



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

JOINT COMMITTEE ON PUBLIC WORKS

**Reference: Redevelopment of the propellant manufacturing facility at Mulwala,
New South Wales**

FRIDAY, 2 FEBRUARY 2007

MULWALA

BY AUTHORITY OF THE PARLIAMENT

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**JOINT STATUTORY COMMITTEE ON
PUBLIC WORKS**

Friday, 2 February 2007

Members: Mrs Moylan (*Chair*), Mr Brendan O'Connor (*Deputy Chair*), Senators Forshaw, Parry and Troeth and Mr Forrest, Mr Jenkins, Mr Ripoll and Mr Wakelin

Members in attendance: Senators Parry and Troeth and Mr Jenkins and Mrs Moylan

Terms of reference for the inquiry:

To inquire into and report on:

Redevelopment of the propellant manufacturing facility at Mulwala, New South Wales

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Committee met at 1.16 pm

CONWAY, Mr Brian Francis, General Manager Ordnance, Land Systems, Australian Defence Industries Ltd, trading as Thales Australia

GRICE, Brigadier William Alfred, Director General, Infrastructure Asset Development Branch, Department of Defence

KELLY, Ms Michelle Christina, Director General, Guided Weapons Acquisition, Defence Materiel Organisation, Department of Defence

WEIR, Mr Martin Wesley, Project Director, Mulwala Redevelopment Project, Defence Materiel Organisation, Department of Defence

ZENTELIS, Mr Richard Aleksander, Director, Heritage and Biodiversity Conservation, Infrastructure Division, Department of Defence

Witnesses were sworn—

CHAIR (Mrs Moylan)—Welcome. I particularly wish to acknowledge today the presence of Mr Gavin Cator, Chief Executive Officer of Moira Shire Council and, from Corowa Shire Council, Mr Gary Poidevin, the Mayor, and Mr Bruce Corcoran, General Manager. Welcome, and thank you for allowing us to use the facilities here.

I declare open this public hearing into the proposed redevelopment of the propellant manufacturing facility at Mulwala, New South Wales. This project was referred to the committee on 2 November 2006 for consideration and report to parliament. In accordance with subsection 17(3) of the Public Works Committee Act 1969:

- (3) In considering and reporting on a public work, the Committee shall have regard to -
- (a) the stated purpose of the work and its suitability for that purpose;
 - (b) the necessity for, or the advisability of, carrying out the work;
 - (c) the most effective use that can be made, in the carrying out of the work, of the moneys to be expended on the work;
 - (d) where the work purports to be of a revenue-producing character, the amount of revenue that it may reasonably be expected to produce; and
 - (e) the present and prospective public value of the work.

Earlier this morning the committee received a confidential briefing from the Department of Defence and inspected the site of the proposed works. We thank all those involved in facilitating the committee's inspection.

The committee has received a statement of evidence from the Department of Defence, and this will be made available in a volume of submissions for this inquiry. It is also available on the committee's website. Does the Department of Defence wish to propose any amendments to the submission it made to the committee?

Brig. Grice—No.

CHAIR—I now invite you, Brigadier Grice, to make a brief opening statement before we proceed to questions.

Brig. Grice—The Department of Defence is proposing a facilities and infrastructure redevelopment at the Mulwala facility at Mulwala in New South Wales. The Mulwala facility is the sole Australian manufacturer of propellant and high explosive for use in the Australian Defence Force munitions. In 2001 the government made the decision to retain long-term domestic production of propellant and high explosives at Mulwala, and also to upgrade the propellant production capability at the facility. The objective of the project is to deliver a modernised propellant plant capable of manufacturing a minimum of 360 tonnes per annum of propellant under a single shift production program.

The proposed redevelopment is a mixture of new facilities replacing inadequate existing facilities, and modifications and improvements to some existing facilities and engineering infrastructure. All the proposed works relate to existing capabilities and are within the confines of the existing Mulwala facility. The scope of the proposed redevelopment includes: the construction of new nitrocellulose, solvent and propellant production plants; construction of a confined burn facility; provision of associated training documentation and spares; decontamination, demolition and disposal of plant and infrastructure necessary to construct the works; and upgrading of associated engineering services infrastructure.

The estimated outturn cost of this project is \$338.7 million. This includes design and construction costs; the cost of installation and commissioning of propellant nitrocellulose and solvent production plant and equipment; furniture costs; fittings costs; and management fees, together with appropriate allowances for contingency and escalation. Subject to parliamentary approval, Defence will be in a position to award the contract for the redevelopment in the middle of 2007. The design and construction phase of the works are scheduled to take three years, with practical completion of the facilities due in the middle of 2010.

CHAIR—I will start with some questions about the agreements and leasing arrangements with the operator. We did have some discussions in the confidential briefing, and thank you for agreeing to provide the committee with more information on the Mulwala agreement. That agreement was struck in 1998. Can you explain for this meeting what the basics of that agreement are? Has there been renegotiation given that it was an agreement made in 1998, when the Australian Defence Industry was a government business enterprise? There have been considerable changes since then. Would you like to explain a little about the arrangements?

Ms Kelly—The 1998 agreement was renegotiated in the context of the sale of ADI. In 2008 the Commonwealth is to make a decision as to whether in 2015 it will extend the contract from 2015 to 2025.

