



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE
AND TRADE

ESTIMATES

(Additional Budget Estimates)

WEDNESDAY, 14 FEBRUARY 2007

CANBERRA

BY AUTHORITY OF THE SENATE

INTERNET

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

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

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

**SENATE STANDING COMMITTEE ON
FOREIGN AFFAIRS, DEFENCE AND TRADE
Wednesday, 14 February 2007**

Members: Senator Johnston (*Chair*), Senator Hutchins (*Deputy Chair*), Senators Mark Bishop, Ferguson, Hogg, Payne and Trood

Senators in attendance: Senators Adams, Mark Bishop, Chris Evans, Faulkner, Ferguson, Forshaw, Hogg, Hurley, Hutchins, Johnston, Ludwig, Macdonald, McEwen, Nettle, Payne, Sterle and Trood

Committee met at 9.05 am

DEFENCE PORTFOLIO

In Attendance

Senator Ellison, Minister for Justice and Customs

Department of Defence

Portfolio overview and major corporate issues

Portfolio overview

Mr Nick Warner, Secretary of Defence

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

Budget summary (financial statements, capital investment budget and improvement initiatives)

Mr Phillip Prior, Chief Finance Officer

Mr Tim Youngberry, Chief Finance Officer Defence Materiel Organisation

Mr George Veitch, First Assistant Secretary Budgets and Financial Planning

Capability development

Lieutenant General David Hurley AO, DSC, Chief Capability Development Executive

Air Vice Marshal John Harvey, Director-General New Air Combat Capability

Dr Roger Lough, Chief Defence Scientist

Defence Materiel Organisation

Outcome 1: Defence capabilities are supported through efficient and effective acquisition and through-life support of materiel

Output 1.1: Management of capability acquisition (including major capital equipment projects)

Output 1.2: Capability sustainment

Output 1.3: Policy advice and management services

Dr Stephen Gumley, Chief Executive Officer Defence Materiel Organisation

Major capital facilities projects

Mr Geoffrey Beck, Head Infrastructure Division

Air Commodore Brian Plenty AM, Director-General Headquarters Joint Operations Command Project

Defence outcomes**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**

Lieutenant General Ken Gillespie AO, DSC, CSM, Vice Chief of the Defence Force

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, meteorological and oceanographic operations**

Vice Admiral Russ Shalders AO, CSC, RAN, Chief of Navy

Outcome 3: Army capability for the defence of Australia and its interests**Output 3.1: Capability for special operations****Output 3.2: Capability for medium combined arms operations****Output 3.3: Capability for light combined arms 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 combined arms operations****Output 3.10: Capability for protective operations**

Lieutenant General Peter Leahy AO, Chief of Army

Outcome 4: Air Force capability for the defence of Australia and its interests**Output 4.1: Capability for air combat operations****Output 4.2: Capability for combat support of air operations****Output 4.3: Capability for surveillance and response operations****Output 4.4: Capability for airlift operations**

Air Marshal Geoffrey Shepherd AO, Chief of Air Force

Outcome 5: Strategic policy for the defence of Australia and its interests**Output 5.1: International policy, activities and engagement****Output 5.2: Strategic policy and military strategy**

Mr Michael Pezzullo, Deputy Secretary Strategy

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

Mr Stephen Merchant, Acting Deputy Secretary Intelligence and Security

Outcome 7: Superannuation and housing support services for current and retired defence personnel

Output 7.1: Superannuation support services for current and retired defence personnel

Output 7.2: Housing assistance for current defence personnel

Output 7.3: Other administered expenses and revenue

Major General Mark Evans DSC, AM, Head Defence Personnel Executive

Business processes

Inspector General

Dr Ian Williams, Inspector General

Chief Information Officer

Air Vice-Marshal John Monaghan AM, Chief Information Officer

Corporate Services

Martin Bowles, Deputy Secretary Defence Support

Mr Geoffrey Beck, Head Infrastructure Division

Mr Mark Cunliffe, Head Defence Legal

Coordination and Public Affairs

Mr Peter Jennings, Chief of Staff Australian Defence Headquarters/Head Coordination and Public Affairs

People

Defence Personnel

Major General Mark Evans DSC, AM, Head Defence Personnel Executive

Ms Sue Parr, Acting First Assistant Secretary Personnel

Air Vice Marshal Clive Rossiter, Head Aerospace Systems Division

Air Vice Marshal Chris Deeble, Program Manager Airborne Early Warning and Control

Air Commodore Mark Binskin, AM, Director-General Capability Planning-Air Force

Mr Frank Roberts, Head National Operations Division, Defence Support Group

Rear Admiral Trevor Ruting, Head Maritime Systems Division, Defence

Rear Admiral Mark Bonser, Head Military Justice Implementation Team

Mr Frank Roberts Head National Operations Division

Commodore Mark Campbell, Director General Navy Aviation System

Tim Scully, Head Defence Security Authority

Department of Veterans' Affairs

Portfolio overview

Corporate and general matters

Mr Mark Sullivan, Secretary

Outcome 1: Eligible persons (including veterans, serving and former defence force members, war widows and widowers, certain Australian Federal Police personnel with overseas service) and their dependents have access to appropriate income support and compensation in recognition of the effects of their 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

1.5: Incapacity payments, non-economic lump sums through SRCA

1.6: Administer individual merit reviews of SRCA decisions

1.7: Incapacity payments, non-economic lump sums through MRCA

1.8: Administer individual merit reviews of MRCA decisions

Mr Mark Sullivan, Secretary

Mr Ed Killesteyn, Deputy President

Mr Ken Douglas, General Manager, Service Delivery

Mr Barry Telford, General Manager, Policy and Development

Mr Chris Harding, General Manager, Business Integrity

Outcome 2: Eligible persons (including veterans, serving and former defence force members, war widows and widowers, certain Australian Federal Police personnel with overseas service) and their 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

2.3: Deliver medical, rehabilitation under SRCA and related legislation

2.4: Deliver medical, rehabilitation under MRCA.

Mr Mark Sullivan, Secretary

Mr Ed Killesteyn, Deputy President

Mr Ken Douglas, General Manager, Service Delivery

Mr Barry Telford, General Manager, Policy and Development

Dr Graeme Killer, Principal Medical Adviser

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: Develop and implement commemorative initiatives

3.2: Maintain, construct and refurbish war graves and post war commemorations

3.3: Coordinate and manage the delivery of commemorative and related activities at Gallipoli

Mr Mark Sullivan, Secretary

Mr Ed Killesteyn, Deputy President

Ms Kerry Blackburn, General Manager, Commemorations and War Graves

Major General Paul Stevens AO (Retd), Director, Office of Australian War Graves

Outcome 4: The veteran and defence and certain Australian Federal Police communities have access to advice and information about benefits, entitlements and services

4.1: Communication, community support to the veteran community and providers, including veterans' local support groups.

4.2: Advice and information to members of the defence force community under the SRCA

4.3: Advice and information to members of the defence force community under the MRCA

Mr Mark Sullivan, Secretary

Mr Ed Killesteyn, Deputy President

Ms Jo Schumann, General Manager, Corporate

Mr Chris Harding, General Manager, Business Integrity

Mr Ken Douglas, General Manager, Service Delivery

Mr Barry Telford, General Manager, Policy and Development

Ms Kim Loveday, National Manager, Parliamentary and Corporate Affairs

Mr Neil Bayles, Chief Finance Officer

Outcome 5: Serving and former defence force members and dependents have access to support services provided through joint arrangements between DVA and Defence

5.1: Joint Defence/DVA projects

Mr Mark Sullivan, Secretary

Mr Ed Killesteyn, Deputy President

Ms Jo Schumann, General Manager, Corporate

Mr Chris Harding, General Manager, Business Integrity

Mr Ken Douglas, General Manager, Service Delivery

Mr Barry Telford, General Manager, Policy and Development

Ms Kim Loveday, National Manager, Parliamentary and Corporate Affairs

Mr Neil Bayles, Chief Finance Officer

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

Mr Mark Sullivan, Secretary

Mr Ed Killesteyn, Deputy President

Ms Jo Schumann, General Manager, Corporate

Mr Chris Harding, General Manager, Business Integrity

Mr Ken Douglas, General Manager, Service Delivery

Mr Barry Telford, General Manager, Policy and Development

Ms Kim Loveday, National Manager, Parliamentary and Corporate Affairs

Mr Neil Bayles, Chief Finance Officer

CHAIR (Senator Johnston)—I declare open this meeting of the Senate Standing Committee on Foreign Affairs, Defence and Trade. I welcome Senator Ellison, representing the Minister for Defence; Air Chief Marshal Angus Houston, Chief of the Defence Force; Mr Nick Warner, Secretary to the Department of Defence; and officers of the Defence organisation. The committee particularly welcomes Mr Warner to estimates in his new role as secretary to the department.

The committee will now consider portfolio additional estimates statements for the Department of Defence beginning with portfolio overview and major corporate issues. We will then move on to outputs, business processes and people. The review of Defence estimates will conclude this evening at approximately 6.30 pm. After the dinner break we will move to the Department of Veterans' Affairs. When written questions on notice are received, the chair will state for the record the name of the senator who submitted the question, and the questions will be forwarded to the department for answer. I remind senators to provide their written questions on notice to the secretariat promptly and at the latest by 5 pm this Friday. The committee has resolved that Thursday, 29 March 2007 is the return date of answers to questions take on notice at these hearings.

Please note that under standing order 26 the committee must take all evidence in public session. This includes answers to questions on notice. Witnesses are reminded that the evidence given to the committee is protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee, and such action may be treated by the Senate as a contempt. The giving of false or misleading evidence to the committee may constitute a contempt of the Senate.

The Senate by resolution in 1999 endorsed the following test of relevance of questions at estimates hearings: any questions going to the operations or financial positions of departments and agencies seeking funds in the estimates are relevant questions for the purposes of estimates. 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 or of the Commonwealth or of a state shall not be asked to give opinions on matters of policy. He or she shall be given reasonable opportunity to refer questions asked to superior officers or to a minister. This resolution prohibits any questions asking for opinions on matters of policy and does not preclude questions asking for explanations of policies or factual questions about when and how policies were adopted. If a witness objects to answering a question, the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on an answer, having regard to the ground which is claimed. Any claim that it would be contrary to the public interest to answer questions must be made by the minister and should be accompanied by a statement setting out the basis for the claim.

Minister, do you, any officer, Mr Secretary or CDF wish to make an opening statement?

Senator Ellison—I do not have an opening statement, but I understand the CDF and the secretary do have opening statements and invite them to make those now.

Mr Warner—Can I begin by saying what a great honour it is to be leading the Department of Defence and working alongside my friend and colleague Air Chief Marshal Angus Houston. I began my career in Defence three decades ago but came back to it rather more recently, returning at a time when the tempo is higher than at any time since the Vietnam War. The CDF will shortly give you an overview of current ADF operations. I am sure you will agree with me that the ongoing success of those operations is a credit to the professionalism and commitment of deployed members of the ADF and that the success of those operations is also a credit to the talents and hard work of all those people in Defence, civilians and military

who provide the policy development, intelligence, financial, legal and supporting services critical to the mounting of any operation.

In short, the success of the Defence mission depends on bringing together a wide range of skills and experience. I look forward to working with CDF and the Defence Senior Leadership Group to ensure that Defence expertise in all its forms continues to focus on the delivery of cost-effective military capability. I am conscious of my good fortune in succeeding Ric Smith as secretary to the department. Mr Smith's many achievements over the past four years include significant improvement in Defence's financial management. I am aware that Mr Smith provided a number of updates to the committee on Defence's financial statements and I would like to touch briefly on those issues now, Mr Chairman, if that would be of assistance to the committee.

The 'except for' audit opinion for the 2005-06 financial statements is a significant milestone in demonstrating the progress that has been achieved so far. Defence was successful in addressing previous audit qualifications relating to civilian and military leave, explosive ordnance, land and building valuations and addressing infrastructure, plant and equipment and intangibles. This result is all the more pleasing as it was achieved while Defence was meeting the challenges of implementing new accounting standards and a demerger of the DMO. There is still considerable work to be done in relation to inventory and repairable items management, and it will take some time for us to fully address and remediate all of the issues in all of these areas. I certainly do not underestimate the scale of the challenge that remains, but I do know that we in Defence are doing everything possible to improve our financial management and the quality and accuracy of our financial statements. I am committed—all of us are committed—to ensuring financial remediation continues to be a high priority. We will keep working hard to achieve our goal of unqualified financial statements.

Effective financial management in Defence cannot be achieved without the necessary supporting information management processes and systems. Such systems are critical to everything we do. Defence is a large, complex, geographically spread organisation that processes, as you will understand, an enormous volume and variety of information. We have to be able to communicate that information securely to our people in all parts of the world. Unsurprisingly, Defence's information management processes and systems and the people working very hard to support them are feeling the weight of a high operational tempo. We need to improve the way we develop, procure and support our information management capability. I intend to work closely with CDF and the Defence Senior Leadership Group to achieve better results in this area. As with our financial remediation, such improvements cannot be expected overnight. I am sure that if we apply a similar high level of oversight, rigour and commitment we can ensure that our information technology is better able to meet our operational and non-operational needs.

CDF and I are pleased that Defence's information management processes and systems are among the issues being addressed by Elizabeth Proust and the Defence Management Review Team. That team has been asked to examine organisational efficiency and effectiveness across Defence and is looking specifically at decision making and non-operational business processes, human resource management and information management processes and systems. Ms Proust and her team have been active since August last year. They have consulted widely

with Defence's senior leadership team, with our minister and his portfolio colleagues and other stakeholders with a strong interest in Defence and in its business. It is expected that the team's report will come down later this year.

CDF and I have had a number of very productive discussions with Ms Proust and her team. We look forward to the Defence Management Review as an opportunity to continue the ongoing process of reforming Defence management and business processes, and from my own perspective the report will be a timely and important contribution to my growing understanding of the business of Defence. Thank you, Mr Chairman. With your agreement, I would now like to ask CDF to make his opening statement.

Air Chief Marshal Houston—Good morning. Today I would like to provide you with an update on ADF operational achievements since the last time we met with you in early November. We are currently maintaining a very busy operational tempo, with approximately 2,900 people deployed on 10 operations overseas. Additionally, we have about 500 people deployed on security tasks in our maritime protection zone and other personnel deployed on international engagement, including participation in exercises and foreign visits. Each of these deployments is within the capability of our forces, is sustainable for the expected duration of the deployment and leaves the ADF appropriately postured to meet a range of contingency requirements.

It is true to say, however, that a number of our enabling mechanisms are experiencing some pressure. However, we review these pressures on a daily basis and risk manage them accordingly. I am very comfortable with this management process and I think it leaves us well postured to meet the range of requirements that the government may impose upon us.

I turn now to Operation Catalyst in the Middle East. In terms of operational progress, I would say that our contribution to the rehabilitation and reconstruction of Iraq continues to go well. On 26 November last year, the UN Security Council adopted resolution 1723, extending the coalition's mandate in Iraq for another year until 31 December 2007. We currently have about 1,450 people deployed on this operation. Significant occurrences over recent months include the Australian Army Overwatch Battle Group extending its jurisdictional responsibility to include Dhi Qar province as well as al-Muthanna. It is important to note that, despite concern over the security situation in Baghdad and al-Anbar, steady progress continues in provinces such as al-Muthanna and Dhi Qar. I am very proud that the ADF has been able to make an effective contribution to the security of these provinces.

The Australian Army Training Team is continuing its good work with its basic training of Iraqi security forces. Additional support has been provided directly to several battalions of the Iraqi army as they prepare for expanded security operations to combat violence in other areas of Iraq.

Elsewhere in the Middle East, HMAS *Toowoomba* has replaced HMAS *Warramunga* and will continue support to the security effort in the northern Arabian Gulf. That operation continues to go very well. HMAS *Tobruk* has also been in the Middle East providing logistic support and will commence her transit home in the near future. The security detachment continues to provide protection and escort for our diplomatic personnel in Baghdad in a very challenging environment. The Australian Army has established a leading-edge tactical UAV

capability, which has provided a significant force enhancement for the Overwatch Battle Group. Our P3 and C130 detachments continue to work hard in supporting all of our operations. Of course, you know the C130s also support Operation Slipper with extensive activities in Afghanistan. The total effort in Operation Catalyst involves the commitment of a number of support staff, both in the Middle East and here at home. I wish to take this opportunity to acknowledge the assistance and support of ADF families. The support they provide is absolutely vital to our effort and we know that they go through a lot of sacrifice with people away on a fairly frequent basis.

Moving now to Operation Slipper in Afghanistan, ADF personnel assigned to Operation Slipper number 570. They are assigned to the National Command Element, the aviation element, a small support element or the Reconstruction Task Force. Our Reconstruction Task Force is now fully operational, having been enhanced with its own force protection company. The RTF is engaged in project management and construction for a number of important major projects, such as the Tarin Kowt hospital, the Tarin Kowt boys school and a trade training centre. It is also contributing to quick-impact projects, such as street lighting, refurbishments of a number of mosques and also well drilling. All of these are providing immediate benefits for the people of Afghanistan and it is all going very, very well. Additionally, a recent reorganisation of the force-level logistics asset has been conducted, enabling more efficient control of logistics assets.

Turning now to Operation Astute in East Timor, we have approximately 800 personnel still deployed on Operation Astute, along with 130 New Zealand troops and 50 AFP officers. Of particular note is the recent signing of a technical arrangement between the United Nations and Australia on 25 January 2007 under which the international security force will continue to provide the necessary support elements to ensure adequate protection for United Nations premises and properties as well as a rapid response capacity for the United Nations Integrated Mission in Timor-Leste police. We consider this critical in the lead-up to the presidential and general elections that will be conducted later this year. Additionally, on 26 January 2007, a memorandum of understanding between the government of Timor-Leste, the United Nations and the government of Australia was signed. This established a trilateral coordination forum to enhance security.

I turn to Operation Quickstep. Operation Quickstep was the ADF response to government direction to be prepared to conduct an evacuation of Australian and other foreign nationals from Suva in response to the deteriorating situation in Fiji towards the end of October 2006. HMAS ships *Kanimbla*, *Success* and *Newcastle* remained outside Fijian territorial waters for 45 days with an embarked evacuation assistance force. Tragically, on 29 November 2006, an Australian Army Black Hawk helicopter operating from HMAS *Kanimbla* crashed and sank in 2,300 metres of water whilst attempting to land on the ship's flight deck. Nine personnel were recovered, with one person, Trooper Joshua Porter, missing, presumed dead. The pilot, Captain Mark Bingley, later died as a result of his injuries.

In terms of continuing the search for Joshua Porter and also the recovery of the wrecked Black Hawk, the Defence Maritime Services vessel MV *Seahorse Standard* has been fitted with a remotely operated vehicle and salvage equipment, and is expected to sail for the crash site on 21 February. A decision on attempted recovery will be made as further information on

viability becomes available. Concurrent with Operation Quickstep, the ADF also responded to a request for assistance from the government of Tonga. The ADF deployed approximately 50 people to Tonga as part of the New Zealand-led task force assisting the Tongan Defence Services to maintain law and order in their capital. We also evacuated a small number of Australian and other approved nationals. Interestingly, this was the fifth evacuation operation mounted by the ADF in a very busy year.

Turning to Operation Resolute, under the control of the commander, Border Protection Command, Operation Resolute has continued to develop and integrate the functions previously conducted as separate operations. There has been a continuing enhancement to the command and control arrangements that support the ADF contribution to civil maritime surveillance and response. As at 5 February, the Navy had conducted 175 boardings of foreign fishing vessels, resulting in 92 apprehensions, seven warnings and one legislative forfeiture for financial year 2006-07. New rules of engagement are now in use by the Royal Australian Navy during maritime border protection operations. These new rules allow for a greater range of options to be used by commanding officers in the apprehension of non-compliant foreign fishing vessel crews. This is a huge step in the right direction.

In conclusion, I reiterate that the men and women of our three services and the Australian Public Service are exceedingly dedicated. As I have demonstrated, the ADF and the Defence organisation continue to perform very well in protecting our nation and our national interests. Of course, time constraints this morning prevent me from going into detail on each of these operations. Needless to say, I firmly believe that all ADF and Defence organisation people deployed on operations as well as those who enabled the operations here at home continue to do a magnificent job for our nation. On that note, I will leave you and I look forward to your questions. Thank you.

Senator CHRIS EVANS—I thank the secretary, Mr Warner and CDF for their briefings. I will start by asking CDF about the Afghanistan operations. I note in the press there has been a lot of talk by the Americans about trying to recruit a greater contribution from European nations to Afghanistan, their concern about the situation there and their concern that they do not have enough troops to do the job. I suppose the first question is: have we been requested to provide any additional assistance to Afghanistan and are there any plans to increase our contribution to Afghanistan?

Air Chief Marshal Houston—No, we have not been requested to provide any more troops.

Senator CHRIS EVANS—What is the medium-term plan for our commitments in Afghanistan?

Air Chief Marshal Houston—As I described in my opening remarks, we have a reconstruction task force with its own organic force protection infantry company group. That comprises about 370 people. We also have a Chinook element—two Chinooks—and about 110 supporting people. They are at Kandahar air base. We also have a small element of logistics people at Kandahar. They comprise about 20. We also have a number of people in the headquarters in Kabul. This headquarters is subordinate to the headquarters in Baghdad. We have a small number of headquarter staff there. They number about 30.

Our plans in the immediate future would be to eventually rotate the reconstruction task force, and on 31 March to cease operations of our Chinooks and bring the Chinooks home. As to the reason for that, we have six Chinooks. It is a capability that essentially has done very well over the 12 months, and we only ever expected to deploy it for a 12-month period because of the limitations that come from having a small element.

In terms of how long we will be there, the commitment at this stage is obviously subject to government review on a regular basis, but the expectation is that the reconstruction task force will remain there for a period of two years. We are in the period of the first six months—the first rotation—and we will obviously have to do a number of rotations through the two years to sustain the commitment. As I indicated to you, we are doing great work. Our combat engineers are absolutely the right sort of capability to be deployed into Afghanistan at this time. They are working very well with the Dutch, who comprise the rest of the team. As I indicated to you, we are heavily involved in a large number of projects that improve the life of the people in that area of Afghanistan. All of that is being very well received by the local population.

Senator CHRIS EVANS—In terms of the reconstruction task force, you talked about the engineers and so on, who are a quite skilled group. Do we have the capacity to rotate people through a two-year period with the same skill base or do we have to change the skill base?

Air Chief Marshal Houston—We have the capacity to sustain the capability through the two years with the same skill base kept at a very high level right through the whole deployment.

Senator CHRIS EVANS—With the Chinooks coming back, is there any intention to further supplement the reconstruction task force deployment, obviously given the logistics there? Is there any intention to send some other capability in place of Chinooks and is there any planned engagement of the SAS?

Air Chief Marshal Houston—In terms of the helicopters, I guess I negotiated with my Dutch counterpart, General Berlijn, that we would leave our helicopters there after the special forces task group came home and through the initial part of the reconstruction task force, because the Dutch Chinooks and their people needed to reconstitute back in the Netherlands.

The intent is to replace our helicopters with Dutch helicopters, probably a combination of the European Cougar helicopter and possibly Chinooks as well, when we go home. Because we are partnered with the Dutch, I guess it is the Dutch's turn to take the helicopter load.

Senator CHRIS EVANS—And the SAS?

Air Chief Marshal Houston—The SAS have come home. They needed a break. That is the first Christmas in five years that the regiment has had a break. They have now reconstituted and they are at home in Perth, and of course they continue to maintain a very high level of readiness for the standing tasks that they have upon them all the time.

Senator CHRIS EVANS—There is no current intention to send them back into Afghanistan?

Air Chief Marshal Houston—The government has not made any decisions about special forces.

Senator CHRIS EVANS—So at this stage the Australian commitment beyond 31 March will be the task force and the logistics?

Air Chief Marshal Houston—The task force, logistics and obviously the headquarters staff.

Senator CHRIS EVANS—I have no further questions on Afghanistan.

Senator TROOD—My colleague alluded to the Secretary of Defence seeking further forces for Afghanistan. Have you made a calculation or do you know what figure he is thinking about in terms of extra troops or the necessity to conduct this operation more effectively?

Air Chief Marshal Houston—I had a long chat to my counterpart from the United States before the announcement was made by the United States that they would increase their numbers by a brigade. A brigade gives about another 3,200 troops to the coalition effort in Afghanistan. That increase is taking effect right now as the latest American brigade deploys in the country. There has been a net increase of 3,200. That largely fulfils the request that was made by the commander of ISAF in terms of the troops that he needed to do the tasks that he has been assigned.

Senator TROOD—So the troops that the secretary was looking for were troops that would replace in due course the—

Air Chief Marshal Houston—When you say the secretary—

Senator TROOD—The Secretary of Defense, in his remarks in Europe last week, I think.

Air Chief Marshal Houston—Yes.

Senator TROOD—So they were not additional forces?

Air Chief Marshal Houston—That increase came about as a consequence of the secretary and General Pace's visit to Afghanistan in January. Subsequently, a decision was made by the American government to increase the numbers by 3,200.

Senator TROOD—The winter is coming to an end in the not-too-distant future in Afghanistan. Are you needing to make any particular preparations for the possibility that there is going to be a spring offensive by the Taliban in Afghanistan? Are you anticipating that you will have to increase the tempo of activity there in light of that development?

Air Chief Marshal Houston—I would anticipate that what we will see is an increase in Taliban activity. That happens every spring. As to the extent of that activity, yes, there will be an increase; I do not know if I favour the description you used. We anticipate that they will be involved at a heightened level of operational tempo through the spring and into the summer. That has been part of the pattern of operations in Afghanistan for a few years now.

In terms of our commitments, clearly we are prepared for that. We have a very robust force protection capability. It is an organic force protection capability which provides intimate force protection for our engineering efforts in and around the town of Tarin Kowt. Thus far all of our operations have been in the Afghan development zone around the town—the provincial capital—of Tarin Kowt. That takes in most of the Tarin Kowt bowl; it is a large valley in central southern Afghanistan.

Senator TROOD—So you are not expecting to increase the force in light of any apprehension you may have about the change in seasons, as it were?

Air Chief Marshal Houston—I think the increase of 3,200 troops is a good enhancement to the combat power of the whole coalition, and part of that, in fact a battalion of that increase, will be assigned to RC South, which is where we are, in the southern region. The other thing that we have seen in recent times is a much more coordinated approach between the eight countries that comprise the partnership in RC South. There is much better coordination now of the national efforts in RC South, and so you get a much more unified approach.

Senator NETTLE—I have some questions about Operation Mountain Thrust, which is what I mentioned at the last estimates. I thank you for your correction on that. Is there any more information that you can provide us with in terms of Australian troops' involvement in that particular operation?

Air Chief Marshal Houston—Certainly. Last time I talked about Operation Mountain Thrust. Operation Mountain Thrust was an operation mounted by the US 10th Division. It was a major conventional operation and it was an operation that went through the southern part of Afghanistan. I repeat that we had no forces assigned to that operation. However, we did have one subunit from that division that was assigned to one of our operations, which was synchronised with Operation Mountain Thrust. Our operation, Operation Perth, was an operation to clear the Chora Valley to the north of Tarin Kowt. That subunit participated in that operation. Essentially, when I spoke to you last time, I had not regarded that subunit as being part of Operation Mountain Trust, but it was. And because it was part of our operation, I guess indirectly we were involved in Mountain Trust in that our operation included one subunit from the US Army 10th Division, and our Operation Perth was synchronised and coordinated with the major conventional operation, Operation Mountain Thrust. As I indicated to you last time, our Chinooks were a coalition asset and they were available for support to Operation Mountain Thrust. But I go back to where I spoke last time; we did not have any troops directly involved in the conventional operation, Operation Mountain Thrust.

Senator NETTLE—Can you explain for me the difference between Operation Mountain Thrust and Operation Perth?

Air Chief Marshal Houston—Operation Perth was an operation that was mounted out of Tarin Kowt. It was essentially a Special Forces operation. Our Special Forces led a number of other special forces from other coalition nations plus, I guess, the American subunit in an operation to clear the valley immediately to the north-north-east of Tarin Kowt. This valley is only a short distance from where our people are. It is about 15 kilometres from Camp Russell. There was a need to clear Taliban elements from that valley. That is precisely what the Special Forces organisation did in Operation Perth.

Senator NETTLE—How many troops would have been involved in that?

Air Chief Marshal Houston—About 400.

Senator NETTLE—I mentioned last time around allegations that had been made about human rights—violence and a large number of civilian deaths—in relation to Operation Mountain Thrust. It often gets confused as to which operation people are reporting on. Are

you aware of any similar allegations in relation to Operation Perth or whether those allegations made about Operation Mountain Thrust also related to Operation Perth?

Air Chief Marshal Houston—I do not believe there were any allegations made about Operation Perth. But, having said that, I will go back and check the record and, if there are any, I will get back to you.

Senator NETTLE—You were talking about Operation Perth operating in a valley. What cities was Operation Perth operating between?

Air Chief Marshal Houston—Sorry, where is this?

Senator NETTLE—You said Operation Perth was operating in a particular valley. What cities are near that valley?

Air Chief Marshal Houston—There are no cities out there. This was an operation that was mounted in the immediate vicinity of the provincial capital of Uruzgan which is, by our standards, a town called Tarin Kowt.

Senator NETTLE—Were there civilian deaths as a result of Operation Perth?

Air Chief Marshal Houston—I will get back to you on that. But this was an operation to clear the valley of Taliban. We met very fierce resistance in that valley. Clearly, a number of those people who were fighting us were killed. I will get back to you on any collateral loss of life that may have occurred. I do not believe there were any major issues raised as a consequence of that operation.

Senator NETTLE—You said that 400 Australian troops were involved in Operation Perth. How many Australian troops would have been involved in Operation Mountain Thrust?

Air Chief Marshal Houston—No, what I said was there were 400 troops involved in Operation Perth. They comprised Australian and other coalition special forces plus a small element of US forces. I do not have the detail of the number of Australians involved in that, but it would have been 100 or maybe a few more than 100. I do not have the precise number. I can get it for you, if you like. In terms of Operation Mountain Thrust, I repeat that we had no forces assigned to Operation Mountain Thrust. Operation Mountain Thrust was a major conventional operation conducted by the 10th division of the US army, and essentially it was run in a different area from where we were working. But because our operation was running concurrently with their operation, clearly it was important to deconflict, coordinate and synchronise the operation.

Senator NETTLE—Do you have any idea how many troops were involved in Operation Mountain Thrust?

Air Chief Marshal Houston—Sorry?

Senator NETTLE—Do you have any idea how many US troops would have been involved in Operation Mountain Thrust?

Air Chief Marshal Houston—A very large number. It was a divisional operation. Again, I do not have the exact detail, but certainly a substantial number of troops.

Senator NETTLE—I think I mentioned this last time, but the reason I was asking about Operation Mountain Thrust was that there was a report in the *New York Times* where an

Afghan legislator was interviewed. In his interview he said that his family had been shot at by American and Australian troops. That is why I was asking about Australian involvement in Operation Mountain Thrust.

Air Chief Marshal Houston—In terms of that allegation, we investigated it and we found no evidence of Australian troops involved in what was described as happening.

Senator NETTLE—How does that kind of investigation get done?

Air Chief Marshal Houston—Any allegation of that nature we will investigate straightaway, and we did.

Senator NETTLE—Who does that investigation?

Air Chief Marshal Houston—Initially we do it ourselves. We did a quick assessment to determine whether there was a need to do a full-blown investigation, and we could find absolutely no substance to the allegations that were made.

Senator NETTLE—Between Uruzgan and Kandahar was the area being spoken about in that allegation. Were there Australian troops operating in that area as part of maybe Operation Perth or others?

Air Chief Marshal Houston—As to all of our operations by special forces at that time, Operation Perth was contained within the province of Uruzgan. As I mentioned earlier on, our Chinooks were a coalition asset and used by various elements of the coalition. They would fly wherever the job was. Our Chinooks have been utilised in Uruzgan, Kandahar, Helmand and right across the whole of RC South. But none of our special forces were utilised outside of Uruzgan at that time, and we were very busy with Operation Perth at the same time as Operation Mountain Thrust was being conducted.

Senator NETTLE—So there could have been Australian Chinooks and personnel involved in that area under the command of the coalition?

Air Chief Marshal Houston—Chinooks are tasked. They have done a lot of medivac tasks, for example. If anybody had been wounded, injured, it is quite probable that our Chinook could have gone out and done the medivac. That is the sort of work they do. I do not have any detail on anything else they did in support of Operation Mountain Thrust. Suffice it to say that our Chinooks are part of a pool of Chinook aircraft that are based in Kandahar, and they are utilised as a coalition asset. They will go out and do medivac and troop-lift tasks as the need arises. They also carry food rations and all of those sorts of things, too. They also do logistics support and so on.

Senator NETTLE—The article in the *New York Times* was not about medivac; it was about a car being shot at and a family hiding in a ditch. So it would not seem to relate to that.

Air Chief Marshal Houston—As I said, allegations were made at the time about Australian troops. We investigated those allegations and we found no substance to the allegation that Australian troops had been involved.

Senator NETTLE—I wanted to ask you about the reconstruction task force in Afghanistan, because I have seen commentary by a number of aid organisations that have been working in the Afghanistan area. I think MSF, Medecins Sans Frontieres, was one of the

aid organisations that left Afghanistan, and one of the reasons they gave for leaving was that the military were doing similar sorts of work to what they were doing. They felt that a lack of distinction was developing in the Afghan community about whether people were aid workers or soldiers. They had had aid workers killed, and they were equating that with the fact that the military was doing similar-style work. Is that an issue that ADF has been involved in or been involved in discussions about—that is, the role of ADF in doing that sort of work?

Air Chief Marshal Houston—We would love to see many more NGOs like the one you mentioned or any of the other prominent ones back in the province of Uruzgan. One of the problems at the moment is that the security environment is such that most NGOs are restricting their operations to areas of Afghanistan where the security environment is better. Of course, that is up in the north. I am not aware of any large-scale NGO activity in the province we are in. I would submit that what we are doing is absolutely complementary to the work that a NGO would do. We do not see ourselves as a substitute for a NGO. We see ourselves as being able to work in partnership with NGOs to achieve a better life for the Afghan people. The sort of work that we have been doing has been very well received by the local people.

Senator NETTLE—I think it is really important to have the ADF involved in those kinds of humanitarian activities. But there is a difficulty when aid organisations are talking about aid workers getting shot because people are not making a distinction between troops and aid workers. It is an interesting conundrum. How do you deal with that?

Air Chief Marshal Houston—Our people wear uniforms and aid workers usually wear civilian clothes. I think it is pretty evident who is doing the work—a NGO or the military. I guess it is a feature of the security environment in southern Afghanistan that unfortunately it is not safe for NGOs to do the work that they need to do in some of the areas that you have mentioned.

Senator CHRIS EVANS—Was the ADF asked to provide security and protection for the AFP contingent going into Afghanistan? I note they have actually hired a private security firm to do that. Was the AFP approached about providing that security?

Air Chief Marshal Houston—The AFP contribution is in another part of Afghanistan. The reason the AFP have gone into that part of Afghanistan is that they are able to partner with our very close friends and allies. They have gone into another part of Afghanistan as part of a comprehensive program that is being mounted out of that area. Of course, the AFP contribution is a very, very small contribution. They are a long way from where we are, and we are not able to provide effective force protection from Uruzgan or Kabul to support them, so other arrangements have been put in place.

Senator CHRIS EVANS—I understand that. My question was: was the AFP asked to provide that? It seems to me unusual for the AFP to seek to get a private contractor to provide protection in a country that is largely a combat zone. As I understand it, on other occasions—in the Solomons and maybe different scenarios—the ADF has provided security for Australian personnel going into these areas. Were you approached and was it a question of resources, or is this a change of policy?

Air Chief Marshal Houston—The AFP people who have gone in are highly specialist people and they have gone to an area where they can have best and maximum effect. I understand there is a link with the UK in that area. In terms of force protection, we had a bit of a discussion about force protection. I pointed out the fact that we would be unable to provide force protection in that area with our current organisation on the ground in Afghanistan. Clearly other arrangements have been put in place by the AFP to cater for their people.

Senator CHRIS EVANS—I will just ask you again: was the ADF asked to provide force protection for that group? I accept that is a different geographical area. Nevertheless, you go to the Solomons, Tonga and anywhere else in the world. Were you asked to provide the force protection for that AFP delegation?

Air Chief Marshal Houston—No, we were not. I am talking about the immediate close force protection. Clearly there are circumstances where we might become involved, but I would prefer not to talk about that.

Senator Ellison—Just for the record, last night the police commissioner said last night that the company that is being used for protection for the AFP in Afghanistan is the same which offers security to the United Kingdom. The United Kingdom leads the overseas mission in relation to the law enforcement component in Afghanistan. They were the people who requested our involvement. We are part of that under the leadership of the UK. The CDF has outlined the geographical reasons. Obviously in other areas, such as the Solomons, East Timor and Fiji, there is a geographical proximity. We are working side by side and in fact many patrols are joint. But in Afghanistan it is quite different. There were a number of deployments or visits to Afghanistan to check out what was best, and after consideration of the logistical aspects it was decided to use that private company. It is different, as Senator Evans said, but this has been utilised for those reasons. We have a different set of circumstances, and the allies we are working with are using the same company.

Senator CHRIS EVANS—I have a question on the changing security situation in Iraq. The Americans are sending another 20,000 extra troops to try and improve the security situation, which appears not to be improving, with increased bombs and deaths. Has there been any request for Australia to increase its contribution to the Iraqi united force?

Air Chief Marshal Houston—As you know, my counterpart was here earlier in the week and he made absolutely no request of us at all.

Senator CHRIS EVANS—What are the implications of the increase in troops and the worsening security situation for the Australian contingent?

Air Chief Marshal Houston—As I mentioned in my opening remarks, we have a very effective and robust battle group in the south of Iraq. It comprises two combat teams and a very strong intelligence, surveillance and reconnaissance element. It continues to do great work in southern Iraq. We have seen an improving situation in the province of al-Muthanna, and things remain stable in Dhi Qar . As I mentioned, we are involved in training two of the battalions that will go forward into Baghdad to be part of the Iraqi led push on the Baghdad security plan. That was something that involved a large number of our people, and that training was very well received by the battalions involved.

Senator CHRIS EVANS—What is your assessment of their potential effectiveness, though? There has been a lot of commentary as to the perhaps lack of loyalty of those troops and their unwillingness to get involved in some security situations inside Iraq. Are you confident that the troops being trained by Australia will perform better than it seems a lot of the locally trained troops have to date?

Air Chief Marshal Houston—All I will say is that we have had circumstances in our area of responsibility which suggest that the Iraqi army is handling the task of providing security very well. In fact, going back a few weeks, we had a bit of a challenge from one of the militia groups. The Iraqi army, deployed in As Samawah, which is the capital of the province of al-Muthanna, went out, confronted the militia group and essentially sorted out the situation in a very positive way. We were only involved in terms of providing advice and providing some equipment in support. I think it goes to prove that the overwatch arrangements in southern Iraq are working very well. We did not have to get involved at all. They sorted out the situation entirely by themselves and we now have a much improved situation as far as the militia is concerned in al-Muthanna.

Senator CHRIS EVANS—Obviously the security situation is very different in Baghdad and other parts of the country. What is the current risk assessment on the Australians in Baghdad?

Air Chief Marshal Houston—Everywhere in Iraq is very dangerous. We have seen a lot of sectarian violence, particularly in Baghdad, and also a lot of violence out in the province of al-Anbar. But our people continue to go about their business. We would assess that the risk to our people has not changed as a consequence of this initiative. In fact, what we would anticipate, as the new plan beds down, is that we should see an improvement associated with the increase of troops that are going into Baghdad. In terms of risk, I do not see any increase in risk to our people in Baghdad at this time or into the future.

Senator CHRIS EVANS—They will have no direct engagement, though, in the security crackdown?

Air Chief Marshal Houston—We have people in Baghdad, but they are not directly involved in the clear, hold and build operations that will be conducted as part of the implementation of the new Baghdad security plan.

Senator CHRIS EVANS—Have there been any recent incidents involving Australian troops?

Air Chief Marshal Houston—In terms of?

Senator CHRIS EVANS—Contact with militias, being shot at?

Air Chief Marshal Houston—I think I reported last time that we had been involved in something. Essentially, in the recent past we have responded to support our friends and allies the Brits in an IED—improvised explosive device—incident that was on the main supply route that runs through the province of al-Muthanna. There was one other incident in Baghdad where we were fired at. We were going along a road and there was an American convoy going in the opposite direction. The American convoy passed under an underpass and was engaged by people on top of the bridge and we were going in the other direction and were engaged,

too. But because our people were in well-protected vehicles, they were fine. They are the only recent incidents that have involved our people over the last couple of months.

Senator CHRIS EVANS—Were any injuries sustained?

Air Chief Marshal Houston—No injuries were sustained.

Senator CHRIS EVANS—Forgive me, I was not at the last Defence estimates hearings, but in terms of the incident where an Australian soldier was involved in a fatal shooting, I read in the paper that there was a normal inquiry. Has that been concluded?

Air Chief Marshal Houston—Is this the incident at the checkpoint outside the embassy?

Senator CHRIS EVANS—Yes.

Air Chief Marshal Houston—No, I was talking about where we were fired at.

Senator CHRIS EVANS—This is an earlier incident in which an Australian soldier fired at and killed an Iraqi. It was some time back.

Air Chief Marshal Houston—There have been a couple of incidents. Could you be more specific?

Senator CHRIS EVANS—I know that on each occasion you launched an inquiry. I just wanted to know whether they had been concluded and if anything arose from those which had implications for operational activity.

Air Chief Marshal Houston—We have had situations where vehicles have, if you like, tried to run through the control measures, warnings and checkpoints towards our embassy or our security detachment. Essentially, there have been incidents where we have fired on those vehicles as they have approached.

Senator FAULKNER—Is there any suggestion that, with the massively increased military presence of US troops and where they are going to be deployed in Iraq, this could mean that some of the insurgents might move to areas such as al-Muthanna province where we have a particular interest? Might insurgents tend to gravitate to areas such as al-Muthanna province, which have tended to be more stable? Is that a consideration or a concern at all?

Air Chief Marshal Houston—Any time you have a crackdown, the people who are the subject of that crackdown have the option to either stand and fight or run and go somewhere else. I suppose there is that possibility.

Senator FAULKNER—Has this possibility been subject to any threat assessment or more formal assessment?

Air Chief Marshal Houston—Obviously, that is an option for people who are subject to a crackdown. Clearly, we have looked at all of the courses that might be open to people in these circumstances. We have done what military people always do: plan for the worst case, and we have gone through all of those considerations. Yes, we have made our assessments, but I cannot share them with you because clearly they are highly classified.

Senator FAULKNER—As you would appreciate, I am not asking for the assessments; I am just asking whether assessments have been made. I also note that there has been a lot of speculation—and want to make it clear that I do not put it higher than speculation—in the UK

that the UK government is set to announce a significant reduction in troop commitments. I appreciate that that is media speculation or informed speculation—perhaps it is even being fuelled by the government in the UK; I do not know—that there is going to be a reduction in the number of British soldiers in the Basra province. Are you able to make any comment on that or confirm whether any of your planning and assessments involve such a possible reduction of United Kingdom troops?

Air Chief Marshal Houston—In terms of our own position, obviously whatever happens to our dispositions is a matter for government. I give advice to the government and they make the decisions. But in terms of the UK, you will find that the UK government has actually discussed with the British community the fact that there will be some reductions in the number of their people in southern Iraq.

Senator FAULKNER—The reason I ask this specifically is that this has an interface with the Australian presence in Iraq—you would acknowledge that that is the case. In the Dhi Qar province there is an element of reliance between the Australian and UK forces. That has been my understanding. You can confirm whether such a mutual reliance is the case. Because of this what appears to be clearly flagged withdrawal of UK troops, has this brought planning or threat assessment considerations to the table for Australia?

Air Chief Marshal Houston—First of all, the British may make some adjustments, but we are talking about a very large force of several thousand soldiers remaining behind. We are part of the group that is basically under British command in what is known as MND South-East—the south-eastern part of Iraq. The four provinces that comprise MND South-East—Basra, Maysan, Dhi Qar and al-Muthanna—are under arrangements whereby we are part of the force under the operational control of the British general who commands MND South-East. Right now, we provide the overwatch for two of the four provinces. We have a large area to cover. My view is that the battle group we have there at the moment is suitably robust to handle the challenge of providing effective overwatch for those two provinces.

Senator FAULKNER—I appreciate that and I hear that evidence. But my question goes to whether any planning has been undertaken because of what has been clearly flagged as at least in part a British troop pullout, which I am concerned might have an impact in relation to those joint operations that you have been speaking about. This seems to be an obvious issue. We have close cooperation with British forces in the south. We know about that and accept that. But the question goes to what contingency planning, if any, and what threat assessments for the south have been undertaken in the event that this expected British troop pullout occurs. My particular concern—I am sure it is shared by members of this committee and more broadly in the community—is about any impacts there might be on the Australian contingent.

Air Chief Marshal Houston—The British provide command and control, and we obviously have some people in the British general's headquarters. The British also provide us with some of the enablers that we need to do operations in the two provinces that we are responsible for. Those arrangements will remain intact through this adjustment that the British make. The other thing you need to be aware of is that the British controlled force in the south-east is part of a much larger core commanded by another coalition general and everything is, if you like, mutually supporting. There are no issues. I have no concerns about the level of British support. We have worked with the British very effectively in the south. They have

been very solid and reliable allies. They have always lived up to providing the enablers that we need. It is a very robust relationship. It works very well at all levels, and I have absolutely no concerns about any adjustments that they might make or be making in the immediate future, because those adjustments really relate to, I guess, the city of Basra, not to the wider MND South-East.

Senator FAULKNER—I ask this because there is an immediacy, because—let's be frank—the British government is expected to make an announcement around the end of February. You would have seen as much of that commentary as I have. That does not mean of course that troops are necessarily going to pull out at that time and it does not necessarily mean an announcement will be made. Obviously there are lead times involved. That is why I asked about the broader planning issues in relation to this.

Air Chief Marshal Houston—What is going on here is that we have two provinces that are under provincial Iraqi control, Dhi Qar and al-Muthanna. We are responsible for oversight of those two. In the next few months, and in fact very much into the short term, you can anticipate seeing Basra and Maysan transition to provincial Iraqi control. Of course, the British are making adjustments with that transfer of security responsibility to the Iraqi security forces. It is very similar to the adjustment that we made when we moved out of Camp Smitty south of As Samawah and moved to Tallil. They will move the bulk of their forces to the airport at Basra.

Senator MARK BISHOP—I wish to return to an issue raised by Senator Evans. There are plans by the United States to increase its troop commitment to Baghdad, according to press reports, by an extra 20,000 troops, who will be engaged in what I think is called a control and cleanse operation. As I understand it, that involves sectional work through dangerous areas piece by piece to clean out the militia, take control and re-establish law and order and security. Did I hear you say that in that scenario our people in Baghdad would be in less danger or were you referring to people down south when you said that?

Air Chief Marshal Houston—By the way, that was a 'clear, hold and build', but I will defer to your terminology.

Senator MARK BISHOP—It is the same thing, I think.

Air Chief Marshal Houston—That is the sort of operation it is. Bear in mind that it is not just a build-up of American forces, it is also a build-up of Iraqi forces. It is Iraqi led. An Iraqi general is going to run this operation. Essentially, what I think you will see in Baghdad is an improvement in terms of the sectarian violence side of the activities going on there. I think you will still see other attacks that have come from other parties, but I think the net effect of the Baghdad security plan will be to improve the situation in respect of the sectarian violence, because that is what this plan is designed to address. In terms of down south, there is potential for some sort of reaction in the south, but we have looked at all of the aspects there. We have done our analysis and our assessments. I think we are well postured in the south to handle whatever might come up.

Senator MARK BISHOP—So the net of your evidence is that, when the Iraqis commence the clean, hold and build operation in Baghdad, it will be directed against the upsurge in

sectarian violence, and your view is that that will lead, from the outset or at the conclusion, to a safer environment for those areas where we have lesser commitments of personnel.

Air Chief Marshal Houston—I still think that the environment there will be a dangerous one. I do not want to give you the wrong impression. I still think there will be violence in Baghdad. What I am saying is that I think the level of sectarian violence, hopefully, will reduce somewhat with this incredible emphasis on addressing the problem of sectarian violence. The clear, hold and build operations that go through the city will improve the overall situation somewhat. I think that is all I am saying here.

Senator MARK BISHOP—I take it then—unstated, but it is your view—that the build-up in sectarian violence over the last 12 months and its continuation at this stage is now the critical feature of the work of the coalition in Baghdad to secure that city? Is that a fair comment?

Air Chief Marshal Houston—I think I said last time that what was vital was that the Iraqi government really grit this issue up, and I think the initial signs are very positive. We see the Iraqi government committing to and in fact leading on this plan. The early signs are promising that the issue is being addressed in an effective way.

Senator MARK BISHOP—Finally, when do you understand clear, hold and build will commence on the ground?

Air Chief Marshal Houston—It has already started. The Baghdad security plan is underway as we speak. It will become much bigger as time goes by as more forces are fed into the city to implement the plan.

Senator MARK BISHOP—My understanding is that the Americans are still raising the extra divisions back in the United States. Is that also correct?

Air Chief Marshal Houston—The Americans have basically committed five brigade groups. The initial brigade group has gone in. The second one is in the process of going in right now. The other three will follow as required.

Senator NETTLE—I wanted to ask you whether you agree with the Prime Minister that al-Qaeda would prefer a Democrat victory in the American elections.

Air Chief Marshal Houston—I have nothing to say about that. I am apolitical and I will not get involved in any discussions about that.

Senator NETTLE—At the last estimates I asked you about whether we had lost the war in Iraq. I just wanted to ask you if you had any change in what you said last time?

Air Chief Marshal Houston—I have nothing to add to what I said last time.

Senator NETTLE—I wanted to ask you about the media reports about an ADF officer on secondment to the US State Department to be advising the new US commander in Iraq. Are those reports correct? Is that Lieutenant Colonel David Kilcullen?

Air Chief Marshal Houston—David Kilcullen was in the Australian Army. He was in the Australian Army on a permanent basis. He is now a reservist, but he is in the United States as a member of the Office of National Assessments. He was seconded to the United States. He is an expert on counterinsurgency. He is a very talented person. General David Petraeus, the new

commander in Iraq, has requested that we release him so he can be the personal adviser to General Petraeus on counterinsurgency.

Senator NETTLE—So he is no longer a member of the ADF?

Air Chief Marshal Houston—He is a reservist, but on duty in Iraq he will be a civilian official seconded to the United States.

Senator NETTLE—So he is not on an Australian payroll?

Air Chief Marshal Houston—He is not paid by the Australian Department of Defence. He is actually on the payroll of the Office of National Assessments.

Senator NETTLE—The Australian Office of National Assessments?

Air Chief Marshal Houston—He was. As he goes into his new job, we will transfer him to, if you like, the Department of Defence payroll.

Senator NETTLE—I am getting confused. So he will be paid by the Department of Defence when he goes into his new role in Iraq?

Air Chief Marshal Houston—Yes, if he goes into his new role. Essentially the reports related to, I think, an interview that he had in the United States. He has been asked to do this role. He has had discussions with us about doing that role, but he has not made the final decision to commit to the position at this stage. If he does commit to that position, he will be transitioned into our Department of Defence, and will be paid by our Department of Defence, but he will be seconded to General Petraeus's staff as a civilian officer in Baghdad in Iraq.

Senator NETTLE—So he would be under US command?

Air Chief Marshal Houston—I would not use that term. He will be seconded or he will be embedded with General Petraeus. He will still be under direction/guidance from Australia, which is the case with all of our people who are in similar circumstances.

Senator NETTLE—Did you say that he would be transferred from ONA to the Department of Defence?

Air Chief Marshal Houston—If he decides to basically accept the offer on the table, yes.

Senator NETTLE—I wanted to ask you about the budget estimates for expenditure on Iraq. The table on page 22 of the budget estimates goes through the spending for operations in Iraq from 2002: \$285 million, \$240 million, \$284 million, \$351 million, this year \$402 million, and next year a budget estimate of \$71 million. Is that because there is an intention to bring troops home from Iraq?

Air Chief Marshal Houston—I will let Mr Veitch answer that. It is about the way we do accounting.

Mr Veitch—The estimates are currently structured around a return home on 30 June, this coming financial year. The funds in the budget after that relate to costs we would incur in bringing the troops home, in remediating/replacing equipment and the like, once the equipment is returned. So the current funding is only for deployment to 30 June. Any decisions about whether that was to be extended or not are to be taken by government.

Air Chief Marshal Houston—I stress that the government has not reviewed our dispositions in Iraq yet. They obviously do that every six months. The next review is imminent and the government will make the decision whether we extend or not. Nothing in that paperwork reflects anything to do with the government's plans.

Senator NETTLE—Is the government intending on bringing troops home next year from Iraq?

