously was not involved in the original incident—

Vice Adm. Ritchie—Yes.

Senator CHRIS EVANS—In terms of the process, would it normally be his commanding officer? If he were still on the same ship would it have been the captain of the *Kanimbla*?

Vice Adm. Ritchie—It would have been. Because the captain of *Kanimbla* was involved in it we probably would have had to find some other way to do that.

Senator CHRIS EVANS—But in any event he has transferred to another ship, and that is not an issue.

Vice Adm. Ritchie—No, someone totally independent has looked at it.

Senator BARTLETT—Before we move right away from the anthrax vaccination after departure issue, have you determined procedures for future deployments? Would you still do the same thing again or would you do it differently next time—or are you still thinking about it?

Gen. Cosgrove—Is there a particular part of our process that you question, Senator?

Senator BARTLETT—Waiting until the ships had left before—

Gen. Cosgrove—No, we would always want to do them before they leave, Senator.

Senator Hill—If circumstances had allowed. But if you are asking the general whether the voluntary policy is under review, I don't know—

Gen. Cosgrove—I think we would want to make all inoculations more routine, but I believe that we were spot on in telling our people the type of inoculation they were receiving and its implications and, because it was out of the norm, to make that voluntary. I make the point that Mencevax, for a more pervasive and routine precaution, was not the subject of a special program, but that anthrax, being very unusual as a threat, was. But getting back to your point, of course we would always seek to make sure that people were in the most settled circumstances when having to confront these issues rather than getting them part way through a deployment.

Senator HOGG—What regime is in place now in terms of vaccinations for those entering the area of operations?

Air Cdre Austin—The requirement for anthrax vaccine was suspended on 17 April of this year in light of a review of the threat level by DIO.

Senator HOGG—What about Mencevax?

Air Cdre Austin—Mencevax is still required. It is still a baseline disease prevalent in that particular part of the world.

Senator HOGG—What about those 13 personnel, as I understand, who are involved in the WMD area? Are they still required to have the anthrax vaccinations?

Air Cdre Austin—Those people who are specifically assigned to sensitive site examinations still require the full suite of vaccinations.

Senator CHRIS EVANS—Including the plague?

Air Cdre Austin—Yes.

Senator CHRIS EVANS—Is that how we should refer to it?

Air Cdre Austin—Yes. It is just known as plague vaccine; very unimaginative.

Senator HOGG—So that regime will be in place for that group of specialists going into that area, for a long time into the future obviously.

Air Cdre Austin—Whilst their primary duties are still sensitive site examinations, if you think about what they are doing there, by the very nature of their duties they are likely to come across these agents and may in fact be exposed to them prior to their knowledge of exposure. So it is extremely important that they be afforded the maximum protection we can give them.

Senator FERGUSON—We have had a lot of questions about the predeployment of troops. As part of the general overview, because there was a lot of criticism of the predeployment of the troops—some of it even from some of my colleagues at the table—could you give us your opinion about how important the predeployment of troops was to the gulf area in relation to the overall success of the operation? Do you think it enabled the actions that took place during the Iraq war to be more successful? Do you think it contributed to the fact that we were able to come out of the whole engagement without casualties?

Gen. Cosgrove—Reversing the order, it was absolutely key to our people being able to return home without having sustained any battle casualties. I believe that the opportunity to acclimatise, to learn of the operating environment and to assimilate or integrate with coalition partners, was a major factor in our people being able to show a professional performance without friction, misunderstanding or those individual factors that exhausted and disoriented service men and women can experience if they are pitchforked into a harsh, hazardous environment at short notice. It was one of the strong aspects of advice from the military to the government and I was relieved and delighted when the government readily agreed.

Senator FERGUSON—Thank you.

Senator CHRIS EVANS—Briefly going back to inoculations, is that sailor's redress the only redress arising out of the inoculation process?

Gen. Cosgrove—It is the only one of which I am aware, Senator.

Senator CHRIS EVANS—In terms of your response to the refusal rate, has there been a defence assessment of that or a formal review in terms of how one might do it better to assess what the problems were this time and how we might overcome those next time? In terms of the inoculation process, clearly it was not helpful to have to pull people off vessels already deployed in the gulf. I guess it is partly a function of allowing more choice and informed consent than perhaps would have been traditional in the forces. I understand there are cultural issues that probably throws up. Is there going to be some sort of assessment of that, particularly in terms of anthrax because if you want to use it again that may well be an issue again.

Gen. Cosgrove—I would say to you that in the unique circumstances of mounting this operation—albeit as a forward deployment that we sought—it was, for very obvious reasons, not something that government was prepared to do unless it became very necessary and government gave its approval and then we started the urgent last minute issues such as inoculating—something you would not want to do unless you were imminently about to deploy in the case of most people or in this case some already deployed. So there were unique circumstances. We, I believe, would not encounter the same sort of circumstances in the future simply because, if we were going into a further anthrax threat, the lessons learnt out of this occasion will help us, I think, to reassure our people in the lead-up to such a deployment or an exposure to threat.

I need to point out—and I know I said this at the previous hearing—that we sat between the policies of our coalition partners. It was mandatory no questions asked in the United States. They administered hundreds of thousands of vaccinations for anthrax. If one declined the inoculation, you were charged. The British had a different policy of voluntary vaccination with a waiver signed. We chose not to do either of those but sat in the middle. I am persuaded that we were right and all that I would have wished to do with the way it was done was to somehow be able to persuade the 52 folks that it was both necessary and safe. In the context that I tell you, there were 3,056 people who received vaccinations and we had 52 who declined it—mostly ab initio and some part way through the regime. In that respect, it is quite a small proportion but I do feel we could have worked on that under different arrangements—less urgency.

Senator CHRIS EVANS—Not that my view on the matter matters much but, as I indicated to you before, I think the policy decision you took was the right one. I have no qualms with that. My concern was always with the process, particularly about the sailors who had already deployed. That seemed to me to be the real weakness in the process, that sailors were already at sea and unable to necessarily communicate with maybe their GP or another source other than a Navy source. That seemed to me to be part of the problem. I was interested in what you thought the lessons were about that and how we might make sure that did not occur again.

Gen. Cosgrove—We are involved now in a comprehensive lessons learned exploration of all of the outcomes of the Iraq campaign. Teams are addressing all of the functional areas of the defence activity involved in Iraq to glean lessons learnt. These will be digested in the next couple of months and no doubt on the personnel side this, amongst a range of other activities, will be analysed.

Senator CHRIS EVANS—That reminds me of one of the things that I was going to ask you before we went down a different path. I was going to ask you about that process inside defence. Obviously it was a very large deployment and it saw the RAAF people involved in a way that they had not been for some years. I was interested as to how you were formally going to do that. I saw some of your comments from a public speech you gave about a few of the new buzzwords and the new technologies. I am interested in an overview of defence's learning process from the deployment and the assessment of what worked and what did not and how that will be made available to the parliament and to others who are interested, because there is clearly a broad interest. I see that a few of the commentators have already reached all of the conclusions. I think there is a great deal of interest within this committee and in the parliament generally as to some of those issues. Perhaps you could enlighten us.

Gen. Cosgrove—I will start by saying that there is no doubt a great value to be had in briefing the joint subcommittee at a future time specifically on our outcomes and lessons learnt. When we understood how significant our involvement in the campaign overall would be, we started a process of operational analysis, which entails having people observing the process and operations under way, people who stand separate from the process and those operations and who are recorders, people who are expert in the field and can make judgments by a series of observations, examination of databases and interviews with key players.

That is all synthesised within each functional area and we have, under the Deputy Secretary, Strategic Policy, a time line and a schedule of consultations and seminars to start to expose and digest these lessons. No doubt I will put those in a major ADF submission and the secretary and I will put those in a major departmental submission to the minister which will speak about those areas where we either develop the Defence Force as a whole or perhaps change process or perhaps reinforce success where we have experienced particular success. I think the Deputy Secretary, Strategic Policy, could mention the time line, which, because of the quite important nature of this, is not a knee jerk. One of the things that I ought to comment on is that I, along with the chiefs and the secretary and the minister, have been anxious to avoid being too emphatic and too early with pronouncements, because we need to have the lessons—not just our own observations but the lessons—filter up to us in a way which means

that our young people who are on leave still have a chance to participate and to contribute to and guide some of our thoughts.

Mr Carmody—As CDF said, we have instituted a very comprehensive lessons learned process. It covers documentation throughout the department for all parts of the organisation—the whole of the Defence organisation. It covers every part of the organisation that was involved in the operations in Iraq, looking at everything from logistics to command and control, the component commanders, strategic operations division, the international policy division and the capability systems division. So it involves every part of the organisation.

We have also sent similar questionnaires compiling the same sorts of data to other government departments who were involved, particularly departments like Prime Minister and Cabinet and the Department of Foreign Affairs and Trade, in an attempt to compile all of that information, which we will then seminar in early July, with the intent of drawing all the lessons learned out of the process over the succeeding couple of months. Our real intent is to have all of the lessons completed so that we can inform the Defence management and financial planning process—so basically being in a position to inform the minister and government in about October. So that time line is quite ambitious.

The information being sought is quite wide ranging. As CDF said, a range of processes were put in place throughout the operational phases to try and observe what was going on. I am in a process now of bringing all of those together, drawing all of the lessons learned together and then seeing what we can draw out of them. There are, as you have seen, quite a number of commentators who have already determined what the lessons are. No doubt we will be able to seek some input from coalition nations who are doing their own lessons learned work, and I think we would leverage off that as well.

Senator CHRIS EVANS—Does your section have responsibility for that process?

Mr Carmody—It has, so we will draw it together.

Senator CHRIS EVANS—Will the seminar process that you talked about involve both serving ADF personnel and departmental personnel?

Mr Carmody—It will. We would expect it to take about two days. The first day will focus on all the lessons and all the material that we have brought forward, and the second day will focus on trying to convert that into what the real lessons are. We do not want it to run for too long. My particular intent is to have this done before the lessons are lost, and find ways to get it into our operational and doctrinal thinking, and into our procurement processes if necessary.

Senator HOGG—Will there be any independent outside assessment of what you are doing, to contribute to the process?

Mr Carmody—Most of the evaluation that we have started thus far is internal. We are looking at what we think the lessons learned are. There will be so many people who will be commenting on what the lessons learned are that I am sure we will have ample opportunity to draw those lessons out. But we have not contracted an external organisation to review the lessons and look at us from outside. That would be a very large exercise. We would want to see what we thought the lessons really were first.

Senator CHRIS EVANS—In terms of the feedback to those involved, how will that process work?

Mr Carmody—Some will get initial feedback during that seminar process. It will be pretty clear very early in July what some of the lessons learned are and what is common and what is not common. So that is one part of the process. I would anticipate that, at the end of the day, there will most likely be both a classified and an unclassified output from the process. Then it would be distributed and worked into things like capability and our feedback loops, as appropriate. In some cases there will be some areas of classified material that will feed back to those areas to which it is most relevant, but in terms of things like the need to know, you would not then turn around and let everybody know what the results were. We are finding ways to loop the results back to those areas that need them.

Senator CHRIS EVANS—General Cosgrove, I am sure there are a lot of parliamentarians who would be very keen to find a way of being briefed or to be able to workshop those outcomes. I indicate that the joint foreign affairs committee and others would be keen to find a way of making sure that the parliament had a good understanding of those lessons.

Gen. Cosgrove—It would be a natural outcome. We sought to brief the parliament on the way in to the operation and during the operation. This seems like something that we would include on our list of activities perhaps in the fourth quarter.

Proceedings suspended from 12.30 p.m. to 1.34 p.m.

CHAIR—Before we continue with the portfolio overview, Admiral Ritchie and Air Marshal Houston have some explanations which they would like to provide.

Vice Adm. Ritchie—Senator Evans asked on what date the personnel who refused anthrax injections were returned to Australia. In the case of Navy, three people came back on 9 February; eight people on 11 February, 25 people on 19 February, five people on 24 February and the last person on 12 March.

Air Marshal Houston—In the case of Air Force the departures from the area of operations were seven people on 3 March, one person on 8 March and two people on 10 March.

Senator CHRIS EVANS—Admiral Ritchie, I presume that last person was someone who had refused a subsequent inoculation.

Vice Adm. Ritchie—Yes.

CHAIR—Will these people subsequently have qualifying service?

Vice Adm. Ritchie—Those people who served within the area of operations will have qualified.

CHAIR—On the basis that you only had to be there for—

Vice Adm. Ritchie—The majority of those people had already done three months in the area of operations.

Senator CHRIS EVANS—But that was on the previous operation, though, wasn't it?

Vice Adm. Ritchie—I will leave that to you and CDF.

Senator CHRIS EVANS—Is that another twist on that discussion we are going to have?

Gen. Cosgrove—To follow up what the Chief of Navy said, Operation Slipper, was under warlike service conditions.

Senator CHRIS EVANS—Yes. It was put to me by a couple of people that this was a sign of cowardice, but certainly one of them expressed the view that he had served on a number of active missions before and he just had a particular problem with anthrax. There was no question of cowardice.

Gen. Cosgrove—Just to be quite clear on that point, we have never said anything of that nature—nor would we.

Senator CHRIS EVANS—I was not suggesting you were; I was just saying that part of the public debate was that case, and I know that one of them was a very experienced person. As a quick follow-up to that, I asked about complaints and redress applications made by personnel. Has anyone been charged by Defence arising from the inoculation process or the publicity surrounding it?

Gen. Cosgrove—To my knowledge nobody has been charged.

Air Marshal Houston—Certainly nobody in Air Force.

Senator CHRIS EVANS—And it is not the intention that anyone be charged?

Vice Adm. Ritchie—It is not my intention to charge anybody.

Senator CHRIS EVANS—Including the question of the publicity arising from the—

Vice Adm. Ritchie—In particular arising from the publicity, it is not my intention to charge anybody.

Senator CHRIS EVANS—Thank you for that. Mr Chairman, I wanted to ask some questions arising out of the Iraq deployment about prisoner of war policy. I understand that protocols were established between the coalition forces. I would like to get some detail on that.

Gen. Cosgrove—Mr Chairman, I have taken the liberty of asking the Director-General of the Defence Legal Service, Commodore Michael Smith, to join us in case your questions move into an area where he would be more expert.

Senator CHRIS EVANS—I think it is on the public record, and I received a briefing during the Iraq conflict, that a set of protocols had been established between the coalition forces for the treatment of prisoners of war. What was the nature of that protocol? What standard did it apply? As I understand it—I will probably let you describe it better—the various forces have slightly different protocols.

Cdre Smith—As we built towards the engagement we worked with our allies to produce a trilateral agreement. It was non-classified and I think it is okay to mention it. The purpose of that was to compatibilise our approach under the Geneva conventions, in particular the third Geneva convention, which was the common treaty obligation across the forces operating in Iraq. In particular, we were concerned that Australia's obligations would be understood and would be met. It took quite a while to develop this protocol. It was concluded just as we moved into the conflict and it was then forwarded to our operational forces.

The protocol was signed in the field. The signatory for Australia was Brigadier McNarn. A senior British officer and an American officer signed it. The importance of it was that it stabilised our obligations across the board. It was called an arrangement for the transfer of prisoners of war. This was shaping up to be a fairly conventional conflict. You might recall we had been in other operations where the nature of POWs and their classification and status was less clear. But this was a far more set-piece affair, and traditional application of the laws of armed conflict was the way to go.

We signed off on the agreement. It is not classified. I think we would need to check with our allies but I would imagine that, having done that, it could be made available. It shores up Australia's ability in relation to any prisoners of war that we may have formally taken in accordance with the conventions—I express that deliberately: formally taken, as against having had something to do with a particular engagement—that we could transfer those prisoners to our allies. We did not deploy the sort of resources that you need to run prisoner of war camps and to give these people the treatment that they are entitled to under the conventions, so we were then going to rely on the resources of our allies. But when you do transfer prisoners of war who have been formally received, taken responsibility for and processed, you must be able to trace what happens to them and monitor the standard of treatment. In dealing with them, that remains your obligation.

Senator CHRIS EVANS—If you have formally taken those prisoners of war, you have an ongoing legal obligation to them?

Cdre Smith—Indeed. That is all written in the 1949 Geneva conventions, the third Geneva convention, Australia being a party and, of course, the United States and the United Kingdom as well. That was the basis on which we proceeded. The agreement was signed and promulgated to the field. As it turned out we did not get a lot of use out of it, but it was certainly there as a contingency, given some of our other experiences in operating together in other theatres.

Senator CHRIS EVANS—I would appreciate it if you could take on notice whether or not you can make that document available to the committee.

Cdre Smith—Indeed.

Senator CHRIS EVANS—Can you explain the difference in standards or procedures or commitments between the coalition forces that relate to the additional protocol? I understand Australia and the UK are signatories to it but the USA is not. Is that correct?

Cdre Smith—That is correct. You are referring to the first additional protocol to the Geneva conventions to which the United States is not a party but the United Kingdom and Australia are. That protocol advanced the circumstances for the treatment of prisoners of war in one fundamental way. Under the 1949 convention, if there is doubt about the status of a person you have what is called an article 5 hearing. That is common to all parties. But in the protocol they were dealing with issues that were really an experience of the national liberation movements of the 1970s and they had to allow for people who may have been working in those movements, so again it is pretty much frozen in time as a seventies document.

The people who may have worked in those national liberation movements would not be part of conventional forces. This additional mechanism was built for them, where they could

raise the question of their combatant status and seek to have that decided by raising the issue themselves. That was not accepted back then by the United States and it was not an obligation that they carried into time. But, as it turned out, we did not use the protocol as the common standard. There was no requirement to look at those sorts of issues on the facts that we were dealing with. It was a far more conventional combat operation in army on army—forces on forces.

Senator CHRIS EVANS—So you are saying that Additional Protocol I did not apply any additional requirements on us that had any impact in terms of the operation in Iraq?

Cdre Smith—Not in this particular context, no. We did not have to address it. The 1949 Geneva convention, the third Geneva convention, was quite robust and adequate to meet Australia's obligations as they arose in the field.

Senator CHRIS EVANS—So is it fair to characterise the trilateral agreement as being largely based just on the third Geneva convention?

Cdre Smith—Indeed; that is correct.

Senator CHRIS EVANS—Are there any other major features of that agreement that are worth noting, beyond what are contained in the basic principles of the third Geneva convention?

Cdre Smith—No. We had essentially covered the ability for us to transfer prisoners of war formally and to keep track of them. There was, if I recall, an ability for us to request back the handling of someone if we developed concerns about their destiny or treatment.

Senator CHRIS EVANS—You said it took quite a while to negotiate. If it were such a simple process—I am just trying to read between the lines—what is the issue here?

Cdre Smith—It was not because the parties were not keen to do it. Given the many competing demands on a lot of people in trying to put their respective operations together and to get attention in capitals, it was a significant document. To have it worked at the appropriate level amongst the field forces took a lot of time. You have to be fairly robust and assertive in getting attention in the sorts of capitals that we were dealing with, given all the other demands—but we achieved it.

Senator CHRIS EVANS—By capitals, you mean capitals of the coalition forces?

Cdre Smith—Indeed, Senator; yes.

Senator CHRIS EVANS—You mean fighting your way through the bureaucracy to get the right people to sign off?

Cdre Smith—That is probably a reasonable way to put it.

Senator CHRIS EVANS—I just want to understand you. So there were no great issues between the coalition partners in terms of principles to be applied?

Cdre Smith—It is interesting. It is often remarked, 'How do we work with, in particular, the United States with different treaty obligations?' This conflict was instructive in terms of coalition operations and in terms of seeing the judgments we had made 10 years ago when we decided we would ratify. The American government decided they would not. They have stayed the course in their view on that. We have been able to operate with them very well and,

equally I imagine, that is the view of our other coalition partners. That goes to a whole range of things, if I can just digress slightly into how the entire campaign was conducted in the various environments. There were no significant issues of an operational nature that we could not deal with.

Senator CHRIS EVANS—All prisoners taken during the Iraq conflict would have been dealt with under this protocol. How was a prisoner of war, or POW, defined in this protocol? Earlier you alluded to the fact that we have had this argument in previous operations about people who are not necessarily wearing a uniform when representing the Iraqi army but are being engaged in the conflict. How do you define or deal with that issue?

Cdre Smith—The referent was the Geneva Convention, which is the standard view of forces in uniform and of other forces supporting them. There was a range of other people who had to be dealt with; we might not necessarily go too far down that track because it is still ongoing. But the standard analysis of who a combatant is and their status—it is listed in Article 4 of the Third Geneva Convention, if I am right—applied, and that was adequate across the board for the way we operated.

Senator CHRIS EVANS—In terms of those other persons with slightly different status, how was that determined?

Cdre Smith—It did not arise for Australia to make determinations on those issues. I have checked with representatives of appropriate international organisations, and Australia has a clear file on prisoners of war arising out of the Iraq conflict, by which is meant there was no formal engagement of Australia's national responsibilities for the handling of prisoners of war or the onwads dealing with them.

Senator CHRIS EVANS—You are saying that we did not formally take any prisoners of war?

Cdre Smith—Not formally under the convention as it applies. You will be aware of some prominent incidents that we engaged in with other coalition forces. The conventions provide that prisoners of war are prisoners of the capturing state—and that each force's members operate as agents of their government. In coalition operations, the important thing is to get the best care and security for these people once they clearly have fallen into the hands of parties. When we have allies working together, as it turned out and given the forces and what they could do, they were handed to coalition forces to be formally receipted and flown out of particular areas. At sea we had another circumstance whereby we assisted other forces tranship a couple of people that had been captured by them. But Australia itself, although it was very active at the scene and was involved intimately, did not formally take prisoners under the convention.

Senator CHRIS EVANS—Explain to me then how it was reported that the SAS captured 59 senior Iraqi officers, political leaders and the foreign minister. As I understand it, they were the only troops present at the time.

Cdre Smith—They were not the only troops present.

Senator CHRIS EVANS—There were not?

Cdre Smith—No.

Gen. Cosgrove—There were a small number of Americans working with our forces and, while our forces were predominant in number, the Americans took custody and the prisoners were, therefore, an American responsibility in the technical sense that Commodore Smith has remarked upon from that point until they were processed to the rear.

Senator HOGG—So, in terms of all the operations, it was determined that, if there were Americans there, they would take these people as prisoners of war?

Gen. Cosgrove—Yes, but they had to be there. If they were on the other side of the hill or 10 miles away, that would not have counted. So we had to have a process, which we did have—

Senator HOGG—So that was part of the process of your operation?

Gen. Cosgrove—Yes.

Senator CHRIS EVANS—Were the Americans, who were there at this incident, one of these details responsible for taking prisoners of war or were they the foreign speakers or other people attached to the SAS or—what is that delightful term—American speakers?

Gen. Cosgrove—They were people whose primary job it was to call in close air support using American communications, and they were working with our special forces. We had transacted this process in Afghanistan for if it was needed and we had the same sort of facility with our chaps in Iraq. As it turned out on this occasion, the Americans were available on the scene and they could take immediate custody with the very strong assistance of our people. That allowed this process of them being in single custody without it being necessary for a transfer to be enacted.

Senator CHRIS EVANS—So it was a technical thing rather than a physical thing in the sense that this was a small number of Americans who were attached to this as part of the communications role not as part of a role dealing with POWs?

Gen. Cosgrove—No. I can specifically say that it was incidental that they had this responsibility for POWs at this time.

Senator CHRIS EVANS—So they were then deemed under the agreement to be legally responsible for those prisoners. What about the personnel who were on the *Kanimbla*?

Cdre Smith—They were initially taken by United States forces. They needed transshipment on *Kanimbla* as I recall and understand to take them ashore and *Kanimbla* essentially provided a holding facility. The prisoners remained physically with American custodians throughout that period. I think they were on the vessel for a couple of hours.

Senator CHRIS EVANS—So they were effectively using the *Kanimbla* as a holding pen rather than there being any formal Australian control of those prisoners?

Cdre Smith—Yes. Just a transshipment point to effect the care of the prisoners. You have an obligation to remove them out of harms way or to where they can be appropriately processed in terms of their identities. Getting them ashore was what was required.

Senator CHRIS EVANS—And you are confident that there were no other instances where the SAS captured prisoners or were there other incidents in addition to the famous one where that technical capture was effected by those accompanying USA personnel?

Gen. Cosgrove—No other instances.

Senator CHRIS EVANS—So it was just that one?

Gen. Cosgrove—They encountered other Iraqis but not in the sense of capturing them.

Senator CHRIS EVANS—They are not famous for capturing people, are they?

Gen. Cosgrove—I refer particularly to the report where they rendered first aid to some Iraqis, but they did not take them into captivity; they pointed them in the appropriate direction.

Senator CHRIS EVANS—Theirs was a special forces role rather than a general Army role.

Gen. Cosgrove—That is right.

Senator CHRIS EVANS—Just to be clear, Commodore Smith, I think you used the phrase ‘clear record’; in fact, the record is that there were no prisoners of war formally regarded as being captured by Australian forces during the Iraq conflict. Is that right?

Cdre Smith—Indeed. The International Committee of the Red Cross is very active and remains active in visiting the camps in the field and they do not have any record of Australia being obliged in terms of the third convention for any prisoners of war. I should say that we did develop all the national structures required to deal with prisoners, including a national information bureau which we established in conjunction with the Department of Foreign Affairs and Trade. Had we taken prisoners and been formally responsible for them, they would have been given identities and numbers and we would then have had to activate the international regimes back through Australia for the central tracing agency which goes back through Geneva to inform that organisation of the people we had identified and for whom we were responsible. But by ‘clear file’ I mean none were receipted to us formally.

Senator CHRIS EVANS—So the 59 captured by the SAS were recorded as being USA prisoners?

Cdre Smith—As I recall, they were loaded on to United Kingdom provided air assets and flown to southern Iraq where the United Kingdom was conducting a holding facility.

Senator CHRIS EVANS—I had a recollection that they had actually gone to a UK holding facility. I thought the UK had responsibility in the region the SAS were operating for—

Cdre Smith—I understand that they were flown to an area in the south of Iraq.

Senator CHRIS EVANS—Do we have a record of those prisoners captured at that incident?

Cdre Smith—The date, time and location are on record. Other than that, I am not sure. It probably could be determined in terms of personal identities, if we wished to approach the British to find that. But we do not formally, as I say, have responsibility for it. That is my best knowledge.

Senator CHRIS EVANS—Could you take on notice the question of whether or not—and I do not want to identify them—we are able to identify those prisoners.

Cdre Smith—Indeed, Senator.

Senator CHRIS EVANS—I am not asking for a list of names.

Gen. Cosgrove—I predict that we would have only vestigial knowledge of them from the brief time that they were actually on the site of where they were encountered before being sent to the rear. What was done there was to check for arms and there was money found. But it would be unlikely that there would have been other than very superficial questioning of them at that point. As to how much information we would have on them, it would be that which was available from an hour or two before they were moved out.

Senator CHRIS EVANS—Yes, I accept that explanation, General. I am really asking whether, as a matter of record, we have knowledge now of who was captured in that engagement—not necessarily from our own resources.

Gen. Cosgrove—We would need to go into the chain of prisoner of war custody, because that is obviously incumbent on the people in that chain. I will defer to the director general on that point.

Cdre Smith—That is correct.

Senator CHRIS EVANS—Could you take that on notice, Commodore, and see what is available. I want to ask something which relates to the wrap-up of issues arising out of Iraq. I refer to the issue of financial arrangements for bombs dropped on Iraq and munitions generally and the costs associated with that. Are you able to answer this, General?

Gen. Cosgrove—Only very briefly, Senator.

Senator CHRIS EVANS—I was not sure whether this would be a military response or a financial response. General Cosgrove, to start with, what munitions did we supply ourselves and which ones did we have to borrow, acquire or use out of inventory?

Gen. Cosgrove—As a generalisation, it would only be those unique munitions that Australia has. Major General Haddad, our chief of joint logistics, may be able to give you some of that information. With respect to things we could source in theatre that were appropriate for our weapon systems, we tended to source them in theatre.

Senator CHRIS EVANS—That is obviously because our war stocks would have been limited. Is that because we had other war stocks here but we did not want to transport them across or because it was easier to source them in theatre? Or was it because we did not have further war stocks?

Senator Hill—Principally it was convenience. The US in particular was moving these weapons en masse. Economies of scale are so different that it would have been much more expensive for us to move various relatively very small quantities. It was better to use theirs and reimburse them the cost.

Senator CHRIS EVANS—I know we do not hold large war stocks in some munitions; I was trying to understand whether, in terms of the bombs, that was part of the issue or whether it was purely the sort of convenience cost and logistical issue about getting them in theatre.

Senator Hill—We will see what Major General Haddad says, but I have always been told it is the latter.

Senator CHRIS EVANS—You had better say that then, Major General Haddad.

Senator Hill—That is a hint.

Gen. Cosgrove—That was the advice we provided, that, where it did not make sense to take your own bombs to drop and then buy here in Australia your own bombs to replace those, we should source the bombs in theatre. Perhaps there are some aspects of the guidance systems for the bombs that we needed to take, because they are linked to the software in our aircraft. But a bomb is a bomb, and it is a stock standard bomb in the world of NATO et cetera.

Major Gen. Haddad—Sorry, Senator, I was out of the room when you raised this topic. I understand you are after information on what bombs we sourced in theatre and what bombs we took into theatre.

Senator CHRIS EVANS—Yes, just a bit of an overview of what we took, where we sourced bombs in theatre and how much.

Major Gen. Haddad—To elaborate on the point made before by CDF, the arrangement we had in place with the United States forces with which we had cross-servicing agreements makes it possible for us, where we are using a common type of munition, to draw off their stocks. That arrangement is limited to non-guided or non-precision weapons. Bombs without the precision guidance kit were all we could source through that medium.

Senator CHRIS EVANS—Is that because of technical issues?

Major Gen. Haddad—That is due to agreements with the United States. There is congressional approval required for the supply of precision guided munitions, so we were forced to source those through separate arrangements with that congressional approval. So within the theatre of operations they could not supply us with guided munitions. In the case of supply in theatre, the decision was made to draw the dumb bomb—that is, a bomb without a guidance system—from the US.

Senator CHRIS EVANS—That is on top of what we took, or didn't we take anything?

Major Gen. Haddad—We did not take any bombs; we took our own guidance systems but not the bombs themselves.

Senator CHRIS EVANS—Would you provide me with a short layman's understanding of the guidance system vis-a-vis the bomb?

Major Gen. Haddad—The Chief of Air Force would probably be better to comment on that.

Senator CHRIS EVANS—He is not looking too keen!

Major Gen. Haddad—Mine would be a real layman's explanation.

Senator Hill—That might suffice.

Senator CHRIS EVANS—That is probably the one that I want.

Major Gen. Haddad—In preparing the bomb for use, the dumb part of the bomb is matched with a guidance kit. These are various configurations that are used for the mission for which the bomb is intended to be used. They come as two separate parts and there is a

process of matching the two bits in the right configuration for the mission for which the bomb has been chosen to be used.

Senator CHRIS EVANS—So the air guidance bit actually attaches to the bomb?

Major Gen. Haddad—That is correct.

Senator CHRIS EVANS—So it is not something to do with the plane and the delivery; it is an actual attachment to the bomb.

Gen. Cosgrove—I think you are going to get an explanation from Air Marshal Houston.

Senator CHRIS EVANS—If Air Marshal Houston wants to say something that corrects the *Hansard* record or makes it clearer, I am happy to listen.

Air Marshal Houston—We provided our own laser guidance kits. Every bomb we dropped was a precision guided munition. We dropped something of the order of 115 GBU-12s—those are 500-pound bombs—and we dropped 11 GBU-10s, so a total of 126 bombs. Those bombs were all supplied from the American system and they were built up in the explosive ordnance area at the base where the aircraft were located. They were then fitted to the aircraft and away they went. There were many missions on which they flew and did not drop the bombs for a variety of factors. The air-to-air missiles were all supplied from Australia. The missiles in question were the AIM-9, which is a close range air-to-air missile, and the AMRAAM, the medium range air-to-air missile that we have recently acquired, so the aircraft were fitted with those as well. That is a state-of-the-art beyond visual range missile.

Senator HOGG—How many of those were actually fired?

Air Marshal Houston—None of those were fired. I think the only thing is that the chaff and flares were also sourced from Australia.

Senator CHRIS EVANS—Again, as a layman's explanation, how do the guidance systems relate to the dumb bomb, as it were, in terms of size and cost?

Air Marshal Houston—If you look at an F18, it has a forward-looking infra-red pod. Within that is the laser designator which actually guides the bomb through the kit that is fitted to the dumb bomb. So it guides the bomb to the target. It actually fires down the reflected energy provided by the laser.

Senator CHRIS EVANS—These GBU-12s and GBU-10s are the same standard bomb that we would have in our war stocks inside Australia?

Air Marshal Houston—Yes. We obviously have dumb bombs back here—we have a stock of them—and we also have the kits that give us the ability to turn them into precision guided munitions.

Senator CHRIS EVANS—And the decision to source them in the sector was driven by the logistics of getting those bombs to Iraq—is that fair to say?

Air Marshal Houston—Bombs are big and there were a lot in theatre, and it made sense to use the arrangements that our logisticians had put in place.

Senator CHRIS EVANS—How would you have transported them otherwise?

Air Marshal Houston—Probably by sea, but I will leave that to Major General Haddad to answer.

Major Gen. Haddad—We are batting backwards and forwards here. Chief of Air Force has given exactly the right answer. Given the size of those, we would have transported them by sea. The beauty of the arrangement was that, by drawing from the American stocks, all we had to draw were the ones that we actually used. They had vast stocks there, and our limited usage was only a small part of their total holding. Had we been required to take our own stocks over, we would have taken a far greater amount just in case. It was a very sensible just-in-time arrangement.

Senator CHRIS EVANS—When was the decision taken to source them in theatre?

Major Gen. Haddad—The cross-servicing arrangement with the United States is a standing arrangement, so for any theatre operations, if they are using similar types of munitions, we have that opportunity as part of our planning.

Senator CHRIS EVANS—So you just needed to notify them if you wanted to avail yourselves of that. Air Marshal Houston, in terms of the total number of bombs dropped, what does this represent as a percentage? I know you played a big part in the mission.

Air Marshal Houston—A percentage of what?

Senator CHRIS EVANS—What did the Australian bombing numbers represent compared to the total?

Air Marshal Houston—I would say a very small part of the total number of bombs that were dropped. We had one fighter squadron there, and at one stage there were almost 2,000 sorties being flown a day. We were flying about 12 to 14 sorties a day. That gives you some idea of the relative proportion of effort.

Senator CHRIS EVANS—Perhaps the financial section can help me with how much it cost, how we pay for it and where the bill has been sent.

Mr Bennett—I believe that the Americans will be invoicing us under standard arrangements and that we will be receiving some details of that shortly.

Senator CHRIS EVANS—So you have not received the bill yet?

Mr Bennett—Not to my knowledge, but Peter can confirm that.

Major Gen. Haddad—Yes, we have received some of our bills but not all of them, so we are still going through the process of confirming all these bills have been presented. The cost for munitions sourced in theatre is in the order of \$3½ million.

Senator CHRIS EVANS—Is that only the Air Force munitions?

Major Gen. Haddad—No. We sourced limited amounts of other munitions that were used by the ground forces and by the Navy. Ammunition to replace the ammunition used in *Anzac*'s naval gunfire support was sourced in theatre as well.

Senator HOGG—Is that \$3½ million in Australian dollars or US dollars?

Major Gen. Haddad—It is \$3½ million in Australian dollars at this point.

Senator CHRIS EVANS—What did they supply to the *Anzac*?

Major Gen. Haddad—Five-inch shells for their main gun.

Senator CHRIS EVANS—You said there was some other ammunition as well.

Major Gen. Haddad—Limited amounts of small arms ammunition that we were using.

Senator CHRIS EVANS—So that would have been for the SAS?

Major Gen. Haddad—Yes, the special forces.

Senator CHRIS EVANS—Is the bulk of that \$3½ million the Air Force's contribution?

Major Gen. Haddad—I would have to check the breakdown. I have the figures here, so I can check during a break and come back and report to you.

Senator CHRIS EVANS—Thank you. I can see the sense of that. Someone else can do the maths for me. What are we paying for a bomb?

Mr Smith—Three and a half divided by one of them —26, but there are many variations of bombs in that.

Senator HOGG—That \$3½ million does not include the guided systems?

Major Gen. Haddad—No, it is just the bomb itself and the five-inch naval shells and whatever other ammunition we drew in theatre.

Senator BARTLETT—You were asking how much per bomb—is that right?

Senator Hill—What is the cost of a bomb?

Senator BARTLETT—Yes. I had a report about the MK84s costing \$28,800 and the GBU series 907 kilogram costing \$35,900 per bomb. Does that sound about right?

Senator Hill—What is the rough cost of a 500-pound dumb bomb, Major General?

Major Gen. Haddad—I think the figures that the senator is reporting are those that were in the media the other day.

Mr Bennett—Yes, 28 May.

Major Gen. Haddad—They are accurate figures.

Senator BARTLETT—That report also suggested paying for satellite time at a cost of about \$3 million for commander control to allow headquarters in Australia to talk to special forces.

Gen. Cosgrove—That figure sounds not impossibly wrong but we have standing contracts for INMARSAT phones. We have other contracts for bandwidth for satellites. I would not say to you that that is the cost for satellite communications for the operation. I think it will be a different cost. I think that that is probably in the ballpark but I would not say that that is an accurate figure.

Mr Smith—The chief information officer may have some more information on that.

Mr Hannan—Two satellite services were used: a C-band satellite service through Optus, which was \$A1.6 million; and an INMARSAT service, which was \$A4 million up to March 2003.

Senator BARTLETT—The other part I was curious about was a report from Derek Woolner from the Australian Defence Studies Centre, saying that you bought some of that bandwidth commercially at short notice and therefore they were able to charge a higher than normal cost. Is that accurate?

Mr Hannan—Both services are commercial services.

Senator BARTLETT—So you basically approach them and say that you need this much at this time within a day, or whatever and it is subject to the going commercial rate?

Mr Hannan—There is a market for satellite bandwidth.

Senator HOGG—Was the cost of the bombs in theatre cheaper than we could have provided them from Australia?