In relation to the second part of your question concerning whether there will be any revision to the contract given the current redevelopment plans and proposals and whether the contract is still current given that it was entered some time ago, the answer is twofold. There will be a requirement to renegotiate some aspects of it as a result of the redevelopment, but it is our view that they will be relatively minor. The main purpose of the contract, which was a leasing arrangement and the production of propellant with the Commonwealth owning the land and ADI then—Thales Australia now—responsible for operating the facility, is still current and still required. The current plans of the Commonwealth are to operate under the current arrangements until it has an opportunity to exercise or otherwise its option in 2015.

CHAIR—I guess it is not just the amount of time that has passed since that original agreement was made; it is also that there has been a change in the ownership. ADI, as I said, was a government business enterprise and that operation has now gone to private interests. One would have thought that at that point a change to the original 1998 agreement might have taken place. Are you saying that that is not the case?

Ms Kelly—It was privatised in 1998-99 so current arrangements do reflect the privatisation. I am sorry, I did not realise that that was your question.

CHAIR—I think there have been some changes in terms of the ownership since that original move to privatise.

Ms Kelly—Perhaps it is better that Thales Australia talk about the change in ownership and what that means for them. From a Commonwealth perspective, the change in ownership does not change the nature of the agreement or the arrangement. It is a change in name.

CHAIR—Is the current rental for the property consistent with current market rates, for example?

Brig. Grice—I think we would have to take that on notice. We are not aware of the current market rent for such a facility.

CHAIR—Does the Commonwealth's obligation under the leasing arrangements require expenditure of significant Commonwealth moneys in a redevelopment of the current project?

Brig. Grice—No, it does not.

CHAIR—Mr Conway, do you want to make some comment in relation to the structure?

Mr Conway—I would like to clarify the issues. When the Commonwealth sold the ADI in 1989 to a commercial joint venture which was at that stage Thompson Transfield, the Mulwala agreement was amended to give the new owners of the company some certainty with regard to the future of the Mulwala facility. That included a process which was to be followed to consider the options for modernisation. The Commonwealth then had to make decisions as to whether it would modify the facility. The new owners of the company were concerned at that stage with respect to the propellant that we had to deliver out of Mulwala, required for our facility at Benalla. We needed some certainty as to how long we were going to be operating the current plant and whether we had to enter into some new arrangements for the supply of propellant.

So the Mulwala agreement was amended at that stage—that is, the Mulwala agreement and the lease. It has a property lease attached to it and there are obligations on what is now Thales Australia to provide a ‘capability’, as it is defined in the Mulwala agreement, to manufacture a specified quantity of propellants and a specified quantity of explosives. For that the Commonwealth recompenses Thales Australia with a sum of money.

The Commonwealth charges rent but the capability payment far exceeds the rent—so it is a circular payment of funds, anyway. Mulwala facility, as it stands, is not a commercial enterprise and could never be operated as a commercial enterprise, which is why the Commonwealth pays a capability payment. When ADI recently became 100 per cent Thales owned, the board of directors of Thales Australia and Thales’s parent company were required to make a number of undertakings to the Commonwealth to protect the national interest and the defence interest. They included the continuing provision of propellants and ammunition out of the Mulwala and Benalla facilities.

CHAIR—Thank you very much. The other question in relation to the lease, before I go to my colleagues, is this. The Commonwealth is making a considerable investment here—in excess of \$300 million and in fact up around \$400 million by the time you look at some remediation work—and the lease expires in 2015. So, effectively, by the time the works are finished, which is around 2010, there are only four years of lease left. What will happen to the facility if, for example, Thales did not wish to continue the arrangement?

Brig. Grice—Ms Kelly will answer that, but I will start. The practical completion of the facility’s construction will be around 2010 and then there will be the certification of the plant which will go on for about another 18 months. So by mid-2012 the new plant will be type certified for propellants and will be able to go into full production. Ms Kelly may want to talk about the government’s options with the renegotiation and extension of the lease and whether we would be looking to make any changes.

CHAIR—So what you are saying is that, by the time the new plant is fully commissioned and handed over, there is really effectively only about three years of lease left.

Brig. Grice—That is correct.

CHAIR—So can you explain what will happen at the end of the lease period and can we be assured that this is good expenditure of Commonwealth money?

Ms Kelly—As you indicated, the lease expires in 2015. We, the Commonwealth, have an option at that point to extend it for another 10 years.

CHAIR—And, if Thales do not wish to continue with the arrangement, what then?

Ms Kelly—If Thales did not wish to continue with the arrangement, it would be the Commonwealth’s intention to try to find an operator who would continue with the arrangement.

CHAIR—In the event, would the Commonwealth take over the production again?

Ms Kelly—I cannot answer that for certain. It would certainly be something that they would consider on the basis that it is a strategic capability that the Commonwealth requires.

CHAIR—Thank you.

Senator TROETH—Obviously there were a number of options that the department considered before they embarked on the rebuilding of a now 60-year-old plant. Would you perhaps explain to the committee why the department chose the option that it did?