Senator Ellison—I think the Prime Minister has made our position very clear, and that is that we are not setting time lines at all and that to do so is dangerous for obvious reasons. That is the very clear position of the government.

CHAIR—The committee will break for morning tea.

Proceedings suspended from 10.32 am to 10.48 am

CHAIR—We will continue with questions on Iraq from Senator Nettle.

Senator NETTLE—I was talking before about the budget. The total in that line adds up to \$1.6 billion spent on Iraq. If troops do not come home next year—the government is not saying they have made that decision—is it correct that you would presume you would spend about the same as what you have for troops there, so another \$400 million would take us over \$2 billion on expenditure for troops in Iraq rather than the \$1.6 billion that is here? Is that a fair—

Mr Warner—I do not think it is actually worth speculating. No decisions have been made by government.

Senator Ellison—It really is a hypothetical question, Mr Chairman.

Senator NETTLE—At the moment it looks like a hypothetical budget. You are saying in the budget that the troops will come home next year, yet you are saying in government policy that they are not going to. I think it is a fair question that, if you are not saying troops will come back, presumably they will cost the same as they do now, so we are looking at over \$2 billion spent in Iraq. I think that is perfectly fair.

Mr Veitch—Perhaps if we were to think that the purpose of the estimates today is to look at the additional estimates, which is in the current year; therefore, what we are looking at is the funding that has been approved by government for 2006-07. Should government make a decision to extend the deployment, any funding decisions that would flow from that would be into the next budget and we would be looking at that at the next hearing.

Senator NETTLE—This is a document for today. It says \$1.6 billion and I am trying to understand the figures in this document.

Mr Veitch—The point I am trying to make is it is a document for today, yes, but it is about the 2006-07 additional estimates, the appropriation bills for the current financial year.

Senator NETTLE—I think the \$1.6 billion that it says here, given the government is not saying it will bring the troops home next year, does not seem that accurate, which is why I was asking the question.

Senator Ellison—This document reflects the current decisions from government that were made in the 2006-07 budget, as adjusted by decisions that are made in additional estimates. If

other decisions are made subsequently, that would be reflected in the 2007-08 appropriation bills, and when we come back in May later on this year we would see those numbers in that document.

Senator NETTLE—So if the government makes a decision not to bring the troops home, it will be closer to \$2 billion spent in Iraq—

Senator Ellison—I will not speculate on that.

Senator NETTLE—unless it is going to cost us less than what we have now spent. I suspect that is the case.

Senator Ellison—It depends on operational requirements. You know how these deployments work. I think that Senator Nettle is really being speculative in what she is saying without any basis. You take the deployment on operational needs and there are costs associated with that. We have seen in deployments across other areas where costs can rise and fall, depending on the deployment, the nature of the deployment, the extent of it and all those factors. You cannot simply say that what you spend in one year means you will spend the same in another year.

Senator NETTLE—I think the Prime Minister is also speculating on the involvement of Australian troops in Iraq, but maybe we can all do that. I will move on, though. I just want to check the comments in relation to Lieutenant Colonel David Kilcullen just so that I can understand the command structure, because it was not clear to me if he would be taking orders from US or Australian officials.

Air Chief Marshal Houston—First of all, he has not yet accepted the position. There is still some work that has to be done to negotiate financial conditions and so on. But all of our people who are embedded with coalition headquarters—we have a couple of people in the Iraqi Department of Defence in Baghdad—are given very strict guidelines in the form of a written directive, which essentially lays down the way they should conduct themselves, particularly in circumstances where they come across sensitive matters and so on. We have our people under Australian control, wherever they end up, and people are expected to follow the guidelines that we give in those directives.

Senator NETTLE—Is the position that has been offered to Lieutenant Colonel Kilcullen like the main adviser on counterterrorism to the head of forces in Iraq?

Air Chief Marshal Houston—Every general has a large staff and generals generally have specialist advisers in certain areas. He would be the specialist adviser, with direct access to General David Petraeus, on issues to do with counterinsurgency.

Senator NETTLE—The special adviser on counterinsurgency seems like a very significant position. What I am trying to understand is that, if you are saying he is under Australian control, what does that say about Australia's responsibility in terms of strategy for counterinsurgency in Iraq?

Air Chief Marshal Houston—What I am saying is he would obviously provide advice freely on the theory and the practice of counterinsurgency but, in terms of where he can go, what he can do and what he can get involved in, we give him guidelines, and he is expected to follow those to the letter.

Mr Warner—I wonder whether I could go back to the most basic point: discussions and negotiations are still ongoing with David Kilcullen. No decision has been made. To therefore speculate about lines of command, control, what he will do, what he will not do and how he will do it is very speculative at this stage.

Senator NETTLE—I will talk then about others who are in a similar position. What do they do when there is a contradiction between the directions from Australia and the directions from the United States?

Air Chief Marshal Houston—They follow the Australian direction. I might add that, in terms of civilian officials, the only other civilian officials, I think, are in the Iraqi Ministry for Defence. The dominant guidance is the Australian guidance; that is probably the best way to put it. If there is a contradiction, you follow the Australian guidance—end of story.

Mr Pezzullo—I might be able to assist. The CDF is absolutely correct in saying that at the moment we have two civilians who are integrated in the Iraqi Ministry of Defence. They work in senior advisory positions. As CDF has indicated, they are issued with national directions as to what, broadly, they are permitted to do. They are there for a specific job, which is to assist the Iraqi Ministry of Defence to develop management systems, governance systems, reporting systems and the like. On a day-to-day basis that is their main job. As the CDF has indicated, they are given some very clear guidance about what they are to do in cases where they see, hear or become aware of things that they need to report. Those things are particularised in the form of a directive that is issued by me. They report things as they are required to.

The question you asked in terms of contradiction, in their day-to-day job, they would be doing work that is signed off and agreed by the Australian government. In this case, it is to build the capacity of the ministry. Ordinarily, in their daily jobs it is by definition not inconsistent with Australian government direction because they are assisting in the development of budget systems, reporting systems, governance systems and the like. These directives really go to the exception, such as if you become aware, for instance, of human rights issues, then those things are reported. As the secretary has indicated it is premature to speculate about the arrangements that will be put in place with what will be Mr Kilcullen, but I would envisage a similar kind of directive would be issued, In other words, 'This is broadly what you are going to be doing and by exception you will report against certain criteria.' There is no point in me speculating or trying to particularise those things, because that document does not yet exist.

Senator NETTLE—I just want to go back to a previous question that was asked about whether the ADF had been asked for additional troops. I think you answered no in relation to Afghanistan, but I am just checking what the answer is in relation to Iraq.

Air Chief Marshal Houston—The answer is no, Afghanistan; no, Iraq.

Senator NETTLE—Would the ADF have the capacity to provide additional troops to Iraq if asked?

Air Chief Marshal Houston—I am not going to go into any discussion about that. Clearly our job in the defence organisation is to provide options to the government in circumstances where they ask us what we can do. If we are asked to do so by the government, we will have a look at what we might be able to do. I am not going to go into any discussion about that.

Senator NETTLE—I want to ask you about comments by the White House concerning Iran supplying weapons in Iraq. Those comments have been indicated in the media as also being supported by the British. Were they also supported by Australia?

Air Chief Marshal Houston—If you could be more particular about what comments, I might be able to give a commentary on it.

Senator NETTLE—The White House has talked about the Iranian government supplying weapons in Iraq. That was what I was interested in.

Air Chief Marshal Houston—Clearly, we have similar concerns.

Senator FERGUSON—Mr Chair, I am just struggling a bit to find out how this relates to the additional estimates. We seem to be a little bit off track.

Senator NETTLE—We are talking about the situation in Iraq. This is an issue that is being debated at the moment, and we have not heard the Australian position on it. It is an opportunity for—

Air Chief Marshal Houston—Perhaps if I just say that we have similar concerns, but I am not prepared to get into any discussion about it because these are matters that are highly sensitive and it would not be proper to discuss them in this forum here today.

Senator Ellison—Mr Chair, perhaps we have reached the perimeter of the area of questioning.

CHAIR—That is probably right.

Senator NETTLE—If I can indicate to you some comments that were made by Marine General Peter Pace during his visit to Australia. He indicated:

What I would not say is that the Iranian government, per se, knows about this ... but I would not say by what I know that the Iranian government clearly knows or is complicit.

You have said that Australia has similar concerns. What are they based on, given that we have—

Air Chief Marshal Houston—I have nothing to add. I hosted General Peter Pace while he was here for three days in Australia. We discussed these sorts of issues. I have nothing further to add to what he has put on the record, which I think is a good summation of where we are at.

Senator NETTLE—I asked at the last estimates about whether there were any plans for the protection of Australian forces in Iraq, if there was to be any attack on Iran. Is there any update on that in terms of planning around that area?

Air Chief Marshal Houston—What you have suggested there is completely hypothetical, and I am not going to go into any discussion about our contingency planning. Again, it would not be appropriate to have any discussions of that nature in this forum.

Senator NETTLE—When we were talking before about Afghanistan and I was raising the concerns around allegations of Operation Mountain Thrust, I just want to check that we were talking about the same allegations. The allegations that I was referring to were those in the *New York Times*, where the *Afghan Legislator* said that the shooting occurred, that Australian and American troops were responsible for it. That his wife, son, daughter, nephew and wife's

brother were travelling with a driver from Uruzgan to Kandahar for a medical check-up at Kandahar hospital when they were attacked by American and Australian troops from the top of the hill. He then goes on to describe a situation where the brother-in-law was killed and his family took cover in a ditch beside the road. I just want to check whether they were the same allegations that you were responding to.

Air Chief Marshal Houston—Yes, they were absolutely about the same incident. I have some information here which essentially confirms what I have already told you. We investigated this at the request of President Karzai. The investigation found that times, locations and occurrences described by Mr Khaliq and his family do not correspond to coalition patrol reporting. Mr Khaliq's claims are unsupported by special forces task group operational reporting. I guess that is the same incident. As I said before, we have investigated it and we have found absolutely nothing to substantiate the allegations.

Senator NETTLE—When was that investigation?

Air Chief Marshal Houston—That was back in the middle of last year. I do not have a precise date on it, but I can assure you it is the same incident because, following that report, President Karzai asked that it be investigated by the coalition and that investigation was conducted. We found absolutely nothing to substantiate the allegation that Australians were involved in the incident.

Senator NETTLE—Could I ask you to take on notice when the investigation happened?

Air Chief Marshal Houston—Certainly.

Senator NETTLE—Who did the investigation? Was it the coalition forces? Was that what you just said then?

Air Chief Marshal Houston—I will take all of that on notice.

Senator NETTLE—If you could find out when the investigation occurred, who did the investigation, who they questioned and, most particularly, whether it was determined that there were Australians in that area?

Senator FAULKNER—If I might ask a question, perhaps through you, minister, to CDF. I am sure, as many committee members would have just had the opportunity to see what, on the face of it, is a very concerning and prominent article in today's *Daily Telegraph* about *Westralia*. I assume you, Air Chief Marshall, have had an opportunity to see that particular article. It makes a range of statements in relation to the matters relating to the terrible tragedy on *Westralia*. I wonder, first of all, CDF, if you have had any opportunity to check at all the veracity of those claims and, if so, whether you are able to report on that to the committee.

Air Chief Marshal Houston—Obviously this article came out this morning and we have been doing some work this morning to locate the minute that is referenced in the article. I understand we can speak about that now.

Senator FAULKNER—Thank you.

Air Chief Marshal Houston—I will ask Dr Ian Williams, Inspector-General, Defence, to perhaps address the issue.

Dr Williams—We have been looking around. As you would appreciate, the events referred to date back about a decade, so it is not easy to pull together the papers at short notice. I have not as yet been able to get my team to locate the source documents, but I have been able to find some other information that gives some light on the particular allegations. The key issues, I think, are that, first of all, the issues came up in the light of Operation Majorca and the preceding event, which was essentially focusing on lost weapons. This was not the core business of it. In a range of interviews that were held, one company did identify concerns, as I understand it, in relation not to safety but to the fact that they had not had what they felt was a fair opportunity to bid for defence business. Whilst it was not part of the core business, there was follow-up investigation to see whether there was any problem with contracting practices. As a result of that, the judgement was that there was no basis to support the claims of the company that they did not believe that they had been unfairly treated in contracting. As a result of that, the view was that no further action was needed on that activity. I think it was only post the *Westralia* incident that links were drawn. There was no particular basis that I have been able to come across to substantiate those comments.

Senator FAULKNER—I understand from what you are saying that work is ongoing in the department on this. If at some stage you think it would be more sensible for us to address it later in today's hearings, I am sure the committee would understand if that were the case. You identified a company. Are you able to indicate to the committee the name of that company? There is a company mentioned in the article.

Dr Williams—I believe that Baileys Diesel was the company in question.

Senator FAULKNER—In some of today's press coverage there is a company named as Baileys Diesel Services.

Dr Williams—Yes, I believe that would be the company.

Senator FAULKNER—You mentioned in your brief status report that you gave the committee that there was a follow-up investigation. Are you able to say how that was conducted and who it was conducted by?

Dr Williams—The initial complaints from the company in relation to whether they were having a fair opportunity to tender were raised with investigators, one being a Federal Police investigator attached to Defence at the time and another being a member at the time of my current organisation. As a result of their interview with the members of the company, they reported back to the head of investigations in the inspector-general organisation and raised those issues. I understand that there was then some follow-up and the principal focus was on whether the contracting practices were sound, because I understand that was the nature of the allegation. There was some follow-up and the judgement was that there was no basis to the claims in terms of unfair contracting. Again, my understanding is that the claims were of a general nature. They related to things like whether this particular company had the proprietary right on certain items and whether those items sourced from other means would have warranty cover if they did not come through the company. It was things of that nature.

Senator FAULKNER—I will just go back a step. You have indicated that two officials were involved in this investigation. Can you confirm that one of them was an Australian Federal Police agent?

Dr Williams—In the initial interview with the company, one was the Federal Police agent.

Senator FAULKNER—Was the other an official from the inspector-general's division?

Dr Williams—I understand so, but I do not have full details. The normal practice would be to have two investigators to go along and in that case there would have been one from the inspector-general's division.

Senator FAULKNER—In this case would the AFP agent concerned have been seconded to the inspector-general's division?

Dr Williams—I will give you a background. As you would probably be aware, there were issues raised in relation to weapons in late 1997. The inspector-general at the time set up a review process and felt that it was necessary to pull in assistance from the Federal Police. The activity kicked off in, I think, October of 1997 and it was about November when the Federal Police provided—I am not sure again and I am trying to track down the records—certainly one and I believe two members. They then participated in that activity and assisted in investigating allegations and pulling together the full range of allegations. Then early the following year it was judged that the scope of issues was such that it would be better handled as a major external inquiry and the view was it would be best led by the Federal Police, given that criminal charges were in their domain. In May 1998 Operation Majorca was set up. It involved many of the same people, but it was led by the Federal Police rather than the inspector-general. However, the inspector-general organisation continued to be part of it.

Senator CHRIS EVANS—You said earlier that these allegations were not core business of the Majorca inquiry. That seems to contradict evidence given by Commissioner Keelty yesterday on behalf of the AFP when I asked him about that, when he went through the range of terms of references. Among those terms of references—and I do not have the exact words—were issues to do with unlawful disposal of spare parts, payment of secret commissions, problems with the parts centre at Moorebank and a wide range of issues that go well beyond just the weapons issues.

Dr Williams—The investigation Majorca certainly went beyond weapons. It looked at any allegations of stolen or missing items. Basically, it had no limit. It was quite broad. However, it did not cover issues of contracting and whether particular contractors had been given a fair hearing or whatever. That is clearly a separate issue. So, as I understand it, when this issue did come up the inspector-general division, with the Federal Police, look at the issue to see whether there was a case that this company had been unfairly treated. In a major contracting organisation, companies that miss out on tenders will often raise complaints and it is fairly common practice to look at whether they have a valid complaint. As I said, the focus of this was perceived as more being an issue in relation to whether the company had fair opportunity, which really was beyond the issue of corruption and the like. As I understand it, the claims from the company were that there were issues of whether, with respect to items for which they believed they had the agency rights, if they were provided from other sources, there would be warranty cover et cetera. That was the major nature of the issue. It is pushing the boundaries.

Mr Warner—I will ask Steve Merchant to give you a little bit more detail about the terms of reference of Operation Majorca.

Mr Merchant—The terms of reference for Operation Majorca, as Dr Williams has said, covered four major areas. One was the alleged loss or theft of weapons. That included discrepancy in weapons holdings and the failure to investigate the discrepancy; unlawful disposal of weapons and parts in the New South Wales Police; unlawful disposal of weapons and parts to civilians; possible abuse by defence personnel of the gun buyback scheme and a general review of the gun buyback scheme.

The second major heading related to theft and fraud, and that related to major items of equipment that had been unaccounted for; volumes of fuel and gas; loss of chainsaws and payments of secret commissions. The third term of reference related to Defence Force discipline act issues and audit: allegations relative to the failure to conduct and the hindering of investigations; falsification of stocktake figures and an issue of unsafe and outdated stock to cover deficiencies in stocktakes. It also related to audited disposal practices. The final term of reference related to drug allegations—allegations relating to the use and distribution of illicit drugs.

Senator FAULKNER—I interpret from what you are saying is that this matter that has now been canvassed publicly and that we are asking questions about at this estimates committee relates broadly to term of reference 2 of Majorca. Is that correct?

Mr Merchant—My interpretation would be like Dr Williams in that it was only indirectly related to the major thrust of the terms of reference of Operation Majorca.

Senator FAULKNER—That is what I am interested in hearing. It seems to me to be pretty well front and centre for the theft and fraud term of reference—I am just using shorthand for your description of the second broad term of reference.

Mr Merchant—The specific items under ‘theft and fraud’ were major items of equipment unaccounted for, loss of large volumes of fuel and gas, loss of chainsaws and payment of secret commissions. They were the particular subset of issues covered under ‘theft and fraud,’ not more broadly.

Senator CHRIS EVANS—But the evidence is that two officers on the Majorca task force actually went and interviewed this company and its proprietor about issues as part of that investigation. It cannot have been that peripheral if the officers on that task force actually took responsibility for the interview.

Dr Williams—A large number of people were interviewed on a range of issues. The view, particularly from the minister at the time, was that this needed to be very thoroughly investigated. The view taken was that if anyone raised an issue that could be related then investigations would be undertaken. Contrary to some of the media articles of just a few days ago, there was follow-up. People were interviewed quite comprehensively. The intent here would be not to have followed up on contracting issues but to see whether there were issues that could relate to the terms of reference. In looking at it again, my understanding was that at the time the judgement was this was more about an issue of whether a particular company had had fair opportunity to bid.

Senator CHRIS EVANS—What is the basis for that assertion, if you have not actually seen the documents?

Dr Williams—One of the people on my current staff was involved in the process at the time and we have been able to pull out some second-hand information but, as I have said, I want to get the source documents before I would be prepared to give definitive answers.

Senator FAULKNER—You can confirm that the AFP agent and the other investigator from the inspector-general's division actually reported to Defence?

Dr Williams—I understand that they did.

Senator FAULKNER—Who would they report to? Would it be the inspector-general himself?

Dr Williams—Normally an issue of this sort would go into the contracting area. However, because it came up in the course of the pre-Majorca activity, it would have been reported into the inspector-general organisation.

Senator FAULKNER—At this stage you have not been able to access a file that may include a minute dated 6 February 1998?

Dr Williams—No. I have not located the core documents. What I have is second-hand information referring to it.

Senator FAULKNER—Just so we are clear: one issue for the committee is that it may be worthwhile leaving this aside until a little later in the day—and I would like Dr Williams's advice on this—if it is likely that his staff will be able to put their hands on documents and we might be able to have a more meaningful interaction on this. You tell me. I am happy to bat on now but obviously I would like some specific detail if it is possible.

Mr Warner—I can respond to that. I think it would be very useful for us. This is a serious matter and we would like to go through the files. This is an issue that is almost 10 years old, so coming back later this afternoon would allow us to answer your questions in a more considered and fuller way.

Senator FAULKNER—Chair, I think that might be sensible if you are happy with that. I just want to ask one or two more general questions to complete the picture. I think it will save a lot of time and everyone appreciates that time is of the essence here for the committee. I wanted to understand the broad process issues and then we will go to the specifics later. Did you say that the federal agent and the official or officer from the inspector-general's department report to the inspector-general?

Dr Williams—I believe so.

Senator FAULKNER—You also said to us, a few minutes ago, that you have been able to provide evidence that there was follow-up investigation of the matters of concern.

Dr Williams—That is right.

Senator FAULKNER—A little like Senator Evans, I do not understand how you are able to make that statement without access to the files, but perhaps you could explain to us what you mean in this instance by 'follow-up investigations'?

Dr Williams—What I am relying on is information from a member of staff who was engaged in the Majorca process who is still currently in the organisation and who has

provided his recollection of events. He is a fairly reliable officer but, given the length of time of 10 years, clearly I would want to trace the original documents.

Senator FAULKNER—That is fair enough, but are you able to say to us what you mean by ‘follow-up investigations’?

Dr Williams—The normal practice would be to interview further people or to look at the transcripts from the original one to follow up if other people are named. For example, on one issue I understand that the particular company claimed that a separate incident, where something had been fitted by another company, resulted in an accident. I understand that the investigator followed up with Navy and there was no record of an accident—not only in that year but either side of that year. That kind of thing fairly clearly casts a lot of doubt on the claims from the particular company. Where things could be followed up of a specific nature, they were.

Senator FAULKNER—The point here is that the minute that Defence has not been able to locate has been perhaps quoted in a newspaper article. If that is the situation we face—and I have qualified it very clearly—and if this is a fair-dinkum minute, it says, in part:

HMAS Westralia was identified by Baileys as having a recent history of sub-standard and nongenuine parts installed.

It went on:

Based upon the nature and content of the information provided by Baileys ... which included numerous documents and records, it is believed by the undersigned that these allegations should be given the highest consideration.

It goes on to suggest that this minute was signed by an AFP agent who is publicly identified as Agent Peter Smythe. We will obviously get more detail on this, but these are serious statements when signed by an AFP agent. I would imagine the follow-up investigations, if this is right—if those sorts of statements are being made—would have to be very thorough, would they not?

Dr Williams—Indeed they would be. The first point I would make is that the statement signed by the Federal Police officer and the inspector-general officer are not their conclusion or their judgements, they merely reflect what was stated by the particular person making the complaint. It was not reaching any judgment about the validity of it. The second point that I observed was as I mentioned—

Senator MARK BISHOP—With due respect, the quote that Senator Faulkner just read says this:

Based upon the nature and content of the information provided by Baileys ... which included numerous documents and records, it is believed by the undersigned that these allegations should be given the highest consideration.

The undersigned are an officer of your division and an agent of the Federal Police. They make the assertion.

Senator FAULKNER—Just to correct that, perhaps it is just the AFP officer, but it is certainly one of the investigators.

Mr Warner—We will be in a lot better position to respond to these concerns and these questions later in the afternoon.

Senator FAULKNER—You are right. I just want to get a broad picture if I could. I will not go through the detail. I will accept your counsel, Mr Warner. It is fair enough. Let me now go to one other issue, which seems a little inconsistent with what I have heard. I would like to quote the article now. This is not a quote of any minute. It says:

Defence confirmed that the minute was received but said “no issues of concern” were identified so the document was not passed on to the navy.

And, then the article quotes Defence:

That investigation identified that the source of the complaint raised in the document related to the inability of a subcontractor to win work on Defence contracts.

My interest here is just understanding how that information could be provided to a journalist? If it was provided to a journalist it appears quite definitive and a little inconsistent with a lack of opportunity or of just becoming aware of this today, given that commentary has been made or Defence is quoted about these issues in press reports this morning.

Dr Williams—The issue of whether particular events occurred can be followed up. For example, the names of the people involved et cetera will be on the record. The source document is the one that is difficult to track down. We have sufficient information to make judgements about what particular events occurred, but as I have said, in terms of the details of the complaint, I would rather wait until I have seen the source document to go into that.

Senator FAULKNER—Fair enough, and if these quotes from the source document are accurate, then even if Defence cannot find it, someone else obviously has. Chair, I will accept the counsel of the witnesses at the table, as long as my colleagues are happy to do so. Perhaps, if it is reasonable, we might visit this immediately after the lunch break. Is that timing satisfactory, Dr Williams?

Dr Williams—We have people looking for things at the moment and I will bring it forward as soon as we can.

Senator FAULKNER—Thank you.

Senator Ellison—I just want to clarify one thing. Senator Evans mentioned the evidence of the police commissioner last night in relation to the terms of reference. I can say that the evidence that the police commissioner gave on the terms of reference of Operation Majorca was indeed the same as that given today by Dr Williams and Mr Merchant—and that is the four broad areas which were outlined in the detail given.

Senator CHRIS EVANS—Senator Ellison, I was just saying that the characterisation that Mr Williams gave was a little narrow. Mr Merchant corrected the record by reading more detail. I am just making the point that I wanted to make sure that the record was corrected in the sense that his definitions seemed a bit narrow. Mr Merchant has put on record the actual terms of reference and I am happy but, as I said, it was a bit broader than might have been implied by the original statement. I am not imputing any poor motive, I am just saying that as I understood from the evidence last night the terms of reference were broader, and that has now been put on the record, so we are all sweet.

Senator MARK BISHOP—I would like to go to air power—the F111, the FA18 upgrade, the Super Hornet, JSF that whole discussion that has been topical for a while.

CHAIR—If those officers could come forward please?

Senator MARK BISHOP—You would have seen the report leading in this morning's *Australian* newspaper headed 'US rules out deal on F22'? Are you familiar with the report?

Air Chief Marshal Houston—I am.

Senator MARK BISHOP—The report makes a number of points. Firstly, that the US Deputy Secretary, Mr England, has written to the Defence Minister saying that the US will not export the world's most deadly war plane, the F22 Raptor, to Australia and it goes on in the body of the article where it says that Mr England clarified US policy once and for all:

"Regarding the F-22, our current position is that the airplane will not be made available to foreign military sales," Mr England wrote.

Can you confirm the accuracy of that report?

Air Chief Marshal Houston—I can confirm that Minister Nelson got a letter from Undersecretary England and that is confirmed, the F22 is not available for export sale.

Senator MARK BISHOP—Does that specifically include not available for export sale to the Commonwealth of Australia?

Air Chief Marshal Houston—That includes not for export sale to anybody, and that is very consistent with informal advice that we have had over the last three years. I think I mentioned that once before in this forum.

Senator MARK BISHOP—You did. We had a discussion last time in passing and you outlined the position then of the United States government that it was not to make it available. My recollection is that you also said that we had not made any formal or direct inquiries as to whether it would be made available. Was Mr England's correspondence to Dr Nelson in response to a formal inquiry or was it unsolicited?

Air Chief Marshal Houston—I believe Mr England and Dr Nelson had a discussion at AUSMIN. That was just a discussion between the two of them and the availability of the F22 was the discussion and the letter is the outcome from that discussion.

Senator MARK BISHOP—Essentially confirming the discussion?

Air Chief Marshal Houston—It confirms what we had heard informally over the last three to four years.

Senator CHRIS EVANS—Just for my information, CDF, I thought such decisions were decisions for Congress and not for under secretaries of the department?

Air Chief Marshal Houston—There is an act that forbids the export of the aircraft at this time.

Senator MARK BISHOP—Is this a signal that the Bush administration is unwilling to repeal the legislation or to seek the support of Congress for a change in policy?

Air Chief Marshal Houston—Essentially, yes. Through legislation the aircraft is basically that it is not allowed to be sold to anyone.

Senator CHRIS EVANS—Is the JSF in the same category?

Air Chief Marshal Houston—No.

Senator MARK BISHOP—So the alternative to the path of the JSF that had been in discussion for the last two or three years is now clearly off the table. Can you give us a status report on the suggestion in the article that the government will now go ahead and purchase up to 100 F35s at a current cost, it is stated, of around \$15 billion? Firstly, where are we at on that issue?

Air Chief Marshal Houston—As you know, we have been planning towards acquisition of the Joint Strike Fighter since the government announced that back in the middle of 2002. We have a project in place, a new air combat capability project headed up by Air Vice Marshal Harvey, and things are proceeding very well. I would invite either the Chief of Air Force or Air Vice Marshal Harvey to update you as to where the project is now.

Air Vice Marshal Harvey—You may remember in November last year that the government provided first-pass approval for the new air combat capability project and reconfirmed that the JSF is the preferred way ahead. As a result of that first-pass approval, we received approval to sign the production sustainment and follow-on development MOU, which was done in the US in December. Of the nine original partners in the project, eight of those have now signed the MOU. The last partner, Denmark, will sign at the end of February. We are progressing now to second-pass approval towards the end of 2008 and the expectation is that there will be approval to buy the JSF. We are still not at second-pass approval but the project continues on track towards that.

Senator MARK BISHOP—With the Raptor being off the table, so to speak, is the JSF the only serious alternative for next generation craft for the Australian government to purchase.

Air Vice Marshal Harvey—There are only two fifth generation fighters, the F22 Raptor and the F35 Lightning II. The F22 has been off the table because of the congressional legislation all the way through but again I would remind that, as we said before, the F22 was not our preferred solution. We believe that the F35 can do all the jobs we need and it is more cost effective than the F22.

Senator MARK BISHOP—You said the second-phase approval goes to cabinet in late 2008. That really is the very detailed nuts and bolts work on all of the aspects of the craft. As your group does its detailed preparation for recommendation to government late next year, are you at the same time looking at other alternatives, perhaps manufactured by other countries, or is your second-phase approval preparation only about the JSF now?

Air Vice Marshal Harvey—The second pass approval is certainly focused on the JSF, because that was the basis for going through the first pass. But we maintain what we call a watching brief on all the alternatives, not nearly to the level of detail of the JSF, but we are certainly aware of the developments in the arena. The new air combat capability project is also phased so the first two phases, we expect, would be three squadrons of JSF plus a training capability. Phase 2C is either an additional squadron of JSF, if that is the decision, or future alternatives, such as uninhabited combat air vehicles. We are looking at that for the longer term as well. The decision in 2008 we expect will be at least three squadrons plus

training, but the last part of the project could be a subsequent decision, unless we decide at the time that the other alternatives are not realistic. We do keep an eye on all the alternatives.

Senator MARK BISHOP—That eye on all the alternatives, is that anything more than a watching brief?

Air Vice Marshal Harvey—It is a matter of definition. DSTO is taking the lead for us. They keep watching, primarily based on open literature but we monitor experience with operations of other aircraft, because all the alternatives are basically flying now, so it is reasonably straightforward to monitor those, but not in as much detail as the JSF.

Senator MARK BISHOP—I think it is fair to say now that the preferred path is now the JSF. Can you update us on current knowledge on the likely delivery date of those first three squadrons of the JSF?

Air Vice Marshal Harvey—The exact delivery date is part of the second-pass consideration. We are looking at first aircraft for Australia in either 2012 or 2013 to achieve initial operational capability in 2014 or 2015. The US air force plan to achieve initial operational capability in the 2013 time frame and the way that the project is going, we are confident that the aircraft will be available then but it is a large, complex project and we keep monitoring risks. We will choose the optimum time based on cost, risk and performance to deliver the aircraft.

Senator MARK BISHOP—I have no quarrel with that. The current thinking is delivery 2012-13 and initial capability 2014-15?

Air Vice Marshal Harvey—Correct.

Senator MARK BISHOP—The press have also been talking of late of retirement or looming obsolescence of the F111s. Can you give us a brief status report on our F111s and are we still planning on having them out of operations around the year 10 or year 11?

Air Marshal Shepherd—The government is keen to de-risk the transition from the current F18 and F111 force through to the future JSF force. There are a number of options that have been put up extending the F111 or defining exactly when the F111 will be withdrawn and, at government's request, we are providing further detail on a bridging fighter option, the FA18F. Government has yet to make a decision on which way they would like to de-risk that transition.

Senator MARK BISHOP—In de-risking that transition, are we essentially talking the period 2010 through to 2015?

Air Marshal Shepherd—Broadly, and in fact it probably tails out a little bit longer. We will keep the current Hornets in service throughout the next decade, withdrawing them as JSF—should that decision be made in 2008—comes into service. The risk period is probably in the front half of that decade as you have indicated.

Senator MARK BISHOP—Before we go to the Hornets, I will conclude the discussion on F111s. I take it from your comments in terms of de-risking the bridging operation, that necessarily includes extending the life of the F111s for some period of time after their current planned retirement date?

Air Marshal Shepherd—That would be one option. It might not be the only option, of course. There are a range of options, including, and as I said, a bridging fighter option. Government is yet to make decisions in that regard. We have provided the information on extending the F111, the bridging fighter, withdrawing the F111 at its currently planned date of 2010. There are a range of options.

Senator MARK BISHOP—Essentially, we have two options for consideration by government: extending the life of the F111s and the purchase of the Super Hornets?

Air Marshal Shepherd—We provided information on both of those options to government for their decision.

Senator CHRIS EVANS—Is the third option just keeping the current Hornets going and losing any F111 or replacement capabilities?

Air Marshal Shepherd—Both options require upgrade to the current Hornet fleet because they will be in service towards the end of the next decade.

Senator CHRIS EVANS—My question was: is the third option to government that we just keep the Hornets upgraded until the JFS comes into operation and allow the F111s to phase out at the anticipated rate? You have an option of F111s being extended, an interim fighter, but is there a third option seriously considered of not going for either of those and relying on the current Hornet upgrade?

Air Marshal Shepherd—It is really not a third option. The decision on how to de-risk the transition is the key one. When to withdraw the F111 is a key to that decision as well. We also have to take into account how the current upgrade of the Hornet is going; how the tankers are coming into service; and the Wedgetail and the other major projects that we need to ensure the adequate withdrawal of the F111. It is how they go as well. It is not a simple three options. The broad two options are moving from the current F111 and non-upgraded Hornet force; getting the Hornets upgraded and having the tankers, the new weapons, the AWACs all come into service; when is the right time to withdraw the F111 before we move into the Joint Strike Fighter force, and can that be de-risked even further by a bridging fighter option.

Senator CHRIS EVANS—There is effectively not a third option?

Air Marshal Shepherd—Exactly right.

Senator MARK BISHOP—With this information that you have put together for your options to government, I take it from your comments that it has gone to government and government has all the necessary information to make a decision, or are you still doing further work?

Air Marshal Shepherd—We are still doing work and it is going to government in a fairly short time frame.

Senator CHRIS EVANS—What are the costs associated with keeping the F111s going? I remember having a long discussion with Mr Veitch about this some time ago, but it seems to me that the option of keeping the F111 going is quite an expensive option, isn't it?

Air Marshal Shepherd—Certainly the longer you keep an aging platform in service, as I have said before in this venue, the risks increase. Those risks are financial, technical and

operational. The F111 is not a networked aeroplane and it would not survive in a future networked environment. So those risks increase the longer you keep the platform going. It is more than just straight financial terms, it is a combination of risks.

Senator CHRIS EVANS—How many can we actually get in the air at the moment?

Air Marshal Shepherd—The F111s are doing very well at the moment. They are currently in Red Flag in America doing a major exercise.

Senator CHRIS EVANS—How many can we actually get into the air?

Air Marshal Shepherd—We can meet our CPD requirements.

Senator CHRIS EVANS—At one stage we could only get seven in the air. I do not understand the technical assessments, but for a lay-person how many can we actually get into the air at any one time?

Air Marshal Shepherd—You get the numbers in the air that you need to meet the flying program that you need to fly. Where we need a flying program of 10, 11 or 12, then we will make them serviceable.

Senator CHRIS EVANS—As we speak today, how many are airworthy? How many can you get in the air today?

Air Marshal Shepherd—It would be a figure of over a dozen. Once again, it is a nearly irrelevant measure of effectiveness. We need to meet our flying allocations and we need to meet our CPD, our Chief of Defence Force preparedness requirements.

Senator CHRIS EVANS—We have had evidence here before about the risks and the difficulties. It is no secret that, as you said, as they get older we have issues with the wings and the costs.

Air Marshal Shepherd—We are through the wing problem. The aeroplane is performing very well at the moment. It is meeting its targeted requirements. It is meeting its rate of effort obligations. Like I said, at the moment it is currently deployed to America, conducting a major exercise very successfully. The aeroplane is performing. The whole system is performing very well and meeting the required outcomes.

Senator CHRIS EVANS—What is the projection in terms of costs for extending the life of the F111s?

Air Marshal Shepherd—I would call on my DMO colleague, Air Vice Marshal Rossiter, to talk about that. Once again, I stress that it is not just a financial situation, it is a situation of increasing risk with an aging platform; it is operational, financial and technical.

Senator CHRIS EVANS—We are the only ones that operate them in the world.

Air Marshal Shepherd—It was only ever us and the Americans.

Senator CHRIS EVANS—We carry the whole risk now?

Air Marshal Shepherd—That is affirmative.

CHAIR—I would like to ask you with respect to the centre barrel replacements of these Hornets, where are we at with the contract with Northrop Grumman on that matter?

Air Marshal Shepherd—Air Vice Marshal Rossiter would be able to answer that question as well.

Mr Veitch—I have not got the data with me at the moment. I can probably get that and clarify my answer later on this afternoon. Essentially, with the funding for the F111, we were originally planning to retire it in 2010-11 and the funds in our forward estimates were therefore taken away as part of the capability review back in 2003. If the F111 was to be extended—and there is no decision taken that it ought to be paid off early—the funding figures that I have got in my mind is something like \$49 million a year for the personnel that are required to operate it and something up to about \$100 million in terms of the logistics sustainment budget.

Senator CHRIS EVANS—Is that the total cost including the transference of personnel, whether directly or not? When you say the logistics and support, is that the total of what it is going to cost to keep them in the air, putting the personnel to one side?

Mr Veitch—That is about the number at the moment, bearing in mind that we were planning to phase them out in 2010-11. So the funding is reducing progressively. We essentially bought all the spares some time ago that we would need for the aircraft and we have maintenance contracts in place and those sorts of things. It is on a gradual decline in anticipation of paying the aircraft off progressively between now and 2010-11, but, should there be a different decision made, we would need to revisit that funding. Up to about \$100 million is the figure that I have in mind, but I will check that and get back to you later on this afternoon.

Senator CHRIS EVANS—Effectively it might cost a bit more than that in the sense that you will have to ramp up some of the things that were being phased out if you are going to extend the life by three or four years.

Mr Veitch—There would be those sorts of considerations. We would need to renegotiate maintenance contracts and there would be additional operating costs involved.

Senator CHRIS EVANS—Are the maintenance costs increasing? I know with my car that the maintenance costs seem to have increased with each passing year. Is it the same sort of trajectory?

Air Marshal Shepherd—I stress again that, with the aging airframe issues, we do not know what we do not know. The wing example is a classic case. We have worked through that. We do not know what is out there in a technical sense. It is an aging airframe. These technical and engineering risks increase the longer we operate an aging platform. The historical trajectory on aging platforms around the world is that you can expect the maintenance costs to increase the longer you operate them. We have enough data ourselves from the F111 and from operating things like the 707 et cetera to know that would be the case.

Senator CHRIS EVANS—That is not including any unforeseen circumstances like the wings. Even without major unknown problems your maintenance costs will be increasing.

Air Marshal Shepherd—Certainly over the life of the F111—and Air Vice Marshal Rossiter could probably add more granularity here—each major servicing takes longer and longer each time you do it because there are always unscheduled ‘arising’, as we call them in

a technical sense, in that we find more corrosion and more fatigue that we need to work through in each of those major servicings. The vector there has always been increasingly upward.

Senator MARK BISHOP—Going back to the F35s, I do not think that you advised me of current cost plans. The newspaper article that I referred to said something in excess of \$15 billion was the current figure. Is that figure correct or is it significantly under what you are thinking at the moment?

Air Vice Marshal Harvey—The figure quoted in the current public defence capability plan is between \$A11.5 billion and \$A15.5 billion, and that is the way it was in the first white paper back in 2001. Our current estimates are that that is sufficient for the number of aircraft that we need.

CHAIR—That is the acquisition cost, isn't it?

Air Vice Marshal Harvey—That is the acquisition, correct. It does not include operating costs but it does include all the spares, support equipment, training equipment and infrastructure requirements.

Senator MARK BISHOP—Is that \$11 billion to \$15 billion a 2007 figure or a 2001 figure?

Air Vice Marshal Harvey—It was probably 2006, which is the time of the most recent defence capability plan.

Senator MARK BISHOP—You say it is between \$11 billion and \$15 billion in acquisition costs in 2006 dollars.

Air Vice Marshal Harvey—Correct. I believe that was in the 2006 defence capability plan. It was the most recent public version of the DCP.

Senator MARK BISHOP—I know you updated the DCP very recently. My question is: what are the current estimations of total acquisition costs in current dollar terms for the F35 project?

Air Vice Marshal Harvey—As published in the DCP, it is no more than \$15.5 billion in current year dollars.

Senator MARK BISHOP—If the figures that you refer to of up to \$15 billion are in 2006 dollars and we do not get the plane until somewhere between, at best guest, 2012 and, perhaps more likely, 2015, what sort of inflator are we thinking about?

Air Vice Marshal Harvey—There is the standard CPI increase, but generally on top of that the aerospace sector increases at a higher rate than that. As you will know our budget is updated regularly, certainly for the general factor and exchange rate variations, so that is not a factor. The issue we watch is whether there is a real cost increase in the price of the aircraft, and to cover that we have a reasonable amount of contingency within the project. We are reasonably confident that we can acquire the number of aircraft that we need within the original provision that was there in the white paper.

Senator MARK BISHOP—Is the number of aircraft that we need a moving feast or is the government set upon a figure?

Air Vice Marshal Harvey—The white paper identified up to 100 aircraft and our analysis suggests that we probably need four operational squadrons and a training unit to do that. The exact number per squadron to do that depends on flying rates, number of aircraft in maintenance et cetera. We believe about 100 aircraft is sufficient for four operational squadrons and a training unit. Our analysis against likely tasks is that we believe that is sufficient to do the job for us. You need to take into account what the AEWG contributes and what the tankers add to that as well, but as part of a total package we believe four operational squadrons gets us to about 100 aircraft, and that is what was expected in the white paper.

Senator MARK BISHOP—You say four operational squadrons and a training squadron. Is a squadron 20?

Air Vice Marshal Harvey—We work from the effect that you want to achieve. We believe to do that you need 12 aircraft on line available to do the job. We probably need about another four aircraft as basically a maintenance pool within the squadron. So a squadron will look like about 16 aircraft. You will then have a training unit that is a bit bigger than that, because of the throughput required. On top of that we may have some aircraft in deeper maintenance and also attrition aircraft to ensure that we have the number of aircraft that we need throughout the life. In total that is about 100 aircraft.

Senator MARK BISHOP—You are looking at 50 or 60 aircraft in the air at any one time and the rest in all of those other phases of repair.

Air Vice Marshal Harvey—There would be four lots of 12 operational squadrons, so that is 48, plus about 16 for the training unit, so there would be about 64 available at any one time.

CHAIR—That is \$A150 million per aircraft at this stage?

Air Vice Marshal Harvey—As I said, the \$15.5 billion was the maximum top end. That is in the published DCP. The actual amount is lower than that, but it is within those bounds. It is not just the aircraft. As I said, at least a third of the amount would be the system costs that go with it, the spares, the training elements, the infrastructure et cetera. As we have reported to the Senate before, on current estimates the average price of the aircraft is in the order of \$A77 million through each aircraft on average. Again, on top of that we have contingency and there are other elements that we buy as well.

CHAIR—You have reported to us a number of times and we become more and more knowledgeable about how to ask the right questions. What is the production run that price is based upon?

Air Vice Marshal Harvey—At this stage that production run is in the order of 3,000 aircraft. It is based on the projection of US aircraft numbers, plus a percentage of the total international partners buy. It has not factored in any third-party sales yet. I know there are concerns about total US aircraft buys, but again we expect any potential reduction in that could be offset by sales to third parties. The US are reporting that they do not plan to reduce their numbers.

CHAIR—Where do we stand with our various Joint Strike Fighter participants? You were saying that Denmark is the last one to sign. Are we still in the same situation with respect to supporting our \$150 million per unit, including spares and support? What is the current status

of that, with Denmark yet to sign? Have we got a best and worst case scenario in terms of cost per unit if these parties all come along and if some drop off? Have we analysed that?

Air Vice Marshal Harvey—We look at the current estimate of the price of the aircraft in general where we want to buy aircraft in the queue. We then put on top of that our contingency and we are confident that is sufficient. As I said, under the current plan there has been no planned reduction in numbers by any of the partners. I will stress that all of the partners have joined up, except for Denmark, for the next phase of the project, but that is still not yet a commitment to buy aircraft. The only commitment to buy aircraft so far is from the US from the first two production years. Again, the US have provided strong support for the aircraft. There is no planned reduction in their numbers, so we are confident that the partners will buy the aircraft and the numbers will come in pretty close to where we are now.

CHAIR—I thought I had seen a sizeable reduction in their requirement for this aircraft from about 1,700 to 700.

Air Vice Marshal Harvey—What was reported in the press recently was an update in the context of the President's 2008 defence budget, which talked about a reduction in numbers acquired in the very early years of the program. That gets us out to 2013, but the US services have stated that they do not plan to reduce the number of JSF aircraft that they require.

Air Marshal Shepherd—Can I pick that up. I was in Washington for talks with my counterpart, General Moseley, recently. There is rock-solid commitment in the US Air Force to achieving the numbers—the 1,700-odd that they need. They have aging aircraft fleets. The average age of their fleet is up around 24 years now, and they are being operationally used very hard. Whilst budgetary issues may change some of the ways and timelines in which they get those aeroplanes, it is a rock-solid commitment. If they do not get them they will have to then start upgrading a lot of their older aeroplanes, which leads to an effective death spiral in a capability sense.

CHAIR—Given our circumstances, where are we in the queue?

Air Vice Marshal Harvey—The current planning is that we will buy aircraft in what is called low rate initial production lot four or five.

CHAIR—Is each lot about 20 aircraft?

Air Vice Marshal Harvey—It actually increases with time. In the first two, LRIP 1 is only two aircraft and then it steps up to 12. I think it roughly tries to double beyond that. We are about the fourth. Our very initial aircraft are about the fourth or fifth lot in the production line and the numbers gradually build up to approximately 15 a year for Australia. We are towards the front end, slightly ahead of the average acquisition rate.

CHAIR—Is that going to take us four, five or six years to acquire our quota of 100 aircraft?

Air Vice Marshal Harvey—Assuming that we buy 100 aircraft, it will take about six years to get those aircraft in. That is why there is a phased withdrawal of the FA18 and a phased introduction of the JSF.

Senator CHRIS EVANS—You said that there is a commitment from the US Air Force. As you would be only too aware, the commitment from the Air Force and the commitment from those who approve the budget are not obviously the same thing.

Air Marshal Shepherd—Indeed.

Senator CHRIS EVANS—So you might well have been reassured by the Air Force's commitment but I suspect, like you, they are waiting to see what funds become available.

Air Marshal Shepherd—That is exactly correct. The point that I was trying to address for the chairman was that there is no lessening of desire of the US Air Force in an operational sense. Of course, they mount a cogent argument and it is up to them to do that for their government.

Senator CHRIS EVANS—You described the death spiral. Aren't we in a death spiral as well?

Air Marshal Shepherd—But we are seeking to get out of that by moving into the Joint Strike Fighter future.

Senator CHRIS EVANS—If the Joint Strike Fighter is delayed, what happens to our position in the death spiral?

Air Marshal Shepherd—That is where government is committed to having no air combat capability gap over the period between the force we have now in the F111 and the non-upgraded Hornet, through to the upgraded Hornet leading into an all JSF future. They are the options that we are presenting the government on their request to look at derisking that transition.

Senator CHRIS EVANS—For years we have been told that there was not going to be a need to fill an air combat capability gap. Apart from a few junior Air Force officers who used to try to lobby me about it, the official line was always that we did not have a problem. But now we have accepted that we have a major problem.

Air Marshal Shepherd—I would not say that. We have accepted that there is a range of options. We have said in this forum before that we were always keeping an eye on other options, rather than just extending the F111. At government's request they have asked us to do some more detailed examination of the FA18F option, and we will be providing that information to government for their decision soon.

CHAIR—Before we get to the option that I am sure that we have all read about, I would like to just come back to this barrel replacement issue. I think we signed a contract in January to do nine.

Air Vice Marshal Rossiter—The status of the centre barrel program at the moment is that the first prototype centre barrel aircraft is over in Canada at the moment. It has been stripped down. The centre barrel has been replaced. It is still in the jig but by the end of February we are expecting it to come out of the jig. So far that prototype has shown no major technical issues that we have to face. There has been additional corrosion and cracking type things, which we expected, that had to be dealt with. That will be part of almost every aircraft that we do under the centre barrel program. So far the prototype element of that program is tracking to budget and to schedule.

CHAIR—What is the budget?

Air Vice Marshal Rossiter—I do not know the budget breakdown for just the prototype element. The whole of the structural program is \$850 million.

CHAIR—How long was the aircraft that was used as the prototype out of service?

Air Vice Marshal Rossiter—It is about a 12 month prototype activity.

CHAIR—How many centre barrels do we have to replace?

Air Vice Marshal Rossiter—We have catered for, in that \$850 million, up to 49 centre barrels.

CHAIR—Is that 49 trips to Canada?

Air Vice Marshal Rossiter—No. The prototype is being done in Canada. We also have people over there gaining experience. The intent would be that all of the production activity occurs in Australia.

CHAIR—When?

Air Vice Marshal Rossiter—I think it starts in the 2009 time frame, off the top of my head. I would have to look at the schedule.

CHAIR—How many aircraft will be offline per annum during the replacement?

Air Vice Marshal Rossiter—The floor loading for centre barrels is in the order of eight aircraft.

CHAIR—Eight aircraft per year being processed for centre barrel replacement, to a total of 49 aircraft?

Air Vice Marshal Rossiter—Yes. With some of them there will be what we refer to as a speed line, which is dedicated centre barrels, in order to get through the numbers. There will be some that will be done in conjunction with other modification activity for the upgrade program and maintenance activity for these.

CHAIR—We have got an upgrade problem that is standing behind the centre barrel replacement. Will these aircraft be with or without the upgrade program?

Air Vice Marshal Rossiter—I am sorry, I do not understand your question.

CHAIR—We have got an upgrade program for the Hornet?

Air Vice Marshal Rossiter—Yes.

CHAIR—That is not the centre barrel replacement, that is an avionics and other weaponry upgrade?

Air Vice Marshal Rossiter—Correct.

CHAIR—Are the barrel upgrades going to be done on aircraft with or without the upgrade?

Air Vice Marshal Rossiter—With the upgrade.

CHAIR—So we will have upgraded aircraft out of service at a rate of eight per annum?

Air Vice Marshal Rossiter—Probably more. There will be a speed line that will be dedicated to centre barrel, but we will also be doing one or two others in conjunction with other upgrade activity.

CHAIR—This will currently occur between the years 2010 and 2015 when our F111 is out of service and we are awaiting the Joint Strike Fighter?

Air Vice Marshal Rossiter—That is the time frame, yes.

Senator MARK BISHOP—We want to go to the Super Hornets—the FA18F. The government recently signalled an intention to buy or lease, as I understand it, 24 Boeing FA18F Super Hornet fighters from the US to ensure that there is no gap in this intervening period that we have been talking about. Has the government made a decision to do that or is it simply an indication of intent from Minister Nelson?

Air Marshal Shepherd—The government has not made a decision on that. We are providing them with options. The government will consider those options soon and we would expect that they would make a decision then.

Senator MARK BISHOP—The press reporting was about six or eight weeks ago and it seemed fairly firm that Minister Nelson's intent, and clearly now future recommendation, was for the government to purchase the Super Hornets. Is that correct?

Air Marshal Shepherd—I would let the Minister of Defence answer that question. We, as officials, provide him with information on the options that he wishes to take forward.

Senator MARK BISHOP—My recollection of events was that there was significant press reporting six or eight weeks ago. The press reporting accompanied statements and transcript from Minister Nelson. Minister Nelson indicated it was government intent to plug the looming air capability gap by purchasing a couple of dozen Super Hornets. Is my recollection correct?

Air Chief Marshal Houston—Minister Nelson indicated that the government was looking at a bridging capability, with a view to making a decision further downstream. I stress again that no decisions have been made at this stage. We are in the business of gathering all of the information that Air Marshal Shepherd has spoken about and government will make a decision on which way to go further downstream.

Senator MARK BISHOP—From my reading of the transcript at the time, Minister Nelson's comments were fairly definite and they were in the context of a potential looming capability gap. Minister Nelson and the government were clearly concerned. I take it that prior to him making that announcement there had not been any significant degree of preparatory work done in terms of potential first-phase approval by the DCP?

Air Chief Marshal Houston—No. That is not completely true. You heard Air Vice Marshal Harvey talk about maintaining a watching brief, and we were always very much aware of what was presented by a Hornet EF capability. We were well aware of the capabilities of the aircraft. We were well aware that that would provide a capability, if we needed it, for any form of derisking activity. It has been there for a while.

