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DEFENCE SUBCOMMITTEE

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JOINT STANDING COMMITTEE

ON FOREIGN AFFAIRS, DEFENCE AND TRADE

Defence Subcommittee

Friday, 29 August 2008

Members: Senator Forshaw *(Chair)*, Mr Hawker *(Deputy Chair)*, Senators Arbib, Bishop, Cormann, Ferguson, Fifield, Moore, O'Brien, Payne and Trood and Mr Baldwin, Mr Bevis, Mr Danby, Ms Annette Ellis, Mr Gibbons, Ms Grierson, Mr Hale, Mr Ian Macfarlane, Mrs Mirabella, Ms Parke, Ms Rea, Mr Ripoll, Mr Robb, Mr Robert, Mr Ruddock, Ms Saffin, Mr Bruce Scott, Mr Kelvin Thomson and Ms Vamvakinou

Defence Subcommittee members: Mr Bevis *(Chair)*, Mr Baldwin *(Deputy Chair)*, Senators Mark Bishop, Cormann, Fifield, Forshaw *(ex officio*), Payne, and Trood and Mr Gibbons, Ms Grierson, Mr Hale, Mr Hawker *(ex officio)*, Mr Ian Macfarlane, Mrs Mirabella, Mr Robert, Ms Saffin, Mr Bruce Scott and Mr Kelvin Thomson

Members in attendance: Senator Forshaw and Mr Baldwin, Mr Bevis, Mr Macfarlane, Mr Ripoll, Ms Saffin, Mr Scott, Mr Kelvin Thomson

Terms of reference for the inquiry:

To inquire into and report on:

Department of Defence annual report 2006-07

WITNESSES

Subcommittee met at 9.03 am

GRZESKOWIAK, Mr Steve, Acting First Assistant Secretary Personnel, Department of Defence

MINNS, Mr Philip Gregory, Deputy Secretary People Strategies and Policy, Department of Defence

CHAIR (Mr Bevis)—I declare open this hearing of the Defence Subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade and our inquiry into the Defence annual report and welcome the representatives from the Department of Defence. The first area of interest to the committee that we hope to explore this morning deals with matters associated with retention and in particular the impacts of FBT reportable allowances.

The subcommittee does not require you to give your evidence today under oath. However, I advise you that these hearings are legal proceedings of the parliament and have the same standing as proceedings of the respective houses. It might be useful for the committee if you could make some opening comments in relation to retention issues and the operation of FBT as it applies to defence personnel.

Mr Minns—We thought we might give a little bit of a historical context for the recruitment and retention issues and talk about our current status and progress in making an impact, which we believe we are beginning to make. My colleague, Steve Grzeskowiak, will talk about the particular challenges associated with FBT related impacts on some of our benefits.

We were looking at a scenario in the middle decade when the ADF was reducing in strength when we were really seeking to grow it in accordance with government policy. The growth requirements stem from the 2000 Defence white paper and the subsequent Defence updates in 2003, 2005 and 2007 involving the Enhanced Land Force and the Hardened and Networked Army strategy. At the same time that we were seeking to do that, the Australian economy was at a strong performance level and we had significant challenges competing in a competitive labour market. The requirement for a new retention and recruitment strategy was agreed by the government in December 2006. It gave rise to a package of 12 measures endorsed in December 2006 and the 2007-08 budget totalling $3.1 billion over a 10-year period. The target at that stage—and it still is at this stage—was to expand the ADF from around 51,000 full-time personnel to over 57,000 by 2016-17. In addition to those initiatives considered under what became known as the R2 package, we have been looking in recent months at additional strategies that we could continue to pursue as part of the workforce companion review of the 2008 white paper.

Regarding the recruitment measures that we commenced under the R2 strategy package, the first thing was to look at the Defence Force recruiting model, and we talk about the notion of a new DFR. We have sought to reform the approach working in partnership with our alliance partner to enable a greater number of applicants to be processed and be processed more quickly. We have been seeking to have more testing days, more streamlined administration services, a reduction in the documentation burden required from candidates, improved candidate case management and a simpler one-day recruitment model for Army reservists.

You may be aware that earlier in the year we announced the result of the retendering of the contract for Defence Force recruiting. That gives rise to us transitioning over the next seven months until February to a new supplier in Chandler Macleod. We are working in partnership with the current supplier, Manpower, and Chandler MacLeod to manage that transition. It is, of course, a fairly critical period for us and at this stage, one month into the new financial year, with the results for recruitment in July, we are still working hard to bed down this new DFR model, particularly the client relationship management centre, which coordinates and handles all of the applicants' information material and requirements so that they can proceed in the process.

Another one of the significant R2 packages was the ADF gap year aimed at providing young Australians who have recently completed school with the opportunity to experience military training and lifestyle in the ADF for a period up to one year. We were successful in 2008 in attracting the full quota of 700 people to the three services—100 in the Navy, 100 in the Air Force and 500 in the Army. We were particularly delighted with the significant interest, application rate and participation in the gap year program amongst women. In the case of the Navy, almost half the successful applicants were women.

Another part of the recruitment framework was an enhanced marketing and service branding package. If you have been observing Defence Force recruiting ads over the last six months you will have seen the fruit of this investment. It is a more targeted and aggressive marketing campaign to expand our base of people interested in joining the ADF. It had a particular focus on understanding the perception in the target labour market around the then current brands of the three services and shifting people to a new brand view of the three services.

We have also introduced a targeted candidate referral program, making use of a specialist civilian provider to source, screen and refer suitable technical trades candidates to Defence Force Recruiting. I guess this is similar to the notion of executive search, with which you are perhaps familiar, but in this case it is a search in respect of technical trades candidates. It is a process designed to seek out people who may be well suited to these sorts of careers in the ADF. At the moment we have 426 candidates in the pipeline, identified through this referral program—33 of those are waiting for a DFR employment options session, 61 have already attended that session and 27 are waiting for an assessment day to progress the process to enlistment.

In the area of defence apprenticeships, we have been targeting an increase in the number of technical training entrants to the ADF each year. We have introduced a sponsorship program, the intent of which is to see if we can attract the interest of young students in year 11 and 12 to remain in contact with our recruiting centre and attend a 'your options in the services' session at the end of high school. We are targeting 1,500 scholarships—600 in year 11 and 900 in year 12. The payment in year 11 is $2,000 and in year 12 it is $3,000. I guess this strategy goes to the idea of developing a relationship with people in the target pool and, in the language used in the recruiting business, 'keeping the relationship warm' by staying in touch with them and making them predisposed to a career in our organisation.

We also had a focus in the R2 package on expanding cadets and seeking to ensure the strength and vitality of the cadet organisation. We have in the past discussed the relationship between cadets and enlistment. You would also be aware that the parliamentary secretary has initiated a review into cadets to confirm the strategy and the relationship between the cadet organisation

and the ADF and its role as a youth development movement in addition to whatever role it plays in relation to the ADF.

In the last eight months we have also focused increasingly on a specified recruitment strategy for women; an Indigenous recruitment strategy, which has now been launched; developing youth connection programs; and establishing specialist recruitment teams within the DFR centres. We are particularly focused on what we call the 'technical trades'—the specific trades and occupations across the three services. We need people with specialist skills and we need to train them and retain them. We are looking at a joint approach across the three services to maximise our opportunities to streamline that process and ensure we get the most value out of any candidates who are in the system.

These matters all go to the question of recruitment. On recruitment performance, over the last 12 months we have grown the ADF to 53,071 members. That figure has reservists and gap-year members within it. Over the 12-month period we had more enlistments and fewer separations, resulting in the growth to that level.

I am happy to move to the retention benefits under the R2 package. The first aspect here was a series of bonuses and allowances. Rather than go through all of them, I might just touch on a couple and submit the detail to the committee. The Navy critical employment category retention bonus is targeted at individuals in positions where the loss of skills or not filling a high priority position will have a detrimental impact on operational or supporting capabilities. We have had a 65.6 per cent acceptance rate from the targets of those retention bonuses. Another example in Navy is the capability allowance addressing submariners. We now know that that is at a 44.6 per cent take-up rate. We also know that, in the case of that allowance, each month there is a revocation of notice to discharge situations. I think that in the last month for Navy for that allowance there were about 170 revocations. So these bonuses are working. We are not seeing them at the 80 per cent take-up rate yet. We consider that people are still reflecting on it and making decisions, no doubt in their total family context.

There are another couple of examples, including the Army expansion rank retention bonus, encouraging experienced personnel in the ranks of corporal, sergeant, captain and major to undertake further service. In this case, we have a 76.9 per cent acceptance rate. There is the Army trade transfer bonus and incentive bonus to encourage personnel to transfer from non-technical trades within Army to technical trades, another way of buttressing those categories. We have had 176 per cent acceptance in that case, so that strategy of recruiting people into general ranks within the Army and then seeking to migrate them to critical trades has been working for us. I guess I would propose there to provide the committee with further detail in submission.

One of the other issues we addressed as to retention was remuneration and structure reform. It derives from the Nunn review of the ADF remuneration system in 2001, and we are now at phase 4. Having worked through and addressed issues with the officer group in the last 12 months, we are dealing with what we call GORPS, the solution for the other ranks. The matter is before the DFRT. We expect that they will take final submissions in early-to-mid-October, although we are awaiting the direction of the tribunal there. That will have the effect of introducing a more modern 10-band remuneration structure for other ranks that is consistent across the three services and in the process, we hope, addressing some of the remuneration points that needed remediation within our structure.

From July this year we also commenced the Defence Home Ownership Assistance Scheme. We know that the scheme was eagerly awaited from the interest generally shown by members of the three services and then from the weight of inquiries and applications to DVA, the Department of Veterans' Affairs, who are the administering agent of the scheme. We think it is a successful strategy. We are interested to see if, to some level, our recent performance in retention—which for three months this year was at 9.9 per cent separation, which was a pretty good result—was in some way impacted by people waiting for the operation of this scheme. We think that is a possibility, but we do not think it will be a dramatic spike if that is going on. In the most recent month the separation rate has moved to 10.1. We are seeking to understand if there is any relationship between the notice to discharge and the applications through DVA, just to make sure of what the correlation there is. But, on balance, we do think the home ownership scheme remains a very attractive option for members of the three services.

I will talk about the progress that has been made from all of those initiatives. Full-time enlistments until the end of June this year were 7,039. That was 1,009 more than the previous year. As I have mentioned, the separation rate has been coming down—0.9 less than the rolling five-year average. We lost 632 fewer people in the last financial year than in the one preceding it.

For me, the three service chiefs and the CDF, this whole area remains the core of what we focus on when we spend time together. The white paper companion review represents research and collaboration across the organisation to understand what initiatives we need to persist with and what new ones we need to reflect on and present to government as part of the white paper package. It is a balance for us between—

CHAIR—That siren that just sounded got our attention! This might be an appropriate time to remind people to turn their mobile phones off.

Mr Minns—I thought for a minute that we were going to evacuate the building. We are constantly working on the balance of getting people into the system through recruitment but, through our work in the retention space, avoiding their loss as much as possible. We will always lose some of our people. The annual loss of somewhere between 5,000 and 6,000 people in separations can be influenced but can never be made marginal because of the nature of service and the lifestyle objectives of some of the people who join the ADF. They join for an experience, they join to serve and they join, perhaps, to experience deployment, and if those things have happened and they have been broadly happy with it then some of them consider that it is time to move on. So it is those things, in balance. It is the constant focus of my group working with the services. There will be more initiatives in the white paper companion review and the white paper process.

CHAIR—Thank you, Mr Minns. On those matters that you indicated you may be able to provide some further written submission on, we would welcome it.

Mr BALDWIN—In relation to aspects of the fringe benefits tax and the reportable allowances, one of the issues we found when we visited the barracks up at Robertson and met with the families is an inability to understand exactly how the individual circumstances with the remote location leave travel work for or against them. One of the suggestions at the time was that, given that Defence now disseminates so much information through the web to families,

there should be a web based calculator where they can put in whatever their partner's, husband's or wife's rank is; then it would bring up their pay scales and they could put in other information, and it would then show them directly what their net loss or gain was. But, on a broader issue, is the reluctance to take up the remote travel leave allocation because of the direct effect on their financial ability to cope in these remote locations? What do you intend to do about that?

Mr Grzeskowiak—The RLLT—remote locality leave travel—provision was put in place deliberately some years ago. At the time, the view was very strong within the ADF that what we wanted to do was to ensure that people had respite from the various difficult locations that they were in, and so the scheme was constructed very much to ensure that they left those places and went somewhere else for a holiday. So I think the key issue at stake here is that aspect of RLLT that provides free flights and travel to an alternative destination that, obviously, the member does not pay for but that are reported on the member's payment summary as a fringe benefit taxable allowance. The issue for members, of course, is that while they do receive the benefit of the flight to another destination they do not actually receive any monetary value in their pockets from that, yet it can result in them having a reduction in, for example, family tax benefit part A or B subject to their financial circumstances because of their increased assessable income according to the Income Tax Act.

Mr BALDWIN—That does not just affect theirs; if they come from a broken marriage with dependants and they are paying Child Support Agency fees, there would be a reluctance to take it up, therefore denying themselves the benefit of going back to visit whatever other state they came from, because it would automatically increase the payments for the Child Support Agency.

Mr Grzeskowiak—That is absolutely right. This can work in two directions. In the case of someone who had an obligation for child support, the tax office would assess the value of that flight as income and their child support obligations would increase. We have approached the Treasury and the tax office on this on a number of occasions. The last time, in 2006, we went looking for further exemptions from reporting of fringe benefits tax. I should say that the ADF have the largest number of exemptions from reporting fringe benefits tax of any employer group in the country and, in fact, Defence pays more fringe benefits tax than any other employer in the country. That reflects the number of allowances and various benefits that we have.

In 2006 we went to Treasury seeking exemptions from a range of benefits, one of which was remote locality leave travel. The Treasury would not give us exemptions for any of the seven things we sought exemptions from at that time. We went again last year for further exemptions for a reduced number of items and again the Treasury were not inclined to give us further exemptions.

When you seek exemptions under the tax act for these things, the Treasury have three tests that they apply. The first test is cost of compliance. If the cost of complying with having an exclusion were just outrageous then it would not be done. But generally where you can easily identify an individual who receives a benefit then you cannot argue the cost of compliance. In our case we know exactly who gets the benefit and it is easy to identify, so we cannot get an exemption on that basis.