Brig. Grice—The strategic review of the Mulwala facility conducted in 1999 considered five options for providing Defence with an indigenous munitions-manufacturing capability. The first option was refurbishment of the existing plant, machinery and buildings at Mulwala. You saw the existing plant, machinery and buildings this morning, which are of the order of 60 years old and obsolete. The second option was the closure of the Mulwala facility and the transfer of all capability to the Benalla ammunition factory, but that would still leave a high explosive plant here at Mulwala. The third option was the partial closure of the Mulwala facility and the transfer of capability for the manufacture of nitrocellulose, propellant and solvent to the Benalla facility, which would require the duplication of the acid plant and additional expense if the high explosive was retained here in Mulwala. The fourth option was the total replacement of the nitrocellulose, solvent and propellant processes at Mulwala and implementation of improvements in the other areas that were identified in earlier studies. The fifth option was the replacement of the essential areas of the nitrocellulose, solvent and propellant processes at Mulwala and implementation of improvements to the more recently acquired production areas. The option selected by Defence provided the most effective use of capital, reduction of the Commonwealth's risk, and consideration of whole-of-life costing. That is why we have chosen to proceed as we have.

Senator TROETH—The other item I would like to touch on is the supply and disposing of water that is used in the plant. It is not something we have touched on yet this morning, but I am interested to know what the policy is for that.

Brig. Grice—I might commence the answer and then maybe get Mr Conway to talk about the treatment process we go through with water. ADI has a water licence with the Corowa Shire—Goulburn-Murray Water—which we can table if required. That is a licence to draw 700 megalitres from the Murray each year. Approximately between 200 and 300 megalitres of water at the end of the process per year is returned to the Murray, which means that we draw of the order of 400 to 450 megalitres a year. By comparison, the city of Canberra at the moment, on stage 3 water restrictions, uses about 160 megalitres per day. So the plant uses approximately 2½ days worth of Canberra's water supply per year. When there are no water restrictions in Canberra, it is less than two days worth of water supply to a city the size of Canberra.

The new plant which is being installed also increases the opportunities for the reuse of water through the collection and reuse of condensate from the steam used in the plant. The 200 megalitres to 250 megalitres that are returned to the Murray go through a treatment process in the plant before they are returned to the Murray. The water that we put back into the Murray is in accordance with the quality which is prescribed in the licence we are given by the Environmental Protection Authority. Maybe Mr Conway would like to add a bit more on what the process actually is.

Mr Conway—There are two effluent treatment plants that we use for treating propellant effluents. We also have a high-explosive plant which treats water based effluent from the high-explosive plant, although that water is not returned to the Murray. From the current propellant plant there are two sources of effluent and two plants in which it is treated. I will refer to them as the southern plant and the northern plant. The southern plant treats effluent which is low in nitrate and low in sulfate. The effluent is clarified, blended with treated water from the northern plant—and I will explain the northern plant in a minute—and then it is discharged to the Murray River in accordance with our EPA licence conditions. At the discharge point it is monitored for pH and total dissolved solids. We report regularly to the EPA on meeting those licence conditions.

The northern plant is a newer plant. It is what we refer to as a bioreactor. It has two 12 megalitre holding ponds and three bioreactor tanks, each of 1.2 megalitres. The effluent is dosed with ammonia, ethanol or phosphate as required, to enable bacteria to convert the nitrate into nitrogen. The biological sludge that remains is then disposed of to the land in accordance with EPA licence requirements and the treated water is sent to the southern effluent treatment plant, mixed with the relatively less polluted water, if I can use that term, and then discharged to the Murray River, again in accordance with the EPA requirements and our licence conditions.

Senator TROETH—So every drop of water that goes back into the river complies with EPA standards?

Mr Conway—Yes.

Brig. Grice—One more thing to add here is that this is a good news story. For the 60 years prior, our fathers and grandfathers did not go to the trouble that Defence is going to now. There has been significant expenditure and investment in the last 10 to 12 years on these plants to ensure that we comply with the EPA licence requirements. In fact, one of the benefits, if you could say that, of having ADI operate the plant is that, as a commercial provider, they are operating it under licence to the EPA, are open to audit by the EPA and have stringent—and increasingly stringent—standards that they have to meet.

Senator TROETH—You have also allocated an indicative budget of \$63 million for groundwater remediation. Is that the same thing or is that water that has been in the ground from previous processes?

Brig. Grice—I will pass to Mr Richard Zentelis for a more complete answer, but, yes, that is the process of past practices. You saw the old solvent plant—the nitrocellulose and the acid resistant brick floors with a lack of bunding, where acid can seep through the bricks into the ground, which gives a concentration of nitrates. That project and that amount of funds we are putting in there is to rectify the past processes that were normal, everyday practices since the Second World War. Mr Zentelis will add a bit more.

Mr Zentelis—It is separate to the project currently being undertaken and the project will reduce the groundwater contamination because they will be new facilities, which means that there will not be so much seepage into the groundwater. In terms of the \$63 million project, it is envisaged that it will monitor the plumes, which are heading very slowly towards the Murray but in very low concentrations; develop and implement remediation action plans to protect the water

quality of the Murray River and of the groundwater aquifer; entail work such as the excavation and the disposing of contaminated materials; use in situation carbon source addition, which is basically allowing the bugs to break down the contamination within the soil; cap some of the contaminated areas so that they cannot be exposed to the public and to the ambient air; and use hydraulic containment, which is, where possible, putting in measures to stop the flow towards the Murray.

