



COMMONWEALTH OF AUSTRALIA

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SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE
LEGISLATION COMMITTEE

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SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE LEGISLATION COMMITTEE

Wednesday, 5 June 2002

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

Senators in attendance: Senators Mark Bishop, Calvert, George Campbell, Jacinta Collins, Cook, Cooney, Chris Evans, Ferguson, Hogg, Lundy, Sandy Macdonald, McKiernan, O'Brien, Payne and Schacht

Committee met at 9.03 a.m.

DEFENCE PORTFOLIO

Consideration resumed from 4 June

In Attendance

Senator Hill, Minister for Defence

Department of Defence

Portfolio overview and major corporate issues

Portfolio overview (including implementation of White Paper)

Dr Allan Hawke, Secretary of the Department of Defence

Admiral Chris Barrie, AC, Chief of the Defence Force

Lieutenant General Des Mueller, AO, Vice Chief of the Defence Force

Mr Lloyd Bennett, Chief Finance Officer

Budget summary and financial statements

Improvement initiatives (efficiencies, Commercial Support Program, customer–supplier arrangements)

Mr Lloyd Bennett, Chief Finance Officer

Mr Rick Martin, Acting First Assistant Secretary Financial Services Division

Mr Joe Roach, Acting First Assistant Secretary Business Strategy Division

Capital budget: major capital equipment and major capital facilities projects (questions on Defence Materiel, including on materiel reform, and infrastructure projects)

Mr Mick Roche, Under Secretary Defence Materiel

Mr Shane Carmody, Deputy Secretary Corporate Services

Major General Peter Haddad, AM, Commander Joint Logistics

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

Dr Ian Williams, Head Land Systems

Air Vice Marshal Ray Conroy, AM, Head Aerospace Systems

Mr David Learmonth, Head Industry Division

Ms Shireane McKinnie, Head Electronic Systems

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

Ms Ann Thorpe, Head Materiel Finance

Mr Michael Pezzullo, Acting Head Infrastructure

Responses to questions on notice from 2001–02 additional estimates hearing.**Defence outputs****Output 1—Defence operations**

Rear Admiral Chris Ritchie, AO, Commander Australian Theatre

Mr Kevin Pippard, Director Business Management Headquarters Australian Theatre

Output 2—Navy capabilities (Navy Group issues)

Rear Admiral Brian Adams, AM, RAN, Deputy Chief of Navy

Mr Les Wallace, Director General, Navy Business Management

Rear Admiral Kevin Scarce, CSC, RAN, Head Maritime Systems, Defence Materiel Organisation

Mr Mark Gairey, Director General Submarines

Output 3—Army capabilities (Army Group issues)

Lieutenant General Peter Cosgrove, AC MC, Chief of Army

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

Output 4—Air Force capabilities (Air Force Group issues)

Air Marshal Angus Houston, AM, Chief of Air Force

Mr George Veitch, Assistant Secretary Resources Planning Air Force

Air Vice Marshal Ray Conroy, AM, Head Aerospace Systems

Output 5—Strategic policy (including Defence Cooperation Program)

Dr Richard Brabin-Smith, AO, Deputy Secretary Strategic Policy

Air Vice Marshal Alan Titheridge, AO, Head Strategic Command

Ms Myra Rowling, First Assistant Secretary Strategic International Policy

Output 6—Intelligence (including Defence Security Authority).

Mr Ron Bonighton, Acting Deputy Secretary Intelligence and Security

Mr Stephen Merchant, Acting Director Defence Signals Directorate

Ms Margot McCarthy, Head Defence Security Authority

Business processes**Defence Science**

Dr Roger Lough, Acting Chief Defence Scientist

Dr Tim McKenna, CSM, First Assistant Secretary Science Policy

Ms Chris Bee, Assistant Secretary Science Corporate Management

Inspector General (including portfolio evaluations)

Mr Claude Neumann, Inspector General

Public Affairs

Ms Jennifer McKenry, Head Public Affairs and Corporate Communication

Mr David Spouse, Acting Director-General Communication and Public Affairs

Corporate Services (including management decision support (information systems))

Mr Shane Carmody, Deputy Secretary Corporate Services

Mr David Kenny, Head Information Systems Division

Mr Ken Moore, Head Service Delivery Division

Mr Michael Pezzullo, Acting Head Infrastructure

Mr Ian Clarke, General Council Defence Legal Service

Mr Patrick Hannan, Chief Information Officer

People**Defence Personnel (recruitment and retention, recruiting advertising)**

Rear Admiral Russ Shalders, Head Defence Personnel Executive

Mr Felix Bleeser, Deputy Head Defence Personnel Executive

Commodore Louis Rago, Director-General Personnel Plans

Ms Bronwen Grey, CSM, Director Equity Organisation

CHAIR—I declare open this meeting of the Senate Foreign Affairs, Defence and Trade Legislation Committee. I will shortly welcome back Senator Hill, Minister for Defence. I welcome Dr Hawke and officers of the Defence organisation. Yesterday the committee adjourned on output 3, Army, which was completed. Today the committee will move to output 4, Air Force. Before I call for questions, Dr Hawke, you have a question of the committee.

Senator Hill—I have an answer to a question asked yesterday. I think it was immediately after lunch, when I was not here, that Senator Faulkner asked who tasked Admiral Gates to conduct a review of intelligence advice relating to SIEVX et cetera. The answer is that my office, on my behalf, tasked CDF/Secretary task force to seek the formal advice. They did this to ensure that an answer that I had previously given to Mr Crean was accurate and complete. That brief is being finalised and I expect to get it in the next few days.

CHAIR—Thank you, Minister. Dr Hawke do you wish to ask something?

Dr Hawke—I have nothing further to add.

CHAIR—I thought you were going to raise a question about questions on notice.

Dr Hawke—I was going to raise that at the end, but if it is appropriate I will do it now. I wanted to raise with you whether it would suit you and the committee for the written questions on notice—because we probably will not deal with everything today—to be tabled by the close of business tomorrow when the committee finishes its hearings.

CHAIR—In view of the fact that the return date for questions on notice is 12 July, I think the secretary is concerned that if the questions on notice are not tabled at an appropriate time then the return becomes very difficult.

Dr Hawke—That is right, Mr Chairman.

CHAIR—In other words, if the committee's questions are tabled in two weeks time, having been flagged at this time—

Senator Hill—It becomes very difficult anyway. The earlier they are tabled the better.

Senator HOGG—I think we should do something similar to that being advocated. I understand your dilemma—and I do not see any problem with that; I cannot speak for the shadow minister and others—but the past practice of the committee has been to have those tabled about 24 hours after Defence appears. There is a need to go back and cull the things that do not need to be addressed.

Dr Hawke—This would accord with that practice. It is just that the last time around we got some questions lodged some four or five days after the committee had finished its hearings, which made it particularly difficult for us to meet the timetable we are required to meet.

CHAIR—We will meet your request, Dr Hawke. If it requires us to have a private meeting, we will do so.

Dr Hawke—Thank you.

Senator HOGG—I have a couple of broad questions before Senator Evans asks a few specific questions. On page 49 under the heading ‘Logistics’ it states:

To maintain current levels of capability, including current ADF operations, training is being reduced in some key roles.

Can you explain to me why you would be reducing training in key areas to maintain levels of capability? That just does not seem to sit well together. I might be missing the point.

Air Marshal Houston—It really relates to the rate of effort on some of our aircraft. Because of logistical challenges there are a couple of areas where we have not done as much training as perhaps we would like to. It is a very complex issue because it relates to a very high level of operational tempo as well. I can go into that if you like.

Senator HOGG—What are the key areas where you have scaled back training because of the increased tempo to keep up the current levels of capability? Will that not impact upon your longer term operational capacity in those areas?

Air Marshal Houston—Right now we have a situation where in certain areas—if we take the maritime patrol capability as an example—just about all of the effort is going into operations. In fact, we have flown a very high rate of effort in that particular area. Some of the training that we would normally do has suffered as a consequence. For example, we have not done any of the normal warfare training that we would do—antisubmarine training and so on. There have been some problems in that area. We have flown above our planned rate of effort because of the government’s requirements for operations.

Senator HOGG—Given that you have exceeded the rate of effort that you would have otherwise expected, how are you going to redress the lack of training in the longer term, because that must loom as a real problem for you?

Air Marshal Houston—When I talk about the P3 it is a very complex situation because we also have the transition to the new P3, the AP-C3. It is not usually a question of one factor; it is usually a whole web of factors. I will address the P3 issue. We are also going through the transition to the AP-3. We have a number of crews who are now trained on the AP-3. In the next few weeks we are sending a number of people on exercises to regain some of the antisubmarine warfare skills that have slipped by the wayside. Those sorts of skills are very perishable. You have to do it all the time, otherwise you lose your proficiency. In the short term we have this exercise set up, and next year, once we have the AP-3C in a more mature state, we will do more exercising and we will regain the capability. Another thing that will help will be to bring on the new operational mission simulator that has been running a bit late because of the project delays. Once we get that, that will also assist with the maintenance of those high-end war-fighting skills in the antisubmarine warfare, antisurface warfare areas.

Senator HOGG—In an effort to regain some skills and maintain some in the longer term, will it mean that there is a rate of effort that you will be committed to that you will not be able to sustain to achieve your goals?

Air Marshal Houston—Let me put it this way: I am totally confident that when the operational mission simulator comes on line we will be able to maintain those skills, together with a series of exercises that we normally run. The rate of effort we will be able to generate we will not have a difficulty with at all. That is provided of course that we do not have higher operational priorities. At the end of the day, the work that we are doing at the moment in the surveillance area—and we are doing a lot of surveillance—is not good for the maintenance of

the high-end war-fighting skills. It is a little bit like the situation that Navy has with their capabilities and which COMAST spoke about quite extensively yesterday.

Senator HOGG—Yes, and I do not intend to pursue those with you, because I accept that that would be there for yourselves as well. On page 48 of the PBS you talk about key risks and limitations, and a number of personnel shortages are identified—air crew, engineering, medical, technical work. Can we get some idea of the rate of retention and the rate of separation in those areas and the gap between the actual that you have and what you really need to operate?

Air Marshal Houston—Certainly. The shortages come in a number of areas. I have got the specifics in all of those areas, but perhaps I will highlight the complexity of the issue by just talking about pilots. We actually have the right number of pilots—in fact we have more pilots than we probably need—but most of them are junior pilots, and where we have a problem is in shortages of fast-jet pilots and shortages of experienced people, particularly flying instructors. So, if I were to give you the overall figure and say, ‘Pilots? Actually with pilots we do not have a problem,’ that would hide the fact that we do have some shortcomings in numbers of fast-jet pilots, numbers of instructors and so on. We will eventually get healthier: we have been very successful this year in recruiting a number of experienced pilots. We got 24 pilots from Ansett; we got another 10 fast-jet pilots from the New Zealand Air Force.

Senator HOGG—Sorry, how many from New Zealand?

Air Marshal Houston—Ten. We got three pilots from the airlines: one from Qantas, one from Alitalia and one from Cathay Pacific, and we got a couple of people back from the BAE Systems contract that is run in Saudi Arabia. That is a total of 40 pilots we have been able to recruit, and that has helped substantially with our shortages in the fast-jet and instructor area.

Senator CHRIS EVANS—Is that partly driven by the downturn in international air travel and employment for pilots in the market?

Air Marshal Houston—Not specifically, because over 50 per cent of them have come from Ansett. They are former Air Force people.

Senator HOGG—I was going to ask that.

Air Marshal Houston—They have come from Ansett—

Senator CHRIS EVANS—Out of the whole shake-up, yes.

Air Marshal Houston—and Ansett actually went bust a couple of days after September 11, so I think that was going to happen anyway and we picked them up. I might add that we have also, at the same time, had some people separate to go to Qantas. Qantas are still recruiting and we have had some of our middle-level people go to Qantas.

Senator HOGG—I understand that there was a stage in recent times when the number of pilots that were leaving exceeded the number that were being recruited. That was given in evidence before another inquiry that was conducted in the Senate last year. Are you now saying that you have basically arrested that situation?

Air Marshal Houston—That situation does not exist. In fact, I can give you the very precise figures—

Senator HOGG—No, no.

Air Marshal Houston—I can assure you that we have slightly over the number we require. The fact is, though, that a lot of them are in training of one form or another. As you

know, and I think Admiral Shalders alluded to this yesterday, it takes probably five or six years to train a fighter pilot from scratch until the time that he is a fully proficient operational fighter pilot.

Senator HOGG—I accept that. There is a huge investment by Defence in the training of these personnel. To see some of these people reach a high level of proficiency and then leave is quite tragic indeed. That really brings in the other issue of their career management, which left a bit to be desired when there was an inquiry last year into the matter of retention and recruitment. On the retention side, there was a bit of dissatisfaction around about the way their careers were being managed—the attention and the detail given to the needs of various people in terms of transfers and promotion. There was criticism by some people that the one thing that they wanted to do was to get out there and fly a plane. They did not want to be sat behind a desk somewhere, pushing papers around the table, inserting paperclips and stapling things together. Can you make a comment on that?

Senator CHRIS EVANS—Are you alleging that is what Air Marshal Houston does?

Senator HOGG—No, I think he is beyond stapling.

Air Marshal Houston—All of our pilots are employed in very gainful employment. I think the point is, though, what we have to do and what we are doing. I tasked my DG personnel with coming up with a new way of doing personnel management within Air Force. You are probably aware that we did have a pilot sustainability project that was created by my predecessor, and that has revealed a few interesting facts. What we need to do is better align the requirements of the service with the requirements and the expectations of our people. We are now addressing that in detail, not just for pilots but right across the board, because the system we had was basically a very old system—it has probably been in existence since about World War II—and we really need to modernise the way we manage our people. So we are doing that.

The end result will be to push down the detailed career management of our officer force and our airman force to the lower level so that it is done at force element group level. Another end result will be that we have a much more realistic approach to the characteristics of our modern work force, where very often people have other requirements that relate to what their partners do, their need for locational stability and so on. I think we will end up with a system that is much more attuned to the requirements and expectations of our people, and I am getting good feedback on the fact that we are addressing the problem in the way that we are.

Senator HOGG—Thank you for that. I am not going to pursue this issue any further, except to ask whether you can give some later statistics to me on those areas—not now. If you have got a table, that will suffice. There is one group that you have left out that surprises me, and that is air traffic controllers.

Air Marshal Houston—We were established for 333 air traffic controllers. Right now, we are short of about 80 air traffic controllers. That is a big shortfall. We have arrested the rate of separation that we had 12 months ago with the bonus that we put in place. Twelve months ago, we were 82 short. So we are still in the same situation; we just have not lost any more this year. That is a direct consequence of the retention bonus that was put in place.

Senator HOGG—At the same time, you have an increase in tempo. Is that affecting the workload that existing air traffic controllers have? Have you had to cut back operations as a result of the increased tempo and the pressure that has been placed on the air traffic controllers?

Air Marshal Houston—What we have done is look at the whole air traffic control work force. We have obviously aligned the work force with our priorities and, yes, there have been areas where operations have been restricted because of a lack of air traffic controllers. For example, at East Sale there will be periods where we only have limited air traffic control operation and then the rest of the time, usually in the evenings and into the night-time, we might work with a mandatory broadcasting zone. Obviously we would prefer to have air traffic control services available at that time, but we have been able to operate safely with the MBZ set-up. So we have made those sorts of adjustments to cater for the lack of air traffic controllers and sometimes we have restricted our operations because of a lack of air traffic controllers. I would stress that we do not work them harder. We have very strict rules on how long air traffic controllers can work for, because the last thing you need is a fatigued air traffic controller controlling aircraft.

Senator HOGG—I look forward to the statistics that you can provide us with on those various categories.

Air Marshal Houston—I can give you all of them now if you wish.

Senator HOGG—I just think it might be easier—if you have them in a table—if you table it, and that saves you reading it into the *Hansard*.

Air Marshal Houston—I would stress that a lot of the shortages relate to some of our smaller categories and musterings. I suppose the big areas, as far as the airman force is concerned, are shortages in the communications and electronics area—communications electronics fitters and also avionics technicians.

Senator HOGG—The only other thing I want to know about before I hand over to Senator Evans is that on page 48, under ‘Logistics’, there is a comment about ‘higher than expected costs of operating new platforms’. What platforms are costing more than you expected and are they covered in the budget?

Air Marshal Houston—We have two new platforms that we have introduced to service—the Hawk 127 and the C130J. I might take the C130J as an example. The C130J is costing us more than was planned during the project phase. Most of those costs relate to the maintenance of the software and also the need for more work on the engines than we anticipated. I stress that the C130J was in a very early stage of development when we bought it and you would normally expect the costs to be higher at the start of its life than they will be in, say, five years time. That is fairly normal. You normally have a few teething problems, a few unexpected problems, when you introduce an aircraft to service and then, once you get over those, things settle down. I might ask Air Vice Marshal Conroy to give you some specifics about the C130J.

Senator HOGG—Thank you.

Air Vice Marshal Conroy—I do not have a great deal to add to that, Senator. There was an expectation in the mid-nineties when the project was approved that this being a new generation, largely software driven aircraft there would in fact be an efficiency dividend by the introduction of the new aircraft. But the software support costs of the C130J have exceeded our expectations.

Senator HOGG—Can give me an idea of percentage? Is it 10 per cent higher, 20 per cent higher, double?

Air Vice Marshal Conroy—It is about double; I think that would be a broad proportion. However, we are in intensive negotiations—in fact, multinationally—with the other C130 users and we have some confidence that we can come to an arrangement with the original equipment manufacturer to substantially reduce our annual support costs of the C130J. We are working to get a substantial reduction in the way we do business.

Senator HOGG—When you say it is double, double of what? What was the original cost you were planning for?

Air Vice Marshall Conroy—Last year, it was looking as if we were short of the order of \$40 million a year in our forward budgets for the C130J. However, the result of those negotiations I am talking about may well bring that shortfall down to something in the order of \$10 million a year, and I believe that is probably manageable within my budgetary base.

Senator CHRIS EVANS—In reply to questions from Senator Calvert yesterday, you talked about the F111 wings issue and you canvassed that pretty thoroughly. I am interested in their longer term capability and the flying hours et cetera. Have you got figures for F111 flying hours for this year and last year? You used to publish the targets and then the accomplished. Have you got those?

Air Marshall Houston—Yes, I have. Last year it was 2,757 hours; this year we anticipate flying about the same again, 2,700 hours.

Senator CHRIS EVANS—That is your target for this year, is it?

Air Marshall Houston—No, the initial target was higher than that.

Senator CHRIS EVANS—What was that?

Air Marshall Houston—The initial target was 3,600 hours.

Senator CHRIS EVANS—But you think you will come in at about 2,700 hours, and that is for 2001-02?

Air Marshall Houston—That is for 2001-02, and then for 2002-03 our projections are that we will be back to over 3,000—about 3,200 hours—and what we want to do is get back to 3,600 hours further downstream.

Senator CHRIS EVANS—Can you explain the rationale behind the targets for the flying hours. Is the primary purpose of having target hours to keep the skills of your pilots and air crews up?

Air Marshall Houston—Yes, if we specifically talk about F111s, those hours relate to conversion training and then training to maintain all the skills that are necessary to operate the aircraft. Of course, we also have a flight simulator, which helps to maintain those skills. There are other requirements on us, like the support of exercises: for example, three of those aircraft were recently up in Malaysia on the fire power defence arrangement exercise—the air defence exercise run by headquarters integrated area defence system—and, as I said the other night, they maintained outstanding serviceability and flew about 110 hours over two weeks.

Senator CHRIS EVANS—Do those hours get counted in your targets?

Air Marshall Houston—Absolutely.

Senator CHRIS EVANS—All the hours get thrown in?

Air Marshal Houston—Absolutely, and then there would be other exercises that we are involved in, some of them to support the joint operations or, specifically, to maintain our own skills.

Senator CHRIS EVANS—The reason you strike the targets is effectively for your need to maintain the skills of your personnel. I assume the corollary is that, if you are not making your targets, you feel that you are not getting the hours that you want. Obviously you have the flight simulator, but what does it mean when you do not meet target hours?

Air Marshal Houston—What it means is that certain of the lower priority activities are not completed. In the circumstances we are in at the moment, we are maintaining our skills. The skills are suitable to meet all our preparedness requirements. So we still have a very good operational level of capability; it is just that we are not participating in as many exercises as perhaps we did in the past.

Senator CHRIS EVANS—Is that because of other demands on Defence resources or is it because of problems with aircraft or what?

Air Marshal Houston—Specifically it relates to problems with the aircraft. Instead of flying 3,600 hours, as we would like, we are flying 900 fewer hours and that means there are 900 fewer hours to support ADF and other exercises.

Senator CHRIS EVANS—So you are not rationed, but in terms of the exercise program you have to allocate that over the priorities?

Air Marshal Houston—Our first priority is to maintain the skills of our crews and also to train new people coming into the force. We are meeting all those requirements and, indeed, we are supporting quite a few exercises. It is just that we are not supporting all the exercises we were perhaps programmed for.

Senator CHRIS EVANS—So cost pressures are not impacting on these decisions at all?

Air Marshal Houston—Not at all. Going back a couple of years, you would be aware that we had some problems with the F111—another ageing aircraft problem—and we had some fuel leak problems. We also had some problems with maintenance of the fuel tanks, and that related to an OH&S problem. The consequence of all that was that we had a reduced rate of effort. Through all of that, we were able to maintain a good operational level of capability and, as you can see from the hours we are going to fly this year, we are actually maintaining the same level of effort and the same level of capability as we had last year.

Senator CHRIS EVANS—But that was considerably down on previous years. As I understand it, looking at the records, you used to plan for 4,400 hours per annum—you seemed to fall just short of that in 1996 and 1997 and 1998 but you were basically pretty close to the 4,400 mark. Now you are down to 2,700 hours. That seems a considerably lower level of effort.

Air Marshal Houston—It certainly is. I would like to be up at 3,600 hours. That is what we are aiming for in the medium term. I am confident that we will get back to that, once we have the wing problem sorted out. We have sorted out the fuel tank problem and I think we have a very good solution to the wing problem. Once that is sorted out, the F111 will be back up to historical figures in its rate of effort.

Senator CHRIS EVANS—As I say, 4,400 hours was the target for many years. You do not seem to be even contemplating getting back up to that sort of level. Is that because you do not think it is possible any longer?

Air Marshal Houston—We look at the hours we fly, and we have a certain amount of money and a certain quantity of resources to run the Air Force fleet. We make the necessary trade-offs to make sure we meet all of government's requirements and then we make the necessary adjustments in managing the flying hour program. So the fact that we flew 4,400 hours five years ago is not really significant. We have changed that mentality. We are now into a system of meeting a directed level of capability. My job as the output manager is to deliver the Air Force output for the government. One of the subsets of those outputs is the F111 output. I am not worried about how many hours I fly; what I am worried about is delivering the directed level of capability. If that takes 3,600 hours, so be it. The fact that we used 4,400 hours in the past probably did not mean that we needed that many hours to get the required level of capability. It is a very complex subject, and it also involves the way in which we manage the rest of the fleet, because I have to make the same assessments against each of the output's subsets.

Senator CHRIS EVANS—I appreciate that, but from my point of view as a layperson one of the things you look at is how you measure whether you are reaching that level of capability. One of the things that has been used in the past is flying hours. On first blush you say, 'We used to plan for 4,400 hours, we did that consistently for many years; now we are flying 2,700,' and it begs the question of whether or not we are actually reaching that level of capability. You assure me that you are, but that is one of the ways we could test that, I suppose.

Air Marshal Houston—Let me just say that I really need 3,600 hours to deliver the full capability that I would like to deliver, but I am able to deliver a very credible capability with the hours that we are flying right now. Also, we have a very good simulator and that assists as well.

Senator CHRIS EVANS—Putting aside the temporary issue of the wing problem, is the reduction in the number of hours flown or in the capacity for flying impacted upon by the ageing of the aircraft? Is there the sense that you do not want to fly older aircraft as much?

Air Marshal Houston—Not at all. As I said previously, both of our recent problems, the fuel leak problem and the wing problem, are classic ageing aircraft problems. Once we have fixed those problems we have to come up with an assessment, and it is an airworthiness assessment, and we have the highest standards of airworthiness in the world; so we meet those standards and there are no problems with flying the aircraft once we have fixed the problem.

Senator CHRIS EVANS—But is it the case that the more you fly it the more problems you are going to develop? You indicate in the PBS, and I think you have indicated on the record previously, that the cost of maintaining ageing aircraft increases. Even a lay person like me can understand that. Obviously it then begs the question: is it that the more you fly it the more maintenance you require and the bigger are your costs? Is that a fair comment?

Air Marshal Houston—I put it in a slightly different way. Aircraft that are past a certain age, let us say 15 years, require more maintenance and more inspections. Similarly, once an aircraft gets to a high number of fleet hours—let us say we had an aircraft that was 10 years old and it had flown an incredible number of hours—that aircraft would also be regarded as an ageing aircraft. So it relates to the age of the airframe and also the number of hours that it has flown. That ageing aircraft will require more maintenance and more inspections. And you can anticipate that from time to time you will get a surprise. Let me give you an example: our Boeing 707 developed a crack in a place we had never seen a crack before—in the wheel well area. We had a look at the other 707s and we found another one with the same condition. We

then had to come up with a repair scheme in consultation with the aircraft manufacturer. We sent the aircraft up to Amberley and had them repaired, and they are now flying again. They are now airworthy again.

The direct consequence of finding a crack in that place is that that is another place we have to inspect that perhaps we did not inspect thoroughly before, and there may be other additional maintenance requirements for similar problems. That is what ageing aircraft are all about. Even the Falcon 900s that we are about to get rid of have more servicings now than they had through most of their service life. That is a direct consequence of the age of the aircraft.

Senator CHRIS EVANS—And that obviously has huge budgetary implications for the cost of maintenance. For instance, do you have a cost figure for the F111s per hour of flying time? Is that how you work it out?

Air Marshal Houston—We can give you cost figures. In fact, I will ask my colleague Mr George Veitch to give you a run-down on the cost of the F111.

Mr Veitch—We use a full cost rate purely in a cost recovery sense. We recently updated the rate for the F111. It is about \$125,000 per hour.

Senator CHRIS EVANS—Nothing in Defence is cheap, is it—and that is full cost recovery?

Mr Veitch—That is full cost recovery. That would include amortisation of the capital and all the overhead costs—the whole thing.

Senator CHRIS EVANS—How has that changed over the years, Mr Veitch? You said that you have just revised those figures. What was it before?

Mr Veitch—Yes, we revise those figures on an annual basis. Since we have kicked over to accrual budgeting, we have had to look seriously at the way in which we construct that rate, and there is still an ongoing debate within the department about how best to display those numbers. If you look at it consistently over a number of years, that cost recovery rate shows a steady increase and quite a significant increase in recent years. That goes to the heart of the issue that Air Marshal Houston was talking about—the steady rate of increase for ageing aircraft. However, because we calculate it on an annual basis and it relates to the actual hours flown, part of that increase does give the impression that it is unrealistically high because we have flown only about 2,500 hours in the last two years. That artificially increases it when you look at it on an annual basis rather than over the long haul.

Senator CHRIS EVANS—Can you give me the figures on how that has changed over time?

Mr Veitch—I could take that on notice.

Senator CHRIS EVANS—Thank you, but can you give me an indicative feel for how the graph would look? I think Air Marshal Houston talked about a 15-year period.

Mr Veitch—There is no doubt that the graph is exponential at the moment, but you have to take into account that the rates for the last two years are higher because we have flown fewer hours.

Senator CHRIS EVANS—If you discount that, though, and say that you are averaging the same sort of hours, what would the graph look like?

Mr Veitch—It would also show a steady increase, but it would ramp up more significantly in the last year.

Senator CHRIS EVANS—And that is not because of the flying hours issue?

Mr Veitch—I think it is to do with two factors. One is, as I said, the cut over to accruals and the way in which you calculate the full costs in an accrual sense. The other is that, because we flew only 2,500 hours, that has the effect of increasing it significantly in the current year.

Senator CHRIS EVANS—I appreciate those caveats. Taking those caveats out of it, what would you expect the graph to look like? Are we saying that, after 15 years, you would get a sharp incline?

Air Marshal Houston—What I would expect with any ageing aircraft is that the costs will gradually climb over time. There is a lot of debate about what that figure might be—and it varies from platform to platform and depends on the way the aircraft is operated, maintained and so on—but the figures from around the world are usually between three per cent and seven per cent compounding. The US Navy, for example, as you probably saw in the IASB report, uses four per cent. But it will vary, depending on the circumstances.

Senator CHRIS EVANS—But is it normally the case that in the early years it is more likely to be three and in the later years it is more likely to be seven?

Air Marshal Houston—No, I would not put it that way at all. I think it is just a gradual increase over time. Just to give you some feel for it, if we go back a number of years, a 707 servicing was done in a matter of a few months. I think about three or four years ago it was a 12-month servicing—this is the deeper level maintenance servicing. It is now up to 15 months.

Senator CHRIS EVANS—It is offline for 15 months?

Air Marshal Houston—So that means that servicing is now much more expensive than it was five years ago. That is the reality of older aircraft. It is just a function of the fact that aircraft, as they get older, get more difficult to maintain in an airworthy condition. We maintain very high standards of airworthiness. To maintain those standards we have to put the effort in in terms of maintenance, and it is going to cost.

Senator CHRIS EVANS—As someone who flies on your Falcons very regularly, I am very appreciative that you do, too. I take a keen interest in the airworthiness issues. Have you got global budgets for the F18s and F111s for this year and next year? Do you break them down like that?

Mr Veitch—If I could talk about the logistic support budget, which is the area we are concentrating on, the 2001-02 allocation is \$132 million. We have currently got \$109 million planned for next year, but there are a number of logistic shortfalls on that that we are working through the internal mechanisms of the department at the moment.

Senator CHRIS EVANS—So what does that budget encompass?

Mr Veitch—That encompasses the cost of repairable items, purchasing spares, the maintenance support contract, the contract that we have just outsourced up at Amberley and those sorts of things. That excludes the personnel budget—the crew and the support staff.

Senator CHRIS EVANS—That is just for the F111s?

Mr Veitch—That is for the F111s.

Senator CHRIS EVANS—So you are actually going to spend less next year?

Mr Veitch—We currently program for less because, to some extent, when you look at the F111, we had planned to buy life-of-type spares over the last couple of years. We are the sole operator in the world now and it is important that we get as many spares as we can.

Senator CHRIS EVANS—We are actually the sole operator now?

Mr Veitch—Yes. So if you look at some of our actual expenditure over the last couple of years and, indeed, this year, it is artificially high because we have been going through that life-of-type spares purchase.

Senator CHRIS EVANS—You have cornered the market in wings?

Mr Veitch—Yes. So it is natural that you would expect some falling off of the expenditure as we go through that life-of-type purchase of the spares. Having said that, though, the sorts of things that the Air Marshal talks about—the surprises—come on top of that. It is very hard to predict those and to budget for them. So what we tend to do is to try and address those on a case-by-case basis as they arise.

Senator CHRIS EVANS—So you have got conflicting things happening with your budget—the last few years you have been spending up on spares, effectively, which means that your costs should decrease in the next couple of years, but you have got the increasing maintenance costs driving it the other way?

Mr Veitch—Yes. But on an in-year basis you have some flexibility. The reduced level of effort this year, for example, gives you savings in fuel in the year in question. So you can redirect that money to look at some of these other issues.

Senator CHRIS EVANS—So your fuel costs are in this as well?

Mr Veitch—No, that is exclusive of the fuel costs.

Senator CHRIS EVANS—So 2001-02 is \$132 million; 2002-03 is \$109 million, and that is exclusive of fuel and personnel costs?

Mr Veitch—Personnel costs, yes, and general overheads and facilities support—those sorts of things.

Senator CHRIS EVANS—What is your fuel bill?

Mr Veitch—I do not have that with me but I can get it.

Senator CHRIS EVANS—I am just interested to get the perspective. What about the F18s?

Mr Veitch—The baseline funding provision for the F18 hovers between about \$80 million and \$90 million per year. That covers the same sorts of things.

Senator CHRIS EVANS—What is your budget for the coming financial year?

Mr Veitch—The budget for the current year is about \$86 million and, for next year, about \$83 million.

Senator CHRIS EVANS—Is that a similar effect? Have you been buying up spares for them, as well?

Mr Veitch—No, we have not started a life-of-type spares buy for the Hornet but there are some studies going on at the moment which are looking at it.

Senator CHRIS EVANS—Is that something you might be doing in the next few years?

Mr Veitch—I think it would be a prudent thing for us to look at, yes.

Senator CHRIS EVANS—You are doing an upgrade on the F18s, anyway, aren't you?

Air Marshal Houston—We are already under way on the upgrade program. If you want details, I can get Air Vice Marshal Conroy to give you a quick five minutes on it.

Senator CHRIS EVANS—Yes, if he could give me a couple of minutes broad description of what is happening with the upgrade, it would be good.

Air Vice Marshal Conroy—Phase 1 upgrade of the F18 is nearing completion. That is, if you like, an enabler upgrade that changes the computers and a lot of the basic systems. The replacement radar is proceeding. The main avionics upgrade, which is known as phase 2 of the Hornet upgrade, is at the stage of design contracts having been let, so that is in the active design phase. We expect soon to start letting contracts for the production of the phase 2 capabilities that will change the displays, insert a helmet-mounted sighting system for the new missiles, which are being fitted at the moment, and provide a new data link capability called Link 16, which allows information to be passed particularly efficiently between the AEW&C type aircraft. The intent of that is to bring the level of our F18A and B aircraft up to something equivalent, or slightly superior, to the US Navy's F18C and D configuration aircraft. Returning to the logistics issues that you raised before, the Boeing factory has ceased production of the F18C and D configuration and has moved to production of the F18E, which is a completely different and upgraded aircraft.

Senator SCHACHT—You are going to run out of letters of the alphabet.

Air Vice Marshal Conroy—They often go as far as G and H. I think the B52s are up to H.

Senator SCHACHT—Do not end up with a Z.

Air Vice Marshal Conroy—There is a helicopter that has gone to Z. Because the production lines have ceased, we have to look at whether it is more sensible now to make life-of-type buys on some equipment that we could otherwise order on a year by year basis. As Mr Veitch said, for the sake of efficiency we will be increasingly required to make some life-of-type spares buys for our F18 fleet.

Senator CHRIS EVANS—What is the timing on phases 1 and 2 of the upgrades—when do you expect them to be completed?

Air Vice Marshal Conroy—Phase 2 needs to be completed by the end of 2006. Phase 1, I think, will be completed this year or early next year.

Senator CHRIS EVANS—What does that mean in terms of operational capacity of the F18s? Are they offline for a long period?

Air Vice Marshal Conroy—Yes, there is a floor loading in the factory up until that period of 2006 that takes, from memory, something in the order of six to eight aircraft offline for the upgrade process.

Senator CHRIS EVANS—So you have six to eight offline at any one time and they rotate through as they go?

Air Vice Marshal Conroy—In the upgrade process.

Senator CHRIS EVANS—Out of a total fleet of how many?

Air Vice Marshal Conroy—The total fleet is 71.

Senator CHRIS EVANS—What life expectancy do you think that this upgrade will give the F18s?

Air Vice Marshal Conroy—The current upgrade is to improve the operational capability of the aircraft; its life is actually determined by structural matters.

Senator CHRIS EVANS—You are not going to bring the expert back in again?

Air Vice Marshal Conroy—We know we have to do some structural upgrades. They are known as phase 3 of the Hornet upgrade program. They are in the defence capability program. They are not totally defined as yet. We will have to do some preparatory structural work soon, and we are scoping that issue at the moment. There may be some major structural upgrade work that needs to be completed, starting in 2007. With that work done, we are aiming to have our F18 fleet viable through to the period 2012-15, on current plans.

Senator CHRIS EVANS—But you will not actually be starting the structural work until 2007?

Air Vice Marshal Conroy—We will start some soon, but the major work will start in 2007.

Senator CHRIS EVANS—Could you briefly describe what structural work is required, in layman's language? Basically, what do you have to do?

Air Vice Marshal Conroy—We have done extensive structural analysis—fatigue tests—at DSTO and in combination with our Canadian colleagues. We and the Canadians fly our aircraft differently to the US Navy, and so we want to know how the structure is behaving under our usage patterns. We have a good picture of that at the moment and we know the areas that need to be worked on. We correlate that with the wider US Navy fleet because they bring a lot of knowledge to this as well. The really extensive work that needs to be done—and we do not know how many aircraft we will have to do this to to get through to 2012 yet; we are still studying that—is to replace what is called the centre barrel of the aircraft. That is a piece of fuselage structure that carries the wing attachment.

Senator CHRIS EVANS—That sounds like the main bit of the plane to the layman.

Air Marshal Houston—That is correct. We have to do the analysis, but obviously we would prefer not to do that if we can get away without it.

Senator CHRIS EVANS—So basically you have to replace the fuselage?

Air Marshal Houston—That is correct. The centre barrel is the main part of the fuselage. There is a high technical risk associated with that, and we are looking at ways of managing the fleet so that we can avoid having to do that.

Senator CHRIS EVANS—No doubt the cost of that would be fairly high.

Air Vice Marshal Conroy—The cost in the forward projections is notional but it is something in the order of \$300 million.

Air Marshal Houston—Yes, that is my understanding as well.

Senator CHRIS EVANS—And that would only get you another five to eight years of life for the plane?

Air Marshal Houston—We still have to work through all that.

Senator CHRIS EVANS—But in the broader planning, if you start that in 2007 and you are only hoping to get the planes through to 2015, that is a big investment for a fairly short time period, isn't it?

Air Marshal Houston—It certainly is. That is why we would prefer not to do it, also noting that there is a high technical risk there. The Canadians have already embarked on their program.

Senator CHRIS EVANS—So you at least will have the benefit of learning from their mistakes or experiences. What about the F111s? What is the program to upgrade or make structural changes on those?

Air Marshal Houston—The program in place for the F111 is to improve the survivability of the aircraft for operations in the next decade. We can go through that in detail if you wish, but all the projects are related to improving the capability of the aircraft to make it less vulnerable in the future.

Senator CHRIS EVANS—When you say 'less vulnerable' do you mean vulnerable to attack or vulnerable to ageing?

Air Marshal Houston—I am talking about survivability. As we progress into the next decade we are likely to see much more capable air combat aircraft introduced into the region, and we need to upgrade the F111 so that it is more able to survive in that environment.

Senator CHRIS EVANS—I do not want you to take me through it all—I am sure you have figured out by now that I would not understand half of it—but, in general terms, what does that mean?

Air Marshal Houston—One of the main features of it is to improve the electronic warfare self-protection and there are a number of systems associated with that. They are all detailed in the defence capability program. We can take you through that, if you wish.

Senator CHRIS EVANS—I will have a look at that more closely. Are there any major structural issues, putting aside the wing debate?

Air Marshal Houston—No, not at this time.

Senator CHRIS EVANS—Is it more about their systems?

Air Marshal Houston—Yes; improving their systems to improve their survivability.

Senator CHRIS EVANS—You were talking before about the number of pilots and the fact that your recruitment had improved. How many F111 pilots are there? Do you categorise them as F111 and F18?

Air Marshal Houston—At the moment we can raise, I think, around 18 or 19 F111 crews. I can take that on notice, but it is in that order.

Senator CHRIS EVANS—How many in a crew?

Air Marshal Houston—Two: a pilot and a navigator.

Senator SCHACHT—How many of the crew are women?

Air Marshal Houston—We have two women navigators on No. 1 Squadron.

Senator SCHACHT—Many years ago at a Joint Committee on Foreign Affairs, Defence and Trade inquiry—in the early 1990s—into issues of service recruitment we got onto the issue of women being used in combat roles. At that stage the Air Force did not allow women

into combat roles in the F111s and the F18s. To my astonishment, one of the pieces of evidence given to justify that was that Air Force was worried that any woman in a plane like that going through G forces could suffer a collapse of her uterus. Is there any evidence since we have had women in F18s and F111s that a woman has suffered a collapse of the uterus?

Air Marshal Houston—No.

Senator SCHACHT—I am pleased to hear it.

Air Marshal Houston—We can employ women in 97 per cent of the positions in the Air Force. They are employable in all flying positions. Having flown as copilot to a woman on several occasions I can say there is absolutely no difference between women and men when it comes to flying aircraft. The only positions that are denied to women in the Air Force are in the airfield defence guard area, and we are having a look at that at the moment.

Senator SCHACHT—I am glad you are having a look at that three per cent. Is that because they are not strong enough to carry the gun or because we do not like them being shot at?

Air Marshal Houston—It relates to physical capability more than we do not like them being shot at. There is a study under way that is being run by the personnel executive. If you want a more detailed response I can get Rear Admiral Shalders to come forward.

Senator SCHACHT—I have been through this so many times in so many inquiries over the last 15 years for the Joint Standing Committee on Foreign Affairs, Defence and Trade and the Defence Subcommittee that I have heard all the arguments. Is it because they cannot carry the weight of the pack or the gun? Is it the weight issue that prevents them from being guards on the airport perimeter?

Air Marshal Houston—Up until now it has related to their physical capability to do all the tasks involved with being an airfield defence guard or an infantry soldier. I think there are other people in the room who are probably more fully up to speed with this issue, and I can call them forward if you wish.

Senator SCHACHT—I do not want to interrupt Senator Evans.

Senator CHRIS EVANS—I have finished.

Senator SCHACHT—I would not mind someone coming forward, because I would have thought that some men would have had trouble. People like me would have great difficulty slogging it around with a pack on the back and holding a gun. There must be men, I would have thought, who would have trouble meeting the capability.

Air Marshal Houston—I think that is precisely the point.

Senator SCHACHT—If a woman can meet the generic test, why should she be precluded?

Air Marshal Houston—I will let Admiral Shalders take over at this stage.

Rear Adm. Shalders—Could I ask you to repeat the question, please?

Senator SCHACHT—I have been through this discussion so many times it is a bit like a long-playing record. I believe if people meet the generic test, they should take their chances just like anybody else, whether they are male or female. Why isn't there a generic test so that if either a woman or a man cannot meet the test they do not get the job? To say that women cannot do it per se and therefore they are all excluded seems to me to be a discrimination that is a bit irrational.

Rear Adm. Shalders—Senator, that is not the case. The study that Chief of Air Force mentioned is a study into physical competencies. So, as you have suggested, if the person—male or female—is physically capable of undertaking the tasks then they are able to undertake those tasks. That is the direction of the study at the moment.

Senator SCHACHT—That is where the study is going, but that is not yet policy.

Rear Adm. Shalders—That is correct.

Senator SCHACHT—At the moment, women are just excluded, full stop, from being on the—

Senator Hill—But the trend has been away from excluding them. You have heard in relation to Air Force—

Senator SCHACHT—I know; I understand that.

Senator Hill—Hang on. We have heard your side on this subject over the years, but you do not always listen to the response.

Senator SCHACHT—I do listen to the response.

Senator Hill—In the case of Air Force, 97 per cent are now open. In the case of the Defence Force as a whole, there is an examination to test whether there is any physical limitation in relation to the balance of the jobs. So you are winning the argument.

Senator SCHACHT—I know.

Senator Hill—You should claim success and let us move on.

Senator SCHACHT—Air Marshal Houston said that there were three per cent involved in protecting Air Force facilities—I am not talking about the general service.

Senator Hill—You could claim it as part of your legacy.

Senator SCHACHT—Maybe I will, but I am not so presumptuous as to claim too much. Many other people have looked into this argument in greater detail than I have. I am just wondering about the three per cent. At the moment the policy is, although it is under review, that women per se cannot be in the guard position in the Air Force units carrying out a protective role that some might equate to the infantry in the Army. Is that correct?

Air Marshal Houston—That is correct.

Senator SCHACHT—When will this review be completed?

Rear Adm. Shalders—The contract to examine the physical competencies required is about to be let. A request for tender was issued on 31 January—we have done part of that study already in relation to clearance divers in the Navy—and that study is expected to take about six months and will inform future policy directions.

Senator SCHACHT—That is good. Air Marshal Houston, what is the highest ranking woman in the Air Force today?

Air Marshal Houston—We have a one star, Air Commodore Julie Hammer, who is the commandant at the Australian Defence Force Academy.

Senator SCHACHT—Did she ever have flying experience?

Air Marshal Houston—No, she did not. She is a very distinguished engineer, and her background is in electronics and communications.

Senator SCHACHT—Which are very important. Is it true that, for the future career prospects for promotion to air marshal, it has always been an advantage to have been a pilot or to have had service in flying an aeroplane in some form or another?

Air Marshal Houston—I would put it this way: you would need to have an operational background. As we move into the future, that sort of experience might not necessarily be presented by a pilot. But, certainly, up until now that has been the case.

Senator SCHACHT—So by removing this restriction we can now say to women—to paraphrase the old saying that everyone can aim to be Prime Minister of the country or President of America—you now have a career structure that means that if you are good enough to be a pilot and rise through the system you can end up being an air marshal of the Air Force.

Senator Hill—That is not quite what he said.

Air Marshal Houston—Well, fundamentally—

Senator SCHACHT—Because clearly before if you were excluded from being in some of the operational areas—

Senator Hill—You do not have to be a pilot to be in operations.

Senator SCHACHT—As I understand it, and I am not critical of this in one sense, to be a pilot at that level of operation seemed to be an advantage toward gaining promotion to be head of the Air Force ultimately in a career. That is understandable and part of the culture of the Air Force. It is not the same problem that occurs I think in the other services—

Senator Hill—The culture is changing.

