STRATEGIC INSIGHTS

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Crunch Time:
Planning Australia's future defence force

by Mark Thomson

In the next couple of months the government will make some big decisions about how billions of taxpayer dollars will be spent in the next stage of Australia's largest military build-up since the Vietnam era.

Hard choices are likely to be faced because of three factors. First, over the last couple of years a number of new proposals have arisen including those to 'harden and network' the Army. Second, the estimated cost of delivering existing projects is almost certain to grow. Third, the capacity of Defence and industry to deliver new equipment remains uncertain. As a consequence, the government will have to prioritise the military capabilities it wants. Critical to this will be sorting out the role and composition of our land capabilities—an unresolved issue that goes to the heart of strategic policy.

The M1A1 Abrams main battle tank in action. © Department of Defence

The result will be a revised *Defence Capability Plan* that sets out the investments the government will make over the next decade to build the defence force, and a *Strategic Update* that, amongst other things, explains the rationale for changes in the *Plan*. The aim is for both these documents to arrive before the end of the year.

Hopefully, the government will also face up to the unforgiving reality of defence funding. **In the absence of increased spending past 2010, either the planned level of capital investment must be cut, or the size of the defence force reduced, or both**. This holds true even before any new proposals or cost increases are taken into account; it's the inevitable consequence of introducing already planned new capability into service during that period.

In what follows, we examine the issues faced by the government in producing these two documents and explore the critical question of long-term defence funding. We begin by looking back over the past five years (Figure 1) to see how we got to where we are today.

... Defence 2000 set out the government's vision of a comprehensively modernised defence force.

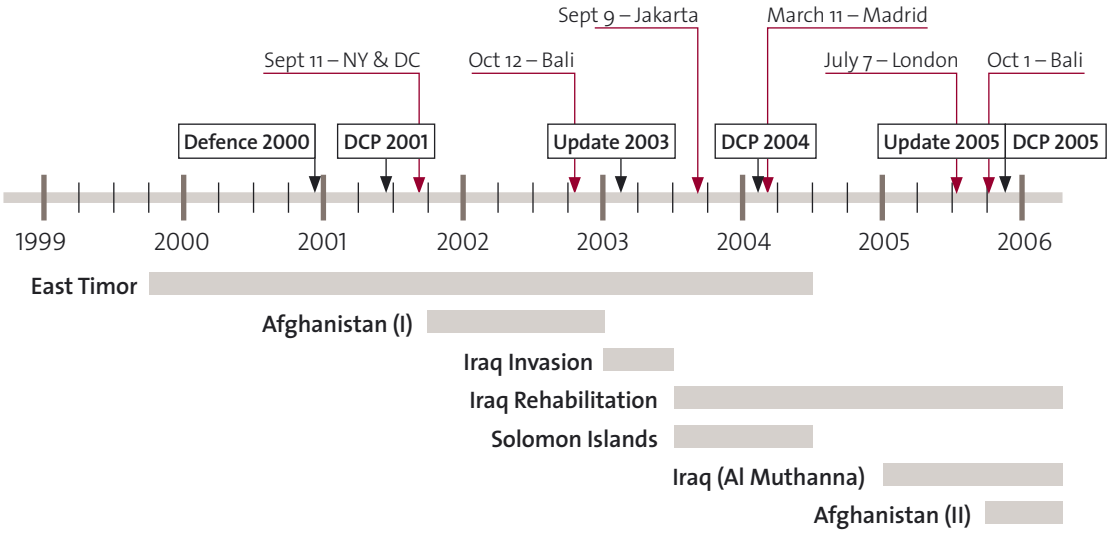
How it all began—the 2000 White Paper

Following a delay caused by the East Timor crisis, the government commenced an almost year long process to develop a new Defence White Paper in late 1999. The result, *Defence 2000*, set out the government's vision of a comprehensively modernised defence force. At the core of their plans was a decade-long program of capital investment known as the *Defence Capability Plan*. Its scope was ambitious. Almost every significant asset in the inventory was to be either upgraded or replaced. In addition, an impressive array of new capabilities were to be brought into service for the first time including airborne early warning and control aircraft, attack and trooplift helicopters and a new class of air warfare destroyer. With a price tag of more than $50 billion to complete all of the projects, the planned investment in new equipment exceeded the book value of Australia's entire defence armoury by almost $20 billion.

Five years into the program and progress is apparent. Army took delivery of the first of its new attack helicopters late last year, and the first of fourteen new patrol boats for Navy arrived in June this year. Meanwhile, Air Force is looking forward to the delivery of airborne early warning and control aircraft in 2007 and replacement air-to-air refuelling aircraft in 2008. While these and other developments are encouraging, the bulk of the program is yet to be delivered. In part, this reflects the time it takes to initiate and deliver modern defence projects—it can take more than a decade for a complex project to go from conception to reality—but that's far from the whole story. The program has also faced problems along the way.