Senator TROETH—Good.

Brig. Grice—This also needs to be put into perspective. The groundwater plume consists of water with a higher degree of dissolved nitrates, the type of thing that would come from the use of fertilisers on a farm.

Senator TROETH—Okay.

Mr JENKINS—So is this plume still in the aquifer? Has it reached the Murray or is it affecting the Murray?

Mr Zentelis—Not as yet. It is heading towards the Murray, and we are monitoring it.

Mr JENKINS—Why isn't this water that is coming out of the effluent in a closed circle thus coming back for use in the plant? Why does it go back to the Murray?

Mr Conway—I do not expect that it needs to go back to the Murray. It could be disposed of to land. I would need to take advice from others in respect of that. I imagine that it would be because of the need to keep flows in the Murray, notwithstanding the fact that it is an outflow, given that it is very well-treated water by the time that it is returned to the Murray and mixed with the Murray.

Mr JENKINS—I was saying that you are harvesting 700 megalitres a year. We can reduce that by the couple of hundred that you have in your loop. I am trying to clarify why we do not do that. Under the new processes, will you still require harvesting the same amount of water out of the Murray?

Brig. Grice—At the moment, the process design is in the early stages. We are at concept design. During the final design, those figures will be developed. The design aim is to not use more than what is currently used and to better that figure. But I cannot give you a quantum on what the better figure will be until the design process has been complete. The benchmark we have set is that it will use no more than that and better it.

Mr JENKINS—I do not wish to finger Scott Smith, but he convinced me with his spin that you were going to use less water and I was hoping that you would be able to tell me that that was going to be part of the project.

Brig. Grice—It is. We will use less water, but I cannot tell you today exactly how much less we are going to use.

Mr JENKINS—The serious point is that if we are looking at value for money, this project highlights that we should be using a triple bottom line. There is a social advantage with this project because of improved occupational health and safety. There is an environmental advantage. There may be, because you are using more modern techniques in producing the capability, some savings. I was interested to see that that is not quantified, but I take it that it is something that you will sit down with the tenderer to hammer out.

Brig. Grice—During the design process.

Mr JENKINS—The other aspect is energy inputs into the processing. Again praising Scott, the spin told me that there was going to be less, but I want to make sure that it is.

Brig. Grice—Part of the original redevelopment was to replace the coal-fired boiler that boils the water to create the steam onsite. This work was brought forward, and a couple of years ago the coal-fired boiler was replaced with a more efficient gas fired boiler, which results in a 25 per cent reduction in the greenhouse gases that we are producing from the site. So an upgrade of that has already taken place, and that is the major consumer of energy and the major producer of greenhouse gases on the site.

Mr JENKINS—In a normal project, buildings would be taken out and decommissioned before the new buildings were built. This is totally different because you are going to run in parallel right through to the end. The decommissioning and retention for heritage reasons or whatever of the bits and pieces that are being replaced are not part of this project that is being presented to us today. But what order of magnitude of cost is going to be involved? I understand that some of the remedial environmental work is unknown. Until you get in under the buildings you really do not know. I accept what Rick said that it will assist the groundwater remediation because you will know what is going on underneath those buildings. I am just a bit concerned about how integral to the project the remediation or the retention of the old buildings is.

Brig. Grice—I will pass over to Rick to talk about the heritage values on the site. This plant is 60 years old and it does have some heritage values. We will decommission and manage the site in accordance with our heritage management plan which has been developed for the base. There are some parts of the site that can be preserved; there are others that may not be able to be preserved because of the impregnation of explosive residues in the buildings themselves. Until the plant is decommissioned we cannot get in and do an assessment of those. Once the plant is decommissioned, we will do a complete heritage and environmental assessment of what is there and determine what can be done, and then we will implement it.

As to the cost, it is not going to be very cheap. It is probably going to be more expensive than the current money we have put aside for reactivation of the groundwater plume. But we do not have an estimate of it. There are some 200 buildings that will be made redundant over an area of about 600 hectares of the site. Further downstream we will be determining what can be kept as heritage, what can be destroyed or what must be destroyed. That project will have to bid for funds in future years' programs just like all the other requirements that we have for Defence. Rick, is there anything else you would like to add?

Mr Zentelis—That is pretty much it. The heritage management plan that we have will dictate how we go forward and manage the site. It is being prepared by a consultant on our heritage

panel with specific expertise in that, and it is being peer reviewed as well. So that will set the broad framework. The minimum we are going to do, regardless of the case-by-case analysis of each of the individual assets, is archival recording in accordance with best practice guidelines. We will be looking at getting oral histories of the people who have worked in those buildings to preserve that heritage and then we will be doing an assessment based on contamination safety and such issues in terms of what to keep, what not to keep and what has to go.

Brig. Grice—It is not part of this project and it could not be part of this project because we will not know the extent of the work that needs to be done until after the plant has been decommissioned and we are able to get in and around amongst it.

Mr JENKINS—I see the heritage side of it as something that can be done when you get funding and things like that. I am just concerned about some of the effects from decommissioning the buildings which might heighten the environmental degradation. Has a risk analysis been made of that because I would consider that part of this project? I take the point that no matter where you build this thing, if you walk away, something would have had to have been done. I accept that on the heritage side the analysis ought to go through the standard practice that Defence has developed. My concern is that if you walk away from some of those buildings there may be a risk that because they are not part of the process, and are therefore not being monitored as part of the process, there is going to be more damage.