Senator MARK BISHOP—I do not quarrel with the broad proposition that you and other strategy sections keep a watching brief—perhaps even in detailed watching brief—on

developments in a whole range of areas so that you are always able to give fairly cogent advice. That is a qualitatively different thing from the minister of the day coming out in a fairly surprising and strong fashion and announcing that the government was going to seriously consider purchasing 24 extra planes at a cost of some \$4 billion.

Air Chief Marshal Houston—His statement was based on very full advice from the department.

Senator MARK BISHOP—So he had full advice from the department. He had been receiving full advice on potential options but he has taken, in that statement, a qualitative step forward by suggesting it is really now the most likely eventuality to come to pass.

Air Chief Marshal Houston—Minister Nelson has been fully engaged in the air combat capability issues since he became the minister. He has taken a very strong and enduring interest in the issues surrounding air combat capability right from the outset. One of the things that he looked at very early on was the Super Hornet capability. As you know, he has looked at a lot of other things as well. This is something that essentially is a good way to go. If we going to have a bridging capability, this gives us the best one for the least turbulence and is the way to go if we want to have a bridging capability that de-risks the air combat transition from F111 and F18 to eventually the joint strike fighter.

Senator CHRIS EVANS—One of the key issues in this, as I understand it, is that the Super Hornet purchase is not in the capability plan.

Air Chief Marshal Houston—No, it not in the capability plan.

Senator CHRIS EVANS—So we would be seeking \$4 billion extra for this option?

Air Chief Marshal Houston—Government has not made any decisions yet, but the sorts of issues that have to be looked at before we go to government are issues such as that.

Senator MARK BISHOP—You told us that Minister Nelson had been keeping a fairly detailed watching brief on the air capability gap issue since he became minister. My recollection is that he became minister in February 2006, or thereabouts.

Air Chief Marshal Houston—He has been the minister for just over 12 months.

Senator MARK BISHOP—Around this time last year he became minister, and he has kept a watching brief and you have been keeping him aware of options and keeping him up to date on what is happening in that area. That being the case, the DCP was updated late last year and, as Senator Evans reminded us, there is no mention of this Super Hornet option. Why wasn't there some reference to it or some indicator of intent or some comment making us aware of it when that document was published as an official government strategy document in major procurement areas for the next ten years? Why were we not given some inkling that it was under serious consideration and was likely to be the subject of immediate government decision, with consequences for the budget, as Senator Evans again reminded us, of some \$4 billion? Why were we not given the courtesy of being informed?

Air Chief Marshal Houston—The air combat capability is reviewed by government on a periodic basis. As I recall, that review followed the review of the DCP, and I might ask General Hurley to address that, because he is the one who does all the detailed work on the DCP.

Lt Gen. Hurley—We need to get the timing and the context of what we have been asked to do in order. The DCP came out in June of last year, but as a consequence of work that had gone on in the 12 months prior to that. The request by government for us to look at another de-risking option for the transition to the JSF came as a result of their consideration of the first pass for the joint strike fighter project last year—they did that in November/December, you will recall—and the decision to sign the follow-on sustainment MOU. We also provided them with an update of the transition plan for the air combat capability. In that context, after the DCP was released, they asked, ‘Could you take a look at another option for, the Super Hornet option?’

Senator MARK BISHOP—So in November/December, when you were doing the first phase on the JSF, they asked you to consider these other options in terms of de-risking. But shortly thereafter, essentially as your senior officers have left the cabinet room to go and set up the structures to prepare the work for the options—within a month—Minister Nelson is out there in the press saying that it is most likely that we are going to be spending another \$4 billion on 24 Super Hornets. You would not have had more than three or four weeks to do your research work pursuant to that cabinet decision.

Lt Gen. Hurley—We are preparing an option to look at Super Hornets. We are aware of what the capability is, though. There are formal steps if we want to take it any further than we have in the past as we have to go through US. That is what we have entered into.

Senator MARK BISHOP—My point is that the sequence we have is this: Minister Nelson is appointed to his job in February last year, discloses an interest in the air capability gap issue to CDF and receives regular updates and briefings on alternatives. Then in June last year, after 12 months work, four months after Minister Nelson is appointed, the DCP is published. In November/December, we have the first phase on the JSF. Arising out of those discussions at cabinet level, you were tasked to do work on options. Within a month, Minister Nelson pre-empted your work and essentially announced a decision of government to purchase 24 Super Hornets with a likely outlay of \$4 billion in future years. That just strikes me, for want of a better description, as a most odd way to be spending billions of dollars.

Air Chief Marshal Houston—Shortly after he came to the job—in about March or April—Minister Nelson gave direction to the department to have a look at a number of options. An incredible amount of work was done on those options. The way you have described it is not consistent with the reality of the situation. If you like, from then on this was very much a full activity for all those involved, and those options were worked up to government. It did not just suddenly appear in November; it was being worked up through the year. There were many briefings. There were many discussions. There was a lot of activity as we worked towards the November review. I can remember that through the whole of the last we, the senior officials, spent a lot of time in the Defence Capability Investment Committee looking at those sorts of options and dealing with the sorts of issues that were out there at that time.

Senator MARK BISHOP—All right. In that last discussion, you put a bit more meat on the table that I was not aware of. Thank you for that. Let us cut to the chase: are we talking \$4 billion of acquisition costs for the 24 Super Hornets? Is that the ballpark or is that grievously wrong?

Air Marshal Shepherd—Those costs are currently being refined, and they will be the costs that will be presented to government. We will not just present acquisition costs, however; we will present the whole range of costs, including operating costs, the personnel costs, the facilities costs—the whole package.

Senator MARK BISHOP—If we go down this path, what is the likely planned life of the Super Hornets?

Air Marshal Shepherd—That is a decision that is yet to be made, commensurate with the decision that the government may make to purchase them. Certainly the Super Hornet, around the end of the next decade, will require an update in itself to make it operationally viable beyond 2020. It seems reasonable, as we go to consideration of the final tranche of JSF or an uninhabited aerial combat vehicle around the 2012 time frame, that we do a business case over the next couple of years to see what the options would be regarding upgrading and keeping the Super Hornet or, indeed, getting that last tranche of JSF uninhabited combat vehicle. That would be a decision for future governments, of course.

Senator MARK BISHOP—Of course, but in terms of a recommendation to current government and decisions in a fairly short time frame—I think that is the phrase we have been discussing—about the Super Hornets, firstly, what is the ballpark figure, in terms of acquisition costs, maintenance costs and personnel costs, you are considering in making representations to government? And, secondly, are we at this stage likely to have only a 10-year life?

Air Marshal Shepherd—I would rather not get into the ballpark figure. I think that is information we provide in-confidence to government. Certainly we are looking at costing the aeroplane out for a 10-year period with all the other costs that are involved, but the focus on this is to de-risk the transition, and that is an immediate focus.

Senator MARK BISHOP—That is fine but, with due respect, I am not asking you for the specifics of cabinet discussion and I am not asking you for the detail of minutes that go to cabinet; I am merely responding to the transcript and press releases of Minister Nelson, who has indicated the strong likelihood of going down the path of purchasing the 24 Super Hornets to plug the air gap, and his figures of \$4 billion. I certainly do not expect you to give me confidential or private information. Minister Nelson having initiated the debate, it is entirely responsible for the opposition to inquire as to the ballpark figures that are going forward. Is it \$4 billion? Is it \$6 billion? Is it \$8 billion?

Air Marshal Shepherd—The figures as spoken by Minister Nelson are in the correct order of magnitude for acquisition costs.

Senator MARK BISHOP—So acquisition costs, ballpark early 2007, are \$4 billion.

Senator CHRIS EVANS—When could we possibly get the Super Hornets into service?

Air Marshal Shepherd—That is a very good question. It is one of the reasons why the Super Hornet is a very attractive option for us. There is a range of reasons why it is so attractive. The Super Hornet production line is currently running ahead of schedule. Air frames are available now. We would look to have the aeroplane coming into service, if

government were to make a decision, in early 2010 and have initial operating capability of one squadron by the end of 2010.

Senator CHRIS EVANS—The plane coming off the production line—if any aircraft ever came off on time—is one thing, but there are huge issues, are there not, with training and support? Or is it the case that the Hornet training effectively equips you for the Super Hornet?

Air Marshal Shepherd—It might help if I run through the advantages of the Super Hornet and why we have recommended, should government make this decision, that the Super Hornet is the correct option. If you look at other contenders, such as the F15 or any of the Eurofighter types, the Super Hornet Block 2 FA18F has a more advanced radar, a better signature reduction and an increased networking capability and it has greater potential to integrate with our current systems. Importantly, it has a long-term future in the United States navy, which will be operating the platform out to around 2030. It will be in production until 2014. We believe it is the most capable combat-proven, multirole fourth generation fighter in the world today. It is the only aircraft that has the most advanced ISAR radar and it can network seamlessly into our future order of battle.

Importantly, it also can fill a maritime strike role with its advanced stand-off weapons, including the harpoon, and, as I said, it has a future well out to 2030. As you know, our current Hornets are upgraded about every two years with a new software update, which effectively makes them a new aeroplane every two years anyway. We had people in America, a current Hornet commanding officer, flying the aeroplane late last year. Their experience is that flying the FA18 Super Hornet over, shall we say, our classics is just like another software update. The conversion course for air crew will be about five rides. The aeroplane has a similar design philosophy and maintenance methodology to our current Hornets, so we expect a very smooth transition from air crew but, most importantly, a very smooth transition for our support personnel and maintenance people.

CHAIR—Isn't this aircraft 15,000 pounds heavier?

Air Marshal Shepherd—It is a bigger aeroplane. It is roughly a quarter bigger than the classic Hornet. It was designed in the early nineties, which makes it a most recent fourth generation fighter.

CHAIR—Where did you get the information that it is only going to take five flights to adjust to all of the different systems that are on board?

Air Marshal Shepherd—We have had people in America flying the aeroplane, and the US navy and the US government have been absolutely wonderful in providing all the information that we require.

CHAIR—How long have we been doing that?

Air Marshal Shepherd—As CDF said, we have been working up throughout the year, but we have been actively doing it from that decision point, as General Hurley said, last November.

CHAIR—So last November we had pilots training on this aircraft?

Air Marshal Shepherd—Not training. We have had teams visiting the United States to examine the aircraft to see exactly what those transition issues would be and to work up the final costing figures for the project.

CHAIR—Is it true that this aircraft has a range that is only fractionally, 10 per cent or 15 per cent, more than that of a Hornet?

Air Marshal Shepherd—I would not go to figures.

Air Vice Marshal Binskin—No, it is more than that.

Air Marshal Shepherd—It is more than 10 per cent or 15 per cent. It has a substantial range increase over the current Hornet and, in fact, it is a range that is comparable with any of the fourth generation fighters out there at the moment.

Air Chief Marshal Houston—We will check the figures for you, but the range is substantially more than that of a standard Hornet.

CHAIR—I thought the ferry range was about 3,000 kilometres as opposed to about 2,700 kilometres for an ordinary Hornet.

Air Marshal Shepherd—Well, ferry range is one thing. It is—

CHAIR—We have to get them from somewhere to somewhere to get them off the coastline.

Air Marshal Shepherd—That is why we have tankers. And of course the KC-30B will be coming into service in 2009. The combat range figure that sticks in my mind is a combat range around 30 per cent better than that of the current classic Hornet. Importantly, no other fourth generation fighter out there has a substantially better combat range than the FA18F.

Senator CHRIS EVANS—You give a great sales pitch. I can see why you have talked Brendan Nelson into considering it. But, as a layperson, can I say that a few years ago we were going to have the current Hornets and the new JSF. Concerns about the capability gap were denied and we were advised that there was no problem: the JSF would be on time and it would all be okay. Now the scenario is that, yes, we have an air capability gap and we have a problem, and previous assurances no longer apply. We are now asked not only to buy the new JSF but to buy new Super Hornets as well. We now get two new planes, not for the price of one but for the price of two. We are talking \$4 billion extra, at least, to get the extra plane.

I take very seriously the air capability gap issues but it seems to me, as one of the taxpayers' representatives asked to inquire into these decisions, that that it is an extra big ask. There is no money set aside in the DCP for it, so we will have to either reduce the Defence budget by \$4 billion in other areas or find an extra \$4 billion. What were the original projections about our air capability? We were not going to have Super Hornets. Now we are talking about having them in the period up to 2020. Is it true that we could have done without them previously? Will we have, if you like, more air capability with them both than we originally intended, and is that necessary?

Air Marshal Shepherd—I will correct some of your statements, if you would be so kind.

Senator CHRIS EVANS—Sure.

Air Marshal Shepherd—It is a potential air combat capability gap. We do not have an air capability gap, and this government are committed to ensuring that we do not. They have not made any decisions about how best to address a potential air combat capability gap. Of course, underpinning all of this are the upgrades we are doing to our current Hornets. Extending the F111 is one possibility. A bridging fighter such as the FA18F is another possibility. They have yet to make that decision, but they are clearly keen on making a decision to make sure that there is no air combat capability gap. Our future is an all joint strike fighter force. We were not going to get to that future until around the 2018/2020 time frame anyway, as our classic Hornets phase out over the next decade. With regard to issues of funding, General Hurley might want to take that, but once again that is up to government to make decisions on where they will seek that funding.

Senator CHRIS EVANS—I accept that, but there is an issue here and, as the alternative government, we have to give it to serious consideration as well. What is the saving if we go down the path of having the Super Hornet and the JSF? Because the F111 is retired, we obviously we get a saving of the costs associated with that and the capability loss there. We had not originally planned on that going beyond 2010 in any event. Under this option, will we retire what you referred to as the classic Hornets early and create a saving there, or would we need the Hornets, the Super Hornets and the JSF under your option?

Air Marshal Shepherd—I suppose saving implies a focus on resources and dollars. The benefit—the outcome—we will get with the Super Hornet, should government make that decision, is increased capability and a certainty that we will not have the air superiority gap that could be looming. That is the outcome that I would be looking for: the certainty that we will not have that gap throughout the next decade. It would be a decision for future governments, along the lines of the business case I mentioned before, whether they decided to keep the Super Hornet, if they chose that, or whether they went for the third tranche of JSF or UCAVs. There may be rationalisations—and I stress may be. We have not completed the analysis on whether we would need to do all the centre barrels for the standard or classic Hornet fleet running out, and that work will be done throughout the coming months.

Senator CHRIS EVANS—I am effectively asking you to make that business case. I thought that was a fairly honest answer. Basically you said it was going to cost us a lot extra, but you were not sure there were any savings.

Air Marshal Shepherd—I suppose I am trying to move away from a purely financial aspect here.

Senator CHRIS EVANS—But all the defence acquisitions are a trade-off between capability and cost, are they not?

Air Marshal Shepherd—Exactly.

Senator CHRIS EVANS—You and government make those decisions all the time.

Air Marshal Shepherd—Exactly.

Senator CHRIS EVANS—Ideally, we would have 15 squadrons of JSFs, but at the price we are not going to buy that many. What I am asking is whether we end up with excess

capability if we keep everything but the F111 in service? Are there potentially cost savings available to us if we took the decision to go down the path of the Super Hornets?

Air Marshal Shepherd—In my wildest dreams, even I would not want 15 squadrons of JSF. That would be a little bit hard to man.

Senator CHRIS EVANS—Twelve is your bid, is it?

Air Marshal Shepherd—I will certainly provide that advice to government in confidence.

Senator CHRIS EVANS—I am sure you do.

Air Marshal Shepherd—Certainly the risks are there for an air combat capability gap to appear: increasing risk in the F111, the complexities of the JSF project—we believe it is running on track and on time, but we are at the mercy of the American process and its budgetary outcomes. That is why government is looking to get more firm options to derisk that transition gap. I stress again the capability and the assuredness we will have that there will not be any air combat gap throughout that period. As to resources, a new fighter would indeed cost more than extending the F111 but, if you extend the F111, you still get an F111 with all of its other risks and all of its other capability limitations.

Senator CHRIS EVANS—Sure.

Air Marshal Shepherd—You can only extend it so far. It gets into that sort of death spiral of capability and cost where you do not get a positive return. I stress again that government has not yet made a decision to even buy the JSF. That is in 2008 as well. We are still in the process of lining up these options to present them to government. As I said, there will be a mixed fleet, no matter what, running out through the end of next decade as we retire the current classic Hornets as the JSF comes into play. The third tranche of JSF, should government buy the full 100 aircraft, will not be delivered until about the end of next decade anyway.

CHAIR—I think that is an adequate answer. We can continue this after lunch.

Proceedings suspended from 12.34 pm to 1.31 pm

CHAIR—I call the committee to order. Air Marshal Shepherd, just before lunch we were talking about the JSF. Now you have some figures you would like to correct the record with.

Air Marshal Shepherd—On the F18 Super Hornet, if I may.

CHAIR—Yes, certainly.

Air Marshal Shepherd—Regarding the figures I gave about the increase in range over the classic Hornet, I said about 30 per cent. That was substantially correct. It is a 35 per cent average increase in combat range and a 45 per cent increase in aircraft ferry range over our current Hornet models.

CHAIR—Off the top of your head, can you tell us how that compares with the F111?

Air Marshal Shepherd—It certainly does not match the F111. There is no aircraft in production in the world today that will match the F111. It is, however, about 75 per cent of an F111.

CHAIR—All right. That is very good. As the discussion ensued, you talked about a business case—correct if I am wrong—for the Super Hornets.

Air Marshal Shepherd—What I was addressing there was the future. The bridging option, should government choose to take it up, de-risks the transition which is at the early part of the next decade. The third tranche of JSF will be decided upon around the 2012 period. Future governments may wish to look at whether they go that way—keep the Super Hornets out throughout their full 30-odd year life. They will need an upgrade at about the 2020 mark, were we to keep them, were we to get them in the first place. I would think that it would be incumbent on Defence at that stage to provide a business case to government about keeping the Super Hornets, upgrading them, vis-à-vis moving ahead with our desired plan of getting a full JSF fleet and an all-JSF capability.

CHAIR—The thing that concerns me about this particular project is that we seem to be—and you can clarify this for me—identifying capability gaps and long-term maintenance issues that have come to the surface at various times. We identify all these problems in a circumstance that seems to me to be about 10 minutes to midnight. What I am concerned about is that I thought this analysis should have been on the table four years ago. Can you explain to me why we have not been able to anticipate, and what has led to, the fact that initially the F111s were 2020? I was here in the parliament when 2020 was the date for F111s. Then it was 2010. Obviously the gap arises, given that we have a 2012 or a 2014. And everybody knows, realistically and sensibly, that a complex 19 million lines of code—landside and airside—complexity project is going to be late and going to be over budget. Why are we doing this now and not, say, three or four years ago?

Air Marshal Shepherd—I will give you my views on that, and I might ask General Hurley to pick up broader issues of DCP planning into the future. With our current combat fleet of F111s and Hornets, we have the capability edge in the region. In a perfect world, it would be nice if industry and other air forces—mainly the US, as the major determinant here—had developed the fifth generation fighter that suited us at a time line that suited the degradation of our current platforms. It has, but it is finely balanced and the potential risk of an air combat capability gap then arises. As I go back, the options to cover that gap involve extending the F111 and concentrating on our upgraded Hornet capabilities. So in that broad sense planning was done.

If we had not upgraded the Hornet, I think your criticism would be valid, but we did see many years ago the need to upgrade the current Hornet to take it out through the end of the next decade so that we would be able to move into a fifth generation fighter when one became available—the JSF. So the planning has been done. The change is clearly that government wants a sharper focus on the range of options available other than just extending the F111 and looking for the Hornet upgrade.

At the end of the day it comes down to capacity. I think you touched upon it in one of your earlier questions, Senator, when you look at the upgrade of the Hornet and having eight to 10 out every year over the next couple of years to do the centre barrel. An option that looks to cover a potential air combat capability gap that relies on an extension of the F111, the successful upgrade of the Hornet as well as the successful delivery of Wedgetail, the successful delivery of the Tanker, and the JSF project staying substantially on time and on

budget, we believe is all achievable, but it does have inherent risks built into it. The Hornet upgrade could take longer than we thought, the F111 could have an unscheduled technical arising that we did not expect, and so on. So I suppose it comes down to the capacity issue and also the level of risk that governments are prepared to wear.

CHAIR—Can you tell me what the cost comparisons are between a 2010 and 2015 ongoing maintenance of Amberley and the aircraft at Amberley—F111s—in comparison to the apparent \$4 billion we are talking about for 24 FA18Fs and other options? Has that work been done? Do the figures stack up? What can you tell us about that?

Air Marshal Shepherd—I can touch upon that and George Veitch may wish to refine it. It is not a simple, straight accounting. Tied up in this are people as well. Nominally we are to lose people as we retire the F111. Clearly we need that same workforce to transition into the JSFs. So any costing of either extending the F111 or indeed a new bridging fighter option needs to include the current F111 workforce, for which, under current forward planning, funding ceases in 2010. That adds a large amount of money there, but it is an essential underpinning fact.

CHAIR—We have a starting point of about \$200 million a year for F111s. I would have thought that is a lot of years to get to \$4 billion.

Air Marshal Shepherd—Yes, but once again it comes down to risk, capacity and capability. \$200 million a year buys you an F111. In fact, it will not even buy today's F111, because it will get you an F111 that is a year older every year, with increasing risk in an operational sense, because the complex environment is getting more complex, and increasing technical risk in the sense of engineering unscheduled arisings. So it really comes down to the level of risk that government wishes to accept and the level of money that they wish to expend to give us the surety, and give it the surety, that the air combat gap will not arise.

CHAIR—Four hundred million dollars a year gives me \$2 billion worth of F111s for five years.

Air Marshal Shepherd—Yes.

CHAIR—Help me with the numbers. What are we saying?

Air Marshal Shepherd—But it is a decreasing capability effectiveness throughout that period as well.

CHAIR—I would expect there to be an decrease. It is less than the \$4 billion.

Air Marshal Shepherd—Yes, but it is more than just a financial decision. It is a decision about capacity and capability, ultimately. So every year you extend the F111 you have increasing risk, you have decreasing effectiveness in a more complex combat scenario and you have increasing overall risk that there will be a combat capability gap.

CHAIR—Mr Veitch, you were going to say something?

Mr Veitch—I was just going to add to what the Chief of Air Force said and clarify the answer I gave to Senator Evans earlier this morning. We are currently spending \$140 million on maintaining the F111.

CHAIR—What does that actually buy us?

Mr Veitch—That covers the maintenance contract, purchase of spares—although we have largely bought life of type spares—the fuel for the aircraft and those sorts of things.

CHAIR—This is the Rosebank people and the Boeing people—all the stand-up support we have for this spec?

Mr Veitch—Yes. But the workforce comes on top of that. Over the forward estimates, because we are planning to phase the aircraft out from 2010-11, that \$140 million phases down to about \$10 million over about four years so it is \$140 million, \$130 million, \$110 million, \$82 million, \$20 million and \$10 million. What the Chief of Air Force said is correct, that what we would need to do is to seek to restore the workforce that is taken away. That would cost us about \$49 million a year. We would need to spend at least, in my view, \$140 million or more per year on the logistic sustainment of the aircraft. But the risk is that we do not know what we do not know. Therefore the logistic support is likely to grow as the aircraft ages. So if you asked me to put a number on it, I would say that you are probably looking at, from about 2010-11 on, something like \$200 million to \$250 million a year.

CHAIR—That is what I thought would be a fair enough assessment off the top of my head.

Mr Veitch—But that assumes that the aircraft is okay and it has no sort of real technical issues or—

CHAIR—No embedded technical issues that undermine the capability. Okay. That is a fair enough figure. So we are approaching \$1 billion for five years on that assessment. If we throw in another billion we still have \$2 billion. That leaves us \$2 billion in comparison to the 24 aircraft that we are getting. I just wanted to know what the figures were. I do not make any comment about that.

Air Marshal Shepherd—If we take 2015 as a sort of time line, we believe the F111 will not be operationally feasible beyond 2015.

CHAIR—Why do you say that?

Air Marshal Shepherd—Because it is not a networked aeroplane. It will not be able to fit in with our networked air force. It will not be able to communicate with the Wedgetail and it will not be able to communicate with the VigilAir system in the future for our airborne environment. We believe, as a small force, we need to have a combat edge not through masses of numbers but through being smart. It will be a computer war. So the F111 in 2015, were we to keep it, were we to do a simple mathematical sum—and your reasoning is correct in that sense—would need a massive upgrade. That upgrade would be some billions of dollars. The upgrade we did on it back in the 1980s was around a billion dollars anyway. It is an old aeroplane in the sense of its computer architecture, so it would be nearly impossible to bring it into the fifth generation networked era as a 1960s platform.

CHAIR—It would be a conventional command and control structure.

Air Marshal Shepherd—The only way of getting information into the F111 at the moment is to talk to it over a radio. It does not have a data-to-data machine transfer, so it cannot fit into that fifth generation force.

CHAIR—There are an awful lot of air forces that are going to be relying on that method of communication in 2015, surely?

Air Marshal Shepherd—And hopefully we will not be one of them.

CHAIR—That is right, but we are talking \$2 billion to have that luxury.

Air Marshal Shepherd—But, as a small nation with a large strategic environment, I believe it is incumbent on us to spend that money to give us the capability edge that we need.

CHAIR—I have an indication that \$2 billion is what we need to put on the table to acquire a network capability into 2015?

Air Marshal Shepherd—As well as keeping the F111 going, which would be another billion plus, as Mr Veitch says. But indeed at that stage you would still get an F111. What we do get with an F18F is a true multirole aeroplane, an aeroplane that gives us more capability and also gives us an air-to-air capability that might cover any capacity issues we have with our current Hornets as they go through their upgrade and maybe—hopefully not—strike some troubles there. So it is a bandaid on a bandaid, in some ways.

CHAIR—Well, it is. And the only issue I have with that is that sitting here now in 2007 talking about bandaids on bandaids is a little bit after the fact.

Air Marshal Shepherd—But were we not to have done the upgrade of the current Hornet I would be more in agreement with you.

CHAIR—Yes, I accept that, and I think we have to be constantly doing the sort of things we have to do, but throw in the barrel replacements and take eight out every year and bring forward the F111 cashing to 2010, and I think we have a problem that we should have anticipated.

Air Marshal Shepherd—Certainly we have been providing options to government and, as CDF explained, throughout the period of this minister's incumbency he has been very active in the involvement in this capability. I suppose it came to a nodal point because we are tasked to provide regular updates to NSC on the air combat capability transition and the last one of those was November, coincident with first pass for JSF, and I suppose it was at that time that government decided to look for serious options.

CHAIR—I do not think anyone questions how good the joint strike fighter is going to be potentially as a capability and as value for money. I think you have won that argument. There was an argument, and I think you have won it. All I am questioning now is, in order to go down that path—if that is where we are going, and I believe we are—did we get our ducks in a line? This is our biggest ever defence expenditure. Did we approach it correctly and are you happy with what we are now doing? And that is filling gaps, talking to the Americans and picking aircraft in circumstances where we are two years out from commissioning some of these aircraft, which is a phenomenal time frame.

Air Marshal Shepherd—Certainly it has been done in a more rapid pace than the normal process would dictate, so to that extent it is probably *mea culpa* slightly. Once again, it comes down to government's decisions and how much risk and expenditure that it wants to take at the end of the day.

CHAIR—I suppose it is just that we are all pretty conscious of the unique capability that the old aircraft, the F111, brings to the party. I accept everything you have said about networking and all of that, because I think we are all accepting of that disposition and that standpoint.

Senator CHRIS EVANS—While we are on that subject, what is the current time frame for the barrel replacement on the Hornets? When will that all be done?

Air Marshal Shepherd—I will ask Air Vice Marshal Rossiter to come forward and explain that.

Air Vice Marshal Rossiter—Could I have the question again, please?

Senator CHRIS EVANS—I want to be clear, given we are talking about capability gap et cetera, what is the current time frame on the upgrade of the Hornets with the barrel replacements?

Air Vice Marshal Rossiter—We are in prototype phase right now. That prototype aircraft will be finished this year and will be back in Australia this year. The full rate production, as I said, commences in 2009. After we have the prototype back, in between that and full-rate production, we are in a limited rate production arrangement while we stand up Australian industry to do the full-rate production. That will go from full-rate production in 2009 through to about 2014.

Senator CHRIS EVANS—So when will we have the complete Hornet FA18 fleet upgraded and operational?

Air Vice Marshal Rossiter—That 2014 time frame is to get through the current 49 aircraft.

Senator CHRIS EVANS—When will you have the first batch operational?

Air Vice Marshal Rossiter—I think that would be 2009-10 time frame. LRIP is about ten aircraft. So between the end of this year and 2009 we will be pumping through about ten aircraft, and then we will be in full-rate production from 2009.

Senator CHRIS EVANS—How many are you going to keep online at any one time?

Air Vice Marshal Rossiter—That is a combination of the impacts of the rest of the Hornet upgrade program, the structural program and normal maintenance. Out of the fleet of 71 aircraft, we are typically in the 50s, as our objective.

Senator CHRIS EVANS—Currently—and what is it going to be during this program?

Air Vice Marshal Rossiter—We are aiming to try and maintain that. It is a very complex production scheduling program to fit into all the aircraft requirements without compromising that target availability that we have with our operational customer. At the moment that is what we are planning to achieve.

Senator CHRIS EVANS—How confident are we that we will keep the 50 available as operational aircraft throughout that process?

Air Vice Marshal Rossiter—My personal assessment of the risk in that is that we are talking about a few aircraft. If we broach it, it will be by a few aircraft. There is not a significant risk of going down below that by more than a few aircraft.

Senator CHRIS EVANS—What are the operational issues involved in operating non-upgraded and upgraded aircraft at the same time?

Air Vice Marshal Rossiter—From a structural point of view I do not think the pilot can tell whether it is an upgraded or a non-upgraded aircraft.

Senator CHRIS EVANS—I mean in terms of their capabilities. The answer may be no. It is a layman's question.

Air Marshal Shepherd—If I may, I will ask Air Commodore Mark Binskin, a previous commander of the fighter force, to explain the differences there.

Air Cdre Binskin—From a centre barrel perspective of the upgrade, the pilot will not notice the difference. For the rest of the tranche of the upgrade, with the EW, the avionics and all that, our aim is to stand those aircraft up in squadrons to work together as enough aircraft come on line. For certain periods you will be using upgraded and non-upgraded aircraft in the same squadrons, but that is not that much of an issue to manage.

Senator CHRIS EVANS—This is separate to the project to upgrade the Hornets with radar and electronic sensors?

Air Cdre Binskin—It is all a part of HUG—Hornet upgrade. If you go through the various phases of HUG, phase 1 was preparatory work. Phase 2.1 was radar and some initial avionics upgrades. Phase 2.2 was major avionics upgrades to, in some cases, bring the aircraft up to just above an F18CD capability and just underneath an EF capability. Then you go to HUG 2.3, which is the EW upgrade with new radar warning receive, new jammer pods. Then you go to HUG 2.4, which was forward looking infrared pod replacement and targeting pod replacement. Then you go into the HUG 3 series which is centre barrels and structural modifications.

As Air Vice Marshal Rossiter mentioned, they are not done in series; they are all done in parallel. Some aircraft go through and get various components done together. In those upgrades, not straight HUG but associated other weapons upgrades, they also give the aircraft all-weather precision bombing capability and give it a standoff weapon capability. They are all happening over the period between now and, avionics-wise, by about the middle of 2011 they should be all complete. Then you have the centre barrel upgrade that continues on to the 2014 time frame for 49 centre barrels, and that is where the capacity issue is the problem for that length of period.

Senator CHRIS EVANS—What HUG classification was the ALR-2002 electronic warfare self-protection system?

Air Cdre Binskin—That was HUG 2.3.

Senator CHRIS EVANS—I am trying to get my head around the acronyms again, after a little break. We have announced that we have ended the original contract with regard to that program. Is that right?

Air Marshal Shepherd—The centre barrel? HUG 2.3 has now moved to the ALR67v3 by Raytheon.

Senator CHRIS EVANS—So the contract with BAE has been terminated?

Air Marshal Shepherd—Yes. I call Dr Gumley forward, who will be able to explain that in more detail from a DMO perspective.

Senator CHRIS EVANS—Will Mr Veitch be able to tell me what it has cost us, or will Dr Gumley be able to do that?

Air Marshal Shepherd—I am sure both of them together will be able to handle that for you.

CHAIR—While Dr Gumley is coming forward, you gave a reference. What did you say again?

Air Marshal Shepherd—ALR67v3, the third version of the radar warning receiver. Its model number is ALR67.

CHAIR—This is not the array radar?

Air Marshal Shepherd—No, this is the warning system.

Senator CHRIS EVANS—Dr Gumley, I gather the buck with this one stops with you or it was just handballed to you. I know, it is a legacy project. When was the decision taken to end the contract with BAE for ALR-2002?

Dr Gumley—In November 2006 we cancelled the contract with BAE, or at least informed them it would not be ongoing. I am not sure at this exact point whether the formal paperwork has been done but certainly BAE have stopped work on the project.

Senator CHRIS EVANS—That followed some sort of review, I gather.

Dr Gumley—Yes, there were a series of reviews, scientific reviews, whether the product was going to get there in time. There was considered to be a schedule risk in being able to get the ALR-2002 onto the aircraft in time. The Raytheon product was already proven, was flying on the US jets, and so it became a question of risk management.

Senator CHRIS EVANS—But that context was there when you took the original decision to go with BAE, was it not?

Dr Gumley—Yes, it was, and there were some technical delays in developing the 2002 and the schedule risk started getting higher and higher.

Senator CHRIS EVANS—Is it true that the original recommendation was to take the Raytheon option?

Dr Gumley—I am not aware of that. The first meeting that I went to that involved the product was that the 2002 was chosen. I am not aware what went on before my time.

Senator CHRIS EVANS—There have been press reports that the original recommendation was to choose the Raytheon product anyway. You may not have been there at the time. Does someone have the corporate knowledge?

Air Chief Marshal Houston—No.

Air Vice Marshal Rossiter—This is going back, I think, several years. I would be operating off distant memories.

Air Chief Marshal Houston—I think we should take it on notice because it goes back a long way.

Lt Gen. Hurley—Could we clarify: a recommendation by whom to whom?

Senator CHRIS EVANS—Well, internally within Defence. The allegation or suggestion in the press is that there was a recommendation that came out of Defence originally that we go for the Raytheon product and that somewhere further up the food chain it was recommended that we go with the BAE. I understand the original arguments were, as Dr Gumley pointed out, that the Raytheon was an established operational product and had fewer risks associated with it.

Dr Gumley—What I can add to the debate on this was that, for a long time, Australia has wanted to develop its own EW capability, and there was a very strong industry benefit of having the 2002 product developed in country. But at the end of the day, we got up against a schedule problem and had to make the change.

Senator CHRIS EVANS—What is the schedule problem?

Dr Gumley—The 2002 was taking too long to be developed and certified.

Senator CHRIS EVANS—Would that have delayed the other HUG upgrade and was it sequential, is that the issue?

Dr Gumley—It was partly sequential but also partly whether the product could ever get there technically to equal the fielded product.

Air Marshal Shepherd—Once again, it then adds to the uncertainty surrounding a possible air combat capability gap.

Senator CHRIS EVANS—I am well aware of that. It seems nothing is certain in these issues.

Air Marshal Shepherd—If I could just clarify too, there are two products called the 2002. There is the 2002 Bravo, which was the product that was going into the Hornet, the fast jet product. There is also a 2002 ALR, warning receiver, that BAE is still progressing with because that system has potential to go into the Hercules and rotary wing fleets.

Dr Gumley—So we are keeping some of our industry—

Senator CHRIS EVANS—Another layer of complexity for me. I am just trying to get my head around this, sorry, Dr Gumley.

Dr Gumley—I was just going to add to that that it gives an ability to keep some EW technological capacity in the country. In other words BAE in Melbourne and Adelaide are still working developing the technologies, but it was just too late for the fast jets.

Senator CHRIS EVANS—So who took the decision that the schedule risk was too great?

Dr Gumley—There was a group of one-star officers representing Air Force, capability group, DMO, DSTO, and then that brought it through to a three-star steering group and, at the end, we made recommendations to the secretary in CDF for the change to be made.

Senator CHRIS EVANS—Did that go to the National Security Committee?

Air Chief Marshal Houston—Yes.

Senator CHRIS EVANS—So the bottom line was that they ticked off on ending the contract?

Air Chief Marshal Houston—The process was complete and comprehensive.

Senator CHRIS EVANS—You say the formal paperwork may not have been completed, Dr Gumley, but what is the bottom line in terms of the contractual relationship with BAE?

Dr Gumley—BAE still continue with the radar warning receiver for the Hercs and rotary wing fleet and we will be making decisions later as to which of those may or may not get fitted out. Jim McDowell, the head of BAE, has given an assurance that there will be no staff laid off. He has plenty of other projects which he is moving his qualified staff onto and so we do not feel that there has been intellectual loss on the program.

Senator CHRIS EVANS—What about from the point of view of the taxpayer? How should we be feeling about it? What has happened to our costs in all this?

Dr Gumley—It is a development contract and, when you are doing R&D, occasionally it does not go right—

Senator CHRIS EVANS—Explain it. What has happened?

Dr Gumley—so there is sunk money and the money has gone.

Senator CHRIS EVANS—So what have we sunk into it?

Dr Gumley—I would have to take that on notice; I do not have the figure.

Senator CHRIS EVANS—That is why I thought Mr Veitch might be joining us. Is he able to help us?

Air Vice Marshal Rossiter—I think I have the figure. I think it was in the order of \$90 million, and that covered some development cost that went across both the Hornet version of the 2002 plus the other variants that are still continuing. So I am not quite sure how much of that to apportion to each bit, but that was what the sunk costs were at that point in time.

Senator CHRIS EVANS—All right. We sunk \$90 million into it and that has now been discontinued, but there is some work that flows over into the Hercules et cetera.

Air Vice Marshal Rossiter—Correct.

Senator CHRIS EVANS—What was the nature of the contract that existed between Defence and BAE? Was it purely, a case of, 'We'll help fund this research', or was there a contract for delivery of a product?

Dr Gumley—It was a phase by phase contract and we were able to terminate it at a particular phase. So prototypes were developed, which did not achieve what we wanted to. There would have been another round of prototype developed which we would have had to fund. So basically, we cut our financial losses on the contract before we were too far committed.

Senator CHRIS EVANS—So there is no question of liquidated damages or anything of that nature?

Dr Gumley—No. In my view, there is no question of non-performance by the company either on this one. This was a genuine technological risk. They did a good job. We just did not quite get there on time.

Senator CHRIS EVANS—So your contract, in a sense, was staged. They had met their various obligations along the stages but at the end you decided you were not going to put in any more money into it.

Dr Gumley—We were not going to go into production with that unit.

Senator CHRIS EVANS—So the \$90 million has been expended. Some value will flow to the Hercules fit-out et cetera. What is the nature of the ongoing contract for that work?

Dr Gumley—I am not aware at the moment exactly where that is up to. I will have to get advice on that.

Senator CHRIS EVANS—But there is a separate contract for that development work?

Dr Gumley—It would be a separate contract.

Senator CHRIS EVANS—And is that because the contract was changed following this or you had two contracts running in parallel?

Dr Gumley—Again, I will have to check the exact detail of that.

Senator CHRIS EVANS—Perhaps you could take that on notice for me. You are reasonably confident that BAE will be able to maintain the employment of the workforce? I know there was some reporting at the time but they have quite a big investment in South Australia, haven't they?

Dr Gumley—It is a substantial investment, and engineers of this calibre are in very short supply in this country. I have no doubt they will be gainfully employed.

Senator CHRIS EVANS—What had we budgeted for this in the out years? Is \$94 million the more accurate cost of the project that we have already sunk into it?

Air Vice Marshal Rossiter—It could be.

Senator CHRIS EVANS—That is what Senator Ian Campbell said when I asked him in the Senate.

Air Vice Marshal Rossiter—Okay. I can recall \$90 million but that could have been rounded.

CHAIR—Any further questions?

Senator MARK BISHOP—Air Marshal Shepherd, I want to return to the discussion you were having I think with Senator Johnston about the range. Correct me if I am wrong: did you say that the Super Hornet would have a range of up to 35 per cent further than the Hornet and, even with that increased range over the Hornet, the Super Hornet would have about 25 per cent less range than the F111?

Air Marshal Shepherd—That is affirmative. The F111 combat radius is in the—and once again these things depend on the weapons carried; where the threat systems are; how long you can stay high; how much you can go low, all that sort of stuff—order of magnitude of about 1,000 nautical miles combat range. The current Hornet has a combat radius of about 500 mile and the Super Hornet has one of about 800 mile in rough figures. What is important to note is that the current F111 will not be able to use that combat range. Because it is an aeroplane that is not networked and has difficulty in an operational sense in seeing what is around it, it needs to be escorted by Hornets to give it that situational awareness and that protection. So already we have operational scenarios whereby that great range of the F111, which in earlier times was very dominant in a different operational scenario, is not able to be used. In any event, there is no aeroplane in the world today that matches the F111 for its range and payload characteristics.

Senator MARK BISHOP—Correct me again: the F111 has mid-air refuelling capacity?

Air Marshal Shepherd—That is affirmative, with the boom.

Senator MARK BISHOP—Neither of the Hornets has mid-air refuelling?

Air Marshal Shepherd—Yes, our current Hornet has a probe and drogue capability, which is different to the F111 capability. That is the capability we have on our 707 tankers at the moment. The new tanker we are going to get in 2009, the KC-30B, will have a probe and drogue and boom refuelling.

Senator MARK BISHOP—So both the Hornets and Super Hornets now and into the future will have mid-air—

Air Marshal Shepherd—Indeed, with the Super Hornet, you can refuel other Super Hornets with a Super Hornet. You can do what is called buddy tanking.

Senator MARK BISHOP—That has cleared that up. We might now move on to Seasprites. I will very briefly summarise my understanding of where we are at on the Super Seasprites, and you correct me if I make any mistakes. Early to mid last year we identified a couple of major problems with respect to airworthiness in the Seasprites. A decision was made by the minister upon recommendation to ground the craft for the time being until the problems could be properly identified, trialled and rectified. As part of that process, I think General Hurley was tasked to race off and do a review of options available to the government. That was a fairly urgent review, which I vaguely recall was to be concluded late last year. From that review, General Hurley made recommendations to government and that was to be considered by, I think, National Security Committee of cabinet early this year. There was a report in Saturday's *Weekend Australian* following on from a fair amount of discussion held in Canberra last week to the effect that the minister's office had informed various industry participants that the Sprites were going to be ended, that they could not be brought back in a suitable time frame, and that the National Security Committee at its earliest convenience was going to hear a report from the minister, and it is expected that the National Security Committee will can the Seasprites project. Have I got the basic summary correct, Commodore?

Cdre Campbell—Your basic recall is quite good. The recent speculation in the paper is speculation.

Senator MARK BISHOP—It is speculation. In that case, I might ask you, if you are the appropriate person, to give the committee a status report on the Sprites. Have the problems been identified; are they capable of rectification to the satisfaction of Navy and Air Force; and will they be brought back into service in the near future? If not, when will National Security Committee make that decision?

Cdre Campbell—I cannot answer the last question. That is for the government to decide when they are going to consider it. With respect to your previous questions, no, the problems have not been fixed yet. We are still working on the software aspect. We do not expect them to be fixed till mid year. We are very close to solving the automatic flight control system issues that I spoke about when we last met. We are in final testing and re-evaluation of reports and analysis of all the various work that Kaman has done to make the automatic flight control system safer, and I expect that work to be completed in the next few weeks. We are still in negotiations with Kaman as to the scope of work for certifying the automatic flight control system against a contemporary standard.

Senator MARK BISHOP—I suppose I should really cut to the chase of that article to see if it is correct or not: have you concluded your review, General?

Lt Gen. Hurley—Yes, we have completed our analysis of options and presented that to government and it is with government now.

Senator MARK BISHOP—It is with government now, okay. This has put down a question for the minister, I think.

Senator CHRIS EVANS—It was back in October that you delivered that to government, wasn't it?

Lt Gen. Hurley—Late October, November-ish, yes.

Senator CHRIS EVANS—I think 31 October is the date I got on a question on notice, so the government has had it for some time now.

Lt Gen. Hurley—Yes, but they will schedule it in their business at NSC.

Senator CHRIS EVANS—No, that is right, but you are not doing any further work—Defence is not doing any further work?

Lt Gen. Hurley—No, we have defined the options and so forth.

Senator CHRIS EVANS—Okay.

Senator MARK BISHOP—This is a question for you, Minister, I think. I am not going to ask you questions of a policy nature or the detail of NSC decisions. When is it going to NSC for decision?

Senator Ellison—I cannot say when it will go to NSC. The decision is yet to be made and it will be made, no doubt, at NSC, but we do not divulge timing of NSC—the discussion, the agenda at NSC—for obvious reasons. Government has this under consideration and has not made a decision yet.

Senator MARK BISHOP—Is it on the agenda this afternoon?

Senator Ellison—Nice try.

CHAIR—It is a leading question, I think, Minister.

Senator MARK BISHOP—The reason I ask is that I am advised that the minister's office has given the contracting company and others the courtesy of briefings as to the status of the project and the government's assessment of the options that have been recommended from General Hurley's review group. It is not really, I think, satisfactory to say it is under consideration when the minister's office is briefing industry participants. Why do you not share that information, to the extent you can, with the committee?

Senator Ellison—The minister is going to have discussions he thinks fit in relation to this, and I am not going to discuss or divulge those discussions. If you have any questions as to who he has met with, I will take that on notice, but certainly there is nothing untoward in having discussions with people in the industry.

Senator MARK BISHOP—Can you outline the nature of the discussions that Minister Nelson had with representatives of Kaman Aerospace Corporation?

CHAIR—I would think that he could not.

Senator MARK BISHOP—I think there would be a memo there. He is representing the minister.

CHAIR—Even if he did, I think there are some commercial proprieties here with the contractor.

Senator Ellison—Exactly.

CHAIR—If the contractor is being informed of the status of the contract, there is a whole host of issues that surround this. I think the questions have to go directly to the minister and I think you need to give the minister the courtesy, if there are loose ends to be tied up on the contract, of him so doing.

Senator MARK BISHOP—But, Chair, by definition the minister at the table is the representative of the minister involved in the discussions.

Senator FERGUSON—He can also take anything on notice.

Senator Ellison—Yes, and I am taking it on notice. I will take it on notice and see what the Minister for Defence can say. I take it that your questions go to who has he met with and what was the nature of those discussions that he had with the people he met with.

Senator MARK BISHOP—Fine, I accept that.

Senator Ellison—I will leave it to the Minister for Defence to answer that question, but for my part I can say that if I have discussions with people contracting with agencies in my portfolio I do not ventilate those discussions publicly. Certainly I will take that on notice.

Senator MARK BISHOP—Would you mind asking the minister the questions: when he had the discussions, with whom, and the nature of those discussions? If you could come back to us some time this afternoon and advise us of the minister's response it would be appreciated, on the basis that he has had discussions, I am informed, with representatives of various companies.

Senator Ellison—Mr Chairman, I will see what I can do.

Senator MARK BISHOP—Thank you, Minister. How much have we spent so far on the Seasprites, Commodore?

Cdre Campbell—About \$894 million on the Seasprite contract.

Senator CHRIS EVANS—What was that figure again?

Cdre Campbell—\$894 million on the contract.

Senator CHRIS EVANS—I thought, according to additional estimates, it was \$940 million.

Cdre Campbell—Nine hundred and forty million dollars is the total contract which involves our own spend inside the country.

Senator CHRIS EVANS—I see. Thanks.

Senator MARK BISHOP—So it is \$894 million so far?

Cdre Campbell—That is on the contract.

Senator MARK BISHOP—You said that you were still working on the two problem areas. If the discussion we have been having, that I have been leading, proves to be incorrect and the government decides to fund the fixing of those two problems to operational levels of satisfaction, what additional amounts will be required and who will bear that cost? Is that part of the existing contract or does it need supplementation?

Cdre Campbell—It needs supplementation, but I think that is all I can say. It is all part of the government consideration.

Senator CHRIS EVANS—But the current budget is, I think, \$1,006 million in the budget papers, so we have paid \$940 million of a total budget of \$1,006 million. We have effectively paid 93 or 94 per cent of the cost already. Are you saying to us now that we will have to actually pay Kaman more to get the thing able to fly?

Cdre Campbell—That is one of the options that is being considered by government.

Senator CHRIS EVANS—Within the option of continuing with the Seasprite project—I know we have the option of continuing or giving it away as a bad joke—is it the case that there is no possibility of us getting it airworthy and completed at the current price, as it were?

Cdre Campbell—No.

Senator CHRIS EVANS—Has any estimate been done on how much extra it would cost us to get it operational?

Cdre Campbell—As I said earlier, we are still discussing and negotiating a statement of work for phase 2 of the automatic flight control system. That involves a certain amount of deliberation on cost.

Senator CHRIS EVANS—Would that work be done by Kaman?

Cdre Campbell—Yes, with several subcontractors.

Senator CHRIS EVANS—So we are actually considering sending more money Kaman's way?

Cdre Campbell—That is part of the government consideration—yes.

Lt Gen. Hurley—I think we should just clarify. You have asked: what options are we considering, not are we considering giving them money? This is an option under consideration and, if you wanted to go that way, you would have to pay a bit more money. If you do not want to, you do not.

Senator CHRIS EVANS—No, that is why I tried to clarify it. That is in the ‘let’s keep it going’ option, and see if we can make it work. But that requires us renegotiating with Kaman and the expenditure of more than the original budget. Is that fair?

Lt Gen. Hurley—That is in that option—yes.

Senator CHRIS EVANS—Are we still paying a maintenance contract to Kaman?

Cdre Campbell—Yes.

Senator CHRIS EVANS—How much is the maintenance contract?

Cdre Campbell—Annual or total or—

Senator CHRIS EVANS—Both.

Cdre Campbell—We pay roughly between \$12 million and \$14 million a year to Kaman.

Senator CHRIS EVANS—Why are we paying that if they are not actually airworthy? We are not maintaining them in the sense that they not flying.

Cdre Campbell—They still need maintenance.

Senator CHRIS EVANS—Has that contract been renegotiated? I know we were paying it at one stage when they had not delivered the aircraft. We had that renegotiated.

Cdre Campbell—We are renegotiating the contract—yes.

Senator CHRIS EVANS—All right. So this is the renegotiation of the renegotiation?

Cdre Campbell—Correct.

Senator CHRIS EVANS—Is this the first renegotiation of renegotiation, or have there been other iterations of it?

Cdre Campbell—As we have already advised the committee, there was a renegotiation of the support contract back in about the 2002-03 time frame and this is our second one since then.

Senator CHRIS EVANS—The second one since then or the second one?

Cdre Campbell—Sorry, the second one.

Senator CHRIS EVANS—That is what I was asking. What is the objective of that?

Cdre Campbell—The objective of that is to acknowledge the fact that the aircraft are not flying and may not fly in a full operational sense for some time yet.

Senator CHRIS EVANS—Are we seeking some sort of discount on what we have paid, given that they have not been flying while we have been paying the latest contract?

Cdre Campbell—We are—yes.

Senator CHRIS EVANS—When will that be completed or is that dependent on this other decision?

Cdre Campbell—It is dependent on that decision, but we are in active negotiations and we have been for some months, so I would not like to put a time frame on it.

Senator CHRIS EVANS—Is it possible that, within this option of continuing with the Seasprite, somebody else could finish the work or is it effectively the case that we just have to use Kaman?

Cdre Campbell—In the aerospace industry it is very difficult to use anything other than the original equipment manufacturer to deal with something like an airframe. It is possible but unlikely.

Senator CHRIS EVANS—You are not able or willing to tell me how much extra that might cost, because obviously that would be a question of negotiation with Kaman?

Cdre Campbell—It would be negotiation—yes.

Senator CHRIS EVANS—Can you tell me how many can actually get in the air at the moment?

Cdre Campbell—If they were not suspended from flying—

Senator CHRIS EVANS—Putting that to one side—putting aside the fact that you are too scared to fly them—how many could we actually get in the air if we did not have that—

Cdre Campbell—We have provisionally accepted nine and I believe at least eight of those could fly if we had to.

Senator CHRIS EVANS—So we have provisionally accepted nine. There were 11 in total, were there not?

Cdre Campbell—Correct.

Senator CHRIS EVANS—Is it true that the first one delivered is still in the box in Australia?

Cdre Campbell—I do not believe so, no.

Senator CHRIS EVANS—We have not accepted the first one into operation, I gather.

Air Vice Marshal Rossiter—Of the two missing from the 11, one is the aircraft that is flying, doing the testing over in the States, and the second one has not been provisionally accepted yet by the Commonwealth but it is at Nowra.

Cdre Campbell—And it is out of the box.

Air Vice Marshal Rossiter—Yes.

Senator CHRIS EVANS—That is the first one we got, in 2003-04, isn't it?

Air Vice Marshal Rossiter—I am not sure what tail number it was.

Senator CHRIS EVANS—Looking at your annual reports, it seems to me that that was the first one. Is there a particular problem with that one?

Cdre Campbell—There is no particular problem, no.