The next assessment is fairness. There are a range of criteria that the Treasury have in assessing fairness. In their response to us, the Treasury consistently make the point that the ADF

already receive a significant exemption under fringe benefits tax reporting obligations, which is assessed at something in the order of 80 per cent—that is, 80 per cent of the benefits that occur are exempt from fringe benefits tax reporting—and that, were there to be further exemptions granted, that would be inequitable when compared to the rest of the Australian community.

Mr BALDWIN—To be fair, the rest of the Australian community does not deport into overseas areas of operation and face IEDs or bullets.

Mr Grzeskowiak—I agree with you. I am just articulating the Treasury view for you so that we can understand how the whole-of-government views are articulated. The final area where exemptions can be given is under a broader government policy where the Treasury may decide that tax concessions are appropriate to encourage a certain type of economic behaviour, for whatever reason. So we have tried, overall, four times to get further exemptions, going back to 1999. The last attempt was in 2007. We have been consistently told, certainly in recent years, that there will be no further exemptions granted for ADF benefits and conditions of service in terms of reporting obligations.

Mr BALDWIN—So will you undertake to look at putting a web based calculator up for families so they can ascertain their financial position? Our understanding from meeting with the families is that it is very difficult for them to wade through what the costs are. It is a bit late after they have taken the flight then to have to report back to Centrelink what they have done and work out where their losses will be.

Mr Grzeskowiak—I understand that and I agree that the rules around fringe benefits tax and tax in general and how that relates to payments, whether family tax benefit or garnishee payments for child support, is complex. We have been having discussions with our tax management office within Defence in recent years about the level of information we can provide to members to inform decisions. We are always trying to enable the best availability of simple-to-understand information so people can make informed choices. But we do have to be a little cautious about being seen to be giving advice in a taxation sense and the liabilities that might flow from that, depending on decisions people might make on that advice.

Mr BALDWIN—Surely, if you are looking at trying to retain people—you have to retain the family as well—you should be taking every step you can to provide advice to make it easier to retain them. We quite commonly heard people saying, 'When we get through this posting, we are going to get out.' So you have lost a good soldier and you have lost a supportive family.

Mr Minns—We agree that there is some aspect of this which is counterintuitive. When I have been, like members of the committee, to the north, to Townsville and Darwin, and spoken with the Defence Family Association members in those sites, it is quite a conundrum. They say: on the one hand you offer us a benefit that is designed to attract us to stay and on the other hand we get whacked somewhere down the track. The reality is that, in each case, the value of the benefit is greater than the consequence, but I think the point you make about it not been clear, not being obvious to them and not being something they can factor into family financial planning is part of the issue. There are always members with whom the idea that there is any kind of FBT regime operating just does not wash. But, given that we live in the tax system and that is a consequence of it—our attempts to change it have not succeeded—I do think we have to work, generally, on our remuneration and reward communication. That is a strategic change that we have to drive

across the whole system. We particularly have to do it in respect of the FBT impacts that you have noted so that families understand the consequence: 'I might take this travel but it will give me a budgeting issue down the track. How big will it be and how will we cope with it?'

Mr BRUCE SCOTT—I want to touch on the submariner issue and whether we are able to fully crew our submarines. You mentioned earlier that the retention bonuses are probably the worst, if I heard correctly, of all the areas within the services. Could you explain to me whether we are able to fully crew our submarine capability?

Mr Minns—That is a matter I defer to the Chief of Navy as a capability issue and clearly one within his domain. With regard to the progress with the take-up rate of the naval capability allowance, it is one of the latest capability allowances to go into the market, so at the moment we do not look at that take-up rate and we are not hugely concerned. We think it is making progress; that is my understanding from Navy. Navy is also doing a review of its submarine fleet from all perspectives to have a look at the impacts on people's willingness to stay within the service. I think that review is, under the direction of the Chief of Navy, to conclude by the end of the year. I think there is more work being done in the submariner space, but I would leave my comments there and request that the Chief of Navy address those matters.

Mr BRUCE SCOTT—I do not know whether you can answer this question, but are you using the approach of poaching from overseas defence personnel to backfill or meet some of the demand for service personnel, and are they offered these bonuses as well?

Mr Minns—It is my understanding that all three services are somewhat active amongst our alliance community—

Mr BRUCE SCOTT—It is probably a better word than 'poaching', isn't it?

Mr Minns—Yes.

CHAIR—I thought people 'poached' our staff and we 'recruited' theirs.

Mr BRUCE SCOTT—I think it is a better word. I will accept that, Mr Chairman.

Mr BALDWIN—It is a matter of stacking and development in politics, Arch.

Mr Minns—Yes, certainly, that—

Mr BRUCE SCOTT—That is a Liberal Party phenomenon.

Mr Minns—We are working on that and I know Navy is. I would seek to know if Steve knows what happens with the allowance. I imagine that it applies to people recruited laterally from other services.

Mr Grzeskowiak—Yes.

Mr Minns—So yes.

Mr BRUCE SCOTT—Do you have numbers of how many we have recruited from foreign services?

Mr Minns—From other services? I know they exist; I do not have them with me today. Again, I would just like to check with the service chief to be sure that the number itself does not drive sensitivity.

Mr BRUCE SCOTT—No drama; I can understand that. Thank you.

Mr BALDWIN—One of the more recent and pressing issues is air traffic controllers. I read in the paper the other day of the loss of a number of air traffic controllers. Can you tell me how many we lost last year and this year, what the shortfall is, what we are doing to recruit and retain and what bases are affected in operational capability by this reduction in air traffic controllers?

Mr Minns—Again, that level of capability detail is a matter that Chief of Air Force would be best placed to answer. We have done a number of things in recent weeks that I am aware of to try and retain our traffic controllers from the other principle employer of air traffic controllers in the system. One of the issues that we face that I do know about in a retention sense within Air Force is that because we have air traffic controllers on, I think, eight bases around the country, particularly in the north, if they stay in uniform as an air traffic controller they can look forward to rotations back through some level of those eight bases, and at some point that starts to create an issue for their families and their willingness to be relocated out of certain centres. That is the sort of issue we face.

One of the things we have been looking at in conjunction with Air Force is what scope there is for some air traffic controller roles to be civilianised, with a view to enabling people to get out of uniform but to continue to work in our air traffic control space and, as a result of that, not have to relocate. So we are keeping capability, but not necessarily in uniform. But the more specific questions I think we would need to take on notice and refer to Air Force.

Mr BALDWIN—I have been advised that we have issues, particularly in the Air Force, with the reserves, where people would take up extra hours of work under what was called ‘discretionary funding’. They may be working one, two, three days per week. It was put to me at RAAF Base Williams, Point Cook on the weekend when I was at the Defence Reserves Association that the air base safety officers were made up of two Cathay Pacific pilots, three Qantas pilots and an air safety services officer who provided the capability for air base safety officer provision. With the cutbacks in discretionary funding, they will no longer be able to perform those roles. So what does the Defence Force now do to provide that capability gap and make sure bases continue to operate?

Mr Minns—I am afraid, Mr Baldwin, that is budget information related to Air Force and it is just not within my domain. I have no—

Mr BALDWIN—But isn’t it part of recruitment, retention and manpower?

Mr Minns—They certainly link but, as it goes to direct budgetary issues and the choice of how Air Force is seeking to deploy and sustain its workforce, that is not my space.

Mr BALDWIN—Given that you run the pays for that, can you take it on notice and report back on what the cutbacks have been and what the effect has been in man-hours across all three services and ranks. Considering you are paying, you would have more access and be able to give more accurate information perhaps than some of the global statements we might receive from others.

Mr Minns—I will need to work with the Defence Support Group; they actually do the pay. But I am happy to take it on notice.

CHAIR—There are two quick matters that you can take on notice as well. Could you provide us with a list of the postings that attract the free return flights that we were talking about before, which are subject to the FBT. Could you also provide us with the basis of Defence's argument as to why you think there should be some relief from FBT in respect of defence personnel's return flights.

The final question you may want to take on notice. You made reference to the evaluation of cadets and referred to it from a couple of aspects—as a youth development movement and as something connected with defence. In terms of its connection with defence, would you be able to advise us either now or later whether the survey work is going to the question of the impact of cadet activity on the likelihood of those people joining the ADF—that is, is work being done on surveying attitudes towards joining the Defence Force either amongst the general cohort of that age group or amongst the cadets on entry?

The simple point is, if Defence dollars are going to be allocated for this purpose, I for one would like to think there is a Defence outcome; and, whilst there are plenty of surveys that have been done over the years to tell us that lots of cadets join the Defence Force, I am yet to see a survey that tells us that their experience as cadets led to that outcome. In other words, before they joined the cadets they were interested in being in the Defence Force and that is why they joined the cadets, and so, sure enough—surprise, surprise—they had a higher intake into ADFA and the like. If we are doing some survey work at the moment, could you advise us whether the survey work addresses that qualitative matter?

We are over time so, unless there are urgent matters, I will end these proceedings with you here. Thank you for your appearance before us today.

[9.41 am]

CLARKE, Mr Kerry, Head Industry Division, Defence Materiel Organisation

GILLIS, Mr Kim Rogers, General Manager Systems, Defence Material Organisation

GUMLEY, Dr Stephen John, Chief Executive Officer, Defence Materiel Organisation

ROSSITER, Air Vice Marshal Clive, Head Aerospace Systems Division, Defence Material Organisation

HARVEY, Air Vice Marshal John, Program Manager, New Air Combat Capability, Department of Defence

CHAIR—I welcome the Defence Materiel Organisation in a continuation of evidence from our earlier hearing. I invite representatives from the DMO to the table. Whilst the subcommittee does not require you to give your evidence today on oath, I advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses. Do you wish to make any opening remarks at this point?

Dr Gumley—No.

CHAIR—When the F18s were announced, I recall a figure of $6 billion being mentioned by the government and Defence at that time. Is that an accurate assessment of what the Super Hornet acquisition cost?

Dr Gumley—That was approximately the figure at the time. It was assessed, I think, at the project rate with an exchange rate of about 76½c or 77c at the time, and it is important to recognise that it included 10 years of sustainment support for the aircraft as well as the acquisition. It makes it a bit different from any other programs that are announced where they only announce the acquisition price; in this case we got the whole-of-life cost for 10 years of operation.

CHAIR—Why do you think it was that the whole-of-life cost figure was the one used on that occasion?

Dr Gumley—We are looking at a capability as a gap coverer if there is any deferral of the Joint Strike Fighter due to schedule problems. From a budgetary point of view, the government was quite happy to look at the full 10-year cost of running that capability. I would be very happy for all of our capabilities to be discussed in a whole-of-life cost context.

CHAIR—So would I, having argued that about 15 years ago in a report to the parliament by the industry committee. It does present problems for the parliament and for public consumption of these important matters when different figures are cited for different acquisitions. If $6 billion is the cost of 24 Super Hornets, then one wonders how we get 100 JSFs for $7½ billion.

Dr Gumley—We don't. On the same basis—on a whole-of-life basis—then you have got to compare acquisition with acquisition and whole-of-life with whole-of-life.

CHAIR—I think that is probably where we are at now in the follow-on from the evidence that we got at the last hearing. We need to be clear about the evidence that comes before us. The committee cannot always interpret the information with that degree of fidelity. So the advice we got on a previous occasion as to the likely cost of the JSFs actually referred to what?

Dr Gumley—The unit recurring fly-away cost for 100 pieces of aircraft at a 92c exchange rate in 2008 dollars.

CHAIR—Am I right in saying that the standard measurement used for acquisitions of this kind is as to the lowest cost of any?

Dr Gumley—No. Typically, when we get an aerospace platform there is a margin of something between 50 and 80 per cent for all the extra equipment that has to be bought as well as for the actual airframes themselves.

CHAIR—Yes. I may not have phrased the question correctly. The recurring fly-away cost is what I understand to be the figure that we were provided with last time. Is that right?

Dr Gumley—Yes. That is the figure that we provided last time.

CHAIR—So the recurring fly-away cost is the lowest figure that would normally be quoted in respect of the range of estimates of the cost of acquisition of a platform like that?

Dr Gumley—Yes. There are three levels of costing that I am familiar with that are used in different contexts. One is the unit fly-away cost. The next is when you build it up for all the extra mission equipment that you need to get an operational capability. That gives you your full acquisitional project price. Then on top of that you have to add X years of sustainment depending on how long you intend to run the fleet. That gives you the whole-of-life cost.

CHAIR—Say we leave aside for a moment the whole-of-life cost, which is ultimately what the Commonwealth is up for, and talk about the cost of the platform. To have a platform that would be operational we would have the recurring fly-away cost, which is your basic piece of hardware as I understand it, and there would be ancillary equipment, the various technical data contractor services and related training. We do not buy these things without spares, so there are then spares added into it. Then there is the necessary facility in which to house it all. Without all of those components we do not actually have a platform we can use, do we?

Dr Gumley—That is correct. There is also the cost of a thing like test and evaluation, and the cost of ferrying the aircraft from America to Australia. There are administration costs and there is the project cost.

CHAIR—Just while we have got the definitions right, that is regarded by you as the acquisition cost, or is it something else?

Dr Gumley—Yes, so we get the total project acquisition cost.

CHAIR—And that excludes the through-life-cycle costs and a range of other things that would be happening here?

Dr Gumley—Yes. Typically training equipment, for example, would be in the acquisition cost. But then the cost of training people during the next 30 years of life of the aircraft would be in the operating costs.

CHAIR—If we go back to where we were at the last hearing, do we have any idea of what we think the acquisition cost might be? Is there a ballpark figure?

Dr Gumley—The public defence capability plan estimate is between $12 billion and $14 billion.

Air Vice Marshal Harvey—The published figure in the latest public defence capability plan, if you add up all the phases in the banding, is between $11.5 billion and $15.5 billion.

CHAIR—So that we are clear on this, is that the cost for acquisition or is that the cost of total ownership, which covers all of the in-house add-ons?

Air Vice Marshal Harvey—That is the cost of acquisition.

CHAIR—Sorry, what was the figure again? It was between—

Air Vice Marshal Harvey—$11.5 billion and $15.5 billion. Obviously within the project we know much more closely what the price is, but for public consumption that is the number.

CHAIR—I understand, and I understand that is commercial-in-confidence and there are all sorts of good reasons why you do not want to put too fine a point on it in a public forum like this but, if we are saying 100 as the sort of top end number that has been publicly mentioned for the acquisition, we are therefore talking around $120 million in acquisition costs?

Air Vice Marshal Harvey—The middle of the band is $13.5 billion, so the average for 100 would be $135 million, yes.

CHAIR—That is a lot different to the evidence we got at the last hearing, isn't it?

