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DEFENCE AND TRADE DEFENCE SUBCOMMITTEE

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JOINT COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

Defence Subcommittee

Wednesday, 12 March 2003

Members: Senator Ferguson (*Chair*), Mr Brereton (*Deputy Chair*), Senators Bolkus, Cook, Eggleston, Chris Evans, Harradine, Hutchins, Johnston, Sandy Macdonald, O'Brien, Payne and Stott Despoja and Mr Baird, Mr Baldwin, Mr Beazley, Mr Bevis, Mr Byrne, Mr Edwards, Mr Laurie Ferguson, Mrs Gash, Mr Hawker, Mr Jull, Mr Lindsay, Mrs Moylan, Mr Nairn, Mr Price, Mr Prosser, Mr Scott, Mr Snowdon, Mr Somlyay and Mr Cameron Thomson

Subcommittee members: Mr Scott (*Chair*), Mr Price (*Deputy Chair*), Senators Chris Evans, Ferguson (*ex officio*), Hutchins, Johnston, Sandy Macdonald and Payne and Mr Baldwin, Mr Beazley, Mr Bevis, Mr Brereton (*ex officio*), Mr Byrne, Mr Edwards, Mrs Gash, Mr Hawker, Mr Lindsay, Mr Nairn, Mr Snowdon, Mr Somlyay and Mr Cameron Thompson

Senators and members in attendance: Senators Ferguson, Hutchins, Johnston and Sandy Macdonald and Mr Bevis, Mr Byrne, Mr Edwards, Mr Price, Mrs Scott and Mr Cameron Thompson

Terms of reference for the inquiry:

To inquire into and report on:

The ADO ability to deliver the necessary capabilities to meet Australia's strategic interests and objectives as defined in Defence 2000, with specific reference to the:

- ADO capability to apply the maritime strategy outlined in Defence 2000 in the current strategic environment;
- primary roles in Australia's maritime strategy of the key components of the ADO, including the three services, Defence Intelligence Organisation and ADF Command and Control structure;
- impact of Australia's maritime strategy on ADF capacity to participate in combined, multi-national regional and global coalition military operations;
- integration of maritime strategy with the other elements of Australian national power to achieve specified national strategic interests and objectives;
- impact of the evolving strategic environment on Australia's maritime strategy; and
- integration of Australian Defence Industry into capability development to support a maritime strategy.

WITNESSES

BLACKBURN, Air Vice Marshal John, Head, Policy Guidance and Analysis, Strategic Policy, Department of Defence.....	277
CARMODY, Mr Shane, Deputy Secretary, Strategic Policy, Department of Defence	277
EVANS, Commander Geoffrey, RANR Rtd, Chairman, Federal Advisory Council, Navy League of Australia	255
GOLDRICK, Commodore James, Director-General, Military Strategy, Policy Guidance and Analysis, Department of Defence	277
GREENFIELD, Commodore Paul, Director-General, Maritime Development, Department of Defence.....	277
GRIFFETT, Mr Trevor Alan, Manager, Policy Development and Labour, Australian Shipowners Association.....	267
HARRIS, Commander Graham McDonald, RANR Rtd, National President, Navy League of Australia	255
LEARMONTH, Mr David, Head of Industry Division, Defence Materiel Organisation	277
O’CONNOR, Mr Michael James, Executive Director, Australia Defence Association.....	241
RAWLINSON, Air Commodore Michael John, President, Royal United Services Institute of Victoria	232
REDMAN, Lieutenant Commander John David, Committee Member, Royal United Services Institute of Victoria.....	232

Committee met at 9.28 a.m.

CHAIR—I declare open this public hearing of the Defence Subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade inquiry into Australia's maritime strategy. The 2000 defence white paper, in referring to a maritime strategy, states that the key to defending Australia is to control the air and sea approaches to our continent so as to deny them to hostile ships and aircraft and provide maximum freedom of action for our forces.

The inquiry aims to develop a comprehensive understanding of maritime strategy and its place within Australia's broader military strategy and defence policy. The inquiry is not limited to an examination of Australia's naval or maritime forces, nor is it focused only on the defence of Australia. For example, the inquiry will examine the implications of maritime strategy to other tasks set out in the white paper—namely, how Australia's defence policy contributes to, firstly, the security of our immediate neighbourhood; secondly, the international coalitions beyond our immediate neighbourhood; and, finally, support for peacetime national tasks.

The inquiry is challenging and particularly significant in ensuring that Australia's maritime strategy effectively underpins broader defence policy and helps to achieve national security objectives. Given the significant developments in the international security environment, it is timely to conduct this examination and ensure that Australia's defence strategy is adequate and capable of meeting new threats such as transnational terrorism.

The subcommittee has previously conducted public hearings in Canberra on 25 and 26 February and in Sydney yesterday. Today the subcommittee will take evidence from the Royal United Services Institute of Australia, the Victoria Council, the Australian Defence Association, the Navy League of Australia, the Australian Shipowners Association and the Department of Defence. Before introducing the witnesses, I will refer members of the media who may be present at this hearing to the need to fairly and accurately report the proceedings of the committee.

[9.31 a.m.]

RAWLINSON, Air Commodore Michael John, President, Royal United Services Institute of Victoria

REDMAN, Lieutenant Commander John David, Committee Member, Royal United Services Institute of Victoria

CHAIR—I welcome representatives of the Royal United Services Institute of Victoria to today's hearing. Although the subcommittee does not require you to give evidence on oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses. The committee has received your submission. I now invite you to make an opening statement and to, firstly, briefly outline your past history, as it would help members of the committee to understand your background.

Air Cdre Rawlinson—I am a former Air Force officer and I am President of the Royal United Services Institute of Victoria. The matters pertaining to Australia's maritime strategy were raised by former naval officers who are members of our council. I thought the case they raised was blindingly self-evident. I used to be a navigator. You have probably been briefed by Air Vice Marshal John Blackburn. He would probably agree that things would have to be blindingly obvious if navigators can perceive them. I am here today to advance the case raised by members of our council. John Redman is here to provide some support and answers with respect to the naval aspects.

Lt Cmdr Redman—I served in the Royal Navy and Royal Australian Navy as an engineer. I have a Bachelor of Engineering and a Masters of Engineering. I resigned from the Navy in 1977 and subsequently worked for the Pricewaterhouse consulting group, where I ended up as a director. I also worked for Ernst and Whinney, as it was in those days—Ernst and Young as it is now—as national director of their consulting group and I then ran Pannell Kerr Foster's consulting group. I have kept a keen interest in the service. I am a committee member of the Royal United Services Institute, and for the past 12 years I have been the Victorian chairman of the Naval Officers Club.

CHAIR—Would you like to make an opening statement?

Air Cdre Rawlinson—Basically, our submission is not on the main line of Australia's maritime strategy. We recognise that in many respects Australia has had a maritime strategy for some time—maybe not one which you would use capital letters on. However, there are some aspects of the strategy, and a particular aspect is sea-lift support from the Australian merchant marine. That is an area which the council of the RUSI perceives some inadequacy and on which we wish to make our submission.

Lt Cmdr Redman—We are extremely concerned about the lack of availability of Australian flag vessels being taken up from trade in times of an emergency. Our concern is that, if they are taken up from trade from another nation under another flag then we would not have control of the ship's company or the ship—it will be in the hands of others and they may control their ships for political or religious reasons and not want to do what we want to do with them.

CHAIR—I now open the hearing to questions from committee members.

Senator HUTCHINS—In your submission you concentrate on the merchant marine. Yesterday, the MUA talked about its concern about flags of convenience and about short-term visas—I cannot remember the term they used. The shipowners' submission, which you have probably not seen, also talks about difficulties. Also, last week the shipowners talked about a problem they saw in the future with a lack of long-distance truck drivers. Are there any other areas of our military strategy in the civilian sphere that you want to talk about that you would see a problem with in the future? You see a problem with the merchant marine. We had a very good case put to us by the MUA yesterday and the shipowners put that position too. Are there any other aspects of our strategy that are non-military that are worrying you, in addition to what you have already said?

Lt Cmdr Redman—It would be the training of the maritime people. It is a very long-term business. If we were to lose that skill set it is unlikely that we could get it back in a short period of time. That would probably be one of the main concerns. I am not sure that truck drivers—

Senator HUTCHINS—I am just saying that they commented on it last week—and that another aspect of this inquiry that has been highlighted appears to be non-military personnel shortages in a time of crisis.

Lt Cmdr Redman—I would have thought that we could have got that skill set back relatively quickly, whereas in the maritime industry it is the same as the aviation industry—once the skill set is gone it is gone for good.

Senator HUTCHINS—I have no idea how long training for people in the merchant marines takes.

Lt Cmdr Redman—For a ship's captain or a chief engineer we are probably talking about the best part of 15 or 20 years from the time of being an apprentice.

Senator HUTCHINS—So they come from able seaman right up to—

Lt Cmdr Redman—The merchant marine use the expression 'apprentice' as we would use the term 'cadets'. It would take a considerable amount of time.

Senator HUTCHINS—For how long has this decline, if I can use that term, been occurring?

Lt Cmdr Redman—I guess it is from the demise of the ANL. It has been going on for probably about 10 to 12 years. It has been quite some time.

Senator HUTCHINS—What could we recommend that should be done?

Lt Cmdr Redman—We would like to see incentives for operators to operate under the Australian flag. We are obviously a very large maritime nation, and our trade is carried in non-Australian flag vessels at the moment. We assume, for commercial reasons, that it is cheaper to do that. I would like to think that we could look at ways of either giving bounties or reducing imposts on Australian flag vessels.

Mr BEVIS—In all previous wars of modern times, and in major deployments, the merchant navy has been a feature of the logistics. I understand the concern that you may have in relation to that, but there was a connection made in the evidence yesterday—which, I must confess, I had not made until it was pointed out to us—between flags of convenience ships, which now are used in a growing part of the trade, and involvement with terrorist groups. Indeed, we were given some information about al-Qaeda's alleged ownership of some ships. Is that dimension of a merchant navy something that you have considered or looked at?

Air Cdre Rawlinson—Actually it is not, but when it gets down to how many ships, there are about 50 Australian flag ships. Of those 50, 50 per cent are bulk carriers, including some very large ships—150,000 tonnes—which are of no use to the ADF at all. The ADF is more interested in a 5,000 or 10,000 tonne ship, so there is only a handful of ships, out of a very small merchant fleet, that you could really consider. It is only by using our ships with our crews that we have that degree of assurance and security.

Mr CAMERON THOMPSON—An alternative in addressing this issue, or something that may help mitigate the problem that you are highlighting would be for the Australian Navy to have more general shipping, as opposed to warships. Can you comment on that?

Air Cdre Rawlinson—Our approach has been a demand-side approach of saying, 'We need more ships.' That would be one solution, but I would think that it would not be a very cost-efficient solution.

Mr CAMERON THOMPSON—In one of the submissions I was reading, someone was saying that you could have vessels like that staffed by the Naval Reserve and that they could be held in some sort of contingency. In terms of the quantity or the capacity that you would need in that regard, can you comment on that? What capacity or quantity in merchant shipping do we need to support Australian forces as opposed to just conducting general trade?

Air Cdre Rawlinson—If we look at a couple of contingencies occurring at the same time, for East Timor we chartered 20 ships, of which 17 were foreign-flagged. That included the use of HMAS *Jervis Bay*, from Incat in Tasmania—which fortuitously happened to be sitting there available at the time—which was a great innovative tick to Navy, but normally that vessel would not be available in Australian waters. There is one which fitted. If the deployment had been further away, that vessel may not have been as suitable as it was. As to how many we need, do we need 100 per cent surety of vessels? I would not think so. I think we would just need to do somewhat better than what we are doing at the moment.

The naval ships *Tobruk*, *Kanimbla* and *Manoora* are very capable ships to start off with or to support a small deployment. But, if we are talking about a brigade-size deployment—which is about the size in the case of East Timor—and we have a mechanised brigade which is deployable, then you are going to use that number of ships to sustain it. So, all up, you are going to have 20 ships. You may want to do something else at the same time, some peacekeeping humanitarian action, so you would also require ships to be available for that. Therefore, you may need 20 to 30 ships. Chartering some of these ships is entirely reasonable, but we think chartering all of them is risky.

Mr CAMERON THOMPSON—The question also arises about the type of vessel. You mentioned yourself that an Incat vessel was called in in the case of East Timor, not a traditional

type of ship. A lot of what we have heard focuses on that 'arc of instability' around Australia that people like to talk about—the close-in area and, in particular, the archipelago to our north. Does the institute have a view about the suitability of vessels? Is it better to have access to more of the fast, smaller vessels such as those made by Austal Shipping or Incat than to big freighters?

Air Cdre Rawlinson—The term 'a big freighter'—as I have found out in researching this as an air force person—does not apply any more. I would say that 50 per cent of the Australian fleet are bulk carriers, and some of them are very large ships. Even the smaller ones are not really suitable for military operations. I believe we have one container ship. Container ships are highly efficient, but they require a highly efficient container port to service them. The likelihood of this being available for military operations is very low. The sorts of ships that fit are roll-on, roll-off ships, of which I believe we have eight; or self-sustaining general cargo ships, of which we may only have one—and probably 3,500 to 10,000 tonnes in size.

Mr CAMERON THOMPSON—I am interested in these fast cat type things, because Australia seems to have expertise in producing these types of vessels. We seem to also have a lot of that type—for example, operating cruises in Barrier Reef waters—although they are smaller than the types you would generally opt for. But there is also the speed issue. The sorts of vessels you are talking about would not go very fast.

Air Cdre Rawlinson—That is true. But—and, again, I am speaking with limited knowledge—I noticed that when the catamaran was going across to Tasmania it did not sail every day, much to the dismay of some of the people who thought they were going to be travelling on it. So there are trade-offs there. I would have to bow out on expertise, but I note that there are not any large passenger-carrying catamarans operating in Australia. In fact, the only dedicated passenger ships are the two *Spirit of Tasmania* ferries.

Senator SANDY MACDONALD—I can understand your legitimate concern about the low number of Australian flag ships—for all sorts of reasons as a trading nation—but Defence's No. 1 priority is the defence of mainland Australia. A lack of Australian flag ships does not affect that capability. If you talk about the next requirement of being able to contribute to the immediate neighbourhood, certainly it becomes a concern—and, yes, I note the point you made about East Timor. But, even if Australia had a very large maritime flag fleet, it would be unlikely that at short notice something like the 14 or 17 ships that were not Australian flag ships would be available locally to do the job that needed to be done. The point you are making is quite legitimate. I just wonder how relevant it is to the ADF's capacity to do the jobs that need to be done. If you take our capacity to contribute to an international effort then, again, it is going to be done in cooperation with a large military power. These decisions will be outside the capacity of the Australian flag fleet to satisfy. Having acknowledged all that I have said, what exact additional capability could be added to Navy to provide the lift required?

Lt Cmdr Redman—We are not suggesting that they should be Navy ships under the white ensign; we are suggesting that they should be available to the Australian Defence Force. I agree with what are you saying, but I was involved in Cyclone Tracey and we certainly used a lot of ships at that time to get Darwin up and running again.

Senator SANDY MACDONALD—A lot of non-naval ships?

Lt Cmdr Redman—No. We had the naval ships at the time, which we used.

Senator SANDY MACDONALD—What is your advice on what sorts of amphibious lift ships we should perhaps consider?

Lt Cmdr Redman—Roll-on, roll-off are the obvious ones to move containers around. If we were needed to provide support in the Solomon Islands, we would have to have some container ships going across there. We may have a problem of course, if it is a civil catastrophe, in getting containers off the ships. We cannot assume that there would be cranes there to get them off, so that is why I am thinking of roll-on, roll-off. If it was an earthquake or a tidal wave or whatever it might be, you would probably find that the dock facilities would be damaged. We do not have any heavy lift ships, as the Americans have, so it would have to be roll-on, roll-off. We do not need a lot; we just need a core to keep the expertise that we have, and maybe we can expand it later on. I do not think we need 20. If we had access to four, say, it would be a big improvement. We could not take the ships from the Tasmanian ferries, for instance. We could not call those up from trade because, if we did, Tasmania would be isolated. So, although there are some flag vessels, we have to consider what the repercussions would be if we did take them up from trade. We could take up the tourist ships from the Barrier Reef, as you mentioned, but we would certainly have to be careful about what we took from the Tasmanian trade. It is quite complex.

Senator SANDY MACDONALD—Is there a naval platform that you think Navy should have that they do not have?

Lt Cmdr Redman—They could have more of what they have got, but I think they are fairly well covered.

Mr EDWARDS—To backtrack a little, although this is related to what we are discussing, Mr Thompson mentioned another submission. That submission says:

We consider that the Government should institute a search for further vessels of the *Kanimbla* and *Manoora* style and seek to acquire them ... These vessels should form part of the Royal Australian Navy and should be crewed by what were once called Royal Australian Naval Reserve and Royal Australian Naval Volunteer Reserve (“wavy navy”) personnel.

You would not go that far? Could you comment on both of those aspects? I think you have already dealt with one of them—the acquisition of such ships—but could you also comment on the capacity of the Naval Reserve to undertake such tasks?

Air Cdre Rawlinson—I thought the capacity of the Naval Reserve was pathetically small.

Mr EDWARDS—Dangerously small?

Air Cdre Rawlinson—No, I would not say dangerously small. It was very small.

Lt Cmdr Redman—I would say dangerously small.

Air Cdre Rawlinson—It is a bit like the Australian merchant fleet—very small. I guess that is one approach to solving the problem. Again, we were rather demand side oriented, saying, ‘Here is something that needs to be done.’ It could be done that way. It could be done by subsidies to Australian operators to have excess capacity in certain types of ships—for instance,

roll-on, roll-off on the Tasmania run—so that we would know there was a ship available. There are various solutions to the demand. I do not think anyone in Navy would disagree terribly with that if there were extra money coming for it.

Mr EDWARDS—I know you do not speak with one voice; that is the nature of your council, but could you comment, Lieutenant Commander Redman, on the points raised in that other submission?

Lt Cmdr Redman—If you are going to have a ship manned by the Naval Reserve, they would have to serve for an extended period of time. You could not have the ship's company changing every month. I could see you running into problems in getting adequate numbers in the Naval Reserve who are prepared to commit, say, two years to the ship. I do not think you would probably even want them changing every 12 months. The costs would be quite high. However, if you were subsidising a merchant ship, she would actually be earning money and offsetting the costs, and you could write into the contract that she must be available for naval service within X number of weeks—maybe four weeks. It is not unique. The Royal Navy have been doing this for 100 years, and the United States Navy also do it. It is a very similar system where they have ships that they can call on. During the Falklands War, the Royal Navy called up from trade and used a number of ships—the *Canberra*, the *Uganda*, the *Atlantic Conveyer* et cetera. Once you have merchant ships, you can then encourage the merchant seamen to join the Naval Reserve. This is a better way than getting people from civilian life—because where else are you going to get them from?—and training them in the Naval Reserve.

Mr EDWARDS—Do you know what percentage of existing merchant seamen are members of the Naval Reserve?

Lt Cmdr Redman—No. It would be a pure guess; I have no idea. It would be small because the number of merchant seamen and officers in the merchant marine is very small.

Senator FERGUSON—Is self-reliance a feasible objective in the current times?

Lt Cmdr Redman—Whether we will achieve it, I do not know, but it should be the objective. We should not settle for second best.

Senator FERGUSON—It is not a matter of second best. For years we have had strategic alliances which we could call upon at various times. For a country our size, self-reliance would appear to be almost beyond reach. We are going to rely on strategic alliances for all of our military strategy.

Lt Cmdr Redman—We are not a small nation. I was not born here—I came to Australia in 1972—and I think we put ourselves down. Countries such as Sweden and Norway are certainly self-reliant in the merchant marine.

Senator FERGUSON—They might be self-reliant but they have not got quite the geographical size that Australia has.

Lt Cmdr Redman—That should be an advantage, not a disadvantage.

Air Cdre Rawlinson—We have got a mechanised brigade that is set up to be deployed. If you have this brigade, I think it is only reasonable that you have the means of deploying it. As part of the means of deploying and sustaining it at the moment, we would have to rely upon chartered vessels with foreign flags. Reliance on some chartered vessels with foreign flags is reasonable; but I think with the number of vessels that we would need at the moment, the proportion is such that it should not be relied upon in matters of Australia's defence.