Brig. Grice—The environmental risk is due to the operation of the plant. Once the plant ceases to operate and is decommissioned, acids, nitrates and nitrocellulose will be removed from the buildings and there will be no further inputs into the groundwater, or wastes coming from those facilities. At that point we will do an environmental review, a study. Defence is a good corporate citizen. We will act to rectify those things that are environmental imperatives. We have shown that elsewhere in the country and we have shown that here with the allocation of a substantial sum of money to be able to rectify the past processes with the groundwater plume.

Senator PARRY—I want to follow up with Ms Kelly on an issue—that I think Senator Troeth asked about—to do with the leases. You indicated in part of your answer that in 2008 the Commonwealth is bound to make a decision on whether or not to extend the lease to Thales. Is that correct?

Ms Kelly—That is correct. Contractually the Commonwealth has an obligation at 2008 to indicate whether it will extend the lease from 2015 to 2025.

Senator PARRY—Is there an equal obligation on Thales to give an indication at that point in time?

Ms Kelly—I do not know the answer to that question. Can I get back to you on that?

Senator PARRY—If you could take that on notice, that would be great. Leases are going to form a part of our deliberations—flows of money and leases. In relation to leases too, we asked in the confidential part of this process how many leases exist. I know you do not necessarily have that information at hand, but we need to know the type—without giving any costs away at this point—and number of leases that exist from the Commonwealth to Thales and if there are any in reverse, any other contractual arrangements. Finally, we need to know if there are any

conditions in the leases concerning maintenance contracts and issues like that which form an overall part of the financial package.

Ms Kelly—We can provide a summary of all that information.

Senator PARRY—Thank you. In the interests of saving time, I will place most of my other questions on notice, but I would like to ask something else on the record. I asked the brigadier earlier about the value for money, because of the technical nature and the technical complexity of some of the buildings involved. We are not experts in chemical plants per se. Are you satisfied that the Commonwealth is getting value for money with the high cost of the establishment of the plant?

Brig. Grice—Yes, Defence is satisfied. We have been through a competitive tender process and there has been substantial cost investigation by the investigators from the Defence Materiel Organisation. We are confident that we are getting value for money.

Senator PARRY—In the submission from Thales, there was an indication of labour cost savings yet also an indication of employment generation. Could I just have clarification: is there going to be a reduction in the labour force and will that have an adverse effect on the community, or will there be an increase, apart from the short-term increase in employment during the construction phase, which I assume will last for a number of years?

Brig. Grice—I will pass to Mr Conway shortly, but during the construction phase we estimate there will be of the order of 250 to 280 jobs that will be generated. Mr Conway might want to comment about a small number of additional jobs that will be required during the commissioning. Once the commissioning is finished, there is an estimate of some reduction in the workforce. I will pass to you there, Mr Conway, to talk about how you might go about that.

Mr Conway—It is correct that we do anticipate a small increase—perhaps 20, but we will see the design and know a little bit more—in our workforce once the new facility is constructed and Thales Australia is putting its operators in there to be trained in operating the new plant. As we still have to keep the existing plant operational, we expect a small increase—perhaps 20—at that time.

Once the new facility is operational we expect that—but we have not seen the detailed design—if we remove our employees from hazardous processes and exposure to chemicals and have some automated materials handling to reduce our injury record, somewhere between 30 to 50 employees would not be required into the future. That number has been publicised widely in our environmental impact statement and is known to the workforce. However, once the new facility is constructed and we have got through the commissioning process, we will have a duty of care to maintain a safe work site, and the buildings that we are ceasing to operate will need to be decontaminated such that they will not spontaneously combust. We will have a small team involved in purely decontaminating process buildings, and that is before any decision is made as to heritage et cetera. We would not allow a contractor to go onto the site and bulldoze something or burn something or whatever. We propose to do that ourselves.

The other aspect to employment generation is the efficiencies we expect to receive on the new plant. A lesser number of people should mean that the plant is more productive. The principal

purpose of the plant is the strategic requirement for propellant and explosives at Benalla. However, under the Mulwala agreement, Thales Australia uses the excess capacity at the Mulwala facility—and proposes to in the future—to sell propellants commercially. We sell a substantial quantity, particularly on the export market, with the US being a principal customer. We would expect, if the capacity in the plant allows it, and depending on Defence requirements, to use that spare capacity to the maximum. Assuming that it is a more productive process, we will therefore be able to market more efficiently. If we do increase our commercial sales, there would be a commensurate increase in employee numbers. All those are variables at the moment, and we will know better once we have the detailed design.

If we are required to reduce the workforce—recognising that we are talking about 2012 or 2013—we have the opportunity to do that through natural attrition. We also have the opportunity of relocating employees to our Benalla facility. We do not expect any forced redundancies. There might be a lot of volunteers, but we do not expect that will happen.