Senator CHRIS EVANS—So it is out of the box; it just cannot fly.

Cdre Campbell—We just have not accepted it.

Senator CHRIS EVANS—Why haven't we accepted it? We have had it for a long time but we have not accepted it.

Cdre Campbell—Because they are suspended from flying.

Senator CHRIS EVANS—Is this one in a different category?

Cdre Campbell—No.

Senator CHRIS EVANS—Have you ever got this one in the air?

Cdre Campbell—I would have to take that on notice.

Senator CHRIS EVANS—You have not accepted it. Would you fly it before you accepted it?

Cdre Campbell—We would do a test flight on it, yes.

Senator CHRIS EVANS—So we do not know why you have not accepted this one.

Cdre Campbell—I would prefer to take that on notice. I do not have close-up data on that.

Senator CHRIS EVANS—Is there anyone who can tell us why?

Cdre Campbell—I can get that later this afternoon.

Senator CHRIS EVANS—All right; I wouldn't mind. I know we have the other problem, but this one seems to be separate. If we do not go for the option of continuing them, if the government goes for the option of abandoning the project and decided not to throw good money after bad, what would we do with them? Senator Minchin suggested when I was at estimates with him a little while ago that we might send them to a landlocked country, given we are having trouble flying them over sea or at night. He is finance minister so I value his opinion on these things. Seriously though, do they hold any value to anybody else if we were to discontinue our development of them?

Dr Gumley—I expect they would be broken down for spare parts by some contractor in the aerospace industry and released as spare parts into the world market.

Senator CHRIS EVANS—So they would just be sold off as spare parts?

Dr Gumley—This is not firm, but that would be my guess as to what probably would happen.

Senator CHRIS EVANS—I presume this would have to be included in the option you gave to government?

Dr Gumley—Yes.

Senator CHRIS EVANS—What is the estimated value? I know it is only indicative.

Dr Gumley—It would be small.

Senator CHRIS EVANS—What is 'small'?

Dr Gumley—I do not have a figure.

Senator FAULKNER—Scrap would be another word for spare parts, would it not?

Dr Gumley—No, I think scrap is too strong a word. I think there are a number of parts in it that would be suitable for other—

Senator CHRIS EVANS—Of this \$1,000 million project, what would we be likely to get back?

Dr Gumley—I do not have the figures.

Senator CHRIS EVANS—Are we talking \$5 million or \$500 million?

Dr Gumley—We are certainly not talking \$500 million.

Senator CHRIS EVANS—Less than \$100 million?

Dr Gumley—I could not speculate.

Senator CHRIS EVANS—You obviously have speculated because I suspect that cabinet will be asking the same question. You cannot give me anything other than between nought and \$100 million?

CHAIR—You are asking him to gauge the market. He has not even done that. We have not even made a decision on what we are going to do with them.

Senator CHRIS EVANS—No, but clearly one of the options is to scrap the project, and part of the cost benefit analysis of that is what you could get for them. I know Senator Minchin was joking when he said we should sell them to a landlocked country but I wondered whether we had options like that. You tell me no. So we have to sell them just for the value of the spare parts. I am just trying to get a sense of what the value of the spare parts sale would be.

Dr Gumley—We have not gauged the market. I do not know.

Lt Gen. Hurley—The advice to government would be along the lines that you are not likely to recoup all your losses by selling them for spare parts so, in terms of putting that business case together, I do not think that stands.

Senator CHRIS EVANS—No. But clearly, whether you are going to get \$500 million or \$2 million might affect your decision making.

Lt Gen. Hurley—Yes. But I think we could safely say we are not going to get \$500 million, enough to sway your decision that far.

Senator CHRIS EVANS—Yes.

Senator MARK BISHOP—We made the decision some years ago to buy these dozen-odd Sprites for a particular purpose, and they were going to be fitted out with a very advanced missile system. As part of this review, what is going to happen with the Penguin missile system that was, as I understand it, part and parcel of the Sprites?

Lt Gen. Hurley—Should the government decide that it wanted to cease with the Seasprite capability, and we would then be relying on the Seahawk fleet as the main naval aviation element, we would then look to putting the Penguin onto the Seahawk fleet as one of the options. It has been done overseas. We are looking at what the integration options are there, fully integrated and not fully integrated, and the cost to do so.

Senator MARK BISHOP—So if the government decides to junk the Sprites, the Seahawk becomes the main naval helicopter platform?

Lt Gen. Hurley—That is correct.

Senator MARK BISHOP—How many Seahawks do we have?

Lt Gen. Hurley—Sixteen.

Senator MARK BISHOP—So the great bulk of them would have to be upgraded to take the Penguin missile system?

Lt Gen. Hurley—I think if we were going to carry the Penguin on that fleet, we would want them all to be done, yes.

Senator MARK BISHOP—What is the critical aspect here? Is the critical aspect the platform itself—that is, the Seasprite or the Seahawk—or is the critical aspect the missile system attached to or part of either platform in an attack role?

Lt Gen. Hurley—The effect we are looking after is the combined effect of the sensors that the platform will carry, either Seahawk or Seasprite, and the weapons system it is going to carry. So with Seasprite we are getting a radar system with an antiship missile. With Seahawk we have our antisubmarine capability torpedoes and the sensors to do that. If we bring the Penguin onto the Seahawk, we are combining that capability onto the Seahawk and then we would be looking for off-board systems to feed it the information it might need to fly the missile.

Senator MARK BISHOP—If we junk the Sprites, go down the path of Seahawks, there is the missile system reconfiguration that needs to be done to make them satisfactory in terms of capability, and there is also a range of upgrades that have to be done on the associated systems in the platforms, as well.

Lt Gen. Hurley—Yes, and again if we decide that we want to continue with putting a missile into service in the time frame we are looking at.

Senator MARK BISHOP—Yes. We did make that clear decision some years ago to have the missile system incorporated in the Sprites, didn't we?

Lt Gen. Hurley—Yes, we did.

Senator MARK BISHOP—Is there any suggestion that that decision was made in error and now, some years later, needs to be reviewed?

Lt Gen. Hurley—No. Again, as I said, we would be looking at how far we integrate that system into the Seahawk and therefore what risk we take on in the Seahawk fleet. You have to make that call.

CHAIR—It is not apples and oranges and oranges. You have two missiles on the Sprite. You are going to integrate one that has never been integrated, as I understand it, on a Seahawk, has it?

Lt Gen. Hurley—It has been integrated on a Seahawk.

CHAIR—With some difficulty.

Lt Gen. Hurley—They are flying and they are on sea with two navies.

CHAIR—And it is a single missile?

Lt Gen. Hurley—Yes.

Senator MARK BISHOP—Not a dual missile. Can you give us an indicative cost of switching over to the Seahawks or a like platform inclusive of all the upgrade costs for missiles systems, integration systems and the like?

Lt Gen. Hurley—No, I do not have a complete cost to integrate it onto the Seahawk with me right now.

Senator MARK BISHOP—No, that does not surprise me. Do you have an indicative figure? We are talking another couple of hundred million or \$500 million.

Lt Gen. Hurley—Again, I could not speculate. I will take it on notice and come back and explain.

Senator MARK BISHOP—Okay, take it on notice and give us an indicative figure of the likely cost of upgrading and refiguring the Seahawks to give us the capacity that we need.

Lt Gen. Hurley—So you are talking about upgrading Seahawk with Penguin?

Senator MARK BISHOP—Yes.

CHAIR—Can I add to that the costs for upgrading Seahawk with Penguin and other sensors that were anticipated within the capability of Seasprite. Is it the case that that is beyond our capacity and, if not, are we chasing that? If we are, this is a very complex program. I would ask you to agree with me on that, General Hurley, because I do not want to get out of the frying pan here into the fire.

Lt Gen. Hurley—Senator, I can assure you that if we made any move away from Seasprite into other areas, the first thing we would be looking to do is de-risk the transition. We do not want to throw risk on top of risk. So, if we can put a Penguin missile onto a Seahawk and not have to open up the avionics of the Seahawk to do that—which has been done—that would be the preferred option.

CHAIR—What about the other sensors that were going to be on the Seasprite?

Lt Gen. Hurley—Well, that depends. Do we need the full capacity of the radar that was going to be on the Seasprite or not? We would have to make that analysis.

CHAIR—Surface sonar?

Lt Gen. Hurley—Same thing: we would go back and have a look at what we get out of the Seahawk, do the comparison and see whether that is sufficient to work with.

CHAIR—Have we anticipated a time frame for these changes to a Seahawk?

Lt Gen. Hurley—Again, we are looking at what the integration requirements are, so I do not have a time frame for you.

CHAIR—Every time that we talk about integration, software and all these things, we have a problem.

Lt Gen. Hurley—We hate the word integration.

CHAIR—We all do.

Lt Gen. Hurley—That is what I am saying. There is a solution out there where they have not fully integrated the Penguin missile into the avionics system. That is the least risk approach. It is a stand-alone system.

Senator MARK BISHOP—That is option 2. Option 1 is to stay with the Seasprites, upgrade them and get the problem fixed. Option 2 is go to the Seahawks and reconfigure as necessary. Is there an option 3?

Lt Gen. Hurley—In the most recent DCPs we have had an Air 9000 Phase 8, which is a replacement maritime capability. That is either a Sikorsky Seahawk variant or the NH90, which is the European version. That is in the back end of the DCP as a longer term replacement for this capability.

Senator MARK BISHOP—If government chooses to jump the 11 Seasprites and go down either option 2 or option 3, that means in simple numerical units we are going to have a dozen-odd fewer platforms than we planned to have in the year 2010. Do we still have to go down the path of buying additional platforms?

Lt Gen. Hurley—The government will have options before it that will allow us to rely totally on a Seahawk capability with the current number of platforms. Do we buy a few more Seahawks to provide a training capability so that we can put more Seahawks to sea? Do we continue with the Seahawks and bring forward our 9000 Phase 8, or do we keep Air 9000 Phase 8 where it is and carry a capability in the Seahawk? All that is before them.

Senator MARK BISHOP—I accept that, but the crux of the matter is this. If the government chooses to junk the Seasprites and go with two or three other options, or bring forward the latter options, we are not going to get the new and additional capability we had planned when we went down the original path of allocating almost \$1 billion some years ago for the Seasprites, are we? We are going to have less aggregate capability across all helicopter platforms than we had planned five or six years ago when we signed up to the \$1 billion Seasprites?

Lt Gen. Hurley—We could end up with fewer platforms to provide a similar capability, yes.

Senator MARK BISHOP—Fewer platforms to provide a similar capability, but, really, none of the services nor the government of the day lightly went into spending \$1 billion. If we had been in government we would not have gone into that decision lightly. It was a decision made because we were purchasing additional or improved capability. The bottom line is that we might have a slightly larger number of platforms and similar capability but we are not going to have the aggregate capability across platforms that we had planned on when we signed up for the Seasprites five or six years ago, are we?

Lt Gen. Hurley—It stands to reason that, if the project has not delivered what it was going to deliver, we will not have the outcomes that we expected.

Senator MARK BISHOP—I am not being facetious; that is right.

Senator CHRIS EVANS—If the government decides to go ahead with the Seasprite and the negotiations with Kaman about the further work are concluded, what is our best estimate of when the Seasprite would then be operational?

Cdre Campbell—We should have completed the work by 2009 or early 2010 and operational shortly thereafter.

Senator CHRIS EVANS—2010 would be our earliest operational date?

Cdre Campbell—Yes.

CHAIR—What is the principal delay in that time frame? What is the big hurdle in there?

Cdre Campbell—The amount of work that is required to be done to the automatic flight control system.

CHAIR—It is not a certification issue?

Cdre Campbell—No. It is the amount of work that needs to be done to allow it to be certified.

CHAIR—It is a software problem.

Dr Gumley—It is both software and hardware. They have got to rewrite 8,000 lines of code of software.

CHAIR—How many lines?

Dr Gumley—About 8,000 lines of code of software need to be rewritten and another hardware box added to it—another computer box.

CHAIR—Is this because of unforeseen problems or is this because the contractor has failed to deliver?

Dr Gumley—There is a dispute at the moment with the contractor as to what was in the contract and what was not.

CHAIR—I withdraw the question.

Air Chief Marshal Houston—I would like to clarify what you mean by operational money. Is that initial operational capability and that sort of stuff?

Cdre Campbell—Initial operational capability, sir.

Senator MARK BISHOP—Were we going to be using the Seasprites on the frigates?

CHAIR—Which frigates: the FFGs or the Anzacs?

Senator MARK BISHOP—The Anzacs—on both.

Cdre Campbell—It is primarily for the Anzac frigates but able to be used on both.

Senator MARK BISHOP—Capable on the FFGs as well. If we jump the frigates and go down one of the other options—

CHAIR—Helicopters; not the frigates.

Senator MARK BISHOP—Yes. If we jump the Seasprites and go for one of the other options, is there any reconfiguration work that has to be done on the systems or weapons on either set of frigates?

Vice Adm. Shalders—The answer is no. We can operate Seahawks through either the Anzac frigates or the FFGs.

Senator MARK BISHOP—I am being simple in saying that it is just a matter of the platforms landing on the ships. Are there any internal communications or links from the ships to the systems in the platforms?

Vice Adm. Shalders—None at all. We operate them now. The frigate deployed in the gulf is currently an Anzac class frigate and she is operating a Seahawk very comfortably.

CHAIR—You will be relieved to know that we will be leaving Super Seasprites and going back to *Westralia*. Senator Faulkner wants to follow up on some questions and some matters that were taken pro tem this morning.

Senator FAULKNER—The first thing to establish is whether the department has been able to access the file that relates to the matters that we were canvassing earlier today.

Mr Warner—We have conducted a very thorough search of the relevant files. We have not found a signed copy of a document meeting the description of that in today's *Daily Telegraph*, nor have we found a record that any such document ever existed from 1998. What we have found on file is a document that we received in 2005, which is an unsigned copy of a document similar to that referred to in today's press article.

Senator FAULKNER—I see.

Mr Warner—That document was faxed to Defence in 2005. It is dated 1998.

Senator FAULKNER—Faxed in 2005, but dated 1998?

Mr Warner—That is right.

Senator FAULKNER—We know that it was received in Defence. You have been able to inform us of that and I thank you for that. Have you been able to establish what, if any, action was taken after this particular document was received in Defence?

Dr Williams—I will just clarify: the allegations in question were raised back at the time in 1998. What was not available then was any signed copy of the particular letter that has come to light since. The investigations that were done in my organisation and by the Federal Police occurred back in the 1998 time frame. The letter in 2005 was provided from outside in connection with *Westralia* issues much later. There was not a follow-up investigation then, but there was an investigation done at the time the allegations were raised. The investigation involved initial meetings, broadly on the dates that have been indicated, with both a Federal Police officer and a member of the inspector general's organisation. There is a record of those interviews having occurred. There were then further follow-up interviews. Some information was provided by the company, which was checked with Navy and shown not to be correct in terms of incidents that were purported that were not proven, and, as a result of that, it was judged that there was no foundation to take any action.

Senator FAULKNER—Chair, for the purposes of these questions, I will try to break them up into 1998 relevant questions and perhaps 2005. In relation to 2005, when the unsigned copy of—how do we describe this?—a memorandum, or does it involve more documents than just a memorandum—

Dr Williams—The unsigned document we have is essentially a one-page document. There is no letterhead and no signature. It refers just in broad terms.

Senator FAULKNER—We will call it a document. You say it is unsigned. It does in fact have a name on it but not a signature; is that right?

Dr Williams—There is no signature on it, no.

Senator FAULKNER—Does it have a name on it?

Dr Williams—It has the names of the two investigators on it.

Senator FAULKNER—It has both investigators' names?

Dr Williams—Yes, but no signatures.

Senator FAULKNER—Is one of those investigators AFP Agent Peter Smythe?

Dr Williams—Yes. He was one of the two investigators involved.

Senator FAULKNER—Are you able to say who the other investigator was?

Dr Williams—I am not sure that it is appropriate to name the other person.

Mr Warner—I do not think that it is appropriate. We are not sure of the origin or the veracity of the 2005 document. It would not be appropriate to go into the details of the other person whose signature block is on that piece of paper.

Senator FAULKNER—I am happy to accept your judgement on that at this stage, Mr Warner. It may need to be revisited later. At what part of the department was the document received in 2005?

Dr Williams—My understanding is that it came to the legal organisation. I can confirm with you if that is incorrect, but my understanding is that it came in there.

Senator FAULKNER—If there is a fax record—and you have been able to assure us it was faxed in 2005—wouldn't you be able to say where it was faxed to?

Dr Williams—My understanding is that it came to the legal organisation, but we can check that and confirm it for you.

Senator FAULKNER—In relation to the fire aboard *Westralia*, there was certainly a naval board of inquiry. Is that correct?

Air Chief Marshal Houston—That is correct.

Senator FAULKNER—There was also some form of coroner's inquest. I would think it was probably the Western Australian Coroner?

Air Chief Marshal Houston—It was.

Senator FAULKNER—Were there any other inquiries that you can inform us of?

Vice Adm. Shalders—No. Those were the two main inquiries.

Senator FAULKNER—For the completeness of the record, can you say the date that the fax was received in 2005?

Dr Williams—What I am not sure about is whether the copies I have seen are the originals. It might be better if I take that on notice. I do not want to quote a time and find that this is a subsequent resending of a document. We could check that and give you an answer.

Senator FAULKNER—If it is a subsequent resending of a document, I would like to know where it was resent to and why. Let us try to get to the bottom of it.

Dr Williams—We would be able to find that out for you. Our Defence legal people would be able to get you an answer. We can follow up on that.

Senator FAULKNER—I hope we would be able to follow up today?

Dr Williams—Yes, I would imagine so.

Senator FAULKNER—The reason I am particularly interested in the dates is that I cannot bring to mind—and Vice Admiral Shalders will be able to do this for me—when the WA Coroner's inquiry and the naval board of inquiry concluded in relation to the *Westralia* incident?

Vice Adm. Shalders—The fire on *Westralia* occurred in May 1998. The board of inquiry completed in December 1998 and the Western Australian Coroner's inquiry, I believe, concluded in 2003.

Senator FAULKNER—I thought there was a substantial difference in time between the coroner's inquiry and the naval board of inquiry. Thank you for that; that is helpful.

Senator FAULKNER—Coming back to the faxed copy—

Senator CHRIS EVANS—Is it possible for someone from the legal branch to come forward and facilitate this?

Mr Warner—Is this about the date?

Senator CHRIS EVANS—We just had this interchange. I thought if you were happy, Mr Warner, we could do it once rather than twice.

Senator FAULKNER—I did not realise there was someone from the legal branch here. If I had seen Mr Cunliffe sitting there I would have welcomed him. Before I ask Mr Cunliffe about the date on the faxed copy, Minister, can I ask a question, perhaps directed through you, of the Secretary. Would it be possible for this particular faxed copy to be tabled? It might save a lot of time if that were possible. That is the first and most obvious question.

Senator Ellison—There is a difficulty with this because it is unsigned and investigations are still continuing to ascertain the authenticity of the document. Obviously we are looking to see if it was ever signed. Therefore, the release of an unsigned copy at this time is fraught with difficulty and would be unwise. However, I can say that should we find a signed copy then we can provide it. But to provide a document that cannot be verified is inappropriate at this point in time. Inquiries are certainly continuing and the Secretary can give you further detail on this, but that is an appropriate position at this point in time.

Senator FAULKNER—Have inquiries been made? You have not identified the second name—and I am not using the word 'signatory'—on the 2005 fax. We know one is AFP Agent Smythe. You have not identified the other one, and that may be fair enough. We will make a judgement later on, I suppose, but at this stage I have indicated that I accept that. First of all, is that person still a continuing employee of Defence?

Dr Williams—I am not aware of his whereabouts. He is certainly not currently in the organisation. He left the inspector general's organisation some time back.

Senator FAULKNER—So no checks have been made yet as to whether that second name is the name of a person who is in Defence?

Dr Williams—What we do know is the name of the two investigators who were involved in the process. We do have a record of audit trail that shows that they did carry out the interview. We do have the follow-up done by a Federal Police investigator and a further one by one of the inspector general's investigators. The latter of those was undertaken after the *Westralia* fire and the company made no reference to that in those discussions, which one would assume they may have done had they seen some link. At the end of that they did raise some allegations about some problems with *Westralia* unrelated to the fire. Those were followed up and found to be false in checking with Navy.

Senator FAULKNER—I have asked for this document to be tabled. The minister has given an answer that effectively is a negative response to that request. He has said no and he has told the committee why it is not going to be tabled at this stage, but he has also indicated to the committee very clearly that there is a whole range of inquiries that are continuing. Those are his words, not mine. I asked the most simple of questions: is the other name on the document, apart from that of Federal Agent Smythe, that of someone who is still an employee of Defence? I cannot get an answer to that. I do start to worry. I would have thought that would be a pretty easy inquiry to answer. Frankly, I am flabbergasted that no-one even knows that. No-one has even checked yet whether this other name is not that of an ongoing employee in Defence.

Dr Williams—We know that he is not a current employee of the Inspector-General organisation.

Senator FAULKNER—I know that.

Dr Williams—We have confirmed that. In the space of the time since this arose, we have not been able to check records. I would not want to give an answer and say that he is not there. I am not aware that he is in Defence, but it would need a check to see whether he is elsewhere.

Senator FAULKNER—Of course it would need a check, but it is a pretty cursory and easy check to make.

Mr Warner—I would like to add to Dr Williams' answer. As you know, we only got this document in the last couple of hours. We have done a thorough search of all the records—as you can see, going up to 2005 and beyond. There are many thousands of civilian employees in Defence. We are checking to see whether this person continues to work in Defence and we are also continuing to do what we can to check the veracity and origin of this document. We cannot do everything in a couple of hours.

Senator FAULKNER—It is many moons since I was Defence personnel, but there was a day when you could just hammer a name into the computer and somebody could tell you that. Unfortunately, we do not even have that capacity any more. I am flabbergasted to hear that; I really am. That should worry everyone if we cannot find that out—however many thousands of civilian employees there are in Defence. If somebody cannot be identified literally within a couple of minutes via your computer system, then I think we are in pretty serious trouble. Anyway I am sure you will let us know when it has been established. What happened with

this document? What action was taken when it was received at the legal section of the department? Before you answer that, can you now tell me the dates of when it was received?

Mr Cunliffe—I do not have the original copy of receipt of that document. I understand that it was received during 2005 by my area. It was received in the context of certain matters that were continuing, relating to action arising out of the deaths and injuries on behalf of a legal practitioner, which is why it was directed to us. At that point, this was the first notice that we had of the earlier allegations, as I understand it. You will know this preceded my time in the organisation, but that is the advice to me.

Senator FAULKNER—Was it forwarded on from another section of Defence to the legal department?

Mr Cunliffe—This particular copy that I have seen, I do not understand to have come to us from another section; I understand it to have come to us from the lawyer involved.

Senator FAULKNER—The lawyer involved?

Mr Cunliffe—That is my understanding.

Senator FAULKNER—A lawyer involved for whom?

Mr Cunliffe—A lawyer representing one of the parties who was taking action in relation to the deaths and other incidents arising out of the *Westralia*.

Senator FAULKNER—That would explain why it goes to the legal section?

Mr Cunliffe—Yes, that is right.

Senator FAULKNER—Is this a lawyer whom you are in negotiations with?

Mr Cunliffe—This is a lawyer who was acting for one of the parties. At that stage we were not in active negotiations, although subsequent matters have occurred.

CHAIR—Where did he get it from?

Mr Cunliffe—I am afraid I cannot answer that question. Our priority at that point was to try to establish the bona fides and if anything had occurred in relation to the matter identified in it. I do not know where he obtained it from.

CHAIR—Was he undertaking any proceedings such that people have to give discovery of documents to him?

Mr Cunliffe—At that stage he did have matters afoot with us, so it is possible that he would have gone through that but it is not my understanding that he obtained it from us.

CHAIR—Were any other parties named in the action—for instance, Baileys?

Mr Cunliffe—No. Baileys is not a party to the action.

Senator FAULKNER—Can you do any better than saying to us that it was received in your section of the department sometime in calendar year 2005?

Mr Cunliffe—I believe it to have been around April but I do not have the original confirmation of receipt.

Senator FAULKNER—The reason I ask this is that I do not know how you can tell me it was received in 2005 without being more specific about the dates. I am sure there is an explanation, which Mr Warner is about to provide to us.

Mr Warner—I will try. It would appear from the fax copy that we have that the fax was received in Defence in the legal area on 29 April 2005. It would appear.

Senator FAULKNER—It would appear from what—a fax header?

Mr Warner—Yes.

Senator FAULKNER—I am not sure who this should be directed to, but I am still focusing on this fax document of 2005. What, if any, follow-up was there in relation to the contents of the document?

Mr Cunliffe—The advice to me is that we sought the assistance of the Inspector-General—this was before Mr Williams' time in that role—to establish the authenticity of the document and what, if it had been received, action had been taken.

Senator FAULKNER—So there were sufficient concerns in the legal branch for it to be raised with the Inspector-General; is that right? Is it that document alone or were there other elements of this?

Mr Cunliffe—It was the correspondence that was related to it.

Senator CHRIS EVANS—Was there a covering letter—a fax cover, a covering letter and the document or just the document?

Mr Cunliffe—Without the full file in front of me, I am not certain of this, but as I understand it there had been correspondence and then in some discussions that arose as a result of the correspondence that was made available to us.

Senator CHRIS EVANS—So this document was forwarded to you.

Mr Cunliffe—It appears to have been forwarded by fax, whereas I think the correspondence had already been received.

Senator CHRIS EVANS—But you are suggesting that there had been correspondence between this lawyer and the department?

Mr Cunliffe—Correct.

Senator CHRIS EVANS—There had then been conversations and, subsequent to those, a fax was sent which did not have any other information attached, other than just this document?

Mr Cunliffe—If you want a definite answer to that, I will need to take it on notice and seek to confirm it. In the absence of the file, it is my understanding that it was along those lines.

Senator FAULKNER—Your legal branch raised the issue with the Inspector-General because of the content of this particular document and possibly related documents some time after 29 April 2005. Is that correct?

Mr Cunliffe—I think in fact some of the issues had already been raised or were afoot and this was one further element in it.

Senator FAULKNER—Do you know when the document about which there has been some publicity and upon which we are specifically focusing our remarks at the moment was raised with the Office of the Inspector-General?

Mr Cunliffe—I cannot confirm that.

Senator FAULKNER—You do not know?

Mr Cunliffe—No.

Senator FAULKNER—Do you know which officer raised it? Do you know how formal the communication was?

Mr Cunliffe—No, but I can seek advice on that if you want the date.

Senator FAULKNER—You do not know how the communication was raised with the Inspector-General's Office?

Mr Cunliffe—No, I do not. The important point from our point of view was to seek to establish the authenticity of it and, if the issues had been made known, we could make a—

Senator FAULKNER—Did you receive a response from the Inspector-General's Office after it had been referred to him?

Mr Cunliffe—Yes.

Senator FAULKNER—When did you receive the response?

Mr Cunliffe—Again, I cannot indicate a date but we received a report of some matters which I understand to have been in the aftermath of that.

Senator FAULKNER—In the aftermath? I would not have thought it would have been before it, so that really does not help me hugely.

Mr Cunliffe—I suppose it indicates that we are talking 2005, we are not talking 1998. That is one of the features.

Senator FAULKNER—So you did receive a response from the inspector-general in 2005? What was the suggested action from the inspector-general?

Mr Cunliffe—This is probably an appropriate point for me to pass you back to the inspector-general.

Senator FAULKNER—No. I understand why you would say that, but I am just interested in what was communicated to your legal division.

Mr Cunliffe—I received a report in documentary form from a member of the inspector-general's staff.

Senator FAULKNER—You received a report?

Mr Cunliffe—That is what was received in my division—correct.

Senator FAULKNER—Having received that report, did it contain any recommendations for further action?

Mr Cunliffe—No, it did not. It contained a report of previous actions.

Senator FAULKNER—As far the legal branch was concerned, did that mean that the matter was finalised or closed?

Mr Cunliffe—It led to the view that the matter had previously been looked into and that the issues raised had been found to be unsubstantiated.

Senator FAULKNER—So the legal branch was informed that the matters had been previously examined. Whom did it say it had been examined by?

Mr Cunliffe—A member of the inspector-general's branch.

Senator FAULKNER—Did the other matter rest there?

Mr Cunliffe—I am not sure that I can confirm the exact date, but at a certain point certainly correspondence to the lawyer involved did invite him, if he had any more material, to take appropriate steps. The issue had been asserted on behalf of the legal practitioner. The best inquiries we could make did not substantiate it on the basis of the advice of the investigative arm. I think the appropriate step was taken in the circumstances, which was to pass it back to him on the basis that, if he did have some material that would substantiate it, obviously that was important.

Senator FAULKNER—So you formally responded in writing to the legal practitioner who had originally forwarded the material to you?

Mr Cunliffe—Yes, formally. In fact, the response was on behalf of the minister assisting because the correspondence had come in through ministerial arms.

Senator FAULKNER—When you say on behalf of the minister assisting—

Mr Cunliffe—The minister assisting responded.

Senator FAULKNER—Was this actually signed off by the minister assisting?

Mr Cunliffe—Yes.

Senator FAULKNER—Who was the minister assisting in 2005 when this was done?

Mr Cunliffe—Mrs Kelly.

Senator FAULKNER—That fills you full of confidence. Did the brief for signing that went to Mrs Kelly at the time contain a full file of documentation? First of all, was the ministerial brief generated in your part of the department or by the inspector-general?

Mr Cunliffe—In my part of the department.

Senator FAULKNER—How many ministerial briefs were prepared on this issue.

Mr Cunliffe—In total?

Senator FAULKNER—Yes.

Mr Cunliffe—I would need to take that on notice. On this particular point, one fairly extensive one.

Senator FAULKNER—Is the one extensive one that you refer to the one that, amongst other things, finalised the matter with the legal representative who first communicated with you?

Mr Cunliffe—There have been several pieces of correspondence to the legal practitioner. I do not necessarily know that the matter is particularly seen to be finalised at any stage. The issue that was referred to in several submissions and correspondence during the course of the calendar year of 2005 certainly did include correspondence to the practitioner.

Senator FAULKNER—Was there only one item of ministerial correspondence at the conclusion of the matter, or was there other ministerial correspondence?

Mr Cunliffe—You keep talking about the conclusion of the matter. I am sorry but I am not sure which matter you are talking about and what date you are reading into that.

Senator FAULKNER—There is a ministerial letter that went from Mrs Kelly sometime in 2005. My problem is that I cannot use dates because you have not provided them. I would be more than happy to use dates. My worst enemies on these committees would know I try to be as precise as I can in this sort of questioning, but you have not provided me with any dates. You have given me a calendar year. I have got one date so far out of the department, which was when Mr Warner kindly told me that the document from the legal adviser was faxed in on 29 April 2005. What was the date of Minister Kelly's response to that?

Mr Cunliffe—It was a response to the letter rather than to the specific piece of paper that was faxed in.

Senator FAULKNER—What was the date of the ministerial response to the letter?

Mr Cunliffe—My understanding is—I believe this to be the correct letter—that it was dated 4 July 2005. That was the date of the letter which dealt with the issue of what further steps might be taken if the legal practitioner wanted to pursue the matter further.

Senator FAULKNER—Are you now able to say to us, Dr Williams, what happens with the correspondence, or documents, from 29 April 2005 to Mrs Kelly's letter of 4 July 2005? In other words, it goes from the legal division of the department to the inspector-general and, as we have heard, the inspector-general has sent back a report. Can you explain what the inspector-general does in this period?

Dr Williams—Obviously I was not personally involved, but let me speculate on what would be the normal process if there was an approach, as there was, from the Defence legal area.

Senator FAULKNER—No. I do not think we should speculate. Speculation is always a bit of a problem. I think we should be as precise as we can here, because this is a critical issue.

Dr Williams—There was clearly an approach from the legal area. The response to that was that the director of investigations in the inspector-general organisation then went and looked back at events and prepared a response to the legal area on the investigations that were done at the time with a view to determining whether the investigations were adequate and whether any new information was raised. That report went back to the Defence legal area and would then have been used as a basis for them to prepare something for the minister which the minister would then have signed.

Senator FAULKNER—Yes.

Mr Cunliffe—Can I please correct something which I speculated on before. This shows the danger of judging from fax header sheets. The advice to me is that we in fact received the document not directly from the lawyer but from the Comcare agency. Comcare had received it in the course of the prosecution of ADI in matters related to the *Westralia* incident. We received it in April but not directly from the lawyer involved.

Senator FAULKNER—So it did come from Comcare?

Mr Cunliffe—It came from Comcare directly to us, yes.

Senator FAULKNER—Whom did Ms Kelly then respond to in her letter of 4 July 2005?

Mr Cunliffe—To the legal practitioner. The legal practitioner had raised the issue. Clearly this letter was relevant.

Senator FAULKNER—The legal practitioner had raised it with Comcare in the first instance; is that what you are saying?

Mr Cunliffe—No. I have confused the situation. The legal practitioner in fact raised it with another minister. That minister referred it to one of the Defence ministers and the Defence minister sought the report. The Comcare matter, although related to the *Westralia* fire, is separate from the action in which we were involved, because Comcare has its obligations which are separate in terms of health and safety. The matters related to our involvement related to legal action on behalf of clients of the legal practitioner arising out of the fire. I certainly would not go so far as to say it was unrelated to the Comcare action, because it is all related, but it was civil action.

Senator FAULKNER—Which minister did the legal practitioner raise the issue with in the first instance?

Mr Cunliffe—The Minister for Finance, Senator Minchin. I think he was Minister for Finance at that stage as well.

Senator Ellison—Yes.

Senator FAULKNER—Did Senator Minchin then refer the matter to the Minister for Defence Personnel?

Mr Cunliffe—You are portraying a previous series of names. It might have actually been the Minister Assisting the Minister for Defence. I am trying to check because I think it was referred directly. I am not sure if it was referred via the Defence to the senior minister. It certainly was referred to the Defence portfolio. Because the minister assisting was handling that aspect, it came to her.

Senator FAULKNER—Who was responsible for inquiring into this matter when the legal branch referred it off sometime after 29 April 2005? I am not asking for the name of your officer at this stage; I am asking at what level of the inspector-general's office this was handled.

Dr Williams—The person who did the report is the person who is and was then the director of investigations in my organisation. He was also a member of the Majorca team going back, so he was also one of a number of officers who was involved in some of the

previous investigations when this was first raised. He was the appropriate person to do it in 2005 but had the added advantage of having been involved in the investigation.

Senator FAULKNER—I assume there is only one director of investigations. You may as well tell us who that is.

Dr Williams—The individual's name is Mr Riley.

Senator FAULKNER—Do you know the nature of Mr Riley's 2005 investigation? Was it an examination of the papers? Were individuals contacted?

Dr Williams—I can only comment on what I have seen of the document he prepared. He has clearly gone back and done an assessment of the earlier documentation to look at the sequence of events, clarify who interviewed the company and when, and what follow-up action was taken. He gave a fairly detailed rundown of the action taken, which was then passed to Defence Legal.

Senator FAULKNER—There is an interview referred to that was conducted. This would obviously be on the earlier occasion. Is it standard operating procedures for investigators' interviews to have a sound recording or a video recording made?

Dr Williams—It would be quite often done. It depends on the nature of it and whether it is a very formal process or one that might have legal implications.

Senator FAULKNER—Do we know if sound or video recordings were made of the interviews with this particular company, Baileys Diesel Services?

Dr Williams—Yes, there was a recording done of the interview with Baileys.

Senator FAULKNER—Would that be a sound recording or a video recording?

Dr Williams—It would be sound, not video.

Senator FAULKNER—Do we know when that interview took place?

Dr Williams—There were a series of interviews with the company as it was followed up and investigated. The original interview was the February date that has been referred to in the past or in the media article. It was 8 February, from memory.

Senator FAULKNER—The article talks about the minute dated 6 February 1998 that followed interviews with a Wollongong-based maintenance company called Baileys Diesel Services.

Dr Williams—I am mistaken. It was 6 February when the interview was held.

Senator FAULKNER—There is a sound recording of that interview?

Dr Williams—I understand there is. I have not heard it. I understand there was a sound recording taken, yes.

Senator FAULKNER—Would that sound recording still be in existence?

Dr Williams—I suspect it is. Normally fairly detailed records are kept, or it could be a transcript. I would need to confirm.

Senator FAULKNER—Would it normally be the case that a full transcript is taken off the sound recording of such an interview?

Dr Williams—It would depend on the nature of the thing. If there was some feeling there could be criminal investigations, for example, then there would be a much higher standard of record kept. If it was more routine, it may not be. As part of our investigation we obviously need to track down and find what was taken, what exists and what it says, and then compare it with the other documents.

Senator FAULKNER—This a case-by-case matter, is it?

Dr Williams—Yes.

Senator FAULKNER—You seem pretty confident there was a sound recording.

Dr Williams—I believe there was of this particular event. Part of the follow-up investigation into the veracity of the particular letter, et cetera, is to see if we can piece together an audit trail. That is what we are looking to do now.

Senator FAULKNER—Why are you so confident there is a sound recording?

Dr Williams—I have had informal advice from my staff that one exists. I have not heard a copy. Whether it is in the form of a transcript or whether the original tape is there I am not sure. I would not want to give a confirmed view.

Senator FAULKNER—I hope you will be able to provide the committee with that information, if you could, as to whether the sound recording still exists and/or whether there is a transcript.

Dr Williams—I believe there was one taken. I believe it exists. I will need to confirm that.

Senator FAULKNER—Are you able to confirm the contents of any advices in relation to this matter that occurred on or around that period of 6 February 1998?

Dr Williams—The sequence of events was that the company registered a complaint. It was referred on to the inspector-general division. As a result of that, on 6 February two investigators were sent out to talk to the company representatives. Following on from that, there would then be the normal record of interview and any conclusions reached. As a follow-up process from that, a further interview was then held by a Federal Police officer to follow up some matters. Subsequent to that there were further interviews again with the inspector-general, another investigator. There was a fairly serious process undertaken. The last of those interviews occurred after the *Westralia* fire. That was not raised by the company as an issue. They did not draw any link in that meeting, which suggests they did not see any particular linkage. One of the issues they did raise, however, was unrelated to the fire. They said that they had heard—I think it was about third hand—that as a result of parts fitted to the ship that there was damage to the engine. The investigator specifically followed up on that and found no evidence from Navy that was the case.

Senator FAULKNER—What was the date again of the *Westralia* fire.

Vice Adm. Shalders—5 May 1998.

Senator FAULKNER—That is what I thought. This document and these events, given they are 6 February 1998, predate the event.

Dr Williams—That was the first of the interviews held. There was a subsequent interview by one of the Federal Police members of the team and a further interview beyond that, I understand.

Senator FAULKNER—So there were three interviews.

Dr Williams—As I understand. There may be more, but there are three from the advice I have had today.

Senator FAULKNER—The first one is on 6 February.

Dr Williams—Indeed.

Senator FAULKNER—Are you able to give us the dates of the two subsequent?

Dr Williams—No. I do not have it other than knowing that the third one was beyond the *Westralia* fire.

Senator FAULKNER—Are the following words contained in the 2005 document, which is the unsigned copy:

HMAS *Westralia* was identified by Bailey's as having a recent history of sub-standard and non-genuine parts installed.

Was that contained in the 2005 document?

Mr Warner—I do not think it would be appropriate to dissect and go into detailed discussion about this 2005 document, given that we are very unclear as to its authenticity, its origin and indeed its veracity. We have a purported unsigned account of a conversation. As I said earlier, having gone thoroughly through the files, we do not have a signed copy of this document.

Senator FAULKNER—I would be hoping that this committee was receiving as much information as journalists who are ringing Defence PR are receiving. I am sure you would share that view, wouldn't you?

Mr Warner—Of course.

Senator FAULKNER—Isn't it true that journalists have been given information in relation to the existence of the signed copy of this document?

Mr Warner—There is no signed copy of this document that we have been able to locate or identify. We are not sure there was ever a signed copy of this document.

Senator FAULKNER—My question was: have journalists been informed that signed copies of the document exist? I am asking that question. If they have not, fine.

Mr Warner—I cannot answer that question. I see that in this press article there is a reference along those lines, but I cannot confirm that that is the case.

Senator FAULKNER—I stress the point that it is critical, obviously, that this committee is receiving as much information as Defence PR. Has any contact been made with AFP agent or former AFP agent Smythe? I do not know whether he is still an AFP agent or not. Does anyone know if efforts have been made to contact Agent Smythe?

Dr Williams—I am not aware that he is in the police force. I was fairly confident that he had left.

Senator FAULKNER—I would not have a clue about his status. It does appear from the article that he is still alive, given that he is quoted. He may not be an AFP agent, but he certainly appears to pretty recently have been able to make some comment on this.

Mr Scully—After Ian McPhedran published his initial article on the claims made about the weapons, I wrote to Mr Smythe asking that if he had any information he could provide to us to please do so. He has not responded.

Senator CHRIS EVANS—You wrote to him basically as a current AFP officer, or as a former one?

Mr Scully—No, as a former AFP officer.

Senator MARK BISHOP—When did you do that?

Mr Scully—A bit over a week ago.

Senator CHRIS EVANS—Why did you write to him? Wouldn't it have been more appropriate for the AFP to write to him?

Mr Scully—You would have to ask the AFP. I believe they have also written to him.

Senator CHRIS EVANS—The AFP have written to him and you have written to him—what brought this about?

Mr Scully—The article by Mr McPhedran made claims that we wished to substantiate. In the event that Mr Smythe had information we could substantiate and help us with the audit the Defence Security Authority was conducting, we asked him to come forward to help us.

Mr Warner—Mr McPhedran has written a series of articles over the past few weeks, maybe a few months, quoting Mr Smythe as his source for some of the information in respect of weapons theft and munitions theft from ADF armouries going back to the 1980s and 1990s. As I understand it, Mr Smythe was on the fringes of part of those investigations conducted by Defence in cooperation with, and sometimes led by, the AFP. Because of those allegations contained in those articles, we and the AFP, I believe, have written to Mr Smythe.

Senator CHRIS EVANS—What was the date you wrote to him, again?

Mr Scully—I would have to check that for you. It was about a week ago.

Senator CHRIS EVANS—That was to the effect of: if he had any information, you would like him to provide it to you?

Mr Scully—Yes.

Senator CHRIS EVANS—In relation to which matters—the armouries?

Mr Scully—In relation to the arms, in particular the M72 rocket launchers.

Senator CHRIS EVANS—There was nothing in your request to him that related to this particular matter?

Mr Scully—No.

Mr Warner—We were not aware of this particular matter at that time.

Senator CHRIS EVANS—You obviously were, because Mr Cunliffe had a letter back in 2005.

Mr Warner—In the last few months. Until today we were not aware of this.

Senator FAULKNER—What do you mean by ‘this’? How do you define ‘this’?

Mr Warner—The article, the allegations and the claims that appear in today’s *Daily Telegraph*.

Senator FAULKNER—That is what we are trying to explore and establish. I assumed Mr Smythe was somewhere or other; I know that is an assumption. The minister would know this: I do not always set the greatest of store by matters I read in the newspapers—I want to make that absolutely clear—I try to test these things, if I can. Mr Smythe is quoted in the article, so I think we can accept that he may not be an AFP agent anymore, but he obviously has an interest in these sorts of issues. He is quoted in the newspaper article, which said:

“But Bailey’s have the evidence, names and even describing the actual parts that had been replaced,” he said.

I got the impression they were concerned about safety and people’s lives on the vessel.”

That is him in quotes. He then goes on to say:

He said the company had even been offered inducements by senior navy officers to “keep quiet” about the faulty parts scam.

I am sure CDF, Mr Warner and senior officials of Defence would see that as a very serious claim. I see it as a serious claim, and that is why I am trying to test some of these issues. Just in relation to that inducements issue, is there any record of contracts being let to this company, Baileys, which is in fact Baileys Diesel Services?

Dr Williams—I understand, based on the report from my director of investigations of 2005, that the company did have some contracts with Defence for some activities. However, they wanted to get more work, and their concern was whether they had an opportunity to bid in certain other areas.

Proceedings suspended from 3.30 pm to 3.45 pm

CHAIR—Senator Faulkner is continuing questioning on matters pertaining to the *Westralia*.

Senator FAULKNER—I am trying to understand what happened on or around 6 February 1998 and the three meetings after that. Is there documentation available on the files that you have sighted, Dr Williams, about the result of the 6 February meeting with Bailey Diesel Services?

Dr Williams—On our investigation records, we have a record of that meeting, and it is signed off by the Inspector-General’s investigator. Mr Smythe had already left the process by that time. So that is all we can locate, relevant to that meeting, on our files but, as I say, I believe we have a tape et cetera. So we have fairly good records. What we cannot locate is any evidence of the particular letter that was provided to Defence in 2005.

Senator FAULKNER—So what is the date of the document that you have been able to locate?

Dr Williams—It was a write-up that was probably within a matter of some weeks or a month or so after the interview. Normally they would go through the evidence and then write up a formal report for the record.

Senator FAULKNER—I see. What is an occurrence sheet?

Dr Williams—An occurrence sheet I believe would be where an investigator had a meeting or an interview, and they would write up the information that says, ‘This was the outcome of the interview or meeting.’

Senator FAULKNER—I see. Are there occurrence sheets in relation to the 6 February meeting?

Dr Williams—I would prefer to stay clear of what the terminology is. I am not sure what was used then and what is used now. There was a document, which I suspect is what you would refer to as an occurrence sheet. There is a document that identifies the issues raised in that interview, on the files.

Senator FAULKNER—And you have been able to check that document?

Dr Williams—I have not been able to do that personally, having been over here, as you would understand, but my team are trying to pull that together. As part of the investigation, we are trying to pull information out now and make sure that we have a fairly comprehensive picture. All I can say is that, at this stage, we have not been able to find on our files any evidence of the particular letter that came to light as an unsigned version in 2005.

Senator FAULKNER—As sometimes happens, Dr Williams, the opposition has been provided with a copy of a document. They come in envelopes like this, as you would appreciate. I would like to explore with you whether it is the case that a document went to Mr Leishman from the Inspector General Division entitled ‘Results of meeting with Bailey Diesel Services—Irwin and Bailey’.

The reason I ask this question in this form is that, as you would appreciate, from time to time these sorts of documents come into senators’ possession. I do not do anything other than try and check the veracity of such documents. I would like to do that now. Can you help me with that?

Dr Williams—I am not familiar with the particular document, but there certainly was a series of documents on the file that my people have been able to locate that record the outcome of the interview of February. They also record details of follow-up and, finally, a closure of the investigation which explains the final position. So there is a fairly complete audit trail. What we cannot find is that one particular document. We have no record of that particular one.

Senator FAULKNER—But is there a document with Mr Leishman as the addressee, a document entitled ‘Results of meeting with Bailey Diesel Services—Irwin and Bailey’? Is there such a document?

Dr Williams—There could well be. I do not have it in my position, but certainly Mr Leishman was one of the people in the investigations area, so there could well be a document. Again, we are investigating that at the moment. I just do not have the particular full set in front of me.

Senator CHRIS EVANS—What about the document that you found on file? Do you have that with you?

Dr Williams—My people have got it. I need to go back and go through the documents and then confirm that we have got a complete set. I do not have a copy of the particular document you are referring to, but, as far as I am aware, that is quite a credible document. There would have been correspondence of that sort. I say that without knowing what you have got—I do not know the dates.

Senator CHRIS EVANS—What have you got? You have clearly discovered that you have got a copy. This is what we agreed to come back and talk about. Are you saying that you did not actually bring the copy with you?

Dr Williams—What we have been trying to do is to see if we could find a signed copy of the particular document that was raised in our discussions earlier. We have been unable to locate that. We have located the relevant files, and there is no such document on our files going back.

Senator FAULKNER—Is there an unsigned copy?

Dr Williams—No, there is not. There is no signed or unsigned copy. It is not on the files. The first we were aware of it was when it came across in 2005. The second thing is that my team have also been able to locate other documents that are part of the normal reporting of investigations and there are documents there which confirm that, as we already knew, the interview did take place on that day. We know the two investigators. We know the general nature of the issues raised.

Senator CHRIS EVANS—Do you have a copy of the 2005 document that was attached to the fax?

Dr Williams—I have been provided with a copy of that today.

Senator CHRIS EVANS—Would you like to have a look at that? Could someone give you a copy of that?

Dr Williams—We have a copy of that document, yes.

Senator CHRIS EVANS—Yes, but could someone give you a copy of it now so you have it in front of you—

Senator FAULKNER—So we can ask you some questions about it.

Dr Williams—I think we were saying earlier—and the secretary commented on this fact—that this is not a signed document and therefore we are concerned about relying on it.

Senator FAULKNER—It is a document which came to you via fax from Comcare. Not every page or every attachment of every document is necessarily signed, as you and I both know. I am not sure of the significance of that.

Dr Williams—We have one page, which is a minute with two signature blocks on it but no signature—and no header and no date or time stamp. So, as I say, we do not have any basis to know whether that is a valid document or not.

Mr Cunliffe—It does not appear on the file that it might reasonably be expected to appear on at the time. It only emerges seven years later.

Senator FAULKNER—Do we know whether the ASO 5 investigator from the Inspector-General Division is still in Defence? Have we managed to find that out yet?

Mr Warner—Yes. You have given us an extra hour. I understand that the second officer whose name appears on the 2005 document is no longer employed by Defence.

Senator FAULKNER—Do you know if the officer concerned is still a Commonwealth public servant?

Mr Warner—I believe he might be. It takes longer to check the whole Public Service.

Senator FAULKNER—I appreciate that, but I knew you would be able to check the Defence records far more quickly than appeared to be the case a little earlier.

Did the document that was received in 2005 include these words at the end of the first paragraph:

The ship HMAS *Westralia* was identified by Bailey and Irwin as having a recent history of substandard and non-genuine parts installed.

Mr Warner—I made the point earlier that I did not think it was in any way appropriate to have a detailed dissection, discussion, of the 2005 document. I do not think it is appropriate because it is an unsigned document—because in the files from 1998 we have not been able to find this document, signed or otherwise. We are quite unclear as to its authenticity, its origin and its veracity.

Senator FAULKNER—The difficulty that senators like my colleagues and I have is that something is provided to the opposition or an issue like this comes forward. A meeting took place on 6 February 1998 and it is—I will use this terminology—'alleged' or suggested that a very serious claim in relation to the *Westralia* was included in that meeting. I am sure I do not have to say how serious that is for a senator on this side of the table. I absolutely accept that the witnesses on your side of the table would treat such a matter—I think it is a fair comment for me to make and I hope you would accept the point; I am sure you would—with the utmost seriousness. The issues raised in today's media are issues of the utmost seriousness. There are obligations for senators at committees like this to try and press and progress these issues because of the nature of these matters. It is rare for us to be faced with issues of this sort of level of concern and as serious as this. We deal with a lot of matters here, but this one is of the highest priority, I would have to say to you, and I am sure you would appreciate why.

Mr Warner—I agree entirely that this is a most serious matter. It was a terrible tragedy—four people died. The defence department did and continues to take it very seriously. I just do not believe that it is appropriate to discuss in detail a document whose authenticity is in question.

Senator FAULKNER—Dr Williams, do we know whether any of the documents that have been established on the files around the time of 6 February were passed on to Navy?

Dr Williams—The original investigation was carried out by a combination of Federal Police and Inspector-General investigators. When a specific claim was made about possible risk of damage to the engine, the company raised what they believed, third-hand, to have been

an event. The investigators contacted Navy, investigated the naval records from that ship and found that absolutely no such event had occurred, which essentially established that the third-hand view that the company had received was just totally wrong. Following that discussion, there was really no basis to pursue that issue. The contact with Navy in relation to that was really the last relevant point.

Senator FAULKNER—Do you have the date of the contact with Navy?

Dr Williams—No, I do not.

CHAIR—If I can just interrupt: I think we are getting into certain areas. I asked the question as to whether this matter is the subject of litigation. We are at a difficult point where this particular issue is obviously central to matters pertaining to liability. I am not sure that we can go any further when the document and what flowed from it is in question as to its authenticity or validity. And I do know that Mr Warner and the minister have to attend a national security meeting as of now. I do not think we can go any further with this, quite frankly.

Senator FAULKNER—For my questioning I do not need Mr Warner; I need the Inspector-General's office and the legal division. I appreciate there must be a minister at the table; if it cannot be Senator Ellison it will just have to be someone else. Senator Ellison is not a minister in the defence portfolio anyway, so I am sure there is a replacement minister on his or her way. Is there?

Senator Ellison—No, there is not.

Senator FAULKNER—Well, that is not our fault.

Senator Ellison—I understood that earlier it had been agreed that my absence was not a problem.

CHAIR—It was anticipated that—

Senator Ellison—I raised that earlier.

CHAIR—All these matters, it was anticipated, would have been dealt with in the second and third sessions. Obviously they have not been, but by the same token I just do not think you can go any further on this subject.

