

The Senate

Foreign Affairs, Defence and
Trade Committee

Additional estimates 2007–08

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Senate Standing Committee on Foreign Affairs, Defence and Trade

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Senator Russell Trood (LP, Qld) (Deputy Chair)
Senator Mathias Cormann (LP, WA)
Senator Michael Forshaw (ALP, NSW)
Senator John Hogg (ALP, Qld)
Senator Hon Sandy Macdonald (NATS, NSW)
Senator Anne McEwen (ALP, SA)

Other senators who participated

Senator J Adams (LP, WA)
Senator C Bernardi (LP, SA)
Senator Hon R Boswell (NATS, Qld)
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Senate Standing Committee on Foreign Affairs, Defence and Trade

Report to the Senate

Introduction

1. On 13 February 2008, the Senate referred to the committee for examination and report the following documents:

- Particulars of certain proposed additional expenditure in respect of the year ending 30 June 2008 relating to the Defence portfolio and the Foreign Affairs and Trade portfolio, and
- Particulars of proposed additional expenditure in respect of the year ending 30 June 2008.

2. The committee has considered the proposed additional expenditure for the year ending 30 June 2008. It has received evidence from the Minister representing the following ministers: the Minister for Foreign Affairs; the Minister for Trade; the Minister for Defence; and the Minister for Veterans' Affairs, and officers of the departments and agencies concerned.

3. The committee met in public session on 20 and 21 February 2008. Further written explanations provided by departments and agencies will be presented separately in volumes of additional information. This information will also be placed on the committee's internet site (www.aph.gov.au/senate_fadt).

Questions on notice

4. The committee resolved, under Standing Order 26, that written answers and additional information should be submitted to the committee by close of business on Thursday, 10 April 2008.

Defence portfolio

Department of Defence

5. The committee acknowledged the presence at the hearings, of Mr Nick Warner, Secretary of the Department of Defence, and Air Chief Marshal Angus Houston, AC, Chief of the Defence Force (CDF).¹

Chief of the Defence Force opening statement

6. Air Chief Marshal Houston gave the committee a comprehensive update on ADF operational activities since the budget estimates hearings in May 2007.

1 Transcript page numbers for each day begin at page 1. The Defence portfolio hearing is in *Proof Committee Hansard*, 20 February 2008. (See the transcript index at back of this report.)

7. He informed the committee that:

This year the ADF is authorised to deploy about 3,900 personnel to nine overseas operations. This means that up to 12,000 members of the ADF will be in the operational deployment cycle in the next 12 months—working up, deployed or reconstituting. In addition, about 450 personnel are conducting mainland Australia and maritime protection operations, about 105 personnel are providing assistance to Aboriginal communities in the Northern Territory and there will also be a number of additional forces engaging in international exercises or country visits.

There is absolutely no doubt that the ADF is currently experiencing a very high level of operational tempo. That said, I am very comfortable with the way in which we are managing our varied commitments. We maintain a robust preparedness management system that is used to provide accurate and well-considered advice to government on military options and concurrency implications. Additionally, we continue to ensure that defence personnel and assets remain available to respond to our domestic and regional responsibilities should a short-notice contingency arise...I think we demonstrated this readiness state last week when we successfully deployed HMAS Perth and air-landed, by C130 and C17 aircraft, 200 soldiers and their equipment to East Timor in a few hours after the request for additional support came from the East Timorese government.²

8. Air Chief Marshal Houston also updated the committee on operations in Timor–Leste³ (Operation Astute), Afghanistan (Operation Slipper) and Iraq (Operation Catalyst).⁴

Secretary's opening statement

9. Secretary of the Department of Defence, Mr Nick Warner, informed the committee that since his opening statement last year 'Defence has made further significant progress towards improving its efficiency and effectiveness' in a number of areas. In relation to Defence's financial statements, Mr Warner stated:

Last year the ANAO signed off on our 2006–07 financial statements as true and fair, except for the general stores inventory. This means we have removed uncertainty on about \$2.2 billion worth of repairable items...We are now focusing on removing the uncertainty around general stores inventory...significant work still needs to be done on legacy pricing and we are working with ANAO on addressing this issue.⁵

2 *Proof Committee Hansard*, 20 February 2008, pp. 3–4.

3 East Timor achieved independence on 20 May 2002 and on 27 September 2002 joined the United Nations with the official name Democratic Republic of Timor–Leste.