Major Gen. Haddad—I would have to check that. I will get back to you during the course of the hearing.

Senator Hill—I don't understand the question. Some of them would have been on the books here at a historical cost. I assume that, like everything else in the world, the price of bombs goes up over time?

Major Gen. Haddad—It does.

Gen. Cosgrove—But if we had used the bombs from Australia, not only would we have had the impost of whatever it cost us to move them but we would have had to replace them here at some stage.

Senator HOGG—That is all I am asking.

Gen. Cosgrove—If you consider that we want to hold a certain number of bombs in Australia, if we deplete that by such and such because we drop a bunch somewhere, we still have to replace them here because we do not over-hold bombs here.

Senator CHRIS EVANS—And you would source them from the States as well?

Gen. Cosgrove—Yes.

Major Gen. Haddad—Just to clarify that point, we source our bomb casings from America and they are filled at ADI's manufacturing plant at Benalla.

Senator BARTLETT—As I understand it, a number of sorties were flown where you didn't drop bombs. Do we get to return them unopened or do we have to pay for them as well—or do we keep them somewhere?

Gen. Cosgrove—Better ask the Chief of Air Force.

Senator HOGG—I was interested in whether they got a bulk discount.

Air Marshal Houston—Essentially if a bomb comes back, if the aircraft is going to be flown again the next day, the bomb would probably remain on the wing and be used again the next day. At the end of the activity, all the bombs that were not used were returned to the store and we weren't charged for them.

Senator BARTLETT—Thank you for that. I have just one other question on costings, again from that article in the *Courier-Mail* on 28 May. It said that amongst the bills coming from the US were bills for the cost of food eaten by some of the diggers. Is that correct?

Major Gen. Haddad—That is correct. The arrangement in place in that theatre of operations was that for fresh food for our forces stationed at bases operated by the US they supplied that food to our people and they have billed us for it.

Senator BARTLETT—But we are still getting all those bills in for all these things?

Major Gen. Haddad—Yes, Senator.

Senator BARTLETT—So how have we managed to cost the whole exercise at \$645 million? Is that building in the expected bills?

Senator Hill—We obviously haven't finished the reconciliation process because we still have bills coming in. But we have estimates of the cost.

Senator CHRIS EVANS—Just while we are on bombs, that article referred to the MK84s. Did we purchase those as well?

Gen. Cosgrove—An MK84 with a guidance kit on it becomes a GBU-10.

Senator CHRIS EVANS—I see. So Air Marshal Houston talked about GBU-12s and GBU-10s.

Gen. Cosgrove—Yes, that is the package of guidance plus bomb. The bomb itself is a dumb bomb; it is known as a MK84 and a MK82.

Senator Hill—This is a very informative exchange. I think this one will go down in Senate history.

Senator CHRIS EVANS—There is a lot more interest in bombs than you think.

Senator Hill—In your party, I understand.

Senator CHRIS EVANS—We are also more interested in the precision—

Senator Hill—The targeting? I am not surprised to hear that either.

Senator CHRIS EVANS—I think that goes across all political parties.

Senator HOGG—Is the cost allowed for in the 2002-03 budget or the 2003-04 budget?

Mr Veitch—The total cost based on the assumptions we used at the start of the operation was for \$644.7 million and those costs are spread over three years.

Senator CHRIS EVANS—Which operation, Mr Veitch?

Mr Veitch—For the two operations.

Senator CHRIS EVANS—I think you need to be clear. That is why we come back to this. Looking at the budget papers, I don't know what you are paying for where. Catalyst was announced by the minister a month ago but it is not in there and apparently now has not come in; and we have rolled Bastille into Falconer. Quite frankly, it is very hard to work out what the hell is going on.

Senator HOGG—That is why I asked where this is being funded.

Mr Veitch—If I could clarify that point, the costings for Bastille, which then rolled into Falconer, at the time were costed at \$644.7 million. At the time that was based on certain assumptions on the mix and duration of the war. Obviously, as that changes those estimates, the actual costs, will change as we get all the bills in and do the final accounting for it.

Senator CHRIS EVANS—Will the accounting for the war include the accounting for Catalyst or will they be separate?

Mr Bennett—We have been asked to absorb funding up to the \$644.7 million so that we can fund Catalyst, and above that point we would go back for additional supplementation in line with normal no-win no-loss arrangements. Because of the shorter duration, there is room to move to potentially fund Catalyst.

Senator CHRIS EVANS—You are expecting that the cost of Bastille-Falconer will not exceed the \$644.7 million?

Mr Bennett—That is correct.

Mr Veitch—It will be less than that amount, we expect, and that gives us some capacity to—

Senator CHRIS EVANS—Do you have any rough estimate on that?

Mr Veitch—I would not like to put a figure on it until we have got some more bills in, but our feeling is that it could be in the order of \$400 million to \$500 million. So we would have some capacity to absorb a fair share of the Catalyst costs from the initial estimate. I should add, though, that the Catalyst estimates are being refined all the time and the cost of that commitment will depend largely on the mix and duration. The CDF and the minister were saying earlier today that some of those things have still not been finalised.

Mr Smith—The costs that we are working off will also include the cost of remediation of equipment and machinery used in the war, and we will not know the cost of that until it is all back and has been remediated, reconstituted and so on. So that is another variable.

Senator CHRIS EVANS—What do you mean by remediated?

Mr Smith—Restored to the condition that we sent them into the field in.

Senator CHRIS EVANS—So you are not talking about normal cycles of servicing et cetera, but additional?

Mr Smith—Yes.

Mr Bennett—Just in brief, there are three phases that we cost: the preparation phase, the operation phase and the remediation. So there is the net additional cost of getting to do whatever is required, the net additional cost of performing whatever is required and then the net additional cost to make good anything that has been used in that operation.

Senator HOGG—Does that include any quarantine considerations?

Mr Veitch—Yes, it does—quarantine and customs costs, replacement of equipment that we might not bring back, damaged equipment and also additional repair and maintenance work to our platforms as a result of the increased rate of effort during that period of time.

Senator HOGG—Does that include depreciation?

Mr Veitch—No, that is not a cash cost.

Mr Bennett—The one thing you may look at is whether you have accelerated the fatigue life of an aircraft or something like that, and then try and apportion a cost.

Senator CHRIS EVANS—That is a good example—the FA18s. You will try and calculate a figure for the cost of operating them at a high frequency for a short period of time in the war that would be in addition to what the cost of maintaining them would have been.

Mr Bennett—In addition to what we would have normally expected. If so many flying hours are factored per plane per year and then they have exceeded that or the stress of that particular operation has exceeded what could be expected, we would try and work out what that potential impact would be.

Mr Veitch—Typically, some examples might be some additional maintenance work required on the aeroplanes or a need to replace some repairable items and spares that were consumed in theatre. The restoration phase is to get things back to the level of operational proficiency before the platforms left.

Senator Hill—You should hear these answers subject to the announcement with the budget, which was that the funding provided is to cover Bastille, Falconer and Catalyst. As I said this morning, more money would only be in circumstances where there was something unexpected such as a future government decision to employ extra forces in relation to Catalyst.

Senator CHRIS EVANS—I see. I did not understand that, Minister. You are saying therefore that there would be no additional funds sought or delivered in terms of supplementary funds for Catalyst unless the level of activity is higher than currently applies.

Senator Hill—Government is expecting us to fund Bastille, Falconer and, this year, Catalyst from what has been provided. That money in turn will flow over three years. If, however, there are decisions made subsequent to the budget that alter our expectations in relation to Catalyst, then obviously we would have a right to expect supplementation from the government.

Senator CHRIS EVANS—So that means for the financial year 2003-04, that \$644 million is to cover the cost of Catalyst for that year as well?

Senator Hill—That is what is expected of us.

Senator CHRIS EVANS—I just wanted to make sure.

Mr Bennett—That is why we stressed that it was actually over three years because some of those remediation costs can take a while to determine.

Senator CHRIS EVANS—That is why I had difficulty because the portfolio budget statement, on page 25, says:

The 2003-04 budget does not include funding for Operation Catalyst, the Defence contribution to the rehabilitation of Iraq. Defence will fund the deployments, and any additional costs will be reimbursed in the 2003-04 additional estimates.

I think what you said was slightly different, Senator Hill.

Senator Hill—What I said was what is the correct situation. I said this morning that there was difficulty in that Catalyst was starting around the time the budget was being put to bed in terms of its detail. But where credit is due it should be given, in my opinion. In this instance credit should be given to the way in which Defence has managed the money that was provided to it for the predeployments and the war because it would seem that without something unexpected happening we should also be able to fund this year of Catalyst. That is what government is expecting of us.

Senator CHRIS EVANS—I am not trying to be picky, but that is slightly different from what was in the budget papers. I am just trying to understand it. In effect, the situation is that, unless there is additional activity required in terms of Catalyst beyond what has already been announced, you would not be expecting supplementation to meet those costs of Catalyst.

Senator Hill—That is right, or if it were something else beyond our capacity to predict—acts of God, and so forth.

Senator CHRIS EVANS—In the normal course of events, the Treasurer does not want to see you cap in hand for Catalyst.

Senator Hill—That is this year. George, is that wrong? Do you want to quarrel with that?

Mr Veitch—No. I think that is right. There is only one point of clarification for the record. What appears to be a small inconsistency really relates to the timing of the printing of the document. Whilst there was an understanding certainly that that was the way things would play out, at the time I cleared the printing of the document there was not a formal decision that I was aware of to that stage. That is the only difference. But certainly we were working up the costs, and that was our understanding of how events would unfold.

Senator CHRIS EVANS—Your form of defence is recorded, Mr Veitch.

Senator HOGG—At the additional estimates, it would be possible to see table 1.6 reproduced but with another line which says ‘Catalyst’. That is the way to think of this, isn’t it?

Mr Veitch—Yes.

Senator Hill—That is what we are working to.

Mr Veitch—We will show all three operations.

Senator HOGG—And that will peel some of that money off that is currently Bastille-Falconer and put it in Catalyst.

Mr Veitch—Certainly we can give an undertaking to do that.

Senator Hill—I think that is a pretty good job. I do not know that it would have always been done that way in the past.

Senator HOGG—I can understand this. In the past you could not.

Senator Hill—The money might have been hard to trace.

Senator HOGG—It was impossible.

Senator CHRIS EVANS—We will come to that with Timor a bit later on.

Senator HOGG—We are improving.

Senator Hill—Timor is a financial success story too.

Senator CHRIS EVANS—Is it? I should not read the Treasurer's press releases then. Just going back to Major-General Haddad, you were telling us about the costs incurred in theatre. I think we dealt with the bombs and other munitions. In answer to a question from another senator you referred to the food. What other in-theatre costs did we incur?

Major Gen. Haddad—There were two other items. One was the fuel used by forces. In terms of the other, we put in place a range of contracts in theatre to access some services. For example, there was a contract for cleaning to prepare the equipment to come back so that it passed AQIS testing. So there was a range of other costs that would have been expended in theatre.

Senator CHRIS EVANS—What was the size of the fuel bill?

Major Gen. Haddad—I have not got the bills yet but, for example, the AQIS one was predicted to be about \$1 million for its service in theatre, plus the services we were using here in Australia. But as yet the bills have not been presented, so I cannot give you the costs.

Senator CHRIS EVANS—So there were the munitions, the fuel, the fresh food for deployed forces and the cleaning. Was there anything else of note?

Major Gen. Haddad—Sorry, to clarify the method: there is a DM charge, so the charge per day covered the accommodation we were provided with by the US and the food. The general support type stuff from a fixed base was covered by a set amount for all those services.

Senator CHRIS EVANS—I see. What are the figures on that?

Major Gen. Haddad—I will get back to you with the estimates. I do not have them here with me at the moment.

Senator CHRIS EVANS—Was the *Herald Sun* basically right on that too?

Major Gen. Haddad—I do not recall the figure in that article.

Senator CHRIS EVANS—They seem to be pretty well on the mark. They seem to have done better than I generally do at estimates in getting these figures. Obviously they are reasonably well sourced. When do you think we will be in a position to know the totality of those costs, General Haddad?

Major Gen. Haddad—Remember, these bills we are paying will continue to be paid as long as we have forces in the theatre. The process we are running is that bills are being presented on a monthly basis by the US. There has been a delay in receiving some of those because of the intensity of what they have been doing. In a steady state situation, we will be presented with a bill each month which we will pay.

Senator CHRIS EVANS—So are we sourcing our fuel from them as well? Or is that a separate contract?

Major Gen. Haddad—It is a separate contract in relation to fuel. There is a separate arrangement for fuel for aircraft, one for ships and one for land use.

Senator CHRIS EVANS—From a private contractor, though, or from the US military?

Major Gen. Haddad—It is from the US. In some cases, for example, the US may have put in their own contract to support an air base and we are drawing fuel through that arrangement. But we are billed as though we are drawing it from the US Air Force.

Senator CHRIS EVANS—Can I also ask about the air charter costs. You have been using these Ilyushins, haven't you? In terms of Iraq, was this arrangement with Volga-Dnepr UK Ltd?

Major Gen. Haddad—That is the contractor that we used.

Senator CHRIS EVANS—You have had an ongoing contract with them for some years, haven't you?

Major Gen. Haddad—Yes, Senator.

Senator CHRIS EVANS—What have we traditionally been using them for? Did we use them, say, for Afghanistan? Was that where they came into the picture?

Major Gen. Haddad—We have got aircraft, Ilyushin 76s or Antonov 124s, depending on the size of the task that is required, the Antonov being the larger aircraft. These are sourced through the civil market and we use them for our strategic lift—in other words, for transportation from Australia to wherever our forces are.

Senator CHRIS EVANS—Is this Volga company the only one you have used for those, or are there others?

Major Gen. Haddad—I would have to check that. My understanding is that we have only sourced through one arrangement.

Senator CHRIS EVANS—Perhaps you could take that on notice. I received on notice a cost for the aircraft. Up to September last year we had paid them about \$7 million. Did we then charter it from them for the deployment to Iraq?

Major Gen. Haddad—Yes. We were using that arrangement for transportation into the Middle East. We used a different arrangement to take stuff directly into Afghanistan. We used the same company for our lift from Australia to the Middle East with the current operation.

Senator CHRIS EVANS—When you say you used a different arrangement for getting into Afghanistan, was that a different commercial arrangement or did you use US or other aircraft?

Major Gen. Haddad—They were military aircraft, as I understand it.

Senator CHRIS EVANS—So we were effectively using them for commercial support for movement of equipment?

Major Gen. Haddad—We have used them for movement of cargo and people.

Senator CHRIS EVANS—What did we contract them to do in terms of Iraq?

Major Gen. Haddad—Admiral Bonser has some of this detail, so I might pass to him.

Rear Adm. Bonser—Just to clarify the companies that we used, there were several companies used for different types of air transport. One was Adagold, which used an air company called Inversija to provide our Ilyushin 76 aircraft that we used primarily for cargo

and a small amount of passengers. We used Qantas for passengers, and also Volga-Dnepr, which has been mentioned, and which was used to provide the An-124s that were predominantly cargo aircraft.

Senator CHRIS EVANS—What was the name of the first company that you said you used?

Rear Adm. Bonser—Adagold.

Senator CHRIS EVANS—And they supplied Ilyushins as well?

Rear Adm. Bonser—Yes.

Senator CHRIS EVANS—Where are they based?

Rear Adm. Bonser—Adagold is a Queensland company which is the charterer. The company that provided the aircraft was called Inversija; they come out of Europe.

Senator CHRIS EVANS—This is the Latvian one, is it?

Rear Adm. Bonser—That is correct.

Senator CHRIS EVANS—What do Adagold do? Are they an intermediary between you and Inversija?

Rear Adm. Bonser—They are the local charterer.

Senator CHRIS EVANS—So Adagold is a contract management group?

Rear Adm. Bonser—That is correct.

Senator CHRIS EVANS—The aircraft are owned and operated by Inversija?

Rear Adm. Bonser—Yes.

Senator CHRIS EVANS—They are Latvian registered?

Rear Adm. Bonser—Yes.

Senator CHRIS EVANS—Is there any relationship between them and Volga-Dnepr?

Rear Adm. Bonser—No, they are separate companies.

Senator CHRIS EVANS—Could you detail for me what we used the various companies for in terms of the Iraq deployment.

Rear Adm. Bonser—Yes. We used them for strategic lift between Australia and various points in the Middle East to take mainly our vehicles and heavy cargo that we could not transport by other means into the theatre, where it was then redistributed where necessary by in-theatre aircraft such as C130s to those areas where the commercial charter aircraft were not able to go for insurance reasons.

Senator CHRIS EVANS—Did Adagold or Volga do this, or did they both do it?

Rear Adm. Bonser—They were both involved in this.

Senator CHRIS EVANS—They were both flying Ilyushins?

Rear Adm. Bonser—No. Adagold was flying Ilyushins and Volga-Dnepr had the An-124s.

Senator CHRIS EVANS—They are the Antonovs?

Rear Adm. Bonser—Yes.

Senator HOGG—In the case of these commercial aircraft flying into a theatre where a war is being conducted, do we pick up any additional costs in terms of insurance?

Rear Adm. Bonser—It comes as part of the overall package.

Senator CHRIS EVANS—Did they move the Chinooks then?

Rear Adm. Bonser—In one part, yes, we used Chinooks. We also used US Air Force heavy lift for some of our movements.

Senator CHRIS EVANS—But to get them from Australia to the Middle East—

Rear Adm. Bonser—I would have to confirm that. My understanding was that they went across by US heavy lift and we brought them back by commercial charter, but I would have to confirm it.

Senator CHRIS EVANS—Okay. We will have to take that on notice. Did we use these companies to fly the deploying troops as well?

Rear Adm. Bonser—Only where there were small numbers—up to about 28 to 30. That is all the seating that is available in these predominantly cargo aircraft. If we were flying large numbers of personnel, we would do separate charters, nominally Qantas aircraft.

Senator CHRIS EVANS—So most of the personnel went on Qantas charter, did they?

Rear Adm. Bonser—Where there were large bodies of people, yes.

Senator CHRIS EVANS—But some went on Adagold Ilyushins?

Rear Adm. Bonser—That is correct.

Senator CHRIS EVANS—What about bringing them back?

Rear Adm. Bonser—The large form bodies all came back by Qantas charter.

Senator CHRIS EVANS—Sorry; the large what?

Rear Adm. Bonser—The large groups of people that came back, like the SAS squadron and other large groups, all came back by Qantas charter.

Senator CHRIS EVANS—The divers thought they were coming back business class. I think they ended up in economy; I ran into them on Friday night. They had had a good trip anyway.

Senator Hill—They were on a commercial flight, were they?

Senator CHRIS EVANS—I think it was commercial.

Senator Hill—They were lucky because the chartered flights were drier.

Senator CHRIS EVANS—I am not suggesting that they were anything other than sober when they came off.

Senator Hill—Of course not.

Senator CHRIS EVANS—No, I am not. I suspect that was probably enforced as well but they were just glad to be back, I think. Did they get contracts as well for the return of equipment from the gulf?

Rear Adm. Bonser—Yes, they did. The equipment that was required to come back to be reconstituted as early as possible to meet other operational requirements came back by air. Other parts of it are coming back by sea in the *Kanimbla* and the *Manoora*.

Senator CHRIS EVANS—We are not able to provide this sort of airlift ourselves? Is that fair?

Rear Adm. Bonser—That is fair to say for the heavy cargo, because of the need to have aircraft that have a rear opening door to get things like vehicles and large containers in. We do not have that capability with that size of aircraft.

Senator CHRIS EVANS—Did these Antonovs fly through Perth?

Rear Adm. Bonser—Perth was used predominantly as our last point of departure from Australia.

Senator CHRIS EVANS—Even though they were transporting equipment marshalled in other areas? There was a bit of conjecture about Antonovs flying in and out of Perth during the operation. One of my parliamentary colleagues has been a bit interested in the issue. I am just trying to understand what was going on in terms of the Antonovs. They seem to draw a lot of attention.

Major Gen. Haddad—The arrangement we set up was that we had in Perth, at the airbase at Pearce, a base where we consolidated all our stores that were going forward to the Middle East. In some cases, where loads were coming out from the east coast, the aircraft picked up part of a load on the east coast and then called into Perth. But the normal cycle, certainly for the Ilyushin 76 aircraft, was that they came from the Middle East back into Perth and then did a cycle there. In the recent months, we only occasionally used the An-124, but it did go through Perth.

Senator CHRIS EVANS—Why was it landing at Perth airport rather than at Pearce?

Major Gen. Haddad—I think that was something to do with the tarmac conditions at Pearce. On one occasion, we had problems because of the temperature. There was not enough distance for the aircraft to take off with its full load at Pearce, so it went through Perth commercial airport.

Senator CHRIS EVANS—So were they routinely going through Perth commercial airport, or only on special occasions?

Major Gen. Haddad—Only on special occasions. The normal cycle was into the RAAF airbase at Pearce.

Senator CHRIS EVANS—Are you aware of how many actually went through Perth airport?

Major Gen. Haddad—I would have to find that out for you, Senator.

Senator CHRIS EVANS—Perhaps you could take on notice for me the number of flights that went through Perth airport as distinct from Pearce, when and the reasons for that.

Major Gen. Haddad—By way of clarification, we ran a domestic shuttle as well, using 727 aircraft which did go into Perth commercial airport. That was aircraft we were using to

pick up stores from Richmond or Edinburgh in South Australia through to Western Australia and that aircraft was landing at Perth commercial airport.

Senator CHRIS EVANS—The interest was in the Antonovs obviously. I would have thought those other flights would not have drawn any particular attention.

Major Gen. Haddad—No.

Senator CHRIS EVANS—Were they just chartered Qantas flights?

Major Gen. Haddad—The 727s?

Senator CHRIS EVANS—Yes.

Major Gen. Haddad—I do not know the name of the charter company, but it is an Australian based charter company that regularly flies into Perth commercial airport.

Senator CHRIS EVANS—Were any munitions transported through Perth airport?

Major Gen. Haddad—I would be confident the answer to that is no because most of our munitions went forward on RAAF aircraft, which would have gone out of RAAF base Pearce.

Senator CHRIS EVANS—The contracted companies were not carrying munitions?

Major Gen. Haddad—No.

Senator CHRIS EVANS—Could you take that on notice for me and check that.

Major Gen. Haddad—I will.

Senator FERGUSON—You may be aware that questions have been asked at the joint standing committee in relation to the safety record of the Ilyushin 76 by some members of the committee. I have a letter that has been written to the minister and I thought this might be a good chance to clear it up. It is just that some members have expressed concern, particularly those members who have actually flown on the Ilyushin 76s, that in fact there have been aircraft fatalities in other parts of the world. Members of the committee have asked whether the Australian defence forces are satisfied with the safety and the operations of the Ilyushin 76 that they are currently contracting to do work for them between here and the Middle East?

Air Marshal Houston—We have chartered these aircraft for a long time. The company that provides the service, Inversija, is chartered by the aircraft agent, Adagold, which has given us a very good service. Indeed, over the last few months they have been a very reliable operator. However, there have been a number of accidents over the last few months involving Ilyushin 76 aircraft, and we are currently reviewing the circumstances of those accidents to see if there are any implications for us. That review is currently under way and I expect the outcomes of the review very shortly.

In spite of that, I am the ADF airworthiness authority and last year I put out an airworthiness directive in relation to these charter operations, which puts an obligation on Commander Australian Theatre and his joint movement group to consider the airworthiness of the aircraft that we are chartering as part of the contracting process. In addition to that, there is a requirement to check, if you like, the airworthiness credentials of the company. This particular company has been checked by CASA; it is on the CASA list of approved operators and, in addition to that, there is the requirement to do ramp checks to check the operational

airworthiness of the operator. We are looking at the outcome of this review that we have done. As you know, four Ilyushins have crashed, we had the incident in the Congo, and last week we had the crash of the Yak-42 in Turkey. So we are reviewing all aspects of those operations.

Senator CHRIS EVANS—Was that another one that went down in Turkey last week?

Air Marshal Houston—It was a Yak-42. It was a different aircraft, but I think the time is right to have a look at these charter operations that we are running.

Senator Hill—But I would not want that to be interpreted wrongly. You did all the assessments that you believed were necessary to satisfy yourself that it was an absolutely safe operation.

Air Marshal Houston—Absolutely.

Senator Hill—And it has turned out to be an absolutely safe operation. There is no reason to suggest in any way it is not absolutely safe. The fact that the same type of aircraft has been involved in accidents elsewhere around the world causes the air marshal to obviously look at those accidents. But you have to be fair to the operators as reliability was pretty much 100 per cent, as I understand it. It has also become commonplace now, as I think you will find, for all of the Western defence forces, even that of the United States of America, to some extent charter these Russian manufactured aircraft for heavy lift purposes. There is nothing unusual in what Australia has done. The Russians manufacture heavy lift aircraft whereas, unless you are going to get into the sorts of aircraft that the United States has for its military—aircraft that no other country in the world can afford, and no other country has actually bought a C17—there is not really any other aircraft type available. Isn't that the case?

Air Marshal Houston—Yes, Minister. All nations use these aircraft to augment their heavy lift, wide body fleet because not even the United States has enough aircraft to provide the total airlift capacity. I am advised that the United States was even using former Russian aircraft from these sorts of charter operators for some of the deployment flights involved in recent operations in the Middle East. I think that the reliability of this operator has been demonstrated very firmly over an extended period of time. When I was in the Middle East recently, I spoke to some people about how they saw the operation. They said they could set their watch by its arrival time, and certainly we have been very happy with the operation. But, in view of what has been happening around the world, it is an appropriate time to do a review, and that is what we are doing within the ADF airworthiness community.

Senator FERGUSON—Who does the airworthiness checks on the company?

Air Marshal Houston—This operator is on the CASA approved list. CASA have done ramp inspections on this particular operator, and this particular operator passed those. I have not actually personally seen the report but I am advised there were absolutely no problems with this particular operator. The aircraft that have been involved in the accidents around the world have been operated by other companies that are not on the CASA list, so there is a distinct difference: they have not actually been checked by us as a reputable operator. The other factor that is involved here is that some of my people went up and investigated the recent crash of an Ilyushin 76 in East Timor. We have learnt a fair bit about the aircraft and the way it is operated.

Senator FERGUSON—Who was operating that one? Do you know?

Air Marshal Houston—I am not aware of the operator's name. I could get back to you on that.

Senator FERGUSON—Thank you.

Senator CHRIS EVANS—I was going to raise a couple of issues relating to this because the concern that has been expressed to me, including by a couple of ADF personnel, is not about the operator or their reliability but about the Ilyushins and the fact that four or five of them have had quite serious accidents—in which I think 400 or 500 lives have been lost—in the last 18 months or so. So there is concern about whether there is a problem with the aircraft. I take your point about who operates them et cetera, but I think that, as always when there are that many accidents in a short period of time and there is loss of life, people look at the aircraft and say, 'Are they ageing?' You know the technical stuff much better than me. It really goes to the question of those aircraft and concerns about the safety of those aircraft.

Air Marshal Houston—That is exactly what we are doing. I might add that most of the accidents have involved not so much the technical side of the aircraft as the way it is operated. If you have a look at the accidents, several of them have been controlled flight into terrain. Our operator has operated very safely in that regard.

Senator CHRIS EVANS—Where is this operator registered?

Air Marshal Houston—I believe it is a company that operates from Latvia.

Senator FERGUSON—Latvian pilots.

Air Marshal Houston—I think it is a Latvian operation.

Senator CHRIS EVANS—I am not sure how this works with aircraft. I understand it with ships, although there seems to be the same sort of development occurring in aircraft. That means the aircraft are registered in Latvia in accordance with Latvian airworthiness standards. I accept—and I am happy for you to explain it to me—that when they fly into Australia they have to meet CASA standards. But it is a Latvian operation, is it?

Air Marshal Houston—Although it is a Latvian company, this company has an Australian air operators certificate provided by CASA, so they have been fully checked by CASA.

Senator CHRIS EVANS—Where is the servicing of the aircraft done?

Air Marshal Houston—I would have to take that on notice.

Senator CHRIS EVANS—Perhaps you could take on notice for me where they are registered and where their servicing is done. Those are the two basic points I would be interested in. Is your review a review of the performance of Ilyushin aircraft?

Air Marshal Houston—The review is nearing completion. Essentially, I will have some recommendations. I will consider those recommendations and—

Senator CHRIS EVANS—I am just trying to understand what it is reviewing. Is it the performance concerns about those particular aircraft? Is it reviewing Air Force needs for commercial operations?

Air Marshal Houston—It is reviewing the charter operations that are supporting the Australian Defence Force.

Senator CHRIS EVANS—With a view to addressing safety issues? I am trying to ask: is this review about the commercial cost et cetera of these things or is it actually focused on—

Air Marshal Houston—No, it is an airworthiness review and we are looking at all matters to do with airworthiness and flying safety.

Senator CHRIS EVANS—It is of all aircraft chartered by ADF, is it?

Air Marshal Houston—Yes.

Senator CHRIS EVANS—Everyone nodded knowingly about the Yak-42. I had no idea what we were talking about, so I should put up my hand and be honest. What is the Yak-42, and how does it relate to the Ilyushin?

Senator Hill—It does not relate to the Ilyushin except that it was built in the same country.

Air Marshal Houston—I think it is something like a 727. If you do not mind, I will go and get a photocopy out of something out of *Jane's* so that I can show you all later.

Senator CHRIS EVANS—Do not go to any great bother. I was just trying to understand.

Senator FERGUSON—The Yak-40 is a 35-seater; I can tell you that.

Senator CHRIS EVANS—Senator Ferguson referred to it knowingly as if they were related. I am trying to understand.

Senator Hill—We have not chartered Yaks.

Senator CHRIS EVANS—Are they the same type of plane but a different model?

Air Marshal Houston—The reason we are having a look at it is that the aircraft is of the same sort of era as the Ilyushin. It looks like a 727, but it was built in Russia a long time ago. Obviously, its systems are not the same systems that we have in modern Western aircraft.

Senator HOGG—Moving on to the budget summary, I want to take you to page 24. At page 24 there is an initiative under logistics funding. It lists a range of platforms and equipment, including the FA18s, C130Js, the Collins class et cetera. Does the fact that there is \$1,145.1 million being devoted to this mean that these projects have been underfunded previously?

Mr Smith—Broadly, there are a number of areas in logistics and operating costs where we have identified funding deficiencies. They included those items you have referred to there, and government has provided additional funds for them.

Senator HOGG—Can a breakdown of the funding be provided in terms of the platforms and the ammunition? It is just shown as one bland figure there.

Mr Smith—That figure was provided on the understanding that we would prioritise the spending among those items but we have clearly resolved that a number of them that are mentioned there will have to be fully funded, including the ammunition, which I think is \$60 million, and the Collins class submarine full-cycle docking.

Mr Veitch—Senator, with respect to the additional funding, the \$240-odd million that you refer to, Defence internally has augmented that by about a further \$40 million within our ongoing budget. We have allocated an additional \$290 million to logistics this year. There is \$81.4 million going on the submarine; \$25.5 million on B-class vehicles for the Army; \$61 million for explosive ordnance and ammunition; \$40.7 million for the C130J aircraft; \$35.6 million for the FA18 Hornet; \$11.2 million for the maritime patrol aircraft, the P3Cs; \$5 million for Navy surface combatants; \$17.2 million for Army aviation; \$3.1 million for the PC-9 trainer aircraft; and \$10.2 million for the naval aviation platforms. All up, that constitutes an additional \$290 million, of which the government provided an extra \$244 million. We have found the rest by reprioritising within the Defence budget. That \$290 million principally addresses the major shortfalls or remediation programs that we have identified for this year.

Senator HOGG—Explain to me how that fits into that figure of \$1,145.1 million. You are saying that in that figure there is \$290 million that you have just outlined to me.

Mr Veitch—Yes, over and above the normal logistics budget for that year. The \$1.1 billion you refer to is the government's commitment to additional funding for logistics over a four-year period, of which the \$244 million represents the first tranche in 2003-04.

Senator HOGG—So that is over the five years. Where can I find that in the PBS—anywhere?

Mr Veitch—There is a table on page 27 that shows all the budget measures. If you refer to the bottom line of table 1.8 on page 27 you will notice that there is \$1.1 billion there in additional logistics funding spread over five years, including an extra \$0.1 billion for this financial year.

Senator HOGG—And the \$244 million is just what you have outlined now?

Mr Veitch—That is right, yes.

Senator HOGG—So that brings all those projects up to speed.

Mr Veitch—Yes.

Senator HOGG—Given the context of the high operational tempo, naval surface ships seem not to have done very well out of that—an extra \$5 million. If you look at Navy on page 57, they talk about logistic support and say:

Accumulated logistic shortfalls and lack of funding for forecast logistic shortfalls hinder the Navy's ability to sustain the current force structure.

Navy seems to be light on in the additional allocations.

Mr Veitch—The answer to that question is that we had to make choices on where best to apply the funding. The remediation money we talked about for the current operations earlier this afternoon will provide some relief for some of those platforms that have been used in current operations. The whole process of logistics funds allocation is one of continual refinement. We will be reviewing this again in the new cycle and making the necessary adjustments.

Senator CHRIS EVANS—It is intuitive in a sense. While I accept that the other armed forces have been very busy in the immediate past, it is well recognised that Navy have had Relex and its predecessor's demands on it for a long time now. Successive annual reports and budget statements have talked about those difficulties. We have a large commitment of funds from the government to logistics, allegedly to deal with the higher operational tempo, yet we then see that the funds go to the submarine, which has not been involved in the increased operational tempo, as far as I am aware.

Senator HOGG—It has 81.4.

Senator CHRIS EVANS—It seems to me that that is meeting a shortfall of some poor planning or whatever about the cost of that logistical support.

Mr Bennett—As we outlined before, where we can directly attribute remediation costs to an operation we can do that in the funding that is provided for that operation. I think you will see that with Navy—Chris Ritchie might choose to answer this in more detail—we have allocated money out of that for outgoing years. We have done a hard allocation for the first year and a slightly less hard allocation for the second year to allow for lead-time issues against those high-priority platforms, and then we can revisit that priority in the out years. Again, we allow for remediation costs in the direct operational activities to support the other funding pressures.

Senator HOGG—So you are looking to cover shortfalls with the remediation costs in a number of these areas? Is that a fair conclusion?

Mr Bennett—I would be careful on the word 'shortfalls'. George might care to answer.

Mr Veitch—Not shortfalls with remediation funding; it is specifically for repairs, maintenance or the purchase of repairable items—those sorts of things—as a result of operations. They are not the same funds provided by government for operations; they are not to make up for shortfalls.

Senator CHRIS EVANS—Maybe I am missing something here. You have given me the list—we are talking about high operational tempo—and the two things that jump out at me are the Collins class submarines—no high operational tempo—and the C130Js, which did not go to the gulf, as I understand it.

Senator Hill—One did.

Senator CHRIS EVANS—One did eventually, did it? But you couldn't take it into the war zone. So the explanation that this is a response to high operational tempo seems to be undermined by the platforms you have chosen to apply the funds to.

Mr Smith—There are a couple of factors here. One is, of course, that the gulf is not the only activity that is driving tempo levels. And the C130J had been used elsewhere and has reached a certain point in our ownership of it where that kind of work was necessary.

Senator CHRIS EVANS—What kind of work?

Mr Smith—The kind of upgrades and reconstitutions that occur naturally in its life. Similarly with the submarines, the life cycle docking, which is what we are talking about here, comes at a certain point in our ownership of them.

Senator CHRIS EVANS—But weren't they budgeted for originally?

Mr Smith—The Collins submarine was not fully budgeted for, no.

Senator HOGG—This is a third of the additional money. It is a huge whack of money.

Mr Smith—Yes.

Senator HOGG—I understood as well that the allocation had been made previously.

Mr Smith—The allocation that had been programmed previously was not adequate.

Senator HOGG—Why not? It is a substantial amount of money. Why wasn't it allocated properly?

Mr Roche—If you are referring to the previous allocation, there was a previous allocation made for Collins full cycle docking but it was a one-off. What this does is actually provide ongoing support for full cycle dockings on a regular basis.

Senator CHRIS EVANS—Were we only going to do a full cycle docking on the one originally?

Mr Roche—No, the full cycle docking was programmed into the fleet for every seven or eight years, but the funding was not there to cover the full fleet.

Senator CHRIS EVANS—Why not?

Mr Roche—I guess it had not been allowed for. It simply was not in the budget.

Senator CHRIS EVANS—Surely Defence originally were not going to bother about servicing the Collins.

Mr Roche—I do not believe that is the case. The need was well known. The issue was squeezing the money out of the budget.

Senator HOGG—Surely this was part of the whole of life costing that would have been done for the project.

Mr Roche—It is indeed part of the whole of life costing. To a certain extent I think that until the first full cycle docking on the Collins was undertaken we were operating in reasonably unknown territory. It was a new capability, a type of capability that did not really exist anywhere else in the world. With a new company, the Australian Submarine Corporation, in terms of what it would cost to put this submarine through a full cycle docking, the estimating necessarily had to be broad.

Senator HOGG—If it is \$81.4 million this year from that \$244 million, and you have projected figures in the out years for the next five years, what are the figures for the out years?

Mr Roche—It is about \$90 million a year.

Senator CHRIS EVANS—You are not suggesting to us that there were no funds for the full cycle docking in earlier budgets. You are suggesting that it is going to cost you \$90 million a year more than you originally estimated—is that right?

Mr Roche—No, not \$90 million a year more than we originally estimated, \$90 million in total. The original estimate was less than that, not of the order of \$90 million.

Senator CHRIS EVANS—You are telling me there was no funding for full cycle docking of the Collins previously in the budget?

Mr Roche—There was a new capability with the Collins. When the first full cycle docking was necessary for the Collins itself, the money had to be found as an addition to the support budget.

Senator CHRIS EVANS—We have been talking about full cycle docking and the signing of the contract for some years now. Even I knew we were going to have to pay for that. You are telling me we did not budget for it and this has just had to be found now?

Mr Roche—It was always known that there would be a cost for this and that the submarines required full cycle docking. That was always known. The difficulty was in putting the additional funding into the logistics budget for the first full cycle docking of Collins. So there was going to be ramp up and, at the same time, there was nothing like the commensurate reduction that you would expect in that budget as we tapered off from the O boats.

