



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE LEGISLATION
COMMITTEE

Consideration of Supplementary Estimates

THURSDAY, 21 NOVEMBER 2002

CANBERRA

BY AUTHORITY OF THE SENATE

INTERNET

The Proof and Official Hansard transcripts of Senate committee hearings, some House of Representatives committee hearings and some joint committee hearings are available on the Internet. Some House of Representatives committees and some joint committees make available only Official Hansard transcripts.

The Internet address is: **<http://www.aph.gov.au/hansard>**

To search the parliamentary database, go to: **<http://search.aph.gov.au>**

SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE LEGISLATION COMMITTEE

Thursday, 21 November 2002

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

Senators in attendance: Senators Mark Bishop, Cook, Chris Evans, Hogg, Lightfoot, Lundy, Sandy Macdonald, Marshall, Payne and Ray

Committee met at 9.03 a.m.

DEFENCE PORTFOLIO

Consideration resumed from 5 June.

In Attendance

Senator Hill, Minister for Defence

Department of Defence

Portfolio overview and major corporate issues

Portfolio overview

Mr Ric Smith AO, Secretary of Defence

General Peter Cosgrove AC, MC, Chief of the Defence Force

Vice Admiral Russ Shalders CSC, RAN, Vice Chief of the Defence Force

Mr Lloyd Bennett, Chief Finance Officer

Budget summary and financial statements and Improvement initiatives

Mr Lloyd Bennett, Chief Finance Officer

Mr George Veitch, First Assistant Secretary Business Strategy

Mr Joe Roach, Assistant Secretary Continuous Improvement

Mr Graham Weber, Acting Assistant Secretary Accounting Policy and Practices

Mr Mark Cunliffe, First Assistant Secretary Defence Improvement

Capital budget: major capital equipment and major capital facilities projects

Mr Mick Roche, Under Secretary Defence Materiel

Dr Ian Williams, Head Land Systems

Mr John Fitzgerald, Director General Contracting and Policy Operations

Major General Peter Haddad AO, Commander Joint Logistics

Air Commodore John Clarkson, Director General Aerospace Combat Systems

Mr Andrew Wood, Director General Rotary Wing Aviation

Ms Shireane McKinnie, Head Electronic Systems

Mr David Learmonth, Head Industry Division

Ms Ann Thorpe, Head Materiel Finance Division

Rear Admiral Kevin Scarce AM, Head Maritime Systems

Air Vice Marshal John Monaghan AM, Head Aerospace Systems

Air Commodore Paul Ekin-Smyth, Acting Head Management Information Systems

Division

Mr Alan Henderson, Deputy Secretary Corporate Services

Mr Mike Scrafton, Head Infrastructure Division

Mr Michael Pezzullo, Assistant Secretary Estate Management

Defence outputs

Output 1: Defence Operations

Rear Admiral Mark Bonser CSC, Commander Australian Theatre

Mr Kevin Pippard, Director Business Management Australian Theatre

Output 2: Navy Capabilities

Vice Admiral Chris Ritchie AO, RAN, Chief of Navy

Rear Admiral Rowan Moffitt, RAN, Deputy Chief of Navy

Mr William Sim, Acting Director General, Navy Business Management

Rear Admiral Kevin Scarce AM, Head Maritime Systems

Output 3: Army Capabilities

Lieutenant General Peter Leahy AO, Chief of Army

Mr Lance Williamson, Director General Corporate Management Planning—Army

Dr Ian Williams, Head Land Systems

Output 4: Air Force Capabilities

Air Marshal Angus Houston AM, AFC, Chief of Air Force

Ms Grace Carlisle, Acting Assistant Secretary Resource Policy—Air Force

Air Vice Marshal John Monaghan AM, Head Aerospace Systems

Output 5: Strategic Policy

Mr Shane Carmody, Deputy Secretary Strategic Policy

Ms Myra Rowling, First Assistant Secretary International Policy

Major General Ken Gillespie DSC, AM, CSM, Head Strategic Operations

Air Commodore John Blackburn AM, Head Policy, Guidance and Analysis

Output 6: Intelligence

Mr Ron Bonighton, Deputy Secretary Intelligence and Security

Mr Steve Merchant, Director Defence Signals Directorate

Mr Frank Lewincamp, Director Defence Intelligence Organisation

Ms Margot McCarthy, Head Defence Security Authority

DEPARTMENT OF VETERANS AFFAIRS

Portfolio overview

Corporate and general matters

Outcome 1: Eligible veterans, their war widows and widowers and dependents have access to appropriate compensation and income support in recognition of the effects of war service.

1.1 Means tested income support, pension and allowances

1.2 Compensation pensions, allowances etc

1.3 Veterans' Review Board

Defence Service Home Loans Scheme

Mr Bill Maxwell, Division Head, Compensation and Support

Mr Geoff Stonehouse, Division Head, Health

Ms Heather Parry, Branch Head, Defence Links, Compensation and Support

Dr Keith Horsley, Senior Medical Adviser

Mr Mark Johnson, Branch Head, Disability Compensation, Compensation and Support

Mr Roger Winzenberg, Branch Head, Income Support, Compensation and Support

Mr Barry Telford, Branch Head, Housing & Aged Care, Health

Mr Paul Pirani, Branch Head, Legal Service, Compensation and Support

Output group 6—Services to the Parliament, Ministerial services and the development of policy and internal operating regulations—attributed to outcome 1.

Outcome 2: Eligible veterans, their war widows and widowers and dependents have access to health and other care services that promote and maintain self-sufficiency, wellbeing and quality of life.

Arrangement for delivery of services

Counselling and referral

Mr Geoff Stonehouse, Division Head, Health

Ms Narelle Hohnke, Branch Head, Health Services, Health

Mr Wes Kilham, Branch Head, Younger Veterans and VVCS, Health

Mr Chris Harding, Specialist Business Adviser, Business Analysis & Development Unit, Health

Dr Graeme Killer, AO, Principal Medical Adviser

Mr John Fely, Acting Branch Head, Health e-business, Health

Mr Barry Telford, Branch Head, Housing and Aged Care, Health

Output group 6 Services to the Parliament, Ministerial services and the development of policy and internal operating regulations—attributed to outcome 2.

Outcome 3: The achievements and sacrifice of those men and women who served Australia and its allies in war, defence and peacekeeping services are acknowledged and commemorated.

3.1 Commemorative activities

3.2 War cemeteries, memorials and post-war commemorations

Ms Felicity Barr, Division Head, Corporate Development

Ms Kerry Blackburn, Branch Head, Commemorations, Corporate Development

Ms Katherine Upton, Assistant Director, Administration, Office of Australian War Graves

Output group 6 Services to the Parliament, Ministerial services and the development of policy and internal operating regulations—attributed to outcome 3.

Outcome 4: The needs of the veteran community are identified, they are well informed of community and specific services and they are able to access such services.

4.1 Communication and community support to the provider and veteran community

Ms Felicity Barr, Division Head, Corporate Development

Mr Geoff Stonehouse, Division Head, Health

Ms Carol Bates, Branch Head Strategic Support Branch, Corporate Development

Mr Barry Telford, Branch Head, Housing & Aged Care, Health

Output group 6 Services to the Parliament, Ministerial services and the development of policy and internal operating regulations—attributed to outcome 4.

Outcome 5: Current and former members of the Australian Defence Force who suffer an injury or disease which is causally related to employment in the ADF are provided with compensation and rehabilitation benefits and services.

5.1 Incapacity payments, non-economic lump sums

5.2 Medical, rehabilitation and other related services

5.3 Individual Merits Review

5.4 Advisory and information services

Mr Bill Maxwell, Division Head, Compensation and Support

Mr Mark Johnson, Branch Head, Disability Compensation, Compensation and Support

Mr Arthur Edgar, Military Compensation, Compensation and Support

Output group 6 Provision of services to the Parliament, Ministerial services and the development of policy and internal operating regulations—attributed to outcomes 1 to 5.

Dr Neil Johnston, Secretary

Ms Felicity Barr, Division Head, Corporate Development

Ms Carolyn Spiers, Branch Head, Employee Relations and Development, Corporate Development

Mr Sean Farrelly, Branch Head, Resources Branch, Corporate Development

Mr Paul Pirani, Branch Head, Legal Service, Compensation and Support

Mr Bob Hay, Chief Information Officer

Ms Karin Malmberg, Director, Budgets, Resources Branch, Corporate Development

Mr Alan Parker, Manger, Manager Information Unit

Mr Geoff Kavanagh, Director, Output Pricing and Ownership, Corporate Development

CHAIR—I declare open this hearing of the Senate Department of Foreign Affairs and Trade Legislation Committee. I welcome Senator Hill, the Minister for Defence, and I also welcome to their first estimates appearances in their new roles General Cosgrove, Chief of the Defence Force, and Mr Ric Smith, Secretary to the Department of Defence. Welcome back, Ric.

The committee will consider proposed expenditure for the Department of Defence and the Department of Veterans' Affairs, and then the committee will turn to expenditure for the Department of Foreign Affairs and Trade. The Defence supplementary hearings will commence with the portfolio overview and major corporate issues; we will then move on to capital projects and Defence Materiel, and on through outputs 1 to 6. Questions may be taken on notice either verbally during the hearing or by senators placing questions on notice in writing. I remind senators that questions can relate only to matters nominated for consideration at these supplementary hearings. When written questions on notice are received, the chair will state for the record the name of the senator who submitted the questions. The questions will be forwarded to the department for answer; all questions on notice must be placed by the conclusion of the committee's supplementary hearings tomorrow afternoon, Friday, 22 November. The committee has resolved this morning that the deadline for the provision of answers to questions taken on notice at these hearings is 31 January 2003.

Witnesses are reminded that evidence given to the committee is protected by parliamentary privilege, and I also remind witnesses that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate. The Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations from the parliament or its committees, unless the parliament has expressly provided otherwise.

An officer of a department of the Commonwealth shall not be asked to give opinions on matters of policy; however, you may be asked to explain government policy, describe how it differs from alternative policies and provide information on the process by which a particular policy was selected. An officer shall be given reasonable opportunity to refer questions asked of that officer to a superior officer or, of course, to the minister. Minister Hill, would you like to make an opening statement?

Senator Hill—No.

[9.06 a.m.]

Department of Defence

CHAIR—Are there any questions in relation to the portfolio overview?

Senator CHRIS EVANS—I would like to start with a general question. We have been trying to track where the expenditure on the white paper is recorded. In this financial year, \$507 million was allocated to the implementation of the white paper, yet there does not seem to be any specific accounting for exactly where the money has gone. There is a reference in the overview in the annual report, a sort of narrative description but without any facts on actual projects and spending. I am keen to try to understand where the expenditure on the white paper is recorded and how we can track the \$507 million of new money for white paper expenditure. Can someone help me with that?

Mr Carmody—The department reports the white paper findings back to government. We have a process whereby we continue to report achievement against the white paper expenditure and in those areas where there are slight changes to white paper initiatives.

Senator CHRIS EVANS—When you say that you report back to government, is that saying that you will not report to us?

Mr Carmody—We forward reports back to the minister.

Senator CHRIS EVANS—So, as to where the \$507 million on the white paper has gone, what does that mean in relation to public availability or to availability for the Senate process? I am not trying to be smart, but how do I find out where that money has been spent? Or, are you saying that I do not find out?

Senator Hill—Probably by asking the right questions.

Senator CHRIS EVANS—Minister, where has the \$507 million been spent?

Senator Hill—It has been expended on the capital program, as enunciated in the Defence Capability Plan, which is a part of the white paper outcome. Basically, the DCP set out a program of capital acquisition and the timetable for doing that, and we seek to keep to that timetable. As you know, over the last 12 months a number of new capital acquisition projects in accordance with the white paper have been approved, and in other areas capability has been delivered.

Senator CHRIS EVANS—It is also true that some of those projects were already in train, already contracted et cetera. What I am trying to do is trace where the additional \$507 million has been expended. Are you saying that you cannot provide any greater detail—that you cannot say, ‘It’s gone on capability and to the white paper plan,’ or something like that?

Senator Hill—I can provide you with detail, if you have not already got it, of our expenditure on the procurement program in the last year. A lot of the expenditure—not surprisingly, as it relates to new projects—has been on the early stages of design and assessment rather than actually purchasing the equipment. As I think I have said to you, we have had a modest underspend on the capability program because of the fact that it does ratchet up over the next 10 years.

Senator CHRIS EVANS—We will come to it later, but I think capital expenditure has actually fallen in the last year, hasn’t it?

Senator Hill—That is what I have just said to you.

Senator CHRIS EVANS—There has only been an underspend; the rate of capital expenditure is actually falling.

Senator Hill—It is our responsibility to achieve the objectives of the Defence Capability Plan—in which we probably give greater certainty than governments have ever given in the past—within the 10-year time frame. It is impossible to be absolutely precise as to where you will be with any specific acquisition program at any one time, but if you want to do it project by project we can do it that way. We can give explicit information about the armed reconnaissance helicopters, for example—and somebody was asking questions yesterday about how much we have expended on that program so far and what we have expended it on—and we can go through the other major capital projects that are in the DCP if that is your wish.

Senator CHRIS EVANS—I appreciate that, and I have done and will continue to do so, but I am asking about a budgeted amount in the annual report of \$507 million allocated to implementation of the white paper, for which I can find no accounting in the annual report as to where that money has gone. As I also see the cash reserves going up, I just want to be sure that it is not just going into cash reserves—that it is actually being expended on what it was intended for. I am sure it is a question you have asked the department and reassured yourself on but I think it is reasonable for the estimates committee to be reassured about that too, so I am trying to track that money.

Senator Hill—We have provided you with an enormous amount of information in relation to progress on most of the major capital projects. I suspect that we have done so on the other changes that were incorporated within the white paper—the increased readiness requirements, the enlargement of the force, the additional sustainability requirements and so forth—but, if you feel that we have given you insufficient detail, we can always go away and try to do better. We now have the money people at the table; they may be more helpful than I have been.

Senator HOGG—Minister, is there a simple table that you can provide us with that will show where the money has been spent against the budget?

Senator Hill—Nothing is ever simple.

Senator HOGG—In many instances your department has shown a great capacity to provide us with tables which show these things very clearly.

Senator Hill—That is because we get asked a lot of questions wanting a lot of detail. What additional information can we provide today?

Mr Roach—In my former capacity, I might be able to help the senators with this. Firstly, although the \$500 million which was the first injection of additional funding under the white paper was directed towards capital, you have to remember that we have a complete capital program—which last year had around \$2.6 billion for specialist military equipment—which was the largest recipient of that \$500 million. It forms part of a total program which we manage. We do not separately pick out and show in the PBS or other documents the specific projects that were the recipients of that increase; we treat it as a whole. We can certainly provide some additional information on where we are with those projects.

Senator CHRIS EVANS—I would appreciate that. But are you telling me that it just gets poured into the bucket that you use for funding Defence generally?

Mr Roach—There are two things. Firstly, although it is a very large sum of money, it is managed very closely. We report on the progress of DCP—the Defence Capability Plan, which is the unapproved element of the program—through ministers and to government. The actual detail of that is classified.

Senator CHRIS EVANS—Sure, but if it is unapproved I presume that means you have not spent the money on that part. That is expenditure planned but not yet incurred, isn't it?

Mr Roach—Correct.

Senator CHRIS EVANS—So the \$507 million has not gone on them.

Mr Roach—As time moves on, projects are being approved and managed by the Defence Material Organisation, largely.

Senator CHRIS EVANS—Maybe we can simplify this, because I am no financial genius. I thought you got the \$507 million last year. You are not trying to tell me that you are using that money for things that you are going to pay for in two or three years' time. What have you done with the 507 million bucks?

Mr Roach—I think it would be easier to answer that question by looking at the total approved program and how that performed, rather than trying to isolate individual projects. I think that could be done if it was required.

Senator CHRIS EVANS—I am just trying to conceptualise it. We approved the allocation of the funds and then, when you look at the annual report and the budget, you cannot actually see where it has gone. I am just trying to get an understanding of where it has gone. I think what you are saying to me is that it gets tipped into the bucket. Is that not fair?

Senator Hill—It was additional money provided through the white paper, because there are additional capabilities determined to be provided through the white paper. Basically, the additional money, together with what might be described as the core budget funding, has to achieve a number of goals—operational goals, sustaining the force and achieving the new acquisition program, or the enhanced acquisition program. We can report on where we are in relation to the state of that acquisition program at any one time. We sought to answer this question after the last estimates in our response to question W33, which you might refer back to.

Senator CHRIS EVANS—I have it in front of me.

Senator Hill—It is not very different to what has been said to you today.

Senator CHRIS EVANS—No—it is because of my lack of satisfaction with that answer that I have raised it with you today.

Senator Hill—What you are asking is: can further information be made available. What I am saying to you is: we can always provide further information, but the more explicit you are with your questions, the more useful I think the answers will be.

Senator CHRIS EVANS—Maybe, but I do want to understand it conceptually. It seems to me that, if it is just going into—forgive the colloquial term—the Defence bucket, I guess we want to be reassured that the money is going to meet the new acquisition program and the additional capability and that, at the end of two, three, four or five years, the money has not been consumed on other projects, resource needs et cetera inside Defence and we are not able to pay for the new acquisitions outlined in the white paper. So I would have thought that one of the reasonable questions was to follow the money and to make sure that it is being used against new capability.

Senator Hill—What you are seeking to do is really what we also seek to do, and that is to ensure that the capital program remains on track. As we said in that answer, we provided a list of the newly approved projects. You have asked and continue to ask questions requiring detail as to where each of those projects is in relation to its outcomes. Just using the armed reconnaissance helicopter again as an example, we seem to be constantly providing

information on what milestones have been achieved, whether they are on time, whether it is within budget and whether it is within capability.

Senator CHRIS EVANS—I accept that, and I think our policy objectives on this issue are the same, but your answer avoids the key question, which is how we ensure that that money is going towards new acquisition and is not being used on other demands inside the Defence budget. While we can track each program, as you well know, there have been deferrals of capital expenditure, there have been delays for whatever reasons about projects—there were some in the last budget, capital expenditure was deferred et cetera. One needs to be able to track, it seems to me, whether the white paper funding is going for its intended purpose. I am trying to understand how I do that. When you say you can do it project by project, I do not think that is right; that does not give you the global view at all.

Senator Hill—I think it gives you the best view. That is exactly what you have been asking for: how can you be sure that the capital program—I think you are principally talking about the capital program—is being achieved to the time lines that were set down in the white paper? And the best way to do that is to do project checks, in the same way as we do. We require regular accounting on the progress of each of those projects in terms of timetable, capability and cost.

Senator CHRIS EVANS—Project checks do not tell you whether or not all the additional expenditure provided to Defence for white paper purposes has been spent on white paper purposes, do they?

Senator Hill—The goal is to achieve the enhanced capability through the provision of a certain quantity of extra funding. So the test has got to be whether the enhanced capability is being achieved.

Senator CHRIS EVANS—So your answer is that we have got to wait for 10 years before we find out there is a problem?

Senator Hill—No, not at all. You can, and do, require of us to provide details of progress on particular projects. But, as I understand it, when the additional money is provided it is not quarantined. The test as to whether it has been spent in accordance with the white paper goals is whether the white paper capabilities are being delivered.

Senator CHRIS EVANS—So if I see a drop in capital expenditure from one year to the next, despite an allocation of \$507 million extra money allegedly, I should not be concerned?

Senator Hill—No, you should not be concerned if the goals are being achieved, because if in delivering the capability as the project matures it is better to pay that money next year rather than this year that is what you would expect us to do. When you design a program as big as this, you cannot be absolutely certain of the pace of development of individual projects.

Senator CHRIS EVANS—No, I can see that.

Senator Hill—Therefore it is a best estimate. But, at the end of the 10-year period, you certainly would expect to achieve the additional capability for the extra funds that have been provided, and you can make reasonable assessments along the road as to whether you are on track to achieving that goal.

Senator CHRIS EVANS—How do you make that reasonable assessment?

Senator Hill—By doing what you have been doing.

Senator CHRIS EVANS—Because there is nothing in your official documentation that allows you to do that. Your answer to my question deliberately avoided providing that

information, and you have avoided it again today. You are basically saying, ‘We have got a bucketful of money and, trust us, at the end of the 10 years all the capability will be there.’

Senator Hill—With great respect, I have not said that at all. You obviously are clearly not interested in the way in which you can achieve it. I have told you how to achieve it, and you have asked most of those questions. You have most of the information before you—

Senator CHRIS EVANS—About individual projects, that is right.

Senator Hill—and we will do our best to provide the answers.

Senator CHRIS EVANS—You have been very helpful, and I will continue to ask them and will continue to take an interest in those projects with a legacy or otherwise, Minister. But the question is: how do the Australian taxpayers assure themselves that the \$507 million, allegedly in the white paper to be spent on increasing capability, has gone on increased capability in this financial year?

Senator Hill—You do it in a number of ways. You do it through the annual report, you do it through the—

Senator CHRIS EVANS—It is not in the annual report; that is what I am saying.

Senator Hill—You do it through the annual report, you do it through the auditing processes, you do it through the parliamentary process, such as this today, and basically you make a determination.

Senator CHRIS EVANS—That is the process answer. What I am saying to you is—

Senator Hill—You said you wanted a process answer.

Senator CHRIS EVANS—I have read the annual report; it is not there. I have asked you the question; you cannot tell me. You told me the process, but it seems the process does not work—we do not get the answer.

Senator Hill—The process is working.

Mr Roach—Maybe I could try another tack. If the suggestion is that we might have taken this \$500 million—which in the first part, as I said, was mainly directed towards capital expenditure on specialist military equipment—and used it in some other way, I can assure you that we have not. If you look at our capital statement, you will see that this year we are planning to spend something like \$960 million more on capital, of which the largest part is specialist military equipment. Our capital budget includes a number of things that were not tied to the \$500 million—land and buildings, intangibles et cetera—but there is no question that we are planning to spend something like \$990 million more on specialist military equipment in 2002-03. We cannot do that and divert the money.

Senator CHRIS EVANS—In 2001-02?

Mr Roach—No, in 2002-03.

Senator CHRIS EVANS—How much did you spend in 2001-02?

Mr Roach—In 2001-02, we spent a tad under \$2.6 billion on specialist military equipment, but in looking at that figure you also have to take into account that, as part of our financial statements process, we actually recorded expenditure on a large number of items which we originally budgeted for as capital. They are a number of project type costs which, because of the accounting classifications, at the end of the year are not classified as specialist military equipment. So you do need to look at the total picture if you are looking at tying things back to the white paper.

Senator CHRIS EVANS—So what did you spend in 2000-01?

Mr Roach—In 2000-01 we spent \$2.7 billion on specialist military equipment.

Senator CHRIS EVANS—What is projected for 2002-03?

Mr Roach—As part of our capital budget, we are planning to spend a total of \$3.6 billion on specialist military equipment.

Senator Hill—The bigger challenge that we are going to face, as I said before, is achieving that capability outcome within the funding envelope. There is no way that, in achieving that, there will be funds left over after a period of 10 years.

Senator CHRIS EVANS—I do not think that anyone is going to disagree with that proposition.

Senator Hill—Yes, but you seemed to suggest that there is this money swimming around that we can afford to siphon off for other objectives.

Senator CHRIS EVANS—I am not really suggesting anything. When there is equipment listed in the white paper and extra funds allocated—equipment that we endorse; I think it is a very welcome decision by the current government to have the capability plan development—and the budget statements say that \$507 million of taxpayers' money has been spent to achieve that goal, it is not unreasonable to try to find out, through the budget papers and the annual report, where that money was spent. All I am saying is that you cannot find that out. I thought I might have missed something, and I was wrong. But it seems that you cannot track it.

Senator Hill—That is because the money is not separately quarantined. That is why I say to you that the test as to outcomes is whether the capability is being achieved within the timetable. There are milestones: you can assess progress and make a reasonable estimate as to whether it is going to be achieved within the 10-year period, and the closer you get to the end of that 10-year period the more certain you will become.

Senator CHRIS EVANS—I am sure that you are seeking reassurance on an annual basis, and I am seeking the same reassurance.

Senator Hill—I seek reassurance on a monthly basis.

Senator CHRIS EVANS—We could have estimates monthly if you would prefer. I am willing if you are, but some officials have just fainted!

Senator HOGG—Can you explain page 142 of the annual report where it looks at a schedule of commitments, going by type, as at 30 June? Looking at specialist military equipment, given the comments you have just made, in 2000-01 the commitment was roughly \$6.886 billion and in 2001-02 it was \$6.891 billion. That is not the significant increase one would expect.

Mr Roach—You would also have to take into account what we discharged during the year.

Senator Hill—You have to talk to the accountants about how the figures are determined, but we are also in a process of trying to get a more realistic value on existing equipment.

Senator HOGG—I accept that but, in the wake of the discussion that we have just been having, I am asking whether you can explain the difference to us in reasonably simple terms.

Mr Roach—I would like to take that on notice, but there are two elements which would need to be taken into account. One, as I said before, is what we discharge during the year. The second would be the reclassifications of expenditure that we undertook as part of the financial

statements process, where a number of things which were previously classified as SME would have been classified in other ways in the accounts.

Senator HOGG—But you must admit that on the simple reading of that—and I concede that there may well be more behind the figures than appears on just the simple reading—it says that there was about a \$5 million increase in commitment to specialist military equipment from 2000-01 to 2001-02.

Mr Roach—A simple reading is not possible.

Senator HOGG—I understand that, but that is why you have got to add some explanation to these figures.

Mr Roach—I can see the dilemma.

Senator HOGG—Otherwise, people do draw conclusions that, if the explanation you give is correct, might be erroneous.

Senator Hill—We should take that on notice, because I think it is quite a complex accounting issue.

Senator HOGG—I think it is, and I was pleased to find it.

Senator CHRIS EVANS—Does the answer concerning the white paper funding also apply to the \$100 million a year on people initiatives? Are we unable to track that separately as well?

Mr Roach—We certainly do track it internally.

Senator CHRIS EVANS—Again, there does not appear to be any separate accounting for that additional \$100 million. Is the answer effectively the same—that it goes into the bucket of money that is spent on personnel—or is one able to follow where that additional \$100 million is expended?

Mr Bennett—There is a defence people committee which allocates and tracks the extra \$100 million of spend.

Senator CHRIS EVANS—Perhaps you could take on notice where that money is being expended.

Mr Bennett—Certainly.

Mr Veitch—Senator Evans, the answer to your question is that we are planning to spend just under \$100 million on a range of initiatives this year, including cadets and reserves enhancements, \$29 million; child-care centres, \$2.7 million; improved ADF accommodation, \$53.7 million; e-learning programs, \$2.6 million; and a range of other items.

Senator CHRIS EVANS—So it has been allocated for initiatives aimed at personnel issues, but the majority has gone on ADF accommodation?

Mr Veitch—Yes, it has in this particular year.

Senator CHRIS EVANS—Is that on new housing or upgrading housing, or is it on some other specific initiative?

Mr Veitch—I might have to check with the facilities people, but I think it is improved—

Gen. Cosgrove—When we say accommodation, it is for the single ADF members who, after a certain period of qualifying service, are entitled to secure a rental allowance and live outside barracks if they wish.

Senator CHRIS EVANS—That is not a new thing, is it?

Gen. Cosgrove—I think it is in the life of this initiative.

Senator CHRIS EVANS—Perhaps you could take it on notice to provide a breakdown and explanation of that initiative for me. Is that reasonable?

Mr Veitch—Yes, we can do that.

Senator CHRIS EVANS—Can you give me the details of the savings in 2001-02 under the white paper?

Mr Roach—I can get you the details, but can I just give an outline in broad terms first. In 2001-02, as a consequence of the white paper, we were required to generate \$50 million in savings and efficiencies.

Mr Bennett—Specifically, we have achieved savings in a fringe benefits tax liability reduction of \$36.2 million, travel savings of \$20 million and a reduction in and improved management of the Defence commercial fleet of \$1.9 million. This adds up to a total of \$58.1 million, against the target of \$50 million.

Senator CHRIS EVANS—So you have exceeded expectations. Why are things like FBT savings under the white paper?

Mr Roach—They are not related to the improvements sought through the white paper itself. As part of the white paper process, Defence undertook to generate additional internal savings to help fund Defence's bottom line.

Senator CHRIS EVANS—How were the FBT savings made? I know the figure; I just want to understand perceptually how.

Mr Bennett—The recurring savings from fringe benefits tax liability derive from a replacement of the home purchases or sale expense allowance by the Home Purchase Assistance Scheme, with no fringe benefits tax payable on the initial purchase provision, and from the repeal of the 50 per cent concession on remote housing, with no fringe benefits tax payable.

Senator CHRIS EVANS—Would you explain that to me?

Mr Roach—By these measures, we have effectively reduced the liability for fringe benefits tax that we would have faced.

Mr Bennett—These were changes in policy or legislation, including Defence clarification of the Fringe Benefits Tax Act 1986, and correction of the data model used in calculating some of our liabilities.

Senator CHRIS EVANS—Thanks for that.

[9.38 a.m.]

CHAIR—That finishes the portfolio overview. We now move to defence outputs, output 1—Defence operations.

Senator CHRIS EVANS—I would start by asking some questions about the Australian National Audit Office and the qualification contained in Defence's annual report, on page 135 or thereabouts. My first question is a general one. Looking back over the ANAO reports, it seems that this has been an issue that they have been raising with Defence since 1998-99 and each year there is an assurance from Defence that the matters are being looked at, fixed and resolved. Of course, this year the ANAO has gone so far as to put a qualification on Defence in relation to inventory of repairable items. As I understand it, this qualification on the financial statements is a fairly major step by the ANAO. Can someone explain to me what the

problem is, why the assurances in previous annual reports that this is being fixed have not materialised and why we should be reassured that this year it will be?

Senator Hill—I will say a few general things and Mr Bennett can provide further detail. There is no doubt that there has been a historical problem in Defence accounting, particularly in relation to valuation of equipment expendables, and that Defence has been seeking over a number of years to improve its accounting in these matters. It has been doing it in conjunction with the ANAO and the Department of Finance and Administration and a range of specialist outside accounting advisers. At the same time, the requirements in terms of accountability have significantly changed, the largest change being the requirement to account on an accrual basis. On the one hand, Defence has been seeking to improve its systems and records so that it can better account for historical aspects but, on the other hand, the requirement as to how it accounts has significantly changed and therefore further complicated the matter. In addition to that, as the systems have improved, and therefore accuracy and confidence in the information has improved, so the ANAO has expected of Defence an even higher standard of accountability.

A few years ago, greater flexibility was permitted in recognition of historical problems, but as the situation has improved so the level of accountability required has increased. If you look at their reports, you will see that ANAO acknowledge the very significant improvements that have been made in recent years in this regard, but there is still a way to go, which we have been saying to you for some time. Of the much lower threshold that was demanded by the ANAO for this year, as opposed to previous years, they found that they could not be confident that the information in relation to certain historical items was sufficiently accurate for them to give an unqualified assessment.

So there has been a constructive and positive process between the department, the outside advisers and the ANAO to achieve the level of accountability that is required under contemporary norms, but there is still a little way to go. If you look at the ANAO report and how they describe the issue, I think you will see that it is very much in the terms that I have just put. Mr Bennett might want to provide some further detail to that.

Mr Bennett—In talking to some of my peers around the world, I have found that we are probably one of the only defence departments that can actually get a set of statements together according to generally accepted accounting principles, so we are well ahead of the game internationally. Also, it is important to understand that the qualifications on an ‘except for’ basis so that the accounts are seen as a true and fair representation except for issues of inventory pricing and repairable items—so it is a small component of some of the assets—are very much historical problems, especially, for instance, the inventory pricing. Under the old system, prices and values did not have to be recorded accurately—it was more a question of acquisition—and we have now inherited that problem and are likely to have to live with it for some time. It is probably not something that we can remediate in a year or even within a couple of years unless we spend an inordinate amount of money and time to fix it.

Senator CHRIS EVANS—Are you saying to me that we are likely to have qualification on the accounts?

Mr Bennett—In terms of the ‘except for’ in the inventory pricing, yes. Even the ANAO would agree with us that it would not be commercially sensible to try and actually fix that problem. The real thing that we have to do, of course, is make sure that we do not allow inventory to come onto the books now and not be treated appropriately under the new standards.

Senator CHRIS EVANS—For a layperson, what is it that you would have to do to fix the problem?

Mr Bennett—Literally, we do not know the price of an item—say, an FA18 wheel assembly, for instance; a better example is probably an F111 item—where we have purchased some things out of the desert at a few per cent of the list price versus the price that we have bought things at through the normal contract years ago.

Senator Hill—If it is 20 years old and we have had it for 10 years, what is the appropriate value for that in the books? We have literally millions of these items.

Mr Bennett—We would have to check something like two million items in one year and go back to all of the contracts. So we could end up spending in the order of \$50 million to try and fix a problem that really, whilst it is a problem, does not deliver any value to anybody here.

Senator CHRIS EVANS—And these are items purchased before when?

Mr Bennett—They go back—how old is an F111? Some items are many years old.

Senator CHRIS EVANS—Yes, but when did this stop being a problem? When did your inventory record keeping change? At what year are you effectively up to date or competent, as it were?

Mr Bennett—The requirement came with the introduction of accrual accounting into the public sector. I would have to check on the timing of that. I think we would have confidence in figures post November 2000 or 2001. I would have to check the exact year.

Senator CHRIS EVANS—So you are saying that anything before a couple of years ago is not accurate?

Mr Bennett—We would have uncertainty about anything before 1999. That is what we have acknowledged in our own report.

Senator Hill—The changing accounting standards can be met in relation to contemporary inventory, but in relation to historical inventory, when you have such a massive amount of items, it is very difficult and ANAO accept that.

Senator HOGG—Are you saying that, with the effluxion of time, the degree of the qualification, if you like, will lessen because your inventory will be more accurate?

Mr Bennett—It will lessen because we actually consume the inventory items, so it will wash out of the financials.

Senator HOGG—What sort of period of time do you expect it will take for most of that to occur—five years, 10 years?

Mr Bennett—Yes, it could be in toto, given the life of some of the assets we have. It is a matter of when the number of items reaches a level below the level of uncertainty that would lead to materiality.

Senator Hill—It also depends on the rate at which ANAO continue to reduce the threshold.

Mr Bennett—Yes, we have gone from a \$1 billion materiality threshold down to a \$350 million threshold.

Senator Hill—In the last year.

Senator HOGG—I think we will come to that a little bit later.

Senator CHRIS EVANS—Do you mean per item?

Mr Bennett—No, our total materiality level is \$350 million, which as a percentage of our asset base or operating turnover is a relatively small amount. It is a pretty high bar that we have to reach actually.

Senator HOGG—But wouldn't a lot of these items have been depreciated now to zero value?

Mr Bennett—If they still have a useful life and useful purpose, they would not be at zero value.

Senator Hill—That is the accrual accounting aspect.

Senator HOGG—Yes, I understand, Minister.

Senator CHRIS EVANS—Accrual accounting gets the blame for everything.

Senator Hill—Is any other defence force in the world accounting on a full accrual basis?

Mr Bennett—I think New Zealand are accounting on a full accrual basis, but I think they have a much smaller asset base at issue than we do. The analogy given to me that summed it up nicely was that, if we were in a 100-metre race, we would be stumbling over the finishing line, the Canadians would be in the warm-up lap and the Americans would be considering the building of the stadium.

Senator CHRIS EVANS—So you are basically saying that it is a problem that is not going to be fixed and you are expecting the qualification on your reports from the Audit Office to continue?

Mr Bennett—Yes.

Senator CHRIS EVANS—What are repairable items?

Mr Roche—They are items such as engines, gyros, gear boxes—anything that can be refurbished and put back into service.

Senator CHRIS EVANS—So you are talking about smaller items rather than a plane or a helicopter and so on?

Mr Roche—It is any of the components of that platform that can be refurbished and put back into use.

Senator CHRIS EVANS—What does this report say about what you know about your inventory? We have gone through the question about valuation, effectively; what do they say about what you know about what you hold?

Mr Bennett—In the main, the existence of items is very well recorded. There is one area where the ANAO flagged a concern about 2,000 items that we feel we can reconcile. It is quite a complex issue of making sure that you have uniquely tagged each item and can reconcile the physical item as opposed to the number of items of that class that you have.

Senator CHRIS EVANS—What sorts of items are we talking about there?

Mr Bennett—Repairable items.

Mr Roche—We believe that we can physically account for those items, and we have in fact been doing large amounts of stocktaking to ensure that we can. But the way in which our inventory management system, SDSS, actually records those items means that they go off and come on as new items. So the actual system recording of them makes it difficult to reconcile

in a system approach. We are working on SDSS to change that so that we can track the items electronically as well as physically.

Senator CHRIS EVANS—What is going to be the impact of the outsourcing on DIDS on those issues?

Mr Roche—I do not think it has any effect at all. It has more to do with a system issue in SDSS.

Senator CHRIS EVANS—Yes, but won't a lot of these items of inventory be controlled by the contractor?

Mr Roche—They will be using SDSS to control them.

Senator CHRIS EVANS—But they will physically be in the hands of the contractor.

Mr Roche—The contractor will be physically responsible for warehousing and so on, but there will be no difference in terms of stocktaking and our ability to count the items. That will still be done. There will be processes to ensure that that is done properly. They will be using the same system. The problem here is essentially a system problem.

Senator CHRIS EVANS—But the TenixToll will be using the same system when they operate the DIDS network?

Mr Bennett—Yes.

Senator HOGG—I turn to note 14 on page 160, where it refers to the write-down of assets and where under financial assets it refers to bad and doubtful debts. The write-down there is \$31 million in bad debts as opposed to the previous year when there were bad debts of \$160,000. Why has there been a massive jump in the bad debts?

Mr Bennett—It is actually a provision for bad and doubtful debts, not an actual increase in bad and doubtful debts. I will double-check, but I think the amount of money written off in that period was in the order of \$200,000 to \$300,000.

Senator HOGG—Why is there such a large provision then? The figure was \$160,000 the year before and it now jumps to \$31 million. It is a substantial amount, if you say the actual debts written off are only in the order of \$200,000.

Mr Bennett—To clarify, the amount written off in 2001-02 was \$0.3 million.

Senator HOGG—What was that amount again?

Mr Bennett—In 2001-02 it was \$300,000. In the break-up of the \$31 million is an amount of \$20 million related to the New Zealand contribution to the Anzac ships project. This relates to an overstatement of revenue and receivables when they were originally recognised. This overstatement is adjusted in the 2001-02 period.

Senator HOGG—So money that we thought we were going to get from the sale will never materialise and you have written it off as a bad debt?

Mr Bennett—Yes.

Mr Bennett—Yes. There is an amount of \$1.9 million which was a real increase in the general provision for doubtful debts, and this provision is based on an analysis of the ageing and recoverability of debts. There is an amount of \$750,000—

Senator HOGG—In terms of your writing off \$300,000 this year, \$1.9 million is a substantial increase.

Mr Bennett—Yes.

Senator HOGG—To whom would those debts be attributed?

Mr Bennett—Again, I would have to check the absolute detail. I will check the specifics but, generally, it is the US government, the United Nations. I would have to check some of the details and come back to you specifically on that.

Senator HOGG—Are any of those debts over \$1 million?

Mr Bennett—Individually, again, I would double-check before I gave the answer.

Senator CHRIS EVANS—Why would we write off debts to the UN or foreign governments?

Mr Bennett—The time taken on the issue involved. Again, it is probably best that I provide you the very specific details of each item.

Senator HOGG—The actual nature of the debt itself. So that has got us up to nearly \$22 million.

Mr Bennett—Yes. There is \$750,000 relating to foreign exchange difference adjustments for foreign military sales receivables and a further \$8 million of additional pre-2000 accounting corrections to receivables balances that have also been processed.

Senator HOGG—\$8 million?

Mr Bennett—Yes.

Senator HOGG—Can you put that into English for me, please? What is the \$8 million for?

Mr Bennett—Again, I will provide you with a specific list.

Senator HOGG—Is it likely that when you come to the end of this financial year there will be a similar write-off for bad debts to this year?

Mr Bennett—Again, it is a provision. Given the prevailing situation as to what we think we may have to allow for and that we are also very conscious of our responsibilities to try to get as much of that money back in, that would be subject to ongoing review.

Senator HOGG—I am just trying to find out if this is a new pattern. The figures from 1996-97, for example, were \$1.5 million; in 1997-98, \$0.9 million roughly; in 1998-99, \$0.4 million; in 1999-2000, \$0.5 million; and in 2000-01, \$0.16 million—as we have seen here—and you have given us a figure of \$0.3 million. It seems to me that you are moving away from what were low amounts historically in the accounts to a substantial increase. Is that the correct way to interpret that?

Mr Bennett—That is an obvious interpretation but, clearly, \$28 million of that is for fairly exceptional circumstances, so we would not anticipate those sorts of problems again.

Senator HOGG—On page 160 is the total for specialist military equipment. That has gone from \$1.019 million to \$1.331 million. It seems that the major project activities expensed have been the major increase there because of a decrease in the fixed assets. Why has that taken place?

Ms Thorpe—The main contributor to that is, as you said, the write-off for the major projects—\$904 million. We undertook a huge accounting exercise during 2001-02 to review all major projects. As we were saying, we have only been on accrual accounting for about three years, so this has been a huge learning curve for Defence. ANAO pointed out a year ago that there was an issue in the way we have been valuing our assets under construction; therefore, in response to the ANAO audit from 2000-01, we undertook a review of most of

our projects—about 190-odd out of 200-odd. We now believe that the balance in the accounts is far more accurate in terms of accounting standards and is a far more correct view of the financial position.

Senator HOGG—Have there been previous reviews of these projects? And do we know the extent of the write-downs on those occasions, or is this a one-off? That is what I am trying to find out.

Ms Thorpe—What we have done was a huge exercise. We would expect that from now on it would be a part of ordinary business. We now have processes and procedures in place, we have trained the staff and we believe from now on the correct write-off, the correct roll-out et cetera will be done as and when required. One of the problems—again, it is a systems problem—has been that we found that there were amounts that should no longer have been in the assets under construction that needed to be written out of it.

Senator HOGG—I went through the Navy, Army and Air Force budget figures. I looked at the revised budget figures and then I looked at the actuals for the year. There alone, the budget figures for Army, Navy and Air Force were \$167 million in expected write-downs. When it actually came out, it was \$1.543 billion which is a 924 per cent increase. Even when there was a revision of those figures, they only went to \$232 million as opposed to the actual outcome of \$1.543 billion, which is a 665 per cent increase. One would hope that we are not going to see these sorts of things recurring in the accounting system because that then comes off the bottom line of the net profit. That really represents a loss to the taxpayers, does it not?

Ms Thorpe—It is an accounting loss, not a real one. It has nothing to do with cash. As I said, we undertook a huge exercise during the year. We would not expect to see it again. It was an amount we did not anticipate. We did not realise the size of the problem until we started to look at it and it only became very evident near the end of the financial year. That is why the AE figures, when they were adjusted, were not adjusted enough. We did not realise the amount that was in there. It took us until 30 June to complete the exercise.

Senator HOGG—I accept your explanation and I understand that it is not likely to happen again in the foreseeable future.

Ms Thorpe—It will not be to the scale that it was this year. We have a couple of projects that we need to complete, so the figure for 2002-03 will still not fully reflect normal business. After that, we would expect it to be a normal business process.

Senator CHRIS EVANS—Does that write-down on military equipment projects represent about 11 per cent of the current total value?

Ms Thorpe—I am not very good on the maths. I am used to being an accountant so therefore I am used to a calculator.

Senator CHRIS EVANS—I thought I was allowed to say that. I did not know the Defence accountant was allowed to say that!

Ms Thorpe—I think the current value sitting in the balance sheet for assets under construction is about \$9 billion.

Senator CHRIS EVANS—And you have just written off \$900 million.

Ms Thorpe—It was a huge exercise, as I said.

Senator CHRIS EVANS—Even for those of us who are bad at maths, that is about 10 or 11 per cent, is it not?

Ms Thorpe—That is right.

Senator CHRIS EVANS—Maybe we can put this in layman's language. These are current capital projects; they are not legacy or historical?

Ms Thorpe—No, this is going back about 15 years. I think some of the adjustments go back about 15 years, so they are all previous year issues. Do not forget, we have only recently gone on to accrual accounting.

Senator CHRIS EVANS—I could never forget that. And if I do, someone from Defence will remind me. But they are described as current capital projects. How long do your current capital projects run for?

Ms Thorpe—They can run for quite a number of years. Do not forget, we go through phases. Sometimes our projects can take up to 15 years but there are changes. We have phases, we upgrade, we do all sorts of things, but we do not tend to call it a new project number. We tend to keep it under the same project title.

Senator CHRIS EVANS—Perhaps you could use an example for me. We have written 10 per cent—11 per cent, according to my figures—off the value of current capital projects. What does that represent in real terms? What is an example of what might have occurred there? Does a project come to mind? I think of current as being a bit different to historical or legacy, so I would have thought these would have been things we would have been on top of at the time.

Mr Roche—Perhaps I can explain. The particular nature of this problem came about because of our financial systems and the fact that there is not a tight linkage between the accounting for assets under construction and our main asset register. As we start with a project and start to accumulate value in a project—for example, with the Anzac frigates, as we start to see a ship form and grow in value—it is recorded in assets under construction and becomes part of the department's asset base. As that frigate is taken into use, it is transferred into the main asset recording system under ROMAN. What has been happening in some cases is that when an asset was transferred into operation it was recorded in the ROMAN system but was not deducted from the asset under construction system. So the assets under construction figure was artificially high. It does not represent in any way a loss to the taxpayer. The asset, the ship, is there—it is actually in use. We had an artificially high accounting number in the assets under construction. We have now done a review of, I think, 97 per cent of all accounts in the assets under construction. We have written out of that all of the ones that were duplicates that had not been properly expensed and so on. We believe that that account is now quite clean.

Senator CHRIS EVANS—I want to have a chat about cash in the bank issues. Mr Bennett, I am sure you have been preparing for this; it would be a shame to waste all that preparation.

Mr Bennett—It reminds me of the last time we met, Senator.

Senator CHRIS EVANS—Yes; it is like studying for an exam, isn't it? Can you give me an update of how much money you are now holding as cash in the bank?

Mr Bennett—I think it is around the \$830-odd million mark. Again, the key principle here is that we have to have enough money on hand to meet our current liabilities. Our current assets versus our current liabilities is probably the best measure of what we should have, and currently that ratio is about 1.05. That would be extremely tight in anyone's language.

Senator CHRIS EVANS—But, as I recall, last time we met you told me you needed \$300 million to do it.

Mr Bennett—No; about \$500 million is what I said we would need. By year end, all things being equal, we should aim for about \$600 million. There is a bulge in the system created

through the lateness of some of the additional funding last year. For instance, in the first couple of months of this year we actually spent something like \$380 million more cash out the door. That gives you an idea of the magnitudes of the swings we have to face, and why I am trying to make sure we have sufficient current assets to meet our liabilities.

Senator CHRIS EVANS—What does the 1.05 per cent figure you gave me represent?

Mr Bennett—It is called the current ratio. It is current assets over current liabilities. It is a useful measure of seeing whether you have cover to meet what you have outstanding.

Senator CHRIS EVANS—Being uneducated, I just did it as a percentage of your annual budget, and it looked to me like about six per cent of your annual budget held in cash.

Mr Bennett—You can also measure it that way. Because of the bulge, it has probably crept up higher. But even if you compare that to other companies, it is still a reasonably low figure. I think that because we are in the public sector and we have a 30-day draw down ability, we should be able to run it tighter than a private sector organisation, but I have to be cognisant of our liabilities.

Senator CHRIS EVANS—I want to put it on the record that I am not asking these questions on behalf of Senator Minchin, but I am sure he is listening. In the 2001 budget we had \$154 million projected, for 2002 we had \$313 million projected, in the May budget we had \$500 million projected and now we have \$835 million actual. It seems to me that your garnishing of cash is out of control.

Mr Bennett—We are not trying to garnishee cash, we are trying to make sure we have sufficient to meet the liabilities. I would be as happy as anybody if I could—

Senator CHRIS EVANS—But haven't you got this on the short-term money market? You told me last time you had it on the short-term money market.

Mr Bennett—We have money with the Reserve Bank but we get no benefit from the interest earnings of this over and above anything that has already been agreed with Finance, so it is not inherently of benefit to me to have excess cash at bank.

Senator CHRIS EVANS—So how much of the \$835 million have you got on term deposits?

Mr Bennett—I imagine in excess of \$700 million would be in short-term deposits, just to balance the cycle of payment.

Senator CHRIS EVANS—What do you call a short-term deposit?

Mr Bennett—I will check, but it would be in the order of a month through to a couple of months—30, 60 or 90 days.

Senator CHRIS EVANS—The annual report, on page 161, says you have \$799.5 million in term deposits.

Mr Bennett—I gave an approximate answer.

Senator CHRIS EVANS—I just found the figure. Of the \$835 million, \$800 million is on term deposit. But you are telling me it is to balance the liabilities that are coming in.

Mr Bennett—That is right. There is a limit to how much we should keep in an absolute current account versus where we should balance it, but we have to have sufficient liquidity to meet the liabilities.

Senator CHRIS EVANS—I am having difficulty. Last year, sufficient liquidity was \$150 million, and this year I was told at one stage that about \$300 million was sufficient, and then

that we were targeting \$500 million, and now we are at \$800 million. I cannot find the \$507 million that is supposed to go on the white paper in the report. But we have \$800 million in the bank in cash on short-term deposit.

Mr Bennett—Again, if we had a very smooth outflow of funds, my year-end target would be \$600 million. I am as unhappy as anyone that it is running at \$800 million.

Senator CHRIS EVANS—So you have gone to \$600 million now?

Mr Bennett—At year-end, and that was already in the revised figures that you had previously.

Senator CHRIS EVANS—I thought the revised figure was \$500 million.

Mr Bennett—It was, for the end of last financial year. For the end of this financial year, we were predicting that it should grow to about \$600 million. If you look back, Defence was criticised for having insufficient short-term funds available, and they had in the order of \$57 million or \$58 million. Clearly, that was insufficient. That was perhaps an artificially low number because some future draw-downs were not allowed to be recognised, which would have actually brought you up closer to the \$500 million mark, which is where clearly things have gone.

Senator CHRIS EVANS—Wasn't the projected cash surplus in February 2002 estimated to be \$313 million?

Mr Bennett—Yes.

Senator CHRIS EVANS—You told me in February you thought it was going to be \$313 million, but by the end of June you had actually stored away \$835 million.

Mr Bennett—Because of the lateness of spend, what has happened is that people have ordered goods and then not paid for the goods.

Mr Veitch—Perhaps I could add a couple of extra points that might shed some light on that. In auditing the accounts the previous year, the Auditor-General commented unfavourably on Defence's negative current liability position. In fact, it reported that we were in a negative \$397 million position. We tried to set out during the year to get an even balance so that we can meet our short-term liabilities. If you refer to page 140 of the annual report, about halfway down the page, against note 26, you will find that at the end of the financial year we carried forward outstanding payables. These are claims waiting for payment totalling \$1.033 million. The majority of those claims would have had to be paid in the first month of the new financial year or soon thereafter. You are quite right that it represents about six per cent of Defence's business. That is about an accurate measure of the type of business that flows through our accounts each month.

Senator CHRIS EVANS—Let us follow that through. You said you had about \$1 billion that you had to pay in the first month. How much do you have in the bank now?

Mr Bennett—Again, it has come back down. As I said, we spent an extra \$380-odd million in that first two months—cash out the door.

Senator CHRIS EVANS—So what have you got at hand now?

Mr Veitch—It is still just above \$800 million, but it is very cyclical in nature.

Mr Bennett—But within one month it can vary by—

Senator CHRIS EVANS—Forgive me, I do not want to be rude, but you just told me that you had \$1 billion worth of bills you had to pay earlier in the year and, therefore, you had to carry the cash. But you just told me you still have \$800 million in the bank.

Senator Hill—One at a time will make it a bit easier.

Senator CHRIS EVANS—Sure. I am not trying to be rude, but the logic does not flow.

Mr Bennett—It is not a purely static thing. It is a pool of liabilities versus a pool of funds. So there is constant inflow and outflow at any one time.

Senator CHRIS EVANS—And your pool of cash has gone from \$150 million to \$800 million, and I want to know why.

Mr Bennett—Again, it is largely to make sure that we are managing it prudentially. We have also had a one-time late allocation of funds, and there was a catch-up.

Mr Veitch—The other point to make is that the measure of \$1.033 billion in payables at 30 June was a measure at a point in time. Our payables at any one time fluctuate from between about \$600 million and \$1 billion, so at any one time we have that range of outstanding claims, and we need to draw down cash to pay in the following month or so.