Right from the start, the *Plan* was beset by increasing costs. Some projects like trooplift helicopters, maritime patrol aircraft and artillery replacements ended up more than doubling in price. Then, somewhat unexpectedly, it soon proved impossible to deliver the projects on schedule anyway; eventually forcing more than $2 billion of investment to be deferred. On top of this, the cost of maintaining the force on a day-to-day basis was growing faster than anticipated with around $3 billion extra going to logistics, personnel and defence land and buildings in the first three budgets after the *Plan* was laid down.

Figure 1: Major military deployments and events 1999–2006



If mounting budget pressures and project delays were not enough, events over the same period introduced a degree of strategic uncertainty. Beginning with the attacks of 9/11 and the subsequent Afghanistan operation, questions began to be asked about whether the strategic priorities set in the aftermath of East Timor—centred on a force structured for defending Australia from conventional attack and the security of the immediate neighbourhood—still made sense.

After much deliberation the government moved to clarify its position via a *Strategic Update*[1] in early 2003. While confirming that the overall strategic priorities of the then two-year old White Paper remained valid, it highlighted three areas of immediate concern; security problems in our immediate region, international terrorism and the proliferation of weapons of mass destruction. Moreover, it judged that the prospect of conventional military attack on Australian territory had diminished over the intervening three years because of several factors including the 'stabilising effect of US determination and willingness to act'. None of this was surprising for a document released in the aftermath of the Bali bombing and amid preparations to invade Iraq.

The *Update* further elevated the priority for Australia's military forces to be ready for action at short notice—understandable in the circumstances—thereby reinvigorating the focus on military preparedness initiated after East Timor. However, although there was mention of 'some rebalancing of capabilities and priorities', there was no hint in the *Update* of what this meant in concrete terms for the shape of the defence force beyond being 'more flexible and mobile'.

It took the better part of a year, until early 2004, before the government fully revealed its plans for the defence force in light of changed strategic circumstances and growing budget pressures[2]. And when it came there were sobering surprises in store for Navy and the Air Force who both sustained big cuts to offset the rising cost of logistics and personnel. Not only were two recently acquired mine hunter vessels mothballed, but two (out of only six) of Navy's most capable warships, the FFG frigates, were slated for early retirement along with Air Force's entire F-111 long-range strike fleet.

Just as interesting were the changes to the multi-billion dollar equipment modernisation program. Practical difficulties with delivering acquisition projects coupled with rising project costs (by my estimate an average of around 20% since 2000) saw many projects delayed and others seemingly abandoned. This, along with a growing list of multi-billion dollar project debacles, prompted the government to initiate the most comprehensive reform to defence procurement since the transfer of defence production to the private sector in the 1980s and 90s. These reforms continue and, despite some promising signs, it's too early to know for sure how successful they will be.

In terms of the individual projects that made up the revised *Defence Capability Plan* of 2004, an interesting picture emerged of what was meant by a 'rebalancing of priorities'. By and large, the capability goals for Air Force remained unchanged, although the early retirement of the F-111 fleet resulted in new projects entering the plan to, in effect, consolidate the long-range strike capability of other aircraft already in inventory—a move not without risk. The biggest changes, however, were in Navy and Army. These included the development of a far larger and more capable amphibious capability than previously envisaged, along with projects to bolster Army's capability for 'combined arms' operations that coordinate infantry, armour, aviation, artillery and engineers in close combat. It was in this context that the controversial decision to acquire new main battle tanks was made.

None of this suggested a wholesale abandonment of the long-standing 'Defence of Australia' doctrine that had guided defence planning for almost three decades.

Taken together, these changes represented a modest shift away from the traditional high-tech air and maritime capabilities designed for the self-reliant defence of Australia's northern approaches, in favour of a heavier Army better equipped for

Australia's Airborne Early Warning and Control (AEW&C) Wedgetail Aircraft. © Department of Defence

conventional close combat operations and a Navy ready to take them offshore to do so. None of this suggested a wholesale abandonment of the long-standing 'Defence of Australia' doctrine that had guided defence planning for almost three decades. Indeed the dollars in the plan remained dominated by air and maritime projects. Nevertheless, the question of just where this more heavily armed amphibious force might be designed to go, and whom the Army might fight in close combat upon arrival, remained unclear.

That was almost two years ago and the government is once again updating the *Defence Capability Plan*. Revisions of the *Plan* are, in fact, a routine internal process designed to take account of strategic developments, new technologies and changed priorities. But this year's revision is different for two reasons. First, it is being accompanied by the development of a new public *Strategic Update*. Second, it will result in a new public version of the *Plan*. The outcome will be two public documents that outline the means and ends of our defence policy via the *Plan* and *Update* respectively. This is not routine (although arguably it should be).