Senator HOGG—This means now, with an allocation of nearly \$90 million per annum over the next five years, that is allowing for one full cycle docking each year?

Mr Roche—That is effectively it.

Senator CHRIS EVANS—How long will each full cycle docking take you, Mr Roche?

Mr Roche—It will take around a year in length.

Senator CHRIS EVANS—So the three years it is going to take for the first one is abnormal?

Mr Roche—It is abnormal.

Senator CHRIS EVANS—Just so I have got this right, there was actually no budget item or no funding included in the out years budgets and previous years budgets for the full cycle docking of the Collins? There was no provision made?

Mr Roche—Until Collins was docked there was no need for an allocation in the budget. When Collins was docked, the first amount had to be found.

Senator CHRIS EVANS—That is like saying you bought a gun but you only discovered a couple of years later that you might have to pay for some ammo. That is not right.

Mr Roche—The need for the full cycle docking was always known. It was a matter of finding the funds within that the global defence budget to support that first full cycle docking.

Senator CHRIS EVANS—So, if the government had not allocated additional logistics money in this budget, we would have just let the Collins rust.

Mr Roche—No, not at all. We would have had to have found it from other places—made trade-offs.

Senator HOGG—So it is not really a new initiative; it is really doing the essentials that were there anyway.

Mr Roche—It is certainly new in the sense that—

Senator HOGG—It is new in the sense that it is new money.

Mr Roche—It is new money and Collins was the first of the class to go through a full cycle docking.

Senator CHRIS EVANS—So it has nothing to do with changes in the strategic landscape or higher operational tempo; it is the basic requirement for servicing of the Collins, without which this Collins would not be operational. Is that fair to say?

Mr Roche—I suppose you could point to the strategic landscape changing with the advent of the Collins class, Senator.

Mr Smith—It is a high tempo which is putting a strain on the operating logistics budget generally. It made it much more difficult to find the additional funding we needed for the Collins.

Senator CHRIS EVANS—Okay, good; I will pay that one.

Senator HOGG—We are going around in circles.

Senator Hill—In the past there would have been a bit of mixing and matching. We might have had a lot of trouble working it out. But here we are, we have come clean.

Senator CHRIS EVANS—I had no problem. We knew you had an ammo report and that you didn't have any ammo. It looks like the Army did all right. They got 60 out of the 80 they were after, so they are okay. I am not sure whether Admiral Ritchie is quite as happy. It is a nonsense to say that that has anything to do with operational tempo. We are talking about the basic servicing of the Collins class submarine, and you are telling me there was no budget allocation for it prior to this year.

Senator Hill—I think the point being made is that in an environment of lower tempo it would have been easier to delay other less urgent tasks, and thus the funding tended to be found from within. Now that the ADF is going through a period of high operational tempo and has done for some years, it has been realised that you cannot mix and match in the same way you were able to in the past. Therefore, this additional logistics support was necessary.

Senator HOGG—But that is not the basis on which I understood all these major projects were now addressed. I understood that they were addressed on a whole of life basis, with all of these through-life costs built into that. I am sure in our DMO inquiry that that was one of the things that came through.

Senator Hill—The trend is in that direction; that is right. New capabilities better take into account whole of life costs than previous ones did. You can look at the tendered patrol boat contract and so forth, which has been planned on a whole of life basis.

Senator HOGG—Without going into the bits and pieces of that contract—

Senator Hill—That was not the way in which it was done in the past. Even today, with the very sophisticated purchases, it is not easy to do it. It is easier to do it with a patrol boat than it is to do it with one of these early warning and control aircraft, which are hugely sophisticated. With those you know there will be ongoing upgrades but you do not know what the new capabilities will be and what the costs of those new capabilities will be. But the trend is correct. The trend is towards a better assessment of the whole of life cost and writing that into the budgeting process. Is that right, George?

Mr Veitch—It is, and the key policy change came around with the announcement of the white paper in 2000. Up until then, there was a tendency for us to have to eke out any additional costs for projects rolling into service from within our existing budget. But with the white paper the government made a commitment to fund the operating costs associated with all new projects that are approved, and we have money set aside for that. The problem for us is that we still have to deal with projects, like the submarine, which were approved well before 2000 when the new policy came in and we have to deal with the sorts of things that Mr Roche was talking about.

Senator HOGG—But surely even going back in time to 2000 it would have been foreseen in the out years that there would have needed to be an allocation for the docking of the submarines and that would have been allocated.

Senator Hill—It wasn't. That is not the way in which these things used to be budgeted. When it came up, money was sought. If you could get extra money for it that came in as a new budgetary item and if you couldn't get it then you had to work out something else that was of a lower priority.

Senator CHRIS EVANS—Just so I am clear, you are telling us today that previously no allocation was made in budgets for the full cycle dockings of the Collins?

Mr Roche—I think there was a one-off allocation, as I recall, to get the Collins under way, but there was not a continuing allocation made.

Senator CHRIS EVANS—When was that, Mr Roche? Which financial year?

Mr Roche—The Collins has been engaged in a full cycle docking and we have been expending funds to date already.

Senator CHRIS EVANS—Yes, there's been one in the shed for a couple of years now. That is the *Collins*. But you say you have had allocation for that. I am trying to understand when we allocated for that. Which budget was it in and how much was it?

Mr Roche—We would need to check the detail, but I believe there was about \$70 million probably in 1999-2000 for the full cycle docking of Collins.

Senator CHRIS EVANS—And you have been paying for meeting the costs of the docking of the Collins class out of that allocation over the last three years?

Mr Roche—It has paid for some of it. The actual cost has been higher in relation to the *Collins* because more work has been needed and that is why it has been up there longer. We have been doing that by internal reallocations. But this will enable us to complete the work on the *Farncomb*, which is the second submarine undergoing a full cycle docking.

Senator CHRIS EVANS—And that came out of the water a while back.

Mr Roche—*Farncomb* hasn't been up for that long.

Senator CHRIS EVANS—We will now need to budget \$90 million each year for the full cycle docking of the Collins?

Mr Roche—That is correct.

Senator CHRIS EVANS—Does that include the half cycle docking, or is that a separate budget item?

Mr Roche—There is a separate budget for that and it has already been accounted for from within our logistics funding. The full cycle docking was the big ticket item and that was the one we were having difficulty covering.

Senator CHRIS EVANS—So in terms of the problem signing off on this contract for the full cycle docking, has that been related to this issue and whether you had the money to pay for it or are there other issues? I had intended to cover this when we got to the subs.

Mr Roche—No, it is much more an issue of trying to develop a commercially sensible contract that goes for a lengthy period which has built into it the necessary performance incentives and so on for ASC. The trouble with long-term contracts which you negotiate after the vessel has been built is that, particularly in ships, a lot of emergent work occurs during these dockings and you have got to find ways to reimburse the company for undertaking that work but without giving them a blank cheque. It is a complicated commercial arrangement that has nothing to do with the availability of funds.

Senator CHRIS EVANS—The \$90 million or so per annum which you have now allocated: is that to meet the full costs of one submarine's full cycle docking?

Mr Roche—It is effectively on a ratio of about one submarine per year.

Senator CHRIS EVANS—What was your earlier estimate of the cost of that?

Mr Roche—I had a feeling—and I would have to check this—that we were estimating around the \$70 million to \$75 million mark for Collins before we got into that work.

Senator CHRIS EVANS—The Prime Minister was talking about \$70 million at one stage.

Mr Roche—Yes.

Senator CHRIS EVANS—We now think it is about \$90 million?

Mr Roche—I think we have a pretty good handle on it now, after the experience with Collins.

Senator CHRIS EVANS—But the actual Collins is going to cost us more than \$90 million, no doubt?

Mr Roche—It is, because there is additional work to be done. It was the first of class and there are some other issues.

Senator CHRIS EVANS—What is the Collins going to cost us?

Mr Roche—I don't have a figure for that at the moment. We can provide that on notice.

Senator CHRIS EVANS—Do you have a ballpark figure?

Mr Roche—No, I have not.

Senator CHRIS EVANS—It is considerably more than \$90 million, I gather?

Mr Roche—More than \$90 million, yes. There are some commercial issues there, too, in terms of work that is being done and the question of who is going to end up paying for that work.

Senator CHRIS EVANS—I will come to that later.

CHAIR—Air Marshal Houston, I believe you have something you wish to contribute.

Air Marshal Houston—Yes, just to wrap up the issue that I was questioned on earlier this afternoon. With respect to the Il-76 that we charter, the servicing is done in Latvia. The company is registered in Latvia. Just to clarify, the aircraft is operated in Australia under a foreign aircraft Australian air operators certificate. In terms of the Il-76 that was lost in East Timor, it was a Laos registered aircraft. The company was Euro Asian Aviation. It was on charter to Timor Telecom at the time that it crashed. I think they are all the outstanding matters.

Senator Hill—What about the photo of the Yak-42?

Air Marshal Houston—I do have some photographs to show you what a Yak-42 looks like. It is very similar to a Boeing 727.

CHAIR—A smaller 727?

Air Marshal Houston—Yes.

CHAIR—We will take a short break and reconvene in 15 minutes.

Proceedings suspended from 3.32 p.m. to 3.50 p.m.

CHAIR—We are proceeding with the budget summary.

Senator HOGG—I go to the other items that you read out the amounts for. Take the FA18s, for example. In the allocation for the next five years is there an amount for the FA18s as well?

Mr Veitch—The allocations I read out apply to the first year only.

Senator HOGG—That is right.

Mr Veitch—We expect them to be roughly the same the second year but, in terms of the allocation over the full four-year period, that will be subject to review in this coming budget cycle. We will decide through the next DMFP process.

Senator HOGG—So the allocations that you have read out might not necessarily hold at all—for example, the P3s, 11.2. It is not safe to assume that that is going to apply for the next four years as well.

Mr Veitch—No, not at this stage. We will review the situation. The situation with logistic support changes as the nature of operations, rates of effort and what have you change. We regularly review the highest priorities and assign our money to optimise our outcomes.

Senator HOGG—Let us take the FA18s, for example. What is the extra \$35.6 million for if, in the case of the Collins, it was for the unforeseen full cycle docking? What unforeseen expenditure is being encountered there?

Mr Roche—It is not so much unforeseen with the F18s as pressure on what we call repairable items. To maintain repairable items in stock and to put aircraft back in the sky we have had to resort to some cannibalisation, taking parts off other aircraft. That is obviously undesirable and the intention is to reinstate the supplies of repairable items so that that is not necessary.

Senator HOGG—So will that reinstate the cannibalised aircraft?

Mr Roche—Yes, it will.

Senator HOGG—How many have been cannibalised?

Mr Roche—I think it is currently 21.

Senator HOGG—So this will reinstate 21 over that five-year period?

Mr Roche—Yes, it will.

Senator HOGG—It will, if the allocation is, let's say, \$40 million roughly a year.

Mr Roche—That is the intention, Senator.

Senator CHRIS EVANS—So how many aircraft are you down to?

Air Marshal Houston—We have enough F18s to meet all our operational requirements and training requirements. These are aircraft that are set aside. We are still flying our projected rate of effort and we are meeting all our obligations. In fact, we plan to fly a rate of effort of 12,500 hours. This year our rate of effort will be about 14,000 hours.

Senator CHRIS EVANS—That is because of the war effort.

Air Marshal Houston—That is largely because of the war effort. In fact, I can give you the detail of what we did there, but, in essence, we flew about 416 hours during the war deployment, 500 hours in theatre work-up and 1,730 hours on operations. Of course, we had the work-up before we deployed, which was 318 hours. We did all of that; it was not a problem. As you know, we maintained a very high level of availability and serviceability through the whole campaign with routinely 12 to 13 aircraft on-line every day.

Senator CHRIS EVANS—You even got them back up for the fly-past. I thought that was well done.

Air Marshal Houston—We flew them back and, yes, there were no problems at all.

Senator CHRIS EVANS—How many aircraft can you get in the air?

Air Marshal Houston—We have 71 aircraft. A lot of those aircraft are in servicing and of course we are in the midst of the Hornet upgrade program so a lot of the repairable items are taken off aircraft that are undergoing either major servicing or, indeed, modification. But there are 21 aircraft that are utilised to provide spares for other aircraft. That leaves about 50. As you know, 50 aircraft more than compensates for what we have to do. I can come back to you on notice to let you know exactly how many it is. We have more than enough aircraft to meet all our requirements.

Senator CHRIS EVANS—But would that be in the order of 50 or something considerably less than that?

Air Marshal Houston—I think it is a little bit less than that because of the ongoing modification program—the Hornet upgrade program—but I can come back to you with the detail of that later if you wish.

Senator HOGG—In respect of the 21 that have been cannibalised, where are they in the upgrade program? Are they budgeted for in the upgrade program if money has now been put back into the system to bring them up to scratch?

Mr Roche—The full fleet is budgeted for in the upgrade program. It is only in respect of repairable items that they have been cannibalised.

Senator HOGG—But if this money had not come on stream then they would have laid dormant, I would presume, for some period of time.

Mr Roche—Yes, but it does not stop the upgrade program. Much of the upgrade program is to do with structural changes, upgrades of software, sensor systems and so on, and that can all go ahead. I guess I should make a point in all this that, given the rate of effort that is applied to the F18s, not all the aircraft are going to be in the air at any one time. You actually want to see some rotation of your fleet to ensure that we do not exceed fatigue life hours on particular aircraft. It is a complex arrangement.

Senator CHRIS EVANS—In fact, won't we now have—not a management problem—a management issue that those parts of the fleet that went to Iraq would have gone ahead in terms of the number of hours they have flown and the fatigue issues? Will you have to try to manage that with those aircraft?

Air Marshal Houston—It all relates to the type of flying that the aircraft are doing. Obviously there was some fatigue accrual in Iraq, but for 300 hours in Iraq versus 300 hours in normal training I would think that the 300 hours in normal training is probably more demanding in terms of fatigue accrual than Iraq. Obviously we need to have a look at that.

Senator CHRIS EVANS—The layman's response would have been the opposite. I would have thought, with the weather conditions and those sorts of things—

Air Marshal Houston—A lot of the flying in Iraq was at high altitude. They were, as you know, flying very long sorties, particularly when they were doing the defensive counter air sorties. A lot of it was fairly gentle whereas, when they are training back in Australia, there is a lot of high-G manoeuvring, which is much more demanding on the air frame. The other thing you have to consider here is that we have ageing aircraft. As each year passes, ageing aircraft become more expensive to maintain. We have to anticipate that, as time goes by, our ageing platforms will cost more than they cost now. We have spoken about this before—the factor, as each year passes, is somewhere between three and seven per cent compounding per year.

Senator CHRIS EVANS—That is one of the reasons why Senator Hogg and I take an interest in it. It seems to me that it is an emerging issue. Depending on how optimistic you are about the JSF timetable, this looms as one of the major challenges. I am a little less optimistic than some about the timetable for the JSF. Obviously, how well our current fleet holds up is very important.

Air Marshal Houston—We are managing the fleet very carefully and we are studying matters such as fatigue accrual and a whole bunch of other factors to see the best way to manage the existing fleet of F18s and F111s so that we get a good transition into the JSF in

future. That is the subject of extensive study now. Obviously in the fullness of time we will be better informed as to the best way to proceed.

Senator HOGG—Rather than go through each of these areas that you have indicated to us where the extra expenditure is, do you have a simple chart you can give us that lists the expenditure for this year, lists the expenditure for the out years and, where there is no allocation in the out-years, has a collective figure which will be subject to further allocation at some period? Are you able to provide us with that?

Mr Roche—Yes, we can do that; noting that with the exception of the submarines, the out years have not been formally determined for the other platforms.

Senator HOGG—With the exception of the submarines?

Mr Roche—Yes. We can show that on a chart.

Senator CHRIS EVANS—Do those four or five listed platforms make up the whole of that budget or are there other items and they are just examples of the larger ones?

Mr Veitch—They were examples of the larger ones. The government's intention principally was to address those core platforms. But we did have flexibility to address some of the other more pressing issues. The defence capability investment committee took a decision the other day to spread the money along those lines.

Senator CHRIS EVANS—I think the P3s were not in the budget announcement. The figures you gave us today included the P3s. I don't think they were in the list.

Mr Roche—The figures that Mr Veitch gave you were the accurate ones for the current year. We will be looking in the out years at whether there are other pressures and whether we need to make further adjustments.

Senator HOGG—You are saying the \$35.6 million that has been allocated to the FA18s, as an example, will remediate those aircraft in this financial year?

Mr Roche—No, it is our estimate of what it will take over about a five-year period.

Senator HOGG—What about the Hercules, the C130Js? I thought they were the new ones. What is the \$40.7 million figure for?

Mr Roche—There is some additional expenditure in relation to the C130Js for software. They are a very software intensive aircraft, while the preceding C130Hs and C130Es were not. We have included increased expenditure for that.

Senator HOGG—Software intensive in what way?

Mr Roche—They are virtually software driven. All the systems in the aircraft—

Senator HOGG—I understand that, but why wasn't the software there in the first place?

Mr Roche—The software is there in the first place, but it is like all software: once you get a software driven aircraft, you are then into maintaining and upgrading it. You can't just put it in once and forget it. It is a bit like your desktop.

Senator HOGG—Again, the question comes about: why wasn't that seen as a whole-of-life costing and incorporated in the original costing?

Mr Veitch—It is another one of those projects that fits that category that was approved before 2000. The cost assessments at the time were made that it would be principally the same to operate as the C130E it replaced. With experience, we have found that is not the case, particularly with the software costs that Mr Roche just referred to.

Senator HOGG—How many other projects from 2000 or earlier do we not really know about at this stage in terms of ongoing costs that could not have been predicted back then?

Mr Veitch—I think it fair to say that those two we have just discussed are the main ones. There could be some smaller amounts with a few other ones but we tend to try to manage them within the budget overall. For these two big ones, quite obviously, the amounts of money are of such a scale that they were very difficult for us to digest without building distortions into other parts of the budget. As I said earlier, for all projects approved since 2000, as they progressively roll out into service in the future after they go through their acquisition phase, we do have provision in white paper funding for the operating costs. So we expect for the new projects into the future this will not be a problem. It is just some of the legacy projects that were approved during the nineties that are rolling out into service now.

Senator HOGG—And this amount is over and above the white paper funding, isn't it?

Mr Veitch—Yes. This is an additional new funding measure by the government to address those sorts of things in this year's budget.

Senator CHRIS EVANS—What is the cut-off date for legacy projects? This is so I can ask in coming years. When does it stop being a legacy and start being somebody's business?

Mr Veitch—I think the simple answer to that question—and I am not trying to be trite—is that that policy change happened in 2000. For some of the projects that were approved prior to that—for example, the JORN project—the operating costs were funded and we attended to them, but in the case of the C130Js we just talked about, quite clearly our assessments at the time were flawed. In the case of the submarine, Mr Roche explained that. I am not expecting there to be any other big show stoppers like the submarines or the C130Js that fit that category. To answer your question, we could use 2000 as the reference point.

Senator CHRIS EVANS—I will get that page of *Hansard* and I will nail it up on the front of the desk there for next session—blown up.

Mr Veitch—Noted.

Senator CHRIS EVANS—So you will have to have a new term next time—maybe 'post legacy projects'.

Mr Roche—'Heritage projects'!

Senator HOGG—One other item that comes out of this is the \$61 million that I think you said was for explosive ordnance for the Army. Is that a one-off? It is not a recurrent figure? They will not get \$61 million for the next four years.

Mr Veitch—A point of clarification: the \$61 million is principally for the Army but it does cover EO and ammunition for all three services. The \$60 million is pretty much a recurrent figure. That is what we assess the ongoing shortfall or requirement to be. So I think that, in the numbers into the future, you could expect to see a number of similar magnitude.

Senator CHRIS EVANS—Can I take you back to the C130s. When you were explaining something to Senator Hogg I was not clear whether you were saying that was \$40 million over the five years or whether it was \$40 million next year, with other costs to be determined later on. Can you clarify that for me?

Mr Veitch—With the C130J, the additional amount each year will change, but it is of the order of that amount.

Senator CHRIS EVANS—So it is an annual amount?

Mr Veitch—It is an annual amount, yes.

Senator CHRIS EVANS—Is this for an upgrade?

Mr Veitch—It is certainly not an upgrade. It is just higher costs—

Senator CHRIS EVANS—Forty million dollars for software seems like a lot.

Mr Roche—About \$10 million of it is for software, and broadly speaking you could see the remainder as the difference in cost between supporting the C130E model which the C130J model replaced, and the C130J is a much more modern aircraft with greater capability.

Senator CHRIS EVANS—When we bought the J, were we aware that there would be an additional cost in supporting it over the earlier models?

Mr Roche—I think, to be honest, some of it was not anticipated.

Senator HOGG—So that was a fault in the procurement process which will not occur again? If not, how will you exclude—

Mr Veitch—I am not sure that I would describe it as procurement; it was probably in the costing pre-approval stage. We could have done that better, in hindsight.

Senator CHRIS EVANS—The software only explains a quarter of the cost. So \$30 million of it is actually the difference in operating costs or supporting the platform above what we estimated. What has driven that \$30 million?

Mr Roche—The increased complexity of the aircraft; just the nature of the aircraft.

Senator CHRIS EVANS—I guess I am looking for a bit more than its software and the nature of the aircraft; I am actually trying to understand what has required us to spend \$40 million a year. A bit more detail would be helpful.

Mr Veitch—We are just taking some advice on this.

Mr Roche—There are a number of smaller differences between the aircraft, but I suspect that probably one of the greatest costs we are looking at here is that with the C130E, which the C130J replaced, and the C130H there was a very high degree of commonality between the aircraft. We were essentially able to support those aircraft with one infrastructure, one set of spares, one set of inventory and so on. The C130J is in fact a different aircraft and it requires pretty much a fresh set of inventory and so on. When you think that the fixed costs of maintaining a separate aircraft type tend to be around 60 per cent of the total costs of support, when you introduce a different platform you introduce a new fixed base for the different type of aircraft. That is one of the reasons we are putting so much emphasis on trying to rationalise

aircraft fleets, to get down the number of individual support areas, spares and inventory that we have to carry.

Senator CHRIS EVANS—So you are effectively saying to me that there was an underestimation of the differences between the J and the earlier models.

Mr Roche—It was underestimated in that it was such a different aircraft that would require, effectively, a different set of support.

Senator CHRIS EVANS—So you are effectively now maintaining different inventories for the earlier models compared with the—

Mr Roche—We still have a fleet of C130Hs and we have to maintain an inventory for those, and for the C130J.

Senator CHRIS EVANS—When are the Hs due to be phased out?

Mr Roche—It is 2008 at the moment, but that is under review. I think that they could certainly be refurbished and go much longer than that.

Senator CHRIS EVANS—Sorry?

Mr Roche—2008, although that is under review. There is no reason why they would not be refurbished and run for significantly longer than that.

Senator CHRIS EVANS—One of the reasons the Js could not go into the war zone was that there were some sort of electronic warfare protection difficulties, were there? This costing is not part of that?

Mr Roche—No, it is not to do with that.

Senator CHRIS EVANS—That is part of an upgrade that is occurring separately, is it?

Mr Roche—Yes, it is.

Senator CHRIS EVANS—Could I ask about the budget savings measures? It strikes me that every year we seem to have very brave assumptions about savings that have been made the following year, but there is very little in the way of reporting in the PBS about whether those savings were achieved or not. I think we have discussed this once or twice before. I think the ASPI report the other day brought it to people's attention again, but I have discussed this at estimates hearings previously. We have had these hundreds of millions of dollars worth of savings identified to be applied the next year, then it seems we are unable to track those. Perhaps someone could take me through whether we have met the savings we have identified in the previous year's budget.

Mr Veitch—I can help with that. We are talking about two savings programs. One is a savings program of \$200 million per annum, which was an undertaking that Defence would meet as part of the white paper funding commitment. I tend to recall that we talked about this when we did the additional estimates, but if we did not then page 87 of the PAES from last year reported the progress on the achievement of the \$200 million savings program. The \$200 million savings target for this year, under the first savings program, will be fully achieved and the ongoing saving into the future years has been achieved through reductions in the non-capability related areas of the budget. We have fully achieved those savings but, in recognition that we needed to do more to try to offset some of the areas of administrative

expenditure that were increasing in the last year or two in areas such as PSP expenditure and civilian staffing numbers and what have you, we embarked on a second savings program that will deliver an additional \$200 million within five years. With this year's budget—the new budget 2003-04—we have a commitment with government to find an additional \$50 million and we have taken a range of measures to in fact achieve that. Once I have found my reference point, I can articulate those for you.

Mr Bennett—A number of those savings would be achieved through reductions in domestic and overseas travel as well as through the benefits of a reduction in civilian numbers. There are a range of other administrative measures.

Senator CHRIS EVANS—A reduction in civilian numbers, Mr Bennett?

Mr Bennett—Yes.

Senator CHRIS EVANS—When is that occurring?

Mr Bennett—It will occur progressively through the next few years.

Senator CHRIS EVANS—That history has been quite the opposite, hasn't it?

Mr Bennett—Yes, there has been a growth from a 16,000 base to something over 18,000 at the moment. There are obviously reasons for that, which we can explain.

Senator CHRIS EVANS—We will get to those later.

Mr Veitch—The Defence committee recently agreed on a series of measures to achieve the first tranche of the savings, the \$50 million. We will list progress on these in the PAES when we come to additional estimates. Principally, the savings will come from reductions in civilian personnel numbers of about \$15 million, reductions in overseas travel of about \$7.4 million, reductions in domestic travel of about \$11.5 million and reductions in non-capability related areas of supplier expenses principally in the area of professional service providers and consultants and contractors—

Senator CHRIS EVANS—That has also been growing rapidly.

Mr Veitch—Yes.

Senator CHRIS EVANS—So all the things that have been blowing out in the last couple of years are going to be savings next year?

Mr Veitch—We have taken firm measures. I think it is fair to say that we have now taken firm measures to arrest these adverse trends, recognising that these levels of costs are unsustainable and that we have to do something about them. We have put some firm measures in place to actually achieve these savings.

Senator HOGG—What are the savings in terms of consultancies?

Mr Veitch—We have not put a specific figure on consultancies, PSPs and what have you, but there is a group of expense items in the suppliers category that are non-capability related. For example, they do not include things like the logistics related costs that are in that expenditure category or things to do with support contracts for garrison support, training programs and those sorts of things. When those areas are excluded, we have applied a \$22 million cut to that area in this budget, growing to \$42 million the following year. Our

intention is to fully achieve the \$50 million this year. Next year that builds to \$100 million, growing to \$150 million, \$175 million and \$200 million.

Senator CHRIS EVANS—A large portion of that is travel. Didn't you tell me that you were getting the previous savings project from travel?

Mr Bennett—Yes. There was a contract negotiated with the travel supplier that resulted in real, crystallised savings. We are enjoying the ongoing benefits of that. This is more about reducing the frequency of travel over and above the per unit price that we have achieved.

Senator CHRIS EVANS—A large part of the previous \$200 million identified savings was basically travel, wasn't it?

Mr Bennett—Yes. There were tens of millions of dollars.

Mr Veitch—\$20 million of the \$200 million in the previous program was for travel related savings.

Senator CHRIS EVANS—And you have another \$24 million or so out of this?

Mr Veitch—I think it can be measured if you look at the domestic travel, for example. Although our expenditure has not gone up—it is pretty much the same as it has been in recent years—the volume of traffic has actually increased. So the saving measure we are targeting here, as Mr Bennett described, is more to do with reducing the volume of travel. We have a two-pronged attack on it: one was on the costs through better contracting arrangements and the other is about the volume.

Senator CHRIS EVANS—I think there are a few nervous people at the back who thought you were going to make them fly in an Ilyushin while they go round the country.

Senator HOGG—Or maybe Yaks.

Mr Bennett—We will stick with our existing travel supplier, I think.

Senator CHRIS EVANS—From 2007-08 you allegedly are going to get \$400 million per year in administration savings—is that right?

Mr Veitch—Yes. But I would argue that we have already achieved \$200 million of that through the measures we have had between 2000 and this financial year. So our focus will now be on delivering the second savings program—the one building from \$50 million to—

Senator CHRIS EVANS—Are you able to give me a breakdown of that \$200 million that you say you have already achieved for this year?

Mr Veitch—The measures that I have just described will amount to just over \$50 million in the first year, growing to about \$80 million in the second year. We have a range of other proposals that we are currently developing that will add to that to ensure we achieve the program successively over the years concerned. They relate to things like further rationalisation and outsourcing activities, where it makes sense to do that and where we can genuinely make savings. We have a range of financial transformation projects in place in the areas of simple procurement and those sorts of things. We genuinely believe that with new technologies and new business processes we can find savings. There are also still some issues to do with some of the ways we do business in terms of delivery of common services across our organisation, and we feel we can still make some savings. Those proposals will be

progressively worked and put to the defence committee for decision. As they are agreed, they will be added to the program to ensure that we achieve the full \$200 million.

Senator HOGG—You mentioned the rationalisation of outsourcing. Did I hear you correctly?

Mr Veitch—Rationalisation activities, including outsourcing.

Senator HOGG—In what way? Are you saying that outsourcing is costing you money?

Mr Veitch—No. Rationalisation, including outsourcing.

Senator HOGG—So you are looking to outsource more things?

Mr Veitch—I think our experience with the commercial support program and outsourcing has been that, as we have gone further into it and as we have looked at the harder targets, the level of savings we achieve becomes less and, in some cases, can become marginal. We would only put it out where there are additional opportunities, where it makes sense to do it and where there are genuine savings. We would not do it for ideological purposes, for example; we would need to get genuine savings out of the program.

Senator HOGG—Does that mean, though, that some things that have been outsourced will now be taken back in house?

Mr Veitch—No, definitely not.

Senator HOGG—That was the message that I was getting, and I did not think I had it right.

Mr Bennett—We have established a principle that we will outsource when it makes a clear financial benefit. That is not meant to imply that it has not in the past. It is just that we do not want people to think that we are going down the outsourcing path for any other reason.

Senator CHRIS EVANS—You don't have to imply; I can produce the figures from your own budget papers to prove some of them have not delivered savings. Anyway, we will come to that too. Does that apply to the health outsourcing as well?

Mr Veitch—No, I am talking about new opportunities into the future. The health service is not one. You heard the status of that last time we met.

Senator HOGG—So what are the new opportunities likely to be? Do you have any idea? Have you identified those yet? You were talking about DIDS.

Mr Veitch—No, DIDS is not included in that, because it is in our old program of CSP. I am only talking about areas that we might go into in future. Our thinking in this is only in its very early days. I do not have a definitive list that I could give you but I hope that by the time we get to additional estimates, for example, we will start to firm up some proposals. The important point I wanted to make is that we have put measures in place to get the first \$50 million.

Senator CHRIS EVANS—My question—I did not phrase it correctly—was: can you identify for me the \$200 million you will save this year?

Mr Veitch—Yes. I think I mentioned that it was on page 87 of the portfolio additional estimates statements. That description and those savings are within—

Senator CHRIS EVANS—But they will apply for 2003-04. Is that what you are saying?

Mr Veitch—Some of those will roll through, but the measure I described in terms of reducing the forward estimates in the non-capability areas in supplies expenses is the main measure to deliver the rest of the \$200 million on an enduring basis in the first savings program.

Senator CHRIS EVANS—I am confused. I thought you outlined for me how you were going to find the extra \$50 million this coming year.

Mr Veitch—Yes, we have.

Senator CHRIS EVANS—And I was trying to get a handle on where the \$200 million was coming from this financial year.

Mr Veitch—The 200—

Senator CHRIS EVANS—It is partly reflected in the annual report?

Mr Bennett—There are two programs of savings. One set has already been achieved and budgets set on that basis, and from this year on we have lowered the bottom-line budgets in each of the groups to achieve these numbers—the \$50 million in this coming year.

Mr Veitch—The group discretionary budgets in those non-capability areas—traditionally areas that we would regard as administrative expenditure—have been reduced in the forward years. On top of that, we have taken those measures we have described. All of these are designed to curb the growth in expenditure in the areas that I have described.

Senator CHRIS EVANS—I will look at that sentence in *Hansard* and work that one through. I am sure that what you are saying is perfectly accurate; I am just having trouble getting my head around that one.

Mr Veitch—It certainly would be our intention to report progress in future documentation.

Senator CHRIS EVANS—Will that include the PBS?

Mr Veitch—Yes.

Senator CHRIS EVANS—Can you give me the latest explanation for the cash in the bank?

Mr Bennett—A very consistent explanation—perhaps it doesn't hit the spot.

Senator CHRIS EVANS—I would like to argue that with you. Anyway, what is the latest explanation? As I understood it, it was to be reduced from \$1 billion but I see now in all the out years we are maintaining \$1 billion cash in the bank.

Mr Bennett—No, we are retaining several hundred million dollars in the group receivables but the actual cash at bank, as we explained, has been reduced. It is a just-in-time daily cash draw-down, which we explained previously, and we have been successfully running that arrangement for a number of months now.

Senator CHRIS EVANS—I understand the change you made and where you keep the money, effectively, but isn't it the case that the budget papers show that cash holdings and receivables remain constant at around \$1,060 million to \$1,040 million in the out years?

Mr Bennett—Yes. I think this year's total cash, if you look at it in that sense, is about a \$706 million or a \$708 million projected year end result. We expect it to go up and then perhaps come down.

Senator CHRIS EVANS—Why? I understand what you did with Finance et cetera, but it seems to me you have a billion dollars slurping in your or their bank accounts and not being used.

Mr Bennett—It is not slurping around; it is not free, unencumbered cash. We have always tried to explain it in terms of being able to meet current liabilities, and we have explained the current ratio previously. The one thing that perhaps we have not explained clearly enough is the growth, since the introduction of accrual accounting, of employee related liabilities and the fact that we have to fund that. Given that we get funding through the budget process, we have to fund them as they fall due or as we get the moneys. So you are seeing growth in the amount of money that we have sitting there, whilst that is not being taken. So whilst you have people on high tempo, earning extra leave and not taking leave, you will have growth in those liabilities. I do not think we are the only agency with that sort of growth. In fact, if you look at ANAO, you would see that they have \$17 million cash at bank in a total budget of \$50 million. So theirs is a higher percentage to meet their liabilities. I think you would find a similar story with other agencies that are properly making provision for it. George can run you through a detailed understanding of the ups and downs of the cash position and the pedigree of it.

Senator CHRIS EVANS—What I cannot understand, if it is to meet future liabilities, is how come you still have a billion dollars in the bank at the end of every year. I may be a simpleton, but it just seems to me that you keep saying it is for these liabilities but they never get spent and you keep the cash in the bank.

Mr Bennett—We have access to some cash. I would not call it cash at bank. About \$600 million of that at the moment relates to employee liabilities and the balance would relate to various suppliers' expenses et cetera. So you have to think of it as a pool of moneys flowing through. Under the current regime one should keep those sorts of moneys on hand to do it.

Mr Veitch—I think the key point to make in all of this is that Defence currently has about \$3 billion in outstanding employee liabilities. Under an accrual regime we have to budget to pay for that. What we have in the cash receivable is an amount of about \$730 million which we took to government, and government agreed that we should retain it in the cash receivable to meet those liabilities as they fall due. That \$700-odd million will service our liabilities for about an 8½-year period, and I would argue that that is good, sensible financial management. If we did not do that, we have no other source of funding and that would be an impost on the budget in later years. My concern is not so much that the money is there; my concern is that we have not met the full liability and we are going to have to budget for that some time in the future. So I would argue it is good, sensible management. That is there; we have taken it to government. Government understands what we are doing with it.

Senator CHRIS EVANS—Weren't you telling me last time or the time before that this figure was likely to come down?

Mr Bennett—You have seen it come down somewhat in this financial year from where we were—

Senator CHRIS EVANS—But in the out-years it is still staying at over a billion dollars a year.

Mr Bennett—Yes.

Senator CHRIS EVANS—I don't want to verbal you, but if I get the *Hansard* out, I am sure you told me it was going to come down.

Mr Bennett—I think we said there was growth from \$315 million to \$500 million to \$600 million, and then in this year there would have been additional growth and that we were doing what we could to bring the balance down to make sure that we were not accumulating cash. One of the problems that occurred for us was when we received moneys late in the one year, and there was that lump that flowed through. There has been a progressive reduction on a balance.

Senator CHRIS EVANS—What will your cash holdings be in 2006-07?

Mr Veitch—We currently plan it to be about \$941 million. Again, I emphasise—

Senator CHRIS EVANS—Hang on; let's try and nail this. You are telling me it is coming down; you are telling me it is a lump in the system; you are telling me you are changing it et cetera. But the billion bucks turns up every year, sloshing around in the system. I just don't get it. You did tell me it was going to come down; it was being managed. Then there was this lump, the payment last year et cetera. Quite frankly, every time it is a different story but it does not seem to hold water. Now we have a budget for the next four years that keeps having a billion dollars cash.

Mr Veitch—The key point to make is that, other than the financial year 2001-02, Defence has used all its cash for as long as I can remember. We forecast that we will use it all again this year. The cash balance grew up in 2001-02 and I think we described quite clearly last time we were here how it got to that. It was about \$835 million. One of the reasons we planned to grow the bank was to meet the criticism levelled at us by the ANAO that we had insufficient money in the bank to meet our liabilities. I would argue that we have a level of cash there to meet those liabilities and it will progressively over time run down as we meet those liabilities as they fall due.

Senator CHRIS EVANS—You tell me that it will progressively run down yet you give me budget papers that say in four years time it will still be a billion bucks. Which is right?

Mr Veitch—In the budget papers we are planning to use \$46.9 million against employee liabilities this coming budget, \$34.8 million in the following year and \$52.675 million. What I am saying is that over time that will naturally come down.

Senator CHRIS EVANS—So why do you budget for cash holdings and receivables of over \$1 billion in 2006-07 if it is naturally coming down? How can it be both?