Dr Gumley—No. It is consistent with the evidence, because we were just talking about the basic aircraft.

CHAIR—You might have been, but I do not think anyone else was. I do not think anyone was seeking to find out the cost of a platform that we could not do anything with. I think the simple question—perhaps not stated in its full detail—was to try and find out the cost to get a plane that could be used, not something on a factory line that had no manuals, no resources and nothing else that was going to help us fly it. So we are talking around $130-odd million for public consumption?

Dr Gumley—Yes.

Mr BALDWIN—I would like to bring your mind to the FA18 current platform that we have. There are a couple of issues I have in relation to that. One is that the centre barrel replacement work for a long time was looked at being done in Australia. I understand that contract was awarded to an operator in Canada and we are seeing our FA18s shipped off to Canada to have centre barrel replacement. Why wasn't that work undertaken in Australia?

Air Vice Marshal Rossiter—The context of that decision is that we were looking at a centre barrel program potentially gusting up to 49 centre barrels, so 49 aircraft modifications. That was based on our understanding of the structural fatigue life at the time and the test data that was available at the time. The first 10 aircraft that are under contract right now were part of that 49 centre barrel program, if you like. The reason the first aircraft were set up overseas rather than in Australia, in terms of the central barrel replacement part, was largely that when we went out to Australian industry, mainly centred around the Williamtown site, and spent some time with them assessing whether we could ramp up the capability to do it, to start that program on the schedule, both industry and DMO determined that there was too much risk in trying to set that up for the first part of the program. So the plan was we would do the first 10 overseas and in that time we would have a better look at setting up the capability in Australia so that the remainder of the program could be conducted in Australia.

Mr BALDWIN—What is the cost of sending those first 10 to Canada to be done?

Air Vice Marshal Rossiter—I can give it to you.

Mr BALDWIN—Not the transport costs but the overall costs of the centre barrel replacements.

Air Vice Marshal Rossiter—For the actual modification itself, the sort of marginal cost once you have set the facility up and everything is in the order of $10 million or $11 million an aircraft.

Mr BALDWIN—How long had you known the centre barrels would require replacement?

Air Vice Marshal Rossiter—For several years. The real question was how many.

Mr BALDWIN—So four years ago?

Air Vice Marshal Rossiter—Yes.

Mr BALDWIN—Five years ago?

Air Vice Marshal Rossiter—I do not know.

Mr BALDWIN—Let us say four to five years then. Why wasn't more done through DMO to build a greater working relationship with Australian defence industry to be able to provide that level of capability in Australia?

Air Vice Marshal Rossiter—I actually think that in DMO we did a lot to try and develop that capability in Australia. We worked over several years over that period with both Boeing and

BAE, as the major industry presence at the Williamtown site, to try and collectively bring both those companies' resources to bear on the problem, because neither one of them at the time could individually cater for the volume of work that was required. So we actually spent several years working in partnership with those companies trying to establish a commercial proposition to start that work in Williamtown.

Mr BALDWIN—Is the Williamtown issue a lack of hangar space?

Air Vice Marshal Rossiter—No. We solved that problem because we had both BAE and on-site facilities. In combination, we solved the hangar problem. So that was not the constraint.

Mr BALDWIN—When I looked at the planes being loaded on the Antonov, they were fairly stripped down. The wings had gone and parts had been taken out. For an untrained, uneducated aviation person like me, it did not look as though there was that much more strip-down, depending on what context you bring the barrel in, compared to actually being able to do the work here. So it was fairly disappointing to see the aircraft partially stripped but not completely stripped and the work not being done here. So the question I ask is: will the next 39 that are to be done be done in Australia or will they simply be shipped off to Canada for expediency?

Air Vice Marshal Rossiter—Can I answer the first part of your introduction to that question first. It is not just a matter of stripping down the aircraft, pulling it apart and putting it back together again. You are talking about having to establish quite big jig facilities that keep that structure to tolerances of a thousandth of an inch. You are talking about having to train a workforce that can undertake that work. You are talking about having to establish a support infrastructure including a lot of spares and the engineering horsepower to react very quickly to unscheduled engineering requirements. You pull these things apart, you find corrosion, you find cracks that require specialist spares to be manufactured and you require specialist engineering to be done on the design solution. Those were the factors that both industry and DMO took into account when we were determining whether we could set this work up in Australia, because that was our aspiration. We collectively determined that we could not do it without significant risk, and we were not prepared to take that risk on when there was a viable alternative.

On the second part of your question, since we have started that program we have taken a number of used centre barrels from the US. Also, the ones that we had in the early part of our centre barrel program we have given to DSTO. DSTO over the last couple of years has been doing some significant structural fatigue testing on those units, and the results of that make it look like we are able to extend the structural life of the existing centre barrel part of the aircraft. We are waiting on a report at the moment, but the outcome of that report is likely to be that, instead of 49, we are looking at something not much more than, if any more than, 10 centre barrels.

Mr BALDWIN—Why wasn't that investigation work done prior to the discussion of 49 going and the commitment that has now been withdrawn?

Air Vice Marshal Rossiter—Because it was conditional on having centre barrels that you could test to destruction.

Mr BALDWIN—What would the actual cost have been to do a centre barrel replacement in Australia? You said it would be $11 million per unit offshore. What would the cost have been to do it in Australia?

Air Vice Marshal Rossiter—A final cost was never established because both we and industry never proceeded to get a final price. But the early ones in that program would have possibly cost more because we would had to have amortised the set-up cost over the smaller production run. So over 49 it might have made sense to make that investment; over 10 it would never have made sense to make that investment. If we had known we were only going for 10, we probably would never even have considered setting it up in Australia.

Mr BALDWIN—Are other countries that fly the F18s doing centre barrel replacements as well, and are they using Canada as their central system for replacement of these barrels?

Air Vice Marshal Rossiter—There are only two sites. The US navy have their own site and Canada have their own site.

CHAIR—What is the current anticipated life of our F18s?

Air Vice Marshal Rossiter—The planned withdrawal date is 2018.

CHAIR—After the current program of refit, will they require further barrel or fuselage replacement or refit?

Air Vice Marshal Rossiter—No. The number we are looking at that we have just discussed will take us through to that planned withdrawal date.

CHAIR—One of the things that comes to mind from the example is something I was going to touch on later but it may be more appropriate now. It is the question of support for industry capability and avoiding what seems to be the plague of the Australian defence industry—namely, peaks and troughs. There has been some commentary about this in the media recently in respect of naval acquisitions. What is the approach that DMO takes in respect of that?

Dr Gumley—We monitor the health of industry fairly carefully to ensure that there is enough work to keep everyone busy. As far as we can work out, the defence industry in Australia has been growing at about four or five per cent in capacity in real terms in each of the last four years. Each time we attempt to provide more demand than that, we find that the products do not flow.

I understand some of the questions you will be going to later in this hearing are about some of the cash flow slippages from the 2006-07 year. A large portion of that is directly attributable to industry capacity constraints. So you have got to pick the sweet spot. If you provide too much demand, the work does not get done; if you provide too little demand, you then have people sitting idle and not able to contribute.

At the moment we are in a very firm demand period and we are not seeing any spare capacity around the industry as a whole. There are little tiny spots of particular skilled bits here and there, but across the whole industry at the moment everyone is very busy.

CHAIR—Is that the case in aerospace?

Air Vice Marshal Rossiter—In the broad, I think, that is the case for aerospace. Different regions go through peaks and troughs depending on the activity in that site, for example. So South-East Queensland will go through a change as we transition Amberley from an F111 dominated base to one that runs other weapons systems—the new tankers, C17s and Super Hornets. So it will change during that transition program.

CHAIR—The level of skill sets that exists at Amberley, and has done for some years, has been characterised very often to me as being quite a high level of aerospace skill sets compared to what Australia has generally had. Aren't we going to lose that in the transition that you just described?

Air Vice Marshal Rossiter—I would agree that when we became the sole operator of the F111, which is quite an old platform, and had to undertake a midlife avionics upgrade—basically conducting that activity as the prime ourselves—that put us in the position where we had to do a lot more technical work and engineering than we had ever had to do on similar platforms. So, yes, as a result of that we have developed a high level of competency in those areas on the F111. The extent to which they will translate into new platforms is not likely to be the same. The new platforms require fewer of the sorts of things that we have had to do on a very old platform, the F111, and the technologies that you see on it. So it is not a case where you should expect that, for every tradesman we have on the F111, there will be a similar job waiting for them on the C17, the Super Hornet or the new tanker.

CHAIR—I was not just thinking of the tradespeople; I was thinking of highly qualified aerospace engineers, who were working on lots of things before they were working on the F111. It seems that now we do not have a demand for their skills or, if we do, it is certainly not at the same level.

Air Vice Marshal Rossiter—I think there is still a demand. I have not got data to quantify it, but I know for example that, in the South-East Queensland area, one or two years ago we just could not get enough engineers in that area. Australian Aerospace was building up a presence on site—there were helicopter programs starting up and everybody was scrambling to try to attract those skilled resources to that area. So there is offsetting, compensating work in that area, but I do not have the data to match the current to the future to that extent.

Air Vice Marshal Harvey—If I could add one example from the Joint Strike Fighter project: part of the change in strategy there was to become part of the global supply and support chains for the Joint Strike Fighter, assuming that we go that way. To date, GKN in Melbourne has employed 200 engineers who are doing over one million hours of work on the Joint Strike Fighter project. So the focus changes as we go between platforms, but the focus now, certainly on that platform, is to be part of the global system rather than just have a local system.

CHAIR—At what level of skills would you characterise our engagement in the JSF?

Air Vice Marshal Harvey—It varies. For example, the structural design of the JSF is extremely high level, and we have 25 Australian companies as part of the global support chain at this stage, with about US$150 million worth of work won to date. We have industry plans.

Lockheed Martin has published the numbers: in the order of $8 billion to $10 billion worth of work. We still have to win that in competition, but it is very high-quality work, employing a lot of SMEs as well.

CHAIR—More broadly on the industry support, what do you make of the press coverage that I think gave the example of the value of a fourth air warfare destroyer and the impact that would have on the industry? There have been other examples in the past. I know people have argued that eight submarines provides industry capability for ongoing activity that six does not, and you can provide all sorts of other examples along the way. Are those considerations factors that DMO takes into account as part of its matrix of things and, if so at what level?

Dr Gumley—On the maritime projects, we have mapped out the demand for skilled labour on each of the projects out to about 2030. It reaches a peak in about 2012 or 2013, as the air warfare destroyer is at maximum build rate. There is a bit of a gap in 2016 and 2017. Then it builds again towards the latter part of the next decade. Clearly, it is in everybody's interests to level load demand as much as possible, and those sorts of questions are part of the industry capacity deliberations that are in the white paper. It is not productive for DMO either to ask for too much demand and then fail to be able to supply or to do it the other way. Level loading is important to us.

CHAIR—Do you think you have got the balance right? Have we got the balance right?

Dr Gumley—There is some work to be done in the latter part of the next decade to try and get better level loading. And it is being duly considered; it is not something we do not think about. We have been thinking about it very intensively over the last six months.

Mr BRUCE SCOTT—On the air refuelling capability: what stage is that project at? I note there is an underspend there again.

Air Vice Marshal Rossiter—The tanker program is progressing. We have two aircraft in play at the moment. For the first one, the modification is being conducted in Madrid, as you are probably aware. That is about three-quarters of the way through the second stage of the ground testing program, so it is progressing. The second one—what we call the 'green' aircraft, based on the commercial platform—arrived in Brisbane in, I think, June this year. That has been lifted up onto jacks and is being prepared to commence the modification, and Qantas are doing that in Brisbane.

Mr BRUCE SCOTT—And the balance, the other three?

Air Vice Marshal Rossiter—The next commercial aircraft is in the Airbus production line, so you can go and touch that. The others are programmed as part of that production line. So the commercial platform part of the program is progressing as per the schedule. The military modification of that commercial platform to turn it into a tanker that is being done in Madrid is at the moment, I think, about 24 weeks behind the contracted schedule.

Mr BRUCE SCOTT—Is that part of the reason for the underspend in the budget?

Air Vice Marshal Rossiter—It is part of the reason. It is difficult to directly relate it to that because we have different milestones. Some of those milestones are stop payment milestones. So the schedule in a lot of areas can be continuing along quite fine but we will not be making payments because a particular stop payment milestone is in delay and then once they have satisfied that stop payment milestone there is a flood of payments made. This project is characterised by some of those stop-start milestone payment arrangements.

Mr BRUCE SCOTT—These are going to replace the 707s?

Air Vice Marshal Rossiter—They will replace the 707s.

Mr BRUCE SCOTT—Are they still in service?

Air Vice Marshal Rossiter—No.

Mr BRUCE SCOTT—So we do not have an air refuelling capability right now?

Air Vice Marshal Rossiter—We have arrangements in place to get access to a refuelling capability through the US.

Mr BRUCE SCOTT—You said that the one in Madrid is being configured as a tanker. Is it purely going to be a tanker? Is it going to be a fuel station or has it got other capacity?

Air Vice Marshal Rossiter—No. It is also fitted out as a pretty standard commercial airliner, so it has passenger-carrying capacity as well as fuel-carrying capacity. It is a strategic lift capability as well.

Mr BRUCE SCOTT—Where do they put the fuel on these?

Air Vice Marshal Rossiter—The refuelling tanker uses the internal tanks of the commercial airliner. It does not go about fitting extra tanks on or things like that.

Mr BRUCE SCOTT—So it uses the commercial tanks it would have to refuel? We are getting five; how long before the project is complete?

Air Vice Marshal Rossiter—The first aircraft arrives in 2009 and the next few come over the next two years after that. I can get you the exact details of each tail number delivery if you really want it.

Mr BRUCE SCOTT—They are a multirole tanker transport aircraft—is that right?

Air Vice Marshal Rossiter—That is correct.

Mr BRUCE SCOTT—When you say transport, what sort of transport?

Air Vice Marshal Rossiter—It has same capacity as an A330 Airbus, basically, so it has the same sort of passenger and the same sort of cargo capacity.

Mr BRUCE SCOTT—It can take cargo?

Air Vice Marshal Rossiter—Correct.

Mr BRUCE SCOTT—And passengers?

Air Vice Marshal Rossiter—Yes.

Mr BRUCE SCOTT—Why do we need five? If you are going to put passengers on board you are obviously anticipating in the foreseeable future that we may use these for transporting troops across Australia. Why would we do that instead of using commercial services?

