

## **2006/07 DEFENCE & NATIONAL DOMESTIC SECURITY BUDGET ANALYSIS**

### **A \$20 billion budget for an aspirational ADF**

Trevor J Thomas/CANBERRA

On the back of the nation's achievement of a \$1 trillion (GDP) combined with the growth of Federal Government revenue to \$231.7 billion, the Howard Government's 2006/07 Budget documents proclaim to all that Australia has weathered the international storm of successive threats to its longer-term prospects, thus allowing focus to be turned internally and toward major new infrastructure spending proposals.

From a national security viewpoint, the coming financial year will therefore see official eyes turning towards the watch for approaching offshore storms - including regional insecurities and the risk of failing states - with Defence's slice of the Federal Budget running close to \$20 billion in whole numbers, with major expenditures planned for ongoing and new expeditions, rapidly deployable and more mobile military capability and increased offshore border surveillance and protection.

In keeping with the appointment of a new (and aspirational) Defence Minister, delivery of the 2006/07 Defence Budget has been supplemented, for the first time, by a glossy pictorial magazine portraying an equally aspirational Defence force. Leveraging on the reality of an ADF now increasingly contributing to national security far beyond traditional warfighting, the 2006/07 Defence budget's large number of joint portfolio announcements is now working to propel the presence of the new Defence Minister across a range of non-traditional areas.

**DEFENCE FUNDED FOR A BIG FUTURE:** The implementation of a new long term plan to defend Australia - stressing not only the defence of the nation and its interests, but also its values - in the aftermath of the 2005 Defence Update will now see the annual Defence budget growing to \$26.7b by 2015-16. The new peak in Defence funding is underpinned by Cabinet's approval for a 10-year extension of the existing 3% real funding growth commitment first taken as part of the 2000 Defence White Paper. All up, the sustained 15-year real growth commitment will deliver an additional \$10.7b for Defence 2011-12 to 2015-16.

In the shorter term, the Budget's provision will see an additional \$1.4b in defence funding for 2006-07, on top of the extra \$3 billion first provided for in the 2000 'Defence White Paper'. The entire Defence budget for 2006-07 will be \$19.6b (1.9% of GDP), a 37% increase in real terms from 1995-96. To boost capital expenditure, \$625.1m will be brought forward from 2012-13 and 2013-14 Defence Capability Plan (DCP) allocations over the next four years, including \$154m allocated to 2006-07 to support and increasing log of projects coming up to second pass approval.

**REWORKED DEFENCE CAPABILITY PLAN:** The third iteration of the 2006-16 DCP - since it was first framed by former Defence Minister Hill following conclusion of the 2005 Defence Update (DU'05) - has now been marked down in the budget papers for release at the Defence+Industry Conference in Canberra, on 20 June

2006. The 2006/07 Defence budget marks out an additional \$2.4b for the DCP (through to 2015-2016), with the first increment in 2011-12 (\$251m). The \$625m brought forward will not result in reductions in the latter years, as 3% growth increment still delivers an additional \$237m in \$2012-13 and 2013-14, plus 'half billion \$-ish' increases in 2014-15 and 2015-16. The Achilles heel of the program is that 70% of the 10-year funding increase lies in the last five years of the program.

**Proposed projects for first pass approval over 2006-07 include:**

JP 2077, Phase 2D – Improved logistics information systems;  
JP 2085, Phase 2 – Explosive ordnance warstock;  
JP 2097, Phase 1 – 'Redfin' enhancements to special operations capability;  
JP 5408, Phase 3 – ADF navigation warfare capability;  
Sea 1439, Phase 3B.2A – 'Collins'-class continuous improvement program;  
Land 53, Phase 1BR – 'Ninox' night fighting equipment replacement;  
Land 146, Phase 2 – Combat identification for land forces;  
Air 6000, Phase 2A/2B – New Aerospace Combat Capability (JSF Production, Sustainment and Follow-on Development MoU);  
Air 8000, Phase 1 – C-130H refurbishment or replacement;  
Air 8000, Phase 2 – Battlefield Airlifter ('Caribou' replacement);  
Air 9000, Phase 3 – 'Seahawk' mid-life upgrade and life extension; and  
Air 9000, Phase 7A – Navy helicopter training system.