CHAIR—I have one other question that I feel I must ask, and that is again in relation to the fact that there are two amounts proposed here. One is the amount of \$338.7 million, which includes some remediation work. Then there is a separate amount of \$63 million for environmental remediation work. I take the point that this is just an indicative figure. But there are uncertainties; you do not know what you are going to face once you have removed certain facilities. I wonder why that has not been included in the overall cost, because then we have a total expenditure of in the order of \$401.7 million. I make the point again that the lease to Thales expires in 2015. We will not see the hand over of the new plant until just three years before that expiry date. I have to say that this is a huge expenditure of taxpayer money without any guarantees of ongoing production or use of the plant, the site and the buildings. I would like you to respond to those points.

Brig. Grice—Firstly, the Prime Minister in 2001 committed to a long-term future for the production of explosives and propellant at Mulwala. The life of the new process is some 25 years. The Australian Defence Force and its requirements are not going away. We have a strategic requirement to produce ammunition here to ensure continuity of supply and to ensure the quality of the materiel that we give our soldiers, sailors and airmen to take into operations and other deployments.

There is very little risk that the investment will not be used for its entire period. The nature of our business is not going to change during that period. Regardless of whether ADI Thales operates the plant, some other operator operates it or Defence in due course decide to take it back—I am not saying that we would—there will be a requirement to produce propellant for Australian Defence Force needs and this is where we will produce it.

CHAIR—That is a question that has not really been answered very satisfactorily. Ms Kelly gave the earlier answer to my question, and there is no plan, for example. What happens if you do not have a private corporation willing to continue to carry out the manufacturing of the product? Is the Commonwealth then going to continue that production?

Brig. Grice—As Ms Kelly said, the government has to make a decision in 2008 whether it is going to extend the lease post 2015. At that point ADI will make its intentions known as well. This gives seven years for Defence to make other arrangements, be they commercial or

otherwise, to ensure the continued production. The employees are not going away. The expertise is not leaving the area. The 350 employees of ADI live here and in the surrounding area and, regardless of the contracting mechanism, their skills will still be available to the country to be able to produce propellant at Mulwala.

CHAIR—I guess that is the question we are asking. We are looking at the expenditure of over \$400 million of Commonwealth funding and we have nothing that conclusively says what will happen at the end of the lease if Thales elect not to continue as the provider. I suppose one would expect in a commercial environment that one would know the answer to that question and be quite decisive about the game plan and the risk arrangement should Thales not continue with the lease. I think the committee really needs to ask and have those questions answered more conclusively than they have been here.

Brig. Grice—There was a risk analysis done on the project, and on notice we could produce a summary of the top eight or 10 risks, which probably include those, with some discussion about the likelihood and the mitigation strategies. I do not think I would like to go into those in a public forum, but it is something that we could put together on notice or brief you separately on.

CHAIR—We would be happy to receive it, I am sure, on a confidential basis.

Brig. Grice—We could do that in the coming weeks.

Senator PARRY—I will phrase the question in another way, and you can respond to this in writing, if you wish, or now. If the government agreed to extend the contract to 2025 and Thales said, 'No, we don't want to take it on'—it is next year that this would happen—would the project be canned?

Brig. Grice—I believe the answer would be no. We have a strategic requirement to produce propellants for use by the ADF.

Senator PARRY—That is probably going to be the benchmark answer. If the answer to that question is, 'No, it won't be stopped; it'll continue,' that is probably our conclusive answer.

Brig. Grice—Operating agreements for these plants do not last forever. If we had entered back in 1998 into a 30-year arrangement with ADI which covered this period then there would not be a chance for the Commonwealth to renegotiate at any point. The length of the agreement we have is not material here. I think what is material here is the requirement for the propellants—that is germane and stays there—and the department will do what is required to ensure that we continue to produce the propellants.

Ms Kelly—In response to your comment that in the private sector the answer to that would be known, and reinforcing what Brigadier Grice just mentioned in terms of leases more broadly, leases do not have an infinite life normally; they do normally go for periods of time. This lease is obviously coming up for a decision in 2008 and it has an option at 2015 to go to 2025.

CHAIR—I will just make a comment about that. In this instance, this committee has not yet received any evidence of the return on investment in this particular project. So, in that respect, it does not parallel what might happen in a commercial setting. These things have to be looked at

along that line. Until we get that information, we cannot really make a full assessment. There are obviously other issues that have to be taken into account but, given that at this stage it does not appear that there is a reasonable revenue stream providing a return for the outlay that the Commonwealth is making, we have to look at the security of arrangements.

Ms Kelly—Thank you. I understand the question and I understand now more fully what you specifically want answered in terms of return on investment. In relation to the long-term Defence requirement, it is certainly our requirement and intention at the moment that the propellant facility will remain; it will be used and the propellant, from a strategic perspective, will continue to be manufactured at the facility. What I think you are looking for is some sort of guarantee or commitment somewhere that indicates that that is the government's intention post the current lease arrangements. If we could take that on notice, what we will do is find out exactly how we can phrase that or what level of comfort we can give you and exactly what the intention is in the long term.

CHAIR—One of the things that comes to my mind, and I am sure other members would have considered this too, is what happens in five, six, eight or 10 years time if some other decision makers turn around and say, 'We can buy this manufactured somewhere else less expensively,' so we are left with a white elephant. We want some kind of assurance that that is not going to be the case when we are approving expenditure of in excess of \$400 million.

Ms Kelly—Certainly when the decision was made to have an in-country capability it was made in spite of the cost differential, if you like.