Air Vice Marshal Rossiter—I think that the primary capability it is satisfying is the tanker capacity. The free set of steak knives, if you like, is the strategic lift that you get with that sort of aircraft. That was not the dominant driver for the capability. We are not acquiring first and foremost a strategic lift capability; we are acquiring a tanker capability.

Mr BRUCE SCOTT—Plus some more steak knives!

CHAIR—Mr Macfarlane has a question about the steak knives.

Mr BRUCE SCOTT—I want to know about the steak knives.

Mr IAN MACFARLANE—I extend the question to silver service. Have you been asked to consider fitting it out as a VIP?

Air Vice Marshal Rossiter—We have not been asked to consider fitting it out as a VIP.

Mr IAN MACFARLANE—But there has been speculation about that.

Air Vice Marshal Rossiter—I have seen the speculation in the press about it, yes.

Mr BRUCE SCOTT—We will have five for multipurpose tasks, with air-to-air refuelling, which will obviously slot into the JSF or the Super Hornets—that sort of capacity. And helicopters?

Air Vice Marshal Rossiter—It does not do helicopters.

Mr BRUCE SCOTT—Okay. You could transport troops across Australia or to deployments overseas. Is that the idea?

Air Vice Marshal Harvey—It is not so much a matter of refuelling aircraft, but to deploy a squadron you obviously need the squadron personnel, the spares and the equipment as well. You need more than just the tanking aircraft for the deployed operation. So it covers both roles.

Mr BRUCE SCOTT—So you would not use the C17; sometimes you would use this?

Air Vice Marshal Harvey—Perhaps. It just gives you the option to do that.

Mr IAN MACFARLANE—Would you bring troops back from Iraq like we do now with charter planes?

Air Vice Marshal Rossiter—You could.

Mr IAN MACFARLANE—So it could be deployed for that purpose—an international deployment of troops?

Air Vice Marshal Rossiter—Yes, you could.

Mr BRUCE SCOTT—You were with us when we went over there, weren't you, Chair? Who was with this? We went on a Russian Aleutian C17, I think. You could put a Land Rover and spares in the back?

Mr BALDWIN—I actually have some serious questions.

Mr BRUCE SCOTT—This is serious. I want to know more about the steak knives.

Air Vice Marshal Rossiter—I have a nice little brochure here that has all about the steak knives in it. I am quite happy to pass that on if you are interested.

CHAIR—Please don't encourage them!

Mr BRUCE SCOTT—In other words, these are not a VIP thing; these are for the Air Force, so they will not be part of the VIP fleet?

Air Vice Marshal Rossiter—Correct.

Mr BRUCE SCOTT—Thank you very much.

Mr BALDWIN—I would like to go to the Super Hornet. Much was made around the time of the election of the capability of the Super Hornet. In fact, commentators suggested that perhaps we should have looked at the Sukhois as a platform. One of the attacks on the Super Hornet was its radar ability and warfare systems. Are you across the details in relation to those systems?

Dr Gumley—They are questions for Chief of Air Force, I think. They are capability questions, and I understand he will be here later in the morning.

Mr BALDWIN—I will save those for then. I want to go, then, to the Air Warfare Destroyer. Questions have already been asked about the fourth. One thing that concerns me, and it was a problem if you look back to the FFG upgrade, is trying to retrofit new systems into old platforms. We saw that with the Seasprite helicopter as well. I understand the Air Warfare Destroyer is being fitted to be able to take one helicopter. If you deploy that Air Warfare Destroyer to an area, let's say the Southern Ocean on a rescue, rather than a military mission, and it uses its helicopter to conduct the search and pick-up, what do you then have available to provide a backup system to that helicopter drop? Why wasn't the Air Warfare Destroyer

designed to take its own system of two helicopters, therefore enabling it to go on a single deployment rather than having to take a second platform with it to provide backup and support?

Dr Gumley—It is really a question for Navy and capability.

Mr BALDWIN—But you are the guy that buys the platforms.

Dr Gumley—Yes.

Mr Gillis—But we do not specify them. One of the choices we had to make was whether we actually purchased an existing Air Warfare Destroyer or an evolved Air Warfare Destroyer. A 2½-year analysis was made about the risks associated with buying a variance of the two. The existing Air Warfare Destroyer that we are purchasing is the F100 Navantia design, which has one helicopter. One of the things that we have learnt from the past is that trying to change existing designs to meet our specific requirements actually adds risk. The Spanish Armada operates its warfare destroyers with a single helicopter, and so do a number of others.

Mr BALDWIN—But in how big a convoy?

Mr Gillis—The operations of the Armada are very similar to that of the Australian Navy, but these are questions that you need to ask the Navy because they are about specific capability. The answer we can give you is from a risk perspective. The advice that we provided to government was that an existing design was a much lower risk proposal than an evolved design and you would receive it more quickly and at a lower cost, so there was a trade-off to be made.

Mr BALDWIN—It would concern me if, a decade down the track, we all of a sudden decide that these things should be able to be deployed on their own to conduct operations. But you would have restricted the ability of those operations to deploy a helicopter, should it drop, because you have no backup systems to pick up people that were in the previous helicopter.

Mr Gillis—This exact issue was debated at length through the whole of the defence capability cycle, through the defence committee and through to cabinet. The decision was made based on good, reliable information and advice from Navy.

Mr BALDWIN—So, what you are saying to me is that, in order for it to conduct an operation, it must deploy in pairs?

Mr Gillis—These are questions that you need to talk to a specialist naval aviator, a principal warfare officer, or a naval officer about.

Mr BALDWIN—Okay.

Mr Gillis—We are in the acquisition business.

Mr BALDWIN—All right. In the M113 armoured vehicle upgrade, what is the response from the people out in the field that have been operating the upgraded systems? Have there been any shortcomings, have they demanded more, fewer or further changes?

Mr Gillis—I am not aware of any specific comments. I would have to seek advice from our head of land systems division and feedback from Army. We only have, I think, 14 vehicles in service at this stage. Basically, they are testing and evaluating them. I have not heard any specific details or feedback with respect to the utility or their experience of the vehicles.

Mr BALDWIN—I will save the actual performance stuff for CDF when he comes in, but on a cost-benefit ratio the Hawk Lead-in Fighter was let on a new type of contract. It was let on the basis of performance that, as I understand it—correct me if I am wrong; occasionally I am—it would provide so many flying hours capability. Is that correct?

Air Vice Marshal Rossiter—I actually do not understand the question. Perhaps if I—

Mr BALDWIN—In the contract for the Hawk lead-in fighter we did not designate how many planes were required; we said, 'We need this performance.'

Air Vice Marshal Rossiter—That is correct.

Mr BALDWIN—We need that performance, but in the back analysis now the cost of operating per hour in the UK is roughly half of that of operating it for the RAAF.

Air Vice Marshal Rossiter—That is not correct—

Mr BALDWIN—Why isn't it correct?

Air Vice Marshal Rossiter—but if you change the country, you would be a lot closer. We have done some benchmarking recently in terms of our cost of operating that platform the way we operate that platform against others who use a similar, but not the same, platform. For example, we have done some benchmarking against both the RAF and the Canadians, who both operate a version of lead-in fighter but a less sophisticated version than ours, and the biggest difference between the two was with Canada, not the UK.

Mr IAN MACFARLANE—What was the difference?

Air Vice Marshal Rossiter—It was in that order of magnitude.

Mr BALDWIN—And why would that be the case?

Air Vice Marshal Rossiter—Because they fundamentally operate the platform very differently from the way we operate the platform.

Mr BALDWIN—In which way? We are not aviators, so could you explain how they operate it differently?

Air Vice Marshal Rossiter—They run a training syllabus that is slightly different, that does not involve as many role configuration changes. They are operating from two sites, but those two sites are much closer together, not east coast-west coast operations.

Mr BALDWIN—Correct me if I am wrong, but our planes do not move from east to west. You have your east based unit and you have your west based unit. They do not fly aircraft from one to the other.

Air Vice Marshal Rossiter—Not on a regular basis, but we do rotate aircraft from one side to the other to keep aircraft staggers, maintenance staggers, and maintenance plans in alignment, so we do do that. The difference is more that because they are close enough their two sites can almost be treated as one pool, so for a lot of the activities it is as though you are conducting maintenance and operations out of one site even though they are geographically separated. For us it is very different. We are definitely operating at two discrete sites and so you have certain overheads that are attracted as a result of that, for example.

Mr IAN MACFARLANE—Why does that affect flying hours?

Air Vice Marshal Rossiter—It does not affect flying hours, it affects the cost of flying hours. The other factors we are finding are that they have a totally contracted out arrangement where even the operational level maintenance is conducted by industry, whereas at the moment we have operational maintenance conducted by the Air Force and the deeper maintenance program is conducted by industry. So there are differences in the way we operate, there are differences in the way we maintain and support it, and we have differences in configuration of the aircraft. Does that mean that we do not believe, as a result of that benchmarking activity, that we shouldn't look at how we can reduce the cost of ownership? No, it does not. Does it mean that we expect to get down to the same sort of order of magnitude difference? I do not expect to get that far, but do expect to take some cost of ownership out of it.

Mr BALDWIN—The Hawk lead-in fighter only has a training capability. It does not have a combat capability. Is that correct?

Air Vice Marshal Rossiter—I guess it has a latent combat capability: it has a gun, it can drop bombs. Would we ever use it in that capacity? It is extremely unlikely. It does fleet support in its other role, in addition to training.

Mr BALDWIN—Given that it is not a high level tactical fighter with all of the fancy arrays and bits of gear in there, why wouldn't you have looked at a contract arrangement of perhaps power by the hour where you know the set cost per hour of flying? The mining industry seems to have gone to this with great adaptation; they just buy hours of service.

Air Vice Marshal Rossiter—When we put that contract in place, which was about seven or eight years ago now, that contract was based on not going out to industry and saying, 'We want 33 aircraft and this number of the simulators and all the rest of it.' Instead, we went out and expressed our requirements in terms of outcome and let industry come back and say, 'Based on what we can provide you and the serviceability rates that we've got and the maintenance cost, we recommend it's 33 aircraft.' We ran a very good competition back then to do that. That contract was probably the leading innovative contract in defence industry internationally at that point in time. It has subsequently been picked up by other major operators internationally as their form of contracting. Would we today even go to the extent of trying to go one step further? I think we would potentially, based on the experience that we have had, and 5428, which is the replacement for the aircraft that leads up to the lead-in fighter, the PC9 aircraft , is an even more

outcome expressed expression of the contracted requirement. So again, we are taking that next step.

Mr BALDWIN—So you are moving to a power by the hour arrangement so that you know your set costs per hour of flying?

Air Vice Marshal Rossiter—I am not quite sure yet whether that is the way it will ultimately end up, but the whole aviation industry in defence internationally is moving in the same direction. We are trying to move more and more up the spectrum of expressing the contracted requirements in outcome terms under a long-term performance based contract where the contractor is exposed to a commercial downside if they fail to meet the performance levels under the contract. So it is not about buying a set number of aircraft in the future; it is about expressing how many pilots we need to generate out of that system, at what quality and at what rate of throughput, and they then provide the system to generate that outcome.

Mr IAN MACFARLANE—I may have misunderstood you, but did you say the Canadian planes are fully maintained by contractors?

Air Vice Marshal Rossiter—Correct.

Mr IAN MACFARLANE—And we do not do that. What is the difference in efficiency between the air force maintenance component and having it done by contractors in Canada? Have you ever done that comparison?

Air Vice Marshal Rossiter—That is a factor to be taken into account because military people go and do military things and that has an impact on productivity. That is one of the explanations for the difference.

Mr IAN MACFARLANE—I am interested in the actual figure. I understand why it is done, but I am interested in the cost of doing that as distinct from the efficiency or otherwise. I am interested in what using Air Force personnel to do that maintenance actually costs in comparison to using the contractors.

Air Vice Marshal Rossiter—In 18 months time I will be able to tell you that because that is exactly what we are testing.

Mr IAN MACFARLANE—Why does it take 18 months?

Air Vice Marshal Rossiter—If you want a tender-quality answer it will take 18 months.

Mr IAN MACFARLANE—I would be happy with an estimate after six months.

Ms SAFFIN—My question is more to do with acquisitions—the systems and the process. I am relatively new to this but, after listening to Mr Baldwin's questions, could you describe to me your systems approach to acquisition? You were saying that, for a lot of the technical stuff, you have to go to the technical people, and I get that. How do you actually evaluate the best buy or the best fit? Is your acquisition role one of being like a clearing house, where you are responding to requests, or do you have an overarching planning process?

Dr Gumley—We clearly have a plan. DMO has about 200 major projects running at any one time and at any one time we are looking at managing about $100 billion of business, so we have an acquisition organisation made up of about 2,000 people in acquisition and about 5,000 in sustainment. That involves tens of thousands of contracts every year. The overarching principle is value for money. So the customer, which is the capability group for acquisitions or the three services for sustainment, tell us what they want. They have to give us their needs and then we work out an acquisition strategy, case by case, on what is the best way of getting value for money for the Commonwealth. Sometimes you are in a sole source situation where you have to sit down and negotiate with an original equipment manufacturer because that is the only place you can go. Other times where there is a vibrant market you can have an open tender so as to get the best prices. The acquisition strategy is determined on a case-by-case basis depending on the nature of the supplies we have to deliver.

CHAIR—I want to go to one of the matters that was a hangover from the last session which is the GAO report on the JSF. Dr Gumley, you were good enough to provide a comprehensive reply to me and the committee. I have a couple of questions in relation to those issues. In terms of the $25 billion increase in the cost that the GAO report in the United States identified, is it not the case, irrespective of whether or not you do it in a base year or a then year, that those estimates did not include an additional $6.8 billion, roughly, for alternative engines?

Air Vice Marshal Harvey—That is correct. That is being considered as part of the ongoing system development demonstration phase and it is still being discussed by the US congress at the moment. The project office have said they do not believe the second engine represents good value for money. The US DOD have agreed with that, but congress over the last couple of years have come back and directed them to put the funding in for it.

CHAIR—So as we sit here today there is a statute requiring that in the US?

Air Vice Marshal Harvey—There is not a statute. It comes out each year and the congress will direct the US DOD to fund that amount or not, and we are still halfway through this year's congressional rounds.

CHAIR—The US congressional library think it is a statute.

Air Vice Marshal Harvey—Again, apologies if I have not got the correct terminology. But this year's funding has not come out yet; they are still working it through.

CHAIR—One of the matters I raised in our previous session was to do with what we are doing to satisfy ourselves about the issues of cost that have been raised. The reply in your submission is:

Prior to the GAO's recommendation for an independent cost estimate, the JSF Project Executive Officer had initiated an independent review of cost estimates in Jan 2008 ...