Senator CHRIS EVANS—That is right; I understand that, and I understand that is why you keep \$800 million in the bank. What I do not understand is why you have gone from needing \$150 million in the bank to needing \$800 million in the bank, because nothing about your payment system has changed that explains what you have done.

Mr Veitch—I think I would make the point that the \$158 million that you referred to was an adversely low number, a number that was unacceptable, and it was commented on very unfavourably by the Auditor-General.

Senator CHRIS EVANS—I accept that. Then you told me it was going to be \$300 million, and then you told me it was going to be \$500 million, and then you told me it was going to be \$600 million and now you tell me you have got \$800 million. I am a bit concerned that the rationale is the same but the figure keeps getting bigger, and I do not quite know why.

Mr Bennett—I think we have explained what the circumstances were that led to a late allocation of funds, a late pick-up in incurring the liability, and then the subsequent late flowthrough of the actual incurring of the expense. So we have created a backlog of cash as it were because of that flowthrough, and it will take some time to bring it back down.

Senator CHRIS EVANS—So what are you telling me the cash situation will be at the end of the 2002-03 financial year? You were predicting \$110 million.

Mr Bennett—Our target is about \$603 million, but it may vary above or below that.

Senator CHRIS EVANS—So the budget papers that predicted \$110 million have been updated, and now you are talking—

Mr Bennett—Sorry, the last time we spoke we mentioned that we wanted \$500 million by the end of that period and \$600 million at the end of the following period. That should be reflected in the report.

Senator CHRIS EVANS—So you can assure me that, when we next talk about this, you will not tell me that you have \$945 million or \$950 million in the bank?

Mr Bennett—I am doing the best I can to manage it down to that number. I am certainly getting a lot of support from the service chiefs to make sure it is at that level.

Senator CHRIS EVANS—There are a couple of good spenders there; I am a bit surprised that they are getting away with it. Lieutenant General Leahy in particular has some plans, I understand.

Mr Bennett—There are some other important principles about the amount of money we can spend in a year et cetera.

Senator CHRIS EVANS—I am sure Houston has got a couple of aircraft we would not mind buying. I am sure this will help you out. All I can say, Mr Bennett, is that I wish you would take care of my finances in quite the same way! I have a few legacy problems that need resolving.

Mr Bennett—We will speak out of session, Senator.

Senator HOGG—In terms of the term deposits, could you indicate to the committee how many of those are on 7 days, or 14 days or 21 days so that we can get a feel as to how you roll them over.

Mr Bennett—Yes, we have previously given you a very detailed breakdown as a response to a question on notice.

Senator HOGG—I think you have, but I think seeing the changed circumstances and an update would be helpful so that we get some idea of the strategy that you are putting in place.

Mr Bennett—Yes, we will provide an update.

Senator CHRIS EVANS—I think that exhausts our questions on budget matters.

CHAIR—Are you happy to move on to output 1, Defence operations?

Senator CHRIS EVANS—As I understand it, it is capital budget, isn't it?

CHAIR—It is still part of the portfolio overview.

Senator CHRIS EVANS—Yes.

CHAIR—So we will now deal with 'Capital budget: major capital equipment and major capital facilities projects'.

Senator CHRIS EVANS—I am never sure if I am in the right section. I want to ask some questions about DIDS. I suppose that is under the improvements to defence materiel.

CHAIR—I think Mr Roche is here.

Senator CHRIS EVANS—Then we have got some capital budget questions.

CHAIR—It might be best to handle them in the overview, if we can.

Senator CHRIS EVANS—Could someone help me with what is now understood to be the savings that will result from the outsourcing of DIDS?

Major Gen. Haddad—The projected savings based on the source selection are \$80 million over 10 years. That is on top of savings already reaped by the reallocation of military personnel to other activities. Approximately 500 military personnel have already been taken out of the DIDS function and reallocated.

Senator Hill—What are the total dollar savings?

Major Gen. Haddad—Total dollar savings at the moment are \$80 million, plus the cost of those personnel.

Senator Hill—What is the cost of those?

Major Gen. Haddad—That is approximately \$20 million, making a total of \$28 million per year over 10 years.

Senator CHRIS EVANS—\$28 million over 10 years?

Major Gen. Haddad—Per year over 10 years.

Senator CHRIS EVANS—I presume those 500 people were doing something. Who has replaced them—or are they now doing similar work but under Defence auspices? Can you explain to me what has happened to their functions?

Major Gen. Haddad—The reallocated military manpower have gone off to different tasks. Some of them are still in logistics functions but as part of the Army, Navy and Air Force use of manpower in operational units. The backfill has been through the temporary hire of labour, and there has been some carrying of a gap while the process is being completed.

Senator CHRIS EVANS—But you have been pulling these 500 out over time, haven't you?

Major Gen. Haddad—They have been progressively leaving since 1999, when we indicated our intention to do this.

Senator CHRIS EVANS—So they have been backfilled by non-uniformed temporary staff?

Major Gen. Haddad—Yes.

Senator CHRIS EVANS—How many additional staff have been taken on? You describe it as a saving, but someone has been paying the wages of the people who have been backfilled as well, haven't they? Is the figure you gave me of about \$28 million per year a net figure or a gross figure?

Major Gen. Haddad—That is a gross figure. In this particular function, the savings have been presented under the process followed by the commercial support program, which identified a baseline. The baseline was calculated against the number of personnel positions that were available to be applied to that task in 1999. In presenting savings from the project, those military personnel are represented as a saving, but not as a saving to the department. They have gone back into Army, for example. Army has been funded to remain paying salaries for those people, so the salary benefit is transferred from this project back to the Army base.

Senator CHRIS EVANS—I understand that side of it but, in the accounting for the cost of DIDS, you no doubt held the cost of those uniformed salaries against the DIDS program and you have now had that saving. You have taken them out and they have gone back against Army or Air Force or wherever they have gone to, but you have backfilled them with other staff—non-uniformed staff. What is the saving to DIDS from that arrangement? Are you telling me that the \$28 million is a net saving to the DIDS network or are you saying that it is the amount of Defence salaries that have gone back into Defence?

Major Gen. Haddad—The project baseline was of about 1,400 personnel, with a cost over 10 years—these are 1999 figures—of about \$1.1 billion. That was the baseline we were stepping away from. Progressively, over the period of the contract and the project process, we had stepped down those numbers. As I said, some military personnel had been reallocated. I would have to go back and give you separate numbers for the cost of the temporary hire of labour going back into the DIDS process. These people will not continue to be employed once we go into contract with TenixToll.

Senator CHRIS EVANS—I thought that was a moot point at the industrial commission.

Major Gen. Haddad—About whether our own people go across to TenixToll?

Senator CHRIS EVANS—Yes, or whether they are permanent or temporary. Didn't you have an industrial commission decision on that?

Major Gen. Haddad—Yes, we have been through a process. Because it took so long to come to a final decision, an agreement was made that these temporary people could be treated as ongoing employees and therefore attract the benefits that Commonwealth employees get when they separate. That was just a special treatment of those people in that category.

Senator CHRIS EVANS—So the baseline, when you started talking about outsourcing DIDS, was 1,400 personnel and \$1.1 billion per year. Is that right?

Major Gen. Haddad—It was \$1.1 billion over the 10 years projected for the contract. In the presentation of figures we have talked about the total contract period rather than annually.

Senator CHRIS EVANS—Now you are at the point of letting the contract to the successful tenderer, what is the baseline figure that you are working on—personnel and—

Major Gen. Haddad—Current personnel still being employed comprise 769 civilian employees and 195 military employees.

Senator CHRIS EVANS—So that is what you are down to currently?

Major Gen. Haddad—Yes.

Senator CHRIS EVANS—And the reworked baseline cost?

Major Gen. Haddad—We have not reworked the baseline costs in the terms that you are after. The whole process has still defaulted back to the original baseline, not the current outlays.

Senator CHRIS EVANS—It is a bit hard to do that, though, in assessing your contract, isn't it? I know you will not want to tell me the contract price, although I suppose I will ask. Are you going to tell me that?

Major Gen. Haddad—No.

Senator CHRIS EVANS—I am glad we have that on the record. But you obviously cannot work on the \$1.1 billion either, in the sense that you have at least 450 fewer employees that you are paying wages for and you have a smaller operation than you had in 1999. Is that fair?

Major Gen. Haddad—It is not a smaller operation, but we have delivered the outcomes in some different ways with some temporary arrangements. For example, if the process had been concluded in the original two-year time frame, we would have been running our own distribution network, with Defence owned trucks and Defence employees operating those trucks. Because the process went on longer than expected, we had already contracted out that component of it to Toll as an operator.

Senator CHRIS EVANS—So you had already contracted Toll separately for the transportation functions?

Major Gen. Haddad—For a short-term distribution contract.

Senator CHRIS EVANS—How long was that contract for?

Major Gen. Haddad—I would have to check, but we put it in place for I think six months and then we went for extensions because the process went longer than planned.

Senator CHRIS EVANS—So Toll have been doing the transportation function for some time. I would appreciate it if you would take a question on notice about how long the contract is and when it is extended to.

Major Gen. Haddad—Yes, Senator.

Senator CHRIS EVANS—But effectively their current contract will expire and TenixToll will take a new contract for the totality of the work. Is that right?

Major Gen. Haddad—Yes.

Senator CHRIS EVANS—When do you expect the contract with TenixToll to take over the whole system?

Major Gen. Haddad—We are currently in negotiations with TenixToll, and we plan, if all goes well, to be able to sign a contract at the end of the first quarter of 2003. Then we go into a transition period that will take us through until the end of 2003.

Senator CHRIS EVANS—So they will not have full implementation until the beginning of 2004. Is that right?

Major Gen. Haddad—That is right.

Senator CHRIS EVANS—Given that they won the contract, what are you negotiating about?

Major Gen. Haddad—They were identified as our preferred tenderer, so the next step in the process is to go into contract negotiations with them on the detail of the final shape of the contract. That is what we are engaged in at the moment.

Proceedings suspended from 10.30 a.m. to 10.52 a.m.

CHAIR—The committee is now reconvened and will proceed without the minister.

Senator CHRIS EVANS—When we suspended I think we were having a chat about DIDS.

Major Gen. Haddad—In relation to that issue we were discussing before the break, the figures I have before me are that the annual savings are \$29 million, and of those savings \$21 million is attributed to military salaries of personnel who have been transferred to other functions and \$8 million is against current outlays. So the current outlays against the DIDS function annual outlay is \$96 million.

Senator CHRIS EVANS—Can you explain that to me?

Major Gen. Haddad—We have \$29 million worth of savings attributed to the project per annum, and that is why we claim \$290 million over the 10-year life of the contract.

Senator CHRIS EVANS—And that is savings to DIDS?

Major Gen. Haddad—That is savings to the DIDS project, not necessarily to the department. Of that \$29 million per annum, \$21 million is attributed to military salaries that have already been harvested and used for other purposes, and \$8 million is against current outlays which are \$96 million.

Senator CHRIS EVANS—What does that bit mean?

Major Gen. Haddad—That is the current cost of running the functions that are within the scope of the DIDS project.

Senator CHRIS EVANS—And have been reduced by \$8 million, effectively, on non-salary items.

Major Gen. Haddad—Yes, based on the offer we received from TenixToll. So there is a variety of elements in there, but they total \$8 million in savings against the current baseline costs, the 2002 baseline cost, which is \$96 million.

Senator CHRIS EVANS—They are not real savings, though; that is what is anticipated under the contract offer from TenixToll. Is that right?

Major Gen. Haddad—Yes. They are genuine savings.

Mr Roche—They are real savings.

Senator CHRIS EVANS—They will be real savings when you enter into the contract with them but currently they are not. I am not trying to be difficult, but they are savings that will be achieved once the contract is signed and up and running.

Major Gen. Haddad—Indeed.

Senator CHRIS EVANS—So they are not savings off DIDS in this financial year, for instance.

Major Gen. Haddad—Not in this financial year, no.

Senator CHRIS EVANS—So the baseline you are now using for the entry into the contract is a total cost for DIDS—

Major Gen. Haddad—DIDS functions.

Senator CHRIS EVANS—of \$96 million per annum.

Major Gen. Haddad—Yes.

Senator CHRIS EVANS—Is that what DIDS will cost you in 2001-02?

Major Gen. Haddad—In this current financial year, yes.

Senator CHRIS EVANS—For 2002-03?

Major Gen. Haddad—For 2002-03 our projected cost is that \$96 million.

Senator CHRIS EVANS—And that is down from what it would have been under the previous system—\$96 million plus \$29 million?

Major Gen. Haddad—That is right.

Senator CHRIS EVANS—So that would have been \$125 million.

Major Gen. Haddad—I have been advised that it is \$96 million plus \$21 million. The current estimate of the annual contract cost is \$88 million per annum.

Senator CHRIS EVANS—So it is currently costing you \$96 million but with the savings attributed to the TenixToll bid you would expect it to cost you \$88 million on current figures.

Major Gen. Haddad—Yes, subject to contract negotiation. But based on their bid, that is the figure we are working on.

Senator CHRIS EVANS—You are looking at a saving of \$8 million over a base of \$96 million for the cost of DIDS. So you have made considerable progress on reducing the cost of DIDS while this tender process has been in continuation.

Major Gen. Haddad—Yes.

Senator CHRIS EVANS—Is part of that attributed to the Toll Transport contract?

Major Gen. Haddad—No, that was just a substitution. We had our own defence owned and operated line haul service. That was under our projected savings for this project due to go

offline about a year ago. We went ahead with that, even though the process had not been finished, and substituted a Toll Transport contract to cover us through the gap. I have taken on notice the obligation to give you the details of that.

Senator CHRIS EVANS—So there are no savings associated with that necessarily.

Major Gen. Haddad—Not that I can identify from here.

Senator CHRIS EVANS—But the new contracts wraps up that whole process in the broader contract.

Major Gen. Haddad—Yes.

Senator CHRIS EVANS—So on the current baseline of \$96 million you anticipate savings of \$8 million per annum. It was originally going to be over 10 years. What is the contract period now?

Major Gen. Haddad—It is still over 10 years. It is an eight-year contract with two one-year options. For planning purposes we are assuming that we will exercise those options and it will be a 10-year contract.

Senator CHRIS EVANS—It is eight plus one plus one. So the \$80 million in savings that was in the press releases and so on is the \$8 million over 10 years.

Major Gen. Haddad—That is right.

Senator CHRIS EVANS—Did the TenixToll bid fully meet the tender requirements?

Major Gen. Haddad—Yes, otherwise we would not have selected them as our preferred tenderer.

Senator CHRIS EVANS—I guess it is possible that all the tenderers did not meet—

Major Gen. Haddad—A qualification: there are issues that we need to negotiate with them, as is the normal practice, in the next stage of the process, which is our contract negotiation. There are some issues we are addressing to make sure that we are comfortable with the final solution, but in a comparative sense most of those tenderers—the five commercial consortia and the in-house option—put in very good bids.

Senator CHRIS EVANS—So you do not have any serious concerns about the TenixToll bid meeting all of your requirements?

Major Gen. Haddad—We have some risk issues that we are currently negotiating with them. As with all risk, we have concerns about those. But we are confident at this point that we will be able to negotiate those to a satisfactory conclusion.

Senator CHRIS EVANS—What do you mean by ‘risk issues’?

Major Gen. Haddad—The evaluation process suggested that there was not sufficient clarity on a number of matters in the information presented to give us the degree of confidence we want that the solution they were presenting was robust. But in a comparative sense we were comfortable with what they were saying. So in the current stage of negotiation we are addressing four large areas to make sure that, with better information from our preferred tenderer, the solution they are providing fully meets our needs.

Senator CHRIS EVANS—Has there been any change to mandated sites or mandated job requirements in the tender?

Major Gen. Haddad—Not since we went out for the second round of tenders.

Senator CHRIS EVANS—So those conditions—I think there was only one mandated site in the end—about mandated jobs in various locations will form part of the tender?

Major Gen. Haddad—They did form part of the bid, and they will be part of the contract in due course.

Senator CHRIS EVANS—You told me that you are down to 769 civilians and 195 military personnel. What are your expectations of, or requirements for, overall employment and, in particular, what will happen to the military staff who are associated with DIDS currently?

Major Gen. Haddad—The only one that I can tell you about is against the proposal for the locations in rural and regional Australia—I could provide information about the urban locations on notice—in regard to what numbers TenixToll said that they would employ in each of those areas. The only thing that we mandated in employment was that category of rural and regional Australia.

Senator CHRIS EVANS—There is no total mandated employment level in the tender documents, as I recall.

Major Gen. Haddad—No.

Senator CHRIS EVANS—So how many jobs there will be in the new DIDS set-up once it is contracted to TenixToll is an issue for them, not for you, isn't it?

Major Gen. Haddad—That is right.

Senator CHRIS EVANS—But obviously the number of military jobs is an issue for you. What is happening on that front?

Major Gen. Haddad—There is a limited number—and I would have to take on notice the question about the exact quantum—of manpower required in uniform. So for some of the areas where we are contracting out this function there is an obligation for us to continue to employ some military people either for trade competency—skill-set competency—or because there is a need to retain that military manpower in a base location for possible future redeployment to operational areas. So within the contract, particularly at a number of our air bases, a limited number of people are employed by TenixToll, as a contractor, under an arrangement where we guarantee certain hours of work per week and that is built into their cost structure. If those people are extracted for military reasons, the tenderer, TenixToll, have a backfill arrangement for them.

Senator CHRIS EVANS—These are military personnel?

Major Gen. Haddad—Yes.

Senator CHRIS EVANS—So who is paying their wages while they are involved in the DIDS contract work?

Major Gen. Haddad—The ADF pays their wages.

Senator CHRIS EVANS—I know that you are taking this question on notice, but roughly how many people are we talking about—50 or 100?

Major Gen. Haddad—There are about 50.

Senator CHRIS EVANS—So about 50 military personnel will stay involved in the DIDS function but they will be paid by ADF, and you will be reimbursed by TenixToll, as part of the contract, for their wages.

Major Gen. Haddad—There is an arrangement where they have discounted their price to take account of the fact that this military manpower is available. The contract sets the terms and conditions on the number of hours that these people can be used for their task and, as I mentioned before, there is an arrangement for them to be backfilled by the contractor should we choose to deploy them to an operational task.

Senator CHRIS EVANS—And you will incur extra cost if they are pulled out?

Major Gen. Haddad—That will be a cost to the operation or exercise that we are deploying them to, but it will be identified.

Senator CHRIS EVANS—Are you keeping them in there because TenixToll need their skills or because you want to maintain the skill base inside the ADF?

Major Gen. Haddad—We want to maintain the skill base within the ADF.

Senator CHRIS EVANS—What sorts of functions are we talking about?

Major Gen. Haddad—They are mostly warehousing staff—some of the Air Force deployable elements require warehousing skills. The only way these staff can maintain those skills during peacetime is to work in the warehousing area, so that is where they go.

Senator CHRIS EVANS—So we are not talking about maintenance staff?

Major Gen. Haddad—There are no maintenance staff, to my recollection, in that process.

Senator CHRIS EVANS—So how do you protect your skill base for maintenance for when people are deployed using that equipment?

Major Gen. Haddad—The only maintenance staff in the scope of DIDS are for land equipment, and there are sufficient jobs already within the Army base for those skill sets to be maintained. There has been no obligation placed on this contract to continue to employ Army maintenance tradesmen as part of their skills development, because of the number of jobs outside.

Senator CHRIS EVANS—Do you have anyone in a supervisory role inside TenixToll under the proposed contract?

Major Gen. Haddad—We have a contract management regime that, in a governance sense, requires us to make sure they are conforming to our requirements. That sits outside TenixToll. Their intention is to place their contract management team with my contract management team in Melbourne, but at each site there will be parties on either side of the contract.

Senator CHRIS EVANS—Were the tender bids materially different the second time round?

Major Gen. Haddad—The quality of all the bids was much higher the second time round than the first time round, as you would expect because of their better understanding of our business. They had more time to look it and to develop and refine their original bids.

Senator CHRIS EVANS—Was the winning tender the lowest price option?

Major Gen. Haddad—It was the best value for money option.

Senator CHRIS EVANS—That is an answer to another question. What is the answer to my question?

Major Gen. Haddad—That is commercial-in-confidence at this stage of our process. The end factor of the evaluation ranks the tenders in value for money sense, and the preferred

tenderer was the top ranked in value for money. That is based on a combination of a whole range of factors, including the price of their bid.

Senator CHRIS EVANS—But you will not answer the question of whether it was the lowest price.

Major Gen. Haddad—I do not think it is appropriate at this stage.

Senator CHRIS EVANS—Have you identified a second preferred tenderer?

Major Gen. Haddad—Yes, we have. It is ADI-Fox.

Senator CHRIS EVANS—That has been made public, has it?

Major Gen. Haddad—Yes.

Senator CHRIS EVANS—What is the status of that? Will they be spoken to if the first one falls over for some reason?

Major Gen. Haddad—Yes. They have been told that their bid remains alive until we actually get the contract signed with TenixToll. Should we have some difficulty with that contract negotiation process that is not to our satisfaction, we have the right to set aside TenixToll and go to ADI-Fox.

Senator CHRIS EVANS—I wanted to ask some questions about the Collins submarine combat system.

CHAIR—I think you can do that.

Senator CHRIS EVANS—Can I still do that now under Capital budget: major capital equipment and major capital facilities projects, or do I do it under Navy capabilities? I thought it was now but I am open to guidance.

CHAIR—It does not worry me. I think we have Rear Admiral Scarce here.

Senator CHRIS EVANS—Rear Admiral Scarce, what are the developments in the combat system?

Rear Adm. Scarce—Government has decided to move forward on the combat system. The combat system has three essential elements. The first is the tactical command and control system, which we will negotiate with the USN. That is based upon the Virginia class combat system. We are going to purchase that through an FMS case.

Senator CHRIS EVANS—Through a what?

Rear Adm. Scarce—Foreign military sales case.

Mr Roche—It is actually a government to government arrangement.

Senator CHRIS EVANS—Is that where you have got to get approval from the US Congress for military sales?

Rear Adm. Scarce—That is the process that we will go through with the tactical command and control system.

Senator CHRIS EVANS—In reality, is that through the US Navy or through one of their linked companies?

Rear Adm. Scarce—It will be a government to government agreement, but the combat system is predominantly a Raytheon product. The second element of the combat system is the sonar-processing element. We will be making changes to the sonar processing based upon our successful augmentation program. The final element of the combat system is the wet sensors, and they will remain as they are.

Senator CHRIS EVANS—Web sensors?

Rear Adm. Scarce—Wet sensors. They are the sensors outside the submarine that capture the information. The sonar processor processes that information and it goes into the tactical command and control system, which displays the information and provides the weapon telemetry.

Senator CHRIS EVANS—Can you just describe to me, then, what is happening with the sonar processing? You mentioned the successful augmentation of the current combat system.

Rear Adm. Scarce—Yes. Two years ago, following the Prescott-McIntosh report, we decided to improve the sonar processing elements of the combat system through a program with US and local industry. We have successfully deployed the augmented system in the *Sheean* and the *Dechaineaux*; we have tested that system at sea and it has been successful. As you will recall, that was one of the principal goals of the Prescott-McIntosh report. When we improved the combat systems we took out sea systems that had been proven, and that is that basis of us moving forward on the sonar processing.

Senator CHRIS EVANS—But they also recommended replacing the whole system, didn't they?

Rear Adm. Scarce—The predominant recommendation of McIntosh-Prescott was the tactical data-handling system. That was the area that had the predominant problem. I think you can read for that the tactical command and control system. That is the priority issue for us to replace in the combat work.

Senator CHRIS EVANS—Yes, that may be the priority issue—forgive me, I struggle with the technical stuff on this, which is probably pretty good from your point of view—but my reading of the McIntosh-Prescott report seems to indicate that the whole system needed replacing and that they wanted, as you say, to go for a proven in-service system. To a layman it looks like we have a bits and pieces response.

Rear Adm. Scarce—I think we have a system which has firstly been upgraded in terms of sonar processing. We have taken the sonar processing in the existing fleet and upgraded it. That is the purpose of the augmented system. We have spent \$100 million on augmenting that system, so I think we have a proven system at sea that works.

Senator CHRIS EVANS—But it is proven to work with a different tactical command and control system, isn't it?

Rear Adm. Scarce—It has been proven to work with a substandard tactical command and control system, so we are very confident that, with an improved tactical command and control system, we will have an even better system.

Senator CHRIS EVANS—Yes, but given the history of these things, I guess what strikes me as a layperson is that it will be a different system. The whole McIntosh-Prescott report was very focused on not going for Australian fixes but actually getting proven systems. I am just really raising a concern with you about whether our augmented sonar processing system will easily match work with the replaced tactical command and control system, I suppose.

Rear Adm. Scarce—There is no doubt that the integration of the elements into the system will provide us with a challenge. That system does not exist in the world, but I would outline that the tactical command and control system is a system that is at sea in the Virginia class, linked to an augmented system that has proven itself at sea. So the issue of risk is the integration of those elements together. That is a challenge for us. We know it is a challenge.

We have worked closely with the USN to define how we would make that integration. We have engaged DSTO and we will also engage Australian industry in delivering that product.

Senator CHRIS EVANS—We will just go back to the tactical command and control system. What are we actually buying?

Rear Adm. Scarce—It is termed the CCS Mark II system, Mod 6 Block C.

Senator CHRIS EVANS—That is what it says here, too. I am a fan of the mark I myself!

Senator Hill—That is the trouble.

Rear Adm. Scarce—It is a system that is predominantly at sea in the USN on the Virginia class. Our goal in this process is to keep the configuration of our tactical command and control system as close to the American configuration as we can.

Senator CHRIS EVANS—Why?

Rear Adm. Scarce—For upgrade purposes. It is much simpler for us to work with the Americans to upgrade that tactical command and control system and be part of 20 systems rather than four.

Senator CHRIS EVANS—Isn't that the point? Aren't the Americans already looking to upgrade the CCS Mark II system?

Rear Adm. Scarce—The submarine is a vital strategic asset. At no stage would we sit still and allow the tactical command and control system to stagnate in terms of the threat or the technology improvements that are happening over the decade. So I think, in any sense, the combat system will always be in a state of upgrade.

Senator CHRIS EVANS—Just answer my question, though, about what the US Navy is currently doing with that system in this case.

Rear Adm. Scarce—I think that did answer your question.

Senator CHRIS EVANS—It did in the most general terms. We are buying a system off them. What I am asking you is: where is it in their development? Are they currently upgrading that system?

Rear Adm. Scarce—As I mentioned, they will always upgrade that system.

Senator CHRIS EVANS—Are they currently upgrading that system? Do you know or do you want to take that on notice ?

Rear Adm. Scarce—They are upgrading the system, yes.

Senator CHRIS EVANS—Why are they upgrading that system?

Rear Adm. Scarce—Because, as I mentioned, they will always be looking at technology refresh; they will always be looking at how they can improve the system. They know that they want improvement in the littorals. So there are a range of areas where they will improve the system. We will work with them, give them our experience in the littorals, to improve the system for both the USN and us.

Senator CHRIS EVANS—So where are they in the development of an upgrade for this CCS Mark II system?

Rear Adm. Scarce—We are negotiating with the Americans now on defining the configuration for our sub system. The intent, I think, for the Americans is that we will follow on the end of their production line. We expect the contract for that production to be placed in the middle of next year.

Senator CHRIS EVANS—The end of their production line for what—an upgraded CCS Mark II?

Rear Adm. Scarce—That is correct.

Senator CHRIS EVANS—You made a very strong point earlier that they were in the Virginia class submarines. Is that right?

Rear Adm. Scarce—That is correct.

Senator CHRIS EVANS—But in fact what we are buying is an upgrade of what is in the Virginia class submarines. Is that right?

Rear Adm. Scarce—We are buying a modification of the system that is at sea and working successfully in the USN.

Senator CHRIS EVANS—Yes, but we are not buying exactly what is working at sea at the moment; we are buying a proposed upgrade. Have they completed or trialled that upgraded as yet?

Rear Adm. Scarce—No, they have not trialed the upgrade at this stage. The reason that we are on the end of the first production run for the upgrade of the system is that they will trial the system before they provide it to us. The system that they provide to us will be certified and ready for operations. That is part of the negotiation.

Senator CHRIS EVANS—So when are they trialling that?

Rear Adm. Scarce—I would need to get back to you on that.

Senator CHRIS EVANS—If you could take it on notice, I would appreciate that. But you anticipate production starting in the middle of next year?

Rear Adm. Scarce—I would need to give you the exact date but, from memory, the contract is due to be signed in the middle of the year. That is the reason that we are pushing forward quickly with the USN through a foreign military sales program.

Senator CHRIS EVANS—So we are looking to sign the contract in the middle of next year. I am interested, though, in when we will have an assessment of the trial of this upgraded CCS Mark II.

Rear Adm. Scarce—I would need to give you the dates for that on notice, but it will be well before the first installation, which is due in June 2006.

Senator CHRIS EVANS—Just go back a step, though: will it be before we sign the contract?

Rear Adm. Scarce—No.

Senator CHRIS EVANS—So when we sign the contract it will be in anticipation of the trialling of the first upgraded CCS Mark IIs?

Rear Adm. Scarce—We will be signing a contract which defines the system we require in very specific terms. Part of that contract will be that the USN certify that the combat system is fit for the purpose. That will occur before we take delivery of our system and certainly before the first system is installed in June 2006. That system will also be used in their boats prior to delivery to us.

Senator HOGG—Will we need to modify that system in any way for ourselves?

Rear Adm. Scarce—We will be attempting to keep those modifications to the minimum so that we can have a consistent configuration with the USN, but I do expect good Australian

inventions to be incorporated into the submarine combat system, as we have done in the past. I stress that one of the lessons we have learnt in the past is that it is better to be part of a larger system and make sure that we gather the benefits of being part of the USN system rather than develop a configuration which is solely Australian.

Senator HOGG—I accept that. If there are modifications, will they be ready for the installation in June 2006?

Rear Adm. Scarce—We have no plans for modifications. Our first configuration will be based predominantly on the USN system.

Mr Roche—As the admiral has explained, the only area of any significance that we need to modify is the interface to the sonar system. That has already been the subject of a fair amount of study, so we do not have any great concerns about it.

Senator CHRIS EVANS—Who is doing that sonar processing work for you?

Rear Adm. Scarce—That will be a mixture of Thales Underwater Systems, STN, some Australian SMEs, the USN, DSTO and the Australian Submarine Corporation.

Senator CHRIS EVANS—Quite a committee.

Rear Adm. Scarce—It is a good basket of talent.

Senator CHRIS EVANS—The tender round for this was cancelled, was it not? Did the German system win that tender process? The government announced the end of the tender process and said, 'For strategic reasons, we are buying the US system.'

Senator Hill—That is going back several years now.

Senator CHRIS EVANS—I am just trying to understand the process.

Senator Hill—I thought these additional estimates were about money we intend to spend, not decisions we made two years ago.

Senator CHRIS EVANS—I will come to the money.

Rear Adm. Scarce—The tender process was cancelled.

Senator CHRIS EVANS—Had you made a decision on the preferred tenderer before that was cancelled?

Rear Adm. Scarce—A recommendation went to government.

Senator CHRIS EVANS—And that was for the German system?

Rear Adm. Scarce—I think that is a government issue. There may well be contractual and legal elements flowing from our decision and it is probably not wise to comment at this stage about who won the tender and why.

Senator Hill—That is so, but there is no secret that the government made a decision, for strategic reasons, to go down the USN path, and that is what we have been implementing over the last couple of years.

Senator CHRIS EVANS—What did the German system offer that the US did not, or vice versa? What was the difference in the approaches, Admiral Scarce?

Rear Adm. Scarce—There are lots of differences.

Senator CHRIS EVANS—I am not after the technical explanation, obviously, because it would go right over my head. I am just trying to understand what they were offering that the US was not offering and what the US was offering that they were not offering. What are your options when buying this sort of thing now?

Rear Adm. Scarce—The benefit we saw in the US system was the ability to work tactically and strategically with the US and have a constant path of upgrade which could update the combat system over the life of the submarine. That benefit would not have been available to us had we taken a non-US system.

Senator CHRIS EVANS—What is the origin of the sonar processing system you currently have—whose system is that?

Rear Adm. Scarce—The system that we have at the moment is a combination and hybrid of Thales Underwater and Sonartech and STN equipment.

Senator CHRIS EVANS—That is the German company?

Rear Adm. Scarce—Yes.

Senator CHRIS EVANS—Is it fair to describe the sonar system as being the German STN—

Rear Adm. Scarce—It is a variant of the SCYLLA sonar which is predominantly a French product. That is the current system we have at the moment, except for the two augmented boats which have a combination of more US equipment and also some STN equipment as well.

Senator CHRIS EVANS—They are still building on the original Thales sonar processing system. Is that correct?

Rear Adm. Scarce—No. It is a separate system altogether.

Senator CHRIS EVANS—When we say augmented, in layman's terms have you, not really augmented, pulled out and put a new system in?

Rear Adm. Scarce—Perhaps the best way to describe it is that the underlying system—the sonar processing system—is there and we have augmented it with pieces of equipment that provide us with better sonar processing of some of that information.

Senator CHRIS EVANS—Who owns the intellectual property rights to the underlying sonar system?

Rear Adm. Scarce—It is predominantly Thales Underwater Systems—SCYLLA.

Senator CHRIS EVANS—You have added now STN and other Thales bits to that basic system?

Rear Adm. Scarce—That is correct.

Senator CHRIS EVANS—What sort of sonar processing systems do they use in the Virginia class submarines in the US?

Rear Adm. Scarce—It is a totally different system. It is not a system that we can pick up, because of the difference in size between the submarines.

Senator CHRIS EVANS—Who owns their system? Is it a Raytheon product?

Rear Adm. Scarce—It will be a range of products—I suspect mostly Lockheed Martin and Raytheon.

Senator CHRIS EVANS—It is a very different system to the one that we—

Rear Adm. Scarce—It is quite different and not something that we could pick up. We have examined that and it was totally inappropriate for the size and the operating environment of our submarine.

Mr Roche—It is linked very closely to the type of sensors that you build into the boat, and the sensors on the USN submarines are quite different from ours in scale, if nothing else.

Senator CHRIS EVANS—Is that related to nuclear or non-nuclear powering or is it an operational thing?

Rear Adm. Scarce—It is the size. We are talking about submarines of 10,000 to 12,000 tonnes, and ours is three and a bit.

Senator CHRIS EVANS—Going back to the US, do I understand that they have issued a request for tender that includes the Collins class submarines?

Rear Adm. Scarce—That is correct.

Senator CHRIS EVANS—Would you tell me how that works?

Rear Adm. Scarce—I think they are signalling to industry—it is a request for tender—that this is the range of products that they wish and, as I mentioned to you, they have stated to industry that there is a prospect of Australian systems at the end of the production run.

Senator CHRIS EVANS—So in issuing their tender for the upgrade of the CCS Mark II—its abbreviated title—they have included the prospect of a contract with Australia to upgrade the new command and control system for the Collins?

Rear Adm. Scarce—That is correct.

Senator CHRIS EVANS—That is only a request for tender, but it is in anticipation of us signing the contract?

Rear Adm. Scarce—That is correct.

Senator CHRIS EVANS—Is this a major upgrade of that system and will it still be called the CCS Mark II or will it be called CCS Mark III? What are we buying—Mark II or a largely upgraded system?

Rear Adm. Scarce—We are buying an upgrade. I would not say it was a large upgrade, but we are buying an upgrade of a currently successful combat system. The Americans are attempting to standardise as much of their combat system as they can, and so this system predominantly will form the basis of the combat systems for all of their nuclear submarine fleet. This is what we understand.

Senator CHRIS EVANS—Was it originally intended that you would be replacing the sonar system as part of Sea 1439, phase 4?

Rear Adm. Scarce—We were asked by the government to look at a range of options, one of which was the complete replacement of the combat system.

Senator CHRIS EVANS—So was it or was it not part of Sea 1439, phase 4 requirements that it be replaced?

Rear Adm. Scarce—It was one of the options that government required us to go and investigate in remediating the problems with the combat system.

Senator CHRIS EVANS—To appease the minister, what have we budgeted for this program, Admiral Scarce?

Rear Adm. Scarce—The budget for the approved program is in the region of \$455 million.

Senator CHRIS EVANS—What are we going to get for that?

Rear Adm. Scarce—We will get a USN tactical command and control system, augmented sonar, a training site with an additional system, spares support, technical support, and we will get the system implemented into the submarine by the Australian Submarine Corporation.

Senator CHRIS EVANS—So out of that budget of \$450 million we will pay for the command and control system from the USN?

Rear Adm. Scarce—Yes.

Senator CHRIS EVANS—And we will also meet the costs of the augmentation of the sonar processing system.

Rear Adm. Scarce—That is correct.

Senator CHRIS EVANS—And what about the wet sensors?

Rear Adm. Scarce—The wet sensors will remain there. There are no significant issues with the wet sensors at the moment. It is more about processing information that the sensors collect.

Senator CHRIS EVANS—Is that a major issue?

Rear Adm. Scarce—No. There is no suggestion that there is any problem with the sensors. I am sure that as we upgrade the submarine into the future we will continue to monitor their performance.

Senator CHRIS EVANS—As I recall, the \$450 million was assigned against this project in the capability plan. Is that right? It is not actually in the budget.

Rear Adm. Scarce—\$455 million was the figure that we initially identified for the replacement of the combat system.

Senator CHRIS EVANS—Has any of that been expended as yet?

Rear Adm. Scarce—Very small amounts have been expended—in the region of \$3 million to \$4 million, I think, although I can get back to you precisely on that, but it is not much more than that. That was predominantly to do the work with industry to define the product, to define how we would interface it and to make sure that we all understood what it is that has to be delivered.

Senator CHRIS EVANS—What I am trying to get to is an understanding of when this expenditure will occur. What is your thinking about when that money will be required and for what? The sonar work is going on now or is about to, is it not?

Rear Adm. Scarce—Now that the government has decided how to proceed with this particular program, we are finalising the statement of work. We employ industry and the USN to complete that statement of work. That is predominantly what we will pay for at this part of the financial year. We expect to sign contracts in the second quarter of 2003 and then from 2003 onwards we will start to pay predominantly for the USN TCC and also commence the upgrade work with the sonar processing. I have got some figures here. I can give you on notice an intended expenditure spread.

Senator CHRIS EVANS—Thank you for that. It might save some time now if you take that on notice; that would be helpful. I want to go back and be sure I understand that you are not at all concerned about the issues of integrating the American command and control system with our augmented sonar processing system.

Rear Adm. Scarce—I am concerned. That is a significant risk to the program. We have identified the risks. We have in place what we believe are sensible mitigation strategies. We

have employed DSTO to assess those risks and assist us with the integration. But, clearly, we are confident that those elements can be integrated into an effective combat system.

Senator CHRIS EVANS—When will we know if there is a problem with that?

Senator Hill—They are issues to be addressed and problems to be overcome.

Senator CHRIS EVANS—I accept that; I am sorry. The real question is: when does that integration work come to a head—when is crunch time? You are dealing with a system that has not yet been trialled and that we have not got. When in the process will you get to the point of trying to integrate your upgraded Mark II with your sonar processing system?

Rear Adm. Scarce—We expect the first of the combat systems to be delivered to our land based test site in around 18 months to two years. That is when we will start the major integration work. Clearly there is a lot of work that we can do in that intervening period to examine the risks and take the appropriate steps to reduce them.

Senator CHRIS EVANS—When will we end up with a fully capable submarine fleet with a new command and control system on all the subs, would you say?

Rear Adm. Scarce—The first system will be delivered in a submarine in June 2006. We expect six months of trials, so I expect the first system to be operational and ready to go in accordance with the white paper by the end of 2006. From then on, we will be marrying the combat system installation with the full cycle docking of the submarines. We clearly want to coordinate those activities. A full cycle docking happens once a year for one ship, so we would expect all of the submarines to be modified in the region of 2010-11.

Senator CHRIS EVANS—It would be that late before they were all done?

Rear Adm. Scarce—That is the program we are working to at the moment. If it is possible—and clearly that is our goal—to implement the combat systems in a period other than the full cycle docking, that will bring the program forward. It depends on how quickly we can manage the installation into the submarine.

Senator CHRIS EVANS—How is your full cycle docking program going now? Isn't that behind?

Rear Adm. Scarce—It is behind, yes. The first full cycle docking of Collins is certainly encountering problems in some areas. We have started the second full cycle docking and that is progressing reasonably well.

Senator CHRIS EVANS—How long was the first one delayed?

Rear Adm. Scarce—We think about 18 months at this stage.

Senator CHRIS EVANS—It was out of the water for 18 months?

Rear Adm. Scarce—For 18 months above the 12 months that was initially planned.

Senator CHRIS EVANS—Are you saying that it was out of the water for 2½ years?

Rear Adm. Scarce—Yes. That is the indication at this stage.

Senator CHRIS EVANS—So the first boat was planned to be out of the water for 12 months but it was actually out of the water for 2½ years?

Rear Adm. Scarce—We planned on 12 to 15 months for the first full cycle docking.

Senator Hill—It has not been out of the water for 2½ years; that is a projected time for completing the process.

Senator CHRIS EVANS—I thought it was coming to the end. The first one is still out of the water?

Rear Adm. Scarce—The first one is still out of the water. It is the first time we have conducted such an extensive pulling apart of the submarine. It has taken us longer than we would have expected. We have learnt a lot of valuable lessons, and those lessons will be put into our second full cycle docking of *Farncomb*, which has just started.

Senator Hill—That is estimated to be—

Rear Adm. Scarce—About 74 weeks.

Senator Hill—74 months.

Senator CHRIS EVANS—74 weeks, I think.

Senator Hill—I am sorry: 74 weeks.

Senator HOGG—I was going to say you have really extended it out, Minister.

Senator CHRIS EVANS—You should live so long.

Senator Hill—It will take over a year, as opposed to 2½ years, and that is from lessons learnt. As the admiral said, the first one has been a new experience in many ways. Like everything with the *Collins*, when you do it for a first time it is a significant learning experience.

Senator CHRIS EVANS—When did that first boat come out of the water?

Rear Adm. Scarce—February 2001.

Senator CHRIS EVANS—And when is it due to go back in?

Rear Adm. Scarce—18 months after that.

Senator CHRIS EVANS—You were telling me it was going to take 2½ years, not 18 months.

Rear Adm. Scarce—I am sorry, 18 months after February 2002, so it will be about September 2004.

Senator CHRIS EVANS—And you have now pulled the second one out of the water?

Rear Adm. Scarce—Yes.

Senator CHRIS EVANS—Was it intended originally that you would not have two out at the same time?

Rear Adm. Scarce—That was our strong preference, but I think we knew early on, as soon as we had undertaken the preparatory work for *Collins*, that we were going to have an overlap. But the goal is certainly not to have an overlap.

Senator CHRIS EVANS—But wasn't the idea to have a one-every-year cycle?

Rear Adm. Scarce—Yes.

Senator CHRIS EVANS—So the theory was that one would be out of the water at any one stage on an annual turnover?

Rear Adm. Scarce—That is correct, but I would have to stress that we are learning a lot of valuable lessons in this process. Certainly our goal is to bring that full cycle docking to under a year.

Senator CHRIS EVANS—What is the operational impact of having two out of the water at the one time?

Rear Adm. Scarce—I think you would be better to address that to the Maritime Commander and Chief of Navy.

Senator CHRIS EVANS—I did not want to labour the point, but the Chief of Navy wants to say something.

Vice Adm. Ritchie—The operational impact at the moment is that we can cope, given that we only have five of the six submarines, in any case—there is still one to be delivered. But the operational program that we have for the submarines is able to be delivered within the constraints that we have.

Senator CHRIS EVANS—Is the sixth still on time for delivery?

Rear Adm. Scarce—*Rankin* has been delayed. We are expecting *Rankin* to be delivered in the first half of 2003. We have run into some equipment issues with *Rankin*, but we are confident that she will be delivered into the Navy suite in the first half of 2003.

Senator CHRIS EVANS—When was it originally due?

Rear Adm. Scarce—The latter end of 2002.

Senator CHRIS EVANS—You mentioned equipment problems, yet it is the last off the line.

Rear Adm. Scarce—Really, installation problems with the equipment and some of the testing of that equipment caused us problems that we had not seen before.

Senator CHRIS EVANS—What is happening with the half cycle docking question?

Rear Adm. Scarce—The half cycle dockings continue. They are conducted in Western Australia. We have progressed reasonably successfully with those half cycle dockings to the stage now where we are looking at our maintenance routines again to see whether we can reduce the period that the submarines are not available because of maintenance activities. So we are learning as we go along in this process.

Senator CHRIS EVANS—But weren't the half cycle dockings supposed to be going to South Australia?

Rear Adm. Scarce—The full cycle dockings are going to South Australia. The government has announced that intention. But most of the maintenance during the operational cycle of the submarine is conducted in Western Australia.

Senator CHRIS EVANS—So it is a confirmed policy that the half cycle dockings will occur in WA; is that right?

Rear Adm. Scarce—The government has announced the intention for the full cycle docking and has just mentioned that the ordinary maintenance cycle will continue to be conducted in Western Australia. There is no plan to change the current arrangements, in other words.

Senator CHRIS EVANS—So all half cycle dockings will occur in Western Australia?

Senator Hill—Half cycle dockings are occurring in Western Australia.

Senator CHRIS EVANS—Is there any current plan to change that arrangement?

Senator Hill—There is no current plan to change it.

Senator CHRIS EVANS—So we would expect in the foreseeable future that the half cycle dockings would occur in WA and the full cycle dockings will occur in South Australia. Is that a fair summary?

Senator Hill—In terms of government policy as opposed to operational practice, the government made a specific decision in relation to full cycle dockings, which it announced. In terms of overall government policy, the government has not addressed the issue of half cycle dockings, which are simply continuing on an ongoing basis, as has been said, in Western Australia.

Senator CHRIS EVANS—It seems like you are leaving the door open. I am just trying to understand whether you are saying that it is actively under review.

Senator Hill—No, not actively—perhaps I am being ultra-cautious. We are negotiating with ASC a longer term arrangement for the maintenance of the submarines, and the only aspect of that which has been dictated by government policy is that the full cycle dockings will take place at the ASC facility in Adelaide.

Senator CHRIS EVANS—As I understood it when I spoke to them some time back, they were arguing that they needed the half cycle dockings for questions of viability of the ASC operation.

Senator Hill—Correct me if I am wrong; they actually do the half cycle dockings but they subcontract some of the work to Tenix and use the Tenix facility in Western Australia.

Rear Adm. Scarce—That is correct.

Senator CHRIS EVANS—Are they still seeking to have the half cycle dockings occur in South Australia?

Senator Hill—They have not put that to me of recent times.

Mr Roche—I do not think it is something they have actively put to us recently.

Senator Hill—From the Navy's point of view, in terms of the half cycle dockings, which are for maintenance during an operational period, there is convenience in doing it close to the operational base of the submarines, which is Western Australia.

Senator CHRIS EVANS—So while you are contracting with ASC, for all intents and purposes the half cycle dockings are done by Tenix in Western Australia?

Rear Adm. Scarce—No, we use the Tenix facility to dock the boat. ASC are in charge of the maintenance program.

Senator CHRIS EVANS—I think this question about torpedoes is for you, too, Admiral Scarce.

Rear Adm. Scarce—Yes, Senator.

Senator CHRIS EVANS—Don't look so pleased! The title for these torpedoes is even worse than the command and control systems—Mark 48 ADCAP Mod 6. Is that the short title?

Rear Adm. Scarce—That is the title.

Senator CHRIS EVANS—Last time we were talking, you were telling me about the integration study—is that right?

Rear Adm. Scarce—That is correct.

Senator CHRIS EVANS—Where are we up to with the integration study?

Rear Adm. Scarce—The study is being conducted by the Australian Submarine Corporation. It is to look at the physical characteristics of a slightly heavier weapon in the submarine, the weapon handling equipment, the racks that hold the slightly heavier torpedoes

and the weight and trim impacts of adding a very small amount of weight to a 3,300 tonne submarine. At this stage, no significant problems are foreseen. The program is due to complete by the end of February and ASC assess as low the risk of integrating that weapon into the submarine, but we need to complete all of our work to finally conclude that that is the case.

Senator CHRIS EVANS—And when is that likely to be concluded?

Rear Adm. Scarce—In February 2003.

Senator CHRIS EVANS—What happens then—you get the integration study? We have already determined to purchase these, haven't we?

Senator Hill—In the same way that the combat system submarines are constantly upgraded, so are the complementary weapons and, in the same way that we are looking at an evolution on an existing American combat system for a new torpedo in the future, we are looking at an evolution on an existing torpedo system. There are some slightly different aspects to the proposed torpedo, in particular that it is slightly heavier, and that is the purpose of the integration study. So whereas we expect to go down this path of the new American torpedo, which will be more capable in our circumstances than the old torpedo, some formal aspects of that contracting arrangement are still to be entered into.

Senator CHRIS EVANS—So we have not actually contracted to buy anything at this stage?

Senator Hill—In a technical sense, that is correct.

Senator CHRIS EVANS—We are not committed necessarily to buying the ADCAP Mod 6?

Senator Hill—Is it Mod 6?

Rear Adm. Scarce—It is Mod 7. Mod 6 is one of the interim upgrades that the Americans have made to the ADCAP torpedo. Our goal, should government approve, is to take the Mod 7, which is the final upgraded weapon. They are upgrading the Mark 48 in a series of activities to control their risk as they go through the upgrade.

Senator CHRIS EVANS—When will the Mod 7 be available?

Rear Adm. Scarce—The first variant of the Mod 7 will be available around 2005-06.

Senator CHRIS EVANS—We are not envisaging any of these torpedos coming on before then?

Rear Adm. Scarce—We would expect to get trial torpedoes so that we can use them in our new combat system in about January 2006. Those weapons are likely to be Mod 6, depending on how the production line for the US has gone, but the goal will be for us to have all Mod 7 weapons as soon as the production line allows us. There is an interim period where we might take a different Mod to trial the new weapon in the combat system.

Senator CHRIS EVANS—Are the Mod 6 and the Mod 7 designed to be the same weight?

Rear Adm. Scarce—Yes.

Senator CHRIS EVANS—So your major problem about fitting the weight is not going to be impacted by the upgrade?

Rear Adm. Scarce—That is correct.

Senator CHRIS EVANS—Are there any other issues associated with the move from Mod 6 to Mod 7 that might impact on our submarine?

Rear Adm. Scarce—None that we are aware of.

Senator CHRIS EVANS—What does that mean for the budget?

Rear Adm. Scarce—The price for this program has not changed since it was originally put forward in the mid-1990s. We had a bracket of cost for the submarine project in the region of \$425 million to \$475 million. For programming purposes, the first phase of that program, of \$263 million, was brought forward. The reason it was split at that stage was that we intended to buy the torpedo through foreign military sales. However, the USN and we worked on a development program that enabled us to work with the Americans to develop a torpedo, to take our littorals experience and use that so that the weapon continually meets our needs. So we brought forward consideration of that into an armaments cooperation program which would require us to commit the full \$450 million when we make a decision to move forward with the submarine. The cost of the program has not changed.

Senator CHRIS EVANS—The capability plan still only talks about the \$200 million to \$250 million range, doesn't it?

Rear Adm. Scarce—It does, for the first phase of the project.

Senator CHRIS EVANS—Where is the rest of that phase indicated?

Rear Adm. Scarce—The rest of the money was due to come from phase 5 of that program, which was the continual upgrade of the submarine. That had not yet been approved, but the cost of the program had not changed. We split it for programming purposes.

Senator CHRIS EVANS—So has the government approved the full \$470 million budget?

Rear Adm. Scarce—No, the government has not approved the program yet, and will not do so until we have the results of the integration study.

Senator CHRIS EVANS—What has the government approved? Have you got the \$250 million?

Rear Adm. Scarce—Yes, I have, but I have not used it.

Senator CHRIS EVANS—You have the \$250 million, but the total project is going to cost you closer to \$470 million?

Rear Adm. Scarce—\$450 million.

Senator CHRIS EVANS—You have not got approval yet for the extra \$200 million?

Rear Adm. Scarce—That is correct.

Senator CHRIS EVANS—You think the total cost of the project will be in vicinity of \$450 million?

Rear Adm. Scarce—All of our indications and discussions with the Americans would indicate that.

Senator CHRIS EVANS—I understand there are some environmental issues with the ADCAP Mod 6. Can you tell me what they are and whether there has been any environmental clearance for them to be used in Australia?

Rear Adm. Scarce—I would need to take that on notice. I am not aware of any environmental issues with the torpedo. I am aware of issues in the US with the sonar, and that is an ongoing issue.

Mr Roche—Do you have more detail?

Senator CHRIS EVANS—I understood that Mod 6 had been banned in some countries on the basis of some discharge from the propellant, or something like that. Is that not right?