Brig. Grice—Madam Chair, what I have got here is the text of an agreement on the future of munitions production at Mulwala, which I will read into the record. It says:

The following commitment is made by the Hon. John Howard MP, Prime Minister of Australia, to the people of Mulwala and surrounding districts and signed on behalf of those people by the Mayors of Moira, Delatite and Corowa Shire Councils.

1. The Commonwealth Government is committed to the long term domestic production of propellant and high explosives at Mulwala to meet the requirements of the Australian Defence Force.

It goes on:

4. The Commonwealth government will link the production of propellants and high explosives to a long term supply agreement for the provision of a range of munitions to the Australian Defence Force thus ensuring maximisation of employment at Mulwala and Benalla.

That was signed by John Howard, the Prime Minister of Australia, on 20 September 2001 and cosigned by the mayors of Moira, Delatite and Corowa shire councils. That is the commitment by the government that, regardless of the current lease arrangement or the agreement that is in place with the current provider, there is a long-term intent of the government to keep this facility and ensure that the reinvestment is used over the life of the facility. I think that probably answers that question.

CHAIR—A question that is not answered is: is there a long-term commitment by Defence?

Brig. Grice—And I can say yes. On behalf of Defence, there is a long-term commitment.

CHAIR—Thank you very much.

Mr Conway—I will say something on behalf of Thales, just so it is not misinterpreted. Thales's, or ADI's, involvement in Mulwala, and it goes back many years—and obviously I cannot speak on behalf of the management or the directors of the company—is effectively a commercial decision based on the risk associated with operating the plant for the return that we get. The return that we get principally is through our commercial sales. We have to keep that balanced appropriately, and that is what the Mulwala agreement does. It balances a profit from commercial sales against the risk that we take in operating Mulwala. Whether it be Thales or another operator, providing the commercial regime was attractive enough, I do not imagine a situation where there would not be a company willing to pick up the workforce, if Thales did not, to operate the facility into the future. Again, it comes down to economics. As Brigadier Grice said earlier: the workforce is here; they are not moving. The technical people are here; they are not moving. And I can say on behalf of Thales that it is a core business. We do see it as a core business and something that we would certainly intend to operate for as many years as we possibly can.

CHAIR—Thank you very much. I appreciate the extra information.

Mr JENKINS—What commitment is there to research and development of new product? Where is that done? If it is not done here, what other parts of government do it?

Mr Conway—I am happy to take the question. There is certainly some product development or enhancement undertaken within DSTO, the Defence Science and Technology Organisation, but I will talk on behalf of Thales Australia. The commercial propellants that we manufacture are of Thales Australia's—previously ADI's—own intellectual property. Propellants are developed by us for the commercial market—to meet the sporting shooters markets principally—and our technical people, and our scientists are very adept at manipulating propellants to meet the performance requirements of sporting shooters. That is where the R&D comes in with respect to commercial propellants.

The Commonwealth benefits from that are through any enhancements to propellants that are required in military ammunition. Generally, though, the military ammunition is part of the weapons system and it has specific ballistic characteristics and requirements, and the formulations are effectively set in concrete—for example, the propellant has these characteristics, these burning rates, these pressures et cetera. The new facility, and the contractor to build the new facility, is required to produce nine propellants for the weapons systems that the Commonwealth nominates, and will meet the ballistic requirements that the Commonwealth has. So the R&D is principally by Thales Australia in respect of our commercial propellants.

Brig. Grice—The R&D is also by the Defence Science and Technology Organisation with regard to Defence's requirements. I am not qualified to answer that question any further than that. We may have to take it on notice if you want more information.

Mr JENKINS—It goes to the questioning by the chair. If, when new weapons systems come on stream, there is a demonstrated ongoing commitment that—I am not into defence terms—the

things that come out the end of the pipe are going to be produced indigenously, I think that that is a sort of reassurance. So the type of propellant that has been produced over the last 60 years has changed, and things have developed.

Brig. Grice—Yes, but not too much.

Mr JENKINS—No, I am talking about the way it is prepared to go into the—

Brig. Grice—The plant that we have now, which is 60 years old, has kept up with those changes over the last 60 years. The process in the plant that we are going to put in here is flexible and expandable to be able to keep up with any developments that may come within the life of the plant.

CHAIR—Further to that, is there a likelihood that at some stage Defence may make a recommendation to government that this plant be collocated with the operation at Benalla?

Brig. Grice—That was one of the options that was considered in the strategic review—

CHAIR—I noticed.

Brig. Grice—and it was discounted. The decision was to keep it here, with a life of at least 25 years.

CHAIR—Thank you very much.

[2.14 pm]

CATOR, Mr Gavin, Chief Executive Officer, Moira Shire Council

Witness was sworn—

CHAIR—Welcome. Thank you for meeting with us today and for your earlier submission. The committee has received a submission from the Moira Shire Council. The submission will be made available in a volume of submissions of the inquiry and it will also be available on the committee's website. Does the Moira Shire Council wish to propose amendments to the submission it has made to the committee?

Mr Cator—No.

CHAIR—I invite you, then, to make a brief statement.