Mr Veitch—The other reason it is up around \$1 billion, which is the difference between the \$700 million-odd I have talked about, is that the government has agreed for us to hold \$200 million in cash reserves for our capital. Subject to government agreement in 2004-05,

that \$200 million will come out of the bank or out of the cash reserve. Should that happen, that will bring it back to the \$700 million or \$800 million I have been talking about which is the number that will reduce over time as we discharge the liabilities. As there seems to be a lot of mystery around this, the point I would like to make is this: if you think of situations like Ansett and HIH when these things clearly were not budgeted for, you would argue that we are prudently managing our future liabilities and that is what is expected of us.

Senator CHRIS EVANS—I have no problem with you budgeting for future liabilities but you give me documents that basically continue to say that there is going to be \$1 billion in cash sitting in the accounts. Each time you tell me it is coming down, you have changed the system and you are rearranging the special features, but all I know is that the document you have given me, the budget papers which are approved by parliament, keep saying there is a billion bucks in cash sitting there.

Mr Veitch—Once the government makes the decision concerning the \$200 million, that will reduce to \$800 million in 2004-05—

Senator CHRIS EVANS—I can see \$200 million of it seems to be capital funding that they cannot spend—is that right?

Mr Veitch—It is rephased.

Senator CHRIS EVANS—They couldn't spend it so you are going to hang on to it. That is \$200 million. But we still have \$800 million.

Mr Veitch—Yes, which is the \$700 million-odd I talked about that government has accepted we should put away for liabilities because that is prudent financial management. Over time, there is no doubt that the bank will run down—absolutely no doubt.

Senator CHRIS EVANS—So I should ignore what you have given me in the budget papers which say it won't run down and accept your verbal advice that it will?

Mr Veitch—The point I am trying to make—

Senator CHRIS EVANS—You have given me figures up to 2006-07; when is it going to run down?

Mr Veitch—At the point of publishing the budget we did not have a decision on the \$200 million and the government has asked us to bring that back to them for decision. We expect that there will be a favourable decision on that and that would reduce it to \$800 million. Each year as we go on, what I am saying to you is that within about eight years if all other things are equal, the cash reserve would reduce to zero and we would then have another budgeting problem on our hands in terms of funding those liabilities well into the future. The rising cost of employee entitlements is an area which is a considerable problem for us. It is not unique to Defence; it is a common problem across the public sector.

Senator HOGG—So that is even with the projected redundancies that may occur.

Mr Veitch—Yes. Well, we are not talking about redundancies.

Senator HOGG—Redundancies or attrition—it doesn't matter.

Mr Veitch—Yes.

Mr Smith—I would just say, senators, that this is a Public Service wide financial management issue. We can try to explain it to you from Defence's point of view, but it reflects government policies and practices that the Department of Finance and Administration administers. As Mr Bennett said, as far as we know, all agencies would have some cash at bank in this way.

Senator CHRIS EVANS—After resisting for some time my staff's pressure for me to go online at these hearings, Mr Bennett, I finally gave in today on the basis that they did not keep sending me emails. What they have done, which is quite useful, is quote to me what you said to me in November 2002. I asked you:

So you can assure me that, when we next talk about this, you will not tell me that you have \$945 million or \$950 million in the bank.

And you said:

I am doing the best I can to manage it down to that number—
that was \$600 million—

I am certainly getting a lot of support from the service chiefs to make sure it is at that level.

Mr Bennett—Yes, and we are coming in at about \$706 million for this financial year.

Senator CHRIS EVANS—But Mr Veitch was just talking to me about \$800 million.

Mr Bennett—Then we have the \$200 million rephasing and we also have some cash we are allowed to expend this year for some of the operational reasons and for which we will be reimbursed for in the coming year. So that number will go back up.

Senator CHRIS EVANS—I am trying to be reasonable: I have given you the \$200 million—I am putting that to one side. I will concede that. I do not concede the rest. You tell me something different every time, and we have still got the money sloshing around the bank. I know we have got employee liabilities. I just do not understand—

Mr Veitch—Another point with the bank is that the government allowed us to retain some proceeds from property sales over and above the target. We have achieved something like \$40 million or \$50 million and that goes into the bank this year, but we have only just received that into the bank. Our intention would be to bring that out of the bank and use it at additional estimates. This thing is a fluid arrangement. The bank is there to help us manage; it is not there to inhibit our management.

Senator CHRIS EVANS—My bank account is a fluid thing, too, but it never goes up, Mr Veitch, I can tell you! If you are prepared to take a private contract, you're my man. I always have less than I anticipated; you always seem to have more. And this is unusual for Defence.

Mr Veitch—But the point I made—and this is a remarkable effort, in my view—is that the Defence budget has been fully spent, we have managed to the budget allocations, in every year that I can remember except for 01-02, and we have explained on the record the special circumstances that applied. I believe we ought to get some credit for that.

Mr Bennett—And against the problem I had of 945 coming in at \$706 million. I think that is not a bad result.

Senator CHRIS EVANS—Why is it necessary to hold the future employee liabilities as cash?

Mr Bennett—There is no other mechanism we have for meeting those liabilities as and when they fall due.

Mr Veitch—It is the design of the accrual system: we appropriate for all our costs as they fall due, as we recognise them. We will recognise the higher liabilities as they fall due in an accrual sense, but the actual cash of servicing them downstream would be taken out of the bank at that time in the future. So the system that has been designed that we have to operate within—and it is not for me to judge one way or the other whether that is right—is the only way that I can manage this situation I find myself in, where we have to put away money for future entitlements, and that is the mechanism that we use.

Mr Bennett—For instance, if the government were to set up some sort of special funding arrangement whereby we could pay into that to meet these future liabilities, we could do that and it could be a part of that fund. But at the moment that is the mechanism we have.

Senator HOGG—Is this related in the individual outcomes where one looks at the operating expenses that seem to be blowing out in some areas?

Mr Veitch—No, it is not related at all.

Mr Bennett—Perhaps at a slower time we can take you through a detailed spreadsheet off line, or something like that, to try and help clarify it.

Senator CHRIS EVANS—The more you take me through it the more confused I get, because each time you assure me it is going to be a lower number and each time it is a higher number.

Mr Bennett—Well, this year it is clearly lower than 945.

Mr Veitch—If you adjust for those two one-offs that we talked about it is definitely lower.

Senator CHRIS EVANS—I am not trying to be disrespectful, Mr Veitch. I am not accusing you of fiddling the books or anything like that but, from a layman's point of view, it is very hard to understand why we still end up with \$1 billion worth of cash and, as I say, each explanation I get seems to vary a little, but we still seem to end up with the problem. You assure me that it is not going to be so in the longer term but the budget papers seem to reflect that it will continue. I am not the only one who seems a bit perturbed by this. I accept that my economic intelligence is not that of the financial writers and some of the people who are better at handling budget papers, but I have not met anybody outside of Defence yet who seems to understand this.

Mr Bennett—Perhaps the best example I can give in the negative is that the ANAO have certainly not criticised this issue. They have been quite comfortable with the sort of moneys we have on hand, yet I think they would be very adept at criticising us if there were a problem.

Mr Veitch—There is another way of looking at it. As the budget manager, if I had nothing in the bank, I have to tell you I would be worried. I am more comfortable that there is something there to meet these liabilities.

Mr Bennett—We would be technically a non-ongoing operation if we had no money in the bank.

Senator HOGG—That does not attract any interest for you, does it?

Mr Bennett—Previously we had money under the agency banking scheme, and I think we were budgeted to receive about \$19 million. We do not earn interest off the money in receivables.

Mr Smith—The Department of Finance and Administration or the Commonwealth now earns such interest as there is.

Senator HOGG—Yes.

Mr Smith—It is worth saying again that this is not money that we can access when we want to; it is there to use for liabilities for a particular purpose. Otherwise, if there is more in there than that, it is earmarked for particular purposes and we apply to the government to draw on it.

Senator CHRIS EVANS—All right, I will leave that until next time.

Senator Hill—I hope you are satisfied with the answers.

Senator CHRIS EVANS—I do not think satisfied is the right word, Minister.

Senator Hill—You are not confused, are you?

Senator CHRIS EVANS—I have been subdued again—beaten again.

Mr Smith—This is not an issue peculiar to Defence.

Senator Hill—When in doubt blame accrual budgeting.

Senator CHRIS EVANS—I resisted rising to that bait from Mr Veitch. I always know when he is in serious trouble he reaches for accrual budgeting. He knows that is how he wins the argument because my eyes glaze over and he wins—he has learnt that. It is like the last refuge of the scoundrel—the accrual defence.

Senator Hill—That is unfair.

Senator CHRIS EVANS—I think he knows I am only joking, but he also knows it works every time—I cannot cope then. Mr Veitch, can you explain where I can find the Defence Reform Program savings?

Mr Veitch—The DRP savings for all intents and purposes are now complete. There are a couple of those CSP contracts that we talked about earlier—the health services and the DIDS—but once they are completed, for all intents and purposes, the program is now complete.

Senator CHRIS EVANS—So are the alleged savings from that program reflected in the budget? Are there supposed to be projected savings of about \$1 billion in 2003-04?

Mr Veitch—I think we have been through this in earlier sessions. The savings we achieved were not quite as high as that. From memory, I think they were about \$700 million per annum, but those funds have been reallocated many years ago for the purposes intended, which was to reinvest back into the capability related areas of the Defence budget. If you asked me, 'Can

you see where the savings have been assigned in this year's budget?', the answer would be no. But I could probably take it back and if we could refer to previous discussions we have had, I could show that it was principally allocated to the increase in the military work force back to 50,000 ADF, to a range of capability areas such as the logistics area and one thing and another. So you will not see an actual variation in this year's documentation because it reflects that the thing is largely complete.

Senator CHRIS EVANS—I am not trying to see where the savings have been spent. I am just trying to understand from where those savings have been met. As I understand it, they were still to be applied this year. Are we able to identify those?

Mr Veitch—I think we probably went through this one or two sessions ago. We did a wrap-up and there was an audit of the DRP. We reported the final outcomes and had a discussion here—I think it was probably the SLC before last. We have not put any focus on it this year because, from our budgeting and accounting perspective, the thing is complete.

Senator CHRIS EVANS—All right.

Senator HOGG—Where do I find your bad debts in the budget statement?

Mr Veitch—We will just take some advice on that. I know they are there.

Senator HOGG—That is good. No wonder I could not find them.

Mr Bennett—If you refer to page 119 in the budget statement of financial position—

Senator HOGG—I am at page 119.

Mr Bennett—under the 'Liabilities' section, you will see debt, total debt, provisions and payables; and then a breakdown of employees, suppliers and other. So you can see what the employee debt is.

Senator HOGG—What is the employee debt?

Mr Bennett—It is debts owed to Defence by employees, where they have perhaps been overpaid for travel allowances et cetera.

Senator HOGG—What is that figure currently?

Mr Bennett—I think we are running at just over the \$3 million mark.

Senator HOGG—Three million?

Mr Bennett—Yes.

Senator HOGG—Three million or three billion?

Mr Bennett—It should be three million. I do not believe it is three billion. I am sorry; I might be pointing at the wrong number.

Mr Veitch—That is the outstanding employee liability I was talking about earlier—that is \$3.1 billion.

Senator HOGG—That is not bad debt?

Mr Bennett—From memory, we are running at around \$3 million for employee debt.

Senator HOGG—For employee debt?

Mr Bennett—Yes.

Senator HOGG—All right. Is that \$3 million in one year?

Mr Bennett—It is current outstanding.

Mr Smith—It would be cumulative.

Senator HOGG—So that is \$3 million from travel allowances and general overpayment.

Mr Smith—Overpayment of relocation expenses, travel expenses or even salary or allowances.

Senator HOGG—How much of that \$3 million is written off?

Mr Welsh—If I could help on the bad debt issue, as we discussed last time, there was a provision of \$31 million against provision of doubtful debts, which we gave a breakdown on at the time. That was essentially to cover some amounts—receivables—which were estimated would not be collected at 31 June 2002. With regard to those amounts, the provision will be written back against the receivables this year: 30 June 2003. We are not programming any sort of bad debts forward in terms of write-downs of bad debts. Non-recoverables of receivables are not being programmed forward, so we are not estimating any significant non-recoverable of receivables. The \$31 million was made up of various amounts, but there was \$20 million in there for accounting adjustments. For employees, I think there was a small amount. I will have to check that amount for you.

Senator HOGG—So this year you are saying there is \$3 million, if I understand you correctly.

Mr Bennett—I was estimating the employee debt currently at about \$3 million, that is correct.

Mr Welsh—I will look up the amount for you, Senator, but at the moment the amount of employee debt is \$4.2 million. It has come down from about \$5.3 million as at 30 June last year.

Senator HOGG—Let us take last year as an example. How much of that would have been recovered? How much would have been written off?

Mr Welsh—I would have to check, Senator. A reasonable amount of that reduction from \$5.3 million to \$4.2 million has been recovered, but there are certainly some write-offs in there. I would have to check the amount for you.

Senator HOGG—How much of the debt is over, let us say, 180 days? I will tell you the reason I am asking. I have seen a memo go out under the secretary's and the CDF's signature asking people to pay money back. There seems to be a poor rate of return of moneys outstanding to Defence.

Mr Smith—That is correct, Senator. CDF and I were concerned at the level of outstanding debt. We have had a very strong drive on it over the last several months to try to reduce the figure. We are at the point where, in some cases, we may have to take legal action.

Senator HOGG—I will come to that in a moment. I am trying to establish the level of debt, to start with, and how that has been reduced at all.

Mr Welsh—I can give you the figures now, Senator. We had \$5.2 million there at 30 June 2002; \$3.2 million of that was outstanding for more than 90 days. At 30 April 2003 there was \$4.3 million, of which \$2.5 million has been outstanding for more than 90 days.

Senator HOGG—Of the \$3.2 million and the \$2.5 million, how much of that is recoverable or is actually expected to be recovered?

Mr Welsh—We are estimating to recover substantially the amount. There will be some small write-offs in that. We have found in the pursuit of these debts that there are some administrative errors that have occurred over time, going back to previous years, where employees had paid the debt but for some reason it did not come through and get marked off as paid. Therefore we have to adjust the records. But we would not call that a bad debt; it is more of a correction of an error. We will pursue other amounts, as has been indicated, to ensure they are paid.

Senator HOGG—I turn to the memo that has been sent out, Mr Smith. You rightly say in that memo that the situation is unacceptable and you clearly state that legal action will be taken to recover some of the debts that are outstanding.

Mr Smith—Yes.

Senator HOGG—What is the basis of recovery—debts of more than 90 days? Are those the debts that you are targeting?

Mr Smith—Yes, the debts of more than 90 days are what we are particularly targeting—the long outstanding ones, yes.

Senator HOGG—I understand that there would be people who would be challenging the debt, and you reasonably explain in the memo under your signature and that of CDF's that you expect there will be people in circumstances challenging. That is fair enough.

Mr Smith—Yes.

Senator HOGG—How many people would physically owe money to Defence, given that there is a debt currently of about \$4.3 million, as I understand it?

Mr Smith—I will ask whether anyone here has that data.

Senator HOGG—Is it a widespread problem?

Mr Bennett—It is approximately 6,000 people.

Senator HOGG—Approximately—that is fine. I am not holding you to this figure. There are approximately 6,000 people. Are there some who are more recalcitrant in repaying their debt than others? In other words, have some accumulated a larger debt than others?

Mr Smith—I have not got that analysis—

Mr Welsh—That is the case, yes.

Mr Smith—There are some repeat offenders, as it were.

Mr Welsh—There are some amounts which have been outstanding for some time, well over 90 days.

Senator HOGG—Has this sort of memo been put out in the past to recover debt?

Mr Smith—I do not know what happened before my time here, Senator, but I think it is the second time I have done it.

Senator HOGG—You are correct from what I read.

Mr Smith—It struck me when I saw the figures when I came there that this was unacceptable. I can understand that in an organisation of 91,000 people where there is a lot of movement, there will at any one time be more than the usual figure outstanding. But that level of money I thought was quite unacceptable and so with the help of the Inspector General, who is hovering—

Senator HOGG—Yes, I saw the Inspector General looming in the background.

Mr Smith—we are driving at it.

Senator HOGG—I would be interested to hear from the Inspector General. Welcome, Mr Neumann.

Mr Neumann—I put out a little message in the ethics newsletter that we put out about every quarter—issue 7 in April—and it says more or less the same things as the memo that the secretary and the CDF put out.

Senator HOGG—Are you responsible for instigating any legal action in the recovery of debt?

Mr Neumann—No. I chair a working group and we work with Greg Welsh in terms of finding out the numbers of outstanding ones and then the more recalcitrant, if I can put that way, go to the Defence Legal Service.

Senator HOGG—How many actions are undertaken there each year, do we know?

Mr Neumann—This has only just started.

Senator HOGG—So this is only the first ever attempt?

Mr Smith—This is a program I initiated last December.

Senator HOGG—So it is the first attempt to recover outstanding debts from employees.

Mr Smith—That I know of.

Senator HOGG—What about other outstanding debts that might exist? Are they treated in the same way?

Mr Welsh—Yes, any debts owed we will pursue to recover in accordance with the agreed arrangement.

Senator HOGG—If employee debt stands in the order of \$4.3 million, what would be the extent of the other outstanding debts? I find it hard to identify in the budget papers.

Mr Welsh—We will have to take that on notice. I could not tell you right now the total gross amount of receivables for Defence at 30 April. I know the employee debt figures but the gross amount of receivables—

Senator HOGG—Will you tell me how much of those are written off and how much of those are pursued and recovered?

Mr Bennett—In the financial statements in note 14 there is a disclosure of the amount of write-down of assets. I think we previously said that bad debts written off in 2001-02 were \$0.3 million—so \$300,000. That was actually bad debts written off in 2001-02.

Senator HOGG—That applies to what, Mr Bennett?

Mr Bennett—I am assuming that this is total bad debts. I would have to check for the last financial year.

Senator HOGG—Could you give me an example of the worst bad debt that is not recovered?

Mr Bennett—Yes. We will give you a debtors age analysis and recoveries.

Senator HOGG—That would be very helpful indeed.

Mr Welsh—Senator, we are just getting those numbers for you now and they should be available shortly.

Senator HOGG—When you can you can just read them into the record. That will be fine.

Senator BARTLETT—If I ask questions that have already been covered before, just tell me to go and read the *Hansard* because I have not been able to follow every single minute, much to my disappointment. Has anyone asked questions about the expenditure on professional service providers?

Mr Smith—It came up indirectly earlier but not directly.

Senator BARTLETT—I understand there has been a fairly steady increase in recent years in consultant and professional service provider expenses. Last year's expenditure was about \$273 million. Is there any particular reason why that has continued to grow?

Mr Veitch—There has been a number of reasons why it has grown, although we discussed earlier this afternoon some of the measures we are taking to reduce that as part of our program of administrative savings. By and large, we have been through a period in which we have had to engage some people when we have been short of specific skills within our organisation in areas typically such as IT, project management, expert financial advice and corporate governance. Out in the marketplace the competition for people with those sorts of skills is fairly intense and it is difficult to maintain our skills base in those areas. We have also had to use PSPs and contractors to some extent to fill project management jobs and in areas of some backfilling in military positions during the period of high operational tempo in the last couple of years. I think that taken together they have contributed to what has been a fairly rapid increase in expenditure in that area. When the new secretary came, we talked to him about that area with the intention of doing something about it. As I mentioned earlier in discussions today, we have targeted that for special attention as part of our program of administrative savings.

Senator BARTLETT—Is it possible to get a breakdown of the numbers of people employed or remunerated under this category and what their average tenure is?

Mr Veitch—When we were here last time, we probably provided some information on the record on that. The Defence committee has just recently, either last week or the week before, agreed to look at how we classify this sort of expenditure so we can give it more management

attention and transparency in terms of budget presentation. So, starting from the new financial year, we will be having a more rigorous approach to the classification of this type of expenditure and to reporting the sorts of areas that it is used in. We would refer you to an answer we gave on notice last time. That would probably give you a flavour for the sorts of things that we spend the money on.

Mr Smith—With this we are seeking to distinguish between PSPs, consultants and contractors as three different categories of persons being paid. I hope the effect of that will be more transparent to you as well as to us of course.

Senator BARTLETT—I presume you would be aware of the Australian Strategic Policy Institute budget brief.

Mr Smith—Yes.

Senator BARTLETT—It mentions this issue in terms of the demarcation between consultants and PSPs. It suggests some anomalies in terms of contracts listed on the government *Gazette* web site that do not make it into the Defence annual report. Are you aware of the discrepancy it raises? Do you have any comment to make on that?

Mr Veitch—Yes, we are very aware of that. I will go back to the earlier question and give you a reference. If you refer to question No. 1186, that will provide details of the expenditure and the sorts of things that we were talking about earlier. In relation to the definitional problem, yes, we are very aware of that. What we have done is to review our definitions, and we are now going to classify consultant and PSP expenditure into three categories. It is more in line with the way that the ANAO's *Better practice guide* requires reporting in this area and also it will better suit the way we manage within the organisation. We are going to divide this in future, from financial year 2003-04 onwards, into professional service providers—and they are deemed to be individuals with specialist skills contracted to fill line positions—contractors, who are people deemed to individuals or organisations contracted to deliver goods and services; and consultants, who are deemed to be organisations or individuals contracted to provide advice on an agreed subject. We have a range of subdefinitions that we are going to put into practice from 2003-04, and I think you will find that, in future, we will be able to report with much more clarity and certainty in this area.

Senator BARTLETT—In terms of overall expenditure, the white paper update that was released earlier on specifically mentioned ongoing close dialogue with the US on missile defence, particularly ballistic missile early warning. I have not been able to find any reference to a missile defence shield or ballistic missile early warning in the PBS. Are there any line items specifically set aside for those ongoing dialogues?

Mr Bennett—I think Shane Carmody, the deputy secretary, will be able to provide an answer, but most of what we have in mind for missiles are policy issues rather than any intent to spend any money on them.

Mr Carmody—No, the mention was dialogue, and that is all it is at the moment. There is no line item and there are no projects related, so there are no costs specifically set aside.

Senator BARTLETT—Does that dialogue include examining what potential costs might be if we were to go down that path?

Mr Carmody—Ultimately, when we understand what the entire missile defence proposals of the United States are, it would do; but at the moment it does not. The reason is that, at a policy level and at the international engagement level, the full scope of missile defence is not clear. The full scope of areas of possible participation is therefore not clear and so nothing has been put to government and no decisions have been made. So we are a long way short of that.

Senator BARTLETT—Do you have any rough anticipation of a time line?

Mr Carmody—I would expect during this calendar year that we would be engaging in more dialogue with the United States and, hopefully some experts, missile defence people, will be out to talk to us during the year. That might help us refine our ideas but, as I said, we are a long way short. It is not really even possible to give a ballpark idea of the scope of missile defence in any sense; nor is it possible to give any idea of what the government's commitment to it might or might not be.

Senator HOGG—I presume you are the right people to ask about one of the tables on page 52. It is about the price of output 1.2, 'Defence force military operations and exercises'. The 2002-03 projected result is \$83 million or thereabouts, yet the projected figure for 2003-04 is over double that. Is there a reason for that?

Mr Veitch—Suboutput 1.2, about Defence Force military operations, would be the area where we account for most of the current operations expenditure, including the operations we talked about earlier today: Bastille, Falconer and, ultimately, Catalyst. So typically the allowances that our ADF personnel draw while they are on operations would be recorded in military employee expenses against suboutput 1.2.

Senator HOGG—I accept that, but why are they in 2003-04, when I would imagine that the bulk of those would be paid in 2002-03?

Mr Veitch—There is an element in 02-03. In terms of the major part, bear in mind that it is the three operations and you also have to bear in mind that this was based on the spread of the costings that we were working on at the time we put the budget together. As events turned out, some of the phasings of that are different. That also includes, for example, the allowances that people are drawing in East Timor and on other operations such as Relex and—

Senator HOGG—I accept all of that. It is just that my fear—probably well-founded—is that, when we get to additional estimates, in the PAES there will be a reasonable adjustment of that to reflect what has happened in that gap between when you put the budget together and now.

Mr Veitch—Yes.

Senator HOGG—That is why I am querying it. I am not doubting your explanation. It seems to me that that will also be the case in a couple of other tables. I presume some of the expenditure that is projected into 2003-04 will actually have occurred in 2002-03.

Mr Veitch—There are some phasing difficulties, as I alluded to. We spread the budget for those operations at 644.7 over three financial years and there were certain assumptions we made concerning numbers of people and the allowances they draw. So, yes, I would expect to see some adjustment in terms of the display of the costs against suboutput 1.2. But, to go back

to what I said earlier today in terms of an overall variation on the Defence budget, based on current assumptions I think the 644.7 would still hold, give or take—

Senator CHRIS EVANS—I think Senator Hogg is just pointing to the fact that he would have thought the majority of those allowances would occur this financial year, not next, and the figure for next financial year is double this.

Mr Veitch—The key point is that there is some distortion in the numbers caused by the fact that we are absorbing the 2002-03 element of Bastille-Falconer from the bank, and the government will reimburse the bank next year, so the costs in terms of a budget presentation are shown in 2003-04 even though a fair element of them were incurred in 2002-03.

Senator CHRIS EVANS—You are paying that out of cash, are you, Mr Veitch?

Senator HOGG—Yes, you've got a bit of spare cash there. That is helpful under an accrual system! That is sleight of hand. I am not saying that nastily to you. I thought the principle of accrual accounting was that the expense was related to the year in which the expense occurred. And you are just telling me now that because of nuances in the accounting system—

Mr Bennett—I would call this a budget number. As a budget number that is how we will be budgeted for, so the costs that we have paid for will then cost the government in the subsequent year.

Mr Veitch—The other point is that it is a fairly unique circumstance because of the timing of this operation. Your point is technically correct, Senator, that you would not expect to see that sort of distortion in an ordinary year where you did not have an operation of that scale.

Senator HOGG—And that is why it is important if those distortions are there that we put the distortions down, so that when we come to do further analysis later on we are not perplexed by the distortions that are there. I am not going to drag you through each table; that was the most obvious one to me. But it will help when we get to the additional estimates if those distortions can be explained fairly clearly for us, rather than necessitating us going through a long process.

Mr Veitch—I think it is worth saying for the record that this is the first time we have displayed that information, and that has drawn a lot of praise around certain quarters in town.

Senator HOGG—I am not being critical.

Mr Veitch—No, but the point I want to emphasise—because we feel as if we have done a good job in this area—is that, in response to some of the questioning we had about a year ago, for the first time last year we tried to show the costs of the suboutputs, which we did in the PAES, and I think I gave you an undertaking to give you more information. This is our next attempt to be more transparent and provide that. This is the first time we have done it. The costs are produced through a fairly sophisticated output attribution process. As it is the first time we have done it there could be some little distortions in there. We expect it to get better in time. Certainly in the additional estimates we would be hoping to try and describe any of the major variations in those costs.

Senator HOGG—Can I then finish on the issue of the out years? Given that they are very low compared with even the projected 2002-03 result—and I know that it is very hard to

predict what might be happening there—do they hold any real credibility when they are as low as that?

Mr Veitch—You need to understand the way in which we are organised for operations. Output 1 is principally to do with COMAST and his support staff, so the ongoing budget for COMAST is about the running of the headquarters and the support that goes behind that. His recurrent budget is only relatively low. When there is a period of high operational tempo, as there is at the moment, you will find that the costs that we bear for that are attributed to these areas. That is why you will find that there is a spike in the expenditure in 2003-04 to reflect that. From 2004-05, it reduces back to what we would consider is a normal ongoing situation for COMAST, should we not be involved in any operations.

Senator HOGG—Can I make a simple suggestion to you? It would have been a lot easier if you had had an extra two lines in there which showed a normal recurrent figure and then an operations figure. That would make it very clear—

Mr Veitch—We can look to put in some footnotes or something like that.

Senator HOGG—where the additional attribution is. The only other question I had, and it has no effect on the outcome for Defence, was in relation to the write-down of assets, at page 37—we have been through this before—with a projected result of \$620 million this year and a budget estimate of \$378 million.

Mr Veitch—We are not too sure what the outcome for 2002-03 is, but you might recall that that was a fairly high figure. I think it was up around a billion dollars. If you look at the forward years, we are estimating it will only be about \$100 million. It is a bit problematic whether \$620 million is the best estimate. We had to make a reasonable assessment on that, but it reflects over time the fact that we are better at getting our asset base recorded, valued and held in our fixed asset registers. So, in time, it is part and parcel of our data quality program to understand all our assets, to have them recorded properly and to account for them in accordance with our accounting standards, so we would expect that to continue to decline. You see there that downward slope. I should add that that is an accrual cost; it is not a cash cost—

Senator HOGG—I understand that it has no impact other than on the balance sheet, in effect; I understand that totally. But it does have an impact on the way one looks at the accounts.

Mr Veitch—Yes.

Senator CHRIS EVANS—Can I ask some questions regarding property sales?

Mr Smith—I will ask Mr Scrafton and Mr Pezzullo to come to the table to take questions on that in some detail.

Senator CHRIS EVANS—I will start by asking about the general sales. Mr Veitch, I think you earlier alluded to another bonus for your cash situation coming in. Was that in relation to last year's sales or this year's sales? I did not pick you up on it at the time on the basis that I thought we would get to sales later.

Mr Veitch—It relates to this year. In terms of the sales target that Defence had for 2002-03, the progress on the sales is such that the revenue we are getting in for those property

sales exceeded the target agreed by government, and government has agreed that Defence can retain those, so I think the current estimate is about \$46 million. What we have done is to hold that in the cash receivables this year with the intention of using that money at additional estimates to fund emergent cost pressures in the Defence budget.

Senator CHRIS EVANS—There was a change last year, wasn't there, in the way Defence could withhold money from sales of Defence property? You only got your cut after Finance had taken \$650 million or \$700 million.

Mr Scafton—Prior to this year's arrangements, we got one per cent return on the budget: in the equivalent of our base budget we kept one per cent of the sales and the rest went to consolidated revenue. This year the arrangement is that we get to keep everything over the target. It is more of an incentive for us to reach the target, from government's perspective. So this year, due to a buoyant property market, we have achieved above what the original valuations for the properties were, and so we get to keep the excess, which is our share, above \$473 million.

Senator CHRIS EVANS—But your share was not based on individual properties' evaluation, was it? It was based on total sales.

Mr Scafton—It was based on the fact that, with the department of finance, we originally agreed a set of values for the list of properties that was going to be disposed of. That aggregate figure became our target—minus Russell, which as we have discussed before is a Finance property. That target became the point at which, if we achieved over that, we started to retain the proceeds.

Senator CHRIS EVANS—Maybe I misunderstood this. That was only on the basis of a set number of properties. I know you are preparing other properties for sales that may not come off.

Mr Scafton—It is an ongoing process.

Senator CHRIS EVANS—So you agree a list of properties with Finance. They then have a valuation of those.

Mr Scafton—That is correct.

Senator CHRIS EVANS—I thought the deal was—and I seem to remember a figure of \$650 million or \$700 million—

Mr Scafton—Yes, that includes the Russell office as well for total sales, but Russell was a Finance responsibility. We had responsibility for \$473 million worth of those properties.

Senator CHRIS EVANS—But, putting Russell aside for one moment, I presume not all properties listed for sale in the year are necessarily sold in that year. So that I understand how the cut works: do you get a cut of whatever you sell above the evaluation, or is there a gross figure which you have to hit before you get any money?

Mr Scafton—The way it works is that the target remains the same, irrespective of what properties we have sold. Primarily this year, because the market was very strong, within the period of doing the valuations and selling properties, with a lower number of properties we

achieved the target, so we still have an excess. The other properties that we have not sold but that were on the list for this year will roll over into next year's disposals program.

Senator CHRIS EVANS—What is the disincentive—I am sure Finance thought of this—to stop you flogging off an awful lot of properties in one year, above the target, and then keeping the remainder?

Mr Scrafton—It is a practical constraint. The effort to put these properties on the market is quite considerable from that point of view. As we have discussed before, most of our properties will put money in the bank, probably in the May-June time frame. There is a high risk in terms of actually getting the money in the bank in this financial year anyway. It is quite a conservative estimate based on a practical estimation of what is achievable. If we put a whole lot more properties in, we simply would not achieve that.

Senator CHRIS EVANS—I am still not quite clear on this. Is it a set gross value or is it a margin one? Or do you take your cut if you get above the valuation of an individual property?

Mr Scrafton—No. For this year—and the government is continuing to adjust this approach—it was the gross figure of the original identified set of properties for us, irrespective of the fact that some of those slipped into next year. We are still held to that figure.

Senator CHRIS EVANS—So you are saying to me that, despite the fact that you did not sell all the properties, you still ended up in front because of the property market?

Mr Scrafton—Yes, it was a windfall situation.

Senator CHRIS EVANS—From an answer I got on notice as to how you were going, it seemed, accepting the fact that there were going to be more sales later in the year, to be a fairly sluggish start to the year in terms of sales.

Mr Scrafton—The impression of that was created by this fact: it takes a considerable amount of time to prepare properties for sale, to engage the people who are going to sell them and to market them and then for us to actually go through the tender process. I have a small number of people who can actually do this process, so the mechanics of doing it depend on the resources I can put into it.

Mr Smith—Senator, the sales tend to take effect in the second half of the financial year.

Mr Scrafton—Yes, that is what it actually means. We will have most of our properties coming in in the second half of the year and we will overachieve. We were always confident of that, and I think I told you that last time, Senator.

Senator CHRIS EVANS—What would we now say would be realised from the sale of Defence properties in 2002-03?

Mr Scrafton—That is still not clear because there are a number of properties still on the market, Portsea being one. The tenders have just closed and so we have no idea at this stage what the market is going to ask for that. We are looking at \$40 million to \$50 million over the target, as George has just indicated, but it still will not be clear until the final properties are actually sold.

Senator CHRIS EVANS—Sure, but the \$40 million to \$50 million is over the target of?

Mr Scafton—\$473 million.

Senator CHRIS EVANS—Therefore you hope to realise somewhere between \$510 million and \$520 million this year?

Mr Scafton—At the minimum. Again, the market is variable across the country so it depends.

Senator CHRIS EVANS—I also suspect it depends on this: obviously, if you sell a highly valued property on 30 June, it makes quite a deal of difference.

Mr Scafton—We have to get the money into the bank this financial year for it to count in the sums with Finance.

Senator CHRIS EVANS—If you do not sell it by 30 June, Finance get another crack at it from July 1?

Mr Scafton—It becomes George's problem. I just sell.

Senator CHRIS EVANS—Mr Smith is taking a keen interest in the issues too, I suspect.

Mr Scafton—We are currently working out the arrangements of what will happen in dealing with the properties that fall out of this year's program and into next year's program.

Senator CHRIS EVANS—Let us be honest: as I understand it, a lot of properties in this year's program fell out of last year's program and the year before's. There has been quite a deal of slippage on some of the announcements.

Mr Scafton—That is correct. Our record of achieving the government's target has not been good up until this year.

Senator CHRIS EVANS—So how many of the properties agreed to be sold this year do you think have been or will be sold?

Mr Scafton—I will ask Mr Pezzullo to answer that question as he has the details.

Mr Pezzullo—At this stage we are looking to roll over approximately a dozen properties out of a list of 42. Therefore by 30 June, on current market settlement projections, we would be looking to close out on about 30 properties. Just to add a little bit more precision to the answer to your previous question, at the time of the budget papers being locked down, as Mr Scafton has indicated, at page 134 of the PBS we were looking at approximately \$520 million coming in in revenue. We are still looking pretty healthy for that as we still have a couple of weeks to go. I will take you to table 3.4 on page 121. The government's so-called capital withdrawal, which is the formal accounting classification for the amount to be paid to consolidated revenue, is, as stated previously, \$473 million. So, as Mr Veitch indicated earlier, you take those two figures together and that means that there is \$46 million ahead of that projected at the time of the lock-down of the budget.

Senator CHRIS EVANS—What are the proposed changes for next year? I think that when I last asked, as of 7 March 2003, you had \$180,000 in. I have got to be careful what I say as I am sure the real estate developers are listening to this. But it seems to me that there is a lot pressure on you to sell towards the end of the year and that must obviously affect the market and those sorts of things. It did not seem to be a very sensible arrangement to have that sort of pressure on about sales. What is proposed for next year?

Mr Scafton—I will address the first part of that first. Obviously the Defence properties are all across Australia so we actually sell into a whole range of different market segments. But we also sell a whole range of different characteristic properties—for example, DNSDC at Moorebank was very much an industrial site, and sale and lease-back related to the DIDS project. They had completely different characteristics selling into a different market from the Portsea sale or from Randwick, which is inner-city Sydney. So we sell into a range of different markets and we do not actually affect the market that dramatically by realising at the end of the year.

Senator CHRIS EVANS—I was alluding more to the fact that they know you want the money by the end of the year and that that might affect their behaviour.

Mr Scafton—The desirability of some of our properties affect their behaviour more strongly, I think. Yes, we did only have a small amount of money in the bank last time. Currently I think we have got—and I am not quite sure—

Mr Pezzullo—With a couple of weeks to go we are tracking pretty well for the \$520 million target. I do not want to be particular about that because some of the settlements may slip past midnight on 30 June, but we are tracking to that \$520 million target very well.

Mr Scafton—It is tight and it is always a flurry at the end of the year to try to close the deals.

Senator CHRIS EVANS—Mr Scafton, were you going to tell us what is proposed for next year?

Mr Scafton—We have a similar set of arrangements but we have a number of different categories of properties. There is a baseline set of properties that flow out of the DRP, which were programmed as redundant excess properties worth about \$90 million. There are some other properties which we have identified since that time and there are properties which have flowed across from this year's set of properties. It means that somewhere around \$200 million is the target for next year. How we will treat the distribution of the receipts on that is still something that we are negotiating with the department of finance for the final details.

Senator CHRIS EVANS—So you envisage having a much less ambitious target next year?

Mr Scafton—Yes. We are starting to run to the tail end of the number of properties that were identified as redundant in the DRP exercise.

Senator CHRIS EVANS—Is there any other ongoing process that might be generating other properties?

Mr Scafton—Some of these properties are long-term processes. Randwick, for example, is a project which will be sold in phases over a number of years, so that will continue to provide a stream of revenue.

Senator HOGG—What stage is that at? Are there any legal problems still or are they all behind you?