Rear Adm. Scarce—It uses Otto fuel, which is certainly a fairly caustic agent. But it is the same fuel that we use in the current torpedo.

Senator Hill—We will take the question on notice and get an authoritative answer for you.

Senator CHRIS EVANS—So you are not aware of any environmental issues associated with ADCAP Mod 6?

Rear Adm. Scarce—Not for the torpedo.

Senator CHRIS EVANS—Perhaps you can take that on notice, because it has been put to me that they had been banned in certain countries because of the discharge.

Vice Adm. Ritchie—I do not think the weapons have been offered to any other countries.

Senator Hill—Yes, I would not think it would be used in too many countries.

Senator CHRIS EVANS—Sometimes countries do not know what is going to be used against them, Senator Hill; I think that is the point.

Senator Hill—It is a bit late for an environmental clearance then.

Vice Adm. Ritchie—It would be banned if you put it through a target.

Senator CHRIS EVANS—I think you could make an environmental argument about an incoming torpedo, in any event, and the propellant might be the least of your problems. So I accept that it is a question of degree. It has been raised with me that there may be some environmental issues associated with it. That may be wrong, but perhaps you could take that question on notice. If there is a problem, you might also ask whether that will continue to be an issue with the Mod 7.

Senator HOGG—Going back to the question of the combat system that we are getting out of the Virginia class ships from the United States. When are the Virginia class due to be in service in the United States, or are they in service currently?

Rear Adm. Scarce—They are in service now. There are additional ships, but the first of the Virginia class ships is already in operation.

Senator HOGG—So we are getting the system modified out of what is already in the water and tested.

Rear Adm. Scarce—That is correct.

Senator CHRIS EVANS—When are the upgrades for the Virginia class coming on line?

Rear Adm. Scarce—I think I have already taken that question on notice. I expect in the two-year period but I will need to get the exact dates for you.

Senator MARSHALL—Can you give me the rationale behind the decision taken to sell the Russell offices?

Mr Scrafton—The decision was made in the light of the principles that government announced in relation to what property they would retain and what property they would not retain. Cabinet made the decision.

Senator MARSHALL—When was the original decision made and conveyed to you?

Mr Pezzullo—It was originally in the 2000-01 budget and taken in the context of that budget round.

Senator MARSHALL—Have you looked at any other examples where overseas governments have sold their defence headquarters?

Mr Pezzullo—We have some details to hand in relation to the UK. There are some differences that you have to allow for in terms of accounting classifications and how land tenure is treated. Their principal headquarters building, the MODUK building, is on freehold title but the building is leased as part of a private finance initiative which obviously provides for the provision of services under a lease payment arrangement. The Russell sale will not be done in that way. It will not be a PFI sale, just a straight out lease payment. But that is comparable, once you allow for some differences in land arrangements and accounting treatment.

Senator MARSHALL—What exact parts of Defence are actually located at the Russell headquarters?

Mr Pezzullo—It is the principal headquarters for the upper management of the department. The CDF has his principal office there, the secretary, most of the group heads and the vast majority of what you would call the Defence central staff in the ACT.

Senator MARSHALL—Have you placed any limitations on who might be able to purchase the offices, given any security considerations that there may be?

Mr Scrafton—Can I make the point that cabinet has given responsibility for this sale to the Department of Finance and Administration. While the returns for this are accounted for in our report, actual management of this process has been given to the Department of Finance and Administration.

Senator CHRIS EVANS—But surely Defence would have taken a view about what conditions they thought were required. I understand that Finance and Administration are going to sell it for you and manage that, but if you had any security concerns or issues you wanted addressed, surely you would have provided advice to Finance and Administration before that.

Mr Scrafton—There is a joint process going on at the moment to define the security implications of the sale for cabinet. This includes addressing issues such as ownership by foreign companies, the need to protect intelligence facilities and the general security of the area. There is also a general due diligence activity which is primarily being done by Defence because we hold all the information on the buildings. In the sense of deciding what was to be sold—which buildings, whether car parks were included, those sorts of issues—the Minister for Finance and Administration has had responsibility.

Senator MARSHALL—Are you putting it to us that you are happy to sell it to anybody? Is no security checking being done?

Mr Scrafton—No, I am saying that the issue is under consideration at the moment. Government has asked for advice on the security implications. The Department of Finance and Administration is managing that process, and we are providing advice to the Department of Finance and Administration.

Senator CHRIS EVANS—Just so we are clear: the decision has been taken to sell. That has been handed over to Finance now. You are just arguing about the detail or the conditions that might apply. Is that right?

Mr Scrafton—Yes, that is exactly right.

Senator CHRIS EVANS—Have you decided what you are selling, or is that a decision for Finance? You are saying that the car parks may or may not be included.

Mr Scafton—The department of finance have decided what the scope of the sale is—which buildings are to be included and whether car parks are to be included. Questions about the reasons for those decisions should be directed to the department of finance.

Senator CHRIS EVANS—I think of Russell as being at least three or four big buildings. When we talk about Russell, what are we talking about?

Mr Scafton—We are talking about five buildings—the four around Blamey Square and R8, which is an eight-storey building off to the right as you look up towards the eagle, just at the back of R3.

Senator CHRIS EVANS—Do we know whether we have agreed to sell all of them or just some of them?

Mr Scafton—The decision at this stage is to sell all of those five buildings.

Senator MARSHALL—Who is currently responsible for the physical security of those buildings?

Mr Scafton—The APS, the Australian Protective Service.

Senator MARSHALL—I am interested to know whether that will change as a result of a change of ownership of the physical buildings. Is that anticipated?

Mr Pezzullo—The security access for Defence buildings is generally provided for under what is called a garrison support arrangement, where we contract to security firms—except in the case of Russell and other buildings where it is directly provided by the Australian Protective Service. It is not intended for that arrangement to change.

Senator MARSHALL—So as part of the lease arrangements you will maintain the security responsibility?

Mr Scafton—Yes.

Senator MARSHALL—Can you tell me what you anticipate the proceeds of the sale of the offices to be?

Mr Scafton—No, I am afraid I cannot.

Senator MARSHALL—Has there been no valuation done at all?

Mr Scafton—There has been initial work done. We have declared the total expectation of the return of sales from our property disposals this year, but each individual property has not been disclosed, for commercial-in-confidence reasons.

Senator Hill—We do not specify anticipated returns in advance, because that obviously would be useful information in a market sense for us that we do not want to share.

Senator CHRIS EVANS—The ad said over \$100 million, as I recall.

Senator Hill—So we will say over \$100 million.

Senator CHRIS EVANS—Can I cut out the ad? I get more information about Defence out of the classified ads than I get out of estimates.

Senator HOGG—What's new!

Senator PAYNE—That is harsh, Senator Evans.

Senator CHRIS EVANS—It is not harsh; hard but fair.

Senator PAYNE—Harsh!

Senator MARSHALL—Then could you just describe the process of a cost-benefit analysis and from where the savings are going to come from going through this program?

Mr Pezzullo—Without being specific as to Russell but talking in general about how a government comes to these decisions, the Commonwealth across all agencies—not just limited to Defence—applies what is called a hurdle rate methodology, which is a rate that is calculated to reflect two elements. One element is the opportunity cost of sitting on property and not having those proceeds available for other purposes. They also price into that rate the element of risk associated with the Commonwealth owning property as distinct from transferring those risks on to other commercial parties. In the May budget last, the Commonwealth announced that the hurdle rate had been set at 11 per cent.

Senator MARSHALL—So that process would have been undertaken specifically for this set of properties?

Mr Pezzullo—The hurdle rate methodology was revised in May 2002, from a range of 14 to 15 per cent applicable prior to budget night to 11 per cent now. That hurdle rate methodology is applicable to all Commonwealth property decisions.

Senator MARSHALL—Can we see that analysis or any similar information?

Mr Pezzullo—The analysis taken with respect to particular properties would include commercially sensitive information.

Mr Scrafton—Can I make the point that this is really the business of the Department of Finance and Administration at the moment. They really should be asked to comment on this. They have control of all of the information and the decision-making process.

Senator MARSHALL—So it would have been that department that did that analysis that was just outlined?

Mr Scrafton—That is correct. So they are the people to ask about that.

Senator MARSHALL—Can you tell me the value of refurbishment works that have been going on at the Russell offices over the past five years?

Mr Pezzullo—Some of that information has been put down recently in terms of questions on notice. I would have to recall that off the record. If I could take that on notice, I would appreciate it.

Senator MARSHALL—Can you confirm that \$226.7 million was spent in 1999-2000?

Mr Pezzullo—That figure instinctively sounds like it includes the capital cost of the construction of the new buildings that now exist on the Russell site, as distinct from what was there 10 years ago.

Senator MARSHALL—Would you be able to provide some detail of that expenditure?

Mr Scrafton—We will take it on notice to provide it.

Senator MARSHALL—Even if it involves some capital work, there is obviously some refurbishment work in there too. Has all of that been taken into consideration through that analysis that you talked about earlier? Is that factored in?

Mr Scrafton—You would have to ask that question of the Department of Finance and Administration.

Senator MARSHALL—Are there plans for any further refurbishment works prior to the sale taking place?

Mr Scrafton—There is an issue of expanded room for some intelligence facilities which will move into one of the buildings being considered.

Senator MARSHALL—What is the value of that?

Mr Scrafton—We are still scoping that at the moment.

Senator MARSHALL—Can you give me a ballpark figure?

Mr Scrafton—No; but \$10 million, plus or minus a bit, would be the cost of the refurbishment. That is an estimate at this stage. There are some questions about whether or not we are going to put tunnels in to connect the building up with the other intelligence precinct, so some of the specifications are still to be resolved.

Senator CHRIS EVANS—But you have made a decision to build a new building, have you?

Mr Scrafton—Not a new building—a refurbishment. At the moment my infrastructure division has moved out of R4—the building on the left-hand side as you go into Blamey Square—to near the airport, at Brindabella Park. The building that the division has vacated will be refurbished for a component of the intelligence group.

Senator CHRIS EVANS—If the value of that work has not been scoped yet, how would that factor into the cost-benefit analysis that has got us to the point of making the decision to sell it?

Mr Scrafton—We are a long way away from having the Department of Finance and Administration decide what the basis of our tenancy would be in any sale and lease-back agreement. Again, I think you would have to address that question to the Department of Finance and Administration, but the normal process would probably be that we would have some provision to fund our own refurbishments in terms of the fit-out of buildings or to have some sort of recognition of that in the fact of the sale and lease-back. At this stage, you would have to ask the Department of Finance and Administration.

Senator CHRIS EVANS—To clarify this, these buildings that are up for sale—and I know one has to be careful; I do not know whether we formally admit who is in what building—include some of our intelligence organisations. Is that right?

Mr Scrafton—They do not at the moment. But by the middle of next year there will probably be an intelligence agency, or part of one of the intelligence agencies, in one of the buildings.

Senator CHRIS EVANS—So the buildings that contain the intelligence agencies currently are not up for sale?

Mr Scrafton—No.

Senator CHRIS EVANS—I think of them as being part of the Russell complex. Am I wrong in that?

Mr Scrafton—The parts of the complex that are up for sale are the four buildings that are around Blamey Square, which are designated R1, R2, R3 and R4.

Senator CHRIS EVANS—We all immediately think of B1 and B2!

Mr Scrafton—And building R8, which is at the back on the right-hand side as you go up to the square. The buildings on the left-hand side, which are the intelligence buildings, are not part of the sale and have been excluded by government from the sale.

Senator CHRIS EVANS—I see. It was not clear from earlier evidence. I think it is because we do not know the area as well as you do.

Mr Scrafton—We can provide you with a map which sets it out.

Senator CHRIS EVANS—How many buildings that you would consider to be part of the Russell complex have been excluded from the sale proposition? Is it just the one?

Mr Scrafton—There are three buildings.

Mr Pezzullo—If you look at the Russell complex with your back to Parliament House, there is a fenced compound. None of the buildings inside that fenced compound are in the sale.

Mr Scrafton—I will provide you with a labelled map of the site.

Senator CHRIS EVANS—So we do not care as much about General Cosgrove as we do about the spooks, basically. He will have to take his chances!

Mr Scrafton—I could not possibly answer. I will have to take that on notice.

Senator CHRIS EVANS—I look forward to the answer.

Senator MARSHALL—How much does it cost to maintain these buildings in the complex each year?

Mr Scrafton—I will take that on notice and get back to you.

Senator MARSHALL—The Audit Office found that there were some difficulties in that regard, and it has made some recommendations. Have the recommendations been implemented?

Mr Pezzullo—Could you be specific as to which audit report?

Senator MARSHALL—The Auditor-General's report into Defence property management.

Mr Pezzullo—Are there any particular recommendations of concern at the centre of your question?

Senator MARSHALL—The ones that said you did not know what you owned or what you spent on them or what you got from them—those ones.

Mr Pezzullo—The audit report in question, which came out midyear, made reference to the fact that some of the valuations were not captured centrally in databases. Obviously, we have a clear idea of what our lease cost program is because we get appropriated an amount for lease payments. In a separate part of the same division, we do have a very clear idea of how much we expend on what is called facilities operations because, again, it is appropriated and budgeted for. The Audit Office made some recommendations, which have been accepted by the government, about the better transparency of that information and its correlation in the same databases. We are moving in that direction, and those recommendations have been accepted by government.

Senator MARSHALL—So the recommendations will be implemented?

Mr Scrafton—Yes, they are being implemented at the moment. We are putting in place a management system for that data.

Senator MARSHALL—What is the rent being paid for the Campbell Park offices?

Mr Pezzullo—I would have to check. That information has not been publicly disclosed. It was part of a commercial deal that was closed in June this year. I would have to take on notice and check to what extent that information is publicly available.

Senator MARSHALL—Do you have any idea what rent you will end up paying after you sell the Russell offices?

Mr Scafton—No, that will obviously be dependent on what sort of return people expect for the amount of money. Negotiations will have to be entered into.

Senator MARSHALL—What would be the commercial rate of return for those properties now?

Mr Scafton—I would have to take that on notice.

Senator MARSHALL—Coming back to the cost-benefit analysis, wouldn't that information have to be known in order to come up with the mathematical equation to work out whether it is cost beneficial or not?

Mr Scafton—I draw your attention again to the fact that this is all being done by the department of finance. They are the responsible agency for managing the sale on behalf of the government, including doing the analysis. We are providing information to them on security issues and our requirements for the building and on whatever other issues we think need to be dealt with in the sale. The analysis in regard to the lease, sale price and sale process is being managed by the department of finance. These questions should really be directed to that department. Their minister has the responsibility.

Senator CHRIS EVANS—Where did the original submission for the sale of Russell come from—from Defence or from Finance?

Mr Scafton—I would have to take that on notice; it was before my time. My recollection is that it was from the department of finance. I cannot think of anybody in Defence.

Senator CHRIS EVANS—They were just driving along one day and they saw these buildings and said, 'We could flog those and make a quid.'

Mr Scafton—There is a government policy in regard to what properties we retain and what properties we do not retain, which Mr Pezzullo explained in terms of applying the hurdle rate analysis. All properties, all Commonwealth holdings, were looked at in that context. This was included in a range of other office accommodation, along with, from Defence's point of view, our office blocks in Sydney and Melbourne—the Defence plazas—and the Campbell Park offices.

Senator CHRIS EVANS—Did Defence oppose or support the recommendation to sell Russell?

Mr Scafton—I would have to take that on notice. As I said, it was before my time.

Senator Hill—It is not relevant in any event—that is an internal matter. The issue is that this government is much more prudent with its money than previous Labor governments were.

Senator CHRIS EVANS—That is not what the ANAO reports say.

Senator Hill—We want to get the best return for the taxpayer, thus we have this policy.

Senator CHRIS EVANS—Nothing in the reports on the sale of properties supports that claim of a decent return at all. You do not know what you are paying in rent.

Senator Hill—It enables us to keep deficits down and debt down—the sorts of things that were not considered relevant in the past.

Senator CHRIS EVANS—I would like to see the independent support for that assertion, because every ANAO report on this says it has been an absolute failure.

Senator Hill—Labor shakes its head with a background of a \$10 billion deficit.

Senator CHRIS EVANS—What we are asking is whether you do the cost-benefit analysis before you sell these things.

Senator Hill—That is fine. You can argue about the rate of return and so forth, and that is principally the argument to have with the department of finance.

Senator CHRIS EVANS—Defence has no view on it.

Senator Hill—Can it be leased back in a secure way? That is obviously an appropriate question to ask this department. Will there be any change in operations as a result of a lease rather than ownership? That is obviously another legitimate question to ask this department. But it is not really for us to respond to questions on the macro-economic policy of the government.

Senator CHRIS EVANS—Who benefits from the sale? Where do the sale proceeds go?

Senator Hill—The taxpayer benefits from the sale.

Senator CHRIS EVANS—That is only the cost, less some renting.

Senator Hill—That is right—if you do not accept the economics then you argue against it, but what I am saying is that that is an argument for someone else.

Senator CHRIS EVANS—I think we discussed last time that the sale of property proceeds will go to consolidated revenue, except for about \$70 million, as I recall. Is that right?

Mr Scrafton—No, the previous process was that we kept one per cent of our cash bottom line. We have a target this time, which is \$659 million, which we advised you about during the last hearings. Included in that \$659 million is a figure estimated for the sale of Russell and the lease-back—although the department of finance will contribute that, not us. If, in combination, all of the disposals that are achieved exceed that figure of \$659 million, Defence keeps the surplus.

Senator CHRIS EVANS—Was that a 2001-02 figure or a 2002-03 figure?

Mr Scrafton—It was a 2002-03 figure. That is this year's property and disposals program.

Senator CHRIS EVANS—Do you think that figure is still on target?

Mr Scrafton—Given that there are always some risks in property sales about zoning and achievement of issues, at this stage we are pretty confident that we are going to hit pretty close to the mark.

Senator CHRIS EVANS—In previous years you have been well short of the mark of your expectations.

Mr Scrafton—We have completely restructured the approach that we have taken and the organisational structures to deliver that. We have staffed the function more seriously and we have a much better, individually agreed set of targets that we have negotiated with the department of finance, which has not always been exactly the case previously. So we have a much more rigorous process and a much better structure behind it now.

Senator CHRIS EVANS—Do you have an updated figure on sales realised so far this financial year?

Mr Pezzullo—We have some internal documentation on that which is still commercially sensitive because not all of the sales that we have closed have gone to final negotiation.

Mr Scrafton—At this stage the bulk of the sales will be delivered in the second half of the financial year. Given the nature of the process of initially getting government approval for disposal of properties and then going through all of the procedures for preparing them for sale and engaging the teams needed to do these things means that most of them will come on the market in the second half of the year.

Senator CHRIS EVANS—Some of these have been on the books for sale for some years now, haven't they? It is not as though they have all come up this financial year.

Mr Scrafton—No, but in the past perhaps not as much work had been done preparing them for sale as might have been expected.

Senator MARSHALL—You were going to get back to me about the value of the refurbishments. Will you detail that per office and provide an accurate description of what those refurbishments were?

Mr Scrafton—We will provide that.

CHAIR—Thank you.

Proceedings suspended from 12.23 p.m. to 1.30 p.m.

CHAIR—We now move to Defence output 1, Defence operations.

Senator CHRIS EVANS—Perhaps I could start by asking when the decision was formally taken to withdraw troops from Afghanistan.

Senator Hill—On Monday, subject to working through a few minor things.

Senator CHRIS EVANS—So it was a cabinet decision on Monday; is that right?

Senator Hill—It was a decision of government on Monday, subject to working through a few matters of detail.

Senator CHRIS EVANS—I was not trying to misrepresent you. Was that a cabinet decision or just a government decision?

Senator Hill—It was a decision of the National Security Committee, which is a subcommittee of cabinet.

Senator CHRIS EVANS—And that is on the recommendation of the Chief of Defence?

Senator Hill—That is correct.

Senator CHRIS EVANS—Can I ask for someone to outline the reasons why it was considered appropriate to withdraw now and not to send another rotation?

Senator Hill—Because of, in effect, the lack of what is described in military terms as tier 1 tasks, or tasks suitable for special forces of our experience and qualification. If you want more detail of that, I will ask General Cosgrove to provide it.

Senator CHRIS EVANS—Yes, I would like a general understanding of what effectively has changed in Afghanistan from earlier, when it was thought necessary to maintain that force there.

Gen. Cosgrove—Afghanistan remains a dangerous place. It is very likely that there will continue to be a high level of lawlessness and violence there—higher than we would consider usual in many other countries. Notwithstanding that, we have been monitoring for some time the nature of the tasks and the outcomes of the tasks of our own special forces. I think the government has been saying all along that that issue has remained under close scrutiny. We have observed a trend whereby, notwithstanding great activity on the part of our special

forces, the sorts of engagements, sightings, findings et cetera were becoming less challenging than the high skill levels and the quality of our people would be up to.

In light of that, after seeing those sorts of outcomes across a period of time, government accepted my recommendation that it was timely, with Christmas approaching and with the notion that the SAS had been quite busy for several years, to announce their withdrawal. Of course, crucial to that was that, if government had not been of that view, it would have then been timely for us to prepare a new rotation against the possibility that government might wish to send another rotation. In the event, of course, that is not presently contemplated.

Senator CHRIS EVANS—When was the current rotation due to withdraw?

Gen. Cosgrove—It would have been about the end of January.

Senator CHRIS EVANS—So, in effect, they will be coming home only a month or so earlier than envisaged.

Gen. Cosgrove—That is correct.

Senator CHRIS EVANS—You described earlier the rate of activity. I gather, though, they have still been quite active in the sense that they have had plenty to do.

Gen. Cosgrove—They have been working very hard. The nature of their duties is extraordinarily arduous. When that is crowned with high-value outcomes, it makes it worth the candle. However, if they are working extraordinarily hard and it appears as if the incidence of those high-value missions and targets—to find al-Qaeda et cetera—is diminishing, you start to get into what we might call a cost-benefit analysis.

Senator CHRIS EVANS—Is this based on some general coalition assessment that al-Qaeda are less active or that success has been achieved in detecting and dealing with remaining al-Qaeda elements? Has there been a coalition reassessment of where we are at?

Gen. Cosgrove—It is not for me to know what the coalition assessment is in its entirety. We have always said that we would look at this particularly from the Australian viewpoint.

Senator CHRIS EVANS—Surely you would have had discussions with others before you committed troops.

Gen. Cosgrove—I will go on to say that it is obvious to the coalition that the proliferation of al-Qaeda and their public appearances have very greatly diminished in Afghanistan. There is still lawlessness. There is still the possibility of a resurgence. There are still doubts about whether or not al-Qaeda can re-enter from other parts of the broader region, but in the areas where our troops have been operating the incidents of encountering al-Qaeda and Taliban remnants have gone right down.

Senator CHRIS EVANS—Forgive me, maybe I misunderstand this, but I assumed our decision to deploy the SAS there was a part of a request from coalition command that decisions about risk and activity and required forces would be made on a sort of general command basis. I presume we did not make this decision in isolation from coalition command decisions about what they require in Afghanistan at a particular time. Do you see the point I am trying to get at? I am trying to understand how it fits into the broader military effort.

Senator Hill—Obviously at both a political level and a military level, there has been an ongoing dialogue on this particular issue. It resulted in this decision. We put special forces into Afghanistan under a US-led coalition when there was a clear need for soldiers of their particular training and skills. We always hoped that we would be able to move through that phase, and in our view that is what has occurred. The coalition is not of a nature that you have a formal coalition position, but we do speak to others who are in the coalition and, in

particular, with the US, which has been leading the coalition. The US was obviously made aware of our decision in this regard.

Senator CHRIS EVANS—Is it a fair description to say that the USA still commands the coalition forces inside Afghanistan?

Gen. Cosgrove—That is correct.

Senator CHRIS EVANS—So we would have had to have discussed this with the US. Did you discuss it on your recent visit to the United States, Minister? Was that part of the political consideration?

Senator Hill—Yes, we discussed it again at a political level as well as at a military level. We discussed our respective assessments of progress with the task in Afghanistan. The US knew that we would be coming up to the point where we would need to make a decision on a fourth rotation or not—there is no secret about that; we have been saying that publicly here that it would be made this month. I think the general recognition has been that that was not a cut-and-dried decision, because clearly circumstances in Afghanistan are changing. You will have different assessments as to exactly where the pendulum is at the moment, but in our assessment the pendulum is at a point where it is appropriate for us to withdraw our SAS contingent whilst recognising that there are still tasks to be undertaken by others.

Senator CHRIS EVANS—Did the USA ask you to continue the SAS presence?

Senator Hill—The USA accept our assessment. Before we implement it or publicly announce this decision we inform them of our decision, and that came as no surprise to them because of the previous discussions that we had been having.

Senator CHRIS EVANS—But were they keen to have us retain a presence in Afghanistan?

Senator Hill—I think it is fair to say that there are two sides to that coin. On the one hand they will have any Australian troops at any time, I think, working alongside their people in Afghanistan. They have been changing the structure of their force in Afghanistan as well. Soldiers are very much appreciated. On the other hand, I am a bit reluctant because I think it is better that the Americans state their own position but I think I can at least say that the Americans see the pendulum in Afghanistan as moving as well, which is not to understate the lawlessness issues, it is not to understate the potential in the future for al-Qaeda to move back from what is left of the al-Qaeda leadership, to perhaps move back from across borders, but you cannot have special forces sitting across Afghanistan forever to act purely as a deterrent. That is just not an appropriate role for them.

Senator HOGG—Minister, given the changed circumstances that you have just described, the changed phase that the war is entering into and the need not necessarily for special forces to continue operating there, was there a request for forces other than the special forces by way of assistance to maintain the war against terror in Afghanistan?

Senator Hill—Not specifically in recent times. There are a number of different elements in Afghanistan at the moment. There are obviously those who are clearly there to address a global issue—that is, in effect, a headquarters of terrorism, the headquarters of al-Qaeda as it was, and their training establishments and a regime that was fostering and supporting them. Then there are other forces that are there basically to assist and support the new transitional government in Afghanistan in establishing institutions of government. From a forces point of view in particular, there are the armed forces of Afghanistan—the Afghanistan national army, I think it is referred to. Then there are those forces that are there pursuant to ISAF, the International Security Assistance Force, which has an international mandate—a force that is

there again to provide a more stable environment within which the new institutions of Afghanistan might grow and gain confidence.

The next rotation of ISAF, which is about to take place, is to be led by Germany and the Netherlands. There have been some informal requests to us to consider a contribution to that. There have been some informal requests in the past for us to consider providing support to the new Afghan national army and some associated tasks. You might recall that we were actually prepared to make a contribution to the first ISAF but what we had in mind was not needed. After that the decision of the government was to concentrate its contribution in terms of the war against terror, and that is as far as we have gone. We have decided to date that it is better to do that. In terms of our forces on the ground, that is coming to a close in Afghanistan but there will be these other tasks for the future. Whether or not the government at some time in the future makes a contribution to any one of them will be a decision for the government in the future but it certainly has not done so to date.

Senator HOGG—In particular, in the area of demining, which I understand is a very big task to be undertaken there, have there been any formal approaches? I know we have supplied elements to do that in other parts of the world.

Senator Hill—From time to time there has been discussion of deminers. There has been discussion of help in the health area, both for the Afghan national army and for wider military hospitalisation capabilities. There have been other discussions in terms of airport capability services—air traffic controllers and the like. As I said, in the past the government has made the decision to concentrate its efforts on what might be described as the sharp end. Our special forces are now being withdrawn and the government has not made any decision to contribute in any other area at this time.

Senator HOGG—There have been no requests? You mentioned informal requests.

Senator Hill—There is a continuing dialogue on these matters. They rarely occur by way of a formal request; it is more a case of saying, ‘What would be your reaction to such a request?’ But it has differed a bit from time to time. There were some third countries that raised the issue of our supporting training for the Afghan national army. You might say that in a way that was formal. Whether we were to make a contribution in some other way in the future depends on our capabilities and our force overall continues at a very high level of operational tempo. We would need to take that into account. Certainly we would not be rushing into another role.

Senator CHRIS EVANS—When the SAS are withdrawn by Christmas, Minister, what will that leave us in terms of any commitment in Afghanistan?

Senator Hill—In relation to the war against terror it leaves our ships in the Gulf, which are really playing a dual role—first, in enforcing the sanctions against Iraq, and a secondary role in relation to the broader war against terror. We have announced that we will be deploying in the new year two P3 surveillance aircraft in the Gulf region, which was a capability that we said we could make available early in the conflict but for various reasons this did not occur. We are now planning to contribute these next year. Obviously, beyond that, it will be kept under review.

Senator CHRIS EVANS—I will just take you back; the question was about Afghanistan: is there any ongoing contribution of military personnel to activities in Afghanistan?

Gen. Cosgrove—I heard the question, and maybe the minister will allow me to answer it. The intent is to withdraw them all. Four people who, consequent to our involvement in Afghanistan, were working in the coalition headquarters in Afghanistan will come out as well.

Senator CHRIS EVANS—When this has been discussed with the Americans and others, have they asked us to supply alternative troops, apart from special forces, to maintain the activity that is still required in terms of bringing peace and stability to Afghanistan? I take your point about the SAS being specialist troops that were put in for a specialist role, but, as you have described, obviously no-one pretends that things are now peaceful and settled inside Afghanistan. Have we been requested to supply some alternative personnel?

Gen. Cosgrove—By the Americans?

Senator CHRIS EVANS—Yes.

Gen. Cosgrove—No. There was dialogue some months ago along the lines of speculative non-discussions, but nothing in more recent times.

Senator CHRIS EVANS—What I am trying to understand goes to the point I made earlier. It seems to me that someone must make an assessment of what is required in terms of a coalition commitment inside Afghanistan—there has to be some military assessment—and it is not just a question of individual countries saying, ‘We’re out of here because we want to go home for Christmas,’ and just walking off. I am trying to get an understanding of what the current military assessment of the situation in Afghanistan is, what is required and whether there is any intention for us to contribute in an ongoing way to that.

Senator Hill—The general has given you his overall military assessment.

Senator CHRIS EVANS—I am also keen to know whether that is his assessment or whether there is some coalition—

Senator Hill—As I have said, if you want to know about the Americans, it is better to ask the Americans; if you want to know about other parties to the coalition, it is better to ask them. There is not a formal coalition position as such, although there is constant dialogue.

Senator CHRIS EVANS—I guess what I am trying to get to is that someone has to be in command of the show. People do not walk in and walk out depending on their own particular interest. Someone obviously says, ‘This is the military commitment we require now in Afghanistan,’ and I presume that is done by the Americans. Is that right?

Gen. Cosgrove—Yes.

Senator Hill—It is moved by the Americans, yes.

Gen. Cosgrove—But the nature of such coalitions is particularly fluid. There are 50 nations, by and large, in Afghanistan doing various things, not all of them making military contributions, but the nature of their participation is not unitary in any way, and the United States, I am sure, would not even hope to coordinate or even strongly influence all of them. I would characterise the United States reaction to the news that we gave them at my level as one of great gratitude for the expert assistance of the special forces and an acknowledgment that Australia remains committed to the war against terrorism.

Senator CHRIS EVANS—You are not involved in any ongoing assessment of risks and/or what is required militarily inside Afghanistan?

Gen. Cosgrove—We will keep as close a watch as possible on its continued rehabilitation, both nationally and militarily.

Senator CHRIS EVANS—How do you do that?

Gen. Cosgrove—We maintain a broad involvement in the overwatch on the coalition against terror, both through national means of our liaison officers who are present and through

our continued requirement to command the troops of the services and force elements we still have committed—the P3s that will be there soon and the ships that are there now.

Senator CHRIS EVANS—I thought the ships in the Gulf were there under the UN resolution imposing sanctions on Iraq. Have I got that confused?

Gen. Cosgrove—No, you are quite right, but we have broadened that to include it under the rubric of the coalition against terror for our own purposes and because the United States has grouped it in the same way. The 5th Fleet, which has been the senior naval element enforcing those sanctions, is a part of Central Command. Central Command runs the war against terror in its manifestation in the region.

Senator CHRIS EVANS—I am getting a bit confused. Just so that we are clear for the record: isn't it right that the mandate for our forces being involved in the blockade of Iraq is a UN mandate?

Gen. Cosgrove—Yes, it is.

Senator CHRIS EVANS—So they are operating in a blue hat sort of manner?

Gen. Cosgrove—No, they are not. It is a sort of subcontracted event, much as INTERFET was in East Timor, whereby a coalition of the willing decide that they will enforce this particular resolution. The leader of that coalition of the willing is the largest naval element, which is the 5th Fleet. The participants in the coalition—the French, the British, ourselves and the Canadians—are not a blue beret force, although they do operate under a UN resolution.

Senator CHRIS EVANS—But the legal authority for their position there is the UN resolution on sanctions on Iraq?

Gen. Cosgrove—That is correct.

Senator CHRIS EVANS—Are the P3 Orions to be part of that?

Gen. Cosgrove—No.

Senator CHRIS EVANS—What is the legal authority or the rationale for the P3s going there? That is not part of enforcing the UN mandate on Iraq?

Senator Hill—No; they are going as part of our contribution to the war against terror. Their legal mandate depends a bit on where they are operating and what they are doing. We obviously do it in accordance with the framework of international law.

Senator CHRIS EVANS—Perhaps you could explain that to me. I understand how the Gulf interception force have been working—and they have got very high praise for their work there. But what are the Orions going as a contribution to—an American-led effort on the war on terrorism?

Gen. Cosgrove—I make the analogy that when the air-to-air refuellers were there they were collaborating in the war against terrorism, so they were there under the same set of UN resolutions as those that underpinned the legality of the actions in Afghanistan. The P3s will be operating in a surveillance role but under that same construct.

Senator CHRIS EVANS—But not in Afghanistan.

Gen. Cosgrove—But not in Afghanistan.

Senator CHRIS EVANS—Why would the resolutions about Afghanistan give force to their operating out of Iraq?

Gen. Cosgrove—Whereas they deplore the presence of terrorists, organised terrorists and proscribed organisations like al-Qaeda.

Senator Hill—The Gulf has been subject to surveillance since the start of this process. Other countries have made a contribution to that and we will be picking up the task from the new year. As I said, at the beginning of the war against terror we made the commitment to provide this capability. At that time it did not get deployed, for a number of different reasons, and it is now to be deployed.

Senator CHRIS EVANS—Are these two P3s two of the four upgraded versions?

Senator Hill—I do not think we have said which of the aircraft we will send or what their exact capabilities are.

Senator CHRIS EVANS—I will give you the chance to say it: are they two of the upgraded ones or aren't they?

Senator Hill—I do not know that we want to say that, do we?

Senator CHRIS EVANS—It is all right if you do not want to say; just tell me.

Gen. Cosgrove—They will just be P3s.

Senator Hill—We will ask the Air Marshal—he has not had a go today.

Air Marshal Houston—Initial deployment will be normal P3s, but I would expect that in the course of the 12 months we would rotate AP3C aircraft through that deployment.

Senator CHRIS EVANS—An upgraded P3?

Air Marshal Houston—Yes.

Senator CHRIS EVANS—How long do you intend them to be there, and how often will they be rotated?

Air Marshal Houston—Government has committed them for up to 12 months. They will be rotated on a regular basis as we require, depending on the maintenance requirements and so forth.

Senator CHRIS EVANS—What is a rough estimate? Are they going for three months at a time or is it longer? I am not trying to hold you to it; I am just trying to get an idea.

Air Marshal Houston—The actual aircraft will probably be rotated after six months or so, but we will probably rotate the crews more often so that people can get the experience.

Senator CHRIS EVANS—Where are they to be based?

Gen. Cosgrove—We will not say that, if you do not mind.

Senator CHRIS EVANS—So I am clear: whose command will they be under?

Air Marshal Houston—They will be working under the control of the 5th Fleet, as General Cosgrove indicated to you earlier on.

Senator CHRIS EVANS—The 5th Fleet is responsible for endorsing the UN resolutions on Iraq, but this is a separate role.

Air Marshal Houston—The 5th Fleet has many tasks that it pursues, and that element will be assigned under the operational control of the Commander, 5th Fleet.

Senator CHRIS EVANS—So they will be under the command of the US Navy. What restrictions or instructions have we provided about what they will be allowed to be tasked to do?

Air Marshal Houston—I think we are still defining precisely what task they will do, the rules of engagement and so on. That is still work in progress.

Gen. Cosgrove—It is not contemplated that they would operate other than in a conventional maritime surveillance role. They certainly will not be overflying any of the countries over which there is not ordinary diplomatic clearance, and they will be using ordinary rules of engagement and observing international law.

Senator CHRIS EVANS—As I understand it, in that region there were missions flown against Iraqi targets the other day. I read in the paper that it was in enforcement of the no-fly zone.

Senator Hill—If that is what you are getting at, I must say that the purpose of deploying these aircraft has nothing to do with the issue of weapons of mass destruction in Iraq. It was a commitment that we made early in the war against terror. As I said, for various reasons—some of which we can go into—the deployment did not occur in the last 12 months. We said the aircraft would be available in the new year, and that offer has been accepted.

Senator CHRIS EVANS—I accept that. I am not actually getting at anything. I am trying to understand, because I had the impression, which was obviously false, that they were going there as part of the enforcement of the UN resolutions on Iraq. I was wrong about that; I accept that. That was my impression. I am trying to be clear now about what their tasking is, what their command structure is and what the limitations of their role are. That is what I am trying to find out.

Senator Hill—I will put it in layman's terms. Whilst we talk of Afghanistan as almost being al-Qaeda's 'home base', al-Qaeda interests have dispersed and various associated terrorist organisations have dispersed within that region as well, so there is a logical purpose for surveillance aircraft, related to the war against terror.

Senator CHRIS EVANS—General Cosgrove, you made the point that they would only be flying in accordance with ordinary diplomatic regulations. Does that mean that they would not be involved if there were conflict in the region?

Gen. Cosgrove—That is a bit too hypothetical for me. I would say that, under the arrangements whereby they are being deployed, we do not envisage them doing other than performing a stock standard maritime patrol surveillance role. But I would point out that that will not be without its sense of challenge in that, as you will have noted, there have been at least two terrorist attacks against ships—the USS *Cole* and the recent tanker attack—which were of a maritime nature and conducted by terrorists in the Gulf and in the Horn of Africa.

Senator CHRIS EVANS—Their rules of engagement will be agreed with the Americans before they depart?

Gen. Cosgrove—That would be standard.

Senator Hill—Their rules of engagement will be determined by us, but obviously our military confer with the US military in putting a proposition to the Australian government.

Senator CHRIS EVANS—I am just trying to understand the process. As I understand it, they will be under the command of the US Navy 5th Fleet. You will have a process whereby the rules of engagement are recommended by Air Marshal Houston to the government and approved by government?

Air Marshal Houston—I would not be involved. General Cosgrove would do that through the operational chain of command, through Commander Australian Theatre, who is sitting at the other end of the table.

Senator Hill—The in-air refuellers had rules of engagement that we settled and yet they worked as part of the coalition out of Kyrgyzstan, refuelling over Afghanistan. The way I

describe it is that the US may have an umbrella command, but the direct command of the aircraft is obviously in Australian hands.

Senator CHRIS EVANS—Is that right?

Gen. Cosgrove—Any aircraft will operate in accordance with the orders given by its operational superior—that will be Planning Headquarters from 5th Fleet, for argument's sake—but inherently it will always have its national rules of engagement. They will be paramount at times of challenge.

Senator CHRIS EVANS—I got it wrong when I put Air Marshal Houston in the firing line. Can you explain to me how that will be determined? I think they are due to go in January, aren't they?

Gen. Cosgrove—Commander Australian Theatre, in making the detailed arrangements for the deployment of the aircraft, will derive draft rules of engagement. In doing so, he will take advice from, in this case, the Air Commander Australia, Air Vice Marshal Kindler. They will be brought to me with recommendations. Before I take them to government, I will discuss them with my set of advisers, which will include the Chief of Air Force. Once we are all content that they represent good, safe rules of engagement for our people in the national interest, I will recommend them to government. Government will consider them, and then they will be operative. Any changes that we want to make subsequently will go through a similar procedure before they will be recommended to government and an amendment made.

One other link in the chain is that we will have a National Headquarters element in the region whose job will be to keep scrutiny on the sorts of missions that any of our elements, including the P3s, are given, to ensure that they conform with the government's understanding of the employment of the asset.

Senator CHRIS EVANS—So the National Headquarters element in the Middle East will be retained, will it?

Gen. Cosgrove—Yes.

Senator CHRIS EVANS—I understand that you are a bit coy about where they are at. Who else will then be left in the Middle East? The SAS comes out of Afghanistan and the air tankers have come out of Kyrgyzstan. There is nothing left in Kyrgyzstan?

Gen. Cosgrove—We are presently planning to keep a small element in Kuwait. We have been able to announce that we have had a small element in Kuwait. We will retain that element there to undertake some training and liaison tasks. We have not determined the numbers but they will be small.

Senator CHRIS EVANS—Training and liaison with whom?

Gen. Cosgrove—With the Kuwaitis.

Senator CHRIS EVANS—So training of Kuwaiti defence force personnel?

Gen. Cosgrove—Yes.

Senator CHRIS EVANS—That will be a small contingent, and we will have the people at—

Gen. Cosgrove—I would not want to mention any others.

Senator CHRIS EVANS—No, I meant the one you previously referred to. What is your formal title for the National Headquarters element in the Middle East?

Gen. Cosgrove—Australian National Command Element, Middle East Area of Operations, I think we are now calling it.

Senator CHRIS EVANS—No wonder I had trouble remembering that! How many people do we have involved with that?

Gen. Cosgrove—We have made some adjustments to it.

Senator Hill—We are, in effect, concentrating our people on location.

Gen. Cosgrove—It will be in the high 40s. I would not want to be more specific, because I might be changing the advice to you within a day or so.

Senator CHRIS EVANS—I was not concerned with the specific number; I just wanted to get a sense of the size of the commitment. What will their role be now that we do not have combat troops in Afghanistan or air tankers in Kyrgyzstan?

Gen. Cosgrove—To keep us in touch with the war on terror, remembering that General Franks and his headquarters, on a scheduled exercise which has been on the books for over a year, are moving forward for a protracted period into a Middle Eastern base. The United States senior military commander conducting the war on terror in the region will therefore be in the region, not sitting in Tampa. This has occurred to us as being the best device to remain abreast of what is happening on the many different military fronts, in the many separate military activities, that General Franks and his headquarters oversee.

Senator CHRIS EVANS—Does that mean that our headquarters will be co-located with theirs?

Gen. Cosgrove—Again, that gets down to details. They will be in very close communication.

Senator Hill—But they will also have specific responsibilities in relation to the ships in the Gulf and the P3 deployment.

Gen. Cosgrove—Absolutely. That is their primary job. Their primary job is to exercise the oversight, on behalf of government, of our deployed assets.

Senator CHRIS EVANS—What is the current situation with the ships in the Gulf? What do we currently have deployed and what is intended in terms of rotation in the near future?

Senator Hill—We are just rotating at the moment. At the moment, two ships are going in: the *Anzac* and *Darwin*. Coming out are *Melbourne* and *Arunta*.

Senator CHRIS EVANS—Do we have anything else deployed in the region?

Gen. Cosgrove—No other forces.

Senator HOGG—I have another question on the P3s. Will any ground crew go with them to support maintenance and the like?

Senator Hill—Just going back to that question: some Australians may well be deployed in the forces of other countries as part of our exchange system. I am not sure that you meant to cover that, but I was just trying to think of any other examples.

Senator HOGG—I was just wondering whether we would be sending ground crew with the P3s for maintenance purposes and the like.

Gen. Cosgrove—Yes, Senator. Just for completeness on an earlier answer, when you wanted to canvass the list of those elements we had in the region: we do have presently a command element forward there. So there presently is one, and there has been one there for some time.

Senator CHRIS EVANS—What is our commitment currently in the United States to headquarters and planning on possible activities in the Middle East?

Senator Hill—We have had some people in United States commands for some time—really, we have had them since the start of the war against terror, providing the role of keeping Australia's national command as fully informed as possible of prospective directions of the war and assessments of progress and the like.

Senator CHRIS EVANS—What is the level of that sort of commitment at the moment?

Gen. Cosgrove—When General Franks exercised command mainly from his own headquarters in Tampa, we had an element that was in the teens. As we started to participate in Exercise Internal Look, that number grew. As General Franks goes to the Middle East, what was in Tampa and what has been in the Middle East will amalgamate into an entity there with a smaller element. I will probably need to give you an exact figure, but a small element will be left at Tampa because General Franks will be leaving an element at Tampa.

Senator CHRIS EVANS—Our contribution to or links with the US Command are very much linked to General Franks's mandate. Is that right?

Gen. Cosgrove—General Franks's headquarters include many different staff functions—hundreds and hundreds of people. Where he goes and where those folks go is where our information sources reside at that time.

Senator CHRIS EVANS—Has their work involved contingency planning for potential conflict in Iraq?

Senator Hill—We have considered it to be in our interests to have the best possible understanding of any potential military engagement in the region. We have had the opportunity to put people within the command to keep General Cosgrove and his staff well informed in that regard. We have taken that opportunity. We describe it as prudent contingency planning.

Senator CHRIS EVANS—Is that prudent contingency planning to understand what the Americans are doing or contingency planning of what we might choose to do?

Senator Hill—That is premature, obviously, and we ultimately decide what if anything we do. Because the war against terror is being led by the United States, knowing what the United States has in mind at both a military level and a political level is, we believe, very important to us. At the military level, having the opportunity to put these people within the US Command has given us a unique insight.

Senator CHRIS EVANS—Is that insight and involvement limited to potential UN action or does it also apply to US action outside any UN mandate?

Senator Hill—It has not been linked to any particular UN mandate. It is very much the sort of contingency planning that militaries constantly do. It is also not linked in any way to any political mandate. We separate the work that the military is doing—exploring possibilities and consequences and so forth from a military perspective—from what might be political decision making. As the Prime Minister has said, this has not locked us into any particular outcomes. No political requests or decisions have been made. It has been designed to keep us as well informed as possible on the thinking of the US military. We believe we have been given valuable access and that it has helped keep the Australian government as informed as possible.

Senator CHRIS EVANS—That includes being informed on the question of possible tactics involved in an invasion of Iraq for regime change purposes. Is that right?

Senator HILL—It has included the military's perspective of the issue of Iraq, should they be asked to carry out various tasks. They have not been asked to carry out various tasks.

Senator CHRIS EVANS—I presume the Americans are responding to contingencies that they have been asked to work up or possibilities that they have been asked to deal with. Have we instructed our people to work through various contingencies or are we just listening to and observing what the Americans have planned to do?

Senator Hill—Defence forces do this; they do not really have to be asked to do this work. They want to be in the position that if they are asked questions by government they are able to give the best possible answers in the shortest possible time frame. That is how I would describe our engagement to date, and that is about as far as it has gone.

Senator CHRIS EVANS—Have we been doing contingency planning about Australian forces being involved in an invasion of Iraq?

Gen. Cosgrove—We generally do not air our contingency plans. I would say that any issue involving our people working with the Americans has been predicated absolutely on the fact that there is no commitment.

Senator Hill—The position of the government is that we want to resolve this issue peacefully and we want to do it through the United Nations process. That has gone quite a long way in terms of the new resolution and the inspectors going into Iraq. We fervently hope that it will be successful, and that is where our emphasis lies at present.

Senator CHRIS EVANS—Are there contingency plans for the deployment of a battalion to Iraq?

Senator Hill—It is not appropriate to say any more than what I have said. If I said no to that, you would say, 'What about a company?' If I said no to that, you would say, 'What about special forces?' So it goes on and I am drawn into speculation that I think is unhelpful.

Senator CHRIS EVANS—It seems that we have been up to our elbows in the American contingency planning for what they have made pretty clear is an invasion of Iraq. It seems to me that it is an issue of some public interest as to whether or not such planning is occurring in terms of Australian forces as well.

Senator Hill—America has not decided to invade Iraq. America is also committed to the UN process. They have gone through the UN process, they have put in a huge amount of effort to get the resolution that was in fact finally achieved and they, like us, hope that Saddam Hussein will see that this is an opportunity to resolve this matter peacefully. The whole of the international community is demanding that he abandon his program of weapons of mass destruction and destroy those that he has, and we are part of an international community that believes that that is a very important goal.

Senator CHRIS EVANS—The Prime Minister in his speech last night talked about appropriate contingency arrangements. He also said that our contribution to operations in and around Afghanistan has meet the basic test he set, which was a question of our resources and immediate defence and national security needs. Should we interpret that to mean that he is suggesting that we would not be making any contribution larger than the sort of commitment that we have made in Afghanistan? That is how it has been interpreted by some in the press today. Do you think that is a fair interpretation?

Senator Hill—No, I do not think that is a fair interpretation. I think, if you asked him a question on contingency planning, he would answer in similar terms to what I have been doing for the last 20 minutes. In relation to Iraq, as he says in his speech, we are committed to

the UN processes and are seeking the outcome that we desire without the need for military force. The bit about meeting our full responsibilities is simply saying that the war against terror is a war in which we have a close and vested interest, we are able to make our contribution as one of a very large coalition of countries—over 50 countries—and we are proud of what our forces have been able to achieve, and we have been able to do that at the same time as meeting all of our other defence and security requirements.

Senator CHRIS EVANS—General Cosgrove, what is the current readiness status of our infantry battalions?

Gen. Cosgrove—The regular battalions are all at a higher level of readiness, and we maintain the battalions particularly of the Ready Deployment Force at 30 days or less.

Senator CHRIS EVANS—And who is that?

Gen. Cosgrove—The 3rd Brigade, which is effectively three battalions—the 1st Battalion, the 2nd Battalion and the 3rd Battalion—although it is based in Sydney. There is some movement there as they phase in and out of Timor, so that ebbs and flows. The design parameters are for them all to be at 30 days or less. Of course, we have our Special Air Service folks at higher readiness than that. Although we are still forming the commando capability, a company group of commandos is at high readiness.

Senator CHRIS EVANS—So 1st Brigade is in Timor at the moment, is it? Who is in Timor at the moment?

Gen. Cosgrove—5/7RAR from Darwin.

Senator Hill—Just in case there is any confusion, these are the white paper commitments, not something that has suddenly been decided in recent times.

Gen. Cosgrove—This is stock standard stuff which springs out of the white paper of 2000.

Senator CHRIS EVANS—The readiness levels?

Gen. Cosgrove—Yes.

Senator CHRIS EVANS—I was just trying to get a feel for who was where. So the highest state of readiness is the 30 days group, which is 3rd Brigade at the moment.

Gen. Cosgrove—Or less. The lead company groups could be ready in less.

Senator CHRIS EVANS—You raised the question of the commandos. Are they part of the TAG?

Gen. Cosgrove—They are part of the Special Forces Group. They provide most of the manpower in the east coast TAG—but not all. Beyond that, they are training for their own commando roles.

Senator CHRIS EVANS—Is the TAG fully operational now?

Gen. Cosgrove—Yes, with the proviso that it will take a while to replicate the west coast facilities. That took a matter of years there. They are operational.

Senator CHRIS EVANS—Are they fully staffed?

Gen. Cosgrove—As a TAG, yes.

Senator CHRIS EVANS—You were making a point about only part of them being at high readiness. Is that right?

Gen. Cosgrove—No, I am saying that the commandos provide part of the TAG. The Navy provides another part.

CHAIR—Are they designated as 4RAR?

Gen. Cosgrove—Yes, they are. Organisationally, they are fostered by 4RAR although they do have a separate identity, so to speak, because at any given time they are earmarked specially for that role. They are not available for other commando activities in the meantime.

CHAIR—One of the companies—1st Commando—is in a high state of readiness. Is that correct?

Gen. Cosgrove—One of the commando companies from the commando battalion is performing duties as a parachute company group. You would recall that when 3RAR were engaged in Timor we needed to have something to take care of that particular capability. By design, commandos are parachute qualified and we were able to form a parachute company group. They still maintain that role at the moment and therefore they are also at high readiness.

CHAIR—Is there a plan for a second company of those commandos?

Gen. Cosgrove—Yes, we are reconstituting the original design capacity of the commando battalion, which was two commando companies. Remember that one, to some degree, was stripped out to help form the TAG. We are now regrowing that second company.

Senator Hill—When I said we are at levels of white paper capability, the development of the east coast TAG was of course subsequent to the white paper. That was a decision taken after the attacks of September 11. That is a further enhancement.

Senator CHRIS EVANS—I thought the key point you were trying to make was that there was not a change in operational readiness. I accept that point. I was just trying to get a feel for who was where and who was on what readiness level. I will go back and look at the *Hansard* about those commando companies because I have got a bit lost in there. Is the Incident Response Regiment now fully operational?

Senator Hill—They are, aren't they?