4 *Proof Committee Hansard*, 20 February 2008, pp. 4–6.

5 *Proof Committee Hansard*, 20 February 2008, pp. 19–20.

10. Mr Warner also updated the committee on the implementation of the Defence Management Review:

I am pleased to report today that 16 of the 52 fully or partially agreed review recommendations have been implemented and the rest are well underway. CDF and I want the major elements of this review and an enhanced governance framework in place by 1 July this year. The framework will refine and improve our information and risk management, customer supplier agreements and performance reporting.⁶

11. In relation to weapons security, the committee was advised that:

we have now completed the audit of our weapons, munitions and explosives security policies and practices. The first phase...concentrated on the M72 rocket launchers. The second phase reviewed the status of security for all defence weapons, munitions and explosives.

The audit found that, while significant improvements had been made to our security procedures since 2000, our policies and practices needed further tightening and enhancing. The audit also recommended a stronger oversight and compliance regime.⁷

12. Other topics examined during the hearing included:

Portfolio overview

- Update on proposed deployment, if any, of forces into Darfur (p. 6).
- Afghanistan: new Operational Mentoring and Liaison team (OMLT) (pp. 6, 7 and 39); Reconstruction Task Force (pp. 6–7); operational changes made as a result of the deaths of three ADF personnel in Afghanistan (p. 7); issues relating to access to NATO documents and closer contact with NATO (pp. 7–9 and 12–13); strategic progress and threats (pp. 11–12 and 39–40).
- Iraq: plans to withdraw Overwatch Battle Group West in mid-2008 (pp. 9–11); remaining personnel in Iraq (p. 36); Australia's long-term commitment to Iraq (pp. 36–37); Iraq casualty figures (pp. 37–38); improvised explosive device (IED) attacks (pp. 38 and 53); total cost of Operation Catalyst (pp. 38–39).
- Timor–Leste: watching brief on Reinado (pp. 13–18 and 41); shooting of the President and attempted ambush of the Prime Minister (pp. 18–19, 34 and 41); written briefings to the Minister (pp. 16–17 and 43–44).
- HMAS *Westralia*: referral to the Commonwealth Ombudsman (p. 21).
- Asset management: full inventory of assets (pp. 21–22); general stores inventory and legacy pricing (pp. 22–25).

6 *Proof Committee Hansard*, 20 February 2008, pp. 20–21.

7 *Proof Committee Hansard*, 20 February 2008, p. 21.

- Security clearances for ministerial staff (pp. 30–34).
- Government's pre-election commitments in relation to health care for ADF members' families (pp. 34–35).
- Proposed White Paper (pp. 41–42).
- Scoping study into future submarine capability and needs (pp. 42–43).

Budget summary

- Application of two per cent efficiency dividend to Defence's non-operational areas (pp. 25–27, 28–29 and 53–55); current budget and possible savings (pp. 27–28 and 29).

People—Defence personnel

- Update on ADF drug and alcohol policy for contractors (pp. 44–45).
- Gap year program (p. 45).
- Reserve rotation to Solomon Islands (p. 74).
- Cadet Enhancement Program (pp. 74–75).
- Relocation of Amberley State School (pp. 75–76).

Capability development and Defence Materiel Organisation

- Scoping study into future submarine capability and needs (pp. 42–43).
- Acquisitions process and legacy projects (pp. 45–48).
- Review of Australia's air combat capability (pp. 48–53 and 55–57), including: Super Hornet and cost of cancelling contract (pp. 48–50, 56 and 57); status of Joint Strike Fighter (JSF) project (pp. 50–53 and 57); examination of F–22 (pp. 52–53 and 55); status of F-111 (p. 56).
- Guided Missile Frigate (FFG) upgrade program, including Electronic Surveillance Measures (ESM) System (pp. 57–60).
- Cancellation of JP2072 contract with General Dynamics (p. 60).
- Air warfare destroyers program (p. 61).
- Wedgetail airborne early warning and control (AEW&C) aircraft (pp. 61–62).
- Amphibious ships (Landing Helicopter Dock (LHD) project) (pp. 62–64).
- Fuel problems with Armidale class patrol boats (p. 64).
- Testing of new combat system and heavyweight torpedo in HMAS *Waller* (pp. 64–65).
- Seasprite helicopter program, including issues to be resolved with Kaman (pp. 65–70).
- Five projects of most concern (pp. 70–71).
- Armed reconnaissance helicopter (ARH) project (pp. 71–72).