Senator CHRIS EVANS—I think there are two things. We were certainly consulted about the minister and CDF having to attend a National Security Committee meeting, and we said we would facilitate that as best we could and that we understood. But, as Senator Faulkner indicates, this line of questioning is not directed to them. I was not clear that the minister had to go. I thought the defence minister would have been attending; I did not realise Senator Ellison as justice minister—

Senator Ellison—I raised it at the end of the morning tea break, in session.

Senator CHRIS EVANS—Anyway, from my point of view, Senator Ellison, I was not aware that you had to go. But what we are saying is we are more than happy for you to organise a replacement.

Senator Ellison—Is there any way that we can resume this after NSC?

CHAIR—I think that is the appropriate question. I think we should move on to another subject. If you want to—

Senator Ellison—There are a lot of other estimates questions to cover, no doubt, and, without denying senators the opportunity to ask further questions, can't we return to this at a later time? It may be that further inquiries in the meantime might assist us in some of the questions that Senator Faulkner and others will ask us.

CHAIR—So can we come back to this?

Senator FAULKNER—When do you expect NSC to conclude, Senator?

Senator Ellison—It is always difficult.

Senator FAULKNER—Sure. What is your best guess?

Senator Ellison—A couple of hours.

Senator CHRIS EVANS—I think we are amenable to being cooperative if the minister thinks he needs to be here, Mr Chair, but I raise with you the question of the program and the arrangements with other departments et cetera. I am not raising that as a barrier, but obviously that is an issue you would have to consider in making a decision about how we proceed. Certainly we are available to come back after dinner. That is the proposition. My social life is so limited that I hadn't any plans. But I am conscious that we had vets' affairs coming after dinner.

CHAIR—Yes, that is right. And I think what we are saying is let's have them back as soon as possible after NSC. We anticipate that at around six o'clock.

Senator Ellison—I am giving you my best guess, which is very dangerous. But let us try for that and see how we go. We could resume after dinner if there is some blow-out of NSC. I do not see a great deal of material for vets' affairs.

CHAIR—No, I don't either.

Senator Ellison—Seven-thirty to 11 is a long period of time. I appreciate the importance of this; the secretary has indicated that and so have senators. So there are two options, Mr Chair.

CHAIR—I think informally we will go forward on the basis that we are going to hear something from you around six.

Senator Ellison—Yes. We will see how we go.

CHAIR—Are you happy with that? We are going to hear from them around six as to what is happening. If we need to we will come back after six-thirty and deal with these questions.

Senator FAULKNER—The other alternative might be just to change the dinner break. It might be more sensible. It might help the department. I think DVA will be delighted to know they get a dinner break and then come back. It is just so much easier for logistics with people—

Senator Ellison—What time would you suggest?

Senator FAULKNER—If we need to, we might break at seven o'clock or ten past seven instead of six o'clock or six-thirty or whatever it was. Let us just be a bit flexible to try and fit in with you, Minister. We are like that. Underneath it all, we are quite nice guys.

CHAIR—We are going to excuse the secretary and the minister. We will now go on to Wedgetail.

Senator MARK BISHOP—Is it Tiger or Wedgetail?

CHAIR—Wedgetail.

Senator CHRIS EVANS—No, we said that they could speak to it later. It is Tiger. Mr Chairman, I think we indicated to departmental officials that we would not deal with Wedgetail later in the day because the officer was tied up.

CHAIR—Do you want Tigers?

Senator CHRIS EVANS—We said that we would delay Wedgetail.

Mr Pezzullo—Before we go on to Tigers, could Commodore Campbell add to some earlier evidence on the Seasprite. It should take only a minute or so.

Cdre Campbell—To correct the record and to answer one of Senator Evans's questions on aircraft 10—the aircraft I think you referred to earlier as 'in a box'—I stated that the initial operational capability for Seasprite under our current plans to continue was 2010; it is actually 2011. I will take you through it very briefly. As I explained earlier, automatic flight control system phase 1 finishes in a few weeks time. After our negotiations on phase 2 are completed, work will take about three years. We will then have testing and training through 2010. So the initial operating capability of one aircraft at sea will be in 2011, and then there will be continuing aircraft deliveries after that and more aircraft at sea to have a final operational capability by about 2013 to 2014.

You wanted to talk about what I term 'production aircraft 10'. We have accepted nine of the aircraft. We have not accepted aircraft No. 2 and aircraft No. 10 off the production line. Production aircraft 2 is in the United States. It is still our test-flying aircraft. Kaman is still using it as a testbed for all our operational software testing. Production aircraft 10 is the aircraft that is in Australia that we have not yet provisionally accepted. It is not required by 805 Squadron. Obviously it is not required to fly at present, so we have agreed with Kaman for it not to be delivered to us in the initial training helicopter configuration. If you remember the previous discussions, all the aircraft were in an early configuration with basic software in them, known as the 'interim training helicopter'. Rather than deliver it in that configuration, we have agreed with Kaman that they should deliver it in the full capability helicopter configuration, with full operational software in it. So that aircraft is being slowly prepared for that final configuration. It will be delivered after the automatic flight control system work is complete in it. That is an agreement with the contractor which we are quite comfortable with for that aircraft that we have yet to accept.

Senator CHRIS EVANS—Was that the aircraft originally delivered in 2004?

Cdre Campbell—It was not delivered but it arrived in Australia in about 2004, yes.

Senator CHRIS EVANS—Why was that last off the line if it was delivered first?

Cdre Campbell—There were some problems with it in the production line. It actually moved back from about the third or fourth aircraft to one of the final aircraft to be moved out to Australia.

Senator CHRIS EVANS—When did it arrive in Australia?

Cdre Campbell—I think it was about 2004, but I would have to check on the exact date.

Senator CHRIS EVANS—What has happened in the interim?

Cdre Campbell—Just after it arrived in Australia, we agreed with them for it to be the first FCH helicopter.

Senator CHRIS EVANS—So you did take it out of the box?

Cdre Campbell—We did take it out of the box and it is sitting in the hanger at 805 Squadron at Nowra.

Senator CHRIS EVANS—Assembled?

Cdre Campbell—Yes. It is ready to go.

Senator CHRIS EVANS—But not ready to go.

Cdre Campbell—But not ready to go. It is going to be the first full-capability helicopter, so it has slight differences with some of the other aircraft.

Senator CHRIS EVANS—Thank you.

Mr Pezzullo—Mr Chairman, Mr Warner has asked me to represent him while he is at a meeting. As you have probably surmised, Lieutenant General Gillespie is representing the CDF in that same meeting. General Hurley needs to add to his evidence on the Seasprite.

Lt Gen. Hurley—Just to clarify some information I gave you on Seahawk and Penguin: I said earlier that Seahawk requires some input from third-party or off-board centres to fire the missile. That is incorrect. It can fire it off its own radar and flare system.

CHAIR—Is that the current configuration that is accepted into service?

Lt Gen. Hurley—The current Seahawk configuration?

CHAIR—Yes. Who uses that configuration?

Lt Gen. Hurley—Our current configuration.

CHAIR—So we have a Seahawk that has fired a Penguin missile?

Lt Gen. Hurley—No, but it has the sensors on board to allow it to fire the missile if the missile is put on the system.

CHAIR—Does anybody else use those fundamentally basic sensors to fire the Penguin missile from a Seahawk?

Lt Gen. Hurley—I will come back to you on that.

Cdre Campbell—Yes, similar sensors are used by several other countries, including the Greeks and the Turks, to fire the Penguin. In effect, we could use the aircraft as it stands now, with minimal integration, to put the Penguin on it.

Lt Gen. Gillespie—Could I take the opportunity to revisit a couple of issues that we said that we would get back to Senator Nettle on earlier in the day. She asked a couple of questions, the first of which was: ‘Were any civilians killed by the ADF during Operation Perth in Afghanistan.’ The answer to that is no. We have made sure that we have checked all of our operational reporting. But if I could just add that the nature of the Special Forces Task Group operations in Afghanistan at that time was largely non-urban; it was largely out in the open field. On those occasions when we went into semi-urban areas for our operations, it was a very strong targeting process that we put ourselves through to ensure the lack of collateral damage that we wanted. In fact, I know that there were a number of operations that we did not prosecute because we could not be sure of the outcomes of our action. So the answer to Senator Nettle’s question is: no civilian casualties on Operation Perth.

She also asked for clarification on the investigation of the accusations made by Mr Khaliq and whether we actually carried out the investigation. The coalition carried out the investigation as a result of a request by President Karzai when the accusations appeared in Islamic press. A US investigating officer was appointed and the findings of that investigation were publicly released on 29 July 2006. The investigation found that no coalition forces were operating in the area described by Mr Khaliq. We carried out no separate investigation; however, we did go back through our operational reports that came in from that time to check that we were not in the area at the time. I am comfortable that we were not involved in any activity described by Mr Khaliq. I would also point out that both the coalition and we, through the coalition, invited Mr Khaliq to talk closer to us about his concerns and his accusations, and he failed to take up any opportunity to do that.

CHAIR—Senators, we are going on with the Tiger?

Senator MARK BISHOP—No, we are going on with the Armidales.

CHAIR—Sorry. Third time lucky.

Senator MARK BISHOP—Gentlemen, at the outset, in terms of the Armidales, could we just have a status report as to all of them being ported, the nature of the problem and where we are at.

Vice Adm. Shalders—Let me give you the context. We currently have eight Armidales in commission. We are about to name Armidales Nos 10 and 11, so the ninth ship will be commissioned next month, and we will have Nos 10 and 11 named and then commissioned later. The current status of the force is that two of the force are at sea continuing the trials resulting from the operational restrictions that were imposed on 30 January—successfully completing trials. One of those ships, the *Broome*, has just returned or returns today to Darwin, having conducted a successful trial between Darwin and Broome and now Broome to Darwin. The second ship that is conducting trials in the Darwin area is the *Armidale*. She is conducting trials, again, on the fuel system problems that we have had. We anticipate that all of the ships will be released back into operational service in a matter of weeks as modifications are made to the fuel system following the trials that we have been conducting.

Senator MARK BISHOP—So the trials of the first ship have been successful, and likely indications from the second ship, the *Armidale*, are that they are going to be successful?

Vice Adm. Shalders—That is correct.

Senator MARK BISHOP—Can you just, in layman's language, tell us the nature of the problem with the fuel system. Was it hose problems, incorrect material or what?

Vice Adm. Shalders—I will give you very much layman's terms, if I may, but then I will pass to Admiral Ruting for more detail. In layman's terms, the problem is water in the fuel. That water creates a problem with a high-pressure pump which delivers fuel to the engines. The initial cause of this problem was that the water in the fuel getting to that high-pressure pump caused the failure of the pump, which in turn caused fuel to be leaked into the engineering spaces, which of course causes a potentially very dangerous situation. That occurred most recently in the *Armidale* on 24 January and, as a result of that occurrence, the *Armidale* class that were at sea at the time were brought back to Darwin and we commenced the series of trials that we have been engaged in and which continue. So the basic problem is water in the fuel causing a problem with the high-pressure pump, which in turn can cause a problem with fuel leakages in the engineering spaces.

Senator MARK BISHOP—What is the proximate cause of the water getting into the fuel? I think that is the question, Rear Admiral.

Rear Adm. Ruting—We have recently confirmed that the quality of the fuel being supplied to the *Armidale* class meets its specification, from the range of sources that we use—the Navy fuel installation that is referred to in Darwin, from commercial suppliers in areas like Christmas Island and also in Broome, or similar. It appears that the water is getting into the fuel in the onboard storage tank. We are still trying to confirm how it is getting into the fuel there. From that storage tank, the fuel is then transferred to what is referred to as the day tank, and that is the one that the engines actually take their fuel supply from.

Senator MARK BISHOP—Stop there. So you have a large tank onboard and a smaller tank.

Rear Adm. Ruting—There are two larger tanks, which are the storage tanks.

Senator MARK BISHOP—On each ship?

Rear Adm. Ruting—On each. Or two sets, I should say—and they have fuel transferred out of them into a smaller tank called the day tank. The engines take their actual fuel suction from that day tank.

Senator MARK BISHOP—So the water was getting into one or both of the larger tanks on the affected ships?

Rear Adm. Ruting—It appears so, yes.

Senator MARK BISHOP—Both larger tanks, or just one?

Rear Adm. Ruting—We are not 100 per cent certain. We are checking that on different boats as to whether it is in fact into all or several of the tanks. Circumstances appear to differ a little bit across the different boats. That is one of the reasons why we have been doing trials on what was new ship *Broome* until last Saturday, now HMAS *Broome*—because she was the newest ship delivered to us.

Senator MARK BISHOP—I go to the problems with water getting into the fuel in the two larger tanks. I presume they are metal tanks, not hard plastic?

Rear Adm. Ruting—They are metal tanks.

Senator MARK BISHOP—Is that because of hairline cracks or structural faults in the metal tanks or is it because of problems with the feeder hoses or something else?

Rear Adm. Ruting—We are not yet 100 per cent certain of the reason for the water getting into those tanks. The prime contractor, Defence Maritime Services, Austal—the ship designer and builder—Defence Science and Technology Organisation, my own team and the Navy patrol boat force element group are all working together at the moment to gather data across the class of *Armidales* to better ascertain how the water is actually getting into the tanks. There are several sources, including condensation in the fairly humid and tropical environment of Darwin, where the boats operate, and around the north of Australia. However, there is a fuel transfer and cleaning system centrifuge arrangement as well which does use water as part of its cleaning arrangement. As yet we have not been able to 100 per cent identify the source of this water, but our teams are working hard on that. At the moment they are concentrating predominantly on making sure we can get the water out of the fuel that is being transferred to the storage tank so we can provide fuel of an appropriate quality for the main engines.

Senator MARK BISHOP—But you are confident that the water in the two larger tanks is the hub of the problem, so the issue is to find out how it is getting in?

Rear Adm. Ruting—As yet we are not 100 per cent convinced that it is only the water getting into those two tanks. We are part-way through our investigations. That is part of the reason, as Chief of Navy said, we are conducting trials on two different boats in the series—effectively the oldest, *Armidale*, and the newest, *Broome*—taking a lot of readings right across the systems, taking out filters in the main engine system and checking the water that is getting to those to try and take readings right across the entire system to better ascertain where the water is getting into the system and whether the filters are adequately removing it from the system. Until we finish those investigations we cannot be definitive about the source.

Senator MARK BISHOP—Do you think those investigations will be finalised in the next three or four weeks? Did I hear you say that, Admiral?

Vice Adm. Shalders—I said ‘a matter of weeks’. I cannot put a definite time frame on it, but I can assure you that all the relevant players are assisting us, as mentioned by Admiral Ruting. And he did not mention it but DSTO are also assisting us in this series of trials.

Senator MARK BISHOP—Is there any suggestion that any of the hoses or linings through which the fuel from the feeder tank to the engines are either at fault or of a substandard quality?

Rear Adm. Ruting—I am not aware of any claims that any of the fuel piping is part of the difficulty at all.

Senator CHRIS EVANS—I would like to ask a question on that subject. First of all, you commissioned the *Broome* a couple of days ago—on the weekend, wasn't it?

Vice Adm. Shalders—Yes—last Saturday.

Senator CHRIS EVANS—Did that immediately go into operations or is that part of the problem and it immediately went offline?

Vice Adm. Shalders—No. The ship was at sea and it was obviously conducting normal operations on its transit back from Broome to Darwin, which it completed today. Any ship at sea, of course, is always conducting operations, but it was not formally allocated to our border protection operation: Operation Resolute.

Senator CHRIS EVANS—But, like the others, it is not going to be conducting operations until you sort this issue out?

Vice Adm. Shalders—No. I believe that *Broome*, given the system management procedures—the additional fuel stripping and a shroud that has been built around the fuel pump in that ship—can be released to operations very soon, in a matter of one or two days.

Senator CHRIS EVANS—So it is not currently ready, but you expect it to be within days.

Vice Adm. Shalders—It will be ready within one or two days.

Senator CHRIS EVANS—Just so I am clear: is that because you have made extra modifications prior to it being commissioned that were not on the original patrol boats?

Vice Adm. Shalders—That is correct, we have.

Senator CHRIS EVANS—And are you convinced that the modifications made on *Broome* will work on the others?

Vice Adm. Shalders—Again—and I will defer to Rear Admiral Ruting in a moment—that is subject to the trials that are continuing, both on *Broome*, the first ship to be modified, and on *Armidale*. In addition to those two ships, we are modifying the next two—ships 10 and 11—which will be named in Western Australia this coming weekend. So they have also been modified to the same standard as *Broome*. Across the fleet, we will be conducting modifications; and, yes, I am very hopeful that the modifications to the hardware and the procedures that we are using will put us in a position to be able to release all of the fleet back to operations within a matter of weeks.

Senator MARK BISHOP—If the problem is water in fuel, why do you make reference to modified procedures?

Vice Adm. Shalders—The procedures I am talking about there are the fuel management procedures. As fuel is transferred from the large storage tanks to the day tank—or the feeder tank, as you called it—the fuel is stripped and polished. Part of that stripping and polishing process aims to remove any water that might be in the fuel. So that is what I mean by the procedural changes that we have made. The hardware changes that we have made are exactly that: hardware changes. We put a shroud around the pump that did fail, in order that if the pump fails we will not get to that situation of atomised fuel.

Senator MARK BISHOP—Yes, you will contain it.

Senator HOGG—I would like to ask about the fuel going from the large tank to the day tank. Is there something that tests the quality of the fuel going from the large tank to the day tank in the system or is it just passed through without any testing of the quality?

Rear Adm. Ruting—There is a set of purification equipment, but it does not actually take a sample of the fuel and test the water or other sediment purity of that fuel on the way through. That is one of a range of hardware options that are being looked at that Chief of

Navy mentioned for consideration in changes to the fuel system overall. We are dealing with this problem in terms of addressing both aspects of the risk involved—that is, the consequence of water getting through to the main engine fuel pumps, very high-pressure pumps operating at some 1,400 bar pressure, and the shrouds that the Chief of Navy mentioned. The aim of those shrouds is to reduce the consequence of a failure in the pump resulting in a spray of high-pressure fuel out into the engine room. By shrouding the area of the pump that has previously failed we will collect any fuel that does leak out of it and prevent it from spraying around the engine room.

We are also working on the probability of occurrence of that failure by trying to reduce that to the minimum level possible by all of these changes to the actual fuel system itself. Austal, the main ship designer and builder, have worked on this and have a proposal for some changes to the primary filters that occur between the day tank and the main engine. They have looked at some alternative filters that might go into there which may better separate any water out and prevent it from getting to the main engines.

Also, DMS, with the assistance of DSTO and other engineering support and advice, are working on other changes to the rest of the fuel system. Part of that does include the possibility of having fuel water quality indicators either between the storage tanks. In clarification of comments I made before, there are four of those altogether which provide fuel to two day tanks—there is a port and a starboard tank, so we do have separate fuel supplies normally for each of the two main engines and the generators—and all four water indicators as well between the day tank and the main engines. They are also looking at changes to allow testing and stripping off of any water in the day tank. So they are looking at a whole range of changes right across the entire fuel system between the storage tanks and the main engine fuel pumps themselves.

Senator HOGG—And the costs associated with modifications that may be required as a result; I presume the manufacturer is bearing those costs?

Rear Adm. Ruting—At the present moment we are working and focusing predominantly on repairing the system and getting a reliable sustainable system that will meet the Chief of Navy's operating requirements. We will resolve later the assignment of costs.

Senator HOGG—There are eight commissioned patrol boats at this stage. Is the problem the same in each of those patrol boats or does it vary from boat to boat?

Vice Adm. Shalders—The problem is essentially the same. The problem is water in the fuel.

Senator HOGG—In terms of operational capacity, I presume they have been taken out of service. Is that correct?

Vice Adm. Shalders—That is right.

Senator MARK BISHOP—Is the problem confined to the Armidales or does it have any implications for other ships?

Vice Adm. Shalders—This particular problem is confined to the Armidale class.

Senator MARK BISHOP—And have you done some preliminary investigations of other ships or have you thought it to be not necessary?

Vice Adm. Shalders—Other ships have different fuel designs and we have not had this sort of problem in other ships.

Senator CHRIS EVANS—It sounds to me that the shroud is really a bandaid while you look for the cause of the disease. Is that fair?

Vice Adm. Shalders—I would prefer to think of it as a risk mitigation measure rather than a bandaid, Senator.

Senator CHRIS EVANS—Being a layman I think they mean the same thing but I am happy to use your language. But that is not fixing the problem, is it? What you are doing is preventing fuel spraying around the vessel. So, yes, it is a risk mitigation but it does not stop the fuel leaking. It just means when something goes wrong with the pump you have limited the damage.

Vice Adm. Shalders—That is correct, but in combination with all of the other risk mitigation measures we have taken it allows us to get the ships back to sea and on the job.

Senator CHRIS EVANS—I would like to ask you about the assessment of that risk in relation to the *Broome*. It goes to sea within a couple of days with a shroud but without you having addressed the other problems?

Vice Adm. Shalders—No. It has been at sea for the last week. It transited from Darwin to Broome and now from Broome back to Darwin with a range of risk mitigation measures in place, including the shrouds being fitted, but also including a series of procedural fixes—that is, conducting stripping more regularly, testing the quality of the fuel more regularly, stripping the fuel at different times of the day and obviously watching what we are doing very closely.

Senator CHRIS EVANS—I probably did not put that tightly enough. I am asking: are you convinced that the modifications and procedures you have applied to HMAS *Broome* a final and complete solution to the problem or is this also a sort of temporary interim measure until you hit upon what is the final solution?

Vice Adm. Shalders—The final solution will reduce the water that is in the fuel. As Admiral Ruting mentioned, we have not got to that point yet. We do not know where the water is getting into the fuel system and so we have not got to that final solution stage at this point. The final solution will include a number of other hardware fixes, such as water sensors in the fuel system, which we currently do not have. The final solution may include a hydrocarbon sensor in the unmanned machinery spaces so that if we do have a problem we become aware of that on the bridge rather than in the engine room. We are not at the final stage at this time, but we are in a position where the boats can be operated safely with appropriate risk mitigation measures in place.

Senator CHRIS EVANS—Who made the decision that you were satisfied with the level of safety so as to say, ‘Return the *Broome* to operations’? Was that a decision by you, the Chief of Navy?

Vice Adm. Shalders—No, the fleet commander makes those decisions, but we consult.

Senator CHRIS EVANS—Do you expect to make the same modifications to the others as for the *Broome* before you return them to operational duties, or are there further steps required on the earlier models?

Vice Adm. Shalders—No, I think the same sort of modifications will be required. For example, they have the same pump, but there are two different types of shrouds that have been fitted. We are not sure yet which of those shrouds will be most effective in terms of long-term maintenance, for example. Essentially, what we have done in terms of risk mitigation procedures for fuel system management and hardware fixes will be the same across the class.

Senator CHRIS EVANS—Is it the case that the Navy is satisfied that the specifications required of the builder had been met?

Vice Adm. Shalders—Yes, they had—to the point where the boats go through a very stringent acceptance process. The operation release process is a very stringent process. In the first case, the boats are accepted by DMO, which is Admiral Ruting's organisation. The Navy test and evaluation authority then does our own assessment. It is at that point that a recommendation is made to me for initial operational release. That has occurred with nine of the class so far.

Senator CHRIS EVANS—So the answer is that you are satisfied that the builder, Austal, met all the specification requirements?

Rear Adm. Ruting—As much as one can test them on the way through. We used a commercial classification society to provide additional levels of assurance. I have an on-site team who do a number of checks and witness a number of those tests. But the challenge with any sort of machinery—sometimes in the more complex end and sometimes in the simpler end, like fuel systems—is that it meets it while the system is brand new, very clean and finely tuned. The challenge has been in some areas on quite a number of our ships—and the Armidales are no different in that respect—that after a period of time in service, when they are no longer absolutely pristine and brand new, minor defects can occur. It is during that time—and this is an example—where we have perhaps found that some parts of the fuel system for treatment of water that has got into there may not have been as robust as perhaps one would like. That is not to say that the specification was wrong. We are still working on that. But in certain areas like this, it could well be that a solution that has addition precautions built into that fuel system would have been a better way of achieving the functional requirements specified by Defence for the Armidale class patrol boats.

Senator CHRIS EVANS—But you are satisfied that you got what you paid for?

Rear Adm. Ruting—Like when you buy a new motor vehicle, you have a warranty period which allows you time to return that vehicle for repairs to any items that do not live up to the specifications and what you expected when you paid for it. It is not dissimilar with our Defence equipment, including these patrol boats.

Senator CHRIS EVANS—So what is the nautical miles warranty? It is a serious question. Is it a time thing or a nautical mile thing?

Rear Adm. Ruting—Time.

Vice Adm. Shalders—It is a time thing. I am satisfied that the patrol boats are safe and fit for purpose. The sailors who crew them are very satisfied with the way the boats perform. I am also satisfied that we have a very robust in-service support contract. The time frame of that is 15 years, and that contract is with Defence Maritime Services, which is the builder who

subcontracted Austal to build. So we have a very robust in-service support contract—a warranty, if you like—and a support contract which has currently been ongoing for 15 years.

Senator CHRIS EVANS—What is the length of the warranty?

Rear Adm. Ruting—I will have to take the details of that notice. As the Chief of Navy said, because we have a 15-year support contract with the prime contractor, Defence Maritime Services, if the boats are not available for operation by Navy when they have been programmed to be we do not pay for the days that they are not available. So we are effectively covered by that support arrangement, which as the Chief of Navy mentioned is a very good long-term arrangement for us.

Dr Gumley—Admiral Ruting mentioned earlier that the commercial responsibility has not yet been decided. What we are doing is getting the boats back to sea to meet the admiral's needs at this stage, and the parties will sit down in due course and work out, where there is a penalty against the contract, whether it is something we did or something the builder did. We will work that out financially later.

Senator CHRIS EVANS—That has just reminded me that you have got an unusual or new form of contract on this, haven't you, where you do not actually own—

Dr Gumley—Yes, it is paid by operational sea days.

Senator CHRIS EVANS—So you do not actually own the boats, do you?

Rear Adm. Ruting—We own them.

Senator CHRIS EVANS—Refresh my memory: it was a different sort of arrangement, though, wasn't it?

Vice Adm. Shalders—With the customs boats, also produced by Austal, it was a different arrangement. Customs does not own its Bay class boats; we do own our Armidale class boats.

Senator CHRIS EVANS—So how come they are liable for the costs of running it for the day? That is part of the management or the maintenance arrangements, is it? You said when they are not at sea or not available for operational duties there is no cost to the Navy; that is borne by the management firm. I am just trying to understand that.

Rear Adm. Ruting—The contract we have with DMS is for 3,500 patrol boat days per year, with a surge capacity if necessary for up to an extra 600 patrol boat days per year. There is a fairly complex arrangement of how many of those days are available each month that are programmed against it. If the boats are not actually available when they have been programmed to be available for it we abate the fee that we would pay to DMS for them. There are a range of reasons why a boat may not be available. Some of those may actually have been Defence's or Navy's own cause; for example, if we ran it into something through our own fault then we do not abate the fee to DMS. But if it is a failure of anything on the boat that stops it from proceeding to sea or stops it from carrying out its designed functions then we have a range of factors by which we start to reduce the fee. As the points add up in this abatement arrangement we reduce the amount we pay each month for that total force.

Senator CHRIS EVANS—And that abatement is currently occurring with respect to this problem?

Rear Adm. Ruting—That is correct.

Senator HOGG—How are the operational duties that were being carried out by the patrol boats that are laid up now being undertaken by other platforms?

Vice Adm. Shalders—I should refer to the Vice Chief here, but I cannot help myself so I will answer if I may, and he can correct me. The boats are primarily allocated to Operation Resolute, which is our northern border protection operation. Whilst the Armadales are offline we have covered that commitment with the remaining Fremantle class, minehunters, landing craft and major fleet units. You would understand, of course, that I do not wish to go into where they might be deployed, but they are covered.

Senator HOGG—No, I was not asking that. My question was going specifically to whether the operations that would have been undertaken are now being fully covered—and I use the term ‘fully covered’—by replacement platform.

Vice Adm. Shalders—Yes, they are being fully covered.

Senator HOGG—How long can that be sustained, given the difficulties that you have with the patrol boats?

Vice Adm. Shalders—I think if we can get the Armadales released back into service in the next few weeks we can continue to cover the vice-chief’s operational requirements by using these other assets that we have allocated to the operation. Beyond two months from now, we would have difficulty. We have contingency plans, but I am hopeful that we will not need to execute those.

Senator HOGG—All right.

Lt Gen. Gillespie—Operation Resolute, as you know, is the amalgamation of several operations that we used to do. They were all held in clinical boxes, and if we had been operating under the old process then probably this would have been causing us some grief. But the reality of it is that, with Navy’s additional support, the Coastwatch vessels and aircraft that we have, the commander of Border Protection Command is able to move and use his assets in accordance with the priorities that we have going. So I do not have any difficulty at all at the present time in meeting our requirements in the areas that we need to do for all of those border protection tasks that we are taking on. It is a matter of using all of the asset more efficiently than we used to do.

Senator HOGG—The last question I have is about the crews of the patrol boats that are laid up. How are they being affected by this, in terms of their normal rosters and tour of duty? And will they be affected when they come back on line, finding that they are concentrated into quite unfavourable work patterns?

Vice Adm. Shalders—As you know, we have a multicrewing concept which we apply to the Armadale fleet. At the moment, for the ships that are not at sea, the crews are taking advantage of this period—and it has only been two weeks at this point—to undertake further training. A number of training activities have occurred in Darwin whilst the ships have been there. A number of the boats, of course, are rectifying the defects, as we are able to fit shrouds, and that sort of thing. Under the multicrewing construct, there are other crews that

will come on line further down the track. This is a manageable problem, and we will manage it.

Senator HOGG—Thanks.

Senator CHRIS EVANS—Chairman, I think that concludes the Armidales.

CHAIR—If senators are happy with those answers, what else would you like to go on with?

Senator CHRIS EVANS—I was going to ask a couple of quick questions while we have the Navy there and while Admiral Shalders is keen to answer questions. I was going to ask about the guided missile frigates. I do not want to go through all of it. I understand that the public audit committee is looking at some of these issues. I was not aware that that was going on. Senator Bishop was—

CHAIR—The FFG upgrades?

Senator CHRIS EVANS—Yes, the FFG upgrades. I want to raise in particular the issue that concerned me some time ago. I just want to see where we are at with that and, particularly given that the government seem to be in a mood for taking decisions to cut their losses, whether or not there is any prospect of us cutting our losses on these, given that, as I understood it, the first ship for the upgrade is the *Sydney*, which I gather is still having some difficulties. I think it started in September 2003. Earlier advice was that it was going to be decommissioned in 2015. As the delay in the upgrade occurs, it obviously begs the question: at what stage do you say, ‘Why would we upgrade a ship that will only be on line for five, six or seven years’? As I understand it, there are older ships, including the *Sydney* and *Darwin*, that have not yet completed the upgrade. So I guess I am asking: at what stage do we say that the gap or the operational window for these ships is too narrow to make it worth the money? Or are you looking to extend the life of the ships beyond those original scheduled decommissioning dates?

Vice Adm. Shalders—The FFG upgrade program continues, and this committee has heard evidence on that program over many years. The *Sydney* was the first ship through the program. She is not the oldest ship; the two oldest FFGs were *Canberra* and *Adelaide*. *Canberra* was decommissioned the year before last. *Adelaide* will finish at the end of this year. *Sydney* has completed—

Senator CHRIS EVANS—Originally we contracted to have them upgraded as well, and we reduced it from six to four, didn’t we?

Vice Adm. Shalders—We did.

Senator CHRIS EVANS—So those are the two that are not being upgraded?

Vice Adm. Shalders—That is correct.

Senator CHRIS EVANS—But, of the ones that are, which are the oldest of those?

Vice Adm. Shalders—The oldest of those would be the *Sydney*, which is first ship through the upgrade.

Senator CHRIS EVANS—And then the *Darwin*?

Vice Adm. Shalders—Yes. *Darwin* has just started her upgrade. The *Melbourne*, which is the second youngest ship, has also just completed the majority of her upgrade. She sailed this week for tests and trials. The final ship to be upgraded will be the *Newcastle* later this year.

Senator CHRIS EVANS—So when will they all be operational and compliant with the full upgrade requirements?

Vice Adm. Shalders—I will pass to the DMO to give you the exact dates, but my expectation is that I can use *Sydney*, the first ship through the upgrade, for full operations by the end of this year.

Senator MARK BISHOP—*Sydney* is in dry dock at the moment, isn't it?

Vice Adm. Shalders—*Sydney* is undergoing a routine docking availability in Sydney not associated with the FFG upgrade. That is part of the normal maintenance cycle.

Senator MARK BISHOP—The rear admiral is probably the one to update us best on this. I thought that the *Sydney* had gone out for sea trials last year, that we had identified three distinct problems in those sea trials, that she had been brought back into dry dock in December and that the problems—those three specific sets of problems which you gave in an answer to a question on notice—were going to be dealt with. I thought that was planned to be finished this year. Is my memory correct, Rear Admiral?

Vice Adm. Shalders—That is mostly correct. She went into dock not as part of the FFG upgrade. The docking that she started last year was part of a regular and routine maintenance cycle.

Senator MARK BISHOP—I see. In that case then the question becomes for you, Rear Admiral. Have those three sets of problems that you identified for us at this committee last year and at the public accounts and audit committee now been fully identified and are they are in the process of being totally rectified?

Rear Adm. Ruting—The trials on HMAS *Sydney* during 2006 did identify, as you have indicated, three areas where the required capability—at what is referred to as baseline build 1 of the main software—had not been achieved in all of the desired areas. Because of the ship's program and the maintenance period the Chief of Navy has mentioned, we were not able to complete all of the analysis of, and then further tests and trials on, the underwater systems, particularly the two sonars. We gathered a lot of very useful information from the tests and trials that have been conducted on those, but there is further work to do to prove the full capability of the sonars.

What is called the electronic support measures equipment also needed some further work to be done by the original overseas equipment manufacturer on the software in that electronic support measures equipment. Because the ship was not operational, we could not do the further tests on those because we need to go to some very quiet and radiofrequency-free areas to do very sensitive tests on that equipment to assure us that it is working up to the required area.

The actual main combat management system, or command and control system software, ADACS, also had some areas that needed further improvement. ADI were able to keep working on that because they have the land based test site at Garden Island dockyard. So they

were able to keep working on the main software and subsequently load a later set or drop of that software into *Sydney*, which will be able to be tested as soon as she has completed her current maintenance period. She will enter a further period of test and trials, including a naval operational test and evaluation period. As the Chief of Navy suggested, that will continue throughout this year with the expectation that she will achieve an acceptable level of operational capability to allow the chief to use her operationally.

As we have discussed on previous occasions, the contract allows ADI to deliver the full contracted capability over several baseline builds. The final full capability is currently planned to be in baseline build 3, which will be delivered later in the program.

Senator MARK BISHOP—How later?

Rear Adm. Ruting—We have separated the conduct of the physical parts of the upgrade—the fitting of the new vertical launchers, new diesel generators and those sorts of aspects of the ship—from the software changes so that the ships can go through the physical upgrade period at Garden Island, in Sydney, to be returned into naval service at a baseline build 1 capability as the software improvements to the main command and control system can be achieved up to baseline build 2 and then baseline build 3. They can be implemented in a relatively short period of time into those ships, and they can then be brought up into two steps—maybe even one step—from baseline build 1 to baseline build 3 functionality independent of the physical work done to the ships in dock,

Senator MARK BISHOP—I think I do have a picture of all of that, Rear Admiral.

Senator CHRIS EVANS—Good, you can explain it to me later! I was going to ask the layman's question at the end of that.

Senator MARK BISHOP—I have been educated over the last two years. When do we expect the maintenance we are doing for the *Sydney*, over in Sydney, to be concluded?

Vice Adm. Shalders—I anticipate that DMO will offer the *Sydney* to Navy for initial operational release in April this year, but there will be a period prior to that when she will do basic mariner skills evaluations and get herself back to sea—so before April. In April, I expect that the ship will be offered to me to give it initial operational release, which of course will lead to full operation release later this year.

Senator MARK BISHOP—Let us presume that that time line sticks—your maintenance is done now to, say, the end of March, you get it back for operational use some time in April and you then have to send it back to sea—would those sea exercises then involve trialling of the rectification problems that Rear Admiral Ruting referred to about the software, the sonar and the radar?

Vice Adm. Shalders—Yes, they will. During that period between initial operational release in April and full operational release we conduct what is known as a naval operational test and evaluation. That is a complete test of the ship in every respect—missile firings, gunnery firings and combat system checks. This is about the Navy actually taking the ship and proving that we can do with it what we need to do.

Senator MARK BISHOP—Can full capability delivery, pursuant to the contract terms, be done over a number of baseline periods—from 1 through 3—over 2007 and thereafter? Or do you have to sign off on baseline 3 compliance by December 2007?

Vice Adm. Shalders—I am anticipating, and the schedule that I am working to, is a complete project completion of FFG upgrade by December 2009—so, all four ships having been through full operational release by December 2009.

Senator CHRIS EVANS—And the *Sydney* will be fully operational with the upgrade late 2007.

Vice Adm. Shalders—Correct, at the baseline build the *Sydney* will come with, which will subsequently be upgraded to baseline build 3.

Senator CHRIS EVANS—When will the *Sydney* have all the bells and whistles we have paid for and be able to be used by you in its full capacity?

Vice Adm. Shalders—I will be able to use *Sydney* in her full capacity by December this year, I hope.

Senator CHRIS EVANS—And that will be baseline 3, full bells and whistles?

Vice Adm. Shalders—No, that will be a lesser baseline build because the other builds have not yet been done. They will be progressively introduced as the other three ships come through the process.

Senator CHRIS EVANS—I go back to my original question: when will the *Sydney* be fully operational at the maximum contracted capability?

Vice Adm. Shalders—December 2009, when the project completes.

Senator CHRIS EVANS—So none of them will come onto that level before that time?

Vice Adm. Shalders—They will be progressively fitted with that final build of software and—I am guessing here—probably from about May 2009 through to the end of the project in December 2009.

Senator CHRIS EVANS—I might have missed something, but you are not bringing *Sydney* up to that standard in advance of the others. Then you have to bring them all up to that standard in 2009—is that right?

Rear Adm. Rutting—The upgrades from baseline build 1 to build 2 and then build 2 to build 3 are almost all predominantly software related and therefore they can be installed at shorter periods of ship availability. As ADI gets to each of those stages and has done sufficient testing, for example on baseline build 2 software in the land based test site, and if our project team and Navy are happy with those land based tests, we will put it into one of the ships. We have not specified which ship it will actually be; it will be the one convenient at the time to both Navy and ADI to install that upgrade into. It will then go to do further tests and trials at sea. If those tests and trials appear sufficient we will then seek the Chief of Navy's endorsement, through the fleet commander's endorsement, to conduct formal sea tests on baseline build 2 and then subsequently on the extra set of capabilities in baseline build 3. So they may be implemented in a serial fashion of the ship coming out with baseline build 1 then subsequently getting baseline build 2—and being operated for a period of time—and then at

some later stage being upgraded to baseline build 3. At this point of time there is a little bit of flexibility for both Navy and ADI to work through when the extra baselines are included. But as the chief said, the contract requires it all to be finished by late 2009.

Senator CHRIS EVANS—That is the revised contract?

Rear Adm. Ruting—Yes.

Senator CHRIS EVANS—When were they supposed to be finished in the original contract?

Vice Adm. Shalders—While the admiral is looking for that, I can add a little bit to the commentary on which build goes to which ship. I am working on the basis that baseline build 3—the final software version—should be available in about August 2008. At that stage the ship that is likely to be fitted with baseline build 3 is the *Darwin*, the ship that has just started her upgrade. So from August 2008 add a period of testing. By the end of the next year, December 2009, all four ships will be fully kitted with the final baseline build.

Rear Adm. Ruting—I have the information on when the fourth upgrade at FFG was originally due to have been at provisional acceptance stage, and that was in March 2005. I do not have readily available at what point in time under the original contract ship 6 would have been completed.

Senator CHRIS EVANS—Of course we abandoned the last two when we renegotiated the contract.

Rear Adm. Ruting—Yes. At the same time we changed around the order of doing the ships, because we are doing only the four younger ships now.

Senator CHRIS EVANS—As I recall, we paid for six and got four.

Rear Adm. Ruting—We did achieve a reduction in the total price of the contract as a result of doing only four ships. A lot of the costs are fixed costs and in many of the equipment areas we had bought equipment for six ships and so the main savings result from the cost of installing the actual equipment into the ships. Like software in almost all areas, the actual cost of installing software into the last two ships was fairly minimal. Most of the cost in fact is in developing, designing and testing that software.

Senator CHRIS EVANS—It is the only contract like this that I have ever heard of. Normally you hear that people pay for four and they give you six; we pay for six and they give you four. It is a very unusual situation. I will ask about the costs then; we have covered how the delay is going. Before I do that, Admiral Shalders, I want to check the decommissioning dates. I had the *Sydney* in 2015, the *Darwin* in 2017, the *Melbourne* in 2019 and the *Newcastle* in 2021. Are those dates still accurate or have they changed?

Vice Adm. Shalders—I would have to verify those dates for you. I do not have the detail with me at the moment, but I can get back to you very shortly on that.

Senator CHRIS EVANS—Thanks. I think this question is for you, Dr Gumley. I just want to know where we are with the contract—how much we paid.

Dr Gumley—The original contract was for \$1,266 million. There has been an increase due to inflation of about \$170 million; there has been an increase due to the exchange rate of

about \$197 million; and then there has been a real decrease in price of \$153 million, which was part of the negotiation of six ships back to four. Picking up on what Admiral Ruting said, it was a high fixed-price contract, so the marginal cost of what you save by taking six back to four is actually quite small. So the current December 2006 figure is \$1,480 million, in December 2006 dollars.

Senator CHRIS EVANS—The original total was \$1,266 million?

Dr Gumley—We have to be careful—that is in December 1997 dollars.

Rear Adm. Ruting—If I may clarify: that is not the contract price; that is the total project approval value.

Dr Gumley—It includes our costs and other costs.

Senator CHRIS EVANS—But the total project cost is now \$1,480 million and we started at \$1,266 million. As you said, there is currency variation et cetera. The actual value of the renegotiation down, from six ships to four, was \$153 million?

Dr Gumley—That and a number of other issues that all came up together, at the same time.

Rear Adm. Ruting—The actual reduction in contract price, as distinct from project approval, which Dr Gumley was referring to, was \$40 million in base date 1998 dollars. That was the actual reduction in the contract price.

Senator CHRIS EVANS—What you paid to ADI, basically?

Rear Adm. Ruting—Yes.

Senator CHRIS EVANS—So what was the original total for the contract price?

Rear Adm. Ruting—As signed in June 1999, the contract was about \$900 million, but we had a number of options in that contract that could be exercised progressively during the period of the time to incorporate additional spares and additional work. On top of that we also bring in under the contract the actual maintenance work that we undertake on the FFGs in parallel with their upgrade.

Senator CHRIS EVANS—So the original contract price was \$900 million—that is an ‘about’ figure, is it?

Rear Adm. Ruting—In 1998 dollars.

Senator CHRIS EVANS—Perhaps you could get an exact figure for me, so that I know it is \$920 million or \$880 million. I know the figures roll off the tongue quickly, but they are millions of dollars.

Dr Gumley—It is important to look at the difference in the base date dollars because the inflationary bit is not a real cost increase, of course. So the total project does, in fact, show a real cost decrease when you adjust for inflation and foreign exchange.

Senator CHRIS EVANS—I was going to ask you about that, because that depends on when you paid the bucks, doesn’t it? If you paid it up-front, it does not—

Dr Gumley—It is real value of money. Today’s dollar is worth less than the dollar 10 years ago.

Senator CHRIS EVANS—But your argument does not hold if, for instance, as with the Seasprite, we paid them all the money and then we had the argument about whether or not they had built us a proper helicopter.

Dr Gumley—Obviously if you do not get the product at the end of the day you have lost out.

Senator CHRIS EVANS—Anyway, in terms of the dollars, it is no good talking about real dollars now if we actually paid it five years ago. That brings me to the question: how much of it have we actually paid them?

Rear Adm. Ruting—While I quickly look up that, I can at least answer the question on what the original June 1999 prime contract price was. It was \$899.576 million.

Senator CHRIS EVANS—You were pretty close.

Rear Adm. Ruting—My \$900 million was pretty close.

Senator CHRIS EVANS—I reckon rounding that to \$900 million is fair enough.

Rear Adm. Ruting—That was on the February 1998 dollar price basis.

Senator CHRIS EVANS—So the \$40 million was the reduction in the contract price.

Rear Adm. Ruting—Correct; in base date—

Senator CHRIS EVANS—Taking Dr Gumley's point about current dollars, what is the current contract price?

Dr Gumley—We will have to get the exact number for you on notice.

Rear Adm. Ruting—The current estimated price in October 2006 dollars is about \$1,170 million.

Senator MARK BISHOP—The contract price?

Rear Adm. Ruting—Yes, the contract price.

Senator MARK BISHOP—Not the project price.

Rear Adm. Ruting—Correct.

Senator CHRIS EVANS—We have the project price as \$1,480 million. Thank you for that. How much have we actually paid ADI?

Rear Adm. Ruting—I do apologise. I am quickly trying to go through my brief and get the accurate figure.

Senator CHRIS EVANS—I think the June 2006 figures I have is that the approved project expenditure was \$1,480 million and that we had already expended \$1,021 million. That is the total project cost, though, not the contract cost, isn't it?

Rear Adm. Ruting—Correct. I have the total project expenditure to date—that is the contract plus other expenditures we have—at \$996 million.

Senator CHRIS EVANS—Are you saying that is the contract price?

Rear Adm. Ruting—No, that is the total project expenditure.

Senator CHRIS EVANS—I think you will find that the budget papers say it was \$1,021 million in June 2006.

Rear Adm. Ruting—I will confirm my figure then; I will go and check. I will take it on notice.

Senator CHRIS EVANS—I may be wrong. For the FFG upgrade, I have approved project expenditure of \$1,480 million; accumulated expenditure to 30 June of \$1,021 million; budget estimate for this financial year is \$74 million and then a revised estimate for this year of \$91 million.

Rear Adm. Ruting—That actually being the budget statement, it sounds far more correct than the one I quoted before.

Senator CHRIS EVANS—All right. Perhaps you could take on notice and update for me on your latest figures. That would be useful. Are we able to be clear on how much we have paid to ADI so far for the upgrades?

Rear Adm. Ruting—I will need to take that on notice to get an accurate figure.

Senator CHRIS EVANS—Can you tell me whether we did, in the end, pay the contractor any bonuses? The original contract had provision for bonus payments.

Rear Adm. Ruting—There were a number of incentive payments made in the early days of the contract. When we renegotiated the contract last year, those incentive payments were taken out. There will be no further payments.

Senator CHRIS EVANS—Did we get any refunds for the incentives payments we had paid for a project that is about four years late?

Rear Adm. Ruting—We negotiated a total settlement when we did the six ship to four ship reduction negotiations in the period January to April 2006. So we settled a whole range of claims and counterclaims by the Commonwealth to ADI and the ADI excusable delay on some items there. We settled all of those issues in one large package.

Senator CHRIS EVANS—So you just rolled it all into the negotiation?

Rear Adm. Ruting—Yes.

Senator CHRIS EVANS—How much did we actually pay in incentive payments before that happened?

Rear Adm. Ruting—I will have to take that question on notice.

Senator CHRIS EVANS—Thank you.

Senator MARK BISHOP—Can we have a discussion about the Wedgetails. What was the original scheduled date for delivery of the Wedgetail capability?

Air Vice Marshal Deeble—The inservice date for Wedgetail was originally November 2007.

Senator MARK BISHOP—There has been press commentary on the delay—I think now it has blown out to the end of 2009 or 2010; I will come back to that. Can you give me a succinct summary of the nature of the problems that are causing the delays?

Air Vice Marshal Deeble—Effectively Wedgetail is a very complex program; it involves a number of highly developmental elements, including the radar most specifically, and a very complex integration of a system of systems. So I think the key issue is that the degree of complexity has caused some significant issues. I think the developmental components, in particular the radar, have required significant remediation action to achieve the performance levels required. So they are the prime drivers for the delays. Inherent in those systems, including systems like electronic support measures, is integration, and that integration effort has been delayed. Inherent in that is software development.

Senator MARK BISHOP—Inherent in the title of the program—Wedgetail Airborne Early Warning and Control—the system, when up and running, is planned to integrate all of our airborne forces, communicate between same and communicate back to land bases, is it not?

Air Vice Marshal Deeble—That is correct.

Senator MARK BISHOP—So if we are unable to resolve the system of systems integration issue for a considerable time, we will be unable to communicate with our other airborne platforms and hence we will have deficient capability to what was originally planned and bought.

Air Vice Marshal Deeble—I think it is true to say that without AEW&C some of our aspirations for a networked force will be delayed. That is not to say, however, that there are not other capabilities that exist within the ADF that provide complementary or similar capability that could be used in the interim.

Senator MARK BISHOP—But not of the same quality as an almost \$4 billion, state of the art, internal communications program.

Air Vice Marshal Deeble—The AEW&C offers operational flexibility that would not be inherent in the use of ground systems.

Senator MARK BISHOP—I understand that. When do we think the radar problems and the system of systems integration problems are now going to be fixed?

Air Vice Marshal Deeble—This year will be a fundamentally important year for the program. Software development will be ongoing throughout the year, but it will be a very important period for us for testing the radar. We have undergone some significant remediation action on the radar and have identified fixes for the problems that have been identified in flight tests to date. Those fixes will be implemented in the aircraft, ground tested and then flight tested this year. Between March and September of this year we anticipate the majority of the flight testing on the radar to be conducted. In parallel with that we will be looking at radar and other systems integration. We should have a good feel by the end of this year as to whether or not the system will achieve our performance requirements.

Senator MARK BISHOP—When you talk about fulfilling systems requirements at the end of the year, are you talking about the radar issue or are you talking about the system of systems integration issue?

Air Vice Marshal Deeble—The system of systems integration issues will be addressed predominantly this year. There will still be ongoing refinement and working through problems of a lesser nature, but the big-ticket items will actually be flight tested this year.

Senator MARK BISHOP—So the big-ticket items are the radar and the system of systems integration?

Air Vice Marshal Deeble—Yes.

Senator MARK BISHOP—You have identified the problems, you have scheduled this year to install and flight test, and you hope to be able to tell me in November that you are 85 or 90 per cent underway. Is that correct?

Air Vice Marshal Deeble—That is correct. The following year will basically be our formal acceptance testing. This year is developmental testing and evaluation. That will give us a very good feel for those aspects of it. The following year will also include acceptance and military type certification to accept the aircraft in the March 2009 time frame.

Senator MARK BISHOP—I do understand that process. Earlier Dr Gumley, I think it was, made some unkind references to systems integration, which we have all become experts on in the last two or three years. Air Vice Marshal Deeble, are you not being a little ambitious in advising the committee that you think the systems integration problem will be resolved or be close to being resolved towards the end of this year?

Air Vice Marshal Deeble—Over the last six months we have worked very closely with Boeing and Northrop Grumman. We have scoped out all of the issues that we currently see on the table with respect to performance. We have fixes identified to solve those problems. I would not be underestimating the issues associated with some highly developmental areas of the aircraft, including the radar. There will still be residual risk that will need to be actively managed through the remainder of the program. So I think, as I said before, we will be going through a flight test program next year. That will be identifying other problems. I feel that we are now better placed to be able to resolve those problems, with the reinvigoration of the Boeing environment and also the subcontractors. I feel that we will be best placed to be able to give you a full assessment of that by the end of next year.

Senator MARK BISHOP—Fine, I understand that. The work you are doing this year in terms of the developmental work, the flight testing of that and then the trials next year of military capability: is all of that work part of the original contract or have the specs in the original contract had to be changed because it was just too ambitious?

Air Vice Marshal Deeble—There have been some changes to specification, but I would not argue that they are ambitious. At this point in time we have no intention of changing any of our specifications to enable the systems to meet those, so we are sticking by the original specifications.

Senator MARK BISHOP—All right. So come the end of the year and through next year you would be hoping to have the system of systems integration and the radar issue fixed and the software, by and large, being trialled. That would then give us airborne communication across all of the relevant platforms, air to ground communication and radar operability. Is that correct?

Air Vice Marshal Deeble—Yes. At this point in time the aircraft will be delivered in March 2009, but that is not the only part of providing that capability; we will have to train our crews and establish the logistics support chain. So I envisage that we will be declaring an initial operational capability in about the first quarter of 2010 and a full operational capability in about the first quarter of 2011. That takes account of not only the aircraft being delivered but also the other fundamental inputs of capability to be in place.

Senator MARK BISHOP—So if you stick to that schedule of full operational capability by early 2011 we are talking something in the order of 3¼ years delay.

Air Vice Marshal Deeble—No, the actual delay to the delivery of the aircraft is in the order of about 28 months from the original contract signature. There was a delay declared at the end of 2005/start of 2006 tied to a strike at Boeing.