Senator SCHACHT—It is changing. I have been here for 10 or 15 years asking about this, and drip by drip it is changing. I thank you for that. In the Defence annual report for 1999-2000—the one before the one that just came out—the Air Force section listed aircraft capability and performance. Not only was a target set but also the rate of effort was put in percentage terms: what the target was and what was actually achieved. That list goes through the various types of aircraft: F111, F18, Pilatus, Orion, Hercules, Caribou, Boeing 707. I will come back to the figures in a moment, but in the Defence annual report for 2000-01 just out the actual achievement rates are apparently not reported. In the previous Defence annual reports of 1997-98 and 1998-99, although the targets were set the actual rate of effort and serviceability—the launch rate et cetera—were not included. It seemed to be a step forward that in 1999-2000 they were put in the annual report, but they have not been put in the annual report of 2000-01. Can you explain what might appear to be a revisionist or backward step in reporting from what seemed to be a good idea in 1999-2000?

Air Marshal Houston—I am actually not responsible for the presentation of the information in the Defence annual report—

Senator SCHACHT—I am sorry, I have come to the wrong section.

Air Marshal Houston—but I will get the chief finance officer or his representative to come forward. As far as I am concerned, I am quite happy to table that sort of information should you desire it.

Mr Veitch—We probably had this discussion on Monday with Senator Hogg and Senator Evans. We went through this very issue in terms of the presentation. I think that as a result of

that discussion the secretary and the minister were going to consider options for how we might repackage the material that is presented in future years.

Senator SCHACHT—Senator Hogg was asking specifically about the same material?

Mr Veitch—The same sorts of questions, yes.

Senator HOGG—As I have done in the last four estimates hearings.

Senator SCHACHT—So there was an agreement that there would be discussion about either tabling more material or, in the future, putting it in the Defence annual report?

Dr Hawke—The minister agreed that he would give consideration to that for the next estimates hearings, yes.

Senator SCHACHT—In that case Senator Hogg has scooped my pool. I congratulate him on that.

Senator HOGG—I want some friends, not enemies, out there!

Senator SCHACHT—I will ask a couple of other questions. Again, tell me if Senator Hogg has already asked this. Compared with what was published in 1999-2000 and what was not published in 2000-01 but which now can be made available, were there any areas of significant reduction in performance levels of the rate of effort or the serviceability of the sortie launch rate for each of the aircraft types? You can take that on notice if it has not already been covered by Senator Hogg.

Air Marshal Houston—I have some information here which may help.

Senator SCHACHT—Take the F111. In 1999-2000 the flying hours target in the annual report was 4,400; the actual was 3,500. The rate of effort was 80 per cent and the serviceability sortie launch rate was 90 per cent. In both of those the target was 100 per cent. In the year 2000-01 were those figures maintained or were they improved closer to the target of 100 per cent? I presume the target was still set at 100 per cent.

Air Marshal Houston—I think you have been gazzumped by Senator Hogg.

Senator HOGG—I recommend the *Hansard* to you.

Senator SCHACHT—Fine. It is all there. Thank you. I have to go to another estimates committee and I think by the time I come back Defence will probably have finished. I want to say to the minister and the department that I have been coming here for 12 out of 15 years and I have been a member of the Defence Subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade for 12 to 15 years, and sometimes in estimates some answers—whether I have been in government or opposition—have been rather oblique and obtuse, but I think that is only natural. All round I have enjoyed dealing with the services and in particular all the personnel. If I may say so, Air Marshal, you have got into some controversy recently. I think in the long term your record out of that will be well recognised as being superior to a lot of other things that have gone on. I congratulate you on that courage. To all the staff and to Dr Hawke, I have enjoyed working with Defence over all those years. Thank you.

Senator Hill—I am sure they have enjoyed working with you.

Senator SCHACHT—They may not have. Some of them may.

Senator Hill—Do not be so negative.

CHAIR—Thank you, Senator Schacht. That is your farewell speech. Thank you for your contribution.

Senator CHRIS EVANS—I have a couple of questions about the Salt Ash Weapons Range. There is a long history to this and I have not been involved, but could someone give us an update on it?

Air Marshal Houston—The Salt Ash range is currently going through an environmental impact process. We are in the middle of that. The draft has been circulated. There have been public meetings and they relate to the introduction of the Hawk aircraft and the fact that the Hawk aircraft will be using the Salt Ash range. So the process is under way; the community is being consulted and we will deal with the issues as they arise.

Senator CHRIS EVANS—What is the time line on this?

Air Marshal Houston—It is all to be finalised by July.

Senator CHRIS EVANS—By the end of July?

Air Marshal Houston—I will get the exact date for you.

Senator CHRIS EVANS—I want to understand where it is at.

Air Marshal Houston—If you would just bear with us, I do have the information here. We can get it for you in a moment.

Senator HOGG—Does this inquiry arise out of the longstanding difficulties surrounding the weapons range? Is it a response to that or is this a separate exercise altogether?

Air Marshal Houston—This is in response to the introduction of the BAE Hawk 127 aircraft. It is a lead-in fighter. It will be based at Williamtown and the aircraft will be using the Salt Ash range. We are doing the normal environmental impact work.

Senator HOGG—But it is not overcoming the difficulties that have been expressed in these proceedings on other occasions. This is a new situation, in effect. That is what I am trying to get to.

Air Marshal Houston—Absolutely. It is a new situation and we will deal with the issues that arise out of the work. Essentially the statement will be completed by 16 July and submitted to Environment Australia at that time.

Senator CHRIS EVANS—Does that go to the environment minister?

Air Marshal Houston—It will go to Environment Australia for advice.

Senator CHRIS EVANS—Who ends up with the decision?

Senator Hill—The Minister for the Environment and Heritage. That was part of the reform—the new legislation actually gave the environment minister responsibilities.

Senator CHRIS EVANS—Isn't there some argument as to whether the new legislation applies yet?

Senator Hill—No, it has triggered the new legislation and the environment assessment is taking place under the new legislation.

Senator CHRIS EVANS—The assessment is taking place under the new legislation; is it a decision for the environment minister alone or in consultation with you, Minister?

Senator Hill—Having just asserted that with great confidence, I will get advice. Is it under the new legislation? A decision has come back: it is under the transition provisions of the

1974 act. The process must have commenced before the new legislation was brought into effect. The difference is that, under the old legislation, the action minister makes the final decision, which is probably me. If it had been under the new legislation it would have been Dr Kemp.

Senator CHRIS EVANS—Is that your final offer on this question?

Senator Hill—It looks as if I made the decision that it would be under the old legislation. That fortuitously means that now I have to make the ultimate decision in my new role. I think it is a fair assumption that that will be in consultation with government as a whole.

Senator CHRIS EVANS—I want to be clear: we are certain that it is under the old legislation?

Senator Hill—That is what the note says.

Air Marshal Houston—It is under the 1974 legislation.

Senator CHRIS EVANS—And it remains so, whatever the timing on this because it was triggered under the old legislation. There is no cut-off date?

Senator Hill—There were transitional provisions in the old legislation dealing with a range of circumstances and I cannot remember why this one applied. In the most common instances where a process had commenced before the new legislation came into effect—

Senator CHRIS EVANS—That is what I want to be clear on: because it has been triggered under the transitional arrangements the whole decision making process will continue under the transitional arrangements, and those transitional arrangements make the decision one for the Minister for Defence?

Senator Hill—Yes, that is right.

Senator CHRIS EVANS—Does it go to Environment Australia or to the defence minister?

Senator Hill—The assessment process is much the same under both pieces of legislation. The substantial difference is that under the old legislation the so-called action minister determined the final approval. Under the new legislation the final approval is determined by the environment minister. The action minister is the one who instigated the process—whose project it is—and thus, in this instance, it would be the defence minister.

Senator CHRIS EVANS—The deadline you are working to is that it goes to Environment Australia by 16 July?

Air Marshal Houston—Correct.

Proceedings suspended from 10.31 a.m. to 10.50 a.m.

Dr Hawke—Mr Chairman, Air Vice Marshal Conroy has a couple of minor amendments to what he said this morning.

Air Vice Marshal Conroy—Senator Evans, when I was giving an estimate of the logistic shortfall on the C130J, I mentioned a figure of mature shortfall of getting it down to around \$10 million. I believe that that will oscillate for the reasons given by the Chief of Air Force, and it would be more accurate, in our current projections, to say that it will probably average out at about \$15 million. I just want to correct that \$10 million figure.

Senator CHRIS EVANS—Thank you.

Dr Hawke—We got a couple of answers together to questions that we took on notice.

Air Vice Marshal Titheridge—Some questions were raised yesterday, one of which was from Senator Faulkner, who asked the name of the DIMIA area that deals with intelligence. The question was really for DIMIA but we found the name: it is the Intelligence Analysis Section and it is inside the Border Protection Branch. There was also a question—I think from Senator Faulkner; I am not sure—on contacts between the embassy in Jakarta and Strategic Command with respect to SIEVX. There were two such contacts. On 22 October there was an email from the naval attache talking about information they had received from the Rescue Coordination Centre in Australia with reference to an overdue SIEV that was supposed to be inbound for Christmas Island. The naval attache was asking us what was going on, because he thought it was quite an unusual request. The following day there was a telephone call from Brigadier Millen, who heads up our Defence staff. He reported over the telephone the arrival back in Indonesia of a naval vessel with survivors on board. I will read you the transcript of the telephone call. It said:

An Indonesian naval vessel arrived in Tanjungpriok Jakarta port at approximately 14.45 Zulu on the 22nd October with approximately 45 survivors on board thought to have been on a SIEV that departed from Western Java a.m. Saturday, 20th October. It is believed the SIEV, which was thought to have as many as 400 PIIs on board, sunk in Indonesian territorial seas.

Senator JACINTA COLLINS—When was it that the boat arrived back in port?

Air Vice Marshal Titheridge—At approximately 14.45 Zulu on 22 October. The telephone call came in on the 23rd, just after midnight our time.

Senator JACINTA COLLINS—What does Zulu time equate to in our time?

Dr Hawke—At the moment, you need to add 10 hours to our time.

Senator JACINTA COLLINS—So it was just after midnight on the 23rd?

Air Vice Marshal Titheridge—Correct.

Senator JACINTA COLLINS—Can we be provided with a copy of the email you are referring to?

Air Vice Marshal Titheridge—There is some classified information in that email, which deals with other things that were not resolved with SIEVX. If I can take it back, declassify it and seek the approval of the minister at the table, I shall do so.

Senator JACINTA COLLINS—Is that something that could be done fairly quickly?

Air Vice Marshal Titheridge—Reasonably quickly—in fact, my staff are no doubt watching at this moment—

Senator JACINTA COLLINS—They are getting quite proficient at this process, despite a recent hiccup.

Dr Hawke—We are learning from the senators.

Senator HOGG—That is a real efficiency dividend.

Senator CHRIS EVANS—How to alter documents.

Senator JACINTA COLLINS—That is my next issue.

Air Vice Marshal Titheridge—There were some questions on Operation Coracle, the de-mining in Mozambique, from Senators Hogg and West. We are really not in a position to answer some of those questions. I will paraphrase the questions. One was: what was the cost of Operation Coracle? The additional costs in 2001-02 were \$0.159 million. Another question

was: what was the reason for Australia ending its commitment? I will read a short statement on that. The accelerated de-mining has gradually evolved from a UN operated and managed program, which we supported with our de-miners, to an independent project with minimum United Nations involvement. It is now in the process of being transformed to a national non-government organisation. It is also one of the most successful indigenous de-mining programs in the world. So it does continue. We were there supporting the UN and the UN is backing out so that is why we are withdrawing our contribution.

There was also the question: has there been a reduction in the number of mines left and who is there still de-mining? I think the latter half of that question was answered by the statement I just made. In terms of the reduction in the number of mines, they measure it in areas rather than mine reductions. I have some figures that in 2000 just under five million square metres of land was cleared, including over 317 kilometres of road. It is measured in areas cleared rather than the number of mines. There was a question on how well trained the Mozambique army is in de-mining. That is really a question that you would have to put to the Mozambique army. I suspect that Foreign Affairs would be in a much better position to answer or find the answer to that one than Defence. Similarly, the UN's timetable for completing the job would once again be an issue for the UN to answer. I suggest that question would be better put through our appropriate people in Foreign Affairs and Trade. There was a line of questioning, I think from Senator Faulkner, on the interface with strategic command in DIMIA and another committee.

Senator HOGG—It would have been.

Air Vice Marshal Titheridge—The only formal interface we had in committee terms was the people-smuggling task force or IDC or high level group that has been discussed quite regularly in various fora. Of course, we have a lot of informal contact with DIMIA and a range of other departments. I trust that answers those questions on notice.

Senator JACINTA COLLINS—Air Vice Marshal Titheridge, can I go back to the Jakarta matter?

Air Vice Marshal Titheridge—Certainly.

Senator JACINTA COLLINS—In case seeing the email does not answer these questions, I ask whether the email was a response to the embassy receiving a copy of the AMSA warning?

Air Vice Marshal Titheridge—It sounds like it was. I am reading through the email. I will read the relevant section of the email and that might solve the problem of getting it declassified. This part is not classified. The naval attache says in this email:

In regard to a fax I have just received from RCC Australia—
that is the Rescue Coordination Centre—

re an overdue SIEV bound for Christmas Island, I find it unusual, to say the least, that we are sending out such vessel overdue reports to BASARNAS for action based on our sketchy intel of boat departures.

It goes on to say:

Does RCC Australia want to do the same for every SIEV we think is departed and has not turned up yet?

He says, 'I think this is a precedent we do not wish to go down,' or words to that effect. The email was in response to a fax from RCC obviously to the embassy.

Senator JACINTA COLLINS—So this naval attache is referring to sketchy information which we now know from Coastwatch was the subject of discussion back to the Federal Police. We are now told that at the time that fax went off there had in fact been confirmation of the departure. Was there no communication back to the naval attache indicating that there was now a confirmed departure and that the information was less sketchy?

Air Vice Marshal Titheridge—This was on the 22nd we are talking about? This was a couple of days after the sinking.

Senator JACINTA COLLINS—Yes.

Air Vice Marshal Titheridge—I cannot answer that question.

Senator JACINTA COLLINS—It was not a couple of days after the sinking, 22 October. You believe the sinking occurred earlier than 22 October?

Air Vice Marshal Titheridge—I am not sure of the date of the sinking. I would have to check that. It is not a question I can answer.

Senator JACINTA COLLINS—All I am asking is: there was no further contact back to the naval attache in relation to his concern?

Air Vice Marshal Titheridge—Not that I have a record of, no.

Dr Hawke—We were about to move to some answers to questions that Senator Collins asked yesterday. The inspector-general, Mr Claude Neumann, will respond to those.

Senator JACINTA COLLINS—Those questions were from the day before, I think it was.

Dr Hawke—The day before, sorry.

Mr Neumann—I can confirm that information supplied by Mr Byrne to the former Minister for Defence relating to Ridgewell Pty Ltd was passed to my office for examination and consideration in the context of findings made in a previous internal audit. Advice was given to Mr Luke Donnellan, of Mr Byrne's office, in January 2002 that this examination of the Ridgewell documents was not able to determine the claims of unfair dealing, unreasonable change of scope and undue delay. In regard to the issue of whether the Commonwealth should pay Ridgewell a debt that Ridgewell claims it is owed, the auditors found that 'it is not clear whether any entity owes Ridgewell money'. However, it is not clear to my officers or me whether these documents are the same documents as those in your possession.

The two other questions related to the scope of the internal audit and the external audit. In terms of the external audit, in the media release by Minister Reith the first paragraph says:

In response to the continuing concern over facilities management at HMAS *Cerberus*, I have asked the Australian National Audit Office (ANAO) to conduct an independent investigation.

That leaves it wide open. At the bottom, in the last paragraph, it says:

Public accountability and the maintenance of public confidence in the efficient employment of resources by Defence is important. To that end I have now asked that the ANAO conduct an investigation into the matters associated with facilities management at HMAS *Cerberus*.

To that extent they are open. In terms of the original internal audit, they were similarly open. The secretary wrote back to a particular person saying:

I have referred your letter to the Inspector-General of Defence for his attention.

I actually wrote internally within the department asking my auditors to look at the matter.

Senator Hill—I suggested to Senator Collins, during the break, that perhaps she and the inspector-general should have a talk and make sure that they are talking about the same documents. I further suggest that, it seems to me, if there is an issue as to whether the inspector-general had all of the relevant documents at the time of his examination, that has now been somewhat overtaken by the opportunity to ensure that the Auditor-General has all of the documentation in order for the best possible examination by him of the same issues.

Senator JACINTA COLLINS—In terms of the original contract, the issue first comes as a concern in that, as I understand the process here, Mr Donnellan—whom you referred to—in Mr Byrne's office, was advised by Mr Scrafton that it was not possible to work out if there was a contract and that that matter should be resolved with SSL Asset Services. Is that an incorrect understanding from your end?

Mr Neumann—I cannot comment on that; I was not privy to that conversation.

Senator JACINTA COLLINS—No, but you referred to what you understood to have been communicated.

Mr Neumann—I can say a couple of things. Defence does not have—as I understand it; I am relying on information here—an original signed copy of the contract for the junior sailors galley project, if this what you are talking about.

Senator JACINTA COLLINS—Yes.

Mr Neumann—The original Defence project file is missing and key documents around these events have had to be provided by Defence's prime maintenance contractor which is SSL Asset Services. I think that goes to answering part of your question.

Senator JACINTA COLLINS—Is it missing from SSL Asset Services?

Mr Neumann—No, SSL Asset Services—as I understand it—have put together key documents, as they understand them, from what they have as the project manager. Defence does not have an original signed contract.

Senator JACINTA COLLINS—In part that goes to my concern, because I have a copy of a letter to the solicitors acting for Defence, from a Defence officer, referring to that original contract being conveyed to the solicitors acting. So my first question is: have you sought a copy of that contract from your legal advisers, to whom you forwarded such a copy?

Mr Neumann—I personally have not.

Senator JACINTA COLLINS—That is a question for Defence, then.

Senator Hill—What is the question?

Senator JACINTA COLLINS—The question is: I am aware that a copy of this original contract—

Senator Hill—It is interesting to know what you are aware of, but what is the question?

Senator JACINTA COLLINS—I will get to it. This is context for the question, Minister. A copy of the contract was forwarded to Clayton Utz on 13 April—the year must be wrong; it should be 13 April 2001—in a letter signed by Major A. McVilly.

Senator Hill—So what is the question?

Senator JACINTA COLLINS—The question is: has Clayton Utz been asked to provide, back to Defence, a copy of the existing contract?

Senator Hill—Do you know the answer to that, Mr Neumann?

Mr Neumann—No.

Senator Hill—We do not know.

Senator JACINTA COLLINS—I presume you have other Defence officers.

Senator Hill—No, he is the man. If you want him to go back and reresearch the records, we will do so. At the moment, we cannot give you an answer to that. That is why we tried to get from you yesterday as many questions as we could—so that we could research them.

Senator JACINTA COLLINS—The inspector-general is saying to me that Defence does not have a copy of it. I raised on Monday that I was aware that a copy had been provided to Clayton Utz.

Mr Neumann—I said Defence does not have an original, signed copy of the contract. We have a photocopy of the signed contract for the project as well as a copy of the agreed revised scope of works for the project that has been made available to Defence by Asset Services, Defence's managing contractor. This information, I understand, was supplied to the Australian National Audit Office in support of the investigation of the *Cerberus* issues.

Senator JACINTA COLLINS—Does the photocopy of the contract that you have include a variation initialled at clause 2.1?

Mr Neumann—I do not have a copy here so I cannot answer that.

Senator Hill—We will have to take that on notice.

Senator JACINTA COLLINS—Does it include amendments initialled on page 5?

Senator Hill—We will take that on notice.

Senator JACINTA COLLINS—Is there any indication in the copy that you have that the amendments have been equally amended by the other party?

Senator Hill—Have the amendments been initialled by both sides? Is that the question?

Senator JACINTA COLLINS—Yes.

Senator Hill—We will take that on notice.

Senator JACINTA COLLINS—It is clear now to me that the scope of the internal investigation and the Audit Office investigation appears focused on *Cerberus*. Are they also investigating broader issues in relation to the operations of SSL Asset Services Victoria-wide?

Senator Hill—Is the Auditor-General?

Senator JACINTA COLLINS—Both.

Senator Hill—Did you investigate matters other than *Cerberus*, Mr Neumann?

Mr Neumann—We had a look, because one of the things that the former minister asked us to do was to see whether it was systemic. The answer to that was no, it was not systemic.

Senator Hill—So they did look beyond *Cerberus*.

Senator JACINTA COLLINS—Did you look at the comprehensive maintenance contract between the Defence Estate Organisation and SSL Asset Services?

Senator Hill—We would have to take that on notice.

Senator JACINTA COLLINS—Is it still possible to provide me with a copy of your report once you have removed identifying information? That was a request from Monday.

Mr Neumann—Yes, I have the original.

Senator Hill—Is the report a public document, Mr Neumann?

Mr Neumann—No, it is not. What we have done with it is take out people's names, because we have not sent it back to people to make comments about. There are actually two sets of reports, and we would have to look at the second one as well, for the same purpose. We did one earlier on and then we looked at the Ridgewell paper separately.

Senator Hill—I would want to look at them and see if I have any objection to them being tabled. It would surprise me if I did have.

Senator JACINTA COLLINS—My concern was that this was discussed on Monday—and the inspector-general undertook to do that on Monday—in the context of me coming back later in this process, having had the opportunity to review those reports.

Senator Hill—I have not seen the reports.

Senator Jacinta Collins—And that is my concern. I can understand your concern from that point of view.

Senator Hill—We are doing our best. I will have a look at both those reports. Have your reports gone to the Auditor-General, Mr Neumann?

Mr Neumann—Yes, I believe so.

Senator JACINTA COLLINS—I want to move on to some issues broader than the Ridgewell contract, regarding SSL Asset Services. This pertains to the extent to which the Department of Defence satisfies itself of the accuracy and completeness of contracted maintenance services in accordance with the comprehensive maintenance contract. In the light of our earlier discussion on Monday, where the minister indicated that he understood these matters were being addressed by the Audit Office, it is not clear to me whether that issue is being addressed by the Audit Office.

Senator Hill—The question you have just asked was really generic and had nothing to do with the Audit Office. You said you want advice on the extent to which Defence checks that work that it has contracted to have done is done. Are you talking about contracts across Defence or are you talking about a specific instance?

Senator JACINTA COLLINS—I am talking about the specific instance of a comprehensive maintenance contract in Victoria.

Senator Hill—Has it applied to any particular work?

Senator JACINTA COLLINS—Yes. I can go to the particular work, but I was conscious of your comments on Monday that if these matters were being addressed by the Audit Office we could avoid duplication. But I am happy to put specific questions now.

Senator Hill—We do not know the scope of the Auditor-General's work. That is something you should take up with him.

Senator JACINTA COLLINS—I think it is clear from what has been alluded to earlier by the inspector-general that it is *Cerberus* focused.

Senator Hill—It would be a lot better if we stuck to *Cerberus*. Otherwise the answers you are going to get will be unhelpful. I suspect the answer will come back that the work gets checked from time to time—

Senator CHRIS EVANS—According to established practice.

Senator Hill—according to established practice.

Senator JACINTA COLLINS—Let me help you to be a bit more specific. You may well need to take this on notice.

Senator Hill—If you are talking about a specific issue you can ask whether Defence checked that the work done at *Cerberus* at a particular time was done in accordance with the overarching contract.

Senator JACINTA COLLINS—I will ask you some specific questions now. It will not surprise me if you need to take them on notice, but at least we will get down to some of these specifics. Firstly, did SSL Asset Services submit monthly invoices to a ballpark value of \$6,680,000 for the period July 2000 to May 2001 inclusive, and a further \$3,500,000 for the period June 2001 to September 2001 inclusive, totalling \$10,180,000, knowing full well that at best only 60 per cent of the contracted maintenance was actually undertaken?

Senator Hill—Who knows ‘full well’?

Senator JACINTA COLLINS—SSL Asset Services knowing full well.

Senator Hill—How would we know whether they knew?

Senator JACINTA COLLINS—You may not or you may.

Senator Hill—We can find out whether we got the invoices—

Senator JACINTA COLLINS—Yes.

Senator Hill—and then what do you want us to do? Try to guess whether they were misleading?

Senator JACINTA COLLINS—I would like you to answer that question first; answer to your knowledge whether 100 per cent of contracted services had been conducted.

Senator Hill—Okay. Did we have any reason to believe that the work or any part of the work had not been done?

ACTING CHAIR (Senator Ferguson)—It looks as though Mr Neumann is taking these questions on notice.

Mr Neumann—I have to take these on notice because it is not part of the audit that we do.

Senator JACINTA COLLINS—That is what I am saying. This is not an issue for the inspector-general; this is an issue for Defence proper.

Senator CHRIS EVANS—I think this is not really a role for the inspector-general. I think these questions are directed someone in charge of—

Senator Hill—I am not sure whether it is believed that these issues were part of the examination by the inspector-general—or is it a different matter?

Senator JACINTA COLLINS—These are different issues.

Senator Hill—Okay. We will take that on notice and we will get you an answer.

Senator JACINTA COLLINS—These are all questions for Defence but in part some of them have been hived off to the inspector-general and—as per your reference on Monday—to the Audit Office.

Senator Hill—Okay.

Senator JACINTA COLLINS—To the extent that some of them are subject to review I am prepared to say, ‘Yes, fine, they are being reviewed separately and I am not going to pursue them here.’ But there are specific questions about this contract which I do not understand to have been part of that process, so these are questions to Defence proper.

Senator Hill—All right. We will get an answer to that question.

Senator JACINTA COLLINS—Did Defence management pay the full contract monthly sum, including amendments to the contract sum, to SSL Asset Services for fixed plant and equipment maintenance services during the above period and any subsequent period, and have there been any reclaims for overpayments for services not rendered?

Senator Hill—We can get an answer to that.

Senator JACINTA COLLINS—How did Defence satisfy itself that those contract services were being fulfilled?

Senator Hill—Okay.

Senator JACINTA COLLINS—Did SSL Asset Services submit, as part of their monthly invoices for the periods March to July 2001 and December 2001 to April 2002, costs for key staffing positions totalling \$70,300 when the positions concerned were vacant?

Senator Hill—No, split that question in two. Did we get an invoice for those services? Did we know that the positions were, in fact, vacant?

Senator JACINTA COLLINS—Yes, that is right.

Senator Hill—They are two separate questions.

Senator JACINTA COLLINS—My understanding is that there is a specific line within the contract for key personnel positions. There is a period during which the team leader position was vacant for five months. There was a vacancy in the service delivery manager position for about four months and my question is whether you were invoiced for those positions, which were not filled.

Senator Hill—We will get an answer on that. It is two different issues; were we invoiced and did we have any reason to believe the positions were unfilled.

Senator JACINTA COLLINS—Yes. We will leave it at that at this point. Did the department of defence management request or direct SSL Assets Services to employ additional resources to cover the additional equipment maintenance requirements under this contract at any stage?

Senator Hill—We will see if we can get an answer to that.

Senator JACINTA COLLINS—There is one other issue that I would like some explanation on in regard to practices dealing with subcontractors in this area, and that is the Commonwealth taking responsibility for indemnity of contractors.

Senator Hill—Indemnity for what?

Senator JACINTA COLLINS—Indemnity in terms of their work. It falls into the broader issue of the problem that occurred at HMAS *Cerberus*, which was poor workmanship not being pursued by the Commonwealth—we partly discussed this on Monday—and the Commonwealth simply paying for the job to be done again rather than going back to the original contract in terms of performance of that work.

Senator Hill—I still do not understand the question. Are you asking: did Defence agree to indemnify the contractor against poor workmanship? That does not make any sense to me.

Senator JACINTA COLLINS—I have a Defence document here discussing the ‘granting of indemnities to contractors providing professional service providers who will be registered as Defence Company ScoreCard system users’. I am interested in why Defence would be looking at indemnifying contractors essentially to the same level as an employee would be covered in relation to their work.

Senator Hill—I see. Are you speaking in general terms or are you again relating it to a particular contract?

Senator JACINTA COLLINS—It is obvious from the document I have of 21 December 2001 that this has been an issue of a policy nature addressed within Defence. What I am not clear about is whether this is a broader issue across the public sector possibly?

Senator Hill—Dr Hawke might be able to answer that.

Dr Hawke—I cannot answer it, but we will take it on notice. Do you have a reference for that document, Senator?

Senator Hill—Have we agreed in some circumstances to treat contractors as employees?

Dr Hawke—I think the distinction here might be professional service providers rather than contractors.

Senator JACINTA COLLINS—It may be. It is signed by J.T. Fitzgerald, Director-General Contracting Policy and Operations. It is dated 21 December 2001.

Dr Hawke—We can track it from there. It is in the Defence Materiel Organisation.

Senator JACINTA COLLINS—It also, though, refers to:

... legal advice received from the Australian Government Solicitor (AGS) and Clayton Utz, has considered the potential for a contractor to be exposed to legal liability where it provides a PSP to the Commonwealth under a contract and the PSP will be a Defence Company ScoreCard system user.

Dr Hawke—We will get you an answer.

Senator JACINTA COLLINS—What precisely is a PSP?

Dr Hawke—It is a professional service provider.

Senator JACINTA COLLINS—Does it limit the type of work we are talking about?

Dr Hawke—I do not know. Fitzgerald will be here for the DMO part of the meeting so we will get him across to answer that.

Senator JACINTA COLLINS—Okay. You obviously need to do this on notice, but what I am concerned about—and if possible I would like to see it—is the advice from AGS and Clayton Utz suggesting that it is necessary to provide indemnity of this character, and the rationale for it.

Senator Hill—If that is legal advice to us assisting us in the interpretation of our contracts then I will consider making it available but it would not be a usual practice. On the other hand, it would be a usual practice for us to provide it to the Auditor-General if that is what he wanted.

Senator JACINTA COLLINS—Yes, and in part this is a broader issue to the Auditor-General's issue. The *Cerberus* issue is this, in part: work has been done, it has been of poor quality—roofs have flown off buildings et cetera—and the original contractor has not been pursued in relation to that. The job has just been done again and paid for again.

Senator Hill—Yes.

Senator JACINTA COLLINS—I am trying to understand why the Commonwealth would be looking at indemnifying contractors and, in a sense, possibly making it even more difficult for the Commonwealth to pursue—

Senator Hill—Yes. And you are suggesting that in some circumstances Defence has agreed to indemnify contractors.

Senator JACINTA COLLINS—It looks as though there has at least been a policy consideration of doing that. I do not know if it has been acted on.

Senator Hill—No. What is a policy consideration is really irrelevant. What you want to know is whether there is any contractual limitation on the Commonwealth recovering and, beyond that, whether there is an existing policy that in some circumstances they do not recover and, if so, what are the limits of that policy.

Senator JACINTA COLLINS—Yes. And, if so, what is the rationale for those limits?

Senator Hill—Yes, I can get that for you.

Senator JACINTA COLLINS—And back further than that, what is the rationale to seek to indemnify contractors to the same extent one would indemnify employees?

Senator Hill—That is another way of saying the same thing.

Senator JACINTA COLLINS—No, because there are quite probably other indemnities in the contracts as well. This is one of a particular nature.

Senator Hill—I think it is the same question.

Senator JACINTA COLLINS—Okay. I think I might leave these issues here for now.

Senator Hill—Okay.

Senator JACINTA COLLINS—Am I to expect two inspector-general reports?

Senator Hill—There are apparently two and I will have a look at them and decide whether I can put them on the public record.

Senator JACINTA COLLINS—I will finish on that, thanks.

Dr Hawke—Mr Acting Chair, with your indulgence we could ask Rear Admiral Shalders to add something to what he said earlier.

ACTING CHAIR—Certainly.

Rear Adm. Shalders—I have the answers to some questions that were previously raised. Firstly, in relation to a question asked by Senator Schacht on the physical employment standards project, I indicated that the tender was released on 31 January. In fact, that tender was released on 24 April. I also indicated that the study will take six months; that six months

is in fact for the first part of the review, which is to look at the infantry category. Depending on how quickly that particular part of the study goes, subsequent combat categories will be reviewed, hopefully in a shorter timeframe.

Secondly, on Monday I was asked the cost of the Reserve's advertising campaign. This is the campaign that was launched on 25 May. The cost for the current financial year is \$2.2 million. For the next financial year it is currently budgeted at \$2 million.

Senator CHRIS EVANS—Between April and the end of June you are going to spend \$2 million?

Rear Adm. Shalders—A lot of that is related to developing the campaign: the research that goes into the campaign and the product development. There is quite an up-front cost. The media placement for the campaign will obviously be a lot less than the \$2.2 million that I mentioned.

Senator CHRIS EVANS—I take it that the total budget for the campaign is \$4.2 million?

Rear Adm. Shalders—We are currently allocated for another \$2 million next financial year, but those allocations have not been made yet. While that is our budget we may well have to cut our cloth—cut our campaign to suit the allocation.

Senator CHRIS EVANS—The \$2 million is for the year 2002-03. Is that right?

Rear Adm. Shalders—That is the current budget projection.

Senator CHRIS EVANS—You are spending \$2.2 this financial year, 2001-02, and you have budgeted for a further \$2 million next financial year?

Rear Adm. Shalders—That is correct.

Senator CHRIS EVANS—Why would you have to cut your cloth? Because of the reduction in the overall advertising budget?

Rear Adm. Shalders—Yes.

Senator CHRIS EVANS—What is the overall advertising budget for next year?

Senator Hill—It is about \$25 million.

Rear Adm. Shalders—That is correct, Minister. We bid for \$35 million but as you would have seen in the budget papers we have taken a cut of \$10 million.

Senator CHRIS EVANS—There was some confusion about this earlier in the week.

Senator Hill—The only surprise is to find that the cut that the government had previously determined had not been implemented.

Senator CHRIS EVANS—I went back and had a look at the additional estimates, Senator Hill, and there was nothing in the additional estimates about a cut.

Senator Hill—You needed to read between the lines. It may not have been specified in the documentation.

Rear Adm. Shalders—I have another response to a question that was raised earlier in the week. In terms of media and advertising contracts, Senator Hogg asked me who the principal contractors were. We have three-year contracts which commenced in August 2000. Our advertising agency is Young and Rubicam Mattingly and the media buyer is Mitchell and Partners Australia Pty Ltd. I draw the committee's attention to the Defence annual report which lists all advertising and media purchase arrangements across Defence. In the last annual

report there is a table on pages 299-300 which goes into extensive details on media and advertising placement.

Senator HOGG—It is extensive in the sense that it lists all of the various contracts, which I think is very healthy, but it is very difficult to understand what the individual contracts are for. Whilst I did not pursue that at the additional estimates, let me ensure you that next time round in the supplementary estimates I will be pursuing that issue.

Rear Adm. Shalders—We will be prepared for that, Senator.

Senator HOGG—I am sure you will.

Rear Adm. Shalders—I have two more answers. The next subject was family support programs. Senator Hogg asked some questions. Has the amount allocated to that program changed over the last five years? Broadly speaking, no, it has not. In 1997-98 the amount allocated was \$1.3 million, which continued the next year. Since the 1999-2000 financial year, the amount allocated has been \$1.25 million. A second part of the question was: how many people apply for the grants and how many are approved? The figures were: starting from 1997-98, 287 applications and 261 approved; for the next year, 280 applications and 243 approved; for the next year, 1999-2000, 243 applications and 228 approved; for 2000-01, 218 applications and 169 approved; and, for the current financial year, 201 applications and 128 approved. The next part of the question was: does demand exceed allocation? Yes, it does. A number of applications are normally rejected as they do not meet the requirements or the funding guidelines. The amounts of those applications rejected are: again starting from 1997-98, \$500,000; for the next year, \$400,000; for the next year, \$400,000; for 2000-01, just over \$1 million rejected; and, for the current financial year, \$962,000 was not able to be allocated.

Senator HOGG—When you say ‘rejected’, are you implying that they would have fallen within the guidelines but there were insufficient funds to finance them?

Rear Adm. Shalders—A little bit of both. Many do not fall within the guidelines and are therefore not proceeded with and in some cases the funds allocated are insufficient to meet all the bids.

Senator HOGG—The purpose of the question was merely to find out if there needed to be some additional funding. It is not a monumental amount, and it seems to me to be a reasonable cause for government to consider in years to come. I am not asking you to do that, of course. That is obviously a matter for the government. But I just wanted to get a feel for how many of those projects were being rejected because there were insufficient funds and the magnitude of additional funding that would be necessary if most of the funds were to be granted some sort of allocation in any one year.

Rear Adm. Shalders—I am sorry, Senator: was there a question there?

Senator HOGG—No. I was just making a statement.

Rear Adm. Shalders—I have one other answer. This relates to the Defence family financial emergency fund. Senator West asked some questions about that. This fund is currently allocated \$100,000. Since this particular program has been in existence, which is only a short time, we have only had two applications for loans. Those two individuals were granted \$1,000 each. The loans are interest free and repaid over a 12-month period. I believe that answers the questions that Senator West put on that subject.

[11.34 a.m.]

ACTING CHAIR—We move on to output 5, Strategic policy.

Senator CHRIS EVANS—I will start by asking about the annual review of Australia's strategic environment, which I gather did not take place annually because we did not do it the first time but has been given some prominence on this occasion.

Senator Hill—It is going to be an annual review but it is starting this year.

Senator CHRIS EVANS—So we jumped a year; does that make it biannual? I just want to get a sense of the time frame and the process, and whether it will be similar to the white paper process or more restricted.

Senator Hill—More restricted is the answer.

Dr Brabin-Smith—The strategic review will be less ambitious in its scope than the white paper in that it is a reading of the strategic entrails on how matters have moved on since the development of the white paper about two years ago. It will be done in a time scale to help inform decisions on the level of defence funding and the nature of allocation within the funding envelope. This will be a matter for ministers, but I would expect the work to be finished in the final quarter of the year. Given that this is a strategic review and not a white paper, basically we will not have a process for public consultation as such. Again it would be a matter for ministers, but I for one would be surprised if there were not some statement by the government as a consequence of the strategic review.

Senator CHRIS EVANS—Will there be any provision for public input in the way the white paper had, or for people to submit views?

Dr Brabin-Smith—No.

Senator CHRIS EVANS—What is the relationship between the strategic review and the capability plan?

Dr Brabin-Smith—The capability plan will be reviewed in the context of the observations on our strategic circumstances that the strategic review will deliver. There will be other factors, of course. I think the white paper contains a paragraph which refers to how changes in judgments on what is or is not cost effective will be reflected in the annual update of the defence capability plan. So there are several factors that will come to bear on the annual update of the defence capability plan.

Senator CHRIS EVANS—As a result we would see an update of the capability plan and that would become public as well, would it?

Dr Brabin-Smith—Again, it is a matter for ministers. There will be a classified version of the defence capability plan and I imagine there would be a declassified update as well.

Senator CHRIS EVANS—Part of the whole point of the capability plan was for industry planning and for—

Dr Brabin-Smith—Yes. I would be surprised if there were not. The custom of putting into the public sphere a version of what is now the capability plan goes back many years, so I would expect that to continue.

Senator CHRIS EVANS—Could someone flesh out for me the section in the budget papers which refers to Defence seeking to maintain access to United States military technology and intelligence in coming years and in particular the sentence:

As part of this engagement, Defence will progress a top-down strategic review of interoperability between the ADF and United States forces.

Could someone flesh that out as to what that means and how that will be progressed?

Adm. Barrie—At this stage we are, in conjunction with the United States, taking a look at our overall interoperability as we might operate a coalition. It flows out of a tasking that was given to us at the most recent Australian-US ministerial talks. We have a process of reporting back to those talks.

Senator CHRIS EVANS—It is a scoping study, is it?

Adm. Barrie—No, it is not a scoping study in the sense that it is simply going to confine itself to being a scope for work to be done; it is really looking at ways in which we might further enhance the way we operate in coalition with the United States.

Senator Hill—I think it is in part a recognition that there seems to be a greater trend than in the past toward a need for coalition operations, and such very basic issues as effective communication between coalition partners become critically important. Therefore, it is worth while to look at these issues in advance. I would not read any more into it than that.

Senator CHRIS EVANS—Do you mean things like language training?

Senator Hill—I have asked both sides on occasion if they can understand each other.

Senator CHRIS EVANS—I am just trying to understand what that means. I assume, given the ANZUS alliance and our traditional relationship with the United States, that that has always been a factor in what we do?

Adm. Barrie—I will go to the reason why it came on the agenda. When Australia led the coalition in East Timor, the United States for the first time was placed in the position of being a minor player in a coalition led by another country. That is quite exceptional in United States history. For that reason, there were quite a number of lessons learnt. The reality is they experienced a coalition in the way we normally experience a coalition. The consideration that led to the agenda at the last ministerial round was simply the realisation that there are probably ways in which our two countries can further strengthen the alliance if we look at the way we manage coalitions in the future. That is really what it is about.

Senator CHRIS EVANS—So this is more about the management of coalitions rather than things like acquisition policy?

Adm. Barrie—There are parts of that associated with it, but I would say the primary focus of our concern is how our two countries work together in military operations.

Senator CHRIS EVANS—Rather than looking at things like acquisition and technology?

Adm. Barrie—Yes.

Senator CHRIS EVANS—Thank you for that.

Senator HOGG—I have a quick question on the defence cooperation side. I understood that when India and Pakistan conducted their nuclear test programs a couple of years ago, we withdrew our military attaches in both countries.

Dr Brabin-Smith—Yes.

Senator HOGG—Did we ever return those military attaches to those countries?

Dr Brabin-Smith—Yes. I forget the precise dates. The chap went back into India last year, I think.

Senator HOGG—It was mentioned in last year's PBS.

Dr Brabin-Smith—He went back in January last year. The one into Pakistan went back more slowly because of reservations about the political structure and the overthrow of the civilian government in Pakistan. Our government took the view that, in light of Pakistan's central role in the war against terrorism, it would be appropriate to put a defence attache back into Islamabad.

Senator HOGG—Are they both still there in their respective countries?

Dr Brabin-Smith—Yes.

Senator CHRIS EVANS—I would like to ask about the memorandum of understanding with Indonesia. I have seen reports about increasing our intelligence exchange, and the minister referred to the possibility of assisting with some counter-terrorism training. I would like to get an update on the development of that. I gather the MOU was fairly broad; we discussed it at the last estimates. What is happening under the terms of that MOU?

Dr Brabin-Smith—Minister Hill was in Indonesia more recently than I. I do not know whether he would like to answer that or whether Dr Hawke would like to.

Senator Hill—No, you can have a go.

Dr Brabin-Smith—We are still very much feeling our way at this stage. I will ask Ms Rowling to talk about her contact with her Indonesian counterpart in a minute. We are feeling our way. There is a fair degree of good intent on both sides, but I do not think we are going to see rapid progress in the relationship. We certainly have common cause not only in the general proposition of the security of our region but, as the MOU clearly symbolises, in the countering of international terrorism. There continues to be contact, and perhaps Mr Bonington will cover this in a few minutes, between the Defence Intelligence Organisation and their Indonesian counterpart and, I believe, between the Office of National Assessments and their Indonesian counterpart, so there is a whole-of-government approach. As we sit here this morning, there is still—and you can appreciate this—a degree of ambiguity or uncertainty about the precise nature of what international terrorism is in our region. Perhaps I can get Ms Rowling to talk about her discussions with General Sudradjat.

Ms Rowling—Following the minister's visit to Indonesia, I visited Indonesia for a meeting with my opposite number in TNI headquarters. We looked at initiatives that we might both jointly support and take forward in continuing to develop the defence relationship and bearing in mind the MOU on counter-terrorism as well. As a result of that meeting, we focused on taking forward initiatives such as junior officer training in both countries; Indonesian cadets coming to Australia for training, for short-term attachments or for visits; and service-to-service meetings and more visits. We identified a number of areas that we both wanted to progress. We also talked about maritime surveillance cooperation, and that will be another area in which we will have further discussions on how best to progress that.

Dr Hawke—You recall that when the Prime Minister met the President of Indonesia there was a memorandum of understanding about cooperation on terrorism. That was the precursor to the minister's visit to Indonesia and consideration by the government announced by the minister that we would be restoring our ties to the Indonesian military in a slow and step by step fashion. These issues have flowed out of that, and the minister mentioned this issue when he was at the International Institute of Strategic Studies defence ministers meeting in Singapore over the last week or so, including the important part that the Indonesian TNI plays in domestic stability.

Senator CHRIS EVANS—Ms Rowling, you mentioned junior officer exchanges and training, service to service visits and maritime surveillance. What is happening in the counter-terrorism area? The minister was quoted as talking about the possibility of assisting with some counter-terrorism training. What is envisaged there?

Senator Hill—Ms Rowling might want to add to this, but as far as I am concerned it has not really developed into any detail as yet. It is a matter of feeling our way. Both sides have said that we need to be comfortable with what is being proposed, but both sides have an interest in Indonesia having an effective counter-terrorism capability. There is always the potential of course—and I hope it does not happen—that some Australians might be caught up in hijacking or in some other event in Indonesia. We certainly have a real interest in Indonesia being able to capably respond to that. I think we have good doctrine and good practice in that regard. Certainly, we have assisted other countries in the development of their counter-terrorism capabilities. It might be that in the future we can offer some assistance to Indonesia in that regard.

Senator CHRIS EVANS—That is not what the Prime Minister said at the time, unless he was misquoted. In my reading of the press reports, he ruled out Australian involvement in counter-terrorism exchange activity with Indonesia. Has there been a change in policy?