- Bushmasters: upgrades and exporting (p. 72).
- Negotiations with ANAO on guidelines for the top 30 projects (pp. 72–73).
- Delivery of C-17 Globemaster (p. 74).
- Government policy on parliamentary oversight of the major Defence acquisition program (p. 75).

*Department of Veterans' Affairs*⁸

13. The committee acknowledged the presence at the hearings of Mr Mark Sullivan, Secretary, and officers of the Department of Veterans' Affairs.

14. Matters raised by the committee included:

Outcome 1—Compensation

- Statistics on recipients of financial support (pp. 77–78).
- Claims processing and establishment of Special Claims Unit (p. 78).
- Impact of two per cent efficiency dividend on DVA services (pp. 78–79).
- Funding for increases in utilities and seniors' concessions allowances (p. 79).
- Veterans Review Board (pp. 79–80).
- Defence Service Home Loans Scheme (p. 80).
- Statistics on veterans' claims under the Military Rehabilitation and Compensation Act and the Safety, Rehabilitation and Compensation Act (pp. 80–81).
- Indexation process for veterans' disability pensions (pp. 81–82).

Outcome 2—Health

- Respite care program (p. 87).
- Update on implementation of the government's pre-election commitments (pp. 87–88).

Outcome 3—Commemorations

- Days of commemoration for the Battle for Australia and the Merchant Navy (pp. 85–86).
- Possible assistance for groups who run annual commemorative services (p. 86).
- Selection of veterans to form an official delegation to Beersheba for the opening of the Park of the Australian Soldier (pp. 88–89).
- Rebuilding of the Australian memorial at Le Hamel in France (pp. 89–90).

8 Transcript page numbers for Department of Veterans' Affairs refer to *proof Committee Hansard*, 20 February 2008.

- Planning for the Australian interpretive centre at Villers–Bretonneux in France (pp. 90–92).
- Planning for Anzac Day services in Gallipoli and on the Western Front, including discussions with Turkish Government about work on roads and infrastructure (pp. 92–93).
- Hyde Park memorial in London (pp. 93–94).
- Funding for ex-prisoners-of-war memorial in Ballarat (p. 94).

Outcome 4—Advice and information

- Letter advising veterans of an increase in the utilities allowance (pp. 95–96).

Outcome 5—Joint DVA/Defence support services

- Defence Links program (p. 96).
- Possible parliamentary inquiry into the F-111 deseal/reseal program; services provided to workers involved (pp. 96–97).
- Interdepartmental working group to assist veterans in dealing with multiple agencies (p. 97).

Output 6

- Secondment of DVA staff to the Minister's office (pp. 82–84).
- Impact of two per cent efficiency dividend on property (pp. 86–87).
- Prime Ministerial Advisory Council on Ex-Service Matters (pp. 97–98).
- Whether salary restraint will apply to SES staff in the department and its agencies, including independent statutory authorities (pp. 98–102).

Australian War Memorial⁹

15. The committee acknowledged the presence at the hearings of Major General Steve Gower, Director, and officers of the Australian War Memorial (AWM).

16. The committee questioned the AWM about funding for the development of the Australian peacekeeping memorial (p. 77).

9 Transcript page numbers for the Australian War Memorial refer to *proof Committee Hansard*, 20 February 2008.

Foreign Affairs and Trade portfolio

Department of Foreign Affairs and Trade

17. The committee acknowledged the attendance at the hearings of Mr Doug Chester, Deputy Secretary, and officers of the Department of Foreign Affairs and Trade.¹⁰

18. The committee examined the issue of the 2 percent efficiency dividend and the department's approach to meeting that target. Mr Chester, Deputy Secretary, and officers provided information to the committee on the range of strategies that will be employed to implement the Government's decision.¹¹

19. Other matters raised during the hearing are listed below.

Portfolio overview

- Funding arrangements and budget cuts; Australia on the World Stage; salaries budget; staffing in posts (pp. 5–14).
- Australia on the World Stage (pp. 13–20).
- Reduction in the administrative budget; staff working conditions and entitlements (pp. 20–24).
- Alleged breaches of UN sanction (pp. 24–25).
- Contracts for speeches for the former Minister for Foreign Affairs (pp. 25–26; 38–40).
- Mr Trent Smith (pp. 26–28).
- Mr Hynde's security clearance (pp. 28–31).
- Staffing arrangements for the minister and parliamentary secretaries (pp. 31–32).
- Mr Mamdouh Habib (pp. 32–34).
- Recruitment processes and the focus on savings (pp. 34–37).
- Post election speeches prepared for minister; Mr Smith's speech (pp. 32; 41–43; 57–58).