Who exactly is the JSF project executive officer?

Dr Gumley—That is the office of the acquisition organisation in the US.

CHAIR—Concerns were raised about the operation of the JSF project by the GAO report, which identified costs it thought the JSF project had underestimated. The review that we are relying on is termed independent, but I am not quite sure how it is independent. That is what I am trying to get to—the independence of it. I would have thought that the JSF office was not exactly independent of this; they were the actual people about whose work the concerns were raised.

Air Vice Marshal Harvey—To clarify, the JSF project office has commissioned the independent report. It is referred to as the joint estimation team and it provides representatives from the Cost Analysis Improvement Group, the US Navy and the US Air Force, so it is not part of the JSF project office as such.

CHAIR—So that I am absolutely clear, who exactly is this independent review being conducted by?

Air Vice Marshal Harvey—The Cost Analysis Improvement Group, who work for US DOD; the US Air Force; and the US Navy.

CHAIR—I am not sure whether it was in the GAO report or elsewhere, but the other thing was that three DOD agencies themselves had said that the JSF office estimates were too low.

Dr Gumley—There are four broad groups who estimate the JSF costs. The manufacturer, Lockheed Martin, tend to report the lowest costs; they are quite optimistic. The joint program office tend to add contingency for risk, and they are a bit higher. The CAIG, the group that we just mentioned, is next, and then the Government Accountability Office tends to have the most pessimistic view. When we do our estimating in Australia, what we have tended to do is to take a price somewhere in the middle of all that. In the arc of optimism to pessimism we take a middle position in most of the work we do.

CHAIR—Do we have any capacity to make our own independent judgements on the various source data items, or are we in the position of looking at the different estimates that you just described and then hoping that somewhere around the middle is about where it is at?

Dr Gumley—I think the latter is the accurate approach. We look at all the estimates. We are aware, as you would be, that the JSF is a very political program. There are very strong views held either way on the program and we are taking a middle position at this stage.

CHAIR—Your submission also says:

... acquisition costs typically represent only about one-third of project through-life costs.

Going back to our earlier discussion, I understand that acquisition costs are the figure we spoke about earlier in that $11 billion to $15 billion bracket—$130 million, let's say, per aircraft, assuming there are a hundred in the mix. If that is the acquisition cost, I take it from your advice that the through-life cost is going to be about three times that.

Dr Gumley—No, two times that, because if the acquisition cost is one-third, the sustainable bit will be two-thirds.

CHAIR—Yes: two-thirds added to the one-third. So the total cost—that is, the total cost of acquisition and through life—will be three times $12 billion to $15 billion.

Dr Gumley—Yes. If we were sitting here 35 to 40 years from now and we were able to look backwards at what the JSF cost, probably in today's dollars it would be of the order of $40 billion whole-of-life. That would include midlife upgrades and all sorts of things we are not aware of yet. But certainly our experience of running aircraft is that they are the sorts of numbers you look at.

Air Vice Marshal Harvey—Obviously that is very sensitive to the life of the platform. We work on a 30-year life.

Dr Gumley—The obvious question is: why is the Super Hornet not running the same ratio? The answer is that we are only going to run them for 10 years on current planning.

Mr BALDWIN—I would like to talk about the radar warning receiver. There was a change from the ALR2002 to the Raytheon receiver. Can you describe why the BAE system was not able to provide the capability as requested? I know this was asked at Senate estimates, but was there an initial recommendation for the Raytheon system over the top of the BAE system? If so, who made the decision to go ahead with the BAE system ahead of the Raytheon system?

Mr Clarke—To answer this question I am pulling my past together. I have spent some 40 years in the Air Force, most of it as a fast-jet pilot. For the last year three years of my Air Force career I was the head of capability systems at the time this decision was being made. I am a fighter combat instructor and a fast-jet guy who knows a bit about the operational end of this. I would not suggest that I am an engineer in that sense at all, but I do have some appeal to authority. In the absence of an Air Force representative, I am going to try and go where you are going.

Firstly, let me explain how important the RWR system is inside a fighter cockpit. You have one guy and an extraordinarily complex and fast-moving piece of kit. The opponents will typically use a number of deceptive measures to try and kill him. It is as simple as that. That will include using radar emissions and radar guided weapons against him. The RWR does two things for the pilot. It provides him with an aural and a visual picture of the electronic environment—what frequency radars are out there—and using a modern system they will actually identify them as applying to a certain weapons system. So that gives him a picture of the electronic environment and the likely people and likely threats that he will face. The smart pilot will avoid the envelope where he can be killed by those threats. So it is a sensor which allows you detect and avoid. That is the first role. That is typically done in a relatively low-manoeuvring environment.

The radar warning receiver also acts as an in extremis assistance to defeating a weapon that is launched against you. It is that latter role which is extraordinarily demanding for both the system and the aircrew. The attacking system will typically use, in the modern environment, a pulse Doppler radar to determine you. The way to defeat pulse Doppler radars is to place yourself in an environment where you are tracking neither towards nor away from the radar source. For example, with the chair's indulgence, I will use you as a radar. Say I am in a cockpit. To avoid being detected by you, I should run precisely at right angles to you. Obviously radar designers

try to make that vulnerability as small as practicable, so the degree of movement out of that tangent is extremely important. It is very, very important. I am talking in unclassified terms about less than a degree. Once I am in that Doppler notch, your radar can no longer detect me—or, if it can detect me intermittently, it cannot launch a weapon against me. So it is extremely important to me to be able to survive in that precise environment.

Let us now take you and me, static on the ground in two dimensions, into a three-dimensional, highly dynamic environment. You are manoeuvring at 4G and I am manoeuvring at 5G, 6G or 7G. To be able to sustain that angle requires lot of effort on both our parts, but, for the system on board, the radar warning receiver detects the angle of arrival by using sensors on various parts of the aeroplane—on the wing tips, on the radar fit, on the fins and on the nose. That is fine if we are running straight and level. The angle of arrival becomes really quite easy to calculate. But, if you now have an aeroplane that rolls at better than 200 degrees a second, you start to get a sense of the complexity of the three-dimensional problem that you are facing. The ALR2002 system failed in the ultimate end by its inability to precisely define that beam angle position. It may well have got there in due course, but it was not going to be able to do it in the time frame available. That is why that program was unsuccessful.

Mr BALDWIN—And the Raytheon system does that for you?

Mr Clarke—The Raytheon system does that. It has done and has been proven to do that. So that is the reason why we did not stick with the ALR2002 for the fast-jet platforms. You take that into a slower performing platform, a C130 or a helicopter, where the dynamics are not as difficult, and then the computing capability is perhaps sufficient to be able to produce the outcome. That is why we went on with that part of the story and did not go down the fast-jet story.

Mr BALDWIN—Going back to the question that was asked at the Senate estimates, was there an original recommendation for the Raytheon system over the top of the BAE system?

Mr Clarke—I will let Clive run part of that. I do have a memory of the circumstance, but it is dated by three or four years.

Air Vice Marshal Rossiter—When we were considering what the solution was for this capability need, there were two contenders. There was the 2002B, which was a developmental product by BAE, or there was existing military off-the-shelf equipment, the 67 V3, which was in service with the US Navy. They were our two choices. There were not any other choices. We spent a lot of time considering the option set. At the time the decision was being made, it went to the equivalent, I guess, of a tender evaluation board, although there were not tenders in this case; they were desktop analyses of available data. The consideration was made at the time, at the board level, that effectively what you had competing was an Australian, indigenous-developed product, the 2002B, which offered a lot of potential but had a lot of development risk with it, versus—

Mr BALDWIN—That seems to be the typical Australian story.

Air Vice Marshal Rossiter—That is the nature of high-end technology. It attracts risk. That had potential, but it was still in development, versus an off-the-shelf solution. The things that we

were trying to balance at the time were that, if we could have found a solution on the 2002B front that met our industry desires and at an acceptable risk, the preference was to go to the 2002B over the military off-the-shelf. Those sorts of decisions went to a tender evaluation board equivalent. They were considered at that point in time. At about the same time as the board was considering that, the 2000 white paper came up, and that part of the HUG program got slipped several years in the DCP. So the board at that time was considering the risk, and it was largely driven around whether BAE could solve the technical risks in the time that we needed to start modifying aircraft to keep the HUG program on schedule. That was the central issue there. At the time that that decision was being considered at the board level—not by government; at the board level, internal DMO, if you like—the white paper moved that part of the HUG program several years, and it created a schedule opportunity that enabled us to consider taking on the development risk of the 2002B. The recommendation coming out of that board at the time was, therefore, to go with the indigenous-developed product because it had the potential to get there and it offered the Australian industry benefits as well.

Mr BALDWIN—You have kept going with the development, because you are using it in the slower platforms? That is what I am informed is correct.

Air Vice Marshal Rossiter—That is not my program. Somebody else could talk about that.

Mr BALDWIN—I understand you are still putting them into helicopters and slower aircraft. Is that correct?

Dr Gumley—Yes, we are fitting out the Black Hawks, for example, with the wiring needed, and we are producing the black boxes, if you like. If we need to go to an operational theatre where the threats are, we will put the black boxes into the aircraft et cetera.

Mr BALDWIN—What is the cost difference between the BAE system, on a unit basis, and the Raytheon system?

Air Vice Marshal Rossiter—I cannot recall that.

Mr BALDWIN—A ballpark figure is fine.

Air Vice Marshal Rossiter—No, I honestly cannot recall. What I can recall is that, if you took a life-cycle cost view of it, there was a difference between the acquisition costs such that the 67 V3 was more expensive than the potential final cost of the 2002B, but the support costs were considered to be the reverse. I cannot remember the details of what that ended up being in the total life-cycle cost picture. You are going back several years now.

Mr BALDWIN—So you had an off-the-shelf that could do the job, which, from what you are saying, in swings and roundabouts was fairly comparable—and you have ended up taking that system anyhow—

Air Vice Marshal Rossiter—Yes.

Mr BALDWIN—as against sitting there, putting risk, delays, trying to develop a program or a piece of equipment which has not been able to do the job, and then you have had to revert back

to that original contract. The question is, then: why wouldn't you, for commonality, have used the 67 V3 across all of the platforms?

Mr Clarke—But the commonality argument cut both ways. The intention was to try and get a common RWR platform across all our aviation fleet—

Mr BALDWIN—That is what I am saying.

Mr Clarke—and that is what we were trying to do. The V3 only operates in the fast jet aeroplanes; it does not live in any of the light aircraft or helicopter fleets.

Mr BALDWIN—So there is no derivative of it that runs in slower vehicles?

Mr Clarke—No, there is not. It is just a fast jet platform.

CHAIR—Just on the same point, because I have also read the Senate transcript and the answer that was given there and I just want to get clear what happened: was the recommendation of the working group that actually did the evaluation agreed to by the capability development committee?

Mr Clarke—I cannot recall exactly whether the DCC agreed with the working group's evaluation—

CHAIR—Can you take that on notice.

Mr Clarke—but I can recall that Dr Gumley, General Hurley and I think CDS at the time, with the Chief of Air Force, sat as a separate board to consider this extraordinarily important decision.

Dr Gumley—Are we talking about 2006 there, Chair?

CHAIR—We may not be.

Dr Gumley—Are you talking about the 2006 decision or the 2000 decision—or the late nineties decision?

Mr BALDWIN—The original decision back in 2000.

CHAIR—It would be the original decision, yes—correct.

Mr Clarke—I am sorry; I do not have the knowledge.

Dr Gumley—We do not have knowledge of that. It is a long time ago.

Mr Clarke—We cannot answer that question.

Air Vice Marshal Rossiter—It may not have even got that far, because, as I said, the white paper moved the timing at that stage. It moved the whole project several years.

Dr Gumley—But I can confirm that the decision to switch in 2006 was made by a three-star steering group on advice from each of our respective teams.

CHAIR—I am in fact referring to the earlier decision and the original evaluation that resulted in the decision to opt for—

Mr Clarke—I can say, Chair, that it was not non-controversial.

CHAIR—Sorry, let us do that again. Was that a double negative?

Mr BALDWIN—It was.

Mr Clarke—It was controversial. As a fighter guy at that time, I had used the V2 system a lot. People had a lot of confidence in it, and they knew US Navy guys, including people we had on exchange, who had flown the V3, so they had very great confidence in the ability of that to do work for them. They would not necessarily have had the same confidence in the 2002 system, regardless of its potential.

CHAIR—I imagine that somewhere buried in your records will be the answer to my question. Given that it has obviously been a matter of interest and, indeed, some acknowledged controversy, let us just try and tie it off as a part of this process. If you can answer for us the question that I posed—take it on notice—we can cross one thing off our list, which will make both of us happy.

Air Vice Marshal Rossiter—Just to understand the question: did the 2002B decision go to the defence capability board? Was that it?

CHAIR—No. My understanding is that a recommendation from the actual people doing the study went to the capability development committee. I think that term 'capability development committee' is correct, but I am sure you understand the nuance of the question, so I do not think we need to have any pedantic worry about the words of it.

Air Vice Marshal Rossiter—It certainly did not go past that into government.

CHAIR—I had just noticed that the answer that was given to the Senate was that there was no recommendation to the government to acquire a certain option. I have got no reason to doubt that. My question is not as to what recommendation was made to government but as to the internal assessment by the group involved and whether or not that was adopted or altered by the subsequent reviewing committee, which I understand to be the capability development group or the capability development committee. Is that clear enough?

Dr Gumley—Yes. We will get an answer to you, Chair, as soon as we can.

CHAIR—Good; thank you.

Mr IAN MACFARLANE—I want to ask Dr Gumley this. Based on the experience that we have had with the Bushmaster, with the ASLAV and with the refurbishment of the M113s, what sort of cost do you think would be involved in developing an export industry around light and heavy armoured vehicles? This is a question on notice. I ask it because of Australia's competence in that area and also because obviously we are seeing a situation where the automotive industry is under a lot of pressure and there are skills in that industry that could be transferred into another industry, which may give us another capacity. To save you a lot of work, is that a feasible option or do you see other countries as being too—what is the word; 'selfish' is not the word but it is in that vein—about their acquisitions of that sort of kit?

Dr Gumley—As to the question on notice, yes, we could go and have a look at what it would cost to set up an industry.

Mr IAN MACFARLANE—You have got to remember that we give the car industry a billion dollars a year.

Dr Gumley—This is pure speculation at this stage, but I think you are talking that sort of number here. It is not something that you would do cheaply.