Senator MARK BISHOP—Sorry, I might have been a little bit unclear there. My first question was: what was the original scheduled date for the delivery of the Wedgetail capability. You responded: November 2007. You are now telling me that we will have full operational capability in the first quarter of 2011. My simple maths is that that is a delay of a bit over 3¼ years.

Air Vice Marshal Deeble—The previous commitment was for the inservice date, which was March 2009. If you add up those dates, that was till 2008. That was an inservice date not an initial operational capability.

Senator MARK BISHOP—Would you care to revise your first answer then? I will ask you again: what was the original scheduled date for delivery of the Wedgetail capability?

Air Vice Marshal Deeble—The original date was only declared in terms of an inservice date, which was a number of aircraft delivered, not including those other elements that I talked about.

Senator MARK BISHOP—So when you said November 2007 what did you mean?

Air Vice Marshal Deeble—That was for the delivery of the aircraft.

Senator MARK BISHOP—Delivery of aircraft is a different thing to delivery of capability.

Air Vice Marshal Deeble—That is correct. I am sorry, I misinterpreted your original question. I was giving you those dates associated—

Senator MARK BISHOP—Let us go back, then, so I can pin this down. What was the original scheduled date for delivery of the Wedgetail capability?

Air Vice Marshal Deeble—I came onto the program in the June time frame. I do not believe that there was a publicly declared date for the delivery of the capability. It was driven by the dates of deliveries of aircraft, and those dates are the dates that I have given you.

Senator MARK BISHOP—The aircraft is just the metal and the mechanical frame. It is an off-the-shelf purchase. We do not care about that.

Air Vice Marshal Deeble—In like-by-like terms, if you look at the fact that it takes a certain amount of time to deliver capability, then the initial operational capability and full operational capability would slip in accordance with the delays associated with the aircraft.

Senator MARK BISHOP—This whole discussion of delays has been around the systems integration and radar. I am not talking about delivery of the aircraft frame per se. What I want to know is: what has emerged as the period of delay of capability?

Air Vice Marshal Deeble—It would slip in accordance with the aircraft delays—28 months.

Senator MARK BISHOP—Twenty-eight months is 2¼ years. The original capability was at the end of 2008?

Air Vice Marshal Deeble—Yes.

Senator MARK BISHOP—December 2008, and that has gone to March 2011. Thank you. The original expenditure—

Mr Pezzullo—In terms of our publicly declared positions around the DCP, we will just do some research about what governments have put on the record in terms of public DCPs, the initial operational capability and the full operational capability. Subject to checking that, the Air Vice Marshal's evidence will stand. If there is a need to come back and correct the record, of course we will.

Senator MARK BISHOP—That is probably the best thing. I might have been confusing in my questioning. The approved project expenditure was something in the order of \$3.5 billion when government ticked off some years ago. Is that correct?

Air Vice Marshal Deeble—I do not have the specific figures in front of me.

Senator MARK BISHOP—The figure I have been advised of was \$3.53 billion.

Dr Gumley—The current approved project cost, based 8 January 2007, that I have here is \$3,521 million, in January 2007 dollars.

Senator MARK BISHOP—With the 28-month delay and the additional development and research that is going on on these two issues, do we anticipate a blow-out in cost or is it a fixed-price contract?

Air Vice Marshal Deeble—It is a fixed-price contract, but the project at the moment is that we are going back and reviewing our financial position. We have issues related to both price and exchange rate which we are resolving at this point. And we are going back and, based on the revised schedule from Boeing, we are reviewing the residual risk to the program.

Dr Gumley—Perhaps I can help there a little bit. As government updates Defence's money it uses a certain inflation index. The contract, although it is a fixed-price contract, uses a different inflation index which applies to American aerospace workers. As the years go by the gap between the deflators we use here and the deflators they use in America slowly wedges out a little bit, and so we are now in discussion and negotiation with Boeing. But the two indexes are not the same.

Senator MARK BISHOP—Understood. But that figure from June 2007 of \$3,521 million is within a fixed-price contract, subject to those two differing deflators which have to be addressed in—

Dr Gumley—I think at this stage we are responsibility for the gap between the two deflators, and that might cause a real cost increase based on how Australia measures inflation compared with how it is measured by Boeing in America.

Senator MARK BISHOP—But that difference between the two sets of deflators, over a relatively limited time period, is going to be relatively minimal.

Air Vice Marshal Deeble—The figures we have got to date are in the order of \$260 million over the life of the program. Last year alone there was approximately \$80 million worth of difference in indexation.

Senator MARK BISHOP—Normally it is five or six per cent.

Dr Gumley—You can have an inflation gap of one or two per cent a year depending on how people have measured it over a number of years. Because we are dealing with such a big denominator, of \$3½ billion, the dollars add up quite quickly.

Senator MARK BISHOP—How much have we paid out to date of that \$3.5 billion in January 2007 dollars?

Dr Gumley—Approximately \$2.107 billion. But this is based on November 2006.

Senator MARK BISHOP—Right. So we have paid about four-sevenths to date and there are some price inflators. And we are going to be having major remedial work done on the software side this year.

Dr Gumley—Senator, can I correct the answer. Again, it is the difference between what you are paying on the contract and what you are paying on the project. So we are back to that definitional issue. Looking at the portfolio additional estimates, at 30 June 2006 we had actually spent \$2.41 billion on the total project.

Senator MARK BISHOP—So that figure of \$3,521 million that you gave me: is that a project price or a contract price?

Dr Gumley—That is project.

Senator MARK BISHOP—So that is the high end. And of that we paid something a bit over \$2,107 million. So we have paid about four-sevenths. The outstanding three-sevenths—the outstanding \$1½ billion—is that paid according to milestone adherence in the contract?

Air Vice Marshal Deeble—There is a combination of earned value and milestone payments to be paid for the remainder of the contract.

Senator MARK BISHOP—I do not want to have that discussion again; I have been educated on that once, so I understand that. In that case, I think I will be talking to you again in November. I look forward to it. Senator Evans reminds me: there are liquidated damages clauses in the extant contract?

Air Vice Marshal Deeble—Yes, there are.

Senator MARK BISHOP—Has there been any cause for the Commonwealth to call upon them to date?

Air Vice Marshal Deeble—There is only one milestone that has attracted liquidated damages to date, and that relates to the operational flight trainer, the front-end simulator for the 737.

Senator MARK BISHOP—How much was that?

Air Vice Marshal Deeble—We are still working through those issues, and I cannot give you the specifics at this point. It is a percentage linked to that particular milestone.

Senator MARK BISHOP—Can you just give me the ballpark that you and the supplier are negotiating around?

Air Vice Marshal Deeble—I could take that on notice and get back to you.

Senator MARK BISHOP—But that is in the process. So the net of that is that there have been problems with the delivery of the flight simulator, you believe there has not been adherence to the contract, you have invoked the liquidated damages clause and you are in the process of negotiation.

Air Vice Marshal Deeble—We have reserved our rights initially and we are in the process of negotiating what those liquidated damages will be.

Senator MARK BISHOP—And you cannot advise me of even an indicative figure as yet?

Air Vice Marshal Deeble—It would be remiss of me to do so, and I am more than happy to provide that on notice.

Senator CHRIS EVANS—So what is the impact of the proposed late delivery and the interaction of that with liquidated damages? Are you saying it is because you have not got to the milestones yet that it has not reached crunch point?

Air Vice Marshal Deeble—We have not actually triggered liquidated damages for not having achieved those milestones that attract those liquidated damages requirements.

Senator CHRIS EVANS—When do you the first of those come up?

Air Vice Marshal Deeble—The first of those will come up early in this half of the year.

Senator CHRIS EVANS—They are not going to meet those deadlines, are they?

Air Vice Marshal Deeble—Not according to the original schedule.

Senator CHRIS EVANS—Dr Nelson has been out there talking about it. Has there been a policy decision taken as to whether or not the government will pursue liquidated damages?

Air Vice Marshal Deeble—We have reserved our rights with respect to liquidated damages at this time, and it is subject to negotiations with Boeing. We have not made any firm decision on how they will be applied.

Senator CHRIS EVANS—What does ‘reserve your rights’ mean?

Air Vice Marshal Deeble—It means that we have not negotiated anything with Boeing at this point in time and it is still subject to internal decision making.

Senator CHRIS EVANS—It is a question of your exercising your rights rather than reserving your rights, isn't it? You have legal rights; the question is whether you exercise them or not.

Dr Gumley—Yes, and that might be done some time in the future. But we have reserved them now such that everyone is on notification that the issue is there. Inevitably, in a project like this, you will get to a commercial time when you will sit down and decide who owes what to whom.

Senator CHRIS EVANS—What are the parameters of possible liquidated damages on the milestone? Is it a cash amount? Is it a percentage?

Air Vice Marshal Deeble—It is linked to a percentage of the milestone and a payment over time.

Senator CHRIS EVANS—So there might be, what, a five per cent penalty if they do not meet the deadline? Is that the nature of it?

Air Vice Marshal Deeble—In gross terms, yes.

Senator CHRIS EVANS—What is the penalty for the failure to meet the first milestone?

Air Vice Marshal Deeble—I could not give you the definitive answer on that, but I will take that on notice.

Senator CHRIS EVANS—Perhaps you could give us the penalties that apply at each of the milestones if they fail to deliver.

Dr Gumley—They are not penalties. We are not a court; we cannot levy penalties.

Senator CHRIS EVANS—The liquidated damages clause.

CHAIR—They are a contractual agreement to pay a specified sum of money if the terms are not met.

Senator CHRIS EVANS—I always retain the chairman as counsel on these matters—though he charges at quite a rate!

Senator MARK BISHOP—The only thing that we are looking at now, as I understand it, is related to delivery of a flight simulator. Is that correct?

Air Vice Marshal Deeble—That is the only milestone that has not been achieved that has liquidated damages clauses linked to it at this point in time.

Dr Gumley—I do need to comment that there is commercial goodwill from both Boeing and Northrop Grumman. The most senior executives of both companies have committed to finish the program, they have both taken charges against the losses they are making on the program, and I have no reason to fault them in their approach to helping us finish it. There has been genuine technical difficulty and they are committing their companies to make it happen.

Senator MARK BISHOP—Understood.

Senator CHRIS EVANS—Mr Chairman, I know we are waiting on the return of the minister. I have a couple of issues I want to raise. One is a personnel issue. One is with regard to the Prime Minister's Broome flights that earlier in the week everyone passed the buck on to Defence.

Senator CHRIS EVANS—I will start with the issue of ADF personnel who have died, potentially suicided, and the claims of their families—Williams, Satatas, Shiels and Hayward.

Mr Pezzullo—In view of the fact that I understand those to be connected to potential legal claims, I might ask Mr Cunliffe to come forward.

CHAIR—Are these questions related to requests for ex gratia payments?

Senator CHRIS EVANS—Yes. I want to ask how it is proceeding.

Senator PAYNE—You should be asking Mr Pezzullo.

Mr Pezzullo—On the basis that it involved, as I recall it, a letter from lawyers, I would like Mr Cunliffe to come forward.

Senator MARK BISHOP—My understanding is that the families have retained a legal firm out of Melbourne. They have written to the Minister for Defence requesting ex gratia payment arising out of the deaths of their partners or sons or whatever, and the Commonwealth has been in receipt of that for something like 15 months. I think Senator Evans is asking for a status report on where it is at.

Mr Pezzullo—Thank you, Senator Bishop. It has been a long time since I was the chief of staff, so I am glad that Mr Cunliffe has now joined me.

Mr Cunliffe—We are talking about the four suicide matters which have been raised by Slater and Gordon.

Senator MARK BISHOP—Yes.

Mr Cunliffe—The current status of the matter is that the minister assisting, Mr Billson, has written to Slater and Gordon raising a number of issues with them. As you have indicated, the matter has been around for a long time, depending on when you start. They are complicated matters in that, although some of the media have described it as a class action, they are four quite separate events. Right from the outset, in the correspondence from Slater and Gordon they have quite properly identified that these are not claims arising where there is any current legal scheme that applies or any basis in terms of legal principles that applies. So we are talking about something that is not just not cut and dried but not even within an existing head of tort.

Senator MARK BISHOP—There is total discretion on the part of the minister and the Prime Minister in this application for ex gratia payment, as I understand it.

Mr Cunliffe—I do not think that is quite accurate. It is not how I would describe the ex gratia payment system. The ex gratia system is something which I think could be better described as a matter for government rather than the individual minister. As I understand it, they are usually matters that the Prime Minister and/or the cabinet consider rather than any individual minister. No individual minister has the capacity to bind the Commonwealth—

Senator MARK BISHOP—That may be the case. I was advised here 12 months ago that the application went for consideration at first instance to the relevant minister, that he made a recommendation to the Prime Minister and that the Prime Minister had absolute discretion as to whether or not he accepted the recommendation from the portfolio minister. That is what I meant by ‘discretion’—there being no legislation.

Mr Cunliffe—It is certainly correct that there is no legislation. I think there are some sorts of theories that have grown up over time. In fact, the department of finance, in some of the recent materials that it has put out, has tried to give that some semblance of order.

Senator CHRIS EVANS—Can you confirm that the families wrote to the minister in September 2005?

Mr Cunliffe—No. I can confirm that the lawyers representing the families wrote to the former minister in 2005—

Senator CHRIS EVANS—Thank you for correcting the record. Basically, the government got the request in September 2005. Is that right?

Mr Cunliffe—That is correct. The then defence minister, Senator Hill, responded in November 2005 to Slater and Gordon and, among other things, indicated to them that, if there were particular categories of loss or out-of-pocket expenses that they felt they had suffered from, there was some existing scope to deal with them and that the firm should—or the families could, but through the firm since the firm was on the record—make contact with parts of Defence to follow up on those matters. To my knowledge, there has been no follow-up. They are not matters that I would be responsible for, but, to my knowledge, there has been no such response. The minister's letter indicated that there was scope for reimbursement of reasonable costs incurred, such as for funeral expenses, travel and accommodation to attend funerals and/or inquiries and counselling services, and invited the families to make a claim if that was the case.

Senator CHRIS EVANS—As far as you are concerned, that is the last correspondence.

Mr Cunliffe—No. You took me back to September 2005—

Senator CHRIS EVANS—I was going to follow it through.

Mr Cunliffe—and I wanted to make it clear that Senator Hill did reply at that time.

Senator CHRIS EVANS—What has happened since September 2005?

Mr Cunliffe—So far as I am aware—I think this is still the case—there has not been further correspondence directly with us from Slater and Gordon. We have read about it in media releases and in various pieces of paper, and there has been an ongoing process of consideration and discussion with ministers progressively during that period. Most recently, Minister Billson wrote to Slater and Gordon at the end of January seeking some sort of detailed advice in relation to a number of issues which had come out of those considerations.

As I say, these are not straightforward areas. If they were straightforward areas, this would not have been difficult. Mr Billson has pointed out both publicly and I think in other circumstances that he wants to consider the thing on a principled and legitimate basis. On the information that was originally put to us by Slater and Gordon, there were a number of issues. I have said already that there was no legal basis. It was not clearly articulated even how many family members, for instance, or claimants you might be able to point toward that they were seeking to act on behalf of—whether we were talking parents, whether we were talking siblings or whether we were talking some other group. There are a whole series of things which, to put it mildly, are unstated.

Senator CHRIS EVANS—That may be the case, Mr Cunliffe. But I have a copy of the letter the minister sent on, I think, 29 January, only a matter of days ago, which again refers to the letter that the lawyers sent on behalf of the families on 13 September 2005. It basically outlines the sorts of concerns or issues you raise and asks for more information. So it is very much like a sort of lawyers letter in response. But from September 2005 to now, the best we have been able to do is that the junior minister writes a letter asking them to basically outline their claim further, provide full names of individuals, outline the amount and basis of compensation—basically it is a starting point letter. The reason I raise it with you is that I am concerned. One of the things that most concerned the committee when we did the military justice inquiry was that the pace of justice seemed to be glacial in dealing with the defence department, and I think that was one of the key concerns reported in the report of the committee. I am concerned that, despite all the sympathies expressed and concern shown, this again is an issue that is moving at a glacial pace. I wonder if there is any attempt to engage with the families and their legal representatives, rather than exchanging letters every 13 or 14 months.

Mr Cunliffe—I suppose there are two points that I would make in response. The first is that you point to the fact that we are still referring to the original letter from Slater and Gordon. That tells its own story. There has been no further contact. Therefore the matter has not advanced from the other side either, in terms of the issues. As I indicated, Senator Hill's letter did invite some response in relation to certain issues, and it does not appear that that step has been taken. That is the first point that I think it is important to make.

On other matters, we have now, at the request of Minister Billson, actually made contact with Slater and Gordon. They have indicated at this stage that they do not think a meeting with us would be particularly useful right now, but we have offered that and left that on the table, if we can help them to bring forward something in the terms that have been identified. It has taken a considerable period; that has to be accepted. I accept it. Equally, as I said, we are operating in a difficult space without there being great levels of precedent, without there being—

Senator CHRIS EVANS—I accept all that but, quite frankly, we have not even started the process, judging by Mr Billson's letter. You seem to blame the legal firm for that. That may be right; I do not know. They can defend themselves. They are pretty good at media, and they get paid to represent people, so those are issues for them. The issue for me is that we have these families who have lived through an awful experience, most of whom were quite helpful for the military justice inquiry and had to go through the whole trauma of that again in raising these issues. Here we are, years on, and it seems to be a very unsatisfactory process occurring. You made your point about your concerns about the progress in terms of the legal firm. As I say, I cannot make a judgement about that, but it is fair enough for you to put that on record. But my concern is that these are people who have suffered a great deal. They want to pursue this question with the government and the defence department. I am just wondering: can't we do a bit better in resolving this, like being proactive, getting it fixed? Even if the decision is no, I do not want to be asking you about it being unresolved in five years time—although I will probably be long gone. These things need to be dealt with proactively and resolved, and I am concerned that this is just another example where things do not get fixed with any sort of

timeliness. I am just wondering whether the department cannot take responsibility for bringing it on, basically.

Mr Cunliffe—I think I can honestly claim that this is not an issue on which we have been tardy. There has been a lot of effort put into considering how it might be dealt with. I understand the concern—I understand the concern of the families and I understand the concern of this committee—and I certainly understand from Mr Billson that it is something that he is keen to progress as well. So I hope that, when we are sitting in front of you again in May—assuming that we are both still here—that will be something on which we will be able to report good progress, perhaps even the end of the process. But, as you point out, that is not necessarily the same thing. There has been no certainty about what the outcome will be, and that obviously has to be started.

Senator CHRIS EVANS—I will leave it there.

CHAIR—Mr Cunliffe, you can confirm that it is under active consideration, to your knowledge, by the junior minister?

Mr Cunliffe—I hesitate to use that term because I think it came in for some abuse in *Yes Minister*. I think they said it meant you had found the file!

CHAIR—And it creates expectations.

Mr Cunliffe—It creates expectations. But certainly we have met with the minister assisting, on several occasions, on this. I think it would be fair to say that he is seized of it and indeed agitated by it—without putting words into his mouth; that would be my description—and he is certainly very committed to trying to sort it out.

CHAIR—Given that there is no limitation period, are you aware of how many people would be relevant to such a model—that is, a model for *ex gratia* payments for the families and next of kin of deceased people in the ADF during civil times—in, say, the last five years?

Mr Cunliffe—I do not have an answer to that, and it would be depend on what category you took. For instance, all four, in this case, are cases of suicides. But were you to move more broadly to the case of all those who have died in all sorts of ways—

CHAIR—Traffic accidents and training accidents and—

Mr Cunliffe—which may be related to service or which may be the traditional journey collision in the workers compensation environment or whatever it might be, I think you would be talking very much bigger. I do not have the numbers to hand. But I suppose there are a range of issues here, and I think it is probably important: we are talking of a group of people here where there is not economic dependency.

CHAIR—That is right.

Mr Cunliffe—As you would know and as I am sure most members of the committee know, the traditional legal principles over recent times at least have focused on dealing with those with economic dependency, in most jurisdictions. If you go back a long way, that was not necessarily the case. But the time at which the loss of a child and the pain and suffering, the emotional trauma, if you like, that that might cause was dealt with by the courts in a way that is—

CHAIR—That is right.

Mr Cunliffe—The contemporary relevance has changed.

CHAIR—So it is just not as simple as writing four cheques for four people?

Mr Cunliffe—I think that is right. Certainly, if we are to look forward, I think there would be value in trying to consider whether there is some form of rational system which would be better to address rather than, on each occasion, having to go through the many months and the difficulties and indeed the further trauma to the individual family members of having somehow to demonstrate their level of grief.

CHAIR—So we are seeking some sort of formula that is reliable, tangible and visible?

Mr Cunliffe—I think that would be an ideal outcome, but I can be just a small cog in trying to assist that.

Senator CHRIS EVANS—Can I just put on the record, Mr Cunliffe, that I hope you are here, because I will be here looking for you.

Mr Cunliffe—You have a term, Senator; I don't!

Senator CHRIS EVANS—I might not be here in five years time, but I will be here in May. I appreciate you putting on the record that Mr Billson has taken an active interest. I hope he is and I appreciate that.

Senator FAULKNER—And by October or November you will be sitting between Mr Pezzullo and General Gillespie. It is a lovely looking chair!

Senator CHRIS EVANS—Anyway, you can rest assured that we will be raising it again in May. If you are not here, I will come after Mr Pezzullo instead.

Senator ADAMS—My question is about illicit drugs and the contractors' drug and alcohol policies. Firstly, I would like to speak about the Defence Force Discipline Act 1982. I have just finished reading the Podger report, the *Final report of the learning culture inquiry*. Under generic risk, which is mentioned in quite a few areas of the report, alcohol and drug related risks are of course a very high priority. I note that on page 61 the report states:

... the DFDA does not reflect contemporary law on illicit drugs in that it does not comprehensively cover them all. We recommend that it be brought up to date.

Recommendation 35 is:

DFDA be amended to reflect contemporary law DFDA be amended to reflect contemporary law so that it is comprehensive in covering all illicit drugs. (*We understand that this is being progressed as an element of the enhancements to the military justice system.*)

Where has that got to as far as the enhancements to the military justice system are concerned?

Mr Pezzullo—I might just ask Admiral Bonser to come forward.

Rear Adm. Bonser—That matter is being addressed in the context of legislation that we are looking to bring forward this year.

Senator ADAMS—Thank you very much. Can you keep me informed as to the progress of that?

Rear Adm. Bonser—Yes.

Senator ADAMS—I would just like to continue my questions on contractors who work on defence bases.

Mr Pezzullo—I am assisted here by the first assistant secretary, personnel, who can answer questions relating directly to our own employees. We might just see how the questioning goes, because the majority of the contractors are employed by either the DMO or the Defence Support Group. There are relevant officers in the room, so we will see how we go.

Senator ADAMS—I asked for a brief through the minister's office some weeks ago. I received it yesterday, which is rather difficult when I have other inquiries that I am dealing with today, but I thank the department very much for providing that.

Mr Pezzullo—Thank you.

Senator ADAMS—I note that they have put the current situation under 'defence contractors'. The testing that your larger contractors do on their employees is quite incredible. You say here, 'Concerns are raised by the contractors, which all believe random drug testing should add significantly to the ongoing cost of tenders, including compliance and policing costs, which they would pass on to Defence.' Some very key defence contractors—Raytheon, Boeing, BAE Systems, Tenix and Thales—all have a zero-tolerance policy for alcohol and drugs; they have quite extensive policies. Then you say you have contacted six large companies, representing approximately 60 to 70 per cent of the defence industry workforce, who say that this will be an extra cost. I think this is conflicting. The whole aim of this is to have a safe workplace and ensure that all people working on defence bases—no matter whether they be Air Force, Navy or Army—have some type of drug policy that has to be adhered to. It is just getting worse. The more information I get, the worse it is. Could I have an explanation?

ACTING CHAIR (Senator Payne)—The committee has not received the document, so it is therefore not on the public record. It is a matter which we are discussing at estimates. Material discussed at estimates has to be material on the public record. Is it a document you can table?

Senator ADAMS—Yes, it is.

ACTING CHAIR—If you can table that to assist the committee, thank you.

Senator ADAMS—It is attachment C, background brief on drugs and alcohol—

Mr Pezzullo—I might very quickly apprise myself of the document in question.

Senator ADAMS—The 60 per cent and 70 per cent of companies that are working for Defence also stated that, if more widespread use of testing were to be considered, they would need to provide strong evidence to their unions on the perceived risk. Currently they feel it is lacking. If there is no testing being done, how will you get your evidence?

Mr Pezzullo—I might ask Ms Parr to speak to the detail of the paper that was prepared, which quite clearly has been released to you. Just as a general matter—and I am certainly no expert in the field—these are private businesses that have their own policies and standards on testing their workforce. You have raised the issue of costs—part of the concern here is the flow-on costs—and you also raised concerns about privacy. As a general statement, I do not think it is possible for the defence department to create a new policy for the private sector that

would be pertinent and relevant to just defence bases. Those companies have shareholders and governance systems, with whom they would have to go back and check those changes. I will ask Ms Parr to deal with the detail of the paper that you are asking questions from.

Ms Parr—By way of explanation, the information you quoted is information that I put together in a submission that was based on research that was done by both DMO and the Defence Support Group. The reference to what Raytheon, Boeing, BAE Systems et cetera do in respect of a zero tolerance policy for alcohol and drugs is correct. They have a range of measures to put that zero tolerance in place, but none of them has random testing. So the part of the response that you were quoting from in respect of adding significantly to the ongoing cost of tenders was in relation to random testing, not other sorts of testing. So the testing that is done is in relation to an employee or a subcontractor being affected by drugs and then not being permitted to undertake work duties. Testing will take place at that time, but it is not random testing. So the concern about costs is all to do with random testing and not testing itself.

Senator ADAMS—I have been using mining companies as examples of the policy because they are very large employers, as is Defence. Woodside Energy have enforced drug testing across their north-west Western Australian construction workforce for the first time. They have thousands of contractors there, so they are going into random testing for exactly that reason. They have so many different sorts of contractors, so the policy has to be a uniform policy across their whole site. As you heard me say before, at *Albatross* there are numerous contractors, civilians and Navy personnel but only Navy personnel were subjected to any type of drug and alcohol testing. It would still appear that these contractors either have their own drug and alcohol testing or they do not have any. So we still have this real mismatch of the policies. You said:

The Defence Support Group are seeking to negotiate the following requirement in the management of services template, which was to implement a drug and alcohol management policy and testing regime and report aggregate testing results to the contract administrator. Any testing would be premised on reasonable grounds for a presumption of drug and alcohol use rather than random testing and would be subject to negotiation.

How are you getting on with that? What is the progress with it?

Mr Pezzullo—I will ask the relevant officer from the defence support group to come to the table.

Mr Roberts—As you have indicated, we have started to require that clause to be put into the contracts that we are letting for the people who provide the garrison support around the various defence establishments. The first contract that we insisted it be in was here in the ACT. It will now be progressively rolled out as we work our way around the country with later contract upgrades.

Senator ADAMS—Since we discussed this in November 2006, which was a private meeting in my office, how many contracts have been let?

Mr Roberts—It is currently in the ACT contract, as I have said. It will be in the Western Australian one. The contract in southern Victoria is yet to be negotiated, but I would anticipate that it will be in there as well. So since November there would be two.

Senator ADAMS—So that really has not changed, because I think we had two at that stage and they were the ones that you commented on. Just quickly, I did ask about Australian Public Service employees. I am a bit disturbed to note that it says in this document that age is considered a significant risk factor in determining whether a person is likely to be using prohibited substances. Less than five per cent of APS personnel are under 25, which is considered the high-risk group. I am a nurse by training and I have been following the drug issue for quite some time. I would say that it is not the under 25s that really are the people who are taking drugs. In the submission you go on to state that the Australian Public Service Commission has advised that it is not aware of any APS agency that currently requires random drug testing. Then you state that, in light of the Public Service Act 1999, an agency head could not impose a requirement on existing employees to undertake drug testing as this would be a unilateral variation of the employment contract which could pose a threat to the employees' continued employment. I have a big question mark against that, because if somebody is there making very important decisions that will go up to perhaps make a more important decision and they are impaired in any way, shape, manner or form then there is just no way that anyone can do anything about them. That seems to me to be very odd. Could you explain that?

Ms Parr—It is not that no-one can do anything about it; it is that it would be managed under performance. So if someone were not fit to make a decision, they would be prosecuted under the APS code of conduct and could be disciplined—but the basis of the code of conduct is that it would be in relation to performance, not in relation to drug use. The drug use might be what causes the performance problem, but it is addressed under the legal parts of the Public Service Act that we can use.

Senator CHRIS EVANS—I have some questions relating to the billing of the Prime Minister for the Broome holiday costs. I have asked the PM's department and FaCS and they both said that Defence could help me with that. I assume therefore that they would have told Defence that I was going to ask about this. I do not want to delay the hearing long, but I am after some information. They said the account would be raised by Defence as part of its normal processes.

Air Chief Marshal Houston—I will let the Chief of Air Force respond.

Air Marshal Shepherd—The background to this is a 34 squadron 737 BBJ which was tasked by the Prime Minister's office to convey the Prime Minister and staff to Sibu in the Philippines over the period of 13 to 16 January. In the course of finalising the itinerary, the aircraft was asked to divert through Broome on 15 January 2007. Regarding the billing, the office of the Prime Minister issued a direction to Defence on 18 January to recover the cost of the Broome-Brisbane leg from the Prime Minister. We raised that invoice on 31 January. It was forwarded to the Prime Minister's office and payment was received on 5 February.

Senator CHRIS EVANS—How much did you bill him?

Air Marshal Shepherd—The billing cost recovery is undertaken on an approved basis under the revised principles for the use of special purpose aircraft issued by the Special Minister of State on 23 September 2002. It is undertaken on the basis of the economy fare equivalent.

Senator CHRIS EVANS—The economy fare equivalent?

Air Marshal Shepherd—That is the agreed government policy.

Senator CHRIS EVANS—I thought it was the business class equivalent. What was the dollar amount?

Air Marshal Shepherd—The dollar amount for both the Prime Minister and Mrs Howard each was \$1,229.

Senator CHRIS EVANS—\$1,229 each for the cost of the Broome-Brisbane leg?

Air Marshal Shepherd—That is correct.

Senator CHRIS EVANS—You say that is standard practice. This was not standard practice because the flight was commissioned purely for the purpose of flying them from Broome to Brisbane, wasn't it?

Air Marshal Shepherd—We just meet the tasking as issued by the Prime Minister's office.

Senator CHRIS EVANS—You received a direction from the Prime Minister's office on 18 January to raise a bill, as it were?

Air Marshal Shepherd—That is affirmative.

Senator CHRIS EVANS—And you have done that and it has been paid?

Air Marshal Shepherd—Affirmative.

Senator FAULKNER—Mr Warner, I wonder if you or your officials are now able to assist us with the events of, on or around 6 February 1998 that we have been canvassing and whether, in this intervening period, we now have some more information as to the investigation into Baileys Diesel Services and the interrelationship that had with the identification of certain concerns with HMAS *Westralia*.

Mr Warner—We are happy to. Do you have a question?

Senator FAULKNER—My first question is whether officials have been able to identify any more of the paper trail, which I had hoped might have been the case over the ensuing couple of hours.

Dr Williams—I have had an opportunity to look through a couple of the documents and can confirm some of the earlier advice we gave. The first thing I will say is that it was confirmed that a tape of the interview was taken back in February. I understand that that tape is still available, although quality is a bit poor. I have a copy of a transcript of that tape. I believe that transcript was taken in 2005 when the issue was reraised. I have also been able to have a look at a copy of the record that was provided by the inspector-general investigator of that meeting.

The advice I can give on that is that in the original meeting there was very little mention of *Westralia* in what is a fairly lengthy document and obviously a fairly long interview. The only reference that I could see in the document was to an allegation that another company doing some repair work caused the engine on *Westralia* to explode. They indicated the time it occurred. They said where it occurred et cetera. In following up with the fleet maintenance

people at Navy, there was no such record of an incident at that location or anywhere near that time. Indeed, over a period of two years the only incidents on the engines of *Westralia* related to a cracked cylinder, and there were about three or four of those over the few years. On that basis the judgement was that with respect to *Westralia* there was not an issue.

I have also had an opportunity to look at some documents we have been able to source in terms of correspondence from the company. It does not raise any issue in relation to *Westralia*. The further point is that the company was not providing hoses. They were not involved in the business that was involved in the fire on *Westralia*. They were dealing with diesel pumps. In fact, the record of the first interview shows that their concern was about what they believed were unfair practices in relation to contracting, as I said earlier. Their concern was that they believed there was corruption and that they were being hard done by. They related that to a number of transport authorities in New South Wales and to Army, Navy and several of their competitors. They named a large number of companies and individuals. So the issue of *Westralia* was really not a significant part of the matter at all.

Senator FAULKNER—That depends on what documents we are talking about. I appreciate that report because that is helpful and it gives us an opportunity to focus on some of the issues in a little more detail. You spoke about a report of the original meeting and you described that there was very little mention of *Westralia* in that report.

Dr Williams—There was no mention in the report of the meeting. The transcript—it is a thick document—included one reference to this incident with the—

Senator FAULKNER—So that was the transcript?

Dr Williams—Yes.

Senator FAULKNER—Has any report of the meeting been found? I appreciate that you have talked about the transcript, and you have had an opportunity to check the transcript.

Dr Williams—Yes. There was a transcript and there was an investigators' report, which was the other document I referred to, and that is the document that makes no mention of *Westralia*. The complaints by the company related to what they believed was corruption, in terms of contracting, in a range of New South Wales authorities, which is why they raised it with the commission in New South Wales, but they also had mentioned Army and Navy, so it was referred to this inquiry to see whether there was a basis for their allegations.

Senator FAULKNER—Was this investigators' report signed or was—

Dr Williams—It was signed by the inspector-general investigator. At that stage the member from the Federal Police had moved on and had been replaced by other investigators. But the report was signed by the inspector-general investigator.

Senator FAULKNER—What date was that?

Dr Williams—It was in April 1998.

Senator FAULKNER—Thank you for that. Is that the same investigator whose name appears on the 2005 document?

Dr Williams—Yes, it is.

Senator FAULKNER—Have we been able to trace at all the document that I was referring to earlier? I think we have also talked about it in evidence. It was described as a 2005 document, if you like, with the two block signatures on it. Have you been able to find out any more information about that document? Has that been traced at this stage?

Dr Williams—On the relevant files at the inspector-general organisation, there is no copy of that document, signed or unsigned, so we are not able to track it down. The only copy we have is the unsigned draft provided through Comcare in 2005.

Senator FAULKNER—When you say that concerns have not been raised by the company, they in fact are raised by the company, aren't they, in the unsigned document of 2005? To be precise about it, they are reported on in the unsigned document of 2005.

Mr Warner—As I have said before, we do not believe it is appropriate to go into the document of 2005 for the reasons I have outlined before.

Senator FAULKNER—What action are you taking about the document of 2005? What is the current situation with that? You do not believe it is appropriate to talk about the content of that document, which is extremely serious, as I have described it and you have certainly accepted that. What is happening in relation to that document, or what is going to happen in relation to that document?

Dr Williams—The document is purported to be a record, or at least a very short summary, from the investigators of that meeting. Putting that document aside, because we have not been able to confirm any signed version, we do have a signed record on our files by one of the two investigators. It does not make mention of *Westralia*. We also have the transcript of the interview with the two investigators. There is a reference in that to *Westralia* in relation to the fact that one of their competitors fitted the engine, and they argued that they were not competent to do so and that the engine blew up as a result. That was followed up and investigated and found to be untrue. So, in the sense of this later letter of 2005, it does not raise anything beyond the reference to an event that was shown not to have occurred.

In subsequent meetings post the *Westralia* incident, when our investigator met with the company, they made no link with the *Westralia* fire at all in being interviewed further. It just did not come up.

Senator FAULKNER—The two individuals are Federal Agent Smyth, and the other is an 'unnamed'. I do not intend to use the name; I accept the advices provided by Mr Warner. Not only am I not using the name, I am not proposing to table the document at this stage. Those two individuals are, from evidence provided, former Federal Agent Smyth or the former investigator in the Inspector-General's division. Have either of those two individuals in any way been contacted or queried about the content of this document?

Dr Williams—We have a taped recording of the interview, which has a complete coverage of what both of those investigators said. So, in a sense, there is no ambiguity or doubt over the passage of that interview. We also have a signed document from the Inspector-General investigator, reported the events. So, in light of that, the only issue that is raised in this further letter is in relation to *Westralia*. It was raised in the transcript. It was investigated and found to be not valid; therefore it was not judged that there was a need to go back as we had first-hand evidence from these people. The other point I would make, though, as the director of security

indicated that they had written to Mr Smyth to see whether he had any information to provide and he has not as yet responded.

Senator FAULKNER—So the answer is no, neither the investigator in the Inspector-General Division nor former Federal Agent Smyth have been contacted regarding what are most concerning and serious matters that are raised in the document. They have not been contacted.

Dr Williams—The letter has been written to Mr Smyth but there has been no response. We do have the original transcript, which is the recording of their voices. We also have a statement from the inspector, who currently is still in my organisation AND who carried out a follow-up interview when the issue was raised in 2005. when the issue was raised, who carried out a follow-up interview, , and we have also had, in 2005 when the issue was raised, from the inspector who is still currently in my organisation, who carried out a follow-up interview, we have a statement from him which outlined the events.

Senator FAULKNER—Was the follow-up interviewer—whomever that was—aware of this other document? They could not have been, could they?

Dr Williams—It was in 1998, so the event occurred then. But he did his follow-up report—

Senator FAULKNER—But you found no copy of the document, so the follow-up interviewer or investigator is not on your file.

Dr Williams—The follow-up investigator was the person who provided information to the legal team after we received this draft document in 2005. He did the final investigations back in 1998, and he also then was invited to provide information when this issue came up later.

Senator FAULKNER—He may have, but, because your files apparently do not have a record of this document, he or she would not have had the benefit of that document in 1998.

Dr Williams—He did not at that time. He did in 2005, when he was asked to comment and provide information.

Senator FAULKNER—I hear that, but neither this investigator—and I hope that this is not a commentary on the thoroughness of his investigation—nor anyone else in the Inspector General's division nor anybody else in Defence, apparently, has seen fit to go back to former Federal Agent Smythe or the original investigator in the Inspector General division whose name appears at the bottom of this document. Be clear about this: I am making no claims about the authenticity or otherwise of the documents. I think you have heard that from me a number of times. I have been very careful about that. Nevertheless, this is a document that has been in the hands of Defence at least since 2005. You accept that, Mr Warner, don't you? This document, whether it is authentic or not—and no-one is certain about that; you are informing me that you are not certain about it—has certainly been in the department's hands since 29 April 2005. That is true, isn't it?

Mr Warner—That is true. I would like to make two additional points. Firstly, as we have said on a number of occasions, we have written to Mr Smythe. He has not written back, as far as I know.

Senator FAULKNER—When did you write to Mr Smythe?

Mr Warner—Secondly, this document of 2005 purports to describe a conversation which occurred between our investigators and Mr Smythe, who was then working for the AFP, in 1998. We have the transcript of that discussion. We know, word for word, what went on in that conversation.

Senator FAULKNER—There are assumptions there. I do not know how many—

Mr Warner—There are no assumptions there, Senator—

Senator FAULKNER—Yes, there are.

Mr Warner—There are simply facts there.

Senator FAULKNER—Do you know how many contacts former Federal Agent Smythe and the unnamed investigator in the Inspector General's division of Defence had with this company? I have been told that there were three and that they were not necessarily with those individuals. But only one date can be ascertained, because of a faxed document in 2005. To say that the records of Defence are flimsy on this would be putting it very, very generously. So I do not think you should get too far down the wicket on this, because we know that there were three meetings or investigations. One was on 6 February, another was apparently before the *Westralia* fire and one was apparently after. All I am trying to do is establish what has occurred and what you know. If you do not know, you cannot tell me. When was Mr Smythe written to? You have told me Mr Smythe was written to and I would like to know when.

Mr Warner—It was about a week ago.

Senator FAULKNER—A week ago. So this document was in Defence's hands from 29 April 2005, as you have acknowledged. It includes this sentence:

The ship, HMAS *Westralia*, was identified by Bailey and Irwin as having a recent history of having substandard and non-genuine parts installed.

It was dated 6 February 1998. It strikes me that the seriousness of that statement means that someone might have thought to contact former Federal Agent Smythe sometime between 29 April 2005 and last week. Last week was early February 2007. My question is: was the former investigator of the Inspector General division also written to in similar terms to that of former Federal Agent Smythe, and, if not, why not?

Mr Warner—We investigated this matter thoroughly and we found the allegations to be ungrounded.

Senator FAULKNER—That is not an answer. I hear that; I make no judgment on it. With respect, it is not an answer to the question I asked, and you must know that. I asked you this question: did Defence write to the investigator whose name also appears on this letter along with Smythe's at the same time that Smythe was written to? If that person was not written to, why weren't they written to? Those were my questions.

Dr Williams—Can I clarify? When the minute came to light and to the attention of the Defence legal area, it did not essentially raise anything new. It was purporting to be a reference to the 1998 investigation. We cannot find a precise copy of that. In my view, it probably makes a bigger play of *Westralia* than the transcript does.

Senator FAULKNER—Sure. I have heard that.

Dr Williams—Nevertheless, it just states a series of facts.

Senator FAULKNER—I have heard that evidence.

Dr Williams—The Inspector-General's organisation was then invited to have a look at it because it had come to light. The action that was taken was to go and get a copy of the tape and to go back and take a transcript of that in order to confirm what was said and what was done. On top of that, the person who is currently the director of investigations—who was in one of the investigations in process at the time, although not the particular one that you are referring to—went through and provided a fairly detailed commentary on the whole process. As part of that, we were also able to identify the document indicating the issues that the investigator whom you are referring to had signed at the time. In light of all that, given that we had followed up the *Westralia* issue, the view was that there was nothing in here that required a reopening of what was a fairly thorough investigation at the time.

Senator FAULKNER—With respect, Dr Williams, that is not an answer to the question that I asked. Why then did you write to Smythe last week and not write to this other investigator in the Inspector-General's division? That is all I am asking. I have now asked it three times, and no-one appears willing to provide an answer.

Dr Williams—The reason that Smythe was written to is that he was referred to as making some allegations in recent media articles. There has been no reference to the other investigator. There was no need to get additional information. In writing now, we were asking Smyth, if he had anything, to please table it so that if there was further information that we needed to look at then we could. He has not responded.

Senator FAULKNER—This is the letter that you sent a week ago, for heaven's sake.

Dr Williams—It was not the letter that I sent; it was from Defence security.

Senator FAULKNER—It was a letter that Defence sent a week ago, and you say that he has not responded. You make it sound as if it was months or years ago. This was sent a few days ago. I am not defending Smythe; I know nothing about Smythe. I have had no contact with Smyth. I have no idea who Smyth is—it is just a name on a document as far as I am concerned. But I know this: if you wrote to me on a serious matter then I would give you the courtesy of a reply—I do so on nearly all matters, except a few bits of nonsense that politicians get from time to time. Most of us tend to treat these things seriously—certainly a matter like that would be.

I tell you what, though: I might take more than a couple of days to respond, particularly if I was going to prepare a very serious response. I do not find that remarkable at all. Even though I am not going to defend Smythe—I have no interest in Smythe—the suggestion that Smythe has not responded to something in a matter of days is something that I am not going to include in my consideration. Can somebody now tell me whether the issues raised in relation to the document in which the names of the investigator and Smythe appear were the subject of the letter to Smythe, or were other matters raised with Smythe?

Dr Williams—It was broader than that, but I would need to refer that.

Mr Warner—I do not have a copy of the letter here. As we have said before, the letter to Mr Smythe followed a series of newspaper articles by Ian McPhedran about weapons thefts from ADF facilities. That was the context in which Mr Smythe was—

Senator FAULKNER—So it was not a letter about this matter at all.

Mr Warner—The context was weapons theft from ADF facilities.

Senator FAULKNER—Right. So this whole piece of evidence is a load of old codswallop because it is not about this matter at all. This is most misleading, Mr Warner. Suggestions that Smythe was written to about this matter and has not responded are nonsense on two grounds. Firstly, he was not written to about this matter. Secondly, he was written to just a couple of days ago. Let us try and be sensible about this. I come back to my original question: has Smythe or the other unnamed investigator in the inspector general's division at any stage since at least 29 April 2005, when Defence became aware of this issue, been contacted by Defence in relation to the very serious concerns that are outlined in the document?

Dr Williams—The follow-up that was done at the time this letter was tabled in 2005 did not involve writing to either of those two individuals because we had a copy of the transcript, which is the raw data. We also had a signed document from the other investigator of his record of the conversation. The third investigator, who is currently my director of investigations, was also involved in the latter investigations in 1998 and was very familiar with the process. We got him to go back and do a thorough search. In light of that, the judgement was that that was a fairly complete coverage of the issues, particularly as nothing in the letter had raised anything new beyond what was essentially in the material in 1998.

Senator FAULKNER—Is that a long way of saying no?

Dr Williams—I am saying that we did not see the need to write to either of the two.

Senator FAULKNER—Thank you. That is 'no'.

Dr Williams—Yes.

Senator CHRIS EVANS—Can I ask Dr Williams or perhaps Mr Warner—and you may need to refer to the Defence Security Unit—whether Defence discussed or liaised with the AFP prior to writing to Mr Smythe last week?

Mr Warner—Yes, we are working closely with the AFP on that other investigation. As far as I am aware, they were aware that we were writing to Mr Smythe.

Senator CHRIS EVANS—Sorry, what other investigation?

Mr Warner—There is an investigation into the theft of M72 anti-armour rockets from an ADF facility. It is an AFP investigation. There is also an audit—

Senator CHRIS EVANS—Do you think Mr Smythe might have some connection with that?

Mr Warner—I understand that the stories that Mr McPhedran has written on this issue quote Mr Smythe in respect of Operation Majorca—an investigation into weapons theft from ADF facilities in the period from 1992 until 1998—which was referred to earlier today.

Senator CHRIS EVANS—So Defence discussed Mr Smythe with the AFP. Following that discussion, you resolved to write to him as you have outlined. Did the AFP resolve to write to him as well? He was their employee, not yours.

Mr Warner—I am afraid you will have to ask the AFP.

Senator CHRIS EVANS—The AFP knew you were writing to him.

Mr Warner—I believe that is right.

Senator CHRIS EVANS—But you do not know whether they were writing to him?

Mr Warner—I would need to have others at the table to answer that in detail.

Senator CHRIS EVANS—Well, we are happy for them to come forward.

Mr Warner—They may have gone home.

Senator Ellison—I understand that the AFP did write to Mr Smythe. I think the police commissioner might have mentioned that yesterday in passing.

Senator CHRIS EVANS—You are giving this evidence as the Minister for Justice and Customs, are you?

Senator Ellison—I am.

Senator CHRIS EVANS—Well, we are glad to have you here so you can help. You are saying that the AFP very recently wrote to Mr Smythe as well?

Senator Ellison—That is my understanding.

Senator CHRIS EVANS—What was the nature of that letter?

Senator Ellison—I would have to take that on notice. I am sorry I cannot give you any further detail, but that is my understanding and I will take that on notice.

Senator CHRIS EVANS—You are saying that Mr Keelty raised it yesterday in the hearings?

Senator Ellison—I thought he did. I am open to correction, but I thought during the course of the questioning on the theft of arms he might have mentioned that. But I may be wrong.

Senator CHRIS EVANS—I led that discussion, but I do not remember that. But I may have left and they may have come back to it.

Senator Ellison—In any event, there is no secret: he wrote to Mr Smythe recently.

Senator CHRIS EVANS—So, Mr Warner, are we able to find the officer from Defence security who gave evidence earlier?

Mr Warner—Yes, he is on his way back.

Senator CHRIS EVANS—I will hand back to Senator Faulkner.

Senator FAULKNER—Can I ask whether any check has been done, Dr Williams, of what I have called previously the occurrence sheets? I think that terminology may not be current terminology—there might be something better—but you know what I mean by that. Has any check been done in terms of the contents of the occurrence sheets across the content of any of the documents and purported documents?

Dr Williams—The occurrence sheet is the document I referred to that was signed by the inspector general's investigator in April that outlined his record—or a summary, at least—of the major issues coming out of the meeting.

Senator FAULKNER—Who was that investigator? Was that Mr Leishman again?

Dr Williams—No, that was the investigator who was with Mr Smythe on the original February investigation.

Senator CHRIS EVANS—‘Mr X’.

Senator FAULKNER—Mr X, the investigator whom we have not identified and who has not been contacted about the accuracy, the genuineness or otherwise of this document in question. That is who we are talking about.

Dr Williams—That is the person we are talking about, yes.

Senator CHRIS EVANS—I think from here on we will call him Mr X, Senator Faulkner; otherwise, every time you explain it, we lose three or four minutes.

Senator FAULKNER—I just call him the unnamed investigator—on the advice of Mr Warner, which I think is reasonable. I think it was reasonable, proper counsel. He has not been identified, and, even though a document has been provided to the opposition, I am not tabling that. Though what I think I will do, Dr Williams, is probably write to you as inspector general, enclosing that document. I will probably forward it to you at some point, so you might care to examine it and, obviously, deal with those matters as you would in that circumstance. But I personally do not intend to table the document myself. Have we been able to establish any more detail about the other two elements of the investigation beyond 6 February? Have you been able to find any more detail on that?

Dr Williams—No, I have not been able to follow up. I can confirm that what I believe was the last interview was certainly post the *Westralia* fire. I do not have a confirmed date, but I believe it is on the records. I have just not been able to follow that up.

Senator FAULKNER—Sorry, I missed that. What is on the record?

Dr Williams—There will be a record of the time and date, I believe, of that interview, but I do not have it with me and would need to follow that up later, I am afraid. It was post the *Westralia* fire, but I do not have the precise date. It was in 1998.

Senator FAULKNER—Yes. That was the third one, effectively, wasn't it?

Dr Williams—Yes. I do not have any details. I believe there was a second interview. I do not have any details of that. But if there was then there would be some record of that on the files.

Senator FAULKNER—I appreciate that you do not have the date of the second one at all, and you are at least able to say that the third one was post the *Westralia* fire. I hear that. Do you have any knowledge of who were the investigators on the Defence side in those two meetings?

Dr Williams—The third investigation was done by the person who is now my director of investigations. That is why he was invited, when this issue was raised in 2005, to go back and

provide us with information, as well as check the transcript of the original event. So he was the investigator who did the final interview there.

Senator CHRIS EVANS—Is that Mr Leishman?

Dr Williams—No, it is my current director.

Senator CHRIS EVANS—I am just trying to make sure that—

Dr Williams—I was not around at the time, but I was going to say that I understand Mr Leishman was the director, or he may have been at that time.

Senator CHRIS EVANS—He is no longer with the inspector general's office?

Dr Williams—Certainly I am not aware of him, no.

Senator FAULKNER—Are there any plans now, Mr Warner, to contact the investigator from the Inspector General Division about this matter? He is a former investigator and obviously no longer working for Defence.

Mr Warner—Everyone of any seniority who would be involved in making a decision about how we proceed from now has been here today. Apart from trying to prepare for your questions, we have not had a chance to get together to work out a way forward. What you are proposing would seem eminently suitable to me.

Senator FAULKNER—If you think that is eminently suitable or sensible, I suppose it might be sensible to contact former federal agent Smythe about these different elements to what you have written to him about a week or so ago.

Mr Warner—I would want to look at the letter—which I have not seen—which we sent to Mr Smythe, to see whether, in broad or indeed in specific, this issue was covered. But, again—

Senator FAULKNER—We have had evidence that it was not covered.

Mr Warner—We have not seen the letter.

Senator FAULKNER—Who signed it?

Mr Warner—Tim Scully, who was here before, who is on his way back. Leaving that aside, what you are proposing sounds sensible to me.

Senator FAULKNER—We will just wait for Mr Scully. Hopefully he will get here soon.

Dr Williams—Senator, if I can just comment here: you asked about the dates. From the information we have—and, as I say, this is yet to be confirmed—it would appear that there was a second interview in late April. I have a date of the 28th. And the final one was on 28 October. Again, I would not want to be held, but it would certainly be in those general times.

Senator FAULKNER—Dr Williams, I appreciate your trying to assist us with those dates. I also appreciate that you might want to correct it at some stage if you find anything different. But, anyway, that is a help. Thanks.

CHAIR—While we are waiting to do that, Rear Admiral Ruting has some matters he wants to correct on the record. I think it is a convenient time just to spend one or two minutes doing that.

Rear Adm. Ruting—During previous discussions on Armidale class patrol boats, I took on notice a question about the warranty period. It is a 12-month warranty period for each boat.

Senator CHRIS EVANS—Not 12 months or 20,000 nautical miles?

Rear Adm. Ruting—No, just 12 months. With regard to FFGs, I have available the total project expenditure to date, which is \$1,053 million approximately.

Senator CHRIS EVANS—Is that to December 2006?

Rear Adm. Ruting—No, that in fact was to 13 February 2007.

