

# A Policy Context for the 2009/10 Defence Budget

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2009/10 Post Budget Briefing

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This year's defence budget has been framed against a backdrop of ongoing overseas operations by the ADF, a new defence white paper and a global financial crisis.

I intend to say a little about one of the operations, a bit more on the white paper and not much at all about the GFC.

Of the ADF's overseas operations the war in Afghanistan is by far the largest, longest and most expensive commitment, both in terms of lives and money.

While the men and women of the ADF are doing a great job fighting that war, and I mean that, they are doing everything their government and their country could possibly expect – I don't think enough in a policy sense is being done to support their efforts.

The reason Australia is fighting in Afghanistan is to assist the ongoing management of our defence and security alliance with the United States. This began with the September 11 terrorist attacks in the US and the Howard government's invocation of the ANZUS Treaty. To my mind the US alliance is and of itself a valid reason for Australia to fight in Afghanistan as this alliance forms the long-term, bipartisan bedrock of our national security and defence posture.

Unambiguous public acknowledgement of why we are fighting in Afghanistan will, in my view, assist development of a policy that sets out realistically the aims, nature and extent of Australia's contribution to that war.

The bottom line for this conflict that is costing us lots of money and too many lives is whether or not we think we can win? If yes, then the government needs a policy that spells out what "winning" means and how

we will achieve it - and outlines our exit strategy. If the judgement is that we cannot win then just the exit strategy will do.

What is needed is clear and unambiguous war aims, backed up by a clear enunciation of how they will be achieved and what benchmarks will be used to measure progress. It is clearly in our own national interest to thoroughly examine these issues and carefully develop our own position on them. After all, if we don't look out for our national interest who will?

So far, Australian public opinion has been generally supportive of our efforts in Afghanistan. Largely on the back of ongoing bipartisan political support, the public seems to accept our involvement while at the same time sympathising deeply with the family and friends of those killed and seriously wounded.

But, even with political and media backing, positive public opinion of the Afghanistan war cannot be expected to last indefinitely. A *New York Times* poll conducted in February this year indicated that just 27% of Americans thought the war in Afghanistan was going well. This was down from 93% recorded in a similar poll conducted in December 2001.

Sooner or later the Australian public will want to know when our soldiers are coming home. The greater our military commitment and the more casualties we incur the sooner that day will come – the sooner we will need a detailed and well thought out policy.

We need to be able to define what the situation in Afghanistan will look like to allow for the withdrawal of Australian troops. A well-rounded and clearly communicated policy would have our allies confident of our position and prevent any relationship straining surprises.

The government should to be able to clearly define for the Australian people our war aims in Afghanistan, outline what will constitute victory and give some idea of how long that will take.

As I said earlier, Australian soldiers are doing a great job in Afghanistan, but unless we are content for them to stay there indefinitely our politicians and our policy makers need to lift their game.

On to defence policy closer to home, and the new defence white paper seems to have raised at least as many questions as it has answered. Were the intelligence assessments accurate, have the policy makers made the right assumptions, will our new defence posture offend anyone and can we afford all this anyway?

There is every chance that Australia can afford the promised level of Defence spending over the next 20 years, but it is much less likely that amount of money will pay for all the new equipment on the government's wish list.

The government has kept its promise to increase defence spending by 3% annually in real terms until 2017/18, and then made a fresh commitment that spending will rise by 2.2% real each year until 2030 based on an annual indexation figure of 2.5%.

This is the best funding deal by far for any federal portfolio and remarkable in the in the context of the global financial crisis. Those who have been critical of the brevity of the white paper's financial plan might like to reflect on that.

However, Defence's own historical data indicates that military equipment prices rise at 3%, and that personnel costs go up by more than 4% annually – meaning that Defence is going to have to become continually more efficient every year for the next 20 years.

The Pappas review of Defence's budget and management was designed to find ongoing savings, and Mr Pappas will have to have done an outstanding job if the \$20 billion the government has slated to be saved over the next 10 years is to be delivered.

Savings of that magnitude will fundamentally alter the way Defence carries out all of its administrative and support functions, and quite possibly many of its other activities as well.

What the white paper's long-term defence funding commitment signals is the Prime Minister's determination that Australia should have freedom of action for our own foreign policy in this region.

Does that mean fighting China? No, probably not. China is not a direct military threat to Australia. The Chinese will buy rather than try to take what they need from us. Our biggest issue will be effectively dealing with large-scale investment from their sovereign wealth funds in Australia's strategic assets.

However, as the white paper reaffirmed, Australia is a strong and long-standing ally of the United States and the balance of power between China and the US will certainly change as this century progresses. If that

power shift is not handled well, or if there is a miscalculation over Taiwan, then we could conceivably end up against the Chinese in support of the US.