Senator FERGUSON—So you are really suggesting that we cannot be totally self-reliant. You said that we did rely on some flags.

Air Cdre Rawlinson—I am not saying that we cannot be; I am saying that we are. We have a mechanised brigade that is deployable, and we should be able to deploy it if we want to.

CHAIR—Getting back to the proposition you put a moment ago about flagships and merchant seaman who could be called upon, you witnessed the situation during the Falklands War and suggested that we could find some way of getting some of these merchant seamen to be naval reservists. Could you expand on what the British do?

Lt Cmdr Redman—Certainly it is popular. During the Vietnam War we took one of the ANL ships from trade and painted its funnel grey. The commanding officer and most of the crew were reservists, and they were supplemented by regular forces. I think there would obviously be a financial incentive for people to be in the Reserve but the conditions of merchant seamen mean that they have six months on and six months off. They have a lot of spare time. Most of them I believe have other jobs. If the reserves were there, that could easily be their other job. I think you would find that they would be an enthusiastic group of people.

CHAIR—Is that what they do in Britain? Is there a deliberate program to encourage merchant seamen into the naval reserves?

Lt Cmdr Redman—Yes, there is. There is a financial incentive and a training incentive. The Royal Fleet Auxiliary is a halfway fleet; the ships are owned by the government but crewed under merchant seamen conditions. These are tankers and supply ships. That is probably going a bit too far for Australia.

CHAIR—But the British model, where they encourage merchant seamen with incentives—

Lt Cmdr Redman—They encourage with training incentives and financial incentives, yes. Merchant seamen would be the sorts of people who would be enthusiastic, I would imagine.

Mr CAMERON THOMPSON—On the issue of subsidisation, is that what happens in the UK? If so, do you know at what level?

Lt Cmdr Redman—Subsidisation for the ships?

Mr CAMERON THOMPSON—Yes.

Lt Cmdr Redman—There are a number of bounties. There is a bounty paid when the ship is being built so that it will be flagged as a British flagship. I am not sure what the level of that bounty is.

Mr CAMERON THOMPSON—Is there then ongoing subsidisation?

Lt Cmdr Redman—I believe so.

Mr CAMERON THOMPSON—Do you have any more details on that?

Lt Cmdr Redman—No, I do not have the figures.

CHAIR—I am interested in this proposition of the way the British encourage merchant seamen through financial and training incentives. I guess they have to sign on for a while and are given a financial and training incentive. Would they then be kept in the reserves and be available for call up?

Lt Cmdr Redman—Yes, they are available to be called up. But the ship would be taken up from trade anyway.

CHAIR—But, if the ship were not taken up, the reservists themselves, as merchant seamen, could be taken up.

Lt Cmdr Redman—To supplement?

CHAIR—To backfill in areas where there is a shortage.

Lt Cmdr Redman—There is a very long tradition of doing that in that country—as there is in Australia. During World War II that happened, of course.

Mr CAMERON THOMPSON—In relation to those UK ships, do you know what types of vessels they are? Does the UK have something like a set menu of vessels that they are trying to retain?

Lt Cmdr Redman—No. I could not tell you which vessels they were, but I certainly know that during the Falklands War there was quite a spread of them. The *Atlantic Trader* was a very large container ship; and the *Oriana* and the *Canberra*, which are passenger ships, were taken up as well. So, no, I do not know. But it would be up to us to say, ‘Well, we only want ships of a certain type to be available.’ We might want 10,000 tonne roll-on, roll-off ships; we might want a catamaran. It would be up to the government to decide what they wanted. It is a very flexible system.

CHAIR—We have been having a bit of a chat and we are quite interested in the issue of the merchant seamen being encouraged, through training or financial packages, to be part of the naval reserves. We have just had a note passed to us saying that we ought to get a briefing paper on the UK and the USA. Do you have anything more you could give us today on either of the programs, as you know them?

Lt Cmdr Redman—I do not have any more information with me, no. It is good for the country as well, of course. These people are getting skill sets, which they can take out into the civilian population at a later date.

CHAIR—Is there anything that you want to add to your submission to us?

Air Cdre Rawlinson—In concluding I add that we do not see the market solution at the moment as an entirely satisfactory one which can give us assurance in all circumstances, although it is clearly appropriate in quite a large number of circumstances. We would advocate an increase in the Australian merchant marine, both in the number of crews and the number of ships—and ships which are appropriate to support the Australian Defence Force. We believe that is a legitimate call on public money.

CHAIR—Does your council have a view on the amount of money that is spent expressed as a percentage of GDP? Some groups have said to us in these hearings that it should be at least 2.5 per cent of GDP. Do you have a position on that?

Air Cdre Rawlinson—We had a position which we presented to the former public inquiry. I think we went for 2.6 per cent.

Mr CAMERON THOMPSON—Comparing the issue of having this shipping capacity with the current provisions to supply our troops in Iraq or wherever they may be—Kuwait, Afghanistan or wherever—we have a contract there. We hire, for example, an Ilyushin that members of this committee have flown in. It does not have an Australian flag sticking out the back and it is carrying our equipment backwards and forwards. Should it be a similar type of thing in relation to any air transport capacity that we contract?

Air Cdre Rawlinson—That is exactly what we are doing at the moment in chartering a ship. The point we are making is that, in contingent circumstances, it may be that the owners do not wish to charter their ship because they feel that they are not going to get it back. There may be instances in which crews do not fit the particular circumstances. As one of the senators said, I think, if we happen to be part of a large coalition doing something, this particular issue is probably not of concern. But if we are partially isolated for one reason or another, the only way of getting ships that we can be assured of is to have them in our own fleet.

Mr CAMERON THOMPSON—So are you saying that it is possible, for example, to get that capacity from some coalition ally?

Air Cdre Rawlinson—Yes, but not necessarily from an ally; just on the world market. But we might be involved in some sort of conflict which is not particularly popular and the ship we want may not be available at the time or may be on the other side of the world when we want it.

CHAIR—We have probably exhausted our questions. You have given us something to get a bit more briefing on—the UK and USA maritime personnel. Your distinguished careers place you in a position whereby we value your input and your attendance here. On behalf of the committee, I thank you sincerely for your submission and your appearance today.

[10.12 a.m.]

O'CONNOR, Mr Michael James, Executive Director, Australia Defence Association

CHAIR—Welcome. Although the subcommittee does not require you to give evidence on oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses. We have received a written submission to this inquiry from you. Would you like to make an opening statement to the committee? If so, just prior to that would you give us a very brief outline of your own career thus far in order to help the committee understand your background? Some may know it, but not everyone. At the request of the committee I have been asking people all the way through for one or two minutes of their background.

Mr O'Connor—I do not know how brief you want it. As you get older it gets a bit longer.

CHAIR—A couple of minutes would be good.

Mr O'Connor—I served in the Army as a national serviceman in the 1950s. I served in Papua New Guinea as a patrol officer and assistant district officer. I served in the Navy full time as a reserve intelligence officer for eight years. I have been executive director of the Australia Defence Association since 1981 and I have appeared before this committee many times.

CHAIR—Would you like to make an opening statement?

Mr O'Connor—I do not have an opening statement. I think the submission generally speaks for itself. I am at the disposal of the committee to answer questions.

CHAIR—On page 4 of your submission, you comment that the white paper neglects potential threats to important Australian interests. Would you like to expand on that and on the consequences of having a maritime strategy which does not take into account Australia's interests?

Mr O'Connor—Some of the interests include our overseas trade, carried largely in foreign bottoms. It was once said to me by someone in the Department of Defence that the countries who owned those ships would defend them. I don't see much chance of Liberia and Panama and countries like that defending these ships. Ultimately it depends on the owners of the cargoes to do so. I have indicated in the submission some fairly substantial figures, giving the dimensions of that particular trade and the vulnerability not only in the case of a war involving Australia but also in the case of a war involving one of our principal trading partners and some other country. For example, if Japan were to become engaged in some conflict with a near neighbour, that would involve a fairly substantial part of our economic infrastructure. That is one aspect. I think you can see at the moment that we have an interest in the Middle East. Whether that is approved or not approved is not important; the fact is that the government has made a commitment. There is an element of maritime operations involved and we are trying to do that, generally without sufficient resources.

I go further: in the context of our obligations to countries like Papua New Guinea or to Malaysia and Singapore under the Five Power Defence Arrangement, this necessarily involves the capacity to deploy forces into that field and to support them. In general, I would have to say that one of our problems in constructing a defence strategy is that we have never really sat down to quantify what those interests of ours are and this, to me, would have been the first step in constructing a strategy. As the submission indicates, I don't think we have a maritime strategy. We say we have a maritime strategy but, in the context of the conventional understanding of a maritime strategy around the world, it is not a maritime strategy at all.

CHAIR—How far do you see our interests offshore in terms of our maritime strategy? Do they extend into the arc of instability that we talk about? Does it extend across the Pacific, across the Indian Ocean? How do you see our area of interest, primarily for our maritime strategy?

Mr O'Connor—This is something that the association has actually made specific proposals on—not in this forum but in others, over the years. That is that, quite clearly, in terms of defending merchant shipping as far as, say, Japan or China or North or South Korea, we do not have a capacity to do it. But we ought to be able to have an arrangement with those countries that we will be able to protect that shipping part of the way, and we really ought to be dealing with those countries and trying to divide up geographically the area of responsibility.

I go further: in the context of the arc of instability we do need the capacity and we have a capacity, limited though it be, to deploy forces into the arc of instability. We did it in East Timor. We have the capacity to do it in respect of Papua New Guinea and the Solomons, but it is a very limited capacity. If we go back to 1941-42, it was essential that we had that capacity because that arc of instability provides the site for bases for direct attack on Australia should that become a problem. But ultimately, in the sort of strategic environment in which we live what we need to look at in the context of our national capabilities is developing a range of military operations to operate at a distance. This is where the distinction between a genuine maritime strategy and a continental strategy comes in. If you limit yourself to a continental strategy—which essentially, in the white paper terms, is what we have done—then you don't have the capacity to exercise many options at greater distance, which you may need to do. At the moment the government has taken a decision to deploy forces to the Middle East. That is not in concept within the white paper. But, for whatever reasons—political, military, whatever—the government has decided that it needs to do it. So it has done it. But ultimately we depend on United States support for the ability to deploy a very small force—almost a token force—into that area.

CHAIR—You don't think that is in the national interests, just like when we deployed to the Gulf War? You say it is not in the maritime strategy to be deploying forward deployments now? What about Afghanistan, et cetera?

Mr O'Connor—But even Afghanistan is part of a maritime strategy. A maritime strategy is not defined by whether those deployed are Army, Navy or Air Force. Essentially a maritime strategy means using the sea to deploy your air, land and sea forces to wherever you want them, and to support them—and I emphasise 'and to support them'.

Senator SANDY MACDONALD—You say that we have a preoccupation with a continental strategy and do not have a maritime strategy. What hardware would we need to have in the ADF to meet the needs of a maritime strategy?

Mr O'Connor—Starting with the Air Force, I think we would need to have a greater air-to-air refuelling capability.

Senator SANDY MACDONALD—Which we are getting.

Mr O'Connor—My read on the numbers is that they are still very token. If you look at the number of tankers required to support a realistic independent Australian force, you will see that the numbers we have are still insignificant; it is little more than a training capability. The capacity to support an air capability beyond unrefuelled range from Australian bases, or bases that we might acquire access to in the region, ultimately depends on some ally providing the air-to-air refuelling capability. We will be using that in the Middle East. If we go to a shooting war in the Middle East we will be using American tanker support, not ours.

Senator FERGUSON—The Americans used our air-to-air refuellers too in Afghanistan.

Mr O'Connor—Yes, two out of some 100 refuellers.

Senator FERGUSON—I know; I am just saying that there is an interoperability.

Mr O'Connor—Yes. Going on, we would certainly need the airborne early warning and control capability which, again, we are supposed to be getting. I have been hearing that for 30 years and we still have not got it.

Senator SANDY MACDONALD—We are getting it.

Mr O'Connor—We will see. In terms of naval capability, I think we need more afloat support. We are probably going to need a carrier. This is a debate that has been going on in this country for a long time, and we have not really resolved it. We have walked away from it because we have been pursuing a continental strategy. If you have a maritime strategy you are going to need at least a small carrier for the sorts of responsibilities that we have. For ground forces we are going to need vehicles which can operate in the sort of terrain we experience in our part of the world, in the arc of instability. That does not mean wheeled vehicles like the Bushmaster or the ASLAV. For example, I know Papua New Guinea and the terrain there quite well, and you will not use wheeled vehicles in that; you will use track vehicles and even then you will have difficulty. What you will need is helicopters—a lot more helicopters than the numbers we are getting. Again, in this context we need to be upgrading and modernising or replacing a lot of our very ancient equipment. You cannot carry on a realistic defence capability with 40-year-old armoured personnel carriers and 40-year-old Caribou transports, no matter how modernised you make them. So there are a whole range of gaps there and, as I have indicated in the submission, there are others opening up, particularly in the field of our combat aircraft.

Senator SANDY MACDONALD—You might have seen an article in today's papers concerning Hugh White's comments about PNG. Talking about regional engagement and particularly about PNG, he said that our defence planners always, for all sorts of good reasons,

have an exit strategy for engagements. You are obviously informed about these issues. Do you see, particularly with your knowledge of PNG, that perhaps we do have a role to play there without the potential or the requirement or the obvious ability to have an exit strategy? It is certainly within our arc of instability.

Mr O'Connor—Certainly. PNG is a considerable challenge and we may see that challenge on the border with Irian Jaya. It has been there before; I think it is inevitable that it will happen again. That means that Australia needs the capacity to support Papua New Guinea in defending its own sovereignty, whether that sovereignty is challenged by Indonesian forces or whether it is challenged by nationalist forces in Irian Jaya using PNG as a safe haven. If you are talking about an exit strategy for our own forces once deployed—

Senator SANDY MACDONALD—I think he was.

Mr O'Connor—I do not believe that that is too much of a problem. We can handle that. Where you would have considerable difficulty would be in evacuating Australian nationals from PNG, because there is such a large number of them and they are scattered across the whole country in relatively small numbers.

Senator SANDY MACDONALD—I think he was thinking of an exit strategy not in a military sense but in the political sense.

Mr O'Connor—As a political strategy I do not think it is viable. I think that Australia is locked into the defence of Papua New Guinea whether we like it or not. That is not a matter of emotion; it is not a matter of some sense of moral obligation. It comes from a very clear view of our own interest in ensuring that PNG does not come under the control of some potentially hostile power—hostile to us. As in 1942, we cannot afford to allow PNG to become a base for a further assault on Australia. I think that in that sort of scenario PNG would not be the primary target; Australia would be the primary target. I do not see it happening—or it is a long way off—but it does commit Australia virtually indefinitely to the security of Papua New Guinea just as, for example, Britain will always be committed to the security of the Republic of Ireland. Whatever the Irish think, that is the reality for Britain's security.

Senator HUTCHINS—Or us for New Zealand.

Mr O'Connor—Absolutely.

Senator FERGUSON—Mr O'Connor, in paragraph 13 of your submission at the top of page 4 you make a very stark criticism. You say:

Apart from the misunderstanding of the nature of maritime strategy, the White Paper demonstrates additional flaws.

Firstly, as executive director of the Australian Defence Association, do you write this submission yourself?

Mr O'Connor—I do.

Senator FERGUSON—Does anybody else have any input into it?

Mr O'Connor—The board has input into it in the sense that the board of directors is consulted. In this particular case I also consulted fairly extensively with Commodore Robertson, who appeared before the committee yesterday, who has been responsible to a very large extent for educating me on maritime strategy. But I wrote it.

Senator FERGUSON—Does your board or anybody else get a chance to look at your final submission before you put it in?

Mr O'Connor—Absolutely.

Senator FERGUSON—So it is all approved by the board?

Mr O'Connor—Yes, it is endorsed by the board.

Senator FERGUSON—You are criticising members of the defence forces, members of the department and anybody else who might have had any involvement in the white paper by suggesting that they misunderstand the nature of maritime strategy. I wonder why your qualifications for making that criticism are any greater than those of the people who developed the white paper.

Mr O'Connor—It is not a question of qualifications; it is a question of what is published in the white paper. To me, and to a number of other people, it does not make sense. It may be that I am wrong and they are right, but I am not persuaded. In regard to the particular paragraph you refer to, what really struck me when I read the white paper was this confusion between the strategic objective, which is the defence of Australia and its interests, and a strategy for achieving that objective. They seem to equate the two, but they are two quite different concepts.

Senator FERGUSON—You make it as a statement of fact, but you just said that you might be wrong and they might be right. If you had written the paragraph to say, 'In our view there is a misunderstanding,' that would leave some room for debate, but you make a stark statement that it is wrong—that there is a misunderstanding.

Mr O'Connor—I would assume that, as we sign off on the submission, it expresses our view.

Senator FERGUSON—Do you think that self-reliance is a feasible objective in the current climate?

Mr O'Connor—I am not sure what self-reliance means and I have never been sure what self-reliance means. If it means, as it has been said to mean, the ability to operate Australian forces independently, there is no doubt that we have a measure of self-reliance. We are not exercising it at present either in East Timor or in the Middle East and, in those contexts, that is understandable. I think self-reliance has become too much of a mantra. Whenever the meaning is challenged, the meaning seems to change. Discussion of self-reliance—particularly in the post Cold War world and in our much smaller world where you have a much wider range of strategic challenges—self-reliance as a concept, as a basis for building defence capability, is not altogether helpful. In most circumstances we are going to be operating in coalition anyway and, whether that is coalition with the United States or with our regional neighbours, essentially self-reliance becomes unhelpful.

To take a theoretical example, if we were to be called on to assist Malaysia in the event of a confrontation with some adversary of Malaysia, I have no doubt that we would provide forces to support Malaysia. The command structure and the way in which our forces operate would have to be worked out in conjunction with the Malaysians. We could not do what we wanted to do independently, which I think is implicit in the concept of self-reliance. I think that self-reliance, as a strict term, is very much related to the continental strategy of defending Australian territory, and I think this is essentially where it was developed. We saw the challenge as defending Australian territory and nothing more than that. I do not believe that that was ever realistic for us. It was an artificial concept.

Senator FERGUSON—So strategic alliances and work on strategic alliances so that the sorts of things you raise are determined beforehand are just as important as the notion of self-reliance?

Mr O'Connor—Self-reliance is hard to express. In a sense it is an ambition to do a lot more for ourselves without relying excessively on some other power such as the United States, particularly for logistic support. I think you can take that too far. It is an admirable objective, provided you do not depend too heavily on it—because it would be unnecessary and very expensive. I think we need to recognise that we will be operating in coalition, whether it is with the United States or Malaysia or whoever, and that the arrangements and structures will reflect the particular circumstances. But, if we believe that we are going to be operating independently in all respects, it cannot happen.

Senator FERGUSON—In reality, the nature of our major strategic alliance at present means that, in many cases, we have more to gain from the alliance than our ally.

Mr O'Connor—I think that is true.

Senator FERGUSON—The air-to-air refuellers are a prime example. You said we had two in Afghanistan amongst their 100. That is not much different from having 2,000 troops on the ground amongst 200,000, is it?

Mr O'Connor—No. That then becomes a question of whether your commitment is proportional—if you like, whether it matches the rhetoric. I have a rule of thumb that, based on a comparison of population and per capita GDP, our contribution ought to be about one-twentieth of the Americans'. If the Americans have 200,000 people there, our contribution, on a proportional basis, should be about 10,000, not 2,000.

Senator FERGUSON—That would be rather difficult.

Mr O'Connor—The reality is that we could not produce 10,000. But it is also a measure, conceptually and politically, of just where we are in terms of our capability, and I think you would have to conclude that we do not have much in the way of capability.

Mr BYRNE—Michael, you have just touched on this in terms of Papua New Guinea, but on page 4 of your submission you said:

Pursuing a strategy which allows an adversary to develop bases in the region for an assault on Australia is a faulty strategy that increases the risk to the primary strategic objective.

Can you elaborate on that?

Mr O'Connor—The primary strategic objective is fundamentally the defence of Australia and its interests. I suspect most Australians would see that as a defence of Australian territory. I do not think that is significant. But certainly if you, as in 1942, allow the development of bases within striking range of Australian territory then that has done considerable damage to our primary strategic objective. So the strategy needs to be to provide an influence which will prevent that.