Senator Hill—I would be very surprised if there were something inconsistent between what I am saying and what he said.

Senator CHRIS EVANS—I am trying to be clear about what we are now saying. He was quoted as saying in February, I think:

... we are not talking about an acceleration of military links. We are not talking about Australians getting involved in domestic matters going to the unity of Indonesia.

In particular, he ruled out relations with Kopassus. Some of that is a direct quote; some of it is interpretation. I am not arguing the case about what he said. I am keen to get an understanding of where we are now. Are we saying that we are re-engaging with organisations like Kopassus?

Senator Hill—No. We do not have any active engagement with Kopassus.

Dr Brabin-Smith—To add a point, in Indonesia, as in Australia, the first port of call in dealing with terrorism is the police force. This raises issues of coordination between police forces and defence forces. As you know, in Australia *in extremis* we have our own special forces who would come in and support the police. I believe it is the same in Indonesia. One of the matters which I believe we have discussed with them is our general arrangement for the coordination of protection against violence—the Standing Advisory Committee on Commonwealth-State Cooperation for Protection Against Violence, or SAC-PAV. There are a few things that we can talk about which would be helpful. This is considerably short of getting back into full-scale training with Kopassus.

Senator Hill—There is a lot of scope in what might be described as the nonlethal side of counter-terrorism where I think we could be of assistance to Indonesia.

Senator CHRIS EVANS—Do you mean from the Defence Force side or more generally, with the police et cetera?

Senator Hill—Our primary capability is a defence capability but, as has just been said, in response to a terrorist action there are a range of different agencies that have a role to play, such as the police, ambulances, emergency services and so forth. We have quite well

developed doctrine. We have experience of preparing for the Olympics and preparing for CHOGM. I do not think Indonesia is as well advanced in the command and control of such situations. It could be a good instance where we could offer some assistance. It has not got to that stage yet, but that strikes me as a sensible sort of thing to look at. I know of other instances where we have supported regional states, in our facilities in Australia, in improving their counter-terrorism capabilities. There may be some scope for that in future with Indonesia.

Senator CHRIS EVANS—Has any of this gone beyond the discussion of plans? What is currently happening under the MOU, other than discussions between officers?

Dr Brabin-Smith—My view is that we are still at the talking stage.

Dr Hawke—Ms Rowling's visit to Indonesia was only quite recent I think to follow up on this.

Ms Rowling—Yes, just two weeks ago.

Senator CHRIS EVANS—We are likely to see the first manifestation of that agreement to be things like service to service visits and training of each other's military officers?

Dr Hawke—That will be the first stage in the process. I think that the Indonesians are giving further consideration to it and will probably send one of their people down here in the next couple of months to discuss future practical and pragmatic arrangements.

Senator Hill—The exchanges of service personnel are at the relatively easy end of the spectrum. We have had some preliminary discussions with them about maybe some time in the future participating in a joint maritime surveillance exercise. The memorandum, which is not very old, sets out a number of principles and a number of objectives, and what we are now seeking to do at the level of the departments and services is to work out how we can most effectively put it into practice.

Senator CHRIS EVANS—I know we have a role with the East Timorese military in the training and development of their armed forces. Are they being briefed on development of some of the MOU as part of that? I assume there are some sensitivities there.

Senator Hill—They seem to be developing a very positive relationship with Indonesia. There are some processes taking place that will enable the three countries to work on ideas together. The matters that we are talking about would be regarded positively by the new administration in East Timor.

Senator CHRIS EVANS—We had a discussion the other day about the \$20 million for the Papua New Guinea Defence Force. Senator Faulkner followed that through. He was interested in the decision-making process that led to it. I am interested in what has happened to the money.

Dr Hawke—I think I did answer some questions from Senator Faulkner on exactly where we were at in terms of the payout and that these arrangements are being run through Deloitte to ensure that they are consistent with the intent of the arrangement. I have not got those figures with me today, but I am absolutely sure I read them into the record the other day.

Senator CHRIS EVANS—You must forgive me, Dr Hawke. Sometimes when Senator Faulkner is examiner-in-chief I tend not to pay as much attention as I should.

Dr Hawke—We will see if we can locate them in the *Hansard*.

Senator CHRIS EVANS—That goes to the question what has been paid out, by whom and to whom.

Dr Hawke—Yes.

Senator Hill—As I understand it, the money was transferred to an account administered by Deloitte. Deloitte has guidance on what payments can be made—in other words, ensures that any draw-down is consistent with the agreement reached between the two states. We can give you figures. My vague memory is that about 85 per cent of the first \$20 million has been drawn down.

Senator CHRIS EVANS—Of the first \$20 million?

Senator Hill—Of the \$20 million. The issue is whether there will be further money with another tranche in the future, but no other money has been transferred.

Senator CHRIS EVANS—Has there been a commitment from us to fund more than the initial \$20 million?

Dr Hawke—Yes, there has. I have to confirm this for you, because I am not sure whether it was \$A8 million or eight million kina, which would be about half of that—\$A4 million. I am not sure that we have concluded that agreement yet. That followed a further meeting between Mr Moore-Wilton and Mr Igara, at which I was present, a few weeks ago.

Senator CHRIS EVANS—I will not ask what time the meeting finished.

Dr Hawke—Before lunch, as I recall.

Senator Hill—According to this note, over 80 per cent of the \$20 million has been expended. For what it is worth, progress made was redundancy and repatriation of about 580 members of the PNG Defence Force.

Senator CHRIS EVANS—We made a decision to contribute a further \$8 million or eight million kina—

Dr Hawke—I will take that one on notice and get you a precise answer to the question.

Senator CHRIS EVANS—Yes, as to the currency. When was that decision taken?

Dr Hawke—I will get you the details of that too. It was just a few weeks ago. We reviewed where we were at and made a further decision on that.

Senator CHRIS EVANS—Is that with the expectation that that would be the last?

Dr Hawke—No, that may not be the last. The government would have to consider that. It may be a partial payment against a second tranche of money. But there is no government decision to do that at this stage.

Senator CHRIS EVANS—So we have two confirmed government decisions, one of \$20 million and one of—

Dr Hawke—A further sum of money. I will confirm it.

Senator CHRIS EVANS—Is that money, second tranche, set against some benchmarks from the first?

Dr Hawke—Yes. It has been made absolutely crystal clear to the PNG side that, if they do not deliver against the targets on the first tranche, they can probably forget about getting any further money to this end.

Senator CHRIS EVANS—As I understood it, we were not meeting the whole sum; there was supposed to be some contribution by the Papua New Guinea government as well. Is that right?

Dr Hawke—That is correct. On page 36 of the *Hansard* of Monday, 3 June, in response to these questions, I said, as the minister just did:

Of the \$20 million, 80 per cent was to go towards redundancies and 20 per cent towards what were called reform stoppers and morale issues. This involved paying some old allowances, fixing up some of the barracks accommodation and some repairs to aircraft and ships. As of 31 May, some \$17 million of the \$20 million has been spent and about 15 per cent of that has been spent on the reform stoppers; the rest has been spent on redundancies.

Senator CHRIS EVANS—Thank you for that. I am sorry, I missed that at the time. There is now a decision for another tranche, and that will also be against a target of numbers to be retrenched effectively.

Dr Hawke—Yes, I will be able to confirm for you what the numbers are that are involved.

Senator CHRIS EVANS—Does this agreement include some provision to construct armoury bunkers?

Dr Hawke—That is a separate issue under the Defence Cooperation Program. Ms Rowling will be able to tell us where that is at.

Ms Rowling—We have completed construction of three armouries in Port Moresby, and we are looking in the next financial year to do some more work on armouries probably in northern bases.

Senator CHRIS EVANS—Are we funding and doing the construction ourselves?

Ms Rowling—We are certainly funding them. I am not certain, but I think it may be built under contract.

Senator CHRIS EVANS—Are we commissioning the work or is the Papua New Guinea government commissioning the work?

Ms Rowling—It is a joint decision as part of our Defence Cooperation Program—that this is something that would be valuable.

Senator CHRIS EVANS—So jointly we commission for armoury bunkers to be built—

Ms Rowling—We would do that under the Defence Cooperation Program.

Senator CHRIS EVANS—But we are paying for it, effectively, are we?

Ms Rowling—Yes, out of the Defence budget.

Senator CHRIS EVANS—What is the budget for that?

Ms Rowling—I will have to get back to you with the exact figures, but I have a recollection of about \$3 million for the work we have done to date in Port Moresby. I will check that and get back to you.

Senator CHRIS EVANS—Could you also get me the figures for what is anticipated next year as well?

Ms Rowling—I will do that.

Senator CHRIS EVANS—Thank you. Out of which bucket of money is that funded?

Ms Rowling—It is \$10 million for cooperation with PNG out of the defence cooperation fund.

Dr Brabin-Smith—It is on page 53 of the yellow PBS book.

Senator CHRIS EVANS—Thank you for that.

Dr Brabin-Smith—Mr Acting Chair, perhaps I could respond to the question that we took on notice yesterday from Senator Evans on the Solomon Islands.

Senator CHRIS EVANS—We were going to do that with Foreign Affairs, but you have got the information there?

Dr Brabin-Smith—We can provide some information on the Defence part of this. On 14 February this year, 2002, ministers approved a plan put together by DFAT in consultation with others to draw down the international peace monitoring team. The ADF contribution at that stage was four personnel who provided specialist intelligence and security advice to the IPMT. As we speak, the ADF component is just one person, who is attached to the High Commission in Honiara for duty as the liaison officer between the IPMT and Commander Australian Theatre. The current contribution by Australia to the IPMT is 18 people, 14 of whom will leave the Solomon Islands on 25 July and the remaining four IPMT people remain in the Solomon Islands until 9 July to complete logistical and administrative tasks associated with the draw-down of the IPMT.

Senator CHRIS EVANS—When you said 25 July did you mean 25 June?

Dr Brabin-Smith—Did I say July? I meant June. The remaining four folk leave on 9 July and the Headquarters Australian Theatre liaison officer comes out on 25 June.

Senator CHRIS EVANS—That will mean no ADF personnel will remain in the Solomon Islands; is that right?

Dr Brabin-Smith—There will be none associated with the IPMT.

Senator CIS EVANS—There might still be one attached to the embassy?

Dr Brabin-Smith—Yes.

Senator CHRIS EVANS—Thank you.

CHAIR—Thank you, Dr Brabin-Smith. That completes output 5: Strategic policy.

[12.08 p.m.]

CHAIR—We move now to output 6: Intelligence (including Defence Security Authority).

Dr Hawke—Mr Bonighton will address the question that Senator Cooney was asking about the other day.

Senator COONEY—Thank you, Dr Hawke. I am going to ask you about a letter you sent. I ought to declare an interest here. Emma Hunt, who is referred to, is my daughter-in-law, but I hope I am doing it for a public purpose. You have probably answered these questions again and again—I apologise for the repetition. Nevertheless, some issues arise. Dr Hawke, do you have the letter there? If you do not, I have got copies.

Dr Hawke—I do recall the letter.

Senator COONEY—It was a most courteous letter. You attached not all of the report from Mr Blick but an introduction and a summary, and a press release from the Minister for Defence, Senator Hill—may I say the very eminent minister!

Senator Hill—You are very generous, Senator.

Senator COONEY—I want to ask a few questions about the report. You say in your letter that the intercept of something outside the material DSD gathers is something that happens ‘on occasion’. Does that mean it is rare? Is DSD collecting unintentionally a massive quantity of the communications of the citizens of Australia?

Mr Bonighton—DSD is basically a foreign intelligence collector, so our emphasis is on the foreign part of the communications that we are collecting. There are provisions for us in some circumstances to collect the communications of Australians, and that is done when it is a targeting matter. There are very limited circumstances in which we might do that—for instance, the risk to the safety of a person or commission of a serious crime or a threat to security. As well as that, we do from time to time come across the communications of Australians in the course of our normal collection. We call that incidental collection.

Senator COONEY—How much of that goes on?

Mr Bonighton—I could not give you a figure on that, but not a large part of our business would comprise that. The problem is that Australians are everywhere, and even if we are concentrating on the foreign part of our business we are bound to come across them. We do whatever we possibly can to delete those communications from any of our records as soon as we recognise them. If there is any question of them being reported, we do not name or identify those people. In the particular case you have of the three Australians to whom Dr Hawke wrote, at no time were any of those people named.

Senator COONEY—That might be the problem—that you did not name them. You say that you do not name these people, and by using that approach people say, ‘You are not going to name Emma Hunt; there must be something wrong with Emma Hunt.’ I do not know. Both her parents are Australian citizens but born in England. Is that a problem?

Mr Bonighton—Not at all. Our aim is to, wherever possible, protect the privacy of Australian citizens.

Senator COONEY—This was a communication from inside Australia?

Mr Bonighton—Yes.

Senator COONEY—You are gathering those all the time, incidentally.

Mr Bonighton—Correct—it can happen.

Senator COONEY—Is it on a massive scale?

Mr Bonighton—I certainly would not describe it as a massive scale. I do not want to go into the details of our operations, but we are aiming to collect foreign communication intelligence, so we are focusing all the time on that foreign intelligence. Those priorities are set by government. We are not deciding what we should be collecting; we are doing this in accordance with the priorities.

Senator COONEY—Whatever you collect is done at the direction of government?

Mr Bonighton—Yes.

Dr Hawke—The Inspector-General of Intelligence and Security does frequent inspections to ensure that the rules are being obeyed. In this case he found these three cases where we had inadvertently reported—but the individuals were not named in those reports.

Senator COONEY—I understand what you are saying, but in your letter, Dr Hawke, you use the phrase ‘on occasion’. That gave me the impression that this was a fairly rare occurrence; I am getting the impression from Mr Bonighton that it occurs more frequently than the phrase ‘on occasion’ suggests.

Dr Hawke—It is a rare occurrence for there to be any reporting of Australian citizens. That is correct. We collect it, but we do not report it. So, if we find something that involves Australians, we take that out of any subsequent reporting. It would not be in the reporting we make, because DSD is involved with foreign intelligence collection. It does not target Australian citizens in any shape or form.

Senator COONEY—I gather from Mr Bonighton that a whole lot of communications by Australians from within Australia are picked up by DSD incidentally.

Mr Bonighton—That could be the case but, without going into the detail, we are trying to focus on foreign communications.

Senator COONEY—This is the problem and this is what I am going to come to: you are focusing on foreign communications; I am trying to work out how it is that some Australian citizens were picked up within your intelligence operations. I do not think Emma Hunt particularly cares that she was picked up—I do not know about the others—but what I am trying to get from you is whether you are capable of thinking of this from the point of view of Australian citizens inside Australia. That is what I am trying to get from you. How many of those communications do you pick up incidentally? That is what I am trying to get from you. If it is all secure and you cannot tell me, I understand.

Mr Bonighton—It is certainly a difficult issue for us. What we are trying to do, as I say, is to look at the foreign part of the spectrum.

Senator COONEY—But you do pick up a lot of Australian communications?

Mr Bonighton—We do pick up some Australians. The only time we would deliberately do that is where there is a justified reason for doing so. In that case we would seek authorisation for that to happen on an individual basis. It is very rare.

Senator CHRIS EVANS—But Mr Blick’s report found these breaches.

Mr Bonighton—Those are the breaches we are talking about, but I guess the good news from Mr Blick’s report was that the fairly bizarre allegations made in the first place were found to be completely baseless. He did find that we had committed a breach.

Senator COONEY—So you are saying that the MUA has been bizarre?

Mr Bonighton—No, what I am saying is that allegations that we were intercepting the communications of Australian citizens and hawking around to the government for political purposes the transcripts of Australian citizens’ conversations were wrong.

Senator CHRIS EVANS—But Blick’s report did say that you had breached on four or five occasions and that you had then produced reports, using that information which was in breach. Is that not right?

Mr Bonighton—That is what it said. In fact, we were the ones who brought to Mr Blick’s attention the fact that there was more than one report. As soon as he notified us that there was a problem—an ‘apparent breach’ as he described it—we immediately stopped that line of reporting and later drew to his attention that there were three other reports in that same line.

So the thought that there are people in DSD champing at the bit to intercept the communications of Australians is just dead wrong.

Senator COONEY—In your letter, Dr Hawke, what did you mean by the phrase ‘on occasion’? As I said, I gathered from that that this was very limited.

Dr Hawke—It is, and maybe we are not getting that point across. It is very limited.

Senator COONEY—So can I take it from what you say that this occurrence that occurred with PILCH, the organisation for which Emma Hunt worked, was a rare occurrence?

Dr Hawke—Yes, you can. How do you determine rare? Do you determine it as less than one per cent?

Senator COONEY—What do you say?

Dr Hawke—My guess is that it would be less than one per cent.

Mr Bonighton—That is probably a reasonable number. It is a minute part of what DSD does, and we do whatever we can to make sure that records are kept on these occasions, and the inspector-general looks at them.

Senator COONEY—I am not worried about that. What I am interested in is the concept that that is a very rare occurrence and that is an exception.

Senator HOGG—Yes.

Mr Bonighton—That is absolutely correct.

Senator COONEY—Did you turn your mind to the fact that this very exceptional occurrence should have occurred in an incident where the Commonwealth was going to be taken to court? That is the suggestion—that action would be taken against it in respect of asylum seekers coming down from the north. Can you see what I am saying to you?

Dr Hawke—That had no bearing.

Senator COONEY—Dr Hawke, I am just a poor, bumbling senator who is trying to clarify things. You sweep me off my feet. Can I just put this to you. Here is a rare occasion, as you say—it does not happen at all often—and what does it happen in reference to? It happens in reference to a communication—I will give you a copy of it—which is sent off to the *Tampa* by PILCH, the Public Interest Law Clearing House, signed off by Emma Hunt, suggesting that PILCH would give help not only to the asylum seekers but also to the captain of the *Tampa*. That communication is of great interest, you might think, to the government—and if you cavil with that I have a record here of an ABC radio interview with Jon Faine on 23 October 2001. Here is this document, which I am not suggesting for one minute you did give to government but which would be very, very useful to government. Out of all the communications that are going around Australia, one of the very rare ones that is picked up is this communication offering legal help to asylum seekers and to the captain of the ship. There we are. You say to me, ‘That is very, very odd; most unfortunate.’ Out of all these thousands or millions of communications that go around Australia, one of the ones you pick up, one of the rare ones you pick up, happens to be this. Have any explanation for that?

Mr Bonighton—I think we can look back to Mr Blick’s report again, where at one point he describes this as, I think, a new and fast-moving situation. This, for us, was something different and unusual. I think that is why in fact this report was treated in the way it was. It was a new situation.

Senator COONEY—If you look at Mr Blick’s report, it reads:

4. That investigation is now complete and I am able to confirm that the claims are without foundation.
5. I am satisfied that DSD did not target or report communications of the Maritime Union of Australia or the International Transport Federation. Nor did it provide raw intelligence product to the government, or to anyone outside DSD (other than this office). The government could not, therefore, as claimed, have used transcripts ...

I wonder why he used the phrase 'are without foundation'. That sounds to me—I do not know what you think, Mr Bonington—more like an advocate speaking rather than somebody who is making a cool assessment of what went on.

Senator Hill—It is a bit unfair to ask this witness what he believes Mr Blick meant by that.

Senator COONEY—All right. I ask you and Dr Hawke.

Senator Hill—I think it is probably better that you ask Mr Blick.

Senator COONEY—No, it is not. I will tell you why. Because Dr Hawke has adopted this report, and so have you, if I may say with respect.

Senator Hill—Well, you can ask me—

Senator COONEY—Mr Blick has provided a report on the matter. This is what Dr Hawke writes to Ms Hunt.

Senator Hill—Yes.

Senator COONEY—He accepts it. I am asking—

Senator Hill—What do you want us to do? He is a separate statutory authority. He is charged to examine this matter independently, to give public confidence in the agency's work. He has done that and he has reported.

Senator COONEY—No. That is what I—

Senator Hill—And what we are saying is—

Senator COONEY—Of course you do. What I am asking—

Senator Hill—we do not have a quarrel with his findings or his determinations.

Senator COONEY—What I am asking you is: do you fully accept everything he says?

Senator Hill—What do you mean by that?

Senator COONEY—I have set out a scenario—

Senator Hill—I have not done a separate examination of the records.

Senator COONEY—No. But you have accepted a record and so has Dr Hawke.

Senator Hill—I accept that he is a capable, independent and diligent officer. I have no reason other than to believe he would have done a sound job.

Senator COONEY—Dr Hawke, I ask this: did you turn your mind to the question as to whether or not the law had been breached?

Dr Hawke—I accepted Mr Blick's recommendation that I should write to these people apologising for the incidental collection.

Senator COONEY—But you read his report. You said so.

Dr Hawke—I did not say I read his report.

CHAIR—Can I interrupt you for a moment, Senator Cooney. I would very much like you to wrap your questions up by lunchtime, which is 12.30, because after lunch we have to finish Defence.

Senator COONEY—Can I just ask you this, just to see where we are going.

Senator Hill—Yes.

Senator COONEY—What did you do in assessing the situation about the provisions of section 12A of the Intelligence Service Act?

Senator Hill—Are you asking me?

Senator COONEY—I am asking whoever wants to answer it.

Senator Hill—Mr Blick in his examination raised the issue, the possibility which I understand had not been considered, that a particular course of action was in breach of that section. As I understand it, no-one had previously suggested that. As a result, as Mr Blick said, the legal issues are being further pursued and a determination will be made as to whether changes need to be made either to legislation or to the practice adopted by the agency.

Senator COONEY—What 12A says, Minister, is:

Both the Director—

that is the director of DSD—

and the Director-General must take ... reasonable steps to ensure that:

... ..

... nothing is done that might lend colour to any suggestion that his or her agency is concerned ...

We have just been through a proposition which would certainly lend colour to any suggestion. If you cavil with that I will give you a copy, a potted copy I might say, of a statement by Julian Burnside QC—very eminent, may I say—where he says there are rule problems about what was done here. That is one thing I ask you about. The next thing is: what regard was had to section 7 of the Telecommunications (Interceptions) Act? This was unlawful. This was a wrong intercept. I cannot see where it is protected. You might be able to point out where the legislation protects this, from section 7.1 of the Telecommunications (Interceptions) Act.

Senator Hill—I am not sure whether we are discussing the methodology adopted in the interception or whether we are—

Senator COONEY—No. The intercept itself.

Senator Hill—In terms of the target?

Senator COONEY—What is that?

Senator Hill—In terms of the targeting?

Senator COONEY—But there is no justification for intercepting, under any legislation I can see, material that is not within the provisions of the act. This is outside the provisions of all the legislation.

Senator Hill—With respect, I do not think that is correct.

Senator COONEY—Well, let us have a look at it.

Senator Hill—Yes. You are talking about the intelligence legislation?

Senator COONEY—Yes, plus the Telecommunications (Interception) Act.

Senator Hill—The legislation sets out the objectives. It sets out the powers. It sets out restrictions.

Senator COONEY—Let us go through that. Let us go through it, since you ask it.

Senator Hill—I thought you were quarrelling about the method of interception.

Senator COONEY—There was an intercept—which is agreed upon. What I am asking about is the reaction of government to that. I am suggesting that that reaction is unsatisfactory for a variety of reasons. What you say is, ‘Well, that intercept is all right because we had Mr Blick look at it; whatever Mr Blick says I am going to accept,’ and you are suggesting, I think, so should everybody else—so should the Senate committee accept it. I ask you: why should this Senate committee accept what Mr Blick has to say without examining it?

Senator Hill—The Senate committee does not have to accept anything. The position of the government is that the decision by the agency to seek foreign intelligence that was relevant to issues of a breach of Australian borders is within its area of responsibility. It has to then do it in accordance with the more explicit guidance of the legislation.

Senator COONEY—And it is this committee that has to see whether there was any error in the way that was done.

Senator Hill—That is fine. There was an error in the reporting. Matters were reported that should not have been reported. There is a legal issue in relation to the methodology of the interception that is still being worked upon. We do concede some points, but if Senator Cooney is suggesting that the target in the first instance was invalid then that is certainly not the view of the government. It might be the view of this committee; I do not know. It is not the view of Mr Blick either.

Senator COONEY—I will clarify what I am saying for you, because I do not think you follow what I am saying.

Senator Hill—That would be my mistake.

Senator COONEY—No, it would be my mistake. It would be my inability to put it. What I am saying is this: DSD, in going about its necessary duties in the collection of intelligence to protect Australia from people who might want to disadvantage this place, collects intelligence. In going about that task, it might pick up material from Australian citizens, and you might expect that would happen. Nevertheless, the underlying principle—

Senator Hill—It has been conceded that that can inadvertently occur.

Senator COONEY—Section 7 of the Telecommunications (Interception) Act 1979 puts the position that we want to live under, if we can. It states:

A person shall not:

- (a) intercept;
- (b) authorise, suffer or permit another person to intercept; or
- (c) do any act or thing that will enable him or another person to intercept; a communication passing over a telecommunications system

That is the position.

Senator Hill—That sets rules for domestic Australia, doesn't it?

Senator COONEY—Of course it does.

Senator Hill—Domestic Australia is not our business.

Senator COONEY—I know, but you did interfere with a communication that originated domestically to take on a matter that would be held in the domestic courts.

Senator Hill—No. In an attempt to seek foreign intelligence, there was one of these inadvertent—

Senator COONEY—But that is what happened. You are saying that somehow—

Senator Hill—That is not the breach. The breach was in the reporting.

Senator COONEY—Every time I want to raise an issue about an Australian citizen's right to go about it, you say, 'This is immaterial, because what we were doing was a mistake, bad luck, and what we were really after was overseas intelligence.' That is fair enough if your position is, 'We really don't worry about what we pick up in the vacuum—'

Senator Hill—You are putting words into my mouth. I did not say that at all.

Senator COONEY—I am not sure what you are saying.

Senator Hill—We are concerned that we fulfil our responsibility within the guidance of our legislation. We are in the business of foreign intelligence, and we acknowledge that, in doing so, on occasions you might inadvertently make contact with an Australian. If you do so, firstly, you get rid of it, but you must not report it—that is absolutely clear—and that was the mistake that occurred in this instance.

Senator COONEY—What the government is saying—and we will have to cop it I suppose—is, 'Mr Blick did this, we will give an explanation and do not test that explanation because we know we are right and just because—'

Senator Hill—I am not saying that at all.

Senator COONEY—Yes, you are.

Senator Hill—You can argue the policy.

Senator COONEY—I am arguing that.

Senator Hill—I must say that we are pursuing the same policy in relation to foreign collection that previous governments have pursued—there has been no change at all. But you can argue that policy.

Senator COONEY—Why when I ask what you did about communications from an Australian citizen being intercepted do you then go into talking about policy? That is not a policy. I am simply asking: how did that happen and what are you doing about it?

Senator Hill—That is okay, you can ask: how did it happen and what are you doing about it? I thought that had been answered.

Senator COONEY—I feel I am criticising what has been done about it. Every time I raise any question of criticism you then introduce what great things this body is doing. I have no doubt about that. You say, 'This is government policy.' With respect, you want to do everything but answer that question.

Senator Hill—What is the specific question?

Senator COONEY—My specific question is: what reliance if any did you place in formulating your press release, Minister, and your letter, Dr Hawke, on the report from Mr Blick?

Senator Hill—Do you want to go first?

Senator COONEY—Before you answer, just to give you warning, then I am going to say that you clearly should not have done that.

Dr Hawke—Mr Blick recommended that I write to the people concerned apologising for the inadvertent collection, and I did so. If I could just make one other point, neither the individual nor the company were actually mentioned.

Senator Hill—What did I do? I read the report. I had the extra privilege of reading it before it became public. I also had the opportunity to discuss it with Mr Blick because he has an obligation to discuss it with me. I had more opportunity than most to go through it in effect paragraph by paragraph. I wrote my own press release.

Senator COONEY—It is a good press release. I am not concerned about the press release.

Senator Hill—I stood out in front of the media and copped it.

Senator COONEY—I have nothing but admiration for the letter and for the press release. All I want to do is to ask something about what you were discussing, which is this report, but that is one thing you will not do. You have all the capabilities for doing that.

Senator Hill—I think the question you should be asking of the officer is: how can you better ensure that there will not be inadvertent interception of Australians?

Senator COONEY—That is exactly what you do want me to ask. You do not want any sort of questioning about how this vital information became part of a court case of some importance to lots of Australians. If you believe in the rule of law, which I do not necessarily require you to do, and Dr Hawke were to—and I presume he does—then you would be somewhat concerned. Do you remember the famous flight over Tasmania to gather intelligence? This is consistent with that. What you are saying is that that was never done. There is a colour to that proposition and the act says you have to look at the colour. You have not addressed that issue. I suggest you look at section 12A over lunch.

Senator Hill—I have read 12A.

Proceedings suspended from 12.39 p.m. to 1.33 p.m.

CHAIR—Dr Hawke, you have some answers.

Dr Hawke—I have some answers to questions that we have taken on notice. In response to a question from Senator Evans relating to the original fuel budget for the F111, it was \$11.7 million, based on a rate of effort of 3,600 hours. Based on a revised rate of effort of 2,700 hours and lower fuel prices experienced during the year, actual achievement will be about \$8 million. Senator Evans also asked the Chief of Army yesterday how many 155-millimetre artillery rounds had been used in training in the current financial year. During the period 1 July 2001 to 1 April 2002, 886 rounds of 155-millimetre artillery have been fired.

In relation to the points I was making about PNG redundancies, I have had an opportunity to check and we have not yet reached agreement with PNG on the further tranche. There are still discussions going on between us and them about the quantum of that money and precisely what it will provide to us in return. I expect that we may finish that before 30 June, but there is no answer to that question at this stage.

Senator CHRIS EVANS—But the government has given an in-principle agreement to pay more?

Dr Hawke—Yes, to negotiate the agreement. We have not yet completed that agreement and got the final government tick to that.

Senator CHRIS EVANS—Did you clarify whether it was more in the ballpark of \$8 million or eight million kina?

Dr Hawke—This bit of paper here tells me it is around \$A4 million, so I think eight million kina was right. It could be a lesser or greater sum than that, depending on which agreement we reach, but my guess is that it will be around that vicinity. Joe Roach would like to add something.

Mr Roach—Senator Evans, you asked me on Monday morning to confirm that the \$1.123 billion change between 2001-02 and 2002-03 included the capital use charge and the receipts from asset sales.

Senator CHRIS EVANS—Back on Monday morning—Mr Roach, you really are testing me. That seems like years ago.

Mr Roach—I can confirm that that figure is based on figures which include both the capital use charge and the expected receipts from asset sales.

Senator CHRIS EVANS—Thank you.

Dr Hawke—Lastly, Senator West asked the Chief of Army what use had been made of the equity hotlines by females from the Army aviation units. Since the inception of the Army Fair Go hotline on 1 March 2001, Army records show that five calls have been made to the hotline by female soldiers posted to Army aviation units. Two of those calls were from the same caller. That is all we have at this stage.

CHAIR—Senator Cooney, you have one thing you want to say.

Senator COONEY—Dr Hawke, subject to everybody agreeing, I would like to table the communication that was sent from PILCH, in the name of Emma Hunt, to the captain of the *Tampa*, Arne Rinnan. I am doing this to set the scene for suggesting that the legal proceedings that grew out of all this were consistent—I am not saying it did happen—with knowledge being held by the government which would help it. Indeed, I think that matter is conceded by Mr Blick. I will come to that, but I will hand this to you before it is put in to see that everybody is happy for it to be tabled. Dr Hawke, did you want to go on?

Dr Hawke—I am waiting for the document, but we can proceed, Senator.

Senator COONEY—If you look at the introduction and summary which you sent to PILCH, you will see that paragraph 18 states:

Three of the reports contained no information derived from Australian communications that a reader could have put to any practical use. The fourth could, in theory but not in practice—

which is a very interesting phrase—

have given advance notice of legal proceedings to be instituted against the government in an Australian court.

That is consistent with the letter that you can see. The proposition I want to put is this: in this rare case of an intercept which was forwarded, the material contained in it was something which could, as Mr Blick says, give advance notice to the government about proceedings in an Australian court. Mr Blick, for some reason or other, uses the phrase 'in theory but not in practice'. I have the transcript of a radio interview between Jon Faine and the Attorney-General. The Attorney-General rang up about this on 23 October 2001. He was complaining about what people had done with the courts. He said:

They were also seeking to assist the captain of the Tampa who had while outside Australian territorial waters, been instructed by the Government not to enter, to actually do that. So what the applicants were basically doing was from a government perspective, promoting unlawful activity.

I will give you a copy of this. He later says:

Well I think the legal community needs to have a very careful look. The question has to be asked by the government, do we want to encourage people to bring actions in the courts to stop the government dealing with a situation in which it is negotiating for the safe passage of people with two other governments.

I will table this transcript. He further says:

They're not looking at the overall situation where people without clients interfered in what was government action being taken outside Australian territorial waters.

All of that could have been taken straight from that fax. I will table that and have that incorporated as well, if I may. So there is the communication, which was amongst those rare communications which were taken, tapped and then forwarded. You will remember the action which the Victorian Council for Civil Liberties took against the Minister for Immigration and Multicultural Affairs and the one that Eric Vidalis took against the Minister for Immigration and Multicultural Affairs which, in the end, failed; the government won that. You have the concession from Mr Blick on this communication—we presume that is what it is: 'The fourth could, in theory but not in practice, have given advance notice of legal proceedings to be instituted against the government in an Australian court.' That is also consistent with the perception, about which the legislation talks, that this communication was intercepted, for whatever reason, and where government was made aware, if not of it, of the contents of that legislation. I would suggest to you that that is something that would lend colour to a suggestion that this agency—DSD—was concerned to protect the interests of a particular section of the community, namely, the government.

Dr Hawke—Yes.

Senator COONEY—Do you accept all that? Did you get all that, Minister? I was asking questions and you, with your usual brilliance and ability to put me at a disadvantage, were never quite accepting what I was saying. So I thought I would put all that on the record and see whether you agreed with it.

Senator Hill—Obviously we do not, but I understand your argument and I understand where you are coming from. I guess that is what politics is all about: if there were not alternative points of view then we probably would not have as good a system.

Senator COONEY—I do not know what I am saying, but I hope I am not saying that the apology is not sufficient. It would be most ungracious of me if I were to do that. On the other hand, I do not know whether the explanation—including the explanation given by the inspector-general—is sufficient to cover the problems here. There is still obviously concern, which I illustrate by giving you a copy of page 56 of the *Australian Financial Review* of Friday, 17 May 2002 where this is discussed. I say that the system has not yet met the obligations imposed upon it by section 12A of the Intelligence Services Act 2001.

Senator Hill—I am happy to have a look at that. I suspect I have probably read it. If I interpret Senator Cooney correctly, he is not quarrelling with the matters we acknowledge were deficient, nor is he arguing with the additional issue raised as to whether this form of interception is legitimate; it is his view that the initial targeting is inappropriate and beyond what he believes should be the function of an agency such as this. That is a legitimate

argument to put. As I said before, the scope of the agency's work has not changed for a long time. It has been consistently maintained by successive Australian governments, so it is not as if this government is taking it a step further. Nonetheless, Senator Cooney's view is that it is still working beyond what he believes is appropriate. In the end that is a matter of judgment between individuals and political parties. The fact that there are different points of view on these matters is a healthy thing.

Senator COONEY—I am saying this: this having happened and you and Dr Hawke having taken action, the explanation given is not a sufficient explanation to rebut the inference, whether right or wrong, that this material has found its way into the hands of government so that the government could use it for its own advantage and to the disadvantage of the people bringing the *Tampa* case, if I could use that broad expression.

The reason I say that you have not gone into it sufficiently is that, first of all, the inspector-general—and you might differ in your opinion—in a fair reading, was too ready to give weight to the function of advocate rather than to the function of giving a fair assessment of what happened. I say that because of paragraph 4, for example, where he says:

... I am able to confirm that the claims are without foundation.

Then, in paragraph 18, he says:

The fourth could, in theory but not in practice, have given advance notice of legal proceedings to be instituted against the government in an Australian court.

What he is doing throughout his account—and I have only the introduction and summary—is to protect the government situation and the situation of DSD. He has not turned his mind with any sufficiency to section 12A of the Intelligence Services Act, so the perception is still left that intelligence wrongly gathered by DSD was of use—I am not saying the evidence was used—to the government in finding a successful action against Mr Vidalis and against the Victorian Council of Civil Liberties, firstly, before Justice North and, secondly, the appeal before Chief Justice Black, Justice French and Justice Beaumont. There was a two-two split. It might have been successful but for the information that was obtained as a result of, whether by derivative use or otherwise, the DSD.

Senator Hill—I have not seen anything to suggest the government has benefited by that information or in fact that it made use of that information. Apart from that, the issue of whether Mr Blick adequately took into account the potential for government to have made use of the information is something that he might like to have a look at. If he wishes to comment on the points that you have made, he will have the opportunity to do so in his annual report.

Senator COONEY—He can do that, but it will be all too late by then.

Senator Hill—I assume that you are looking at the big picture for the future. As I have interpreted you, it comes back to what you think is the proper targeting—I said before the 'proper targeting' but it is also the proper targeting and the proper use—the limitations of that information going through this agency.

Senator COONEY—The other thing I say, apropos 12A, is that the Director of DSD failed to 'take all reasonable steps to ensure that: (a) his or her agency is kept free from any influence or considerations not relevant to the undertaking of activities as mentioned in paragraph 12(a) or (b)' and, secondly, he has failed to 'take all reasonable steps to ensure that nothing is done that might lend colour to any suggestion that his or her agency is concerned to further or protect the interests of any particular section of the community'—namely, the government—'or with undertaking any activities other than those mentioned in paragraph

12(a) and 12(b)' and that therefore the money we pay to DSD—whatever it is—has in this case failed to be well spent.

Senator Hill—I have heard Senator Cooney's argument. I do not agree with it, and I am sure we could continue the exchange all day. At least he has had the opportunity to put his view on the public record. As I said, if there is something that Mr Blick wishes to respond to, seeing in some ways Senator Cooney has been making a case against his report, Mr Blick will have an opportunity to do so.

Senator CHRIS EVANS—Perhaps I could take a slightly different tack. Mr Bonighton, you provide reassurance about collection methods and say that this was an extraordinary case, a breach that should not have occurred, but we are left to believe that it just so happened that the one in a million chance of a breach happened to involve the *Tampa*—I am sorry that I am being provocative, but I am trying to tease out this issue that Senator Cooney was putting to you—happened to involve a legal communication between an Australian citizen and the captain of the *Tampa* and, as Mr Blick's report says, obviously a number of your officers were involved in the collection and reporting of this matter and it went up the line. It just so happens that this was the one-off case where things went wrong. I suppose we are trying to tease out why it was this particular case where those protections did not seem to work.

Mr Bonighton—I think Mr Blick points out that this was a complex and fast-moving situation. I think I have already said that this was something a bit out of the ordinary and that is where—

Senator CHRIS EVANS—Why, though?

Mr Bonighton—That is Mr Blick's judgment. Certainly something new and different for us was happening here. In those circumstances, that is where your existing procedures can sometimes be found to be faulty.

Senator CHRIS EVANS—I accept that. What I do not accept from Mr Blick's report or your comments then was what was new and different?

Mr Bonighton—I do not particularly want to get into the operational details.

Senator CHRIS EVANS—I appreciate those sensitivities. That is a large part of the defence, as it were, for what has gone wrong, but we do not know why it was different and why the procedures did not hold up. That is clearly the key concern—because they did not.

Mr Bonighton—Certainly there was a breach and what we are doing now is working with Mr Blick to make sure that that sort of situation will not happen again. We have put a number of activities in place that will make sure that will not happen. I should say that the last thing we want is to be involved in a situation like this. We rely on high technology to get things done but, more than that, we rely on really smart people to make sure that it happens. I have had a number of people come up to me in DSD, after these allegations were made, and say that they would not want to work for an organisation that was doing those sorts of unlawful things. So it is very important to us, if we are going to have that talent to perform, that the sort of mud that happens here does not stick to us. We are human; we make mistakes. When we do make mistakes we do our best to learn from them. We work with the inspector-general to put in place procedures and systems which will mitigate that risk.

Senator CHRIS EVANS—I accept all of that, but I would not want you to be implying that that means that we should not then pursue those accountability issues to make sure, in the public interest, that these things are being done. This case causes us concern, obviously.

Mr Bonighton—Indeed. When it comes to accountability we are the sort of organisation that welcomes that, for that very same reason. If we are not seen to be accountable, then we are going to have a problem with our own people, because our aim is to get a culture in the place where we are looking first and always at protecting the communications of Australians—because that is what is going to do us in quicker than anything else.

Dr Hawke—You would be aware, Senator, that there is additional legislation that goes to the accountability arrangements, including the formation of a specific oversight committee, which has not existed in the past, to give the parliament a further reassurance of the accountability of the intelligence agencies.

Senator CHRIS EVANS—That is true, but one of the things this whole episode has shaken out is the fact that some of the protections we thought were there when we passed the act are actually not there and that there was an oversight in the construction of the act, according to the minister's response to me, about the protection of Australian citizens. I think that is now subject to—

Senator Hill—Did I say that there was an oversight in the construction of the act? Anyway, the answer stands for itself.

Senator CHRIS EVANS—I have the answer here, if you want me to read it to you.

Senator Hill—I could get into another debate. I think I had one on that the other day. There are so many days of these sittings it becomes a bit of a blur.

Senator CHRIS EVANS—You said:

The Act did not specifically apply the same protection to Australians in Australia.

... ..

To ensure that the privacy of Australians was properly protected irrespective of whether they were overseas or in Australia, my predecessor issued a direction to Director DSD under section 8(1)(b) directing DSD to obtain an authorisation before undertaking any such activities in relation to Australians within Australia.

It seems to very clearly say that the act did not provide that protection and that your predecessor—

Senator Hill—The act has provided that protection. We have adopted a methodology within the scope of the act to provide that protection. That was the point of that answer.

Senator CHRIS EVANS—I will quote you again. You said:

The Act did not specifically apply the same protection to Australians in Australia.

Senator Hill—It did not do it in the same way, that is true. I am presuming that it was more likely to be the deliberate intention of the parliament. You tell me why the parliament chose to pass legislation in that form?

Senator CHRIS EVANS—I assume—and I was not intricately involved in the debate—that it was an oversight.

Senator Hill—That is your assumption. I do not know whether it was an oversight, but the main point is that we have found a way to ensure that the same protection is in fact given.

Senator CHRIS EVANS—By way of secret directives?

Senator Hill—Not by way of secret directives.

Senator CHRIS EVANS—They are secret; they are not publicly available.

Senator Hill—It is publicly available to the extent that I have said in the answer to that question that approval is required of the minister to the interception.

Senator COONEY—It is a most fortunate intercept in one way. In any event, I want to table the message from PILCH, the instructions to lodge a writ of habeas corpus that were sent with it and the reply from Captain Rinnan—it has my telephone number on it. The ‘Barney’ on it is me.

Senator CHRIS EVANS—That should help DSD!

Senator COONEY—I want to table the letter from Emma Hunt, the media release from Minister Hill and the part of Mr Blick’s report that was made public. That has some lines underneath it, and paragraph 24 has the word ‘mode’ circled and the query ‘fax or phone’—you probably cannot say, Mr Bonighton, whether it was the fax or the phone but that is what people are wondering about—and the comment ‘privacy rules’ is noted against paragraph 31. I also want to table the radio interview with Jon Faine and Mr Williams—again, with my name on it. Does anybody have any problem with those documents being tabled?

Mr Harding—Mr Chairman, I expect that is a matter for you and the committee rather than for us.

CHAIR—I do not think the committee has any problem with those documents being tabled, Dr Hawke, and it would make Senator Cooney happy.

Senator COONEY—You have defeated me again, Minister.

Senator Hill—No, I have not.

Senator COONEY—I have not been able to get to the bottom of it all—failed again.

Senator Hill—We have had an interesting exchange that I hope was of interest to others.

[2.05 p.m.]

CHAIR—We move now to ‘Business process’, starting with defence science.

Dr Hawke—I am told there are no questions on defence science. What area would you like to go to?

Senator CHRIS EVANS—I gather we are now onto odds and ends. There are a couple of questions we had deferred, Dr Hawke: one regarding the asset sales issue, so maybe we could start on that one. We started on it the other day and you begged me to defer it until now. I have a question regarding what I thought was the traditional arrangement whereby Defence kept one per cent of its budget as proceeds from asset sales. I gather there has been a change in policy in relation to those matters. Could you outline what the old policy was, what the new policy is and when that changed?

Senator Hill—It is a bit misleading to say the ‘traditional’ position. There have been a number of different positions over the years, but the officials can outline differences between the coming budget year and this year.

Mr Pezzullo—The differences between the preceding system and the one to be operative in 2002-03 is as follows: the operative system up until the forthcoming financial year was that Defence could retain up to one per cent of asset sales as derived from any particular class of asset sales worth up to the value of one per cent of its budget.

Senator CHRIS EVANS—So it is not one per cent of the asset sale but one per cent of the Defence budget?

Mr Pezzullo—Equivalent to a percentage expressed as one per cent of the Defence budget. That is operative in this current financial year, 2001-02. In the forthcoming financial year, 2002-03, there will be a change to that system whereby Defence will be required to return the full proceeds of asset sales up to a particular target. It has been agreed by government that anything beyond that could be retained by Defence.

Senator CHRIS EVANS—Just so that I understand the previous system: whatever Defence asset sales took place, Defence could keep to a cap of one per cent of its budget. Is that a fair way of describing it?