Do the strategic assessments underpinning the new white paper support this level of spending and capability? It depends on the basis on which defence planning is conducted. This white paper is predicated on capability rather than intent, that is, if certain military capabilities exist in our region, or are judged likely to exist during the time covered by this white paper, we must be prepared to counter them. Intent can change while capability endures so, yes, it does make sense in defence planning terms to hedge against military capabilities controlled by governments that currently represent no direct threat to this country.

Should we have focussed on China? Yes, though not exclusively for reasons outlined earlier, but we probably shouldn't have said so out loud.

This white paper represents a return to the classic Defence of Australia construct. This is demonstrated in the force structure designed for the primary, but thankfully least likely, task of defending against a direct attack on Australia. Hence the heavy weighting of the proposed Force 2030 towards naval and air power.

This force structure will mean that the ADF will have to remain versatile and adapt to those tasks it is most likely to be called on to perform, and since the early 1990's this has meant constant and sometimes large scale deployments of the Army.

There are a couple of potential landmines in this white paper for the Army. One is a notion to explore, and I quote, "how part-time force elements might act as a 'repository' of some high-end, longer lead time capabilities for contingencies related to the defence of Australia" unquote. That reads to me like the start of a push to park the tanks and heavy artillery in the Reserves.

The Army is also being asked to fund its own internal rebalancing between regular and reserve forces via the reinvestment of efficiencies realised through those same reforms. The historical downside to the otherwise sensible Defence of Australia stance is that the Army ends up doing more of the work on the least money.

On the subject of work and money, the recent white paper spells out that Australian defence industry will have to grow significantly and enhance its skills base, and the government has clearly signalled a willingness to buy off the shelf equipment from overseas if industry fails to manage that expansion effectively.

According to the government, and I quote, “The best way to manage, over time, a real increase in local industry capacity and competitiveness is to continue to grow local industry at an achievable rate including ... if necessary, increasing the amount of offshore expenditure, to a level that allows for a more managed, sustainable and achievable local industry growth rate”. Unquote.

Australia already spends a large chunk of the defence budget offshore as there is a wide range of military hardware not manufactured locally, including very expensive items like fighter aircraft, high-end combat systems and guided weapons.

Tapping into to someone else’s research and development spending to ensure access to leading edge technology that actually works is a good idea, as is taking advantage of economies of scale to drive down the cost of both purchase and upgrades.

Posturing on further offshore defence spending aside, the white paper outlines significant opportunities for defence industry fuelled by the government’s long-term spending plans. That coupled with a supposedly speedier approval process for projects less than \$100 million means industry might realistically expect a return to healthier pre white paper cash flows.

Not all of the opportunities will come in the government’s now well-publicised shopping list of military hardware. It is planned that \$200 million extra will be spent over four years on the defence estate, partly on badly needed maintenance while there will be some new construction activity as well. Some of the latter will be part of a defence base rationalisation program if the government proves willing to grasp this politically difficult nettle and make up-front investments in order to reap savings over time.

As mentioned earlier, Defence is on the hunt for significant efficiencies, \$20 billion worth over 10 years, and may look to industry for help in achieving the government’s ambitious aims. Many of the larger defence companies have first hand experience in rationalising their own back

room functions such as human resources and IT, some are experts in logistics and inventory control; all would be happy to pass on their expertise for a fee.

Depending on what extra proportion of the defence budget the government actually proves willing to spend overseas during what it seems will be a protracted recovery from recession, local defence industry emphasis may have to shift to support, modification and upgrade tasks rather than design and manufacture.

The government has moved to establish a classified list of priority industry capabilities that it would potentially intervene in the market to maintain. Cyber and electronic warfare are areas where it might be both realistic and preferable to develop and maintain local industry capabilities.

A greater challenge for local industry may yet reside in the ongoing reform process within defence, both in the DMO and capability development areas, with the former clearly earmarked by government to be more like a business and less like a bureaucracy.

However, the language used in the response to the Mortimer review is more symptomatic of the problem rather than the solution, and next time you are having trouble sleeping I suggest you read it.

The DMO will apparently become more commercially oriented by developing a charter to govern its relationship with Defence, and back this up with another charter to outline what its CEO is supposed to do. Other difficulties will apparently be solved by marauding “tiger teams” as they criss-cross the organisation in a remorseless pursuit of efficiency.

No one says that ongoing procurement reform is easy, and few begrudge the fact that real progress has been made in recent years – but you could be excused for thinking that such responses sound more like a bureaucracy and less like a business than ever before.

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