Gen. Cosgrove—They are going to grow over the next few years. I would defer to Chief of Army on the detail of their manning. Because they represent a raft of different specialists, I would like to just check that with him. We will be buying their kit for ever and a day. I say that advisedly, simply because their kit is leading-edge stuff, niche stuff and will constantly need to be updated. They, too, in the fullness of time, will require appropriate, permanent facilities. So it would be a game person who would say that they are fully operational. They are operational, but we will be working on them for years.

Senator CHRIS EVANS—I think the minister has heard the plea, General Cosgrove. I think that was a bit of a softening up for the budget there, Minister.

Senator Hill—I have heard it before.

Senator CHRIS EVANS—I thought you had.

Lt Gen. Leahy—We currently have approximately 330 soldiers in the Incident Response Regiment. We have declared them operational but, as CDF has said, there are still some skills to be resolved and some equipment to be acquired. This is a very fast-developing area, and I would expect that we will see development of that capability over the next few years.

Senator CHRIS EVANS—What are you looking for as a full establishment?

Lt Gen. Leahy—It is not much larger. I would be happy to sit on that. We would need to look at changes in the types of skills that might be required, changes in the technology. But I think it is now a very robust establishment. It is capable of performing the tasks that we have

given to it, and it has settled in very well. To the unit's credit, in the time that we have given them this year to raise that capability, they have done a very good job.

Senator CHRIS EVANS—What sort of skills base are you still looking for in the unit?

Lt Gen. Leahy—It is an entire range of skills, including chemical, biological and radiological as well as response capabilities. We also have some skills in there in terms of firefighting, for the protection of our airfields from fire and also for aircraft crash. There are skills in there for disaster recovery. It is a very complex unit.

Senator CHRIS EVANS—Aren't things like airfield firefighting already catered for in other units?

Lt Gen. Leahy—We have brought those response squadrons into this regiment because of their like nature and the type of training that might be required.

Senator CHRIS EVANS—What proportion, in terms of numbers, would be things like air based firefighting?

Lt Gen. Leahy—In the order of 40. I might be wrong by a factor of five or 10, but it is only a small proportion of it.

Senator CHRIS EVANS—When you say 'chemical' and 'biological', are you after scientists' skills or are you after capability to deal with attacks involving chemical and biological weapons?

Lt Gen. Leahy—It is an issue of maintaining currency with the fast-developing area of the threat. We already have scientific skills in there. A very important element of the regiment is provided by the Defence Science and Technology Organisation through the expertise that they have in the assessment of threat, the calculation of what the threat is and being able to determine the particular types of agents. We have close coordination with DSTO. They are prepared with flyaway teams and equipment to support the unit in the field.

Senator CHRIS EVANS—I am interested in that. What can they actually do to support a unit in the field if they are under chemical or biological attack? What capability is there? I can understand how they might be able to respond to a smaller incident in Australia that involves a chemical attack of some sort but, conceptually, how do they support a unit in the field from a chemical or biological attack?

Lt Gen. Leahy—Conceptually, it is essentially that they would bring a laboratory to the field. Using the equipment available to them and to the unit, they would be able to determine the type of agent present and what response to it might be carried out.

Gen. Cosgrove—In relation to chemical weapons, there are various detection kits and sets that military forces, particularly those which have been thinking about this problem for many years, have as military off-the-shelf items. These help you to detect the presence of chemical agents in particular. You might need more laboratory work for bio.

Senator CHRIS EVANS—I am probably not thinking about this at the right sort of intellectual level, but when I think of chemical attack I think of my old firefighter friends in chemical suits et cetera. Are we talking about the Incident Response Regiment having 20 people who can be equipped like that or are we talking about being able to supply troops in the field with chemical protective suits?

Lt Gen. Leahy—No, it is more about having people equipped like that being able to deal with the consequences of an incident. A large part of the responsibility for the initial response belongs to state and federal authorities. What the Incident Response Regiment is able to provide is an additional response to that but also, as we say, the consequence management of

a large complex incident—that is, where there is a mix of either chemical or explosive incidents.

Senator CHRIS EVANS—Forgive me for bringing it down to base questions, but how many of these 330 can you turn out in chemical suits, as it were, ready to assist in that sort of thing?

Lt Gen. Leahy—I cannot give you the detail. I would have to take that on notice. I would like to correct something I said earlier: I have been informed that the eventual strength of the regiment will be 309. We are currently at over 200, moving to 309 for a target of the year 2005. I just wanted to read that correction onto the record.

Senator CHRIS EVANS—So basically you have got the numbers but you are just questioning whether you have got the right skill mix.

Lt Gen. Leahy—It is the skill mix in the long term. I am comfortable that we have a very capable regiment at the moment and that it is developing out to that strength in 2005.

Senator CHRIS EVANS—Do these people have skills in computer technology and the like? That is a more sophisticated way of attack these days.

Lt Gen. Leahy—If I can answer what I thought was your question, one of the skills that DSTO brings to us is the capability to model any incident—that is, the wind flow patterns and so on. In terms of the computer technology skills as a threat, I will defer to someone else on that.

Gen. Cosgrove—It is not a designated role for the Incident Response Regiment.

Senator HOGG—So that is someone else's bailiwick.

Gen. Cosgrove—Yes.

Senator CHRIS EVANS—One of their roles, as I understand it, is also to be able to deploy to a conflict zone to support our troops in the field, isn't it? Can you give me some idea of the scenario of how they would do that or what they would do? Obviously you mentioned a detection lab et cetera, but if Australian troops were committed and were the subject of a chemical or biological attack, what is it that they could practically do to assist?

Lt Gen. Leahy—There is an element that is designed to be able to be deployed offshore. The second role there is the decontamination of an incident site—that is, the protection of individuals. A large part of the capability that they have is the ability to clean a site, to clean individuals and to move them through into medical care.

Senator CHRIS EVANS—You said that a section of that is able to deploy—

Lt Gen. Leahy—It is a small element of it. Again, I am not sure of the exact numbers, but it would be in the order of a troop size of around about 30.

Senator CHRIS EVANS—Perhaps you could take it on notice, but we are talking about a contingent of about 30 who could deploy and assist with—

Lt Gen. Leahy—They would provide advice on possible threats and protection but also on the decontamination of a site and individuals.

Senator CHRIS EVANS—But if they came in after the event then it would largely be a question of decontamination rather than—

Lt Gen. Leahy—Essentially, yes.

Senator CHRIS EVANS—The other aspect of it is their ability to provide some detection kits and some expertise in that area, but that is only a small section of the group. Their primary role is seen as being Australian based—

Lt Gen. Leahy—That is correct.

Senator CHRIS EVANS—and supporting civil authorities here.

Lt Gen. Leahy—Supporting the state and federal authorities.

Senator CHRIS EVANS—Have there been protocols—protocols is probably not the right word—established regarding the call-out of the IRR in terms of assistance to the civil authorities? I recall that the parliament got itself in quite a tizz in the lead-up to the Sydney Olympics legislation et cetera over the question of when Defence ought to be called out—

Senator HOGG—That is the Defence Legislation Amendment (Aid to Civilian Authorities) Bill.

Senator CHRIS EVANS—I wanted to get a sense of whether there are now established protocols for the Incident Response Regiment in responding to a civil emergency.

Senator Hill—There has been no legislative change in recent times. We are relying on the broader call-out provisions. I gather they were reformed somewhat at the time of the Olympics, were they?

Gen. Cosgrove—They were. The legislation which was especially considered in the parliament for the Olympics updated our counter-terrorist response capacity in a legislative sense. It was for the Tactical Assault Group, if it needed to interact that way. It also took into account the Incident Response Unit, as it was called in those days, and the possibility of a chem-bio, either detection or consequence-management situation. We think the same legislation would still be useful for it.

Senator Hill—This capability was developed for the Olympic Games. It was then extended through to the CHOGM. With the post 11 September environment, the government decided it should be established as a permanent and ongoing capability to support deployments and counter-terrorism forces in Australia and, subject to the legislative constraints and structures, civil authorities.

Senator CHRIS EVANS—In getting a sense of that, then, what would be required for the Incident Response Regiment to be activated in the event of a civil emergency? Would it be just a request from a state government?

Gen. Cosgrove—Considering the urgency of and the response needed to, say, a chemical incident or a hostages in a building situation—both equally urgent—the procedures that the state and federal authorities have in place now will serve both; that is, a request from the state to the federal authority or, in very remarkable circumstances, unilateral action by the federal government.

Senator CHRIS EVANS—So, in general terms, there is no barrier. Effectively, you would just be notified by a state authority that you are required to turn out. Is that right?

Gen. Cosgrove—The legislation is not specific as to the identity of the troops or their role. It just specifies the sorts of circumstances and the permissions. We could have the Incident Response Regiment, TAG or—although I cannot imagine another unit—another unit if that were needed.

Senator CHRIS EVANS—The Incident Response Regiment, effectively, should be able to turn out quite quickly at the request of a state government or an authority. I think General

Leahy made the point that it is very much there as a backup to the first response civil authorities in the sense that firefighters, or whoever, are likely to be the innocent firsts because they are local and they are called out on the basis of an alert.

Gen. Cosgrove—It is on very high readiness, and the same legislation for the TAG suits for the Incident Response Regiment.

Senator CHRIS EVANS—At what level of readiness are you maintaining the IRR?

Lt Gen. Leahy—It is at very high readiness. It is developing liaison capabilities and expertise by working with the state authorities right now.

Senator CHRIS EVANS—My next question is a broader one. Has there been any Defence response as a result of the heightened warning about a potential terrorist threat issued by the government the other day? What involvement has Defence had in responding to that threat?

Senator Hill—The one in the last few days?

Senator CHRIS EVANS—Yes.

Senator Hill—We can give you a detailed response to that. Defence considered the overall national warning and, as a result, it maintains the same level of security with some finetuning.

Ms McCarthy—The nature of the information announced by the acting Attorney-General was generalised and non-specific. For that reason, the Secretary and Chief of the Defence Force decided that our current level of alert was appropriate, but the secretary and the chief have directed base commanders to review their current arrangements to ensure that they are appropriate to the current level of alert and, in addition, to review their planning for moving quickly to higher levels.

Senator CHRIS EVANS—When you say that the current level of alert was appropriate, what was the current level of alert?

Ms McCarthy—We are at the second level of alert out of five at the moment. There are five levels. The current level is called Bravo. It is classified in terms of the arrangements that we put in place but it is appropriate to the current threat environment.

Senator CHRIS EVANS—And there is only one higher level of alert; is that right?

Ms McCarthy—No, there are three more.

Senator CHRIS EVANS—I see; it is the second of five going up.

Ms McCarthy—That is correct.

Senator CHRIS EVANS—How long have you been on that level of alert?

Ms McCarthy—Immediately after September 11 we moved to what was called Weathercock Amber; we were under a different alert system then. As a result of September 11 we reviewed our policy and we moved to the new safe base system, which has more levels of alert and gives us a greater range of flexibility. We moved immediately after September 11, as I said, to Amber, which was the third highest level. We then moved down a level when the situation became clearer. When we introduced our new safe base alert system in February this year, we judged that the second level out of five was appropriate to the current threat environment.

Senator CHRIS EVANS—When did you change the system of alerts?

Ms McCarthy—In February.

Senator CHRIS EVANS—Have we been on Bravo since that time?

Ms McCarthy—Yes.

Senator CHRIS EVANS—Allowing for the change in system, that is considered to be a lesser level of alert than you went to after September 11. Is that what I take you to mean?

Ms McCarthy—That is right. But immediately after September 11 so much was unknown; it was not clear what was going to happen. As we became more aware of the threat environment in Australia we decided that ‘Amber’ was too high. We moved back to what we called ‘Amber modified’. Because it was clear that our policy did not give us sufficient flexibility, the safe base operation which was set up in the aftermath of September 11 developed a new policy that we think gives us greater flexibility.

Mr Smith—I should clarify that. In saying that we are at the second highest level in a range of five, we are not playing down the level of our alert. Levels 4 and 5 are in extremis. In terms of the scale of alert and vigilance, level 2 is high.

Senator Hill—It could be misinterpreted. We have a high level of security at any time.

Mr Smith—Yes.

Senator Hill—And that is further enhanced in these—

Senator CHRIS EVANS—Yes. People say ‘second highest’ but it is actually the second lowest.

Mr Smith—I meant the second lowest, yes—the second of a scale.

Senator CHRIS EVANS—It is the second of a scale of five currently.

Mr Smith—Yes.

Senator CHRIS EVANS—But we have been on that since February. I suppose the key point from my point of view is that there has been no change in that level of alert since the Bali bombings.

Ms McCarthy—No. We considered that at the time. The government decided that the level of alert across the Commonwealth did not need to increase. Drawing on those discussions across government, Defence decided that Bravo remained appropriate. But, as the secretary has indicated, it is important that we remain vigilant. That is why commanders at all establishments have been asked to review their current arrangements to ensure that they can move quickly to higher levels if that should be needed.

Senator CHRIS EVANS—So there has been no change as a result of the government warning the other day about possible threats inside Australia?

Mr Smith—There has been no change in the formal level of alert, but there has been a change in the sense of directing commanders and facility managers to scrub over their present arrangements very thoroughly and revisit all of their arrangements for vigilance—and there are a couple of specific actions, which I will not go into here, relating to the guarding of some facilities.

Senator CHRIS EVANS—Are decisions about changes in the formal level of alert for Defence made by the secretary, the minister or someone else?

Mr Smith—By the Chief of the Defence Force and me. Of course, we would consult the minister, as we did on this occasion.

Senator CHRIS EVANS—I am sure this is classified, as I think Ms McCarthy indicated, but can I get a sense of what changes with the different levels of alert? I do not want a description of all the details of the measures you take, just some sense of the flavour of them.

Ms McCarthy—Obviously, each level builds on the level below. There are broad areas of protective measures: personnel security, information security and access control, for example. As you move through the levels of alert you may increase, for example, the measures you take to ensure positive identification. You may increase physical access measures around your base; you may increase levels of guarding, for example.

Senator Hill—If the committee wanted an in camera briefing some time, we would be pleased to accommodate that because the parliament obviously has a right to understand the detail of these things. But we also think we have an interest in not broadcasting the detail beyond that. Not surprisingly, the Defence Force is very security conscious. As I said, we already have, in our normal behaviour, a much higher level of security and security consciousness than most organisations within the country. It gets modified from time to time to address specific circumstances.

Senator CHRIS EVANS—I accept that, Minister. That is why I did not ask for the specifics; I am just trying to get a sense of it. I suppose I am getting to the point of whether that has impacted on things like brigade readiness measures or cancellation of leave and those sorts of things. Ms McCarthy was talking about physical base security issues. I am trying to get a sense of what impact this has on Defence in a more specific way.

Ms McCarthy—One of the things we try to ensure is that the protective measures we put in place at each level do not interfere with our war fighting capacity. That is one of the reasons why we make use, for example, of contracted guarding services at bases and establishments.

Senator CHRIS EVANS—I hope they are not like Parliament House, where we only guard against terrorists between 8 a.m. and 5 p.m. If you get in before 10 to 8, you are away. But we are probably not a serious target. In that regard, I also wanted to ask whether or not you had received formal requests from state governments or other organisations to assist in greater security, using Defence Force troops, or whether you had deployed Defence Force personnel on security related tasks in addition to normal activities in recent months.

Senator Hill—We all know that some state premiers have suggested that the Defence Force should be undertaking what have traditionally been civilian security tasks. Obviously, the government takes such comments seriously, but has not been of a mind, at least to date, to assume further civilian security roles. Of course the big issue once you get into that is where you start and where you end—particularly as one of the state premiers was speaking of the need for the Defence Force to protect so-called ‘soft targets’, which is almost an impossible task.

Senator CHRIS EVANS—Without commenting on any of that, I was interested in—

Senator Hill—There are some specific instances. I think the guidelines, or guidance, we have usually worked on is that, if we have a special capacity that is appropriate to a special task, we obviously want to be cooperative and helpful. You can think of examples where that might be the case and we would not necessarily want to broadcast them. But in the broader terms of securing the community at large domestically as they go about their normal business, that has not been seen as a Defence Force role in this country. We continue to have the matters under review as part of the broader security review, but that is our position to date. Would you like to add to that, General Cosgrove?

Gen. Cosgrove—No, there is no more to be said.

Senator CHRIS EVANS—Sorry, you were saying, General Cosgrove?

Gen. Cosgrove—The minister offered me the opportunity to elaborate; I said that I did not think there was anything more to be said on the issue.

Senator CHRIS EVANS—So it is fair to say, then, that there has been no deployment of defence forces in pursuit of civil security issues?

Gen. Cosgrove—Not especially, but we are always participating in some specialised way with the police and other state agencies responsible for public welfare—chaps with dogs helping to find bombs and that sort of thing. Our Incident Response Regiment does tabletop exercises with police services. Our counter-terrorist organisation has a series of training exercises with police services. That is ongoing. It has been going on like that for years.

Senator CHRIS EVANS—But there has been no particular activity, following the Bali bombings or the alert issued the other day, that has involved the Defence Force?

Gen. Cosgrove—In Australia?

Senator CHRIS EVANS—Yes.

Gen. Cosgrove—No.

CHAIR—There are a number of questions that Senator Marshall has indicated he wishes to put on notice. Mr Bennett, I understand that you have a couple of answers to questions.

Mr Bennett—Earlier today Senator Evans asked a question about short-term contracts with Toll. The contract was awarded in November 2000. The original terms were for four months, with three one-month extensions or options. The contract was extended to 15 December 2002, with two three-month extension options. Senator Evans also asked for the number of military personnel to be employed under DIDS. That number is 45. There was a question asked this morning about rent for Campbell Park offices. The rent is \$190 per square metre for the net lettable area. The total rent was \$9.8 million in the first year. This information was provided in a public document to potential purchasers. I also have a map of the Russell complex that has been supplied, and we will pass that along. I believe Senator Hogg also asked this morning about the term deposits. We currently have 23 term deposits, all with the Reserve Bank, covering \$799.5 million, with periods ranging from seven to 159 days. I stress that that is to meet the forecasted cash flow requirements.

Senator HOGG—Can you give us a table which breaks those down?

Mr Bennett—Certainly, we can do that.

Senator HOGG—When could you table that?

Mr Bennett—I think we could table that in a few days. We will just make sure of the facts as at today.

CHAIR—General Cosgrove, was there something you wished to say?

Gen. Cosgrove—No. I was just going to ask if you could take some answers now.

CHAIR—Yes.

Rear Adm. Scarce—Senator Evans, you asked a question about environmental concerns in relation to ADCAP. There is no evidence to suggest that the ADCAP Mod 6 has any environmental issues associated with it. We have received data from the US, and we will be presenting this to the Department of the Environment and Heritage shortly for approval.

Senator CHRIS EVANS—If there is no problem, why are you doing that?

Rear Adm. Scarce—It is a normal process to get environmental clearance for these issues. The second issue related to the cost of the combat system program. I gave you a figure of

\$455 million, but my minders tell me it is \$468 million. The third issue you asked us to inquire about was the in service status of the tactical command and control system. Briefly, the Americans update their tactical command and control systems on a six-monthly to 12-monthly basis. The system that we will get, the CCS Mark II Block 1C ECP4, is the system that all American submarines will be moving towards. Our Collins system will be a variant of that. That system is at sea in the Los Angeles class now, and that is very much the predominant system that will be delivered for the Collins class submarines. We are buying that system with the Virginia class contract. So the Virginia class itself is not delivered until 2005. I think I said that there was one in service at the moment, but that was incorrect.

Senator HOGG—Thank you. That answers the questions I raised.

CHAIR—There being no further answers from the department, I would like to thank you, General Cosgrove, Mr Smith and your departmental officers for coming before the committee. I will take this opportunity to wish you all a merry Christmas and we will welcome you back in February.

Proceedings suspended from 3.02 p.m. to 3.15 p.m.

Department of Veterans' Affairs

CHAIR—Welcome. The committee will keep to the following agenda order: output 1.2, output 2.1, output 3.2, services from output 6 attributed to outcome 3 and output 4.1. Questions may be taken on notice either verbally during the hearing or by senators placing questions on notice in writing. I remind senators that questions can relate only to matters nominated for consideration at these supplementary hearings. When written questions on notice are received, the chair will state for the record the name of the senator who submitted the questions. The questions will be forwarded to the department for answer. All questions on notice must be placed by the conclusion of the committee's supplementary hearings tomorrow afternoon, Friday, 22 November. The committee has resolved this morning that the deadline for the provision of answers to questions taken on notice at these hearings is 31 January 2003.

Witnesses are reminded that evidence given to the committee is protected by parliamentary privilege, and I also remind witnesses that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate. The Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations from the parliament or its committees, unless the parliament has expressly provided otherwise.

An officer of a department of the Commonwealth shall not be asked to give opinions on matters of policy. However, you may be asked to explain government policy, describe how it differs from alternative policies and provide information on the process by which a particular policy was selected. An officer shall be given reasonable opportunity to refer questions asked of that officer to a superior officer or to the minister. As the minister is not here to make an opening statement, we will proceed immediately to questions.

Senator MARK BISHOP—I would also like to welcome Dr Johnston and officers of the department. The first thing that I want to talk about briefly, Dr Johnston, is historians. I have had a number of representations from veterans who have been upset by evidence provided to the department by historians that contradicts claims made by veterans of their whereabouts and service—upon which claims are made. You would be more familiar with that debate than me. Who are the main historians providing advice to claims assessors?

Dr Johnston—I will ask Mr Maxwell and his team to answer that.

Mr Maxwell—A variety of historians are contracted to provide research to us from time to time. It is an unfortunate fact that the vagaries of time mean that people's accounts and recollections of events often differ, or appear to differ, from the established record. As each case must be decided on its merit, where the evidence that is available from the official records does not support a claim as to possible involvement at a particular time and place, we are obliged to satisfy ourselves that in fact the matters are as claimed.

In decades past, the services were provided—and I stand to be corrected here—by either the Department of Defence's own historians or perhaps those involved with the War Memorial. In more recent times, most of that activity has been passed to the private sector. Indeed, most of the people moved into their own employment as well. In the main, they are people with a long involvement in military history or professional historians.

Senator MARK BISHOP—Do you have a panel of people that you choose from?

Mr Johnson—Yes. There is a list of historians that we generally use. I can provide you with that list.

Senator MARK BISHOP—You can provide it on notice. Are they contracted to do a particular job?

Mr Johnson—Yes.

Senator MARK BISHOP—Is payment by result or for hours worked?

Mr Johnson—It is normally for hours worked. There is a contract we enter into every time we engage a historian.

Senator MARK BISHOP—What is the going rate?

Mr Johnson—It is an hourly rate. The average cost is \$600. That is for about 12 hours work.

Senator MARK BISHOP—When the historian gives you their report, are they required to produce documentary evidence in support of their conclusions?

Mr Johnson—The report normally does document where they have got that evidence from—who they have spoken to, what records they have sought from the Australian War Memorial or the Department of Defence.

Senator MARK BISHOP—Are those reports used in appeals up the food chain, through to the AAT and the Federal Court as well?

Mr Maxwell—They become part of the body of evidence in that particular case and therefore would be used by the adjudicators at every level that the case might go before.

Senator MARK BISHOP—In the first instance would they go to the claims officer?

Mr Maxwell—It depends entirely upon when the report is requested. It may happen that it comes at the primary level, at the level of the claims assessor. Equally, the need for it might come to light in the course of a VRB application, for example. Or it might indeed arise at the AAT. It could arise at any of those three levels.

Senator MARK BISHOP—Are either the VRB or the AAT bound by the rules of evidence?

Mr Maxwell—All three levels are not strictly bound by the rules of evidence, according to the act. Nonetheless, there is more than a passing cognisance given to the rules of evidence.

Senator MARK BISHOP—Have you done any analysis of the number of cases that go to either VRB level or AAT level which turn on the basis of the historian's report?

Mr Maxwell—No, we have not. The use of historians was a particularly vexatious issue about three or four years ago. Our analysis at that stage revealed that one of our state offices was making fairly extensive use of them; whereas our intent had always been that they would be used only where really required. If the evidence before us was sufficient to establish the fact, there was no point recruiting a consultant historian to add to that body of evidence.

Senator MARK BISHOP—So is the rule of thumb now that they are supplementary on a needs basis where there are omissions in the evidence?

Mr Maxwell—Where normally the evidence is totally silent to support the claims being advanced by the claimant.

Senator MARK BISHOP—That is fine. Thank you. Page 51 of the annual report, under the heading ‘Vietnam veterans’, reads:

In May 2001, a repeat mortality study of Vietnam veterans was announced, to follow up the results of the Vietnam Veterans Mortality Study released in 1997. The mortality study is to be conducted in consultation with the veteran community and to this end a consultative forum has been established which includes representation from the office of the Minister for Veterans’ Affairs—

and a range of other ex-service organisations, ESOs. What precedent exists for ministerial staff to be so included in that? It struck me as odd when I read that.

Mr Maxwell—Indeed, the ministerial staff have been representing the office on the consultative forums for just about each of the half-dozen studies that I have personally been involved with over the last seven years.

Senator MARK BISHOP—Is that normal practice within DVA?

Mr Maxwell—We have only been doing health studies in relatively recent times. Seven years is the lion’s share of that time, so I think it is usual practice, yes.

Senator MARK BISHOP—So it is normal practice to have a representative from the minister on those review forums, those consultative councils?

Mr Maxwell—On the consultative forums, yes it is.

Senator MARK BISHOP—What role does he or she play?

Mr Maxwell—He or she is there to take part in consultations with the ex-service representatives and perhaps relay their concerns to the minister and relay the minister’s advice back on various aspects. The consultative forums do not actually steer a study, though; that is done by the scientific advisory committee, and they are not represented on those.

Dr Johnston—It is not unusual for us to have the ministerial office represented on committees. It has been my experience that, when there are matters of sensitivity, it is useful for the minister and the office to be well informed of the range of views that are being expressed rather than having them imported second-hand through the department or the commission. By and large, we run our processes in a very open way, as you understand. It helps communication.

Senator MARK BISHOP—I was not aware that that was the practice and I have not been greatly aware of it in other departments. It strikes me that, via this process, the minister is constantly involved and aware because her agent is participating in the deliberations.

Dr Johnston—It would be fair to say that the minister and her staff in the current case are very busy and are not always able to attend meetings, but the opportunity is there if it is at a threshold point or it seems useful to do so.

Senator MARK BISHOP—And that has been the practice under successive ministers?

Dr Johnston—In my time with the department, yes.

Senator MARK BISHOP—The previous minister promised that the Gulf War health study would be available last November. What is the cause of the delay?

Mr Maxwell—The delay is at the request of the contracted academic team doing the research. They desire that their emerging findings have the full confidence of the scientific advisory committee and they sought that time to go back to the committee to get the benefit of their input.

Senator MARK BISHOP—When did they make that request for delay?

Ms Parry—I believe the last appointments for the Gulf War veterans were held at the end of April this year. After that, the university wanted to have six months to review the data and come up with a report. That was originally due at the end of October. In the middle of October we met with the scientific advisory committee and Monash requested some additional time, based on the feedback from the scientific advisory committee, to do additional analysis. They are expecting to deliver that by the middle of next month.

Senator MARK BISHOP—So it is just another two months delay.

Ms Parry—Yes.

Senator MARK BISHOP—Is there a particular issue that requires re-analysis?

Ms Parry—The scientific advisory committee wanted more information around Australian exposures and around comparisons, particularly on mental health issues, against the Australian population as a whole. So there were specific things that they asked for more detail on.

Senator MARK BISHOP—The minister will get that in mid-December, Dr Johnston?

Dr Johnston—That is our current expectation. We would hope that the report could be publicly released in the new year, but we would not want to be too precise.

Senator MARK BISHOP—It is the intention to publicly release it as soon as possible?

Dr Johnston—That has been our practice, yes.

Senator MARK BISHOP—Do we know as yet what the main findings are?

Ms Parry—Just the preliminary ones, and we are waiting for the scientific advisory committee to approve those findings.

Senator MARK BISHOP—So it is a work in progress. Dr Johnston, how many medically qualified staff are employed by DVA in the oversight of the research and investigation on radiation exposure, hazardous chemical exposure, Gulf War syndrome and the whole range of related issues?

Dr Johnston—That is a very precise question, and I think I should take it on notice and think about it. We have one principal medical officer, Dr Keith Horsley, who supervises and advises on these studies, and we have a senior medical adviser, Dr Graeme Killer, who advises on all health and research matters in the department. Of course we rely heavily on contract medical researchers and so on to undertake a lot of the work. Mr Maxwell, is there some aspect I should add to that?

Mr Maxwell—I might just add that there are two further contracted medical practitioners who are engaged on the studies—one is full-time and one is about 75 per cent full-time—as a standing membership of the team. The rest are all contracted according to the study.

Senator MARK BISHOP—Are those two people that you referred to permanent staff of the department?

Mr Maxwell—No, they are both contractors.

Senator MARK BISHOP—And they have been involved in the Gulf War study?

Mr Maxwell—Yes, they have both been involved in the Gulf War and the Korean War studies.

Senator MARK BISHOP—Can you take that question on notice. It was a precise question about the exact number of medically qualified staff employed by DVA for the oversight of research and investigation into radiation exposure et cetera. Dr Johnston, is the department happy with the progress being made on the Gulf War study?

Dr Johnston—I can assure you that we have given it all the due priority that we can. It took us some time to get an acceptable sample base for the study and we had to work hard with the veterans community to get a representative sample, but we also have to live with available resources in undertaking our work. I am not conscious, though, in respect of that study that resources at our end have been one of the contributing factors. It has basically taken us the time that it has because of the complexity of the work.

Senator MARK BISHOP—There has been a fair amount of literature around lately on research being done in the US and the UK on the Gulf War syndrome and the like. Does the department have any views on the quality or otherwise of that publicly released research?

Mr Maxwell—That is a fairly expansive question. I guess I could be almost equally expansive in my answer and say: in the main, no, we do not have any great qualms about the quality of research.

Senator MARK BISHOP—Do you monitor it?

Mr Maxwell—We do indeed monitor it. In fact, part of our design philosophy for the Gulf War study was to ensure that our data was collected in such a way that it could in fact be merged with the growing international data to enable a meta-analysis of the whole outcome, recognising that our particular Gulf War veteran cohort is a very small number and, by itself, has very limited powers of being able to detect major significant points in the data. But by merging it with a wider international body amongst the allied forces it could certainly, we hope, add to the overall international pool of knowledge.

Senator MARK BISHOP—But you do not make any particular criticism of the publicly available research that has been released to date in both the US and Canada?

Mr Maxwell—It would be fair to say that we are critical of one particular piece of research that has been publicly released.

Senator MARK BISHOP—Which is that?

Mr Maxwell—It is the one done at the University of Dundee.

Senator MARK BISHOP—Why were you critical?

Mr Maxwell—I would prefer to give you an answer on notice, but I can say in a short answer that the problems relate, really, to the extent to which that particular body of work was peer reviewed and, indeed, conducted under a committee of ethics.

Senator MARK BISHOP—You can take that on notice, Mr Maxwell. The US audit office recently released a report. They made the strong finding that outcomes—that is, outcomes in terms of particular problems allegedly related to exposure to radiation and chemicals in the

Gulf War—are difficult to establish, despite the huge amounts of money spent in the US to date. Do you share that view?

Dr Johnston—Senator, you are asking public servants to comment on matters of scientific complexity. It would be fair to say that, in general, our experience with the health studies that we undertake is that they are complex relationships and it can be difficult to establish strong results. The best medical researchers that are available are contributing to these various studies internationally, and one has to accept the quality and the reliability of the results in that context.

Mr Maxwell—It would be fair to say that in some particular instances the outcomes are indisputable—I refer particularly to Professor Doll's work on the cigarette smoking-lung cancer link. Once that was laid out, the outcomes were quite spectacular. Equally, I think I could say the same about the work in Australia on helicobacter pylori and the causation of stomach ulceration. For a long time it was thought to be due to stress and a whole range of factors, but it appears now that the culprit is in fact a particular bacterium.

Senator MARK BISHOP—Is DVA doing any research on GWS at the moment?

Mr Maxwell—GWS being Gulf War syndrome?

Senator MARK BISHOP—Yes.

Mr Maxwell—That is part of the overall research mandate given to the study team on our Gulf War veteran study.

Senator MARK BISHOP—If you turn to page 321 of the annual report, there is a contract for \$213,000 given to Professor Webster of the University of Sydney for testing the toxicological effect of a mixture of chemicals. What precisely is the purpose of this research, and how does it link to the concerns being expressed about the failure of DVA and the RMA to agree to the suggestion that multi-chemical sensitivity is the cause of much illness amongst veterans?

Mr Maxwell—That is a curious combination of considerations. The actual work conducted by Professor Webster was to explore possible toxicological effects of a chemical, which I think was a constituent chemical in agent white used in Vietnam, to see whether that could possibly play some role in downstream genetic damage and transfer to subsequent generations.

Senator MARK BISHOP—So it is totally unrelated to the Gulf War?

Mr Maxwell—Totally unrelated.

Senator MARK BISHOP—Is Professor Webster's research contract linked to any other research being done in the US or elsewhere?

Mr Maxwell—I do not know that that particular research is necessarily directly linked, but it is part of the ongoing body of research internationally into the effects of, particularly, the dioxin contaminated herbicides that were used during the Vietnam conflict.

Senator MARK BISHOP—When is the research due to be completed?

Ms Parry—I think we would have to take that on notice. As I understand it, it is on an ongoing basis in terms of it being a body of work that is under way. There is new information on a fairly regular basis where they look at various chemicals and interrelationships. We should get a more specific answer from Dr Horsley.

Senator MARK BISHOP—If you could take on notice when the research contract was let, when the job commenced, who is involved with Professor Webster, when the final report

will come to the department and what are the terms of reference or the expected outcomes. It is probably best to do that on notice.

Ms Parry—Yes.

Senator MARK BISHOP—The minister recently announced that Professor Donald has been tasked to chair a study group—to do a health study of SAS veterans in Western Australia. Given that the minister initially refused the SAS group such a study—based largely, as I understand it, on the reports given to her and repeated here in estimates that the group was not statistically significant, was very small and self-funded and hence there was a perception of bias—what made the minister change her mind?

Dr Johnston—Senator, I might answer that in the first instance. It may be that we are in danger of getting into some semantic difficulties here. From the minister's point of view, I do not think she would agree that she has asked Professor Donald to undertake a health study. She has asked him to undertake a report, consulting with the SAS community and with various researchers, on the range of medical concerns that those veterans may have, with other issues that medical researchers might want to address, and to undertake a preliminary analysis of those issues and provide a report to the minister on the practicality and usefulness of any further research or study that might be of value in resolving these matters. So the terms of reference would not match what you might think was being sought in the early stages of a health study.

Senator MARK BISHOP—You do not characterise it as a health study?

Dr Johnston—As I say, there may be a semantic issue here. It is an effort by the minister to seek some independent advice from an expert who is widely regarded, across the veteran community, to advise on the medical issues in contention and the nature of the scientific understanding that is already available on these matters, and to identify any areas where he and his technical advisers think that some further research might be of value. I think that in the course of this he is likely to want to test, on a sample basis, some of the propositions that have been raised by the SAS community. This stops well short, at this point, of some of the proposals that were abroad initially for a health study, although if in due course there is a rigorous basis in science for further research that will be something that the minister and the department would be prepared to consider.

Senator MARK BISHOP—The genesis of this issue is in the report published by the university researcher earlier this year, commissioned by the SAS people in Perth.

Dr Johnston—That is only one issue that the SAS community has concerns about, but that report would be one of the issues on which Professor Donald and his team might express an opinion and might provide advice to the minister on any further work that could be of use.

Senator MARK BISHOP—Would you expect that, as part of his job, Professor Donald would review the findings of that earlier report?

Dr Johnston—I would think so, but that is for the professor to determine.

Senator MARK BISHOP—Would he also look at the other issues raised by the SAS community, relating to health matters?

Dr Johnston—That is correct. I think the proposal that Professor Donald undertake this work has been very well received by all the parties. He is well regarded in professional terms.

Senator MARK BISHOP—I am not offering any criticism of Professor Donald. It is just that the press report I saw stated:

Veterans' Affairs Minister, Danna Vale announced last month that an initial study would be conducted by an expert panel coordinated by Professor Ken Donald.

That is where my phraseology comes from.

Dr Johnston—I am not sure that Professor Donald has issued precise terms of reference yet, but when he does so I think you will see that in texture they are somewhat different from some of the earlier proposals that were being made.

Senator MARK BISHOP—Has the process of negotiating the terms of reference with the SAS community been concluded?

Dr Johnston—It has almost been concluded. There are draft terms that Professor Donald is about to forward to the minister for her consideration.

Senator MARK BISHOP—When they are signed off, can a copy of those terms of reference be provided to the committee?

Dr Johnston—Yes.

Senator MARK BISHOP—What sort of time frame is involved?

Dr Johnston—For Professor Donald's work?

Senator MARK BISHOP—Yes.

Ms Parry—I believe they are talking about an initial report next March, with a final in June. Again, we would have to verify that, based on the revised terms of reference.

Senator MARK BISHOP—Who is on the committee with Professor Donald?

Dr Johnston—I think we should take that on notice.

Senator MARK BISHOP—Would you also take on notice the terms of reference, the report dates—interim and final—and the composition of the committee. Is it more than a literature review?

Dr Johnston—Professor Donald is inclined to do some examinations on a sample basis, but I think we should wait for the terms of reference to be announced.

Senator MARK BISHOP—Doesn't the RMA usually do literature reviews of the scientific evidence around particular issues?

Dr Johnston—That is correct. But, in a sense, the minister is not asking the RMA to undertake this task; the minister is asking Professor Donald, who happens to be the chair of the RMA, in conjunction with a committee of experts, to undertake this task.

Senator MARK BISHOP—And a number of those committee experts are also on the RMA?

Dr Johnston—That is my understanding.

Senator MARK BISHOP—In my mind, it just raises the issue of potential for compromise later on.

Dr Johnston—It may raise an issue of that nature, but in effect the RMA and in this case the group of experts are being asked on the basis of their professional knowledge and any other matters to express an expert opinion on a range of health issues. It is not something that is in conflict with the scientific dimensions of it.

Senator MARK BISHOP—Ms Parry, did you say that someone from the SAS would be participating?

Ms Parry—No, I did not.

Senator MARK BISHOP—So it is Professor Donald, four other members of the RMA—and who else?

Ms Parry—We were going to give you those names on notice.

Senator MARK BISHOP—Also, could you tell me the organisations they represent or come from and what their sphere of expertise is?

Dr Johnston—It is not a representative committee; it is a committee based on expertise for the task.

Senator MARK BISHOP—But the negotiation concerning the terms of reference has involved the SAS community over there?

Dr Johnston—Most certainly.

Senator MARK BISHOP—Is the department familiar with the Ranch Hand study in the US?

Mr Maxwell—Yes. We are certainly familiar with the Ranch Hand study. We have been watching and following that now for several decades.

Senator MARK BISHOP—Do you have any comment on the allegations that the study was seriously tampered with so as to play down and even mislead the public on the real effect of Agent Orange?

Mr Maxwell—No comment at all.

Senator MARK BISHOP—Have you looked at that issue?

Mr Maxwell—I personally have not looked at Ranch Hand since probably 1995-96. At the time, it gave rise to the suggestion that some neurotube defects were starting to appear in offspring. That is going back six years or so now.

Senator MARK BISHOP—Dr Johnston, is the department aware of a press report that the drug mefloquine, known as larium, was used experimentally on Australian troops in East Timor between October 2001 and April 2002?

Dr Johnston—I will have to take that on notice.

Senator MARK BISHOP—I can provide you a copy of the report. It is dated Wednesday, 23 October, No. 6571, on AAP. No-one is aware of that press report?

Dr Killer—I am not aware of this particular report. But mefloquine, or larium as it is called, is one of the drugs used in the prevention of malaria for people who are allergic to the traditional dosages of doxycyline. If someone is allergic to tetracycline, the drug that is commonly used instead is mefloquine or larium. I have also prescribed it for patients. There have been some reports in the international press recently of problems that we were not previously aware of. There has been a sort of caution note applied to it. Without knowing exactly what Defence did in East Timor but understanding the normal protocols, if there were servicemen who were allergic to doxycyline, there is a possibility they would have been on mefloquine, but I think you would have to confirm that with the Defence health services.

Senator MARK BISHOP—Defence would not normally consult with you on the provision of those particular drugs, would they?

Dr Killer—No, not at all. They make their own decisions on their preventive health measures.

Senator MARK BISHOP—That is purely a Defence matter?

Dr Killer—It is a Defence issue really. If we were conducting studies or there were problems coming out of this, they would certainly let us know. We have set up in Defence what we call the medical advisory panel—in fact, it meets tomorrow. The panel is all about getting the health personnel from Defence—in other words, the surgeon general and the Director of General Health Services and his team—to meet with the health people from the Department of Veterans' Affairs. We have a health and research working group that looks at research issues and operational issues. This is the sort of issue that would be raised at that health and research working group, and it would then come through to this medical advisory panel. This panel exists now to deal with these sorts of issues, and this would be the type of issue that could be raised, and in fact it may be raised tomorrow.

Senator MARK BISHOP—Are you aware of any compensation claims having been made by people up there following the use of this drug?

Mr Maxwell—I am not aware of any complaints that can be traced to that particular drug.

Senator MARK BISHOP—Dr Johnston, I have received a fairly disturbing letter concerning a welter of compensation claims from East Timor veterans, many of which are alleged to be fraudulent, particularly those concerning mental disorders. Let me paraphrase some of the letter prior to asking you some specific questions. The letter says, in part, that the writer is concerned at the 'increased amount of welfare fraud being witnessed in claims made by the ADF'. He specifically mentions fraudulent PTSD claims and says, 'The aim of PTSD claimants is to get lifelong DVA tax-free pensions to supplement their income.' He alleges that there are 'over 200 PTSD pensions from Timor already'. He expresses concern at East Timor servicemen with '100 per cent disability granted by DVA still being fit for service'. He alleges that this sort of activity was promoted by other ESOs. Taking those allegations—and I do not say that they are any higher than allegations at this stage—by way of background, can you confirm that details of compensation claims from serving personnel are not provided to the ADF?

Dr Johnston—We administer two schemes: the Veterans' Entitlements Act and the Military Compensation Act. As the Department of Defence is the employer of service personnel making military compensation claims, they are entitled to information in relation to those claims. In respect of the Veterans' Entitlements Act, it is not customary for us to provide such information. We are at the moment looking at the way in which the administration of the two pieces of legislation interact. As you would understand, this is very relevant to the government's commitment to providing new legislation for future service. The protocols of sharing of information in respect of the current legislation is something we believe we need to be reviewing with the Department of Defence.

Senator MARK BISHOP—So the current protocols are being reviewed and might be considered with a new bill that will be brought before the parliament next year?

Dr Johnston—In the case of the new legislation it would very clearly be their responsibility—it will be Defence legislation—and the Department of Defence as the employer would have legitimate access to that information.

Senator MARK BISHOP—Let us not go to the future just yet. Currently there are dual systems in operation: one operated by Defence and one operated by VEA.

Dr Johnston—That is correct.

Senator MARK BISHOP—As for applications made by a person who has QS up there in East Timor under the VEA and who gets wholly or partly his claim allowed, is there any obligation upon VEA to provide the details of that to Defence?

Mr Maxwell—The obligation is rather in the Privacy Act and the privacy principles. As Dr Killer has indicated, we do share with our Defence colleagues aggregate information on compensation claims experienced arising out of all recent and current deployments. Therefore, we do meet and we do talk about the East Timor experience, for example.

Senator MARK BISHOP—Say, for example, there were 50 or 100 disability claims allowed under the VEA for personnel who served in East Timor. You would not provide the details to Defence, would you?

Mr Maxwell—On each case?

Senator MARK BISHOP—Yes.

Mr Maxwell—No, we would not. As matters currently stand and as the law stands, we would not.

Senator MARK BISHOP—Does the law prohibit you from doing so?

Mr Maxwell—My understanding is that the Privacy Act certainly would, without the consent of the claimant. I point out that there are something like 140,000 disability compensation pensioners under the VEA across the country, of whom a good proportion are still in employment. We do not provide details of anyone's claim history to employers. The exception to that statement—and it is not really an exception, more a modification—arises in the case where a claimant may have dual entitlement under both the Veterans' Entitlements Act and the Safety, Rehabilitation and Compensation Act. In that case the Veterans' Entitlements Act does require us to offset compensation being paid for the same condition, so we would advise Defence that we were proposing to put a compensation pension into payment for veteran X and we would ask Defence whether they were paying or had paid any compensation payments in respect of the same condition and the same veteran.

Senator MARK BISHOP—The issue here is fitness for duty. If a person has been up there as part of the ADF and has a claim allowed under the VEA, in whole or in part, how would that person still be fit for service in the ADF?

Dr Johnston—I think you are raising a reasonable question. As I indicated before, we believe that issue is certainly important in framing the new legislation. In the context of administering current legislation, we do need to sit down with Defence and review current practice. But any proposed change would of course need to be the subject of consultation with all the interested parties.

Senator MARK BISHOP—I understand that. I am essentially raising an issue of fraud. I understand that can be attended to in the future when there is one act, so leave that aside. We are talking about current practice.

Dr Johnston—In respect of fraud, the processes are quite clear. If your correspondent believes there is fraud, that person should be passing that information to the responsible administering authorities, and that fraud will be investigated.

Senator MARK BISHOP—You are advising me that, as a matter of practice and custom within the department, DVA does not provide individual details to ADF and, secondly, Mr Maxwell advises me that he thinks that, even if such activity were contemplated, it is prohibited by the Privacy Act. Is that a correct summation?

Mr Maxwell—I would prefer to take that on notice, but that is certainly my inclination at this stage.

Senator MARK BISHOP—Can you take that on notice, Mr Maxwell, and confirm what the customary practice is. Secondly, can you let the committee know if there are any statutory injunctions that prohibit that information from being passed on to Defence, either on the initiative of DVA or if requested, specifically or generally, by Defence? Is there any current liaison between DVA and ADF on this matter, apart from the provision of aggregate information?

Dr Johnston—I am not sure what the point is that you are trying to clarify. As Mr Maxwell indicated, we do share macro-information and analysis of that information with Defence and we are talking with the Department of Defence about reviewing the experience of East Timor service. Indeed, that will be one of the subjects addressed at tomorrow's meeting that Dr Killer referred to.

Senator MARK BISHOP—How many TPIs have been granted from Timor service and, of those, how many remain in the ADF and how many have been discharged, and of those TPIs how many were for mental disorders? Can you take that?

Dr Johnston—Yes.

Senator MARK BISHOP—And could the department update the statistics supplied at earlier estimates for Timor service under both the VEA and the MCRS? I refer you to question 746 at the last round of estimates.

Mr Maxwell—You asked question 744 on notice on 4 October 2002. I am aware that the minister is at the point of signing a response to you on the very questions you have just asked us to take on notice now.

Senator MARK BISHOP—Okay then, that will answer the question. This issue relates to the children's education scheme. I have received representations from a VCES recipient who says he is being pursued very vigorously by the DVA's South Australian office on an overpayment. I have raised this matter here with his permission, because he alleges harassment and an inability to come to some settlement on the matter. The man I refer to is a Mr Burdett, from South Australia. He has undertaken to repay part of his VCES allowance, which he was paid despite not studying for the full period. He says he has acknowledged his wrongdoing but that whenever he seeks to negotiate with the DVA he is threatened with action by the DPP. I am advised that the DPP in fact does not have the case registered at all. So they are the allegations that have been raised in writing with my office. If these circumstances are correct, I ask you to occasion an investigation to be conducted into what seems to be a somewhat heavy-handed approach and provide a report to the committee. Is that in line?

Dr Johnston—I would suggest that, in a private matter like this, it might be better if the department wrote to you with that information rather than—

Senator MARK BISHOP—That is fine; do the report. I am asking you to do a report of what has occurred within the department and provide me with a copy. It does not have to come to the committee.

Dr Johnston—I can take that on notice.

Senator MARK BISHOP—That is okay with me.

[4.48 p.m.]

Senator MARK BISHOP—We might turn now to outcome 2—health. Dr Johnston, I refer you to page 61 of the annual report. Table 11 shows the break-up of a large number of

contracted private hospitals. We are both well aware of this issue. Can you bring us up to date with the current status of negotiations in Western Australia about providing more access to private hospital care to veterans in that state?

Dr Johnston—As you are aware, there have been a number of meetings in your home state in recent weeks on this subject, and the matter has also been discussed at two meetings of the Western Australian state monitoring committee, which is the formal committee required by legislation to advise the commission on the administration of health service delivery. Of the most recent two meetings, one sponsored by the RSL and attended by its sub-branches—

Senator MARK BISHOP—I attended both of those meetings.

Dr Johnston—Yes. That meeting concluded with a view that the RSL supported the continuation of the current tier 1 hospital arrangements. A meeting sponsored by the TPI Federation concluded with a view that there was a need for a review of the current arrangements and Mr Blue Ryan, the national president of the TPI Federation, has written to the commission with a report of that meeting. I have today written to Mr Ryan advising him that, in discussions we have had over the last 10 days with a number of organisations that attended that meeting, they have indicated that, possibly contrary to the impression, those organisations favour continuation of the current arrangements and, in light of that and the position taken at the meeting sponsored by the RSL and the views expressed at the two state monitoring committee meetings that I have referred to, the commission is of the view that the majority of veterans still prefer to continue with the current arrangements. Our view is that it is not useful to have a review in that situation, so I have written today to Mr Ryan advising him of that view.

Senator MARK BISHOP—Which of the attending organisations at the TPI meeting did you consult with?

Dr Johnston—There were three organisations where, from other information, we were unsure as to the position they now wanted to take. We have confirmed with the Royal Australian Air Force Association—RAAFA—the Australian Navy Association and the Vietnam Veterans Association of Australia that the formal positions of those organisation are a preference for continuation of current arrangements, and I have advised Mr Ryan of that.

Senator MARK BISHOP—I understand what you are saying. I think you provided DVA with a copy of the minutes of the—

Dr Johnston—Very full minutes, yes.

Senator MARK BISHOP—To my memory there was a list of representatives of organisations who attended the meeting.

Dr Johnston—That is correct.

Senator MARK BISHOP—There were about 10 to 15 organisations identified: Perth Legacy, Fremantle Legacy, the ones you identified, SAS, TPI and a couple of others. Do you intend to consult further with the other organisations on that list that you have not yet consulted with?

Dr Johnston—Not at this stage. The positions stated by most of the other organisations that have been active in commenting on these issues in recent times were consistent with the information we had from other sources, so at this point we were not proposing a further consultative process. But we are assuming that this is likely to be an item that will need to be on the agenda for the next meeting of the state monitoring committee, and if there are matters that need to be discussed of course they will be.

Senator MARK BISHOP—Since the February estimates, when we discussed the nature of the Ramsays contract at Hollywood, has any legal advice been obtained as to whether there is a monopoly over the Perth metro area?

Dr Johnston—We are talking with the Australian Government Solicitor, but no formal advice has been provided by the Australian Government Solicitor, although the Australian Government Solicitor has advised the department in the past in the negotiation and finalising of the Hollywood contract.

Senator MARK BISHOP—It is just that you seem to have a different understanding of the contract provisions as to Ramsays from what Mr Cass-Ryall said in public, anyway.

Dr Johnston—That is hard to say, but we have stated our understanding.

Senator MARK BISHOP—You said you were in discussions with AGS. Are you going to ask them for an opinion on that matter?

Dr Johnston—That remains to be seen. We are satisfied at the moment that the statements we have made publicly are still reasonable from our point of view.

Senator MARK BISHOP—And AGS have not advised you otherwise?

Dr Johnston—That is correct.

Senator MARK BISHOP—I refer you to question on notice No. 671 in the Senate, where it was said that the information was not available on a number of cases where refusals for entry to former repatriation hospitals were said to be unavailable yet the number of complaints received was available, and there is a table in the answer that listed the number of complaints. Why is it that you were able to provide the number of complaints but not the refusals for entry? Surely the second follows from the first.

Mr Stonehouse—We do not always know about refused admissions because they are not recorded and reported to us, but we do know about complaints because they come to us and we keep a record of them. The question was about complaints about service received in each year since the hospital sale or transfer. Those are the records that we gave you. The table is a record of those complaints which we had formally received.

Senator MARK BISHOP—Does that exclude refusal of entry?

Mr Stonehouse—It might or might not cover refusal, but it covered complaints about the services provided that had been formally received by the department.

Senator MARK BISHOP—So you do not know whether the table in the answer to question No. 671 about complaints for service comprehends refusals of admission?

Mr Stonehouse—It probably does not.

Senator MARK BISHOP—Can you take that on notice and advise us formally whether it does cover refusals of admission?