Output 1.1

1.1.1—North Asia

- Closure of North Korean embassy in Canberra (p. 44).
- Strategic dialogue with China (pp. 44–45).

10 Transcript page numbers for each day begin at page 1. Foreign Affairs and Trade portfolio hearings are in *proof Committee Hansard*, 21 February 2008. (See the transcript index at back of this report.)

11 *Proof Committee Hansard*, 21 February 2008, pp. 5–24, 34–37.

- Taiwan (pp. 45–46).
- Japanese whaling, the *Oceanic Viking*, surveillance flights; diplomatic representation (pp. 46–53).
- Australia's relationship with Japan; a free trade agreement with Japan; trade policy issues (pp. 53–55).
- Quadrilateral dialogue (pp. 55–57).
- Prime Minister's visit to Hong Kong (pp. 58–61).

1.1.2—South East Asia

- Australia's relationship with East Timor (p. 61–62).

1.1.7—Bilateral, regional and multi-lateral trade negotiations, and

1.1.8—Trade development /policy coordination and APEC

- Department's role in maximising Australia's export and international business performance; overall assessment of performance (pp. 100–101).
- Dohar round (pp. 101–102, 104).
- New markets for Australia's wheat and olive oil (p. 102).
- Free trade agreements (pp. 103–104).
- Review of DFAT's trade policies and programs (pp. 104–106).
- Free trade agreement research project (pp. 106–107).
- Sandalwood oil industry (pp. 107–108).

AusAID

20. The committee acknowledged the attendance at the hearings of Mr Bruce Davis, Director General, and officers representing AusAID.

21. Matters raised by the committee included:

- Sexual and reproductive health program in East, South–East Asia and the Pacific (p. 62).
- AusAID's approach to the efficiency dividend (pp. 63–64).
- Millenium Development Goals, efficiency dividend and the white paper. The Asia–Pacific Partnership for Development and Security (pp. 64–65).
- Program commitments in Asia–Pacific and South East Asia (p. 66).
- Contractor to AusAID in East Timor (p. 67).
- Vision Myanmar project and its client base (pp. 67–68).
- Closure of the detention centre on Nauru; memorandum of understanding (pp. 68–69).
- AusAID's aid programs in Iraq (pp. 69–72).
- Expanded assistance programs in Afghanistan and Pakistan (pp. 72–75).

- Humanitarian assistance in Dafur (p. 75).
- Assistance for victims of post–election violence in Kenya; scholarships (pp. 75–76; 83).
- International Donors' Conference in Paris, the World Bank and the Palestinian Authority (pp. 77–81). World Bank trust fund process; setting up the East Timor fund (pp. 80–82).
- Ongoing commitment to funding HIV/AIDS programs and research programs; Clinton Foundation (pp. 83–85).
- Guest workers scheme in Australia (pp. 86–87).

Austrade

22. The committee acknowledged the attendance at the hearings of Mr Peter Yuile, Deputy Chief Executive Officer, and officers representing Austrade.

23. Matters raised by the committee included:

- Austrade's performance (pp. 88–89).
- Review of Austrade's export policies and programs (pp. 89–91).
- Staffing issues and the efficiency dividend (pp. 91–92).
- Invest Australia (pp. 92–94).
- Free trade agreement website and the Austrade website (pp. 94–96).
- Clean energy export strategy (pp. 96–97).
- Sandalwood oil industry (p. 97).
- Export Market Development Grants Scheme (pp. 98–99).
- US trade facilitators program (p. 99).

Acknowledgements

24. The committee thanks the Special Minister of State, Senator the Hon John Faulkner, for his assistance given during its hearings. The committee also acknowledges the attendance and cooperation of the many departmental and agency officers and the services of various parliamentary staff involved in the estimates process.

Senator Mark Bishop

Chair

**Senate Standing Committee on Foreign Affairs,
Defence and Trade**

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