Mr Scafton—We think they are all behind us now. We think we are in a situation where we are prepared to go forward. We have come to an agreement with the council. We are about

to deliver some community facilities there, which is part of the agreement we have. We are confident that we are back on track with Randwick.

Senator HOGG—Ermington?

Mr Pezzullo—Ermington is also a multistage sale. Two of those stages will be achieved, we think, in 2003-04. We have done most of the legwork for one of those—

Senator HOGG—So the remediation has been completed there?

Mr Pezzullo—I would not say completed, but the necessary work required to sell both of those early stages is well in place and they are being programmed for 2003-04 in the program that Mr Scrafton just described for next year.

Mr Scrafton—And we have some properties which are still problematic—Neutral Bay and *Waterhen* in Sydney, which we are in negotiations with the council over. There are other properties that we can identify and we have to identify the year we are going to sell them in. There are still some properties coming down the track. We are looking at the overall efficiency of the estate in general and there may be some further redundancies that have come out of that process. We are just starting that at the moment.

Senator CHRIS EVANS—What is the process for deciding whether you sell or gift the land?

Mr Scrafton—Defence has no capacity to gift the land. The finance minister has the delegation to gift land. Generally that will be on the basis of us looking at a range of social and community factors that we then advise the parliamentary secretary on. If she thinks it should be gifted then we have to make a submission through the department of finance.

Senator CHRIS EVANS—The legwork or the consideration occurs inside Defence?

Mr Scrafton—That is right because it is our property. It is a question of whether we can use it and we are best placed to negotiate with community groups. We are on the ground.

Senator CHRIS EVANS—I am not using anything as a particular example but clearly there is often a demand for the land to be public open space—parkland or nature reserve et cetera—when no doubt there is always, except in a very few circumstances, a commercial value to the department. I am trying to understand how you determine whether you go for the commercial value or accede to broader community desire for the land to be used for other purposes.

Mr Scrafton—That would be a complex question which would involve the particulars of the case. It would be done on advice to the parliamentary secretary. In the end it would be a government decision as to whether the value was returned or whether it was gifted or whatever.

Senator CHRIS EVANS—When you find a property that comes to your attention as being surplus to requirements, do you get an in principle decision about whether we are going to sell it or gift it or do you—

Mr Scrafton—In general we would plan to sell. If there was then an approach to us or a submission to the minister for some other way of disposing of it then we would look at it. We would look at the merits of the decision and provide the facts to the minister for decision.

Senator CHRIS EVANS—When was the decision taken not to proceed with the sale of Russell? Was that taken by Finance?

Mr Scrafton—It was a government decision.

Mr Smith—It was a decision taken by government in the course of preparing for this year's budget.

Senator CHRIS EVANS—Does that mean cabinet?

Senator Hill—Yes, government as a whole.

Senator HOGG—Is that your decision, Minister, or are you saying it is broader than that?

Senator Hill—No, it is a whole of government decision.

Senator CHRIS EVANS—However identified.

Senator Hill—I beg your pardon?

Senator CHRIS EVANS—I was just trying to understand whether it was a cabinet decision or whether it was made in the context of the budget by the Treasurer or the finance minister or—?

Senator Hill—The finance minister has been involved in the process; so have the Treasurer, the Prime Minister and I. Government has made a decision.

Senator CHRIS EVANS—What was the reason for the decision not to proceed with the sale of Russell?

Senator Hill—Primarily that, on reflection and taking into account a range of different matters, it was not in the best financial interests of the Commonwealth.

Senator HOGG—That is in spite of earlier evidence that I think was presented to the committee to the contrary.

Senator Hill—That is correct.

Mr Scrafton—If I might just clarify, the finance minister has made it clear that one of the factors was accounting standards: whether this would be treated as an operating or finance lease. He is on the public record on that. He is also on the public record saying that national security concerns were an issue. So there were a range of factors in the government's decision, as announced publicly.

Senator CHRIS EVANS—But we have been reassured that there were no national security concerns. Surely the department of finance are not more concerned about it than you guys?

Mr Scrafton—Last time we discussed physical security.

Senator HOGG—I think we are always batting for you; I do not think you have to worry about that.

Senator CHRIS EVANS—What sort of advice did you receive about the lease issues? I gather this is the sole, same difficulty about whether it is an operating lease, is it? Was that advice provided to Defence? By whom?

Mr Bennett—Defence were asked to form an opinion of what they thought the type of lease was. That is something we also worked on pretty hard with ANAO, to make sure we understood what their view would be as well. It is very difficult to actually form an absolute final opinion until you have all the sale documents in front of you. It is fair to say that—this sounds like an economist—we and ANAO formed slightly different views, but it is important to understand that all the issues we were debating would have been able to be solved by looking at the final sale documents. On balance, we could see that it could be classified as an operating lease. However, ANAO saw that it could be classified as a finance lease. Again, I stress that the differences were pretty marginal in this whole thing.

It gets down to whether in 20 years time it would be the intent of Defence to stay within the Russell precinct or whether you would expect reasonably that Defence could move elsewhere. The argument goes that Defence had no reason to believe that they would stay in Russell. ANAO say, based on historical use of that precinct, it is unlikely that Defence would leave Russell. I can take you through the joys of AAS 17 and the form and substance, but that fundamentally is the balancing issue.

Senator CHRIS EVANS—It is very similar to the debate we had about the patrol boats.

Mr Bennett—In that case, it is probably an issue of risk transfer and things like that and whether you would see that there is a proper risk transfer for something that is a military asset. It is a different line of argument. But it gets down to the same sorts of issues of whether there has been a true transfer of the asset, a true transfer of risk and those sorts of things.

Senator CHRIS EVANS—What is the arrangement with the Campbell Park offices?

Mr Bennett—You do not have the issue of them being in the parliamentary triangle, you do not have the issue of the historic links between Defence and this building, and you do not have security issues et cetera. Campbell Park is pretty much an administrative office space.

Senator CHRIS EVANS—And it lacks the specialist security arrangements that Russell—

Mr Bennett—The relationships, the use and things like that, yes.

Senator CHRIS EVANS—So how is the lease for Campbell Park described? Is it an operating or a finance lease?

Mr Veitch—It is an operating lease.

Senator CHRIS EVANS—What was the cost of preparing Russell for sale?

Mr Scrafton—You would have to ask the department of finance. They were responsible for the sale.

Senator CHRIS EVANS—What were the costs to Defence?

Mr Scrafton—I would have to take that on notice.

Senator CHRIS EVANS—They were the ones managing the sale. I gather there were costs for Defence as well, weren't there?

Mr Scrafton—We had to prepare a security assessment and some due diligence works, so there probably was a cost to us. It would not have been major.

Mr Smith—It would have been pretty well all staff costs.

Mr Scafton—But it would have been spread across a couple of parts of Defence.

Mr Veitch—I seem to recall that a figure of something like \$3.5 million might have been in the finance budget for it, but that has been returned to government. You could clarify that point in estimates with Finance.

Senator CHRIS EVANS—You think it might have been returned to government?

Mr Veitch—I think it was, yes.

Senator CHRIS EVANS—I will follow that up with Finance. Are any of the other properties listed for sale subject to this debate about whether or not satisfactory leasing arrangements can be made?

Mr Bennett—I would have to double check but I think the primary argument gets down to value for money and the impact, and it was just that there were a few complicating factors given the value of the Russell precinct.

Senator CHRIS EVANS—Is this an issue with the new headquarters at Bungendore?

Mr Bennett—Again, I would have to check on the details of the situation for private financing.

Senator Hill—It is an issue with the new headquarters, since one of the issues we are considering is private financing and one of the aspects of that will be the accounting treatment, but no decisions have been made in that regard.

Senator CHRIS EVANS—In terms of how the Bungendore development is financed?

Senator Hill—Correct.

Senator CHRIS EVANS—But is the issue there one that goes to this question of lease, like in Russell, or is it this transference of risk argument?

Senator Hill—It is a similar sort of argument, as to whether it would have any other uses, I understand—real uses.

Mr Bennett—There is primarily a value for money argument. You can pursue a finance lease as long as there is clear demonstrable value for money. I just think there is a somewhat greater degree of difficulty if it is a finance lease versus an operating lease.

Senator CHRIS EVANS—And the question about who else would want to build out at Bungendore, I suppose. Being a marginal seat does not usually affect other commercial purchases of office space. So the question of any costs associated with the sale would be a question for Finance. Mr Scafton, I want to ask a few questions about the Point Nepean sale. Could you give me an update of where that is at?

Mr Scafton—We went out seeking expressions of interest from interested parties. That tender closed on Tuesday. The expressions of interest are currently being looked at to short-list people for the final tender process.

Senator CHRIS EVANS—Explain to me how that works in terms of expressions of interest and how that then leads to tender.

Mr Scafton—I might ask Mr Pezzullo, whose people are managing that.

Mr Pezzullo—I will just go back a step to clarify the three different portions of land that are now in question, because occasionally confusion does arise. On 12 March the government announced that 205 hectares of native bushland to the south of a feature known as Defence Road would be transferred to the state government for the purposes of being incorporated into the Point Nepean National Park, I believe it is called. A further 10 to 20 hectares of land over in the eastern portion, near Police Point, would be transferred in perpetuity to the Mornington Peninsula council for use as public open space. That land has since been surveyed and discussions are under way with the council. Thirdly, the government initially announced that approximately 90 hectares of the site was going to be offered to the state government through a priority sale process at market value. The state government subsequently advised that they did not wish to pursue that course. That 90-hectare portion was placed on the open market through a two-stage process.

The expression of interest that was just mentioned was opened on 19 April and closed at 2 p.m. on 2 June. That is now going through a tender evaluation in that initial phase. That will be followed by a second phase—I will come back and talk in a moment about the first phase. It will be followed by a formal RFT—request for tender—process, whereby the short-listed parties will be asked to put in a final tender offer. The EOI process is to vet submissions to ensure that they conform with the conditions set out in the request for the EOI. There are a series of criteria that were issued to the parties and they put their submissions in on Monday, closing at 2 p.m. Amongst the conditions that will be evaluated is the price. But, as the parliamentary secretary has stated on the record, there are other determinants connected with their conformance with certain heritage criteria and also with a no new residential development criterion that they will be required to agree to as part of the contract of sale.

Senator CHRIS EVANS—What does that mean?

Mr Pezzullo—That means that they will legally obligate themselves to not seek a residential subdivision to create new residential allotments, thereby preventing further residential development on the site. On the heritage side, it means that they will bind themselves legally as part of the contract to act in conformity with a conservation management plan and also any revised plan subsequently brought down by the government of Victoria through Heritage Victoria. In addition to that, the parliamentary secretary has announced another layer of scrutiny, as it were, whereby the Australian Heritage Commission will review the tenders that have been received through the EOI process to ensure, as an extra check, their compliance with heritage and environmental protection measures.

Senator HOGG—Can they develop on the site? Are they able to develop on the site at all?

Mr Pezzullo—That will be a matter for the purchaser and the relevant authorities. Given that under the Constitution there is no Commonwealth planning authority applicable at the moment, the moment the title is transferred they will have legally committed themselves to not do certain things. Beyond that what they are actually going to do is ultimately a matter, once it is in private ownership, between them, the state planning authority—which is the government of Victoria—and the applicable local council regulation and rules.

Senator CHRIS EVANS—Who enforces the no new residential subdivision if the Commonwealth is no longer a party?

Mr Pezzullo—They will have a legal contract with the Commonwealth. It would be open to the Commonwealth to intervene itself or to inject itself legally, should it ever decide to. But it has to be stressed that the primary planning enforcement would fall to the state of Victoria and the applicable local council.

Senator CHRIS EVANS—But the planning function is obviously a state responsibility—and that is fine—but they are not bound by the no residential subdivision deal, are they? They are not a party to that arrangement.

Mr Pezzullo—They would not be party to that contract; that is true.

Senator CHRIS EVANS—I do not want to go down this path too far but, if they could talk the planning people into it and get approval for something, the only barrier to a residential subdivision would be the legal power the Commonwealth has to take action against them by virtue of their agreement.

Mr Pezzullo—That is a hypothetical scenario. Factually it is true to say that the state government and the applicable council would not be party to any contract between the Commonwealth and the private purchaser, whoever that might end up ultimately being. That is true.

Senator Hill—Are you suggesting that the state would facilitate them breaching the agreement with the Commonwealth and proceeding to residential development?

Senator CHRIS EVANS—I am really just trying to work through in my own mind what that means in effect. Governments change, local councils change. The planning function was a state government—

Senator Hill—It could of course be done in cooperation with the Victorian government and the council—the council is a beneficiary of the process as well—to produce an outcome which is closer to what you are actually seeking.

Senator CHRIS EVANS—I am not actually seeking anything; I am just trying to understand what those conditions mean.

Senator Hill—The implication in your question was, ‘How can you be certain they will not breach your agreement and progress to residential development?’

Senator CHRIS EVANS—It is just so I am clear. There is no implication in the question. I am really trying to understand what the Commonwealth’s no residential subdivision clause means and how that is enforced. That is by legal action by the Commonwealth against the new owner by virtue of their agreement—is that right?

Mr Scrafton—This becomes a condition of their ownership, the contract of sale. If they were to breach that condition, potentially they could put their ownership of the property at risk. There would be a huge risk in that for somebody who wanted to try to circumvent the conditions on which properties were sold. I think there is a huge constraint in there.

Senator HOGG—Is there a way of circumventing it by the successful tenderer then on-selling? You cannot apply the conditions that you put on the successful tenderer to anyone that they may well on-sell to—or is there some arrangement within the tender process that says that they are not able to on-sell?

Mr Pezzullo—It would be highly problematic just at common law to attempt to enforce those conditions on to a third party through an on-sale. Given the absence of the Commonwealth's constitutional capacity to enforce it down the track, the best the Commonwealth can put in place, as the minister alluded to, is an agreement with the primary party who purchases it. But note, as I stated in my earlier answer, that literally the second the title is transferred the jurisdiction flips over to the government of Victoria and the applicable council powers.

Senator HOGG—So the council could zone that land in such a way, commensurate with the terms under which it was sold by the Commonwealth, to ensure that if it were on-sold it would not be used for any other purpose. Is that possible?

Mr Pezzullo—As the minister just indicated, the council, in particular, and the state government have got various powers that, if they want to, if you like, concrete in the Commonwealth conditions so that you have the three layers of government all in alignment, you would secure that outcome more readily. That is true, Senator.

Senator CHRIS EVANS—I did not really want to go down that track too far. I just wanted to be clear in my own mind how that worked. Who took the decision to dispose of the land in these three different ways and what is the logic that underpins that?

Mr Scrafton—It was taken by the parliamentary secretary based on an extensive community consultation process where the interests of the community, the local shire and state government were all taken into account. What was considered by the parliamentary secretary to be an equitable meeting of each of the parties' legitimate interests in this was: open land for the public, some land sold for a return to the Commonwealth for revenue and, the significant part, the return of national park to the state government. It was basically a decision trying to meet optimally as many interests as possible.

Senator CHRIS EVANS—Have you got a valuation on the 90 hectares?

Mr Scrafton—That is commercial-in-confidence. We do have a valuation but we are in a tender process at the moment, so it would not be appropriate—

Senator CHRIS EVANS—I did not ask you what the valuation was.

Mr Scrafton—No.

Senator CHRIS EVANS—Given certain other sales, do you intend to meet that valuation or are you prepared to sell under the valuation?

Mr Scrafton—Yes, we would be prepared to sell under the valuation, depending on how much under the valuation it was and whether we still thought there was value for money. There are judgments in that. Valuations are always made in the absence of market information. The real value of a property is what people are prepared to pay for it.

Senator CHRIS EVANS—At a particular point in time.

Mr Scrafton—Yes.

Senator CHRIS EVANS—It seems that one of the judgments that has to be made is whether—and in terms of Point Nepean I have no idea who it is going to be—at that particular time people in the market are looking for that sort of property.

Mr Scafton—That is true, but those judgments are also made in a budget context with an expectation of return to the Commonwealth budget. So there are some constraints on your time.

Senator CHRIS EVANS—Are you able to tell us how many expressions of interest you got at the closing point?

Mr Scafton—I think it is probably not appropriate to talk about that. In fact, I am not actually sure because the tenders are actually being opened and looked at by the tender evaluation board as we speak.

Senator CHRIS EVANS—I thought you were only at the expressions of interest stage.

Mr Scafton—The first stage in this tender process is the expressions of interest. The expressions of interest are being opened and examined this afternoon. I do not know how many were in the tender box, so I cannot answer that question.

Senator CHRIS EVANS—How then do you move from the first stage to the second stage?

Mr Scafton—A tender evaluation board, which has been identified, will look at the expressions of interest against the criteria that Mr Pezzullo mentioned in terms of preparedness to comply with the conditions and the financial viability of the people who have put the bids together. Those who are deemed by the evaluation board to be the appropriate legitimate contestors for this will be put together on a short list. That will then be put to the delegate for a decision as to whether they agree with that. Then those tenderers will be invited to respond to an RFT.

Senator CHRIS EVANS—Who is the delegate?

Mr Scafton—In this case it will be the minister.

Senator CHRIS EVANS—The Minister for Defence and not the parliamentary secretary?

Mr Scafton—No, it will be the minister.

Senator CHRIS EVANS—Are the successful short-listed tenderers able to change their tender from the first stage to the second?

Mr Pezzullo—Yes, Senator, in a two-stage process you have an RFT issued, which is a request for tender. That might ask for more detailed or more forensic information from them. In that light, they would be able embellish or add to their expression of interest.

Senator CHRIS EVANS—For instance, are they able to change the price?

Mr Pezzullo—Legally that would be permissible.

Senator CHRIS EVANS—So once you are on the short list you get a second bite at it, in a sense, if you want to alter your proposal?

Mr Scafton—That is right.

Mr Pezzullo—I think it is fair to say that the government would take a fairly dim view of a downward revision of price, but they would certainly be welcome to put in an upward revision of price—just to state the obvious.

Senator CHRIS EVANS—Whether you take a dim view or not, if they figure it out they are not going to pay that much! The point is that they can change the bid. I am just trying to understand how it works.

Mr Scrafton—It becomes a formal bid at that point, so they have to be firm about what they are offering.

Senator CHRIS EVANS—Is that second stage then legally binding?

Mr Pezzullo—Yes, it is.

Senator CHRIS EVANS—Who is managing the sale for you?

Mr Pezzullo—There is a project consultant who works for my property disposal task force—Parsons Brinckerhoff—and they have a series of subcontracted specialists who are managers, marketing agents, environmental agents, heritage experts et cetera.

Senator CHRIS EVANS—But they have primary responsibility for the marketing of this?

Mr Pezzullo—They are directly contracted to the relevant area in the department that I manage, yes.

Senator CHRIS EVANS—Have they subcontracted the sale process?

Mr Pezzullo—The actual marketing process has been contracted to Colliers International, which is a large real estate type company.

Senator CHRIS EVANS—Do you have a relationship directly with Colliers?

Mr Pezzullo—In a staffing sense we do. Our people work constantly together. But in a contractual sense it is managed through an overarching process.

Senator CHRIS EVANS—Is the contract you have for the disposal of a number of properties or just for Point Nepean?

Mr Pezzullo—No. In this case the contract only relates to the Point Nepean property.

Senator CHRIS EVANS—What was the name of the company again?

Mr Pezzullo—Parsons Brinckerhoff. I will get back to you the precise spelling of the second name.

Senator CHRIS EVANS—It is more important to get back to Hansard on that, I suspect.

Mr Pezzullo—I will get back to Hansard, Senator.

Senator CHRIS EVANS—Just take us back a step. Regarding the other two parcels of land, I think you said the Mornington Council land area had been surveyed and that things were progressing. I assume that means it has not yet been transferred to them in terms of title.

Mr Pezzullo—No, it has not.

Senator CHRIS EVANS—And what about the 205 hectares to the state government?

Mr Pezzullo—We are in the very early stages of discussions with the government of Victoria about that.

Senator CHRIS EVANS—What are you discussing?

Mr Pezzullo—My understanding is that the government of Victoria has indicated at officials level that they agree in principle to the transfer of the non-commercial portion—the national park portion that I mentioned earlier—but we have not gotten down to the detailed negotiations about when, where, how, who, the nature of the title documents et cetera.

CHAIR—Senator Evans, Senator Allison has to attend another committee shortly. She has just a few questions to ask. Do you mind if she comes in briefly?

Senator CHRIS EVANS—Yes, join in by all means.

Senator ALLISON—There was a \$100 charge from Colliers for documents relating to the expression of interest. Can you explain why that is necessary?

Mr Pezzullo—In terms of the registration process for the expression of interest documentation, it is not unusual procedure to seek a fee and to seek registration of all the entities that seek the documentation. A fee of \$100 is not particularly abnormal or atypical in the context of people registering to receive such documentation.

Senator ALLISON—What is this expected to cover? Does this go to the agent or to the government? How does it work?

Mr Pezzullo—The money is returned to the Commonwealth under the contract, as I recall the detail of it. Essentially, it is a charge put in place, I think it is fair to say, to establish bona fides.

Senator ALLISON—Was the requirement to sign the confidentiality undertaking also part of the normal process?

Mr Pezzullo—In all the tenders in the disposal sphere I think it is fair to say that in most Commonwealth procurement activities you bind tenderers to confidentiality. I would certainly concede that in the case of Point Nepean there is a lot of information contained in the documentation. It is already on the public record because it has been the subject of a very extensive committee of consultation process that reached a crescendo over summer. But in a normal course you require tenderers to sign up to confidentiality.

You do so for a number of reasons and I will explain those very briefly. Firstly, it is so that you have a definitive set of entities that have received the same documentation and any variations to such documentation are issued to only that same set of entities. In that way from the point of view of procedural fairness, everyone has the same documents.

Secondly, it also creates a channel whereby confidential diligence information can be provided to the market—namely, you can disclose information that might be otherwise commercially sensitive. In the case of some properties you might divulge to the market communications details, for instance, that you would not necessarily want to have published. Thirdly, there is another reason underpinning confidentiality normally and that is to prevent the tenderers from either colluding or, in some cases, attempting to intimidate other tenderers out of the field.

Senator ALLISON—How does it guarantee that?

Mr Pezzullo—By creating confidentiality relationships they have a bilateral relationship with the Commonwealth. They are required not to disclose information to any other party or

to discuss it with any other party and, if they seek clarification about any elements of the property being put on the market, they have a requirement to come back to the Commonwealth to seek clarification. Essentially, you are setting up a bilateral relationship with them.

Senator ALLISON—Minister, why was it not possible for the documents to be made available to the Senate when a return to order was agreed a couple of weeks ago?

Senator Hill—Because you did not give me sufficient time to consider all the issues involved.

Senator ALLISON—What issues were involved?

Senator Hill—The issues of whether the whole or parts of the document should be exempted under long established principles.

Senator ALLISON—So these documents are available to anyone who pays \$100 but not available to the Senate? Is that what you are saying?

Senator Hill—No, they are available to somebody who signed a confidentiality agreement. I gather your interests signed one but they now want to use the information and therefore you decided to use the tool of the Senate to achieve your political objectives.

Senator ALLISON—I thought it should be open and accountable and that people who could not afford \$100 should be entitled to see what was being told to submitters. You do not agree with it, obviously.

Senator Hill—We all agree with transparency and accountability.

Senator ALLISON—In some circumstances.

Senator Hill—We are subject to it every day of our lives.

Senator ALLISON—On the subject of the question of the no residential subdivision that Senator Evans has canvassed: in your answer to my question on the subject you said that the government would stand by its commitment to restrict subdivision for new residential development. What is meant by ‘restrict subdivision’ and what is meant by ‘new residential development’? For instance, restrict might mean half as much as one would otherwise allow. Is it restricted in the sense of having none?

Mr Pezzullo—I can clarify that by going to the contract of sale condition that we have asked the tenderers to agree to. The condition is that they agree that they will not subdivide the premises to create allotments for private residential development subject only to the following condition: that this would not prevent subdivision of the premises to create allotments for dwellings and other buildings that exist on the premises as at the day of sale—in other words, if there is a residential use already in place, legally known as a ‘residential use right’. Nor would it prevent the subdivision of the premises to create allotments for a hotel, conference or education facility and a whole range of other non-residential developments such as tourist projects, heritage precincts, et cetera.

Senator ALLISON—If I can pursue that for a moment. There are something like 70 buildings on the site one way or the other. Not all of them are covered by heritage restrictions?

Mr Pezzullo—I would have to check that. Certainly a large number would be. There may be a number that have no residual or redeeming heritage value that may not be covered. But certainly a very large number of the buildings you have indicated would have heritage protection.

Senator ALLISON—Is it a fair interpretation to say that it would be possible to demolish those structures which do not have heritage protection and build residential development on those sites, on the footprints, as it were?

Mr Pezzullo—There are a couple of parts to this answer. The first part goes back to what I said to Senators Hogg and Evans regarding the planning powers that would apply at the time. At the moment the title transfers to—

Senator ALLISON—No. I am trying to understand what the Commonwealth will allow and therefore what is presumably in this contract of sale. I will come to the question of the state government shortly.

Mr Pezzullo—You are asking the question: would it be possible to do X? Certainly that will not be possible until someone actually owns the site. The moment they own the site it will not be Commonwealth land—

Senator ALLISON—I think that is understood as well.

Mr Pezzullo—If we start with that as a common premise, you asked me a hypothetical question: so long as it is not protected by heritage, so long as it has existing residential use rights and it does not involve the creation of a new residential subdivision—because that would be prohibited under the contract of sale that they have signed up to—would it be possible for them to residentially develop that particular portion? The answer is yes, as long as it met all those conditions I have just stated.

Senator ALLISON—In terms of the boundary around such potential sites for redevelopment for residential, does it extend beyond the building line? I am not sure what the map of the area looks like with regard to what you regard as a site.

Mr Pezzullo—An allotment in land planning purposes is what you and I would understand in terms of the zoning of the subdivision of our own houses. There would be a precisely surveyed boundary around each of these allotments. Conventionally that would consist of a house, a garden, a fence line, a back shed or whatever. For land planning legal purposes, that is an allotment.

Senator ALLISON—As I understand it, a number of these are fairly big. Some are quite small but a number are fairly big. If the building had no heritage value—and I gather some have not, so we are not talking hypotheticals—it could be demolished and if the state government imposed no height restrictions you could have a tower of some sort or 100 units or apartments?

Mr Pezzullo—If there was no Commonwealth enforced heritage protection of the conservation management plan that they have agreed to be bound by, if Heritage Victoria on behalf of the state of Victoria did not cover it with heritage protection—

Senator ALLISON—We are already talking about a site which does not have heritage value.

Mr Pezzullo—If it does not have those heritage protections, and it does not involve the creation of a new allotment and the state does not choose to use a planning instrument to prevent it and the council does not use a height restriction tool to prevent height development, the answer to your hypothetical question can only be yes, they could develop according to whatever unfettered capacity the state and the council gave them.

Senator ALLISON—So this calls into question the Commonwealth's commitment to no new residential development, I would have thought.

Mr Pezzullo—The no residential development is as stated in the documents. You cannot create a subdivision for a new allotment.

Senator ALLISON—But you do not need a subdivision, do you? If you are putting up a multistorey residential building, you do not need to subdivide in order to do that.

Mr Pezzullo—If the existing allotments that are currently there and hold residential use rights are too small to support a skyscraper, for instance, then I guess you could not build a skyscraper.

Senator ALLISON—Yes, but that is not a restriction that the Commonwealth is imposing. That would be more to do with the size of sites.

Mr Pezzullo—You will run into engineering constraints of that nature.

Senator ALLISON—Precisely, but there are some sites that are large in size.

Mr Pezzullo—Largish.

Senator ALLISON—Minister, was it your understanding as well that pre-existing sites could well support multistorey or even high-rise developments without the Commonwealth refusing such applications?

Senator Hill—I am not sure that I have reflected in detail on that particular issue.

Senator ALLISON—It is central to this question of whether the Commonwealth is fair dinkum in its claim that there is no residential subdivision.

Senator Hill—I have not personally had the governance of this issue.

Senator ALLISON—You did answer my question on the subject which went to this point.

Senator Hill—I answered your questions that were attacking me for not tabling various materials.

Senator ALLISON—If they had been available, I might not have had to ask so many questions today.

Senator Hill—I doubt that! I have also signed off on several more answers to questions on notice on this subject for your benefit in the last few days.

Senator ALLISON—Thanks. What about pre-existing or older forms of subdivision on the site? Will they in some sense be allowed to be used? If so, how would that be handled?

Mr Pezzullo—As a condition that I described earlier provides for, a successful purchaser is not binding themselves to create new subdivisions with the council in relation to buildings

that might have been used for, say, immigration quarantine purposes or for Army training purposes.

Senator ALLISON—I guess I am not talking about new ones. If you have existing or old—

Mr Pezzullo—Understood. But because they would currently be zoned as ‘Defence special use’ or ‘Defence purpose use’, which is a generic Commonwealth zoning that councils recognise as, if you like, essentially a colour on a map, it would be open to the purchaser and the council—and the state government if relevant state planning instruments were applicable—to design the subdivisions that suited the future development of the site, given that, as I said earlier, jurisdictionally that would all be in the province of the state and the council to control. For instance, in the case of a building that was used pre the Army training function down there—there was, as you would well know, an immigration quarantine function—I doubt very much that anyone is going to want to use those machines for that purpose. They would have a whole lot of heritage protections attached to them, but then how you then subdivided and zoned and then ultimately used that building for a conference facility, a tourist facility or a heritage museum type precinct would be a matter between the purchaser, the council and the state government of Victoria.

Senator ALLISON—In terms of existing buildings which may or may not be demolished and the areas surrounding them—we talked earlier about fences, boundaries, gardens and so forth—is there any prohibition from the Commonwealth’s point of view in subdivision of those? For instance, there might be plenty of space to put 20 units around an existing building. Would the Commonwealth’s restrictions preclude such an arrangement?

Mr Pezzullo—It would not preclude it if it related to a dwelling or other building which existed on the premises as at the day of sale.

Senator ALLISON—What do you mean by ‘relate’? Say we are talking here about a decent sized garden and you subdivide that property within the boundary and create a site for six new houses.

Mr Pezzullo—Whether it was six new houses or one new house that would be purely a matter between the purchaser, the council and the state government if a state planning instrument was applicable. But all those hypothetical activities that you are talking about can only take place on the limited number of dwellings and other buildings which would exist on the premises on the day of sale—in other words, the instant the title transferred—that have got a residential use attached to them.

Senator ALLISON—I understand that. By the way, for those that do not have a residential use—and there would be a number in this category—they then become subject to the state planning laws.

Mr Pezzullo—The whole property is subject to a state planning and council zoning.

Senator ALLISON—What if the council comes in and rezones the entire site as park?

Mr Pezzullo—The purchaser would have an economic interest, obviously, and a legal interest generated. Therefore, I would presume—I cannot speak as a lawyer but I will chance my arm to this extent—that they would have some cause of injury against the council, having

purchased it on a particular basis. But that would be a matter that the Commonwealth, unless it was somehow joined in, would not have a direct interest in.

Senator ALLISON—Isn't that the case regardless of state planning laws? If the successful tenderer for this site puts in a 40-storey hotel tower, a proposal to demolish a whole range of things that do not affect the heritage, the Commonwealth agree and then off they go with the revenue from the sale, what is to stop the successful bidder then taking the state government to court when they say, 'No, any development here must be single storey,' or, 'We will not allow subdivision of sites that are smaller than X'?

Mr Pezzullo—In answering the question, I need to clarify your premise. In the request for expressions of interest—and I dare say this will be reflected in the request for tender as well—the Commonwealth is not actually calling for the specific nature of the proposal and in a sense having to validate, to use your description, a 40-storey facility of some nature. In other words, a purchaser is not entering into a contract with the Commonwealth on a particular architectural or engineering concept. They are binding themselves to certain conditions, which we have discussed at some length, in relation to heritage, residential use and conformance with conditions of the contract. What they then do in an architectural, engineering and construction sense becomes a matter for the state and council approval processes. So, at that point, they do not really have a right of action—to extend the logic of your hypothetical—against the council because there is nothing that the council is actually stopping at that point. It would be the subject of a normal development approval process that every commercial and residential development application around Australia goes through.

Senator ALLISON—I want to try and get this straight because it is critical to understand what is possible and the kind of legal difficulty that might arise, given the antagonism of the state government towards the sale in the first place and the anxiety locally about development of this site. We need to be clear about what is likely to happen. If someone was proposing a 40-storey hotel tower, or let's make it a 10-storey tower just to be a bit more realistic, are you suggesting that in this four-stage process—

Mr Pezzullo—Two stages.

Senator ALLISON—I counted up at least four. Anyway, there is finally the request for tender process, and presumably the tenders then come in. Are you suggesting the Commonwealth is not interested in the form of development in that tender process? It will not be asking: what do you propose to do with this site?

Mr Pezzullo—I would not use the phrase that the Commonwealth would not be interested. The Commonwealth, after extensive community consultation commissioned at the direction of the parliamentary secretary—and she has made extensive public comment on this matter—produced a draft master plan for the site in conjunction with various planning and community reference groups. That draft master plan expresses a lot of sympathy for low-impact development outcomes. And there was an expression there of the community's desire for no further residential development.

Personally—and I can only speak personally because we are in a highly hypothetical area here—I certainly cannot see how a 40-storey hotel would be in any way in conformity with the sympathies of that master plan. I do not know about a 10-storey hotel. In a sense, it is not

for an individual officer to make a judgment about that. We are asking the tenderers, both in phase 1, which is the expression of interest, and then in phase 2, which is the request for the final tender, to agree to be bound to certain conditions. Those conditions themselves, though, derive from the draft master plan that was developed in sympathetic contact with the community groups we worked with. That is reflected in the residential prohibitions we talked about and the heritage preservation conditions—the additional layers being any subsequent rulings made by Heritage Victoria being applicable, as well as them contractually signing themselves up to the conservation management plan. I am not sure that small sized skyscrapers could ever be said to meet those conditions.

Senator ALLISON—Forgive me for not having seen the documents. Senator Hill would not provide them to me.

Senator Hill—But you have seen the documents.

Senator ALLISON—What do those expressions of interest say with regard to the community master plan? It is a question for you, Mr Pezzullo, not for the minister.

Mr Pezzullo—The draft master plan was issued as part of that documentation. It has been released publicly in any event.

Senator ALLISON—I understand that that would be well known, but what do the expressions of interest say with regard to compliance with it?

Mr Pezzullo—Given those constitutional limitations that I described in my earlier answers to Senators Evans and Hogg, there is no way the Commonwealth has the planning power to say, ‘This is the master plan that you will be legally bound by.’ However, to demonstrate bona fides in respect of being in alignment with the sympathies of the community, the Commonwealth has said, ‘This is a draft master plan’—that is the phraseology used—‘and we would like you to consider your applications in the context of the Commonwealth having issued this.’ We have disclosed completely to the market—and in a sense I am reinforcing it in this evidence now—that of course there is no capacity for the Commonwealth to exercise any kind of constitutional power in relation to that document, but it is a document that I would argue is highly sympathetic to the desires of the community.

Proceedings suspended from 6.33 p.m. to 7.39 p.m.

CHAIR—I welcome back officers of the Defence organisation. Just before we proceed with further questions on the capital budget, I understand from my colleagues that there will be questions this evening on outcome 1, ‘Command of operations in defence of Australia and its interests’, and on outcome 2, ‘Navy capability for the defence of Australia and its interests’. Those involved in outcomes 3 to 7, and Defence Science, the Inspector-General, Public Affairs, Corporate Services, People et cetera will no longer be needed this evening so they are excused.

Gen. Cosgrove—In the residue of the portfolio overview, can senators see anyone behind me who they think might bear on any further portfolio overview issues before we let them go?

Senator CHRIS EVANS—Speaking for myself and Senator Hogg, we were going to do a little more on property and then we were going to get into capital budget issues.

Gen. Cosgrove—So from your point of view some of the chiefs et cetera could probably head off if they are not needed?

Senator HOGG—Yes. If we happen to touch on one of those issues and we are going to get the answer some time tomorrow, that is no skin off our nose.

Senator CHRIS EVANS—We gave Mr Roche star billing this evening for a while.

Senator Hill—Some of you guys have been away from home long enough; I think you should go home.

CHAIR—Rear Admiral Bonser, I think you had an answer for Senator Evans.

Rear Adm. Bonser—To clarify some questions from Senator Evans on charter aircraft, I can confirm that the Chinook helicopters were deployed to the Middle East using United States military airlift and returned to Australia in chartered AN124s. When I talked about Adagold and the services they provided, I might have inferred that they only provided Ilyushin 76 aircraft; they also provided services with Antonov 124 aircraft. The aircraft that flew into Perth Airport did so on 18 occasions between February and June and in the main that related to aircraft weight issues and the requirement after loading at Pearce to go across to Perth to top up with the fuel they required and then launch from that longer runway.

Senator CHRIS EVANS—So they were flying to Pearce, refuelling and then?

Rear Adm. Bonser—They would load at Pearce and then go across to Perth to top up with the fuel they needed to then launch from that longer runway.

Senator CHRIS EVANS—So there were 18 aircraft movements from February to June through Perth civil airport. Can you say whether any of those planes contained munitions et cetera?

Rear Adm. Bonser—No. They were charter aircraft. All our munitions went by RAAF aircraft.

Senator CHRIS EVANS—Was the USA airlift of the Chinooks a fee-for-service job as well?

Rear Adm. Bonser—It would have been, under the cross-servicing arrangements, but I would not know whether the billing for that has arrived.

Senator CHRIS EVANS—Thank you for that.

Senator HOGG—I have a couple of questions on the sale of the former Gan Gan Army camp at Port Stephens.

Mr Pezzullo—I might just very quickly refer to my brief but while I am doing that I will talk off the top of my head and I am pretty sure that this is right. Tenders for an open market sale closed last Friday, 30 May, so that property is now in tender evaluation. Unlike our discussion before the dinner break, this is a single-stage RFT.

Senator HOGG—Single stage—so there was no expression of interest stage?

Mr Pezzullo—No, straight to RFT.

Senator HOGG—How was the sale advertised?