Dr Killer—Admission would be refused because there are no beds at the time, or no appropriate beds. If this was the situation for a veteran, the department would make alternative arrangements and they would be admitted to another public hospital or to a private hospital. In most cases, this issue of refusal of admission simply depends on the availability of particular beds at the time, whether it is intensive care, a burns unit or a medical ward. In most cases, if a hospital cannot provide that bed, admission arrangements are made somewhere else. This would be very difficult to determine. We would have to go around all the hospitals and determine which veterans had been refused admission on what grounds.

Senator MARK BISHOP—My question is confined to Western Australia. I am not talking generally.

Dr Killer—I understood that you were talking generally.

Senator MARK BISHOP—Sorry. The table you provided in the answer to question on notice No. 671 covered all hospitals, but this discussion now is confined to refusal of admittance to Ramsays in Hollywood in Western Australia.

Dr Killer—I misunderstood.

Senator MARK BISHOP—You do not have those records. Do you ever seek them from Ramsays?

Dr Johnston—I am not aware of our having done so, and I am not sure that Ramsays would be keeping a record of that either, but we can inquire.

Senator MARK BISHOP—It is not part of the terms of the contract between DVA and Ramsays?

Dr Johnston—I think if it was we would be answering your question today.

Mr Stonehouse—It is not. What Dr Killer described is a day by day, hour by hour process where a doctor who is seeking admission of a veteran to a Ramsays hospital, or any other hospital, rings an admitting medical officer and that doctor looks at what beds are available and what specific services the person needs and makes a decision as to whether or not they can be admitted. That is part of the normal process of doctors seeking admission to hospitals. If a veteran could not be admitted to Ramsays, arrangements would be made for them to go somewhere else.

Senator MARK BISHOP—I refer you to an adjournment speech given on 18 September by the member for Cowan, Mr Edwards, in which he cited a number of cases where veterans had been turned away from Hollywood. Did the minister investigate all of the cases referred to by Mr Edwards and, if so, what were the findings?

Mr Stonehouse—The minister did investigate. Ms Hohnke may have some further details of each of those cases.

Ms Hohnke—I do not have details of the six specific cases with me at the moment. In the majority of them, the services were not actually provided at Hollywood Hospital, so they were transferred elsewhere for the care that they required. In the other cases, there was no bed for the specific type of care that was required available in Hollywood at the time.

Senator MARK BISHOP—How many of the six were in the latter category?

Ms Hohnke—My recollection is that there were two, but I could confirm that for you.

Senator MARK BISHOP—Do you mind taking the question on notice and providing a brief report on the investigations by the minister of each of the cases? If you feel the need to maintain privacy concerning names, so be it; I am interested in the results.

Ms Hohnke—Yes, certainly.

Senator MARK BISHOP—On the issue of reimbursement of medical fees in the context of the gold card. I refer you to questions on notice in the Senate Nos 463 and 629 as a backdrop to the discussion. I am intrigued by the answers. Firstly, in response to question No 463(1), the minister representing the Minister for Veterans Affairs affirms that DVA has reimbursed veterans for doctors' fees where doctors have refused to accept veterans' treatment cards. Am I correct to assume that, when the treatment card is not accepted by a doctor, the

reimbursement by the department will be for an amount above the medical benefits schedule—otherwise the doctor would have accepted the gold card?

Ms Hohnke—Could I clarify that question: you are wanting to know if the reimbursement was above the amount?

Senator MARK BISHOP—Whether the reimbursement paid by the department is above the amount provided for in the medical benefits schedule.

Ms Hohnke—For the most part, no, unless there were very special circumstances.

Senator MARK BISHOP—In your response to question No. 629 you identified that there were only two exceptional circumstances cases considered last year.

Ms Hohnke—That is correct.

Senator MARK BISHOP—Excluding those two exceptional circumstance cases, the amount refunded in all other cases was only up to the medical benefits schedule?

Ms Hohnke—I would have to put a proviso around that. One of the difficulties for us in our data at the moment is being able to determine exactly what reimbursements were made for. As we have indicated in some of our responses to you, our data covers a range of periods when people can ask for reimbursement. If the reimbursement is for medical and other services in that period when they first gain eligibility and have that three-month period where we will refund the services that they used, we will refund the reasonable cost for that service. On those occasions, we will refund veterans above the MBS; but they take it outside of the areas in relation to when the gold card is accepted or not. However, our data does not clearly define which reimbursements are made under which of these particular instances. We have not been able to say at this stage that this reimbursement was done in this period and it was done as a result of a gold card being refused. We have been attempting to keep clearer records in recent times so that we can actually identify that.

Senator MARK BISHOP—But you cannot say to me that reimbursements in excess of the medical benefits schedule are not paid by the department.

Ms Hohnke—No, as I pointed out, I cannot say that when it relates to another period. If it is that early period of a person's eligibility, we will pay above the MBS.

Senator MARK BISHOP—Could you explain to me the significance of the 'person's early period of eligibility'. I do not quite understand that.

Ms Hohnke—When somebody is granted an eligibility under the VEA, it allows us to reimburse their medical costs for the three-month period prior to their acceptance. We cover a lot of the medical and health costs in that lead-up. We pay reasonable costs during that period, and that may include costs above the MBS.

Senator MARK BISHOP—Let me give you a simple fact situation: I have got qualifying service and I have just had my 70th birthday, so I am now entitled to receive the gold card. What procedure applies when I attend my physician and he refuses to accept the gold card for treatment of routine complaints?

Ms Hohnke—The position that the department has taken in that particular instance, because it is not related to the granting of an accepted disability, would be that, if the veteran has no way of knowing that and they go in good faith to have their treatment and the doctor attends him and then says that he is not going to accept the gold card, we will refund the MBS costs for that service but we will write to the doctor and explain to the veteran what the entitlements are under our legislation. That means that in future we expect them, and we would help them, to attend a doctor who will accept the gold card as full cost.

Senator MARK BISHOP—Is that a one-off occasion to meet those additional costs?

Ms Hohnke—That certainly would be regarded as that in an attempt to get some balance into the system, yes.

Senator MARK BISHOP—And you would expect the vet in future circumstances to arrange medical services from a doctor who accepts the gold card?

Ms Hohnke—Yes, we would.

Senator MARK BISHOP—From the discussion we have just had I understand that there are only two exceptional circumstances. Under what circumstances then does the department pay in excess of the benefits schedule? You referred to ‘reasonable cost’. What do you mean by that?

Ms Hohnke—The reasonable costs would be a matter of judgment for the delegates in the particular instance at the time, but we would not pay for services that are normally not covered by the Repatriation Commission’s health care entitlements. So we would pay their medical costs, hospital costs, any diagnostic costs, attendances at allied health professionals but we would not go outside of the parameter of the services that we normally provide. So we would not pick up naturopathic costs or costs in areas like that.

Senator MARK BISHOP—Are you telling me when a normal vet who has a gold card seeks treatment from his doctor and the doctor rejects the use of the gold card, apart from those two exceptional circumstances, it is almost impossible for the department to reimburse in excess of the scheduled fee?

Mr Stonehouse—Perhaps if I can attempt to help, Ms Hohnke was also drawing attention to those veterans where a person lodges a claim for, say, tinea to be accepted as service related and Mr Maxwell’s group takes, say, a month to determine that and the claim is granted three months retrospectively from the date of lodgment and there is a period of time there where the person did not know that they had an eligibility under the department. The reimbursement in those situations can be different.

Senator MARK BISHOP—That is really an exceptional group circumstance, so we will put them to one side as well. So we have got the two exceptional circumstances, which have been acknowledged by the department in questions on notice, and we have the exceptional group working their way through the system in the three-month limitation. Apart from those two groups, are there any other reasons for which DVA would pay via reimbursement in excess of the schedule fee?

Ms Hohnke—No.

Senator MARK BISHOP—Is what I have just said common practice in the various state offices?

Ms Hohnke—Yes, it is.

Dr Johnston—Just adding to that, our treatment principles, which are legislative instruments, bind us to not being able to pay in those circumstances. In the current situation, where there is a degree of concern about the basis of payment for specialists and general practitioners, the commissioner has taken the view that, as a general principle, if a veteran is placed in a situation where the conditions of their gold card are not complied with, in the first instance we will make a payment but we will advise the practitioner and the veteran that we are constrained and cannot continue to do that and that they need to make alternative arrangements.

Senator MARK BISHOP—Thank you for that discussion. I understand that you are quite firmly saying now that it is not the practice of the Repat Commission to pay above the Medical Benefits Schedule, except in those two circumstances identified in the discussion we have just had. That is quite clear. In answer to question on notice No. 463 you said that you are unable to identify reasons for reimbursements and you postulate three reasons which may have some degree of accuracy. Why are you unable to identify the reasons for those reimbursements? I ask this because in the last 12 months the monthly cost of reimbursements has gone from \$55,000 up to \$73,000. There is a large increase in the number of reimbursements and there is a huge increase in the monthly amounts being paid out. What is the reason for that? I refer also to question on notice No. 629.

Ms Hohnke—I can only postulate as to the reasons. As we have explained in some of our answers, it has not been the practice of our state offices to record all of the reasons for the reimbursements so we have had to take samples of some of recent reimbursements to understand what was being reimbursed. We have a group of things that we reimburse for. All the reimbursements are recorded but not all of the reasons are recorded clearly so that we can track that through.

Senator MARK BISHOP—Can you say that again?

Ms Hohnke—I said that the reimbursements themselves are recorded but not the reasons for the reimbursements.

Senator MARK BISHOP—Is it just that you are paying out huge amounts of cash every month now for reimbursements and you are telling me there is no record being maintained of the reasons? When you look at the trend line you can see that reimbursements have gone from an average of \$55,000 a month in July last year to an average of \$73,000 a month this year. There is obviously more, and I am asking why is that occurring.

Mr Stonehouse—It went from \$55,000 in February to \$77,000 in August, but it was only \$4,000 in the January before the \$55,000, so there is a variation in those figures. I would suggest that those figures are not all that large when you take into account the total expenditure of the department on health services more broadly.

Senator MARK BISHOP—That is clearly a fair comment: when you are spending \$4 billion a year, \$600,000 is a drop in the bucket. That is not the point. The point is this: in the year 2001, on the figures provided in the answer, the average cost of reimbursement was \$55,000. For January through August 2002, when you did an identical calculation, the average cost of reimbursements has gone from \$55,000 up to \$73,000. I am asking why has there been that increase.

Ms Hohnke—I cannot answer that at the moment, but I will take it on notice and see if we can provide you with some information.

Senator MARK BISHOP—Has anyone made inquiries of the various state offices?

Ms Hohnke—Yes, we have. We have much better records being kept at the moment to make it easier for us to dissect the information as you are requesting.

Senator MARK BISHOP—When did you start keeping those better records?

Ms Hohnke—Only fairly recently.

Senator MARK BISHOP—In the last six months?

Ms Hohnke—It would not be that long—the last three months, probably.

Senator MARK BISHOP—So you are now keeping records of the reasons for each reimbursement?

Ms Hohnke—We have asked our state offices to keep better records of the reimbursements. We are working with them on that issue at the moment.

Senator MARK BISHOP—You said that you had asked your state offices to keep better records of the reimbursements. Have you asked your state offices to keep the reasons for reimbursements?

Ms Hohnke—That is right.

Senator MARK BISHOP—You have?

Ms Hohnke—Yes.

Senator MARK BISHOP—That was a different question. Turning now to discussion on the gold card, I refer you to Mr Murphy's question on notice No. 682 in the House of Representatives. Can you provide an update on the number of specialists who have now advised that they will no longer provide services under the RPPS?

Ms Hohnke—The latest figure we have is 244—that is, 244 have identified their intention to withdraw or the fact that they have withdrawn services from veterans.

Senator MARK BISHOP—Is there a difference between indicating intent and actually withdrawing?

Ms Hohnke—They have notified us that they are and, to the best of our understanding, they have. We think 244 are the known ones at this stage.

Senator MARK BISHOP—Can you also take on notice and get us an update of that table that was used in answer to Senate question on notice No. 696, which I asked, which gives the break-up of the specialities?

Ms Hohnke—Yes, we can do that.

Senator MARK BISHOP—Can you also advise how many LMOs have withdrawn from the scheme?

Ms Hohnke—We are aware of about 60 LMOs who again have indicated an intention to withdraw, but the department has recently offered the LMOs an extension to their current contract. We are in the process of receiving responses back at the moment. We currently have 57 per cent acceptances, as of yesterday afternoon. We still have another week or 10 days before that offer closes. We are receiving responses every day, so we will be in a much better position to give you that answer at that time.

Senator MARK BISHOP—Can you respond then when that 10-day period ends?

Ms Hohnke—Yes.

Senator MARK BISHOP—So, at this stage, that 60 has come back to about 30-odd, has it? Is that what you are saying?

Ms Hohnke—No. This is for the entire number of local medical officers. We have gone to all of our local medical officers—11,000 to 12,000—and have asked them to recontract, to extend their contract, with us; 57 per cent have accepted to date.

Senator MARK BISHOP—When is the closing date for acceptance?

Ms Hohnke—It is in about 10 days.

Senator MARK BISHOP—Okay. Before we go down that particular path, you said that 60 LMOs had withdrawn from the scheme. How many have indicated that they will withdraw at a specified future date?

Ms Hohnke—At this stage only a small number have indicated that they will give us a little more time and then withdraw in June. We have had about three or four phone calls that I am aware of in my office to tell us that. We will be in a better position to know that when we have received all the responses.

Senator MARK BISHOP—So you have written to the 11,000 LMOs requesting extension of contract, and you have had a 57 per cent response to date. Say you get a response rate of up to 80 per cent at the end of the 10-day period, are the other 2,000 who do not respond in the affirmative then taken to have withdrawn from the scheme? Is that a fair conclusion?

Ms Hohnke—That is a fair conclusion.

Senator MARK BISHOP—And that would be the conclusion of the department?

Ms Hohnke—Yes, it would be.

Mr Stonehouse—I might add that, in previous times when we have offered contracts to doctors, often they have not responded until they have actually got into the payment cycle and then realised that there is probably a necessity for them to do something.

Senator MARK BISHOP—What sort of time frame are you talking about?

Mr Stonehouse—I cannot remember the exact timing but in, say, the first month. It is when people start submitting accounts for doctors and we stop paying them. They suddenly realise that they had better register for the scheme. That has happened in the last two offers of contracts in 1995 and 1998. I would not be quite so positive as to say that there would not be some doctors who do not respond because they have forgotten or they have not got the letter or the letter has got lost in the system somewhere.

Senator MARK BISHOP—So you would not be drawing that firm conclusion that Ms Hohnke did until perhaps another two months time.

Mr Stonehouse—I would be a little bit more cautious.

Senator MARK BISHOP—That is okay; I am just trying to get a picture. I think Ms Hohnke is probably right. They are an educated community that know what is going on. They know the deal.

Mr Stonehouse—It is a fair point.

Dr Johnston—It is a massive task communicating with this number of professionals—having the right addresses and getting them to focus on the extensive amount of paper that passes through their practices each week. In very formal terms, I do not think there is any doubt that Ms Hohnke is correct. But I would be surprised if the parliament intended that, in this sort of situation, we administered our arrangements quite that tightly or would expect us to seek to contact doctors who have not responded so that we are clear on what their position is. As Mr Stonehouse has indicated, we would certainly be interested in clarification of their position when they first presented a bill that was not payable by us in the most formal of terms. That is the process we will be working through.

Senator MARK BISHOP—I understand that. Presumably, if they do not sign up to the contract, they understand the consequences of that. The consequences are that, instead of taking a Medicare card or a gold card, they are charging a gap fee to patients. It is two plus two equals four here.

Dr Killer—There is actually no guarantee that they will charge their patient—they may revert them to Medicare patients and accept the Medicare card.

Senator MARK BISHOP—Why would you do that? You are only going to get 85 per cent back on Medicare.

Dr Killer—In my opinion it is a philosophical approach rather than a real one, because they will then get \$5 less than they are currently getting.

Senator MARK BISHOP—Yes; so why would you do that?

Dr Killer—I think some members of the AMA feel they have a position and want to make a statement to government. In a sense, they decide that by doing that they are making a statement. I do not think it is a very sensible course of action. We have worked very constructively with the AMA over 80 years providing care to veterans. Had we gone forward, this would have been the third memorandum of understanding. I think it is very disappointing that the AMA have taken this particular position at this time, because no-one from government has dealt more transparently with the AMA than the Department of Veterans' Affairs has, working to get good quality care for veterans. We have really only asked for an extension of six months, taking into account that there are other reviews going on in government in health. I do not think a six-month extension is too much to ask. I am disappointed that they would adopt this particular stance at this time. For a lot of doctors who have been treating these patients in a sound doctor-patient relationship for 40 years, I think it will provide quite a dilemma on the sort of advice the AMA are giving. So, it is a difficult situation for the doctors as much as it might be for any veterans. We do not know for certain what they will do, but I think most would respond and consider the extension a reasonable one; others, who may want to make a statement against bulk-billing or government action in health, may decide to do otherwise. Amongst those, I think some of them will just revert to using the Medicare card.

Senator MARK BISHOP—So they revert to the Medicare card and they get 85 per cent of the scheduled fee as opposed to 100 per cent, and they can charge the difference to the patient.

Dr Killer—They may not charge the patient anything; they may just revert to the Medicare card. As we know, there is still a 71 per cent rate of bulk-billing in the community. Despite what the AMA says about catastrophic drops in bulk-billing, the level of bulk-billing out there is still 71 per cent. It is difficult to predict, but some will certainly just revert them to a Medicare card and there will be no gap at all. Others may think a gap is necessary. I think we have to wait and see.

Senator MARK BISHOP—We do have to wait and see, and I will be interested to have that discussion with you whenever we come back in February or March. I find it inconceivable, if the issue is the internal costs of running a medical practice—hence the price received for providing a service—that a doctor would reduce his income from 100 per cent to 85 per cent and not charge a gap fee.

Dr Killer—I think we really need to consider here that most doctors only have 10 or 15 veteran patients. In most circumstances, veterans are not providers of great income to the practice. I think that is the reality also.

Senator MARK BISHOP—We can come to that discussion in two or three months time and see what the outcome is, because you will know by then. Can you tell me what offers have been made to the AMA in terms of renewing the contract?

Dr Johnston—No formal offer has been put to the AMA. There have been discussions with the AMA. We are aware of some of the objectives that the AMA have on behalf of their membership but we have made it clear that we, in consultation with other government departments, are still working through the issues and providing submissions for ministers to consider. We are still working through that process.

Senator MARK BISHOP—They want a fee in excess of 100 per cent of the schedule fee and you do not have any authority from the government to wholly or partly meet that position, do you?

Dr Johnston—As I said, we are still briefing ministers and working through the issues.

Senator MARK BISHOP—What are the demands that the AMA has made?

Dr Johnston—They consider that in today's circumstances the fees that we do pay are not sufficient for the services that we require of them. They are looking for higher fees.

Senator MARK BISHOP—What higher fee are they looking for, particularly?

Dr Johnston—They have not been specific with regard to that; they have just pointed in the direction. They are certainly noting that the AMA recommended fees are considerably higher than the ones we currently pay, but of course they have been for quite a long time.

Senator MARK BISHOP—Are they looking at a ballpark figure of an increase in the schedule fee of around 40 per cent?

Dr Johnston—They are in print in their own journal as pointing in a general direction of that order. My colleagues are nodding that that is correct.

Senator MARK BISHOP—That is your understanding of their current list of demands.

Mr Stonehouse—That is for general practitioners.

Senator MARK BISHOP—The amounts are different for specialists.

Dr Johnston—To be fair to the AMA, until the Commonwealth puts a proposal on the table, their position is just an opening position. It is not necessarily a non-negotiable position in any sense.

Senator MARK BISHOP—You have asked the AMA and individual GPs to extend the current agreement by six months. Is that correct?

Dr Johnston—That is correct.

Senator MARK BISHOP—We will know the resolution of that issue in about 10 days time?

Dr Johnston—No, I think we have developed that answer. We concluded with you, I thought, that by February or March next year, after some process, we will have a very good feel for how many GPs are quite firmly not wanting to service veterans. It will take a little while to get to that point.

Senator MARK BISHOP—What sort of time frame are you thinking about for settlement of this matter?

Dr Johnston—From our point of view, we would like to settle it as soon as possible, but these are complex matters and they need to be resolved in a context of health policy more broadly. These are matters for government decision. I cannot say too much more on policy at the moment.

Senator MARK BISHOP—Is it true that the IDC is looking at the gold card matter?

Dr Johnston—I think it is well known that there is an interdepartmental committee chaired by the Prime Minister's department that is looking further into these matters, and one would expect it to report to ministers shortly.

Senator MARK BISHOP—Who is on that IDC? I do not know who is on that IDC.

Dr Johnston—It is the coordinating departments: the Department of Health and Ageing and the Department of Veterans' Affairs.

Senator MARK BISHOP—So it is PM&C as chair, and Health and Ageing and DVA?

Dr Johnston—And Treasury and the Department of Finance and Administration.

Senator MARK BISHOP—How many times has it met so far?

Dr Johnston—I do not know that we can answer that, can we?

Mr Stonehouse—Five or six. You are testing our memories, Senator!

Senator MARK BISHOP—Who are the DVA representatives?

Dr Johnston—Mr Campbell, the Deputy President of the Repatriation Commission, is the senior representative. Ms Hohnke, Dr Killer and I have all attended at various times.

Senator MARK BISHOP—When is the IDC due to report?

Dr Johnston—It is not usual for us to respond in this much detail in an estimates committee. It would be reasonable to expect it would be reporting to the government fairly soon.

Senator MARK BISHOP—Is there a time limitation?

Dr Johnston—Not that I am aware of.

Senator MARK BISHOP—Is its work almost done?

Dr Johnston—I think you could understand from what I am saying that the answer is yes. But I re-emphasise that decisions on these matters need to be resolved in the context of the government's policy in respect of health care and the Medical Benefits Schedule more broadly. Decisions will have to be made in tandem.

Senator MARK BISHOP—I understand that. I understand that the gold card issue, whilst it might not be particularly important to you and me, is a subset of the broader bulk-billing and health policy issues.

Dr Johnston—That is correct.

Senator MARK BISHOP—Do you have a record of how many calls the DVA has had from veterans and widows seeking assistance in finding a new doctor or specialist?

Ms Hohnke—No, I do not. I will take that on notice and see whether I can get the actual number for you.

Senator MARK BISHOP—If you could break that down on a state by state basis, Ms Hohnke, I would appreciate it.

Ms Hohnke—Yes.

Senator MARK BISHOP—When I was in Queensland about four weeks ago, I had a meeting with the VVF and they reported to me that a veteran in Kilcoy who visited his LMO to have a sunspot removed as a minor procedure was, as well as using the gold card, asked to pay a \$20 facility fee. Would this be refundable by DVA?

Ms Hohnke—My understanding of that particular case is that the state office spoke to the doctor, who refunded the \$20 to the veteran.

Senator MARK BISHOP—So it was inappropriate to charge it under the terms of the agreement?

Ms Hohnke—Yes, it is inappropriate to charge it.

Senator MARK BISHOP—And the money has been refunded?

Ms Hohnke—That is my understanding.

Senator MARK BISHOP—Thank you; I was not aware of that. So DVA would regard facility fees, under any name, to be outside the terms of the agreement?

Ms Hohnke—Yes, we would.

Senator MARK BISHOP—I refer you now to the minister's media release No. VA139 of 4 November relating to home care funding. Does the department stand by the figures in that press release at this stage, particularly where it says that the home care budget for 2002-03 will increase from \$51 million last year to \$59 million?

Dr Johnston—That is correct.

Senator MARK BISHOP—Do you stand by those figures?

Dr Johnston—Yes.

Senator MARK BISHOP—I am curious as to how you came up with the \$51 million expenditure in 2001-02, because when you look at page 46 of the 2001-02 PBS you see that \$59.56 million was budgeted for Veterans' Home Care. On page 38 of the 2001-02 portfolio additional estimates the revised estimate indicated no variation from the \$59.562 million originally budgeted, and at page 40 of the 2002-03 PBS the estimated actual for 2001-02 was still \$59.5 million. So there were identical figures in the PBS, the additional estimates and the estimated actual—the three documents provided for public release. In that context, how much was actually spent on Veterans' Home Care in 2001-02?

Dr Johnston—I think the difference is that the \$51 million is actual expenditure rather than appropriated expenditure.

Mr Telford—The \$51 million referred to here relates to service provision. It does not take into account the expenditure on agreements with the states for the provision of services such as Meals on Wheels or the dollars associated with the assessment process.

Senator MARK BISHOP—Are the aspects that go to the \$51 million the same as the aspects that went to the \$59 million when it was put into the budget papers? Are we talking about apples and apples or about apples and oranges?

Mr Telford—We are talking subset. The \$51 million is a subset of the \$59 million. The \$59 million includes the costs associated with assessment and MOUs with the states, whereas the \$51 million expended last year that we were talking about relates to domestic assistance, personal care and home and garden maintenance services.

Senator MARK BISHOP—I am a little confused. Just take me through what the \$51 million is comprised of.

Mr Telford—As I said, it is the services that veterans received last financial year for personal care, domestic assistance and home and garden maintenance.

Dr Johnston—Can I interrupt for a second. I am getting contrary advice which suggests that the \$51 million is the total expenditure last year and the \$59 million is the total

appropriated this year. If my officers are not in agreement, maybe we should take this on notice and confirm that later.

Senator MARK BISHOP—You are the senior officer—what are the facts? Perhaps you could tell me what the answer is.

Dr Johnston—I am concerned that it is an important question and we need to advise you correctly.

Senator MARK BISHOP—It is in the context of the press release, which says there was an increase in funding of \$8 million—from \$51 million up to \$59 million.

Dr Johnston—That is correct.

Mr Telford—I stand corrected. That does include the whole funding.

Senator MARK BISHOP—So \$51 million was the actual expenditure?

Dr Johnston—That is my understanding, but I might just ask for a clarification. We have found it important, in clarifying some of the budget management with agencies, to be much more precise in our language. Collectively, we think that this has been a source of some confusion. We are making a distinction now between services approved, services provided and actual cash payments. My understanding, and my officers can correct me if I am wrong, is that the \$51 million is actually cash paid last financial year for all services.

Senator MARK BISHOP—So there was \$51 million in cash paid last year for actual services?

Dr Johnston—That is correct.

Senator MARK BISHOP—I have got that; we are into accrual accountancy. How much worth of services was approved in the same period?

Dr Johnston—That is quite a complicated question, and I am not sure that we can answer it on the spot. Services approved at any point in time can vary quite significantly from the services which are actually utilised by veterans. For example, a veteran can go on vacation or into hospital and not utilise the services that have been formally approved. We find in the management of this program that in some regions the services approved are running up to 50 per cent above the actual service usage on a month by month basis. We are in the process of talking these issues through much more carefully with agencies so that they and we are more confident in managing our budgets.

Senator MARK BISHOP—It is pleasing that you are getting the agencies to be more exact in what they do, but we have a press release here which says very specifically that there has been an increase in funding in the two years from \$51 million to \$59 million. You are now advising me that the \$51 million represents actual cash payments for services. That tells me that there was an underspend in the year. Is that correct? What happened to the other \$8 million?

Dr Johnston—I am told that is correct.

Senator MARK BISHOP—So there was an underspend. Why were you so far out in your estimates? That is a difference of almost 20 per cent.

Dr Johnston—I will comment, and Mr Telford might want to tease out the detail. You will recall that the past year was a relatively early phase in the introduction of Veterans' Home Care. That is always a difficult management task with a new program, and the level of activity under the program built up considerably through the course of the year as it was delivered. It was also greatly complicated by the transfer process of existing services from the Home and

Community Care program across to the department. I am sure that Mr Telford could list a number of other difficulties for you. I suggest that in fact the department, assessors and providers did remarkably well to come within \$8 million of the moneys that were appropriated.

Senator MARK BISHOP—They are all reasonable explanations as to why there was the underspend and why the estimates were out by 20 per cent. But what really concerns me is the minister's press release that says:

The Veterans' Home Care budget for 2002-03 will increase to \$59 million, up from \$51 million ...

On what you are telling me, that is plainly incorrect, isn't it?

Dr Johnston—I am not sure what perspective you are bringing to that point. From my perspective, the actual cash expenditure last year was \$51 million and what is available this year is \$59 million plus the \$6 million that is identified later on in the minister's press release.

Senator MARK BISHOP—What was available last year was \$59 million as well, wasn't it?

Dr Johnston—That is correct.

Senator MARK BISHOP—And of that \$59 million available last year, only \$51 million was spent. So this is a tricky press release. When I read it, I concluded that there had been a real increase in allocations, and in fact there has been no increase in allocations.

Dr Johnston—I am sorry if you feel that we have misled you and the veteran community—

Senator MARK BISHOP—I meant the minister, not you, Dr Johnston.

Dr Johnston—I advised the minister on this press release, as did my colleagues. We were concerned that there were views abroad that the budget was being cut. That was not the case. It was in that context that the minister and we wanted to say that there was in fact more cash going to be spent this year than last year, but if it is misleading—

Senator MARK BISHOP—You did not say that; you, or the minister, said that there had been an increase in the budget up to \$59 million. You did not say that more cash was available from an underspend; you said there was an increase in the budget. I am saying to you that the minister has misled the veterans community on that basis.

Dr Johnston—I cannot add any more to what I have said.

Senator Hill—Mrs Vale has been accused of a lot of things, but I have never heard her accused of being tricky. What is the question?

Senator MARK BISHOP—The budget documents all provided in the last two years for \$59 million—I have given the references there. The minister's press statement says there has been an increase in budget funding from \$51 million to \$59 million. There is no reference to that in the budget papers. The budget papers show \$59 million last year and \$59 million this year—no increase in budget appropriations. What has happened is that the amount appropriated last year was underspent by \$8 million. There is no increase. That is the point I am making.

Senator Hill—So you would have preferred her to say that the Veterans' Home Care funding will increase—that is, if she is confident the full \$59 million will be spent this year.

Senator MARK BISHOP—What the minister says in her press release is her business.

Senator Hill—It is obviously upsetting you, and I am sure that she would not want to mislead you. She could have said that the government intends to spend a further \$9 million this year. That would have been okay.

Senator MARK BISHOP—They intended to spend that last year and didn't spend it, didn't they?

Senator Hill—I know—that is your point, isn't it? But if she had have said, 'The government intends to spend a further \$9 million, from \$51 million to \$59 million, this year,' that would have been fine.

Senator MARK BISHOP—It may have been fine; I am just making the point—

Senator Hill—You would not argue that that is tricky, would you?

Senator MARK BISHOP—I would not argue about something hypothetical being tricky or not. I am simply making the point in the context of the budget papers and the minister's press release that there has not been an increase in budget funding. I am asking the officers to confirm that.

Senator Hill—As to the budget funding, I understand your argument and your concern and I will bring it to Mrs Vale's attention.

Senator MARK BISHOP—Thank you. Further on in her press release, Minister Vale says that this increase in funding will 'meet the growing demand for assistance from veterans'. Is demand growing more than anticipated, or is it in line with your original forecasts?

Dr Johnston—That is a difficult question to answer. One of the issues we have to address with assessors and providers is that this program was never intended to be an entitlement program. Indeed, when it was announced we emphasised—and I spoke at many conferences explaining this to the veterans community—that it was a capped program, that there was a budget and that we needed to make use of that to the best advantage of as many veterans as we could.

Turning now to your question, I think the level of service requests that have come through is more or less in line with what we were expecting. But if there were more money it could probably be spent; I guess that is always the case. The point of the minister's press release is that, with the funds that are available, we will be able to meet, as best we can judge, existing service requirements for those who are already on our books and for a reasonable range of new veterans coming onto our books, and we believe that significant enough to be able to say that we are still open for business for further requests for these services.

Senator MARK BISHOP—But you are inclined to think that the demand is in line with the original forecasts.

Dr Johnston—I am not sure if my colleagues want to comment, but that is broadly the case.

Mr Telford—I agree with that. But, as the secretary indicated, the other compounding factor is that taking over the veterans from the HACC program has meant that we now have a far better picture of exactly what the cost of those particular clients has been, compared with the new clients we are taking on board. So that is another series of funds management which has to be taken into account to understand the growth in expenditure that, potentially, we will come across as those veterans who translated from HACC die or have services change because of various circumstances, which will make some alteration to the process as well. It adds another complication, but we now have a better handle on it than we had in the past, obviously, because they are now on our books.

Senator MARK BISHOP—So if demand is in line with your original forecasts—and that is what Dr Johnston was saying, subject to Mr Telford's comment—where does the increased demand come from?

Dr Johnston—There is a turnover as veterans' circumstances change, as Mr Telford has just referred to, and as the health of other veterans fail or circumstances get to the point where they need services. So there is a changing composition in the group we provided services to but, in terms of the aggregate number of clients that we are providing services to, the mix is not unlike the sorts of estimates we had in mind.

Senator MARK BISHOP—Changing composition is leading to increased demand; is that what you are saying?

Dr Johnston—We have been concerned. With some of the reports in the media and some comments, veterans could be forgiven for thinking that funding is being reduced and that all the available funds are being fully utilised and that they would be wasting their time lodging a claim for Veterans' Home Care. Both conclusions would be incorrect. It is in that sense that we want to say that there is scope within the available estimates for further increases in demand.

Senator MARK BISHOP—The minister's press release states that services include home and garden maintenance. Is that still available Australia-wide?

Mr Telford—Yes, it is.

Senator MARK BISHOP—No restrictions?

Mr Telford—There are the restrictions which were put out at the very beginning—a 15 hours per year maximum relating to that and the copayment regarding that as well—which were different from the other services. But there has remained a policy that the home and garden maintenance services need to relate to maintaining environmental safety and removal of hazards, particularly around the house. It was not to be seen as a regular lawn mowing arrangement, which was, as was clearly stated from the beginning, to be something that was picked up by the veteran or by their normal social support network which was in place before Veterans' Home Care occurred.

Senator MARK BISHOP—Are you aware that some assessment and coordination agencies are advising veterans that there is no longer an entitlement to home and garden maintenance?

Mr Telford—There never has been an entitlement to home and garden maintenance; it has always been related to assessed need.

Senator MARK BISHOP—Once there is an assessed need, is there an entitlement to it?

Mr Telford—No. It is reviewed on a regular basis, and it is subject to the policy parameters which I stated earlier.

Senator MARK BISHOP—So it is correct that some veterans are no longer entitled to home and garden maintenance.

Mr Telford—No, because they never have been entitled to it. As I said, once they are assessed as having a requirement for some form of home and garden maintenance relating to environmental or safety hazards around the home, that particular circumstance would be addressed. Then if future need emerged in relation to similar sorts of outcomes in the future, that would also be addressed by a similar assessment or review process.

Senator MARK BISHOP—Has that issue of environmental and safety incidents around the house been in the guidelines since their inception?

Mr Telford—Yes.

Senator MARK BISHOP—Was it intended to refer to one-off incidents?

Mr Telford—No, not necessarily one-off in all circumstances. To take a hypothetical case of access to the clothes line or something of that nature, if there happened to be continual regrowth and overgrowth then that might need to be done once or twice a year. But the intention was to ensure that a clear message was given to the veterans and the war widows that this was not to be a routine, cosmetic garden maintenance program.

Senator MARK BISHOP—Is there sufficient funding to meet the recommendations of the assessors all around Australia?

Dr Johnston—In the course of reviewing the management of the program over the last couple of months, we have been reviewing the decisions being made by assessors. We think there could be great consistency in assessment standards across the country. We are providing further guidance to assessment agencies to try and achieve that. But consistent with the guidelines that we are seeking to have administered, we think there is adequate funding as proposed in the minister's press release.

Senator MARK BISHOP—What about veterans whose services have been reduced in type or in hours? Would this always be a result of a change in assessed needs, or would there be other reasons?

Mr Telford—It would always be in relation to assessed needs and changed arrangements. The circumstances could be that the veteran was discharged from hospital and given a limited amount of time when those services would be provided. Agencies are required to undertake regular reviews, and it would be during this process of review and reassessment that the appropriateness of the hours to their current need would be looked at.

Senator MARK BISHOP—So that could change as they got better?

Mr Telford—It could indeed.

Senator MARK BISHOP—How is the data on service usage used to distribute funding across the regions?

Mr Telford—This goes back to my earlier point about the number of transitionals which are currently in the system. In the initial allocations we took the treatment populations in the regions and used that as the basis for our distribution of funds to the notional budgets of the various regions. As better data became available on the usage and take-up of the services in those regions and the number of transitionals and their current usage patterns, we were able to distribute funding back to the regions based on that data rather than just on the flat-line treatment population data. We believe that we were able to predict more accurately what the usage would continue to be for that particular region. That said, there has always been an understanding amongst assessment agencies that this was indeed a notional budget and, as it was being monitored, the capacity to move funds from one region to another to meet emerging needs was always there.

Senator MARK BISHOP—How often is there redistribution of funding across the regions?

Mr Telford—None has been needed.

Senator MARK BISHOP—So there has been no redistribution of funding across the regions?

Mr Telford—Not in relation to my earlier point. There has been a change to the allocations to the regions—not a redistribution across regions—in relation to the outline in the minister’s press release of the increased funding.

Senator MARK BISHOP—What is the difference between a change to allocations to the regions and a redistribution across the regions in a capped program?

Mr Telford—I mentioned the fact that additional funds had been provided. We redid the allocations for this current financial year based on the increased funding outlined in the minister’s press release. That is what I mean by the reallocation across the board. What I referred to earlier was that, if region X had funds in significant proportion above what their demonstrated service usage pattern would be and region A had greater numbers of veterans, we would look at swapping between those two regions. We have not needed to do that, except in relation to the most recent reallocation across the board.

Senator MARK BISHOP—I do not understand that answer. When you shift funding from one region to another in a capped program, isn’t that redistribution relating to different levels of demand than those originally identified?

Mr Telford—Initial allocations, which have been done in the last month or so, are done at the beginning of each year to let the agency know their notional allocation for the full financial year. When I talked about redistribution I meant that, if we find in the course of the year that there is going to be a changed usage pattern of the veterans in a particular area and that region looks to have more funds than it needs while another region does not, we would look at redistributing those funds between those two regions. One is at the macro level and the other is at the micro level.

Senator MARK BISHOP—I do not have time to pursue it. Has the ongoing process of review resulted in some regions losing funding?

Mr Telford—I do not think that any region has been reduced, but I would have to take that on notice.

Senator MARK BISHOP—That means no region has been increased, either.

Mr Telford—Yes—absolutely. Regions have been increased. I do not have the regional data with me, unfortunately.

Senator MARK BISHOP—Can you provide on notice the regions that have been increased and the regions that have been decreased? If the increase has not come from the decrease, it has come from the unspent original allocation, hasn’t it?

Mr Telford—You have asked some detailed questions, and we are well advanced on drawing the data. It has been a rather complex exercise, and we needed consultation with the Department of Health and Ageing as well, but we are hoping that, within a short time, we will be able to get answers to those detailed questions that will provide you with that sort of information.

Senator MARK BISHOP—All right. There has been some press coverage of new copayments being demanded by private hospitals on the grounds of private health insurance fund rates being inadequate. Has there been any discussion with DVA tier 1 and tier 2 providers on the adequacy of the current payment rates for treatment?

Mr Stonehouse—We have ongoing reviews of the fees and contracted prices we pay private hospitals and so forth, but we have always come to agreement, albeit sometimes with some difficulty, on a total price that we pay for veterans' services across the full range.

Senator MARK BISHOP—I will read something into *Hansard* and ask that you follow it up, as appropriate, Dr Johnston. It says:

I have a personal case to raise on the provision of appliances to veterans, and I do so with a veteran's permission and because of sheer frustration here again as experienced—

he says—

with the department up in Brisbane. Mr Colin Farquhar has, for some time, been seeking a motorised scooter to assist his mobility, including the carriage of his oxygen bottle. I am told he was refused a scooter, bought his own, but then DVA has refused to help him with the service of it. Then I am advised his wife had a stroke, and so she needs a scooter, whereupon he again asked DVA to help. He was again given an assessment. A recommendation was made for a scooter but DVA again refused.

I wonder if you could have a look at the case of Mr Farquhar in Brisbane, and give us a report on that, the same as before?

Dr Johnston—I will do so, yes.

Senator MARK BISHOP—Perhaps we could now move to commemorations. Ms Blackburn, can you tell me how much has been spent on the London war memorial to date?

Ms Blackburn—That is a matter for the Office of Australian War Graves—Katherine Upton.

Ms Upton—I can tell you. As of the end of October, we have spent \$612,000.

Senator MARK BISHOP—What was the amount paid to the designers whose services are no longer required?

Ms Upton—There are a number of consultants' fees. The total consultants include the London people—various architects. The total consultant fee is \$555,000 to date. That includes London companies of architects.

Senator MARK BISHOP—So that is \$555,000 of the \$612,000?

Ms Upton—That is correct.

Senator MARK BISHOP—How much was paid to the designers who are no longer required—that full \$555,000?

Ms Upton—No, it was not. For an exact figure I would have to check with AVM Beck, but it would be in the region of \$250,000. I would need to check that figure.

Senator MARK BISHOP—Okay.

Dr Johnston—Senator, I would have thought that answers to several of your questions would have come to your office within the last couple of days that cover some of these matters.

Senator MARK BISHOP—We had not received them as I left at nine o'clock this morning, Dr Johnston; they were not there.

Dr Johnston—Certainly they are in the system so they will be providing at least the detail of the last question you have asked. In respect of the architect, his services are no longer being used on the project. We are still setting outstanding payments, but the answer does provide details of payments to them.

Senator MARK BISHOP—I do not have the question we put on notice here. Let me just finish off that point with Ms Upton: \$250,000 of the \$555,000 ballpark figure—you think and you will confirm later—was paid to designers who are no longer involved in the project. Is that correct?

Ms Upton—That is correct.

Senator MARK BISHOP—Who were they?

Ms Upton—There was a Melbourne team—this is actually in the answer to your question on notice too—Les Kossacks, Robert Sinclair, Robert Watson and Mr Woodward.

Senator MARK BISHOP—How much was paid to them?

Ms Upton—That was the \$250,000—it is actually a total of \$260,000, including GST.

Senator MARK BISHOP—Has a new choice been made of a designer? Is that in the answer as well?

Dr Johnston—I can answer that, Senator. We have made a significant advance on the process. We have had four firms submit detailed design proposals. The panel has made recommendations to the government. Air Vice Marshal Beck is in London this week to meet with the planning committee and I would expect the government would be making an announcement next week or the week after reporting the outcome of those proceedings.

Senator MARK BISHOP—So the designer has not yet been selected by Mr Beck?

Dr Johnston—There is a design and designer that is preferred by the government but, in courtesy to the London authorities, we need to await the outcome of this week's meeting before we make any announcements.

Senator MARK BISHOP—Does that decision have to be approved by Westminster Council as well?

Dr Johnston—In due course it does, yes. There is a process in London that needs to be worked through.

Senator MARK BISHOP—I will put the remainder of that on notice. I have just one final issue to pursue in terms of outcome 4, service delivery. In answer to question on notice 673 it was said that:

Letters of advice to members of parliament were prepared for the minister's signature by the DVA but only for government members and senators, unless another member or senator was specifically involved by having made representations.

If, as the answer says, about 3,000 letters of this kind have been prepared for the minister, what was the cost of this political service to the minister?

Dr Johnston—Without endorsing your choice of words, Senator, we will have to take that on notice and provide you with an estimate.

Senator MARK BISHOP—Do you have a ballpark figure?

Dr Johnston—I do not believe so, no.

Senator MARK BISHOP—Do any guidelines exist within the Public Service on the provision of such advice to elected representatives?

Dr Johnston—Not that I am aware of, Senator, but I can inquire. This has been the known process in which we have been administering our grant programs for some time.

Ms Barr—We do have guidelines for our state offices on the processing of grants. When grants are approved there is a detailed process. We can provide further details of that to you.

Senator MARK BISHOP—Have you had any complaints about the provision of such advice to government members and senators only being used for political purposes?

Dr Johnston—In terms of the process that we have been using for some time, Senator, I am not aware of any complaints, apart from the inquiries that have led to your raising of the question as well.

Senator MARK BISHOP—In your mind, is this practice consistent with the view constantly put by both the department and the government that the veterans portfolio is apolitical and bipartisan?

Dr Johnston—I am not sure that I can comment on that, Senator. As you know, we work hard to administer the Department of Veterans' Affairs in a non-partisan manner. Indeed, you comment on that yourself frequently in public speeches.

Senator MARK BISHOP—I refer in public speeches to a perception that this department should not be overly politicised. What I am referring to here are the thousands of letters being prepared only for government members and senators concerning dispersal of grants. I just conclude that that is not bipartisan or non-partisan; that is deliberately political and seeking political advantage. That is what I am raising.

Senator Hill—I will again draw that matter to Mrs Vale's attention.

Senator MARK BISHOP—Were these letters prepared at the specific request of the minister?

Dr Johnston—We have guidelines which we use in administering our programs and they have been in place for some time, Senator, so I am not sure that I can answer your question.

Senator MARK BISHOP—No, the department is preparing letters for signature by government members and senators concerning distribution of grant programs within their electorate or state. It is not done for the opposition parties or minor parties. I am sure there are guidelines in existence as to how it is to be done, but that is not my question. My question is: does this action of your department follow a request or a directive from the minister?

Dr Johnston—No. We have developed the guidelines in consultation with the government, with the previous minister. The guidelines have been in place for some time, but we take responsibility for the way the guidelines are being administered by the department.

Senator MARK BISHOP—When were the guidelines created?

Dr Johnston—You would need to go to each program, and they are reviewed from time to time, but I do not know when—

Ms Barr—Senator, my memory suggests that, as each program has been brought on-line, guidelines have been prepared. I think the oldest program would probably be the residential care development grants and that dates back about eight years.

Senator MARK BISHOP—So as each new program comes on-line—

Senator Hill—It is as if we have adopted a Labor practice.

Senator MARK BISHOP—We do not know that.

Senator Hill—No, we do not know for sure.

Senator MARK BISHOP—But we do know that as each new program comes on-line guidelines are created that allow for the minister to authorise the printing of letters for signature by government members and senators.

Senator Hill—In my 13 years in opposition I do not remember being given many chances by Labor.

Senator MARK BISHOP—You do not remember many chances of what?

Senator Hill—Being given many chances to communicate the outcome of government programs. I think Labor took the view that they were government initiatives and government members and senators would advise the community. But I have said that I will draw your concern to the attention of the minister and see if she wants to vary this apparently long established practice.

Senator MARK BISHOP—Does this practice apply to the BEST program and Saluting their Service program?

Dr Johnston—I would have to take that on notice, but I think the answer is yes.

Ms Barr—There are separate guidelines, but yes, they are consistent across the programs.

Dr Johnston—Mr Maxwell is confirming that, Senator.

Senator MARK BISHOP—So the Saluting their Service program is available to all members of parliament, isn't it—government, opposition, minor parties?

Ms Blackburn—Yes, it is. The minister from time to time writes to all parliamentary colleagues, drawing their attention to that program and other initiatives under Saluting their Service.

Senator MARK BISHOP—I know, I have received some correspondence from the minister about the Saluting their Service program, and she signs all of these letters and forms. I am not complaining about that. If it is done for the Saluting their Service program, why is it not done for all of the other programs? What is the difference?

Senator Hill—There sounds as if there is an inconsistency, after just being told that there was a consistency.

Ms Blackburn—Saluting their Service was launched in August this year by the minister, so she drew the attention of all parliamentary colleagues to the rebadge program, to the extension of certificates of appreciation to the Gulf War, to peace operations veterans and the fact that we need from time to time to draw attention to the small grants that are available under Saluting their Service. That is an ongoing program. It is not considered just once or twice a year like some of the others. So there is that need to consistently draw it to the attention of parliamentary colleagues to promote it within the community.

Senator MARK BISHOP—I asked why that same service was not extended to non-government members and senators in all other programs.

Dr Johnston—We may need to take your question on notice, but I would make a distinction between general communications from the minister on Saluting their Service and announcements in respect of particular grant decisions and so on under some of the Saluting their Service. If you would like confirmation of consistency, I can take it on notice.

Senator MARK BISHOP—Okay.

CHAIR—It being half past five, by agreement we were going to go onto DFAT.

Senator MARK BISHOP—Chair, with your indulgence, we did start almost 20 minutes late, and I have about five minutes to go and then I will be concluded.

CHAIR—I am happy about that, Senator Bishop. It is your colleague you have to deal with. I am happy about that.

Senator COOK—There is a timetable and I have a lot of questions on DFAT. If I lose my time up-front, I do not get it back, that is the problem. Perhaps you can just take five minutes.

Senator MARK BISHOP—I will just take five minutes. Did the minister write to all veterans and widow pensioners in September advising them of the indexation increases to their pensions?

Mr Winzenberg—That is correct.

Senator MARK BISHOP—How many letters were sent?

Mr Winzenberg—Approximately 81,000.

Senator MARK BISHOP—What was the cost of mailing that letter?

Mr Winzenberg—The cost of the letter was the same as the automatic computer advice that we would have otherwise sent.

Senator MARK BISHOP—What was that cost?

Mr Winzenberg—Approximately a dollar.

Senator MARK BISHOP—A dollar per letter?

Mr Winzenberg—Yes.

Senator MARK BISHOP—So that was \$81,000?

Mr Winzenberg—That is correct.

Senator MARK BISHOP—How often do you do those letters?

Mr Winzenberg—We would do something like that for major new government initiatives.

Senator MARK BISHOP—The annual increase from that change was less than \$60 per year. That was the benefit to all widows.

Mr Winzenberg—The indexation amount was the same percentage as applying to the indexation of service pension. So the rate of the income support supplement went up from the \$124.90 to \$127.20.

Senator MARK BISHOP—So that is \$2, and you found it necessary to write 81,000 letters advising the recipients that they had an increase in their pension of \$2?

Mr Winzenberg—As I said, it was a major new government initiative, and it was the same cost had we sent out computer advices.

Dr Johnston—I think the point that Mr Winzenberg is making is that we would normally advise of a change in payment rate, so the decision was not whether to advise—

Senator MARK BISHOP—Would you normally do it under the department's signature or the minister's signature?

Dr Johnston—It is something we keep under review. If it is seen as a matter of course, often it will be a letter of advice from the department. If it is something that the government of the day feels that they want to be associated with, it would be the minister that would write.

Senator MARK BISHOP—So again the minister is using departmental resources to advertise her name for political purposes?

Dr Johnston—These are government programs. We are writing out anyway. It is a matter for decision of the government of the day whether it wants to use the opportunity to make the point that they are government programs.

Senator MARK BISHOP—You regard that as an appropriate allocation of resources?

Dr Johnston—As I said, we were advising veterans anyway of this adjustment to their payment.

Mr Winzenberg—It is probably worth noting that that rate had been frozen since 1986, other than for the increase in GST.

Senator MARK BISHOP—I know that. My issue is that there is a benefit increase of a minor amount of \$1 or \$2—a total of \$60 per year—and the department spends, under the minister's signature, in excess of \$80,000 to advertise that. I would have thought it a misuse of departmental resources to seek to gain advantage from that. Misuse seems to be a recurring theme today. This department has been politicised. In that context, can I refer you to question on notice No. 569 in the House of Representatives from Mr Bevis concerning DVA outreach visits to government electorates. Why was this advice not provided to opposition members and senators? Why was it only provided to government members and senators? Don't veterans live in ALP electorates? Aren't they entitled to be advised of new programs? Aren't they entitled to be advised by the members of parliament whom they elected? Does the privilege of knowing about the delivery of government programs go only to the electorates of government members and senators?

Dr Johnston—These information sessions are provided in all electorates. I think you are raising questions about the notification of—

Senator MARK BISHOP—Advice was only given to government members and senators, Dr Johnston.

Dr Johnston—We note your view, Senator, and we will consider it. Minister Hill has stepped out of the room, but my guess is that he will draw your view to the attention of the Minister for Veterans' Affairs.

Senator MARK BISHOP—Your answer to Mr Bevis's question states in part:

... some parliamentarians in Queensland have been provided with a copy of the Department of Veterans' Affairs Outreach Program for the following month and some were advised of scheduled visits.

None of them were Queensland Labor members or senators, were they?

Dr Johnston—My recollection of the information is that you are correct.

Mr Hay—Those were the circumstances applying, and my recollection is that we have recently issued a new instruction to ensure that all appropriate parliamentarians are contacted and provided notification of these visits.

Senator MARK BISHOP—So all non-government members and senators in Queensland will now be advised prior to outreach programs going to particular electorates?

Mr Hay—Certainly all members of the House of Representatives will be advised. I am not sure about senators because of the issue of electorates.

Senator MARK BISHOP—It is a House matter. That is fine. Thank you. I will put my other questions for the department on notice.