**Proposed projects for second pass approval over 2006-07 include:**

JP 126, Phase 2 – Joint theatre distribution system;  
JP 2030, Phase 8 – ADF Joint command support environment;  
JP 2048, Phases 4A/4B – 'Canberra'-class large amphibious ships;  
JP 2077, Phase 2B – Improved logistics information system;  
JP 2089, Phase 2 – Tactical information exchange domain (data links);  
JP 2090, Phase 1C – Combined information environment;  
Sea 1428, Phase 4 – Evolved Sea Sparrow Missiles (ESSM);  
Sea 4000, Phase 3 – 'Hobart'-class Air Warfare Destroyers;  
Land 58, Phase 3 – Weapon Locating Radar life of type extension;  
Land 121, Phase 3A – First tranche 'Overlander' field vehicles, trailers and modules;  
Land 121, Phase 3B – Bulk order 'Overlander' field vehicles, trailers and modules;  
Land 125, Phase 3 – Soldier Combat System enhanced version 2;  
Air 5276, Phase 8B – AP-3C Electronic Support Measures;  
Air 5276, CAP 1 – AP-3C Capability Assurance Program (key to influencing a decision on refurbishment or replacement);  
Air 5376, Phase 2.3C – F/A-18 Electronic Warfare Self Protection jammers; and  
Air 5376, Phase 3.2B – F/A-18 Structural Refurbishment Program (SRP) 2 (increased centre barrel replacement).

These above lists do not include "sensitive" projects, and Defence has introduced a new qualifier to explain away its own need to adhere to schedule by saying the progression of second pass approval will require "quality decision data" to be at hand before a project is referred to government for further consideration. New projects now likely to emerge in the revised and updated 2006-2016 DCP include:

\* **Air 9000** - \$5 billion has been set aside for the rationalisation of ADF helicopter types. If the Army's opposition to moving away from their 'Black Hawk'-based aviation system is overcome, then both the Army and Navy will eventually fly Eurocopter NH-90 derivatives – making Australia (including New Zealand) the largest global market (ie: over 50 units) outside of Europe. Such a purchase will also drive the shift to a common, joint training & management system, along with joint helicopter maintenance. Budget papers indicated a 'Sea King' replacement decision has yet to be made at Cabinet level, even though a funding provision has already been made for an early acquisition of six more MRH-90s.

\* **Sea 1297/x? & 1448/x?** – The Budget proposes the naval surface fleet will be further improved with \$500m for new defensive projects, including improvements to 'sea mine counter measures' and 'undersea warfare detection'. The upgraded 'Anzac'-class frigates are to be enhanced with an additional new air search radar system, set to replace the SPS-49 volume search radar.

\* **Joint Project 2072** - The Hardened and Networked Army (HNA) is to receive a 40% boost for Battlefield Command System acquisition – potentially boosting General Dynamics Systems Australia's (and partners Tenix & ADI) contract to \$1.1 billion

\* **Joint Project 117/2** – The Budget foreshadows a new project to enhance Ground Based Air Defence (GBAD) capabilities beyond the current man-portable RBS-70s – either through enhanced integration of legacy systems, or a new acquisition such as the RBS-23 BAMSE, Raytheon's SLAMRAAM or AMRAAM-based competitors.

\* **Air 5367/x?** - Air combat training capability is proposed to be improved/sustained via a mid-life upgrade for the 'Hawk' Lead In Fighter (LIF) trainers.

\* **Air 5077** – Defence is proposing further unspecified upgrades for the 'Wedgetail' AEW&Cs following their initial delivery in February 2007.

\* **Air 8000** – A shuffling of resources to fund the C-17 "Globemaster III" (now costed at \$2.2b), has seen the consolidation of remaining acquisition funds (in the order of \$1 billion) to support either the refurbishment or replacement of both the C-130H 'Hercules' and 'Caribou' fleets.

\* **Joint Project 2008** - More than \$1 billion will be invested into new/upgraded satellite infrastructure.