Senator CHRIS EVANS—You are setting a standard of currency that you will find hard to match in later hearings!

Rear Adm. Ruting—If you want it to three decimal places, I can give it, but I think \$1,053 million is—

Senator CHRIS EVANS—That is close enough for me. Thanks very much.

Rear Adm. Ruting—I will have to get the other two figures back in writing. I have not been able to get those quickly.

Senator CHRIS EVANS—I appreciate your efforts. Thank you very much.

CHAIR—Vice Admiral Shalders, did you want to make a comment on that?

Vice Adm. Shalders—Yes, Chair. In response to a question from Senator Evans earlier this afternoon regarding the paying off dates of the upgraded FFGs, the ships begin to pay off in 2014. In the order from oldest to youngest, *Sydney* goes in 2014 on current planning; *Darwin*, 2016; and *Melbourne* and *Newcastle* both in 2018. Those dates are linked, of course, to the introduction of a replacement capability, which will be represented by the air warfare destroyers.

Senator CHRIS EVANS—If I am not mistaken, that actually has them being decommissioned earlier than in the previous advice.

Vice Adm. Shalders—No, I think that is a year later than the dates that I thought you nominated earlier.

Senator CHRIS EVANS—I thought the last one was 2021. Anyway I will double-check, but I thought I had later dates than that.

Vice Adm. Shalders—That is our current planning, as promulgated in the Navy strategic plan.

Senator CHRIS EVANS—Going back to the 2005 correspondence, what are you able to tell us about that correspondence? Are you able to give us the name of the law firm or some understanding of why they were corresponding with you? This was someone representing a client who had a compensation claim, or—

Mr Cunliffe—This was a law firm representing a number of claimants.

Senator CHRIS EVANS—So this was subsequent to the coroner's finding?

Mr Cunliffe—They were involved in the coronial matter as well. I do not know when they came into the matters, but they certainly were involved in the coronial matter and represented some of the parties there. They acted for a number of the claimants.

Senator CHRIS EVANS—I do not know whether you want to give us the name of the firm. Not the claimants; I am not—

Mr Cunliffe—I hesitate to. In the other matter we discussed before, the firm was publicly on the record and I suppose they put themselves there rather than me doing it.

Senator CHRIS EVANS—What was the nature of the correspondence? Why would they send you that memo? I am just trying to understand what was going on. You obviously treated the memo seriously.

Mr Cunliffe—It was a ministerial. As I mentioned before, it was correspondence from the firm to the minister for finance, who referred it then to the defence portfolio. So yes, we considered the matters that were raised and prepared advice and potential correspondence for the minister assisting to reply.

Senator CHRIS EVANS—When you refer to it as serious, do you mean it was serious because it was to do with money and compensation or serious because it implied that someone had warned of the danger of a fire on the *Westralia* that had come to pass?

Mr Cunliffe—I am trying to make sure now that I am not confusing the two matters, because we are talking about matters which came together but not necessarily as part of the same process. As it happened, between the time the correspondence was written and the response from the minister assisting, the other matter that we have now been talking about and the document that is dated to have been prepared in 1998 but was not apparently received until 2005 came to us separately. I think I indicated already the line by which it arrived. It actually arrived as a result of the DPP's prosecution of Comcare related matters to do with ADI. That was how it came to us. But the two come together, I suppose, because some of the issues that were raised effectively related to settling the outstanding claims that the law firm was acting for in the case.

Senator CHRIS EVANS—But why was the memo sent to you?

Mr Cunliffe—As I indicated, because it had been received in the DPP and the DPP had passed it through Comcare, for whom they were acting in the prosecutions of ADI Ltd. They were seeking—I imagine, although I have not got the full detail—any advice we could give them about the matters that were claimed so that they could assess the validity of them with a view, obviously, if there were a basis to the claims, to making those matters known. Or, and I speculate here, perhaps they were even reconsidering the prosecutions; I do not know.

Senator CHRIS EVANS—So you are saying to us you received that memo from the DPP?

Mr Cunliffe—Indirectly, yes.

Senator CHRIS EVANS—What does indirectly mean?

Mr Cunliffe—Literally, Comcare sent it to us because the DPP was acting for Comcare in the matters.

Senator CHRIS EVANS—But I thought your earlier evidence was that you had got it from the law firm representing—

Mr Cunliffe—I believed that to be true when I said that to you because the document header has the law firm's name on it. I take it, therefore, that the original source of it—whether it was to the DPP or otherwise, but somehow in that process before it came to us—was that law firm.

Senator CHRIS EVANS—I am getting a little confused. Can we disregard your earlier evidence? I am not asserting you misled us but, by putting that to one side, can you now tell me what you think the sequence of events was that led to this document being in Defence's possession?

Mr Cunliffe—The first step is one that I speculate on. That is that at some point the law firm appears to have made it available to somebody in the prosecution stream—whether it was ADI or DPP. Perhaps it was Comcare, although from the covering sheet we got from Comcare, I do not think so. This document, as I said, on its face is stated to be prepared on 6 February 1998. It does not appear on our files and did not apparently come to any attention until 2005. It actually then came from Comcare to our litigation area. It was stated to have been provided to Comcare by the DPP. It says, 'In order that the prosecution can discharge its duty of disclosure of any material relevant to the defence of the charge preferred against ADI Ltd you are requested to make available to the DPP any reports, statements' et cetera. They were clearly trying to do proper disclosure in relation to the matter that was raised in the document.

Senator CHRIS EVANS—So effectively they thought it might be helpful in terms of the prosecution of ADI.

Mr Cunliffe—I do not think I would put that view forward. I have not spoken to the DPP on this, but I think that if those claims were true, then potentially it may have gone to the issue of the appropriate breach, if any, of the legislation in relation to occupational health and safety. Without being certain, I would imagine that if the material had proved to have a basis then it would have been a basis for ADI to say, 'Whatever we may have done there are other factors that were involved.'

Senator CHRIS EVANS—So effectively the DPP, through Comcare, were asking you to provide any other information that they might feel they ought to present under their duty to disclose?

Mr Cunliffe—The DPP has a responsibility to provide all relevant material to those who are the subject of prosecution. I do not like to stray into the minister for justice's portfolio areas but I think that is a standard treatment that all DPPs across the country commit to, plus there is a series of High Court decisions which confirm that prosecutions are not a matter of, if you like, only telling the defence what you want them to know. You have an obligation on behalf of the Crown, in whatever capacity, to make the full material that is available to you available to them when it is relevant. So, looking at the material, I think they were seeking to find out full details of the relevance of it, whether there was a basis to it and—I am speculating but I would expect that at the extreme—whether it would have meant that the prosecution edition should not even progress.

Senator CHRIS EVANS—So were your inquiries that followed the receipt of that document for the purposes of meeting the requirements of the DPP or for the purposes of investigating the concerns contained in the memo that went to the issue of whether or not there had been some forewarning of problems on the *Westralia*?

Mr Cunliffe—I think probably a combination of all those things. Clearly, if the allegations had been true, they were significant and were matters which potentially raised issues that had not been properly addressed and had not been properly raised before the board and the Coroner's inquiry. They would potentially go to liability issues and across the whole group.

Senator FAULKNER—But they were not considered serious enough, obviously, for anyone to go back to any of the first parties: former federal agent Smythe, the investigator from the Inspector-General Division or the two named individuals, Irwin and Bailey, who worked for Baileys Diesel Services. They are the four primary parties to this and not one of them, after this was received by Defence, was contacted.

Mr Cunliffe—One of the basic steps in most of these areas is that, if you have primary sources, you use the primary sources. Here, there was a tape from 6 February, there was an investigator who had records of the second interview and—

Senator FAULKNER—But we do not know whether any of these things are complete—whether the tape was complete. No-one knows any of these sorts of things. The problem here is that the issues raised in this material are so serious. I desperately hope that what Mr Warner, Dr Williams and you have said to us is absolutely correct, but it is a wing and a prayer as far as I hear, because, with the very serious matters raised in this material that comes into Defence's possession on 29 April 2005, none of the people immediately involved—the investigator in the Inspector-General's division, Smythe, and the two people named in Baileys Diesel Services—are contacted. I really desperately hope that what I have been told is right. I really desperately hope that what is contained in this document is not correct, because, if it is, we will not be talking about it just at this Senate estimates committee.

Senator CHRIS EVANS—Who else did Defence advise, having done the review and having received this document? For instance, was the Coroner of Western Australia, who had done the coronial inquest, advised? Was the Chief of the Navy advised?

Mr Cunliffe—The coronial process was complete. Given the advice to us from the investigation area that, based on the review that had been undertaken, the matters were not substantiated, there was no relevance or probative value in the material which would have led to such a significant issue being raised that it was appropriate to somehow seek to reopen the coronial inquest. One of the matters that I mentioned before was that Minister Kelly's response to the law firm involved was that, if they considered that there were such serious issues, that was the appropriate step, and also that, if there were more material, contact with the Inspector-General was an appropriate step. I do not understand either of those two things to have been acted on. The Chief of the Navy was certainly advised as part of the document process which also briefed the minister about the processes that had taken place. I cannot assert with any confidence whether there was other advice or not, but certainly the Chief of the Navy was a recipient of material at that point.

Senator CHRIS EVANS—He would have received a briefing note?

Mr Cunliffe—A copy of the material, including the background and the material that went to the minister.

Senator CHRIS EVANS—Did that go any wider?

Mr Cunliffe—Yes.

Senator CHRIS EVANS—To whom?

Mr Cunliffe—To others within Defence who seemed to have some particular reason to be involved in the distribution. The particular document which led to the letter of 4 July went to ministers, the parliamentary secretary, the secretary, the CDF, the Chief of the Navy, the deputy secretary for corporate services and the Chief of Staff ADHQ.

Senator CHRIS EVANS—But it did not go outside Defence networks?

Mr Cunliffe—No. It was a document to the minister and that would not be the standard course.

Senator FAULKNER—Mr Scully, thanks for coming back. We appreciate that. We have heard of a letter that recently went to Federal Agent Smythe. We know it was in the last week or so, but are you able to say precisely when that letter was sent?

Mr Scully—I signed a letter on 8 February and addressed it directly to Mr Peter Smythe at his address. We had no other contact details for him.

Senator FAULKNER—So it is not even a week.

Mr Scully—No.

Senator FAULKNER—It is just a matter of days. So any suggestion that this character should have responded to this letter—8 February was Thursday; he probably did not get it until Monday of this week if you are lucky. I ask you, Mr Warner, to perhaps reflect on that evidence. Let's move on from that. I just want to ask, I think, only one more question—it depends on your response, Mr Scully. Were the issues pertaining to the matter that I am sure you are aware we have been canvassing, which is the document of 6 February 1998, canvassed in the letter to Smythe?

Mr Scully—No. The Defence Security Authority concerns itself with security alone, and my interest in writing to Mr Smythe was in relation to the weapons that were described in the 11 January article that Ian McPhedran published in the *Herald Sun*. I did not touch on the *Westralia* issue.

Senator FAULKNER—Thank you for that. I think that also warrants, Mr Warner, being reflected on. The issue was not raised with Smythe at all, let alone even recently, nor has it been raised with the investigator, Inspector General Division, nor with the two principals of Baileys Diesel services, who are also named in the document of 6 February 1998. All I can say is I really hope what I am being told about the authenticity of this letter is right.

Mr Cunliffe—One of those comments is not correct. The understanding that I have from the material that was provided to me was that the interview in October was with Baileys, and that was by the person who still works for the inspector-general who did the review.

Senator FAULKNER—What year?

Mr Cunliffe—1998.

Senator FAULKNER—Yes, but I am talking about—since we know Defence have a copy of the letter—29 April 2005.

Mr Cunliffe—Yes, but these are the people who—if that letter is well based—made the complaint, and we are talking within the period of five months from the accident.

Senator FAULKNER—I have heard all that. Defence had the letter. There obviously is a major issue as to whether Defence had the letter, whether it was provided on or around 6 February 1998, which really is what a lot of these questions are about. It is an open question, and I made the point that I hope Defence did not have the letter. I desperately hope it did not have the letter. But we do know Defence had this document on 29 April 2005, and my point stands. Neither Urwin nor Baileys nor the investigator from the Inspector General Division nor former Federal Agent Smythe had been contacted as first parties in this, even though—and I am not going to read it or quote it again—the contents of this document are so serious. That was my point, and it does not stand corrected by what you said. You are talking about events of 1998. I am talking about events post-2005.

Senator CHRIS EVANS—Mr Scully, did you discuss with the AFP prior to writing to Mr Smythe the fact that you were going to write to him?

Mr Scully—I personally did not. My supervisor, the acting deputy secretary, Intelligence and Security, Mr Stephen Merchant, discussed the matter with the deputy police commissioner, Mr John Lawler, and Mr John Lawler suggested that it was up to Defence as to whether they wrote to Mr Smythe or not.

Senator CHRIS EVANS—Were you aware that the AFP was going to write to Mr Smythe?

Mr Scully—I had learnt that the AFP had written to Mr Smythe. I do not know what the contents of that missive to Mr Smythe were. In fact, it was from the AFP that I learnt of Mr Smythe's address.

Senator CHRIS EVANS—So the AFP gave you his address and told you they were going to write to him, but you thought it was necessary for you to write as well.

Mr Scully—No, they did not tell me they were going to write to him. I had learnt that they had written to him and I do not know the reason why they wrote to him.

Senator CHRIS EVANS—Two organisations discussed it but you do not know why either of you were writing to the gentleman concerned.

Mr Scully—No, I do not know what the AFP was writing to Mr Smythe about.

Mr Merchant—If I could just clarify that. I was advised by Deputy Commissioner Lawler of the AFP's intention to write to Mr Smythe along the lines of the letter that they have sent to him. It took a different tack to our interest in the allegations that Mr McPhedran reported in the article on 11 January, so we decided to proceed with our letter as well.

Senator CHRIS EVANS—I presume the AFP letter was written to advise him that he ought not be revealing information gained while a servant of the AFP.

Mr Merchant—It was in relation to his further employment and obligations as an AFP officer.

Senator CHRIS EVANS—But yours was a different letter seeking information that might assist you.

Mr Merchant—Yes. I asked Mr Scully to write to him to ask him, if he had any information on such allegations, to come forward to us.

CHAIR—Rear Admiral Ruting, you wanted to add some information to the record.

Rear Adm. Ruting—Yes, thank you. I apologise for having to come back a second time, but I now have the answers to the two questions on the FFG upgrade. The total amount paid to ADI on the upgrade up to 31 January 2007, including the ship repair components that are part of the upgrade availability, is \$995,480,887. The total of incentive payments to ADI up to May 2004—and there have not been any since then—was \$3.323 million.

Senator CHRIS EVANS—Thanks for that.

CHAIR—I thank the secretary and the minister. The committee will reconvene at 8.10 pm and continue with Veterans' Affairs. I thank the departmental officers.

Proceedings suspended from 7.11 pm to 8.08 pm

Department of Veterans' Affairs

CHAIR—We now move to consideration and particulars of proposed additional expenditure for the Department of Veterans' Affairs. I welcome the secretary, Mr Mark Sullivan, and officers of the Department of Veterans' Affairs. The committee will begin with the portfolio overview and then consider the outcomes. When written questions on notice are received, the chair will state for the record the name of the senator who submitted the question. The questions will be forwarded to the department for answer. I remind senators to provide their written questions on notice to the secretary promptly and by 5 pm this Friday at the latest. The committee has resolved that Thursday, 29 March 2007 is the return date for answers to questions taken on notice at these hearings.

Please note that under standing order 26 the committee must take all evidence in public session. This includes answers to questions on notice. Witnesses are reminded that the evidence given to the committee is protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee and such action may be treated by the Senate as a contempt. The giving of false or misleading evidence to the committee may constitute a contempt of the Senate.

The Senate by resolution in 1999 endorsed the following test of relevance of questions at estimates hearings:

Any questions going to the operations or financial positions of the departments and agencies which are seeking funds in the estimates are relevant questions for the purpose of estimates hearings.

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 or of a state shall not be asked to give opinions on matters of policy. He or she shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. This resolution prohibits only questions asking for opinions on matters of policy and does not preclude questions asking for explanations of policies or factual questions about when and how policies were adopted. If a witness objects to answering a question, the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on an answer having regard to the ground which is claimed. Any claim that it would be contrary to public interest to answer a question must be made by the minister and should be accompanied by a statement setting out the basis of the claim.

Mr Sullivan, do you have an opening statement or any matters you want to raise with the committee before we go to questions?

Mr Sullivan—No, thank you.

CHAIR—Senator Macdonald, you have some questions on a matter and Senator Hurley has kindly agreed that you can go first, given that you only have some short matters on war memorials.

Senator IAN MACDONALD—It is under outcome 3. Is it okay to move to that?

CHAIR—I think it is. Mr Sullivan, we will deal with outcome 3. Senator Macdonald has some short questions, and I have suggested it might be best if we get rid of those.

Mr Sullivan—That is fine.

Senator IAN MACDONALD—Can I clarify that the department is generally responsible for and in charge of war memorials both in Australia and overseas?

Mr Sullivan—Yes, we are responsible for official Australian war memorials in Australia and overseas. The Commonwealth War Graves Commission is responsible for war graves overseas, but we are on the board of the Commonwealth War Graves Commission and we are responsible for official commemorations in Australia.

Senator IAN MACDONALD—Does the War Graves Commission appear before Senate estimates committees?

Mr Sullivan—No. I am not sure how you would describe it, but the War Graves Commission is a British commission, the board of which is made up of Commonwealth countries. They are headquartered outside of London.

Senator IAN MACDONALD—Who is the Australian—

Mr Sullivan—The Office of Australian War Graves is headed by the Director of War Graves, Major General Paul Stevens (retired).

Senator IAN MACDONALD—Is the memorial at Hyde Park your responsibility?

Mr Sullivan—That is Australian, yes.

Senator IAN MACDONALD—I have written to the minister and I am not sure whether my letter has got to the department yet, but could you tell me about the water system at the Hyde Park memorial?

Mr Sullivan—The memorial, as you would know, is basically a stone memorial with lighting and water. The water circulates through the memorial. We have had some problems with the water circulating through the memorial. The other aspect of the water is that, due to its volume, we turn the water side of the memorial off during the very cold months of winter to avoid the water freezing, which can damage the memorial.

Senator IAN MACDONALD—I have seen the memorial at least four and perhaps five times in the last several years since it has been opened and never once have I seen water flowing over it. My times of being there have been quite spaced, both in summer and in winter.

Mr Sullivan—I will ask Major General Stevens to talk about it, but we did have a problem in the early stages of the memorial with water dispersal, particularly with the engineering behind the scenes, and particularly its interaction with the electrical supply. That caused us to turn the water supply off for some time while we made both electrical and plumbing alterations to the memorial.

We have also been doing some work on the gold lettering on the memorial because we are seeing some degradation of that lettering a bit more quickly than we thought. Some thought it had to do with the composition of the water. We are comfortable now that it is not the water. We have overcome the plumbing issues and the electrical issues, and the water will be turned on permanently, I believe, at the conclusion of winter. Major General Stevens may correct me on that.

Major Gen. Stevens—I think the secretary has it right: in the past, we did have various problems with the memorial and the water was turned off at various times in order to solve them. At the moment we are turning the water off over winter. It could probably operate for longer than we have it operating at present—it has cut-off switches if it does freeze. But we do turn it off, which allows us to service the water system and then give it a good check before we turn it back on again after that time. We are still tracing one remaining leak in the memorial. The chap who made the installation is going over in early March to do that, and it is better that the water has been off for a while before he goes there so he can find it.

Senator IAN MACDONALD—This was opened in November 2003, as I recall.

Major Gen. Stevens—At the end of 2003, yes.

Senator IAN MACDONALD—What was the approximate cost of the whole edifice?

Major Gen. Stevens—About \$9 million, I think.

Senator IAN MACDONALD—After a bit over three years we still have not been able to get it right—after spending a total of \$9 million?

Major Gen. Stevens—We still have these periodic problems that we have to solve, yes. That has been our experience.

Senator IAN MACDONALD—I was there in June or July, leading a delegation, and we could not get near the memorial—that is a slight exaggeration—because it was all cordoned off for the major repair and maintenance work going on then. I popped in two or three weeks ago when I was passing through London, thinking that everything would have been fixed after that last massive maintenance and repair outfit, and the water is still not working. Then I am

told it is because of London winters, when the pipes might freeze—as the secretary has said and as you have indicated—yet every other water feature in London, some quite ancient—

Mr Sullivan—I do not think that is true. Most water features in London are turned off. A lot of them are.

Senator IAN MACDONALD—Not the ones I saw. If you want to see my holiday snaps, I can show you a few in Trafalgar Square, where the water is running without any major problems.

Mr Sullivan—As General Stevens said, I think we have fixed the major problems. The water has flowed on every major commemorative event, so each Anzac Day and each Remembrance Day the water flows. It was certainly a design parameter that the water could be turned off during the wintertime. If we get it all clear, I think we can review whether or not we will leave it on in wintertime.

Senator IAN MACDONALD—Are you slightly perturbed that, after 3½ years and obviously a lot of money, we still do not have what would seem to me to be a fairly simple engineering program actually working?

Mr Sullivan—I am perturbed by it. It has caused General Stevens and me to basically revisit the entire governance of how we manage memorial constructions and designs. On design, one of the lessons I think we both concur on is that there is a lot to be said for the old-fashioned stable stone memorial. When you start mixing water, electricity and stone you start inviting problems. It is clear that it has been in our domain to fix it, and we have proceeded to fix it.

Senator IAN MACDONALD—You must have engaged professional engineers at the beginning, and I am quite sure you would have paid them a lot of money. Do they accept any responsibility for the fact that it does not work? Are they going back to fix it or have we just shrugged our shoulders and said, ‘Okay, you made a mistake. We’ll pick up the bill’?

Mr Sullivan—There are some aspects of it for which they have accepted responsibility and there are some aspects of it where it is very difficult to pin down the responsibility.

Senator IAN MACDONALD—Well, it does not work. With engineers and scientists we can land people on the moon and yet we cannot get a memorial to flow water.

Mr Sullivan—We have a memorial ready to flow water.

Senator IAN MACDONALD—I hope I live long enough to see it. I have tried a number of times—

Mr Sullivan—In my answers, I am not attempting to evade the issue that we have had a problem with the London memorial. I think in the estimates before last we had quite a long question-and-answer session about it and that is where we did express some concern about the original commissioning and the definition of responsibilities between design, construction and maintenance. At one level, where you do not have that proper and good definition, the owner of the memorial is left with the problem. There is an element of the fact that we have been left with the problem and have fixed it. The time it has taken to fix it has been worrying, but I am confident that the next time you are in London—and the next time you come to estimates, you will remind me—you will see the water flowing at the London memorial.

Senator IAN MACDONALD—I will certainly give credit where credit is due if that occurs. I will not comment on the design. Design is, I guess, in the eye of the beholder. It is not a design that I would have picked as a major recognition of Australia's efforts over there, but I guess everyone has a view on that. I move on to quickly talk about the repair of memorials. Several years ago, when I was in France, Le Hamel had orange tape all around it because it was not only falling into disrepair but it was doing so dangerously. Has that been repaired? What are we doing with that?

Mr Sullivan—No. In the last budget the government announced a measure to provide funding to actually replace the memorial at Le Hamel. We are in the process of implementing that budget decision. We are at the point of appointing a project manager. Once the project manager is appointed we will go to detailed design work and construction work with a view that Le Hamel will be a new memorial, we would hope by the 90th anniversary of the Battle of Hamel, in July next year.

Senator IAN MACDONALD—Will the design and engineering drawings be on public display before the final—

Mr Sullivan—There will be significant consultation about what we are doing.

Senator IAN MACDONALD—I know there is a lot of concern about the existing one. It is not that old, is it?

Mr Sullivan—No.

Senator IAN MACDONALD—And yet it is a complete shambles. Again, someone—architects, engineers, designers or constructors—must have a fair share of responsibility for the mess that it is in.

Mr Sullivan—Again, there were issues between design, implementation and construction which we now need to remedy. Having to remedy those issues, we have taken to, I guess, redefine the purpose or check the purpose of the memorial itself at Le Hamel and ensure that whatever is constructed there reflects the deeds of Monash and his men in what was probably the first significant Allied victory of the Western Front.

Senator IAN MACDONALD—Indeed. I understand that most other countries now have fairly accessible and very useful interpretive centres in the World War I battlefields area. That is being done for all sorts of reasons—part of which, of course, is the commemoration of the country's involvement in those particular battles and in that battlefield generally. But, as well as that, they have the role of explaining Australia's involvement to Europeans, who have long forgotten—if they ever knew—and building Australia's reputation for what it did to help save France and other parts of Europe 50 and almost 100 years ago. There is a lot of good economic sense in it, as well as the commemoration of the work of our troops. Is Australia looking at something like that?

Mr Sullivan—Yes. I was reading something today which said that Australia has more individual memorials for the Western Front than any other country but, if you like, our great interpretive centre of the Western Front is the War Memorial in Canberra.

Senator IAN MACDONALD—It does not help teach the European youth what our involvement was.

Mr Sullivan—Last budget there was a measure for us to conduct a feasibility study of our building an interpretive centre in France, and we have progressed that feasibility study and it will be in the upcoming budget for government to determine its next step.

Senator IAN MACDONALD—So you have a concept, a design, a positioning, a plan of action for it?

Mr Sullivan—We have some options for government to consider and we will be putting to government some views as to the feasibility study of an interpretive centre and some options as to where to put it. In terms of options of design, we are really only talking about scale, not detailed design. The next step, if government wish to pursue it, would be to go through what are generally detailed and protracted negotiations in the country in which you wish to build and detailed design work.

Senator IAN MACDONALD—I gather it is inappropriate for me to ask you—and if I did you would not tell me—what conclusions you have come to before the time you put it to government for government's direction on where to go. Is that right?

Mr Sullivan—That is right.

Senator IAN MACDONALD—Is it fair of me to ask you what are the options for placement of the interpretive centre?

Mr Sullivan—I think—without saying exactly—that they are reasonably obvious. There are the scenes of great battles like Fromelles or the site of the Australian National Memorial in France at Villers-Bretonneux, and I guess you could imagine other places. There is no option we are considering which would be seen as a left-field option. It would be the site of major Australian exploits in battle, which of course includes all of those sites; one of those sites is Villers-Bretonneux, which is the site of Australia's national memorial on the Western Front.

Senator IAN MACDONALD—Villers-Bretonneux is very impressive, but constituents who follow these things a little more closely than I do—and I have been through that area a few times—suggest to me that, while Villers-Bretonneux is a fabulous and very moving recognition of Australia's involvement, it is off the beaten track of interpretive centres, and apparently there is now quite a significant tourist trade in going from interpretive centre to interpretive centre. The suggestion made to me is that if it is at Villers-Bretonneux, it will be down in the southern pocket—or is it up in the northern pocket? It will certainly be in a pocket, away from the bulk of other nations, and therefore may miss out on the organised tourist traffic going through every other interpretive centre.

Mr Sullivan—I think you are getting into exactly the discussion of options that it would be remiss of us not to put to government. We cover issues of national significance, such as the fact that we would not want to see Villers-Bretonneux diminished as a national memorial by having something somewhere else. We cover the fact that there are interpretive centres of other countries in certain places and there are pros and cons as to whether you join them or whether you set yourself apart from them.

We look at the logistics of travel from Paris. Many Australians probably lack the knowledge that you can get to the Western Front and back in a day trip from Paris, and particularly to certain parts of the Western Front. We have examined all those issues. It will

not be for me or for Paul Stevens to say. It will be for government to answer the first critical question of whether we wish to proceed with one and the secondary questions as to where and what form of capital commitment we are willing to make and to set us off on our job.

Senator IAN MACDONALD—I have been convinced that the site should be near Pozieres. If I want to progress that, you are suggesting that I should make my submissions to the Prime Minister?

Mr Sullivan—You are well positioned to progress that.

Senator IAN MACDONALD—Not through you, though?

Mr Sullivan—We can pass on anyone's views. We have been approached by many with their views and we pass those on. So it is any way that you would like to do it.

Senator IAN MACDONALD—Stop me if I am on dangerous ground here, but when would you hope to get a decision from government? I am trying to look at the timetable on that.

Mr Sullivan—The budget processes are well and truly on—

Senator IAN MACDONALD—So it is part of the budget process?

Mr Sullivan—Yes. We were asked in last year's budget to come back this year with our feasibility study for government to consider what to do next.

Senator IAN MACDONALD—Thank you very much.

Senator HURLEY—I will go back to Le Hamel for a little while. Before the decision was made to redo the memorial, did the department talk to the original designer about any alternatives?

Major Gen. Stevens—I do not know that we did, but we have subsequently done so.

Senator HURLEY—Did he make any recommendations?

Major Gen. Stevens—He is obviously keen to see if we can keep the current design, but he understands that if the current design cannot be kept we might be looking for something different.

Mr Sullivan—The consultation that we did before the budget announcement was with the family of General Monash. Before that, we did some consultation with the Returned and Services League of Australia.

Senator HURLEY—I would also like to ask some questions about Anzac Cove. I have some follow-up questions. We have been taking advice about this. What is the current status of the roads and car park at Anzac Cove and along the coastal strip—

Mr Sullivan—It is much the same as we spoke of last time.

Senator HURLEY—I think you said that that was fair at best.

Mr Sullivan—It remains fair at best. I guess the good news is that the winter in Turkey has been mild and the reports that we have had is that further degradation has not occurred in any significant way. The Turkish authorities continue their consideration of what needs to be done.

We have been offering and they have been accepting some advice. We expect that the Turkish authorities will make some announcements as to some preliminary work—

Senator HURLEY—I thought that was done last week when Orhan Kirli said that an agreement had been reached with the contractor who originally built the road to repair it ahead of 25 April.

Mr Sullivan—That has always been in place. The Turkish authorities have always guaranteed that, until they conclude the long-term repair to the road, they will ensure that temporary repairs to the road are conducted to ensure that the Anzac commemoration can occur without a problem on the road. That is what happened last year. Governor Kirli has assured us that that will be in place this year. What I am talking about is that our understanding from the Turkish authorities is that they are close to determining their position in respect of long-term repair of the road. We have an expectation that we would see such repairs occur in this dry season.

Senator HURLEY—When do you expect to hear about that?

Mr Sullivan—I think we will hear some word on that very shortly—I expect it will be prior to Anzac Day.

Senator HURLEY—Have you seen a copy of the master plan at any stage?

Mr Sullivan—Yes, the master plan is a longstanding document. I think we have provided it the committee on another occasion in both Turkish and English. All plans which will be determined by the Turkish government will be in accordance with the master plan. Those plans will have been through an independent committee for the preservation of the Gallipoli Peace Park, which is a committee of engineers, architects, historians and others established by the presidency. Any proposal, including proposals by any government agency, for works in the Anzac Peace Park must be approved by that committee. Their guiding tenet is the master plan, and they will always ensure that the plans they approve are in accordance with the master plan. So, yes, anything they do will be in accordance with the master plan.

Senator HURLEY—Will any extra excavation be required as part of that?

Mr Sullivan—No further cutting. We are strongly of the view that the slope from the road down to Anzac Cove needs to have a lesser gradient than it currently does. That will require some work, but certainly there is no need for any further cutting or excavation. If they go down the track of the repair of the culverts and the work to ensure the drainage from the hill to the beach and from the slope to the beach then some significant engineering works would be required.

Senator HURLEY—I think during the Senate inquiry into developments on the battlefield there was some discussion about the issue of human remains being uncovered. Have any plans or new guidelines been drawn up regarding this issue?

Mr Sullivan—The guidelines were reiterated as a result of that controversy. Those guidelines are certainly well in place. They are administered by the Commonwealth War Graves Commission and the Commonwealth War Graves Commission office on the peninsula. The guidelines state that, first and foremost, people should not remove bones from the Gallipoli Peace Park and, secondly, they should report any remains to the Commonwealth

War Graves Commission. Where the commission believes that something needs to be done, it will organise for removal, reinterment or whatever is required for those remains.

Again, the overarching thing here is that people need to understand that the Anzac battlefield is in respect a very large cemetery and human remains will be unearthed after every winter's rains. We still believe there is credible evidence that human remains were uncovered in the Turkish roadworks of two years ago. Certainly, with the guidance of the Commonwealth War Graves Commission, and with their implementation, we have reiterated these guidelines for people. It is a very regular occurrence for people who travel to Gallipoli to come across human remains in the battlefield area.

Senator HURLEY—Thank you, Mr Sullivan. I have finished my questions in that section.

CHAIR—We will now move to outcome 1.

Senator HURLEY—Before we start general questioning, I want to confirm an answer I received to a question on notice from the last hearing regarding the Clarke review on veterans' entitlements. Can you confirm that all recommendations from the Clarke review have now been fully considered and that those accepted under the review have now been implemented?

Mr Sullivan—If I can take that on short notice, I will answer it before the end of this evening.

Senator HURLEY—The indexation of disability pensions is ground that we have been over before. In 1979, the government reindexed many of its pensions to respond to increases in the cost of living but not to fall below a certain percentage of the average wage. What percentage of the average wage did the TPI pension represent in 1979?

Mr Sullivan—That is a question which I would have to ask for clarification on. Is it gross TPI versus gross average wage? Is it gross TPI versus disposable average wage? Average wage is taxed; TPI is not. I need to know what you are after, and I would have to take it notice.

Senator HURLEY—It is the MTAWWE.

Mr Sullivan—I know. Male average weekly earnings are at a level which incurs taxation and superannuation liabilities, et cetera. TPI is tax free. Is it a comparison of a gross level of TPI, which is tax free and superannuation contribution free, to a disposable MTAWWE, which is what a male average weekly earner can expect to have?

Senator HURLEY—This was a decision of the government for it not to fall below a certain percentage of that figure. It was the government's figure.

Mr Sullivan—TPI is well above the percentage of male average weekly earnings that government decided pensions could not fall below.

Senator HURLEY—What percentage was that in 1979?

Mr Sullivan—That is where it is hard. The pensions are taxed, but most pensioners do not pay tax. TPIs are untaxed. I think the last time we had this discussion, I said that you were comparing apples with oranges. You keep asking me to compare an apple with an orange when saying, 'What percentage of the apple is the orange?' and I am saying it is very difficult

to tell you that. I can give you the numbers of how much the TPI was at the time and how much male average weekly earnings were at the time.

Senator HURLEY—That is what I am asking, thank you.

Mr Sullivan—In 1999?

Senator HURLEY—In 1979 and also the current percentages.

Mr Sullivan—Why 1979?

Senator HURLEY—It was in 1979 that the government made the decision to reindex its pensions.

Mr Sullivan—I do not think so. In 1979, it was the whim of the government as to how much they indexed anything by. There was no automatic indexation. I will be corrected by people, but I think it was this government some time in the 1990s that decided to reindex age and other pensions to MTAWA and to ensure the 25 per cent. I will certainly respond.

Senator HURLEY—In 2004, part of the TPI pension was reindexed. Could you also tell me what its value would be if the whole pension rather than part of it had been reindexed?

Mr Sullivan—We can provide that information to you on notice.

Senator HURLEY—How many claims for disability pension have been received by the department as a result of the conflict in Iraq and Operation Catalyst?

Mr Sullivan—I will need to take that on notice. We do not necessarily have claims for disability based on a conflict, so I will need to look at what I can do. Certainly, in respect of a claim which is to do with death, it is linked clearly to a particular incident in a conflict. But, in respect of a veteran's claim, it may be linked to all sorts of things. Would you like to know how many claims there were for any form of compensation?

Senator HURLEY—Yes.

Mr Sullivan—Do you mean twisted knees, sore legs, broken arms, fell over on the way from—

Senator HURLEY—I am specifically looking for disability pensions.

Mr Sullivan—Yes. Is that at all levels?

Senator HURLEY—Yes, I believe so—where people have made that claim.

Mr Sullivan—Any service person who injures themselves in any way which they believe is compensatable now comes through us and the Military Rehabilitation and Compensation Scheme, whether it is a twisted ankle or—

Senator HURLEY—I see. Could you then list for me the general nature of the claims.

Mr Sullivan—I will see what I can do, because, again, you do not make a claim for X percentage; you make a claim and we determine it.

Senator HURLEY—Could you give as full a list as possible and then we can possibly come back on notice with some of those questions.

Mr Sullivan—I have just been advised that we can do a claim by persons who have served there. To go beyond that into what their injury was would require a file-by-file search. So

maybe I will give you the aggregate data and then, if you really need more, we can have a discussion as to the resources required and whether we can narrow it down.

Senator HURLEY—Yes, thank you. That would be good. I will ask a more general question. If these claims are accepted, do they become part of the official casualty list, or does that depend on severity? How does that operate?

Mr Sullivan—No. For a compensation claim to be accepted you need to establish that a condition, disease or illness is a result of your service. Some of those may be what you would call casualties. Others are clearly not casualties but just linked to war service. The great majority of claims from World War II veterans, Korean veterans and even Vietnam veterans today which are accepted you would never contemplate going into casualty lists. Therefore it is not a direct correlation between having a compensation claim accepted and being described as a casualty.

Senator HURLEY—Would any of them under any circumstances be described as a casualty?

Mr Sullivan—Of course. Are you asking: would people appear on both lists? Of course they would. If you are damaged in the field of combat, your immediate health care is taken care of by Defence, and, if there is a compensatable issue out of it, that is dealt with by us. So if you are a casualty who has no future consequence—in other words, you heal and you are right again—you are not on our list. You might be a person who, for instance, was in a motor vehicle accident or twisted your leg on parade or did something and damaged your knee. You are probably not a casualty but you may be a compensation statistic for the Department of Veterans' Affairs. But, if you are in a field of combat and the damage is such that it would be compensatable, there is no circumstance in which you would not be on both. But they are not the same thing.

Senator HURLEY—Yes, I understand. We are still on claims and so on. On the Sea King crash on the island of Nias: have all those compensation claims been settled at this point?

Mr Sullivan—They are settled in that decisions have been made. In two instances there are appeals regarding decisions which remain outstanding. They go to dependency issues.

Senator HURLEY—And when do you expect they might be settled?

Mr Sullivan—I do not know. They are ongoing appeals and it is up to the independent appeal body now to determine them, so I should not be saying when I expect that. I expect that when they deal with them. In both cases they would have a further avenue of appeal if they were not happy with the decision of the appeal body.

Senator HURLEY—Has the department received any compensation claims in relation to the death of Private Kovco?

Mr Sullivan—The department has dealt with compensation claims in respect of the death of Private Kovco.

Senator HURLEY—So there were claims received and they are concluded?

Mr Sullivan—Yes.

Senator HURLEY—And what was the nature of the claim—not the actual detail, but—

Mr Sullivan—Clearly, in respect of Private Kovco you had a dependent wife and dependent children, and they were dealt with in accordance with the Military Rehabilitation and Compensation Act.

Senator HURLEY—On the Black Hawk crash, what I would like to know before we get into the compensation is: do the services provided by the DVA differ for the dependants of service men or women who are declared ‘missing in action’, as opposed to ‘missing presumed dead’? Is there any distinction between those in services provided?

Mr Sullivan—It moves to a point of no distinction.

Senator HURLEY—So the services are so similar that—

Mr Sullivan—Once someone is presumed dead, it is as if they had died and been discovered, if you like.

Senator HURLEY—What about missing in action, though?

Mr Sullivan—Missing in action is a status which does not stay for too long. Basically, missing in action remains a category, as I understand it—and you really should talk to Defence about this—which applies mostly in circumstances where there may be a belief that the service person may be a prisoner of the enemy or whatever. In accidents or incidents such as this, ‘missing’ is a category where sometimes it is confirmed that they are no longer missing—they are found—and sometimes they are either presumed or determined to have died.

Senator HURLEY—But the DVA has no involvement if a person is missing in action? You are saying that is a Defence—

Mr Sullivan—We take our advice from Defence.

Senator HURLEY—So any services provided are on the advice of Defence?

Mr Sullivan—We started this conversation in respect of the Black Hawk accident on *Kanimbla*, so I am answering you in respect of the missing servicemen in that accident. Yes, we take our advice from Defence, and, when Defence basically conclude their search for the individual and presume that individual to have deceased, there is no difference in the fact that that individual’s body has not been recovered as opposed to—

Senator HURLEY—No, that was not the point of my question; it was whether the DVA provides services if the person is regarded as missing in action.

Mr Sullivan—Again, it is Defence you need to talk to. While they were missing they were probably still on Defence’s payroll and regarded as a service person missing.

Senator HURLEY—Has the department received any compensation claims arising from the Black Hawk crash?

Mr Sullivan—Yes, we have received compensation claims in respect of the SAS trooper who died, and we have paid some compensation claims. We have not yet received a claim in respect of the other person who died, although we do expect a claim. There have been some criticisms of the compensation arrangements under the Safety Rehabilitation and Compensation Act, including: the quantum of compensation payable; the distinction between compensation payable for someone in active service as opposed to someone who is injured or

killed in a training accident or otherwise; and the time frames in which people are required to take what are very important decisions for them. The Military Rehabilitation and Compensation Act has addressed each of those issues with improved levels of compensation, no distinction in respect of where a death occurs and much more liberal time frames for the dependants to make claims and decide the form of compensation they want.

Senator HURLEY—In the case of one of the deceased servicemen all the claims have been made and settled?

Mr Sullivan—No. Claims have been made and settled. We expect further benefits to be paid as appropriate. There may be more. In respect of the other death, no claim has been made yet but we expect that it will be made.

Senator HURLEY—But I presume the department has made contact with the person?

Mr Sullivan—Yes. In such incidents, Defence takes the lead. We leave it to Defence to handle the initial relationship with the family. Behind Defence, we regard these as high-profile priority cases. We assign an individual who is able to take information to the dependants—either through Defence or directly to the dependants—as required. In the case in which we have not yet had a claim, we have had contact from her representative. We are expecting that to be pursued and we see no issues.

Senator HURLEY—I would like to move on to the general area of post traumatic stress disorder claims. An article entitled ‘Surge in diggers’ disorder claims’ was printed in the *Australian* on 29 January this year. That article made a number of claims that I want to explore. Firstly, it stated that there had been 15,000 successful claims for PTSD out of the 60,000 Defence personnel who served in Vietnam in the 1960s and 1970s. Is that correct?

Mr Douglas—I cannot confirm your figure. It is not a figure that sticks in my mind or one that I can immediately find a briefing on, but I would not necessarily deny it either. I would like to take on notice confirmation of a precise figure like that.

Senator HURLEY—That is fine. You may have to take this question on notice. Did you see that article?

Mr Douglas—I did.

Senator HURLEY—But you did not check it out?

Mr Sullivan—It is not a matter of checking it out. They are checking out a gross number. We can give you some material in respect of PTSD by conflict. We know that almost 50 per cent of disability pensions paid to veterans of the Vietnam conflict involved the acceptance of PTSD as a condition.

Senator HURLEY—I understand that. I am just asking about this article and whether it triggered any response within the department and whether it was checked for facts.

Mr Sullivan—No. As Mr Douglas suggested, we do not go checking newspaper articles for facts every time they appear. They write all sorts of things.

Mr Douglas—There was an issue that Mr Sullivan referred to before, which is an important distinction that is difficult to make—that is, we receive claims from individuals who may have served in more than one conflict. So our information in reporting like this is

such that we have claims from a certain number of individuals who served in a particular conflict and in those claims one of the conditions we would have accepted would be PTSD or generalised anxiety disorder or bilateral sensory neural hearing loss. We cannot then say that, because we have a claim accepted in respect that individual, that claim relates to that conflict.

Senator HURLEY—These were not wild observations from a journalist. They were in response to a freedom of information request from your own department.

Mr Sullivan—In terms of accuracy, we would hope that a journalist who uses freedom of information would be accurate. If they are or are not accurate, I am not going to—

Senator HURLEY—Didn't you provide it?

Mr Sullivan—Yes, but you are talking about what we provided as opposed to an article that was written. That does not mean the same thing. We provided factual and accurate information to the journalist.

Senator HURLEY—So when that information went out to the public, you did not bother to check whether the journalist had been factual in reporting your FOI request?

Mr Sullivan—There was a fair amount of comment at the time. I think with respect to the VEA the journalist did have a reasonable understanding of what he was doing but in respect to some of some other things he did not. I do not write to every newspaper saying, 'Your journalist made an error of fact in his article.'

Lt Gen. Hurley—Can the committee have a copy of the FOI document?

Mr Sullivan—Of course you can. You can make an FOI request and get exactly the same material. I will shortcut that by saying that we will provide you the information and you may find out why there can be some doubt between the volumes of information provided and a four-paragraph article and whether there is an issue of accuracy.

Senator HURLEY—Whether the article was accurate was exactly what I was asking.

Mr Sullivan—I am not commenting any further. I am not saying that it is inaccurate or accurate. I am not going to provide hundreds and hundreds of documents and then determine that four paragraphs are accurate or not; it is his story. If you want some statistics on PTSD in Vietnam, I can give you some. Rather than talk about a newspaper article, I can give you some very good statistics on PTSD in Vietnam veterans.

Senator HURLEY—I would appreciate that. If I could just flag a particular area of interest: between 2004 and last year—so the recent statistics—and how many claims were accepted. I think the article said that there were 3,069 Australian military members who had served overseas. What percentage of those were PTSD and what claims were resolved?

Mr Sullivan—I can tell you that in respect of Vietnam. In 2004, 688 claims were made and 628 accepted. In 2005, 679 claims were made and 560 accepted. In 2006, 580 claims were made and 459 accepted. Of all claims made or disability pension decisions taken in respect of Vietnam, 50 per cent of them involved the acceptance of PTSD. That does not mean that they were made on the basis of PTSD; it means the acceptance of PTSD as a condition.

Senator HURLEY—Are there still personnel who were involved in World War II making successful claims for—

Mr Sullivan—There are. In 2004, 309 applications were received in respect of World War II, of which 302 were accepted. In 2005 there were 261, of which 253 were accepted. In 2006 there were 183, of which 171 were accepted. But of World War II disability pensions with PTSD, as a percentage, only 5.6 per cent involved the acceptance of PTSD.

Senator HURLEY—Is there any analysis of why that might be so?

Mr Sullivan—No.

Senator HURLEY—There is some discussion, and I think the article in the *Australian* that I was referring to quotes medical science. It quotes Alexander McFarlane as saying that significantly more claims would emerge because of Australian's high tempo of military operations currently, and that has been also backed up by the national president of the RSL. Does that seem like a reasonable statement?

Mr Sullivan—No, not necessarily. I think you have got to balance that against, and again this is something for Defence, defence preparedness; the preparation of servicepeople to face the sorts of conditions which may have in another time created PTSD in respect of predeployment briefing, on-deployment briefing and postdeployment briefing; and the engagement within Defence health of psychologists and others. I think the distinction you must make between the Vietnam conflict and later conflicts is that in Vietnam I do not think there was an understanding or an awareness of the impact of the trauma of that conflict on servicepeople, which has seen a high number of claims and acceptance of claims for PTSD and acceptance by the government that anyone who was in Vietnam who displays symptoms of PTSD shall be treated through the Department of Veterans' Affairs regardless of whether that is a compensatable matter or not. In modern deployments, I think governments—including the Australian government and through the Australian Defence Forces—have understood that probably the greatest damage that can occur to servicemen and servicewomen on deployment is psychological damage. So I think you have got to accept that, yes, there is an increased tempo and there is an involvement in events or deployments which may involve trauma, but at the same time I must say from where I sit that the preparedness of Defence in respect of the deployment and postdeployment of those servicemen and servicewomen must counter that significantly.

Senator HURLEY—Yes, in fact the minister has said that PTSD is one of his priority areas. The minister is giving that great priority. I was wondering if the department has actually deployed any staff or had any formal research or review into whether it may or may not be a problem in the future.

Mr Sullivan—Again, I think it is Defence who take the primary responsibility for—

Senator HURLEY—And yet it is the Department of Veterans' Affairs that deals with people's claims.

Mr Sullivan—We deal with claims. We deal with people—

Senator HURLEY—And the effects.

Mr Sullivan—and we work very closely with Defence in respect of the identification of issues with servicemen and servicewomen which may result in a claim. But in respect of deployment—and that is what we are talking about and what the McFarlane comment was

about—Defence's role and responsibility, and something they take extraordinarily seriously, is the preparation of those servicemen and servicewomen, the care of them while on deployment and, postdeployment, reintroduction from deployment back to normal military life. We are not responsible for Defence health.

Senator HURLEY—No, I understand that, but you are responsible if they do not do it well because you get the claim. I am really asking how closely you work with Defence on these issues, because you know, having dealt with veterans, the effects of PTSD, so it is in your interest to know if Defence are dealing with it efficiently.

Mr Sullivan—We particularly work with Defence in research about it. For individual service people Defence health is responsible. However, we support a number of research initiatives on PTSD, particularly through places such as the Australian Centre for Posttraumatic Mental Health. We contribute over \$1 million a year to their funding and they are a leading body in understanding PTSD. In the last three years, we have spent about \$1½ million specifically on research programs concerning investigating PTSD.

Senator HURLEY—So there is no intention to increase that effort, given that the minister has said it is such a priority of his and that there are fears—at least in some quarters—that PTSD might be an increasing problem?

Mr Sullivan—We have increased our research effort.

Senator HURLEY—In what way?

Mr Sullivan—We are spending more on research than we have ever spent before and particularly research which is concentrated on PTSD.

Senator HURLEY—How much more? Is that over the last year, since the last budget?

Mr Sullivan—I will have to get you the break-up by years. As I have said, there is our work with Defence, particularly in respect of the concept of discharge ready transition management from services to out of the services and the potential to be a client of ours. You must remember, when my minister speaks, he speaks as the Minister for Veterans' Affairs and the Minister Assisting the Minister for Defence. So he also has a responsibility as minister for many of the initiatives that Defence are taking, both on deployment and outside of deployment. So, when he says it is a focus of his, I clearly know that, but it is across his two portfolios. There is a clear distinction and division. We are not an agency that is involved in the direct health of service people in the military.

Senator HURLEY—And that is not what I was asking.

Mr Sullivan—We concentrate on research and we talk about veterans.

Senator HURLEY—I was asking about preparedness for a possible increase in the number of veterans who have PTSD.

Mr Sullivan—I think the research work that we have done and the work that comes out of places like the institution I talked about and other places has very much informed Defence in their preparation and development of programs for their service people.

Senator HURLEY—If I can have that breakdown of the figures from veterans' affairs that have gone on PTSD research and other areas of PTSD, I think that would answer my question, thank you.

Mr Sullivan—Dr Killer may wish to say something.

Dr Killer—We have had an ongoing dialogue with Defence for quite a number of years. We do this formally through the Defence links program. In the Defence Links program, which brings together the Department of Defence and the Department of Veterans' Affairs, we have a joint health working group. This health working group looks at issues of common interest. It looks at the mental health problems, the physical casualties and the preparedness. While we are not involved in provision of care in any way for servicemen, we share information on cases of post-traumatic stress and other mental health problems, we discuss strategies, we work with the Department of Defence through the Australian Centre for Posttraumatic Mental Health. The Department of Veterans' Affairs established the national centre, as it was then, for PTSD and, at a later date, we invited Defence to join us in this organisation and they are now contributors. Through that centre, we have a lot of common direction dealing with mental health issues. But, within the department also, through our joint health working group, once again there is a synergy and we, in a sense, harmonise our mental health policies; they are worked in sync. So our programs in fact complement what Defence are doing.

In a way, there is a very strong working partnership between Defence and DVA. In the department, we are actually looking at moving beyond just that Defence-DVA working relationship; we are looking at the issues now in general practice. We are working with the divisions of general practice. What we are attempting to do is to draw to the attention of general practitioners the fact that servicemen may have been exposed to deployments overseas and some of the service may have impacted on the family life. So we are providing education to general practitioners around Australia into some of the effects of military trauma. Unless veterans or their families are aware of it, these issues may not be understood. So, in a sense, it is, shall we say, throwing a stone in the pond so that doctors will not just look at the serviceman or veteran; they will also take account of the family. I think this is a fairly significant step forward. So overall you can see there is quite a network of working together.

Senator HURLEY—I will move on to the general issue of claims processing. When did the department first identify that there was a problem in some areas in the time taken to process claims as compared with the targeted time?

Mr Sullivan—I think in about 2002 where the department then started to see increasing backlogs in its claims processing. You have in your questions last time and on notice concentrated on average claims processing times. We look a bit more broadly. We look at the age profile of the caseload, the backlog and whether it is increasing or decreasing, the quality of the decision making—we have a measure there which says we would like to see an error rate of less than whatever—and we look at the resources applied to compensation claims processing per claim.

Senator HURLEY—Speaking of resourcing, after the problem was identified in 2002, what action was taken in response to that?

Mr Sullivan—Resources spent on claims processing on a per claim basis have gone up every year since then.

Senator HURLEY—Resourcing has gone up?

Mr Sullivan—Yes, the resources spent on a per claim basis continue to increase.

Senator HURLEY—Those increased resources—they would be mostly staffing resources?