[5.43 p.m.]

FOREIGN AFFAIRS AND TRADE PORTFOLIO

Consideration resumed from 6 June

In Attendance

Senator Hill, Minister for Defence

Department of Foreign Affairs and Trade

Portfolio overview

Dr Alan Thomas, Deputy Secretary

Mr Doug Chester, First Assistant Secretary, Corporate Management Division

Ms Anne Hazell, Chief Finance Officer, Assistant Secretary, Finance Management Branch

Output 1.1 Protection and advocacy of Australia's international interests through the provision of policy advice to ministers and overseas diplomatic activity.

1.1.1 North Asia (including Australia–Japan Foundation, Australia–China Council, Australia–Korea Foundation)

Mr Murray McLean, First Assistant Secretary, North Asia Division

Ms Penny Richards, Assistant Secretary, North-East Asia Branch

Mr Hans Saxinger, Director, Korea Section, North-East Asia Branch

Ms Nicola Watts, Director, Japan Section, North-East Asia Branch

Mr Peter Rowe, Assistant Secretary, East Asia Branch

Mr Kyle Wilson, Director, China Political and External Section, East Asia Branch

Mr David McGrath, Director, China Economic and Trade Section, East Asia Branch

Ms Valerie Grey, Director, Hong Kong/Macau/Taiwan Section, East Asia Branch

Dr Leslie O'Brien, Manager, Australia-Korea Foundation

Mr Broughton Robertson, Manager, Australia-China Council

Ms Lyn Wing, Project Officer, Australia-Japan Foundation

1.1.2 South and South East Asia (including Australia–India Council, Australia–Indonesia Institute)

Ms Jennifer Rawson, First Assistant Secretary, South and South East Asia Division

Mr James Batley, Assistant Secretary, Mainland South-East and South Asia Branch

Mr Jurek Juszczak, Director, Thailand, Vietnam and Laos Section, Mainland South-East and South Asia Branch

Mr Phillip Stonehouse, Director, India and South Asia Section, Mainland South-East and South Asia Branch

Ms Elizabeth Wetherell, Director, ASEAN, Burma and Cambodia Section, Mainland South-East and South Asia Branch

Dr David Engel, Director, Indonesia Section, Maritime South-East Asia Branch

Ms Kathy Klugman, Director, East Timor Section, Maritime South-East Asia Branch

Mr Graeme Lade, Director, Philippines/Malaysia/Singapore/Brunei Section, Maritime South-East Asia Branch

Mr Bill Richardson, Director, Australia-Indonesia Institute

Ms Carol Roberston, Director, Australia-India Council

1.1.3 Americas and Europe

Mr David A Ritchie, First Assistant Secretary, Americas and Europe Division
Ms Margaret Adamson, Assistant Secretary, EU and Western Europe Branch
Mr Ted Knez, Acting Director, Western Europe Section, EU and Western Europe Branch
Ms Lucy Charlesworth, Director, European Union Section, EU and Western Europe Branch
Ms Margaret Twomey, Assistant Secretary, Northern, Southern and Eastern Europe Branch
Mr Alex Brooking, Director, Northern, Central and Eastern Europe Section, Northern, Southern and Eastern Europe Branch
Ms Sonja Weinberg, Executive Officer, Southern Europe Section, Northern, Southern and Eastern Europe Branch
Mr Mark Fraser, Executive Officer, Southern Europe Section, Northern, Southern and Eastern Europe Branch
Ms Shirley Lithgow, Director, European Security Unit, Northern, Southern and Eastern Europe Section
Dr Brendon Hammer, Assistant Secretary, Americas Branch
Mr Michael Kourteff, Director, United States Section, Americas Branch
Ms Andrea Spear, Director, Canada, Latin America and Caribbean Section, Americas Branch

1.1.4 South Pacific, Africa and the Middle East

Mr James Wise, First Assistant Secretary, South Pacific, Africa and Middle East Division
Mr John Quinn, Assistant Secretary, Middle East and Africa Branch
Ms Clare Birgin, Director, Middle East Section, Middle East and Africa Branch
Mr Don Cuddihy, Executive Officer, Middle East Section, Middle East and Africa Branch
Mr John Oliver, Assistant Secretary, New Zealand and Papua New Guinea Branch
Mr Greg Moriarty, Director, Papua New Guinea Section, New Zealand and Papua New Guinea Branch
Mr Graham Fletcher, Director, Pacific Islands Branch

1.1.5 Bilateral, regional and multilateral trade negotiations

Mr Bruce Gosper, First Assistant Secretary, Office of Trade Negotiations
Mr Stephen Deady, Special Negotiator—Free Trade Agreements/Processed Food Market Access
Ms Alison Burrows, Assistant Secretary, Agriculture and Food Branch

1.1.6 Trade development/policy coordination and APEC

Mr Ralph Hillman, First Assistant Secretary, Trade Development Division
Mr Justin Brown, Head, Asia Trade Taskforce
Dr Frances Perkins, Executive Director, Economic Analytical Unit
Mr Hamish McCormick, Assistant Secretary, APEC and Regional Trade Policy Branch
Mr David Garner, Director, Trade and Investment Liberalisation Section, APEC and Regional Trade Policy Branch
Ms Elizabeth Ward, Director, E-APEC Business, Economic and Ecotech Issues Section, APEC and Regional Trade Policy Branch
Ms Pauline Bygraves, Acting Director, Regional and Bilateral Trade Policy Section, APEC and Regional Trade Policy Branch
Ms Ruth Adler, Assistant Secretary, Trade and Economic Analysis Branch

Mr Neil Batty, Director, Market Information and Analysis Section, Trade and Economic Analysis Branch

Mr David Holly, Director, International Economic and Finance Section, Trade and Economic Analysis Branch

Mr Patrick Suckling, Director, Trade Finance Section, Trade and Economic Analysis Branch

Dr Ron Wickes, Director, Trade Analysis Section, Trade and Economic Analysis Branch

Mr Martin Quinn, Manager, OECD and UNCTAD Unit, Trade and Economic Analysis Branch

Ms Sue Tanner, Assistant Secretary, Market Development and Business Liaison Branch

Mr Andrew Todd, Director, Trade Advocacy and Outreach Section, Market Development and Business Liaison Branch

Mr Tim Toomey, Acting Director, Trade Liaison Section, Market Development and Business Liaison Branch

1.1.7 International organisations, legal and environment

Dr Geoff Raby, Deputy Secretary

Ms Caroline Millar, First Assistant Secretary, International Organisations and Legal Division

Mr Christopher Langman, First Assistant Secretary, Ambassador for the Environment

Mr Chris Moraitis, Senior Legal Adviser

Mr Dominic Trindade, Assistant Secretary, Legal Branch

Dr Greg French, Director, Director, Sea Law, Environmental Law and Antarctic Section, Legal Branch

Mr Colin Milner, Director, International Law Group, Legal Branch

Mr Peter Doyle, Director, People Smuggling, Refugees and Immigration Section, International Organisations Branch

Mr Eric Van Der Wal, Director, Human Rights and Indigenous Issues Section, International Organisations Branch

Dr Mark Napier, Executive Officer, Human Rights and Indigenous Issues Section, International Organisations Branch

Ms Janaline Oh, Director, United Nations and Commonwealth Section, International Organisations Branch

Mr Rod Smith, Assistant Secretary, Consular Branch, Public Diplomacy, Consular and Passports Division

1.1.8 Security, nuclear, disarmament and non-proliferation.

Mr Les Luck, First Assistant Secretary, International Security Division

Mr Bill Paterson, First Assistant Secretary, Iraq Task Force

Mr Peter Shannon, Assistant Secretary, Arms Control Branch

Dr Terry Beven, Director, Nuclear Policy and Missiles Section, Arms Control Branch

Mr Bruce Hunt, Director, Chemical, Biological and Conventional Weapons Section, Arms Control Branch

Ms Jane Lambert, Executive Officer, Chemical, Biological and Conventional Weapons Section, Arms Control Branch

Mr David Stuart, Assistant Secretary, Strategic Affairs Branch

Mr David Nethery, Director, Anti-Terrorism Section, Anti-Terrorism and Intelligence Policy Branch

Mr Bernard Lynch, Director, Intelligence Policy and Liaison Section, Anti-Terrorism and Intelligence Policy Branch

Mr John Carlson, Director General, Australian Safeguards and Non-Proliferation Office

Mr Andrew Leask, Assistant Secretary, Australian Safeguards and Non-Proliferation Office

Output 1.2 Secure government communications and security of overseas missions.

Mr Paul Tighe, First Assistant Secretary, Diplomatic Security, Information Management, and Services Division

Mr John Richardson, Assistant Secretary, Diplomatic Security and Services Branch

Output 1.3 Services to other agencies in Australia and overseas (including Parliament, state representatives, business and other organisations).

1.3.1 Parliament of Australia

1.3.2 Services to attached agencies

1.3.3 Services to business

1.3.4 Services to state governments and other agencies overseas and in Australia.

Output 1.4 Services to diplomatic and consular representatives in Australia.

1.4.1 Services to the diplomatic and consular corps

1.4.2 Provision of protection advice through liaison with the Protective Security Coordination Centre.

Ms Karina Campbell, Chief of Protocol, Assistant Secretary, Protocol Branch

Output 2.1 Consular and passport services.

2.1 Consular services

Mr Ian Kemish, First Assistant Secretary, Public Diplomacy, Consular and Passports Division

Mr Rod Smith, Assistant Secretary, Consular Branch

Mr Jeff Roach, Director, Consular Operations Section, Consular Branch

Mr Marc Campbell, Division Coordinator, Public Diplomacy, Consular and Passports Division

2.1.1 Consular Operations Section

Mr Bill Jackson, Director, Consular Operations Section, Consular Branch

2.2 Passport services.

Mr Ian Kemish, First Assistant Secretary, Public Diplomacy, Consular and Passports Division

Mr Bob Nash, Assistant Secretary, Passports Branch

Mr Bill Monaghan, Director, Passport Operations Section, Passports Branch

Mr John Osborne, Director, Passport Systems and Technology Section, Passports Branch

Output 3.1 Public information services and public diplomacy.

3.1.1 Public information and media services on Australia's foreign and trade policy

3.1.2 Projecting a positive image of Australia internationally

3.1.3 Freedom of information and archival research and clearance.

Mr Ian Kemish, First Assistant Secretary, Public Diplomacy, Consular and Passports Division

Mr Chris DeCure, Assistant Secretary, Parliamentary and Media Liaison Branch

Ms Victoria Owen, Assistant Secretary, Images of Australia Branch

Mr Chris Freeman, Director, Media Strategies and Internet Section, Images of Australia Branch

Output 4.1 Property management.

Mr Peter Davin, Executive Director, Overseas Property Office

Mr Kevin Nixon, Assistant Secretary, Alliance Management Branch, Overseas Property Office

Mr Philip Moran, Assistant Secretary, Portfolio Strategy Branch, Overseas Property Office

Output 4.2 Contract management.

Enabling Services

Ms Zorica McCarthy, Assistant Secretary, Executive, Planning and Evaluation Branch

Ms Bronte Moules, Director, Ministerial and Executive Liaison Section

Mr Bryce Hutchesson, Director, Corporate Planning Section

Mr Geoff Tooth, Director, Evaluation and Audit Section

Mr Hugh Borrowman, Acting Assistant Secretary, Staffing Branch

Ms Janette Ryan, Assistant Secretary, Staff Development and Post Issues Branch

Dr Lee Kerr, Director, Management Strategy, Conduct and Coordination Section, Corporate Management Division

Mr Daniel Sloper, Director, Budget Management Section, Finance Management Branch

Ms Alison Airey, Executive Officer, Finance Management Branch

Ms Peta Hudson, Executive Officer, Finance Management Branch

Ms Khadija Haq, Executive Officer, Finance Management Branch

Mr Anthony Burgess, Executive Officer, Finance Management Branch

Mr Ben Clanchy, Executive Officer, Finance Management Branch

Mr Greg Carter, Executive Officer, Finance Management Branch

Austrade

Margaret Lyons, Executive General Manager, Corporate

Julia Selby, Executive General Manager, Australian Operations

Ian Chesterfield, General Manager, Corporate Finance & Assets

Margaret Ward, General Manager, Export Finance Assistance Program

Michael Crawford, General Manager, International Business Services

Michael Vickers, Group Manager, Client Development and Ally Liaison

Tim Harcourt, Chief Economist

Marcia Kimball, Director, Human Resources

Denise Pendleton, Client Service Manager, Strategic Development

Lindsay Collins, National Manager, EMDG

CHAIR—I declare open this meeting of the Senate Foreign Affairs, Defence and Trade Legislation Committee. I will shortly be welcoming Senator Hill back to the table, representing the Minister for Foreign Affairs and the Minister for Trade. I welcome you, Dr Thomas, and officers from your department. The committee will begin proceedings by examining the particulars for the trade division of the department and we will follow the agenda 1.1, 1.1.1, 1.1.2, 1.1.3, 1.1.5 and 1.1.6. At 10 p.m. we will turn to Austrade. Any matters outstanding from this evening's DFAT trade division will be carried over until tomorrow morning from 9 a.m. till approximately 9.45 a.m.

Questions may be taken on notice either verbally during the hearing or by senators placing questions on notice in writing. I remind senators that questions can only relate to the matters

nominated for consideration for these supplementary hearings. When written questions on notice are received, the chair will state for the record the name of the senator who submitted the questions. The questions will be forwarded to the department for an answer. All questions on notice must be placed by the conclusion of the committee's supplementary hearings tomorrow afternoon. The committee has resolved that the deadline for the provision of answers to questions taken on notice at these hearings is 31 January 2003.

Witnesses are reminded that the evidence given to the committee is protected by parliamentary privilege. I also remind witnesses that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate. The Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has the discretion to withhold details or explanations from the parliament or its committees, unless the parliament has expressly provided otherwise. An officer of a department of the Commonwealth shall not be asked to give opinions on matters of policy. However, you may be asked to explain government policy, describe how it differs from alternative policies and provide information on the process by which particular policy was selected. An officer shall be given reasonable opportunity to refer questions asked to superior officers or to the minister—when he arrives. The minister is not here, so he will not be making an opening statement. Do you have anything you wish to say, Dr Thomas?

Dr Thomas—No.

Senator COOK—I had a number of questions which I was unable to complete in the budget estimates because of programming reasons, and I want to cover those. Mostly, they are about the round and bilateral trade agreements either completed or under negotiation. Subsequently, the North Asia, South and South-East Asia, Americas and Europe divisions were nominated. It may be the case that the bilateral, regional and multilateral trade negotiations, the trade development policy coordination and APEC divisions are able to cover all of those questions. Since we are having a night session, I thought I should indicate that, if those questions are able to be covered by 1.15 and 1.16, I am happy to say I do not have questions for those other regional divisions. Then people waiting here could be excused, as far as I am concerned.

There are a couple of questions that arise out of my budget estimates questioning which I would like to go back to. Some of those things were related to events, or possible events, between the budget estimates and now. In their report on Australia and the WTO, the parliamentary Joint Standing Committee on Treaties called for greater transparency and greater consultation, among other things. At the time of the budget estimates on 5 June, the government had not responded to the treaties committee's report. From the questioning and answers it appeared that they were going to respond imminently. I think the departmental work had been done for the government to respond, or that was the gist of the answers. I have not seen a response, although there may have been one which I have missed. Has there now been a response to the Australia and the WTO report of the treaties committee?

Dr Thomas—I will invite my colleague Mr Bruce Gosper, who is head of the Office of Trade Negotiations, to answer your question.

Mr Gosper—Yes, that response has now been made available.

Senator COOK—Can you tell me for the record when it was published?

Mr Gosper—I will have to check the date and let you know in a short period.

Senator COOK—Back in June I also asked about the Foreign Affairs and Trade policy white paper. The answer then was that it was going to be released this calendar year—I think

the words were 'October/November'. This has not been released. Is there some delay in the publication of this paper or has there been a policy decision taken about its release?

Dr Thomas—It had been hoped that it could be released by about October/November. In the light of the bombing in Bali and the implications that flow from that, it has been decided to review some aspects of the paper. That is taking place at the moment. We have not yet identified the date for the launch, but it is being finalised at the moment.

Senator COOK—But no date for releasing it has been decided?

Dr Thomas—No, not yet.

Senator COOK—Is there any indication of around what period its release may occur—for instance, the first quarter of next year?

Dr Thomas—No; I cannot say at this stage. Aspects of it are simply being reviewed in the light of the experience of Bali. It is being rejigged at the moment.

Senator COOK—That is understandable.

Dr Thomas—When the government is happy with it, it will decide on a release date.

Senator COOK—So we can expect it, but we do not know when?

Dr Thomas—Yes.

Senator COOK—Back in June, there was an indication—it appears on page 451 of the *Hansard* of the Senate FADT committee estimates—that the Thai-Australia free trade agreement, which was then described by the minister as a 'FTA plus' because it involved more than trade, would, according to modelling by the Centre for International Economics, over 20 years produce a benefit to Australia of \$6.6 billion. The paper in relation to that had not been published at that point. Has it been published since?

Mr Brown—I will have to take that on notice and will hopefully provide you with a response before the session this evening is finished.

Senator COOK—Are you aware of the study?

Mr Brown—Yes.

Senator COOK—Is there any particular reason that occurs to you as to why it would not be published?

Mr Brown—I am responsible for the conduct of the negotiations. These documents that were released in the context of the joint study are not something I was involved in, but I am happy to look into whether or not they have been released.

Senator COOK—The rest of my questions relate to some matters I want to focus on: the Doha Round and some of the bilateral trade agreements. I was intrigued when Senator Hill on Monday this week during question time answered a question on trade and put quite a lot of information on the public record. In answer to the question, which came from you, Chair—I am sure you will recall it—

Senator PAYNE—It was a very good question.

Senator COOK—It was a good question and I was delighted to receive the answer. I acknowledge that it was a comprehensive answer from the minister. In that answer—and I will ask some questions that arise from this answer—the minister said:

Since 1996, Australia's exports have grown more than 50 per cent, from \$99 billion to over \$154 billion, creating more than 250,000 jobs. In all, one in five jobs is related to export industry—one in four in fact within regional Australia.

How were those figures calculated? How are we certain that we created exactly 250,000 jobs? What is the basis for that calculation? This might be something that you would wish to take on notice. It is a good result and we should celebrate it, but I am intrigued to know how we calculated it. I am not suggesting that the minister sat down and worked it out himself. I am pretty sure he had a paper put in front of him which said that this was true, and he quoted it.

Senator Hill—I think it came from the department of trade.

Mr Hillman—The analysis underpinning those figures would have been done by my division, but I would prefer to take that question on notice and dig out the actual analytical work that was done.

Senator COOK—That is fine by me. It is just my insatiable curiosity about job creation and trade, which I think is something that we all should talk about in the community, which causes me to ask those questions. This may be a matter to take on notice as well but is it possible to know currently how many consultants DFAT has engaged to supply consultancy, research or information services to the department on matters related to trade in the broad or in particular instances?

Dr Thomas—We will have to take that on notice.

Senator COOK—I am looking for the consultants or any contracts that have been let to do research. I would like to know: who are the consultants and what are their tasks, any contracts that have been let to do research on things such as the impact of the US-Australia free trade agreement and what the terms of that are, how much it cost for that consultancy or that contract, and the length of the contract and what the method of selection was for the individual or organisation to do the particular task. On a similar theme, I would be interested to know whether the department does any in-house analysis of its own—for example, was there any research commissioned in-house on the Singapore free trade agreement?

Mr Gosper—We occasionally do in-house research related to aspects of all trade negotiations.

Senator COOK—I am obviously aware, Mr Gosper, that the department does a lot of background research and digging when dealing with particular issues. What I am really asking here, and perhaps I have not been very clear, is whether the department would commission in-house a document considering or analysing a particular policy option—for instance, should we do a free trade agreement with Singapore and what are the cost benefits; should we do one with Thailand and what are the cost benefits? That sort of research is what I am asking about.

Mr Gosper—We do occasionally do that economic modelling type work to support consideration of policy options, but as I understand it you are talking about in-house work. That is occasionally done in relation to all aspects of the trade negotiations.

Senator COOK—Are you able to identify for us what that research is?

Mr Gosper—We can take that on notice and give you some further advice.

Senator COOK—It may be that some of this research is related to cabinet considerations and therefore cannot be made public, but I am interested in knowing what can be made public, if anything, and what the subjects were.

Mr Gosper—Yes.

Senator COOK—Was any evaluation or analysis commissioned by the department prior to, during or at the conclusion of the Singapore free trade agreement negotiations?

Mr Deady—The one piece of economic analysis that was done at the time the negotiations commenced with Singapore was the study undertaken by Access Economics, which was an economic analysis. I think I have said before that it was not a specific modelling exercise given the nature of those negotiations—services and investment being the key feature of those negotiations. That was the piece of economic analysis that was performed.

Senator COOK—Was that the only piece?

Mr Deady—That is the only outside work that we have had done on the Singapore FTA.

Senator COOK—Has that been released publicly?

Mr Deady—Yes, it has.

Senator COOK—We dealt with Thailand; it is on notice. I would like to spend a few minutes getting an update on a number of current negotiations. In the outcomes and objectives statement this year, starting on page 35, there is a chapter headed ‘Bilateral strategies linking Australia to major markets’ and there is a discussion of progress under country headings. Interestingly, it starts with a small paragraph on free trade agreements per se and then it goes on to New Zealand. In his answer to a question without notice, Senator Hill referred to New Zealand. He said:

I also remind you of the agreement between the CER countries, Australia and New Zealand ...

Was that meant to suggest that there is anything new happening on that front, or was that simply mentioning that as we have it there is a closer economic relations agreement between Australia and New Zealand? Are we doing anything new or is it a continuation of the same thing, apart from the normal monitoring meetings?

Mr Gosper—I understand that there is nothing new, merely housekeeping on the existing agreement.

Senator Hill—As I recall it, my answer was relating not to the CER with New Zealand but to the relationship between the CER and the ASEAN free trade agreement.

Mr Gosper—Maybe I misunderstood the question from Senator Cook.

Senator COOK—You are right, Senator Hill. I concluded the quote at the point of ‘Australia and New Zealand’; I was going to go on to ask about ASEAN.

Senator Hill—That is, as I understand it, a progressing relationship.

Mr Gosper—Indeed, it is.

Senator COOK—But, as far as Australia and New Zealand are concerned, there is nothing new?

Mr Gosper—That is correct.

Senator COOK—What are the developments as far as CER and AFTA are concerned?

Mr Hillman—In September, AFTA and CER completed the negotiation of a closer economic partnership, which is aimed at increasing economic integration between CER and AFTA and facilitating trade and investment. It includes an extensive work program in trade facilitation and also the establishment of an AFTA-CER business council to advise ministers on business interests in the development of the relationship.

Senator COOK—What is the outlook here? What are the next steps in strengthening this relationship?

Mr Hillman—The next step is to implement this work program. It involves trade and investment facilitation activities, which will be carried forward in working groups of AFTA and CER officials. The aim is to reduce business costs. There is the aspirational goal of doubling trade and investment among AFTA and CER by 2010.

Senator COOK—Will there be further negotiations to pursue the objective of a free trade agreement between CER nations and AFTA?

Mr Hillman—The emphasis of the CEP, the closer economic partnership, is on trade and investment facilitation.

Senator COOK—After Australia's agreement to go into the—what did you call it?

Mr Hillman—Closer economic partnership, CEP.

Senator COOK—We started out originally seeking a free trade agreement; we are now in a closer economic partnership. Are we doing anything to try and resuscitate our original goal of a free trade agreement?

Mr Hillman—We have made it clear that we are interested in trade liberalisation as well as trade facilitation, but we are interested in doing it in the context of other countries—other partners—also being interested and there being mutual benefits involved. Within AFTA there is no consensus on moving in that direction at this time.

Senator COOK—Japan's Prime Minister Koizumi visited Australia earlier this year. He made quite a powerful speech in the Great Hall—as did the Prime Minister and Jenny Macklin, the Deputy Leader of the Opposition, in receiving him. He took a strong stand about Australia joining in Asian regional trade negotiations. Have there been any further developments between Australia and Japan in progressing the trade initiatives that we had prior to that visit?

Mr Gosper—I will ask Justin Brown, the head of the Asia trade task force, to comment on that. Officials level consultations have been launched to follow through from the meeting between the two prime ministers in May at which it was agreed that all options for deepening economic linkages between the two countries should be looked at. Mr Brown will elaborate.

Mr Brown—Following the statement by the two prime ministers, a series of consultations has begun. The working group process, as it is known, began in September. It is aimed at exploring areas of the economic relationship where initiatives or measures might be taken. That process is expected to run until the middle of 2003, at which time the expectation is that there will be a report to both prime ministers recommending a way forward.

Senator COOK—Last year, I think, at the Australia Japan Business Cooperation Committee conference this relationship was described by one of the speakers as 'like an old marriage—we take each other for granted'. I am in an old marriage and I do not think the analogy works for me, but I understand the concept. Is this our effort to revitalise this union—that in 2003 we will consider the outcome of senior officials consultations?

Mr Brown—There are obviously a number of initiatives under way at both the government and private sector levels to, in your words, 'revitalise the relationship'. I think there is a perception in some quarters that more could be done, particularly at a time when the process of regional economic integration is moving ahead so quickly and comprehensively. Given the scale of the Australia-Japan economic relationship, there is a view that more should be done to try to ensure that the relationship is growing. This process launched by the two prime ministers is certainly a contribution to that, and the business chambers in both countries are also contributing their ideas and views to the process.

Senator COOK—Have we had any discussions with Japan about the new Asian free trade area initiated by China, which has now been agreed to and was announced last month or early this month, which is effectively ASEAN plus three?

Mr Brown—We have a range of discussions with Japan about the entire process of regional economic integration, including the ASEAN-China process as well as the other free trade agreement initiatives and closer economic partnership initiatives that are occurring in the region.

Senator COOK—So the answer is yes?

Mr Brown—Yes.

Senator COOK—Have we put to them any direct interest in joining this new trade arrangement? It does not come into being until 2010, but have we put to the Japanese any direct interest in becoming a member of that group?

Mr Brown—The process that is under way at the moment is, in the Prime Minister's words, 'aimed at exploring all options for deepening economic linkages'.

Senator COOK—That is indeed right, and I think that is what you said before, but this would be one of those options being explored. Have we raised that question directly with Japan?

Mr Brown—The process is still under way and we aim to look at all options. That may indeed be one of them, but at this stage the process is half completed. It has not yet got to the point where I could be definitive about what kinds of options might be covered.

Senator COOK—If we are covering all options, do we have an options paper yet, or is it still too early even for an options paper to be circulated between the two countries?

Mr Brown—We have had one working group session, where about 100 questions were asked of Japan by the Australian side relating to a range of trade and investment policies, both on the liberalisation front and the facilitation front. The second working group meeting will take place next week in Canberra. The Japanese will, in turn, ask a series of questions and there will again be a dialogue on approximately 100 questions. There is a third working group meeting expected in early 2003, which will continue the process. I expect that meeting to be an important juncture in defining some of the options.

Senator COOK—So we have not defined the options yet. We have had what sounds like a great oriental title—the dialogue of 100 questions—but at this stage we have not got down to defining the particular options that we are going to explore.

Mr Brown—The options are probably quite well known, but there are a range of possibilities and the framework for taking forward cooperation between the two countries has not yet been defined. The purpose of this process is to define the content, if you like. The structure and the architecture for taking forward that content is something which is yet to be decided fully. That will obviously be a key to the report that is put forward to prime ministers next year.

Senator COOK—At this stage—this is all I am interested in knowing—these talks have not matured to the point at which we have begun to draft the range of options that might be considered. We are still back at 100 questions?

Mr Brown—We are at the stage where we are defining the content, if you like. We are defining the areas where the relationship could be developed.

Senator COOK—This is my old favourite. Two years ago, the Prime Minister announced a free trade agreement between Australia and Korea and it has died and vanished since. Has anything happened in the past six months to cause us to believe that this bold prediction by the PM is now going to happen, or was it just a media stunt at the time?

Senator Hill—Do you mean a free trade agreement or efforts towards a free trade agreement?

Senator COOK—His intention was to secure a free trade agreement with the Republic of Korea.

Senator Hill—That is slightly different. How are we going with it?

Senator COOK—It swept the front page on the day, but we have not seen anything happen since, really. So I am asking Mr McLean: shock me; tell me that something has happened.

Mr McLean—The position is that the Australian government—that is, this department—has raised the matter on a number of occasions since the exploration of the possibility of an FTA was mentioned during the Prime Minister's visit in 2000. The most substantive recent occasion was when Mr Vaile, the Minister for Trade, was in Seoul in April this year. Subsequently, it has been raised on three further occasions by our ambassador in Seoul—I think in June; during the Australia-Korea conference that was held in Hobart in July; and then subsequently by DFAT officials in September.

I have raised those not to give you a litany of when we have done it—although that obviously does indicate that we are pursuing this matter—but simply to show the response on each occasion from the Koreans. Effectively, they are not responding in a positive way. On the other hand, they have not ruled it out. They are saying it is premature. There are issues relating to this year in particular being an election year—there is a presidential election in a month's time in Seoul, Korea. Then there is the perennial issue, which is probably fundamentally the basis for their concern about getting involved in an FTA, that they are unable to proffer any hope that they can bring their agricultural community behind such a deal.

Senator COOK—I am going to offer the call in a minute to my colleague Senator Ray. Before I do so, I want to ask about China. This is the 30th anniversary year of diplomatic recognition by Australia of the People's Republic of China—the anniversary of Gough Whitlam's recognition upon being elected Prime Minister of Australia in 1972. We and the Chinese have been celebrating it—the Prime Minister visited China. We have announced something called a framework agreement. Can you tell me what that is?

Mr McLean—It is similar in some ways to the process that my colleague Mr Brown has just outlined in respect of Japan. We have started a similar process with China, albeit obviously somewhat different because each country is different. The first round of formal negotiations took place in Beijing in September. It was agreed during those negotiations that we would prepare a joint study that would identify particular opportunities to enhance the two-way trade and investment relationship. We are hoping that that will be completed in the first quarter of next year; therefore we are not ruling out particular options. The framework is obviously responding to the changing economic situation in China, which relates not only to its fast moving process of reform but also to its accession to the WTO and opportunities that arise from those developments for Australian business from our perspective.

Senator COOK—Who proposed the framework—us or them?

Mr McLean—It is probably fair to say that both of us claim it.

Senator COOK—We came to the same idea at the same time. Is there a formal agreement that we pursue a framework agreement or is there an agreement that we do a joint study to see whether we should decide to pursue a framework?

Mr McLean—There is agreement that we will have a formal agreement. Whether it is called a framework agreement, or whatever it is precisely called, will emerge during our negotiations. Indeed, the joint study may throw up precisely what it will end up being called. But the fact is yes, there has been agreement that there should be a framework agreement reached between the two sides.

Senator COOK—Is there a communique setting out what the terms announcing the framework agreement are and what both sides think about this? Is there a common communique?

Mr McLean—The basic document that I should point to is the joint statement, or at least the statement made by Prime Minister John Howard on 22 May when he was in Beijing, which was a statement that was issued following his discussions with Premier Zhu Rongji.

Senator COOK—I am asking if we have jointly signed off on some commitment to a framework agreement.

Mr McLean—No, we have not signed off on anything.

Senator COOK—So how do we know the Chinese are on side? Have they issued a similar statement to our Prime Minister's, committing themselves to it?

Mr McLean—I headed the delegation in September when we had our talks in Beijing, and it was clearly agreed between us that we would proceed on the course that I have outlined.

Senator COOK—I accept your word, Mr McLean—not just today but on many other occasions as well—as being very reliable. But what I am simply asking, for me or the public that want to see what it is that China and Australia have agreed, is whether there is a reference you can point me to on our side, apart from the Prime Minister's statement, such as an exchange of letters, which says what the Chinese are committed to and what we are committed to.

Mr McLean—Not yet, no.

Senator COOK—Is there likely to be?

Mr McLean—Once this joint study has been prepared, there is a fair chance that we will be able to begin. Obviously, in the course of the process of the joint study, we are actively consulting with business. So we have identified a number of sectors, and we are asking business to identify any other sectors that may be of interest. We will come up with a document in due course, which will be the joint study. We hope the joint study will lead the way forward for us as to—

Senator COOK—I have one more question on this, because I want to give 10 minutes to my colleague. Did we raise with the Chinese any interest in being part of the Asian free trade proposal that they have now announced?

Mr McLean—You mean the ASEAN plus China?

Senator COOK—The plus three or the plus one.

Mr McLean—China has announced its own FTA with ASEAN.

Senator COOK—Did we raise any specific question with them about joining that?

Mr McLean—We have not raised the specific question of joining it, to my knowledge.

Senator ROBERT RAY—What was the original venue for the recent trade ministers' meeting in Sydney?

Mr Gosper—The meeting was originally planned for another site in Sydney—the Stanford hotel in Double Bay.

Senator ROBERT RAY—Who chose that site?

Mr Gosper—That was the decision of the minister, after looking at a range of factors and advice on a range of venues.

Senator ROBERT RAY—Was it a recommendation from the department to the minister?

Mr Gosper—Yes, it was.

Senator ROBERT RAY—What evaluation was done, before it was chosen, as to the security aspects of that hotel?

Mr Gosper—In conjunction with the security agencies, including the New South Wales Police, we evaluated a range of Sydney hotels, including factors such as availability of rooms for delegates, availability of conference facilities and security aspects. The recommendation then, one that was supported by New South Wales Police, was for the venue that we put forward.

Senator ROBERT RAY—When did that change?

Mr Gosper—That changed in light of emerging security information dealing with protest activity at that venue.

Senator ROBERT RAY—And was that not anticipated when the first decision was made to go to Double Bay?

Mr Gosper—Some protest activity was foreshadowed. One of the reasons we chose the Double Bay site was that it would move the protest activity away from the central business district, thereby preventing any disruption for businesses and commuters in that area. However, the level of security interest forced a re-evaluation of the Double Bay site.

Senator ROBERT RAY—So you then moved to the hotel at what we refer to as the Olympic site?

Mr Gosper—That is right.

Senator ROBERT RAY—Were there any extra costs to the department in that move?

Mr Gosper—In the move itself, and the conduct of the meeting, no. But of course at the Olympic Park site there are some what we would call above normal security costs associated with that meeting, including fencing—up to two kilometres of fencing was used at the meeting—and a number of other security provisions which will prove more costly. Those provisions, of course, are being met by the state. The state has indicated that it will probably look to the Commonwealth to meet some of those costs.

Senator ROBERT RAY—Were there any cancellation fees for the hotel in Double Bay, it having been booked and then cancelled?

Mr Gosper—Without being specific, the hotel in Double Bay has asked for some discussions on possible compensation, because they had cancelled a number of bookings and asked guests to move to other sites. They have foreshadowed that they have borne some costs. We have indicated that we will sit down and discuss those with the hotel.

Senator ROBERT RAY—I will not pursue that question and weaken your negotiating position. When would you think you would be sitting down to negotiate with the hotel?

Mr Gosper—I would hope in the next week or so.

Senator ROBERT RAY—Do the events of this meeting and like meetings dictate that there is now some reluctance to hold such meetings in Australia.

Mr Gosper—Not that I am aware of. Obviously they are big and costly affairs.

Senator ROBERT RAY—Just as a ballpark figure, how often would we host such a meeting of trade ministers?

Mr Gosper—The last such meeting I can recall was the APEC meeting of trade ministers in Darwin some two years ago which did not involve any particular security problems. Of course, CHOGM had its own trade dimension with respect to protest activity. And, of course, there has been this meeting. I do not know of any other foreshadowed meetings.

Senator ROBERT RAY—Was there any negative feedback from the participants in the conference, given that it was held under what one might describe as a siege mentality?

Mr Gosper—The meeting itself proceeded very well and all the ministers attending were, I understand, very pleased with the discussions.

Senator ROBERT RAY—Was there a particular problem with the Malaysian trade minister at both the airport and hotel? If so, could you describe what it was?

Mr Gosper—There was an issue that was raised with respect to inspection of bags. At the airport all delegates to this meeting, all ministers, were asked to agree to the standard operating procedures for inspection of bags for such an event. The Malaysian minister did have some concerns, but the security issue was satisfactorily resolved.

Senator ROBERT RAY—When you say that they were asked to follow standard procedures, how was that conveyed? There were 45 ministers, were there? It obviously did not apply to our own.

Mr Gosper—There were 25 countries and 26 ministers.

Senator ROBERT RAY—How was that conveyed to the ministers?

Mr Gosper—I cannot specifically advise you on how it was conveyed to the ministers at the airport. We did provide advice to all those countries attending beforehand in general terms about the nature of the security arrangements that we would have in place.

Senator ROBERT RAY—I have not got perfect recall of your evidence. I asked that because I think you said that the trade ministers had been advised. Now you are saying that the countries concerned were advised and there would be a presumption by you that that advice would have been passed on. Is that right?

Mr Gosper—Indeed, Senator.

Senator ROBERT RAY—So what was the problem at the airport?

Mr Gosper—It related to the inspection of bags.

Senator ROBERT RAY—And how was it resolved?

Mr Gosper—It was resolved through assurances that the bags had been in the possession of the minister the entire time.

Senator ROBERT RAY—And wasn't there also a problem at the hotel?

Mr Gosper—There was. The same issue was raised at the hotel and it was resolved there.

Senator ROBERT RAY—Did I read in the paper that Mr Vaile had to give certain assurances?

Mr Gosper—Mr Vaile had some discussions with the ministers and spoke with the New South Wales police at the site to convey the advice.

Senator ROBERT RAY—But he did not have to intervene at the airport?

Mr Gosper—No, he did not.

Senator ROBERT RAY—Who does meet these ministers and how are they—processed is the wrong word—assisted through these formalities? How do you do it?

Mr Gosper—There are a number of people at the airport to assist including representatives of the Department of Foreign Affairs and Trade, together with representatives of New South Wales police and the Australian Protective Services.

Senator ROBERT RAY—Do you have categories of people and the degrees of assistance according to the category of the people from Prime Ministers—which would not concern you too much—to trade ministers?

Mr Gosper—I would have to ask others to talk about general procedures. But in respect of this meeting we had particular arrangements in place to ensure the efficient transit of ministers to the meeting at the Olympic Park site.

Senator ROBERT RAY—These sort of incidents have been going on, to my knowledge, for at least 33 years where, I think, because we are not as well equipped—I am not critical of the security procedures people come through—to avoid incidents like this particular one.

Mr Gosper—Again, I cannot comment on what previous incidents there may or may not have been. But in respect to this particular meeting we had a large number of people at the airport to assist transit. For particular transit arrangements, all ministers and delegates were taken under convoy arrangements, escorted by the New South Wales police to the Olympic Park site, so it was a highly organised process. We believe that almost all ministers were very satisfied with the arrangements.

Senator ROBERT RAY—Have you got any information—this is a much harder question and I appreciate you may have no knowledge, but these incidents occur from time to time—on how they then went on to be reported in the media?

Mr Gosper—No, I do not. I have asked that question of the authorities myself.

Senator ROBERT RAY—Which authorities?

Mr Gosper—The New South Wales police.

Senator ROBERT RAY—Not Customs.

Mr Gosper—No, but I have had no answer to that request.

Senator ROBERT RAY—So we have got no idea how it came to reach the fourth estate?

Mr Gosper—I cannot say, Senator. I have no idea.

Senator ROBERT RAY—Minister, have you looked at this as an across-the-government issue? For instance, I can remember nine years ago a fantastically successful visit to this country wrecked because Customs picked up our guest on the basis that he might have heroin. It turned out to just be a little bag of detergent—but eight hours of cross-examination later. The whole trip was a total disaster. This seems to occur. I am not saying that the Malaysian trade minister falls anywhere near into that category that she was at all embarrassed, but I do think that foreign affairs and others should put a bit more effort in at the entry point because other countries do it for people like you, Senator Hill, don't they?

Senator Hill—Yes, but in this day and age I do not think it is unreasonable for all guests to have their bags put through the X-ray machine.

Senator ROBERT RAY—I take it you will be supporting that for members and senators here.

Proceedings suspended from 6.30 p.m. to 7.30 p.m.

Senator COOK—Have we made any representations to be included in the discussions on ASEAN plus 3 at this point?

Mr McCormick—Are you talking about the ASEAN plus 3 FTA?

Senator COOK—Yes.

Mr McCormick—The ASEAN plus 3 FTA is still only a proposal that is under study by ASEAN plus 3, so there is nothing in particular to request to be involved with. They are still at the early stages of studying a proposal that has been on the table in different forms for a number of years.

Senator COOK—Have we registered an interest in joining in those discussions?

Mr McCormick—There has not been an opportunity; it has not been raised with us in those terms.

Senator COOK—All right, thank you. We have announced that the Australia-Singapore free trade agreement has effectively been concluded, but there is some tidying up to do and the document for signature has not yet been prepared.

Mr Deady—That is correct, Senator. The minister announced on 3 November that the negotiations had concluded. All that is left is legal vetting or legal-scrubbing work that needs to be done as part of the wrap-up process to finalise the text. Then, of course, it needs to go through the cabinet processes for approval for signature and then through the treaty making processes after that.

Senator COOK—Am I to understand from that, Mr Deady, that all the substantive issues are agreed? The agreement is being reduced to a legally binding document at the moment and, when that is completed, questions about formal signing and so forth will occur.

Mr Deady—That is correct, although I will just say that the legal document is agreed. The negotiations in relation to that have concluded, and now the lawyers are making sure that all the cross-references to particular annexes are correct and that all the very technical legal work is done. It is that level of work, rather than any negotiations at all.

Senator COOK—The *Australian Financial Review* today reported that the minister, Mr Vaile, will be in Singapore shortly—I forget the date—to meet with the trade minister and the Deputy Prime Minister to tidy things up. What does that refer to? Is that an accurate report?

Mr Deady—The *Australian Financial Review* article did say something like that. The minister's press release talked about his meeting tomorrow with George Yeo, the trade minister. They are talking about implementation issues—this issue of the legal vetting—just to give an update on how it is going, the processes that we have in place and the likely timing for signing the agreement. There is nothing more than that.

Senator COOK—When will the text of the agreement be completed?

Mr Deady—Our lawyers will probably go to Singapore on 4 to 6 December, and I think that will be the final vetting process. We are exchanging various suggestions and wording through emails. Those are the dates that we are looking to.

Senator COOK—We cannot say with certainty at this stage, but we are shooting for the text to be available sometime around 4 or 6 December.

Mr Deady—That certainly is what we are working towards. That is the legally scrubbed version which then, as I said, has to go through the cabinet processes before it becomes public.

Senator COOK—It has not been to cabinet yet?

Mr Deady—No.

Senator COOK—Has a preliminary expression of the issues been to cabinet? With what authority did we announce that the agreement has concluded?

Mr Deady—There have been a number of cabinet processes throughout the negotiations. I am not sure how far I should go into the cabinet decisions.

Senator COOK—I do not want to ask you to go any further than you should. We have formally announced that we have concluded a free trade agreement with New Zealand. The minister has put out a press release broadly describing what is involved but cabinet has not ticked off, as I understand your answer, the final text. All I am asking is: how is it we have announced that Australia and Singapore have agreed?

Mr Deady—We had a negotiating mandate throughout the negotiations, obviously, that went back to cabinet as we were getting very close to finalising the agreement. Parameters were set for those final negotiations and those objectives were achieved in that final phase of negotiations.

Senator COOK—So it was within the mandate and, therefore, a minister can competently proceed to make that announcement?

Mr Deady—Yes. A minister can announce the conclusion of negotiations and the process that follows from that.

Senator COOK—Can you tell me what the next steps are? Is the next step—as I think you expressed it—legally scrubbing the text and then rendering a final document, getting cabinet approval and arranging for a formal signature? Are they the next steps in that order?

Mr Deady—Yes.

Senator COOK—Who signs this? Is it the Minister for Trade, the Prime Minister?

Mr Deady—I do not think that decision has been taken yet.

Senator COOK—That is a decision that will be taken. When we announced that the agreement had been concluded, had we consulted any of the industry sectors affected by the agreement to alert them to the fact that we were going to announce conclusion?

Mr Deady—We clearly had a range of consultations right through the process and those consultations, as I think is normal practice in negotiations, were ongoing right to the end of the negotiations. Certainly, with a number of the outstanding issues that inevitably remain at the end of these processes there were consultations with relevant industries about the nature of the outcomes that were emerging.

Senator COOK—Are you in a position to say that nothing in the final text will surprise them?

Mr Deady—In my view, nothing in the final text of the Singapore agreement will surprise the Australian industry. There have been ongoing consultations right through the process. Issues like the rules of origin are of most interest to the goods and manufacturing sector. The

key industry sectors in the services side—where demands required of us under the Singapore agreement were being made—have been fully informed of the progress of the negotiations right through the process. The state governments have been kept fully informed of the process. All of the stakeholders are well aware of the nature of the negotiations and the scope and outcomes that were envisaged.

Senator COOK—Nothing will surprise them. There is nothing there, based on the consultations you have had with industry, which will cause them pain.

Mr Deady—The outcome of the agreement is a very positive one across the board for Australian industry. The reaction from our discussions with Australian industry, I think, has certainly endorsed that, across the manufacturing sector and also in the legal services, the financial services and the telecommunications area. All the feedback we have had on the outcomes that we have been able to describe in broad terms to those stakeholders has been very positive.

Senator COOK—How do we assess the economic value to Australia of this agreement?

Mr Deady—The agreement is a very comprehensive one. Our objective in the negotiations was to achieve an agreement that would be a model for future FTA negotiations in the region. It certainly crosses that threshold. It is comprehensive in coverage. In the services and investment areas it pushed forward both GATS plus and NAFTA plus in important areas. It certainly achieved in the services area a number of our requests that we were making of Singapore in the WTO processes well in advance of the conclusion of those negotiations. Right across the board, I think there are positive outcomes. Areas like intellectual property—which was an area of particular interest to Australian industry—had strong outcomes in terms of enforcement. In the government procurement area, we got very good commitments from Singapore to enhance the competitive position of Australian industry there. The telecommunications chapter—a very important one for Australian industry—is a very strong chapter which I think industry is very pleased with. So, right across the board, that is the value of those outcomes. The studies that we mentioned earlier identified, in advance of the negotiations, the potential outcomes in education, financial and legal services—the sorts of contributions that they could make—and we did achieve significant advances there in Singapore's commitments on those important service areas.

Senator COOK—Are we satisfied that it conforms with article 24, paragraph 8 of the WTO charter.

Mr Deady—Yes; very fully.

Senator COOK—Very fully?

Mr Deady—Yes. There is complete elimination of tariffs on both sides, with immediate effect from the date of entry into enforcement of the agreements. By any definition, that is substantially all trade.

Senator COOK—We would not have concluded it if it did not, would we?

Mr Deady—Our position is very clear on the importance of comprehensive negotiations fully consistent with the WTO. That is where I think the agreement makes that contribution and assists the multilateral process, by reinforcing that these RTAs or FTAs that are done properly can conform with the rules can do so, and this one certainly does.

Senator COOK—Is it an RTA or an FTA?

Mr Deady—It is an FTA.

Senator COOK—Senator Hill informed the Senate on Monday that, for example, the prospect of an Australia-US free trade agreement is worth up to \$4 billion to Australia. That is not an exact quote, but I think he said up to \$4 billion. How do we describe the Australia-Singapore one? What is that valued at?

Mr Deady—We would certainly see that as worth in the hundreds of millions of dollars. As I said, no econometric modelling work has been done on Singapore. What was identified was that the contribution—more liberal access for service industries and education, and Singapore is already a major market for students into Australia, legal services and financial services—was in the order of \$50 million to \$100 million. That sort of outcome over time certainly generates that sort of additional income.

Senator COOK—How many jobs will it create in Australia?

Mr Deady—We do not have numbers on the jobs that would be created.

Senator COOK—Will it lose any?

Mr Deady—I believe it will contribute to growth in Australia—higher employment, higher growth and stronger outcomes.

Senator COOK—Which regions in Australia will be advantaged and which will be disadvantaged by it?

Mr Deady—Again, I do not believe that there would be any areas disadvantaged. In legal services, for example, we have an increase in the number of law schools recognised by Singapore. At the moment there are only four universities in Australia—two in New South Wales and two in Victoria—that are recognised. There are an additional four. That final four are still being finalised, but that will widen the geographical spread. In education more broadly, I think the service industries that would benefit are spread right across the country.

Senator COOK—Is it fair to say that we cannot answer the questions on job creation, value to GDP ratio and regional impacts because we have not done any sort of econometric modelling? Is that the reason why we cannot make those comments?

Mr Deady—We do not have any particular modelling certainly based on the outcome of the negotiations that would allow those sorts of numbers to be generated. But I think the liberalising impact of the agreement, the improved access that will provide for Australian industry into Singapore and the greater certainty and predictability that it gives it across a number of sectors will contribute, I believe, to higher growth and related employment gains.

Senator COOK—We cannot establish that with any modelling or analysis that we have done, but is that what the department believes will be the outcome?

Mr Deady—Yes.

Senator COOK—Singapore have been very active in pushing free trade agreements—New Zealand led the way—but they are in talks or have agreed with the United States, Japan and a number of other countries. Have we checked with Tokyo, Washington and Wellington to see how our free trade agreement stacks up with theirs?

Mr Deady—Singapore's negotiations with New Zealand and Japan were concluded more than a year ago, and we looked very closely at the commitments that Singapore made in those negotiations to both New Zealand and Japan. Both of those agreements in the services area were GATS type commitments—positive lists. As you know, we went for a negative list approach, which by its very nature is more liberalising. We believe very strongly that, compared with the Japan and New Zealand agreements, the Australian agreement with Singapore goes well beyond either of those agreements. The United States and Singapore

announced that they have concluded, or were very close to concluding, negotiations in just the last day or so. We have not yet seen the final detail of those negotiations, so very clearly it is difficult to make that sort of judgment relative to the outcomes the United States may have got. Again, we are very satisfied with the level of commitments that we received from Singapore—commitments that we ourselves gave as part of that process. On balance, we have a very strong forward-looking agreement with Singapore. Very clearly we will be looking very closely at, and analysing, the outcome of the US-Singapore FTA. Depending on outcomes with the United States, there are a couple of areas on which we will be having perhaps some further discussions with Singapore.

Senator COOK—If they do a better deal, can we go back and reopen and claim the same deal?

Mr Deady—There is a commitment from Singapore in certain areas where, if they did go further with the United States than the agreement with Australia, it would be matched for Australia.

Senator COOK—In the context of the round, it is not intended to take this aggregation of Singapore FTAs with Australia, New Zealand, Japan and, prospectively, the United States and turn it into, in the round context, an agreement that has an MFN—it goes into the round as the settlement?

Mr Deady—No, they are bilaterals.

Senator COOK—Do we have a cultural provision in this agreement?

Mr Deady—No, there is no cultural provision in the Singapore agreement. I mentioned that the way that we have done the services negotiations was this negative list approach. The ‘negative list’ means that Australia and Singapore could reserve against the national treatment and market access commitments contained in the services texts. This is all a bit complicated, but there are two annexes. The first annex is a standstill commitment, so you can make a commitment that you would basically bind certain services commitments. The second, annex 2, is a reservation which allows governments to adjust those reservations further, and our audiovisual commitments are included in that annex 2 commitment in the Singapore agreement.

Senator COOK—Did the Australian film, television and music industries request any cultural protection to be included in this agreement?

Mr Deady—We had a number of discussions with various representatives from the Film Commission and the Australia Council and with colleagues from DECITA and other agencies. I was involved in the negotiations for the last year, as you know. There was no formal position put to us asking for a provisional cultural exclusion. We explained to them the nature of the negative list—how we were proposing to handle the list sector as part of those reservations. It was understood and, I think, appreciated that that allowed and maintained flexibility for the government in that area.

Senator COOK—Was there any request by this sector for reference in the preamble to the agreement to the cultural issues of in trade?

Mr Deady—There was no formal request. In one of these consultations where this issue was talked about, it was asked whether there was scope to include such a cultural language as part of the agreement. Again, as I said, we explained that we certainly did not believe that that was necessary, that we were not carving out sectors from the agreement in those broad terms and that the concerns, if there were concerns, were handled through the annex 2 reservations.

Senator COOK—One of the things that has been put to me is that this sector had an interest in the preamble references to a cultural protection but that Australia did not proceed to do that because, when the Australia-US free trade agreement comes on, it would create a problem for us. Are you able to confirm that?

Mr Deady—In our broader policy approach to these, we do not believe that there is a need for these cultural provisions or cultural carve outs—language like that—as part of FTAs. That is our policy position. We did not believe that one was necessary in the Singapore agreement. It was not done with the view of what might be down the track with US negotiations. I do not believe it would have had any legal effect in the preamble in any event. For all those reasons—and, as I said, particularly given that we did not believe in the end, and the industry agreed—the way this issue was to be handled through the reservations, including this annex 2 reservation, was sufficient to meet the industry's concerns.