Mr Pezzullo—Yes.

Senator CHRIS EVANS—So I presume that that acted as an incentive for Defence not to sell more than one per cent of its budget's worth in one year—but that is probably commentary rather than a question.

Senator Hill—Some people suggested that, but I am sure it was not so.

Senator CHRIS EVANS—I am sure that would have been prudent of them. So whatever was sold up to that value was just retained by Defence. Had Defence returned funds in excess of that limit to consolidated revenue in recent times?

Mr Pezzullo—I would have to check the year-by-year track on that and get back to you. However, I should indicate—I should have added this when I started my answer—that a number of sales have been over the years classed as consolidated revenue sales where it is identified that the proceeds go to consolidated revenue irrespective of the operation of the one per cent cap. So Defence has in fact returned moneys to consolidated revenue outside the operation of the one per cent system.

Senator CHRIS EVANS—Perhaps you could take that question on notice in terms of returns. But in addition to that were certain sites or certain assets identified by the minister or cabinet and marked as being in a sort of separate category?

Mr Pezzullo—Particular properties were identified by government as being properties where the entire proceeds go straight to consolidated revenue.

Senator CHRIS EVANS—So they were still owned by Defence but something like this was said: 'There is a ring around that one and when you sell that the money goes into consolidated revenue.'

Mr Pezzullo—Yes.

Senator CHRIS EVANS—How is the new system to work?

Mr Pezzullo—The government has determined an asset sales target which is incorporated in the capital budget in the papers before you. Up to a particular target that the government has set for us, all of that money goes to consolidated revenue, and the proceeds of anything sold beyond that are retained by Defence.

Senator CHRIS EVANS—Is that a policy to be pursued in the out years as well?

Mr Pezzullo—The current decision of government applies only to 2002-03.

Senator CHRIS EVANS—So do we have any guidance on the out years or is that a wait and see decision?

Mr Pezzullo—Government has requested that officials come back to government with some options.

Senator CHRIS EVANS—Is it page 63 that—

Mr Pezzullo—It is on page 63 that it is most closely identified. You will see there that capital receipts total a tick under \$700 million and then there is an item known as capital withdrawal of \$659 million. As the secretary indicated on Monday, in effect that capital withdrawal item relates to the property returns.

Senator CHRIS EVANS—So that is what you expect to get from the sale of assets this financial year?

Mr Pezzullo—The expected return on all of our asset sales, not just property but also plant, equipment and other such capital assets, is indicated at table 3.4 entitled ‘Capital budget statement’ on page 63 and the total \$699 million.

Senator CHRIS EVANS—That is the figure of \$699.766 million?

Mr Pezzullo—That is correct.

Senator CHRIS EVANS—Is that the target for sales or the target to be retained by Defence?

Mr Pezzullo—That is the target for all sales not just property. That includes plant and equipment and, I believe, it includes things like car and computer sales.

Senator CHRIS EVANS—Does the policy apply to all sales or just property sales?

Mr Pezzullo—Just property sales.

Senator CHRIS EVANS—What proportion of that is property?

Mr Pezzullo—There is an item one line immediately below called capital withdrawal which you see in reverse. That is a flow that goes back to government. The amount of \$659 million is to be returned to consolidated revenue.

Senator CHRIS EVANS—So Defence will keep \$40 million?

Mr Pezzullo—From all of the asset sales, that is correct. I stand to be corrected by my CFO colleagues, but that is my understanding of the position outside of the property world.

Senator CHRIS EVANS—I may be getting a bit confused here, but this is net asset sales of property and other assets.

Mr Pezzullo—The item identified under the capital receipts is entitled ‘Proceeds from sales of property, plant and equipment’ and it does include therefore non-property items.

Senator CHRIS EVANS—But they are subject to a different policy. Are they totally retained by Defence?

Mr Pezzullo—They are not captured by the policy I have just described on property.

Senator CHRIS EVANS—So they are totally retained by Defence?

Mr Pezzullo—I would defer to my CFO colleagues on that, but I believe that is the case.

Senator Hill—It is the sale of second-hand vehicles and the like.

Senator CHRIS EVANS—I just want to be clear that they are therefore retained wholly by Defence?

Dr Hawke—Correct.

Senator CHRIS EVANS—Are we able to break down what is related to property sales? The \$40 million retained by Defence, on that scenario, might be wholly sales of other equipment.

Dr Hawke—The \$659.5 million is all property.

Senator CHRIS EVANS—And that is to be returned to consolidated revenue?

Dr Hawke—Yes, that is why it is shown in brackets.

Senator CHRIS EVANS—Do I take it from that that Defence is to retain nothing from the sale of property?

Dr Hawke—If we sell or realised more than \$659.5 million from the sales we would retain that.

Senator CHRIS EVANS—But you have to realise \$659 million.

Dr Hawke—Yes, \$659.5 million. We expect to. In the event that we did not I would be explaining myself to the minister and probably to the expenditure review committee.

Senator CHRIS EVANS—That means that they have an expectation that the cheque is in the mail, Dr Hawke.

Dr Hawke—That it would be delivered over the course of 2002-03 financial year.

Senator CHRIS EVANS—Yes.

Dr Hawke—I have an expectation that the infrastructure division will deliver that.

Senator CHRIS EVANS—If I am not mistaken, I think your targets for last year were nowhere near met.

Dr Hawke—That is correct, but there were a range of factors involved in that.

Senator CHRIS EVANS—I am sure that is right, but there may be a range of factors this year as well.

Dr Hawke—I expect that we will meet it this year. This is an agreed figure between us and the central agencies which was determined by the government. We have set in place arrangements, under the government's direction, between Defence and the Department of Finance and Administration to monitor progress with this and the way in which we go about it. My expectation is that we will meet it.

Senator CHRIS EVANS—I am making the obvious point that these things do not necessarily work out as one plans and clearly they did not last year.

Dr Hawke—We have a different team in place and I am confident that they will achieve it.

Senator CHRIS EVANS—I was not making any particular point.

Dr Hawke—I understand that.

Senator Hill—I think more effort has been put into assessing realistic figures. Much greater effort has been put into what are the difficulties in relation to the sale of particular properties, requirements for rezoning, rehabilitation et cetera. Defence has had another look at the estimated prices. We hope as a result of all of that effort that the figures will turn out to be more realistic.

Senator CHRIS EVANS—I have a set of figures for the out years. What do I take of what the out year projections mean given that the question of how the proceeds from asset sales are

to be returned to government is a question still to be determined? What does the budget indicate as the policy and the projections?

Dr Hawke—You can see from the table that none of that is intended by way of return to consolidated revenue. The government wishes to take the additional paper that we are preparing in conjunction with the Department of Finance and Administration on the further approach to this. I believe that they would consider that and make a decision on it probably at the expenditure review committee next year when they are forming 2003-04 budget. I am also sure that when it comes to additional estimates time the minister, aided and abetted by the Treasurer and the Minister for Finance and Administration, will want to be reassured how we are going against the target for this year and that we are going to meet that.

Senator CHRIS EVANS—What do you say those figures for the out years mean?

Dr Hawke—They are figures that are included in our bottom line. That money in out years is presently programmed to come to Defence as part of our budget bottom line for the out years.

Senator CHRIS EVANS—They seem to be involved significantly less.

Dr Hawke—They are a lot smaller numbers. This year we are doing a strategic review of our property holdings and where the government might wish to go on that front.

Senator CHRIS EVANS—Does that mean that you expect to sell a lot this year and not much next year?

Dr Hawke—Apart from what is in there, we are doing a reassessment of our property holdings and we will bring that back to the government over the course of the next financial year. Those figures will no doubt be adjusted at budget time in light of the decisions that the government makes about that issue.

Senator CHRIS EVANS—Maybe I will rephrase the question. On the face of those figures, it appears to me that you are selling a lot of property this year and not much next year. Is that a fair reflection?

Dr Hawke—They reflect the decisions that have been taken at this stage. I think that is a fairer way of putting it.

Senator CHRIS EVANS—But that involves a significantly lower expectation than the revenue from property sales in the out years?

Dr Hawke—That is correct. Beside the \$659.5 million figure you can see that our previous estimate was that we were actually going to sell \$775 million. The figure of \$659.5 million is an agreed figure determined by the government. So it is actually less than what we had programmed under the previous estimates.

Senator CHRIS EVANS—That leads me to the next question: what will you record as receipts for capital expenditure in this financial year?

Dr Hawke—Receipts for capital expenditure?

Senator CHRIS EVANS—Sorry, what will you realise from asset sales this financial year?

Dr Hawke—Of course, we have not finished this financial year.

Senator CHRIS EVANS—No, no.

Dr Hawke—The reason I am saying this is that we are, right at this very moment, engaged in the sale and lease-back of Campbell Park Offices here in Canberra.

Senator CHRIS EVANS—I read about that.

Dr Hawke—We have not finalised that deal just yet, but we expect to by 30 June. If we do that, that will be quite a significant sum of money.

Senator CHRIS EVANS—\$80 million according to the *Financial Review*.

Dr Hawke—I read that too. I hope they are right. So I am not sure. Do we have a figure of an expected total for this year?

Senator CHRIS EVANS—I was going to ask you why you spent \$30 million doing it up if you are only going to get \$80 million for it.

Mr Pezzullo—At the moment, just in relation to Campbell Park, we are in a state of finalising arrangements for making an announcement in respect of that, but there is obviously a commercial party involved, and we are not at liberty—

Senator CHRIS EVANS—I am not seeking to pry into those figures. Have you got a year to date figure on sales?

Mr Pezzullo—I would have to get that for you.

Dr Hawke—Can we take that on notice? I am sure we will have a figure somewhere about that.

Senator CHRIS EVANS—I assume, though, it is fair to say that it is well below the target.

Dr Hawke—I do not remember what the target is for this year.

Senator CHRIS EVANS—Wasn't the target the \$775 million?

Dr Hawke—No, that is the target for 2002-03.

Senator CHRIS EVANS—Sorry, yes, but I recall you had a fairly ambitious—

Dr Hawke—For 2001-02?

Senator CHRIS EVANS—Yes.

Dr Hawke—Yes, I think we did. The point I was trying to make to you earlier was that we did not necessarily agree with that target, and there has been some debate about that issue. But we will take it on notice and get you an answer.

Senator CHRIS EVANS—Thank you. There was an answer given in response to a question on notice to Mr Bevis, which is question No. 136 of 2002, regarding Defence properties, in which you provided him with a list of the properties anticipated to be sold. Can I confirm that that is, in broad terms, the list of properties which are expected to return the \$700 million that is targeted for sales?

Mr Pezzullo—Mr Bevis's question was couched in terms of either properties listed for sale or evaluated for possible sale during the course of the next three years. Our answer encompassed both classes that his question went to. That is why we couched our response in terms of the anticipated year of disposal. Since that time, the government has taken a set of decisions in relation to individual specific properties and some individual specific property targets, and those are the commercial figures that are not for publication that we talked about the other day when we spoke about Meeandah.

Senator CHRIS EVANS—Do you have a list of properties which are anticipated to be listed for sale in this next financial year?

Mr Pezzullo—I do not have a list for publication which goes beyond question on notice No. 136. The government has put no further information beyond No. 136. But, to answer your question in the way that you couched it, that is broadly indicative of the properties that we are targeting. Indeed, we need to strike a balance here between having that indicative information out in the community so that our officers can meet with council planning staff and state planning staff, whilst, of course, retaining the specifics confidential to the government in terms of what we are actually targeting property by property and individual value by value.

Senator CHRIS EVANS—I was not after the values. I did not realise there was some sensitivity about property. Isn't it a case where you are either going to sell it or you are not?

Mr Pezzullo—In terms of the values, obviously you do not want to be giving away your commercial targets, because then people would bid against those.

Senator CHRIS EVANS—That is why I did not ask for those.

Mr Pezzullo—In terms of actual properties, the information provided in response to question No. 136 is broadly indicative of where we are going over the next four years. There might well be a slight variation between the confidential decision the government has now taken—that is now our guidance—and what has been put on the record. That, if you like, strikes that balance between having indicative information out there that our officers can talk to councils with, versus having our private asset sales targets. And, as the latter part of the answer to Mr Bevis's question indicates, there might be, in some cases, an individual slippage of a property from year to year or a bring forward of a property, depending on the kind of planning vagaries that you encounter in the real estate market.

Senator CHRIS EVANS—I take it from that answer that it would be fair to say that that list, in Defence's view, represents more than the \$700 million budgeted for 2002-03.

Mr Pezzullo—Because the list is inclusive of the next four years, by definition it goes beyond the 2002-03 financial year. You will see that some of the anticipated years of disposal go out to, I think, 2006. I think that is the latest one—the first year indicated in that answer. It is a multiyear list.

Senator CHRIS EVANS—Are some of those sites dependent on the DIDS decision?

Mr Pezzullo—Yes, a number of those sites are. As we discussed the other day with Senator Hogg in relation to Meeandah, the DIDS contract is structured around what are called optional sites for the DIDS contractor and a mandated site at Moorebank. Obviously, we cannot finalise any property sale in relation to those sites unless and until the preferred DIDS tenderer is awarded.

Senator CHRIS EVANS—What does that mean in practice—that they have the ability to purchase or to lease those properties?

Mr Pezzullo—If they are optional sites, they make a commercial pitch to the government as part of their tender, and they say either 'We can deliver this service for you with a footprint on that site' or 'We've got a better way of doing it 20 miles away.' That will obviously drive the kind of disposal strategy that we then pursue.

Senator CHRIS EVANS—What about the mandated sites? What does that mean?

Mr Pezzullo—There is one mandated site, and that is the National Storage and Distribution Centre at Moorebank. As I understand the structure of the DIDS tender, the preferred contractor has to have a footprint at that site.

Senator CHRIS EVANS—But in terms of the rest of the sites, it is purely a decision for the successful tenderer about whether or not they maintain an operation there and the size of that operation?

Mr Pezzullo—Correct.

Senator CHRIS EVANS—Does Defence also have the right to say, ‘We do not want you there?’

Mr Pezzullo—I would have to defer to the joint logistics organisation who are running that tender, but the guidance I have been given is that an optional site is just that: optional to the contractor—if they come up with a scheme that does not involve that site, it becomes available for outright disposal—and if they require that site and they win the process, we need to enter into some kind of sale and lease-back arrangement.

Senator CHRIS EVANS—In terms of Meeandah, is the DIDS operation the only Defence facility there or is there a broader Defence facility?

Mr Pezzullo—Currently there is no DIDS presence there, obviously, because there is no DIDS contract in place, but there is a unit known as the northern logistics group, as I recall it, who are headquartered at Meeandah. That is, as I understand it, their principal stores facility in Brisbane. We had a discussion the other day. I will just take this opportunity, if I may, for Senator Hogg, to clarify the accounting treatment of the portion that is going off to DIMIA. I indicated on Monday that I did not think that the DIMIA moneys were reflected in those capital receipts that we have just been talking about. I have since checked, and in fact they are. I do not know if Senator Hogg picked that up, but it is read into the *Hansard* and if it could be drawn to his attention I would appreciate it.

Senator CHRIS EVANS—I will do that. Dr Hawke, could I get someone to assist me with some information about PMKEYS?

Mr Carmody—Before we do that, could I answer a couple of questions on infrastructure that have come up in the last couple of days so we can get them on the record?

CHAIR—Fire away, Mr Carmody.

Mr Carmody—Senator Hogg raised a question on when the Qantas travel contract was signed. It was signed on 11 February 2000 for a five-year period with two one-year extensions. The two one-year options would extend the contract until 28 February 2007. Senator West asked a question with regard to Defence Headquarters Australian Theatre and the Defence Headquarters Australian Theatre project. Firstly, she asked what consultation has been undertaken with the landowners since October 2001. There was an initial meeting with the Hyles family, the owners of the affected property. We have had two telephone conversations with the family since that time and Defence project staff are set to meet with the Hyles family again this Friday, 7 June. Those consultations are continuing. The second question Senator West asked concerned the planned expenditure on the project for financial year 2002-03. The answer is that \$2 million of pre-approval funding is planned to be spent ahead of parliamentary approval. During 2002-03, we expect to spend \$2 million. That is for the conduct of an environmental impact study, preparation for further development of things like the private financing proposal and development of conceptual design which would support the private financing proposal or any other proposal as it goes to the Public Works Committee.

Senator CHRIS EVANS—Where have you hidden that in the PBS?

Mr Carmody—I defer to my finance colleagues, but I know it is in there.

Senator CHRIS EVANS—It certainly was not listed as a measure. I looked backwards and forwards a number of times. I think that may be why Senator West asked the question. I hasten to add that I may just have missed it.

Mr Carmody—I will have to take that question on notice to identify exactly where it is, but I am certain we will be able to answer it for you.

Mr Roach—Senator, I gather your question was about where HQAST appears in the PBS.

Senator CHRIS EVANS—Yes.

Mr Roach—If you look at the first table, under ‘Significant capital facilities projects’ on page 84, table 3.11, it does not appear there, because the table is limited—

Senator CHRIS EVANS—That is very helpful! Thank you for that!

Mr Roach—to projects which are greater than \$5 million. That is the reason that it does not appear there.

Senator CHRIS EVANS—Can you just describe for me why it does not appear where?

Dr Hawke—At table 3.11 on page 84, you will see the introduction:

The following table and descriptions provide detail on planned progress and estimated expenditure for the significant major facilities projects with an in-year spend in 2002-03 greater than \$5m.

But you will also see, on page 76, towards the bottom:

New capital facilities projects proposed for Government approval in 2002-03 are ... Headquarters Australian Theatre — Bungendore, New South Wales ...

Senator CHRIS EVANS—I read that as being for funding approval in 2002-03.

Dr Hawke—I think that is right.

Senator CHRIS EVANS—You actually are spending some money this year—

Dr Hawke—This would be the money we are spending to—

Senator CHRIS EVANS—It is environmental.

Dr Hawke—To explore the site and environmental impacts and to prepare the submission for consideration through the Public Works Committee. Is that the case, Mr Pezzullo?

Mr Pezzullo—It is in relation to various studies that are being undertaken over the course of 2002-03 preparatory to those approval processes.

Senator CHRIS EVANS—And that comes out of your buildings and works budget? Is that right?

Mr Pezzullo—We will need to check that.

Senator CHRIS EVANS—Mr Roach is saying to me that it is there but it is \$2 million and therefore it does not get on that list. I am just trying to ask which budget item it comes under in capital works.

Mr Carmody—It comes out of the infrastructure and division budget. There is money set aside within the budget for studies, developing proposals and those sorts of issues. It does not actually come out of the \$200 million which was the amount identified around Defence Headquarters Australian Theatre, because we have not got to the stage of that project

expenditure yet. This is preparatory. We need to be able to develop enough information to be able to bring a submission forward.

Senator CHRIS EVANS—I will move to PMKEYS.

Mr Carmody—Mr Chairman, can I answer one more question before you move to that. Senator Hogg asked a question last evening on community centres in Darwin and also at Duntroon. I believe the question related to whether there were community centres which were beyond their expected life.

Senator HOGG—And asbestos.

Mr Carmody—Asbestos was the second phase. Mr Pezzullo will deal with the second phase; I will deal with the first. That matter has been discussed a great deal in the last month or so. I have asked Defence Personnel Executive over the last month to develop a prioritised list of community centres for consideration so that we can see what neighbourhood and community centres exist in Defence, what state of repair they are in and then if necessary, based on what the Defence Personnel Executive and the Defence Community Organisation believe is appropriate, develop state capability proposals to replace, repair, rebuild, based on the priorities that they set. So that is in hand.

Senator HOGG—When will that be done by?

Mr Carmody—I am expecting the Defence Personnel Executive to have a proposal ready within the next two months, at least a review of what community centres exist, because there are many which are almost ‘grace and favour’ community centre areas that have been set aside on particular bases. So it is not as straightforward an item as it would appear.

Senator HOGG—All right.

Mr Pezzullo—In relation to asbestos, as I read the proceedings, your question went to three centres—one at Duntroon and two in Darwin, one of which is at HMAS *Coonawarra* and the other is at RAAF Base Darwin. The asbestos situation in relation to those three is as follows. At Duntroon community centre, the regional infrastructure staff have advised me that the centre does have asbestos wall sheeting and roofing, which is not untypical of buildings of that age. In its current condition and location—this has been checked through our asbestos control program—the asbestos sheeting does not present a health risk so long as it is not tampered with, broken up, drilled into et cetera. The building is appropriately labelled, indicating the presence of asbestos in the building in that condition.

With respect to HMAS *Coonawarra*, the same conditions apply. The asbestos is contained; it is not dangerous unless the material is broken up or damaged. In that case, Infrastructure Division has written to the users of the community centre advising them of the contained asbestos situation and informing them of the potential dangers if the sheeting is broken or damaged, and asking them to notify Infrastructure staff immediately if this happens. In terms of our audited records of the buildings on RAAF Base Darwin, there is no evidence of any asbestos still in place at that building.

Senator HOGG—All right. Thanks.

Senator CHRIS EVANS—Admiral Shalders, you are going to tell me all about PMKEYS. I gather it is a software package for personnel management. I just want to know the size of the contract and the state of the contract, and if you could help me with suggestions that there are serious delays in it.

Rear Adm. Shalders—The Personnel Management Key Solution project was an outcome of the Defence Efficiency Review. The project started in September 1997. The aim of the project is to provide a single, effective and efficient solution for personnel management. It will replace some 20 separate legacy systems currently performing that role. It will include the following functionality: organisational structures, personnel administration and leave, career management, work force planning, and recruitment and payroll.

The status of the project at this stage is that the civilian human resource aspects and payroll aspects were successfully implemented in September 1999. The second phase provides software development for the ADF, the uniformed services, in the human resource area of functionality. The Navy part of that package was implemented in August last year and is operating effectively. Air Force HR was successfully rolled out on 18 February this year and Army is scheduled to be rolled out in early July. The final phase of the PMKEYS project is the ADF payroll part. At this stage the estimated completion date of that is the final quarter of 2003.

Senator CHRIS EVANS—Is that on track in terms of timing?

Rear Adm. Shalders—No, there have been delays which have been caused principally by our requirement to customise the standard package that we bought for this system. It is based on a PeopleSoft solution and we have had to do a degree of customisation to meet our requirements, which has caused some delays. Additionally there have been some delays created by the need to migrate data from those 20 legacy systems I spoke of to put them in a format which PeopleSoft can use.

Dr Hawke—One added complication to this it is that when Defence decided to go this route, it was on the basis that we would be continuing on a cash based system. Of course, we had the added complexity of moving to the accrual framework, which has caused us quite a deal of trouble, as you would probably know, across the financial and the logistics systems as well, where we are endeavouring to do the same thing and bring a plethora of legacy systems into the one system, so that we would have three key systems: one dealing with personnel, a second dealing with the financial arrangements, and a third dealing with logistics. It has added to the complexity because the financial arrangements of course need to draw on what happens in the personnel and logistics side, so that we can get our accounts properly certified by the National Audit Office each year. I mentioned a couple of years ago that we have got problems in this area and that it will take us some years to fix them. Each time that you hope you are on top of this, something else happens to make sure that you are not. That has been a continuing issue with all three of these systems. PMKEYS is now almost at the completion of the stage it was to get to, and we will need to have a look at how we migrate these systems together in the longer term as well.

Senator CHRIS EVANS—How far behind is the implementation of the PMKEYS system?

Rear Adm. Shalders—When the project started back in September 1997, it had been our hope that we could complete it by June 2000. As I indicated, the last quarter of 2003 is now the expected completion date.

Senator CHRIS EVANS—With that three-year delay, am I right in saying that the original contract was worth \$26.5 million?

Rear Adm. Shalders—The original estimate was \$25 million.

Senator CHRIS EVANS—That was the original estimate. What is it going to end up costing you?

Rear Adm. Shalders—At this stage, the direct costs we have incurred are just over \$60 million. We are in the final stages of negotiation for that final phase which, as I indicated, will be completed in the last quarter of next year.

Senator CHRIS EVANS—How much do we expect it to cost us, all up?

Rear Adm. Shalders—As I say, we are in the final stages of negotiation with the contractor, and I prefer not to declare our hand on that.

Dr Hawke—We would be happy to tell you that when we have finalised the contract.

Senator CHRIS EVANS—I appreciate that. Are we talking, in addition to the \$60 million, about another \$10 million or \$20 million? Or are we talking about \$1 million or \$2 million?

Rear Adm. Shalders—In the order of \$10 million, I would suggest.

Senator CHRIS EVANS—It is going to end up costing us in the order of \$70 million.

Rear Adm. Shalders—About that, Senator, yes.

Senator CHRIS EVANS—I am not trying to argue the thing. I am just trying to get a ballpark figure. There has been a delay. Has all this money gone to the contractor?

Rear Adm. Shalders—Up to this point, most of the expenditure has been related to consultancy, contracts, employees and administrative expenses. At this stage, there has been no direct infrastructure cost associated with this project, because we are using existing Defence infrastructure.

Dr Hawke—PeopleSoft have got the contract, haven't they?

Rear Adm. Shalders—That is correct.

Senator CHRIS EVANS—When we were going into this originally, we thought that it would cost \$25 million, and that was mainly to be paid to PeopleSoft, I presume, as the contractor.

Rear Adm. Shalders—Yes.

Senator CHRIS EVANS—Now that it has blown out to closer to \$70 million, have they been the beneficiary of that, or have you had to get someone in to clean up?

Rear Adm. Shalders—No. There have been a number of consultancies let, as we have looked at some of those customisation issues that I mentioned, for example. A number of consultancies have benefited in terms of the increased expenditure.

Senator CHRIS EVANS—Obviously you have had to renegotiate on a number of occasions your contract with PeopleSoft as well, have you?

Rear Adm. Shalders—We have, and we are in the process of renegotiating that contract right now. I should also add that there is obviously a considerable degree of training associated with implementing a system like this across the Defence Force, and a large part of the consultancy fees that we have had to pay out have been related to training.

Senator CHRIS EVANS—I might put some questions on notice about those. You said you had introduced them progressively to Navy, Air Force and Army. Were you referring to the pay systems or just the other human resource management systems?

Rear Adm. Shalders—As I mentioned, the payroll aspect of the project is the next phase, which is the phase to be completed by the last quarter of next year.

Senator CHRIS EVANS—Currently, none of your uniformed personnel are getting paid under that system?

Rear Adm. Shalders—Not under the PeopleSoft system; they are being paid under one of the legacy systems that I mentioned.

Senator CHRIS EVANS—Legacy systems is a catch-all for what?

Dr Hawke—All the old systems.

Senator CHRIS EVANS—Legacy of the past; not a brand.

Dr Hawke—That is right. The civilians are being paid out of this program. That is up and going.

Rear Adm. Shalders—The civilian payroll system came online in September 1999. We have not yet got the uniform forces across to that.

Senator CHRIS EVANS—You are hoping that the payroll will go across in the last quarter of 2003?

Rear Adm. Shalders—That is correct.

Senator CHRIS EVANS—What is so different about the two systems that you have been able to do the civilians but you have not been able to do the uniformed personnel?

Rear Adm. Shalders—It is a feature of getting the HR functionality across first and from that flows the payroll. We have to bring the uniformed members across onto the HR system before we can move them to the payroll system.

Senator CHRIS EVANS—You were able to do the civilians as long ago as September 1999; I do not conceptually understand how you can do the civilians in 1999 but you cannot get the uniformed personnel there until four years later.

Mr Hannan—The nature of the arrangements in allowances, salaries, rank structure and so forth is substantially more complex in the military system than it is in the civilian system. In the past we have never been able to acquire a bespoke off-the-shelf system for ADF payroll. It has been an in-house development. This one is to be developed in PeopleSoft but it is going to take some development. Essentially it was underestimated just how complex that was going to be—matters to do with retrospective adjustment to pay rather than in-arrears payment of allowances and the like. It is the nature of the military salary and allowance processes and systems that is substantially more complex than in the civilian world.

Senator CHRIS EVANS—So it is not, as it has been put to me, that the troops would jack up if they were put onto that system because it is such a disaster? Have you had serious problems with civilian pay?

Rear Adm. Shalders—No, it has been effective now for almost three years.

Senator CHRIS EVANS—I will get a couple of people who have spoken to me about it to talk to you about it.

Dr Hawke—They might be complaining about how much we are paying them.

Senator CHRIS EVANS—The quantum was part of the issue, I am sure. You chose off-the-shelf software as opposed to specialised software. Why is that, given that you have

obviously had to try to adapt it? Obviously the off-the-shelf software was not good enough for your needs.

Mr Hannan—We chose one of the government endorsed enterprise resource management packages because it was the one that was most adaptable. Indeed, I have been advised that it would almost be impossible to do what we have done if we had chosen some of the other alternatives. We always recognised that there would need to be some adaptation. The issue has been that the original estimate assumed that we were going to have a greater homogeneity between the three arms of the service. In the way certain processes operated that indeed has proven to be possible. That is certainly part of it and certainly both the extent of customisation required for military payroll was underestimated, I suggest by both parties.

Senator CHRIS EVANS—What is it that is different between the way the Air Force, Army or Navy need to be paid?

Rear Adm. Shalders—A large part of the difference there is different allowance structures. The leave arrangements are slightly different. All of those things are manageable but there are distinct differences between the three. There is also the difference in size between the three services, and I come back to the training load, which I mentioned before: one of the reasons that we left Army until last was the requirement to train far more users in Army than we did with either Navy or Air Force.

Senator CHRIS EVANS—By that you mean human resource officers, payroll clerks and those sorts of things?

Rear Adm. Shalders—Correct.

Senator CHRIS EVANS—How are you paying the forces currently? Are you using one of the legacy systems?

Mr Hannan—The legacy system known as ADF Pay system.

Senator CHRIS EVANS—Is that true you are still doing some of that by hand?

Mr Hannan—I beg your pardon?

Senator CHRIS EVANS—Is that all computerised now?

Mr Hannan—It has been computerised for a number of years. The current version of ADF Pay was implemented in 1993 or 1994, I think, and that was an upgrade from an earlier system that was computerised from the mid-eighties, I believe.

Senator CHRIS EVANS—So all ADF personnel would be on computerised pays?

Mr Hannan—There are circumstances when there are manual pays, I think largely to do with issues of recruits where they have yet to have proof of 150 points of evidence for banking.

Senator CHRIS EVANS—Apart from the one-off payments, it is all computerised?

Mr Hannan—Yes, apart from those it is all computerised.

Senator CHRIS EVANS—Which budget does this come out of and where do I find it in the PBS?

Rear Adm. Shalders—It is in my budget. I will ask CFO to explain where it is in the PBS.

Senator CHRIS EVANS—Don't tell me where it is not, Mr Roach. If you tell me that, or if Dr Hawke uses the excuse again about accrual accounting, I will scream.

Mr Roach—The PBS is presented in an accrual and output format.

Senator CHRIS EVANS—So you are going to take his excuse now, are you?

Mr Roach—No, it is a different excuse, Senator. It is because all of our owner support group costs—and the Defence Personnel Executive is one of our owner support groups—are distributed across all six Defence outputs, so it is subsumed in those costs.

Senator CHRIS EVANS—So where won't I find it?

Mr Roach—It is, effectively, distributed between the six output prices that are in the six outputs. We do not separately show the group budgets.

Senator CHRIS EVANS—So I cannot find a budget item that says, 'We budgeted \$25 million for this but we have spent \$60 million or \$70 million'? I have to look across the six outputs?

Mr Roach—That is where the money is in terms of the PBS. If you wanted to know a specific number about that particular budget, I am sure we could get that for you.

Senator CHRIS EVANS—It is part of Admiral Shalders's personnel cost budget, basically—is that it?

Mr Roach—Yes; but that budget, like all of the owner support and enabling group operating budgets, form part of the six output prices.

Senator CHRIS EVANS—Thanks for that.

Rear Adm. Shalders—Whilst I am here, I have an answer to another question that was asked yesterday. This related to the MSBS retention bonus—the Military Superannuation Benefits Scheme. I think the question was asked by Senator West. There is a 90-day period before reaching the 15-year point where members must apply for that retention bonus. That requirement is a standing condition of service and no individual advice is provided to members that they are approaching that 15-year point. However, advice about the bonus is widely promulgated. It is in the ADF pay and conditions manual and it is publicised via *Navy News* and *SeaTalk*. I believe the case that Senator West was talking about was a naval member. Where a member misses that cut-off date, he or she can seek a review of their circumstances through my organisation and should the member be dissatisfied with my decision on those matters they do, of course, have the opportunity to make a further submission through the redress or grievance procedures.

Senator CHRIS EVANS—So Senator West could pursue the individual case by writing to you, Admiral Shalders—is that the best thing?

Rear Adm. Shalders—In the first instance the member should put his case through the chain of command and it will come to my area.

Dr Hawke—I also have an answer on the armouries issue. The work has been completed on the three armouries at a cost of \$1.82 million.

Senator CHRIS EVANS—These are the PNG ones?

Dr Hawke—Yes. Fletcher Morobe is the contractor. We have an Army unit which is managing or overseeing the project, and \$50,000 has already been allocated for 2002-03 if there is any rectification work required. That does not mean it will be required or spent.

Senator CHRIS EVANS—There is some suggestion there were more to be built.

Dr Hawke—My recollection is the minister and the government have not made a decision on that matter yet but it is something the minister wanted to do in the light of him seeing those armouries and their effectiveness. He is going to consider the need for further armouries.

Senator CHRIS EVANS—Can I ask, briefly, where we are at in the review of the Military Compensation Scheme?

Senator Hill—It is progressing, isn't it?

Dr Hawke—Ready to go.

Senator CHRIS EVANS—You are wasted as a minister—you make such a good public servant.

Senator Hill—That would be a much more valuable use, yes.

Rear Adm. Shalders—The current status of the review is we are conducting consultation with ex-service organisations. That consultation is being effected through a working group, which is comprised of Defence and Veterans' Affairs members. The intention or the hope is to have an exposure draft available for public consultation by later this year. Our original intent was to try and introduce legislation in the spring sitting. It now appears that that may not be possible, but that is a result of the requirement to consult widely, particularly with the ex-service community.

Senator CHRIS EVANS—When do you think we are likely to get the exposure draft out and about?

Rear Adm. Shalders—The target date for that was July. My expectation now is probably closer to September.

Senator CHRIS EVANS—There is no realistic hope of that legislation this year, then?

Rear Adm. Shalders—That hope appears to be fading, on the basis of the fact that we are having very constructive dialogue with all the affected ex-service organisations. So that in itself is a good thing.

Senator CHRIS EVANS—There certainly will be a public exposure draft and time for public comment?

Rear Adm. Shalders—Absolutely.

Senator CHRIS EVANS—Then you will frame recommendations to the government?

Rear Adm. Shalders—That is correct.

Senator CHRIS EVANS—Then it will be a question of the government determining whether or not to proceed with legislation?

Rear Adm. Shalders—That is true. But I do note that a lot of that consultation has already taken place between government, opposition and other parties, and the Prime Minister did announce that we would be proceeding with new legislation.

Senator CHRIS EVANS—Okay. Thanks for that.

CHAIR—Thank you, Senator Evans, and thank you, Dr Hawke, Minister, Admiral Barrie and all your colleagues from the Defence organisation. It has been a long 2½ days. Thank you for your cooperation. Can I put on record to you, Admiral Barrie, I wish you well in your retirement. I am sorry to say that we won't be seeing you before us again. I am sure you don't feel that way, though.

Senator CHRIS EVANS—I am sure the estimates is not part of the job he will miss.

Adm. Barrie—I can say after nine years of doing this I do not think I will miss it. But I think the process itself is reasonably important, both to the ADF and to the people of Australia. So, provided it continues to support those needs, I wish everybody else good fortune.

CHAIR—The same to you. Farewell and bon voyage.

Dr Hawke—Mr Chairman, just before we break can we, through the minister, wish all the best for those other senators who will not be returning in the near future. Senator Sue West has made a long contribution to this committee as well.

CHAIR—Thank you, Dr Hawke.

Senator Hill—We heard the officials saying, ‘Hear, hear!’ That is rather nice.

CHAIR—It is. And can I say, Dr Hawke, what a pleasure it is to have the secretary of the department here for the whole of the estimates.

Senator Hill—He has found it a pleasure, too. That will be my last contribution.

CHAIR—And it is very much appreciated.

Proceedings suspended from 3.00 p.m. to 3.18 p.m.

FOREIGN AFFAIRS AND TRADE PORTFOLIO**In Attendance**

Senator Hill, Minister for Defence

Portfolio overview**Departmental Executive**

Dr Alan Thomas, Deputy Secretary

Mr Doug Chester, First Assistant Secretary, Corporate Management Division

Ms Anne Hazell, Chief Finance Officer, Assistant Secretary, Finance Management Branch

Australian Trade Commission (Austrade)**Outcome 1: Australians succeeding in international business with widespread community support.**

1.1 Awareness raising

1.2 Government advice and coordination

1.3 Services and opportunities

1.4 Inward investment and attraction services

1.5 Austrade administered grants.

Outcome 2: Australians informed about and provided access to consular, passport and immigration services in specific locations overseas.

2.1 Consular, passport and immigration services.

Margaret Lyons, Executive General Manager, Corporate

Julia Selby, Executive General Manager, Australian Operations and South Pacific

Terry O'Connor, Corporate Manager, Government, Policy and Communications

Ian Chesterfield, General Manager, Corporate Finance, Assets, Legal and Risk

Marcia Kimball, General Manager, People and Organisational Development

Erle Bourke, Corporate Manager, IT

Michael Crawford, General Manager, International Business Services

Michael Vickers, Group Manager, Client Development and Ally Liaison

Lindsay Collins, Acting General Manager, Export Finance Assistance Programs

Michael Plummer, National Manager, Program Development, Export Finance Assistance Programs

Anthony Fernando, Manager, Americas Office

Peter Amey, Manager, Europe Office

Pat Stortz, Manager, South Pacific/South East Asia Offices

Jessica Ramsden Smith, Manager, Middle East Indian Ocean Office

Peter Bergman, National Manager, North East Asia Office

Greg Joffe, Corporate Adviser, Strategic Development

Department of Foreign Affairs and Trade

Output 1.1—Protection and advocacy of Australia's international interests through the provision of policy advice to ministers and overseas diplomatic activity.

1.1.5 Multilateral trade negotiations

Mr Bruce Gosper, First Assistant Secretary, Office of Trade Negotiations

Mr Allan McKinnon, Special Negotiator—Agriculture

Mr Stephen Deady, Special Negotiator—Free Trade Agreements/Processed Food Market Access

1.1.6 Trade development/policy coordination and APEC

Mr Patrick Lawless, Acting First Assistant Secretary, Trade Development Division

Dr Frances Perkins, Executive Director, Economic Analytical Unit

Mr Hamish McCormick, Assistant Secretary, APEC and Regional Trade Policy Branch

Ms Ruth Adler, Assistant Secretary, Trade and Economic Analysis Branch

Mr David Garner, Director, International Economic and Finance Section, Trade and Economic Analysis Branch

Ms Angela Carey, Executive Officer, International Economic and Finance Section, Trade and Economic Analysis Branch

Mr Lachlan Crews, Executive Officer, International Economic and Finance Section, Trade and Economic Analysis Branch

Mr Charles Adamson, Executive Officer, International Economic and Finance Section, Trade and Economic Analysis Branch

Mr David MacLennan, Executive Officer, Export Credit Policy Section, Trade and Economic Analysis Branch

Mr James Bloomfield, Executive Officer, Export Credit Policy Section, Trade and Economic Analysis Branch

Mr Frank Bingham, Executive Officer, Market Information and Analysis Unit, Trade and Economic Analysis Branch

Dr Ron Wickes, Director, Trade Analysis Section, Trade and Economic Analysis Branch

Ms Lorraine Barker, Acting Assistant Secretary, Market Development and Business Liaison Branch

Mr Andrew Todd, Director, Trade Advocacy and Outreach Section, Market Development and Business Liaison Branch

Mr David Holly, Director, Information Industries and Online Access Section, Market Development and Business Liaison Branch

Mr Tim Toomey, Acting Director, Trade Liaison Section, Market Development and Business Liaison Branch

1.1.1 North Asia (including Australia–Japan Foundation, Australia–China Council, Australia–Korea Foundation)

Mr Murray McLean, First Assistant Secretary, North Asia Division

Ms Penny Richards, Assistant Secretary, North–East Asia Branch

Mr Hans Saxinger, Director, Korea Section, North–East Asia Branch

Mr James Baxter, Director, Japan Section, North–East Asia Branch

Mr Peter Rowe, Assistant Secretary, East Asia Branch

Mr Kyle Wilson, Director, China Political and External Section, East Asia Branch

Mr David McGrath, Director, China Economic and Trade Section, East Asia Branch

Ms Valerie Grey, Director, Hong Kong/Macau/Taiwan Section, East Asia Branch

1.1.2 South and South East Asia (including Australia–India Council, Australia–Indonesia Institute)

Mr Paul Grigson, Acting First Assistant Secretary, South and South East Asia Division

Dr David Engel, Director, Indonesia Section, Maritime South–East Asia Branch

Ms Kathy Klugman, Director, East Timor Section, Maritime South-East Asia Branch
Mr Graeme Lade, Director, Philippines/Malaysia/Singapore/Brunei Section, Maritime South-East Asia Branch
Dr Justin Lee, Director, Australia–Indonesia Institute
Mr Phillip Stonehouse, Acting Assistant Secretary, Mainland South–East and South Asia Branch
Ms Elizabeth Wetherell, Director, ASEAN, Burma and Cambodia Section, Mainland South–East and South Asia Branch
Mr Henry Bray, Acting Director, India and South Asia Section, Mainland South–East and South Asia Branch
Mr Jurek Juszczyk, Director, Thailand, Vietnam and Laos Section, Mainland South–East and South Asia Branch
Ms Carol Robertson, Director, Australia–India Council

1.1.3 Americas and Europe

Mr David A Ritchie, First Assistant Secretary, Americas and Europe Division
Ms Zorica McCarthy, Assistant Secretary, EU and Western Europe Branch
Mr Angus Mackenzie, Director, Western Europe Section, EU and Western Europe Branch
Ms Lucy Charlesworth, Director, EU and Institutions Section, EU and Western Europe Branch
Mr Barrie Blackburn, Executive Officer, EU and Institutions Section, EU and Western Europe Branch
Ms Leanne Caflisch, Executive Officer, EU and Institutions Section, EU and Western Europe Branch
Ms Margaret Twomey, Assistant Secretary, Northern, Southern and Eastern Europe Branch
Mr Alex Brooking, Director, Northern, Central and Eastern Europe Section, Northern, Southern and Eastern Europe Branch
Ms Susan Allen, Executive Officer, Northern, Central and Eastern Europe Section, Northern, Southern and Eastern Europe Branch
Mr Tony Urbanski, Director, Southern Europe Section, Northern, Southern and Eastern Europe Branch
Mr Mark Fraser, Executive Officer, Southern Europe Section, Northern, Southern and Eastern Europe Branch
Dr Brendon Hammer, Assistant Secretary, Americas Branch
Mr Greg Polson, Director, United States Section, Americas Branch
Ms Sue Jorgenson, Executive Officer, United States Section, Americas Branch
Ms Cathy Raper, Director, Canada, Latin America and Caribbean Section, Americas Branch

1.1.4 South Pacific, Africa and the Middle East

Mr James Wise, First Assistant Secretary, South Pacific, Africa and Middle East Division
Mr George Atkin, Assistant Secretary, Middle East and Africa Branch
Ms Clare Birgin, Director, Middle East Section, Middle East and Africa Branch
Mr Don Cuddihy, Executive Officer, Middle East Section, Middle East and Africa Branch
Mr John Hennessy, Director, Africa Section, Middle East and Africa Branch
Mr Billy Williams, former Director, Africa Section, Middle East and Africa Branch

Mr Rohan Titus, Executive Officer, Africa Section, Middle East and Africa Branch
Mr John Oliver, Assistant Secretary, New Zealand and Papua New Guinea Branch
Ms Julie Chater, Director, New Zealand Section, New Zealand and Papua New Guinea Branch
Mr Bruce Hunt, Director, Papua New Guinea Section, New Zealand and Papua New Guinea Branch
Mr Graham Fletcher, Director, Pacific Islands Branch
Ms Anne Plunkett, Director, Pacific Regional Section, Pacific Islands Branch
Mr Rick Nimmo, Director, Pacific Bilateral Section, Pacific Islands Branch
1.1.7 International organisations, legal and environment
Dr Geoff Raby, First Assistant Secretary, International Organisations and Legal Division
Mr John Buckley, First Assistant Secretary, Ambassador for People Smuggling Issues
Mr Christopher Langman, First Assistant Secretary, Ambassador for the Environment
Mr Richard Rowe, First Assistant Secretary, Senior Legal Advisor
Mr Rod Smith, Assistant Secretary, International Organisations Branch
Mr Dominic Trindade, Assistant Secretary, Legal Branch
Mr Justin Brown, Assistant Secretary, Environment Branch
1.1.7 Security, nuclear, disarmament and non-proliferation.
Mr Bill Paterson, First Assistant Secretary, International Security Division
Mr John Quinn, Assistant Secretary, Nuclear Policy Branch
Mr Bruce Miller, Assistant Secretary, Strategic Policy and Intelligence Branch
Mr Bernard Lynch, Acting Assistant Secretary, Arms Control and Disarmament Branch
Dr Terry Beven, Director, Nuclear Trade and Security Section, Nuclear Policy Branch
Mr John Carlson, Director General, Australian Safeguards and Non-Proliferation Office
Mr Andrew Leask, Assistant Secretary, Australian Safeguards and Non-Proliferation Office
Output 1.2—Secure government communications and security of overseas missions.
Mr Paul Tighe, First Assistant Secretary, Diplomatic Security, Information Management, and Services Division
Mr Malcolm Skelly, Assistant Secretary, Information Management Branch
Mr John Richardson, Assistant Secretary, Diplomatic Security and Services Branch
Mr Stephen Gee, Director, Security Policy and Operations Section
Output 1.3—Services to other agencies in Australia and overseas (including Parliament, state representatives, business and other organisations).
1.3.1 Parliament of Australia
1.3.2 Services to attached agencies
1.3.3 Services to business
1.3.4 Services to state governments and other agencies overseas and in Australia.
Output 1.4—Services to diplomatic and consular representatives in Australia.
1.4.1 Services to the diplomatic and consular corps
1.4.2 Provision of protection advice through liaison with the Protective Security Coordination Centre.
Ms Karina Campbell, Chief of Protocol, Assistant Secretary, Protocol Branch
Output 2.1—Consular and passport services.
2.1 Consular services

Mr Ralph Hillman, First Assistant Secretary, Public Diplomacy, Consular and Passports Division

Mr Ian Kemish, Assistant Secretary, Consular Branch

Mr Keith Gardner, Director, Consular Operations Section, Consular Branch

Mr Marc Campbell, Division Coordinator, Public Diplomacy, Consular and Passports Division

2.2 Passport services.

Mr Ralph Hillman, First Assistant Secretary, Public Diplomacy, Consular and Passports Division

Mr Bob Nash, Assistant Secretary, Passports Branch

Mr Bill Monaghan, Director, Passport Operations Section, Passports Branch

Mr John Osborne, Director, Passport Systems and Technology Section, Passports Branch

Output 3.1—Public information services and public diplomacy.