Mr BYRNE—How would you do that?

Mr O'Connor—Essentially it comes down to the issue of our relationships with the region: Malaysia, Singapore, Indonesia and Papua New Guinea. We have to ensure that our total relationship—political, diplomatic, economic and military—gives confidence to those countries that we will be there to support them. Then, of course, we have to manifestly produce the capabilities to do so. In essence, we need to provide, in the context of a true maritime strategy, some sort of balanced task force that you can deploy at no small distance from Australia and keep it supported.

Mr BYRNE—In a sense what you are saying is that it is part of a forward strategy. Do we have that capability at the present period of time?

Mr O'Connor—We have a limited capability which we actually demonstrated in East Timor. Indeed, the totality of that deployment to East Timor is often not recognised in Australia. The fact that we deployed naval and air forces to deter any Indonesian adventurism is simply not recognised in the community generally, yet it was an essential part of a total maritime strategy. The limitation in that East Timor deployment was that it was a low threat, although it might not have been, it was fairly close to Australia and it was very small. A 5,000-troop commitment is not a large military commitment, yet it was about all we could sustain—and even then only for about four or five months. What East Timor does for me is show just how limited our capabilities are.

Mr BYRNE—You make a further comment later in your submission about our lack of air support, particularly in terms of the strike fighter. What sort of aircraft would we need for forward deployment to maintain the strategy that you just articulated?

Mr O'Connor—That essentially depends on two things. One is whether you have an aircraft carrier capability. If you do not then you are dependent on the second element, which is access to bases in the country where you are operating or close to the country where you are operating. For example, if we were going to support Papua New Guinea against some external adversary we would want to be able to use airbases in Papua New Guinea, otherwise we could not do it. Similarly with Malaysia: if you could not operate from Butterworth or from Singapore then you could not actually provide a force to support them, as we are at the moment. The value of an aircraft carrier—I am singing an old song here; I do not apologise for that—is that it gives Australia much greater flexibility.

Mr BYRNE—How much would it cost if we were looking at the overall cost of aircraft required, aircraft carrier and support craft?

Mr O'Connor—It would cost a lot. I could not give you a figure. It would probably cost you less than the submarine force. If I can go back to a discussion at a previous meeting of this committee, back in about 1981, I think—

Mr BEVIS—Is that with or without aircraft, Michael?

Mr O'Connor—It is with aircraft.

Mr BEVIS—So you are going to put 75 aircraft on a carrier?

Mr O'Connor—No, you would not get 75 aircraft on the sort of carrier that I am talking about. I am talking about a small carrier, similar to the one that Thailand bought but cannot afford to run. I think we should be putting in a bid for that. It was put to me some years ago—again in 1981—that our choice was for a carrier or submarines but not both. I disputed the choice, but we went for the submarine. My view then and is now that we should have stayed with a carrier because it gives you much greater flexibility in your military support for your political policies.

Mr BYRNE—If you accept your strategy, which is a very wise one, that you did need a platform to launch a strike, then having a platform that you can move around without being reliant upon other bases would tend to make sense, wouldn't it?

Mr O'Connor—A carrier capability takes a lot of support—there is no doubt about that—but it does give you that flexibility to use or not to use. That carrier over the horizon somewhere actually does act as a valuable asset. The value of a submarine is much less, as we saw in the context of the Falklands war. As soon as a submarine was used, it escalated the conflict. There is a certain deterrent capability in the existence or possible existence of submarines but that is not as obvious as it is in the case of a carrier. This is getting terribly theoretical but I think the validity is there. When you come to cost, it simply raises the question of whether we in Australia can provide an adequate defence capability or an adequate set of security options by spending just 1.8 per cent of GDP. The answer is simply no, you cannot. That is the fundamental challenge.

Mr BEVIS—I always get concerned when we talk about capability in a vacuum—and we tend to do a fair bit of that. Clearly, capability has to be measured against any threat assessment and likely tasking that we are talking about. Let me turn to a couple of the specifics when we talk about force projection and maritime policy. This in part goes to the question: within our own resources, to what extent do we want to be able to act with self-reliance or in partnership. When we contemplate the circumstances, we might want to project force in response to aggression against us—I suspect that aggression would probably trigger alliance provisions and, therefore, we would be acting in concert. We might want to do it to extricate Australians from hostile environments—and that would presumably be within reasonable reach of Australia rather than, say, continental Europe or the United States. It might be as part of a UN or a multinational force, which indeed East Timor was. We might want to conduct more traditional warlike activities somewhere—that is, send troops in for an act of aggression to claim land and change governments. As defence planners, which of those things should we factor into our planning for the next 10 to 20 years? Following from how you assess that, what sort of change to our maritime strategy would therefore flow from that?

Mr O'Connor—Can I say right at the outset that I do not believe a force should ever be structured on the basis of a threat assessment because, firstly, by the time you get agreement on what the threat is, it is too late to develop the force; and, secondly, in our very fluid and somewhat convoluted strategic world these days, the purpose of your defence policy should be to give government as wide a range of military options as possible to use or not to use. That essentially means that your force has to be structured for the higher end—

Mr BEVIS—To use in response to what, though? If you have no threat assessment, which is what I think you said at the start, how do you know what you want to use it against?

Mr O'Connor—It depends on how specific you want the threat assessment to be. If you want a threat assessment to say that country X is your probable adversary, which was implied—

Mr BEVIS—You know how the threat assessments work.

Mr O'Connor—Yes. If your threat assessment is that there will be military challenges to Australia's interests, which is very vague but more realistic, then you have to start looking at the sort of capabilities that might be used against you, and that becomes much easier to assess. But if you are trying to identify a specific threat from a specific country or set of countries, that is very difficult because you are trying to deal with—

Mr BEVIS—Let me give you an example. You refer to a potential threat to our commercial shipping lines, but that is a threat assessment.

Mr O'Connor—No, it is not. I do not accept that as a threat assessment. It is a vulnerability; it is an interest.

Mr BEVIS—Okay, let us identify then the vulnerabilities and the circumstances in which we will want to project force. There may be other examples other than the four or so I mentioned, but when we get to the nitty gritty of how we should structure a maritime strategy surely we have to be able to answer those questions.

Mr O'Connor—Yes. In fact, we should be answering those questions first. This goes back to something that I said at the outset of our discussion this morning. We have never really discussed what these interests or vulnerabilities are in public or in private within Defence. But these are essential elements that ought to be discussed in public as well as in private in Defence because it gives the community a greater understanding of what Defence is all about and what Australia's interests are all about. For example, I would suggest there would be very few Australians who understand just how important overseas trade is to our national economy and therefore to national standards of living, employment, government revenue and all the rest of it.

Mr BEVIS—Okay, let us take that specific. What force structure implications are there for us to be able to do that task that you have just identified?

Mr O'Connor—There are a number of force structure implications, particularly in the naval and air field. The implications probably relate most to the number of naval service combatants, provision of air warfare destroyers—but the numbers are the most important, I would suggest. A carrier would be helpful but probably not essential. What are more important are the arrangements you make with your trading partners to define areas of responsibility for

protection of shipping, the arrangements you make with your immediate neighbours who may or may not be prepared to cooperate with you. So it is an organisational problem rather than a force structure problem, but there are force structure elements to it.

Mr BEVIS—I am sorry, I interrupted you; do you have any comment to the original question I put in those potential scenarios in which we may want to project force as part of our maritime strategy rather than dominate what we traditionally call the air-sea-land gap?

Mr O'Connor—We have to be prepared for the higher end conflict to a degree but, again going back to elements of the discussion already, if you get to that stage, if you are going to have a high end conflict closer to Australia than the Middle East is, then it is going to a coalition and it will be a coalition with the United States. But you have got to be able to play your part, particularly if Australia is the target; a serious part, not a token part. That means being able to say to the allies that you expect to come to your assistance, 'Yes, we manifestly can and will do the maximum for ourselves.'

Mr BEVIS—Is it not the case that we can do that now?

Mr O'Connor—No. Seriously, 5,000 troops to East Timor that we could not support for longer than four or five months simply indicates that we do not have the capability.

Mr EDWARDS—Firstly, Mr O'Connor, can I ask whether you have got your National Service Medal yet?

Mr O'Connor—No, I have not. It took me a long time to decide to apply for it.

Mr EDWARDS—I hope you do, but let me assure you that you might be in for a long wait. Mr O'Connor, should offshore law enforcement be a role for the Navy? How can the Navy attend to offshore law enforcement with its other extended commitments?

Mr O'Connor—I do not believe it should be. I have never believed it should be. I was peripherally involved in an interdepartmental committee looking at this issue in 1967, when we were all a lot younger. The committee concluded that the only proper solution was for a coastguard service and no-one was prepared to surrender the assets they had.

Mr EDWARDS—Sorry, between the members to my left and my right I have some difficulty in hearing what you are saying. I think it is an important point.

Mr O'Connor—The very first submission the Australian Defence Association made to a parliamentary committee, or to government, was a proposal for a coastguard, in 1977. Kim Beazley's inquiry rejected it in 1984. It is now opposition policy, and the detail of that policy is very closely related to our 1977 submission. That is essentially where we stood then and where we still stand today. I think it is a police function. It is a law enforcement function and I think there are risks involved in having your defence force, as a primary agency, conducting law enforcement operations. As a backup agency, yes, maybe; but as a primary agency, I think it is wrong in principle.

Mr EDWARDS—What sort of risks do you see?

Mr O'Connor—I see too great a diversion of Defence Force resources to law enforcement or border protection. We saw that with Operation Relex and the related operations, where a very large proportion of the Navy, including its primary combat force, were tied up on what were law enforcement tasks. Within the concept there is a conflict between the equipment, operations and training—and even psychological outlook—required for law enforcement on the one hand, and war fighting on the other. As naval technology develops, that distinction becomes greater.

The distinction is also becoming greater in the context of career streaming for naval officers. If they start off in a career stream in the law enforcement side—patrol boats and so on—then their prospects for high rank and for development in the war-fighting mainstream are substantially reduced. I think that conflict will grow rather than diminish.

Mr EDWARDS—I think you said earlier that you were singing from an old song book. The issue of whether or not we should have an aircraft carrier has long been a debate in Australia. Coming from Western Australia, where we have a big coastline and a big ocean, I get a bit concerned about thoughts of concentrating so much resource into one very expensive area such as an aircraft carrier, particularly when it might be deployed to protect the east coast rather than in concert with a proper Australian strategic objective.

Senator FERGUSON—Are you worried about the Kalgoorlie line?

Mr EDWARDS—No, I am just worried about the numbers of people who live on the east coast. Seriously, how difficult is an aircraft carrier to protect and how much asset do you need surrounding it to provide that protection? In providing that protection, how much do you take from what is a very limited cake—given that you can only have an aircraft carrier in one situation and there is a big coastline to protect, and given all of the sorts of strategic thoughts surrounding a proper maritime strategy?

Mr O'Connor—There are a lot of questions in that. Let me try to explain it this way. If you think in terms of an aircraft carrier as protecting something static—in effect, having a static role—then that misconceives the whole concept of an aircraft carrier. The aircraft carrier's primary value lies in its mobility. Indeed, if it disappears from the radar of an adversary, that adds to its deterrent effect. If the adversary does not know where it is and if he does not know where it will pop up, then he has a problem. That is what you should be trying to do—create problems for the other guy. You should not be trying to create solutions for yourself about what you think the other fellow may do. That, in essence, is the difference between a maritime strategy and a continental strategy. I think the notion of an aircraft carrier having some role in protecting some static interest—Western Australia or wherever—is back to your continental strategy, whereas the maritime strategy is for the aircraft carrier and its supporting forces to project power—or force or influence, call it what you like—over a much wider range of the local earth surface. So I think that is the big distinction.

In some ways I was little bit distracted by the aircraft carrier issue. I think it is a dead issue. I doubt very much whether we could get a real aircraft carrier capability up in under 20 years—not because of the cost of the hardware but because of the cost of providing the infrastructure and personnel. We were able to do it in 1948 because we drew on what was left over from World War II. But we never renewed it. We abandoned it in 1983, or whenever it was, and it would take a long time to recover. In a sense we have to try to avoid that.

There may be areas in which we can do that. I would like to look at operating UAVs off some of our other larger platforms—and maybe even some of our smaller platforms. This would give you a significant at-sea air capability. I think there is room for exploration of that, and at much less cost than an aircraft carrier. What you are trying to do is to create an uncertainty out there and to say to a potential adversary, ‘We have this capability out there; it is something that you have to factor into your plans.’ Similarly, it gives us a bit of extra ability to contribute to coalition operations wherever the government decides it wants to do so. We are trying to build flexibility into our force here, not some sort of Kalgoorlie line, Brisbane line, Darwin line or whatever. I think this is the challenge. Again, it really reflects the difference between a maritime strategy and a sea-air-land gap version of a continental strategy.

Mr PRICE—You have made a lot of comment about East Timor and the difficulty of sustaining those numbers. Has the association been taken through the changes to the Army Reserve organisation?

Mr O’Connor—Yes, I am aware of that and, while I think there are still gaps, they are changes that we support very strongly. The sustainability was certainly a problem. What I was trying to get over, in the discussion of East Timor, was that this was not a big operation—5,000 people. Even if you used reserves to sustain it longer than that, it is still not very big. It did not represent a substantial challenge to Australia’s security, yet it was about as much as we could do at the time.

Mr PRICE—I understand that this sustainability model for the Army is not yet complete. It is due for completion this year. From what I can gather, the idea is to somehow draw 2,000 high readiness reserves out of a force of about 16,000-odd. If a group of 2,000 high readiness reserves was the prime output of Army Reserve, which is very unfair in a way, each high readiness reservist would cost just under half a million dollars. That seems to me, without reflecting on the individuals, not to be value for money.

Mr O’Connor—I understand the calculation, but you are still talking about 14,000 other reserves who are in training at varying levels. Part of the cost is going to that. That is still part of capability. It is clearly a part of capability that can be ramped up if you need to do so. Where I have real reservations about the reserves at the moment is that we still have not confronted the hard-core question of who owns them. Does the Army own the reserves or do their civilian employers own them, and where does the cut-off come? Simply paying employers money for a replacement does not solve the problem for the employer who loses highly trained people. My favourite example is the police force. You cannot replace trained, sworn police officers simply by paying the commissioner of police so much per capita of policemen who have been called up for military service. It does not work adequately. This is one of the major gaps that I still talk about. In the context of the Army’s model, I understand where they are coming from and what they are trying to do to make the best use of the reserves, but it still does not solve the Army’s problem or the reservists’ problem. I think we have to go back to square one in some ways and look at the whole model of reserves and regulars, even if it means saying, ‘We don’t need reserves anymore except on the Navy and Air Force model.’

Mr PRICE—I would not disagree with you about having a look at them. There is a big debate in the US about pre-emption, and you would be aware that at one stage our Prime Minister indicated that the government would be prepared to take out terrorist cells. Do you have any comments about pre-emption as a doctrine for the defence forces?

Mr O'Connor—I do not think pre-emption in the context of dealing with, say, some terrorist base in another country is viable unless you work in close cooperation with that country. Then it becomes a coalition operation or an allied operation, and I do not see any problem with that. I certainly have no objection to pre-empting terrorist acts, but you cannot do it in the context of proper international relations unless you cooperate with the country concerned. I have no real difficulty with pre-emption as a strategy, either in conventional warfare or in counterterrorist warfare, provided your political situation is right and your intelligence is solid enough. Essentially, why wait to be hit? If you are certain that they are going to hit you first, you get in first. Quite frankly, I think it is a good defence of Australia.

Mr PRICE—Our Defence officials have had discussions with the United States about all aspects of the proposed war against Iraq. Bearing in mind that, strictly speaking, a government decision has yet to be made about the attack, do you have views about Australian involvement—I appreciate that it is hypothetical, but it is becoming less so—in postwar peacekeeping troops or ground troops in Iraq?

Mr O'Connor—I have no firm views. It is something I have given a lot of thought to but I have come to no conclusions, because I suspect that to a very large extent the problem is insoluble. I think the whole Middle East problem is insoluble. You are dealing with a culture which is primarily tribal rather than national. You are dealing with countries like Iraq, Jordan and Saudi Arabia—to say the least—which are not nations in the accepted sense of the word because they are collections of tribes, very often with an imposed ruler. So the challenge, particularly for a nominally Christian country, to go in and try to solve that problem is immense. I do not see a solution. If someone could produce one that looked like working and it required Australia to contribute peacekeepers, I would tend to support that, largely because I think the Australian peacekeeping doctrine and the performance of the troops are better than most. But whether it would work in that environment I am not at all certain. I do not know and I have no firm views on it, except that it is a mess.

CHAIR—This will have to be the final question. On page 4 of your submission you commented that meeting the primary strategic objective is better achieved by pursuing the White Paper's second strategic priority. I will read those two priorities. The first one in the white paper was:

Australia's most important long-term strategic objective is to ensure the defence of Australia and its direct approaches.

The second objective in the white paper was:

... to foster the security of our immediate neighbourhood.

On page 4 of your submission, you suggest that the second should be the first. Would you like to expand on that?

Mr O'Connor—From this point of view: if you focus on being able to project your forces out into the region and operate them there, that is where the first challenge is likely to come from, not the second challenge. By doing that, you actually achieve your first primary objective. Again, it is the difference between strategic objective and strategy. Your strategy needs to be to get out there and neutralise any challenge to Australia and its interests out there. If that fails, you can fall back and with a force that is experienced and has been able to operate in that

region. If you concentrate on providing a force which can only operate in Australia or its immediate environs—the sea-air-land gap—you do not necessarily have the capability to operate out in the region. The reverse is not the case.

Again, you are pursuing a strategy to achieve an objective. I have no argument with the objective, which is the defence of Australia—no-one would—but the strategy by which you achieve that is a very different proposition. You need to be able to operate where the challenge is and to see that some challenges out there which may not be immediately threatening to Australia will become a direct threat if they are allowed to go unchallenged.

CHAIR—Thank you very much for your attendance today. You will be sent a copy of the transcript of your evidence, to which you can make corrections of grammar and fact. I understand that you are standing down from your position in the near future. Is that correct?

Mr O'Connor—Yes.

CHAIR—Thank you for the number of times that you have addressed this committee. It demonstrates a long-term commitment to and interest in defence matters within Australia. I wish you well in what I expect will be your semi-retirement—you will probably not lose interest altogether; I could not imagine that at all. We appreciate your work and I thank you most sincerely on behalf of all the committee.

Mr O'Connor—Thank you. It has been a pleasure to deal with this committee, which I think is one of the most important in the parliament. The cooperation between both sides of politics which has been evident in this committee over the 20-odd years that I have been appearing before it has been most encouraging. As I say, it has been a pleasure to work with the committee to the extent that we have been able to.

CHAIR—Thank you for those kind comments. I am sure that there is no disagreement from the senators and members here.

Proceedings suspended from 11.09 a.m. to 11.23 a.m.

EVANS, Commander Geoffrey, RANR Rtd, Chairman, Federal Advisory Council, Navy League of Australia

HARRIS, Commander Graham McDonald, RANR Rtd, National President, Navy League of Australia

CHAIR—Welcome. Although the subcommittee does not require you to give evidence on oath, I advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses of parliament. We have received a written submission to this inquiry from you. Do you wish to make an opening statement? If you do, perhaps prior to proceeding you might both like to outline very briefly your backgrounds for the benefit of the members of the committee. Perhaps you could take two minutes on that before you make a statement. I am sure the committee would appreciate hearing about your backgrounds.

Cmdr Harris—I have been a member of the Navy League for nearly 30 years. I was also active in the Naval Reserve for 28 years, from 1965 to 1993. I was in intelligence throughout that period. I had various postings but for the latter part of my career I was the senior reserve intelligence officer. Director, Naval Intelligence Reserves was the title ultimately selected. It varied, but my involvement with the Navy was in the intelligence arena and, with the Navy League, in what we hope is helpful policy development.

Cmdr Evans—I served in the Royal Australian Navy in World War II and I was commissioned during the war. I was federal president of the Navy League from 1972 to 1995 and I have been chairman of the advisory council ever since. I had much to do with the formation of the naval cadets, as they are now called. I served as private secretary to the Governor of Victoria and I have come to this place often. I have had my own business. That is about it.