Mr Pezzullo—It was advertised through a normal open market tender process. Tenderers were asked to put in their bids. They were advised in part of the tender documentation what the criteria would be for the assessment of their bids. In that sense it is a very straightforward conventional market sale.

Senator HOGG—When is the tender closing?

Mr Pezzullo—It closed on 30 May—last Friday.

Senator HOGG—Who is managing the sale?

Mr Pezzullo—I would have to take that on notice. The name of the contractor is not on my brief here.

Senator HOGG—And how much are they being paid?

Mr Pezzullo—I would have to take that on notice. I am not sure that we would readily disclose that commercial information in any event, Senator.

Senator HOGG—Have any organisations expressed an interest in acquiring the land?

Mr Pezzullo—A number of organisations have made representations, ministerial and otherwise. There were discussions between the defence department on behalf of the Commonwealth and the council over a period of time. Going back to 1999—

Senator HOGG—Is this for a priority sale?

Mr Pezzullo—Yes, Senator, but not the state government, I hasten to add. There has been some publicity about that recently. To clarify the issue of the state government, there certainly is on the departmental record evidence of a written approach in 1999, not for a priority sale but for the transfer of the land into some kind of national park structure from the relevant state instrumentality that looks after state parks. But that was not for a priority sale, I hasten to add.

Senator HOGG—That was not for a priority sale, it was for a transfer. Was it free of charge?

Mr Pezzullo—It would have been a transfer—I guess, looking at it retrospectively—somewhat akin to the 205 hectares that we talked about before the dinner break. The file seems to indicate—I have spoken to people with contemporaneous knowledge—that it basically came to nothing. The discussions petered out, and the file certainly reflects that.

Senator HOGG—On whose part did they peter out?

Mr Pezzullo—I think when discussions petered out. I think it is fair to say that—

Senator HOGG—Both parties?

Mr Pezzullo—Both parties petered out.

Senator HOGG—But the New South Wales people did not obviously pursue it and there was not disinterest on the part of Defence?

Mr Pezzullo—There wasn't a pursuit of the topic on either side post 1999.

Senator HOGG—Has the government taken a deliberate decision, therefore, to sell the land rather than to hand it over to the New South Wales government?

Mr Pezzullo—It is a deliberate decision in the sense that you do not stumble into those kinds of decisions accidentally, so I guess you could say that it was a deliberate decision. After some evidence coming forth from the council that they were not particularly interested in a priority sale, a judgment was made that we would go to the open market. There are always those sorts of decisions that ultimately governments make on advice.

Senator HOGG—And Defence did not approach the New South Wales government about handing over the land for inclusion in the nearby national park?

Mr Pezzullo—Not to my knowledge. I have made reference to that 1999 record of correspondence, which appears to be the other way.

Senator HOGG—Just going back to the organisations that approached Defence, did any of those seek a priority sale?

Mr Pezzullo—My recollection of the correspondence I have read—some of it has come in to the minister, some has gone to the Prime Minister, some has come to the parliamentary secretary, I think the CDF has received some and various other office holders have received it—is that it tends to be rather more amorphous. It does not go to the specifics of a priority sale, to my recollection, although I would stand to be corrected. It talks more generally about transfer in the public interest for the public benefit et cetera.

Senator HOGG—Are you able to tell us the name of any of those organisations?

Mr Pezzullo—My recollection is that there is an umbrella group called Hands off Gan Gan. My understanding is that that covers a multitude of different groups. It is certainly a prominent insignia on the crest of their correspondence, so I have cause to remember it.

Senator HOGG—Have any other organisations expressed interest?

Mr Pezzullo—Quite possibly, separate from the umbrella movement known as Hands off Gan Gan. I would have to take that on notice.

Senator HOGG—If you would take that on notice. Were there any discussions with the group that did show an interest?

Mr Pezzullo—To the extent that a group puts in a representation to a minister or a senior office holder and a response is then provided, that obviously represents dialogue of some description. But as to me and my staff, I have no personal knowledge of any discussions at all. We would be the logical part of the department for such groups to approach.

Senator HOGG—Is there any significance of the site, historically or otherwise?

Mr Pezzullo—In some cases these sites go back to Federation; in other cases they represent the surge of the estate in the 1930s in the lead-up to the outbreak of the Second World War. In some cases they represent the expansion in the 1940s, as the American and Australian forces built up. Gan Gan, from memory, is one of those 1940s surge sites. As with all these sites, it would have a residual heritage value.

Senator HOGG—Any environmental value?

Mr Pezzullo—From my recollection, having been to the site a couple of times, there would be some bushland values attached to it, but as to the precise nature of that, I would have to take that on notice, too.

Senator HOGG—All right, take that on notice. If there are any environmental or heritage values associated with the land, would they have been taken into consideration before the decision to sell the land commercially rather than handing it over to the New South Wales government?

Mr Pezzullo—It is standard practice in the department. This is a policy that is reflective of a whole-of-government approach. Heritage preservation is one of the key factors that is built in to both a decision making process leading up to a decision to dispose and the actual contract of sale process which is the outcome of the tender, and also the tender evaluation itself. It is similarly the case with environment or other strands of conservation value.

Senator HOGG—How many responded to the RFT?

Mr Pezzullo—The one that closed on Friday?

Senator HOGG—Yes.

Mr Pezzullo—I have no idea.

Senator HOGG—Could you take that on notice?

Mr Pezzullo—Gladly, Senator.

Senator HOGG—When will the RFT be determined? Do you have a date?

Mr Pezzullo—I would have to take the precise date on notice. Tender evaluations tend to take anywhere between four to eight weeks, depending on the complexity of the property. Sometimes it is slightly shorter than that and sometimes slightly longer.

Senator HOGG—You tended to indicate to me that this was a fairly straightforward sort of process.

Mr Pezzullo—Certainly in comparison to, say, Point Nepean, it is highly straightforward.

Senator HOGG—On a different tack, are you able to give us a list of the sites that have been handed over to state or territory governments, including those that have been sold for a nominal amount, over the last five financial years?

Mr Pezzullo—I could. I could not do it tonight.

Senator HOGG—I understand that. What is the status of the Fremantle artillery barracks?

Mr Pezzullo—In relation to artillery barracks, the Commonwealth, the state of Western Australia and the local council, which is Fremantle City, are engaged in a working group process to establish an optimal land use set of options for recommendation to governments. The Commonwealth has engaged in that process.

Senator HOGG—Has the property been transferred?

Mr Pezzullo—No. Until governments agree the final option, which they are agreeable to, the actual land title transfer will not occur.

Senator HOGG—I think I will grow old waiting for this to happen. It has been almost three years.

Mr Pezzullo—The parliament secretary has made it clear that, from the Commonwealth's perspective, this could happen virtually tomorrow, as far as she is concerned. She is pretty enthusiastic about moving ahead with the title transfer.

Senator HOGG—How long has that been in progress?

Mr Pezzullo—The Prime Minister's announcement and his written commitment to Premier Gallop, from memory, was in the first half of 2001.

Senator HOGG—Only two years; I was a little out there. In relation to Sydney Harbour sites that the Prime Minister announced during the 1998 election campaign would be handed over to New South Wales, what exactly is the \$96 million of Federation Fund money for?

Mr Pezzullo—That is broken down into a number of different components, some of which are directly Defence connected, which I will talk about in a moment, and others bypass Defence completely. At the time there was a \$40 million contribution payable directly to the Sydney Harbour Federation Trust that was set up pursuant to some legislation that was passed by the parliament—\$40 million for the remediation of Cockatoo Island. The transfer of that money and the path that it took is really a matter for the department of finance and officials representing the trust.

Of the balance, \$56 million was appropriated to Defence in the late nineties—I cannot quite specify the financial year; I just do not have it off the top of my head—and that was used for the relocation of units out at the site and the initial, substantial clean-up. There are still some residual issues of decontamination that the trust and Defence are working through, and we are very close to final resolution on those issues. The \$56 million was essentially for relocation and site clean-up. If you add that to the \$40 million you get your \$96 million.

Senator HOGG—Where was that remediation cost for Cockatoo Island? Was that in the \$56 million or the \$40 million?

Mr Pezzullo—No, the \$40 million is the remediation for Cockatoo.

Senator HOGG—How is that progressing?

Mr Pezzullo—As I said earlier, that question needs to be directed to officers representing the trust. Those are not works that we are undertaking.

Senator HOGG—Will any more money be needed to undertake environmental remediation work at these sites?

Mr Pezzullo—The trust and Defence are finalising, under the authority of the government, pursuant to some decisions made by government, some final relatively minor works—that is, minor compared to \$56 million—and we are very close to identifying the clean-up required as, if you like, the final stage of the transfer process.

Senator HOGG—Will additional money be needed for that?

Mr Pezzullo—Additional money has been provisioned in this financial year.

Senator HOGG—How much is that?

Mr Pezzullo—About \$2.714 million.

Senator HOGG—Thanks for being so accurate. I presume that is not cash, that is accrued.

Mr Pezzullo—I would refer that to the CFA.

Senator HOGG—And that money is coming out of where?

Mr Pezzullo—That is just part of the Defence facilities budget area.

Senator HOGG—Are other ex-Defence sites around Australia subject to a similar process—similar funding?

Mr Pezzullo—No. The only other site, from recollection, that was the subject of a Federation Fund process—I stand to be corrected—was the Torrens parade ground in Adelaide, and that was transferred under a Federation Fund process.

Senator HOGG—Who determines whether a site is to be handed over or is to be put up for sale?

Mr Pezzullo—As Mr Scafton indicated in response to Senator Evans before the dinner break, a set of Commonwealth property principles were brought down by the current government in 1996 and they set out the framework in which these decisions are made. They are available, from memory, on the DOFA web site and they state that as a matter of principle the Commonwealth is not in the business of owning property unless a number of criteria are satisfied. In terms of the disposal process, the predicate in the property disposal policy is to sell on the open market at full commercial value. That is the starting point. Then there are a series of exceptions that only governments can agree. One is the priority sale process which is to councils, state governments or a limited range of other entities. The second is a concessional sale or transfer which can only be authorised by the cabinet or the finance minister, depending on where the burden of the decision lies. For instance, the transfer of artillery barracks falls under that category. That was a decision of the government. Lastly, a whole of government decision can be taken to use the Federation Fund to set up a transfer mechanism as a specific policy initiative.

Senator HOGG—What about the likes of the old drill halls? Where do they fall? Are they in the Commonwealth category?

Mr Pezzullo—Yes, they are on the Commonwealth's asset register. They are therefore deemed to be economic assets of the Commonwealth. In some cases the priority sale process allows you to do historical research to establish an unbroken, continued line of ownership if an acquisition was made years and years ago, but they are pretty hard to track down, it must be said. Otherwise the presumption is as per the property disposal principles to sell outright as an economic asset of the Commonwealth.

Senator HOGG—So there is no preference to hand them back to the community, necessarily?

Mr Pezzullo—No. In fact, under the government's policy the preference is expressed the other way: they are sold as economic assets of the Commonwealth.

Senator HOGG—So potentially they could go to the highest bidder?

Mr Pezzullo—They are required to in terms of an open market process unless other criteria are agreed by government. That tends to be the path taken.

Senator HOGG—What about the ex-ADI site at St Marys in western Sydney?

Mr Pezzullo—That is not a Defence asset. Upon the establishment, or soon after the establishment, of ComLand in the Finance portfolio, that asset was put into their holding. I would ask you to direct questions to officials of the Finance portfolio.

Senator CHRIS EVANS—They didn't sell it in the end, did they?

Mr Pezzullo—Sorry, Senator?

Senator CHRIS EVANS—That wasn't sold in the budget, was it?

Mr Pezzullo—No, I believe it is still on ComLand's books.

Senator CHRIS EVANS—No, ComLand wasn't sold. There was a press report that ComLand was going to be sold.

Mr Pezzullo—I wouldn't have a clue, Senator.

Senator CHRIS EVANS—I forgot to check that. I would like to ask a couple of questions about that Brighton Barracks. I appreciate that I have a question on notice about that so this will not take long. Can I confirm that they were sold on 28 February of this year?

Mr Pezzullo—The sale occurred on the 28th, yes.

Senator CHRIS EVANS—Who managed the sale process for the Commonwealth?

Mr Pezzullo—In that case we engaged what I believe to be a local real estate entity known as Roberts Real Estate. They were engaged as marketing agents but with similar arrangements to those I described earlier for Point Nepean.

Senator CHRIS EVANS—And was that just an open tender?

Mr Pezzullo—Yes, it was.

Senator CHRIS EVANS—Do you know how many bids were entered?

Mr Pezzullo—Initially only one tender was submitted and that was well below valuation. It was open to the delegate to decide, and he did in that case, that the property subsequently be placed on the market using an agency listing process, namely that the agency simply says, 'There is a property available. If you are interested, make an inquiry.'

Senator CHRIS EVANS—There was only one tender so the delegate decided to basically list it rather than accept that single tender?

Mr Pezzullo—Yes, Senator.

Senator CHRIS EVANS—Was the single tender the same person who bought it in the end?

Mr Pezzullo—I don't know that to be a fact one way or the other and, even if I did, I am not sure that I would be in a position to disclose that.

Senator CHRIS EVANS—I will phrase it another way: can you tell me who the single tenderer was?

Mr Pezzullo—As a matter of fact I couldn't, and because there was only one tenderer I suspect that would not be disclosable.

Senator Hill—We would have to think about that. Obviously if it is a successful tenderer you are entitled to know; if it is an unsuccessful tenderer, I am not sure. It would depend a bit on what the tender documents said.

Senator CHRIS EVANS—Perhaps you would take on consideration the question of who the unsuccessful single tenderer was and what their tender price was.

Mr Pezzullo—I will take that on notice.

Senator CHRIS EVANS—Did Roberts Real Estate handle both processes?

Mr Pezzullo—Yes, they did.

Senator CHRIS EVANS—So they then put it on the market. When was it put on the market?

Mr Pezzullo—The agency listing as it is called—tenders closed on 13 September 2002 and as indicated only one tender was submitted and that was below valuation. It was then listed and an offer was received on 14 October. So it was listed some time between those two dates.

Senator CHRIS EVANS—And the offer received on 14 October was the one accepted?

Mr Pezzullo—Yes, it was.

Senator CHRIS EVANS—And when was it accepted?

Mr Pezzullo—When was settlement?

Senator CHRIS EVANS—No, when was the offer accepted?

Mr Pezzullo—The offer would have been accepted some time prior to 28 February; I just do not have that detail in front of me. Settlement occurred on the 28th.

Senator CHRIS EVANS—Therefore I assume it was accepted before that. It is quite a long time between October and February. I would like to understand when—

Senator Hill—We can find out when it was accepted.

Mr Pezzullo—We will find that out. I should add that it may have been that the offer was accepted rapidly but, as with private house purchases, sometimes settlement is deferred for several months.

Senator CHRIS EVANS—That is right. That is why I was interested to know whether it was sooner or later.

Mr Pezzullo—We will take that on notice.

Senator CHRIS EVANS—I am also aware that my understanding of such things is Western Australian based and they vary from state to state. I know that there are different time frames and things. I don't pretend to know anything about the Tasmanian system. Who made the decision to accept that offer?

Mr Pezzullo—In this case it was a departmental delegate.

Senator CHRIS EVANS—Is this the same person that took the decision to not accept the tender?

Mr Pezzullo—I do not recall; I would have to check. I will take that on notice.

Senator CHRIS EVANS—I was trying to understand whether the delegate was the same person in the process.

Mr Pezzullo—I can probably simplify it by saying we normally only use two delegates—one sitting at this end of the table and the other one sitting at the far end of the table. I do not remember doing it so it must have been the other one, but we will check that.

Senator Hill—Try asking the other one!

Senator HOGG—I think the other one is about to fess up!

Senator CHRIS EVANS—He wasn't going to until he got dobbed in. He was going to take two months and give me a reply on notice that said, 'A senior departmental officer.' Mr Scrafton, I think your colleague and former friend Mr Pezzullo has dobbed you in it. Were you the delegate?

Mr Scrafton—Yes, I was.

Senator CHRIS EVANS—Were you the delegate for the tender process as well?

Mr Scrafton—Yes.

Senator CHRIS EVANS—So it was your decision to not accept the original tender.

Mr Scrafton—Yes.

Senator CHRIS EVANS—It was your decision to accept the offer for sale?

Mr Scrafton—Yes.

Senator CHRIS EVANS—Did you have to seek authority up the line to do that?

Mr Scrafton—No, I exercised a delegation independently.

Senator CHRIS EVANS—I noticed on the previous occasion we were talking about the minister being the delegate.

Mr Scrafton—Under the FMA, the delegate can be the minister, the parliamentary secretary or a range of delegations that are derived from the secretary's authority. I exercised that delegation.

Senator CHRIS EVANS—Is that determined by a price limit?

Mr Scrafton—No, I have a limit of available funds. There is no limit on the delegation that I can exercise.

Senator CHRIS EVANS—So it could be a \$100 million property and you might be the delegate?

Mr Scrafton—That is correct.

Senator CHRIS EVANS—How are decisions made about whether it will be the minister or the secretary's delegate?

Mr Scrafton—Clearly, the extent of interest that government has in the property, the scale. It would be imprudent of me to make major decisions without consulting somebody else.

Senator CHRIS EVANS—How big the pile of ministerials is determines who gets the job?

Mr Scrafton—Yes, there is a relationship.

Senator CHRIS EVANS—I understand that system.

Mr Scrafton—It is a very simple one.

Senator CHRIS EVANS—Obviously at the time this was not considered to be a controversial decision?

Mr Scrafton—No, it is still not, I don't think.

Senator CHRIS EVANS—I don't know that Bob Brown and a few others would agree with you. You took that decision; do you remember when you accepted that offer?

Mr Scrafton—No, I do a lot of these exercising delegations. I will take that on notice and get the details for you.

Senator CHRIS EVANS—In terms of exercising that delegation, Mr Scrafton, I do not necessarily want to go to the detail of this bid, but I want to understand the process. Clearly, on this occasion it was well below the earlier valuation.

Mr Scrafton—It was about three-quarters of the valuation that we thought would be the market valuation for that property. As the answer to your question indicated, there were a number of valuations that we were talking about. With respect to the market valuation, this was within the bounds.

Senator CHRIS EVANS—Where did you get that market valuation? I don't remember reference to that.

Mr Scrafton—I think our answer to you refers to the Australian Valuation Office giving us a valuation on what the property was worth. The basis we work on for valuations for these things is generally the Australian Valuation Office giving us a value on properties.

Senator CHRIS EVANS—Given that it did not meet that valuation, I do not want to hold you to—

Senator Hill—I answered a question on notice but I do not know whether it has gone through the system yet. From memory, it said the Australian Valuation Office valuation was \$200,000.

Mr Scrafton—We took \$150,000.

Senator Hill—What was accepted was \$150,000.

Senator CHRIS EVANS—I think that is the one that arrived this morning. I am going to the principles that apply. It would seem to me as a delegate, if you have a valuation, to accept below the valuation requires obviously a considered judgment—

Mr Scrafton—That is correct.

Senator CHRIS EVANS—and is a lot harder for the individual to make a decision than if the offer is 20 per cent above the valuation and you are pretty well sweet in terms of making the decision.

Mr Scrafton—That does make it easier. The way the process works is that there is a tender evaluation board that operates independently with departmental officers and separate advice.

A probity manager would sit on that tender evaluation board. They would evaluate the bid and provide a recommendation to me, generally through Mike but perhaps directly to me. They would assess a range of criteria, including whether if we stood off on the basis of advice from property experts for another time we might get a better price. In the context of that I make a judgment as to whether we are within the range that we might get if we stood out for 12 months or so or whether we are likely to increase the price if we did not accept the offer. Then I make a decision on the facts before me.

Senator HOGG—Would it not be in your best interests if the tender comes in substantially below the valuation, so that obviously you could not accept the tender price, to then go out and seek a second valuation to confirm that the first valuation was realistic?

Mr Scafton—In a sense you do by having an offer from the market. In the end, the real value of property is not what somebody has decided theoretically but what the market will offer you.

Senator HOGG—Yes, I understand that concept.

Mr Scafton—In effect, I have two valuations. I have the AVO's and both the response to the tender, which was below the value we finally took, and the value we finally took. So I had some measures of what the market value was.

Senator HOGG—I understand that, but this is an isolated case where you have got just one person bidding for the property. I am not attributing any lack of transparency to you, but in my view it would make the whole process look a bit better if you reverted to another company to get another valuation. You might think that is excessive.

Mr Scafton—If we were talking about tens of millions of dollars I might accept that. Look at it in the context that we had run a tender process and only one person had shown interest. That is some indication of the strength of the market. We then could have listed it, had another valuation and another offer made—again, another indication of the strength of the market. In a \$473 million program, this is \$200,000 maximum. In the end, it is a judgment call.

Senator HOGG—What would another valuation of the property have cost you?

Mr Scafton—I am not sure. I will take that on notice.

Senator HOGG—Just a ballpark figure—you must have some idea.

Mr Scafton—Mike might know better than I would.

Mr Pezzullo—No, I would have to take that on notice.

Senator HOGG—\$4,000 or \$5,000?

Mr Scafton—Probably in that order but I will take that on notice.

Senator HOGG—It would probably be in that ballpark area—I am not holding you to this. So you would then have to weigh that up against what you might eventually get for the property.

Mr Scafton—What is in fact a \$50,000 shortfall against the original valuation.

Senator Hill—What does another valuation tell you that the market does not tell you? The valuation is designed to tell you what you are likely to get on the market.

Senator HOGG—The thing in this case is that it may well protect the officer of the department in saying that a fair and reasonable decision was made.

Senator Hill—It could go, in effect, to test the previous valuation, I guess.

Senator HOGG—You are dealing with a public property.

Senator CHRIS EVANS—You are saying to me now we have two valuations: the one done by the Tasmanian estate Valuer-General back in 1999 and the one that you had more recently, Mr Scrafton, which was done by?

Mr Scrafton—The Australian Valuation Office. The answer to you says that.

Senator CHRIS EVANS—One of their Tasmanian offices did that for you?

Mr Scrafton—I assume so. That was done officially through the tender process. I would have just seen the document. I do not know who actually did it. This is a standard independent valuer of property.

Senator CHRIS EVANS—That valuation was done when?

Mr Scrafton—In 2002. The original one, the Tasmanian one, was done back in 1999.

Mr Pezzullo—I should add that not only was the original valuation three years out of date in a sense, it was also a valuation done for different purposes. It was done for rateable land value—not that the Commonwealth pays rates but the Valuer-General has obviously got a program in Tasmania to go through all sites and work out rateable land value. It is not necessarily the same as a market value of a sale. So you are slightly in apples and oranges territory.

Senator CHRIS EVANS—I accept that; I did not actually assert anything about that either. I want to make that clear as well.

Mr Pezzullo—I would just like to distinguish between the bases of two different valuations.

Senator CHRIS EVANS—I am interested in them both. I was interested in the huge discrepancy between them—that is obviously one area of interest. That was done in 2002 as part of the tender process?

Mr Pezzullo—Yes.

Senator CHRIS EVANS—So before you put it out to tender you got the valuation?

Mr Scrafton—Before we start putting together the program that we are going to sell, we value the property.

Senator CHRIS EVANS—Are you able to supply the committee with a copy of that valuation?

Mr Scrafton—I will.

Senator CHRIS EVANS—Are you going to take that on notice and check?

Mr Scrafton—I will take it on notice and check, yes.

Senator CHRIS EVANS—Can you confirm for me the size of the property?

Mr Scrafton—I will take that on notice; I could not tell you, Senator.

Senator CHRIS EVANS—I have the figure of about 60 hectares. Does that sound about right?

Mr Pezzullo—I can confirm that it is 62 hectares in area.

Senator CHRIS EVANS—You two ought to sit together; it is quite disconcerting!

Gen. Cosgrove—They have got you outflanked.

Senator CHRIS EVANS—I am not sure about that. It is probably just as disconcerting for them. One will say yes and one will say no at exactly the same time and then we will be in trouble. Thank you for that. I will leave that there. Mr Chairman, I wanted to ask some questions about the white paper and capability at the end of the property section.

CHAIR—We will proceed.

Senator CHRIS EVANS—Mr Bennett or Mr Veitch, are you able to provide me with any further assistance beyond our discussion last time in terms of tracking the white paper funding in the budget papers?

Mr Veitch—We describe somewhere where we have had government approval for 74 projects costing about \$14 billion since the white paper was announced. That is the most visible progress in terms of meeting the white paper outcome. The other major issue is the accelerated growth or the growth in the ADF personnel numbers towards the 54,000 target, so we are well on track—in fact, we are ahead of target to achieve that. The other two main parts—

Senator CHRIS EVANS—Employee costs are well on track to use up the whole white paper funding.

Mr Veitch—Earlier today I talked about one of the other two principal elements of the budget, which is the allowance made in the white paper funding for the operating costs of new platforms. That money is largely set aside into the future. There have only been a few million dollars allocated to date because the new projects are in their acquisition phase and will roll out over the next three to four years and beyond. The other major tranche of white paper money was to do with setting aside a two per cent growth rate from 2004-05 in recognition that we might have to pay more to attract and retain highly skilled military personnel, given the demographic situation that will face the country in the next few years. That money is set aside for the purpose it was allocated for as well, and we will start using that from 2004-05 onwards.

In terms of progress against the government's commitment, 74 projects with a project cost of \$14 billion have been transferred out of the capability plan into the acquisition to the DMO and they are in their acquisition phase. We are on track and in fact ahead of schedule to meet the personnel targets and the other two main tranches of money are set aside and are being held for the purposes intended.

Senator CHRIS EVANS—Where do I find them in the accounts?

Mr Veitch—You would not find specific reference to them other than in the table we provided you in answer to a question. I think we have since clarified that because we had made an error in the treatment of exchange, from memory. I think the details of the \$27 billion we provided in the table.

Senator CHRIS EVANS—That is the table that detailed the years in which the white paper funding would be budgeted for. I think that is a fair way to describe that. But in terms of the PBS and tracking the expenditure in the white paper, how do I do that? How do we track the white paper funds through the budget process?

Mr Veitch—Probably the best reference source is on pages 20 and 21 in the PBS. Table 1.3 on page 20 shows that allocation of the Defence budget into the forward years, including the white paper component. In table 1.4 on the opposite page you will notice that the funds allocated in serial 1 in 2003-04, all up with the \$500 million and the billion dollars allocated in the last two years, is \$1,475 billion for white paper commitments. In terms of actual tracking of specific initiatives, for example on the 74 projects, they are part and parcel of the approved capital program. We do not separate them out because there is a range of projects. I think at any one time there are about 200 or 300 projects in the capital program and we take the liberty in this document of giving some specific reference to the more important ones—the top 20.

Senator CHRIS EVANS—How do the parliament and members of this committee track those funds to ensure that they are being spent on the white paper objectives? The obvious cheap shot is, ‘How do I know you are not just putting the cash in the bank?’ I will resist that cheap shot. How does this committee measure whether we are getting the increased capability? I take the thing about the personnel. How do we measure whether we are getting the capability? When I look at the figures, for instance, for military equipment they seem to be in decline. To the layman you say, ‘Hang on, we are putting all this extra money in.’ And I give the government credit: the money has gone in; but it seems like spending on military equipment is reducing.

Mr Veitch—One way of looking at it is that in a little over two years since the white paper was brought down there have been \$14 billion worth of projects approved—that is the total project costs for which the expenditure is spread over a number of years. Fourteen billion dollars roughly equates to about five years of capital spending prior to the white paper announcement. I would argue that to have approved \$14 billion worth of projects in two financial years is a fairly substantial achievement towards the government’s commitment of an extra \$27 billion to the program, which all up is an investment program of \$50 billion over the 10 years.

Senator CHRIS EVANS—To be fair, approving them is one thing, paying for them is another. You are not pretending that in approving them we are actually meeting the costs of them at this stage. The government has put extra money in. I can see that; I am not arguing that. I am trying to track how we know what we are putting in is delivering what is expected of it.

Mr Veitch—You would have noticed in the budget papers a decision by the government to rephrase \$642 million of expenditure in the capital program. That was a decision taken to

accurately reflect the rate at which the expenditure on these projects is being brought to account. In other words, compared to our original planning assumptions we were about \$600 million in expenditure terms behind track. But that money is not lost; it is there in the total program. The project costs are there and the reduction is reflecting the rate at which the expenditure takes place.

Senator CHRIS EVANS—Does that include the \$200 million we talked about earlier?

Mr Veitch—No, it doesn't. That is a separate—

Senator CHRIS EVANS—So it is \$850 million?

Mr Veitch—Yes. The \$200 is fully described, as is the \$642 million.

Senator CHRIS EVANS—Where is the \$642 million?

Senator HOGG—That was my question: where is the \$642 million?

Senator CHRIS EVANS—It is described as 'deferred'.

Mr Veitch—If you look at the capital overview on page 134, you will notice that we have described three things that have happened in the capital program. One is an adjustment between capital and operating to accurately reflect the accounting standards in the way in which expenses are brought to account on the investment program. There is also the capital reprogramming of \$200 million, which I talked about earlier today in our discussion on cash at bank; and there is the rescheduling of the \$642 million that I have just described. But in terms of overall progression of projects, I think I would go back and the measure I used, 74 projects and \$14 billion, is a major achievement in a couple of years. All those projects have been passed to the DMO and they are going through their acquisition phases.

Senator CHRIS EVANS—I accept that those projects have been approved. But I don't think that answers the question I am asking. How do we make sure that the Australian taxpayers' funds that have been allocated to Defence by the government for the objectives in the white paper are delivered short of waiting until 2010-11 and finding out that we have been very lucky and it was all delivered on time and on budget or that it was a total disaster and we did not get what we paid for? I am trying to understand how each year the parliament can ensure, in a confusing Defence department budget of \$14 billion or \$15 billion, that that money is not going on employee costs, cash at bank and what have you, but is delivering the increased capability outlined in the white paper. With all due respect, telling me that the projects have been approved does not seem to me to answer that question.

Mr Veitch—I guess the very fact that we are disclosing the information on page 134 is our attempt to be completely transparent to show that this money does not represent a reduction in the capability planned and that it actually represents a rephasing, and that the money is there and being held for the timing for which the expenditure will occur. The soft option for us would have been to redirect that, as you have suggested. There is a gentleman sitting about two or three doors up from me who would not allow us to do that.

Senator HOGG—And rightly so.

Senator Hill—There was an overestimate of the pace with which we would be able to effectively implement the commitment. So I would think that we are well up to schedule, if

not ahead of schedule, in terms of project approvals. The in-service dates I think we are pretty much on schedule with as well. It is just that we will tend to be paying more of the money towards the later stages of the project than was anticipated when the DCP was drafted.

Mr Veitch—I think we were just a little optimistic about the rate at which we could spend the money. The money is not lost. What we are doing is holding it for when it is required.

Senator CHRIS EVANS—I have not made the accusation that the money was lost. I would have thought the government was probably as interested or more interested in this than I am. Senator Hill may well have satisfied himself about that, but I think it is reasonable for this committee and the parliament to be satisfied about that. It seems to me that, as you say, we have \$850 million. The white paper funding was geared towards the end, anyway, wasn't it?

Mr Veitch—It is. If you look at the previous page, page 133, and the total capital budget, the total investment program, when the white paper was announced we were spending roughly \$2.9 billion or \$3 billion a year on capital equipment in Defence per annum. In this coming year we are projected to spend \$4.3 billion, growing to \$5 billion. That shows a noticeable ramp-up and in fact reflects the profile of the \$27 billion that we provided to you in the answer to that question. It was deliberately stacked more towards the end of the program. You can only digest so much as you go.

Senator CHRIS EVANS—Having said that, we were already then dealing with \$850 million that is having to be deferred.

Mr Veitch—Yes. The key point that the minister was making was that the projects have not been deleted or deferred. With respect to the rate at which projects are being approved there has been a fairly consistent pattern—74 projects.

Senator CHRIS EVANS—On the figures I have, compared to 2001-02 and the out-years, we spent less in 2001-02 on military equipment than we had originally estimated and there was about \$300 million more in 2002-03. We are not seeing that money going into military equipment.

Mr Veitch—One of the problems is that we are looking at the accounting definition. When you just look at the specialist military equipment component, there are also other elements of the capital budget—probably plant and equipment, minor capital and what have you. That is why I deliberately chose to put table 3.10 in this one, because it shows a more comprehensive picture of the not yet approved, the approved and the facilities program. This is more of a total cost as opposed to the accounting treatment.

The other thing about the numbers that you have had some difficulty with is that the Australian dollar has appreciated quite substantially. This year that will save us something like \$220 million which we will hand back to Finance under our no win, no loss arrangements. That gives the impression of showing an underspend on the budget whereas in fact we do not have any diminished purchasing power. The other thing is the changed accounting treatment that recognises some of our expenses as operating rather than capital. These are typically things to do with introducing projects, managing projects through their acquisition phase, such as the costs of the project office, project studies, project related travel, overheads and those sorts of things. In the past we included those in the capital budget but

that was not in accordance with accounting standards. We have made an adjustment in the budget which we have described on page 134. That has the effect of taking another couple of hundred million dollars out of the figures that you are seeing in terms of looking backwards. So when you take all those factors into account, I would put the position that the \$200 million that we have rephased this year and the \$642 million rescheduling are the only element of, if you like, slippage in the program. As the minister said, it better reflects the rate at which we are going to spend the money on those projects.

Senator HOGG—When will that \$642 million be spent, if it has been rescheduled?

Mr Veitch—The problem with the presentation in the budget here is that we only show the budget year and the three-year forward estimates. This money will start to add back in the period beyond the forward estimates. So it is not lost over the decade of the white paper commitment; it is just that it adds back later on. So the profile has moved slightly to the right on the cash—

Senator HOGG—That makes it very difficult for us to trace what is going on and to track it.

Mr Veitch—I guess the difficulty for us is that, when I talk about the 74 projects, the 74 projects are on top of a whole bunch of other projects, so it is deciphering which part is defence capability plan and which part is the other. It is a difficult presentational issue for us.

Senator CHRIS EVANS—As I understand it, the difference between the \$640 million and the \$200 million is that you have been allowed to keep the \$200 million, but the \$640 million is in effect a saving to the government on—

Mr Bennett—No, it is not a saving.

Senator CHRIS EVANS—Not to Defence over the longer term, but this is money which was to have been allocated to Defence last year and has not been but which will be allocated in future years.

Mr Bennett—It is exclusively put back in the back-end of the DCP; it is just that it is outside of the four years in the estimates.

Senator CHRIS EVANS—Say the \$640 million was all this year. Conceivably, that \$640 million would have had to have been on the Defence allocation for this year, and the surplus would be \$600 million less if it had been spent this year.

Mr Bennett—This year, remember, we reprogrammed and we are putting approximately \$200 million back in next year.

Senator CHRIS EVANS—Put the \$200 million to one side; I accept that.

Mr Bennett—As for the \$642 million, in 2003-04 we have slipped \$213 million; in 2004-05, we have slipped \$209 million; in 2005-06, we have slipped \$227 million; and then from 2006-07, we start bringing that money back in to the 10-year program. It may become an 11-year program in the worst case, say, but it will definitely come back into that program.

Senator CHRIS EVANS—Yes, but in terms of the national accounts or what have you, that is money that is not being spent this year. I am just trying to understand in layman's terms. This is money that, while still budgeted for in the out years—although I think as you

said it was about four years away—will be coming back in, but the difference between that and the \$200 million is that was not handed over to Defence to hold. The \$200 million was treated differently and you actually got the cash in your hand—

Mr Bennett—In a sense, yes.

Mr Veitch—We have had our forward estimates—

Senator CHRIS EVANS—whereas you have the promise of the \$600 million being paid to you down the track when you are better able to spend it.

Mr Bennett—Yes.

Senator CHRIS EVANS—I am not trying to be clever; I am just trying to make sure I understand conceptually the difference between the two. You have the \$200 million in the bank; with the other, you have the promise of it coming down the track. Is that fair?

Senator HOGG—It is on paper, but it is not actually in your account—is that the right way to assess it?

Mr Bennett—That is right. It is in the 10-year program, but it is not in the budget figures at this point.

Senator CHRIS EVANS—This means therefore, following that through, that the cost to the government of the white paper in those out years will be higher than it would have been.

Mr Bennett—There is that potential in the issue of usual out-turns and price deflators.

Senator CHRIS EVANS—No, by virtue of the deferral.

Mr Bennett—There is that potential, yes.

Senator CHRIS EVANS—Everything else being equal, the government will have to find more money for the white paper in the out years now because of the deferral of the \$640 million.

Mr Bennett—There may be that consequence, yes.

Mr Veitch—On the personnel side, which is the other main area, the work force summary shows the movement in the personnel numbers. I think I will show a table where it is a bit easier to show that we are about 1,000 people in excess of the—

Senator HOGG—Which page?

Mr Veitch—You will notice table 1.5, at the bottom of page 23. That gives you an indication of how the military work force numbers have moved relative to the white paper. So, as I say, we are ahead of the power curve, and the government recently, as part of this budget, decided to accelerate the growth path through two or three years.

Senator CHRIS EVANS—Is that the government responding to the fact that you have had a better retention rate than you had anticipated and therefore paying for it? The way you said it there makes it sound as if it is causal, but is it in fact the other way around?

Mr Veitch—There are two elements in it. One is the favourable recruiting and retention environment. We have struggled for 10 years to keep our numbers up, and there was an element of taking advantage of that because it made sense to do so. But the government also

recognised that we were operating in a period of high operational tempo while at the same time trying to deliver new platforms and new capabilities into service. We put up a proposal in our budget submission and the government accepted an increase for the next two or three years.

Mr Bennett—We have also enjoyed lower separation rates during the current period. That situation is described on page 23.

Senator CHRIS EVANS—I was just trying to understand this. It is out of your control in the sense that the separation rate is just a guess, a prediction for you, and if separations drop off then you have got more employees than you thought you were going to have, which at this stage is regarded as good because you are trying to build but on other occasions it is not.

Mr Veitch—But we are still governed by our monetary budget, so we have different control levers.

Senator CHRIS EVANS—I guess you manage that by holding off on recruitment?

Mr Veitch—Yes, we adjust the recruiting targets for changing circumstances as separation rates change.