\* **Joint Project 2077** - The core enterprise systems of Defence will be continually improved including the logistics information management system.

**BIG FIX COMING FOR FLEET AIR ARM:** Improvements to naval aviation maintenance are to be addressed via an additional \$26.2m in 2006-07, on top of the \$102.3m funded in 2005-06. The full S-70B-2 'Seahawk' mid-life upgrade of sensors, communications, avionics and airframe will be delayed until 2010-12, although the partial sensor upgrade (Night Vision Goggles) will continue in 2006-07. A fully operational SH-2G(A) 'Super Seasprite' force is not expected to be deployed at sea until 2008, with delivery of the first full capability helicopter slipping to sometime in 2006-07. Negotiations are also underway for extension of the 'Kalkara' naval target contract for another three years, until Joint Project 66 – seeking to replace all ADF aerial targets – can be fully implemented.

**NAVY MOTHBALLS MOVE NORTH:** The two recently mothballed 'Huon'-class coastal mine hunters (MHCs) are now to be returned to service, and allocated to border surveillance/patrol missions. Over the next four years, this initiative will cost \$95.6m, including \$23m for the ships reactivation. The original deactivation of two MHCs was mooted in the 2003 Defence Update, with crews of the two decommissioned ships being retained for multiple crewing of the remaining four.

**GLOBAL ROAMING & EXPEDITION:** An additional \$623m over three years is provided in the new budget for ADF operations on expedition in Iraq and Afghanistan. The ADF's Iraqi deployment is now funded to 30 June 2007, with the additional year costing \$392.7m. In Afghanistan, the recently deployed CH-47D 'Chinook' helicopters will be funded to stay until November 2006, whilst the Australian contribution to the Dutch-led Provincial Reconstruction Team (PRT) will cost \$218.2m over two years. The Special Forces Task Group, also in Afghanistan, is forecast to return in September 2006.

**AUSSIE GLOBEMASTER IN DECEMBER:** The first C-17A will arrive in Australia in December 2006 under a total net cost of \$1,899m - after \$335m in savings/offsets from retirement of up to half of the C-130Hs and the termination of commercial heavy lift lease commitments. Funding for the C-17A acquisition is additional to growth (ie: on top of the already agreed 3% per annum funding increase).

**UPGRADED M113 DELIVERY UNCERTAIN:** A reported recent "brake failure" in the M113(AS)3/4 Upgrade has lead the Department of Defence to conclude the initial in-service date for the new capability, of December 2006, now "involves very high risk". Nevertheless, full scale production is still expected to begin in 2006-07, along with initial crew and maintainer training and spare parts purchasing. Tenix are contracted for 350 M113 upgrades under Land 106 for a total cost of \$594m.

**LAND 17 PRECISION MUNITIONS PRE-EMPTED:** Phase 1B of Joint Project 2085 - for maintaining the ADF's explosive ordnance reserve stocks will see a new contract in 2006-07 for Precision Guided Munitions for Army 155mm artillery. This acquisition will occur well before project Land 17, which received first pass approval on 22 February 2006. Other proposed 2006-07 acquisitions include the intermediate 1,000 lb (454 kg) Mk. 83 bomb for the RAAF.

**NW SHELF UAV TRIALS REPACKAGED:** The budget provides \$9m for two year trials of a 'mid range' UAV for Coastwatch, to follow on from the earlier Aerosonde trials. This trial appears to have been separated from project Air 7000/1 activities - currently before the Government under a repackaged acquisition process that will see the appointment of two system integrators to canvass the market for wider offerings beyond the initial 'Global Hawk' and 'Predator/Mariner' UAV systems first used to frame the project.

**ANZAC UPGRADE – EXPANDING?:** The 'Anzac'-class anti-ship missile defence (ASMD) project is to have added to it a new Preliminary Phased Array Program (PPAP), aiming to mitigate risk in the design and development of CEA Technologies' phased array architecture. Previously selected under Sea 1448/2B, phase 2A of this program will upgrade the Combat Management System, Fire Control System and add the 'Vampir NG' IR Search & Track system. The first ship with both upgrades will enter service in 2009, with the remaining seven others to be progressively upgraded over 2010-13.