Mr Sullivan—They are measured in money and we report to you each year in terms of money. You will see that the cost per claim to process continues to increase. So we have applied resources. 2002-03 I think was the first year where we saw emerge an increase in the backlog—that is, we were starting to process fewer claims that were being received in a year. 2005-06 is the year where you saw the backlog reduce for the first time since that time. So, in respect of that performance measure, we saw an improvement in the 2005-06 year.

Senator HURLEY—Was that due to increased staffing?

Mr Sullivan—You use the word ‘staffing’; I use the word ‘resourcing’ per claim.

Senator HURLEY—I am interested to know whether at least part of that ‘increased resourcing’ was spent on an increased number of staff dealing with claims.

Mr Sullivan—No. It means more staff time is applied to each claim. When you have a 15 per cent reduction in claims it does not necessarily equate to more staff to spend more time on each claim.

Mr Killesteyn—Perhaps I can give you some figures about what is happening. I think it is an interesting picture in terms of the workload that the department is facing and what then is happening to the resources that we have available as a consequence of that workload. If you are interested. These are figures that are easily extracted from the annual report and also from the portfolio budget statements, so the analysis is there and available for you. If you look, for instance, at a couple of primary indicators of our workload, one is what we call the treatment population, which is essentially those people who are receiving some form of treatment from the department; the other indicator is beneficiaries, who are not only receiving treatment but also may be in receipt of the pension.

If you look in 2003-04, the treatment population we had was 325,798. As at the end of June 2006, that treatment population has fallen to 305,229. That fall-off in our workload is escalating. The fall-off in 2003-04 was about 2.7 per cent; by the end of June 2006 it was falling away at 3½ per cent per annum and the rate of fall-off is projected to increase. If you look at beneficiaries, using the same period, the number of beneficiaries at the end of 2003-04 was 484,000 and as at the end of June 2006 it is now 453,000. The fall-off rate has gone from 3.4 per cent now to four per cent annually.

So there is an increasing rate of decline in the number of clients, but our resources are not falling away at the same level. We do have a resource agreement with the department of finance, which is based around workloads. I guess it is not unreasonable as our workloads fall that our resources also fall, but they are not falling at the same rate. So, as Mr Sullivan said, if you just look at the cost per head, that is maintaining the level that it was at a few years ago.

Senator HURLEY—Let me ask a more specific question. Are the current targeted processing times, the times when claims should be processed, realistic?

Mr Sullivan—Yes, they are. We have reaffirmed our average processing time goals as being realistic. Why I want to talk about the backlog is this: as we have improved our backlog management—that is we have reduced the backlog—our average processing times have escalated partly as a result of that strategy. In fact, you asked how long we have been worried about this and I replied that it was 2002 that the department recognised it had an issue; it has probably been the last couple of years where we have really looked at the issue of processing times. I think the current minister, on his taking up the portfolio, identified to me reasonably forcefully that he was concerned with the average processing times and we have been working hard at doing it. The first thing we have done is basically to reduce the backlog and we are now at the point where we believe that we have removed from our processing workload much of the very old material.

Senator HURLEY—Are you saying that the backlog are the difficult cases, so that is contributing?

Mr Sullivan—They are difficult by all sorts of definitions of difficulty. It could be difficult because a medical specialist will not provide a medical report. It could be difficult because we are having trouble extracting relevant Defence records. It could be difficult because it is a very complex compensation claim and it is just hard. There could be some elements where it was not that difficult but it was not done. Partly, if you drive an organisation purely on a performance indicator of average processing times, you can fall into the trap of putting aside the hard cases. If you do the quick ones—

Senator HURLEY—This is not what you are saying has been done really.

Mr Sullivan—No. However, if you say, ‘Look, the only thing I want is a good average processing time,’ people will say, ‘We’ll do all the simple ones as quickly as we can and our average processing time will be wonderful and we will ignore the backlog.’ As we address this backlog, we will see—and we have now committed to publicly declaring our performance twice a year against all of our standards and of course 90 per cent of our standards we meet or better—I would love to talk about those one night. In respect of this one, I would expect that our next report, which will be very soon, will probably show a rapid improvement in the backlog rate and we may actually see some—

Senator HURLEY—Just on the question of that backlog, if I could clear that up, from questions on notice placed at the last estimates, I think it said that there was a backlog of 4,570 claims?

Mr Sullivan—Yes.

Senator HURLEY—Is that right?

Mr Sullivan—Of over a certain age, yes.

Mr Douglas—Older than the average.

Mr Sullivan—Yes.

Senator HURLEY—So you do not regard that as an acceptable level and you will see that—

Mr Sullivan—There always have to be cases older than the average. By definition, there are as many cases older than the average as there are under the average.

Senator HURLEY—Median.

Mr Sullivan—But certainly we do not see as acceptable a case going way beyond what we should expect as an average processing time. We have addressed that in a number of ways. We have progressively, over the last 12 months or more, put in place a number of strategies, which we will see produce good fruit this year. That is not constrained in any way by the resources that the government gives us.

Senator HURLEY—So you are saying that the processing time is acceptable—the current standard.

Mr Sullivan—The current standard we have reaffirmed as being a standard we should seek to achieve.

Senator HURLEY—Are those standards set down anywhere?

Mr Sullivan—Yes.

Senator HURLEY—Can we get a copy of those?

Mr Sullivan—Yes, you would have received a copy from us of our customer charter in recent months, but I will send you another one.

Senator HURLEY—Thank you.

Mr Sullivan—They are in our customer charter and they are also, of course, in our annual report. All of our performance standards are in our annual report, they are reported in our parliamentary budget statements and they are on our website.

Senator HURLEY—The backlog—you also regard that as unacceptable, but you expect that that will come down.

Mr Sullivan—As I said, I think in 2002 they realised the backlog was growing. Since 2002, but most particularly last year, we have reduced the backlog. It needs to be reduced further. More than the number, I am worried about aged cases, cases that are outside the bounds of the standard. This financial year so far, we think in respect of the VEA we have improved our performance from that in the annual report already quite considerably, but we have certainly reduced the number of claims outstanding as at 31 January 07. There were 6,100 claims outstanding as at the end—

Senator HURLEY—Under the VEA?

Mr Sullivan—Under the VEA at the end of January 2007. These are of all ages, be they one day old or whatever. We have now moved to a position where only 215 of those, which represent 3.5 per cent of that caseload, are more than a year old. That is quite a considerable improvement. If we take the impact of the F111 cases out of it, which we have reported in our annual report before, we believe that we are probably down to about under three per cent of

cases being one year old. I should make a special mention of our South Australian office, because in our South Australian location—which is important to some—

Senator HURLEY—Yes, indeed—two of us at least.

Mr Sullivan—There is no case which is more than a year old. At a location level, they have done a tremendous job.

Senator HURLEY—Why is that? I just get back to this issue of resourcing. Surely it would be better to have more staff to get through this backlog, and yet you are saying resources are not the issue.

Mr Sullivan—As I said, we have not seen a decline in the number of assessment staff in the face of a rapid decline in application rates; therefore the resource applied to each claim has gone up. We are applying more resource to each claim. That is very clear and it was reported in our annual report. It is clear for all to see that the application of resource to each claim we are processing has increased.

Senator HURLEY—But you were saying yourself that the backlog cases are often difficult cases.

Mr Sullivan—But what I am saying is that I am very satisfied with where we are seeing the reduction in the workload strategies going. I have great confidence in seeing our return to meeting our declared performance indicator, including our average processing times, in a reasonable period of time. You cannot apply new resource in terms of more staff very quickly to this task. A claims assessor under the VEA, the SRCA or the MRCA is a resource that takes about 12 to 18 months to develop and get to a point where they are usable.

We have gone through a number of issues in respect of all of our compensation systems. One, the introduction of the military rehabilitation and compensation system, saw us needing to take some experienced people out of VEA and SRCA claims and put them into MRCA claims. In the transition period, we had to consider any SRCA claim that could have been dealt with under the MRC legislation to be considered by the MRCA people as well as the SRCA people to ensure that we did not give benefit to the applicant. The other way from MRCA back to SRCA—we had to refer all those cases back. We put in place, for a period of time, a new level of claims assessment for cases involving special rate. That was over a concern that some had about the quality of decision making. We are re-examining that and the Repatriation Commission has had a good look at that. We have basically asked locations and they have responded to identify different and new ways of dealing with the caseload. We are looking at how we could probably expedite some of our very routine caseload at the moment, which still does involve a fair amount of interaction with the veteran and we are questioning whether we need to do that.

This has been a process, as I have said, that has been going on for a couple of years. It has certainly been a process where, as I have said, this minister has pushed us hard in the last 12 months. It is a process where you cannot walk away from a meeting and say, 'I'll fix it tomorrow'; you have to walk away saying, 'I can fix it and I will fix it.' The officers of the department and the delegates of the Repatriation Commission are really doing everything within their powers to address it and the department is matching that with adequate resourcing—and, as I said, increased resourcing per case. I think that we will see a

reaffirmation of that processing standard confirmed by meeting it within a reasonable time frame.

Senator HURLEY—What is a reasonable time frame?

Mr Sullivan—I would hope that by the end of this financial year we would have marked improvement, and there is a general consensus that we are heading towards it. Not long after that, I would like to see us declare our results and be very proud of the fact that we have met it.

Senator HURLEY—So you are saying in a year or so.

Mr Sullivan—I would hope that within the 2007 calendar year I have that measure up with 90 per cent of other performance measures that we declare, meet and sometimes and often better. If I had a concern at the last discussion we had on this and the subsequent use of that material, it was that to look at that single measure—particularly as it related to the Military Rehabilitation and Compensation Act cases—was not a fair reflection of performance. It was, which is fair enough, a highlighting of an aspect of our performance that was not at the level we wanted it to be, but I do not think it really showed some of the problems that were suggested that it did. We are addressing it and it will be addressed.

Senator HURLEY—You were saying yourself that the processing times are being addressed and should be at least on their way to being pretty much resolved. You were saying yourself that there will always be some kind of backlog, something on either side of average. Some claims will be dealt with quickly and others will not. I think you have said pretty clearly that the current backlog is not acceptable. What kind of level of backlog would you be looking at as acceptable?

Mr Sullivan—We have addressed this in an incremental way. Clearly, what we have asked people to consider is to ensure, as far as we can, not to have any claim within the department unresolved after a year. We had claims unresolved after a year and, as I have reported, we have seen that number of claims now reduced to a couple of hundred—too many, but it has reduced. I think our first goal would be to ensure that there is not a claim that is more than a year old. We also have a goal to make it transparent as to what the problem is here. We would like—and it is a fairly long-term project—to be able to alert the claimant and the claimant's advocate to the current status of a claim at any one time. I have quoted to a number of veterans' organisations an example of where a member of the parliament wrote to the minister concerning an outstanding claim. It got to me some way and I asked some people to get the file. We got the file. That person had lodged their claim. There had been a timely response to that claim in respect of sending them off to a medical specialist—in this instance a psychiatrist—and, since that time, seven months had gone without a psychiatrist's report. On the file were four records of chasing, but the veteran was not aware of that. When I actually told the veteran, 'This is the problem,' to use his language, he said, 'I will put dynamite under them.'

Senator HURLEY—I am sure we are all aware of those kinds of problems and the distress that delay causes people and so on, but perhaps we could get back to the question about the backlog and what kind of level is acceptable.

Mr Sullivan—I was going the long way around to saying that my biggest concern is to remove any undue delay that is the fault or the cause of the department, first. That is, if I have people who are tardy in their own response or find it difficult to conclude a case or whatever, that is what I want to do.

Senator HURLEY—So you do not have particular targets.

Mr Sullivan—The clear target I have is to have a case mix which produces a 75-day average processing time. That is a clear target. For every case that I allow to get older, I have to do another case quicker. So my target is the one expressed and that is that, if I have a case mix which produces a 75-day average processing time, I will be satisfied. But the things I am concentrating on are where the department can do things faster, cut red tape, take some reasonable risk management approaches to some conditions and remove some time frames. I can make sure that we do not have too much of a command chain, I can concentrate the quality assurance into being beneficial to veterans as well as being beneficial to staff and I can get senior people engaged in the most complex matters to facilitate those claims through. That is what I have asked the officers of the compensation area to do and that is what they are responding to in their work. The results so far are very encouraging.

Senator HURLEY—Perhaps we could move on now to another target time and that is the time to action or acknowledge correspondence. I believe that the DVA service charter says that that should happen within 28 days. What percentage of correspondence sent to the minister or the department over the last two years has been replied to within that target time of 28 days, if that is indeed the correct target?

Mr Sullivan—I will have to get that information for you.

Senator HURLEY—Please also include with that whether any correspondence to the minister or to the department received no reply whatsoever; also how much has gone unanswered for over a year and how much has gone unanswered for over six months. Do you keep figures on that?

Mr Sullivan—We track our correspondence. There is a distinction between departmental correspondence and ministerial correspondence.

Senator HURLEY—Moving on from the broader topic of correspondence to specific complaints, is the department aware that the Veterans Agency in the United Kingdom offers the following guarantee on their website: complaints received by us in writing will be acknowledged in five working days and they aim to issue a full response within 10 working days? Would the department ever be able to meet those kinds of guidelines?

Mr Sullivan—It depends. There are a few definitional issues there—what is a complaint? We actually have a complaint handling mechanism, which we get very few of and we manage them very quickly. Correspondence is often not a complaint. Correspondence can be the questioning of government policy, it can be the questioning of all sorts of things.

Senator HURLEY—So are you saying that the complaints might be dealt with within five working days?

Mr Sullivan—We have a complaints mechanism where we respond, but I am sure we do not offer that guarantee.

Senator HURLEY—So you have no specific target for complaints.

Mr Sullivan—I did not say that. I said I do not offer that guarantee. I wish you would not do this to me, Senator, because every time I answer you I tend to have my answer read back to me as different. I said I did not have a guarantee of five days, 10 days.

Senator HURLEY—Do you have a target for complaints?

Mr Sullivan—We have a complaints mechanism with targets in it and we have correspondence targets and I will get you those on notice.

Senator HURLEY—Thank you. Perhaps we will move on to something a bit different from correspondence—the F111 reseal deseal issue. In regard to the government's ex gratia payment scheme for the F111 desealers resealers and not especially the healthcare program announced today, how many claims were received by the department under that ex gratia payment scheme?

Mr Sullivan—Mr Barry Telford, who is the group manager, Policy Development, Department of Veterans' Affairs, will answer.

Mr Telford—Thank you, Mr Sullivan. I have those figures here. I will start from the bottom. We have 29 outstanding. We have made 583. Was the other one the total number received?

Senator HURLEY—Yes, the total number.

Mr Telford—I cannot lay my eyes on that one.

Senator HURLEY—So that is 583 plus the 29, is it?

Mr Telford—No. There are 29 that we have not dealt with yet. There are 583 that we have paid and then there are the other ones which were not successful, which I will find for you in a moment.

Senator HURLEY—Thank you. Do you have any idea when the outstanding claims will be finalised?

Mr Telford—No. We have had a small number of claims which have been coming in recently, so I do not know when those ones will be finalised. But, as you can see, the vast majority of them have now been dealt with, so it is a matter now of tidying up the ones that are coming in in dribs and drabs.

Senator HURLEY—So what was the number of claims that were declined?

Mr Telford—Ask me another question and I will find it.

Senator HURLEY—It was related to that one. Was the number declined significant? Does the government regard that scheme as a success? Was there any revision, or any consideration of revision, of the criteria?

Mr Telford—There was no consideration. There was consideration of revision, but there was no revision made. I believe that it has gone well. There has been a lot of diligent and professional input into the assessment of the ex gratia payments and the evidence supporting those particular claims along the way. The process has focused on ensuring that we get as

much evidence as possible from the individual and from other sources in order to be able to support those claims and make the right decision for the right reasons.

Senator HURLEY—In the decision by the government, the criteria was fairly arbitrary. Has there been feedback, for example, from the cases that were declined about the quality of the criteria?

Mr Telford—I suspect that anyone who does not get a claim that they put in has a reason to complain. I do not accept that the criteria was arbitrary. It was based upon a very rigorous and long and detailed study involving a range of professionals, doctors and others. I do not accept it was arbitrary. But, when any rule is put in place, people will always say that you have drawn the line in the sand in the wrong spot.

Senator HURLEY—Were you able to find the figure of those who were refused? Perhaps you could take it on notice.

Mr Telford—Yes, I will take it on notice.

Senator HURLEY—I have some priority questions under outcome 2 and the contract the department now has with the Centre for Military and Veterans' Health for the development of research protocol for the study of the health of the children of Vietnam veterans. At the last estimates hearings we heard that the CMVH wanted more time to complete the study. Has there been any update on that? The results are due by 30 June this year. Is the CMVH expected to deliver at that time?

Mr Sullivan—We had a discussion about whether the CMVH wanted more time. I said in our earlier discussions that there was some to-ing and fro-ing about that but that there was an agreement on the time. So there was no formal 'They want more time' and a contract was signed.

Senator HURLEY—But you are confident—

Mr Telford—No, they have not asked, they have not sought—

Senator HURLEY—That it will be delivered on time?

Mr Telford—Yes.

Senator HURLEY—And 30 June is the date.

Mr Telford—That is correct.

Senator HURLEY—Once those results are delivered, what are the processes and consideration that the department and the minister will need to go through?

Mr Sullivan—We will provide advice to the minister on the CMVH's work. It is a hypothetical. I make it clear: the reason the minister has decided to go down the path of using the CMVH is to bring the prospect of a health study of the children of Vietnam veterans to reality quicker than it otherwise would have been. We are expending this money in the hope and expectation that the CMVH will provide us with some methodologies and advice which will help—through the minister—the government to determine whether it can conduct such a study.

Senator HURLEY—You were saying that the time is expected to be shortcut by the CMVH study. Do you have a target time? When do you expect a result?

Mr Sullivan—It is a shortcut. If the CMVH in their report of July give us some material which we can progress to the minister, it is well within the three-year pilot study that was the alternative proposition put to determine some of the methodological issues by the scientific reference group. So we would hope that—and I am not pre-empting what the CMVH are going to do; their task—they will be able to address positively some of the issues which would allow then the minister to take, through government, recommendations as to the next stages.

Senator HURLEY—Given that you hope it is to be shorter than the three years, do you have any idea when the minister is expected to make an announcement about that?

Mr Sullivan—Are you asking me to make an announcement about something they are doing now—

Senator HURLEY—About the progress of where we go next.

Mr Sullivan—I would think the minister would want to share, particularly with the Vietnam veterans' constituency, the advice he receives from the CMVH as early as he could.

Senator HURLEY—Which is?

Mr Sullivan—We are expecting a report from them in June.

Senator HURLEY—So shortly after that?

Mr Sullivan—I am just saying that I would expect that the minister would want to share it with the Vietnam veterans' constituency, their partners and their children, each of whom has great interest in the prosecution of this matter, as early as possible, subject to him having to take whatever he wants to do through the process of government.

Senator HURLEY—Which veterans' groups or individuals are involved in the work being done on these protocols?

Mr Sullivan—The CMVH is doing the work on the protocols.

Senator HURLEY—Do you know which groups they are involving in this discussion?

Mr Sullivan—It is basically a scientific study to determine methodologies. I think we have gone through this many times. It is not a study of Vietnam veterans. It is our task to basically keep the various groups involved, which range from the Vietnam veterans' association, the Vietnam veterans' federation, the partners of Vietnam veterans and, as I say, importantly, the children of Vietnam veterans. It is important to keep them engaged as to progress. We use all of the consultative mechanisms of the department to make sure that they are as informed of progress as we can.

Senator HURLEY—Informed of progress but not consulted as part of the protocols study?

Mr Sullivan—I think the CMVH may consult various people but it is, as I say, largely something for the scientists and the statisticians and the methodologists, who are answering some complex questions. What we are really about is asking: 'How we can conduct such a survey?' and we have asked: 'You tell us please.'

Senator HURLEY—So once the CMVH has told you how to conduct it, that study will definitely proceed?

Mr Sullivan—No. The CMVH are doing a study. As I said, my expectation and hope is that that study will resolve some of the issues. I cannot guarantee that that study will resolve the issues. So, one, we have to await the outcome of the CMVH work and, two, we have to await the minister's response to the outcome of their work. If the outcome of their work is that they have a road map through the methodological issues, I think that would be encouraging to us and encouraging to the minister, but he would still need to take the next stage in the process through government. If you are talking about best outcome, they would say: 'Here are the methodologies. This would see a survey conducted which is efficacious, full and answers some of the concerns that were raised in the scientific advisory committee study et cetera. This is how you do it.' It would then be the department's job to scope the actual study, including the resources required for it, and for the minister to take that through government.

Senator HURLEY—So, given that the aim is a fairly tight time frame and you will not get the report until 30 June, has the department done any preliminary work on scoping or if it is not possible to scope or a possible costing?

Mr Sullivan—No. The nature of the task of the CMVH is basically at the moment—and I think this is, to a degree, frustrating for some of the constituents—not seeking to study the health impact of the children of the Vietnam veterans in what they are doing. They are basically providing us with some advice and science as to how we can overcome the difficulties well outlined and explained in the report provided.

Senator HURLEY—My concern is that if we do not have any budget for the study in this current year's budget, the report will be delivered on 30 June and then there will be a decision about whether or not there will be a study. So we will be looking at next year before—

Mr Sullivan—That would have been a whole of an advance on where we would have been otherwise. Otherwise we were basically seeing a commitment to a pilot study costing several million dollars to determine methodological issues and in three years time, we would have had advice as to whether or not we could do the study. So even on that time frame you are talking about, I am not agreeing with it, we would be well advanced in the processes we otherwise faced.

Senator HURLEY—We have had that discussion about the relative merits of at least having some sort of pilot study done, so I will not go over that ground. I might move on. It has been brought to our attention that two of the experts currently working on that study are from the University of Queensland's School of Population Health, namely, Professor Annette Dobson and Professor Jake Najman. Is the department aware that all staff in the University of Queensland's School of Population Health are currently denied access to ABS files after a hacking incident last October. I am not by any means inferring that those two people who I have mentioned are involved or have anything to do with that incident, I am just saying that ABS made this kind of blanket decision to block that school's access to ABS data. Is this a concern to the department in terms of the report?

Mr Sullivan—I will take that on notice. While the Centre of Military and Veterans' Health is attached to the University of Queensland and uses some of the Queensland university staff, it is an institution in its own right and I will check.

Mr Telford—I am not aware of that either, however, it needs to be said that we are not asking—I am just repeating again what Mr Sullivan has been saying—the CMVH to do any data analysis. They would not be contemplating looking at ABS data or other data, they are purely doing an exercise in methodology and academic research establishing power tables and a whole range of methodological academic work which does not relate to actual number crunching. So the impact of that would not affect the study at all.

Mr Sullivan—If it were there.

Mr Telford—If indeed it was.

Senator HURLEY—I might move on to talk about the chaplaincy services. What chaplaincy services does the department administer or fund at the moment?

Mr Sullivan—The department through its providers or directly funds chaplaincy services at several hundred hospitals across this country.

Senator HURLEY—So just services across the country.

Mr Sullivan—Yes, in respect of our arrangements with the state government in respect to public hospitals, we fund chaplaincy services. In respect of our private hospital contracts, we accept in our pricing model the funding of chaplaincy services. In respect of hospitals that once were repatriation general hospitals, we provide special chaplaincy funding for commemorative events, and in respect of one hospital, we provide direct funding on top of the state government funding, which we provide to the state in respect of that hospital.

Senator HURLEY—My colleague from South Australia Senator McEwen has a particular interest in the Daw Park Hospital about which there has been some controversy, so I will ask her to run through some questions she has about that.

Senator McEWEN—There is a current review into chaplaincy services at the Repatriation General Hospital at Daw Park, is that right?

Mr Sullivan—That is right.

Senator McEWEN—Can you tell me when that review is likely to conclude?

Mr Sullivan—That review was established some 12 months ago where we put in some interim arrangements until it was concluded. It is to be concluded within the two-year funding window agreed then, so it needs to be concluded in the next several months.

Senator McEWEN—Before the end of the financial year?

Mr Sullivan—No, the funding goes beyond that, but the review should be completed by the end of the financial year.

Senator McEWEN—That review was a consequence of the outcry in February 2005 when the department tried to cut funding to chaplaincy services at the hospital.

Mr Sullivan—Let us just say there was an outcry, not that we were trying to cut chaplaincy funding. We spend more on chaplains today per veteran than we have ever spent in our history of chaplaincy.

Senator McEWEN—The review was a consequence of some public disquiet about changes to funding arrangements?

Mr Sullivan—Yes, in one hospital. That ignored the fact that the level of chaplaincy funding at that hospital had remained static, despite the fact that that hospital is now a 32 per cent veterans hospital and we fund chaplaincy services at dozens of hospitals all across South Australia. In South Australia we see the need for pastoral care to veterans in hospitals as a very, very important concern. That is why we incorporate it in all of our private hospital funding agreements. It is why we incorporate it in all our funding agreements with the state governments, including the South Australian government. We provide chaplaincy funding to the South Australian government for every veteran in every state hospital in South Australia—and Daw Park is a South Australian state hospital; it is not a Veterans' Affairs hospital.

On top of that, we did agree to maintain specific and separate funding to Daw Park for both commemorations and for chaplaincy services for veterans in Daw Park. Yes, we spend more money on chaplaincy and there was an outcry about Daw Park, but you said that we had cut chaplaincy funding in South Australia. I did not; I increased it. It has increased per head of veteran for a long time now.

Senator McEWEN—Maybe that was not the understanding of the veteran community.

Mr Sullivan—I am not funded to provide chaplaincy services to the 67 per cent of patients who use Daw Park who are not veterans.

Senator McEWEN—What then is the purpose of the review?

Mr Sullivan—The purpose of the review is to find, with the South Australian government, the hospital and the veterans, a way forward that is satisfactory to all.

Senator McEWEN—Way forward to what? What are the potential outcomes of this review?

Mr Sullivan—It is a way forward to ensure that veterans throughout South Australia have access to chaplaincy services and that the chaplaincy services funded by the department are spent on veterans. If you go back in time you find that we provided chaplains at all repatriation general hospitals because veterans affairs was a health provider, the provision of those health services was largely through its own hospitals and only veterans went to repatriation general hospitals.

When the government of the day sold the repatriation hospitals or transferred them and basically turned the department from being a health provider into a health purchaser there were two hospitals—one in Brisbane, one in Perth—which were sold to a private group but with contracted arrangements between the department and the Ramsay health group that they would remain veterans hospitals—not exclusively, but they would provide exclusive services to veterans in their location. The South Australian government decided, when it took over Daw Park, to maintain it within the state hospital system as a veterans' hospital.

Senator McEWEN—I understand that.

Mr Sullivan—The outcome that we want is a good relationship with respect to the South Australian government and ensuring the chaplaincy services are provided to all veterans in all hospitals run by the state of South Australia. We have an agreement with the state of South Australia as to how to do that. We recognise that Daw Park is a particular focus of veterans in South Australia—and Adelaide in particular—and around that special requirement, we acknowledge the need for funding. So the outcome we are after is an outcome that is acceptable to the parties.

Senator McEWEN—Will the outcome be that your department will not reduce funding to chaplaincy services at the Repatriation General Hospital at Daw Park?

Mr Sullivan—That is like asking me what this review of something will do. I do not set up reviews or set up such a group with a predetermined outcome. I will see what that review team says.

Senator McEWEN—So the recommendation may be to cut funding or it may be to not cut funding?

Mr Sullivan—You can say that as well as I. I do not think that that is a question; that is a statement.

Senator McEWEN—Who are the members of the review?

Mr Sullivan—The review team consists of the South Australian government, the department—

Mr Douglas—It is chaired by our deputy commissioner. It contains, as Mr Sullivan said, the South Australian Health Department, the Daw Park Hospital and members of the ex-service community.

Senator McEWEN—What organisations in the ex-service community?

Mr Douglas—I would have to take that on notice. My recollection is that it is the RSL.

Senator McEWEN—So it is an organisation, not just individuals?

Mr Sullivan—It is representatives of the organisations. The RSL I think is the nominated organisation.

Senator McEWEN—What about the Vietnam Veterans Association?

Mr Douglas—I am not certain.

Senator McEWEN—Are there any members on the review panel who are representatives of churches?

Mr Sullivan—No.

Senator McEWEN—Why not?

Mr Sullivan—The churches are a provider here. Some people get shocked when they find out that we pay for chaplaincy services. They thought chaplaincy services sometimes came with the job. We pay.

Senator McEWEN—I just asked whether the churches are represented.

Mr Sullivan—No, because as a provider we do not put them on it. We consult—

Senator McEWEN—The RSL and the Vietnam Veterans Association are also counselling providers.

Mr Sullivan—They are not providers. What do you mean they are providers?

Senator McEWEN—They provide counselling services to veterans, but you have got them on this particular—

Mr Sullivan—But they do not provide chaplaincy services to veterans. There is nothing wrong with having a provider who provides something else to help you do things.

Senator McEWEN—There has been some criticism of the department that you did not include church representatives on the review panel. Is that right?

Mr Sullivan—There was some criticism that we did not.

Senator McEWEN—So whose decision was it to not put church representatives on the panel?

Mr Sullivan—I set up the review team. There is a general principle where we do not in discussing future funding incorporate in those future funding discussions the providers who will receive that funding. We do not do that. We consult very closely with them.

Mr Douglas—We have undertaken to continue to consult with the churches throughout the context of the review.

Senator McEWEN—Are there plans for reviews of chaplaincy services in states other than South Australia?

Mr Sullivan—No, there is no arrangement like that which exists in South Australia anywhere else in the country to review. For instance, Concord Repatriation General Hospital, which is a state run hospital in New South Wales, is funded for its chaplaincy services through the state hospital arrangements with the state of New South Wales, which covers all public hospitals in New South Wales. We provide \$50,000 additional to that to the Concord Hospital for special commemorative events. It is an arrangement satisfactory to the hospital, to the veterans and to the New South Wales state government. There is no like arrangement to review.

Senator McEWEN—You explained to me the different funding in the states, but overall has the department reduced the amount of funding for chaplaincy services across the board?

Mr Sullivan—The department has not reduced the amount of funding on chaplaincy for each veteran in this country.

Senator McEWEN—Has it increased the amount?

Mr Sullivan—I would need to check. What we have ensured in the expansion of our hospital services is that chaplaincy services remain available whether you are in a private hospital in Kadina, a public hospital in Whyalla or Daw Park.

Senator McEWEN—Thank you. Perhaps you could just provide on notice the amount of funding that the department has provided specifically for chaplaincy services on a state by state basis for the last two years.

Mr Sullivan—I will need to see what I can do. As I said, in a lot of our agreements it is within the pricing agreements, so it is incorporated in the amount of money that we are willing to pay a provider—be it a state government or a private hospital provider—in the price they charge us per veteran in hospital per day.

Senator McEWEN—Are you saying that you cannot provide that information?

Mr Sullivan—No, I did not say that. I said I will look to see what I can do.

Senator McEWEN—Thank you.

Senator HURLEY—I will move on to other areas. The recent veterans home care tenders were just finalised. What criteria were used to select the successful providers given that the minister has said publicly that they were not selected on the basis of cost alone?

Mr Sullivan—Like all Commonwealth tenders, they are selected in respect of value to the Commonwealth. I am happy to provide on notice a copy of the tender document which set out the criteria that the tender would be evaluated against.

Senator HURLEY—What consultation occurred with the recipients of veterans home care during the tender process?

Mr Sullivan—I will ask Mr Douglas, but there was general consultation. We particularly used a consultative forum that we have.

Mr Douglas—We consulted with the assessment agencies and the service providers. We have a regular forum where we have industry discussions with those providers. I took your question to mean, ‘Did we consult with the recipients?’ as in the veterans and war widows who received those services.

Senator HURLEY—Yes.

Mr Douglas—I am not aware of any specific consultation that we undertook during that tender period. We certainly have two major consultative bodies, the National Treatment Monitoring Committee and the National Ex-service Round Table on Aged Care. Particularly at the National Ex-service Round Table on Aged Care, which includes representatives of veterans groups, we undertook consultation through the whole tender development process.

Senator HURLEY—Yes. I am concerned for the recipients, because I understand that some of them were quite taken by surprise by a sudden change in their carer. What kind of warning were the clients given that there was going to be a change?

Mr Douglas—We have been providing this service over quite a number of years and there is a regular turnover in service providers and—

Senator HURLEY—Not always, of course.

Mr Douglas—carers to people receiving those services. This is not a new phenomenon at all. But we identified those recipients of services who were likely to receive a change of provider and we wrote out to each of them advising them of this occurrence.

Senator HURLEY—Can you advise me what date that notification went out?

Mr Douglas—That date would have varied depending on the particular location, but I will take that on notice and see what we can give you.

Senator HURLEY—I will move on to the smart card and its relationship with the gold card. Will current gold card holders have to apply for the new card or will it automatically be provided to existing gold card holders?

Mr Sullivan—As a general rule, gold card holders will be expected to register for an access card. The policy on this is something which is still being developed and is partly with the Department of Human Services. There will be exceptions where people are exempted from registration, and those will definitely include some of our gold card population, so they would not be required to enrol. As a general rule, a gold card holder would need to register for the access card.

Senator HURLEY—What are the exemptions? Who will be exempted?

Mr Sullivan—As I said, they have not been decided yet, but people in high-care nursing homes and in palliative care institutions are possible examples. You should talk to the Department of Human Services, which has primary carriage of the access card, about those. Our role is to ensure that we reflect what we believe is necessary for our veteran population.

Senator HURLEY—Given that most veterans on the gold card have been through quite a long and extensive application process and verification process, will they have to fulfil the same documentation requirements as any other applicant for the smart card?

Mr Sullivan—If the veteran has the documentation required for under proof of identity, they can certainly use it. If the veteran does not have that, we believe their relationship with the Department of Veterans' Affairs will be sufficient to see the issuing of an access card to them.

Senator HURLEY—Without the documentation that—

Mr Sullivan—If they are lacking in documentation. We will still need to finish the registration process, which means taking of a photograph and things like that, but if, a veteran has problems with proof of identity, I think their relationship with the department will be sufficient to satisfy issuing authorities of their identity.

Senator HURLEY—For those who perhaps have the documentation and do not qualify for exemption, will the department be assisting them with the cost of providing the documentation or travelling to get the photograph taken or whatever else?

Mr Sullivan—We are still looking at the issues of assistance in getting to registration, although we understand no-one will have to travel too far for registration. But, no, if a person does not have the documentation and wishes to procure it themselves, we are not offering at this stage financial assistance in procuring that documentation. But, well and truly before any registration process happens, we will be explaining to veterans how their relationship with the department can assist them in the registration process.

Senator HURLEY—What about the TPI veterans? Will they be exempt or is it not necessary?

Mr Sullivan—Not necessarily. They are a gold card holder and we would think the same applies to them. But certainly a very important message we are putting to veterans is that we and the government recognise the fact that the overwhelming majority of veterans in this

country have a very well known record with the military and with the department, and any difficulties in respect of identity will not preclude them from registration for an access card.

Senator HURLEY—After 2008, when the government is set to provide only the new card—the access card—what will happen to those cardholders who have not finalised their application for the gold card?

Mr Sullivan—Who have not been assessed as eligible for the gold card?

Senator HURLEY—Yes.

Mr Sullivan—I think this is something more for Human Services. Barry Telford may help me here, but the government's stated intention is more about sometime in 2010 or afterwards, when you must have an access card to access veterans services in respect of our agency. So we will be encouraging people who become eligible for a card after 2008 to register through us or another agency for an access card. That access card will be a gold access card, will recognise their status as a veteran, will separately recognise their status as a TPI and will replace any need for other cards. We would not expect that they would have any more difficulty in getting the access gold card than they would have had with a gold card anyway.

Senator HURLEY—Many will still have to go through a separate application process?

Mr Telford—No. They have to go through the same application process everybody else has to go through, but I think the important point, if I understand the question, is that they have from 2008 to 2010. During that period, of course, we will be getting every possible one of our veterans to be registered with an access card, such that when the access card takes over from the gold card we will have had a very good idea at various points throughout that period about who does not have a gold card and who is still retaining a gold card. We will be following them up very carefully, encouraging them, finding out what the difficulties are and supporting them through the process to get them registered. I am not concerned about that issue.

Mr Sullivan—Gold cards will be issued and reissued during the period 2008 to 2010. There is no compulsion on an access card in that period of time.

Senator HURLEY—Going to the area of mental health, could you advise what new mental health initiatives have been put in place since January 2006. By 'new' I do not mean an expansion of current programs or a continuation of programs that were put in place, but new initiatives.

Mr Sullivan—An expansion is a new initiative. We will take it on notice and we will get you a good list. As far as I am concerned, an expansion is a new initiative. We will get you the lot and you can discard what you do not want.

Senator HURLEY—It may or may not have been an initiative. I mean, some expansions will just be a slight—

Mr Sullivan—For instance, expansion of the heart health program to younger veterans is a mental health initiative and a new one. If you said, 'I don't want that; that is an expansion,' I would say, 'Rubbish'. It is a mental health initiative aimed at younger veterans.

Senator HURLEY—If you could get me a list of those projects that you regard as new—

Mr Sullivan—Yes. I will get you the whole list.

Senator HURLEY—And how much they have cost then I would be grateful for that.

Mr Sullivan—We can do that.

Senator HURLEY—An answer to a question I placed on notice at last estimates said that there was no collection of statistics on veterans' suicides unless they were part of a formal health study, such as the Vietnam Veteran's health study. Given the problems faced by veterans in the area, I was a bit surprised by that. Could you confirm that that is so and why the department does not—

Mr Sullivan—We can report on veterans who are being paid compensation where the department is notified of the death and the death is at their own hand. We cannot report on the death of a veteran who is not seeking compensation or is not in receipt of compensation payments from the department or is not being dealt with by the department who takes his own life. We are saying that if you want comprehensive statistics on veteran suicides, the only time we do that is when we do a comprehensive health study, such as the Vietnam Veteran's health study. We can provide material. There is a compensation element to notification of death. Sometimes notification of death, by whatever means, may just result in the termination of payments. Where the death results in a claim by a dependent or a claim for a war widow's pension, then we examine the cause of death to determine whether or not it is war related or not. We can give you statistics on that. But, in respect of asking: 'Do we hold comprehensive statistics on suicide in the veteran community?' the answer is, no, we cannot and we do not because we do not compel veterans to deal with us, there are a lot of veterans who do not deal with us and we do not know in respect of death and cause of death. We can provide some material where we are advised in respect of cause of death. If there are no dependants, we may only be advised that the veteran has died and the consequence of that is termination of payment. Where there is a compensation element in respect of a dependent or a widow, then we look at the cause of death to determine whether or not it was related to war service or not.

Senator HURLEY—Even though it won't be an exhaustive indication of the number of suicides, it would be helpful if we could get the statistics that you do have in relation to that.

Mr Sullivan—We could look at what statistics we have. We will make sure the answer is endorsed and we just hope that people use it correctly—this is not a statement of how many veterans commit suicide. The statements about suicide amongst the Vietnam veteran cohort found in the Vietnam veterans health studies are far more accurate than anything you will extract from the Department of Veterans Affairs compensation statistics.

Senator HURLEY—Yes, I appreciate that. We might move on just briefly to outcome 4.

Senator Ellison—It is now 10.30, Mr Chair, and I was just wondering if there were any outcomes which we might say are now concluded. We are looking at outcomes 1, 2 and 4.

Senator HURLEY—This question will finish outcome 4.

Senator Ellison—Okay, that is good.

Senator HURLEY—But I would like to go back to outcome 1 if we have got time.

Senator Ellison—Okay. After this question, officials from outcome 4 can go.

Senator HURLEY—I turn now to the BEST program, the Building Excellence in Support and Training program. Could you give me a brief description of that program, its aims and the value of the current funding?

Mr Killesteyn—The BEST program was introduced in early 2000. Essentially it is a program designed to provide support for the ex-service organisations who are offering advocacy and pension officer services to veterans seeking to make a claim with the department. Essentially it provides two ex-service organisations administrative funding to run an office. So it is funding that might cover things like computer resources. There might be running costs associated with paper and stationary and so forth. There is probably small amounts of money there also in relation to administrative support staff. The funding is provided by way of application. Applications are called for each year. I think we are in round 9, if my memory serves me correctly. I think the applications close this year on 28 February. An evaluation process is then gone through and recommendations are made to the minister for the grant.

Senator HURLEY—What about the Training Information Program or TIP?

Mr Killesteyn—The TIP is a related program. It is a training program for those very same pension officers and advocates to provide them with the basic knowledge on the operation of the Veterans' Entitlement Act; the Safety, Rehabilitation and Compensation Act; and the Military Rehabilitation and Compensation Act. It is a training program which is very strongly supported by the ESO community. In fact a lot of the effort that goes into the TIP comes from particular individuals within the ESO community. The running of the programs in each state is overseen by a committee which is drawn from the ex-service organisations. They largely determine the number of programs that are going to be run in each state, the need for the programs and the types of individuals that are likely to benefit from the programs.

Senator HURLEY—Are there any current reviews of either of those programs or both of them?

Mr Killesteyn—There have been some issues in relation to concerns that have been expressed by the ex-service organisations in some states about the level of funding. We have provided assurances to the ex-service community about the level of funding. The funding for the BEST program is a special appropriation so it is fixed. In relation to the TIP, those funds are drawn from departmental resources. I guess as a consequence of our overall resource management issues as we move to national structures within the department, we have looked at the resourcing that goes into those programs. But the level of funding that has been provided, certainly to TIP from departmental and most certainly to BEST, is staying much the same.

Senator HURLEY—So the funding is the same, but is there any formal review of the program?

Mr Killesteyn—No, no formal reviews of those programs at this stage.

Senator HURLEY—There is no plan to cut funding for the foreseeable future?

Mr Killesteyn—There is no plan to cut funding for TIP, and the funding for BEST, as I said, is an annual appropriation—it is ongoing. To give you the figures, this financial year for

BEST funding totalled approximately \$3.583 million, which included some \$1.7 million in supplementary funding that the government provided the year before last, I think. That funding for BEST does lapse in June 2008 and, of course, we will be taking steps during the budget and policy process to look at that particular issue and put the issues to government.

Senator HURLEY—What is the funding for TIP?

Mr Killesteyn—I do not think I have the specific funding for TIP available to me. I can take that on notice.

Senator HURLEY—My next question is about prepaid envelopes. We have received a complaint from a volunteer pension officer for the RSL. The officer said that until recently they were provided with prepaid envelopes for their work but that they are no longer getting these envelopes. Has the department ever provided them and has there been any change to that?

Mr Killesteyn—That was a particular circumstance in Tasmania, if I remember correctly. It arose some time ago. It was a unique arrangement that had grown up in Tasmania. There was no other provision of self-funded envelopes in any other state. I guess on the basis that the BEST funding that is provided to ESOs is designed to cover administrative costs of running pension officer and advocacy work, which included correspondence, it was considered that that arrangement should no longer continue.

Senator HURLEY—When was that decision made?

Mr Killesteyn—I am going on memory, but it was sometime early last year, I think. It might have been late 2005, but I can get you more details on that.

Senator HURLEY—Who made that decision? Where did that emanate from?

Mr Killesteyn—We will let you know.

Senator HURLEY—That is all for outcome 4.

[10.38 pm]

CHAIR—We will move to outcome 6.

Senator HURLEY—Late last year there was an international veterans summit in Paris. Could you please explain the purpose and value of the International Veterans Administrations Ministerial Summit for veterans administration?

Mr Sullivan—Yes. In 2005 the British minister for veterans affairs asked his colleagues from Australia, New Zealand, Canada and the US to meet in London, and that was the first ever such meeting of veterans affairs ministers. It was a chance for ministers to discuss issues of common concern. That meeting heard some of the scientific evidence around post-traumatic stress disorder in particular and various approaches to it. It went for a day. Minister Kelly attended that one, incorporating it into a commemorations visit that she was making to France. She also suggested that if there were to be a further meeting Australia would be a good venue and that we would be willing to host such a meeting.

Getting a majority, let alone all, of those ministers to come to Australia at the one time was proving very difficult. When the French government invited a number of countries to a conference in Paris which was to discuss commemorations, particularly the French

government's plans for commemorations of the 90th anniversary of World War I battles and leading up into the armistice, we encouraged the minister to seek approval to go to that meeting with the French. That was approved. We then thought that, if our minister and all of those other ministers were going to be in Paris for the French meeting, one suggestion would be that Australia in its hosting of the ministerial summit could host that meeting in the Australian embassy in Paris on the day before the French meeting. So the Australian hosting of the ministerial summit took place in the Paris embassy on the day before the major French meeting. You would need to ask ministers what they saw the value of, but, as an observer to it, it was basically again a very, very good opportunity for ministers to discuss common issues. The issues which got particular attention, I think, were issues around younger veterans; the issues of reservists; a very good presentation by the American Secretary of Veterans Affairs on the experience of veterans coming out of Iraq and Afghanistan; and a presentation by, I think, the British assistant minister for defence for veterans affairs on the same topic.

Senator HURLEY—Were those papers circulated around?

Mr Sullivan—No, it was a closed informal discussion, but one which had relevance. In terms of holding it, for Australia it was a significant cost reduction. Certainly, as an observer to the meeting, I thought it was a very high-value meeting.

Senator HURLEY—A cost reduction in that if we had hosted it in Australia we would have hosted accommodation and—

Mr Sullivan—We would have generally hosted the in-Australia costs of the participants, which would have meant probably two or three nights accommodation plus programs around it. Instead of that, we used the Australian embassy, with the good graces of Ambassador Penny Wensley; we had a dinner at the home of the ambassador, who hosted that for the ministers; and we had no expenses in respect of those ministers.

Senator HURLEY—How many participants from Australia took part in that?

Mr Sullivan—The minister was the only participant, but I and two others from the department who were in France for the commemorations meeting were observers.

Senator HURLEY—If we could move back to outcome 2.

Mr Sullivan—This is a non-priority question.

Senator HURLEY—Speaking of priority questions, do you have an answer to the Clarke review questions?

Mr Sullivan—I think what it got down to is the question as posed—part 1 is yes, all of the Clarke review recommendations have been considered and those implemented, implemented. You went on to ask for a lot of information about details of each recommendation and costings, and I think our answer was that this is basically all too hard. The offer I would make is that, if there are particular recommendations, we would be happy to have a look at whether we could provide further information. I think in the end the question as posed was probably so broad that it would require us to do an awful amount of work to deliver the response, but in response to the question you asked me—has the government considered the Clarke recommendations—the answer is yes. Has it implemented those it wished to implement? Yes, it has.

Senator HURLEY—That is basically to say that everything that was recommended be implemented has been and anything that was refused clearly has not?

Mr Sullivan—Yes. There was then a lot of detail required, and if that could be refined, and maybe you can discuss it with us, we will see what we can do.

Senator HURLEY—Okay, so you are saying that the costing was too difficult.

Mr Sullivan—To cost every proposition put to Clarke is a very resource intensive exercise. If we could narrow it down, we can look.

Senator HURLEY—Okay. I will briefly go back to outcome 2 and the gold card announcement. In regard to Tasmania, the Central Queensland area and other hot spots in the country, have the medical specialists begun to accept the DVA card system?

Mr Sullivan—I think they have more than just started to accept it. The response to it has been very, very positive. In Tasmania, for instance, which I think was one of the ones you mentioned, and certainly is one of the ones that we were concerned about, we now understand that both neurosurgeons who had withdrawn services are treating veterans again. Eleven of the 12 orthopaedic surgeons in Tasmania had withdrawn services; all 12 have resumed services. Two of the five neurologists have resumed services to veterans. I do not have data on Central Queensland, but again the reporting we are getting from the AMA and others is that the measure has achieved its goal—that is, to restore confidence in the medical practitioners and other health providers in terms of the prices we pay for medical services. The response of the veterans organisations and community generally is also extraordinarily positive.

Senator HURLEY—So that includes major metropolitan areas as being an uptake?

Mr Sullivan—Yes.

Senator HURLEY—I am happy for you to take this on notice, but could we have the numbers and the specialties around the country for—

Mr Sullivan—I think we have talked about this before in terms of doctors advising us they have withdrawn and doctors advising us they have come back. We are doing this through direct research. We are asking if they have come back. I think our statistics are based on whether a doctor who comes back tells us he has come back. Not all of them do. So what we really are basing our very positive reaction to the measure on is that the veterans organisations—particularly through the treatment monitoring committees at both a state and national level—and the AMA are saying that doctors are coming back and are pleased with the result.

Senator HURLEY—As well as those who are coming back, are there any specialists who were not part of the scheme prior to this who are now starting to register?

Mr Sullivan—We are always registering new people and specialists. I would love to say that every new person we have done is—

Mr Douglas—We do not cover specialists. So they either elect to provide services under our arrangements or they don't. There is no obligation to tell us.

Mr Sullivan—But if they start doing it and they have never done it before, they can do that, but whether it is because of the new pricing or because they have just decided to—I would love to claim the credit for. I probably will.

Senator HURLEY—The minister will. We might move on to the next topic. Back into outcome 1, funeral allowances. Under the VEA, who is eligible for the \$1,000 funeral allowance?

Mr Sullivan—Any veteran whose death is regarded as war caused.

Senator HURLEY—Last year how many people received that allowance?

Mr Sullivan—I think we would need to take that on notice.

Senator HURLEY—Given the current DVA population and general trends, how many people would be eligible for this allowance over the next five years?

Mr Sullivan—I will provide you with some demographic data on veterans and you can make your conclusions from that. I am not going—I can't be in the business of predicting that.

Senator HURLEY—There has been—

Mr Sullivan—Clearly we have a World War II veteran population now of about 130,000 and that declines by about 10 per cent per annum as a rough guide. I am not sure what proportion of those you would expect to have been classified as war caused deaths.

Senator HURLEY—So it is not a huge number.

Mr Sullivan—It is a lot of money.

Senator HURLEY—Speaking of a lot of money, there are some veterans organisations noted—

Mr Sullivan—I think to give you a guide, in 2005 we had 10,522 recipients or their estates of dependants. In 2006 it fell to 9,591. I think you would expect it will decline at about that level.

Senator HURLEY—They are the people that got the \$1,000—the families got the \$1,000 funeral allowance.

Mr Sullivan—Yes.

Senator HURLEY—As I was saying, the veterans organisations noted that while a funeral allowance of \$5,000 was granted for the victims of the Bali bombings and note that they do deserve that kind of allowance, the funeral allowance for the war veterans is only \$1,000, under the MRCA it is \$9,000. Is the government looking at that figure?

Mr Sullivan—The government will look at all sorts of figures at all sorts of times. We have made the point that the funeral allowance under DVA is a contribution towards a funeral. It is not suggested to be the cost of a funeral. It has actually escalated in recent times quite significantly. So if I give you the number for 10 years ago, five years ago, one thousand looks very high. The compensation schemes which provide for funeral allowances, it is meant to cover the cost of a funeral. I will use very loose language and I do not want to be held to it, but it is a direct result of a compensatable event or the death in itself was the compensatable

event, which is different. But government is—the veterans organisations and veterans have certainly made government aware that they believe that it is inadequate and they draw the comparison between—I hadn't heard the Bali comparison, but they draw the comparison between SRCA and MRCA act benefits and government looks at these things.

Senator HURLEY—Just in the final few minutes that we have left, I want to talk about transport for gold card holders. Are there any regulations that specify a gold card holder is allowed only one DVA provided vehicle return trip per day regardless of how many consultations or appointments they have?

Mr Sullivan—Not that I am aware of. I think a DVA—a veteran who is meeting the guidelines as to travel will have that travel met. I will come back to you if I am mistaken in that belief, but I am very confident that there is no such restriction.

Senator HURLEY—Just on the subject of compensation for prisoners of war, what was the rationale for the government only awarding prisoners of war from Japan and Korea a one-off compensation payment of \$25,000 and not extending this payment to prisoners of war from Europe?

Mr Sullivan—At 3 minutes to 11, I will not talk for 15 minutes. If you want a very short but not complete answer—

Senator HURLEY—I do.

Mr Sullivan—One of the key distinctions was the failure of Japan or North Korea to sign the Geneva Convention, and the failure, in Korea and Japan, of things such as Red Cross parcels being accessible by prisoners. That was one of the key distinctions. In making any distinction like that there was never an intention to downplay or discredit in any way the experiences of prisoners of war in Europe because they lost their liberty, but the government decision, which is a decision that has been taken by most similar countries, was to restrict such compensation to the prisoners of Japan and the prisoners of north Korea.

Senator HURLEY—Do we have any figures about Australian prisoners of war in Europe, how many are still alive?

Mr Sullivan—I can give you those numbers. Would you like the figures of the widows of prisoners who are not alive? That is important material as well because you cannot forget the widows.

Senator HURLEY—Yes, that was going to be my next question. If I could have those statistics as well that would be good. I do have other questions but perhaps—

CHAIR—There are two minutes to go.

Mr Sullivan—Is this our Valentine's night bonus? No roses but a two-minute break.

CHAIR—I hope this is not going to reflect on our productivity.

Senator HURLEY—The other questions I will put on notice.

CHAIR—Thank you all for coming along and participating as always very frankly and helpfully.

Committee adjourned at 10.58 pm