CHAIR—Thank you. Are you going to make an opening statement to the committee?

Cmdr Harris—Yes, if I may. I would like to make a few remarks about maritime strategy and then there are a couple of issues to which I would like to give some emphasis. They are mentioned in our submission but I would like to refer to them a bit further. Maritime strategy has been defined as: to keep control of the seas for one's own use and to deny such control to one's adversaries. No doubt during the inquiry the committee has heard that definition or something similar on more than one occasion.

For an island like Australia, heavily dependent on trade, with its population concentrated around the coastline and with all its main centres of industry connected almost directly by sea, maritime strategy for defence seems essential. A maritime strategy enables an island nation to take as much or as little a part in any overseas crisis or war as it sees to be in its national interest. Forces developed for a maritime strategy give governments the option of deployment of a contribution to a UN or allied action without the need for agreement of foreign powers. Such deployments may occur without the need necessarily to deploy ground forces, with all the political factors that that might involve.

A maritime strategy enables Australia to contribute in a meaningful way to containing any instability at a distance from our island continent. Such a strategy enables Australia to go to the aid of friendly states in our region, particularly those island countries whose geographic locations control the approaches to our island. Maritime strategy will enable Australia to control and develop its important offshore resources, including oil and gas. Australia must also have the capability to control fisheries, illegal immigration, smuggling, piracy and national security matters anywhere around our coasts or offshore islands. These capabilities will not always or only be exercised by the Australian Defence Force.

A maritime strategy for the defence of Australia is now widely accepted, but a maritime strategy needs to be all embracing. It should include all matters concerning the ocean areas around us and not just defence. These other maritime activities include developing a thorough knowledge of the physical, economic, cultural, political and strategic attributes of the oceans and island states and areas adjacent to Australia. This will involve a major effort in oceanography, hydrography, geology, marine biology, meteorology and a whole range of political and cultural studies.

The most valuable exposition of maritime strategy is available in the Australian maritime doctrine. The Navy League had contemplated sending copies of this to the committee but we understand the Seapower Centre has already done that. In any event, our magazine, the *Navy*, which we forward to members of the committee, has been serialising the maritime doctrine for some time.

Since preparing our submission, the government has released *Australia's National Security: A Defence Update 2003*. It is—as it is titled—an update. The minister has said that it involves a rebalancing which will not fundamentally alter the size, structure and roles of the Defence Force. An accompanying release states that the white paper *Defence 2000: Our Future Defence Force* is still the government's endorsed policy guidance on defence policy and capability priorities. It does not seem to believe that anything appearing in the defence update makes any significant alteration, certainly insofar as it affects maritime strategy.

While I do not wish to unnecessarily take the committee's time reiterating matters which are in our submission, there are two issues I should like to emphasise. First, the league is concerned about the lack of air warfare destroyers in the RAN. It is the view of the league that without this capability Australian forces deployed abroad may not be adequately protected. The league acknowledges that the government has accepted the need for such vessels and has announced that Australia will acquire three or four such destroyers. Our concern is that the first of these destroyers is not likely to join the fleet until 2013 to 2015. It is our view that, to fill the gap until Australian built ships are available, Australia should obtain from the United States by way of loan or lease ships able to provide the necessary capability. The league has recently put this proposal to government and strongly urges the government to act on this proposal. The alternative is to leave Australia forces without the protection they deserve for at least the next 10 years.

The second matter we wish to emphasise is that, for a maritime nation following a maritime strategy, the possession of an efficient cost-effective and sizeable merchant fleet has great advantages. It can provide value adding to our exports. There are major advantages to industry, particularly to shipbuilding and repair. Many similar industries would benefit. For defence, it would mean the availability of Australian ships to be taken over for military purposes and a

large pool of seafarers. Additionally, a thriving maritime industry would provide major industrial support and expansion capability for defence purposes. It has sometimes been claimed that Australian merchant ships will not be required by the ADF. However, Timor is only the most recent example of merchant ships being employed in support of our deployed forces. The league does not underestimate the difficulties in building up a cost-effective merchant fleet, but it believes it to be in the national interest that every possible incentive and government action should be considered with a view to encouraging such development. They are the matters we wish to add.

CHAIR—Thank you very much. I will now open this up for questions.

Mr CAMERON THOMPSON—I am interested in your comments about the DDGs. In your view, what is the nature of the gap that is left in our defences as a result of the—

Cmdr Harris—As the name suggests there is an air warfare capability. Within range of our fighter bases, of course, we have air cover. But outside that, if our forces are away from Australia, as is most likely—and indeed it is the experience presently and has been the experience over some years—there is no certainty that we would have air cover. We cannot necessarily rely on foreign airfields being available. Therefore, if the deployed forces are to have air cover, presumably it would be air cover the fleet takes with them. An air warfare destroyer gives you radar capabilities and missile range to give that sort of cover, and it is not something that we have in the fleet at the moment.

Mr CAMERON THOMPSON—To what extent do initiatives such as the AEW&C measures help to fill those sorts of gaps?

Cmdr Harris—It helps to identify threats if you have the AWACs available. I would point out that, although the aircraft themselves can travel a fair way, their range of operation would be limited to the air cover too because I do not think you would want to send one of those alone into hostile airspace. In fact, I am sure the Air Force would not permit it. So you are talking about air cover within a radius of Australia which could be provided purely from the air. The AWACs would be able to work with an air warfare destroyer. Obviously, because of the altitude at which it is operating, it would pick up targets a long way away and be able to work with an air warfare destroyer, which would have the weaponry.

Mr CAMERON THOMPSON—I have a related question. I went to an exercise in which the *Manoora* participated. One of the things I noticed was that they had to get someone from the Army to turn up with an air defence weapon—

Cmdr Harris—A shoulder mounted missile?

Mr CAMERON THOMPSON—Yes. A shoulder mounted missile was the only defence of the *Manoora* in that exercise. Are there genuine concerns about the lack of defences on those vessels?

Cmdr Harris—Not on the vessels themselves, but that is the very reason that you need ships that can provide cover to a deployed force. It could be the *Manoora*, it could be the oiler or it could be merchant ships that are carrying equipment. None of those is likely to have air defence, apart from maybe army personnel with shoulder mounted missiles. It is for that reason you need

to provide air cover. If the Air Force is in range, that is fine, but if it is not then the ships have to have it. At the moment the air defence on, say, an Anzac is quite good, but it is short range and it is not designed to provide area cover.

Mr CAMERON THOMPSON—Is it something that should be installed? It is a naval vessel and yet those vessels have no defence at all from what I can figure.

Cmdr Harris—Yes. You could put a close-in weapons system on them and you could put flares and other diversionary material equipment on them which will help divert incoming missiles if that is what the threat is. In theory, given the size of the *Kanimbla* or the *Manoora*, I suppose you could fit something larger on them. Once you start doing that you are changing the nature of the ship and you are using space which really has got to be used for what it is there for. Maybe you could fit a close-in weapons system. The Navy could give you better detail of that than I currently could. I am sure you could, but that is not giving you area defence—that is last ditch defence, isn't it?

Cmdr Evans—I think the short answer to your question is that the DDG was a very capable warship, a very sophisticated warship. It is what we call tier 1. The Anzacs and the FFGs are less sophisticated. For instance, FFGs were very largely designed in the first place for convoy protection and that sort of work. It is a question of sophistication, size and so forth. We now lack a tier 1 warship. I think that is what we have actually said in our submission.

Senator SANDY MACDONALD—This is not the question I was going to ask but that has prompted me to ask: why do you think the capability of the DDG, which was like a less modern air warfare destroyer, was let drop?

Cmdr Evans—The Navy has known for a long time that the DDGs would pay off at a certain date.

Senator SANDY MACDONALD—But that is because of their engines and their age.

Cmdr Evans—They are manpower intensive, they are steam powered, that sort of thing. I think the Navy wanted to replace them almost immediately, but it was not one of those things that Defence could provide for.

Cmdr Harris—Senator, you have indicated the reason why the DDGs had to go—because I suppose they were no longer viable due to their age—but the real question I guess is why there was not something in the program.

Senator SANDY MACDONALD—That is why I am asking you. Suddenly, it has come up again and again, as if the air warfare destroyer is some new capability requirement. There always was that capability requirement. I do not know the name of the UK vessel that was off East Timor, but to do an East Timor job again we needed to have a UK vessel that was there—in one of their air warfare destroyers. That is not the point of my question, though.

Mr PRICE—I thought we had two US vessels off East Timor.

Senator SANDY MACDONALD—There was a UK vessel off East Timor.

Cmdr Harris—There were both. For a time there was a UK destroyer, but there was also the American crew of *Mobile Bay*.

Senator SANDY MACDONALD—It has been put to us that our maritime strategy in the broad has been about force denial and that to have a real maritime strategy you have to have a capacity to have force projection as well. In your view, what equipment is needed to provide this force projection?

Cmdr Harris—I suppose you could begin at the top and say a big aircraft carrier, but we are not actually advocating that. We do not think that, for a variety of reasons

Mr PRICE—I do not even know about the ‘small’ aircraft carrier.

Cmdr Harris—I was not advocating that; I was just indicating that that is where you would start. In the Australian context, we need the air warfare destroyers to provide cover. We need good amphibious capability.

Senator SANDY MACDONALD—Can you be particular about what that would be?

Cmdr Harris—It took a lot of money to put *Kanimbla* and *Manoora* together after we got them, but they are now quite useful ships. Looking further out, we would hope that, when they are replaced, they are replaced with something like what the US Navy has got—that is, the *Tarawa*, which looks like an aircraft carrier but it is not—

Mr PRICE—Ha, ha!

Cmdr Harris—You do not like the phrase ‘aircraft carrier’?

Mr PRICE—It presents difficulties, that is all.

Cmdr Harris—It looks like an aircraft carrier. Or we would hope we got something like HMS *Ocean*, which is a helicopter carrier that you may be familiar with. Putting aside any questions of the kind which Mr Price is concerned about, it is better to operate with a big flat deck. It is simple. If you are operating helicopters, and big helicopters—which you would be operating if you were troop carrying and equipment carrying; you need to use large helicopters—a big flat deck is the best way to go. We would consider that that sort of ship is the necessary replacement for *Kanimbla* and *Manoora*.

Senator SANDY MACDONALD—That certainly would provide the capacity to have force projection. I see that the New Zealanders are looking at the replacement for the *Canterbury*. They made the decision not to take a third Anzac. They made the decision to take some sort of helicopter lift ship, and it will be interesting to see what they finally come up with.

Cmdr Harris—I am not aware of what they have in mind as yet—well, I do not think they have made a decision—but I think it would be sensible for them to have a flat deck. Given their scale, it may be something smaller than that. It is certainly the most effective way of operating these sorts of things.

Senator SANDY MACDONALD—So you are suggesting air warfare destroyers and a flat-top medium lift ship?

Cmdr Harris—There is one other form of power projection—that is, submarines.

Senator SANDY MACDONALD—But they are force denial, are they not?

Cmdr Harris—They are. But a harpoon—particularly a land-attack harpoon—is plainly force projection, should you choose to exercise it.

Mr EDWARDS—I congratulate you on your broad thrust submission which looks at capacity, the merchant navy and also questions the role of the Navy in border protection. Are you saying that this is an inappropriate use of the Navy simply because of the size of the ships that one has to call on or are you saying that this is a task that should be carried out by an organisation such as a coastguard?

Cmdr Harris—No to the latter. We think it is desirable not to have to use high-value warships in that sort of activity. We would certainly prefer a lower cost—in equipment, in value of vessel and in numbers of crew—for that activity. I think we commented that this is a factor that should be borne in mind when the new patrol ships are chosen. There will always be occasions when we will need to operate in a border protection action out from the coast, and that necessarily means you will need greater range and greater sea-keeping. I guess that is why the larger ships were used a year or so ago. But we would rather not keep warships for that function.

We are not averse to Navy being employed in border protection and, indeed, the Navy League—and my colleague might like to comment on this—has formed the view that a coastguard is not the answer for us for a variety of reasons. Though we were for many years concerned about the arrangements for border protection, now that we have the Coastwatch organisation in place with a director-general coordinating it, our view is that that seems to be working pretty well. The cost, expense and potential duplication, amongst other things, of a coastguard is something that we do not need. Our comment was directed to trying to avoid the necessity for using major warships.

Cmdr Evans—I think you have said it all.

Mr BEVIS—On a different issue, I am interested in your comment about the importance of a healthy Australian shipbuilding industry. I am interested in how you think government or the parliament might be able to assist in that. If we look at the history over the last, say, 20 years, the Australian shipbuilding industry has relied significantly on defence acquisitions. They have peaked, but over the next 10 years there will not be the same sort of activity driven by Defence proper. We appear not to have been able to commercialise the skills to sustain that level throughout the private market. I am interested in any comments you have about how government might assist and indeed whether, as a matter of conscious policy, government should say that having identifiable industry capabilities is part of our national defence requirement and, therefore, we will consciously factor that into our program, and that might involve some other forms of assistance or activity.

Cmdr Evans—Governments over the years have not really paid much attention to the merchant shipping side of affairs—shipbuilding and so forth. We used to be able to build at Whyalla, you may remember, merchant ships of quite considerable size. All of those facilities or capacities have disappeared. I think it is rather extraordinary for a nation which is a significant trading nation—and I think this is borne out by the recent Department of Foreign Affairs and Trade white paper which emphasises the importance of trade to Australia—to have for so many years allowed our trade, our cargoes, to be carried by foreign owned companies. This is a great pity, but it has happened.

One has to go back to World War I when, because of the war, merchant shipping dried up and so the government of the day had to buy a whole lot of ships, which became the Commonwealth Line. Then it was disbanded. In the 1950s Sir John Williams became chairman of the Coastal Shipping Commission, and as a result of that the Australian National Line was formed. He was a very practical man and a businessman as well as a seaman. He ran the National Line and it became competitive in the open market. In his book *So Ends This Day*, which some of the committee members may have read, he said he was allowed to run the National Line without bureaucratic interference for 15 years. Then there was some bureaucratic interference, and he left. The National Line is no longer a government owned line.

At the moment we have a lot of regulations—the Navigation Act, the Customs Act and all of these things—which Australian registered ships must comply with but foreign owned ships do not have to comply with. This puts our own flag ships at a disadvantage. Governments have been asked by organisations such as the Australian Shipowners Association to give some consideration to relieving the companies and their crews of all these penalties. Governments have just not shown any interest in this, for some reason or other. I suppose there are other, more important, things but I think it is something. The maritime merchant shipping industry must be considered a part of the overall defence strategy of the country. I hope that answers your question.

Mr BEVIS—That is fine, thanks.

Mr PRICE—You strongly emphasise in your submission the issue of funding and the possible need for additional funding. Are you aware that the government is collecting over \$600 million from Defence this year and \$900 million over the next two years in property sales—money that is going back to the government and not being kept in Defence?

Cmdr Harris—We were certainly aware of property sales. We did not have the precise figures for the amount that they were receiving but the answer is yes, we were aware that there were receipts from property sales. Once you have sold the property it is a one-off, so it is not recurrent revenue. Obviously, if you are raising expenditure from 1.9 per cent of GDP to something higher, you would want it for a significant number of years and not just for one or two years while you are getting rid of various bits of Commonwealth land. That is why we would not seek to rely on that.

Mr PRICE—No, but Defence used to be able to keep all of the money from property sales.

Cmdr Harris—Yes.

Mr PRICE—I am also interested to see that you put the air warfare destroyers as a high priority. As part of the update, the government has indicated that it will make changes to the capability plan, having already made some changes in response to terrorism. Do you see the government making a formal announcement of altered priorities, or should it just be something that they change as need be? Do you have any views on that?

Cmdr Evans—I do not think any government would wish to change the priority of defence spending. All countries have defence forces and they exist to defend their own national interests.

Mr PRICE—I apologise; I probably have not explained my question properly.

Cmdr Harris—Do you mean the actual equipment to be obtained?

Mr PRICE—Yes. They set out a 10-year plan of what equipment they should have and by when. I am not critical that they are changing it, but that was what my question addressed.

Cmdr Harris—When should they announce what equipment they want? Once they have made the—

Mr PRICE—A change in the priorities within the program.

Cmdr Harris—A change in priorities is almost always a result of a change in circumstances so I guess it is impossible to give them a timetable. Plainly, circumstances change. You mentioned the extra money being spent on the war against terrorism. Eighteen months ago that would have been a lesser priority. They probably announced their changed emphasis on that in as timely a fashion as they could.

Mr PRICE—I also understand from the defence update that some money may be redirected out of capital expenditure and into recurrent expenditure. Does your association have a view about that?

Cmdr Harris—We had noticed that and we wondered what it might mean. We think the capital expenditure, as announced so far, should be maintained. It follows that if there is additional expenditure required because of the changed circumstances then additional revenue should be provided. It is a different set of circumstances we have been facing in the last 18 months. In our view, the government is right to be doing things about it, but the funding should follow that fact.

Cmdr Evans—I do not think we have ever fully implemented a defence white paper.

Mr PRICE—I think you are right.

Cmdr Evans—We have had white papers in 1976, 1987 and 2000 and we are always qualifying them. For example, warship design is a long process and we never get anything finished.

Mr PRICE—I do not think you will get a personal explanation out of the committee, Commander.

Cmdr Harris—No.

CHAIR—On page 4 of your submission you commented:

The strategic reality is that should Australia have to defend itself from an external threat, serious consideration would have to be given to operations beyond the sea/air gap.

Do you consider that the current strategy of sea denial would be effective for this scenario?

Cmdr Harris—Sea denial is something that you can exercise anywhere—it does not have to be just off our coast. Our fleet can exercise sea denial anywhere that it is operating and, indeed, it is one of the things I mentioned in the definition of maritime strategy. One of the things you would wish to do is to ensure that you have the use of that patch of sea that you want to operate in, which involves denying the use of that patch of sea to your adversary. I do not think you can ever guarantee to deny the whole of the oceans of the world to the adversary, and you do not need to. What you need to do is deny them those bits they wish to use. In one sense power projection and sea denial go together. If we wish to deploy forces into the archipelago to the north to pre-empt somebody who is about to launch something at us, we would clearly be exercising sea denial however far north we went.

CHAIR—I do not think you addressed this in your submission, but I want to ask you about our closer economic relations with our Tasman friends. Do you see any role for integration between the two defence forces? Do you think there is a complementary relationship—we have some common strategic interests and closer economic relations—between the two even though Australia is the larger country and New Zealand is much smaller in its capability?

Cmdr Harris—There is—and there ought to be. In my experience over 20 or 30 years, we worked very closely together and still do. In the naval context, of course, the two warships that they have are both Anzacs, so they are readily able to work with our Navy, and there is a lot of cross-training. The answer is: yes, to the fullest extent possible. From time to time there may be a difference of view between the particular governments as to how they wish to employ their defence forces but, subject to that, we should be working to have them working with us almost as if—and I hope there are no New Zealanders with us—it were a part of our defence force.

CHAIR—Do you think we do it effectively now?

Cmdr Harris—Reasonably effectively.

CHAIR—Should it be more formalised?

Cmdr Harris—It would not hurt for it to be more formalised. I am aware that, in the last year or so, one of their frigates was operating off our coast helping our Navy with training et cetera because we were fully committed elsewhere. That is a small example, I guess, of them fitting in. I can see some difficulties if it is formalised. No doubt they will want to have caveats for when they might have a political difference with us. One hopes that would be on rare occasions.

Cmdr Evans—Moving away from New Zealand, I notice that in both their foreign affairs and trade paper and the recent defence review there is reference to the increasing stability of major power relations. I would have thought that if one read about the United Nations and what is going on at the moment, one would think there is not a great deal of stability. Would the committee consider that when they think of our need for defence forces and perhaps keeping the national defence separate from terrorism?

CHAIR—Do you think you can separate the two?

Cmdr Evans—I think you can. National defence is a separate issue. I do not think it is a terribly stable world at the moment. With, for instance, China, Taiwan, North Korea and that sort of thing, I would not have thought it was a stable world at all. Defence is still of major importance to Australia; terrorism is something which has been factored into the defence white paper—though not to the extent that it has been carried out in New York and elsewhere. I think the consequence of terrorism would be largely a civil responsibility rather than a defence responsibility.