Senator COOK—Did we discuss it with the Americans before we closed the deal?

Mr Deady—No.

Senator COOK—They will not know what is in it until we all see it?

Mr Deady—They do not know what is in our agreement with Singapore. Certainly we have not given a copy of our agreement to the United States.

Senator COOK—The conclusion of these negotiations was well after the scheduled deadline; we ran over time. What delayed them?

Mr Deady—There was no specific deadline ever established for the negotiations. They ran for two years. When the prime ministers announced the agreement, they certainly set a target for the APEC ministerial meeting in a year's time, which was 2001. Good progress was made in that first year of negotiations, but fundamentally we did not have a satisfactory enough agreement to conclude at that time. Negotiations continued this year. We built, in my belief, a substantially better package through the extra year that it took to conclude the negotiations. Also, a large part of that first year was spent on developing the framework, establishing the modalities for the negotiations. That took time in that first year. All that work was done by the time I took over, and we were able to build on that and move the negotiations forward.

Senator COOK—Are you able to say what particular issues delayed the agreement so it was not completed by the end of 2001 and has taken until now to complete?

Mr Deady—It is not possible to identify a single issue or even a handful of issues that precluded the negotiations from concluding in 2001. There was a lot of work right across a number of the chapters. There are 17 chapters in this agreement, so it is a very comprehensive document. The situation was that there had not been sufficient progress. The package was just not sufficient right across a whole raft of those chapters at that time.

Senator COOK—One of the sensitive issues here is the issue of rules of origin—Singapore being basically an entrepôt port economy. You have said that in discussions with industry that (a) there is nothing in there that will surprise them and (b) by and large they are happy with it. You referred specifically that the manufacturing industry is happy with it. What is the view of the manufacturing sector unions?

Mr Deady—I have not had any discussions with the unions on the final outcome of the negotiations.

Senator COOK—Why not?

Mr Deady—We have not had those discussions. We have certainly talked to a wide section of Australian industry right through the process. We explained to them right to the very end

the way the rules of origin package was emerging. The basic rule of origin under the agreement is the same as our agreement with New Zealand—that is, a 50 per cent value added rules of origin. There are additional concessions to Singapore to reflect the specific nature of the Singapore manufacturing processes—that is, that part of Singapore manufacturing is in fact done in, say, islands of Indonesia, some of the manufacturing is done in Singapore, and some of it may go offshore for some further value added and then come back to Singapore. So we have allowed what is called ‘accumulation’ so that they can add the value added together to reach this 50 per cent. There is a special 30 per cent rule for a very limited range of products also. I think that those rules of origin, or that broad goods part of the package, need to be kept in perspective. Already, given the open nature of the Australian economy, we have to keep in mind that almost 90 per cent of Singapore’s exports to Australia come into the market at the moment duty free. So these rules of origin and the preferential tariffs will apply to this 10 per cent of the trade.

Senator COOK—Ever since I can remember the manufacturing sector unions have published papers, so many that I cannot recall all of their titles, about revitalising Australian manufacturing and jobs in Australian manufacturing, and I just find it odd that they were not consulted, given that there are employment implications in an agreement of this sort.

Mr Deady—There were consultations held with the trade unions early in the piece of the negotiations, but I have not had any discussions with them since the conclusion of the—

Senator COOK—That was at the beginning of the process?

Mr Deady—Yes.

Senator COOK—Was that with the ACTU or with the manufacturing sector unions?

Mr Deady—I would have to check on that.

Senator COOK—Would you mind?

Mr Deady—I can do that.

Senator COOK—Given that we consulted with them, or alerted them—whatever we did at the beginning—was there some reason why we did not consult them when we had reached a conclusion?

Mr Deady—The consultations that we held right through the process were with industry. I should also mention that one of the advisory groups that the minister chairs has representatives of the unions on it, and Singapore of course was on the agenda of those meetings.

Senator COOK—That was Mr Mansfield on the trade advisory committee, wasn’t it?

Mr Deady—I think that is correct.

Senator COOK—He is no longer an officer of the ACTU.

Mr Deady—I think I might ask my colleague Mr Gosper to answer.

Mr Gosper—Mr Mansfield has resigned from that position on the WTO advisory group.

Senator COOK—No doubt a replacement will be discovered in due course. The point is that the unions were not consulted on the conclusion of it, and you have not therefore been in discussions with them about what the employment consequences might be, even though they seem positive in what you have put.

Mr Deady—Australian industry has been positive in response to the outcome of the negotiations with Singapore. As I said, the range of products that we are talking about is

relatively limited, given the context of the overall Singapore trade, and a number of those products from Singapore are in fact inputs into the manufacturing process, so there will be some competitiveness gains.

Senator COOK—Is there some policy reason why the unions were not consulted?

Mr Deady—No, there is no policy reason.

Senator COOK—You described in one of your earlier answers the details and rules of origin. I have seen this reported in the press release, but I will wait for the actual text and look at that and I might have some further questions on that issue. My sensitivity obviously is the one that stands out there like a pikestaff—that this is an entree port and a lot of goods are moved through the port which are manufactured offshore and if they can get into Australia with a low rules of origin content then it undermines our manufacturing capability.

Mr Deady—That is why the rules of origin are so crucial in these negotiations. That was one of the issues that industry raised with us right through the process. There is a very elaborate verification and enforcement mechanism within the rules of origin as part of the agreement. Also, in the sectors of textiles, clothing and footwear and passenger motor vehicles, which are perhaps not as important in Singapore, the fundamental rule of origin is identical to the New Zealand agreement. For those two sectors there is no accumulation—it is 50 per cent value added, as per the New Zealand agreement.

Senator MARSHALL—Is that 50 per cent for manufacturing only or does packaging and assembly count? If so, are they weighted differently?

Mr Deady—The rules are complicated, but there has to be a substantive manufacturing operation in Singapore. Simple packaging would not be sufficient. If there is a manufacturing activity in Singapore, then packaging could be considered to be part of that value added process, but there has to be a manufacturing process in itself. Packaging itself would not meet the rules of origin.

Senator MARSHALL—Maybe it is too complicated to go into tonight, but if you were talking about meeting that 50 per cent threshold and it is 40 per cent manufactured can you get there by having some assembly and some packaging? Could you get to the 50 per cent by adding those things?

Mr Deady—It is a value added measure. This is something that Customs and these rules would pick up as part of this verification and other things, but if it was seen to be part of a substantive manufacturing process—the ‘activities of the principal manufacture’ is the way we have defined it—and packaging or testing was part of the ongoing production of the product then it could be included in the value added.

Senator COOK—Is labour, as part of the fabrication of these goods, counted for rules of origin purposes?

Mr Deady—It is a value added concept, so the value of the costs of labour to that manufacturing process in adding the value to the product is all part of it.

Senator COOK—Financial services in Singapore, it was said to me, were a bit opaque. It was put to me that getting true transparency in the Singapore market was very difficult. On the services side of this agreement, have we completely liberalised services—specifically, financial services—trade between Australia and Singapore?

Mr Deady—As I explained, the services chapter identifies a number of specific commitments. They are that both Australia and Singapore will provide national treatment to service suppliers, they will allow unfettered market access in services. There is then capacity

to reserve against those commitments. Where there are restrictions or regulations in place which are in breach of those commitments, they can be reserved either as a binding on a standstill or as a capacity to alter those regulations over time.

We have achieved in the Singapore agreement a substantial improvement in the bindings of Singapore in the financial services sector. Singapore has very few bindings at all in the GATS and the WTO agreements on financial services. There has been over the last several years in Singapore a significant amount of liberalisation in the financial services area. We have managed to lock in that liberalisation that has occurred in that period, certainly since the conclusion of the Uruguay Round, and also bindings that go beyond anything Singapore even had in the round. That is one of the key outcomes of the financial services area. One of the particular areas was in wholesale bank licences, which is again an area where Singapore has had a quantitative restriction—a quota—on the number of those licences. We have negotiated that over a four-year period that quota will be removed on wholesale bank licences with Singapore.

The predictability and certainty of the operation of Australian financial service providers in the Singapore market have been improved through these bindings. They are significant. There are still regulations—prudential and other regulations—as part of the financial services sector. There are other sectors, like retail banking and others, which were of less interest to Australian banks in that market. The nature of commitments in the services area is these bindings of regulations.

Senator COOK—Do any of these commitments in the services sector have staged dates of implementation, where the date of implementation is further down the track rather than immediate?

Mr Deady—In the area of wholesale banks that I mentioned there is a four-year period where they will move to full elimination of the quotas on wholesale bank licences.

Senator COOK—Is that the only area?

Mr Deady—That is the only area where there is staging in the services commitments, yes.

Senator COOK—Has Singapore made a request of us in the Doha Round under GATS?

Mr Deady—It has, yes.

Senator COOK—Have we made a request of it?

Mr Deady—We did make a request, yes.

Senator COOK—From that, am I correct in understanding that there is still scope for continuing services negotiations, but in the round context, with Singapore?

Mr Deady—There is nothing in the bilateral agreement that would preclude Australia from pursuing services requests of Singapore as part of the round. The point is that what we have achieved in the bilateral negotiations has, to a very large extent, achieved the requests that we were putting to Singapore as part of the multilateral negotiations. I should add that obviously it is not a staging as such. There are ongoing review clauses as part of the agreement; there is an expectation that there will be ongoing liberalisation as part of the FTA process.

One of the real advantages of this negative list approach is the much greater transparency it brings into the services area. So there is now a greater ability for Australian service providers to identify the remaining restrictions in Singapore. If they are a problem, then we can deal with them either through the multilateral negotiations—if that is the best way—or through subsequent reviews of the bilateral deal.

Senator COOK—As a consequence of this FTA, is there or is there likely to be any legislation for the parliament?

Mr Deady—I think there will be legislation in relation to the changes to customs and the tariffs. I will have to defer to my Customs colleagues on whether there is anything in the ROOs area that they would also need to change legislation for. I am not sure about that. They are the only areas. There is nothing in the services or investment commitments that requires any legislative changes for Australia.

Senator COOK—Is it intended that the minister, the Prime Minister or whoever it is in government who signs it will, prior to committing Australia to this by signing an agreement, be making a full statement to the parliament disclosing what the terms are?

Mr Deady—Once the agreement has been through the final cabinet processes I have described, it will then move to the normal treaty-making processes of the JSCOT. That is the process after that.

Senator COOK—What I am asking is this: does that mean the minister is going to make a statement to the parliament saying, ‘We’ve now concluded; I’m tabling the draft before it is signed,’ giving the parliament an opportunity to exercise some scrutiny or express a view about it before the executive wing of government—whoever it is; the Prime Minister or the minister—signs it as a binding commitment on this country?

Mr Deady—The normal treaty-making processes will certainly be followed in relation to this agreement. As I understand the treaty-making processes, once there is a final legal text which has been approved by the cabinet for signature, it then goes into the JSCOT treaty processes, leading to final ratification of the agreement.

Senator COOK—Let me be clear on this point: it goes to the Joint Standing Committee on Treaties before the government signs it?

Mr Deady—My understanding is that the agreement is signed before it goes into the JSCOT process.

Senator COOK—That was my understanding too, but I thought you said the other.

Mr Deady—Sorry, if I have—

Senator COOK—You may not have; I may have misheard. So it is actually entered into between the two countries before the relevant parliamentary committee sees it—that is the point.

Mr Deady—It would not have entered into force until some date after the signing, very clearly.

Senator COOK—Sure, but that is because of the date in the agreement, not because of any parliamentary process.

Mr Deady—That is my understanding, yes.

Senator COOK—To come back to my other question: is it intended by the government—or, to put it in parliamentary terms, the executive—to disclose the terms of this agreement to the parliament to enable parliamentary scrutiny before the government signs it?

Mr Deady—The JSCOT processes are very clear. There is the capacity for public hearings, and public submissions to JSCOT as part of that scrutiny, and that does take place before the agreement enters into force. JSCOT can make, as I understand it, recommendations in relation to the treaty.

Senator COOK—That is a very important clarification. I saw Mr Gosper pass you the note. If that is what it says, fine. That clarification does help a lot. But, to be precise and clear, the important point I want to go to here is that the Joint Standing Committee on Treaties can express its views to the executive on behalf of the parliament but that it is for the executive to decide what it does about it. The ultimate decision is with the executive, not with the parliament. That is my understanding of it. Is that right?

Mr Deady—That is certainly my understanding. The normal treaty processes, the normal JSCOT processes, will be fully followed in relation to the Singapore—

Senator COOK—And they will not be deviated from?

Mr Deady—No, they will not be.

Senator COOK—With all of that understood, can I come back to this question again: is it intended that the minister will make a statement to the parliament disclosing the terms of this in any way before Australia signs it?

Mr Deady—Again, I am not aware that there is any expectation that the minister would do that. Once it passes through the cabinet processes it becomes public and then goes into this further process. I do not think I can say more than that.

Senator COOK—So there is nothing planned at this stage; it is an option but it is unlikely. That is my understanding of your answer.

Mr Deady—I have to confess that the normal process would be pursued in this case.

Senator COOK—Chair, I have no further questions on the Australia-Singapore free trade agreement. I would like to now turn to the Doha Round—a subject dear to my heart.

ACTING CHAIR (Senator PAYNE)—That is important for all of us.

Senator COOK—Can I have a quick update on where the round is up to and how things are going? Are we on track or not?

Mr Gosper—There are some worrying signs in the Doha agenda. That is one of the reasons Australia was active in promoting the mini ministerial meeting that was recently held in Sydney. There has been a good deal of progress made this year in establishing negotiating structures and addressing issues such as trade related technical assistance, but there are some worrying signs in respect of the market access agenda and other parts of the agenda. When it comes to market access, we had a very prolonged period of disagreement about particular deadlines that would apply to the development of modalities for industrial negotiations. In agriculture we have seen a very promising start, with negotiating proposals put forward by the Cairns Group, the United States and many developing countries but little response from the European Union, Japan and Korea. Services have been moving relatively well, although with few requests from developing countries themselves. So there is uneven progress across the market access agenda, and that of course will be of some concern come March next year, when some specific deadlines come into play.

On other parts of the negotiating agenda, particularly on some of the issues outside market access, there has been mixed progress. Implementation issues are still proving troublesome. There is a sense of an emerging agreement on some aspects of the special and differential treatment review that could be taken forward over the next few months. Pleasingly, one of the key headline issues for the WTO at the moment—that is, clarifying some remaining ambiguities on trips and access to medicines—is moving forward reasonably well, and the Sydney meeting was able to assist in developing some further convergence on that issue. Then, of course, there are the remaining so-called Singapore issues—competition, investment,

trade facilitation and government procurement—where progress has been minimal and where obviously a lot of work will need to be done next year. So there has been mixed progress across all those issues in the lead-up to the Cancun ministerial in September next year.

Senator COOK—Mexico is the big mover in trade at the moment.

Mr Gosper—Mexico has agreed to host the next ministerial. I think the precedent we have set with this Sydney mini ministerial meeting—of bringing together ministers to try and identify some of the log jams, free them up and move the whole process forward—will no doubt need to be repeated over the period to September next year.

Senator COOK—Did the mini ministerial do that?

Mr Gosper—This was the first meeting held since Doha. It was a good discussion, I think, as Mr Vaile has indicated. It helped to identify some of the key issues on the market access front. It certainly did not resolve any issues. But it did, as I said, assist with some convergence on the trips and the access to medicines issue, which is very important if we are actually to bring some of the key developing countries along with the overall agenda. I think that issue is now well positioned for the membership to address over the next six weeks.

Senator COOK—‘It’ being the Doha Development Round by its long title?

Mr Gosper—That is right.

Senator COOK—According to AAP on 18 November, under the by-line of Shane Wright: The United States would use a proposed free trade agreement (FTA) with Australia to put off major cuts in agricultural protection in world trade talks, analysts have claimed.

US intelligence and analysis group Stratfor said America would use a possible FTA to undermine the efforts of the Cairns group of free-trading agricultural nations—chaired by Australia—to get worldwide cuts in farm protection.

And it goes on to elaborate that theme. I can provide you with this cable, if you wish. At one part, it says:

Also, Washington can systematically undermine cohesion within blocks like the Cairns group by demanding loyalty from its negotiating partners within the WTO in return for a beneficial bilateral deal.

Has Stratfor got it right?

Mr Gosper—It is probably one of the more bizarre press reports I have heard in recent times. It does not sit at all with reality; it does not sit at all with the fact that the US is working with the Cairns Group. Like the Cairns Group, the US has made trade liberalising negotiating proposals as part of the Doha Round. Bob Zoellick and Ann Veneman, the USTR and the United States Secretary of Agriculture, have been to recent Cairns Group ministerials precisely to explore the common agenda between the Cairns Group and the US in achieving agricultural reform. Frankly, I do not understand what the article implies; it just seems rather bizarre to me.

Senator COOK—Agriculture is not adhering to its timetable, though, is it?

Mr Gosper—At this point there is a risk that we might not meet the March deadline, and that risk primarily derives from the fact that the EU, Japan and Korea are not putting forward specific negotiating proposals, unlike the Cairns Group, the US and many developing countries.

Senator COOK—And that is the reason why it is behind?

Mr Gosper—Indeed.

Senator COOK—The magazine *Economist* of 31 October this year devoted its cover story to the headline ‘The Doha round of trade talks is in trouble’. I will not read this whole thing because it is just too long, but just to give you the flavour of what they say let me take the opening paragraph:

Hopes that the Doha round of talks to liberalise trade would mark a great advance, especially for the world’s poorest countries, are fading. Governments continue to pledge their determination to make Doha work—to achieve genuinely multilateral reform of tariffs and trade-distorting rules and subsidies, under the auspices of the World Trade Organisation. Their actions belie this promise.

It goes on to talk about agriculture being snarled and the refocusing of trade negotiating efforts to regional or free trade agreements. Perhaps its concluding paragraph is worth quoting:

... Indeed, Robert Zoellick, the Bush administration’s chief trade negotiator, has embarked on a worldwide quest to sign bilateral free-trade deals wherever he can—in South and Central America (FTAA notwithstanding), maybe with Australia and Morocco, and elsewhere in Asia, Southern Africa and the Middle East.

... Mr Zoellick continues to insist that this strategy is not an obstacle to progress in the Doha round, but rather a complement to it. Assuming he is sincere in this—as he might be, given that the launch of the Doha round owed so much to his efforts—he is nonetheless mistaken. This befuddlingly complex series of overlapping deals, each with its own pattern of preferences, schedules and exclusions, undoubtedly adds to the political and technical difficulties of negotiating a multilateral WTO deal. It makes it that much less likely that governments will even try. And, in the meantime, global trade takes place on a playing-field as level as the Himalayas, with the added spur to trade and investment of not knowing what the contours will be from one month to the next.

It concludes with this line:

The Doha round is not beyond saving, but its prospects look grim. America and Europe need to stop and think.

That is from the *Economist* magazine and that is their feature piece and cover story for the week of 31 October. Have they got it right?

Mr Gosper—I think in part they probably do. But I think, as you would appreciate, there are often gloomy times in multilateral trade negotiations. There are often reverses and setbacks before people come to the table. Certainly there have been questions over the last 12 months about what sort of effort and resources some of the key players will put into these negotiations. But the reality is that, when it comes to trade negotiations on agriculture, the US has made a fairly ambitious specific negotiating proposal for these negotiations. That is not the problem for the agriculture negotiations. The problem is the EU, Japan and Korea are keeping their hand; they are not actually putting anything on the table. As we approach this deadline in March next year, the reality is that it will be very difficult for the process to move forward when only one group of countries is actually saying what it wants.

Senator COOK—You may have read this—in fact, I am sure you have; I know you are extremely well informed and you keep across the public debate—but I do not expect you to be able to recall all the points made in the *Economist* magazine cover story. If I can summarise it, what they are saying is that this obsession—my term—with regional trade or free trade agreements is distracting attention from the round and an aggregation of them is undermining the round. That is a fair point, isn’t it?

Mr Gosper—I am not too sure how much you can really take from that point. The reality is that there is a range of preferential trade arrangements that is being addressed in the trading system, as there have been over the last two or three decades. But the reality is that one of the

key players, the United States, is committed to the Doha Round. Indeed, it was instrumental in Doha in seeing the round launched and since then has put a number of negotiating proposals on the table. We are waiting to see what it puts on the table in some key areas like industrials and rules, which will be real tests for the US; but when it comes to agriculture, which we know is one of the fundamental issues for the success of this round, it is not the US which is holding back.

Senator COOK—I think you would have to say the *Economist* magazine's editorial line on free trade is untainted free trade. That is what they advocate all the time, and they just say that Mr Zoellick has got it wrong. By concentrating on establishing so many FTAs, he is actually diverting attention from the round. That is what I am saying when I say that is a fair point. It does distract attention from the round.

Mr Gosper—FTAs have been a part of US trade policy for a long time now, including during the Uruguay Round. You might recall that they negotiated the NAFTA agreement and an FTA with Israel during the Uruguay Round. The reality is that they have proved in the past these things can be negotiated concurrently. There is no reason to expect that is not true now.

Senator COOK—But, if you like, the motif of the Bush administration, with Mr Zoellick, a person I have considerable respect for I have to say, is to declare—almost thump the table and declare—‘We are now going to aggressively pursue regional or free trade agreements everywhere,’ and he cites in all of his speeches that the EU has done that, America has been left behind and it is about time we caught up, and that is what the United States is doing. You do not concede that that is distracting attention from the round?

Mr Gosper—The way I read USTR Zoellick's statement is to say that the US is going to pursue an aggressive trade policy, multilaterally and bilaterally through FTAs.

Senator COOK—On 18 November, in the *Financial Times* newspaper, which is along with the *Wall Street Journal* one of the two pre-eminent business newspapers—I actually think the *FT* is the best newspaper in the world, but that is my opinion—their trade correspondent, Guy de Jonquières, wrote a long article in which he actually made the same point about regional trade agreements and free trade agreements undermining the round. He quoted Supachai, the WTO director-general, and I will read this quote:

This month Supachai Panitchpakdi, WTO director-general, sounded the alarm. Saying ‘a la carte regionalism’ was becoming a bandwagon, he warned WTO members that ‘by discriminating against third countries and creating a complex network of trade regimes, such agreements posed systemic risk to the global trading system.’

It seems from that quote the Director-General of the WTO shares the editorial view of the *Economist*, and this is reported favourably in the *Financial Times*. The case is beginning to mount that maybe there is something here, is there not, that they do obstruct the round?

Mr Gosper—If the point is that bad FTAs which do not meet the rules of the WTO and which do not address substantially all trade are not a good thing for the trading system then, of course, we would agree.

Senator COOK—They are not a good thing if they do obstruct?

Mr Gosper—If they are inferior FTAs, if they do not address substantially all trade and meet the basic rules of the WTO, as we understand them, then I am sure we would agree that such FTAs are not a welcome development for the trading system.

Senator COOK—The Guy de Jonquières article—I think it is in here, I do not want to misrepresent him—said that many countries are entering into FTAs for defensive reasons. Trading partners with major powers that are in competition with these countries find a need to

do deals to defend, if you like, their share of the major economic market. That is an example of how it does obstruct the round, is it not?

Mr Gosper—I would need to look at the specific examples he is referring to.

Senator COOK—I might say this article echoes a similar view about the attitude of the US and I will just quote this bit from it:

Robert Zoellick, US trade representative, who aims to conclude FTAs with countries in Africa, Asia and the Americas, says they will trigger a beneficial process of ‘competitive liberalisation’ as nations vie to open their markets to each other.

That concept of competitive liberalisation is something that is government policy in Australia too, isn’t it?

Mr Gosper—You will have to clarify your question.

Senator COOK—My question is that we, too, sign onto this approach justifying our free trade initiatives—which is that it works as competitive liberalisation and therefore plays to the greater goals of the round?

Mr Gosper—We do indeed say that FTAs can be complementary to the multilateral system and can help to spur trade liberalisation.

Senator COOK—De Jonquieres goes on to say, ‘Many economists and some policymakers strongly disagree,’ and he goes on to develop that point. The reason I go to those references is that these are respected sources that we look to, to see what is going on. They are making this point fairly consistently, but the official view from the Australian government is that it is not that way and that, while the round has some worrying signs, nonetheless this propensity or fashion—what I would call this obsession—with free trade agreements and regional trade agreements is not a cause for slowing it down.

Mr Gosper—The policy position is, of course, that the multilateral trading system is fundamentally important to our economic interests. It is the best way to secure trade liberalisation globally. For that reason—

Senator COOK—You and I strongly agree on this.

Mr Gosper—For that reason it is our primary trade policy objective. But FTAs which are comprehensive, which meet the rules of the WTO and which provide real market access gains are things that can spur the multilateral system and act in a way that is complementary to our interest. The Singapore FTA is a very good example. You have heard from Mr Deady today that we have been able to negotiate a negative list approach on services. This is something we could never hope to do for decades in the context of a multilateral negotiation.

Senator COOK—Subject to my view when I see the text of the Singapore FTA, I think one of the big arguments in favour of that is the strategic importance of concluding an FTA inside ASEAN. But that is another debate, and we are not debating—we are having estimates. So let me continue.

Senator Hill—We do seem to be discussing these things, all the same.

Senator COOK—But it is not the place, Senator Hill—you will agree with me on that—and I am running out of time; I have got so many other fields I want to cover. Is this a fair snapshot of the round: while agriculture is not moving as speedily as we would like, to put it in what I might regard as understated terms, nonetheless GATS is moving fairly quickly?

Mr Gosper—GATS is moving on schedule—although, as I have said, one of the problems we face is that many fewer developing countries have made requests at this point than have developed countries.

Senator COOK—The big concern, in looking at the round overall, is that we want agriculture and Europe and the United States are very keen on services. Are we likely, when we bring this whole thing together, to be in a situation where they will say to us, ‘You concede services or you will get nothing on agriculture’?

Mr Gosper—I do not think it is true to say that we want agriculture. We have market access interests across all sectors—in industrials and services as well as agriculture. They reflect approximately equal shares of our export profile. We have export interests and market access barriers to address in all of those sectors, and so I would not want anyone to suggest that we are predominantly focusing on agriculture interests. We have broad issues, just as the other developed countries in this round do.

Senator COOK—You are quite right and you are quite right to correct me about that. I guess I should have said that the political focus in Australia and the area of the most protection in any sector, one which works against our national economic interest, is high protection in agriculture; and the breaking-down of agricultural barriers—the reason we formed and chair the Cairns Group—is a pre-eminent concern in Australia. Can you assure me that we are not going to get caught in the sort of wedge where Europe, the United States and other services countries say, ‘You agree on our demands on services, otherwise you will get sweet nothing on agriculture’?

Mr Gosper—But it is not a bilateral bargain. This is a multilateral trade. When we talk about the balance of concessions, they are balances that are derived multilaterally, not bilaterally.

Senator COOK—Yes, that is true; but the major economic powers, when they are all sitting around the table, are all equal. Noumea has the same vote as the rest of us, for example. But there is no doubt that, in the negotiations, the economic superpowers have a particular sway. Where they go and what they do helps to shape the tenor, temper and nature of the negotiations.

Mr Gosper—I think the added reality of this round of negotiations, with 145 members, is that more than 100 have put forward negotiating proposals which identify agriculture as their key objective in this round. When we talk about the elimination of export subsidies or the removal of trade distorting support, or any of those sorts of issues, it is an agenda that is shared by two-thirds of the membership. It is not an Australian agenda; it is a member-driven agenda.

Senator COOK—Yes, but agriculture is slow; we do not have anything like the programmatic speed we want. The others are coming to a conclusion. If agriculture gets frozen out, or if it remains slow, while we settle in these other areas, the leverage that we want agriculture can be used against us, can’t it, in a negotiating context?

Mr Gosper—The way I see it, agriculture cannot be frozen out: there cannot be a round without agriculture, because it is fundamental to the interests of most members.

Senator COOK—Are we prepared to jack up the round, if we do not get agriculture?

Mr Gosper—We will see what comes. We have broad interests—not just on the market access front but on rules issues. It is the majority of the members—us included—who want a fundamental result on agriculture.

Senator COOK—My question was: are we prepared to jack up the round? Your answer was, ‘We will see what comes.’ We are not dismissing the option of jacking up the round, are we?

Mr Gosper—I do not think we are dismissing any options at this point—and there is no need for us to say what our options are at this point, either.

Senator COOK—So jacking up the round remains an option, but we are not going to say so?

Mr Gosper—If you like to put it that way, yes.

Senator COOK—I do—and you confirmed it, I think. Thank you. We have welcomed as a positive initiative the US proposal on agriculture, haven’t we?

Mr Gosper—Indeed.

Senator COOK—What is our considered position about the US proposal on agriculture? How would you describe that?

Mr Gosper—It was welcome in that it was suggesting quite substantial tariff cuts. The weakness we identified was the expansion of tariff quotas. This is fundamentally important. We would like to do away with tariff quotas in this round, but that is perhaps not realistic. The US was proposing to increase tariff quotas by merely 20 per cent of current commitments. The Cairns Group put forward a much more ambitious proposal for the expansion of tariff quotas by 20 per cent of current consumption, which leads to a very much higher number. On the tariff front, it was quite positive and relatively good but, in terms of access and tariff quota expansion, not ambitious enough.

Senator COOK—So, by welcoming it, we haven’t put ourselves in the position of accepting it?

Mr Gosper—No. Indeed, we have put forward our own negotiating proposal.

Senator COOK—Yes; but we see it as a positive sign?

Mr Gosper—We welcomed it as a statement of ambition and engagement by the US.

Senator COOK—What has Europe tabled, as far as agriculture is concerned—anything?

Mr Gosper—No specific proposal looking at modalities for the negotiations and for achieving the Doha ambitions.

Senator COOK—What about our other agricultural bete noire, Japan? Have they tabled anything on agriculture?

Mr Gosper—Nothing.

Senator COOK—How have they responded to the US position?

Mr Gosper—They have suggested that it is not consistent with the US Farm Bill and the very high level of support provided under the Farm Bill. They see that as heading in the other direction.

Senator COOK—That is an obvious point.

Mr Gosper—Of course it is an obvious point. They see that as heading in the other direction. Nevertheless, they themselves have not made proposals on how to meet the Doha objectives.

Senator COOK—I suppose they have omitted to mention in passing that, although we regard the US Farm Bill’s levels of subsidy as obscene, their protection levels are even higher.

Mr Gosper—Indeed.

Senator COOK—Can you reassure me—and this is probably stepping back to where we were on services for a minute—that Australia is not going to be put in a position where, to achieve our agricultural objectives, we have to make concessions we do not want to make on services?

Mr Gosper—Just to clarify something before I answer, Senator, I have just been told that this week Japan is tabling three proposals for the special session. I have not yet seen those proposals and so I will not comment any further on them.

Senator COOK—Since you have done that, let me say that in the de Jonquieres article there is a very interesting quote about Japan:

Few people, even in Japan, believe it. ‘Whatever Japanese governments say about agriculture can basically be treated as an unintended joke,’ says Noriko Hama of Doshisha University business school in Kyoto.

I will look forward to seeing what Japan has tabled in agriculture.

Mr Gosper—Senator, can I ask you to repeat your question?

Senator COOK—Yes. The extra information on Japan is appreciated. The question that I was asking before that information came to hand was this: can you assure us that Australia will not be put in a position of making concessions in the services sector that it does not want to make, in order to get an agreement in agriculture?

Mr Gosper—I can assure you that we have every capacity and intention to limit our offers to meet our overall policy interests and objectives, and we have both the right and the intention to reserve our ability to not make commitments or to limit commitments in all areas of the GATS negotiations.

Senator COOK—Assuming we get to a final settlement—which at this stage is an assumption that might be regarded as brave—we are not going to be faced with this sort of argument, are we? ‘This is a package deal, folks; there is good and bad in it. In order to get agriculture, we have to make all these concessions on services but, on balance, we think it is a good, positive outcome and so you have got to wear it.’

Mr Gosper—No. As I said, the concessions are derived multilaterally. It is hard to think that the EU is going to credibly say that its commitments to reform agriculture are going to be held up by what commitments we make, as a market of 20 million people, to provide access to European services industries. It just does not stack up.

Senator COOK—Coming back to the tabled US agricultural proposal, you said earlier that Anne Venemen, the US Agricultural Secretary—and you may have also said Bob Zoellick, the USTR—had attended Cairns Group meetings.

Mr Gosper—They have.

Senator COOK—We are not talking about a united front between the Cairns Group and the US around their proposal, are we?

Mr Gosper—No; we are talking about common interests in achieving agricultural reform.

Senator COOK—And we are not foreshadowing that, while we have got an ambit position and the Europeans have an ambit position, America has put the inspired compromise down and that is where we will go?

Mr Gosper—No, we are not.

Senator COOK—We are not? What are we saying?

Mr Gosper—We are saying that both the US and the Cairns Group have trade liberalisation and reform objectives as part of these agricultural negotiations. There is scope for us to work together, but ultimately we have different areas of emphasis and different levels of ambition, in all likelihood.

Senator COOK—I want to talk to you later—if we get to it tonight, and I hope we do—about the Australia-US Free Trade Agreement. It may not be a question for you, Mr Gosper. Is it one for you, Mr Deady?

Mr Deady—Yes.

Senator COOK—Well, I will welcome you back to the table, if we get to that point. But such a bilateral trade agreement—assuming we achieve one; talks have been announced—with the United States cannot address the issues of agricultural subsidies as set out in the US Farm Bill. I think we agreed on all that last time. The only place we can address what I would call the obscene subsidies in the US Farm Bill is in the round.

Mr Gosper—Yes.

Senator COOK—We agree on that. What is the US proposing in the round about those subsidies? It is, in the first case, proposing not to do anything about changing them until the 10 years of those subsidies expires, and then it is proposing to do something about them then, isn't it?

Mr Gosper—The US proposal on domestic support would essentially involve a halving of levels of support. For instance, current levels of amber box support for the US, some \$19 billion, would be halved to around about \$10 billion—which is substantially less, of course, than the Cairns Group proposal which would see the elimination of trade-distorting domestic support.

Senator COOK—When the Cairns Group had Anne Veneman, the Secretary for Agriculture, and Mr Bob Zoellick, the US trade representative, with them, did they make that point strongly?

Mr Gosper—Secretary Veneman was not at the most recent ministerial meeting of the Cairns Group but USTR Zoellick was. At that time, the Cairns Group proposals had been made and they were briefed on the outcome of those negotiating proposals.

Senator COOK—But the Cairns Group has left the Americans in no doubt that they have to do better than their offer on subsidies?

Mr Gosper—These are public documents; they are available to all members, and they have been the subject of discussion amongst members.

Senator COOK—I know that. But we were eyeballing them across a table, or over a martini or whatever it was, after the formal discussions. Did we make the point to them in person that, while that is our table document, we really regard this as a priority?

Mr Gosper—This is our negotiating proposal, and the countries we want to reform are the big subsidisers: the EU, Japan and the United States. Yes, that is clear.

Senator COOK—So we made it?

Mr Gosper—Absolutely.

Senator COOK—Good. I have an idea there is another question I had on the round; I just hope it comes to me.

Senator Hill—There are plenty of others.

Senator COOK—There are plenty of other questions—

Senator Hill—So we might as well move on.

Senator COOK—I had just turned the page. If that question comes to mind, I will go back to it. I am moving on to the general agreement on trade and services, the GATS. I do not know how the department assesses this, but many parliamentarians in this building are receiving a consistent mail-in campaign about the GATS. That campaign argues a whole series of negative propositions about the GATS. I mention that as a prelude to some questions on it. I think these are the right statistics but, if I am wrong, I am sure you will correct me. About 81 per cent of jobs in Australia are in the services sector. About 76 per cent of GDP is in the services sector. Our export in services is usually around balance, or a bit in surplus or a bit in deficit, and so it is an area in which we compete fairly strongly. We are a services economy as such, and so what happens in the services sector is quite important for a lot of jobs. Yet services, in popular debate, until just recently has not received a great deal of attention—I think that is fair to say. You are aware of the growing agitation about the GATS agreement?

Mr Gosper—I am aware of some public comment about aspects of it, yes—mostly misinformed.

Senator COOK—Mostly misinformed? I would agree with that: some of the comment I have seen is misinformed. What can you tell us about the state of play in the GATS negotiations at the moment?

Mr Gosper—Most developed country members have put forward requests; they did so on schedule. A small number of developing countries have also put forward requests. There is now in Geneva a process of bilateral discussions—that is, having made our requests by the nominated date, countries now meet bilaterally to clarify the specific nature of the requests that have been made and, where necessary, to clarify what those requests exactly are. The next stage, of course, is that by 31 March next year countries will make offers in response to those requests.

Senator COOK—We made requests of countries by the due date, 30 June 2002?

Mr Gosper—We did.

Senator COOK—We lodged all of ours on time?

Mr Gosper—Yes.

Senator COOK—We are due to respond to the requests lodged on us, and receive responses from countries we have made requests to, by 31 March next year. They are the key dates, aren't they?

Mr Gosper—Indeed; that is right.

Senator COOK—The sort of claim that is made is that there is concern within parts of the community that GATS will require Australia to open its markets and undermine its national sovereignty. There is also concern over the lack of public consultation on specific requests being made of Australia by other countries and on Australia's requests to those other countries. Do you have any comment on those two assertions? They are two separate ones, I have to admit.

Mr Gosper—On the second question first: Mr Vaile has made a release setting out some broad parameters of the requests we have made of others, including the sectors that are covered, the range of countries of whom requests have been made and the nature of the

requests that have been made. There have been two such announcements—one dealing with some further requests that were made more recently. I should clarify that members may make requests at any time. This is a process that is not entirely bound by any particular deadline.

Senator COOK—I want to be clear on that point. My understanding was that we had to lodge our requests by 30 June this year.

Mr Gosper—Our initial requests.

Senator COOK—That is our initial request.

Mr Gosper—That is right.

Senator COOK—Am I clear about this? At any time after that date, having lodged an initial request, we can modify it?

Mr Gosper—At any time, we can modify it or supplement it.

Senator COOK—That might come out of discussions we would have on clarification issues in Geneva, for example?

Mr Gosper—Indeed. We might meet with a particular trading partner and they might tell us, for instance, that our request is not necessary, that it has been addressed through different means, and that there is no market access barrier; and so we might decide to pull back. Alternatively, new market access barriers or commercial interests might come to light.

Senator COOK—Would I be right in assuming that the initial request we lodge and the initial requests lodged on us are more after the nature of an ambit request, rather than the real one?

Mr Gosper—They are initial requests. This means that they represent the state of knowledge at the time, which can be supplemented as further negotiations proceed. They are not ambit, no.

Senator COOK—They are definitely not ambit? They are what we think is—

Mr Gosper—It is a negotiating request; it is a negotiating position that might be fully met or not met at all.

Senator COOK—It might be fully met or not met at all?

Mr Gosper—Well, it is a negotiation, Senator.

Senator COOK—It is a negotiation. Do we know which ones are not fully met?

Mr Gosper—We will have to wait and see.

Senator COOK—Have any of the countries that have lodged requests with us modified them since they lodged them?

Mr Gosper—I would have to seek some further advice on that. We have had some supplemental requests, but I am not aware that any particular requests have been modified.

Senator COOK—We have had negotiations in Geneva on clarifying these requests?

Mr Gosper—They have been more the nature of discussions to actually clarify requests. Of course, our requests are written in the GATT language, which you will be aware is very technical and opaque. These discussions allow us to clarify the commercial interest that underlies the particular request.

Senator COOK—How many meetings in Geneva have we had?

Mr Gosper—I would have to seek specific advice, but I would say at least 20.

Senator COOK—At least 20?

Mr Gosper—Yes.

Senator COOK—How many countries have lodged requests on us?

Mr Gosper—I do not have those numbers here but I will get them for you.

Senator COOK—Can you get them for me?

Mr Gosper—Sure.

Senator COOK—On how many countries have we lodged requests?

Mr Gosper—Approximately 33 in our initial requests, across 17 service sectors.

Senator COOK—Have they gone to developed as well as developing countries?

Mr Gosper—Mostly to developed countries, but to some developing countries as well. Usually there are a small number of requests of developing countries, but in particular sectors, such as mining services.

Senator COOK—You said earlier that Mr Vaile has made two statements about the broad nature of what we have proposed.

Mr Gosper—That is right.

Senator COOK—I have not seen those. Could you make those available to us?

Mr Gosper—Mr Vaile issued press releases on 1 July and 29 October.

Senator COOK—Thank you. We can check those. Did he tell us which countries have lodged requests on us?

Mr Gosper—No, not in those.

Senator COOK—He did not name them?

Mr Gosper—No.

Senator COOK—Did he name the countries on which we have lodged requests?

Mr Gosper—No, not specifically. We did not link particular sectors and requests to particular countries but we indicated the range of countries on which we had made requests.

Senator COOK—Did he outline the nature of the requests that we have received?

Mr Gosper—No, not at this point.

Senator COOK—One of the points that some people argue is that GATS will require Australia to open its markets and undermine its national sovereignty. One of the other points that they make is that these negotiations are being conducted in secret. It may be that these are confidential negotiations at this stage. How do you characterise the nature of these negotiations?

Mr Gosper—Firstly, they are negotiations between governments; and all governments are taking the same approach to divulging information in relation to these negotiations. Mr Vaile has made it clear that we will provide as much information as is practical and consistent with our negotiating interests and with questions of commercial confidentiality. We have made two initial releases on our requests, and others will be made in relation to any subsequent request. With respect to the offer process, now that we have had a round of discussions with parties that have made requests of us and have clarified the nature of their requests, we are in a position to consider the specific nature of the public consultation process that we may have with respect to Australia's offer and we will be taking that forward shortly.

Senator COOK—The negotiations that are being conducted—these are my words; I am going to try to choose them carefully but, if I have got it wrong, I would like you to correct me—between the negotiating partners, bilaterally and as a group, are confidential between those partners, with individual governments reserving the right to broadly explain the nature of them. Is that a fair summary?

Mr Gosper—I think that is a fair summary, Senator. Some have divulged a particular level of information. I am not aware of many countries that would have divulged more information about requests than we have. With respect to offers, it remains to be seen what level of information will be provided.

Senator COOK—Why are we signed up to conducting negotiations on services in that confidential format when, for example, the negotiations on agriculture are open and there is no confidentiality about them?

Mr Gosper—The negotiations on agriculture, of course, reflect basically rules, modalities for achieving particular cuts in government subsidies, rather than particular commercial events or negotiations on particular factors that affect commercial interests. So they are rather different, at least at this point of the negotiations, from what we are contemplating in the GATS context.

Senator COOK—At least at this point, this is unlike other WTO negotiations on agriculture. We know what everyone is saying to each other. But on GATS, governments between themselves are keeping a degree of confidentiality about those negotiations—for the reasons you gave, I assume.

Mr Gosper—Yes.

Senator COOK—But why can't people see the nature of the requests made of us—the actual terms—and the requests we make of other countries?

Mr Gosper—They are requests that others are making of us; it is our response. So the same sorts of considerations are involved. But as I said, now that we have had our initial discussions to clarify the nature of requests made of us, we are in a position to consider what level of offer Australia may make in any particular area and we will make available as much information as we can in that process. That is the intention of the government, and now we are in a position to look at that.

Senator COOK—There are several points in that answer. The first point is this: do we take the view that requests made of us by others are 'copyrighted' to the requesting nation and that therefore we are not at liberty to disclose to our community what other countries are asking of us?

Mr Gosper—In some cases, other governments have asked us to take that approach. These are confidential requests; they are government to government communications.

Senator COOK—And we have agreed with them when they have, have we?

Mr Gosper—Indeed.

Senator COOK—Why?

Mr Gosper—It is because that is the way the negotiations are conducted. It meets the basic interests that I set out beforehand, including observing that this is a negotiating process and ensuring that any commercial confidentiality that is reflected in requests is protected.

Senator COOK—The issue of commercial confidentiality is one that we probably will need to talk about at some time during any consideration of GATS but, as a general rule,

commercial confidentiality is pretty much in the eye of the beholder. How do we define what is commercial-in-confidence and what is not?

Mr Gosper—Let us say that one Australian bank had a specific market access interest in a foreign market and did not want that disclosed to other Australian banks.

Senator COOK—In that case, it would be two Australian banks—because the one bank that you did not mention would know what the other bank that you did mention wanted, wouldn't it?

Mr Gosper—I do not quite follow that.

Senator COOK—If one Australian bank has something that is in its own interests, we cannot mention that the banking industry has this view, because three of the other banks will know, if they talk to each other, that it is not them.

Mr Gosper—That is right.

Senator COOK—By a process of elimination, if one is mentioned, then the other actors in the industry can probably work out who that is.

Mr Gosper—That is just one example.

Senator COOK—Yes. But there would not be much secrecy about it: banks disclose development and growth strategies to their shareholders at shareholders meetings, to lift their share value and to improve confidence. They are quite forward in saying which markets they are interested in. Maybe that is the wrong example, but there is nothing much commercial-in-confidence between the banks and their shareholders either, is there?

Mr Gosper—It is just an example, Senator.

Senator COOK—Do we have a definition of what we regard as commercial-in-confidence, such that those of us who are curious about these things can say, 'That one was commercial-in-confidence, but we're a bit suspicious that this one wasn't'? The purpose of these questions, Mr Gosper, is that an argument is being mounted to members of parliament that these things are being done with secrecy. If we reply to that argument with, 'But these are commercial-in-confidence,' people will say to us, 'That's an elastic thing; governments will say anything is commercial-in-confidence if they want to maintain the secrecy.' How do we make an assessment of what is or is not commercial-in-confidence?

Mr Gosper—Let me make the point that there are some caveats on what information the government is willing to make available, and the same is true of other participating governments in these negotiations. The point I want to make in response to your question is that the government has provided information, and is committed to providing further information, both on our requests and on our offer. Some of the principles that will guide its approach to these negotiations have also been made clear, including the government's intention to retain the right to regulate and to ensure that Australia's cultural objectives are reflected in these negotiations. In areas where public services are provided, the government has no intention of weakening the capacity to provide funding. It has provided all those assurances on many occasions. Some do not accept those assurances—and, frankly, it is very difficult to see what level of exposition or argument will convince them.

Proceedings suspended from 9.04 p.m. to 9.17 p.m.

Senator COOK—Is there a definition of commercial-in-confidence that acts as a filter for the department to decide what is commercial-in-confidence and what is not?

Mr Gosper—I do not think there is a definition. It simply reflects the sensitivity of the particular firm or industry sector that we are dealing with in respect of the particular request.

Senator COOK—Does the department always agree or does it make a subjective judgment?

Mr Gosper—Generally we would agree.

Senator COOK—Which means you do not always, so you are making a subjective judgment in some cases?

Mr Gosper—I am not aware of any instances where we have not agreed. As you know, we have not released any specific detail.

Senator COOK—But do you reserve the right? If someone says to you it is commercial-in-confidence, do you think it is a bit of a try-on? You would say no, wouldn't you?

Mr Gosper—Sure.

Senator COOK—So you do reserve the right?

Mr Gosper—Indeed.

Senator COOK—I have in front of me the minister's most recent briefing about GATS. It is really in the form of seven statements such as 'GATS requires all domestic regulation to be least trade restrictive' and 'Negotiations are conducted in secret' and 'The government is failing to keep the Australian public informed.' Then it has got 'Response ...'. This is a media briefing.

Mr Gosper—I do not think that is information that relates to specific requests but some publication that the department has put out on the GATS overall.

Senator COOK—I am sorry; I am waving it around. It is in documentary form. I can have an attendant pass it to you to have a look at. The only point I was going to make about it is: if this is the document you are referring to, then it is about how the process works rather than what we are doing within the process. I thought you were saying that the minister has disclosed what we are doing in the process as well.

Mr Gosper—In the release I was referring to the minister set out the specific sectors that are the subject of requests, the sorts of issues that we are addressing in those requests—for instance, lack of transparency in domestic regulation—and, without naming specific countries, the broad range of countries with whom we have made requests. It also referred to some specific examples of negotiating objectives in areas like legal services, environmental services and so forth and gave some particular examples of the sorts of issues we are addressing in our requests. The document that you were holding up is not the document I was referring to. This is simply a discussion of some of the arguments that are often made about GATS.

Senator COOK—Yes, it is like the top six questions asked about GATS.

Mr Gosper—Indeed.

Senator COOK—I will go back to the other document that you have pointed me toward. Perhaps the three areas that the public write-in campaign registers as concerns are education, health and water services. Can the government just say this: 'We will not enter into any agreement in the GATS that affects the supply of public education, public health and the control and operation of public water supply'? They were the three areas that were mentioned.

Mr Gosper—In respect of all those areas, the GATS has all the requisite flexibility to ensure that we can discriminate between private and public funding. To my knowledge, the government has made no specific commitments in respect of water. That is an area that is largely at the behest of states in Australia. As part of the previous round, the government made only very limited commitments in respect of health—chiropractic and podiatry—and our education commitments relate only to private secondary and tertiary education. So we have very limited commitments in those areas. We have the ability to discriminate between private and public funding and the government, I think, has made it very clear that it will retain the right to regulate in such areas.

Senator COOK—I understand that answer, but I will put my question again with a slight difference. The write-in campaign identifies that ‘in secret’, and often, it says, behind closed doors—like the multilateral agreement on investment was conducted—the provision of public education, the provision of public health, the undermining of public distribution and control of water supply is being sold out. You have conceded that negotiations are confidential. I would use an eight-letter word starting with ‘b’ and ending with ‘t’—it starts with ‘b-u-l’—but I do not want to get into any travesty of standing orders. Why can’t the government just say to all those people asserting those things, ‘Wrong. We will not do anything that undermines public education services, public health services and the distribution and control of public water supply’? Why can’t you do that?

Mr Gosper—As I said, I think the government has already said that it will ensure that it retains the right to regulate and it has adequate capacity to discriminate between private and public funding in these areas. We do not know yet the full range of requests that will be made of us. I think information to date suggests there would be very limited requests made of us in these areas. It would be a very poor negotiating tactic to start ruling areas out of the negotiations at this point. The government has made the principles that will guide its approach very clear. It will make it clear that it retains the right to regulate in these areas that are sensitive to the public and that will be the basis on which its position is guided.

Senator COOK—I understand that answer, but it does not answer the question. Saying that you will retain the right to regulate does not mean that you will not do something in those areas, which undermines the public ownership and supply of health, education and water; it just means that you will retain the right to make up your own mind about what you do on those things as you choose. I am looking for a clear answer. A nuanced answer evokes the query: why are these people being careful about this answer when, if they did not have an ulterior motive, it would be straightforward?

Mr Gosper—I cannot really take my answer much further, other than to say that the government has made very clear that it acknowledges the sensitivities in this area and that it is confident it will retain the right to regulate in these areas.

Senator COOK—Can you describe the process of how the GATS negotiations will be brought to a conclusion from a government side? That is to say, assuming we reach an agreement, what are the steps? If we do reach an agreement, will there be open disclosure about the terms of that agreement before we sign off on it, or will the government, as in the Singapore example, sign off on it? Will it send it off to the treaties committee and let it have a look at it and reserve the right to then proclaim it? What procedure are we going to adopt?

Mr Gosper—If any commitments were made in an area that required amendment to legislation, the normal parliamentary processes would of course apply.

Senator COOK—So that is the procedure, as I have described—that we went through earlier and do not need to repeat now—that the Singapore thing is following.

Mrs GALLUS—Indeed, if any changes are made to Australia's existing GATS commitments—to amend or supplement them—they ought to be subject to the normal treaty making process, including referral to parliament through JSCOT at the appropriate point.

Senator COOK—That treaty process is criticised on the basis that, while it provides for the parliament to know—it is consulted, so it knows—the parliament cannot decide; that is the privilege of the executive.

Mr Gosper—JSCOT, as I understand it, can table a report to parliament which addresses multilateral—

Senator COOK—Sure, and the government may choose to respond however it wants.

Mr Gosper—Indeed, that is the normal process.

Senator COOK—We had this discussion earlier today when we talked about the treaties report on the WTO and the government response to it. Under the constitution it is quite clear that the executive can make the treaty and then advise the parliament. I am asking what parliamentary scrutiny there will be before we sign off on the GATS agreement.

Mr Gosper—I cannot answer that question. I have said that there will be a process to make some public information available as part of our offer process, which comes in on 31 March next year. But of course the conclusion of those negotiations will coincide with the conclusion of the overall negotiations, as we all know, which will be in January 2005 on the current schedule. How this issue will be dealt with at that time is not something that we have thought forward to at this point.