3.1.1 Public information and media services on Australia's foreign and trade policy

3.1.2 Projecting a positive image of Australia internationally

Freedom of information and archival research and clearance.

Mr Ralph Hillman, First Assistant Secretary, Public Diplomacy, Consular and Passports Division

Mr Chris DeCure, Assistant Secretary, Parliamentary and Media Liaison Branch

Mrs Victoria Owen, Assistant Secretary, Images of Australia Branch

Mr Chris Freeman, Director, Media Strategies and Internet Section, Images of Australia Branch

Output 4.1—Property management.

Mr Peter Davin, Executive Director, Overseas Property Office

Mr Kevin Nixon, Assistant Secretary, Alliance Management Branch, Overseas Property Office

Output 4.2—Contract management.

Enabling services

Items—General corporate support; human resource management and overseas conditions of service; financial and budget management; national non-secure (communication system) information technology and information management; records management; property management; executive support; training and development; evaluation and audit; internal legal and statistical services; security services.

Ms Caroline Millar, Assistant Secretary, Executive, Planning and Evaluation Branch

Ms Nicola Watts, Director, Ministerial and Executive Liaison Section

Mr Ian Biggs, Director, Corporate Planning Section

Mr Chris Marchant, Director, Evaluation and Audit Section

Ms Jemal Sharah, Executive Officer, Ministerial and Executive Liaison Section

Mr Chris Moraitis, Assistant Secretary, Staffing Branch

Ms Jane Madden, Assistant Secretary, Staff Development and Post Issues Branch

Dr Lee Kerr, Director, Management Strategy, Conduct and Coordination Section, Corporate Management Division

Mr Richard Andrews, Director, Budget Management Section, Finance Management Branch

Mr Daniel Sloper, Executive Officer, Budget Management Section, Finance Management Branch

Australian Agency for International Development (AusAID)

Outcome 1: Australia's national interest advanced by assistance to developing countries to reduce poverty and achieve sustainable development.

Output 1—Policy

Output 2—Program management

Administered items—Australia's aid program.

Mr Ian Anderson, Assistant Director General, Contract Services Group

Mr Bruce Davis, Director General, AusAID

Mr Scott Dawson, Deputy Director General, Asia and Corporate Resources Division

Ms Jacqueline De Lacy, Acting Director General, Budget

Mr Paul Flanagan, Assistant Director General, Humanitarian, Multilateral and Community Branch

Mr Mark Fleeton, Assistant Director General, Resources Branch

Ms Ali Gillies, Assistant Director General, Executive Services Group

Mr Robert Glasser, Assistant Director General, Corporate Policy Branch

Mr Peter Jensen, Director, Finance and Budget Section

Mr Alan March, Acting Assistant Director General, South Pacific Branch

Ms Gillian Mellsop, Director, United Nations and Commonwealth Section.

Mr Titon Mitra, Acting Assistant Director General, East Asia Branch

Mr Richard Moore, Assistant Director General, Mekong, South Asia and Africa Branch

Ms Kim Murray, Budget Officer, AusAID Budget Unit

Ms Annmaree O'Keeffe, Deputy Director General, Pacific Contracts and Corporate Policy Division

Mr Murray Proctor, Assistant Director General, Office of Review and Evaluation

Mr Charles Tapp, Deputy Director General, PNG and Global Programs Division

Mr Jason Reynolds, Manager, AusAID Budget Unit

Ms Judith Robinson, Acting Assistant Director General, Corporate Policy Branch

Australian Centre for International Agricultural Research (ACIAR)

Outcome: Agriculture in developing countries and Australia is more productive and sustainable as a result of better technologies, practices, policies and systems.

Output group 1—Collaborative research that addresses agricultural and natural resource management problems of developing countries and Australia.

Output group 2—Trained researchers in developing countries and Australia.

Mr Michael Brown, Director, Corporate programs

Dr John Skerritt, Deputy Director, research and development programs

Mr Paul Tyrrell, Finance Manager

CHAIR—I declare open this meeting of the Senate Foreign Affairs, Defence and Trade Legislation Committee meeting. I will shortly be welcoming back Senator Hill, the Minister for Defence and the Minister representing the Minister for Foreign Affairs and Trade. I welcome officers from the Department of Foreign Affairs and Trade and officers from Austrade. The committee has before it the particulars of proposed expenditure for the service for the year ending 30 June 2003, documents A and B, and the portfolio budget statements for

Foreign Affairs, Trade and Austrade. Today the committee will examine the particulars for Austrade, and trade options, outputs 1.1.5 and 1.1.6 of the Department of Foreign Affairs and Trade.

When officers are first called upon to answer a question they should state clearly their names and positions. When written questions on notice are received the chair will state for the record the name of the senator who submitted the questions. The questions will be forwarded to the department for answer. The committee has resolved that the deadline for the provision of answers to questions taken on notice at these hearings is Thursday, 11 July 2002. I remind my committee colleagues that the Senate Finance and Public Administration Legislation Committee is continuing to monitor the format and contents of the portfolio budget statements. If you have any comments you wish to make about these documents, please place them on the public record during these estimates hearings or direct them to that committee.

Witnesses are reminded that the evidence given to the committee is protected by parliamentary privilege. I also remind witnesses that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate. The Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise. An officer of a department of the Commonwealth shall not be asked to give opinions on matters of policy. However, you may be asked to explain government policy, describe how it differs from alternate policies and provide information on the process by which a particular policy was selected. An officer shall be given every opportunity to refer questions asked of that officer to a superior officer or to the minister.

The minister is not here, so he will not be making an opening statement. Ms Selby, do you wish to make an opening statement?

Ms Selby—No.

Senator COOK—Before we proceed to the witnesses, Chair, your opening statement raises two questions which I would like, if I could, to deal with now. The first is on the program. Since we are starting almost two hours after the intended starting time for this section of the estimates, I should indicate that if the program you have foreshadowed is adhered to I will need extra time somewhere in the program, and before the appropriation bills are committed to a vote in the Senate, to have finalised my questions in the trade area because they are a bit more extensive than that program would allow. Secondly, I wonder if this is the appropriate time for any questions in overview about the estimates for this portfolio. Is this the time to ask those, or are they questions that we can hold onto until after we have dealt with Austrade?

CHAIR—On the second matter, I guess that is up to you, but if the overview questions are of trade matters perhaps you should ask them now. In relation to the other matter, the program was pushed out because your colleagues needed a little bit more time. I am sure that we can address the concern that you have, but perhaps we should just proceed with this and come back to that at a later stage.

Senator COOK—That is fine. I just thought I should speak now, because I do not want to forever hold by peace on that subject. I think the overview is more appropriate to DFAT rather than to Austrade, and I will hold on that matter, if that is not a problem.

CHAIR—That is appropriate. We can discuss that other problem further in private.

Senator COOK—Indeed.

Senator LUNDY—My first question relates to an issue that we raised at the last round of additional supplementary estimates on the decision making of the location of new TradeStart offices. I would like officers to reiterate the basis upon which the locations of the 10 new TradeStart offices were selected.

Ms Selby—I will call on my colleague Michael Vickers to answer that for Austrade.

Mr Vickers—The locations of the 10 new offices, nine of which are specified and one of which has yet to be specified, were announced by the Minister for Trade in the context of the election campaign. Those offices were on a list of potential offices which were drawn up by Austrade in preparation for the budget round of discussions late in the calendar year last year.

Senator LUNDY—What other potential locations were on that list?

Mr Vickers—Quite a number—there were something heading towards 30 different locations on that list.

Senator LUNDY—That list of 30 was provided to the minister?

Mr Vickers—Yes.

Senator LUNDY—What preference did Austrade indicate on that list?

Mr Vickers—Austrade did not indicate a preference on that list.

Senator LUNDY—Can you provide a copy of that list to the committee?

Mr Vickers—Yes, I am happy to take that on notice.

Senator LUNDY—Just to confirm: you did not indicate any preference or make any recommendation on which of those 30 should be selected?

Mr Vickers—No, we did not.

Senator LUNDY—So it was completely in the minister's office's hands about which offices were selected?

Mr Vickers—That is a matter I cannot answer; it is a matter for the minister.

Senator LUNDY—I might follow that up when the minister turns up. Austrade's budget has been cut by \$5.56 million in this financial year and its staffing profile has been reduced by three, according to the PBS. Given those constraints and reductions, how will Austrade be able to establish and run 10 new TradeStart offices?

Mr Vickers—The money for TradeStart is allocated as a separate item in the budget, and the government has allocated \$21.5 million over four years to run TradeStart.

Senator LUNDY—Can you provide me with a breakdown of what the \$5.56 million cut is going to affect directly?

Mr Chesterfield—The cut is largely not a cut in real terms; it is a cut in changes to foreign exchange and inflation parameters set across the basket of currencies in the countries we operate in. So there are increases and reductions that make up the overall reduction, but by far the largest part of those are projected changes in foreign exchange rates where the dollar has been projected to be higher this coming year than it has been in the last year.

Senator LUNDY—Can you confirm how much additional funding Austrade received in the last financial year or in this current financial year for exchange rate movements?

Mr Chesterfield—I will have to take that on notice. I certainly can, but I do not have that information with me.

Senator LUNDY—I can probably tell you what it is. I put to you that it is \$11.4 million, and my question is: how much less are you getting this year as far as funding goes for those exchange rate movements—in this forthcoming year?

Mr Chesterfield—The reconciliation I have available—and I can give you a copy of this—is the reconciliation against the budget position last year. That lays out the changes. If you would like a copy of that, you are most welcome.

Senator LUNDY—Is that in the PBS?

Mr Chesterfield—No, this is the detailed break-up of the information in the PBS.

Senator LUNDY—I would be grateful if you could table that, and then the officers could bring it to me. Are you telling me that the \$5.56 million cut is only attributable to the variation in the exchange rate movements or are there other factors like that reduction in staffing that has been identified?

Mr Chesterfield—No, it is entirely attributable to the foreign exchange rebasing between years and within years.

Senator LUNDY—So, other than the additional funding for the expanded TradeStart program, all other things are equal?

Mr Chesterfield—The EMDG scheme has received an extra \$400,000 per annum in the budget, and there is an equity injection of \$50,000 for the Zagreb office.

Senator LUNDY—Is that also as part of the EMDG? Where does that \$50,000 fit?

Mr Chesterfield—The EMDG scheme has been increased by \$400,000 per annum.

Senator LUNDY—And the other \$50,000 capital injection?

Mr Chesterfield—That is for Zagreb.

Senator LUNDY—Going to the plan to double the number of exporters over a period, can you tell me whether the reference to 25,000 exporting businesses in *Knowing and growing the exporter community* includes tourism businesses?

Mr Joffe—It includes some but not all. It was based on the Australian Bureau of Statistics business longitudinal study where they took a sample of Australian businesses, both exporters and non-exporters. Some of those businesses were in tourism, but the tourism sector would be less well reflected than other sectors.

Senator LUNDY—Are you able to put a figure on what the number of exporting businesses would be if all the tourism businesses were included?

Mr Joffe—Not at this point. We are having discussions with the ABS because this is obviously something we are very interested in. Those discussions are at the point of really trying to put a tight enough definition on what constitutes an exporter. At this point we do not have an answer.

Senator LUNDY—I guess I am looking for a ballpark figure on what that 25,000 would increase by if you included them all.

Mr Joffe—The best I could do is say several thousand more. To give you a specific example, it depends whether you count the shops in Circular Quay with more than 10 per cent

of their sales going to foreigners. That is the sort of discussion we are having with ABS. It will be several thousand more, but I do not know how big because it depends on the definition.

Senator LUNDY—The government program states that it will double the number of exporters within five years. Obviously how many businesses are currently exporting and what statistic you use to define that is a key factor in determining what the actual goal is. What is the value of talking down the size of the exporting community, particularly in the context of trying to achieve these policy goals? It seems to me that if we are not including all of the businesses—and these issues of definition have not been worked out—and you base a policy on doubling that number then in fact that exporting community cannot help but be left with the feeling that their numbers are being talked down to make that goal more easily politically attainable. The minister is not here, but I would be looking for a comment from him. Is there any specific reason why that statistical definition has not been resolved before putting this policy in place?

Mr Joffe—This work on *Knowing and growing the exporter community* report and working with the ABS are really what has fleshed out that the definition is not tight enough. The ABS has given Austrade their best estimates of exporters, which is the number used in here and both we and the ABS have realised that more work needs to be done to get a tighter definition. The policy of doubling came out of the research and, equally, the research highlighted that we really needed to work with the ABS to get a better definition.

Senator LUNDY—Was it Austrade's view that a tighter definition was required?

Mr Joffe—Both Austrade and the bureau, as we have worked through the numbers, have realised how slippery that issue is of who is an exporter, particularly in some industries. More definition is needed.

Senator LUNDY—What happens now in resolving that issue of definition? What course of action are you following with ABS?

Mr Joffe—One of my staff is working on that. I am not sure of the detail. I presume there would be meetings with the relevant people in Austrade, DFAT, ABS and all other constituencies to try to get definitions that could be agreed and that the ABS would be happy to use as robust definitions.

Senator LUNDY—What efforts have you made to get the views of that sector of exporters in tourism to garner their views on the sort of support they require or would like from Austrade?

Ms Selby—We have been talking to the tourism sector and our minister, Mr Vaile, has recently co-chaired a meeting of the Australian Tourism Export Council. The industry themselves see tourism as an export industry and they talked about how Austrade could work with them to enhance their role.

Senator LUNDY—Just to confirm, this policy of doubling the number of exporters is really focused on the non-tourism exporters, isn't it?

Ms Selby—It is focused on the Australian potential export community generally.

Senator LUNDY—So they worked with the tourism exporters bureau, did you say?

Ms Selby—The Australian Tourism Export Council.

Senator LUNDY—Are those figures for the tourism sector and any improvement there going to be counted as part of the statistical analysis of whether or not you are actually achieving a doubling of export figures?

Ms Selby—It gets back to what Mr Joffe was saying. We need to be talking to the ABS, as well as to the tourism industry, to make sure that we are all in agreement on what is included and what is not going forward.

Senator LUNDY—I am just trying to work out what the benchmark is and I am still not clear.

Ms Selby—I understand.

Senator LUNDY—What I have heard so far is that not all tourism businesses are included in that 25,000 figure, yet that seems to be benchmark figure the government has identified for the purposes of needing to double it over the next five years. On the other hand, because not all of the tourism businesses are included there, there are also discussions going on with the tourism exporters group. So what I am asking is, firstly, whether there is a benchmark of tourism exporting businesses that can be identified now and, secondly, whether any increase in that number will be factored into the doubling of this 25,000 number.

Mr Crawford—I think it is important that the committee notes that when the minister released this policy last year he made it clear that there was a need for a whole-of-government approach here. The committee should note that recently—a couple of weeks ago—Minister Hockey released a 10-year plan for tourism, because the tourism sector itself believes that the value of tourism exports is not yet fully recognised within Australia and that it is substantial.

Senator LUNDY—They are certainly not in this group of definitions.

Mr Crawford—I think the point is that the identification of tourism operators, as my colleague identified before, is not a simple task. The industry itself is dealing with that issue along with the issues of self-regulation and appropriate standards. So it is not a simple job, and we are working on it at the moment both by talking to the ABS and developing a plan there and also by working closely with the Australian Tourist Commission and the Department of Industry, Tourism and Resources.

Senator LUNDY—That still does not answer my question about whether there is a benchmark figure of tourism businesses that is not currently included in the 25,000 that will be included for the purposes of achieving this goal. I am trying to work this out because in five years time I do not want to come back and say, ‘Well, did you double the businesses?’ and have you say yes and then have a big debate about how rubbery the figures are and whether or not tourism businesses were included. I am just trying to get it clear now.

Mr Joffe—I understand the question. The answer is slightly long, but I will try and address the question you are asking. At the moment the growth in exporters as estimated by the ABS, in their work with us, is about five to eight per cent a year. Doubling the number of exporters in five years requires about a 15 per cent per year increase. So, almost regardless of what you do, it is a big increase and a real stretch. Within that there is a clear recognition that tourism is one of those sectors. The best estimate of the ABS for last year was about 25,000 exporters, including tourism.

Senator LUNDY—Including tourism?

Mr Joffe—Yes, including tourism, but we do not know if it is fully representative because the definition is not finalised. As we go forward, we will get better definitions and we will get

a number. My response would be that when we get to 50,000 we should be celebrating. Both tourism and any other industry will be part of that.

Senator LUNDY—So what you are telling me is that that benchmark figure the government has identified of 25,000 could in fact change depending on the resolution of this definition issue? If ABS and everyone else decides that the definition should be slightly broader, then that figure could go up, but we will still just be measuring 50,000 in a few years time, won't we?

Mr Crawford—Can I put to you an important issue, and that is that we are focusing on the finer definition, if you like. But, as the Minister for Trade has made clear, this is about driving dramatic change in Australia to get a greater number of companies exporting. At the moment, it is only about four per cent and so the focus really should be on that dramatic change in behaviour and outlook. At the same time, we are trying to get clearer definitions on figures. I suggest that we report back to the committee as that work progresses.

Senator LUNDY—I will look forward to that, but it is my job to be pedantic about government promises and how the government actually achieves them over a period of time. Can I go to this issue of percentage growth. The government has declared that they are pursuing a doubling. That works out to be about 15 per cent per year. We just heard that there is an annual growth anyway in the number of exporting companies. Is that the case?

Mr Joffe—Yes.

Senator LUNDY—What is that annual growth currently in percentage terms and in numbers of companies?

Mr Joffe—It is not a consistent percentage every year but, based on the four to six years that the business longitudinal study went for, it seems to be between about five and eight per cent per year for that period. I should stress that period is 1994-1998, so already some of those numbers are dated. We do not know what it is for the last few years, because there has not been data on it.

Senator LUNDY—You would have some idea as to whether we are exporting more or less, surely?

Mr Joffe—It is quite easy to do in dollars, because we have the trade figures. Actually getting numbers of exporters is incredibly difficult, and that is what the ABS are working with us on.

Senator LUNDY—If the only data that is available points to somewhere between a five and eight per cent growth each year anyway, what is that growth in actual numbers of companies exporting?

Mr Joffe—If I take a five-year horizon, if we were at approximately 25,000 exporters last year and we are looking for approximately 50,000 in five years time and if the growth rate was eight per cent, you would get about half of that through natural growth and the other half you would have to do yourself. Using those numbers—and obviously these numbers are rounded—of the 25,000 extra exporters, about half would come through natural growth and half through having to take extra initiatives. As I was pointing out earlier, that is quite a significant increase.

Senator LUNDY—So, in terms of doubling the number of exporters, as far as the government's announcement, policy and commitment go, half of that growth will be achieved through natural growth anyway?

Mr Joffe—Based on trend and based on the BLS numbers from 1994-1998, you would expect about half and you would have to make the other half happen by taking specific initiatives. Of course, that the trend would continue is also an assumption, but we do not know one way or the other that it would not.

Senator LUNDY—Do you have any reason to believe that that assumption about that growth trend will change?

Mr Joffe—No.

Senator LUNDY—Let us go to the remaining number of exporting companies that you need to grow. How does that work out as far as each year goes? How many new exporting companies does there need to be each year to achieve the coalition's promise?

Mr Joffe—The gap is about 13,000. If you divided it by five, you are talking approximately two-point-something thousand per year. Our analysis is that that would actually ramp up. The program would take time to kick in, so you would expect it to be lower in the first year or two and rising nearer the end.

Senator LUNDY—Do you have a series of goals that you hope to achieve over the five years for increasing the number of exporting companies—like 1,000 in the first year, 1,500 in the second year, 2,000 and so forth?

Mr Joffe—We are working on that. They are being finalised for the corporate plan, which should be released in July.

Senator LUNDY—I thought all this was supposed to be in place in July.

Mr Crawford—What should be in place?

Senator LUNDY—It should have been in place in July.

Mr Crawford—What exactly?

Senator LUNDY—The strategy to double the number of exporting companies.

Mr Crawford—Yes, and it will be.

Senator LUNDY—But we are only going to hear about the goals in July?

Ms Selby—I think what Mr Joffe was referring to was that our corporate plan starts from 1 July. It will be considered by our board in June, ready to roll from July.

Senator LUNDY—From 1 July?

Ms Selby—Yes.

Senator LUNDY—Can you take on notice to provide the committee with those annual goals for increasing the number of exporting businesses?

Mr Joffe—Yes, Senator.

Senator LUNDY—Thank you. How are you going to achieve that?

Mr Joffe—Senator, you have read the *Knowing and growing the exporter community* report, so I am sure you know the answer. The *Knowing and growing* research identified five key levers to double the number of exporters over five years. The first was to increase the intention to export of companies that do not currently intend. The second was to support born globals, which continue to be a very important group of exporters. These are the companies that become global very quickly and have to be global to survive. The third was to increase the success rate of Australian companies that intend to export. Increasing the success rate of

that original group of intenders has a big impact. One of the insights from the research, as you will have seen, is that we found by using that BLS survey that, on average, 17 per cent of the companies that said they intended to export actually succeeded over a three-year period. Of those who used Austrade services, 74 per cent succeeded. Of those who did not, about 14 per cent succeeded. So the key lever within that is actually to get them to use the available services. In fact, we found it was not just Austrade; it was also other government services. Where these services were accessed, the companies got a better success rate.

The fourth lever is aimed at addressing what are called ‘accidental exporters’, people who do not show an intention to export but, perhaps by just sitting next to someone on a plane, have an opportunity come their way. If you can create more chances for those accidental connections, you can actually help that group. The fifth lever is aimed at a large number of companies that are called ‘irregular exporters’—companies that export one year, do not export the next year but export the year after. If you could make those companies regular exporters so that they are exporting every year, your overall number of exporters every year increases. Those are the five key levers, and then we have programs under each of those to try to make that happen.

Senator LUNDY—Including the TradeStart program, which includes expansion of the Export Market Development Grants and so forth?

Mr Joffe—Yes.

Senator LUNDY—I will come to those.

Ms Selby—It includes involving our whole network in working with potential exporters in Australia—so a reallocation of resources, particularly involving our staff from offshore who bring market knowledge and having them much more involved in working with potential exporters. It also involves our working with the states and industry associations. The state governments, in particular, have a large number of people working in enterprise development with a range of companies, not necessarily exporters. One of our strategies in working with the states is to brief or to better educate those enterprise development advisers on what is an export capable company or what is an export ready company so that they can then refer them on to relevant service providers.

Senator LUNDY—What is the degree of formality in those discussions with the states?

Ms Selby—Reasonably formal, in the sense that the National Trade Consultations are regular meetings between federal Minister for Trade and the relevant minister from each of the states. The last meeting of the National Trade Consultations took place on 4 April. The ministers signed a memorandum of understanding to work together towards doubling the number of exporters, and it was agreed that Austrade would work with each individual state government to identify programs and projects that we could work on together. So it is a formal approach.

Senator LUNDY—Are there any specific figures to show what resources the states will be putting in to that particular initiative?

Ms Selby—No, not at this stage. We estimate that there are around 700 state and federal enterprise development staff. That includes AQIS and people working on quarantine—a wide range. We did estimate how many there are in each of the states. All of the states have trade development programs. I do not know how much each state government puts into that area, but it is reasonably considerable.

Senator LUNDY—In terms of that MOU and the state trade development programs supporting this initiative, I am just trying to get my head around how that will occur. Will Austrade provide a briefing to the officers within each of the states? Will they then deliver those services, like a referral service, to other Austrade services or will they provide their own advice? What kind of transfer will there be to the states from what Austrade's role has traditionally been?

Ms Selby—I would expect the enterprise development staff that I was talking about to continue to do their usual work of working with a whole range of companies. We are seeking to train them to be able to identify export capable companies to refer to providers, such as Austrade, of services for helping companies to get into export. The states also have international trade sections in some of their departments and a few overseas offices, but they do not have the extensive global network that Austrade has. Austrade will continue to work with companies that we identify or that the states may have identified to enable them to use the global network.

Senator LUNDY—So not only will Austrade be a point of contact for potential or existing exporters but those state offices will become a point of contact as well and then refer on to Austrade?

Ms Selby—That is correct.

Senator LUNDY—And you are obviously hoping that that will identify many more potential exporters?

Ms Selby—That is correct.

Senator LUNDY—You mentioned the reallocation of staff or a different way of using your overseas staff. Could you elaborate on that?

Ms Selby—Our overseas staff visit Australia now at different times, sometimes with buyers or customers, sometimes to promote their specific market and sometimes to work with particular companies that they are familiar with in their market. We intend to reorient their visits—not totally but to some extent—to ensure that they are spending time with potential exporters. There is nothing more powerful than a potential exporter being briefed by somebody who is actually from an overseas market, who can give information and knowledge based on their experience of other Australian exporters in the market or who can talk about specific opportunities and so on. This is a very valuable tool which we intend to use a little more with our new exporters.

Senator LUNDY—What sort of budget allocation is there? What number of return visits to Australia is the current norm for those officers overseas? What plans do you have to create more visits? What budget allocation have you put against that increased expense of travelling for these people?

Ms Selby—I do not have the figures for this.

Senator LUNDY—Is that because you do not have the figures here or because you have not worked them out yet?

Ms Selby—No, we have certainly worked them out. There will be some additional visits but, in thinking through this program and the use of the overseas staff in Australia, quite a lot of them—I am sure you have met some of them; some of them have been in the ACT—have traditionally been coming back for particular programs anyway. So there will be some

increase, but not a major increase over what exists now. I just do not have the figures in front of me.

Senator LUNDY—I am trying to get a feel for your resourcing generally. It has increased in specific programs, but through identifying this doubling of exporting companies Austrade is creating a lot more work for itself. That seems to me to be part of the strategy. How will your current resourcing cope with generating a lot more work for yourselves through this program?

Ms Selby—The visits of overseas staff to Australia will, we think, be a very useful way of efficiently servicing an increased number of potential exporters in the early stage. We hope to use our overseas people to meet groups of potential exporters—small groups rather than one on one. There is the enhanced TradeStart network, and we will be working with the state government trade people and our own Trade people. We will also be working very closely with potential exporters—coaching, as the expression goes—to try to ensure that those we are actually servicing offshore are ready and that, therefore, we are making very efficient use of our offshore resources in particular.

Senator LUNDY—So you are not proposing to put more Austrade officers on the ground here in Australia in your domestic network?

Ms Selby—We will be reallocating some of our existing onshore resources but, as I said, the offshore resources will be used more in Australia and that will make those resources available to the companies here face to face, whereas previously business has been conducted through email or some other way.

Senator LUNDY—I am just trying to confirm that you are not putting more people into your domestic network here in Australia; rather, you are providing more human resources, in providing the services to potential exporters, by bringing overseas people back for periods of time and also by utilising the people on the ground here employed through the states—through the MOU and other arrangements.

Ms Selby—The TradeStart network will put more people on the ground.

Senator LUNDY—So more people will be employed by Austrade?

Ms Selby—We will be co-funding with the partners in TradeStart.

Senator LUNDY—I will come to that. I see in the PBS that you have three net fewer staff, so I am figuring that if you are going to double the numbers of exporters the human resources to achieve that goal are coming from somewhere. So far, we know that you are going to pull people back from overseas, that the states are going to be doing something. I would like to go to the issue of the partnerships and private providers. I know we discussed this at some length at the last round of additional supplementary estimates, but it is worth revisiting in this context. There was just one other question I had about people coming back from overseas. What consideration have you given to the gap that will leave in the current services provided by those overseas officers within the jurisdictions to which they have been posted?

Ms Selby—They will not be coming back for extensive periods. We are talking of three-week visits, on average. As I said, our staff come back to Australia now and offices function effectively when people are not there. Our people are also very competent at functioning in a mobile way, and so they access their emails and whatever while they are on the road and respond to clients, as we call them—exporters—when they are back in Australia as well.

Senator LUNDY—So they are doing two jobs?

Ms Selby—They are using their time efficiently.

Senator LUNDY—Do they get a pay increase?

Ms Selby—I am sure they would like one.

Senator LUNDY—I am sure they would like one. It seems to me that their scope of work is expanding significantly. They are helping the department out heaps by providing a resource that otherwise would perhaps have to be provided by more people.

Ms Selby—I do not think that is really the case. They are doing a different form of work. We are redirecting their efforts towards working with more potential exporters rather than working with the companies—some, not all; we are not working with existing exporters—that perhaps no longer require our services. We are ensuring that our resources are more available for new potential exporters.

Senator LUNDY—So the rationale behind doing this is that their services are required less overseas and more here and because you have finite resources you have made a choice?

Ms Selby—The rationale is that an efficient way of helping a larger number of Australian companies to get into exporting is, in one sense, to bring the overseas market expertise to them and work with them and their export advisers here, one on one or in a group, rather than deal with them offshore.

Senator LUNDY—I am certainly not questioning the merit of the exercise. It makes sense the way you describe it. It seems to me that a gap has to be created somewhere. I am trying to get an insight into what thought you have put into the creation of that gap, which is what they would have been doing had they still been in their overseas posts.

Ms Selby—Sure.

Senator LUNDY—Could we move now to the TradeStart program and partnerships with private providers. Where is that up to? How many private providers have been put in place in these partnership arrangements?

Mr Vickers—Are you asking about the current service providers or service providers under the new program from 1 July?

Senator LUNDY—I actually think we got the information regarding the existing ones last time. Is that right?

Mr Vickers—Correct.

Senator LUNDY—Could we focus on the new ones due to start on 1 July. I want to ask about the location decisions for that expanded program. There are more offices now on top of the other 10, are there not?

Mr Crawford—I think we need to clarify a bit of a misconception that exists here. The TradeStart program is a deliberate strategy to get a greater domestic reach within Australia by cooperating with allies in both state governments and private sector groups. The object, at the moment, is to try to get maximum geographic and sectoral coverage through that program to support the government's goal of doubling the number of exporters. As to your questions about the lack of capability in the domestic network, you should recognise the intent behind TradeStart. The intent is to try to get more resources on the ground but in a cost-effective and efficient manner. One of the things we need to do is get inside programs that already exist rather than duplicate them. As Ms Selby said, there is a substantial range of programs in state

governments which, rather than duplicating, we want to work with. The same applies for other programs in the Commonwealth.

Senator LUNDY—That lines up with what I was thinking, and so you must have a guilty conscience or something.

Mr Crawford—Not a guilty conscience at all.

Senator LUNDY—I was not under any misconception at all. With respect to the TradeStart offices, we have discussed the 10 new ones that were announced during the election. Are there more TradeStart offices due to open up from July?

Mr Vickers—We are currently going through a request for proposal process, where we have asked organisations to submit proposals. We are currently evaluating those proposals, and the number of TradeStart offices is dependent on the progress of the negotiations which are part of that evaluation process.

Senator LUNDY—What is the maximum number of new TradeStart offices that your budget could sustain?

Mr Vickers—Because TradeStart is a program which accepts contributions from the service providers—some state governments, some industry associations—that number is not finite until such time as all the contracts are executed, because there is a commercial negotiation between Austrade and the counterpart service provider.

Senator LUNDY—Can you tell me whether Austrade has prepared a list of optimal locations where Austrade feels there is most need for a TradeStart office?

Mr Vickers—As you will recall, a list of potential locations was discussed in an earlier question. The request for proposal process invited a broad proposal. So in the evaluation process we will decide which of those locations proposed to us best meet the need.

Senator LUNDY—You will use that original list as a guide, and cross off the 10 locations that have already been allocated?

Mr Vickers—It is a more interactive process than that, in that we have a list of, if you like, from Austrade's point of view, potential locations. There are also potential locations put to us by the proposers, and sometimes you can achieve the same end through several different ways, because offices are not fixed entities; they cover a geographic region. So it is a question of matching the proposals put to us and the cost versus where we see the service gaps.

Senator LUNDY—Can you tell me—and I am sorry if you just did—specifically what the time frames are for the processing of those RFPs? Have you received them all?

Mr Vickers—Yes. The RFP process closed on 20 May.

Senator LUNDY—What is the formal time line from then on?

Mr Vickers—We are going through the evaluation process at the moment. Part of that evaluation process is scope for negotiation, because you will appreciate that, when organisations submit an RFP, there are sometimes issues raised in those RFPs which require negotiation. I cannot provide you with a fixed time frame on every RFP that is ultimately accepted, because they are accepted as they either conform to our specifications or as we reach agreement with them. So there is not one finish line for all of the proposals.

Senator LUNDY—Do you have a date identified where you would like to have all of those agreements in place?

Mr Vickers—No. As I said, there is no common finish line. Clearly from 1 July we would like to have as many in place as possible, but there are a number of new proposals which have been put to us which will require some negotiation, and it may be some time after 1 July before they are either accepted or rejected.

Senator LUNDY—But you would want them sorted out by the end of this year?

Mr Vickers—TradeStart is a four-year program and, over the period of the four years, we would expect new opportunities to arise as the client base shifts, and so it is not a fact that we settle on a particular common date with all the offices and that they stay the same over the four years. It is intentionally a flexible program.

Senator LUNDY—Would you describe the RFP process as a competitive process, like a competitive tender? In this case, it is more like an RFI, isn't it, a request for information?

Mr Vickers—It is a competitive process.

Senator LUNDY—How do you deal with that, if you receive submissions from two different entities in the same geographic area? Do you then just get them to bid up against each other in that negotiation phase?

Mr Vickers—No. As part of the RFP process, there was a series of evaluation criteria set, and organisations are asked to put their proposals against those evaluation criteria and Austrade uses those criteria to assess the proposals.

Senator LUNDY—What if you were not comparing apples with apples in what was being offered? How would you resolve that?

Mr Vickers—I am not quite sure of the nature of your question. Could you elaborate your point?

Senator LUNDY—It relates to probity where you are negotiating with one particular company, for example, about a potential agreement and the other company may or may not be aware of those negotiations. If they are aware of them, they may choose to supplement their original tender, if you like, or RFP. What impact does that then have on the probity and the process of negotiation with the other company?

Mr Vickers—Can I perhaps provide some more detail on the process. We have a request for proposal. Those are evaluated. A preferred provider is identified in each location. If the preferred provider meets all of the criteria acceptably, then we would proceed to pursue an agreement with them. Where the preferred provider does not meet all criteria, there is scope in the process for negotiation, but we do not have a competitive negotiation. We negotiate with the preferred provider in each location, and if we are unable to reach agreement then it would go to the second ranked person. So it is not a competitive negotiation in that sense.

Senator LUNDY—So, if you have two nonconforming proposals, you could still pick one of them and then enter into negotiations?

Mr Vickers—We will pick the one that is closest and negotiate with that party.

Senator LUNDY—Is there a probity auditor associated with this selection process?

Mr Vickers—There is.

Senator LUNDY—Who might that be, or which company might that be?

Mr Vickers—Deloittes.

Senator LUNDY—Will they be providing a report at the end of the process?

Mr Vickers—Yes, they will.

Senator LUNDY—Will that be at the end of the four years or after the bulk of these decisions are made—presuming that the bulk are going to be made within the next few months?

Mr Vickers—At the end of the current selection process.

Senator LUNDY—Which is when? It could be four years.

Mr Vickers—It does not have a fixed date, as I was explaining earlier.

Senator LUNDY—That is what I am worried about. That report might not be available in four years, and in the meantime anything could happen. Could I leave it with you on notice to get back to me with full details about that selection process, to just extrapolate on this issue we have been discussing?

Mr Vickers—Could I get you to specify which items you would like us to respond to?

Senator LUNDY—What potential submitters of requests to the proposals can expect when they provide you with that proposal, both if they conform or do not conform with the evaluation criteria, and details of your process from that point on, from their perspective.

Mr Vickers—Certainly.

Senator LUNDY—As far as those partnerships go, can you describe for me the nature of that relationship? Obviously an agreement is in place. It becomes like a contract to deliver certain services; is that correct?

Mr Vickers—That is correct.

Senator LUNDY—How do you acquit for the money spent? Is it provided in the form of an annualised payment to that particular provider? How do they acquit on the services provided?

Mr Vickers—In the agreement, there are certain services that are required. One of the key ingredients of it is the number of clients, the number of new exporters who meet certain criteria. Their approval onto the program triggers payments, and that is a key area of how we acquit the scheme. TradeStart is actually a ‘pay for performance’ type program. It is not a grant program, in the common parlance. So we, in a sense, evaluate an organisation’s performance by the number of new exporters that are serviced.

Senator LUNDY—How do you cross-reference the companies that are already exporting with new exporters? Do you have a master list of companies already exporting, based on your statistics?

Mr Vickers—No. You are asking how do we ensure that a new exporter is a new exporter and not an existing exporter?

Senator LUNDY—Yes.

Mr Vickers—The companies have to sign a disclosure form.

Senator LUNDY—Is that the companies you have the contract with?

Mr Vickers—No, sorry; the companies who are participating in the program. There is a certain test of what differentiates an exporter from a new exporter. That information is provided to the companies, and they have to verify that they meet the criteria.

Senator LUNDY—On the basis of the companies who are new exporters signing that, then the service provider that has the contract with Austrade can claim some money back?

Mr Vickers—That is correct.

Senator LUNDY—I would like to go to the Export Market Development Grants Scheme. How many EMDG applications did Austrade receive in the 2000-01 grant year?

Mr Collins—The number was 3,391.

Senator LUNDY—How many of those applications were successful?

Mr Collins—We are still processing claims at this stage and we will be for the next couple of weeks.

Senator LUNDY—From the 2000-01 year?

Mr Collins—Grant year, yes. They are the claims that were lodged between 1 July 2001 and 30 November 2001.

Senator LUNDY—I am sorry, I will start that again. My question was: how many applications were there in the financial year of 2000-01?

Mr Collins—That would be 3,215.

Senator LUNDY—How many of those applications were successful?

Mr Collins—I would not have the exact figure in front of me, but it would be in the vicinity of about 2,900.

Senator LUNDY—Could you take on notice to provide me with the exact figure?

Mr Collins—Yes.

Senator LUNDY—Could you also take on notice to provide me with the total amount paid out to those successful recipients in that financial year?

Mr Collins—In that financial year it was \$135.7 million.

Senator LUNDY—How many of those EMDG recipients in the 2000-01 financial year received the minimum grant amount of \$2,500?

Mr Collins—In that financial year, there was no minimum grant amount.

Senator LUNDY—There was no minimum grant amount?

Mr Collins—No. That was a legislative change that was to take effect, if you like, from 1 July 2002. The doubling of the minimum grant was a further addition to that, and that is to take place. It was announced in—

Senator LUNDY—And that is in the new bill?

Mr Collins—That is right, yes.

Senator LUNDY—So there was not a minimum grant amount in that financial year?

Mr Collins—That is correct.

Senator LUNDY—That means there is not a minimum grant amount now. You said that it was supposed to come into effect on 1 July 2002?

Mr Collins—That is correct.

Senator LUNDY—So there is not a minimum grant amount now either?

Mr Collins—There is no provision for a minimum grant amount, that is right.

Senator LUNDY—Is there a maximum amount?

Mr Collins—Yes, \$200,000.

Senator LUNDY—Can you provide me with a table showing the amounts granted in that financial year of 2000-01? How many would be between zero and \$10,000 and how many between \$10,000 and \$50,000? Do you know what I mean?

Mr Collins—I can provide that information to you.

Senator LUNDY—I am just wondering if you may as well provide me with a full list, but any tabulating of that in groups would be greatly appreciated.

Mr Collins—Yes.

Senator LUNDY—And you have figures collated, I presume. You have mentioned July 2001 and November, did you say, or September?

Mr Collins—Yes. The normal lodgment process starts on 1 July each year and finishes on 30 November each year.

Senator LUNDY—So you pretty much know by 30 November what that annual is. There is actually a closing-off date in November?

Mr Collins—There is a firm closing-off date.

Senator LUNDY—So you could give me all of the same figures for the financial year 2001-02 for the questions I have just asked—or not quite all?

Mr Collins—We probably cannot, because what we know at 30 November or shortly after, by the time we get them onto our database, is the amount that has been applied for, not the amount that we pay.

Senator LUNDY—Could you tell me the number of applications for that year? I think you told me that before—3,391?

Mr Collins—That is correct.

Senator LUNDY—You cannot tell me how many are successful as yet, but you think it will be about 2,900?

Mr Collins—It will probably be slightly up this year.

Senator LUNDY—Can I go back a step. Successful applications for the financial year of 2000-01: did you give me that figure?

Mr Collins—I have said it would be in the order of 2,900.

Senator LUNDY—And you took that on notice?

Mr Collins—I should point out, though, that it does vary. We do have a review process. For example, people may get denied on their initial assessment but can subsequently substantiate their claim on review. So the figure is, if you like, changing as we work our way through the reviews.

Senator LUNDY—Perhaps you could take on notice, to the best of your ability, to provide me with the successful applicants for both this current financial year and the previous one.

Mr Collins—Yes.

Senator LUNDY—Also the total amount paid out—or the total amount of money allocated in this year as well?

Mr Collins—Sorry, the total amount allocated in this year?

Senator LUNDY—Yes, to the successful applicants. What the dollar value is to the successful applicants.

Mr Collins—Yes.

Senator LUNDY—Also the breakdown that I asked for, for the previous year.

Mr Collins—Yes.

Senator LUNDY—Thank you. You have mentioned the new bill proposing to double the minimum amount to \$5,000. When is that supposed to come into effect?

Mr Collins—It will come into effect from 1 July, assuming passage of the bill.

Senator LUNDY—This year?

Mr Collins—It will come into effect from applications lodged from 1 July coming.

Senator LUNDY—This year?

Mr Collins—Yes.

Senator LUNDY—That renders irrelevant the \$2,500 minimum?

Mr Collins—That is correct.

Senator LUNDY—The Minister for Trade stated that that doubling—it is not really doubling; it is the creation effectively of a new minimum of \$5,000—will expand the number of business recipients by 250. Can you explain why that is the case and provide, I guess, the logic behind that statement, if there is in fact any?

Mr Collins—The reason the effective minimum grant has been brought in is that it accompanied a recommendation of the EMDG Scheme review of 2000, which was subsequently legislated and which reduced the minimum expenditure threshold from \$20,000 to \$15,000. With the way that grants are calculated, not creating a minimum grant would have meant that an exporter could have expended, say, \$15,001 and under the existing formula that would have meant that they would have got a grant of 50c. So it was meant to accompany the lowering the threshold initiative. In other words, more exporters will be able to access the scheme, because they do not have to spend as much now, and the effect of doubling the minimum up to \$5,000 means that anybody spending \$15,000 and upwards will get \$5,000. So that is expected to attract more into the scheme.

Senator LUNDY—It will attract more applicants because, to them, it is more worth while?

Mr Collins—It is more worth while and it is accessible to a broader range.

Senator LUNDY—Bear with me here because I do not have a great deal of familiarity with this specific program. The minister said doubling, and that legislation had not come into effect to set a minimum. I guess what I am seeing is some logic flowing from the fact that the minimum is doubling but we have never had a minimum. So how does that sit against your findings of applicants to date? Are you getting people who are eligible for 50c worth of support? Have you ever given anyone 50c?

Mr Collins—No, because the threshold up until now has been \$20,000.

Senator LUNDY—To give anybody?

Mr Collins—Yes.

Senator LUNDY—So that was dropped when \$2,500 was set as a minimum in the legislation?

Mr Collins—The chain of events is until the grants year that we are currently assessing, the threshold to lodge a grant claim was \$20,000, so a person who incurred \$20,000 worth of eligible expenditure would get \$2,500, because you take the first \$15,000 off and they get half of the balance.

Senator LUNDY—Sorry, can you say that again.

Mr Collins—For the current grants year that we are assessing now, for an exporter who was assessed as eligible, having spent \$20,000, the amount of grant is calculated by taking off the first \$15,000 and their amount of grant is 50 per cent of the excess over the first \$15,000. So if they spent \$20,000, they will get half of \$5,000, which equals \$2,500.