Cmdr Harris—Within Australia?

Cmdr Evans—Yes, within Australia. I do not think we can use the defence forces to tear around the globe and barge into other countries uninvited. I think terrorism is a separate and major problem of its own, and I do not think it ought to be confused completely with national defence in the long run.

Senator SANDY MACDONALD—I do not think it is, though. I think there is a recognition that the war on terror is not a war at all; that it is a grinding war of intelligence gathering. If you look at the response to the war on terror it has been a beefing up of our intelligence services, new offences and new resources. I think there is recognition of that. At the same time, clearly, with asymmetrical threats that we face from terrorist groups or from countries, there must be a recognition of that in the white paper. I think the balance is probably about right. You are right to raise it, but I still think the balance is about right.

Mr CAMERON THOMPSON—Seeing as you raise it, it seems incredible to me that there could be the kinds of world ramifications of this war against terror and the huge impact that it seems to be having on the public yet, basically, the white paper charges on regardless. Do you think that, in order to capture or to perhaps present in the public mind a better view, or to incorporate that more effectively, it would be timely to completely rewrite that, even if what you did was to come up with the same outcome?

Cmdr Harris—Terrorism is just a threat to be dealt with, just as Defence has to deal with any threat to us. It is a particular kind of threat. We employ our Defence Force to deal with it to the extent we are committed in places like Afghanistan. Within Australia one would hope that our intelligence services and police forces would be able to deal with it. Though, if it became a major event, we would have to call on the Defence Force in what we used to call ‘aid to the civil power’; in other words, where the civil services could not deal with it, you would have to call in the aid of the Defence Force. When you are laying down something like the defence white paper, you are looking long term and you are looking at all aspects of defence. Terrorism is a very significant one and at the moment, I suppose, the most pressing one. But it is not—I

don't imagine it will ever be—the only thing that we have defence for. In the white paper; the degree of emphasis would vary depending on the circumstances.

Mr CAMERON THOMPSON—One of the contentious things—I think you have raised it the way other concerned organisations have raised it—is the 1.9 per cent of GDP. Given the immense allocations that are having to be made on a seemingly quite regular basis to get involved in coalition type activities in relation to the war on terror, surely that figure of 1.9 is going to be—

Cmdr Harris—Sorry, I misunderstood—

Mr CAMERON THOMPSON—Wouldn't it be better to recast the whole thing in the light of reality—the new reality? People would see it as a new reality.

Cmdr Harris—I am not sure that it is. Just to answer the 1.9 per cent aspect, as I mentioned to Mr Price earlier, if added expenditure is being incurred which was not planned because we had not anticipated until 18 months ago that we were going to be dealing with this, that added expenditure should be viewed as separate from the 1.9 per cent which, after all, was committed to a series of specific things that had been determined were necessary for our defence. What has happened is that we have had an added threat arise which we are now having to deal with as well. It is not as if the things that we set up the Defence Force for—or that the white paper said we need the Defence Force for—have gone away.

Mr CAMERON THOMPSON—For example, it created a new SAS type unit on the east coast of Australia. That is a whole allocation that was not envisaged at all at the time that the white paper was launched. We have suddenly got it. It is obviously a ramping up of capability. It is going to mean that that 1.9 per cent—even if it just moves up a tad—is heading up, not down. If we are to be real about it, surely we have to anticipate that, when the bills have all come in, it is going to be more than 1.9 per cent.

Cmdr Harris—I entirely agree. As I say, we take the view that the extra cost should be funded additional to the 1.9. All the other things that the white paper said have to be done still have to be done. The fact that we have now got terrorism to deal with as well does not mean that we do not have the other things to concern ourselves about.

Mr CAMERON THOMPSON—The example I gave of the extra counter-terrorism type unit is an added capability within the core of the Defence Force.

Cmdr Harris—It is.

Mr CAMERON THOMPSON—I would say that that is an example whereby our overall provision of 1.9—the argument that you are putting that it should be a higher amount—needs to be put in the context of the new environment. I think people out in the community would be reassured and, in general, defence related groups—from the experience of the submissions that we have had—would be reassured if they could see that we were taking into account the new environment.

Cmdr Evans—Are you suggesting that we should do away with the Army or the Navy?

Mr CAMERON THOMPSON—Absolutely not.

CHAIR—He would probably suggest the Air Force since he has the Amberley base in his electorate, but he would be a brave member.

Cmdr Harris—I understand the point. It may be useful to emphasise in the white paper or in the update that there is this great additional commitment which must be additionally funded. If that is what you mean, I totally agree.

Mr EDWARDS—I see your position as quite interesting, given that you would see offshore law enforcement, such as protection of the fisheries or migration, as very much a Defence thing—as you have said, you believe it is something that the Navy should conduct—yet you would see the protection of Australians from terrorism as not being a Defence responsibility.

Cmdr Harris—I think what I said was that those things are not only Defence things; I did not say they are not Defence things. Therefore, a lot of the time Customs, police, Quarantine or Health may deal with those things and never need Defence assistance—and we would hope that happens all the time, particularly as Defence has other things to do. But Defence can be called upon to make a contribution and we think that, if Defence has to make a contribution at government direction, in the maritime sense it is Navy's job to do it. No, I do not think there is an inconsistency at all. The civil people should deal with it if they can. As you know, in the normal course, Navy contributes a certain number of patrol boat days and Air Force contributes a certain number of flying hours for the P3s. We would hope everything works well and no greater contribution is made. But, if government determines a greater contribution is made, so be it. It is exactly the same with terrorism. If there were a threat in Melbourne today and the local police were able to deal with it, good, but if they needed the back-up of the people in Sydney—

Mr EDWARDS—They are not in Sydney; they are overseas. The whole company is.

Cmdr Harris—Yes, that is correct. They are the people who would otherwise be in Sydney, let us say.

CHAIR—I thank you, Commander Harris and Commander Evans, for your attendance here today. If you have been asked to provide additional material, please forward that to the secretary. You will be sent a copy of the transcript of your evidence, to which you can make corrections of grammar and fact. Can I say on behalf of the committee a very sincere thank you for your submission and your evidence today. Given your backgrounds and your experience in matters defence, we do appreciate both the submission and your evidence today. Thank you very much.

Is it the wish of the subcommittee that the submission by the Department of Defence dated 12 March 2003 be accepted as evidence and authorised for publication? There being no objection, it is so ordered. We will have witnesses from the defence department this afternoon.

[12.15 p.m.]

GRIFFETT, Mr Trevor Alan, Manager, Policy Development and Labour, Australian Shipowners Association

CHAIR—Welcome. Although the subcommittee does not require you to give evidence on oath, I should advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses. We have received a written submission to this inquiry from you. Would you like to make an opening statement?

Mr Griffett—Thank you. ASA has made its submission to this inquiry into Australia's maritime strategy in conjunction with supporting a separate submission by the Australian Maritime Defence Council. Evidence was provided to this subcommittee on 25 February of this year in support of that submission. Whilst the content of ASA's submission is common to the AMDC's submission, I would like to stress that these following comments should not be confused with any earlier evidence provided in a different capacity.

In essence, the submission of the Australian Shipowners Association includes, but is not limited to, the following points. In a defence emergency, there would be a requirement to charter or requisition merchant shipping to provide a military sea-lift capacity; a requirement to source qualified, skilled and experienced civilian seafarers to operate and manage merchant ships chartered by ADF in a transport support role; and a requirement to provide protection for merchant shipping engaged in the international, interstate and intrastate carriage of strategic domestic cargoes from interference or attack by hostile forces.

One-third of Australia's interstate and intrastate transport task on a tonne/kilometre basis is undertaken by sea. Major industrial supply chains utilising iron ore, bauxite, manganese, zinc, petroleum products, gas, cement, gypsum and many other materials rely on Australia's interstate and intrastate shipping. At least 85 per cent of this task is undertaken by Australian vessels but increasingly foreign vessels are participating in Australia's domestic sea transport task. The nature of the Australian and foreign ships servicing Australia's interstate transport industry is very unusual by world standards. In most countries, coastal trades are performed by vessels that are much smaller than those found in Australia.

In Australia, the steaming distances and volumes of cargo are such that ships of sizes normally used in international trade are used in Australia's domestic trade. Accordingly, they are large, more vulnerable and each unit of shipping is, by nature of its size, a more valuable strategic asset. These ships vary from 40,000-tonne tankers carrying petroleum products from, say, south-east Australian ports to Queensland ports, to 150,000-tonne bulk carriers carrying iron ore from Port Hedland to Port Kembla. Tasmania is linked to the Australian mainland by seven vessels operated between Melbourne and northern Tasmanian ports operated by four different companies. These ships maintain a highly competitive, reliable and efficient service across Bass Strait. These ships would be highly exposed in an area that is almost as far from the northern air bases as it is possible to be and still be in Australia.

These vessels are all regular merchant vessels. They spend much of their time in relatively isolated waters, yet they maintain industrial supply lines that would be vital to Australia in a

security crisis. The unique nature of Australia's trade heightens the impact of considerations that must be made in the event of any defence emergency or prolonged regional insurgency. These considerations include the continued availability of foreign flagged, foreign crewed tonnage for time or voyage charters. There is no apparent account taken of facilitating the legislative environment in which these vessels may be provided by Australian operators operating Australian controlled tonnage.

On the availability of suitable, trained and experienced merchant crews for ADF bare-boat chartered tonnage, the significance of the decline in maritime skills, both now and in the not too distant future, should not be underestimated. Australia's transport task will remain regardless of the balance in the mix of foreign and Australian controlled transport providers. Similarly certain maritime skills and experience will always be required. However, training and career opportunities will not exist for young Australian officers and engineers in the near future without some redress of the discriminatory aspects of section 23AG of the Income Tax Assessment Act. These matters are outlined in far greater detail in the submission of the Australian Shipowners Association.

CHAIR—Thank you. Senator Hutchins.

Senator HUTCHINS—On page 7 you discuss the Income Tax Assessment Act and the Shipping Registration Act. Could you outline your concerns about these acts, and what solutions do you propose?

Mr Griffett—If I can deal with the Shipping Registration Act separately, whilst the two issues are quite distinct they are part of a larger problem of the anti-competitive nature of Australian legislation applying to Australian operators vis-a vis foreign operators under permits here. With regard to the Shipping Registration Act, it is a mandatory requirement under that act for Australian owned vessels to be registered in Australia. As a consequence of that provision, the best way of describing it is like a series of dominoes that begin to fall. Once a vessel is deemed to be Australian, as it is by virtue of that fact, a whole series of other pieces of legislation are required be satisfied. These include Migration Act tests, the Customs Act, the Workplace Relations Act, the Seafarers Rehabilitation and Compensation Act and so on. There are 10 or 11 pieces of legislation that come into play. Foreign vessels operating in the coastal trade in Australia primarily under permit are not deemed to be Australian vessels. As a consequence, they are not required to satisfy the same provisions of Australian legislation whilst they operate in the interstate and intrastate transport trades.

Compounding this problem has been an increasing unavailability of international ship finance for reinvestment in this country. The general policy environment in Australia over the last six or seven years in particular has been such that foreign shipping finance providers have been reluctant to provide finance to Australian controlled shipping operators where it would be mandatory for the vessel to be registered in Australia because of the anti-competitive nature of that fact and the return that they would be looking for on their finance investment. As a consequence, the only really reliable finance that is available has been on the international market, and on the international market there is more often than not a requirement that a vessel be registered under a particular flag, and that is not possible under the current arrangements of the Shipping Registration Act.

What has been proposed over the past 12 months to both the department of transport and the Minister for Transport and Regional Services has been an amendment to section 12 of the Shipping Registration Act which would provide for the retention of the Australian controlled nature of those shipping assets and retention of the economic benefits that flow from the Australian maintenance of those Australian assets but an ability to register the vessels under an offshore flag, whatever that flag may be, and the flag that is more often than not dictated by the finance provider. That would enable the business of shipping to remain here whilst the ships were operated under a different flag; they would still effectively be managed here. They would, however, technically be foreign vessels.

Mr EDWARDS—Manned by?

Mr Griffett—They may be manned by Australians; they may be manned under different circumstances. It would depend very much on the means by which the vessel operated here. There would be no incentive for the vessel, for example, to operate here under a licence. If it operated here under a licence, it would be deemed to be an Australian vessel and the set of dominoes would begin to fall. If that was the case, you would have the workplace relations test and the Migration Act tests and you would invariably have a full Australian crew. If the trade was such that the vessel could operate, for example, under permit—if the trade permitted that, and that is not necessarily the case in all circumstances—there would be an opportunity for an Australian operator to act like its international best practice competitors and there could be a mixed crew in those circumstances.

With regard to the second question, which was on the Income Tax Assessment Act, we have a situation in Australia that has been realised by almost every other leading maritime nation around the world over the past 20 to 30 years. For some reason, we seem to have been somewhat insulated from the dramatic impacts of it until the last few years in particular. That impact has been a marked decline in maritime skills. What has happened in almost every other Western nation has been a slow but sure and gradual decline in the national flag fleet of each of those nations, and the same circumstances are being witnessed here in Australia.

Senator HUTCHINS—Does that include the United States?

Mr Griffett—That does.

Senator HUTCHINS—How have they remedied that?

Mr Griffett—They remedied that through domestic legislation that required all vessels operating around the United States coast to be US flagged and US crewed. They have an extreme form of cabotage in that regard. That is not a situation that is being advocated by Australian operators. As implied by my response to the Shipping Registration Act, what we are proposing is, in fact, to allow the Australian operators to act like their international competitors in this market.

There has been a paradigm shift in the way that the Australian market is viewed by Australian operators over the past five to 10 years in particular, but most prevalently in the last few years. Instead of seeing Australia as a defined walled market separate from the rest of the international market, the paradigm is that Australian operators see themselves as an Australian component of

an international market. What Australian operators are increasingly seeking to do is to act like the other international players that are operating in that market, that they are competing with.

The slow but gradual decline of the Australian flag fleet over the past five years—and this was compounded by the removal of the engagement system whereby all components of a ship's crew were direct company employees and the balancing redress that occurred in the year or so after that—has meant that training in the maritime industry has fallen dramatically. It has slowly started to increase in the past 12 months but, compared to the levels of training that were taking place 10 years ago when the Australian flag fleet was much greater, there has been a marked decline.

There are only so many vessels remaining under the Australian flag. As vessels are replaced, they are invariably replaced with more efficient, often larger capacity tonnage. That means that you may replace three vessels with two vessels, further impacting on the crew positions on which trainees can be trained. That is no criticism necessarily of the effectiveness of the vessel; by operation they have become more efficient. But the number of positions for trainees has declined. That position is only going to worsen, I would suggest, over the next five to 10 years.

The impact of section 23AG of the Income Tax Assessment Act is such that the definition of 'foreign country'—that is, where a person can accumulate their requisite 91 days to qualify for the income tax exemptions—does not include the high seas. In comparison, a trained and skilled person can work ashore in a ship management company in Hong Kong for 3½ months and they will get their 91 days to qualify for the exemption. They will be paying tax in Hong Kong also to qualify for the exemption. A master may work on a ferry in Hong Kong harbour and never leave the confines of Hong Kong's—now China's—jurisdictional boundary. That person would also qualify for the 91 days. However, a person operating on an international trading vessel—for example, an internationally trading container ship—passes through the high seas as an inherent part of their trade. Every time that vessel moves into the high seas, the 91-day clock stops ticking. Every time they pass into the territorial waters of the next country they are visiting, the 91-day clock starts ticking again. The consequence of this is that they never get their 91 days.

What is the impact of that? Australian seafarers—invariably Australian officers and engineers—are required to pay Australian tax rates on their international salary. Those international salaries are subject to international market pressures. Those international market pressures anticipate a tax regime in the manning countries in which international sea labour is provided. Those tax regimes are invariably at lower rates of tax. They are paid on gross salaries. So those gross salaries incorporate the anticipated tax payable.

For Australian seafarers to maintain a commensurate salary, they have to either price themselves out of the international marketplace by seeking a higher gross salary that takes into account the Australian taxation levels or leave the country altogether and become non-residents. The break in the nexus between Australia and the Australian officer or engineer who goes overseas is such that many of these officers and engineers never actually return to this country. This contributes to the overall drain, in the longer term, of Australian seafarers.

The aim of an amendment to the definition of 'foreign country' to incorporate the high seas is to provide a training ground for Australian seafarers where the Australian flag fleet cannot currently provide a training ground. Once these people have their requisite training, they can

gain their experience on foreign flag vessels. And there are already international companies that are looking out. Just this morning I read an email from a company in Singapore, AP Moller, that was seeking trainees from the Hunter Institute of Technology in New South Wales. So there is a market overseas for these people but there is no incentive for them to go overseas, work in ships, gain their experience and remain Australian residents.

Senator FERGUSON—Mr Griffett, on page 6 of your submission there is a table that shows the vessels registered and the officers required.

Mr Griffett—Yes.

Senator FERGUSON—Is the 108 in the first column in 1991 a misprint?

Mr Griffett—I believe that should be 1,088.

Senator FERGUSON—That sounds better. The eight has just dropped out.

Mr Griffett—It has.

Senator FERGUSON—We had a submission yesterday where people told us that the latest list, prepared by your association in April 2001, showed that there were 49 vessels on the books. I am not arguing with the numbers, I am just using the figures that they quoted us. Of those 49 vessels, all but very few were purpose built for specific trade to and from specific terminals.

Mr Griffett—That is primarily the nature of the Australian marketplace. As the market has contracted, it has contracted to the flow of raw materials for companies. Those vessels are, because of the nature of their operation, purpose built.

Senator FERGUSON—They went on to say that merchant ships in previous military conflicts were flexible to the extent that they could all self-load and self-discharge—either at a wharf or into barges off shores—which is in stark contrast to these modern purpose-built ships. The Royal United Services Institute also suggested that, as matters now stand, Australia would have to look overseas in an emergency. However, independent ships are in very short supply world wide. They said:

As a consequence we see no future for the current Australian merchant navy as part of Australia's defence.

That is in stark contrast to some of the submissions we have had where people say that we need a strong merchant navy and an Australian flagged merchant navy for our capabilities. So I am in a bit of a bind. We have one group that says it sees no role for the Australian merchant navy in Australia's defence because of the purpose-built nature of the ships et cetera; and we have others who say that a strong merchant navy under Australian flags with trained people is an integral part of our defence and maritime strategy. Where do you fall—somewhere in between?

Mr Griffett—Somewhere in between is probably a good description. The greater majority of Australian vessels are purpose built and they are primarily purpose built for the carriage of bulk cargoes. They transport raw materials to and from production processors and sources of commodity. That is the majority. However, there are a number of vessels in the Australian flag fleet—and certainly the Australian controlled fleet—that are general purpose vessels which are

in the business of shipping for shipping. The majority of those are operating the Bass Strait trades between Victoria and Tasmania.

Senator FERGUSON—Those seven.

Mr Griffett—That is certainly the case—those seven. They include the two *Spirit of Tasmania* vessels and a number of the general cargo roll-on, roll-off vessels operated by Toll Shipping and by Patrick Shipping.

Senator FERGUSON—You could not pull them out without seriously debilitating Tasmania. As there are no Tasmanians on the committee, I have got to speak up for them.

Mr Griffett—There would definitely be an impact on those trades. That is a trade that has some capacity at present. Four operators are presently in that market, and it is anticipated that there will be a market reassessment over the next short period of time as that market sorts itself out. The process of what vessels would be required for defence purposes has, as recently as last week, involved discussions between us and Defence. A process of reassessing the Australian flag fleet for potential requisition purposes is about to get under way. That process, which I was involved in, took place in the early to mid-1990s, and a number of vessels were earmarked as being of particular interest to the ADF. That was also when, for the first time, they were very seriously looking at their chartering abilities and when the process of the ADF chartering foreign flag tonnage to support their air-sea lift capabilities was undertaken. For example, at that time some vessels were earmarked for very specific defence circumstances. I do not envisage a situation where this might be required, but Defence, for example, looked at the recently replaced *Spirit of Tasmania* as a very attractive hospital ship, not because of its expected or current usage but because of its capabilities and capacity with its roll-on, roll-off ability to move certain ADF assets and its significant accommodation space to operate as a hospital ship.