**FFG UPGRADE - SHRINKING:** Formal contract negotiations between Defence and ADI continue to reduce the FFG Upgrade (Sea 1390) project from six frigates, to four. HMAS 'Canberra' was withdrawn from service late-2005 and HMAS 'Adelaide' is due to retire no later than the end of 2007 – in order to yield personnel for the Navy's multiple crewing initiative. Savings from these early retirements may be limited, as ADI has already purchased six ship-sets of key upgrade equipment. Fitment of SM-2 Block IIIA missiles (phase 4B) has slipped to 2009, just four years before the first Sea 4000 air warfare destroyer is due to enter service.

**MAJOR BORDER CONTROL BOOST:** Defence Minister Nelson has reiterated the Government "won't muck about in securing Australian sovereign waters and protecting the economic interests of the Australian people." In an initiative clearly designed to neutralise the Opposition's recurrent call for a 'Coastguard', the Government will now fund \$11.7m over four years to expand the responsibilities of the Joint Offshore Protection Command (JOPC) to control and coordinate all 'on-the-water' operational responses to civil maritime security threats (see *further initiatives re-illegal fishing below*).

In addition to the 'Huon'-class MHC reactivation, the 2006-07 budget provides an additional \$12.1m to further sustain Operation 'Relex II' - the ADF's program to counter unauthorised immigration and refugee arrivals - from the original funding deadline of 30 June 2006. Customs will further increase Coastwatch northern surveillance flights by 2,200 hours over "high-threat approaches", costing an additional \$20.2m in 2006-07.

A further \$388.9m has been allocated to fund a multi-agency, anti-illegal fishing plan bringing together: the Australian Customs Service; the Australian Fisheries Management Authority; Australian Quarantine & Inspection Service; the Departments of Agriculture, Defence, Immigration, Attorney-General's; the Great Barrier Reef Marine Park Authority; Australian Federal Police and Commonwealth Director of Public Prosecutions – all with the objective of doubling the number of illegal fishing vessel apprehensions.

Adding to previous Budget initiatives, key additional northern border protection improvements being funded in 2006-07 include:

- \* A new long-rang helicopter rapid response capability costing \$24.9m over four years. These helicopters will be used to respond to foreign vessel landings and/or abandoned boats in remote areas.
- \* A 1,400 hour increase per annum in Coastwatch aerial patrols (predominantly at night) to target illegal fishing that will cost \$34m over four years.
- \* Five fishing boat 'crematoriums' will be built for \$16.5m over two years from 2007-8 at Darwin, Gove, Horn Island, Broome and Weipa. Additional funds will be provided for illegal fishermen processing and detention.
- \* Intelligence support for onshore surveillance and interdiction will be increased with \$9.6m to be spent over the next four years, especially to provide greater support for policy, intelligence and enforcement agencies engaged in fisheries compliance and maritime enforcement.
- \* \$18.5m over three years will be provided to improve charting of the Torres Strait and northern Great Barrier Reef to provide reliable navigation for Defence, Customs and related border protection vessels.
- \* A dedicated patrol and response vessel will be stationed in the northern Great Barrier Reef at the cost of \$2 million.

\* \$14m will be spent on chartering civilian vessels to tow apprehended illegal fishing vessels to shore as required. The charter program comes after successful trial of the concept during Operation 'Breakwater' in northern waters earlier this year.

\* A 12 month trial of an indigenous 'rangers' program will be established for \$6.9m using local communities to monitor bio-security risks from illegal foreign fishermen.

\* Customs patrol boats will have a \$6.3m increase in training and equipment to improve boarding capability through risk reduction.

\* \$4.8m over two years will establish a project team to bring forward the replacement of the Customs fleet, including the eight 'Bay'-class patrol boats. Customs are understood to have enviously eyed the Navy's larger and much longer-legged 'Armidale'-class patrol boats currently being acquired under project Sea 1444.