Senator LUNDY—That effectively operates as a minimum then, doesn't it?

Mr Collins—That is right. But there is no legislated minimum.

Senator LUNDY—But there is a minimum. Everything in the minister's statement talks about this doubling of the minimum. It might not be a legislated minimum, but if there is in effect a minimum operating then it makes more sense.

Mr Collins—What transpired is that the legislative changes which were passed earlier in this financial year, which included the move to reduce the threshold from \$20,000 to \$15,000, also brought in—that is law that would have taken effect from 1 July—a minimum of \$2,500.

Senator LUNDY—So it has the effect of creating a minimum.

Mr Collins—That is right. That in practice will be superseded by the bill that is currently before the House.

Senator LUNDY—When did that last piece of legislation come into effect?

Mr Collins—It would have come into effect from 1 July.

Senator LUNDY—No, the change before that, the one that creates an effective minimum of \$2,500.

Mr Collins—That has been in the legislation for three or four years. I should point out that when I agreed before that, in effect, the minimum grant in previous grant years was \$2,500, it can also be impacted by the export performance test from year 3 onwards. For example, if an exporter, as a result of the application of the export performance test, was entitled to a grant of less than \$2,500, they would get less than \$2,500.

Senator LUNDY—But not in their first year? They would not have been eligible in their first year?

Mr Collins—No.

Senator LUNDY—But it could fall away?

Mr Collins—In their first year, if they had \$20,000 and upwards, they would get a minimum of \$2,500 based on the formula, yes.

Senator LUNDY—Given we agreed now that there is an effective minimum, albeit not a legislated minimum, given the other parameters of \$2,500, by legislating an effective

minimum of \$5,000 surely that pushes out the other parameters of eligibility for those businesses?

Mr Collins—Yes, it does in the sense that anybody who spends between \$15,001 and \$25,000 will get \$5,000, whereas previously it would have been under the formula.

Senator LUNDY—Under the formula?

Mr Collins—Which is half after the first \$15,000.

Senator LUNDY—I am not sure if I follow it completely, but what I am trying to ascertain is whether or not anyone eligible currently for those parameters that make \$2,500 the minimum under that existing formula, instead of being eligible for \$2,500 would now—if this goes through—be eligible for \$5,000.

Mr Collins—Yes.

Senator LUNDY—It is a doubling of the grant to businesses who are currently eligible for the \$2,500?

Mr Collins—Yes, if an exporter who had previously incurred \$20,000 of expenditure lodges that same application in this upcoming year, they will get \$5,000.

Senator LUNDY—With no other conditions changed?

Mr Collins—That is right.

Senator LUNDY—I think that is all I want to know about that matter. I might have a look at the *Hansard* and put some questions on notice to make sure that I have covered all the issues that I need to cover. I have some general questions; I do not know whether they relate directly to your program. Increasing the number of exporters is obviously one measure of an expanded capability of a certain number of businesses, as well as having new exporters. I would like to know what attention is being paid to the synergistic effects of that on those businesses and on the requirements of those businesses, for example, in relation to access to growth capital, and perhaps there will be increased pressure on Customs because of export processes and things like that. Is that something that Austrade is addressing or has an interdepartmental committee looking at to ensure that the businesses going through a growth period are not going to find themselves pushed into exports but unable to sustain it because of want of growth capital or lack of knowledge, understanding, competence or confidence with the actual bureaucracy involved with exporting? Do you know what I mean, Ms Selby?

Ms Selby—I think so. I will have a go at answering your question.

Senator LUNDY—I am asking about the synergistic effects of creating these opportunities for businesses. Obviously, they will have a huge impact for those businesses but also a resource impact perhaps on other areas in government. What thought are you giving to that issue?

Ms Selby—One of the sources of advice to these businesses is the enterprise development staff that I have talked about or other industry staff in Commonwealth agencies working on industry programs. Austrade makes it our business to know what programs are available and what the sources of funding are. We do not give advice on venture capital, but we would refer companies to other people who could. So in dealing with pressures on businesses because they are growing, or other pressures, we would refer them to appropriate business professional service providers.

Senator LUNDY—Given that we are going to get information from you about the target number of businesses that you are hoping will become new exporters each year, in addition to the natural growth, how well resourced is the Export Market Development Grants Scheme to cope with what will be a massive new demand from new businesses? No doubt those businesses are fully briefed on the benefits of accessing EMDG by the conscientious efforts of Austrade. You have got some extra money over the next four years, but how are you going to cope with what could effectively be a doubling of demand on the services you provide? How does creating this new minimum—which I am sure has a cost impact—fit with that as well? Are you getting lots of extra money soon, or what is the situation?

Ms Selby—The government has allocated \$150.4 million to the EMDG scheme.

Senator LUNDY—Over four years or five years?

Ms Selby—That is each year.

Senator LUNDY—Is that to cope with that demand?

Ms Selby—That is the amount that has been allocated to the EMDG budget.

Senator LUNDY—The figure for last year was \$135.7 million; with \$150 million you think, ‘Effectively cover off the doubling and the raising of the minimum payable.’

Ms Selby—As I said, that is the amount that has been allocated to the scheme and we will administer it according to the regulations.

Senator LUNDY—Can you demonstrate in your budget how much of that new money—

Ms Selby—What do you mean by ‘new money’? I do not want to mislead you. That is the amount every year.

Senator LUNDY—How much extra? It is \$400,000 per annum, isn’t it?

Ms Selby—That is the extra that was announced in the budget.

Senator LUNDY—I was getting all excited then. I thought the program had got heaps—had doubled their money. It makes my questions more pertinent. If you are getting only \$400,000 extra per year on top of the \$150 million, that will clearly not cope with the creation of 50 per cent new businesses each year.

Ms Selby—I guess it is a hypothetical question. It remains to be seen how many of those are entitled to EMDGs, how many claim and how the claims are assessed. We will not know until we go forward.

Senator LUNDY—In other words it is not envisaged that the EMDG will grow commensurate with the growth in the number of exporting businesses?

Ms Selby—As I said, the government has allocated \$150.4 million each year for EMDG.

Senator LUNDY—Mr Collins, with respect to that extra \$400,000 per annum, can you tell me what that money is going towards as far as your budget is concerned.

Mr Collins—That will go towards the additional number of very small exporters that will be encouraged into the scheme.

Senator LUNDY—It has a specific allocation?

Mr Collins—No, it is part of the pool.

Senator LUNDY—The number of applications coming in already is 3,215. If the number grows by 15 per cent how will you cope? Do you have policies about allocating less money to each company or will you knock back more applications?

Mr Collins—There is no discretion to accept or knock back applications on a whim. The rules of the scheme provide the basis for the allocation of funds between companies.

Ms Selby—To elaborate, the grants are paid in two tranches so that companies that claim up to \$60,000 get paid the full amount.

Senator LUNDY—That has implications because it spreads it across the out years. Is that the point you are making?

Ms Selby—You asked whether we discriminated between companies or whether we did it on a first come, first served basis.

Senator LUNDY—You do not have any discretion—if they qualify they qualify and you have to pay them?

Mr Collins—Yes.

Senator LUNDY—That makes my question even more pertinent because you do not have any choice. You are going to end up like the R&D Start program, surely.

Mr Collins—Certainly not, because the funds are allocated based on the formula. The capping mechanism that caps the scheme to within the allocated budget allocates the funds across the available exporters.

Senator LUNDY—So it just means that everyone will get less?

Mr Collins—Not everyone, because those who are entitled—

Senator LUNDY—This is way too complex for me. You had better explain why it would not affect everybody equally.

Mr Collins—The way the capping mechanism works or the rules work within the act, when those who have an entitlement—currently of up to \$60,000—are assessed, they receive their assessed grant in full. Those who have an entitlement greater than \$60,000 receive the \$60,000 when we assess their entitlement; then the balance of the moneys goes into a pool. The amount of the available funds is compared with the total of the second tranche entitlements at the end of the year and distributed pro rata amongst the eligible exporters.

Senator LUNDY—Have you done any modelling, based on exporters' projected increases and working on a statistical assumption that a proportion of those at least will claim, on what that reduction will be in that surplus pool?

Mr Collins—We are working on that at the moment. Our preliminary thinking is that it will have a delayed effect. The grant scheme is a reimbursement scheme: that is, people incur their expenditure on promotional activities in one year and claim it back in the following year. In addition to that, the scheme has parameters such as the fact that they have to incur a minimum of \$15,000 worth of promotional expenditure to be eligible for a grant; also, they have the option of combining two years of expenditure in the case of first-time applications for grants. Seventy per cent of exporters historically have done that. What that means is that the impact of Austrade's new programs is unlikely to strike in a large way until 2004-05 and will build up progressively past then.

Senator LUNDY—What do your current out years show for 2004-05?

Mr Collins—We are working on that.

Senator LUNDY—Didn't you get \$400,000 extra for that year as well?

Mr Collins—Yes, that covers off the minimum grant initiative.

Senator LUNDY—But you did not get any extra money allocated for the financial year 2004-05, either, did you?

Mr Collins—It is part of the funding of the scheme for the next five years, funding of \$150 million plus the new \$400,000.

Senator LUNDY—So effectively the government has put in place a program for which they have not provided you with the resources and funding they know it is going to cost. That is how it looks to me.

Ms Selby—Again, we will have to wait and see. In some senses it is hypothetical. A number of issues—

Senator LUNDY—I am sorry to interrupt, but it is as if the government is hoping like hell that not too many business apply, and if they do so the government is saying, 'We will worry about it in the financial year 2004-05.' I wish the minister was here because I would ask him about this directly. He is not, so you will have to put up with my comments, I am afraid. I interrupted you, Ms Selby; please continue.

Ms Selby—I have lost my train of thought. I was talking about how we cannot, in a sense, predict the amount of grants that companies are going to claim, because of things like exchange rate changes and—looking at this financial year—the events of September 11, after which a lot of companies did not travel, and the sorts of things that would have led to eligible expenditure, such as trade shows, were cancelled. So it is hard to predict, going out, down to the level of detail you are talking about.

Senator LUNDY—Except that we know that, currently, at least \$135 million of the \$150 million that you get on an annual basis goes just to people claiming currently. We have a government that has a policy of doubling that number within five years. In four years of budget out years you would expect that that target would at least be half achieved—if not two-thirds achieved, but let us work on half—and it would be reasonable to assume that you would need at least another \$70-odd million just to keep pace with the current proportion of allocation of the EMDG scheme. I am astounded, though, to find that there has been no provision in the budget for EMDG that matches increasing the number of exporters. I find that quite an astounding fact.

I probably cannot it take any further than that, except it seems to me to be a quite extraordinary deficiency in the budget. It will effectively put the lid on the capability of the export management development grants to cope with the demands of the future, and it may well end up like R&D Start and be unable to cope with the demand. There is the other factor of the minimum grant amount increasing, which we have heard again would perhaps only increase the pressure on the funding available as well. Mr Collins, you wanted to say something.

Mr Collins—A majority of the new exporters that will be encouraged into the scheme and those that will be supported under Austrade's program, we would expect, would be those that would incur the lower end of expenditure. At the moment, about 70 per cent of our applicants receive their grant in full, because they receive less than \$60,000 in grant. So, whilst it will have an impact on those that are spending more than that, the current scheme can

accommodate a lot of new exporters at up to \$60,000 before it will impact. In other words, the funding will be spread over more exporters and will impact on the exporters that are incurring amounts at the larger end, but there is a lot of scope within the current \$150 million to meet the needs of new firms coming into export.

Senator LUNDY—So more companies but less money.

Mr Collins—Yes, in essence.

Senator LUNDY—I think we have gotten that clear. I would like to ask a couple of questions about the RG Casey Building and the rent. I have noticed the odd media clip on this issue. Can you tell me the total amount of rent that Austrade paid in the RG Casey Building and any associated parking per annum since 1998? I am happy for you to take that on notice.

Mr Chesterfield—We will take that one on notice.

Senator LUNDY—If you could give me a figure now for the last financial year, that would help me with my subsequent questions.

Mr Chesterfield—No, I do not have that figure with me either, I am afraid.

Senator LUNDY—I thought you would have, given all the press reports. I think that is pretty slack. I can probably find a press clip—if I were organised with my papers, I could probably drag the clipping out. Can you also tell me what the rent was before the sale? That would cover back to 1998, wouldn't it? At the point that you provide me with those figures, can you show me the difference when the building was sold?

Mr Chesterfield—I do not believe there was any difference, but we will check that and provide it.

Senator LUNDY—Can you tell me how much you are saving now in rent as a result of the move?

Mr Chesterfield—The lease on the new building is not yet finalised so, at this stage, we cannot tell you precisely what the saving is. However, what we have done to assess the rental is look at discounted cash flow over a period of time, and the Austrade board has decided that it is worth moving for that amount of money.

Senator LUNDY—Have you already moved?

Mr Chesterfield—No.

Senator LUNDY—When are you planning to move?

Mr Chesterfield—The target date on the move is 1 December, and we are trying to move by then.

Senator LUNDY—Can you also take on notice providing me with details of what the associated costs of the move are, like the logistical costs?

Mr Chesterfield—Sure. That is still being worked out in finer detail. It is being scoped right at the moment but, yes, I can provide that.

Senator LUNDY—I would have thought that, given that issues of costs and savings were cited as a motivation for moving, you would have done all of that before making a decision.

Mr Chesterfield—Certainly the discounted cash flow included provision for those items, and we costed on the basis of the information we had available at the time. What is happening at the moment is that the full move is being properly scoped and planned.

Senator LUNDY—What if it turns out, in that first year, that it costs you more to move than the savings you hoped to get on the rent? Will that change your mind? Will you be able to back out of it, or are you stuck with a dud deal?

Mr Chesterfield—No. We have effectively committed to the decision, although the lease is not finalised. However, the savings over the 10-year period in the longer-term lease were such that the board decided it was worth moving.

Senator LUNDY—You will probably need to take this question on notice, because you have not done the detailed work. Are the savings over 10 years more than the costs incurred in embarking upon this move? That includes the associated IT costs and perhaps increased telecommunications costs—any variable as a result of the move or as a result of having moved. I am sure you will be doing it all in great detail.

Mr Chesterfield—Yes.

Senator LUNDY—I have a couple of questions about the appointment of the new managing director of Austrade, and I note the presence of Margaret Lyons. This would be your first estimates, so welcome. Has the new managing director taken up his position?

Ms Selby—Yes, he has.

Senator LUNDY—What experience does the new managing director have in exporter assistance and overseas trade promotion?

Ms Selby—The new managing director has extensive experience in international business, having worked with a major international company, and extensive experience with joint ventures offshore, having managed a major international business.

Senator LUNDY—That is not an answer to the question I asked. What experience does the new managing director have in exporter assistance and overseas trade promotion?

Ms Kimball—We would have to take it on notice to get the detail of his experience.

Senator LUNDY—Thank you. Did Austrade receive internal applications from Austrade staff for the position of managing director?

Ms Kimball—Yes, they did.

Senator LUNDY—How many applicants were interviewed for the position?

Ms Kimball—I would have to take that on notice as well.

Senator LUNDY—Was a short list prepared?

Ms Kimball—Yes, I understand a short list was prepared.

Senator LUNDY—Was the successful applicant from the short list?

Ms Kimball—I would have to confirm that with our chairman of the board.

Senator LUNDY—So you are going to take that on notice?

Ms Kimball—Yes.

Senator LUNDY—Can you tell me about the selection process in relation to the appointment of Ms Lyons as executive general manager for government and policy?

Ms Kimball—Towards the end of last year, we advertised in the national press and we also engaged TMP Worldwide and commissioned them to do an executive recruitment search. Some 50 applicants applied for the position. I understand that around 12 were interviewed by

a panel consisting of our then MD, Mr Charles Jamieson, our chairman of the board and our executive general manager for north-east Asia.

Senator LUNDY—Was a short list prepared?

Ms Kimball—Yes, a short list was prepared.

Senator LUNDY—Was the successful applicant on that short list?

Ms Kimball—There were two tranches. There was a first group that was interviewed and a preferred candidate put forward. That fell through and then the search was widened.

Senator LUNDY—So outside that original short list.

Ms Kimball—Yes.

Senator LUNDY—From which the successful applicant was drawn.

Ms Kimball—Exactly.

Senator LUNDY—It is one of those issues that comes up in politics all the time. Ms Lyons, I just want to confirm with you whether you are the same Margaret Lyons that stood against Clare Martin in the Fannie Bay elections on behalf of the CLP in the Northern Territory election.

Ms Lyons—I am the same person.

Senator LUNDY—Thank you. That is all the questions I have.

Senator O'BRIEN—I have a couple of questions. I can put them on notice. They are in relation to the South American operations of Austrade given the Argentinean dimension to the economies of South America. I want to find out what impact, if any, that had had on the operations of Austrade officers in South America or Latin America in terms of staffing, financial commitment and the throughput of trade activity through the Austrade offices. That is a big series of questions. Rather than taking time now going through those matters one by one, would Austrade undertake to provide a report to the committee to answer those questions, detailing the effect on Austrade operations in South America or Latin America which can be attributed in part or in full to the economic problems in Argentina.

Ms Selby—Just so that we know what we are being asked for, can I clarify whether you mean changes in staff numbers—

Senator O'BRIEN—Yes.

Ms Selby—Changes in number of companies that we are servicing—

Senator O'BRIEN—Yes. Whether you have changed your budget, for example—altered your priorities, moved staff from one country to another.

Ms Selby—In the last six months or something. Would six months be all right?

Senator O'BRIEN—Let us make it over the current financial year.

Ms Selby—Thank you. We will do that.

CHAIR—I thank the officers of Austrade.

[4.58 p.m.]

Department of Foreign Affairs and Trade

CHAIR—I call officers of the Department of Foreign Affairs and Trade, particularly those concerned with output 1.1.5, dealing with bilateral, regional and multilateral trade

negotiations, and output 1.1.6, dealing with trade development, policy coordination and APEC. I welcome Dr Thomas and officers of the department.

Senator COOK—To begin with I have a couple of what I would term overview questions. The first is a question that is driven simply by the motive of curiosity. I note that some departmental heads—we had earlier today Dr Hawke from Defence—appear for their department. I have been in estimates for PM&C where Mr Max Moore-Wilton appears. It is not a universal practice; not all departments do so. Is there any reason why, in the case of DFAT, Dr Calvert does not come?

Dr Thomas—No, there is no particular reason or policy in relation to that. As it happens, Dr Calvert has a fairly hefty travel schedule, as you would expect the head of DFAT to have. Today, for example, he is en route to India for some senior officials talks. And he travels a lot when the Prime Minister travels and so forth. Largely it relates to his scheduling problems.

Senator COOK—It is just that, in my recollection, over the last six years, he and his predecessor have not appeared here at all. I just wondered whether they might have been in town some time. It is not a big deal; as I say, it is just a matter of curiosity as to why they do not come. Is travel the explanation?

Dr Thomas—It is part of the explanation at particular times. We have also felt departmentally that it is well served by the batch of officers that we bring along.

Senator COOK—My other question is a general one as well. I do not claim to be proficient in the newfangled form of accounting so maybe I have made some foolish errors, but, looking at page 57 of the portfolio statements, table 3.1, Budgeted departmental statement of financial performance—I think this is the table that I should be looking at—I note that for revenue for 2001-02 compared to budget estimate for 2002-03 there is a decline of \$30 million and that the forward estimates never rise to the level of what the estimated actual was for 2001-02. The other part of it is that with total expenses from ordinary activities in 2001-02—that is, the estimated actual compared to the budget estimate for 2002-03—there is a drop in round terms of about \$51 million. And it continues in the out years at well below what the estimated actual was for 2001-02. Firstly, am I looking at the right comparison here to try to get an idea of revenue and expenditure year to year?

Ms Hazell—These are the right tables to be looking at for a comparison. However, what you do not see between the figures that you are looking at and the out years is parameter adjustments for what we call within year foreign exchange movements, which are only ever put into the estimates in the immediate year. So it is not a strict comparison. The other issue, in looking at some of the changes in expenses, is the impact of the incorporation of the Overseas Property Office into the department partway through this year and the full year effect of that showing through in the out years. Some of the adjustments that we need to make relating to that have only recently been agreed with the department of finance and will appear in our additional estimates statements.

Senator COOK—So how do I make an apples to apples or oranges to oranges comparison about what are the revenue and expenses for DFAT last year compared to this year and compared to the out years?

Ms Hazell—If you are looking for a change and the reasons for the change in the figures, the easiest way is to look at the new measures that we have and the adjustments. There is a summary earlier in the document of the adjustments to our appropriation. That will give you a feel for what the changes are in revenue. In terms of expenses, most of the time they are

reasonably consistent. To a large extent, the change between 2001-02 estimated and the out years relates to that initial bringing on of the Overseas Property Office and the fact that, at this stage, we are not sure what the within year forex impact will be on our estimate of expenses.

Senator COOK—If I were to look for a moment at this table, 3.1, which gives total expenses from ordinary activities, estimated actual 2001-02 is 707,533. The budget estimate for this year is, as I say, roughly \$51 million less. Does that signify that there is budgeted less money for DFAT in the coming financial year than there is in the current financial year?

Ms Hazell—Not necessarily, Senator. The change in DFAT's departmental appropriation, which is the revenue—at the top of the page—is only about \$2 million.

Senator COOK—Up or down?

Ms Hazell—Down. The change in the expenses line is that, you will note, there is no budget provision for write-down of assets in either of those years and no value of assets sold. You will see the value of assets sold is in the estimated actual, but there is no budget provision for it in the out year. When we make some of those adjustments I referred to at additional estimates for the Overseas Property Office, you will see some of this align more closely.

Senator COOK—From what you have said, am I right in assuming that, in layman's terms, DFAT has got \$2 million less this year than it had last year to operate.

Ms Hazell—Yes. That is making the same assumptions about the other revenue that we generate.

Dr Thomas—The department proper has about \$2 million less but, if you look at our overall appropriation, including so-called administered items—which are, for example, payments to international organisations and so forth—there is an increase of about \$36 million.

Senator COOK—That is a very good point. I understand that. Those moneys are tied and earmarked, and we do not have a lot of discretion over some of them. We just have to meet those payments if we want to remain part of the international community. But the point of comparison I am coming to is what you have to operate the activities of the Department of Foreign Affairs and Trade, and that is a continuing making do with less funding than previously, and I imagine the explanation goes that you are more efficient this year than you were last year. Is that it?

Dr Thomas—That is part of it; more specifically, for example, when we received money to open some new posts in previous financial years, the equity injection we received for those sorts of expenditures is front loaded, so they decrease each year. So you would expect the money to go down, to some extent, if we have not opened a new post this year, and we have not. Last year, for example, we opened the Chicago Consulate-General. We received a certain amount of money which was designed to decrease in each of the out years after the start-up costs are amortised. That accounts also for a fair bit of that \$2 million.

Senator COOK—Okay. I am still trying to come to grips with what is a fair measure of what real terms funding you have got this year compared with last year and what you expect in the out years. That \$2 million we are talking about, even with your explanation, does not consider the impact on your costs of inflation or salary increases.

Ms Hazell—Yes, it does. It includes what we call parameter adjustments for overseas and domestic inflation. It also includes adjustments up or down, depending on the strength of the

Australian dollar. So it may very well go down in terms of the figure you see here, but in real terms the purchasing power of the department may very well be the same.

Senator COOK—So how do I come to a picture in my head about what has happened to you in terms of funding?

Ms Hazell—As I said before, I think it is probably useful to look at the new measures and the adjustments and see what they are for. Adjustments for foreign exchange basically are not affecting the real value of what we have to work with. Then you look at, if you like, the ons and the offs—the new money we may receive, the money that may have finished for a particular project that we do not get anymore. But we also at the same time are not doing that work anymore.

Senator COOK—What is puzzling to me is, just on a simple look at DFAT, over the last year we have had the global concern about the war on terror, which is putting greater responsibility on DFAT to be across and more detailed about its work in terms of what international developments are. We have had this military involvement in Afghanistan as well. We have had the border protection measures that soaked up some DFAT resources. We have had heightened activity on the trade front with the launch of the Doha Round. It would seem to me that, on the plain, simple face of it, DFAT are doing more and are being called upon to do more, but there is less money in the kitty to fund it. Is that a fair call?

Dr Thomas—Some of the items you mentioned have received some supplementation from time to time. Overall, the budget base in general terms has been fairly steady over the past few years. Sure, we have had to absorb some of those activities, but that has really been more a matter of just reprioritising what we spend the money on from within our overall appropriation.

Senator COOK—If you reprioritise, you give more attention to some items and, therefore, others get less. I am not going to pursue this any further, and I will certainly go back and take your advice, Ms Hazell, and maybe I will pursue this next time we meet in this forum—or maybe I will not. It just seems to me that in more troubled times than those in which it previously operated the department is called upon to do more and yet the outlook is to spend less. I would be interested to know how you conjure that type of result, but not today.

Senator O'BRIEN—Under 'Revenues from ordinary activities' in the estimated actual column for this financial year on page 57 of the PBS, there is a figure of \$26.69 million shown against 'Other', dropping to a budget estimate of \$311,000. That is not from sales of assets; what is the substantial 'Other' figure there?

Ms Hazell—It relates to an accounting entry only and not a cash entry. It relates to the move of some expenses from the departmental appropriation side to the administrative appropriations. Those expenses relate to the North American Pension Scheme, which is a scheme that we contribute to and that a lot of departments contribute to. After much negotiation with all players involved, it has been moved into the administrative appropriations, because it is not funding that DFAT has control over or can spend on what it chooses. It is funding we administer on behalf of employees.

Senator O'BRIEN—And how do we understand the substantial growth in the dividend from \$51.35 million this financial year to \$93.158 million in the coming financial year?

Ms Hazell—The dividend relates to the dividend paid by the overseas property operations that we inherited in the administrative arrangements orders changes on 26 November. The \$51

million is a part year dividend, reflecting the amount that DFAT were repaid from 26 November onwards. The \$93 million is a full year dividend.

Senator O'BRIEN—So \$51 million is from the end of November onwards?

Ms Hazell—Yes.

Senator O'BRIEN—That is a reasonable explanation. Thank you.

Senator COOK—My second general question is aimed at the trade side and concerns the transparency of what is going on in DFAT. I am really looking here for a comment which summarises your government policy or your attitude to making the activities on the trade side more transparent. What is your view? For example, in the community debate over globalisation and the WTO, it is often said that there is a need for confidence building in the community about what our trade objectives are and what the value of trade outcomes is and a need for transparency in what we do—I think the minister has said this from time to time. They are essential elements in rebutting what I would term the more alarmist assertions of the globophobic lobby. In general, does DFAT endorse the idea that, without giving civil society organisations a role in or a veto over the negotiating process, it is desirable to make the explanation of the value of trade and the process of goal setting as transparent as possible? Would that be a view you could sign on to?

Mr Gosper—Yes, over the last couple of years the government has put an increased emphasis on public consultation with respect to the WTO and the broader trade agenda. This is reflected in measures such as the establishment of the WTO advisory group. That was established last year; it has provided specific advice to the minister. It is also reflected in the series of round tables and other discussions we have conducted with NGOs and industry groups, as well as with the states and territories. For instance, this year we have visited each state capital to meet with state, industry and community groups to talk about this agenda. It is also reflected in the fact that we called for public submissions both before Doha and subsequently—in the last few months—on how the government might achieve its particular objectives in the WTO negotiations. All these measures recognise that increased community interest and concern about the trade agenda exist and there is a need for the government to provide means for the community to engage in dialogue on those sorts of issues.

Senator COOK—This is pretty consistent with what the WTO itself is doing in putting on its web site explanations of what its activities are and publishing pamphlets and leaflets in easily digestible form. That is a consistent view to make more open the activities on a trade front so that the critics can have less traction about things being done in secret. You are nodding. I take it you are agreeing with me.

Mr Gosper—I agree that the WTO has taken such measures, particularly during the term of Director General Moore.

Senator COOK—Yes, that is true. That is one of the hallmarks of his perhaps all too brief period. It is coming to an end in September, isn't it?

Mr Gosper—At the end of August he will finish his term.

Senator COOK—That is not at all a criticism of the incoming director general, by the way. You are aware of the parliamentary Joint Standing Committee on Treaties inquiry, 'Who is afraid of the WTO?'

Mr Gosper—Yes, I am.

Senator COOK—In section 2 of that inquiry is a heading: ‘Australia and the WTO: education, consultation and participation’. It has a long discussion about community involvement and understanding. I am not asking you to endorse their report—the government has not yet responded and that would be an unfair question—nor to necessarily comment on any of its recommendations. Essentially, that report goes to the idea of greater transparency in the events of the WTO. That idea, without looking at the specific recommendations about how you deliver that, is consistent with what we have been talking about, isn’t it?

Mr Gosper—It is.

Senator COOK—The treaties committee report came out in September 2001, which is some nine months ago now. Do you know when it is intended that the government will respond to this report?

Mr Gosper—The government has a draft response and is considering it now. I cannot tell you precisely when it will table its response.

Senator COOK—It is nine months old now. Can we expect it imminently?

Mr Gosper—I do not know that I can say ‘imminently’, but I certainly hope it will be very near.

Senator COOK—Until this year, the TOOS statement—the objectives and outlook statement—was tabled in the parliament with a ministerial statement at the time, enabling parliamentary debate on the statement. That was not followed this year, was it?

Mr Gosper—I might ask my colleague Mr Lawless to comment on that.

Mr Lawless—The TOOS issue was tabled out of session on 10 April. On the same day, Mr Vaile launched the TOOS at a function at the National Press Club.

Senator COOK—Thank you for that. But my point is that, until now, Mr Fischer, when he came in as Minister for Trade, made a big policy point that he was going to report to the parliament what was going on in the trade area—the objectives and the outcomes. Up until this year, this government have to their credit, I have to say, tabled in the parliament, with a ministerial statement, that document on each occasion. This is the first occasion they have not. I understand, as you say, that they tabled it out of session. Is there some reason why they have not followed the practice of the past six years and tabled it in the parliament?

Mr Lawless—I am not sure of the reason why it was done differently this year, but I can check and find out for you.

Senator COOK—Was it a departmental or a ministerial decision to do it this way?

Mr Lawless—I do not have that either, but I could check.

Senator COOK—I would be obliged if you would. I note, from my avid reading of the *Hansard*, that my colleague in the other place Dr Stephen Martin has on notice a number of questions about the costs and the ASL required to compile, print and distribute the TOOS statement in both its versions this year. Do you know when it is intended to answer those questions?

Mr Lawless—I do not. I have got some figures on some of the costings here, if you would like me to provide them now.

Senator COOK—Are they to the questions that Dr Martin has asked?

Mr Lawless—I have not seen the questions that Dr Martin has asked.

Senator COOK—I can provide you with a copy, but I thought that since they are on notice it would be better for me not to regurgitate them here. But, if you have got some information, by all means.

Mr Lawless—The total cost of the most recent TOOS was \$80,290. That is the only cost figure. I have got some details about how many copies we have distributed. I can also give you some details about the break-up of that \$80,290 figure. It consisted of design and typesetting, \$16,340.35; printing, \$42,330; indexing, \$726; editing, \$5,632; photographs associated with the document, \$1,395; launching the document, \$1,735—

Senator COOK—I am quite happy if you want to put all these answers on notice rather than read them to me. Table them, if that is convenient, rather than go through them like this. It is quite an impressive document in its production. Do you have a distribution list for who gets freebies of TOOS?

Mr Lawless—I do have a distribution list here. I should point out, though, that this year we had the full TOOS, the TOOS executive summary and the TOOS promotional flyer. The first document was the lengthy complete document, the second was 22 pages and the third document was a single page promotional flyer. The distribution varied with each of those.

Senator COOK—That is the first time you have had that format, isn't it?

Mr Lawless—Yes, it is.

Senator COOK—Why did you go to that format?

Mr Lawless—It was designed to more effectively raise community awareness of what we are doing on trade issues and our trade policy. The aim was to make these things more readily digestible to a broader range of the public.

Senator COOK—This is consistent with the transparency and openness criteria. On the distribution list, do you know how many free copies got sent to various organisations and individuals?

Mr Lawless—I can tell you that we distributed 2,500 copies of the full TOOS—that is the long document. I have got a fairly lengthy list of organisations we distributed it to, which I could also table, if you like.

Senator COOK—Yes, please. I am not going to ask you to read 2,000-plus names.

Mr Lawless—We distributed 6,500 copies of the executive summary, which went for 22 pages, and we distributed 12,000 copies of the one-page promotional flyer. Again, I can give you the details of who those went to.

Senator COOK—How is the list compiled? Is it compiled from departmental sources, by the minister's officer or through an interactive combination of both?

Mr Lawless—It is compiled from departmental records of people in organisations that we think will have an interest in these sorts of issues. We have a pretty extensive database of industry associations and individuals, as you can imagine. We hold that centrally in Canberra, but our DFAT state and territory offices also have lists of contacts which are pretty extensive. We put all that together and that is how we come up with it.

Senator COOK—Does the minister's office nominate organisations or individuals for copies?

Mr Lawless—Not specifically. I presume that they are probably aware of the main direction it is going in, but they do not nominate.

Senator COOK—Do you send up a note saying that this is the distribution list, and then they have to sign off on it?

Mr Lawless—Yes, we do.

Senator COOK—They do not add or subtract names?

Mr Lawless—No.

Senator COOK—Could the department inform me of the number of consultancies it currently has and any that may have expired last year? Perhaps I can do it this way to save a bit of time: the information I am seeking is the number of consultancies, what the subject of the consultancy was, what the value of the contract was, how the contract was awarded—whether it was by tender or nomination—and over what length of time the consultancy was to run.

Dr Thomas—I think we will have to take that on notice. We can provide that information for you.

Senator COOK—Thank you. That concludes some of my questions by way of overview.

[5.28 p.m.]

CHAIR—We now move to output 1.1.5, Bilateral, regional and multilateral trade negotiations, to be followed by output 1.1.6, Trade development policy coordination and APEC.

Senator COOK—I am interested in trying to establish what the priorities of the department are in terms of its trade objectives. Before I come to that, though, there is one other question on the objectives and outlook statement that I would like to follow through. I see that the words that appear in the statement now appear as though they are code for policy. ‘That Australia has a multifaceted trade policy’—that is the first time I have noticed those words in official use in a consistent way. I do not think that was the phrase the department used to summarise its policy last year: Australia’s ‘multifaceted trade policy’. Is this a new set of words to try to describe the focus of our trade policy?

Mr Gosper—Words like ‘multifaceted’ may be new, but I do not see them as being particularly different in concept from the way we have described our trade policy, which is flexible—built around the central tenet of support for a multilateral trading system but using regional and bilateral mechanisms where they are appropriate and where they support our overall trade objectives.

Senator COOK—Is this just a flash way of describing what we have always done?

Mr Gosper—I would have to look at the words and compare them with the descriptions that have been given in earlier years, but I do not think this marks anything different from the point that has been made over the last few years, which is that we should use all the available mechanisms where they can deliver practical gains.

Senator COOK—It is a PR phrase, not a policy change indicator.

Mr Gosper—I would not describe it as a PR phrase.

Senator COOK—How would you describe it?

Mr Gosper—It is a descriptive term—perhaps that captures it. You asked whether it was a new term.

Senator COOK—How do these words originate?

Mr Gosper—Again, I would have to look at the words and compare them with previous formulations. The drafts of the TOOS statement are developed in the department for the consideration of the minister.

Senator COOK—My curiosity is fuelled because one of the more enduring quotes about diplomacy and trade negotiations that sticks with me is that words are bullets. If there is a change of words, what is the significance of the new set of words? Are you telling me there is really no significance—it is just a better honed description of what you mean and have meant—or does it presage some subtle shift that I am not aware of?

Mr Gosper—I do not believe it foreshadows any subtle shift. I think it is quite consistent with the way the government has been describing its trade policy framework over the last few years.

Senator COOK—We understand that Australia has a multifaceted trade policy. What are the priorities of this multifaceted trade policy between multilateral, plurilateral and bilateral trade initiatives? How do you rank them?

Mr Gosper—The government has been quite clear that the multilateral trading system and the WTO are the central tenets of its trade policy. The WTO rules provide the important underpinning for our interests and the Doha Round has been our principal trade policy objective of the last few years. The government has also been clear that where there are opportunities to use other means to develop better market access for Australian products, and where those means can be delivered in a way that is consistent with our commitments and obligations under the WTO, they will pursue those options as well.

Senator COOK—In setting out the portfolio priorities on page 9 of your portfolio budget statements, you tell us that there will be a ‘new foreign and trade policy white paper’ to be published this year. I assume that is the financial year 2002-03?

Mr Gosper—I understand that it will be released later this calendar year.

Senator COOK—Will that go into a discussion about how we rank these priorities, what we expect to be the outcomes of these particular initiatives, and some detail about background and objective?

Dr Thomas—The white paper is really an update of the paper that was produced about five years ago.

Senator COOK—I hope it is a better one, Dr Thomas.

Dr Thomas—In view of some changed circumstances since September 11 and a changed economic outlook in the region since that paper was produced, it was thought timely to set out and articulate government policy in a clear way. That is really the aim. It will cover a whole range of political, strategic and economic trade issues. It is being drafted at the moment and I really do not want to pre-empt what it will eventually say. It should be in the public domain in October or November.

Senator COOK—I am obviously not asking you to pre-empt what it is going to say. I think you would have a very short tenure if you were to succumb to such a suggestion and I know that you are altogether too smart to do that. I am groping to find some area where I can grab an encapsulated view, articulated crisply and clearly, of what our trade priorities are and why we have those priorities. Is that the sort of thing this white paper might do?

Dr Thomas—It will certainly go into those sorts of issues and themes, yes.

Senator COOK—Just following through on that, in the portfolio budget statements, under the heading ‘Portfolio priorities’, on page 9 in the second paragraph it says:

The portfolio will continue efforts to lower regional barriers to trade and investment ... The portfolio is negotiating a free trade agreement (FTA) with Singapore and is actively engaged in efforts to launch FTA negotiations with the United States and Thailand. The portfolio will also work constructively with the Association ...

I am sure you are familiar with this section. You are nodding approvingly, Mr Gosper; you may have even written it. It sets down a series of things that I take to be the current workload of the department. I do not see there the initiative that the Prime Minister took, about a year or two ago, to launch a free trade agreement with Korea. Has that slipped off the list?

Mr McLean—The government is interested in pursuing any means to strengthen and enhance the trade and economic relationship with Korea. When Minister Vaile was in Seoul in April, he raised this with his counterpart and the discussions are ongoing. There is no program or agreement, at this stage, to discuss or launch a negotiation in a formal sense.

Senator COOK—So it is not a priority?

Mr McLean—It is certainly a priority, but it is not a priority that is as alive as the ones that are cited in this particular document. It is not sufficient a priority to make it onto your list of departmental priorities.

Mr McLean—This document is about issues that we currently have before us and about which we are actively involved in discussions with the countries or the agencies concerned. Korea, as you know, is a very important trading partner of Australia and we are certainly keen to strengthen that relationship in whatever way we can. At this stage, it is not as far progressed as these other discussions. Indeed, it has not, as I say, got to a point where we have commenced a negotiation or agreed to do such a thing.

Senator COOK—It is two years old, isn't it, Mr McLean?

Mr McLean—I am not sure about how old it is. Last year, of course, the current stimulus to discussing anything with Korea on trade was the report that was launched by Mr Vaile in September last year called *Australia-Korea: Strengthened Economic Partnership*. That report was the genesis of the preliminary discussions that Mr Vaile had with his counterpart, as I mentioned, in April this year.

Senator COOK—You may remember that a year earlier, with a great deal of fanfare on a visit to the Republic of Korea, the Prime Minister announced that he was going to pursue a free trade agreement with Korea. You may recall that, as a consequence of that, a process was put in train which created the document you have just referred to which Minister Vaile released. For the purposes of the line of questioning I am now pursuing, that is not a priority insofar as the department is concerned in terms of these budget estimates. Is that a correct assumption based on the fact that it does not appear in your policy objectives and priorities?

Mr McLean—We will be looking at practical potential outcomes, Senator. The ones that are listed are those that have already shown some developmental response from the other country concerned of a positive nature. As you would be aware, when Prime Minister Koizumi was here, there was a launch between the two prime ministers of activity. Indeed, two weeks ago when the Prime Minister visited China, he did the same thing in terms of a framework agreement. The matter has been discussed subsequently and followed up with the Koreans. At this stage, we have not got to a point where we can even say that we have begun

a process of joint work towards any particular nature of agreement or other document that might significantly, or in any particular way, lead to a trade and economic agreement, as such.

Senator COOK—The way this is expressed confuses me a bit. Towards the end of this paragraph, it says:

The portfolio will launch high-level consultations to explore all options for deeper economic linkages between Australia and Japan

I think that is what was said between the joint prime ministers when Prime Minister Koizumi was here. Then it goes on:

In partnership with business, the portfolio will continue to advance Australia's commercial interests in the expanding Middle East markets.

So it sort of comes down a ladder of importance of what it will do to, what is important in terms of intensity and significance, something that is yet to be developed—an exploration of Australia's commercial interests in the Middle East. But it doesn't include Korea. I wonder how many other countries there are that are not included, apart from Korea. Are there other initiatives that the department is involved in that are not mentioned here under the portfolio priorities, or is Korea the only one?

Mr Gosper—I do not believe so, Senator. We have covered APEC, the AFTA-CER discussions, negotiations with Singapore and with Thailand prospectively with the United States, CER, as well as the other North Asian economies—Japan and China. Something a little bit different is the overall commercial involvement with Middle East markets. I am not sure of any other particular proposal that is not captured by that.

Senator COOK—Should Korea be in there, do you think, Mr Gosper?

Mr Gosper—Korea is a large trading partner so, of course, it receives a lot of attention from the department, but perhaps it is not the subject of a specific initiative in the way that some of these other North Asian economies are at the moment.

Senator COOK—What is the future of this Korean proposal? Does the department expect to have any further talks with the Koreans about firming up what was originally billed as a free trade agreement? I think that was a bit of hyperbole at the time, but at least that is how it was put. In terms of what it has become, I think it is more an exploration of closer economic relations. What is the current work agenda for Australia-Korea in trade?

Mr McLean—Page 38 of the full TOOS statement, which you presumably have, does outline in summary detail what in fact we are doing with South Korea. As I mentioned, the minister was in Seoul in April and spoke strongly about the importance that the government places on the trading relationship and the importance that we believe both countries can bring to bear in further opening and facilitating trade between the two of us. Whether it would eventually come down to being a free trade agreement—in other words, one that significantly liberalises market access in goods—will depend on the response from the Korean side. There are particular issues there that I think will make that quite difficult. In short, we would obviously look at measures that would facilitate further trade and investment short of market access negotiations.

Senator COOK—I am sure all of that is true. I will move on from this subject now, but it strikes me as curious given the fanfare at the time and the developments that have occurred since. Now you have drawn my attention to what has been said about Korea in the outlook statement—that is, that it did not merit inclusion as one of the departmental priorities. I guess

it did not and that is that. I imagine that does not in any way diminish our regard for Korea, and particularly after their World Cup soccer victory over Poland last night.

Mr McLean—I can assure you that our relationship with Korea in the trade sense is going strong and we have every prospect of continued growth.

Senator COOK—How do you shuffle the priorities between all the competing interests on the list that we have referred to and how do you value the initiatives? The sort of thing I have in mind, for example, is that for the Doha Round I am aware that the Productivity Commission has said for services trade—I think this figure is right—the value of the round is likely to be between \$4 billion and \$6 billion to Australia. I think DFAT has said for agricultural trade that the value of the round is around \$2 billion to Australia. Am I right? I do not have to be right to the last decimal point of every cent, but is that about the right estimate?

Mr Gosper—I have not looked at the Productivity Commission estimates but, in the forecasts that we did prior to Doha of the benefits of a 50 per cent cut, we estimated the benefits to Australia on the services front as \$US3.5 billion a year and for agriculture as about \$US1.8 billion. The order of magnitude is about right.

Senator COOK—Do we have a figure for what we regard as the overall likely benefit to Australia of a completed Doha Round?

Mr Gosper—No, we do not at this point. We have not done any particular modelling since Doha reflecting the specific nature of the agenda that was agreed there. Part of the reason for that is that some of the agenda will not be clear until the fifth ministerial next year.

Senator COOK—I have heard figures bandied about that the bottom line benefit is likely to be around \$10 billion for Australia. Can you give that any credence or not?

Mr Gosper—Based on the modelling that we did do of a 50 per cent cut in barriers, \$10 billion a year sounds like it would be a reasonable estimate.

Senator COOK—That is about the ballpark. Of all the trade initiatives we have currently, this would potentially be the biggest benefit to the nation, would it not?

Mr Gosper—Undoubtedly.

Senator COOK—And that is why it is priority No. 1?

Mr Gosper—Not just that. The Doha Round is also about a whole set of rules issues which are quite important to the multilateral trading system—market access and rules.

Senator COOK—Are you able to tell me how many staff are employed servicing the needs of our negotiating the Doha Round?

Mr Gosper—The Office of Trade Negotiations has 69 full-time equivalent staff.

Senator COOK—That is the sum total of DFAT officers involved in the round?

Mr Gosper—That is the Office of Trade Negotiations total staffing level.

Dr Thomas—There are staff in Canberra and in Geneva.

Senator COOK—The figure of 69 is for Canberra?

Mr Gosper—It is the Canberra Office of Trade Negotiations.

Senator COOK—How many are there in Geneva—there are a dozen or more, are there not?