So there are vessels that operate in the Australian trades under Australian flag that do attract the interest. I would be fooling myself to suggest that anything other than the greater majority of the ADF's current capacity is satisfied by charter tonnage. How that would be impacted upon, based on a regional conflict or based on a protracted insurgency—for want of a better description—is largely unknown. However, in such circumstances there would be an impact on the availability of tonnage in the Australian region.

Senator FERGUSON—If we are looking to the future there seem to be only two options: firstly, for the Navy itself to get a purpose built vessel or vessels that can do the job required in shifting armoury and personnel; or, secondly, for some sort of arrangement with a merchant vessel which is capable of doing that role and which can be called upon at any time to perform that role. Currently, you have not got them. The merchant fleet has only the Tasmanian vessels that they can call on.

Mr Griffett—Australia has not requisitioned vessels since the Vietnam War. When Australian vessels have been secured by the ADF, that has been on commercial terms. I would anticipate that the same would hold true, except in extreme and unforeseen circumstances. The sorts of vessels required by the ADF do operate around the Australian coast; they do exist.

Senator FERGUSON—How many?

Mr Griffett—I could not tell you specifically.

Senator FERGUSON—Your own words are that most of them are purpose built.

Mr Griffett—I am talking about foreign flag vessels operating around the Australian coast, but they are not Australian controlled or Australian owned assets.

Senator JOHNSTON—You will recall that, when you appeared before the committee in Canberra as a member of the Australian Maritime Defence Council, we briefly discussed access to ports with one of the gentlemen who was a port authority spokesman. I take it that there is a considerable differential between the thresholds that have to be met by your owners for indemnity compliance and other rules and regulations to access Australian ports and those for some of these flag of convenience vessels. Is there a differential, and is it a concern to your members? And how does the answer to those questions bear on the Navy accessing ports at any given time where we, as a government, might need to negotiate with owners of vessels?

Mr Griffett—I cannot speak for the Navy's required access to ports—

Senator JOHNSTON—Your owners would be approachable, I take it, to being asked in an emergency, 'Could you shift your ships so we can get in and do this?'

Mr Griffett—Certainly.

Senator JOHNSTON—How do you think we are going to get on with flag of convenience vessels doing that?

Mr Griffett—I am not sure how we would get on with flag of convenience vessels in those circumstances. I suspect that would be affected by the ability to negotiate those on commercial terms, more than anything else. It is obviously a far simpler exercise to negotiate in commercial terms with the appropriate managers of any affected company when that affected company is residing here.

Senator JOHNSTON—What I am saying is: we negotiate with flag of convenience vessels on commercial terms; do we allow them to come into our ports on commercial terms? I am sure that some of the indemnities they are offering in terms of insurance are not worth the paper they are written on.

Mr Griffett—The indemnities that they are required to provide evidence of are the same for international operators as they are for Australian operators. Those are established by international convention and are enacted in Australia by domestic legislation. The substance of that evidence is a different question.

Senator JOHNSTON—That is what I want to hear about.

Mr Griffett—Australian operators satisfy the requirements on an even basis. Whether it could be said that all foreign operators visiting our shores satisfy, I could not say for certain. Anecdotally it has long been held that a small number of operators—and I am careful not to say certain flags, because it does not apply across flags—within a certain flag tend to tarnish the

reputation of a given flag. Anecdotally, certain operators have questionable capacity to satisfy their documented obligations.

Senator JOHNSTON—In terms of accessing ports in a time of national emergency or at very short notice, do you think we are going to have a problem with flags of convenience vessels in, first of all, actually ascertaining ownership?

Mr Griffett—No more than we do now.

Senator JOHNSTON—Do we have a problem in that?

Mr Griffett—On the face of it, we do not appear to have a problem with that now. What has been documented on a number of occasions when there have been significant incidents is that what appeared to be very clear on the face of documentation has, on further scrutiny, become increasingly clouded. Whether that is the case for all operators, I could not say for certain. The implementation of the international ship management code—the ISM code—a number of years back has gone some way to redressing that problem, which was becoming endemic in the early 1990s. It has gone a long way towards addressing that problem. The implementation over the next 18 months of the International Ship and Port Facility Security Code—the ISPS code—will further build on that progress. Whether it will ensure that all foreign operators visiting Australian shores meet the same stringent requirements as all Australian operators working around the Australian coast, I could not say. I suspect it will not, but I could not say for certain.

Mr CAMERON THOMPSON—We have been looking at the issue of provision of lift capacity to support military activities, and it has attracted quite a bit of comment. I see you have covered that, and I have spoken to some of the military people involved—some of them here today—about those sorts of issues. Do you think it is an adequate arrangement that someone can basically go to a broker in Singapore and get any kind of a ship, get the Australian government to insure it so that is not an issue if it gets sunk or something, and then, if necessary, some Navy crew are provided to go on it as well? Do you think that that is an adequate arrangement for them to be able to pursue? It worked in the case of East Timor.

Mr Griffett—It very much depends on the circumstances. That is a pretty easy answer to provide to you. For the ADF's exercise sea lift requirements, it has been more than suitable, as an outside observer. In the circumstances of East Timor, where there was a lengthier sea lift requirement but one that certainly would not be considered a protracted requirement, it met the needs. Let us say there was some form of insurgency—I use the word as a generic term—in the region, whatever that might be, that continued for an extended period of time such that, for example, international insurers declared that war risks applied in the region and the insurance requirements went up markedly. Also, because of the nature of the threat, the available vessels that were on the market in this region dried up as a consequence either because of owners not willing to risk their assets or crews not wanting to work in the region. In those circumstances, if the ADF had a long-term requirement for tonnage such that they sought bare boat tonnage that they had to crew, where the ADF personnel alone could not crew the vessel and where there would be some civilian merchant crewing required to complement the ADF crewing, then we would find ourselves in very different circumstances. There would be an impact. Whether the impact is wearable is unknown.

Mr CAMERON THOMPSON—One of the points they made to me was that basically the Australian government can guarantee the vessel or basically the government could insure: self-insurance, in other words. Given that that is something that could be taken in those extreme circumstances, does it then come down to the crewing issue? We have had all sorts of comments made about the need to improve skills and to provide better training. Is the core of it really the crewing issue, having available skilled people who can supplement in that sort of case?

Mr Griffett—There is an indemnity issue that you referred to there and you have advised me that there is a guarantee that that would be satisfied. Whether the vessels are available in the numbers or type in the region is a question that would remain unanswered until the specific set of circumstances. The crewing issue is a significant issue and it is one that is not going to go away. It is becoming increasingly an issue now, not just in terms of crewing vessels but in terms of other harbour activities—harbourmasters, cargo planners, safety officers. These people are almost exclusively ex ships engineers and deck officers. The impact of decline in maritime skills is far broader than just the numbers of people who can man a vessel. That would be a significant issue in the longer term.

Mr PRICE—I think the previous witnesses said that our merchant fleet was a disgrace on the basis of the fact that it was almost non-existent or too small.

Mr Griffett—I do not think our members think it is a disgrace.

Mr PRICE—I do not think they mean it that way. What size of merchant fleet should we aim for other than cabotage? For so many other industries we are told we are too small, not big enough, but that does not seem to apply to European countries. You cannot say the wages are too high, because their wages exceed our wages. If you were setting out new maritime policy which included the merchant fleet, what is it reasonable for Australia to aim for and what do other countries have already?

Mr Griffett—We often find ourselves sitting at the Australian Shipowners Association dreaming of a legislative regime that would allow us to compete on the same economies of scale as our competitors in Asia and Europe. In the foreseeable future, that is not going to happen. Australian operators currently carry two per cent of Australia's sea task. That needs to be borne in the perspective that 98 per cent of everything that comes to and leaves our shores goes by ship. If that task were increased to just 20 per cent, one-fifth of Australia's maritime transport task, that increase would be an increase from 50 vessels in round numbers to 500 vessels. A significant economy of scale would be realised as a consequence of that sort of increase. There would be an increase on the economies of scale of operation and management to attract new business, new management, new training, to realise the sorts of economies that would allow Australian operators to compete on truly international terms. The difficulty that exists is that that is not going to occur under the current legislative regime. That is in fact a disincentive.

Mr PRICE—We are all economic rationalists here; we are all pure. But wasn't there a bounty scheme for building merchant ships in Australia? If so, how did that work and do you have any comments about it?

Mr Griffett—The Ships (Capital Grants) Act went through the late 1980s into the early 1990s. There is a table on page 5 of our submission that shows the impact on investment in the country as a consequence of that. Page 5 includes a bar graph that identifies in real terms the

impact of that scheme on investment in this country in new and replacement tonnage. At its peak in 1994-95, there was \$500 million investment. That fell away in 1995-96 and it has remained at almost nil levels since that period because of the repeal of those provisions and the grandfathering of other aspects of those provisions. That tonnage, by and large, certainly the tonnage that was invested in in the late 1980s, is increasingly beginning to approach the end of its natural life, and the impact of that is driving the real need for reinvestment in the country at present.

Mr PRICE—Would it be possible for us to think about reinvestment or increasing the size of our international merchandise trade by having those ships built in Australia?

Mr Griffett—There are currently no shipbuilding facilities that can build the types of vessels that operate in those trades. That capacity just does not exist in the country anymore. It has not existed for some time, I might add. That is an option that would be possible. It would mean the subsidising of a complete shipbuilding industry to do so and the establishment of new facilities to build that sort of tonnage. That is an option that Australian operators have not been pursuing on the grounds that I suggested earlier. Rather than seeing themselves as some separate, isolated part of world maritime trade that is propped up in some capacity, Australian operators are seeking permission to operate in the same way as their competitors in just the Australian region of the international market.

CHAIR—Thank you for your attendance here and for your submission. That wraps up our questions and our time. If you have been asked to provide any additional material, would you please provide that to our secretary. You will be sent a copy of the transcript of your evidence today, to which you can make corrections of grammar and also fact. Thank you for the time you have given to this inquiry. We do value your input.

Proceedings suspended from 12.55 p.m. to 1.45 p.m.

[1.45 p.m.]

BLACKBURN, Air Vice Marshal John, Head, Policy Guidance and Analysis, Strategic Policy, Department of Defence

CARMODY, Mr Shane, Deputy Secretary, Strategic Policy, Department of Defence

GOLDRICK, Commodore James, Director-General, Military Strategy, Policy Guidance and Analysis, Department of Defence

GREENFIELD, Commodore Paul, Director-General, Maritime Development, Department of Defence

LEARMONTH, Mr David, Head of Industry Division, Defence Materiel Organisation

CHAIR—I welcome representatives from the Department of Defence. Although the subcommittee does not require you to give evidence under oath, I advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses. We received a written submission only half an hour before we broke for lunch, which does not please the committee at all—I want to put that on the record quite strongly. Consequently, this gave the committee very little time—in fact no time—to read the submission and get across it. Would you like to make an opening statement?

Mr Carmody—We are delighted to be here. I do apologise for the lateness of the submission. We worked very diligently to try to ensure that we had a submission for you. I apologise for the lateness, but I am pleased that we were at least able to provide one. I realise that it has left you very little time for questions, but we will do what we can to answer the questions you have. The only other point I wish to make is that, since our first appearance, the Defence update 2003 has been released and there were some issues with ensuring that the two documents were harmonised. That is all I have to say in my opening remarks. I am delighted to be here and we are happy to take your questions.

CHAIR—With that, we will start questions. Obviously, as I said at the outset, the committee only received the submission just before lunchtime. The committee has not had a chance to read it, but there are questions that have come from the hearings thus far that the committee could ask. I would like to flag that, depending on the committee's will, we may want to have another hearing in relation to your submission today, possibly in Canberra, to do justice to the inquiry and also your submission.

Mr Carmody—We would be delighted.

Senator FERGUSON—A number of issues have been raised by other witnesses. I think at least some of you have been here to listen to their evidence, and there must be some issues that were raised that you could respond to. A number of issues were raised from the questions that we have asked. For example, the need for support from a merchant navy has been raised quite often. Another issue raised was whether self-reliance is a feasible objective. Perhaps you would have a view or an opinion on that. Another issue is whether we should be looking at our

strategic alliances. Could you start with those issues while we have a bit of a look at the rest of your submission?

Mr Carmody—I might leave the merchant navy question for my colleagues. I would like to start on the question of self-reliance and highlight some points that I made earlier. I have been reading some of the testimony to the committee of various witnesses since our appearance, and I would like to focus on self-reliance and the point about strategic alliances and whether or not it is a reasonable objective. It is a reasonable objective from our point of view, as I indicated at one point before, and I think others may have also indicated this—in the areas where we have least discretion to act.

In areas where we do not have very much discretion—and I would argue that they include operations in areas closer to Australia's interests—we need to be more self-reliant than we would necessarily need to be in other areas. I think it comes down to a simple judgment call of discretion and of trying to balance the amount of self-reliance that is possible with the issues of where you might or might not have discretion. The notion of self-reliance is endless. The force structure that we have—running at 1.8 or 1.9 per cent of GDP, depending on who you believe on a given day, and I see it has been quoted variously by various people in testimony to the committee—is not enough to make a defence force which is fully self-reliant in every circumstance. We have a force of 100 aircraft, a reasonable surface capability and subsurface capacity and a reasonable sized ground force for the types of things we expect to be able to do. I make the point again that, over the last couple of years, there has been nothing that we have been called upon to do that we have not been able to do. But it is a question of balancing the need for self-reliance with some prudent financial and other capability trade-offs within the dollars that we have.

I do not think I could say much more about self-reliance, except to say that it is endless. We need to put some bounds around it—which is what we have endeavoured to do from the white paper and beyond with the structures that exist through our defence white paper—from defence of Australia through to the other two tasks and ending up with peacetime national tasks and what we can reasonably expect to be able to do. I will pause there and pass on to my colleagues to talk about the merchant navy, if you wish, who can try and answer that element. Then I will come back for some more.

Cdre Goldrick—In terms of the relationship with the merchant navy, I would say as a matter of principle that the Navy, and the Defence Force as a whole, values having a strong relationship with not merely a merchant navy but the national marine industry. The question of how much support you can give them to get defence benefit is a very difficult one, because there is an issue as to national resources being devoted to maintaining a merchant navy, which might not be the most cost-effective thing in commercial terms. That very quickly gets outside my remit.

What I can say is that our experience in recent years is that we have successfully worked the issue of chartering shipping in the East Timor situation via ship-brokers, and we basically maintain arrangements and know who to ask for for particular shipping. In the case of East Timor, it was quite apparent that we needed a lot of flexibility and effectively access to the worldwide shipping industry in order to be able to meet unexpected requirements. For example, we required to hire a pontoon barge from Singapore to provide the compatible roll-on, roll-off facility with Jervis Bay. That would have been very difficult to predict in any circumstances. We

found that we were chartering not roll-on, roll-off ships for the East Timor situation, which you might do for major ports in other parts of the world, but that we were hiring rig tenders and other small vessels which could operate in a very simple port with very restricted navigational circumstances. We have been able to work by accessing effectively the world's marine industries via chartering methods to meet our requirements.

Would we need to do so in the case of needing to move a large force around in the event of supporting the immediate neighbourhood? Yes, we would. There is no doubt that substantial forces take very substantial amounts of movement capacity, and that movement capacity effectively has to be by sea. It is very difficult for aircraft to move the amounts of cargo that ships can, and it is almost impossible for aircraft to do it by themselves when you have large land forces involved. By large land forces, I am really talking about more than a few hundred people.

Senator JOHNSTON—How long did it take to get those ships?

Cdre Goldrick—I would have to take that on notice to give you some indications, but in very quick time we were able to meet the requirements. A point that has been made to me by one of those who was involved with respect to the barge from Singapore was that Singapore is closer to Darwin than Sydney is, so it is not just a simple matter of thinking that perhaps the Australian solution would be better anyway. There are other factors of distance and suitability.

Senator FERGUSON—When I was questioning Michael O'Connor from the Defence Association this morning, one of the questions I asked was who wrote the submission and what input other people in his association had, and whether it was his document or had to be approved by somebody else. I am going to ask the same question of you, because we have had extensive evidence, you may recall, from Brigadier Jim Wallace, recently retired, who expressed some very strong, forthright views and opinions as to the role of serving officers in having input into strategy, not necessarily maritime strategy but other strategic decisions that are made by the department or by the armed forces, and eventually policy of the government. When you bring in this document to us today, is it a document that is drawn up by what might be loosely termed the bureaucrats in the department or is it a document where you talk to serving officers to get their point of view? Bearing in mind the serving officers that you already have with you, I am talking about people outside of those who were instructed to draw up this document. Who else had some input to a strategy document that would help satisfy some of the criticisms, valid or otherwise, that were put to this committee by Brigadier Wallace?

Mr Carmody—I will start and I might pass to my colleagues after I commence. My role as Deputy Secretary Strategic Policy is strategy. You have spoken to and heard evidence from my predecessors Hugh White, Paul Dibb and others who have also had the same role in the department. Within the strategic policy organisation I have until recently had three division heads within the organisation, one an air vice marshal, one a major-general and one a civilian equivalent. At the moment the situation is reversed: there is one air vice marshal and there are two civilians.

Senator JOHNSTON—How long has that situation prevailed?

Mr Carmody—That situation has prevailed for a very long time, a number of years. It certainly preceded Dr Richard Brabin-Smith, my predecessor, and was in place through Hugh White's time.

Senator JOHNSTON—But it was not employed for Defence 2000.

Mr Carmody—I can walk around both of those questions. If you asked one of the principal authors of *Defence 2000*, Hugh White, whether it was consulted, he would say it was consulted extensively. It really depends on your point of view. If I can return to this paper—and I shall return to the question, if you wish—we consulted extensively throughout the organisation. The actual strategy paper was put together in Air Vice Marshal Blackburn's division, so we can talk about the process of how we consult. But in the same way that General Ken Gillespie is the J3 of the organisation and is responsible for operations and gets on and does them, we are the J5 part of the organisation responsible for planning and a lot of the strategic policy making and we get on and do it. Everybody cannot get involved in everything. It is a very large organisation.

Retired Brigadier Wallace might have some strong views on where he was or was not involved, and I certainly listened with interest to his comments on the bureaucratic policy making process, but I do not agree. Even as recently as development of financial paperwork, our defence capability planning process and a number of others, I have been sitting down with the deputy chiefs of the services and working through those process documents with them. So my view is that it is consulted as widely as it can be and probably more widely than a lot of other things that happened in the organisation. John, you might want to talk a little about the process of how this was created. It certainly wasn't created by bureaucrats sitting in the corner deciding just to write it.

Air Vice Marshal Blackburn—As the Deputy Secretary Strategy has mentioned, I am the senior military officer in the group. This document was drafted in Commodore Goldrick's area. Basically, they pulled the whole draft together and then consulted across the organisation, particularly getting feedback from the service officers of their concerns and issues. After a period of that activity, it came back up through the Deputy Secretary Strategy, it was cleared by both the Secretary and the CDF, and the CDF signed it and sent it to the minister's office. At that stage, the minister rightly reviewed it and determined what changes or issues needed to be addressed. It then came back to us to incorporate those changes and provide the final document. So, in the case of this document, we were involved at every stage, right through to the final document.

Mr EDWARDS—So it is edited by the minister's office?

Air Vice Marshal Blackburn—They review the document and determine what changes need to be made.

Senator FERGUSON—Are you saying then that there was no validity at all in Brigadier Wallace's criticisms?

Air Vice Marshal Blackburn—I am not addressing Brigadier Wallace's criticisms. I have seen only a very small amount of his evidence; I have not read the totality of it. All my comments are purely related to the production of this submission.

Senator SANDY MACDONALD—I want to get witnesses to speculate on a couple of things. But, before I do that, as you are very aware, the white paper states that ADF's role gives priority to defending Australia, contributing to security in our immediate neighbourhood, contributing to coalition arrangements further afield and peacekeeping.

Mr Carmody—Peacetime national tasks.

Senator SANDY MACDONALD—Yes. It has been put to us that a maritime strategy is really in two parts. One is sea denial, which I think we would all agree we do pretty well. We seem to have the right equipment to do that and we have a certain natural advantage of a moat around Northern Australia. Sea denial seems to be something we can say that we do reasonably effectively. But on the question of sea projection, or force projection, a number of capability equipment areas have been put to us. Some, such as the AWACS and the refuelling aircraft, have been addressed. The air warfare destroyer has come up again and again, and the government has made a decision to slot that into its forward purchasing program.