Senator CHRIS EVANS—We had this discussion with the minister last time. I do not want to go over old ground, but I think that from the committee's point of view the inability to be able to track better the white paper expenditure is still a weakness in the budget papers. I think we need to find a way of getting a measure that allows us to assess where the white paper funding is going and whether it is delivering the additional capacity that it was intended to do. No doubt this will come to a head with the DCP review but I still think it is very difficult. The government has put in \$1.5 billion?

Mr Veitch—Yes, just under \$1.5 billion for this financial year.

Senator CHRIS EVANS—Is it for the two years?

Mr Veitch—It is \$500 million for the first year, \$1 billion for the second and now it is up to just under \$1.5 billion.

Senator CHRIS EVANS—So it has put \$1.5 billion in. What have we got for it and how do we track what we have got for it? How do we assess whether it is delivering what we hoped it would deliver?

Mr Veitch—What we have done is put a lot more information in this one, but what we are probably suffering a bit from here is that it is scattered throughout the document, so we could look at some options to consolidate that a little bit better to get a view on the white paper. We could talk that over with the minister for next time around.

Senator CHRIS EVANS—It was not a criticism of the budget portfolio statements but I think there is a need for us to be able to account for where that money has gone. If there are other items that seem to be a bit out of control in the Defence budget or if there are other problem areas, you want to be able to know that you are delivering the capability with those extra funds. I am sure the minister has his own way of satisfying himself about that, but from the committee's point of view we do not seem to be able to do that at the moment, so I have laboured that point again. In terms of the project approvals that you were talking about earlier,

Mr Veitch, are there other programs with a year of decision of 2002-03 that have not been approved?

Mr Veitch—I might need to call in some assistance on this one.

Senator CHRIS EVANS—Just before we start with Mr Carmody, I wish to go back and double-check with Mr Bennett. When did you say that \$642 million was coming back into the white paper?

Mr Bennett—Starting in 2006-07.

Senator CHRIS EVANS—How much comes back in in 2006-07?

Mr Veitch—The precise amounts are not agreed but there is an undertaking in the next cycle for us to bring this back to government, and this will be addressed as part of the next DMFP.

Senator CHRIS EVANS—My note was that it did not appear in the out years.

Mr Veitch—I am sorry?

Senator CHRIS EVANS—My note was that it did not appear until 2006-07. You are saying that it does come back—

Mr Veitch—There is an undertaking that it will come back in those years, but there is no specific government decision at this stage on the rate at which it will be brought back. We will need to go through that process as part of the development of our next budget and forward estimates and we would take something back to government with some recommendations in that regard.

Senator CHRIS EVANS—So in the budget papers I will not find any sign of the \$642 million coming back in?

Mr Veitch—No, not in this budget.

Senator CHRIS EVANS—That is what I thought and then I listened to what Mr Bennett said, and I thought, 'Hang on; that's not right.'

Mr Bennett—I am sorry; I did not mean to imply in the out years.

Senator CHRIS EVANS—No, it just did not sit with what I understood.

Mr Carmody—You asked a question about projects originally flagged for 2002-03. To date, 28 of the 34 DCP projects that were foreshadowed for approval have been approved. Six that were originally flagged for approval in 2002-03 have not yet been approved, and they are the Anzac antiship missile defence, additional troop lift helicopters, replacement for the FFG's SM1 missiles, further elements of initial study for air warfare destroyers, some elements of an amphibious and a float support study phase, and the defence management systems improvement project. Those are the six that were foreshadowed that are still awaiting approval.

Senator CHRIS EVANS—Is there any chance of any of them being approved in 2002-03 or are they clearly off for a while? I know that the property sales are all running right up to 30 June. Is it likely with this sort of process?

Mr Carmody—I think that is a fair element of the basis upon which the assessment has been made to move the funding that Mr Veitch has been referring to—that is, moving the funding forward—so I would say no.

Senator CHRIS EVANS—You are suggesting then that those six projects being a little slow to be deferred—you choose the words.

Mr Carmody—They were flagged for approval in 2002-03 and are still not approved. We are almost at the end of the 2002-03 financial year, so I presume they will just slip over as we are trying to get them through the process into the next financial year.

Senator CHRIS EVANS—Is it fair to say that that process—the failure to have those approved—is driving the deferral of the \$840-odd million?

Mr Veitch—I think there is an element of it. The \$642 million stretches across the population of all projects but that would be an element of it.

Senator CHRIS EVANS—So it is not particularly linked to one project?

Mr Carmody—No.

Senator CHRIS EVANS—But that group of projects—

Mr Smith—It reflects in part the rate of spending on existing projects as well as on the unapproved.

Mr Veitch—It is across the whole population of all approved and unapproved projects.

Senator CHRIS EVANS—So the other—did you say 28 out of 34?

Mr Carmody—Twenty-eight out of the 34 that were proposed to be approved this year have been approved, which is a pretty good record.

Senator CHRIS EVANS—The troop lift was one of the ones that were supposed to have been fast-tracked, wasn't it?

Mr Roche—While technically the troop lift has not received formal approval it is a white paper project and has that level of government approval. The industry solicitation is taking place right now. So the formal approval processes will follow in parallel with the industry solicitation and evaluation.

Senator CHRIS EVANS—I thought I saw the ads in the paper a few weeks ago.

Mr Roche—That is right, so it is going ahead on time. It is a matter of the formal next-gate approval, if you like, from the government happening in parallel with that.

Senator CHRIS EVANS—Perhaps you could explain that to me. It is surprising. The Minister for Defence and the Prime Minister have both made announcements about the troop lift; why is there a problem about formal approval?

Mr Roche—There isn't a problem, Senator.

Senator CHRIS EVANS—To rephrase my question: why hasn't it happened?

Mr Roche—It is actually being used as the first stage of Air 9000 which is the rationalisation of the rotary wing fleet. There may be a number of options that emerge from this industry solicitation and the government would wish to consider the range of those

options before selecting a particular line of attack. That would have an impact on budget and so on.

Senator CHRIS EVANS—Sure. Fast tracking this decision or bringing it forward—although I do not think it comes forward all that much from the original calculation; it was 2007 to the end of 2006 now—

Senator Hill—In relation to the additional troop lift helicopters, we would hope to get at least some helicopters before that. But the guidance to interested parties in putting proposals says that their proposals must provide for the capability by a date in 2006.

Mr Roche—It has to be at least by the end of 2006 and earlier.

Senator Hill—Each of them have been given guidance that, within that, proposals that deliver the capability earlier would be regarded positively.

Senator CHRIS EVANS—I understand that, but what I was trying to get clear in my mind is how you do that at the same time as you are trying to make the broader decision about rationalisation of your helicopter fleet and when you have to entertain a broader proposition. As I understand it, you hope to have the successful tenderer in this project also become the supplier of other replacement helicopters. Is that fair?

Mr Roche—The intention would be that this would be the first step in the rationalisation of the fleet. We have asked the interested tenderers to identify how their proposals would do that. They have two jobs. The first is to provide the additional troop lift helicopters required by Army and that is a must do and the deliveries have to start at least before the end of 2006; and the second stage is to identify how the helicopter type they offer would then start to filter through the fleet and how they could reduce the number of types. There is some complexity in that which involves retirement dates of existing helicopters and the potential to transfer upgrade money into new helicopters. There is a very wide variety of options that could emerge.

Senator CHRIS EVANS—But effectively you are making a strategic partnership decision as well as picking a troop lift helicopter, aren't you?

Mr Roche—Ideally, yes.

Senator CHRIS EVANS—So in a sense the challenge in this tender is bigger than just buying a troop lift helicopter; you are actually making a strategic partner decision for the supply of helicopters to the ADF.

Senator Hill—It is a request for proposals rather than strictly a request for tenders.

Senator CHRIS EVANS—But as I understand the broader project—

Senator Hill—But as you have noted because of the complexity of the whole project and the potential variety of ways of achieving those goals we have not obtained a formal project approval and sought tenders. Before obtaining project approval we have agreed across government that we will issue this request for proposals and hopefully out of that we will select a party with whom we will negotiate to achieve the government's objectives. At that stage we would need project approval. We are just doing it differently. In terms of timing,

there is no delay at all. Not only are we looking for delivery at an earlier date, but also, to give credit to the DMO, the process has been considerably sharpened up.

Senator CHRIS EVANS—Mr Roche, what is your assessment of the number of potential tenderers and suppliers of helicopters? I am not asking you to say who is going to tender, but are we talking about four or five?

Mr Roche—We believe there will be three manufacturers principally interested in this.

Senator CHRIS EVANS—Are you prepared to name them?

Mr Roche—I do not see any difficulty with that.

Senator CHRIS EVANS—I thought they were pretty well identified.

Mr Roche—You would expect Sikorsky, as the manufacturer of the existing Black Hawks, to tender. You would expect NH Industries, the manufacturer of the NH90, to tender, and you would expect AgustaWestland to tender. We do not know whether other companies may wish to take part and to team with those companies.

Senator CHRIS EVANS—I was not attempting to define the field; I was trying to get an idea of how many serious players there are.

Mr Roche—That is broadly the field we see at this stage, but that is not to limit it to those.

Senator Hill—They have all self-nominated, if you read the defence industry magazines.

Senator CHRIS EVANS—I usually make judgments based on who is trying to make appointments to see me—although I don't know why they come to see me.

Senator Hill—Perhaps you ask difficult questions.

Senator CHRIS EVANS—That is usually after they lose the tender. I go back to the other five projects. Can we have a brief explanation of each of those and what the issues are.

Senator Hill—Which is the second one that you want—the air warfare destroyer was one that was mentioned.

Senator CHRIS EVANS—Yes, the Anzac.

Senator Hill—To some extent the delay in approval has been tied up with delays in our shipbuilding strategic plan project, which in turn has been delayed because of difficulties with the Submarine Corporation. In the meantime we have progressed various critical studies in the air warfare destroyer project. These are studies on possible combat systems and studies on the air warfare system, if that is the right language, so that we do not in fact lose any time. In terms of the project approvals in due course, that will occur—

Senator CHRIS EVANS—There are a couple of deadlines fast approaching on that, aren't there?

Senator Hill—We have not hit any deadlines. We have managed to find ways to keep doing critical work without having to extend any deadline at the moment.

Senator CHRIS EVANS—At this stage this has not impacted on date of delivery expectations?

Senator Hill—No.

Senator CHRIS EVANS—How are you managing to do this constructive work? I always thought in part you were looking for a strategic partner, which would help determine what you were buying.

Senator Hill—I would have preferred to have the strategic partner in place first, but that has not been possible. I have not wanted that to cause us to lose time in relation to the whole project. Therefore in the meantime we have gone ahead with these critical studies.

Senator CHRIS EVANS—What do these critical studies do? Are they comparing what is on the market or just determining what it is that you want out of a system?

Senator Hill—You will get a better answer from the admiral, I am sure.

Vice Adm. Shalders—For example, one of the studies very recently completed looked at the available air warfare systems that might be suitable for the air warfare destroyer. That was a study completed by the Defence Science and Technology Organisation. It is those types of preliminary studies that are ongoing.

Senator CHRIS EVANS—Just so I am clear: they analysed the four or five air warfare systems that were out there being marketed or did they analyse your needs?

Vice Adm. Shalders—A little of both, of course. They certainly look at what is currently fielded, what is currently being planned and will inform the future development activities as we get further down the track with this platform.

Senator CHRIS EVANS—What about the combat systems—what is happening there?

Vice Adm. Shalders—Similarly, those sorts of studies are continuing.

Senator CHRIS EVANS—Is that Defence Science as well?

Vice Adm. Shalders—They have done some of those studies, yes. We have done some of those studies in house, in fact.

Senator CHRIS EVANS—Do you have a project team established?

Vice Adm. Shalders—There is currently a joint team, between capabilities systems area and within the DMO.

Senator CHRIS EVANS—Where are we at in terms of the time frame for approval for the air warfare destroyer? Is it delayed indefinitely?

Senator Hill—No. It is a step-by-step process. The current studies are due to be completed and reported on about next month, I think.

Vice Adm. Shalders—That is right, Minister.

Senator Hill—Government will have a look at those and decide the next step. The next step, you might argue logically, is to move to the issue of ship design. We think there is a strong argument to be doing it this way rather than what might have been the way in the past, which was to work out a ship design and then determine what you were going to fill it up with. These ships are all about the systems and so we have started by looking at the systems, and then we see the design as really a supplementary issue.

Senator CHRIS EVANS—It was my concern with your shipbuilding rationalisation plan that there did not seem to be enough focus on the systems, so I certainly appreciate that that

might be a reasonable emphasis to draw. What does the delay in the formal approval process mean then, in the sense that I understand you are taking these other studies, which will hopefully help the developmental work, without the formal approval?

Senator Hill—It does not mean anything in terms of delay at the moment. As I said, we have not to hit any critical data as yet.

Senator CHRIS EVANS—What is there that needs to be contained in the formal approval process that will not happen without it?

Senator Hill—I think the formal approval process will be better informed by the way that we are going about this project.

Senator CHRIS EVANS—I am just trying to understand why you are not giving formal approval. Is that because that then leads to a tender situation automatically?

Senator Hill—One of the reasons, I think, is that there is too much uncertainty. I think in the past governments have approved projects without a sufficient understanding of what really is going to follow, and I think that is one of the reasons we have got into some troubles in the past. When cabinet looks to make this approval decision—and it is a very big decision—I think as a result of the work that is being done at the moment it will be better informed on the critical issues that relate to the air warfare systems and combat systems and, depending exactly how we do it, maybe also on design.

Senator CHRIS EVANS—So you may well have done an assessment of the design before you go to the approval process?

Senator Hill—We might. We will make that decision next month when we get the first two sets of studies.

Senator CHRIS EVANS—But you would argue that, so far, the air warfare destroyer timetable does not need to be delayed?

Senator Hill—Not at the moment, no.

Senator CHRIS EVANS—What about the Anzac ship missile systems?

Senator Hill—There are several Anzac projects which are giving them greater defensive capability.

Vice Adm. Shalders—This particular one is the antiship missile defence proposal. That has been deferred and will be picked up in the defence capability review which is under way.

Senator CHRIS EVANS—Why is that?

Vice Adm. Shalders—It is part of the wider capability review; it is more logical to deal with it in that forum than as a separate stand-alone project at this stage.

Senator CHRIS EVANS—Does that mean that you might not want to upgrade their antimissile defence systems?

Senator Hill—No.

Vice Adm. Shalders—We would be arguing strongly to upgrade but the fact of the matter is that it is part of a wider capability issue that is best considered in the capability review.

Senator CHRIS EVANS—Is that the capability of the Anzac or a wider Navy capability?

Vice Adm. Shalders—It is of the Anzac itself; it is the antiship missile defence of the Anzac. We are talking about second channels of fire and very short-range air defence missiles, so it is the ship itself. It is the self-defence of the ship.

Senator CHRIS EVANS—Yes, and I am saying that that has not impacted decisions about defence of the fleet or some wider defence system; it is a review of the Anzac capability.

Vice Adm. Shalders—That is correct.

Senator CHRIS EVANS—So you will be taking a wider look at Anzac capability as part of the DCP, or a wider look at the priority for their capability?

Vice Adm. Shalders—No. Perhaps I could characterise it by saying we would be looking, in the context of the wider capability review, at how the Anzac might fit in with the future fleet, which could well include the air warfare destroyer, for example. We would also be looking at how would the antiship missile defence weapons on board the Anzac fit into that wider fleet. That is the sort of context that we have deferred it for.

Senator CHRIS EVANS—That is what I was trying to ask in the previous question. I probably did not nail it. It is because you want to look at the wider picture beyond the Anzac, in the sense of fleet capability, rather than just the Anzac capability and how they fit into the broader picture—is that right?

Vice Adm. Shalders—That is correct, yes.

Senator CHRIS EVANS—So that will be deferred until the outcome of the DCP review?

Vice Adm. Shalders—It will be picked up in the defence capability review, yes.

Senator CHRIS EVANS—What is the latest time—

Senator Hill—These issues are being worked on now and we are working to an October timetable.

Senator CHRIS EVANS—You are still working toward October for the DCP review?

Senator Hill—Yes.

Senator CHRIS EVANS—Is that for a decision or an announcement or both?

Senator Hill—I do not know whether we will have fine-tuned it to that extent. We are just working the whole project to October.

Senator CHRIS EVANS—The process is that a revised DCP will go back to cabinet—is that right?

Senator Hill—Yes.

Vice Adm. Shalders—One of the other items was the standard missile, SM1, replacement. The same arguments apply to that particular project in terms of looking at the FFG within the wider fleet context.

Senator CHRIS EVANS—There was an amphibious project? I tried to quickly write down the six projects.

Vice Adm. Shalders—That was a study—the afloat support study—to see how we might provide the afloat support capabilities across both amphibious ships and oilers—the *Success* and *Westralia*. But that is a study rather than a major project at this point.

Senator CHRIS EVANS—What has happened to that?

Vice Adm. Shalders—Again, that study will be picked up in the defence capability review because it will lead to necessary replacement decisions for what are, unfortunately, known as the fat ships—that is, the three amphibious ships and the oiler, the *Westralia* and the *Success*.

Senator CHRIS EVANS—The sixth one was defence management systems, was it?

Vice Adm. Shalders—Defence management systems improvement. I am probably not best placed to talk about that. If Mr Hannan is in the room, perhaps he could talk about one.

Mr Bennett—I will answer partially on behalf of the CIO. The initial tranche of \$40 million of DMSI funds has now been used. There was some additional money which will go to a project—I think it is called JP 2080, but I would have to double-check that. It is to look at some of the management and financial systems upgrades. We are currently doing specifications work, so before we commit to any spend we want to complete that specifications work and then look at what the spend requirement will be.

Senator CHRIS EVANS—So it is one of those projects that is still being worked on. You are not ready to seek approval.

Mr Bennett—In this last year I have probably commissioned about 40 projects in the financial transformation area. What I want to do is make sure we start wrapping those up and bringing them together and then look at the broader things we would like to do as part of the technical and functional upgrades of the financial systems in the cross-domain area.

Senator CHRIS EVANS—I think it was you, Mr Smith, who said that delays in other projects or the spend on other projects was also part of the rationale for the deferral. Are there any that stand out as being seriously delayed that helped drive that deferral?

Mr Smith—I will get Mr Roche to comment on that.

Mr Roche—Thank you! I do not think there are any projects that would come as a surprise to you, Senator. One obvious one is the Milsatcom, our military satellite, where the launch of that satellite was delayed to about midyear following an explosion of an Ariane 4 rocket last year. That resulted in rolling over \$15 million into next year. We are holding funds on a number of projects, but I suspect we will come to those on an individual project basis. I see Air 5398 air-to-surface stand-off capability. There was some delay on Collins, I think in relation to the heavyweight torpedo, which was foreshadowed at our last meeting, and the minehunter coastal, where there is a certain amount still being withheld for some warranty work to be done.

Senator Hill—As far as I can recall, there has not in the last year been any major slippage from where the projects were—additional slippages—in terms of critical parts of the projects. Rather, what is occurring is that the spending profile is somewhat different to what was anticipated when the projects were out in the future. As the projects have been implemented, we are tending to spend more towards the end than what might have been believed to be the case. In some ways, I think that is a good thing because we have a few very famous projects

where we spent large sums of money up-front and it has meant that we have not quite had the leverage that we would like further down the track when things have gone wrong.

Mr Roche—I suspect also that these days we are probably being tougher with contractors in the sense of withholding funds than we have been in the past.

Senator CHRIS EVANS—In terms of the potential projects that were listed for 2002-03 approval, was there the Defence wide area communications network?

Mr Carmody—I do not know. Perhaps Admiral Shalders does.

Vice Adm. Shalders—No. Perhaps the CIO could help us with that tomorrow. He is not in the room at the moment. Mr Hannan would probably have the detail on that one too.

Senator CHRIS EVANS—Does anyone know whether that has been approved?

Mr Smith—We will have to give you the detail on that tomorrow.

Senator CHRIS EVANS—I had a note that that was one of the ones listed for 2002-03 for approval, and Mr Carmody did not cover it. I could not see it in the budget, so I wondered what happened to that one.

Senator Hill—We will see if we can get you some more information.

Senator CHRIS EVANS—I have no idea what the Defence wide area communications network is.

Senator Hill—I am trying to work it out too.

Senator CHRIS EVANS—It has got one of those names that could be anything, I suppose. Joint 2047 phase 2—if that is any help.

Senator Hill—Very impressive. That's the one!

Senator HOGG—Don't get excited, Hilly!

Senator Hill—You're sure it is not phase 3?

Mr Roche—It is a rolling upgrade to the Defence Wide Area Communications Network: Phase 2 will remediate further elements of the network—this is within Australia— and implement technology enhancements for improved network performance.

I hesitate to add that they:

... may include introduction of Multi-protocol Label Switching (MPLS) or an Optical Terabit Network.

Senator CHRIS EVANS—That is why I was a bit concerned that we did not have one of those. I am not sure I would be able to sleep well tonight knowing that we hadn't got it. Given that you have found that, Mr Roche, were you able to find out what had happened to it?

Senator Hill—No, we need some more specialist advice. You don't know about it, do you?

Gen. Cosgrove—I don't know what you are talking about, Minister!

Mr Smith—We will ask the CIO to address that first thing in morning.

Senator CHRIS EVANS—The Australian theatre headquarters I thought was also listed for decision.

Senator Hill—That project is progressing. There is a lot of conceptual work being done in terms of how it would function. Additionally to that, there has been a lot more work done on siting within the area that had previously been nominated, there is an environmental assessment process that has started and there has been a lot more work done on the financing issues. So it is progressing, but it is not ready yet for a decision.

Senator CHRIS EVANS—That was listed for decision this year, so that has been delayed.

Senator Hill—The formal approval has obviously been delayed a bit, but there is no necessary delay in project delivery as a result of that.

Senator CHRIS EVANS—I noticed in the budget it is going to be referred to the Joint Committee on Public Works towards the end of the year. Can it be referred to that committee before the approval process? The only sign of activity in the budget was this reference.

Senator Hill—You would not normally do so; it may be technically possible. But I know that is another step that is planned. Where the project approval will fit in relation to that referral I am not sure.

Senator CHRIS EVANS—It would be reasonable to assume, though, that approval would come before the reference to the Joint Public Works Committee?

Senator Hill—Yes, because you need to a fair bit of detail to be able to put to the Public Works Committee, and when we get that amount of detail I would expect project approval about that time.

Senator CHRIS EVANS—It seems to me it would be unlikely, therefore, that it would go to the public works committee this calendar year.

Senator Hill—I would think that is unlikely, yes. But, as General Cosgrove will tell you, the result of recent wartime experience is the focus on what is inside the building rather than the building itself. Whereas in the past the focus might have been on what sort of structured you are going to build, that is a very small part of this total project.

Senator HOGG—How much is that a moving feast? And is that one of the problems that will hold the project up?

Senator Hill—Again, it is a bit like the air warfare destroyer. We have switched emphasis: rather than build a shell and fill it up with things, we are concentrating on what we are going to need to do the job and then you get the shell designed to fit that need.

Gen. Cosgrove—I would comment that while in no way is there any dragging of feet on the project, I am furiously trying to fill the available time with what might be called a mature concept for how the organisation it will host will evolve in light of the experience of the last couple of years. I am trying to match the inexorable rate of the project with design outcomes for the process it will host.

Senator HOGG—Is one of the difficulties that the outcomes will be out of date by the time you get there, in effect?

Senator Hill—That is what you have to build in.

Senator HOGG—I understand that. I am just wondering where you draw the line in the sand and say, ‘We’ve got to go ahead.’

Gen. Cosgrove—We have to go ahead. We have to have a better structure than we have now with headquarters scattered all over metropolitan Sydney, feeding into another headquarters which are imperfectly connected both to them and to Canberra. Nonetheless, we cannot forever think about it. We have to get on with it. So there might be some clever design work involved to create a structure which is a host rather than a straitjacket.

Senator CHRIS EVANS—Can I ask about a couple of other projects that seem to have slipped from your list a bit, having compared previous budgets with the list for approval in 2003-04. Can I ascertain where they are at. There is the soldier combat system. That was once listed for approval in 2003-04; it seems to have slipped off the list.

Vice Adm. Shalders—The soldier combat system is on track, Senator. Phase 1 was the capability definition study, which is complete. Phase 2, which is ongoing, comprises three phases. The current phase is a project definition study preparation. That was approved in 2001-02. A preliminary design phase, phase 2B, will shortly be before the minister, which will be followed by the detailed design phase, and phase 3 is the acquisition, which is out to 2007, I believe.

Senator CHRIS EVANS—Phase 3 was originally for approval in 2003-04, wasn’t it?

Vice Adm. Shalders—I do not believe so, Senator. It has been planned in the capability plan for a 2006-07 year of decision. That is the major acquisition phase.

Senator CHRIS EVANS—It is still on for 2006-07?

Vice Adm. Shalders—At this stage, yes.

Senator CHRIS EVANS—What about the Hornet structural refurbishment stage 2?

Vice Adm. Shalders—It might take me a moment to find that, Senator. I will defer that one for the Chief of Air Force. It might be better to get a more detailed answer from him tomorrow.

Senator CHRIS EVANS—What about joint theatre distribution?

Senator Hill—I don’t think there is any delay in the Hornet.

Senator CHRIS EVANS—These are projects that I could not find in the 2003-04 budget on the list of projects for approval. I am trying to ascertain whether they have slipped or disappeared or whether I have just missed them.

Vice Adm. Shalders—I do not believe there is a problem with the Hornet.

Senator Hill—We have answered some questions on notice on that recently as well—the various phases with the Hornet upgrades.

Senator CHRIS EVANS—Vice Admiral Shalders, I might give you the list of the five or six that I was looking for and we can have a chat in the morning; someone could say whether there is any problem or slippage or whether I have just missed them.

Mr Roche—If I could just deal with the Hornet upgrade phase 2—it is at page 136 in the portfolio budget statement; there is a short brief on it at page 137—the project is under way, funds have been spent and things are being delivered.

Senator CHRIS EVANS—Is that in accordance with the earlier timetable though?

Mr Roche—There is some slippage in the timetable.

Senator CHRIS EVANS—That is what I am getting at.

Air Vice Marshal Monaghan—I think you are referring to the structural upgrade phase 2—is that right?

Senator CHRIS EVANS—Yes.

Air Vice Marshal Monaghan—That is phase 3.2, which is where the confusion came from, as opposed to 2.2, which is the current modification program that we are engaged in.

Senator CHRIS EVANS—Good answer.

Senator HOGG—It is the second best answer of the night.

Air Vice Marshal Monaghan—Phase 2 of the structural upgrade program is dependent upon a number of studies that are going on at the moment to determine what the effective structural life of the Hornet might be, given the amount of structural work that we are undertaking under phase 3.1—this is the current structural upgrade phase that is going on. It really is a matter for government in the light of the introduction of the Joint Strike Fighter, the date of that and how long the Hornet can last, and so it is a more complex problem. Its approval may not even be needed.

Senator HOGG—Do I understand from the PBS at page 136 that there is an estimated cumulative expenditure to 30 June on that project of \$554 million?

Mr Roche—As the air vice marshal has just explained, phase 2 is about—

Senator HOGG—I am with you now.

Mr Roche—its radar's upgraded mission software, avionics and so on.

Senator HOGG—All right; I am with you.

Mr Roche—It is phase 3 you need for the structural upgrade, which is the one that Senator Evans is referring to.

Senator HOGG—Right, and it is not mentioned.

Mr Roche—That is in the study stage and has to go to government for further approval.

Senator HOGG—Yes, I understand that.

Senator CHRIS EVANS—Therefore, it is fair to conclude that that is not for decision in 2003-04.

Air Vice Marshal Monaghan—The decision will be part of a broader study into the transition from the current fighter and bomber fleet—the JSF fleet. Those studies are ongoing and will be given to government when they are complete.

Senator CHRIS EVANS—But there was a project value of that of \$250 million. I am just trying to track when we are likely to be spending that, or if we are going to be spending it.

Air Vice Marshal Monaghan—If we could, we would like to avoid as much of that expenditure as possible and take the aeroplanes through. There are studies into, for instance, how much fatigue life we can get out of the current aeroplanes by the way we fly them and by modification programs—lesser modification programs than the phase 2, of which the central piece is replacement of the centre section of the aircraft. If that can be avoided, and if these other studies can help us avoid it, the money may not need to be spent. Some of that money might need to come forward into phase 1 of the structural upgrade to avoid that, but that is still a matter under consideration.

Senator HOGG—Does that take into account those other 21 aircraft, which have been used for spares at this stage, being reinstated to their former proper state, coming online and lessening the tempo of some of the others?

Air Vice Marshal Monaghan—The Chief of the Air Force and I have talked about that. Tomorrow, the Chief of the Air Force intends to clarify this question of the 20 aircraft, because I do not think the message has been gotten across as accurately as it might. The Chief of the Air Force intends to rectify that tomorrow—and we will. The structural modifications of 3.1 will go across the whole fleet to give the fleet as much structural life as possible while avoiding the major structural upgrade of the centre section change.

Senator CHRIS EVANS—I understand that. I was going to ask, under Air Force, the question about the barrel. It was my most embarrassing time at estimates when I had to be sure that the barrel was what I thought it was—which is the big bit of the plane in the middle.

Air Vice Marshal Monaghan—It is a very important piece, Senator.

Senator CHRIS EVANS—Everything but the wheels and the wings. I couldn't understand why we were going to replace that so I am reassured that we might not. That goes to that whole question of the management of the life of the Hornets and F111s and how that fits in with the JSFs. That is probably a broader discussion. So at the moment phase 3.2 is on the backburner and not active. Is that fair to say?

Air Vice Marshal Monaghan—It is fair to say that we are studying all of our options carefully and any number of options could be available. Some of the options might be a small number of aeroplanes to be changed. The US has already embarked on a program of change and has done several. There might be an active production line that would reduce costs. All options are currently being examined as to how we might avoid the majority of the cost.

Proceedings suspended from 9.30 p.m. to 9.49 p.m.

Senator HOGG—The next issue is the Kinnaird review of the DMO. Can you give us some idea of where the review is up to at this stage, please?

Senator Hill—We are expecting it to conclude next month. We hope to have the report by the end of next month.

Senator HOGG—Will the report be made public, Minister, or will there be—

Senator Hill—What I have said is that the issues relating to release of the report or part of the report cannot sensibly be addressed until we have seen it. Decisions that might be made to which the report contributes would clearly be made public.

Senator HOGG—Could it be said, though, that it would not be unreasonable to expect that the report should be released?

Senator Hill—I hear you. We would like to see the report before we make decisions on that, and I expect the report to be considered on a whole of government basis, so it is not just a matter for me.

Senator CHRIS EVANS—So the report will go to cabinet, will it, Minister?

Senator Hill—I expect so.

Senator HOGG—And has the review team been consulting widely both within Defence and within industry?

Senator Hill—It seemed to me to have been doing a lot of consulting.

Mr Smith—Yes, it has, and elsewhere in other government departments.

Senator HOGG—Is it possible to get some idea of where the consultations have taken place so that we can get a flavour of what has been happening?

Mr Smith—Where it has been taking place?

Senator HOGG—What type of groups?

Mr Smith—I know that within the government they have talked to Treasury and to Finance as well as, several times, to most of us in Defence. I believe they talked to the Department of the Prime Minister and Cabinet. Within the business community, Mr Roche, do you recall that they have had several meetings?

Mr Roche—They have had several meetings with industry and representatives of the industry association. I think a number of people have volunteered to speak to them.

Senator HOGG—Have the inquiry's terms of reference been put out to industry and to the other groups that they are consulting with?

Senator Hill—I do not think so.

Mr Roche—No, I do not think so.

Mr Smith—They would be available to the other departments that they have been consulting with, but I do not think they would be available to industry unless the review team have done—

Senator HOGG—They are not a public document—

Senator Hill—We have just completed a Senate inquiry into the DMO, which was a public review of the new body and the reform process that has taken place—a sort of work in progress assessment. I think it reported reasonably positively, actually. We have done a response to that already which I don't think has been lodged yet but it is very close to being lodged.

Senator HOGG—So there is a response to the Senate inquiry?

Senator Hill—Yes, which means that we are planning to get it in in record time.

Senator HOGG—Minister, that will be welcome indeed.

Senator CHRIS EVANS—They are very quick to reply to the nice ones; the other ones take longer.

Senator Hill—This is really an internal government assessment of the process that it has implemented in recent years. That is why I hesitate a bit on the issue of public release of the report.

Senator HOGG—I was just curious to see whether there was any relationship between the type of inquiry that has been conducted under Kinnaird and that which was conducted by the Senate committee.

Senator Hill—It is a different process.

Senator HOGG—I understand the process.

Senator Hill—The Senate committee called for public submissions; Kinnaird is not calling for public submissions.

Senator HOGG—But one would expect that there would be, hopefully, similar outcomes if the processes were similar, if not the same. It would be interesting—

Senator Hill—If, on the same set of facts, they reached different conclusions that would be interesting.

Senator HOGG—Yes, that would be interesting. The whole purpose of that inquiry that was done by the Senate committee was to try to get some baseline on the newly formed DMO, as it then was, such that the parliament would have some idea in years to come of the advantages, if any, that were gained out of the formation of the DMO. It would seem to me that if there were some complementarity to come out of the Kinnaird review with the review by the Senate committee it would be helpful to get all that information together and be able to access it for the benefit of the parliament.

Senator Hill—I understand that and the Senate did say that it intended to keep the matter under review. I can understand the committee would be interested in this internal government process that is taking place but, whilst understanding that, I am still not in a position at this time to indicate whether the report can be released publicly.

Senator HOGG—Was the report done within the time given to the review committee by the government?

Senator Hill—It has taken a bit longer than we had hoped. What time—

Gen. Cosgrove—Minister, I think it may be a month longer.

Senator Hill—Anyway, it is a little longer. As is often the case, the committee found the issues a little more complex than they might have otherwise thought.

Senator HOGG—That is surprising particularly with DMO. With the time extended that the committee had to do the review was the contract extended or was it done within the same amount of money?

Senator Hill—I do not know the answer to that. That is being managed by Finance, isn't it?

Mr Roche—It is not a fixed-price contract. It is done on time.

Senator HOGG—So is there any idea what the report will cost at the end?

Gen. Cosgrove—It is a Finance led activity from the government's point of view.

Senator Hill—We let them negotiate the deal—

Senator HOGG—So Finance are paying for this?

Senator Hill—and they are sending us the bill!

Senator HOGG—That seems extraordinarily generous of Defence.

Senator Hill—If they did a bad deal, we might remind them of that though.

Senator CHRIS EVANS—Who is the client?

Senator Hill—The client is really across government.

Senator HOGG—Where does the report go, Minister? Does it go to you or to the Minister for Finance and Administration? It must go to a responsible minister.

Gen. Cosgrove—I am going to attempt an answer because of being in SCONS at that time. The secretaries committee was charged by senior ministers with conducting a review. The notion of getting a consultant to head the review as a sort of subcontractor grew out of SCONS with DOFA as the coordinating department arranging the contractual issues with Mr Kinnaird and with SCONS doing things like taking progress reports and, in consultation, adjusting the end date for the presentation of the report.

Senator Hill—If you had to nominate a minister, you would nominate the Prime Minister because it is a whole-of-government process and the panel conducting the review and the terms of the review were settled between me and the finance minister.

Senator HOGG—It is the Prime Minister to whom the report will be delivered?

Senator Hill—I think that is expressing it in a more formal way but, as you are asking for a formal line of command, I would put him at the head of the line of command.

Senator HOGG—Very generous.

Senator Hill—It is probably a safe thing to do.

Senator HOGG—So that is due at the end of the month?

Senator Hill—He is the commanding officer—is that the right language?

Gen. Cosgrove—That is pretty close, I think, Minister.

Senator CHRIS EVANS—For life, I understand now.

Senator HOGG—So that is due at the end of the month—

Senator Hill—The end of July, I said.

Senator HOGG—When will we know the fate of it in terms of whether it will be released publicly—what decision the government is going to take on it?

Senator Hill—We will want to consider it as quickly as possible. I don't want to set myself a timetable about which I will be reminded.

Senator HOGG—The next one is the airborne early warning and control. What is Defence's current assessment of how many aircraft we need?

Senator Hill—The government has agreed to purchase four and it has an option to purchase another two—or three, is it?

Mr Roche—Purchase up to seven.

Senator HOGG—I understood it was four, two and one.

Mr Roche—That is correct, Senator.

Senator Hill—I have obviously forgotten the one. I thought it was an extra two, but I am not going to argue with Mr Roche.

Mr Roche—The third one is priced on a different basis to the two.

Senator Hill—Those that have a price fixed to them are the first two options.

Senator HOGG—That is correct. Do we look like exercising our option on those other two?

Senator Hill—We have not decided.

Senator HOGG—When will the decision be made on the other two?

Senator Hill—I would think the decision will be made in the next 12 months.

Senator CHRIS EVANS—When does the option expire?

Senator Hill—We are getting an extension of the option.

Senator HOGG—For how long?

Senator Hill—Probably 12 months.

Senator CHRIS EVANS—Did the original option expire at the end of June?

Senator Hill—That is correct.

Senator CHRIS EVANS—So you sought and gained an extension on the option?

Air Vice Marshal Gray—Boeing have agreed to the option. We are doing the paperwork at the moment. They have agreed to a 12-month extension to the option.

Senator CHRIS EVANS—On the two?

Air Vice Marshal Gray—On the two aircraft.

Senator CHRIS EVANS—At the same price?

Air Vice Marshal Gray—The price will be within one per cent of the current price. We are still negotiating around the edges on tying down the price of the green aircraft. It will be fundamentally the same price, for a 12-month extension.

Senator HOGG—When will the four that we have contracted for be delivered?

Air Vice Marshal Gray—They are still on schedule. The first two aircraft will be delivered in November 2006. The third aircraft comes in April 2007, and the fourth aircraft in August 2007.

Senator Hill—The project is on time, within budget, and we think achieving capability.

Air Vice Marshal Gray—Definitely.

Senator CHRIS EVANS—On the question of the mission packages, you bought six of those—is that right?