Mr Gosper—We would have to get the precise figures for you, but there is an ambassador, two SES officers and, I think, six Australian based staff.

Senator COOK—I would like to know the total number of staff involved in meeting our negotiating needs for the round, wherever they are located, if that is possible.

Mr Gosper—We can take that on notice, check the numbers for Geneva and give you a figure.

Senator COOK—Having established the ranking for the round, what does the department regard as the next most significant priority for Australia in its negotiating objectives?

Mr Gosper—The paragraph you are talking about mixes a whole range of particular priorities and instruments. It includes APEC, which has a very wide agenda that extends beyond trade liberalisation to many economic, cooperation and facilitation activities. So you are talking about apples and oranges to some degree in this particular paragraph.

Senator COOK—I know, but they are put in this paragraph—which is headed ‘Portfolio priorities’—in a certain order. They are sorted into a certain order and I want to know whether that order indicates what the departmental priority is or is it just the order that flowed off the pen when this paragraph was written?

Mr Gosper—I do not think that it is in any order. We would not rank the potential gains from Singapore negotiations or the Thai negotiations ahead of the potential gains from negotiations with the United States, for instance, given the relative sizes of the economies.

Senator COOK—Obviously. It may be that, for strategic reasons or other non-economic reasons, some of these have a higher priority than others. What I am trying to get clear is what the department’s priority is and how the department decides where to allocate its staffing resources to meet that priority.

Mr Gosper—We have the Doha Round which is our main trade policy objective. We also have two other sets of negotiations: one in play with Singapore and one that has just been launched with Thailand. They absorb a good deal of resources. The negotiation with the United States is in prospect, of course, so, at this point, it does not absorb a great deal of resource or resource that would reflect the high priority that the government would give such a negotiation.

Senator COOK—Would you be able to say what the number of dedicated staff to the Singapore negotiations is and, likewise, the Thai negotiations?

Mr Gosper—With respect to the Singapore negotiations, Mr Deady is the senior negotiator for Singapore and the staff of the Office of Trade Negotiations supports him. The reason I say that is because it is quite clear that in negotiating these agreements you need to ensure that they are done in a way that is consistent with the WTO rules and discipline. So the people who are actually working in the OTN, including on WTO related issues, are closely involved in the negotiations.

Mr Deady—As Mr Gosper has said, I am leading the negotiations with Singapore. Last year, as you may recall, there was a specific task force negotiating with Singapore. That task force has effectively ended and we have rolled, as Mr Gosper said, those negotiations with Singapore into the Office of Trade Negotiations. I think that reflects several things. It reflects the progress we are making with the Singaporeans and the fact that we now have a range of issues on the table with Singapore. Drawing on the expertise that is in the Office of Trade

Negotiations is proving to be the most effective way of pressing those negotiations forward and, hopefully, to a successful conclusion.

Senator COOK—So you do not have a dedicated task force; you draw in resources as necessary, is that it?

Mr Deady—There are three officers dedicated to Singapore. One is working as a lead negotiator on the services and investment part, which is obviously a critical part of those negotiations. I have a deputy chief negotiator with responsibility for a range of issues and one other colleague who works full time on the Singapore negotiations. In the intellectual property chapter of Singapore we draw on the expertise of the people in OTN responsible for those intellectual property issues in Geneva. There is a complementarity between the work they are doing in Singapore, the development of some of the other things we are doing in negotiating with Singapore and the sorts of things we are developing as part of that negotiating agenda in Geneva.

Senator COOK—Can anyone say what the staff resources are for the Thai proposal? The Thailand proposal is not regarded as an FTA in the classic sense. In fact, I think I heard the minister say that it is an FTA plus. I am not quite what that is but it is not a classic FTA, is it?

Mr Gosper—It is early days in these negotiations; much work has to be done to flesh out how we go about the negotiations in the next few weeks. But the department has set up a task force which will be headed by an SES officer with two other officers to assist, and they will work in collaboration with the trade divisions and geographic divisions of the department. With respect to the nature of the agreement with Thailand, it has been termed an FTA plus. Of course, it is an FTA in the sense that it will have a full negotiation on all tariffs—a tariff liberalisation exercise. But the ‘plus’ simply refers to the fact that there are many other issues which fall outside the scope of an FTA, as it is usually addressed—things like business visas and mutual recognition arrangements and so forth, which will also be addressed as part of this broad negotiation.

Senator COOK—How many people in the department are working on this deal?

Mr Gosper—As I said, three have been allocated to the task at the moment. They will work in collaboration with other divisions. But, until the agenda is specified over the next month or so, it is difficult to be clearer than that.

Senator COOK—In the way in which the Centre for International Economics has quantified what the value might be of an Australia-US FTA, are we able to quantify what the value of an Australia-Singapore FTA might be?

Mr Deady—There was some economic assessment work done by Access Economics last year on Singapore. I do not have the precise numbers in front of me. That report has been released and it is on our web site et cetera. It is not a modelling exercise, as such, in that Access believe that, given the nature of the agreement—the emphasis on services and investment—it was more difficult to calculate, to run models to come up with those sorts of numbers.

Senator COOK—More intangible.

Mr Deady—It is more a qualitative assessment, and a lot of work was done talking to service industry suppliers in Australia and having general consultations with the industry to assess what the benefits would be of better access and better treatment in Singapore under

those broad services and investment agenda. Again, there are some numbers there but they are indicative numbers rather than a number that has been produced by a modelling exercise.

Senator COOK—But you can get them for me, Mr Deady?

Mr Deady—Yes, they are available.

Senator COOK—Is there a number for what the benefit might be for the Thai-Australia FTA?

Mr Lawless—Yes, there is. The Centre for International Economics estimated that the boost to Australia's GDP would be \$US6.6 billion spread over 20 years.

Senator COOK—Is that a published study?

Mr Lawless—The results of the study will be made public. The overall joint scoping study includes the chapter on results of the modelling, and that has been made public.

Senator COOK—I must obtain a copy of it. For the sake of this discussion here in estimates, the study that the Centre for International Economics did for a potential Australia-US FTA made the assumption that all the barriers we were seeking to be removed were in fact removed. Does a similar assumption underpin this study?

Mr Lawless—Yes, the modellers assume that tariffs would be reduced to zero.

Senator COOK—Right across the board?

Mr Lawless—Yes.

Senator COOK—On both sides?

Mr Lawless—Yes.

Senator COOK—One of the things that has slipped out of public attention lately is the AFTA-CER that we have pursued. Can someone tell me where that is up to? Let me foreshadow the detailed questions: I am interested in knowing how many ASL are involved, if any; and whether or not there has been any study undertaken that might signify some attempt to quantify the benefit that such an arrangement will produce for Australia.

Mr McCormick—I will take your second question first: is there any modelling done on the possible outcomes of a closer economic partnership between ASEAN and Australia-New Zealand. You will recall that there was some modelling done about a possible free trade agreement between ASEAN and CER. There has not been modelling about the closer economic partnership yet, because the situation is that last year, in September, ASEAN and Australian and New Zealand trade ministers agreed on the framework for developing the closer economic partnership. We have been working on a formal document which ministers will sign in Brunei in September this year, which essentially will provide the framework for the development of the closer economic partnership. It is not a legally binding treaty either. It is basically a framework for working across a broad range of areas of interest to business, trying to reduce costs and facilitate trade. It also includes the potential at some stage to work on liberalisation issues but that is certainly not one of the initial areas for work under the CEP.

Senator COOK—What is the ASL allocated to this issue?

Mr McCormick—Of the APEC and regional trade policy branch, which has 18 people in it, there are approximately four people who work on AFTA-CER, but that is also augmented by a range of other agencies, such as Customs, who are also involved in working on the AFTA-CER relationship in specialist working groups.

Dr Thomas—In terms of trying to assess staffing numbers working on these particular agreements or activities, you need to bear in mind that all of our heads of mission, in the relevant posts of course, are expected to devote, and do devote, a considerable amount of their time to pursuing Australia's trade interests. There are also the geographical divisions in the department relating to those particular countries with which we are negotiating agreements, and staff in those divisions also get involved to greater and lesser extents, depending on the issues at the time. It is quite a difficult thing to be precise about.

Senator COOK—I take your point. It is quite a difficult thing to quantify with any degree of precision. I did not want to put you to the task of trying to work out what the total person hours, if that is the right phrase, at posts might be in servicing the needs. I think it is probably so intangible as to be unclear and would be an impossible accounting exercise for the department, in any case. The value of it when completed may not be all that great. Therefore I have concentrated on trying to get an idea about what the numbers of people doing the core task is, knowing always that there is supplementation and that people are called forward when necessary. The other question that I want to go to is the Japanese proposal. This is a very nascent proposal. What allocation of resources has the department made to service this initiative, and is there any calculation as to what the benefit to Australia might be?

Mr McLean—The announcement was made by the two prime ministers and they launched high-level consultations to explore all options; so, in other words, we are not yet at the stage of agreeing what we are going to seek to negotiate. The process will be that the secretary of the department, Dr Calvert, will be visiting Tokyo in a couple of weeks time to meet with his counterpart in order to set in train a process which will lead—by the end of July, we think—to a first working group meeting between the two sides, followed by another one later in the year. Those would be the essential preliminaries before reporting to deputy secretary/vice minister level as to what they have concluded might be possible to negotiate.

As to the ASL involved, as Mr Gosper has said, the special task force that has been set up to be the coordinating point of these trade negotiations would be the culminating point. Those three people would be variously involved and, in addition, they would be working very closely with people in my division. We currently have two desk officers in the Japan section who are essentially working full time on work related to the first working group meeting to be held in late July. A significant amount of the time of the director of the Japan section and the assistant secretary of the Northeast Asia Branch—and indeed of my own time—has been spent in this as well. So it is quite hard to quantify, but there is a lot of effort already being put into this exercise.

Senator COOK—Has there been any effort made to quantify what the economic advantage to Australia might be?

Mr McLean—That would significantly depend on what we are able to negotiate. Clearly, the greatest benefits would accrue from the most comprehensive agreement possible—and that is axiomatic, I suppose. The point is that we have not made any quantitative analysis at this stage. That is something that we on our side would envisage doing, to a certain extent at least, in this preliminary process.

Senator COOK—You did say 'during the exploratory stage'. Does the department have a number of explorers working on this? How is it exploring what the prospects might be?

Mr McLean—There has been a great deal of preparatory work done over the last 12 months, which led to the two prime ministers announcing that we could agree and explore all

options. As you would recall, Prime Minister Koizumi and, indeed, Prime Minister Howard said that if that could include an FTA down the line then that would be a very laudable objective. So the people that I have just identified in the North Asia Division, as well as the core members of this task force, are all involved in this exercise right now—together, of course, with significant support from the embassy in Tokyo.

Senator COOK—Without going laboriously through it, is that answer substantially the same as far as the China initiative is concerned?

Mr McLean—Broadly. The China framework is a somewhat different order of process. The two prime ministers did, first of all, state that officials would begin work on a new framework agreement. The framework idea would include three different segments. One is to do a joint scoping study—as distinct from the Japan case, where we would do one on our own case—to identify the potential benefits of a closer trade and economic relationship with China, to identify particular impediments that might be in the way of realising the potential that exists, and to identify any particular domestic issues of implantation or otherwise in China that perhaps nullify or reduce the otherwise very useful outcomes of the WTO accession that China has just been through. That joint study, which is yet to be launched but will be in the next month or two, would come up with recommendations which, presumably, we would then agree to negotiate. That might take another six months, for instance.

Senator COOK—What are the numbers of staff involved?

Mr McLean—We have got the Asia task force people as the core of that but, in the China case, we have a section in my division which is called the China economic and trade section. That is the primary focus of their work—there are five people in that section and I would say that three or four of those would be full-time on this exercise.

Senator COOK—Is it too soon to make any estimate about what the economic benefit would be?

Mr McLean—It is, Senator.

Senator COOK—Mr Gosper, I think you said earlier that the Australia-US FTA is in prospect and therefore there are no people involved in it. Did I hear that correctly? Is that the case?

Mr Gosper—No, I did not mean to say ‘no people’. Mr Deady has responsibility for the US FTA, and he has done work on that.

Senator COOK—I think the minister said something about a lot of work having been done on scoping studies.

Mr Deady—Mr Vaile and Ambassador Zoellick met last January and agreed that officials would examine the elements of a possible free trade agreement between Australia and the United States. I have been involved in that preliminary exploratory work, talking to colleagues in USTR about what would be the broad structure—the scope, if you like—of an FTA. It is not a scoping study in the same sense that Thailand was a scoping study. It is not an economic analysis of what would be the benefits to both Australia and the United States. It is very much more directed towards the practical: what would an agreement look like; what would be the chapter headings we would be talking about in an agreement. We have scoped that out and have talked about what the modalities would be of how we would conduct negotiations in such an agreement. That is the sort of preliminary work that we have been doing with the United States since January.

Senator COOK—I think the minister said in a press conference on 31 May:

...there has been some significant work done by officials in terms of scoping up some of the issues that we need to deal with, and looking at, and time frames and possibilities in terms of if we launch a negotiation ...

How many people have been involved in this significant work of ‘scoping up’?

Mr Deady—Again, I have been leading those discussions and, with the support of various officers from the Office of Trade Negotiations, I have met face to face on three occasions with USTR officials and with colleagues from the embassy in Washington. On those occasions we have had a number of phone hook-ups with USTR officials which has involved a number of officers from the Office of Trade Negotiations. That is really what that work has been about. One of the objectives of this work was to identify whether we were talking about the same thing in relation to a free trade agreement. One of the key things, for example, that we have done as part of this process is to clearly establish that we are talking about a comprehensive, modern free trade agreement. We have both agreed broadly that it would follow the structure of the NAFTA and the CER with New Zealand. The broad chapter headings we would be dealing with are: agriculture, services, investment, competition and e-commerce. We have talked on what the elements of some of those chapters would be but, given that we have not launched negotiations, both sides have been very careful not to engage in pre-negotiation on anything under those chapters.

Senator COOK—That is very useful. What number of people have been involved in this?

Mr Deady—You are looking at roughly about 12 or 13 chapters under one of these modern FTAs. I would say that, for example, for the major phone hook-up we had with the United States, I had officers who would effectively be lead negotiators on a range of issues including agriculture, the rules issues and services issues, so there were probably half-a-dozen as well as myself involved in those discussions.

Senator COOK—We do have some effort to quantify what the value is here.

Mr Deady—The CIE work you referred to, yes.

Senator COOK—It comes out at \$4 billion over 10 years, doesn't it?

Mr Deady—The \$4 billion figure is the increase in GDP at the end of the tenth year.

Senator COOK—Yes, I thought it was 10 years.

Mr Deady—It is not a cumulative figure. That is the increase in GDP in that year—\$4 billion higher than it would otherwise be.

Senator COOK—And that is based on the assumption that we reach nirvana, if I might put it that way; that everything we want is achieved.

Mr Deady—Yes.

Senator COOK—The one area that I have not asked any questions about is the one very dear to my heart, which is APEC. Someone in passing said there are 18 ASL on APEC, and 2010, which is the first date for developed countries in the Bogor Declaration, is only eight years off now. Perhaps I will save my questions on all of that for a later time. I do not think anyone has done a quantification of what the complete value to Australia would be if the Bogor goals were met, have they?

Mr Gosper—Perhaps there has been some work.

Senator COOK—I will be pleased to hear it.

Mr McCormick—Sorry, Senator, what was the question?

Senator COOK—I am just seeking confirmation, because I think you may have said before that there were 18 ASL on APEC—some of which have been borrowed for other tasks.

Mr McCormick—There are 18 staff in the APEC and Regional Trade Policy Branch. The majority of those will work on APEC at some stage but, probably in dedicated terms, there are about 14 or so who work on APEC.

Dr Thomas—I might also add that for each APEC year we add an additional full Australian based position to the embassy of the country in which APEC is to be hosted. For example, this year our embassy in Mexico has been supplemented by a full A-based staff for a year.

Senator COOK—Mexico is going to be the scene of a lot of trade action in the next couple of years. Has there been a quantification of the value to Australia if the Bogor goals are met in full?

Mr McCormick—No, not that I am aware of; not recently.

Senator COOK—Not recently or not at all?

Mr McCormick—We have not undertaken any analysis of that, and you would have to assume a whole range of factors to build it in. But there is a whole range of modelling done internationally on the WTO which captures some of the potential benefits.

Senator COOK—Okay, thanks very much. Let me try and move through this bit more quickly. Looking at this list of trade initiatives, I see that some are FTAs, some are plurilateral arrangements and so forth, and some are less than FTAs. Can someone tell me: what are the criteria that the government use to determine where they might pursue a trade arrangement and to select what initiatives they might make? Are there criteria that you could articulate?

Mr Gosper—With respect to free trade agreements, the government set out—I believe it was in the 1997 TOOS statement; it could have been 1998—a set of criteria which are relevant to such FTAs. Of course, they include the facts that they would be with major trading partners and would deliver significant commercial benefits in a time frame that might not be available elsewhere and in a way that is consistent with the WTO commitments and obligations. More broadly, naturally we look at major trading partners—and all the areas that we have talked about today are important trading partners—and look at ways in which we can enhance the trade relationship with those countries. With respect to some of them, we can be more ambitious because those countries are willing to engage in ambitious outcomes. With others, we have to settle for things, at least at this stage, that are perhaps less ambitious but nevertheless deliver some real benefits to Australian exporters.

Senator COOK—So I should go back to the 1997 TOOS.

Mr Gosper—We will get a copy of it for you, Senator.

Senator COOK—And they are the criteria?

Mr Gosper—That is where the criteria were first set out with respect to the government's approach to FTAs.

Senator COOK—Are the criteria in the 1997 TOOS still current?

Mr Gosper—They have not been formally revised by the government since that time.

Senator COOK—Are you satisfied that all of these selections adhere to that criteria?

Mr Gosper—Not all these selections are FTAs, but, yes, they are all important trading partners.

Senator COOK—In the priority objectives, there is this comment about Middle Eastern markets. Can you throw any more light on what is intended there?

Mr Gosper—I cannot. I am not sure if there is a colleague here from the Middle Eastern—

Mr Atkin—Would you mind asking that question again?

Senator COOK—I was just going to the ‘Portfolio priorities’. As you would know, on page 10 of the PBS, the last sentence of the second paragraph says:

In partnership with business, the portfolio will continue to advance Australia’s commercial interests in the expanding Middle East markets.

Can you enlighten us as to what that spare text means in reality? What are we talking about?

Mr Atkin—In terms of our particular programs and activities this year, our priorities are joint ministerial commission meetings with Saudi Arabia, Iran and the United Arab Emirates. It is planned that all those be conducted this year. They are occasions for both the minister and officials and business delegations relevant to those markets to explore market issues with counterparts and to promote and advance trade in the terms that are summarised here.

Senator COOK—Is that what you mean by that reference in the priorities?

Mr Atkin—Yes. What I say is an indication of major activities in progress for the current year under that heading.

Senator COOK—Without putting too fine a point on it, would I be right in assuming that in developing strong relationships with Arab countries through trade that partly meets some of our strategic objectives in terms of the war on terrorism as well?

Mr Atkin—Yes, indeed. I think in any relationship, the stronger the trade, the stronger the relationship, but in the particular context of those countries’ concerns and our country’s concerns about the issues of the war on terror, it is very much to the point.

Senator COOK—To bring this part of my questions to a close, in the year in view, we are not anticipating any initiatives beyond what is current in markets like Latin America?

Mr Gosper—None that I am aware of.

Senator COOK—Canada?

Mr Gosper—No.

Senator COOK—Europe?

Mr Gosper—I cannot comment on Europe in great detail.

Senator COOK—Someone up the back shook their head.

ACTING CHAIR—It looks as if the answer may be no, but perhaps we better get an answer. A shake of the head does not record very well in *Hansard*.

Mr Ritchie—I am sorry, could you repeat the question?

Senator COOK—I am just going to the priorities. In the year in view are there any proposals about enhancing or developing a trade relationship in Europe—with the union or with any individual country?

Mr Ritchie—There is no particular institutional arrangement under consideration. I think we will, of course, keep on pressing our trading relationship with the countries of Europe.

Senator COOK—Mr Gosper, is that the same answer for India?

Mr Gosper—Yes, I believe so.

Senator COOK—And for Southern Africa?

Mr Gosper—Yes.

Senator COOK—Thank you. I have a couple of questions about numbers of A-based staff currently employed by DFAT in trade negotiations or in trade issues, compared to A-based or locally engaged staff as a proportion of what DFAT does, but I may put them on notice.

ACTING CHAIR—That would probably be a help, Senator Cook.

Senator COOK—What is the nature of consultations that the department has undertaken with industry and/or civil society, with respect to trade proposals with the US, Japan, Singapore and Thailand?

Mr Gosper—We might answer through several officers. Mr Deady will talk about Singapore and the United States—

Senator COOK—I presented all of those countries together so that you could work out whether there is some efficient way of dealing with the answer.

Mr Deady—Yes, thank you. There has been a great deal of consultation certainly on Singapore, and also there has been initial consultation with industry and others on US negotiations. With Singapore, it has involved regular contact with various industries with an interest in those negotiations. Particularly, as I have said before, with the services areas, such as telecommunications and financial services, professional associations have been very interested in those negotiations.

Also, with the nature of these free trade agreements, it is clear that we have had to have very close consultations with the state governments on a number of the matters that have come forward in these free trade negotiations. Again these have focused on services and investment in particular. So we have had very detailed consultations with the state governments. They have been both, again, through the Singapore negotiating team itself and through the formal mechanisms of the National Trade Consultations and the various other groups that we talk to from time to time on that.

On the United States, two studies were done last year. You mentioned one: the econometric study done by the CIE. There was also a study done by the APEC Study Centre that looked at the free trade agreement with the United States. With the US, we are just beginning more detailed consultations with a range of industry groups, again using the NTC processes and the various negotiating forums that Mr Gosper mentioned in relation to the WTO negotiations—for example, the regular agricultural consultations that we have in relation to the WTO negotiations. We incorporate there. We talk to those groups also about the free trade agreement with the United States and some of the issues that are likely to come forward as part of those negotiations. I think there has always been a recognition amongst our contacts with the state governments, in discussions on Singapore, that the United States was at least in prospect. Many of the matters we are talking about in relation to those issues are potentially relevant with negotiations with the US.

Senator COOK—That is a wide canvass of negotiations. Can I just be a bit particular about what has happened in the case of Singapore? I understood you to say that, in the case of Singapore, you have had wide consultations with state governments and with industry.

Mr Deady—Yes.

Senator COOK—Is it possible to say which industry sectors and organisations have been consulted?

Mr Deady—I would have to take that on notice to give a very detailed answer in relation to all the various associations we have spoken to. But I could say, for example, on the good side, we have spoken to all the peak industry organisations: the Australian Industry Group and ACII. We have spoken to the textile—

Senator COOK—Perhaps it would be better to just take it on notice, if that is fine by you.

Mr Deady—Yes, it is. It is a very long list of that regular consultation that we have.

Senator COOK—That is Singapore. I am also interested in who is being consulted on Thailand, Japan and the US. Sticking with the US for a moment, has the National Farmers Federation been explicitly consulted on a US FTA?

Mr Deady—I have had discussions with the National Farmers Federation; they are part of those wider agricultural consultations that I mentioned. So yes, we have spoken to the NFF about where we are in the process in our discussions with the United States.

Senator COOK—Have they been briefed on the outcome of the scoping work that you have undertaken?

Mr Deady—Again, in broad terms, yes; in the sorts of terms that I mentioned today. I have spoken to the NFF about the process that we have been going through and the sort of coverage that we are looking at. Equally, we have made it clear that we are not in negotiating mode with the United States at this point in time.

Senator COOK—No, we are not in negotiating mode. Going through the list of what we have covered, we are not in negotiating mode with the United States, but we have done a study concluding there is a \$4 billion kick to our GDP over 10 years. We have a commitment to go on Japan, but we have not done any work on them; we have a commitment to look at things on China, and we have not made any effort to quantify China; we cannot quantify Singapore because of the nature of that arrangement; and we have no current quantification or effort to quantify the value of the AFTA-CER arrangement either. I will not surprise you if I say that I have a few more questions on the US. We at least have done that sort of work, and you are telling me—and I appreciate your doing so—that the NFF, for example, has been consulted on the outcome of the scoping work that you have undertaken?

Mr Deady—Again, we have spoken to the NFF in broad terms about the discussions and this exploratory work that we are having with the United States. We have spoken to them in similar terms to those I have described it to you in today: we are talking about a comprehensive agreement and we have talked broadly about the chapters; those sorts of things.

Senator COOK—I move to the general question of the FTAs. We, as a member of the World Trade Organisation, know that the WTO has a definition of what an FTA is. You are shaking your head in the affirmative, Mr Gosper.

Mr Gosper—Yes, Senator.

Senator COOK—When we use the term ‘FTA’ in our official description, do we use it to conform with the WTO definition?

Mr Gosper—You are referring to the words ‘substantially all trade’.

Senator COOK—Yes.

Mr Gosper—There is disagreement among WTO members about what those words actually mean. There are a couple of particular definitions. Australia has always taken the approach to these words that they should be comprehensive and they should cover all major sectors. So, if you are talking about a specific context with the United States or Japan, for instance, that would include agriculture.

Proceedings suspended from 6.34 p.m. to 7.29 p.m.

DEFENCE PORTFOLIO

Consideration resumed from 4 June.

In Attendance**Department of Veterans' Affairs****Portfolio overview****Corporate and general matters****Outcome 1: Eligible veterans, their war widows and widowers and dependents have access to appropriate compensation and income support in recognition of the effects of war service.**

1.1—Means tested income support, pension and allowances

1.2—Compensation pensions, allowances etc

1.3—Veterans' Review Board

1.4—Defence Home Loans Scheme.

Mr Bill Maxwell, Division Head, Compensation and Support

Mr Geoff Stonehouse, Division Head, Health

Mr Mike O'Meara, Branch Head, Defence Liaison, Compensation and Support

Dr Keith Horsley, Senior Medical Adviser

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

Mr Roger Winzenberg, Branch Head, Income Support, Compensation and Support

Mr Bruce Topperwien, Executive Officer, Veterans' Review Board

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

2.1—Arrangement for delivery of services

2.2—Counselling and referral services.

Mr Geoff Stonehouse, Division Head, Health

Ms Narelle Hohnke, Branch Head, Health Services, Health

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

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

Dr Graeme Killer, AO, Principal Medical Adviser

Ms Josephine Schumann, Branch Head, Health e-business, Health

Mr Barry Telford, Branch Head, Housing and Aged Care, Health

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

Outcome 3: The achievements and sacrifice of those men and women who served Australia and its allies in war, defence and peacekeeping services are acknowledged and commemorated.

3.1—Commemorative activities

3.2—War cemeteries, memorials and post-war commemorations

Output group 6—Services to the Parliament, Ministerial services and the development of policy and internal operating regulations—attributed to outcome 3.

Air Vice Marshal (Rt'd) Gary Beck, AO, Director, Office of Australian War Graves

Ms Kerry Blackburn, Branch Head, Commemorations, Corporate Development

Ms Katherine Upton, Assistant Director (Administration), Office of Australian War Graves.

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

4.1—Communication and community support to the provider and veteran community.

Mr Geoff Stonehouse, Division Head, Health

Ms Carolyn Spiers, Branch Head, Employee Relations Development

Ms Carol Bates, Branch Head, Parliamentary and Corporate Affairs, Corporate Development

Mr Bob Hay, Branch Head Strategic support Branch, Corporate Development

Mr Barry Telford, Branch Head, Housing and Aged Care, Health

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

Mr Mark Le Dieu, Director, Workplace Relations and Policy

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

5.1—Incapacity payments, non-economic lump sums

5.2—Medical, rehabilitation and other related services

5.3—Individual Merits Review

5.4—Advisory and information services.

Mr Bill Maxwell, Division Head, Compensation and Support

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

Output group 6—Services to the Parliament, Ministerial services and the development of policy and internal operating regulations—attributed to outcomes 1-4.

Dr Neil Johnston, Secretary

Dr Graeme Killer, AO, Principal Medical Adviser

Ms Felicity Barr, Division Head, Corporate Development

Mr Murray Harrison, Manager, Information Management, Compensation and Support

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

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

Australian War Memorial

Outcome 1 : Australians remember, interpret and understand the Australian experience of war and its enduring impact on Australian society...

General questions.

Major General Steve Gower (Rt'd), Director

Mr Mark Dawes, Assistant Director, Corporate Services

Mr Mark Whitmore, Assistant Director, National Collection

Ms Helen Withnell, Assistant Director Public Programs

Dr Peter Stanley, Principal Historian

Ms Rhonda Adler, Manager Finance section.

Department of Veterans' Affairs

CHAIR—The Senate Foreign Affairs, Defence and Trade Legislation Committee resumes its hearing. I understand Senator Hill will not be back this evening. I welcome Dr Johnston and his colleagues from the Department of Veterans' Affairs. I note that this a continuation of

the hearing from last evening. It is not necessary for me to go through the formal aspects of the opening of the estimates hearing. We are well aware of the position of you and your officers.

Senator MARK BISHOP—I welcome the officers back again. We are on outcome 1, Compensation. I refer you to an article in the *Sydney Morning Herald* of 25 May in which it is reported that a British pensions court found that the Gulf War syndrome does exist at law. That is contrary to findings of the RMA in this country in the past. Does the DVA have any comment on that decision of the court in the Australian context?

Mr Maxwell—The only comment I could make is that the Australian repatriation system no longer relies on legal interpretation of whether or not a disease exists; rather it relies on a scientific determination of that question. The difference we have here is that the British system is still one which is essentially legally based whereas ours is now scientifically based. Our system has deemed that the disease does not exist whereas the British legal system says that it does.

Senator HOGG—A scientific determination by whom?

Mr Maxwell—By the Repatriation Medical Authority.

Senator HOGG—Is that the only authority that you will accept?

Mr Maxwell—That is the authority that the act prescribes to determine disease causation.

Senator MARK BISHOP—So there is no regard at all to that legal decision in the British courts?

Mr Maxwell—It is an interesting development but, as such, it has no bearing on the situation in Australia.

Dr Johnston—Other than if it has based its decision on new research or new information, which we would then draw to the attention of the RMA, if it had not already looked to that new research. So we are taking a close interest in the decision—

Senator MARK BISHOP—So you are reviewing the decision?

Dr Johnston—Yes. We will take a close look at it. It is still not yet resolved whether the decision will not be appealed in the British courts, as I understand, so the matter is still progressing. But we will certainly be reviewing the nature of the decision and the evidence and, if it is substantial new material, refer that to the RMA.

Senator MARK BISHOP—What is the current status of the Gulf War health study? When is it due to be completed?

Mr Maxwell—It is well and truly under way. They are towards the end of the process of gathering actual examination results on each of the study participants, and that is of course required before they can start analysing the results. I cannot give you an anticipated completion date at this point, but it is certainly within the coming six to nine months.

Senator MARK BISHOP—In terms of both data collection and analysis?

Mr Maxwell—That is my understanding, yes.

Senator MARK BISHOP—When that is concluded, that becomes a public document?

Mr Maxwell—Yes, indeed.

Senator MARK BISHOP—Is there any current level of participation by either DVA or Defence with the US authorities on Gulf War syndrome?

Mr Maxwell—There is indeed. We are in very close communication with the US Department of Veterans Affairs and the medical researchers attached to that department. We are also in contact with the Canadians and the British.

Senator MARK BISHOP—There is an ongoing exchange of information?

Mr Maxwell—Indeed.

Dr Johnston—It is probably worth while saying that it goes further than that. There is a research protocol that has been adopted by the Americans and the British in the first place, which the Canadians and we are now using as well for our health studies. This will add extra power to the research done here. We will be able to relate it to the results being obtained in those other countries and make wider use of the research for our purposes.

Senator MARK BISHOP—Is that a general proposition or just in terms of the Gulf War study?

Dr Johnston—It can only be fairly said to be a feature of the Gulf War study at this stage, but we are in regular consultation with the veterans' affairs administrations in those countries and in New Zealand and, increasingly, working much more closely in cooperation, sharing information about research and putting our respective researchers in touch in a network type arrangement to try to improve the quality of research.

Senator MARK BISHOP—Our land forces were minimal in the Gulf War, weren't they?

Mr Maxwell—They were. I guess it is fair to say that the involvement of our land forces tended to be more those on exchange with overseas forces—with the exception of the Air Force support teams that were land based but not actually in whatever that place was called.

Senator MARK BISHOP—We did not commit any forces to the actual engagement in the Gulf War, did we?

Mr Maxwell—The naval deployment was in support of that.

Senator MARK BISHOP—I mean Army.

Mr Maxwell—No.

Senator MARK BISHOP—Navy and Air Force were there.

Mr Maxwell—If I might add to the secretary's additions to my comments, we perhaps benefit from being the final one of the major groups we spoke about to embark on our health study. Our numbers are relatively small, so we thought it would be very wise if we could arrange to collect the same data at least, at a minimum, as the British and American surveys were collecting so that we could pool our data with theirs and enable better analysis of the outcome than perhaps we would get just from studying our own small cohort. That was our starting point; we went a stage further and sought additional information as well.

Senator MARK BISHOP—Thank you, Mr Maxwell. You are still at the data collection stage, although that is coming to a close, so you have not really done any analysis yet. Are there any developments in the research that at this stage are causing concern to the RMA?

Mr Maxwell—The results do not go to the RMA until the study is completed and published, but I am not aware of any results that, at this point anyway, have been brought to my attention.

Senator MARK BISHOP—I turn now to the Vietnam Veterans Health (Morbidity) Study. Representations have been made to me questioning the time taken to commence the study. Can you tell me where that study is at?

Mr Maxwell—I am at a slight disadvantage in that the adjournment meant that, unfortunately, neither Dr Horsley nor indeed Mr O'Meara, the branch head of the defence links branch which handles our research effort, could be here tonight. Essentially, I am aware that a consultative forum of interested veterans' organisations has been appointed and the first meeting of that group is scheduled to happen, I think, fairly early in July.

Senator MARK BISHOP—So they have put together a panel and it is really just starting?

Mr Maxwell—When I say it is just starting, it is of course a follow-on—I think this is No. 4 in the series—so the protocol is fairly well trodden and we know what we are on about. Of course, because it is a mortality study, it is infinitely easier to accomplish than a health study because it is essentially a data-matching exercise against the national death index and our veterans' nominal rolls.

Senator MARK BISHOP—So this is not going to take as long as the earlier studies?

Mr Maxwell—I think each iteration of the mortality study gets quicker. Last time around it was slightly more complex because we did, for the first time, the subsidiary analysis of conscripts who had been to Vietnam and those who had not. That was a new feature last time and it added considerably to the scope of the study. Again, this time around that network and protocol is all there, so it is essentially a matter of running the same studies again, using the updated data.

Senator MARK BISHOP—Who is chairing that committee?

Mr Maxwell—I think it is Major General Paul Stevens.

Senator MARK BISHOP—I refer you to the minister's press release on Friday, 3 May, VA47, titled 'Vietnam Veterans' children get increased education support'. It details 30 new bursaries costing \$6,000 each over the next four years. Can you advise the committee where this initiative has been funded from?

Dr Johnston—It is effectively being funded from the budget allocation that was provided for the range of measures announced by the government following the completion of the Vietnam Veterans Health (Morbidity) Study. There were quite a number of measures announced at that time and, as we have got into the detail of implementing them, some elements have cost a bit more and others have cost a bit less; so the funds that were required for extending this program were available from a reallocation within that overall budget allocation.

Senator MARK BISHOP—When was that budget appropriation passed?

Dr Johnston—Three years ago, I think; I would have to confirm that. Yes, it was three years ago.

Senator MARK BISHOP—So is it fair to say that those are funds that have remained uncommitted from that decision of government some three years ago?

Dr Johnston—Funds that to date have not been committed; so it is an opportunity to provide an improvement for children of Vietnam veterans in a way that is consistent with the overall philosophy of the package that was announced.

Senator MARK BISHOP—I was not quarrelling with the granting of the bursaries; I was just interested in where the funds came from. So, from that particular budget allocation, how much is left uncommitted?

Dr Johnston—I think we would have to take that on notice. As I recall, the overall package is of the order of \$34 million.

Mr Farrelly—I can confirm that it was the 2000-01 budget that contained that measure. It was \$29.5 million over four years.

Senator MARK BISHOP—So the question is: how much remains unspent out of that appropriation of \$29.5 million, and what are the plans for the use of that money? On notice is fine. On notice will be fine. What is the current status of the nominal roll of the BCOF? Is that concluded?

Mr Maxwell—The British Commonwealth occupation forces?

Senator MARK BISHOP—Yes. You are in the process of putting together a nominal roll?

Dr Johnston—We are at a slight disadvantage, as Mr Maxwell explained. Priority at this stage has been given to implementation of the Second World War component of the nominal roll project. In principle, we have a strategy of developing a nominal roll for all post-World War II service, but I do not think we have made a start on BCOF yet. We can clarify that on notice.

Senator MARK BISHOP—I have some correspondence here from the BCOF Association in WA. As I read it closely, I see that they do not say that it has commenced. So that is a job for the future?

Dr Johnston—Indeed.

Senator MARK BISHOP—When do you plan to start that aspect?

Dr Johnston—I was just conferring with Ms Blackburn, and I think I can be confident in the advice I have given you, but we should take that on notice and clarify the position on that.

Senator MARK BISHOP—Are you still putting together a nominal roll from World War II?

Dr Johnston—Yes, that is correct. This is a quite massive exercise.

Senator MARK BISHOP—How long has that taken?

Dr Johnston—We have been working on it for a couple of years now. It took us quite a while to establish protocols for access of the documents with the National Archives, and we went to tender to obtain a company to do the document search for us to build up the basis for the nominal roll. We also had to consult extensively with Defence because, in conjunction with doing the work on the nominal roll, we decided to negotiate to obtain Defence's agreement to use the work to transfer the material to the National Archives. It has been quite a complex administrative initiative and it is now well under way.

Senator MARK BISHOP—When do you think that will be concluded?

Dr Johnston—I think we are a bit behind schedule. My colleague draws attention to a briefing which says that we were given \$4.4 million in the 1999-2000 budget for implementation of the project over four years. As I say, I think we are bit behind timetable on that, but we can confirm the detail.

Senator MARK BISHOP—Are you putting together these nominal rolls sequentially in terms of our ADF forces being involved in offshore conflicts? Would they automatically then go to BCOF?

Mr Maxwell—That is not quite the way we have come at it. The original nominal rolls were compiled in relation to health studies, or mortality studies, and therefore the first roll we had to attempt was the Vietnam roll. We have done some other rolls to support the Persian Gulf War deployment health study and the Korean War mortality study. We have done some others of more recent deployments because we had people in the data warehouses—in the usual English meaning of that word—at the same time. While they were doing the Persian Gulf, for example, we had them pulling out Somalia and Rwanda and other more recent deployments, because the records were in the same place. But the concept, as I envisage it now, is that World War II is the first major new roll and we will move forward in history from that point.

Senator MARK BISHOP—Has a commitment been made to do BCOF next or is that something that is yet to be decided?

Mr Maxwell—I guess there is no formal decision to do BCOF next, but if you follow the sequence I have outlined that is the next cab off the rank.

Dr Johnston—I can advise that the Second World War component of the project will be completed by September, with the objective of implementing a new web site with that data on it in November this year.

Senator MARK BISHOP—I want to have a brief discussion about qualifying service and the guidelines. I understand that the Repatriation Commission has withdrawn the guidelines for the termination of qualifying service for Australians during the Second World War. Is that correct?

Dr Johnston—I do not necessarily think they have been withdrawn as such. What has happened is that case law has made it clear that—

Senator MARK BISHOP—Who has?

Dr Johnston—Case law—judgments handed down by the courts. Case law has made it clear that what was long-held policy was in fact inconsistent with the law, or at least it is if it was arbitrarily applied. But, if it is applied in conjunction with the case law, it still has a vital and important role to play. That is in fact the instructions that have been given to the departmental staff: to apply it in the context of the law as interpreted by the courts.

Senator MARK BISHOP—So the policy of the department re QS has to be applied consistent with the case law as it develops?

Dr Johnston—Yes.

Senator MARK BISHOP—I had a different understanding of the situation. My office was advised that the Repatriation Commission had voided the guidelines because they had been found to have been inconsistent with the law.

Dr Johnston—I think it is a question of words, and possibly people, in talking about what has been done, can choose words that might be a little misleading at times. But it is only in respect of coastal waters policy: it is in respect of determining qualifying service during the Second World War around the coast of Australia. The difficulty we have is that the guidelines, which have sought to be administratively efficient, helpful and in a sense beneficial in some cases to veterans, have been seen by the court as not satisfying in all cases the incurred danger

test, which is a legislative requirement. In some cases, we have been awarding qualifying service, given our guidelines, where the court after it looked at all the facts was not satisfied that the veteran or the individual actually incurred danger in the sense—

Senator MARK BISHOP—In some cases, you have been more generous than the law perhaps authorised.

Dr Johnston—Quite openly, and everyone has known the basis on which we made the decision.

Senator MARK BISHOP—I am not critical of that, Dr Johnston. When were those coastal waters guidelines first issued?

Dr Johnston—I would suspect some time in the late 1940s, early 1950s.

Senator MARK BISHOP—What was the legislative authority then? Was it just a policy decision of your predecessors?

Dr Johnston—Mr Maxwell has been around a lot longer in the department than I have, sir.

Mr Maxwell—It had its genesis essentially in the concept of service in a theatre of war. I think we had this discussion at the last session. The two world wars by their nature were global conflicts and once you set off on the high seas you were at some risk of being torpedoed or mined by the enemy. I think that was its genesis. As successive judgments have made clear, the test is not a subjective one as to whether you thought you were at risk. The test is objective: you must have been at risk, and that is a post hoc analysis that you can only really approach armed with the knowledge of the enemy's disposition, his armaments and his potential to strike. That is where history has shown that the early approach was adopted—as the secretary says, it was administratively adopted because it accorded with the general view of the day—as a means of handling the very considerable number of claims that were coming in at that time.

Senator MARK BISHOP—Has there ever been a challenge to the authority of those guidelines?

Mr Maxwell—Indeed, there have been a number. One that comes to mind in more recent years is *Repatriation Commission v. Townsend* in the Administrative Appeals Tribunal, where the veteran was seeking application of the coastal waters policy for service on Garden Island off Perth or, at least, service in transit between the Western Australian mainland and Garden Island. That is probably the most recent example.

Senator MARK BISHOP—Is that the case that has given rise to the instant—

Mr Maxwell—No, it is just one of a number. That is the most recent one that I am aware of.

Senator MARK BISHOP—Do you have records on how many decisions on QS using these guidelines have been granted and how many have been rejected?

Mr Maxwell—No. Given the span of history over which the policy was applied—it goes back to before the advent of computers—I do not think we would have any ready means of even identifying it at this stage in history.

Senator MARK BISHOP—What advice are you now giving to claimants, post the more recent court decision in this area?

Mr Maxwell—The advice, essentially, is that the law has to be applied, and to apply the law you must have regard to the evidence in the particular case in front of you.

Senator MARK BISHOP—So it is still on an individual case determination basis?

Mr Maxwell—It is an individual case determination, but again it has regard to the type of service the veteran was engaged in. If we are talking about coastal waters, it is about whether during a transit of coastal waters they were actually on duty as opposed to being on leave or going to enlist and not having yet enlisted, all of those sorts of considerations, and then the known disposition of the enemy forces at that time.

Senator MARK BISHOP—Have you circulated a memo to branch officers and the AAT, setting out the new guidelines and the reasons for them?

Mr Maxwell—I cannot say the AAT, but certainly the branch officers have had it.

Senator MARK BISHOP—Could I ask for a copy of that to be provided to the committee, if that is okay?

Dr Johnston—That is okay. I might note that the issue of coastal waters policy is, in principle, an issue that will be subject to the views of the Clarke committee, and we have certainly referred to the issue in our submission.

Senator MARK BISHOP—Are there any cases previously allowed by either the department or the AAT on review where benefits are now being paid? Is there any attempt now to go back and review previous cases?

Mr Maxwell—We have not sought to disturb any previous decisions.

Senator MARK BISHOP—Was the decision that we were discussing earlier, Dr Johnston, with Mr Maxwell, where you put some fine points on the current practice of the Repat, a decision of the Repatriation Commission?

Dr Johnston—That is correct, yes.

Senator MARK BISHOP—It was not a decision of the minister or of cabinet?

Mr Johnston—No, it is formally the commission's responsibility. We have certainly advised the minister of the issue and the approach we were taking, so we would have the benefit of her guidance, but it is our decision.

Senator MARK BISHOP—In 1997, following the Black Hawk accident, the then minister announced that, in addition to the supplementary lump sums for widows and children, ADF personnel would be provided with access to the VVCS. Has that indeed happened?

Mr Maxwell—Access was provided. I cannot say that I actually know of an instance of it being taken up, but the service was there.

Senator MARK BISHOP—If people wanted to access it now, would they just go through the normal channels?

Mr Maxwell—Yes.

Senator MARK BISHOP—Is that done on a cost reimbursement basis?

Mr Maxwell—In essence, the VVCS is a service provided under the Health Division, which is not here tonight. My understanding, though, is that it is a service that is available, and I do not think there is a cost recovery process involved.

Senator MARK BISHOP—That is my take from the discussion we had last February.

Mr Maxwell—Which is a different matter from the current F111 deseal-reseal, similar extension of the service to the Air Force personnel involved. We will confirm whether it is on a cost recovery basis.