Mr IAN MACFARLANE—What are the potential earnings? I guess that is the question.

Dr Gumley—Those are going to depend very much on our coming up with the very best piece of capability, and then countries will want to buy it. If we come up with something that is me-too then they will not.

Mr IAN MACFARLANE—That is the nub of the question.

Dr Gumley—The nub of the question is getting the capability edge whereby people really want your product.

Mr IAN MACFARLANE—Do you think we can do it?

Mr Gillis—It is about having the continuity so that you can maintain that particular industry in the long term. We are actively working with the defence export unit to export the Bushmasters. We are doing everything we possibly can to do—

Mr IAN MACFARLANE—You would sell half a dozen or something.

Mr Gillis—That is the part of that market. It is difficult to crack the international export market for these types of vehicles. Bushmasters are very capable vehicles, and we are trying to support Thales as to their export opportunities as much as we possibly can. But, as you have said, we have only been marketing and selling them in small numbers.

Mr BRUCE SCOTT—Where are they going to now?

Dr Gumley—The Dutch and the British have bought them.

Mr BRUCE SCOTT—I see the Spanish were a bit interested.

Dr Gumley—The Spanish are looking at them.

Mr BALDWIN—Let us move to another land based project, 'Project Land 121 (Overlander)'. I suppose that fits into the period of the annual report because the specifications were being determined at the time. Recently the minister has said that the contracts were rushed and now they have to cancel $1.6 billion in contracts. It is my understanding that only the heavy vehicles are the issue, but I would like you to clarify that because there has not actually been much detail in the media. Is the issue that the specifications have been changed since the time of going out to contract or is it the contractor's inability to deliver on the specifications for which the tender was originally put out?

Dr Gumley—Both.

Mr BALDWIN—In that case, what specifications were changed that caused the contractor not to be able to continue with contract negotiations?

Dr Gumley—It was a very complicated process. These trucks are hardened for military conditions. We were looking for a military off-the-shelf solution. At around about the end of 2006, after the specifications had first been put to the market, we were getting operational experiences indicating that we needed to increase the hardening and the protection of the vehicles. The Chief of Army put up a very cogent argument that that should happen, to protect our troops. We then looked at the documentation supplied in the tender package to see what could be achieved. We did a paper based selection. In hindsight, the mistake we made—and I admit that we made a mistake—was that we should have done a full test and evaluation before we announced an award winner. If we had our time again, we would do that. In fact, as we test the market again this second time around, we will certainly be doing that. The contractor who was selected for offer definition made a series of compliance statements. When we tested them, some of those were not correct. Gradually there was—

Mr BALDWIN—Who was that contractor?

Dr Gumley—Stewart and Stevenson, who is now owned by BAE. We invited them to attempt to correct their offer and their cost and schedule issues came in. Finally, there was enough uncertainty about it that, if we were going to allow one tenderer to effectively do a bid repair type exercise, probity determined that we should retest the market, as a matter of fairness to the others.

Mr BALDWIN—I have no issue at all when specifications are changed to protect the lives of our people who operate the machinery. You said that you were first aware there were issues in 2006, when there was a requirement for increased ballistic protection; is that correct?

Dr Gumley—Yes.

Mr BALDWIN—Given that, why was it that the tender process was allowed to keep going to successful tender announcement in 2007? Why wasn't it halted back in 2006 for a reappraisal of the specification and tender process?

Dr Gumley—We thought we had enough coverage in the documentation that had come through from the various tenderers. As it turned out, we got that wrong.

Mr BALDWIN—As I say, I have no problem at all with increasing the development to save the lives of our troops, but in relation to the light and the medium, the trailers and trucks, that will be proceeding?

Dr Gumley—I expect to sign a contract between Daimler Chrysler and DMO in October for the lightweights. We have only signed a few very small development contracts with Haulmark so far. We have signed a couple of contracts and hired draftsmen and engineers to do the documentation and so on. We will look for the bigger contracts later.

Mr BALDWIN—When I think back to Bushmaster what concerns me is that the military spends the time developing a set of specifications. People are engaged, at a huge cost, to tender to those specifications. Once they are then the preferred tenderer, the specifications keep evolving, at more cost, without the opportunity to recoup those costs by the tenderer.

Dr Gumley—I am not quite sure where that question is going. If it is going to the cost of retendering—

Mr BALDWIN—What I am saying to you is that because there is no certainty, because you have not exhausted fully exactly what you want, whether it was in the Bushmaster or indeed in projects now, people spend money preparing a tender for consideration on that specification that was issued. Then the ball game changes after they have been announced as a preferred tenderer and then you go to contract. In the case of BAE and the company that it has acquired, it spent the time, effort and money submitting a tender to the specification you had out there at that stage, it had been successful at that stage and then the specification changed. What compensation are you paying to industries that spend money and time developing tenders only to have those specifications changed so that they cannot compete?

Dr Gumley—For Defence contracting as a whole we do not pay tenderers' costs—this has been well established over a long time. However, in this particular circumstance, we are offering those who wish to retender some monetary assistance to help them with their tendering costs and, in particular, their test and evaluation costs.

Mr BALDWIN—In what scope of dollars?

Dr Gumley—I think across the whole project we might be talking about $20 million, but that is only a very rough estimate at this stage.

Mr BALDWIN—I can understand industry being reluctant to engage in tendering for defence projects when they spend their time, effort and money getting a tender together and submitting that tender, only to find that—after the tenders have closed and been evaluated and the successful tenderer has been anointed and contract negotiations have started—the specifications have changed again and they cannot comply.

Dr Gumley—Your observation is valid. I am not disagreeing with you. In this case, because—

Mr BALDWIN—So why should industry keep rushing up to support or pursue contracts when it is costing them money?

Dr Gumley—I have already said, in this particular case, because of the errors that have happened, we will be contributing to the retenderers costs.

Mr IAN MACFARLANE—There is no recompense for those companies who thought they would be able to fill this tender and have since dropped out, unable to retender.

Dr Gumley—There is no recompense, but they can retender. The five who went—

Mr IAN MACFARLANE—They cannot if they do not have the capability.

Dr Gumley—If they do not have the capability then they cannot retender.

Mr IAN MACFARLANE—Mr Baldwin's point is this: companies look at the tender and say, 'Yes; we can do that.' They prepare the tender, which costs them quite a significant sum of money. They have prepared a tender for a contract which is then changed, so the net position is that they were asked to prepare a tender for something they could never deliver on. You are going to compensate those people who reapply for that changed tender but, for the people who spent that money for an end result of never being in the hunt, there is no compensation at all.

Dr Gumley—No, and it is a commercial risk they take.

Mr IAN MACFARLANE—No, it is not a commercial risk they take, because—

Mr BALDWIN—It is not a commercial risk when they have been the preferred tenderer. They have met the performance requirements and you are into contract negotiations and then, all of a sudden, you change the specification and they cannot compete. They were able to compete on the original specifications, they are the preferred tenderer, you are in contract negotiations and then you move the goalposts.

Dr Gumley—Are we talking about BAE here or are we talking about the others?

Mr BALDWIN—BAE. You said the other contracts are going ahead.

Dr Gumley—No, only the lightweight are going ahead. We are talking about the medium and heavyweight trucks. I answered your initial line of questioning here with the word 'both'. We changed our specifications, but BAE's offer did not meet what they wrote down in their specifications either.

Mr BALDWIN—I accept that, then.

Mr IAN MACFARLANE—I am not citing BAE. I am citing those people who may have applied for the original tender but are unable to fulfil the increased requirements of the new tender.

CHAIR—The dilemma there, to pose the question in a slightly different format, is that they tendered and incurred costs for a product that we now have no intention of acquiring.

Mr IAN MACFARLANE—That is exactly it.

Dr Gumley—It is an interesting question. We end up paying all the costs of most of the defence industry companies anyway through G&A loading to their contracts. Either you could have a mechanism where the companies incur their own marketing costs and they get it back through their G&A loadings on their successful contracts or you could go down the path of paying for each tendering opportunity. The normal situation in Australia is that companies incur their own marketing costs.

Mr BALDWIN—Much has been made in the media lately that perhaps there should be a further separation between DMO and Defence. Do you believe you should become a separate department of supply under a separate minister?

Dr Gumley—I certainly do not believe in a department of supply. That model did not work in the 1970s. I think DMO—this is my view—but of course there is David Mortimer, and it is up to the government, not to me—

Mr BALDWIN—But you are the bloke who has to administer it.

Dr Gumley—What I think is important is that the customer—the military and Defence—clearly has the obligation of writing down what they want to buy. We then go and acquire it. That discipline is extremely important.

CHAIR—With that, there are obviously a range of things that we have given notice of and wanted to go through, but time has not allowed us to do so.

Air Vice Marshal Rossiter—I think I can respond to the question you provided to me on notice if that is appropriate.

CHAIR—By all means.

Air Vice Marshal Rossiter—It should be reasonably quick. Because the question was actually raised in advance of the hearing, I have had a chance to check with my colleagues whether they had tracked that line of inquiry down, and they had. We have had an opportunity to look through the files and, as far as we can ascertain, the decision back in the earlier context that you were talking about did not go to a committee at that level, even though the names may have been slightly changed.

CHAIR—So who did make the decision?

Air Vice Marshal Rossiter—At that stage, what happened was that it effectively stopped at the tender evaluation board point because the white paper moved the whole project several years and there was no question to put the committee. The question got put back to the committee in circa 2005 and, at that stage, the 2002B was the item that went up to the committee and

ultimately to government. That is how we started on the 2002B path, only to find that the risk was not being retired, and we changed the solution to the 67(V)3 in late 2006, early 2007.

CHAIR—I think I comprehend the answer, and I appreciate the reply being provided now. As I hope you are aware, most of the topics that I am raising are contained in a letter I wrote to CDF in June so that we might be able to facilitate the sort of exchange that we have just been able to have. I appreciate that. I will have a think about it. We are well over time. There are a number of matters, unfortunately, that we had given notice that we wanted to talk about but have not been able to conclude here today. We will have to come back to those. Dr Gumley and the other officers from DMO, I appreciate your presence and advice and support for the committee. Obviously it is an area of great interest to the parliament. One of the burdens you have is that you are responsible for a very large bucket of money. It is a policy-rich, issues-rich environment, shall we say, for the committee. We look forward to getting you back at a mutually appropriate time. We will be in touch to organise that.

Proceedings suspended from 11.07 am to 11.21 am

DEEBLE, Air Vice Marshal Christopher, Program Manager, Airborne Early Warning and Control, Defence Materiel Organisation

GUMLEY, Dr Stephen John, Chief Executive Officer, Defence Materiel Organisation

BINSKIN, Air Marshal Mark, Chief of Air Force, Department of Defence

HARVEY, Air Vice Marshal John, Program Manager, New Air Combat Capability, Department of Defence

HOUSTON, Air Chief Marshal Angus, Chief of Defence Force, Department of Defence

CHAIR—I welcome to the table the Chief of the Defence Force. It is always a pleasure to have you with the Defence Subcommittee. The subcommittee does not require you to give your evidence on oath, but I do advise you that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the respective houses. Are there any opening comments that you wish to make? No opening comments.

Flowing on from the air theme that we have been discussing in the previous section, the current planning seems to be predicated on a view that one platform is the desired solution for us as a nation for both air superiority and air-to-ground capabilities. In the past, at least, that has always involved a trade-off of capabilities, notwithstanding advances in technology. Aren't we still in the same dilemma?

Air Chief Marshal Houston—I will start, and then I will hand over to the Chief of Air Force, who can get into a little bit more detail on this. Fundamentally, when the new government came to power they probably had a concern along the lines of your question. As a consequence of that, a full-scale air combat capability review was conducted. As you know, the review was guided by a steering group of not just people from Defence but also senior officials from Prime Minister and Cabinet, Finance and Treasury. Essentially, the review was led by Mr Neil Orme, who is First Assistant Secretary, Policy Development Division, in Defence. That went through all of these issues, looked at Australia's air combat capability requirements through to 2015 and looked at the feasibility of retaining the F111 in service. They did a comparative analysis of aircraft available to fill any gap that might have been left by the withdrawal of the F111 and they also had a look at the status of plans to acquire the Super Hornet. That report has been delivered to government and will feed into the white paper process. Essentially, government has not made any formal decisions on that review at this time.

I suppose you are suggesting that our future is probably in the area of the Joint Strike Fighter. Of course, no formal decisions have been made to acquire the Joint Strike Fighter at this stage. Should the government decide to go the Joint Strike Fighter route, that would come out as a consequence of the white paper and the second pass review of air combat capability, which will be conducted, on the current schedule, in the middle of next year.

We really had a good look at all of the candidates. There are not a lot of options out there. One of the things that was decided by the previous government back in 2000—and it is in the 2000

white paper—was that if possible, to cut down on the cost of maintaining these incredibly expensive capabilities, the best way to proceed would probably be to have a hundred aircraft that could perform both roles: the role of control of the air—air superiority, if you like—and the role of strike, interdiction, close air support and so on. That is where the Joint Strike Fighter stands out. I am confident that that will develop into a front-line capability that will serve Australia's needs very well in the future but I would stress again that government has not made final decisions on that and will only do so probably in the middle of next year.

Air Marshal Binskin—I have had a close association over the years with air combat capability. I have been a fighter pilot myself. I have had a chance to look at the development of JSF, where we are going at the moment, and not only do I look at it as probably the best multirole platform coming down the track but I take a system view as well. Based on what I have seen working closely with the team and in my past experience in operating aircraft like this in a multirole environment, I consider the aircraft we are looking at at the moment, which is the JSF—and, again, we have not decided to pursue it—to be probably the best multirole air combat aircraft available to us. It will be equipped with the best sensors, the best EW system that is out there; it will be cued by what will be the best AWAC system; it will be supported by the best tanker available; and it will be manned and supported by the best men and women available around the world today. I do not think it is going to get any better than that as a package for this country.

CHAIR—Is there a danger with a multirole aircraft, though, that we lose our capacity for air dominance?

Air Chief Marshal Houston—No, I do not believe so. I think the important thing here—and I know I have mentioned this to you before—is to think in terms of systems: system against system, not platform against platform. If you are seduced into the platform versus platform debate, inevitably people have visions of the Battle of Britain in World War II, with one aircraft on another. In the information age, the age of low-visibility platforms, stealth platforms, those sorts of preconceptions are no longer applicable. What we are talking about is a system whereby the fighter pilot is better informed, through his sensors and his connection to a variety of sensors, than he has ever been before. His situational awareness is just unbelievable. He is in a platform that is largely invisible to radar, so his situational awareness is likely to be better than the other guy's and, using the system that is available to him—the whole system and the systems that are resident in the aircraft—he is able to see first, shoot first and kill first. I think that that is what this system that we are developing is all about.