\* \$31.7m over four years will be provided for Customs to support the existing Southern Ocean patrol vessel ('Oceanic Viking') to conduct patrols of Australia's northern waters. The funding will also allow for support to be provided by chartered towing and support vessels.

**MULWALA FACILITIES - EXPLODING:** The Government has reaffirmed a strategic decision to retain Australian-based propellant manufacture, with the Mulwala (NSW) facility to be redeveloped for approximately \$300m over eight years. Defence is to be supplemented \$130.8m over six years for this project (commencing 2008-09), with the balance to be met from internal funds. Bovis Lend Lease and ATK Thiokol Inc have been selected as preferred contractor for the project.

**HARDENED & NETWORKED ARMY (HNA):** The \$1.5 billion over 10 years from 2006-07 for HNA outlined in the 2005 Defence Update has been confirmed, although the majority of funds (\$1.1b) will not be spent until the back end of the program (2010-2017). HNA Phase 2 includes \$656.5m of capital expenditure over six years from 2007-08, including \$334.8m from 2010-2014 to upgrade Army facilities. The move of 3RAR to Adelaide is likely to consume the lion's share – estimated at around \$300m – of this funding. HNA appropriations, like the C-17A purchase, are additional funds on top of the commitment for 3% per annum real growth.

**HEAVYWEIGHTS TO ARRIVE DOWNUNDER:** The first of the new Mk. 48 Mod 4 heavyweight torpedoes (533mm) for the 'Collins'-class submarines are due to arrive in Australia during 2006-07. The torpedoes, which are effective against both ships and other submarines, will be integrated/T&E'd onto HMAS 'Waller' during the financial year. ASC will conduct the work under the submarine TLS agreement, also adding the system in 2006-07 into HMAS 'Dechaineux' during its scheduled full-cycle docking.

**NO-WIN/NO-LOSS CASH EXCHANGE:** The Government has made a last minute policy change to its 'no win/no loss' arrangements regarding the extension of foreign exchange supplementation for acquisition projects. During the course of 2006-07 Budget development, a decision was made that Defence's appropriations would be adjusted in the forward year estimates, as well as the budget year. All future exchange updates will now be done on the same basis, resulting in the discontinuation of the Department of Finance's contingency reserve. The policy change decreases defence funding by \$257.4m in 2006-07, and \$1,081.7m across the forward reserves – although it is stated there will be no impact on purchasing power.

**ADF ORGANISATION GOING BACK TO THE FUTURE:** The Defence Budget papers outline in detail the evolution of a new Department of Defence organisational structure, now set to come fully into place from 1 July. As previously reported in DIAR.com, the changes mean Defence leadership will be restructured away from former Defence Secretary Hawke's output, support and enabling executives model - to a new construct that returns to stand alone executives in parallel with the creation of a new Australian Defence Headquarters.

**CAPEX SPEND INCREMENT AT \$153.8M:** Spending on Defence capital projects will top \$459.1m in 2006-07, up 50.4% from the \$305.3m of the previous year. Major infrastructure upgrades will be carried out at RAAF Base 'Amberley', Special Operations Command at 'Holsworthy' Barracks, RAAF 'East Sale' and 'Wagga', Kokoda Barracks, Canungra (home of Army Intelligence near the Gold Coast) and DSTO Fishermans Bend. An additional \$381.8m will be spent in 2006-07 in maintaining the extensive Defence estate, including asbestos removal.

**LAST MINUTE CORRECTIONS:** Late in the Budget lock-up, Treasury officials circulated several pages of revised Defence budget figures. DIAR.com readers are advised to qualify daily newspaper Defence budget reports, as these stories may not have incorporated the subject revisions. Amendments included: a revised total of new budget measures of \$1,390.5m (down from \$1,400.9m), savings measures of \$14.4m (down from

\$49.4m); and changes to the split of Afghanistan deployment costs away from the CH-47D Aviation Support Element towards the Special Forces Task Group.

**HOMELAND SECURITY BUDGET INITIATIVES:** DIAR.com readers can download a separate analysis of homeland security initiatives from [www.homelandsecurity.org.au](http://www.homelandsecurity.org.au).

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