Mr Cator—I thank the committee for the opportunity to address you today. As well as a written submission made on 28 November by Moira Shire Council, the council wishes to add some additional comments. The redevelopment of the facility has strong community support. The facility employs approximately 350 people and is vitally important to the local economy. The council has modelled the economic value of the manufacturing employment, including flow-on effects, using La Trobe University's Regional Economic Modelling and Planning System, REMPLAN. This indicates the value to the local district economy is estimated at \$69.6 million per year. While construction is undertaken, the impacts on the local district economy are estimated, again using REMPLAN, to be worth \$20.4 million per year.

It is also council's view that the Thales plant at Benalla may not be sustainable in the long term if this redevelopment does not occur. These two plants do work cooperatively. What is the alternative? Importation of product. Is this desirable in these times of international uncertainty? Council has been informed, from our discussions and research over many years, that the importation of volatile propellants could encounter loss of performance. Also, issues of storage could make the performance of the munitions unpredictable. In addition, the cost of transport of propellant from an alternative site in Australia or overseas may lead to the economies of the Benalla plant being questioned. Thus the redevelopment, in council's view, is vital to both plants.

In closing, council wishes to indicate that the current difficult drought conditions we are encountering have made it fully aware of the need to have a diverse employment base to manage the effects of these unprecedented conditions. The propellant plant in Mulwala is one such diversified industry that is not affected by the drought. It has provided an underlying economic base for this region and is one of the reasons that we have been able to have sustained economic conditions while many regions are in decline in these difficult times.

I read that we were meant to submit some information. I have some copies of that here for you, as well as on the history in relation to community support for the project which ended with

the signing of the memorandum of understanding in 2001. I thank you for the opportunity to be heard.

CHAIR—Thank you very much for coming. It is always very helpful to our committee to see that there is a good level of consultation between Defence, in this case, and the local community, and particularly with the responsible local authorities. We did note your comments in relation to the public support and the importance of this project to your shire and to the adjoining shire. Do any committee members have any questions for Mr Cator?

Mr JENKINS—I might end up not being helpful and I think that we need to be helpful.

Senator TROETH—Mr Cator, I would like your views on the non-hazardous discharge that I am told comes into the Murray River. Are you happy with the actions taken by the plant and its owners to address that?

Mr Cator—From Moira Shire Council's point of view, we were alerted early on by ADI, and we have no issue. However, being on the New South Wales side, Corowa Shire is probably more actively involved than we are. As far as communication, letting us know what was occurring, that is still happening to date.

Senator TROETH—So there is no problem with ongoing communication?

Mr Cator—No, none at all.

CHAIR—As there are no further questions, thank you very much, Mr Cator. The committee is happy to receive the additional information. Thank you.

[2.20 pm]

CORCORAN, Mr Bruce John, General Manager, Corowa Shire Council

POIDEVIN, Mr Gary John, Mayor, Corowa Shire Council

Witnesses were sworn—

CHAIR—Mayor Poidevin and Mr Corcoran, thank you very much for taking the time to attend the hearing today. The committee has received a submission from the Corowa Shire Council. The submission will be made available in the volume of submissions to the inquiry and it is also available on the committee's website. Does the Corowa Shire Council wish to propose any amendments to its original submission?

Mr Corcoran—No, we do not.

CHAIR—I now invite you to make a statement to your submission.

Mr Poidevin—I believe the redevelopment of the Mulwala factory is very important to our town and our community. The continuity of this plant is most important for the economic and educational development of our town. It is the lifeblood of Mulwala and we believe that it must continue.

CHAIR—Thank you again for your submission. It helps the work of this committee when we know that the consultation process is working. We have to compliment Defence, along with yourselves, on ensuring that has been the case. Thank you for that. Senator Troeth, did you wish to pursue your question?

Senator TROETH—Yes, I will just ask, as I was directed to by the previous person: are you happy with the level or the nonlevel of hazardous wastes put into the river from the plant?

Mr Poidevin—In recent times the Department of Defence have taken up the issue of the toxic plume that was brought to the notice of the people of Mulwala. The work that they have carried out in recent times has been fantastic. The level of communication with the residents has been wonderful. I believe that there was a lot of concern in the early days when this plume was noticed and brought to their attention, but the amount of time, money and cooperation between everybody has I believe left all ratepayers quite happy with the way it has been looked after.

Senator TROETH—That is good. Thank you.

Mr JENKINS—I would like to get on the record and confirm, if it is able to be confirmed: you have no qualms that the type of communication that you have got from all involved in this project will ensure that local contractors, suppliers and the like will at least get an opportunity to bid for work that will be involved in this project.

Mr Poidevin—I believe, from all indications to us, that the redevelopment is going to be of great benefit to the contractors in the local area.

Mr JENKINS—You are satisfied with the way that that has been put about in the local community?

Mr Poidevin—Yes, we are.

CHAIR—Thank you very much. Brigadier Grice, does Defence wish to come back and make any further statements?

Brig. Grice—Once bitten, twice shy! That is fine; we will provide the written answers as required.

CHAIR—Before closing, I thank the witnesses who have appeared before the committee today and to everyone involved in assisting the committee with its inspections this morning and the arrangements for today's hearing.

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

That, pursuant to the power conferred by section 2(2) of the Parliamentary Papers Act 1908, this committee authorises publication of the evidence given before it and submissions presented at public hearing this day.

Committee adjourned at 2.25 pm