The other two things that have come up in terms of capability or platforms have been, one, the aircraft carrier, and, two, amphibious lift. I would like you to speculate and to identify two things. Firstly, what sort of amphibious lift might we be looking at and how far away might it be before we would be likely to get it? Secondly, I want you to speculate even further on an aircraft carrier. What would be the ballpark figure in 2003 dollars of the cost of an aircraft carrier and what would be the ballpark figure on how long it would take before we would be likely to have it? There are two things: the amphibious lift, which everybody says needs to be looked at; and an aircraft carrier, which people speculate about and about which I would like some expert advice as to a few details on how long it would take before it might be here.

Mr Carmody—I will ask Commodore Greenfield to talk about the amphibious ships and then we will take the aircraft carrier collectively.

Cdre Greenfield—With respect to amphibious lift, in the Defence Capability Plan there are some projects to replace the current LPAs, or landing platform auxiliaries. They are the amphibious ships. The DCP lists at least three of those. However, we are working at the moment with the Army to define exactly what it is that they want us to lift. Although we have done some work with the Army, we want to know exactly what it is when they say that they want to lift a brigade, move a battalion or support a battalion. Does it mean light infantry? Does it mean light infantry plus artillery pieces? How far does it go? There is a little bit of work to do there. The DCP has these three ships at the moment. They are replacements for the current ships: *Tobruk*, which according to the DCP is due to be replaced in 2010, and the two current LPAs—*Manoora* and *Kanimbla*—which are to be replaced in 2014 and 2015. There is a band of funding in the DCP for that worth between \$1 billion and \$2 billion.

CHAIR—Does anyone want to add to the amphibious lift?

Senator SANDY MACDONALD—Would those three be replaced by one?

Cdre Greenfield—No, the DCP actually calls each ship up individually. We would like to think of it more as a system, though. Although the operational requirements documentation is well under way, it could be three ships—one replacement for each of those three ships—it might

be six small ships, or it could be any combination in between. But it is a little early to tell at this stage.

CHAIR—We heard evidence from the ADI in Sydney yesterday about the concept ship, roll on, roll off. Are you aware of that?

Cdre Greenfield—We constantly talk to industry to get ideas from them as to what is possible and what is not. We always like to get fresh ideas from whoever in industry has those ideas, but of course until we get tender quality information, we are never really certain of costings and timings.

CHAIR—But you are aware of the concept?

Cdre Greenfield—Yes.

Mr Carmody—I might start on the carrier. I have not got a lot to say, so I might pass to the Navy again. I think it is clearly a Navy question. I do note the point that ‘a carrier’ is not normally an answer; it is a number of carriers. One of anything is not sufficient in a defence organisation and in the type of maritime environment in which we are operating. So you are talking a number. Again, you are talking about force projection, and how much and how far is enough? In terms of broad costings, I would have no idea.

Senator SANDY MACDONALD—I will not ask you to speculate, Mr Carmody. One might have to think smart and say, ‘We won’t have two carriers, we’ll just have two crews.’

Mr Carmody—The notion is how long you can keep one platform at sea, and the reality is that you do not keep any of your capabilities constantly operational. At some point or another, it is going to be in port. At some point or another, you either take the capability deficit or you run with more than one platform, so you at least have to run with two. The reality is that normally you need more than two. I will pass to the experts, who know a lot more about this than I do.

Senator FERGUSON—We never had more than one, though, did we?

Mr Carmody—We had *Sydney* and *Melbourne*.

Cdre Goldrick—Well, *Sydney* and *Melbourne* never actually operated together as aircraft carriers, but for two years we had two aircraft carriers—this was just at the end of the Korean War—which were both operational. They were *Sydney* and *Vengeance*. *Vengeance* in fact has only just ceased service in the Brazilian Navy, after many refits.

I want to define what I mean when I talk about an aircraft carrier. The big thing is that a big ship with a flat deck is not necessarily an aircraft carrier. The trouble is that people tend to have a visceral reaction when they see pictures of big ships with flat decks. A couple of years ago, some young naval architects had been playing around with concepts for amphibious ships and came up with some cute computer generated drawings based on their plans, which was a big ship with a flat deck, which is actually an amphibious ship. It did not help that somebody put a computer generated fighter on it. The point is that, just because it has a flat deck, it does not mean that it is an aircraft carrier. An aircraft carrier is something that can operate fixed wing

aircraft at sea. There are several different types of aircraft carriers. The smallest you can get is generally about 20,000 tonnes. The biggest, and I think many of you have actually seen these and had visits out to them, are about 100,000 tonnes. They are the American super carriers.

One of the things to be aware of is that the efficiency of a carrier increases not by orders of magnitude but practically exponentially with the increases in size. To give you an example, the British have had the Invincible class, which are the smallest carrier you can get. They can operate about a dozen Harrier type short or vertical take-off and landing aircraft and about a dozen helicopters. They were commissioned as through-deck cruisers, which was the Royal Navy's way of getting them through the Treasury, and are now called light fleet carriers.

Senator SANDY MACDONALD—What were they originally called?

Cdre Goldrick—Through-deck cruisers. The British are quite good at that. They called a class of cruisers destroyers and got them through the Treasury that way.

Senator SANDY MACDONALD—That is what Churchill called the dreadnoughts.

Cdre Goldrick—As part of their strategic planning, the British are building two aircraft carriers. For very deliberate reasons, they are making them as big as physically possible. They are 55,000-tonne ships. You asked about the time it would take. The process of these ships started about 1996-97. They have just selected the lead firm. In fact, they have put together the lead firm and its opposition in a tandem arrangement, because they like the design of the opposition but they felt the project management skills of the lead firm were better. They are going for these two 55,000-tonne carriers. They should first be in service in about 2012. I cannot give you exact figures. We could ask the British what sort of budgeting they have for them, but you are thinking of several billions of Australian dollars for the ship. However, as it was remarked yesterday, steel is cheap and air is free. Expensive things about an aircraft carrier are, first of all, the air group. Don't forget you need shore support and a shore station for the air group to operate from when a carrier is alongside for basic training.

The capabilities of the carrier are also important. Basically, carriers which can operate conventional jet aircraft are much more powerful than carriers which operate vertical, short take-off and landing ones, the reason being that the conventional jet can have much more payload and much more endurance. But there is a price. The price is that a conventional jet requires to be arrested on landing via the wire arresting system, and that requires some pretty sophisticated machinery that takes a lot of looking after. Even more to the point, the aircraft cannot take off from the deck without assistance. The assistance that is given is via a steam catapult. One reason why the American carriers, which are nuclear powered, have steam turbines from their nuclear power plants is to provide steam for the catapult—to shoot these things off and accelerate them at the equivalent, I think, of 60 miles an hour plus what they can boost on take-off. To run that is very expensive, very manpower intensive and takes a lot of maintenance. In addition, the carrier requires all the radar, communications and sensor combat data systems in order to be able to operate its aircraft, even though it will have an escort force. It really does have to have the ability itself to be able to launch its aircraft, marshal them, send them off, allocate them tactically for raids and so on. So there is quite an expensive command and control package. What tends to happen is that, because the aircraft carrier is the biggest ship and has space, you tend to put in force commander control capabilities as well, which adds a lot more money.

The 20,000-tonne carrier would not be all that much less than a 40,000- or 55,000-tonne carrier. In fact, the British went for 55,000-tonne carriers because I think they were only about 10 or 15 per cent more than the 38,000- to 40,000-tonne carriers they originally envisaged. Indeed, there was a lot of pressure from the Royal Air Force to have bigger carriers in order to make them as efficient as possible, because the Royal Air Force now fly from the British carriers as well as the Royal Navy. Indeed when the Sea Harriers are withdrawn, the fixed-wing component of the British aircraft carriers will be completely Royal Air Force squadrons, as far as I understand.

Senator JOHNSTON—Have we investigated the rationale behind this quite considerable change in British policy?

Cdre Goldrick—The new strategic directions was a decision made by the current Labour government when they came in to look at their situation. Basically, the British had been in a Cold War mentality and had been caught in that Cold War mentality. This is a personal opinion. But when the government changed they engaged in a very comprehensive strategic review, a very wide-ranging one, which decided that Britain did not of itself face a threat to the United Kingdom in a way that, practically for the entire 20th century, it had. But it was requiring to effectively be able to project power to contribute to supporting regional and world stability, and the best way to do that was being able to project power. Remember that the British are three times our size and spend six times as much on defence as we do. The judgment that the British made was that the best way to be able to project power in a serious sense was to have a substantial amphibious capability—they have basically renewed their amphibious force and are continuing to do so—and to have the carriers to support power projection. I think in Yugoslavia they had some issues of access and basing and overflight, which in their view confirmed the utility of the aircraft carrier, because you do not require bases and you do not have these issues of overflight to deploy—having to get diplomatic clearance to put your aircraft into the airspace of a country between the operating theatre and the base. They believed that, for them to have an independent capability to project power—to do it seriously—big carriers were a key component.

Senator JOHNSTON—When you say ‘big’, 55,000 tonnes is not big.

Cdre Goldrick—It is big. In fact, it is about 900 feet long. Do you remember the *Ark Royal* and *Eagle*, which are the old British aircraft carriers? They are actually bigger; they are the biggest ships the British have ever built for their Navy.

Senator JOHNSTON— But they are not comparable with Nimitz class.

Cdre Goldrick— No, they are not, but they are as comparable as anything. My understanding is that they will have about a 40 aircraft air group, compared with the Nimitz class, which generally carry about 65 to 70 aircraft—although they can carry about 85 to 90.

Senator SANDY MACDONALD—A fixed wing conventional take-off?

Cdre Goldrick—I am not fully up with all the details, but my understanding is that they are going for the short take-off and landing version on the basis, I think, that it was cheaper to do in the design. However, the design is retaining long-term flexibility to be refitted to be able to have catapults. The technology of catapults is changing. The Americans are moving for their CVN77,

I think, to have electromagnetic catapults. I don't understand the technology of it and don't pretend to, but basically they are moving away from steam catapults to all electric.

Senator JOHNSTON—So what is the power source in these 55,000-tonne carriers?

Cdre Goldrick—I think it might be diesel electric propulsion. I could get back to you on that.

Senator JOHNSTON—I think it would be very helpful for the committee if we could have some information about this very important aspect. So many witnesses have talked about a platform, and you have started to define what is feasible, a wish list of almost feasible and something that we might need to look at in terms of applying thought to concept, if you follow me.

Cdre Goldrick—Yes, certainly we can give you information on it. The French have a carrier, which is a nuclear powered carrier, which operated in the Arabian Sea off Afghanistan. I understand that it did very well, but it was a 40,000-tonne carrier and it was quite apparent that it could only produce a relatively small percentage of the effort that an American carrier could.

Senator SANDY MACDONALD—Was that the *Charles de Gaulle*?

Cdre Goldrick—Yes, it was.

Senator SANDY MACDONALD—Have they got one carrier?

Cdre Goldrick—They have one carrier. I believe they have recently had approval from the government for a second carrier. Because the French have played a big part in the design of the new British carriers, there is discussion as to whether they would go for a repeat *Charles de Gaulle* or take up the British design.

Senator SANDY MACDONALD—It is presently in the eastern Mediterranean exercising.

Cdre Goldrick—Yes.

Mr BEVIS—Thank you for a very informative answer to that last exchange. Can Defence provide the committee with a background briefing paper on the measures that the UK and the US adopt in relation to the merchant navy to assist the committee's deliberations on those matters that you have been asked about? They would include any measures of support that the governments or Defence in those countries provide to assist in the development and ongoing viability of the merchant navy and then the linkages that might also exist at a personnel level to try to encourage recruitment into the reserves, et cetera.

Mr Carmody—We would be happy to.

Mr BEVIS—Thank you. In relation to the merchant navy, reference was made in an earlier answer to the situation in East Timor. I could not help but think that East Timor was a comparatively low-threat environment. I can imagine shipowners in Singapore not being too distressed about giving you the craft you were talking about. I just wonder what your

assessment is of getting foreign flagged, foreign owned craft for a contingency that might be in a much higher threat environment and, in those circumstances, what premiums and costs we might have to incur if we want to go out onto the world market and see which shipowners wanted to rent us a boat.

Cdre Goldrick—I think the historical experience of that is that you do have to pay a premium, you do have to accept the cost, and, indeed, in major contingencies the government may have to effectively carry the insurance itself. I think that is reality. It is going to happen no matter where you get the ships from. If there are commercial sources involved, you have to be able to convince them that there is going to be protection for the capital they have invested.

Mr BEVIS—Can you insure a merchant vessel for acts of war? If you were a private owner of a vessel, is that something you could insure against?

Cdre Goldrick—Insurers tend not to. I would have to get expert advice on this, but my understanding is that they are prepared to cover certain hazards. For instance, I understand they will still insure the oil tankers in the area where the terrorist attack took place some months ago, but the premiums are much higher than they were.

Mr BEVIS—I would be interested to know if that is the case. Presumably, what you were just saying was that, in the scenario that I put to you, we would find ourselves as a government effectively insuring against a threat which in the private world would not be insured against.

Cdre Goldrick—You might well. At the start of World War I and the start of World War II, the allied governments had to effectively promise the merchant shipping industry that they would become the insurer. What happens is that the premiums rise so high that you are almost paying the cost of the ship in the premium.

Mr BEVIS—There is one other issue that I would like to pursue, going back to self-reliance and the question that was asked earlier. I understand Mr Carmody's answer about that being in areas where we have least discretion, but I want to put some parameters on it. As you suggested, it is not a particularly helpful discussion without some parameters. What are the scenarios that Defence plans for where we should operate independently of our allies? What would that involve us in doing?

Air Vice Marshal Blackburn—We do not specify in our illustrative planning scenarios that we have been using the degree of reliance and what it actually means in terms of parameters. To pick up on what was said previously when we talked about discretion, the degree of reliance is directly related to that. If we were looking at counterterrorism, anti-terrorism and a homeland security role, we have no discretion whatsoever but to make sure that we have the forces able to react and deal with the problem. So there is an activity you need to do and a period of time that you need to do that for. But even in that case, in any task we have, there are still the benefits or the force multiplier we get from the alliances—intelligence, technology and the support we have. The further out we go in terms of operations within the defence of Australia in a conventional attack sense, what we are talking about there is the ability to deploy and operate against a range of possible threats specified in the scenario. But, again, the period of time which we would expect our forces to be able to sustain from our own resources available at that time is limited before we would require the support, for example, of our allies.

Mr BEVIS—So we are still wrestling with a bowl of jelly?

Air Vice Marshal Blackburn—Correct.

Mr BEVIS—We do in fact have a discretion about all of those things that you mentioned. We can as a nation, as a matter of policy, decide to be self-reliant in dealing with a terrorist threat—which you suggested we had no discretion in. We in fact do have the discretion; it is a matter of policy—we decide whether or not we want to have that ability. Governments around the world make those assessments on the basis of given scenarios and threat assessments. What I am trying to get clear is: in Defence's planning in respect of the maritime strategy, what are the scenarios in which we would envisage ourselves conducting an operation where we would want to do that independently if we could?

You may have been here when I asked a similar question of an earlier witness. Let me put some finer parameters on it and give you some of the actual scenarios. Do we want to be able to project force in a maritime strategy in response to aggression directly against Australia, its people and its territories? If we do, do we anticipate doing that as part of our alliance activity? Clearly alliance issues are triggered were that to be the case. Do we want to operate independently if we want to extract Australians from a hostile environment? Do we want to act independently if we want to conduct what would be a more traditional, as it were, invasion—an act of aggression, using traditional warfare—to go somewhere, capture territory and keep it or to dislodge a government?

Mr Carmody—Let me start to respond and my colleagues are welcome to jump in if they wish. I am not convinced that I agree with the point you made about discretion. If that is the case, then governments have discretion in everything, and they do.

Mr BEVIS—Absolutely. Now we are on the same sheet.

Mr Carmody—But the government has determined, in terms of peacetime national tasks, that we will have a counterterrorist force, for example, and we have structured for that; and that we will have an incident response regiment, and we have structured for that. So the government has determined that, in an area where we feel we would have to act on our own territory, we will have the force structure necessary to be able to do that. I think the decision on discretion in that context has already been made. Certainly, from one end of the spectrum there is discretion to do everything.

In terms of the point I was making about self-reliance and discretion, we develop within the defence organisation, as you would expect, a range of classified scenarios against which we try to develop our force structure. We have to be able to do that. Sometimes those scenarios are classified because they might or might not be very sensitive activities and, of course, that could cause problems for nations that are close to us. But to say that we certainly do not believe that we have discretion in terms of extracting Australian citizens in a hostage evacuation scenario—a services protected evacuation or a services assisted evacuation—and therefore the government has determined that in a discretionary sense we need to be able to do those things and so therefore we plan for them, goes back to the debate about amphibiosity and projection of power and all the other things that we have had debates about. I think the notion of discretion that underpins that is that these are likely to be considered to be our problems and therefore they are for us to solve principally in our region. That is not always the case but it is very different from

a threat to Australia which might activate an alliance in the same way as the government activated the ANZUS alliance. The reverse could and would, in theory, apply and there would be a range of other political considerations around a major attack on Australia's interests or on the Australian mainland or something which would call in to play a very different range of circumstances.

Mr BEVIS—Can I ask you to take the question on board. I understand there are some issues of security and sensitivity about how far you may want to place evidence in a forum like this, but the dilemma on this side of the table is that if we are going to talk about amphibious lift of X or Y capability or air cover of any type whether it is with a big or small aircraft carrier or two guys in a canoe with a kite, it does not really matter; all that has to be related to a designated identifiable task that we give some priority to. If we have no definition from Defence, in advice to this committee, as to what you see as being the tasks in which we should have an in-house capability, then the rest of the discussion about aircraft carriers, amphibious lifts and the rest of it is a nice chat in the afternoon but does not actually take the debate anywhere. I appreciate there are genuine issues of security involved in this but, without going down the track of trying to compromise any of that, I do think it is important for Defence to structure a submission to us that gives us some guidance on that.

Air Vice Marshal Blackburn—In the Australian military strategy document we have developed we look at the military strategic objectives, the end states we are trying to achieve and the response options we have. From that we construct the response options table, which is a list of the tasks, what you would use to do the tasks, what you would need and what sorts of parameters there are. You are not going to go for something that could last five years; there is a time parameter of how long we would be capable of executing that task. That is a judgment issue that comes into it. That is what drives our preparedness issues—the readiness and sustainability of those force elements to do it and sustain it. So the judgments you are talking about, to the degree that they have been detailed, are contained in that document, which is then used to drive the chief's preparedness directives. So, yes, we have identified those tasks, particularly looking at the near term. A lot of those tasks are enduring; the type of threat may change. The issue is how to submit that to the committee when it is a secret AUSTEO document because, when you start talking about those tasks and what we are prepared to assign, you cannot produce that in an unclassified version.

Mr BEVIS—I appreciate that, and that is why I do not expect an answer now; I would rather you take it on board. But you should also understand the difficulty that I think all of us on this side of the table are going to have soon or later, which is that you cannot talk meaningfully in a vacuum about a report that may or may not have recommendations about lift capacity or whatever.

Mr Carmody—We can take that on board to see what we can do. I understand the committee's issues on this, as you will appreciate ours on the military strategy and military response options. The problem with both and the classification issues on both are quite simple. There are obviously some diplomatic and political issues, not in Australia's national sense but in the broader sense, that we might have to respond to at some point. Some people would obviously take exception to that, even if we thought it was true. If we thought an event was likely to occur in a particular country at a particular time we might not wish to say so publicly.

Senator SANDY MACDONALD—I might be able to give you some assistance, at least with an example of something that has happened in the past. Looking at East Timor you can say, ‘Did we get out of jail? Just. What should we have had?’ If you had been planning for an East Timor, you could perhaps never have spoken about it publicly before the event. But now that it has happened, if you were doing it again in an ideal world, how could we have done it better? I am not asking for an answer now; I am giving you a bit of a steer which may be helpful to you.

Mr Carmody—It is, thank you, and I will take that on board. We always look at things like that, and there are things that we would do better. My view is that we did pretty damn well—

Senator SANDY MACDONALD—I do not think anyone would disagree with you—

Mr Carmody—but there are certainly things we would do better.

Senator SANDY MACDONALD—but if we had been doing it totally on our own we might not have been able to do it.