Senator MARK BISHOP—Can you also take on notice the level of usage to date and what sums have been spent on that scheme? Turning now to the proposed war widows legislation, which the government had as part of its election campaign, and it has since restated its position, do we know when that legislation will be introduced?

Mr Winzenberg—This is in relation to the income support supplement. It should be introduced on the 17th of this month.

Senator MARK BISHOP—When is it supposed to be operational from?

Mr Winzenberg—It comes into effect from 20 September this year, but the first payday will be 3 October this year.

Senator MARK BISHOP—And is it anticipated that will be passed in the June sittings?

Mr Winzenberg—The late August sittings—the week of 19 to 22 August.

Senator MARK BISHOP—I do not think it is going to be contentious. Will the same amendments be made to the Social Security Act as to the VEA?

Mr Winzenberg—We have a number of war widows who receive frozen rate age pension from Centrelink. We are not proposing to amend the social security legislation. We are offering those war widows the chance to transfer back to DVA.

Mr Winzenberg—There are only about 170 of them, so the cost of changing the social security IT infrastructure to cope with that change for such a small number is not cost effective.

Senator MARK BISHOP—Do you anticipate that any would choose to remain at Centrelink?

Mr Winzenberg—There is no reason why they should. We propose writing to them in the next couple of weeks to ascertain the take-up rate.

Senator MARK BISHOP—What happens if a small number, for whatever reason, choose to remain in the Centrelink system? You would handle that administratively?

Mr Winzenberg—That is clearly their choice, and they would continue under the current arrangements. There would not be any indexation, but we would seek to ascertain what the reason was and try to address that.

Senator MARK BISHOP—So, if any number of widows choose not to come back to the VEA and remain at Centrelink, the relevant act will not be amended and they will be disadvantaged compared to their sisters?

Mr Winzenberg—That is correct.

Senator MARK BISHOP—Do you have on your records how many widows without children are below the age of 57?

Mr Winzenberg—Not here. I would need to take that on notice.

Senator MARK BISHOP—Can you take that on notice and provide us with that information? You told us the other night that the BEST program was being evaluated. I did have some questions. I cannot recall if I asked you: who is undertaking that evaluation?

Mr Johnson—An organisation called Better Enterprises Pty Ltd.

Senator MARK BISHOP—Where are they based?

Mr Johnson—They are based in Canberra, but they have additional staff located in Melbourne.

Senator MARK BISHOP—How long will the review take?

Mr Johnson—The review is estimated to be completed by 31 July this year. It has been delayed for about four or five weeks.

Senator MARK BISHOP—What has prompted the review of the quality assistance programs?

Mr Johnson—The funding for next year represents the fourth year of the program. It was felt that after having three completed rounds it would be an opportune time to evaluate the effectiveness and efficiency of the program and see whether there are any changes that should be made to the program.

Senator MARK BISHOP—I do have a follow up question resulting from the answer you provided to my office this afternoon but I will put it on notice.

[8.00 p.m.]

CHAIR—We will move to outcome 3, Commemorations.

Senator MARK BISHOP—In response to articles in the *Australian* on 25 and 29 April by Mr Peter Wilson, the minister commissioned a report from the Office of War Graves which addressed some or all of the allegations raised in Mr Wilson's article. I will just read you a few comments from Mr Wilson's articles, because the minister's comments in the press release were quite at odds with what was reported so I want to get it on the record. The reporter said:

"A lot of them say 'I have done Oktoberfest in Germany, and run with bulls in Spain, now I have to do the dawn ceremony (at Anzac Cove)," said Andrea Pardoe, a young Perth accountant now working at ... (a) bar.

Does the department, arising from the report, have any comment on that?

Air Vice Marshal Beck—No, we do not have any comment on that. If it is reported that that is what he said, that is probably what he said.

Senator MARK BISHOP—Yes, he did say that, but the minister put out a comment essentially denying that a 'boozy bacchanalia' occurred. She said it was:

... a mischaracterisation of a highly successful event ... all reports indicate they were largely well-behaved and claims of drunken behaviour have been greatly exaggerated.

It went on along those lines, saying that if there were incidents of that nature they were rare, isolated and one-off and that to portray it as anything else was a gross exaggeration. That is the thrust of the minister's press release. I presume you drafted it?

Air Vice Marshal Beck—Yes, that is correct.

Senator MARK BISHOP—So you are familiar with it?

Air Vice Marshal Beck—Yes. Certainly, there was no comment on that particular quote from the individual in the report, because the report was about responding to the 'boozy bacchanalia' part of it. There was alcohol consumed there in the late afternoon and evening,

but by midnight—after 10 o'clock—most people were falling off to sleep. Most people—and there were thousands—were in sleeping bags.

Senator MARK BISHOP—Were you there?

Air Vice Marshal Beck—I was there until 10 o'clock that night.

Senator MARK BISHOP—So you had first-hand knowledge?

Air Vice Marshal Beck—Yes.

Senator MARK BISHOP—And you had officers of the commission with you as well?

Air Vice Marshal Beck—No, I had my staff with me, but my Turkish contractor was there until midnight and I received a report from him on that subject the next day. Others who were there through the night have since made reports that are quite at odds with the Peter Wilson article.

Senator MARK BISHOP—From your first-hand knowledge, what is your assessment of what did occur?

Air Vice Marshal Beck—People started arriving there at three o'clock on the afternoon of the 24th and many of them settled in for the evening. Alcohol was being sold by Turkish vendors in the area, although we sought to have and had had alcohol banned for the 25th. Obviously next year we need to get it banned for the 24th. But there was not a lot of alcohol consumed. I have been attending these services now for three years, and it has never been a major issue. There might be the odd individual—in my three years I think I have seen one person—who was drunk. No doubt others have seen more than that, but we have since had ministerial complaints from people who were there in 1988 saying it must still be happening. No doubt it is, but it seems to be more a myth about young Australians' behaviour at Gallipoli than a fact.

I was there until 10 o'clock at night and we were still testing the speakers, the video system and the large video screen, so we were playing loud music because it had to be projected over 100 metres. When we completed the testing, we started—and I approved—the playing of some CDs that the team from Istanbul had. It was Western music and it was not played loudly. I left at 10 o'clock. My contractor has since reported that music continued to be played, but it was music that was brought by young Australians and New Zealanders. They apparently take CDs with them to play in the coaches. The report I got said that there was no loud music.

Senator MARK BISHOP—When did the playing of the music cease?

Air Vice Marshal Beck—I do not know because I had no first-hand reports after midnight. Certainly by then most people were asleep. I was back there at two o'clock in the morning and there was no music being played then. One small group was making quite a lot of noise and singing down on the beach, but the overwhelming impression was that the place was absolutely packed with people who were asleep.

Senator MARK BISHOP—On the beach or on the hill?

Air Vice Marshal Beck—In every possible place you could put a sleeping bag, including on the path we had created for the VIPs.

Senator MARK BISHOP—So there was government funded sound equipment, which you were setting up and which you tested until around 10 p.m. Then you left. From 10 p.m. to midnight, permission was given to some young people to use the same equipment, and when you returned at 2 a.m. the music had been turned off at some time prior to that.

Air Vice Marshal Beck—That is correct.

Senator MARK BISHOP—Have any lessons been learned for next year and future years from this year and from the press reports?

Air Vice Marshal Beck—Yes, certainly. I think we need to have a staff member there right through the evening, to keep an eye on things. It is very difficult, because we have no authority to act against any of the visitors, and nor does the Australian Defence contingent. We have resisted the idea of having Turkish police patrolling, so we have hired our own security people. I suppose I would take responsibility for briefing them a little better next time, although the security problems were about trying to limit access to the official area. It got a bit crowded there. It was so packed that you could not get anywhere near the official sound systems.

Senator MARK BISHOP—What was the size of the crowd this year?

Air Vice Marshal Beck—They are only estimates, but I would say it was in the order of 13,000 to 14,000. It seems to keep increasing. It has kept increasing, probably 10,000, 12,000, 14,000 over three years. There has been very rapid growth in the last five years. It doubled between 1999—the last service at the old site of Ari Burnu—and the first service in 2000 at the Anzac commemorative site.

Senator MARK BISHOP—So perhaps next year there will be extra briefings, extra security and limited access to the official area.

Air Vice Marshal Beck—Yes. I think one of the biggest problems is that more people are coming earlier and camping overnight. That is occurring because the Turkish gendarmerie have diverted all the coaches on a circuitous route. We spent five months negotiating a traffic plan with the Turks and they completely changed it at the last minute without any reference to us. The coach operators got wind of that and most coaches arrived two or three hours earlier than they would normally have arrived.

Senator MARK BISHOP—Were there congestion problems?

Air Vice Marshal Beck—There were nearly 400 large coaches on single-lane dirt roads, so it is a massive problem. It is the biggest problem at Gallipoli and it is a problem that we have no control over at all. We do our best. We have held meetings with TURSAB, the Turkish agents for coach operators and travel agents. I have met with the president of TURSAB and they have formed an Anzac committee. I accompanied them to Gallipoli in February and we conducted a survey of the route and the way it should work, but the Turkish army, and through them the gendarmerie, took no notice of that.

Senator MARK BISHOP—Why is that?

Air Vice Marshal Beck—The Turkish army and the gendarmerie are very security conscious. They cleared the main route from Eceabat to the Anzac commemorative site at midnight, in preparation for the official party coming across there at 4.30 in the morning. They cleared that road four or five hours early. That meant no-one could travel on that road. That is the main problem and we need to find a way around it.

Senator MARK BISHOP—And we are thinking about trying to address that problem?

Air Vice Marshal Beck—I have nearly given up. I have been trying to solve this problem for three years. We have not found a way to communicate adequately. Frankly, we have not found out who is in control. We are still working on it, though.

Dr Johnston—I think it would be fair to say that, in anybody's terminology, it really is a major logistic challenge—even if there was excellent communication and great clarity. I think the Turkish authorities are, in a sense, focusing on the issue more and more each year; but, as Mr Beck has said, it has still got a way to go to have it working as well as we would like.

Air Vice Marshal Beck—That is true, actually. The Turkish authorities really are trying to solve this problem, and I think they are grappling with it too.

Senator MARK BISHOP—All right. Is there any proposal to ban alcohol from the site?

Air Vice Marshal Beck—We have sought to ban alcohol, but I am not sure that that is the correct approach. I think that would indicate that there is a grave problem there; and frankly I do not think there is a grave problem. I do not think there is any evidence of a grave problem. Certainly 10,000 or 12,000 young Australians are boisterous, but they were even more boisterous before the Lone Pine service at midday. It is just the nature of the location, the site and the numbers of people there. They were boisterous but not because they had been consuming too much alcohol.

Senator MARK BISHOP—Okay. Could we now turn to Belgian war graves—not French war graves. There was an article in the *Canberra Times* on 25 April concerning a new freeway in Belgium. What can you put on the record, Air Vice Marshal Beck, about that proposal? I believe you are aware of it.

Air Vice Marshal Beck—Yes. The A19 motorway extension, through Pilkem Ridge battlefield, has been on the books for any number of years. It appears on all the Michelin maps in the area. As far as we know, a final decision on the proposed route was to be made later this year, and it is scheduled for completion at the end of 2005. The problem is not particularly one that we have sought to involve ourselves with as much as other countries have. While we have been involved, the area contains German, British, French and Canadian graves in the main, and it is not an area of Australian operations. We were further to the south-east. Of the six cemeteries that lie closest to that proposed motorway route, there are two cemeteries that contain some Australian graves, but they are few in number. I think there are four in one cemetery, and they were interred after the Armistice was signed; they were reburials. The second cemetery contains 31 of the 676 graves, but they were buried there between 1924 and 1926. It is not an area of Australian operations, so I suppose we have taken a slightly lower profile in our approach to the Belgian government than we have in relation to the French proposals.

Senator MARK BISHOP—Are we working through the Commonwealth War Graves Commission?

Air Vice Marshal Beck—We are working through the Commonwealth War Graves Commission, the Belgian manager, and also through our embassy there.

Senator MARK BISHOP—At this stage it is a monitoring role as to development?

Air Vice Marshal Beck—No recent information has come across my desk in relation to the Belgian proposal.

Senator MARK BISHOP—And the Australian government has not found it necessary to become directly involved with comment to the Belgian government?

Air Vice Marshal Beck—I think we have made an approach through the Australian Ambassador, but I do not think we are actively pursuing it at the moment.

Senator MARK BISHOP—The Australian Ambassador to Belgium has made contact with the Belgian government? Is that the situation?

Air Vice Marshal Beck—The Commonwealth War Graves Commission is continuing to liaise with the Belgian government, and Australia's High Commissioner to London, who is a member of the commission, is kept fully apprised of all developments. So we are acting through the commission in the main.

Senator MARK BISHOP—So I presume the British and Canadian governments would have a much more significant interest.

Air Vice Marshal Beck—I assume so, Senator. But, again, the commission is the primary source of liaison with the Belgian government.

Senator MARK BISHOP—Thank you, Air Vice Marshal. Dr Johnston, can you advise how many Anzac Day services were cancelled this year?

Dr Johnston—My understanding is there were very few, if any.

Ms Blackburn—We contacted each of the state RSL organisations to seek advice on their public liability insurance and what events were cancelled. We were advised of only one cancellation and that was the dawn service at Manly Dam in Sydney. Members of the Avon Valley 10th Light Horse Troop did not take part in the Perth parade citing public liability issues, but we received advice from the RSL that there were no other Anzac Day events cancelled.

Senator MARK BISHOP—Anywhere else in Australia?

Ms Blackburn—No.

Senator MARK BISHOP—What were the circumstances which led to the cancellation of the service at Manly Dam?

Ms Blackburn—We did not get that detail. I think it was just a general concern that they may not be covered. That was the information that came back to us.

Senator MARK BISHOP—The New South Wales RSL did not provide any information?

Ms Blackburn—No. The New South Wales RSL cover is a little bit different from some of the other states. They do have cover available to their sub-branches under a master insurance policy whereas, in some of the other states at least, generally cover is taken out by the state branches. So maybe there was a more local concern in New South Wales.

Senator MARK BISHOP—Dr Johnston, I refer you to an article in the *Gold Coast Bulletin* of 20 April about the condition of war graves in Pusan. If this report is right—and I do not say it is, but if it is—it would seem we have a major problem. Are you aware of the situation up there?

Air Vice Marshal Beck—Yes.

Senator MARK BISHOP—You are, Air Vice Marshal? I might just read you a number of comments from the article and you might care to comment. An article by Mr Peter Gleeson in the weekend *Gold Coast Bulletin* on Saturday 20 April, in the first two paragraphs, reads:

Civic corruption threatens to destroy Australia's war memorial in Korea.

To make matters worse, Australians killed in action during the Korean war may be in the wrong graves—if they are in graves at all.

Do you have any comments?

Air Vice Marshal Beck—Yes. Firstly, on the civic corruption, we have not gotten involved in that aspect.

Senator MARK BISHOP—In the corruption?

Air Vice Marshal Beck—I think the origin of this article stems from Mr Brian Foster, who has been up there. I think he is a little bit confused about the circumstances and the suggestions that in some cases Australian soldiers are not even in the graves. The problem is that the Pusan grave was constructed in either 1951 or 1952—I think it was 1951—from seven other burial sites around Korea so, obviously, the remains were removed from those original sites and brought into Pusan. They were also rearranged into national plots so that Australia, I think, has four plots, Britain has about seven, United States has one or two—because they have only got about 30 Americans there, as the remainder were sent back to the United States—and Turkey has a number. So these graves were relocated. The origin of the thought is that Brian Foster had a mate who died there and he knew who was buried next to this mate in the original grave and, of course, they have all been moved. I do not think people quite appreciate that almost all war dead are relocated, usually more than once, before they end up in a Commonwealth War Graves Commission cemetery. So there is absolutely no truth to any of those allegations.

Senator MARK BISHOP—Okay. The article goes on to say:

The Pusan local government authority in Korea has constructed double lane freeways and resumed land within four metres of the entrance to the gates at the United Nations Memorial cemetery.

Do you have any comments on that?

Air Vice Marshal Beck—I have not been there, but our reports from the Australian embassy suggest that, yes, the place is getting a little crowded around there; Pusan is now a major city. But there have been no incursions within the cemetery. The only aerial photo I have is a few years old now, and it certainly looks like a major industrial area around the cemetery. But it is an absolutely magnificent park that is brilliantly maintained. It is an absolute gem and it does not quite deserve some of the press it is getting.

Senator MARK BISHOP—No. I must say that I do not regard four metres from the freeway to the entrance of the gates as remarkable. It is identical to Karrakatta, the Commonwealth war cemetery 200 yards down the road from my house.

Air Vice Marshal Beck—It is a problem all round the world where they are building out around the cemeteries.

Senator MARK BISHOP—I will read you a few of the more salacious comments and ask you to comment again. One says:

Plans are now in progress to build a playground at the southern end of the cemetery, which is surrounded and shadowed by dense public housing.

Air Vice Marshal Beck—I think there has been some exchange of land to create a new entrance at the rear of the cemetery. So there may have been some trade-off in small parcels of land that have allowed a playground to be built. I would be very surprised if a playground is constructed in the cemetery.

Senator MARK BISHOP—I would be too. The article goes on:

Disturbing new claims have emerged that there was, at best, a 'slipshod' approach to transferring Aussie diggers from the old war cemetery to the new one.

Do you have a comment on that?

Air Vice Marshal Beck—Yes. Nothing could be further from the truth—in fact, the way it was done there was absolutely remarkable. There are very detailed records of every single transfer, and they are all kept by the custodian of the cemetery there. It is a most amazing recording system. But, again, that relates to my first comment—the ‘slipshod’ comment and the suggestion that they do not know where they are buried are not true.

Senator MARK BISHOP—So you also reject the suggestion that the transfer was ‘slipshod’?

Air Vice Marshal Beck—Absolutely.

Senator MARK BISHOP—Mr Foster went on to say:

... there is evidence to suggest that the transfer of the fallen to the new cemetery ‘may well have been very poorly supervised if at all’.

Air Vice Marshal Beck—Again, he is basing it on the fact that this friend of his mate is no longer located next to him. We do not know whether his mate was of the same nationality. If he was not the same nationality, he would have been moved to his own national plot.

Senator MARK BISHOP—The article continued:

Mr Foster said the Australian Digger on display as a sole exhibit in Seoul was a national disgrace.

“The exhibit makes Australia a laughing stock.”

Air Vice Marshal Beck—Yes, that may well be true. I do not know where it is. I think it could be a mannequin dressed as an Australian soldier. But that happens in other countries, too.

Senator MARK BISHOP—But it is not germane to this cemetery at Pusan?

Air Vice Marshal Beck—No, I do not know. It is not in the cemetery.

Senator MARK BISHOP—Fine, I just want to get that on the record. I will read you two or three other paragraphs from the article, because they deal with comments made about former Minister Scott and Minister Vale, and I would ask you to address them on the record. The article goes on:

Mr Foster said our fallen interred in Korea were no longer resting in eternal peace. He blames successive governments and singles out former Veteran’s Affairs Minister Bruce Scott.

“Mr Scott has not been interested in the subject ... possibly entwined in his own bureaucratic minefield.

The French situation is serious but the problems in Korea are equally criminal. This is a very sad indictment against the RSL and previous governments.

And it goes on. Do you have any comment?

Air Vice Marshal Beck—Yes. Again, nothing could be further from the truth. I think it is worth putting on the record the rationale behind all these comments. It is an attempt to create a national cemetery in Australia and to have our war dead transferred back here. That is part of a web site campaign initiated, in part, by Americans—some American Vietnam veterans who do not quite understand the difference in our historical treatment of war dead compared with theirs. That thought has been picked up by some Australian Korean and Vietnam veterans also. So there is quite a push to bring our war dead home. I am not sure that they mean all 102,000.

Senator HOGG—Is there an organisation as such that you can name?

Air Vice Marshal Beck—There is certainly a campaign. I am not sure I could name it.

Senator MARK BISHOP—Thank you for those comments, Air Vice Marshal Beck. The reason I wanted it on the record is that for some reason I received a fair amount of correspondence on this topic and we made some inquiries of the minister's office and Mr Hulsing from her office provided us with a copious amount of information which was of significant assistance to us in answering that correspondence. I thought I would take the opportunity to have the situation outlined on the record.

Air Vice Marshal Beck—Thank you, Senator.

Senator MARK BISHOP—I will turn now to the Long Tan memorial. What role has the Office of Australian War Graves or DVA had in facilitating the restoration of that memorial?

Air Vice Marshal Beck—There has been absolutely no involvement from the Office of Australian War Graves. I had better pass over to my colleague who has been involved.

Ms Blackburn—There has been no involvement with the restoration of the Long Tan memorial itself. However, a grant of \$15,000 has been made to provide an all-weather road surface to the road which runs past the Long Tan Cross. That is designed primarily to complement the work that has been done by the Australian Vietnam Veterans Reconstruction Group and to assist the local people.

Senator MARK BISHOP—Did that \$15,000 grant come from DVA?

Ms Blackburn—Under the Commemoration Grants Program, yes.

Senator MARK BISHOP—So there have been no other funds contributed?

Air Vice Marshal Beck—I think I have to correct myself. I think we give \$100 a year which I have lost track of.

Senator MARK BISHOP—But there has been no significant contribution from DVA?

Dr Johnston—The Long Tan Cross has great significance to those who were involved in that particular battle but it does not have the formal status of an official memorial. That is a matter of considerable sensitivity to the Vietnamese authorities and the local people.

Senator MARK BISHOP—Why is that?

Dr Johnston—I think that is possibly something for the Vietnamese authorities and the people to speak to. What is interesting is that, over recent years, the Australian Vietnam Veterans Reconstruction Group has developed an excellent rapport with the local communities and now have their trust and have been very active in maintaining and improving the amenity of the Long Tan Cross. It is certainly a significant site. We would have an interest over a period of time, with the acceptance of the Vietnamese people and the Vietnamese authorities, in giving appropriate recognition to that site. But this, of course, is a matter of great sensitivity to the Vietnamese people.

Senator MARK BISHOP—I can understand that from their perspective. The question then is: are there any negotiations under way between our government and the authorities in Vietnam to alter the status from a private endeavour to something more official?

Dr Johnston—I think it is probably worth noting that the National President of the RSL, Major General Peter Phillips, has in recent times made a visit to Vietnam and was hosted by the Vietnamese authorities and the veteran organisations. He has indicated his view that it is

time for the Australian government to build on his visit. Bruce Scott visited some years ago, including to the site of the Long Tan Cross. Peter Phillips is now of the view that it is time to progress that dialogue and exchange with the Vietnamese authorities and the Vietnamese veteran community. The government is currently considering the possibility of some type of visit in the new year.

Senator MARK BISHOP—So the government has noted Major General Phillips' views and is reviewing its position?

Dr Johnston—Not reviewing, just giving thought to how it might respond to his suggestions and its own interests in that area.

Senator MARK BISHOP—Understood. Who funded Mr Scott's trip to France: was it DVA or PM&C?

Ms Blackburn—My understanding is that it was the Department of Finance and Administration, but we would have to confirm that.

Senator MARK BISHOP—Can you confirm that it was Finance and tell me the cost involved. What was the justification for that?

Ms Blackburn—My understanding is that the Prime Minister asked former Minister Scott to represent the Minister for Veterans' Affairs at a number of significant ceremonies in Belgium and France around Anzac Day. The ceremonies in France are always the weekend after Anzac Day. In Belgium there has been a fairly longstanding relationship with EPA and the officials at the Menin Gate, and former Minister Scott attended functions there.

Senator MARK BISHOP—Was he given ministerial status for the visit?

Dr Johnston—We should take that on notice and give you a strictly correct answer. We assisted Mr Scott with arrangements for his visit and he had the courtesy of support from our embassies and so on.

Senator MARK BISHOP—I am sure the embassies provided support and I am sure you did. You are a very gracious organisation. The question is whether he was elevated to ministerial status for the visit.

Dr Johnston—He was there as the official representative of the government.

Senator MARK BISHOP—Given the fairly lengthy and recent controversy over the proposed French airport, would it not have been more appropriate for Minister Vale to have attended?

Dr Johnston—I think that is a question you should direct to the minister who would be sitting here in other circumstances.

Senator MARK BISHOP—Yes, it is. We will talk briefly now about the proposed London memorial. I have received some correspondence from the national office of the RDFWA concerning, they say, the non-recording of the names of Australians who served with British forces in World War I and II on the roll of honour at the War Memorial with the suggestion that this might be done on the London memorial. Is it correct that the names of these Australians are not recorded at the AWM, and if so what is the reason?

Air Vice Marshal Beck—I cannot speak for the War Memorial, but I would think that they probably are not recorded there, if that is what they are saying, if they were not members of the Australian forces who served. It is only a roll of honour. It is for those who died. Those

Australians who served with British forces and died are probably not recorded at the War Memorial.

Senator MARK BISHOP—The RDFWA state:

The particular anomaly relates to the fact that Australian citizens who served in British units in WWI and WWII do not have their names inscribed on the walls of the Australian War Memorial as the Act provides only for Australians who served in Australian units.

There is the answer.

Air Vice Marshal Beck—There is the answer.

Senator MARK BISHOP—It is a legislative direction. Will names be inscribed on the London memorial?

Air Vice Marshal Beck—No, they will not be. On the other hand, the memorial is very clearly going to be designed to ensure we do pick up all Australians who served. Because in fact the memorial is about Australia's support in the defence of freedom along side Britain.

Senator MARK BISHOP—You are not going to have a roll?

Air Vice Marshal Beck—It will not have anyone's name on there.

Senator MARK BISHOP—But it will make it clear that it is for all Australians.

Air Vice Marshal Beck—It will be for all Australians who served with Britain.

Senator MARK BISHOP—I might get you to take on notice the suggestion by the Regular Defence Force Welfare Association that there is a legislative prohibition for having the names of Australians who served in British units in World War I and II inscribed at the memorial. I suspect there would have been a large number of Australians, particularly in those days, who signed up in various British units.

Air Vice Marshal Beck—Certainly I know that is true of the RAF in World War II.

Senator MARK BISHOP—You might confirm that that is the reason their names were not inscribed. If that is incorrect, could I ask you to advise why their names would not be inscribed.

Dr Johnston—I think we will take that on notice on behalf of the War Memorial and ask them to respond.

Senator MARK BISHOP—Yes, that is fine. Similarly, I now refer to an article by Charlie Lynn in the *Sunday Telegraph* on 21 April under the heading 'Failed monuments that betray the Kokoda spirit'. I ask you, again, Air Vice Marshal, to comment. In this article Charlie Lynn goes on to say, about a third of the way into the article:

The Kokoda Memorial Hospital has been without a doctor for most of the past 10 years. Nobody is even qualified to operate the hospital's X-ray machine—and they don't have power for it, anyway.

The new wing, completed almost 12 months ago, has never been used.

Do you have any knowledge of the situation up there?

Air Vice Marshal Beck—It is true that there is not a doctor stationed there, but a doctor frequently attends there. There is a good letter which has been written to refute that from Rotary International, who have done all of the work at the hospital. Over 4,500 babies have been born at this hospital and about 70,000 people have been served by the hospital since we constructed it, so it is doing pretty well for a hospital in Papua New Guinea.

Senator MARK BISHOP—So you refute those allegations?

Air Vice Marshal Beck—There might be some evidence in them but from the reply—written by Mr Don Jury, a retired Rotary International president—the Rotarians, who constructed this with funding we provided from the Australian government, were deeply upset by Charlie Lynn’s comments.

Senator MARK BISHOP—But you do not have a detailed knowledge of the situation up there?

Air Vice Marshal Beck—Having constructed the hospital, it actually became the responsibility of the PNG government to fund its maintenance and that has been somewhat deficient. We are currently negotiating to have a plant operator there to maintain all the systems operating. We are just trying to work out how we can actually do that in terms of whether it is a locally employed civilian which we fund through the Australian High Commission. We are trying to find a solution to the problem.

Senator MARK BISHOP—All right. Can you take on notice—because, again, I have received correspondence on this—and provide a written comment as to the truth or otherwise of these allegations: that the hospital has been without a doctor for most of the past 10 years; that no-one is qualified to operate the hospital’s X-ray machine; that the new wing, completed almost 12 months ago, has never been used; and that there is no fuel to run the generator hence there is no power?

Air Vice Marshal Beck—Yes.

Senator PAYNE—Mr Chair, I just want to clarify something with Air Vice Marshal Beck. I do not think there is a suggestion that the comments are made in what I would describe as a malicious way; I think they are made with concern about the most effective use of the facilities and Mr Lynn’s concern about the appropriate recognition or acknowledgment of the Kokoda Track itself.

Air Vice Marshal Beck—Yes, I think that is a fair comment. I think, given that there are no maintenance funds, there is no doubt that there is some truth in the comments. I guess the article does not give any recognition for the work that has been done and what the hospital has achieved.

Senator PAYNE—I know Mr Lynn to be particularly committed to this aspect of the recognition of Australia’s role and to Australia’s continuing presence in the area, having taken, I think, between 27 and 30 trips up and down the track in recent years.

Air Vice Marshal Beck—I look forward to responding to get to the bottom of it.

Senator MARK BISHOP—I was not passing any comment on the accuracy or otherwise of the article; I was just referring it for public comment because I have received some correspondence making similar allegations. So we need to get on the public record what the facts are.

Dr Johnston—It might be useful if, in the answer, we also provide some information on the range of development projects that the Australian government has been involved in along the Kokoda Track because that might provide a context for the Rotary International project. We are talking about a range of development projects in an area which is remote, in many cases, and faces all the challenges of that sort of situation.

Senator MARK BISHOP—Thank you, Dr Johnston.

Air Vice Marshal Beck—I will put that in context. I think it was part of the Australia Remembers program. There was a joint funded arrangement whereby the Australian government provided the hospital and a range of other facilities, including classrooms and what not, and the other half was to be provided by the PNG government. It totalled 81 projects and, to date, they have not been funded. Part of that was funding the ongoing maintenance and support of this hospital. There is no question as to efficiencies.

Senator MARK BISHOP—I understand; thank you. Is it a fact that the Office of Australian War Graves has permanent leases over World War I and World War II graves but the same does not apply to the graves of Korean and Vietnam veterans? It has been a problem in South Australia and has been raised in some of the local press.

Air Vice Marshal Beck—That is correct. It is a problem that occurs only in South Australia, because they are the ones who are most active with the limited tenure leasing. All the World War I and World War II graves are in Commonwealth War Graves Commission cemeteries that we maintain. We have a 99-year lease, which is the most that we granted under the local legislation, but I think in effect it is permanent, so there is no problem with the World War I and World War II graves. I do not think there are any Korean veterans. Of course, those who may have come home injured and then died would be buried privately. Then, again, there are 54 Vietnam veterans in South Australia. The minister has undertaken to pay for renewal of the leases, but the minister has also written to the South Australian Premier seeking a permanent change in legislation to create permanent leases for all our war dead.

Senator MARK BISHOP—They are currently interred in cemeteries other than in Commonwealth War Grave Commission sites?

Air Vice Marshal Beck—Yes, all the Commonwealth War Grave Commission cemeteries closed on 31 December 1947. All our war dead, those who came back from Vietnam and those who were injured and died in the Korean War are buried privately, except for 24 veterans who are in military cemeteries in South-East Asia.

Senator MARK BISHOP—When did the minister write to the South Australian Premier?

Air Vice Marshal Beck—About a month ago.

Senator MARK BISHOP—Has there been any response to date?

Air Vice Marshal Beck—I saw a response in a news item this morning that the South Australian government is considering the question.

Senator MARK BISHOP—We might revisit that at the end of the year. That concludes outcome 3, Commemorations. Thank you, Air Vice Marshal Beck and Ms Blackburn.

[8.43 p.m.]

CHAIR—I would now like to turn to outcome 4, the needs of the veteran community.

Senator MARK BISHOP—I refer to the announced opening of the new DVA office in Tweed Heads, welcomed greatly, I presume, by the member for Richmond. What is the estimated cost of opening this office and maintaining it for a year?

Mr Hay—I do not have the exact costs with me. But, from recollection, I think establishment costs were of the order of \$400,000 and the ongoing costs were approximately \$200,000. We can take that on notice to give you the exact figures, if you wish.

Senator MARK BISHOP—Yes, if you do not mind. So that is \$200,000 a year ongoing costs—is that right?

Mr Hay—Yes, of that order.

Dr Johnston—That is not the effective cost of providing the increased service at Tweed Heads, because opening the office at Tweed Heads will mean there will be less demand on the Southport office on the Gold Coast. There will be a rearrangement of a couple of staff positions and budgets, but that gives you the gross cost of the new office.

Senator MARK BISHOP—Has any consideration been given to closing the office in the former minister's electorate of Maranoa?

Dr Johnston—No, Senator.

Senator MARK BISHOP—Why was the office located in Tweed Heads? I have pulled out some figures on the 16 electorates around Australia with the highest concentration of vets. I did not observe that Tweed Heads was in one of them, so why has the office been located there?

Dr Johnston—The region around Tweed Heads, Lismore and the Gold Coast is an area with a significant veteran community. It can certainly be justified in those terms, but I would make the point that the commitment to opening the office at Tweed Heads was a commitment by the government during the last election campaign and we are implementing the government's policy.

Senator MARK BISHOP—When I looked at the figures, there was a much higher concentration of vet and ex-service personnel in Lilley and Bowman—those sorts of seats in and around Brisbane. But you say that it was an election commitment by the government?

Dr Johnston—That is correct.

Senator MARK BISHOP—So that is the reason. Was that a departmental decision or a decision made under the direction of the minister?

Dr Johnston—It was a government election commitment, and at the moment in the budget the department is proceeding to implement the government's election commitments. It has gone to extension of the gold card and indexation of income support supplements and so on. This was a commitment during the election, and we are implementing that.

Senator MARK BISHOP—Gold card income support supplements go to a class of Australians who are to receive a benefit Australia-wide—gold card access to health benefits and, for the widows, improved payments whether they live in Queensland, Perth or wherever. It is not electorate based. If the government had not made that commitment in the election campaign, would the department have opened that office in Tweed Heads?

Dr Johnston—We are certainly keeping under review the adequacy of services in regional areas right around the country. Whether that would have been an immediate priority is not something I want to comment on.

CHAIR—Senator Bishop, I think that is a question better addressed to the minister.

Senator MARK BISHOP—I understand that the government made an election commitment and the department has carried that out. I accept that. My question is not about that. My question is: if there had not been a government decision, what is the normal forward planning of the department for new offices to cater to the needs of veterans; and, but for that decision, would the department have opened the Tweed Heads office? I think that is in line.

Dr Johnston—It was not an immediate proposal being developed within the department. But I think, Senator, you are coming close to asking me to comment on government policy, which is not my role.

Senator MARK BISHOP—I think you have answered the question, and I have probably pushed it as close as I can. Thank you, Dr Johnston. The final subject I want to raise with you, Dr Johnston, goes to the ANAO IT report released during the last two months. There are two criticisms that have been the subject of some press speculation: the sale of assets at half their estimated value and the growth in the value of the contract since its inception. What is the explanation for the deal that saw the capital assets sold for significantly less than their book value?

Mr Harrison—When the tender was first issued back in 1997, all tenderers were advised that the department had a valuation of \$10.6 million for our assets. At that point, we advised the tenderers that we wanted to see that value reflected in their bids in one way or another, either in money or in reduced prices. They all responded in different ways, and the acquisition council made a decision based on what was offered. The IBM bid was for \$5.5 million, with a reduced price on the rest of the baseline services.

Senator MARK BISHOP—So they could have offered you the \$10.6 million. You indicated in the tender process that you wanted close to market value. Did you receive close to market value in terms of the reduced cash price and reduced services?

Mr Harrison—The acquisition council at the time thought so, yes.

Senator MARK BISHOP—What items of expenditure were entered into after the contract was signed which explained the increase in outlays in the contract?

Mr Harrison—There is a short answer and a long answer. There are three components of the increased cost. As was reported, the initial value of the contract over five years was anticipated to be \$65 million. We expect to have spent \$140 million by the end of November. The components of the difference are as follows: \$25.482 million in increased usage and price increases, increased usage being more mainframe components being used, more desktops in the department than we anticipated at the time, a whole range of increased use of the stuff we originally bought—

Senator MARK BISHOP—We might explore that a little. That \$25.48 million is a large amount. You talk about increased usage, extra access to the mainframe and extra desktops and increased usage of those. What caused that extra package of usage that was not anticipated at the time when the contract was signed?

Mr Harrison—Again there were a number of components of that. One, for example, was that the prediction at the time was that the department would reduce in size to a position today where we would have 2,200 seats—the terminology in the contract is ‘seats’—and we actually have 3,300. If you take each of those costs, the total cost of that increase is about \$8.8 million. If you will forgive me, I will talk in the terminology of the contract. Regarding the mainframe itself, the baseline purchase at the time was for a metrical CPU minutes per month. That is the engine within the mainframe. The baseline at the time was 42,000 CPU minutes per month. At the time the prediction was that that would remain static. We are currently up around 200,000, so there is a fivefold increase for that, which goes some way to explaining the increased usage. Associated with that particular metric are storage costs, tape mounts and a whole range of things that were not predicted at the time.

Senator MARK BISHOP—Why did the things that were not predicted at the time occur? Was it because of changed government policy?

Mr Harrison—Again, there were a number of components to that. The audit report made the observation that our strategic planning documents at the time had some prediction of increase and we did not pick that up in the contract. There is some validity to that, but I think generally in the IT industry it would have been a brave IT manager to have predicted in 1997 a fivefold increase in mainframe capacity, which is what occurred. The sorts of things that led to that were things like Y2K remediation. The level of activity that that required was not obvious at the time. To help our business, we have added a lot of applications systems that were not predicted at the time. For example, there is a suite of applications called enterprise resource planning or ERP applications which are financial and human resource management systems that are very resource hungry. They have been deployed across most organisations over the past four or five years. That sort of activity was not predicted at the time. We have been very active in building quite sophisticated computer systems to support our ongoing business, and the more sophisticated those systems are the more resource hungry they are.

Senator MARK BISHOP—This could be a fairly lengthy discussion and somewhat technical. Could a list be provided of all systems development during the term of the contract, showing original estimates and final outcomes?

Dr Johnston—We have a suggestive table, which Mr Harrison was referring to, which we can give to you. You run the risk of getting lost in a lot of data that is not necessarily very easily interpreted.

Senator MARK BISHOP—I am looking for a broader explanation. The cost blow-out is \$65 million to \$140 million. I am aware that there have been some significant changes within the DVA in recent years, occasioned by government policy and government commitments. I wonder if there is any link between that and the cost blow-out.

Dr Johnston—As a department, we object to the media coverage saying that there has been a cost blow-out. We reject that very firmly. It is particularly important to keep in mind that when the contract was let it was very early in the first term of the government and there was a policy of comprehensive review of provision of services, including the possibility of services being contracted out. At the time we had a range of possibilities that we were looking at in principle. It was certainly conceivable that the department's own internal business could have declined. It was equally true, in other scenarios, that it could have increased. It is also fair to say that over the five years the department has taken a fairly aggressive approach to the use of IT to improve productivity and to improve the quality of service to veterans.

The system that we were talking about last evening, the DMIS system, is very hungry in its use of storage and computer-processing power. It is a very data-intensive system that provides considerable power to the program manager to analyse data, look for consistency, differences and make informed business decisions, but it is very expensive to operate on the computer. The funding for DMIS, as you drew out last night, was provided in a budget context on the basis that in the end it would more than pay for itself because of the improvement in program management. We can give you a suggestive list of some of the principal areas where increased funding has gone. To refer to some big blocks of data, a large chunk of the increase from \$65 million to \$140 million, as Mr Harrison has indicated, is a change in the level of business and adjustment for prices in line with the CPI and so on. That is catered for entirely within the terms of the contract. It is not something that has been added on. The contract has served us very well in its flexibility in handling the general expansion in business. Another reason for

the growth from \$65 million to \$140 million is that we have added, for the calculation that was done, another—how many months, Mr Harrison?

Mr Harrison—It would be another eight months.

Dr Johnston—We have added another eight months and, on the current cost of running our services, that is another \$15 million. Significant IT projects, including provision for Y2K—we can provide you with a list—adds to \$35 million. So we can quite readily explain the increases in expenditure from \$65 million.

Senator MARK BISHOP—Dr Johnston, does that suggested list come from the ANAO report or was it put together by the department?

Dr Johnston—This has been done as we have pulled together material to respond, in particular, to the media coverage, which we saw as being most unfortunate and most unfair.

Mr Harrison—But it is consistent with the information we provided to the ANAO.

Senator MARK BISHOP—Do you wish to have that incorporated in the *Hansard*?

Dr Johnston—If you would find it useful, we would be happy to have it incorporated.

The document read as follows—

IBM-GSA EXPENDITURE & PROJECTIONS		
		Notes
Increased usage (includes Price Review increases)	\$25,482,690	Includes Mainframe upgrades, PCs, CPU, DASD & Tape Mounts
Extension of contract (includes Price Review increases)	\$15,221,302	April 2002 to November 2002
IT Projects	\$34,592,822	
Y2K Code Remedial & Related Services	\$ 6,503,060	
DMIS	\$ 2,943,319	
HOCAS	\$ 2,153,601	
Remote Office Servers	\$ 1,456,957	
DOLARS & PAHRIS (including GST impl)	\$ 1,291,027	
	\$75,296,814	

Senator MARK BISHOP—How much of the increased outlays—up from \$65 million to \$140 million—described by ANAO were budget funded? Was it all of it?

Dr Johnston—I am not sure what you mean by budget funded? It has all been paid for, either out of our running costs appropriation or out of particular budget measures.

Senator MARK BISHOP—Did you have to get supplementary appropriations or was it out of the original appropriation?

Dr Johnston—We have DMIS on the list, for example; that was a specific new policy measure in the budget.

Senator MARK BISHOP—Let us go through them one by one. ‘Increased usage, includes price review increases of \$25 million’—where was the funding for that? Was that in the original appropriation measure?

Dr Johnston—We have, in effect, had to cover that in our own operating costs. Over time we have had to manage our resources, including in discussion with the Department of Finance and Administration in the pricing review last year, to make sure that in terms of the overall budget for the department we had enough to cover these sorts of expenditures as well as other activities. Under the government’s accrual accounting budget framework, there is a provision for depreciation, which was also a source of funds for these expenditures. I do not know what the allocation would have been over this period.

Mr Farrelly—The recent allocation was in the order of \$9 million a year.

Dr Johnston—Yes. So that is a new element that, in a sense, adds year by year to the availability in terms of our operating budget. We were funded specifically for implementation of Y2K. I think we would have to take on notice to provide the amount for that.

Mr Harrison—It was in the order of \$12 million.

Senator MARK BISHOP—So Y2K and remedial and related systems were specifically funded, and DMIS is specifically funded. What about HOCAS?

Mr Harrison—HOCAS is the computer system associated with the Veterans’ Home Care program.

Dr Johnston—And we were resourced for that.

Senator MARK BISHOP—What about the remote office server?

Mr Harrison—That was an early decision that was internally funded. I should explain these numbers a little further, if you can spare the time. These are the amounts of money we have spent on these activities with IBM; they are not the total cost of the projects themselves. This is specifically the amount of money that was paid to IBM for these various projects. The remote office servers were back in the early days when the contract allowed us to connect the remote offices for the very first time—remote offices being a number of van offices around the country—and we had anticipated providing them with email capability only. As soon as they were connected, it became evident that they required more capability at that local office level. To provide that capability we needed to provide servers in those offices, so we took a decision to provide that capability. Again, that was not anticipated in the original contract.

Senator MARK BISHOP—It might be easier, Dr Johnston, if you take on notice to advise us whether each row identified in the document was budget funded or whether it was the subject of a separate, different or later appropriation, and the source of that. If it was from internal funds, you might advise us of that as well. That might be the simplest way.

Dr Johnston—We understand the broad intent of that question. We will try to lay out an explanation for you. I might say that this is not a complete list; it is just the larger items. That is suggestive of the aggregation that does provide an explanation. I would suggest you would get lost if we did a total enumeration. Maybe we can look at whether there are some items that should be added.

Senator MARK BISHOP—I presume that \$75 million is the difference between \$65 million and \$140 million.

Mr Harrison—That is correct.

Senator MARK BISHOP—That is the basis of the questioning.

Mr Harrison—The items listed underneath are the big ticket items within the \$34.5 million. It is not all of the items. All of them go to some pages.

Senator MARK BISHOP—I take that point.

Dr Johnston—I think we should stick to the larger items.

Senator MARK BISHOP—If I want to come back to it, I will request it on notice. I am going to give you a table, Dr Johnston, and ask you to take it on notice. Earlier this year I received a briefing from the department and you provided me with some material which had a whole range of information in it. In that document there was table 25 as at September 2001, which identified the number of persons receiving the aged pension who were also T&PI intermediate rate and general rate. On Monday at the Community Affairs Legislation Committee estimates they provided some figures on the number of DSP recipients who are T&PI intermediate rate and general rate. I would ask you, whether it is your department or DFACS, to provide the figures in the same form for those who receive the Newstart allowance. I will give you the document that explains it. I have some other material in the health area to give you on notice. That concludes my questions. I thank you, Dr Johnston and the officers of the department, for your assistance over the last two days.

CHAIR—I thank you too, Senator Bishop, for a very workmanlike performance. Thank you, Dr Johnston and the officers of the department. We look forward to seeing you later in the year.

Committee adjourned at 9.08 p.m.