Senator COOK—Just as an aside, the optimists say that it is 31 December 2004 and the pessimists say that it is 1 January 2005. There is not a year's difference; there is only a day's difference. That is the deadline. So, to end that aside and go back to the GATS, you are saying to us that it will be the normal process, and there is nothing else you can say to us. Will the state governments be consulted over state government provided services that are subject to GATS negotiations at the beginning and the end of those negotiations?

Mr Gosper—They will be negotiated throughout the process. We have already commenced discussion with them about that process.

Senator COOK—Have they been fully briefed as to the detail of the requests made of us?

Mr Gosper—No, but we will be briefing them. We have kept them informed of the process involved in the GATS negotiations. We have made contact with them to identify specific areas of each state, which will be key contact points during the GATS negotiations, and we will be sitting down with them to talk about not just requests but how we respond to those requests.

Senator COOK—I will put my question in a slightly harder form: will the states be able to veto the Commonwealth if any of the state provided services are subject to GATS negotiations and the Commonwealth has one view and the states have another?

Mr Gosper—I am not sure that 'veto' is the right word. We have found, through previous negotiations, that there are some areas where it is very difficult for states to move—where they primarily regulate—and we will have to take that into account.

Senator COOK—But if they say no and you say, 'But we want to,' will you respect their right to say no?

Mr Gosper—We want to take the states along with us, yes.

Senator COOK—But you will reserve the right at the end of the day to make the decisions from a national point of view?

Mr Gosper—As any Commonwealth government would.

Senator COOK—So the answer is that, yes, you will reserve the right?

Mr Gosper—Indeed.

Senator COOK—If I asked you what specific requests the major service provider, the United States, has made of Australia under GATS, would you tell me?

Mr Gosper—Not at this point, no.

Senator COOK—If I asked you what specific requests the EU had made of Australia and other major services providers, would you tell me?

Mr Gosper—Not at this point, no.

Senator COOK—At what point will you tell me?

Mr Gosper—It would be after further consideration of all requests made of Australia and consultation with the minister about how exactly we will handle disclosure of information.

Senator COOK—So the minister will decide how you tell me—if you tell me?

Mr Gosper—Of course.

Senator COOK—It is a government decision. What arrangements, if any, has the department made to model the impact of the GATS requests? Are you engaging, say, the Centre for International Economics to do a econometric run on the impact or ACIL to do some sort of study? Are there any outside consultants that you will be calling in, when you have got all of these requests in front of you, to work out what their economic impact is?

Mr Gosper—Not at this point. You might recall that a year or two ago we did some general modelling about the effects of services trade liberalisation on the Australian economy which came up with some quite large numbers. Of course, any consideration about the economic impact will depend, firstly, on the requests and the offers we can make. As a general comment, what we tend to find in the GATS area is that commitments are requested of us in many areas where policy adjustments have already been made and we can meet the requests that are made of us simply by binding the level of liberalisation or reform that we have already unilaterally decided to undertake. That makes it very difficult and in some ways superfluous to model the impact of the GATS negotiations.

Senator COOK—From that answer, do I assume that no modelling is occurring?

Mr Gosper—Not at this point, no.

Senator COOK—And it is not likely to?

Mr Gosper—No, I would not discount the possibility of some economic impact assessment.

Senator COOK—If modelling does occur, will you release it publicly?

Mr Gosper—That question is very hypothetical, given that we have not decided on any such research—how it would be undertaken and what specific issues would be modelled or analysed.

Senator COOK—It is a hypothetical question—I agree with you on that—but I think you said earlier that some modelling may occur. You are not ruling out that prospect. Under the heading of transparency, I am asking whether, if that occurs, as a matter of course you will release it.

Mr Gosper—As a general principal, I think we would hope to be able to release such information. I should also note of course that the Productivity Commission is already doing much work in the services area, including through publicly released reports.

Senator COOK—Yes, they are—I am aware of that. They have given evidence to the Trade Subcommittee of the parliamentary joint standing committee to some extent. It does not go very far, but they have told us what they are doing. So you would hope to be able to release such information, which is not an answer that says you will—rather, you will still reserve the right to consider whether you will.

Mr Gosper—Yes.

Senator COOK—Some of the modelling that the department does just looks at the macro parameters. Would you look at areas such as job impacts and regional impacts or do you just stick with what the department usually does—that is, the macro-economic parameters, such as the effect on GDP and so on?

Mr Gosper—Frankly, I would have to talk to the people undertaking the assessments in those sorts of areas. It is usually quite difficult to do this sort of impact assessment and modelling work in the services sector.

Senator COOK—In consulting with industry sector groups here—for example, legal services, accounting services and engineering, construction and design services—as there are a whole range of people in the legal profession, would you talk to the peak body?

Mr Gosper—Generally we talk to peak bodies. In areas like legal services we try and talk to the major firms with export interests. We use, for instance, ILSAC—the International Legal Services Advisory Council—which is set up under the Attorney-General's Department. Generally we rely to a large extent on the industry associations in the services area—for areas like accountancy, engineering and so forth.

Senator COOK—Will you, when you are talking to state governments about the services that they provide in certain sectors, talk to public sector unions from those sectors as well?

Mr Gosper—Yes, including of course through our normal consultative mechanisms—the advisory groups that report to Mr Vaile, and other such mechanisms. We will talk to the ACTU and other union groups.

Senator COOK—You will?

Mr Gosper—We are quite open to doing that.

Senator COOK—For example, electricity is usually delivered by a commercial entity or a commercial business enterprise of a state government, and they may have different structures. Would you talk to the entity as well as to the government? It is government policy that to some extent directs—

Mr Gosper—We would probably have to talk to a variety of people in those sorts of areas.

Senator COOK—Earlier I asked you what your response would be if I asked you what requests, for example, the United States or Europe had made. I think the answer was that you would not tell me. I have here a document—and perhaps I had better introduce it properly—the source of which is the European Commission. It is dated 6 March this year, it is a document for discussion and its heading is 'GATS 2000: request from the EC and its member states (hereinafter the EC) to Australia'. I understand this document to be the draft document circulating in the European Commission on what the European Union's formal requests to Australia would be on services. This has been up on a web page, and I am sure you know about it. Do you know about it?

Mr Gosper—I do know that such a draft document was leaked, apparently by one member state. I have not looked at the document myself or compared it with the EU's formal request of us.

Senator COOK—Would you like a copy of the document, because I have a spare one and I could have it passed over to you?

Mr Gosper—I think I can find it, thanks.

Senator COOK—I can give it to you, just so that your records are complete, because I am going to ask you a few questions about it. You might want to have it in front of you as I do so.

Senator Hill—You cannot ask him about a document he has not read. Furthermore, if it is a leaked draft document, or an alleged draft document, it strikes me that it is a bit unhealthy to be responding, in any event. Who has a vested interest in leaking these things?

Senator COOK—Obviously someone in the EU, but I do not know who they are. It has been posted on a web page and I have access to it. I think the EU have said that it is not their formal request to Australia, but it is acknowledged to be the document that circulated in the commission for discussion in forming their formal request.

Senator Hill—If it is not their formal request to Australia, I think that just reinforces my doubts on the matter. I do not think it is appropriate that the officer respond to an alleged draft leaked document that has been disowned by the EU.

Senator COOK—It is not disowned; it is acknowledged as a real document.

Senator Hill—They said that it is not their formal document.

Senator COOK—It is a formal document in the sense that it was a document circulated within the European Commission as the draft for Australia's requests. It is not the document that they lodged with Australia as the official request; that is all.

Senator Hill—But all you could do would be to ask a series of hypothetical questions, and I do not think that gets us far, either.

Senator COOK—They are not hypothetical questions. Sometimes you are able to see into my mind in a quite penetrating way, Senator Hill, but this time ain't one of them.

Senator PAYNE—That is a scary thought.

Senator COOK—It is when I am going to do something very obvious. I am a very open person; everyone can read my mind.

Senator Hill—You are fairly predictable.

Senator COOK—That is right, and I like to be that way so that everyone can work out where I am coming from and what I am doing and there is no hidden agenda. I do want to ask a couple of questions based on what is said in this document. For example, it says 'postal and courier services', and they set out a request from Australia. Is the draft request that appears here the request they have made of Australia?

Mr Gosper—I am not in a position to say.

Senator COOK—Yesterday at the estimates committee hearings in which the department of communications appears, and where Senator Alston was at the table, I am advised that Senator Alston refused to rule out foreign competition for Australia Post's monopoly over the delivery of standard letters and indicated that those questions should be asked here. That seems a bit odd to me, because he is the Minister for Communications, Information Technology and the Arts and I think I know how the trade portfolio works. I do not think that

you tell him how he should run his portfolio sector but, since he did indicate that it should be asked here, is the request set down here on postal and communication services the request that the department has received?

Mr Gosper—I do not think I can comment on that.

Senator COOK—Can you comment on whether Minister Alston is right that Minister Vaile will make this decision?

Mr Gosper—Senator Alston is right in respect of the fact that this is a trade negotiation. But of course any decision on any part of Australia's regulatory framework would require full consultation with the relevant jurisdiction, be it the state or any other area of the Commonwealth.

Senator COOK—In the telecommunications services area, this request says:

Foreign equity in Telstra has been limited to 35% of the first third of company stock offered to the public (about 11.7% of total equity) with a limit of 5% of the one third (about 1.7% of total equity) available to individual or associated group foreign investors.

EC Request: Remove this limit.

Can we categorically rule out that the Australian government will agree to remove this limit on foreign ownership of Telstra?

Mr Gosper—I will have to take that on notice. I have not examined the particular policy framework in this area nor have I discussed with anyone how we might respond in that area, and so I will take that one on notice.

Senator COOK—It also says here:

The Chairman and directors of Optus must be Australian citizens, other than those directors (who must comprise the minority) appointed by the two current major foreign investors.

EC Request: Remove these restrictions.

Can you rule out that you will remove the restrictions on the directors of Optus having to be Australian citizens?

Mr Gosper—Without commenting on the specific reference you have made, I would just say that it is very common in any commitments we make in the GATS context to reserve the right to include Australia-resident directors. It is an important accountability requirement for Australian corporations.

Senator COOK—We commonly reserve the right, but you cannot rule out whether we will concede it in the case of Optus?

Mr Gosper—Indeed.

Senator COOK—There is a lot here and I can keep going all night on it, but perhaps I should refer to a couple of items. There is a section on water for human use and waste water management. This goes to one of the issues that we get written to about, regarding the GATS impact on water distribution. On page 8 of this document the heading is, 'A: water for human use and waste water management', and it says:

Water collection, purification and distribution services through mains, except steam and hot water.

EC Request: Extend sectoral coverage to include the above services, and take full commitments in that sub-sector for mode 2 and 3.

Can we rule out that we are going to agree to those requests from the EU on water?

Mr Gosper—These areas are usually the province of state governments.

Senator COOK—Indeed.

Mr Gosper—We have not discussed those specifically with the state governments, and so we cannot respond on how they might view any hypothetical requests.

Senator COOK—Right; but we established earlier that, if a state government disagrees with the Commonwealth, you still reserve the right to override them. The state government's view will not be final.

Mr Gosper—I am not sure that 'override' was the particular word I was responding to.

Senator COOK—No, I think you used a far more sensitive word. But you still reserve the right to make the decision that the state had no veto over the decision?. You are nodding. Is that in the affirmative?

Mr Gosper—States have the competence in these areas but, in any area where we are talking about national interest, there may be occasions where the Commonwealth seeks to ensure that the national interest is reflected appropriately in the outcome.

Senator COOK—I am not trying to fox here at all, Mr Gosper. I am just wanting to make it clear that, while of course you will refer to the states and the states will be consulted, at the end of the day it is not necessarily the case that you will do what the states say. You have a reservation.

Mr Gosper—As a general statement, that might be right.

Senator COOK—On financial services, there are quite a few things here. Under the heading 'Banking and other financial services', Mode 3: MA, it says:

Licensing of foreign banks subject to the demonstration of their potential contribution to competition in Australia.

EC Request: Remove this economic needs test.

- Mode 3 MA: - Foreign Banks' branches are not allowed to collect retail deposits. EC Request: Remove this restriction.

- Mode 3: MA - Existence of discriminations regarding taxation of foreign bank branches, in particular the interest Withholding Tax (10%) imposed on half of the interest on an intra-bank borrowing by foreign bank branches, which is not applied to banks incorporated in Australia.

EC Request: Clarify that that commitment on direct branching does not allow such discrimination.

Under Mode 3: MA, it says:

Licensing of foreign banks subject to the demonstration of their potential contribution to competition in Australia.

EC Request: Remove this economic needs test.

They are the requests in this draft. Is that what they asked us to do?

Mr Gosper—I do not have the document here with me, so I cannot comment.

Senator COOK—If you did have the formal document in front of you, Mr Gosper, would you tell me?

Mr Gosper—No, Senator.

Senator COOK—No, you would not; thank you. Under the heading of 'Tourism and related services' it says:

EC Request to Australia.

B. Travel agencies and tour operated services...

Australia requires commercial presence for travel agencies—

I imagine that means that they have to be in Australia. The draft continues:

EC Request: Allow cross-border provision of travel agency and tour operator services (i.e. remove commercial presence requirement)

You are not going to rule that out, are you?

Mr Gosper—I am not ruling anything in or out.

Senator COOK—They asked us to knock off cabotage—that is, on sea transport. I think your answer is the same. You are not going to rule it in or out?

Mr Gosper—Indeed.

Senator COOK—It mentions energy services, and so on. I do not think I need to go through all of it. The point is clear: you are not going to rule any of these things in or out.

Mr Gosper—I am not commenting on that particular draft document nor am I in a position to give you detail of the specific requests that have been made at this point.

Senator COOK—I appreciate the exquisite situation you are in, Mr Gosper, and I am not trying to make you even more uncomfortable, because you are here to represent a government view. I understand all of that. But we sit here representing the parliament, and constituents of ours are saying to us that these negotiations are conducted in secret. You acknowledged that they are confidential between the parties. People are saying to us, essentially, ‘Look at them; they are up to these tricks.’ Here is an EU document which posts all of these things for your consideration, but you are not going to rule them in or out, and the parliament is not going to get a chance to express its view before the government signs the final undertaking. Why is that? Why can’t the parliament be consulted?

Mr Gosper—Sorry, Senator; can you repeat the specific question.

Senator COOK—Why can’t the parliament be consulted by the minister before the executive wing of government makes a commitment that has treaty status, binding Australia to any undertakings that you, in the confidentiality of these negotiations, decide to make?

Mr Gosper—As I think I have said, Senator, the government will consult as widely as it can and will make available as much information as it can during these negotiations. It has already done that in respect of requests. Further information will be provided. When we are in a position to consider the offers, then information will be made available and consultations with the public will be undertaken.

Senator COOK—I understand all that, but—dare I speak on behalf of the parliament—we are the elected representatives of the people, and these are national decisions which affect community wellbeing, individual livelihoods and the way in which services are delivered in Australia. Why can’t we be given a chance to say whether we agree with what the government might do or not?

Mr Gosper—I am sure the government understands that, Senator. That is why we are looking to undertake as wide a process of public consultation as possible, both to reassure people on the nature of the GATS agreement and of these particular negotiations and to consult with those sectors of the economy which have very important export interests that are facilitated by these negotiations.

Senator COOK—Back in the budget session negotiations, we started off by having a discussion about the need for openness and transparency. You have nodded, which I take to mean that you remember that we had that discussion.

Mr Gosper—Yes.

Senator COOK—One of the reasons that the World Trade Organisation and trade negotiation get a bad name is the allegations that it is done secretly, that it is not transparent and that people do not know what the decisions are. In the case of this, it is clear that the parliament will not get a chance to say yes or no as to whether it agrees with the final package. My question is not to you; it is to the minister at the table, who I know has been following this discussion.

Senator Hill—In detail.

Senator COOK—Minister, will you, on behalf of the Australian government, give us a commitment that the parliament will be able to express a view as to whether it agrees or disagrees with any final package on services?

Senator Hill—What do you mean? Before it is—

Senator COOK—Before the executive government signs off, which then commits the nation.

Senator Hill—Unless there is some fine point that I am missing here, current structures are such that we have a parliamentary process within the development of treaties that is designed to give government advice before ratification. Government is not bound to take that advice, but it is bound to take it into consideration. So I cannot see why you have a concern, Senator Cook.

Senator COOK—Let me put the question to you in this way. What you have said is right—

Senator Hill—I am pleased to hear that!

Senator COOK—but the government signs its commitments before the treaties committee examines them and, as you have said, the treaties committee can make a report and the government can choose to accept it or not. These are multilateral negotiations conducted under the auspices of the WTO and, when we sign, the expectation is clearly that we are going to abide. So the discrimination a treaties committee would have would be, reasonably put, very fine indeed.

Senator Hill—You want a national interest debate before the meeting, in effect.

Senator COOK—Before you commit the country.

Senator Hill—That is the point you are making, isn't it, Senator Cook—that you may commit at the meeting? You are therefore arguing that it is too late to have a meaningful parliamentary input.

Senator COOK—Yes.

Senator Hill—The parliament is the master of its own business. There is nothing stopping the parliament from debating these issues prior to the meeting, or from setting up inquiries to consider aspects of the process, or even from referring the process to the Joint Standing Committee on Treaties at any time for consideration.

Senator COOK—That is true. But the unavoidable point is that, for example, the American Congress sets out in a bill the scope, rights and limitations on the executive to conduct trade negotiations; but in Australia our Constitution provides that the executive wing of government can conclude treaties without consulting the parliament, and there is a process now whereby, after we have signed but before we ratify—and the two are interesting legal concepts: signature being different from ratification, but I am not sure exactly how they

differ—the treaties committee can examine and report. The government can take note of that report or it conceivably can change things. It can go back to the parties and say, ‘We’ve signed this document but we now want to change our minds with respect to (a), (b) and (c).’ So the government may abide by what the committee recommends, or it may not. Because we have that structure and because accountability and transparency are at the heart of the globalisation debate and the role of the WTO, the question I am putting—and you may want to take it on notice and refer it to the minister—is: will you introduce a process which enables parliamentary scrutiny of GATS before the country is committed to an outcome? And will you take notice of what that parliamentary review says?

Senator Hill—I do not want to get into a debate about the difference between the Australian and American systems because, after all—

Senator COOK—I used that only as an illustration.

Senator Hill—the executive is responsible to the parliament; and, to the extent that implementation may require domestic legislation, the parliament could choose to vote the government down.

Senator COOK—That is right.

Senator Hill—But I do not think that is the point being made. The point is: would the government be willing to facilitate, encourage and support parliamentary debate on the issues, before completion of negotiations?

Senator COOK—Before signature and commitment.

Senator Hill—That is, in effect, before completion of negotiations. I will refer that to the Minister for Trade and see what he thinks about it. For example, some little time ago there was a debate that seems to have now been lost in the ether about whether there should be—and perhaps I should not remind anyone of this—environmental impact studies as they relate to the process itself. It is part of the same debate about the extent to which other interested parties can play a meaningful role in the process.

Senator COOK—The reasons I am putting this are quite obvious, but one of the things I would mention is that there is a basic bipartisan consensus about Australia’s approach to trade; there has been a substantial consensus between the parties on that. In a period in which the globalisation debate has political resonance—

Senator Hill—There is consensus between the major parties.

Senator COOK—Yes.

Senator Hill—The fringe parties are off on the sidelines.

Senator COOK—Well, fringe parties do have different views. Given the higher profile that the globalisation debate now occupies, and given that that profile relates to transparency, openness and accountability, the processes that may have been blithely followed in the past ought to be reviewed and changed, to take account of a public need for transparency, openness and accountability. There is no better medium for that to occur in than in the parliament itself. That is why the question is put.

Senator Hill—But I have made the point that the parliament can initiate its own processes; the parliament has a capacity to make demands. Nevertheless, I will refer the question to the minister and get his response.

Senator COOK—You are right: the parliament has the opportunity to initiate and make demands. It can do that.

Senator Hill—But I understand that what is being said is that it might be a more constructive approach for the government to initiate such an opportunity.

Senator COOK—Yes. Just coming back to your earlier point, the parliament does have the opportunity to initiate and make demands, but we have established in this discussion that these negotiations are confidential. The ability for the parliament to see what is happening and weigh the significance of that from a public interest point of view is closed to the parliament. It is not as far as agriculture is concerned—that is a different sector, it is open, we are able to look over the shoulders of the negotiators—but it is in this sector. As Mr Gosper has said, it is for particular reasons that the government regards as important. On the basis of those reasons, the government has given undertakings to other countries that it will observe confidentiality. So the parliament is put in a position of not seeing—the negotiations are not transparent—and that is why this question becomes important.

Senator Hill—In turn, that might make it hard for the government in relation to parliamentary process. As I said, I will refer it to the minister, and I am sure he will give a thoughtful and serious response.

Senator COOK—Would it make any difference if I were to say that it is my understanding that the Canadian government has said that it will reveal publicly what it proposes to do about its offers and how it intends to deal with requests before it responds to its offers and requests—that is to say, there is a precedent?

Senator Hill—I am sure that would be useful information for Mr Vaile.

Senator COOK—Would it make any difference if I were to say that developing countries, as I understand it, are getting, to use a colloquial expression, a bit toey because of requests on them about liberalisation of the services trade in their countries, about maintaining the confidentiality provision, and have an interest therefore in seeking special treatment provisions for developing countries?

Senator Hill—I will ask Mr Vaile to take that into account.

Senator COOK—Mr Gosper, coming back to you on that last point about the developing countries' attitude to the GATS negotiations, is it true that there is a proposal, whether or not it has been officially put, about special treatment for developing countries in the services sector?

Mr Gosper—Yes. Special and differential treatment is integrated through most of the WTO agreements.

Senator COOK—In GATS, though, are developing countries asking for a particular special treatment provision?

Mr Gosper—I am not sure that they are all asking for one particular provision but, yes, they are interested in special and differential treatment.

Senator COOK—I cannot leave this discussion of GATS without referring to audiovisual and cultural protection. Has the Australian Film Commission asked the department for a cultural preamble to the final audiovisual GATS agreement that provides cultural protection for Australian film, television, music and advertising?

Mr Gosper—I am not aware of such a request. I will have to check and advise you.

Senator COOK—You will take that on notice?

Mr Gosper—Yes.

Senator COOK—Has UNESCO expressed any view about cultural protection in this round that ought to be recognised by negotiating countries?

Mr Gosper—I am not aware of any specific UNESCO requests. I will have to advise you further.

Senator COOK—I referred earlier to the EU document and there is a lot more I could go through but, given the hour, I will rest on that. I have another document and I can supply you with a copy. It is a statement by Linda Schmid, Vice President, Coalition of Service Industries, before the Trade Policy Staff Committee, Office of the United States Trade Representative, dated 6 November 2002, in which this industry sector states its priorities for services trade negotiation. Are you aware of the US Coalition of Service Industries requests to the US government for services?

Mr Gosper—I have not viewed them myself.

Senator COOK—Do you have an adviser present who has viewed them?

Mr Gosper—No, I believe not.

Senator COOK—We cannot have any one come forward tonight? Would you like a copy; I will have it delivered to your table?

Mr Gosper—Thank you.

Senator COOK—There is quite a lot here and it is all fairly predictable. Under the heading ‘Education Services’, they are asking for any regulation that prevents foreign access to education services to be removed. Under the heading ‘Express Delivery’ they have a similar thing, although it is written differently to the EU document, on postal and package services. The headings include ‘Environmental Services’, ‘Legal Services’, ‘Energy Services’, ‘Computer and Related Services’, ‘Advertising’, ‘Financial Information’, ‘Banking, Securities and Related Financial Services’, and so on. It is really a request for the market to be opened to foreign competition and the removal of any regulation in Australia, or elsewhere for that matter, because this is a broadcast—not a narrowcast—statement. Is this similar to what the US government is asking of Australia in its bilateral request of us on services?

Mr Gosper—Many of these sectors are covered in the US request, yes. I cannot comment on the specific nature of the requests that are made of us.

Senator COOK—If I were to ask you the question specifically—does the US request conform with what this industry submission says—would you answer me?

Mr Gosper—I am not in a position to answer that at this point.

Senator COOK—If you were in a position to answer, would you answer me?

Mr Gosper—Not at this point, no.

Senator COOK—At what point would you answer me?

Mr Gosper—When the government has considered how it will provide further information in relation to these negotiations.

Senator COOK—That is consistent with your earlier advice that there is a confidentiality about these talks?

Mr Gosper—Indeed.

Senator COOK—Perhaps I can move to the Australia-US free trade agreement in the five minutes that I have left. I think the department today posted on its web site an issues paper calling for interested parties in Australia to make submissions to it on what we should propose as the Australian claims in an Australia-US free trade agreement. Is that correct?

Mr Deady—That is correct. A background paper went up on the web site today calling for public submissions on areas of interest in relation to the US FTA.

Senator COOK—The closing date is 15 January?

Mr Deady—That is correct.

Senator COOK—That is a fairly short period, given the intervention of the festive season. Was there some reason why time to put forward proposals is limited to such a tight timetable?

Mr Deady—The basis for that initial request for public submissions is driven, in part, by the 90-day period that was triggered by the announcement last week by the USTR Zoellick that negotiations were to start with Australia, and by his subsequent notification to the US Congress, under the trade promotion legislation, that provided 90 days. So we are looking for public submissions from across the spectrum. We will be having intensive consultations with a raft of stakeholders—as many as we can before Christmas. We see that date as very important in getting those initial reactions, submissions and advice; but, clearly, we see that as the beginning of a much more detailed process that will run on through the course of the negotiations.

Senator COOK—So the 90-day period helped decide the date of 15 January?

Mr Deady—Yes, it did have implications there.

Senator COOK—The 90-day period is a condition imposed by the US Congress on the US Trade Representative, is it not?

Mr Deady—That is correct.

Senator COOK—So a condition set by the US Congress has decided our deadline for Australians to put forward proposals on the US trade negotiations?

Mr Deady—As I said, the notification of the Congress triggered that 90-day notification process that is required under US trade law. We are looking to have the first round of negotiations with the United States very shortly after that 90-day period is completed, as the minister has indicated. We were and are looking for reactions and responses in relation to those negotiations, in the form of expressions of interest, in that timeframe. We have already had a number of discussions and consultations with a range of industry sectors and others. Yes, it is a tight timeframe but, as I say, it is the beginning of a process. It does fall in the holiday season down here in the Southern Hemisphere, and that is something that we recognise and have done our best to accommodate.

Senator COOK—My only point is that the 90-day requirement is a congressional requirement on the US Trade Representative, for the Americans to get their side organised. We have used that time period to tell our community that they have to get their submissions in, but we could have chosen any time period we like; we are the demanders in this process.

Mr Deady—That is correct. What we have identified is a period of a little over a month to receive these initial reactions—public submissions—in relation to the FTA. As I have said, we will be talking directly to a number of stakeholders in any event. Already, I have made it clear to a number of people that we would appreciate initial reactions by 15 January but that is not a date that is set in stone. We will continue to talk, listen and receive information right up to the process. We are not driven—in any way, shape or form—by this 90-day requirement of the US legislation, other than that we are looking to begin the first round of negotiations very shortly after that 90-day period. So we certainly want initial reactions by 15 January. We hope that the background paper we have produced will assist in that process, because it does identify a number of the areas of interest—which we are already aware of—that Australian

industry and others have in relation to the US market. We have tried to produce that information as well, to assist that.

Senator COOK—I am going to turn into a pumpkin in a minute, and Austrade will sit where you are sitting. I have one last question. USTR Zoellick sent a letter to Congress—I want to talk to you tomorrow morning about that letter—and one of the things raised in that letter was the question of core labour standards, as defined by the ILO. Earlier today in another Senate estimates this question was asked of the industrial relations department: will Australia agreed to core labour standards in a bilateral trade agreement with the United States? The United States have indicated to Congress that they will be approaching us on that matter. We traditionally have declined to agree to have labour standards attached to a trade agreement. In this bilateral negotiation, will we respond to the US by disagreeing with them on this matter or by agreeing with them on this matter?

Mr Deady—It is too early to say what we will agree or not agree on. I think the notification that you refer to there contains a number of elements. Those elements, certainly in relation to references to labour and the environment, are requirements of the trade practices legislation in the United States. When the US engages in negotiations they are to take these matters up as part of that trade practices legislation. We have had no discussions with the United States as yet in relation to how they might bring those matters forward in the context of a bilateral agreement or bilateral negotiations between us and them.

CHAIR—Thank you.

[10.18 p.m.]

Australian Trade Commission

CHAIR—I welcome officers from Austrade. We will follow the output order: 1.1, 1.2, 1.3, 1.4 and 1.5, and conclude with 2.1.

Senator LUNDY—I have a range of questions which may traverse those outputs, so I am not necessarily going to follow that order. I would like to start by referencing discussions we had last time, particularly in relation to the policy of doubling the number of exporters within a given period of time. I note with interest the answer to the question on notice on the actual numbers in the Austrade corporate plan in terms of increasing the numbers of exporters. In 2002-03, there are 28,500 identified; in 2003-04, there are 32,200; and in 2004-05, there are 39,000. Could you go back a couple of years and tell us what the actual figures were for 2000-01 and 2001-02?

Mr Harcourt—Thanks for your question, Senator. There are two figures that we have. First of all, in 2000-01, when we produced the *Knowing and growing the exporter community* report, which I believe you have seen a copy of, the figure that we got as an estimate from the ABS was 25,000 for 2000-01. For 2001-02, at this stage, the ABS has provided publicly in its publication *International merchandise trade*, catalogue 5422.0, an estimate of 24,011 for the first half of 2001-02. For the first time, because of the changes in the tax system, the ABS has got the Australian business numbers and can basically match the Customs data, where companies are required to produce an ABN, with the tax data and get a count of the number of exporters that way. They are going to provide the figure for the full year, 2001-02, on 20 February 2003. So, by the time we come back to estimates next time, we will have a figure for the whole year.

Senator LUNDY—What was the number for the first six months of 2001-02?

Mr Harcourt—It was 24,011.

Senator LUNDY—So that figure is likely to vary in that, if new exporters come into the fray in the latter six months, that will boost that number.

Mr Harcourt—Possibly.

Senator LUNDY—Can you explain to me whether those numbers are cumulative?

Mr Harcourt—That is right. For the most part, they will capture most of the exporters for that year on advice given to us by the ABS. If there is anyone who is exporting in the second six months of the year that has not been picked up in the first, they will be picked up then.

Senator LUNDY—So there has been a drop.

Mr Harcourt—No, there has not been a drop, because it is only for six months. The figure for 2000-01 was 25,000, but that was an estimate given to us by the ABS.

Senator LUNDY—I appreciate that, and I know we have had a very lengthy discussion about the way the statistics were compiled and who was in and who was out. We certainly have not got the time to go back over that this evening. I am just trying to clarify it. The sort of benchmark you are working from in 2000-01 was 25,000, so you would think that, going into 2001-02, you would start with that benchmark at the very minimum, wouldn't you—unless there been a drop?

Mr Harcourt—It is important, Senator, not to mix up stocks and flows. Basically, for 2000-01, we have an estimate given to us of 25,000.

Senator LUNDY—An estimate.

Mr Harcourt—That is right. They did it because—and you might recall—we produced with the ABS *A portrait of Australian exporters*—

Senator LUNDY—And that was where the 25,000 came from?

Mr Harcourt—No, it is not. This is where we produced, for 1997-98, a figure of 21,787. We were working on the *Knowing and growing the exporter community* report, and we said to them, 'Well, the BLS has stopped, can you give us an estimate?' They gave us 25,000, and that is the number which appears in that report which you have.

Senator LUNDY—That is right. So that was a number that they prepared specifically for this report.

Mr Harcourt—That is right. That appears in the report.

Senator LUNDY—I remember seeing it.

Mr Harcourt—This is the report you are referring to. I can find the reference for you, if you would like. There is a reference, for instance, on page 4 of the executive summary in the second paragraph.

Senator LUNDY—So, just going back to the figure for the following financial year, it was 24,011 for the first half?

Mr Harcourt—For the first six months; that is right.

Senator LUNDY—That is July through to the end of December?

Mr Harcourt—That is right.

Senator LUNDY—Can you tell me why there is a delay in getting the figure for the second half of that financial year, given that it is already November? Why is it that we will not see it until next February—and for that reason it could not be included in your annual report?

Mr Harcourt—The reason is that the ABS is the custodian of this data and we think that is proper. The paper that it produced was an experimental paper on exporters and importers.

Senator LUNDY—The one that gave you the 24,011 figure?

Mr Harcourt—That is right. Basically, the paper is produced by the ABS. I would imagine that, because it is the first time they have done it working with the Customs department and the Australian Taxation Office, it takes a little while to match up the data series. But once they have it up and running, I am sure it will be much easier to run. That is why they have produced it in that way. The timing is not really in our hands. We have talked with the ABS and tried to give them that advice. Perhaps the reason they are doing this at all is that we are so keen on this number. That is basically why the numbers come in then, in terms of timing.

Senator LUNDY—What do you expect it to be? Do you expect it to get back up over that 25,000 estimate from last time?

Mr Harcourt—The advice I have been given by the ABS is that they do expect that to be the case.

Senator LUNDY—So that means there will be nearly 1,000 new exporters in the first six months of this year. Am I understanding correctly how they calculate it?

Mr Harcourt—No. Let us say you have 24,011 in the first six months and there are another 3,000 or 4,000 in the next six months that do not get counted in the first six months, you will be looking at around 27,000 or 28,000 in that first year, possibly.

Senator LUNDY—So they just missed the count; they are not necessarily new. Is that what you are saying? If you are anticipating about 27,000, say, the 3,000 that are currently not in that figure are either exporters that for some reason were not part of the ABS data—they were not captured in their surveys—or they are new.

Mr Harcourt—They could either be new or they could be irregular exporters who have exported in the second six months of the year, possibly.

Senator LUNDY—I see. Would there be some exporters who were not captured in the first six months' data just because the system is not working properly yet?

Mr Harcourt—I am not sure. You would probably have to ask the ABS that.

Senator LUNDY—I am not going to be doing that in this round. Could you take that question on notice?

Mr Harcourt—Your question is: who are the exporters who would not be captured in the first six months?

Senator LUNDY—Yes. When February comes, in the next round of estimates you should be in a position to provide that second number anyway and we can talk about it more then.

Mr Harcourt—Because the publication will be out; that is right.

Senator LUNDY—Perhaps you could take on notice the provision of your informed analysis of why that figure is only 24,000 when you were anticipating it would be higher.

Mr Harcourt—Possibly if the ABS gave us an estimate of, let us say, the first six months of 2000-01, it may not be 25,000—it may have been 22,000 or 23,000. It is quite possible.

Senator LUNDY—Could you say that again? I thought it was 24,000.

Mr Harcourt—No, the previous financial year. We said to them, 'Can you give us an estimate for 2000-01?'

Senator LUNDY—This is the 25,000 figure?

Mr Harcourt—Yes, and they came up with the 25,000 figure.

Senator LUNDY—Are you thinking that it might be wrong?

Mr Harcourt—No, I did not say that.

Senator LUNDY—That is what you implied.

Mr Harcourt—No, I did not. What I said was that, for the first six months, it may be less.

Senator LUNDY—I see—

Mr Harcourt—Do you understand that?

Senator LUNDY—Yes, it may have been less.

Mr Harcourt—So for the first six months for that year it may have been less than 25,000; it could have been 24,000 or 23,000 or 22,000.

Senator LUNDY—So the statistics do not reflect a finite number of exporters in any one given year; they reflect a finite number of exporters in any given six-month block.

Mr Harcourt—If you like, it is the stock of exporters that we have as at 31 December—that is right. What we are doing is relying on the ABS to do the measurement and provide the methodology and the definitions with the Customs Service, because basically they now have a facility that we have never had before.

Senator LUNDY—I will come to that. It will be a very telling figure for their second six-month period, because that will be the start of the trend line, won't it?

Mr Harcourt—Yes, that will be the starting block. It is very exciting.

Senator LUNDY—I want to get to the point that these are very ambitious targets. Again, I know we discussed this last time, but there are a lot of numbers to be made up there each financial year if the government is to reach its target.

Mr Harcourt—It was very ambitious to get to the starting line, but I am pretty happy. We have almost managed to get there.

Senator LUNDY—Yes; we will see. In terms of collecting the data, you mentioned that it is a combination of ABS, ABN and Customs data. Is it the case that the ABS started again and cross-referenced ABN data and Customs data to compile a new set of statistics?

Mr Harcourt—That is right.

Senator LUNDY—So it is completely new compared with their previous definitions.

Mr Harcourt—Yes, that is right. Basically, the 21,800 number from 1997-98 was from the business longitudinal survey they did. This is a new series.

Senator LUNDY—Those formal studies were very qualitative in the sense that the ABS was asking businesses whether they were exporters. Cross-referencing companies with ABN and Customs data means that they have to be really doing it.

Mr Harcourt—They have to be, otherwise they cannot get out of the country.

Senator LUNDY—Otherwise they would not be on the system.

Mr Harcourt—That is right.

Senator LUNDY—Going back to the original report, *Knowing and growing the exporter community*, I was struck by the heading of chapter 1.1, which reads, 'The number of Australian SMEs exporting is relatively low'.

Mr Harcourt—That is right.

Senator LUNDY—Have you done any breakdown of those new figures—albeit six-monthly figures—in terms of the number of SMEs within those numbers? Can you provide a breakdown of that latest number as to the proportion of SMEs?

Mr Harcourt—I can answer your question in part, predominantly because the ABS *International Merchandise Trade* publication did make mention of Australian goods exports being dominated by a relatively small number of exporters. There were 109 businesses with goods exports of \$100 million or more accounting for almost 60 per cent of the value of goods exports during the reference period.

Senator LUNDY—Which is that first six months.

Mr Harcourt—That is right. It is similar to the table on page 13 of the *Knowing and growing the exporter community* report, which shows large businesses providing the lion's share in terms of revenue. Basically, the new numbers indicating that Australia has a small number of large exporters providing most of the revenue are consistent with what we found in the *Knowing and growing the exporter community* report and are what we anticipated.

Senator LUNDY—So it has not changed.

Mr Harcourt—It has not changed that much, but you are getting small, medium and micro sized businesses providing stronger growth in terms of the revenue.

Senator LUNDY—That report makes it reasonably clear that the trend is holding up.

Mr Harcourt—Good, I am glad that is clear.

Senator LUNDY—Can you provide a comparable table to exhibit 4 on page 13 for that six-month block of data?

Mr Harcourt—It is an ABS publication. We can provide you with exporter numbers in relation to how much revenue they provided.

Senator LUNDY—My general comment is that there are quite interesting statistics in this report, and it would be interesting to see how they develop under the program as you get more information.

Mr Harcourt—That is right.

Senator LUNDY—Is it your intention to publish an annual report showing the trend line?

Mr Harcourt—Yes, we would love to.

Senator LUNDY—I suppose it would illustrate whether or not you are reaching your targets, primarily.

Mr Harcourt—Yes. We want to do a research report every year that will contain this data, but it will also look at some of the other interesting trends.

Senator LUNDY—I notice that you have disaggregated the SME data into ICT, manufacturing and services. Do you have any more detailed information, particularly about the trend in ICT SME exports?

Mr Harcourt—If you want the detail of knowledge based industries, we can provide that in relation to numbers. We could provide knowledge based data by industry, and we could have a look at the ICT component within that. I assume you are interested in the number of ICT companies that are small or medium in size and what their growth rates are.

Senator LUNDY—Yes, those that are exporting and what the trend looks like. I have had great difficulty in trying to get hold of that information.

Mr Harcourt—I will take this question about ICT SMEs on notice.

Senator LUNDY—Yes, I want to know about export trends, basically, but actual numbers are useful as well.

Mr Harcourt—Would that be the numbers of companies?

Senator LUNDY—Yes.

Mr Harcourt—So you want numbers of companies, numbers of exporters and export revenue—something like that?

Senator LUNDY—Yes. Whatever you think; you are the expert. But please make it meaningful and easy to understand.

Mr Harcourt—I am glad the report was clear.

Senator LUNDY—Thank you for that, I will watch with interest.

Mr Harcourt—I would like to clarify two questions you have asked. I have the one on ICT. Was the other question on the reasons why the six-monthly figure would be different from the 12-monthly figure?

Senator LUNDY—Yes.

Mr Harcourt—I will ask the ABS, and perhaps when we next meet—

Senator LUNDY—We will know then how much it has varied and we can sort that out.

Mr Harcourt—Yes, we will be able to make a better judgment on that.

CHAIR—Mr Harcourt, do you come from Canberra?

Mr Harcourt—No, from Sydney.

CHAIR—Otherwise, you might have been able to pop in and see Senator Lundy for an afternoon cup of tea and discuss these matters with her then.

Mr Harcourt—I was going to say, Senator, that on 3 December we are having a parliamentary breakfast seminar here. We are going to do the *Knowing and Growing* report, so you are all invited.

Senator LUNDY—That is on 3 December.

Mr Harcourt—Yes, in the morning.

Senator Hill—There you go, Senator Lundy.

Senator LUNDY—That is perfect; it beats 20 to 11 at night.

CHAIR—Make an assignation with Mr Harcourt then, Senator Lundy.

Mr Harcourt—We did have a seminar some time ago, but you were having the stem cell research debate and everyone was locked in the chamber, so we spoke to a few parliamentary staffers.

Senator LUNDY—You have to be really lucky to get good timing for seminars in this place. Hopefully, I will make it to the one on 3 December.

Mr Harcourt—We would love to see you there!

Senator LUNDY—In answering that question on notice, if you could give your best guess or estimate based on what the ABS tell you, we will use that as a starting point for follow-up questions in February.

Mr Harcourt—I might emphasise, too, that the ABS are the experts and the custodians of the data. The reason is, like the unemployment rate or the inflation rate, governments might have a policy to create jobs but you have to have the ABS—

Senator LUNDY—They have to supply the core data to work with.

Mr Harcourt—Yes. They have to collect it, rather than the agency.

Senator LUNDY—Moving on to the TradeStart offices, I would like to get a very quick update as to whether or not all of the proposed regional TradeStart offices are operational, up and running.

Mr Vickers—We have entered into contracts for each of the TradeStart offices.

Senator LUNDY—So they are all finalised?

Mr Vickers—They are finalised in the sense that the contracts are finalised. The majority of the offices are open, although some are still recruiting staff.

Senator LUNDY—Which ones are still recruiting staff? I like your map, by the way, in the annual report. It saves asking so many questions.

Mr Vickers—We have an office in Dandenong, where we are still recruiting staff, and we have offices in Geelong and Wangaratta—we did not receive bids for these in the first round—where we intend to open offices if we are able to receive acceptable bids before the close of the year.

Senator LUNDY—They are not on this map—Wangaratta is.

Mr Vickers—Wangaratta was a TradeStart office previously; Geelong was an office announced by the minister before the last election.

Senator LUNDY—But it is not on the map.

Mr Vickers—No. It is not on the map because historically there was no office there, but we do intend to try to open an office there if we are able to attract a suitable proposal. We are still recruiting staff in Cairns and Emerald.

Senator LUNDY—Is that why Emerald is not on the map?

Mr Vickers—Emerald is a new office as well. We are still recruiting staff in Adelaide, Mount Gambier and Port Lincoln in South Australia

Senator LUNDY—How come some of these are on the map and some are not?

Mr Vickers—Offices which were existing TradeStart offices are on the map. Offices which were subject to the election announcement, or offices which we have received proposals for since that time but have yet to open for the first time, are not on the map. If we are not able to attract the staff, we do not want to advertise the office is there—in fact, the office is not there.

Senator LUNDY—How come an office like Cairns, when it says that there is a TradeStart export access office but you are still recruiting, is on the map?

Mr Vickers—Because in Cairns there was an existing office, but we have since changed the service provider, which is recruiting new staff for that position.

Senator LUNDY—So it used to be an Austrade office and now it is a TradeStart office?

Mr Vickers—No. It used to be an office with the industry association and now it is an office with the Queensland state government. When we went through, effectively, the retendering of the TradeStart offices, a number of offices in old locations changed service provider because we received a more attractive proposal from an alternative service provider.

Senator LUNDY—Are there any others that are not on the map? It is not such a good map after all.

Mr Vickers—I have covered Adelaide, Mount Gambier and Port Lincoln. We have staff still being recruited for two offices in Perth and for Geraldton and Bunbury. We did not receive a proposal for Kununurra in the first round, but we are hopeful in the second round, which will close before Christmas, to receive a proposal.

Senator LUNDY—So there is an office there?

Mr Vickers—Previously there was an office there. When we advertised for proposals last time—

Senator LUNDY—But is it open for business at the moment?

Mr Vickers—It is currently open for business, yes, because it is funded under a different set of money from the department. And we still have to recruit staff in Hobart and Launceston.

Senator LUNDY—But there is an office there?

Mr Vickers—There has been an office in Launceston, yes.

Senator LUNDY—Is it still open?

Mr Vickers—It is still operational; we will still be able to service staff, yes.

Senator LUNDY—On page 18 of the annual report, there is a reference to ‘investment attraction’. The report talks about Austrade partnering with the Department of Industry, Tourism and Resources in Invest Australia and it outlines the role that Austrade has played in attracting investment to Australia. I am quite curious as to how extensive Austrade’s role is in attracting investment, given that I thought that was Invest Australia’s job and that you are supposed to be promoting exports as opposed to attracting importers.

Ms Selby—There has been a change in the structure of Invest Australia since the annual report. In the year the annual report covers, Invest Australia was a partnership between Austrade and the Department of Industry, Tourism and Resources. The government announced the establishment of a separate body, called Invest Australia, which began on 1 July. That is a separate executive or statutory agency—I have forgotten which one—within the Department of Industry, Tourism and Resources.

Senator LUNDY—So we will not see this any more in your annual reports?

Ms Selby—That is correct.

Senator LUNDY—I would like to ask a couple of questions about the outcomes of the recent review of remuneration arrangements for staff. Will staff be getting a pay rise out of the review?

Ms Lyons—Could you clarify what you mean by a review, please?

Senator LUNDY—No. I understand there was a review of remuneration arrangements.

Ms Lyons—Are you alluding to the third year of a certified agreement?

Senator LUNDY—Possibly. Is that what you have been looking at?

Ms Lyons—Austrade is currently in the third year of a three-year certified agreement.

Senator LUNDY—Have you, in anticipation of negotiating another three-year agreement, been reviewing remuneration for your staff from a management perspective?

Ms Lyons—I would have to direct that question to the human resources director.

Senator LUNDY—So you do not know of any formal review per se?

Ms Lyons—Not in relation to an upcoming agreement, no.

Senator LUNDY—In relation to anything else?

Ms Lyons—The only review—and I would not call it a review—was a provision in the third year of the agreement for there to be consideration of an additional amount over and above a three per cent salary increase, which had been agreed some 2½ years ago.

Senator LUNDY—Perhaps you can shed some light on it for us.

Ms Kimball—I assume that is what you are referring to. We went through a consultative process from March this year.

Senator LUNDY—Will that result in a pay rise perhaps beyond the three per cent, as has been described?

Ms Kimball—No. A decision was taken not to increase it above the three per cent.

Senator LUNDY—What stage are those negotiations at in the lead-up to the next—

Ms Kimball—Those negotiations have concluded on any addition or any supplementation to the three per cent. We will be negotiating a new agreement for the beginning of the next financial year. We have begun consultations in preparation for the next certified agreement and we have recently gone out with a survey to staff on their views on the current agreement, seeking ideas for our future agreement. So we are surveying staff as I speak.

Senator LUNDY—What are the details of the rationalisation of the trade representative network that was reported in the media in about September? I do not have the article with me to reference.

Senator Hill—Have we rationalised trade representation?

Ms Lyons—Are you referring to a consideration of the overseas structure of the organisation?

Senator LUNDY—Yes, that is the global network.

Ms Lyons—Could you repeat the question for me, please?

Senator LUNDY—What are the details of the rationalisation of the trade representative network, and is it your intention to reduce the number of overseas trade representatives?

Ms Lyons—The organisation, with the concurrence of the board, has made a decision to reduce the number of overseas regions. Currently, there are five: Europe; the Middle East and Indian Ocean; South-East Asia; North Asia; and the Americas. That five will be reduced to four: Europe, the Middle East and Africa; South-East Asia and the Indian Ocean; North Asia; and the Americas.

Senator Hill—What will be the consequence of that?

Senator LUNDY—Sorry, I missed the groupings. What were the four groups again?

Ms Lyons—The first one will be Europe, the Middle East and Africa.

Senator LUNDY—So they are all one group?

Ms Lyons—Yes. The second group will be South-East Asia and the Indian Ocean; the third group will be North Asia; and the fourth group will be the Americas.

Senator LUNDY—In reducing the number of regions, how does that impact upon the number of trade representatives?

Ms Lyons—The number of senior trade commissioners and trade commissioners around the world will not be reduced. Inevitably, there will be one less regional director, but one regional director has just recently retired.

Senator LUNDY—So you would not have to make anyone redundant because someone is going anyway?

Ms Lyons—That is correct.

Senator LUNDY—So, if there is going to be one less regional director, which region is going to lose their regional director?

Ms Lyons—The regional director or the executive general manager who retired was the one for the Middle East and the Indian Ocean.

Senator LUNDY—Where was that regional director located previously?

Ms Lyons—In Dubai.

Senator LUNDY—What is the rationale for that decision?

Ms Lyons—The rationale for the decision is moving the organisation overseas, particularly at the very senior levels, from a focus on administration and process to a role as key client account managers and people who will coordinate clients across the regions, particularly where clients have interests in a number of posts in a region.

Senator LUNDY—I do not understand what you mean. You are just reducing a management position in that region.

Ms Lyons—Perhaps I should explain that the role of the regional directors will change from focusing on management-administration process to focusing very firmly on key client management within the region.

Senator LUNDY—So why do you no longer need one in the Middle East?

Ms Lyons—The Middle East will be looked after by Europe, Africa and the Middle East in that newly formed region.

Senator LUNDY—Where will the regional director for Europe, Africa and the Middle East be located?

Ms Kimball—Frankfurt.

Senator LUNDY—That is a long way from Dubai. How are they going to provide hands-on service and do closer work with clients and casework if they are in Frankfurt?

Ms Kimball—We have an extensive trade commissioner and senior trade commissioner network. The regional directors will be overseeing that network and, as Ms Lyons said, managing a portfolio of key clients and customers in conjunction with our senior trade commissioners.

Senator LUNDY—Are there any significant changes in the location of the regional director in what you call the rationalisation? Are there any regional directors that will be moved or have been moved to a new location, given the new areas?

Ms Kimball—I do not think a final decision has been taken on it. We have been looking at the locations and that was with the board for consideration. I am not quite sure of the outcome.

Senator LUNDY—The board has decided they are not going to have one in Dubai but they have not decided anything else yet. Is that what you mean?

Ms Kimball—Yes. I am not sure if the board has made a decision. They met today—but I could not say.

Senator LUNDY—What is the actual funding reduction for this trade representative network as a result of this rationalisation?

Ms Lyons—When you say a funding reduction, to what would you be referring?

Senator LUNDY—Is there less money being spent as a result of this rationalisation?

Ms Lyons—No, there will not be in this financial year certainly.

Senator LUNDY—What about next financial year?

Ms Lyons—My understanding is that it will not be less next financial year either.

Senator LUNDY—And what about the year after that?

Ms Lyons—It is possible there may be some savings the year after, but they have not been quantified yet.

Senator LUNDY—So they are not in the portfolio budget statements in the out years?

Ms Lyons—No. This exercise was not in any way looking at cost cutting. It was more about rationalising it for the business objectives for the organisation.

Senator LUNDY—It would be an interesting exercise to cross-reference the new groupings, when you look at where Australia is exporting according to this very well laid out report. What is your reference point for the changes that have taken place? Is it a reflection on where Australians are exporting and perhaps where there is the most potential for markets to develop?

Ms Lyons—Can you clarify your question for me.

Senator LUNDY—I want to know why the changes have been made. In the rationalisation you have regrouped from five areas down to four areas. They are grouped in quite a different way, particularly in relation to the Middle East, which one would have thought would have had more in common with perhaps India and that region but is now with Africa and Europe. I am not an expert in this, so I am asking for some rationalisation. Is it linked to where Australians are exporting and where the resources are needed?

CHAIR—Be brief, Ms Lyons, you have exactly 30 seconds to answer.

Ms Lyons—There are a number of factors that have emerged from this. Certainly the emphasis on new exporters was one of them, but there was a range of factors, including putting like countries with business synergies and those countries in similar time zones together.

Ms Selby—The actual resources on the ground, in terms of the trade commissioner network and the local business development managers, will not be changing.

Senator LUNDY—I presume you have formal justification and rationalisation for that decision to change. Could you provide those explanations to the committee? I also have some questions that I will place on notice.

CHAIR—Thank you, Minister, and thank you to the officers of Austrade. We will see you back in February. The committee will reconvene at 9 a.m.

Committee adjourned at 11.00 p.m.