The other side of it is that this platform is also very capable in the strike role, in the interdiction role and in the close air support role. As it matures it will be able to do anything that we need it to do. What we need is the ultimate insurance policy in air combat capability to look after Australia's interests. This is absolutely the sort of platform that we need to fit into the system that was just very elegantly described by the Chief of Air Force.

CHAIR—I certainly would not deny the importance of having a coherent, competent system that is superior to alternatives. I am perhaps a little greedy. I would like to think that all of the components that make up that system are also individually superior to what they may have to confront. Perhaps that is wishful thinking.

Mr BALDWIN—Can I start by congratulating Air Marshal Binskin on his appointment as Chief of Air Force. In relation to the AWAC and supporting that whole holistic platform approach, when do you expect them to come on line?

Air Chief Marshal Houston—I might pass that to the CEO of DMO. We have had some developmental issues with the AWAC. It is behind schedule and I will get the CEO to go into the detail of that.

Dr Gumley—The latest declared slippage is 38 months from the original schedule. Air Vice Marshal Deeble has recently been in the US and has the most recent information.

Air Vice Marshal Deeble—Boeing announced just recently that there would be a further delay to the program. They are estimating a full operational capability will be delivered in January 2010 and that a training capability would be delivered in June of 2009. We believe that there are still schedule risks associated with that, predominantly driven by technical risks associated with the radar and achieving specification in the radar. We are working closely with Boeing through those issues as we speak. We formed a number of working groups that are looking at those very issues and we will be able to assess that residual technical risk associated with the radar in the immediate future. We also believe that the test program has some other risks associated with it, predominantly that it is a very complex platform. The test and evaluation program aims to take over 12 months before we would look at getting to that training capability in the January 2010 time frame.

Initial operational capability is based on when we start training, and it is some 15 months evolution to achieve the number of crews trained and the level of capability subsequent to that. If we start training in the June 2009 time frame we would expect that initial operational capability to be established by the end of 2010.

Mr BALDWIN—In relation to that training, will that be an aircraft that is 100 per cent capable or will it be short delivered?

Air Vice Marshal Deeble—In the June of 2007 time frame, that aircraft will not have full capability with respect to electronic support measures and we are looking at some other aspects of the aircraft—electronic warfare self-protection—that would not preclude us from starting training. We have plans in place to be able to incrementally introduce that when that aircraft is delivered according to Boeing's current plans in the January 2010 time frame with full operational capability established.

Mr BALDWIN—So in 2010 you expect a fully operational aircraft to be able to be sent to any theatre of operation?

Air Vice Marshal Deeble—That is currently the Boeing plan—to deliver a fully operational capability in January 2010. You do not have the capability unless you have the crews trained. The initial operational capability would be at the end of the 2010 time frame, assuming that we start training in June of 2009. That assumes that the aircraft are delivered fully compliant in the January 2010 time frame and crews are then subsequently trained. That would allow us to undertake operational roles and operations of the aircraft.

Mr BALDWIN—How confident are you of the aircraft being fully compliant in that time frame?

Air Vice Marshal Deeble—I believe that there is technical risk associated with the radar, predominantly. The technical risk associated with the radar will bound other risks related to the electronic support measures, some of our communications, mission computing and data link aspects of that. We are working closely with Boeing in terms of looking at those issues and looking at the resolution path that we would need to take. With respect to the radar, I currently have a working group established which I get status on on a weekly basis. We are looking at the residual issues with the radar and the path forward at this point in time. I hope to be able to provide more definitive data on exactly where we are at the end of this third quarter and into the fourth quarter of this calendar year.

Mr BALDWIN—Out of interest—and I refer this also to the CDF or to Mr Gumley—did the specifications change at any time from when the contract was awarded to what we are expecting to be delivered now?

Air Vice Marshal Deeble—The specifications have not changed substantially. The only aspect that we have had is the increase in the aircraft numbers from four to six.

Mr BALDWIN—You spoke about a holistic platform, not an individual piece of equipment, as being the way to manage a situation. I go now to the retirement of the F111 and the Super Hornets that are coming online—in what year?

Air Chief Marshal Houston—The first ones will appear in 2010 and the—

Mr BALDWIN—Much was made at the time of the election about the capability of the Super Hornets. One of the submissions we have before us now suggests that perhaps we should have explored the option of the Sukhoi fighter. I was there at Senate estimates when you said—and correct me if I am wrong—that the Super Hornet is the best bit of kit currently available and that when it is fully worked up it will be equivalent to a generation 4.5 fighter. I understand there are classifications in the briefing that illustrate the true capability of the aircraft. A lot of the concern has been around the radar unit that is in the Super Hornet not being as good as what was available in the F22. My information is that they are the same radar unit.

Air Chief Marshal Houston—I think we are getting a very capable multirole aircraft. The AESA radar is of the same technology as that in the F22. It is also the same technology of the radar that will be in the Joint Strike Fighter. It is probably as good a radar as you could get in the world today. So, in terms of the capability that we are getting, I am very satisfied that it will do the job required by the government. It will de-risk our transition from where we are now to the time when we will make the transition, if government decides to go that way, to the Joint Strike Fighter. There is nothing in the region that can touch it. It is a very capable generation 4.5 aircraft, and I will ask the Chief of Air Force to elaborate if you so desire.

Mr BALDWIN—I accept 100 per cent what you say. You are the experts that fly the machines and understand the capability. You could perhaps understand that people who have not had access to that classified briefing do not understand the true capability of the machine. Given the statements of the then shadow minister for defence, now the Minister for Defence, about his

concerns over the capability, on what date after he was appointed as Minister for Defence did you provide the classified briefing on the capability?

Air Chief Marshal Houston—I think that he was briefed on a number of things over a long period of time. I could not give you that information. Dare I say, the day on which he was given a classified briefing I do not think is actually relevant. What is important is that he had the classified briefings, and—

Mr BALDWIN—Would you say that that classified briefing occurred before 18 February?

Air Chief Marshal Houston—I honestly cannot remember. When a new minister comes to the job, particularly in a complex department such as ours with a whole range of different capabilities, there is a lot to get on top of.

Mr BALDWIN—I accept that.

Air Chief Marshal Houston—Fundamentally, I cannot help you.

Mr BALDWIN—There would have been a period of about two months prior to Monday, 18 February, when the defence minister announced he was going to have the review into the suitability of the Super Hornet. One would assume that in a two-month period there would have been a briefing on the capability of the aircraft. If he had been briefed on the capability of the aircraft and the rationale behind the purchase, why would you waste people's time, money and effort in having a capability review to see whether that aircraft was in fact suitable?

Air Chief Marshal Houston—I do not want to get into the politics of it. That is not where I am—

Mr BALDWIN—I am not asking you to get into the politics of it.

Air Chief Marshal Houston—All I would say is that you could look at it as a due diligence process. It was a due diligence process, and I think it was a good way to bring the new government into all the considerations that apply in the air combat arena.

Mr BALDWIN—I understand that the report of the air capability review, including of the JSF platform, that you conducted at the same time has been completed. It must be because I read it in the newspaper.

Air Chief Marshal Houston—The air combat capability review was done in two parts. The first part was to look at the suitability of the Super Hornet. The second part was to look at the comparative analysis and a number of other issues. The results from the first part confirmed that the Super Hornet was a suitable aircraft to carry the Royal Australian Air Force through the period from 2010 to 2015 so that there would be no capability gap. In essence I think it has been a good process. The second part of the review, part B, has been fed into the white paper process and it has not been made public at this stage.

Mr BALDWIN—I understand what you are saying—perhaps not made public by you. I am not sure whether I read it in McPhedran's article or in Kerin's article that your review actually supported the path of acquiring the Joint Strike Fighter.

Air Chief Marshal Houston—I cannot give you the detail of what is in the second part of the air combat capability review. But if you have a look at everything that has been stated by the minister you will see that the Joint Strike Fighter is still very much in play. Essentially, whilst no final decisions have been made I would anticipate that, through the white paper process and the second pass process that we go through next year, the government will look very closely at the utility of the JSF as the aircraft for Australia's future.

Mr BALDWIN—I have no doubt that it would not have been you or your department providing that information to a journalist. It just surprises me that, for something that is held in a classified sense, it would be read in the newspaper before the parliament learnt about it in a statement.

CHAIR—That does not normally happen—much!

Mr IAN MACFARLANE—On far more mundane matters, I am not sure whether to address Air Chief Marshal Houston or Dr Gumley, but I would just like an update on where we are at in terms of industry participation in the JSF and also what you can publicly forecast. It is a hypothetical, so I do not want you to get on thin ice. If we were to take the contract, what might we get in terms of industry participation? I guess the flip side of that is: what if we do not take the contract, bearing in mind that we are still making some of the best gear for that plane?

Dr Gumley—About $150 million worth of work has been undertaken to date.

Mr IAN MACFARLANE—But that was for the prototype, wasn't it?

Dr Gumley—Yes, moving through the SDD phase. Once we go into production, Lockheed have identified opportunities—I want to be very clear on that word 'opportunities'—for $7 billion to $8 billion worth of work. Each of those opportunities is contested and therefore you have to apply a win rate—what probability Australia has of winning each of those tenders. If Australian industry is truly competitive, we are expecting perhaps $1 billion to $2 billion worth of work coming out of it, because usually there will be—

Mr IAN MACFARLANE—Based on what we have achieved so far?

Dr Gumley—Based on what we have achieved and what we identify as the opportunities going forward. Air Vice Marshal Harvey, do you have anything else?

Air Vice Marshal Harvey—As I said this morning, the win rate to date is about US$150 million for 25 Australian companies. That was the System Development and Demonstration phase. We are now stepping into the production phase, so what we are starting to see is those companies that won work in the development phase for the 19 test aircraft now starting to get the contracts for the initial production. So we are getting into the big contracting. Lockheed Martin put a figure of some billions of dollars out there in opportunities but, as Dr Gumley said, we are

still in competition for those. We expect to see some of those contracts start flowing through in the near term. Australian industry has shown it can win work and we are—

Mr IAN MACFARLANE—Sorry to interrupt, but by the near term do you mean before Australia commits to that plane?

Air Vice Marshal Harvey—I would expect so. Even if we do not have contracts by then, we are working hard with Lockheed Martin to get long-term agreements in place. Even if the timing is not right for contracts, we want to see at least those long-term agreements before we make the decision to—

Mr IAN MACFARLANE—Sorry. By 'contract' I meant our contract for the aeroplane.

Air Vice Marshal Harvey—Sorry. The current plan is for us, subject to the white paper outcomes, looking around mid next year for a second pass decision on the new air combat capability project. We are working hard to get as many contracts and long-term agreements in place before that.

CHAIR—I think the Netherlands is a partner country in a JSF program. My understanding is that they have made a decision to acquire two JSF platforms as a run-off against other alternatives that are on the market. Is that a practice that you think is worthy of us looking at?

Air Chief Marshal Houston—Every country has unique strategic circumstances. We have been involved in this Joint Strike Fighter SDD—system development and demonstration—phase for a long time, since 2002. We know an awful lot about the platform. We are very confident that it will emerge as a top class capability. But the Netherlands is a European country, a member of NATO and has a lot of strategic depth and my understanding is that they have decided that they will take a close look at the Joint Strike Fighter not so much to do a comparative analysis with other aircraft but to better understand how it will fit into their system and, indeed, the NATO system. So it is a completely different set of circumstances.

Mr IAN MACFARLANE—Are there compatibility issues?

Air Chief Marshal Houston—I am not sure. We have worked very closely with the Netherlands through the years because they are one of the partners in the SDD process. I will probably get John Harvey to talk to it, but it is not, as you describe, a comparative analysis with other aircraft.

CHAIR—I thought they were doing it effectively against the Gripen and the Typhoon.

Air Vice Marshal Harvey—The Netherlands certainly are buying two test aircraft. We work closely with them and they are not doing it as a fly-off. They see that as their best way to assess the capability before buying. We have looked at that as well. Those two aircraft upfront are very expensive. We decided in our business case that our involvement in the US test program was the best way to do it. They are just taking a different approach.

CHAIR—Can I ask about deployment in Afghanistan. I appreciate that we have the largest commitment there outside of NATO nations at the moment, which is obviously a significant

factor in itself, but a number of nations have got armour there. We now have very capable armour in the M1A1s. Is there a role for those tanks to be deployed there? Would it help provide security for the Australian troops who are there? That is certainly an issue that people who work with the tanks have in their minds and I would welcome your thoughts on that.

Air Chief Marshal Houston—Mr Chairman, I have been hit up as well! But can I say that I am very satisfied with how we are going in Afghanistan. We have a full suite of available vehicles, and the tactical commanders on the ground obviously have a large number of Bushmasters and ASLAVs available, and a number of other special forces vehicles that are preferred by our special forces. The sort of concept we have got at the moment is to do construction and reconstruction using our Reconstruction Task Force. Very shortly we will be going into an additional mentoring and training role with an Afghan Kandak, an Afghan battalion. Fundamentally, it is all going well.

Our force protection is provided by infantry and cavalry who are teamed with our engineers. So we have, on the one hand, Combat Team Dagger and on the other hand, another combat team—I forget the name of it. But those two teams go out there. They have a very robust, organic force protection capability. The vehicles they use are Bushmasters and ASLAVs, and the ASLAV has quite reasonable firepower for the sort of threat that we face in the province of Oruzgan.

In terms of the wider force protection, that is provided by our Special Operations Task Group. We have SAS, and we also have commandos. Our special forces are characterised by having a very heavy firepower capability, and they have been very successful in disrupting the Taliban threat that we face. They have been targeting the leaders, the bomb makers and, indeed, all of the activities conducted by the Taliban in our particular province. They have been very successful at that, and at this point I do not see any need for any additional firepower above and beyond what they are fielding at the moment.

The other thing you need to factor into the equation here is that our Dutch friends have long-range artillery—155-millimetre howitzers—which are based at Tarin Kowt and have a very long range. They also have attack helicopters—Apaches—which are based at Tarin Kowt and have provided us with very effective fire support from time to time. Of course, the other thing that the coalition provides is on-station close air support from fast jets that live in the airspace above. The response time for those fast jets is very quick indeed. So at this point I do not see a need for tanks in Oruzgan. Some other nations have chosen to reinforce their deployments with tanks. Our Canadian friends, for example, have put Leopards into Kandahar, but Kandahar has been a much more demanding tactical environment then perhaps our province has been to date.