Air Vice Marshal Gray—That is correct.

Senator CHRIS EVANS—When did you buy those?

Air Vice Marshal Gray—They were part of the prime contract. The contract was for four aircraft, all the associated ground support equipment, simulators, logistics package and all of that side of it, and six full sets of mission equipment.

Senator CHRIS EVANS—What is the relative value of the mission packages? I do not want you to give me an exact price, but I would like to have some understanding of what they are and what the cost is relative to the aircraft.

Air Vice Marshal Gray—It depends on how you price them. In the originally negotiated contract for six aircraft, each set of mission system equipment was worth about \$US100 million. In the renegotiation of a contract for four aircraft, because of the set-up costs and the repricing that the subcontractors could do, it was anticipated that price would have increased to about \$US140 million for each ship set, if we only bought four sets.

Senator CHRIS EVANS—When you signed up for four planes in the original contract you signed up for six mission packages—is that right?

Air Vice Marshal Gray—That is correct.

Senator CHRIS EVANS—Why did you buy the six mission packages when you took a decision to buy only the four aircraft?

Mr Roche—The offer of validity of Boeing's offer had expired and had we sought to renegotiate the contract to four aircraft with an expired validity there would have been a necessity for Boeing to allow their contractors to reprice. Their subcontract prices were also outside their time validity. By agreeing to take the same amount of subcontracted material in the form of the mission systems, Boeing was able to hold their subcontractors to the price. In the end I think only one subcontractor varied their price by any amount for the delay. Australia was the lead for this new capability and it was our view that, had we allowed them to reprice, the non-recurring engineering costs, the development costs, would have been spread over four rather than six systems.

Senator CHRIS EVANS—I think I follow the logic of what you said but I want to be clear.

Mr Roche—The expensive bit of those systems is not the metal and components; it is the intellectual property and the thought that goes into the design effort. That is where the real money is.

Senator CHRIS EVANS—I understand that you originally agreed with Boeing to purchase seven and renegotiated that back to four but you were stuck with the contract for six missions.

Mr Roche—We had a contract for six or seven aircraft. That was the offer. We had to renegotiate to four.

Senator CHRIS EVANS—As part of those renegotiations you were effectively locked into accepting the six, or financially you thought it was better to take the six mission packages. I am just trying to understand the logic. It was better to take the six mission packages at the price than to renegotiate the price.

Mr Roche—It was better to take six and prevent the price being renegotiated by the bulk of the contractors. At the same time if they were not eventually to be used there was the potential to resell them or to break them down for spares. That was the plan. As Air Vice Marshal Gray said, we estimated that the cost of the mission system had we gone to four would have become \$140 million each.

Senator HOGG—You got the six for \$100 million each?

Mr Roche—Yes.

Senator HOGG—That leaves you the two spares should you take up the option for the other two.

Mr Roche—Indeed, it enables us to add two to the fleet at a price which is linked to the price of the green aircraft, or to break them down for spares. As spares they are not going to be worth \$100 million.

Senator HOGG—Is there any Australian content in any of these planes?

Air Vice Marshal Gray—Yes. There is about \$400 million worth of direct industry content in the program. There is also nearly \$900 million worth of industry development activities that are funded as part of the Australian industry involvement package.

Senator HOGG—Has that been affected by the choice of going to four rather than six?

Air Vice Marshal Gray—The only difference between four and six is the location of the modifications. We have discussed this in a session before I believe. With the six aircraft package, part of Boeing's offer was to install the mission equipment in Australia for four of the aircraft. The first two aircraft were always going to be prototypes, built in the US, but the other four aircraft could have been installed in Australia. It is not particularly high tech work but it was some work in country. For just two aircraft the risks and the setup costs made it not a viable option to do that work in Australia so there was some lost industry work in that package. We have offset that to a certain extent by ensuring that Boeing actually used a significant number of Australian industry engineers in Seattle—it moved them to Seattle to work on the program—so that we built that industry knowledge to support the aircraft when it comes into service. At the moment we have about 100 Australian engineers working for Boeing in Seattle on the design and development of this program.

Senator HOGG—What about the through-life support? Will that be done here in Australia?

Air Vice Marshal Gray—Yes. The intention is to do as much of that as we can in country. There are some bits of equipment which would not be cost effective to do here and some particular elements will go wherever the commercial repair service is, but the intention is that contractors will do all the deeper maintenance on this aircraft in country. But we are also using Australian industry to provide not just the maintenance but also the running of all the simulators and the provision of a lot of the ground instruction, which traditionally we would have done with military crews. We are now going to use contractors to do that as well. We are also using Australian industry to run the software development facility and the engineering development facility for us. So it is a significant contractor package for through-life support.

Senator HOGG—When does that contract go out?

Air Vice Marshal Gray—We will put it out about a year before the aircraft arrives. We currently have an outline statement of work in the prime contract which sets the scope for the initial couple of years so that we could get a decent price on it. Over the next two years we will negotiate the actual through-life support contract.

Senator CHRIS EVANS—You said that the price would be held for the remaining two aircraft within a per cent or so of what you are finalising. What is the rough cost of those two extra aircraft if we purchase them? The figure I have is about \$300 million. Is that right?

Air Vice Marshal Gray—It is about \$A300 million. It is actually priced in US dollars. The option at the moment is \$US175 million for the two. We will hold it very close to that with the 12-month extension.

Senator CHRIS EVANS—Can I ask about Air 87 and the armed reconnaissance helicopter?

Senator Hill—You can ask whatever you like.

Senator CHRIS EVANS—I noticed that in the 2002 budget we had allocated \$176 million for the project in 2002-03 but now I think it is showing \$23 million. Can somebody explain to me what is happening with the project? I see that the budget statement says it is still on schedule.

Mr Roche—It is still on schedule. What page are you on?

Senator CHRIS EVANS—The budget paper's description is on page 137.

Mr Roche—You were questioning the actual payments for this year?

Senator CHRIS EVANS—Yes, and I am trying to get a sense of the overall state of the project.

Air Vice Marshal Monaghan—The expenditure profile for this year was predicated upon achievement of milestones and the achievement of earned value. It was a matter of timing as to when an earned value system would be put in place, and there would actually be some claims made by the company against earned value whilst still being on schedule. They have not come in ahead of schedule, as we might have hoped, so earned value payments will not be starting up until later this year, so those payments have not been made. In terms of the milestone payments expected to be made, we have currently paid against about 10 milestones out of the 23 milestones that were planned and scheduled. Some of those are completely not

critical and the rest, which is the majority of them, are almost all at the point of acceptance by the Commonwealth. I have to say that the company has been more focused on moving forward with the project than on cleaning up and tidying up milestones to claim payment.

Senator CHRIS EVANS—Looking at the figures and your note in the 2002-03 additional estimates, saying the contract was not meeting the Commonwealth's full expectations in contracted deliverables, and looking at the funding profile, it looks like they will be struggling to meet the deadline. You are assuring me that the work is on time; they are just not putting the bills in on time?

Air Vice Marshal Monaghan—I can say that from the time of the additional estimates advice that was given to you, the company has noted that on quality and timeliness of delivery they were beginning to slip behind. There has obviously been very close attention to all the intermediate milestones. Since that time the company has provided more resources into the teams. Both the quality and timeliness of the work have improved to the point where they are catching up and doing well.

Senator CHRIS EVANS—When you said 23 milestones were they the 23 to be achieved by now, or is that the total for the project?

Air Vice Marshal Monaghan—The 23 that we would have expected to have been claimed and paid had they met and tidied up all of the milestone payments. Of those, they have tidied up and claimed 10. Of the remainder, some are completely non-critical. In that their delivery is not critical until the aeroplane is on the deck here in 2004. Of the remainder, all have made excellent progress. If you were to ask how much the rest of them were complete, they are 90 per cent complete. There is some activity from the Commonwealth to accept their completion and for the others there is some minor work required from the contractor. But if you were to look at the progress on those outstanding milestones, they are almost all complete. So looking at a number like 10 out of 23 is not an accurate picture of how the project is running.

Mr Roche—It is important, too, to recognise that the milestones where there has been some delay in finalising are largely documentation type milestones. There has been an issue with the simulator, and the company will have to produce some alternative arrangements there because there is a bit of a delay. But, overall, the project is proceeding well physically. Two aircraft are in assembly at Marignane in France and are ahead of schedule; and physically the assembly of the first Australian built helicopter has started in Brisbane, again ahead of schedule. So we are very confident of the delivery of the first helicopter on time before the end of 2004.

Senator CHRIS EVANS—This is a very unusual situation—the fact that the spending is behind but you tell me the work is ahead. It is usually the other way around.

Senator Hill—As I think Mr Roche said a little while ago, the customer has become more demanding in some of these projects. The good thing from my perspective is that fragile areas are being identified much earlier. Mr Roche gave the example of the simulator. I think in the past, because the simulator would not have been seen as particularly urgent, the fact that there may have been some contractual difficulties would have been left for another day. Now, these issues are being tackled up front. I think that gives us much greater confidence of actually getting projects delivered on time.

Mr Roche—The simulator was tackled very vigorously. It was not only tackled at the local level; it was taken up with Eurocopter in France at the chief executive officer level. On top of that, the French DGA—the equivalent of the DMO—have been working with us on this and they have also applied pressure to have that fixed in. With that pressure applied, the contractual issues were resolved reasonably promptly and the simulator now is on track, albeit about four months late.

Senator CHRIS EVANS—Okay. I will follow that one with interest.

Senator HOGG—Where are we at with the Seasprites?

Senator Hill—The Seasprite is looking a lot better. Ten aircraft are in Australia and the 11th is still in the United States undergoing test flights. The last critical milestone was achieved in May—

Mr Roche—There were three this year they had to achieve.

Senator HOGG—A critical design review was to be completed by March this year. Was that one of those milestones?

Air Vice Marshal Monaghan—That is correct. The critical design review was held on time and has been completed to our satisfaction.

Senator Hill—Renegotiation of the contract has been completed, so we have overcome the problems of the mismatch between the supply contract and the service contract. There are still integration tests to be passed.

Senator HOGG—So what is the third milestone?

Air Vice Marshal Monaghan—The third milestone for this year was really a test of the simulator in the United States. It was a critical milestone for payment. The simulator is not due for delivery and acceptance in Australia until November 2004.

Senator HOGG—And was the outcome of that successful?

Air Vice Marshal Monaghan—All milestones that have been predicted have been achieved within a reasonable period of their due date.

Senator HOGG—And what is the latest estimate of when the first fully capable aircraft will be accepted into service?

Mr Roche—Still the end of 2004.

Senator HOGG—Still the end of 2004?

Mr Roche—That is the date we gave you last time. Of the 10 aircraft in Australia I think five have passed their flight tests and are now flyable. We are expecting the remainder of them to complete—

Air Vice Marshal Monaghan—I would have to look up the date.

Senator HOGG—And the other five?

Mr Roche—They are in progress right now.

Senator HOGG—What is the likely date?

Air Vice Marshal Monaghan—I can have a look for the date. The issue is that the aeroplanes are simply assembled and it is a postproduction flight test. There is no developmental component to that; it is just assembly and postproduction flight test.

Senator HOGG—So when could we expect to see the squadron of Seasprites operational in the sense that they are crewed and accepted into service, given that you are accepting the first of them at the end of 2004? When do you expect a fully operational squadron?

Air Vice Marshal Monaghan—The fully operational capability will be years following that date as the Navy develops all of their necessary tactical and operating procedures, completes the training of their aircrew and establishes the proper training infrastructure of their aircrew system. We will be fully ready as of December 2004 to provide the full range of logistic and training support required of the contract.

Mr Roche—We will have 11 operational aircraft by—

Air Vice Marshal Monaghan—December 2004. It is just a software upgrade.

Mr Roche—So all aircraft will be at a fully operational level, ready to go, at the end of 2004.

Senator HOGG—And that includes the 11th?

Mr Roche—It includes the 11th. The 11th has actually been flying for some considerable time. It is a flight test aircraft and I think it has been flying since the early stages of the project so it is not an issue. Given the progress against the milestones to date, we expect to see it flying as a utility helicopter in the third quarter of this year.

Senator HOGG—How much will be spent on the project this year?

Air Vice Marshal Monaghan—I can give you those figures.

Senator HOGG—Is it in the budget?

Mr Roche—Yes, it is.

Senator HOGG—In the PBS?

Mr Roche—It is in the figures in here. The figure you are probably interested in is how much we will have left at the end of it.

Senator HOGG—Yes, I would be interested in that.

Mr Roche—Up until the point at which we accept the final version of the software, we will be holding a financial guarantee of \$US20 million and we will be withholding payments of about \$US40 million. We estimate the cost of building the software that we need from the ground up to be less than \$A50 million. In other words, we will be holding approximately double what you need to complete the software at the completion of the project.

Senator HOGG—And the expenditure this year?

Mr Roche—The budget estimate for the Anzac ship helicopter is \$60 million for this year.

Senator HOGG—And that is \$60 million Australian?

Mr Roche—Yes.

Senator HOGG—When will you be accepting the aircraft as your own possession into service?

Mr Roche—We would expect to commence provisional acceptance later this year, in the third quarter.

Senator Hill—Have we made a final decision on that? There were a number of contractual prerequisites to that.

Senator HOGG—So what are those, Minister?

Mr Roche—They have to continue to meet milestones and they have to make satisfactory progress on the software, and we are monitoring that on a week by week basis so that we know exactly how they are going. If for any reason that is not happening then we don't proceed with any provisional acceptance.

Senator HOGG—So you will not start with the provisional acceptance until the milestones are met for all the aircraft or for those that you want to accept?

Mr Roche—We are concerned about the software milestones at the moment. That is the problem area.

Senator HOGG—That is the problem?

Mr Roche—Yes.

Senator HOGG—Assuming that that applies to all the aircraft—

Mr Roche—Assuming that those software milestones continue to be met and there are no other issues—

Air Vice Marshal Monaghan—That is correct.

Mr Roche—we would expect to be able to commence provisional acceptance in the third quarter of this year.

Senator HOGG—Does that raise any legal issues?

Mr Roche—Yes, very significant issues.

Senator Hill—They have been explored. That was my hesitancy. If there is no legal risk—no contractual risk—then we would like to get on with the job of getting the pilots trained to fly the aircraft.

Senator HOGG—But there may well be significant legal issues?

Senator Hill—No, they are overcome.

Mr Roche—They are overcome. They were built into the contract revisions that were agreed earlier this year, and those contract revisions preserve all the Commonwealth's existing rights and entitlements under the original contract. In making the adjustments to schedule and to provisional acceptance arrangements, all our original rights have been preserved. We have had all the best legal advice on that.

Senator HOGG—I look forward to seeing what happens.

Senator CHRIS EVANS—I want to ask about the FFG upgrade. Last time we spoke there was the hope that the delay could be brought back to about 18 months, but I see the budget

papers are still talking about 24 months. I want an update on how the project is going and why the improved timetable did not seem to work.

Rear Adm. Scarce—The company is confident of delivering in the 18-month delay. We are viewing the delay still at 24 months. We will incentivise the company to deliver the FFG within the 18-month delay period. That incentive will feed out to 24 months.

Senator CHRIS EVANS—How will you do that?

Rear Adm. Scarce—You give them an incentive bonus to complete in 18 months, and that incentive bonus decreases up to 24 months. If they are longer than 24 months, liquidated damages will be applied.

Senator CHRIS EVANS—So you renegotiated the contract?

Rear Adm. Scarce—We are doing that now.

Senator CHRIS EVANS—You say that you are going to do that but that is not finalised, rather it is your intention?

Rear Adm. Scarce—That was the agreement between the head of ADI and me prior to going to government to explain the delay.

Senator Hill—But it means that there is no further delay since we last met.

Rear Adm. Scarce—There is no further delay.

Senator Hill—We have consolidated the position now, and the first ship goes into the works later this year.

Rear Adm. Scarce—On 22 September this year.

Senator CHRIS EVANS—But what you are saying to me is that you are not—

Senator Hill—We will have to have a little ceremony.

Senator CHRIS EVANS—I would not spend too much money on the ceremony.

Rear Adm. Scarce—I think the company has done a very good job. I know it is late—and there are lots of reasons why it is late—but the company has put a lot of work into getting back on track to recover some of the delay. We are now much more confident that they can deliver the upgrade to the ship, and we will incentivise them to do that. Whilst we all regret that it is late, there has been a lot of work by the project and ADI to produce a good product.

Senator CHRIS EVANS—I was not trying to flay you, Rear Admiral Scarce. I just noticed that, in your document, you had gone back to 24 months in terms of the government's budget document.

Rear Adm. Scarce—That is the figure that I am confident—

Senator CHRIS EVANS—You seem less optimistic than last time we spoke, that is all.

Rear Adm. Scarce—No. It is 24 months, which is my expectation and, as I have said, we will incentivise them to deliver within the time frame that they think they can deliver within.

Mr Roche—I think we are being properly conservative at the moment, given the history of this project. We did have the opportunity to review some demonstrations of the combat system software recently. I know that the Vice Chief of the Defence Force went to one of

these demonstrations, and I think that we were considerably encouraged by the progress that the company has made in some of the more difficult aspects of the software. So I think that our optimism levels are rising and we are coupling that with a fairly conservative estimate plus incentives.

Senator CHRIS EVANS—The incentives: are they incentives or disincentives?

Rear Adm. Scarce—They are incentives for them to deliver the upgraded ships 18 months late.

Senator CHRIS EVANS—Does that mean you will pay them more than the original contract to meet the 18 months—

Rear Adm. Scarce—No, it does not mean that. There were incentive payments in the original contract which we have not paid, and the same incentives will now be rescheduled based upon them delivering 18 months late.

Senator CHRIS EVANS—I assumed you were not going to pay the incentives on a 24-month late delivery—

Rear Adm. Scarce—That is correct.

Senator CHRIS EVANS—So, under the original contract, the incentives were not payable—is that right?

Rear Adm. Scarce—Yes.

Senator CHRIS EVANS—So you have reintroduced the concept of incentives—out of the current budget?

Rear Adm. Scarce—Out of the current budget, yes.

Senator CHRIS EVANS—How much of the current budget was allocated to incentive payments?

Rear Adm. Scarce—I will take that on notice. I do not have the figures.

Senator CHRIS EVANS—As a rough idea.

Rear Adm. Scarce—It will be very small—less than half a per cent.

Senator CHRIS EVANS—Yes, that is what I would have thought. It is still serious money but it is a relatively small amount, given the size of the project.

Rear Adm. Scarce—It is modest by the size of the project but attractive for the company.

Senator CHRIS EVANS—Yes. So the money for incentives that was allocated as part of the original project would have lapsed, because they were time incentives, weren't they? They were delivery incentives?

Rear Adm. Scarce—They were delivery milestone incentives, yes.

Senator CHRIS EVANS—And that has been restructured now to all apply within that six-month window of opportunity from the 18- to the 24-month delay—is that right?

Rear Adm. Scarce—That is correct.

Senator CHRIS EVANS—If they do not make the 24-month delay deadline then not only are there not incentives but you have also renegotiated for liquidated damages. Is that correct?

Rear Adm. Scarce—That is our intention: to have liquidated damages if they are beyond 24 months.

Senator CHRIS EVANS—Were there liquidated damages in the original contract?

Rear Adm. Scarce—There were liquidated damages in the original contract, yes.

Senator CHRIS EVANS—Will they be applied in much the same way or is there a major change in the way that is structured?

Rear Adm. Scarce—The liquidated damages were to apply in the coming months. Those liquidated damages have not occurred yet; the time frames have not occurred. We will renegotiate the contract based upon the current delay that has been agreed.

Senator CHRIS EVANS—I would like you to take on notice when they would have applied. The company would have been liable for liquidated damages under the original contract. What was the extent of those liquidated damages?

Rear Adm. Scarce—I will have to get back to you on the amount, if that is what you are looking for.

Senator CHRIS EVANS—Yes, I would like that. One, I would be interested in the amount but, equally, the time frames for them. Is it a case of the damages applying because they do not meet—

Rear Adm. Scarce—The damages were assessed against milestones and those milestones have not occurred yet. The liquidated damages will not apply until the expiration of the milestones, but we will renegotiate the contract with new milestones and new liquidated damages clauses.

Senator CHRIS EVANS—Those milestones were a series of milestones over the next few months, were they?

Rear Adm. Scarce—Over the next period of years, yes.

Senator CHRIS EVANS—Effectively, under the current arrangements, they would not make those milestones.

Rear Adm. Scarce—That is correct.

Senator CHRIS EVANS—What is the extent of the potential liquidated damages against the company? I know you said you would take on notice the exact figure; I am just trying to get a sense of it. Is that again a fairly small sum compared to the total contract or is it a major disincentive?

Rear Adm. Scarce—It is a significant payment from the company.

Senator CHRIS EVANS—So does ‘liquidated damages’ mean they still have to meet the contract but they pay you money?

Rear Adm. Scarce—If they fail to meet selected milestones, they would pay us an amount of money per day that they fail to meet the milestone.

Senator CHRIS EVANS—So it is a per day rate?

Rear Adm. Scarce—Generally, yes.

Senator CHRIS EVANS—And that is in addition to maintaining their obligations to meet the contract?

Rear Adm. Scarce—That is correct.

Senator CHRIS EVANS—So is the daily rate of payment from a company one rate after one milestone and an increasing rate after the next milestone?

Rear Adm. Scarce—I would need to get back to you on the detail.

Senator CHRIS EVANS—Perhaps you could take on notice the nature of the damages contained in the contract and the detail of the new one. In terms of giving me a sense of the size of it, what are we talking about—half a per cent or one per cent of the contract?

Rear Adm. Scarce—I would need to get back to you. I do not know the details. It changes depending on the milestone, so it is not a flat rate; it will depend on the particular event. There will be a range of them.

Senator CHRIS EVANS—In terms of spending on this project, it looks like a large percentage of the money has already been expended, even though the work has not commenced.

Rear Adm. Scarce—The work is well under way and we have probably 70 per cent of the equipment that we expected. We have a large cache of equipment—radars, sonars—and we have a considerable amount of the software work completed, and I think in early June we are starting production on the lead ship. Whilst there has been a lot of money spent, we have a considerable amount of deliverables in our sheds, ready to be placed on the ships as soon as production starts.

Senator CHRIS EVANS—So you have deliverables. Are they in your possession or the company's possession?

Rear Adm. Scarce—They are in the company's possession, but—

Senator CHRIS EVANS—You know they are there.

Rear Adm. Scarce—We know they are there; we are looking at them.

Senator CHRIS EVANS—So, when you are worried about the contract, you can go in and feel the deliverables and reassure yourselves. You were going to tell me that the first ship goes in—

Rear Adm. Scarce—On 22 September.

Senator CHRIS EVANS—What is the length of time projected for that ship's upgrade?

Rear Adm. Scarce—Nine months.

Senator CHRIS EVANS—What about the schedule for the following ships?

Rear Adm. Scarce—There will be a small overlap in the first and second ships, so as soon as the first ship is due to come out we will bring the second in. I can give you a more accurate time frame on notice. I do not have the lead ship—

Senator CHRIS EVANS—Yes, could you give us the time frame on the schedule. Are the older ships going in first?

Rear Adm. Scarce—Generally that is the case. It again depends on operational availability and just how the ships are required, but that would be the plan.

Senator CHRIS EVANS—If you could take the schedule on notice I would appreciate that. Could you explain to me this notion of phase 4B of the project?

Rear Adm. Scarce—Where did that come from, Senator?

Senator CHRIS EVANS—From the minister, actually.

Senator Hill—Where did the minister get it? That is the real question.

Senator CHRIS EVANS—The minister, when I asked him about it in the Senate, said—and I am not trying to verbal anyone here, but I think this is correct:

... with regard to the FFGs, the oldest of them will not be upgraded to the same level ...

I understand Defence explains that by referring to phase 4B of the upgrade project.

Rear Adm. Scarce—I am just checking. It may well be SM1. Phase 4B is looking at the replacement of SM1. SM1 has some problems with a rocket motor, which will gradually go out of date towards the end of this decade.

Senator CHRIS EVANS—What is SM1?

Rear Adm. Scarce—Standard missile 1. It is a missile on the FFGs, shortest range, anti-air.

Senator Hill—One of the projects we mentioned earlier this evening was the replacement of standard missile 1 with the standard missile 2. Now it is not treated as part of this—

Mr Roche—No, it is a separate project.

Senator Hill—It is a further upgrade.

Senator CHRIS EVANS—Is it fair to describe it then as phase 4B?

Rear Adm. Scarce—It is not really a phase of the FFG upgrade program. It is a separate phase to look at the possible replacement of the SM1 missile because of obsolescence and rocket motor problems.

Senator HOGG—Is it one of these projects under review that we heard about earlier today?

Rear Adm. Scarce—Yes. It has not been approved.

Senator Hill—It is in the white paper but not approved.

Senator CHRIS EVANS—Do I take it that it is your intention not to provide whatever solution comes for the SM1 issue to the older frigates?

Rear Adm. Scarce—The first issue is that we need to look at the SM1 missile itself and at the costs involved. That is what we are doing at the moment—understanding what the costs are, what they might be to integrate the combat system. We will then look at the cost of integrating the four or six ships. As I say, it is not an approved program at the moment, so we are studying all the options and the costs.

Senator Hill—DSTO has been doing work on the existing missile system to see whether it is possible for its life to be extended. There are a number of different factors that we are taking into account. It is that small range of projects that really relate to air warfare, basically—air warfare capabilities.

Senator CHRIS EVANS—Has there been any decision taken to delineate between the older FFGs and the more recent FFGs in relation to those projects?

Rear Adm. Scarce—Not at this stage.

Senator Hill—There is not any on this current upgrade, is there?

Vice Adm. Ritchie—The notion of replacing SM1 with SM2 has been looked at for a couple of years. Given the magnitude of the change, the cost and the life of ships, it has only ever been envisaged that we would do it for the four youngest ships. So there has never been any consideration given to doing the six.

Senator CHRIS EVANS—It is not right then to consider that as part of this FFG upgrade project?

Vice Adm. Ritchie—For convenience, it is called 1390 phase 4B, but it is unapproved, unfunded. The rest of the thing is approved, is funded and is under way.

Senator CHRIS EVANS—So it has been described as 4B?

Vice Adm. Ritchie—Yes.

Senator CHRIS EVANS—And it is the case that that would only be considered for the four more recent ships?

Vice Adm. Ritchie—It has only been proposed for the four more recent ships.

Senator CHRIS EVANS—Even that remains unapproved?

Vice Adm. Ritchie—That remains unapproved.

Senator CHRIS EVANS—But the logic there is that the cost of the upgrade, given the remaining life of the ships—

Vice Adm. Ritchie—The cost of the upgrade and the remaining life of the oldest two ships.

Senator CHRIS EVANS—makes it uneconomical. I think I have it now; thanks for that. It seems to me that the last PBS has you spending less money in 2002-03 on this project than was proposed in the additional estimates last year. Are you withholding contracted payments from the contractor?

Rear Adm. Scarce—We are slowing down the payments to the contractor. We have not delivered all of the functionality in relation to the combat system design so that is the reason some of the payments will move out to 2003-04.

Senator CHRIS EVANS—They haven't delivered all of the elements of the combat system design?

Rear Adm. Scarce—Sorry. Because of the delay, ADI have not delivered all of those elements and that is why there has been a reduction in expenditure.

Senator CHRIS EVANS—So have you withheld payments from them? Is it fair to describe it that way?

Rear Adm. Scarce—I would not say that we have withheld payments. We clearly have not paid for products that have not been fully delivered and there are elements of systems that have been delivered and we will pay on completion of the delivery of the system.

Senator CHRIS EVANS—Are you paying in accordance with the contract or is that one of those items that has been renegotiated?

Rear Adm. Scarce—We are paying in accordance with the contract. There are some exceptions to that that we have agreed with the company.

Senator CHRIS EVANS—What sorts of exceptions?

Rear Adm. Scarce—The exception that I gave you: the fact that some systems have not been delivered and therefore we are not—

Senator CHRIS EVANS—I am sorry. I guess I was taking it the other way. I assume that if they had not delivered the systems, the contract would mean that you would not have to pay them—is that right?

Rear Adm. Scarce—No. If they have delivered a system, we will pay in accordance with the contract. What I am saying is that, with a 24-month delay, ADI have not delivered all the systems we would have expected and therefore there are some delays in some of the payments this year which will be delivered next year.

Senator CHRIS EVANS—You are not going to pay them until you are satisfied that they have delivered the system?

Rear Adm. Scarce—That is correct.

Senator CHRIS EVANS—That explains why, compared with the last estimate, there is \$56 million less to be spent in 2002-03 than was anticipated at the time of additional estimates.

Rear Adm. Scarce—That is the principal reason.

Senator CHRIS EVANS—And those moneys will be paid in 2003-04?

Rear Adm. Scarce—That is correct.

Senator CHRIS EVANS—What percentage of the contract price remains unpaid to ADI?

Rear Adm. Scarce—I would have to look through that, but probably in the region of 30 to 40 per cent. I will get you an accurate figure.

Senator CHRIS EVANS—Yes, because I did a rough calculation that over 60 per cent of the budget would have been spent by the end of June this year.

Rear Adm. Scarce—That is about right. And most of that is in equipment that has been delivered.

Senator CHRIS EVANS—But the renegotiated contract will ensure that the rest of the money is paid only on agreed milestones?

Rear Adm. Scarce—That is correct.

Senator CHRIS EVANS—And when do you hope to have that renegotiated agreement signed?

Rear Adm. Scarce—In the next two months. Work has commenced but it is a complex and significant contract change and that will take us a couple of months.

Senator CHRIS EVANS—But the principles about that have been agreed between the parties?

Rear Adm. Scarce—The principles have been agreed. It is now a question of putting them into a contract.

Senator CHRIS EVANS—And government have ticked off on the principles?

Rear Adm. Scarce—That is correct.

Senator CHRIS EVANS—Thank you for that.

Senator HOGG—I have a couple of questions on the Joint Strike Fighter project.

Mr Roche—You might be relying on me, Senator.

Senator HOGG—That is all right. How many defence personnel are currently assigned to the project—do we know?

Senator CHRIS EVANS—Obviously you are not going to be enough.

Mr Roche—No, I'm not going to be enough.

Gen. Cosgrove—I don't know either.

Senator CHRIS EVANS—We thought you were coming to rescue him.

Gen. Cosgrove—No, coming up to support.

Mr Roche—Counting Air Force personnel and civilians, I suspect the number is between 20 and 30, but I would want to check that.

Senator HOGG—Are any personnel based in the United States?

Mr Roche—Yes. We have one Air Force officer who is located with the JSF project office, a so-called national deputy. Each of the partner countries has one of those. We have a locally engaged staff in Washington who is focusing on the industry side of the project, and there may be somebody from DSTO there. I would need to check that. I have just been informed that there is a logistics officer about to go across as well.

Senator CHRIS EVANS—Where are they being based?

Mr Roche—The national deputy is based in Washington, as is the locally engaged staff and the logistics officer—in Washington, in the joint strike fighter project office.

Senator HOGG—The budget this year shows \$36 million to be spent on the project. Can you give us some idea of what the money will actually be spent on? I have read the description in the PBS. It does not seem to be very precise.

Senator Hill—We are buying into the design and demonstration phase of the aircraft. Basically it is a contribution to the cost of design and development of the aircraft.

Senator HOGG—It says ‘for collection and analysis of system development and demonstration information’.

Senator Hill—It is a consortium of countries contributing at different levels. We are a tier 3 contributor, which means that we have agreed to a commitment—

Mr Roche—A commitment of \$US150 million.

Senator Hill—over about 10 years. The money is in effect pooled and paid to develop the aircraft.

Senator HOGG—You said \$150 million over 10 years.

Mr Roche—I think it is over 10 years; it may be eight.

Senator HOGG—How does that relate to the approved project expenditure of \$269 million in the PBS?

Mr Roche—It is \$US150 million.

Senator HOGG—It is US dollars; sorry, I missed that. So this is our contribution to buying into the project.

Mr Roche—That is correct.

Senator HOGG—Does that include personnel costs?

Mr Roche—No, it does not. That is the contribution to the US joint project. On top of that, we have to bear any costs that we have here separately—that is, our own personnel costs.

Senator HOGG—So that is not included in the \$269 million approved cost for the project?

Mr Roche—It is not normal to do that.

Senator HOGG—So it is over and above that. In terms of Australian industry involvement in the project, have any contracts been signed with Australian companies for work under the project, or is it too soon?

Mr Roche—Not as yet. We are fairly hopeful that we will see one within the next month, and that will be a contract for Australian engineers to go to the US and work on the project in the US.

Senator HOGG—Will that be with Lockheed Martin?

Mr Roche—I will check that.

Senator CHRIS EVANS—Are you suggesting that somebody won a contract to supply engineers or is this a separate arrangement?

Mr Roche—No, it will be a contract to supply them. The project can do with additional engineers. They are working with Lockheed Martin. The placement of Australian engineers is from Hawker De Havilland into Lockheed Martin in Palmdale, California.

Senator HOGG—How many are working there? Does it tell you?

Mr Roche—No, I do not have a number. We can check that.

Senator HOGG—Have any contracts under the project been signed with US companies?

Mr Roche—A considerable number of contracts have been signed for this project. It has been under way for some while.

Senator Hill—We were not in it at the beginning of the project.

Senator HOGG—No, by us with US companies.

Senator Hill—I am sorry?

Mr Roche—This is with a US company. This is between Hawker De Havilland Australia and Lockheed Martin. It is not signed yet but we are expecting to see it within a very short period.

Senator CHRIS EVANS—Is that because of some idea of skill transfer, Mr Roche? Australian engineers are going into the project.

Mr Roche—The engineers are needed. From the project point of view, they actually need the resources. From our point of view, yes, there is a significant skill transfer element in it.

Senator CHRIS EVANS—It is not just an employment contract or labour hire, saying, 'We have 10 engineers who can work for you,' it is an intellectual property exchange or—

Mr Roche—We will expect to see a real skill transfer in the engineers who have worked on this project when they do come back to work in Australia.

Senator CHRIS EVANS—And you expect them to come back to work on the JSF support project here or—

Mr Roche—I would expect that they have some ongoing connection with the project, yes.

Senator Hill—If Australia ultimately buys this aircraft, it is going to have to be able to maintain, support and upgrade it in Australia. The more we can develop the skill base that is going to do that effectively the better off we will be. We would also hope that by developing that skill base we may do regional work for other purchasers of the JSF.

Senator CHRIS EVANS—I thought we had decided to buy it, Minister Hill. I am not sure what the line is on that.

Senator Hill—No, we have not decided to buy it. The year of decision is 2006.

Senator CHRIS EVANS—But you abandoned work on the replacement fighter project?

Senator Hill—That is correct. We committed to the design and development of this aircraft, which obviously we therefore believe will achieve our future fighter need, but we do not actually make a decision to purchase aircraft until, from memory, 2006.

Senator HOGG—Do certain milestones have to have been reached in the project?

Senator Hill—Our expectation is that we will be purchasing the aircraft but we do not have to make that decision for a few years.

Senator HOGG—Do there have to be certain milestones in the project for you to proceed to the next stage to consider the purchase?

Senator Hill—The government would obviously, in 2006, consider the progress of the aircraft. The first aircraft is due to fly at the end of 2004. This is a huge design challenge but, on the other hand, it is being tackled with an unprecedented budget and project skill base.

Basically, the whole global skill base is going into this particular aircraft. So there is a lot of reason to be confident.

Mr Roche—By the time the government makes a decision on this it will have seen the first engine run, which is due in October this year, and the first flight of the aircraft. It will not be buying a paper aircraft. Indeed, if it were a paper aircraft, there are already prototypes that have flown and demonstrated a range of flight—supersonic flight, vertical take-off, vertical landing and so on, which is quite significant for an aircraft of this type.

Senator HOGG—Have any contracts for the system development and demonstration phase been let?

Senator Hill—Yes.

Mr Roche—Yes. Work is well advanced.

Senator HOGG—Are we involved in those contracts?

Mr Roche—We have a significant number of Australian companies in the process of responding to requests for information and requests for tender. We have lodged a number of bids. We have not been successful in bids, apart from the one that I mentioned to you, to date but I think that we have—

Senator HOGG—Why haven't we been successful?

Mr Roche—In most cases because we were not best value. There has been, I think, one or two cases where failure in the process to get licence clearance for the information meant that we lost out and we have been addressing that quite vigorously. Mostly it has been uncompetitive on price.

Senator HOGG—What is that mainly due to—the dollar?

Senator Hill—It is a global competition. Perhaps some of our companies have not been subjected to that sort of competition in the past.

Senator HOGG—It is not our skill base that has been dropping?

Mr Roche—There has been one case where the Australian company concerned did not believe that it could produce the tolerances required and there was a skill gap there. As the minister said, the global competition has been intense on this. Companies are looking to follow-on orders to cover between 4,000 and 6,000 aircraft. So some companies, for example, have been prepared to forgo their non-recurring expenditure up front to get a leg in at this stage, and I think we are learning about that. We are sending a team to the US to pursue Lockheed quite vigorously on this to discover exactly how that has worked. Also, Australian companies are learning to do some business the American aerospace way. It is a different market to work in and it requires some different skills. Australian companies are learning that very rapidly. We are putting a lot of effort into doing whatever we can to assist.

Senator Hill—From my most recent consultations with Lockheed Martin, I have been led to believe that our companies may be more successful in the next round of contracts. I think they feel that from the first round the companies have learned something about the way to do business in this global environment, and they seem quite confident that Australian companies will ultimately get a fair share of the work. And, to give the Australian companies credit, there

is a lot of them bidding. They have put a lot of work into it so far, both here and in the United States. They have combined together in a team Australia approach, which is the first time that I have known that they have done that in an aerospace contract of this type. They are being well supported by my department in that regard, which I am pleased to see.

Mr Roche—We are monitoring progress very closely and we are pursuing all opportunities. We are certainly making sure that the lead contractors get very good visibility of Australian companies.

Senator Hill—The prize is huge. Even if they get a very small slice of the design and demonstration phase, and do it well, they will have a chance of getting that small slice of the total production phase, which will be a massive contract.

Committee adjourned at 11.03 p.m.