Mr Carmody—We did do the first bit pretty much on our own. Australia was in there in a matter of days with 5,000 troops, give or take, and I think that was pretty much on our own.

Mr EDWARDS—But we just barely, to use your words, ‘got out of jail’.

Mr Carmody—I think that is true, and we learned a few things from that, but we also learned that we are not so bad. We do have a tendency to beat ourselves up about how—

Mr EDWARDS—With good reason.

Mr Carmody—Not always with good reason—

Mr EDWARDS—We put people into the sea.

Mr Carmody—but we do tend to beat ourselves up sometimes. There is another issue for us in regard to military response options. What options we might use or the government might wish to employ in a particular scenario, and the capabilities that are inherent in those options, also have a security classification. They reveal some of our capabilities and weaknesses and what we consider to be our strengths, and that is a challenge. Nonetheless, we will work on it and see what we can provide to you.

CHAIR—There is something in your submission to do with East Timor that may be of use.

Mr Carmody—It may well be of use.

CHAIR—I think it is the third paragraph on page 14, ‘Australia has practical limits to its ability to influence and help in crises.’ I think you also say that Australia could not have undertaken to restore peace and security in East Timor under INTERFET without the help of a large number of coalition partners and the cooperation of the Indonesian government. Our members may like to reflect on that.

Mr CAMERON THOMPSON—Mr Carmody, I want to pick up on what Alan said earlier. I am not familiar with the hierarchy of the defence department. You said that, in putting this submission together, amongst the senior people in the defence department you had ‘the civil equivalent of an air vice marshal’. How do you get to be the civil equivalent of an air vice marshal?

Mr Carmody—Let me try to make the comparison reasonably clear. It is hard to have the civil equivalent, but you need to have a structure. The accepted structure across government is quite straightforward: one-star service officers’ work in a government construct is the equivalent of band 1 SES officers’; two-star officers’ work is the equivalent of band 2 SES officers’; and three-star officers’ work is the equivalent of band 3 SES officers’. There is one four-star officer in Defence and that is the Chief of Defence Force, and he is equivalent to a secretary of a department. Otherwise you could not run an integrated management environment; you would have to have a complete stack of service people and a complete stack of civilians. The only way to do it is to come up with some form of equivalence, and that is an accepted equivalent.

Mr CAMERON THOMPSON—In what sense are you using the word ‘equivalent’? In a hierarchical sense?

Mr Carmody—In a hierarchical sense.

Mr CAMERON THOMPSON—Not in a training and technological knowledge sense, surely.

Mr Carmody—I would argue that you are never going to find a couple of people who are equivalent in that sense.

Mr CAMERON THOMPSON—One is military and one is civil.

Mr Carmody—One is military and one is civil, but they both work in the same working environment.

Mr CAMERON THOMPSON—Yes, but the practical experience on the ground of the military man is that he has been out in the field and he knows what it is like to open a can of something-or-other in some godforsaken place in the world, as opposed to some bloke who has never left a desk. I think that has got to be light-years apart.

Mr Carmody—It depends on what experience you are calling for in the environment in which you are operating.

Mr CAMERON THOMPSON—When you are sending people to East Timor, you want someone who understands what it is going to be like to land there, need road-building equipment and be told you cannot have it.

Mr Carmody—I agree, and when you are sending people in front of a committee in Canberra, you want people who understand how committees in Canberra operate as distinct from how to open a can of beans in East Timor.

Mr CAMERON THOMPSON—That is a much tougher game! So the equivalent you are talking about is in terms of pay scales. These are not people who have got a particular bent towards military—

Mr Carmody—It is not actually pay scale, but it is an assessed equivalence in terms of how to operate in a bureaucratic structure. If you do not have it, you are never going to be able to operate in an environment. The services have their ranks and the civilians have their structure as well.

Mr CAMERON THOMPSON—I understand that, but I am trying to get the background for this document. There were two civil guys; both have not got any direct military experience or background.

Mr Carmody—They may or they may not. That does not mean that, in a management sense, a serving officer is not in a position to supervise a civilian bureaucrat, or vice versa.

Mr CAMERON THOMPSON—I accept that, but if we look at this as a paper on defence and maritime strategy, I would like to think that the people involved in it were skilled in maritime strategy as opposed to skilled in administering bureaucrats. I do not want to belittle it, but I think that is an important part of the background. The next thing is: do you know what percentage of GDP was spent in the last 12 months in the calendar year? I do not know, but is that something that can be totted up?

Mr Carmody—Yes, certainly.

Mr CAMERON THOMPSON—It has been a fairly active period. When you calculate that, does that include all the operations, including things like Relex and all those sorts of things which are not on the usual agenda, as some of the people here have said?

Mr Carmody—Defence's annual reporting process should have it. We should be able to find it without a great deal of trouble. The percentage of GDP is normally based on our allocated budget. There is a tradition for funding Defence above and beyond those things for operational requirements such as Relex, Afghanistan or even continued activities in places like Bougainville—for operational activities.

Mr CAMERON THOMPSON—What if there is an additional allocation, say, to create the TAG East, for example?

Mr Carmody—What tends to happen is that, once the government has made the decision to develop a new capability and that capability is funded, that element of funding is rolled into Defence's base, so it becomes a part of the annual funding process. It is funding capability and then it is additional funding for operations above that.

Mr CAMERON THOMPSON—Could you provide us with that on notice?

Mr Carmody—We can do that for you.

Mr CAMERON THOMPSON—So we have got the budgetary allocation; and then would there be a figure if we took into account additional expenditure that was not operational? Things are changing on the run here, to a degree.

Mr Carmody—I am not convinced there would be. We have been given a budget. We actually bid then back to the government in the DCP process for more capital in a given year and that comes in subsequent years. Operations are separate. So I do not think there would actually be much of another line, but I am certain we could have a look for you.

Mr CAMERON THOMPSON—In the discussions we have had a range of things have come up as being inadequacies or holes in the current structure: the phasing out of the DDGs; the AWACs still coming, not here yet—and there are four of them, not seven, at this stage; and air-to-air refuellers. Why have we not got those things? For example, we have got JORN, which is \$1.2 billion, and it is still sitting out there and there are people coming along here and questioning whether it is an effective system.

Mr Carmody—I am trying to focus on the nature of the question. It is pretty hard to answer why we have not got them. We have a defence capability plan and an acquisition process for things like AEW&C. There was an option to buy up to seven. The organisation's view is that four will suffice. If you go back to the question of how much capability is enough—

Mr CAMERON THOMPSON—That is the Department of Defence view?

Mr Carmody—The defence organisation, so therefore the ADF and the whole organisation, military and civilian.

Air Vice Marshal Blackburn—To answer the question that you are asking—why have we got these holes et cetera?—whilst I do not have the detail here, you might want to go back to DOA 87 and look at what the policy and plan were then for the capabilities we would acquire to do it, then track forward to the projected budget that Defence was told to count on and go forward and track what the actual budget was that was provided to Defence.

Mr CAMERON THOMPSON—So, if we go back to 1987, JORN would have had a higher priority than AWACs or—

Air Vice Marshal Blackburn—No, in 1987 we had a plan, Defence of Australia 87. With that white paper came an acquisition plan for capabilities, knowing that some things would reach their life of type—the new capabilities we are buying. What may assist on the question of why we have these holes now is to go back to 1987 and plot forward what the plan was to acquire new capabilities and then plot a line underneath that of what funding Defence was actually given in the subsequent decade. I think you will find it started to go close to a \$1 billion shortfall on the acquisition side as you start to add up the cumulative gap in the line. In addition to that, you then might want to ask some questions about reorganisations, changes in size and structure and everything else and the costs associated with those that were absorbed by the department, such as changing personnel numbers. You could then get a sense of our having an initial plan that was very valid at the time but for a variety of reasons it was not funded in the following decade, a series of other changes occurred to the organisation and we have now got to a stage where perhaps that original blueprint is not achievable. So we have a result of a long

history of quite complex interrelated changes, underfunding and in some areas mistakes or problems that occurred. It helps to understand the legacy and why we got in this position today.

The point where we are at now is that we have got a certain size force with a set of capabilities out there and to ask how we approach these shortfalls in the best way. Do we approach it purely from force structure priorities, which has been the historical way of doing it—defence of Australia No. 1 priority so that has to come first—or is there a better way of doing that in saying that we have to have a balance of judgment of the structure we need to assess risks in the long term and the priorities we place on capability that the government will want to use in the near term and is most likely to use in the mid-term? So it is a balance of those two areas. We cannot fix up the historical shortfall in a very rapid period. That is what we live with today.

Mr CAMERON THOMPSON—I accept that, but if you go to the basic training that you give your RAAF guys, you put them in these kinds of exercises and then throw challenges at them, and the circumstances change and they are meant to modify their thinking. If these are priorities for you, how come we wind up with something else? Was JORN such a priority at the time that it would wind up being the thing at a cost of \$1.2 billion that is still out there and happening and we do not have AWACs, for example?

Air Vice Marshal Blackburn—When you look back to the early decisions on JORN—I think we have something dating from the early 1970s—the construct there about the defence of Australia is largely focused on defending the moat. So we really needed a surveillance system. When we looked at the options available to us looking back in history, frankly, at that point in time it was not a bad decision. It was an Australian-developed technology on the basis of what the US originally had and DSTO did some fundamentally clever things there. The project was delayed for a variety of reasons. The capability that is coming into existence, that we have already had with the regional surveillance IRSU for quite a few years and what is being delivered in the next year, is quite amazing, I think.

Mr CAMERON THOMPSON—But the expenditure has continued; \$900 million has been spent already and another \$300 million is still to be spent on JORN and it remains a big priority.

Mr Carmody—What we have is the legacy of a contract started many years ago in the construct of what we were trying to do. It will be a useful capability. The question is: in today's mind-set, would we have made that same decision about investing that amount of capability, given the other shortfalls and the government's priorities for operations? That is a separate question which, with the benefit of hindsight, one could perhaps look back and answer. At the time when the judgment was made, it was fairly rational. The project has taken longer to introduce for a variety of reasons than was expected. It will give us a good capability in a lot of areas that we cannot discuss in a public environment. But we also have to recognise that there are limitations in its range and coverage which will not allow us to perhaps support some operations in the region or further afield that we would like to. But that is a legacy of our decision. The reality is that now we are at the back end of a contract, we just cannot turn off that last bit.

Mr EDWARDS—Mr Carmody, on page 4, in the first box, you make the point that armed conflict is becoming more complex and you then list a number of those complex issues in the next few paragraphs. Of course those complex issues also impact on the individuals who serve

in the ADF, and we saw some of that, for instance, with the recent controversy for some people as to whether or not they would take anthrax vaccinations. It is just one of the other complex things that we have to address in the challenges that we face in the ADF today. One of the submissions we have received, in talking about recruitment, retention and general conditions of service, makes the point:

Unless the Defence force can recruit, train and retain sufficient full-time and part-time personnel to give effect to the strategy, it will be to no avail. The issue is bigger than just maritime strategy but is fundamental to it.

I think that is going to become increasingly important to the committee as we go about our work and as we get to the point of reporting. I raise that issue of the armed conflict becoming more complex because all of these things are interrelated. But in your submission you do not touch on these issues at all. Is it because you did not see them as being purely part of the maritime strategy, part of our terms of reference?

Mr Carmody—We were trying to the best of our ability to confine ourselves to answering the questions within the terms of reference. We started it from a point where we do not have that articulated maritime strategy therefore we wanted to pull the elements out of the military strategy to the extent we could. It is certainly not a question of us not believing it is important. The personnel issues are particularly critical for the way the defence organisation will look in the future. We do a lot of work on recruitment strategies and on training and on thinking about the type of force we will have in 10 or 15 years time. We make a lot of decisions because we already know, for example, the work force that we will be drawing on in 15 years time. They are already at school. It is not a demographic question of when they will be born; those kids are already at school. We know how many boys and girls there are. We know what the percentage of male and female is in the work force. We know what the declines are in the work force and what the increases are in the work force. We know already what the pool is that we will be able to draw from and how educated they will be in 10 or 15 years time when these capabilities come forward. So we do a lot of thinking about what the future will look like.

When you get out past 20 years, then you are really getting into predicting what the birthrate will be, which is a different issue. Within the 20-year time frame we are already predicting with known quantities and known educational parameters. So we know what is happening in that regard and we do quite a lot of work. There is an enormous amount of work done on what I would call 'personnel related issues' if that were not more of a glib generalisation. There are so many elements to do with people and having key people in the force that, whatever end you start from, you are going to look as though you are not dealing with it very well.

Air Vice Marshal Blackburn—What we tried to do in focusing on this was to answer the broad terms of reference and look at the principles of our maritime military strategy in the next few years. The issue you have highlighted is one of significant concern in another part of our work, whereas we are looking at the future war fighting concepts coming back. *Defence Personnel Environment Scan* was a document released about 12 or 18 months ago that did a linear extrapolation looking at our demographics. We are going to have a very serious problem, because the demographic shift, instead of being like a normal distribution, almost starts to look like an oval. With our birthrate, the number of young people is not going to allow us to recruit the percentage of the population that we will need. We are going to have some serious problems. So we are looking at the equipment and capabilities for the future we are talking about, but whether we will be able to get the men and women into the force to do it is

something of serious concern, and it will be a far greater problem than the one we are facing today. Right now we are looking at market competition. That will still be a problem then, but the problem will be far worse. Therefore, as we look to those future capabilities—and that is outside the scope of what we have done in this submission—we have to ask ourselves some fundamental questions about the composition of our military force in the future. How we use technology to offset numbers to a degree and how we work with industry and civilian contractors will be a far greater challenge for us. Then we are going to have some interesting challenges to do with the culture of the people—of the team that goes forward and deals with the complexity of the future environment.

Senator SANDY MACDONALD—We will just have to delay retirement; we will really have some old warriors!

Mr EDWARDS—I appreciate the answer and I appreciate what you are saying. This submission goes on to talk about things like trade professional qualifications but it also talks about making service life more attractive to families, given that you are in a competitive recruiting market. It is something, Mr Chairman, that we might have to turn our minds to down the track to some degree. That is why I am flagging it here. Mr Carmody, if integration is so important, where is the Army?

Mr Carmody—I used to be in the Army.

Mr EDWARDS—But you are a mister.

Mr Carmody—Integration is very important but we thought that in our final session we would endeavour to put before you the people who are really responsible for the strategy formulation, so in this case, although Army is very well represented in the organisation, we did not bring them along.

Senator JOHNSTON—We have a national capacity to produce a very wide range of classes of naval vessels. I look at what I have seen in the last eight months—the submarines, the frigates, the minehunters. We used the large Incat catamaran *Jervis Bay* in East Timor and we are now producing, or are on the verge of producing, patrol boats. Most of the producers of those vessels are different companies. Given that capacity, which is often underwritten by a viable commercial base, what strategic importance do you see arising from a potential policy to reduce naval shipbuilding to one supplier or a single consortium?

Mr Learmonth—Senator, if I could perhaps focus your question by saying that the *Naval Shipbuilding and Repair Sector Strategic Plan*, which I think you are making an inference about, does not actually focus on the majority of those capabilities. It is essentially focused on the construction and through-life support of major steel warships—Anzacs, frigates, submarines and so on—that is, the specialist boat-building facilities, which, as you correctly point out, are often underpinned by a viable commercial base like Austal, and the other specialist facilities such as ADI's GRP facility in Newcastle are really not touched.

The issue that is canvassed in the sector plan—and it does just relate to those major steel warships—is not really one of asking, 'Is it desirable for strategic purposes to reduce your warship builder to one?' It is more a question of saying, 'We have a certain industrial base in Australia now in terms of the capacity to construct and support those major ships that has

evolved over the last couple of decades essentially through the way in which Defence has structured its demand and the level of demand.' It is also about saying, 'We have come off a historically high level of demand for those sorts of ships and a demand that has been essentially fragmented.' The last six major projects have been given to five different companies in five different locations, so the extent to which those companies have actually built their capability has been fragmented accordingly. It is then about saying, 'Looking forward, our demand is dramatically reduced.'

Senator JOHNSTON—So, if you have a guaranteed base revenue for a single consortium that is responsible for construction and through-life capacity for, say, FFGs, that consortium, being owned privately, is obviously going to have an enormous advantage in seeking to tender for all other naval shipbuilding tenders across the board, is it not?

Mr Learmonth—Not across the board but certainly in the area of those major steel ships. But does that make them a specialist in producing other classes of vessel, like minehunters and so on? Not necessarily. There are different options for patrol boats and there are different technologies involved—

Senator JOHNSTON—Isn't it funny that the top two that would be relevant to large steel shipbuilding both have quite defined skills right down the line?

Mr Learmonth—But they are not completely overlapping, though; they do have some niche capabilities within that. ADI has a fairly unique capability with glass reinforced plastic boats, Tenix clearly has some capability with smaller offshore patrol boats, and it has done moderately well there with some export, and Austal similarly has a different sort of capability. They are not all interchangeable, if you like.

Senator JOHNSTON—How difficult would it be for the submarine corporation to start building surface boats in Adelaide? I do not think it would be very difficult at all. I am interested to understand: strategically, is it good for us to put all our eggs into one basket—a basket, I hasten to add, that could conceivably be owned by a foreign government?

Mr Learmonth—There are two things. Whether or not it is desirable is not necessarily the angle that we have been taking. The angle we have been taking is: is the demand sufficient to actually sustain more than one? If the answer is no, you are faced with one emerging one way or another and you basically have two ways to go. You can either allow the market to rationalise itself, and there are some risks inherent in that, or, as with other countries, you can influence the outcome in some fashion, including, as you rightly point out, to mitigate the risk of loss of technology access. The proposition put forward in the sector plan is that there should be some influence over that rationalisation, which it describes as highly likely or virtually inevitable, given the contraction in demand. So it is not a case of choosing. Rather, it is a case of saying: if you recognise it is inevitable or highly likely that there will be a market contraction, the choice you face is whether or not to deal with what emerges, to let the market rationalise itself, or to influence it in some way to protect your interests, both commercially and in relation to technology access, and so on.

Senator JOHNSTON—Aren't shipbuilders who build exclusively to government contract always going to be saying the same thing: 'Unless we have the work, we must fold'?

Mr Learmonth—I would not like to speculate on that.

Senator JOHNSTON—Aren't they always going to be saying that? If the work is not there and the contracts are not flowing, they will be saying, 'We have to either amalgamate, go commercial or fold.' Isn't it just a fact of life that that is what you are going to hear when they have no other source of revenue?

Mr Learmonth—Yes, but I think it is also a fact of life that there is a strategic interest on our part in maintaining the skill sets inherent in those companies which deal with defence shipbuilding. They are fairly unique. There are some overlaps with the commercial sector but there are also some fairly unique capabilities which it would be in our interest to preserve, given that the concepts of self-reliance as they relate to warships go to particularly the capacity to maintain and upgrade the fleets through life. So we do have an interest in keeping some of those skill sets alive.

Senator JOHNSTON—Is that interest a problem of our giving tenders to non-commercially viable operations? In other words, we create this problem by saying that we need a specialised through-life support company. Doesn't that create a big problem for us in the long term, and aren't we now starting to experience the fruits of that lack of wisdom?

Mr Learmonth—I would not put it that way. I would say—and Commodore Greenfield might want to leap in at any point—that certainly some elements of the naval fleet would be amenable to support from more commercial sources. Other elements of the fleet, in particular the major warships and submarines, involve highly specialised skills that are simply not available in the civil sector. So it is not a question of whether or not they are commercially viable outside defence; they do not exist outside the defence market. So the issue is not really one of whether it is commercially viable. I would suggest that the real issue is how we manage that demand. We are the only customer for that—it is a monopsony arrangement—and the extent to which we fragment our demand, as we have done historically, is the extent to which those skill sets are at risk, because they live or die with the life of a particular project.

CHAIR—We are at a point in the proceedings that is close to people's scheduled flights et cetera. I am sure there are going to be more questions and that Senator Johnston has more questions for you. The committee asks you to appear again before it in Canberra. We will get the secretary to arrange that. You will be sent a copy of the transcript of your evidence, to which you can make corrections of grammar and fact. Thank you for your attendance here today, and we look forward to hearing your further evidence.

Resolved (on motion by **Senator Johnston**):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 3.03 p.m.