Mr BALDWIN—On Afghanistan, what has occurred in relation to that medivac situation where the helicopter had the hard landing? We have all read bits and pieces in the media. Could you give the committee a brief on exactly what happened.

Air Chief Marshal Houston—Well, this is obviously going to be something that we will describe later. As with every set of circumstances, we investigate those circumstances, and, at some time, we will come out with that. Perhaps I could just say a few words since you have asked the question. First of all, the two individuals were wounded. Essentially, it was a very black night. The weather was not particularly good. Visibility was not good. The medivac

helicopter came in very quickly. I had the time line. I was not expecting this question. But the time line was good; they were there almost straightaway. It was an HH60 Black Hawk. It is probably the best aeromedical evacuation aircraft in the world because it has incredible sensors and is a very capable helicopter. It had an aeromedical evacuation team on board.

When it came in, I guess it had a hard landing. I will not go into the whys and wherefores of that because that is obviously subject to investigation by another nation—the United States—but the aircraft arrived and the AME crew then came out and looked after the two wounded individuals. They were stabilised and their lives were not in danger. Given the circumstances that prevailed on that night, a decision was made by the commander on the ground that they would wait until daybreak for another helicopter. They also had the option to go back to Tarin Kowt by vehicle. In fact, they were only nine or 10 kilometres from Tarin Kowt. So a decision was made to stay in situ and essentially sort out the circumstances at first light. Additional helicopters were not called in. All I would say is that, over the 3½ years in Afghanistan, we have had wonderful support from a very full and complete aeromedical evacuation system that gives multiple options for the use of AME resources if one of our people is badly hurt and there is always a backup. In circumstances where we are conducting high-risk activities, if there is not an AME aircraft available for whatever reason—it has basically been sent somewhere else or it has suddenly become unserviceable—we will basically postpone that activity. And that is what we have been doing for the last 3½ years and it has worked very well for us.

On this occasion, the helicopter landed hard. After the hard landing it was unserviceable, but it did arrive in accordance with the requirements. With an incident like this, that is what happens when you ask helicopter crews to go out in the middle of the night in a very demanding tactical set of circumstances—in very demanding weather, very demanding light conditions and very demanding environmental conditions. Sometimes things do not go according to Hoyle.

Mr BRUCE SCOTT—I want to ask a couple of things about Iraq. I understand we have all of our combat troops out there, but what presence do we have in there now? Is it training? Is it reconstruction?

Air Chief Marshal Houston—I suppose the most substantial presence we have in Iraq at the moment is our frigate, which is deployed in the north Persian Gulf inside Iraqi territorial waters. It, along with the other ships in Task Force 158, provides for the protection of two oil platforms, which provide about 90 per cent of Iraq's GDP. Nearly all of the oil out of Iraq goes through those two platforms—particularly one of them. So it is a vital role and one that our people are doing particularly well. The frigate *Stuart* is just completing a very successful six-month deployment and she will be replaced by *Parramatta*, which was farewelled a couple of weeks ago. We also have our headquarters for all activity in the Middle East and Afghanistan—that is Headquarters Joint Task Force 633. We have 65-odd people in Baghdad performing that function. We also have a number of other people who are deployed, as embedded officers, in coalition headquarters and are performing a wide variety of functions that are helping the Iraqis get on their feet. Some of them also support what our American friends are doing in Iraq. Finally, we have the security detachment that provides protection for our diplomats in the embassy in Baghdad. That is static protection and also mobile protection for when they have to go and visit people in and around Baghdad or beyond.

Mr BRUCE SCOTT—Do we still have the Orions over in the Middle East?

Air Chief Marshal Houston—We also have the P3s located in the Gulf States. Those P3s are used on, I suppose, three principal tasks. They do over-the-water maritime patrol work in the north Arabian Sea and in the Persian Gulf. Secondly, they also do overland ISR—intelligence, surveillance and reconnaissance—work. They have very good electro-optical sensors. They are used to good effect to work very well with land elements on the ground in Iraq. Thirdly, they do the same thing from time to time over Afghanistan.

CHAIR—In answer to my earlier question about the Army, you referred to some of the vehicles there—the Bushmaster and others. Are they available for use by special forces?

Air Chief Marshal Houston—In answer to your question, yes, the special forces tactical commander has a wide variety of vehicles to choose from. Dependent upon the task, the commander will configure the vehicles. He will tailor the vehicles to the task that he is given. For example, our commandos have long-range patrol vehicles. They have a wide variety of other open vehicles and they also use the Bushmasters. As always in these circumstances, there is a trade-off. If you have special forces in a vehicle like a Bushmaster, they do not have the same situational awareness that they have when they are in their open vehicles. They also need to be agile, manoeuvrable and able to see what is going on. So, in circumstances where it is reconnaissance—that sort of mission—there will be a tendency to go for the open vehicles. If they are going into something where they anticipate they need protection, they might opt to take some Bushmaster type vehicles with them.

CHAIR—That is a tactical decision that special forces commanders will make?

Air Chief Marshal Houston—Yes. Our commanders on the ground with our special forces are the ones who have to prosecute the mission. We do not direct them to use this vehicle or that vehicle. They have a number of vehicles available and they go out and prosecute the mission using the best capability to meet the requirements of the mission. I am very, very satisfied with the way they do that. I might add that I think the Bushmaster in particular is proving to be a very, very capable vehicle for the sorts of circumstances, the sort of threat, that we face not only in Afghanistan but also in Iraq. Of course, the ASLAV has also been very successful in that regard.

Mr BALDWIN—With the Bushmaster and the M113, given that the Bushmaster had so many specification changes on the way through and now it is in a theatre of operation, and given the redevelopment of the M113, have you found in the field that there are further modifications required to bring them up to what you really want?

Air Chief Marshal Houston—When we are in a dynamic operational environment, as our people are in Afghanistan and were before that in Iraq, the principal threat that we have faced in both countries has been the threat from improvised explosive devices and small arms fire of various types. So we have endeavoured to develop the vehicles to stay ahead of the threat that we face, and we have done that in a number of different ways. It is incumbent upon us to modify the vehicles to give absolutely the best protection to our people. We have done that religiously and at very short notice in, I think, a very responsive way.

Mr BALDWIN—In relation to our reserve forces, I think one of the best things we have done is to integrate reserves and regs much more, building one Defence Force. I found out on recent trips around bases that a unit of money called ‘discretionary funding’ for additional hours has

been cut back in some areas and dramatically reduced in others as part of the savings of a billion dollars per year that you have to find, to the extent that the air base safety officers at RAAF Williams at Point Cook are Cathay pilots, Qantas pilots and Airservices Australia officers. They provide that capability in their reserve role of eight days per month each. The cutbacks now mean that they cannot provide that capability because they are being knocked back to their base amount of hours. I understand this is replicated in other areas. Where people might have been working two to three days per week under discretionary funding, those funds have been cut back. Is this providing a broad scale capability operational issue and what do you intend to do to address it?

Air Chief Marshal Houston—I will start and then, because this is about RAAF Williams, my good friend the Chief of Air Force will answer the rest of the question. Let me assure you that we are going through quite a complex process at the moment. We are going through a white paper process; an audit of the Defence budget; and a program to rebalance by redirecting resources from the softer side of the organisation—the back office part of the organisation—into the sharp end, to give more operational effectiveness. That is what we are about, and that is all part of an integrated process which will culminate in a white paper and, I suppose, a new policy for Australia on where we go with defence into the future. Along the way we will hear anecdotes about this or that, but let me assure you that we are seized with the need to enhance our operational effectiveness; we are not in the business of going in and taking capacity out of the sharp end where there would be a detrimental effect on capability.

Mr BALDWIN—Are you saying to us that the Defence Force civilian and uniform requirement had grown too fat in personnel and needed to be streamlined?

Air Chief Marshal Houston—I am not going to go into any specifics, but we are looking at all aspects of our business. Where we find potential for redirection of some resources—be they personnel, travel funding or administrative funding—towards the billion dollars that will bolster the sharp end, we are taking those opportunities. I could go through a whole list of things that we have done, but, in terms of the effect, this is very good. It is putting the resources where the people of Australia need them—into the sharp end of the Australian Defence Force.

Mr BALDWIN—I do not deny that the people at the sharp end need the maximum backup that they can have, but to restructure your budget by $1 billion per year is an awful lot of money. When you start to move personnel around, whether it is through natural attrition or a cutback on hours for people doing discretionary hours in reserve, somebody else has got to step up to that job to do it, otherwise it does not get done. How are those requirements going to be fulfilled if, in fact, funding has been cut?

Air Chief Marshal Houston—What we are looking at is the priority of our administrative functions. In some cases, we will do it in a different way. This is a process of reform. Reform means that you find better ways of doing business. You also cut the soft areas, you basically transition, you reorganise and you do lots of different things to ensure that you improve your operational effectiveness. That is what we are doing. Every dollar saved from the back office is being put into the sharp end of the Australian Defence Force. That is the process. What it means is that, probably over a period of time, a period of reform, we will rationalise some of our support functions. We will rationalise our administration. We will find more efficient ways of doing the back office stuff to ensure that we have the capability available into the future.

Mr BALDWIN—Isn't this cutback on the top of an efficiency dividend that has been demanded?

Air Chief Marshal Houston—I cannot give you the specifics but the efficiency dividend applied to defence only applied to a very small part of defence. It never applied to the Australian Defence Force and the vital enabling areas of the Defence organisation that supported operations.

Mr BALDWIN—So you are saying it did not apply to the civilian defence—

Air Chief Marshal Houston—No, it was not as precise as that. In fact, the dividend was only applied to a very small part of defence's business. I will come back to you on notice on this but in the $20 or so billion, I think it is 10 to 15 per cent of the business, but I will come back to you with more precision.

Mr BALDWIN—If you could take it on notice in relation to the cutbacks on the discretionary hours in relation to defence reserves and gauge in extra days how much that actually equates to and what person days would be lost because of that.

Air Chief Marshal Houston—In terms of the reserves, and the specific question you have asked I will call on the Air Marshal.

Air Marshal Binskin—I can get to the RAAF Base Williams thing. I have to say when I saw your news release on that it came as a shock to me as well, so we dug into it. What had happened was, when you had spoken to the people at Williams, it was early on in the rebidding for reserve hours this year across the board across Air Force. We have gone to a different model of reserves in the last couple of years. No longer do we have the big reserve units that we previously had and we divvied them out to the organisations. In the last year, we have taken the reserve force that we have had and already integrated in wartime establishment right across the board for all units. With that has come a set of discretionary and non-discretionary hours. Non-discretionary hours are the minimum that they need to do depending on their band within the reserves to fulfil their requirements. Discretionary hours then are on top of that.

What had happened as a part of the process was that they were looking at what we were going to do for the next year with the money that we have. The money that we have for this year is, for all intents and purposes, the same as the money we had last year. As a part of this restructure and bidding across all force element groups, the anecdotal message going out was, 'We're going to cut here, we're going to cut there.' In fact, it was early in the process and we were not to that level at that stage. So it was a misunderstanding in, I guess, our headquarters air command element that was working with the discretionary and non-discretionary hours. The hours were still going to be there, it was just where it was divvied up.

Mr BALDWIN—It seems at almost every base I go to that every group I talk to are raising the same issue.

Air Marshal Binskin—I think it is a misunderstanding by the commanders in a lot of cases because we have transferred from that old model and we have been in transition in the last year to this new model where the commanders actually have these reserve positions allocated into

their units rather than having this big group of reserves that they could draw on previously. It is the same number; it is just the way it is divvied out.

Mr BALDWIN—If you could take it on notice to let me know what the amount of the cutbacks is in dollar terms and how many person days that would equate to, it would be much appreciated.

Air Marshal Binskin—There was not a cutback—that is what I am trying to say—in the dollar value.

Mr BALDWIN—I beg to differ, because I was advised of a notice that went out from whoever holds the chief financial position to say that their budget had been cut to zero and in another situation their budget had been cut to 40 per cent of what they had. If there is no cutback why would those letters have gone out?

Air Marshal Binskin—It gets back to the misunderstanding within the headquarters about the discretionary and non-discretionary areas. The dollar figure is in the order of what it was in the last year.

Mr BALDWIN—So what about the case of the young lady who was engaged at Glenbrook for three days per week who was told her hours were now cut because of the reduction in discretionary funding, to the extent that those three days per week are not there anymore?

Air Marshal Binskin—No, that again goes to the process, where there are discretionary and non-discretionary parts. A part of this process will be the commanders at the force element group level working with the air commander to take the bucket of money and then look at whether priorities sit across the force element groups for the use of that money. So you may find that some positions have higher priority than others, and that would be where you may find individuals who in the next year may be cut slightly, but that in fact will mean an increase in another area that happens to be a priority in the force.

Mr BALDWIN—I will pursue it further at another time because I realise the time that we have got to now.

CHAIR—Yes, we have gone a little over time, and I know CDF has some fixed commitments. You would be aware that the committee has received a number of submissions, many of them cosigned by quite prominent people, many of them with Air Force experience. They raise a raft of questions, many of them dealing with platform capability and the like and the question of future acquisition. It would be appreciated if you are able to provide some response on notice to the core questions that are raised in those submissions. I am more than happy to extract some of the key aspects and write to you about them. I think you will be familiar with most of them. There is submission No. 7 from Ted Bushell, and exhibit No. 1 is cosigned by eight gentleman. Air Power Australia have a couple of submissions and exhibits. Retired Air Vice Marshals Criss and Graf have cosigned or submitted separate exhibits or submissions. I guess it would be writing a book to try to respond to the whole deal, so it might be best if I undertake to prepare a letter to you with questions arising from those submissions and you can take them on notice.

Air Chief Marshal Houston—Mr Chairman, we can take all of that on notice. May I suggest you just hand us all the questions and we will address them.

CHAIR—All right. Given the time for the committee's review, I think that is the only way forward. We have run out of time now so can I thank you, gentlemen, for your appearance before us today. It is always a good thing for the committee to have the CDF and senior officers of our Defence Force with us.

You will be provided with a copy of the transcript from today's hearings and if there are any matters you think require some minor adjustment you will have the opportunity to make those adjustments. Beyond that, as I said, we will provide some questions to you as a follow-up to the matters that we have discussed today—and a few that we have not, no doubt. Again, thank you for your appearance today.

Air Chief Marshal Houston—Thank you very much.

Subcommittee adjourned at 12.19 pm