Such a reassessment is timely; the strategic environment continues to evolve and the goals (and prospective cost) of the land force have grown over the last two years. We've been told that phase one of the 'hardened and networked' Army agenda has been agreed upon and that consideration of the second phase—involving both new capability and a new force disposition at an unspecified cost to be expended across the decade—is to be considered by government soon.

The Defence Minister has said that he hopes that the new *Strategic Update* and revised *Defence Capability Plan* will be available before the end of the year. Together, these documents will guide the expenditure of tens of billions in taxpayer's dollars and shape the ongoing development of Australia's military forces. Revising the plan will be no easy job given the practical difficulty of managing the capital investment program. But the first step is to decide exactly what the defence force needs to be able to accomplish in the future, and that means getting our defence strategy clear.

Updating our strategy

On past experience, the *Strategic Update* will provide an overview of recent strategic developments and an assessment of the implications for Australia. No doubt, the unholy trinity of terrorism, troubled regional states and weapons of mass destruction will once again figure prominently, as will developments in North Asia, including the rise of China and the simmering flash points of Taiwan and North Korea. Closer to home, the *Update* will certainly canvass the situation in the South Pacific and Australia's ongoing initiatives there. Missile defence might even get another mention, and if the government is feeling really bold, they could explain the role of pre-emptive strikes in Australia's defence.

Of particular interest will be the judgements made about future US intentions and behaviour. The last strategic update made much of its judgement that 'there is less likely to be a need for ADF operations in defence of Australia ... because of the stabilising effect of US determination and willingness to act, the reduction in major power tensions and the increased deterrent effect of the US–Australia alliance flowing from US Primacy'. While this may have made sense in the lead up to the Iraq invasion, it's less clear today with the limits of US power on graphic display from the Sunni Triangle to New Orleans. Arguably, the extent to which the US departs Iraq on its own terms will shape US strategic thinking for years to come, just as Somalia and Vietnam did previously. As a consequence, any attempt at long-term prognostication on US intentions is fraught.

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If the *Update* achieves all this it will make for an interesting read, but what really concerns us here are the conclusions it draws about how and where Australian forces might fight in the future. It is only by doing so that the priorities underpinning the *Defence Capability Plan* can be made clear.

Much can be taken as given. The core role of the defence force will almost certainly remain the physical defence of Australia, which in turn demands that we maintain high-tech air and naval capabilities to deny our approaches to any credible adversary. What remains unclear is the role of Army.

It's the Army, stupid

Defence 2000 was clear. 'Australia will maintain land forces—including the air and naval assets needed to deploy and protect them—that can operate as part of a joint force to control the approaches to Australia and respond effectively to any armed incursion on to Australian territory.' Moreover, it said that these forces 'will also have the capability to contribute substantially to supporting the security of our immediate neighbourhood, and to contribute to coalition operations further afield, in *lower intensity operations*' (my italics). This led to a range of rapid capability enhancements for the land force to ensure they had 'sufficient firepower, protection and mobility to provide clear advantage in any operations in defence of Australia or in our immediate region'.

Since then, the capability goals for the land force have moved beyond those of five years ago, at the same time as their role has drifted off into unknown territory. Indeed, Chief of Army's intent[3] for a hardened and networked Army includes optimising the force 'for close combat in complex, predominantly urbanized terrain' and making it adaptable 'to other tasks, up to and including *medium intensity warfighting* in a coalition setting' (again my italics). This sounds more like getting ready to fight in Fallujah than anywhere in our immediate neighbourhood.

Although the rationale behind the prospective Army build-up remains unclear, a reasonably detailed picture of the bolstered amphibious capability, of which it will be a part, is on the public record[4]:

'They will need to be able to embark, sustain and transport by sea an amphibious combined arms battle group together with their equipment and supplies. The force needs to be able to train and rest while en route to operations. The ships will need the capability to carry and tactically deploy several hundred vehicles, including armour, plus trailers. They will also need the ability to airlift simultaneously an air-mobile combat team from 12 helicopter launch spots between the two ships. They will each have hangar space for at least 12 helicopters and at least four conventional landing craft that are capable of carrying our new tanks. The ships must also be capable of providing the necessary command, control and communications to direct the battle group's amphibious landing and follow-on forces. Of course, given the prospect of Australian and US forces continuing to work closely in the future, the ships will need to be interoperable with our coalition partners.'

And earlier this year, Defence's Chief of Capability Development set out the sort of hostile environment in which an amphibious operation might occur (without saying where it might occur) in response to a question about force protection[5]:

'Quite clearly, if we were deploying on an operation with these ships delivering the major land force component, we would create very much a layered defence around the ships. Obviously, they would be accompanied at the surface by other major surface units—air warfare destroyers or frigates with SM2 air warfare missiles, depending on the time frame. Underneath, there would obviously be submarines picketing the route, clearing choke points or clearing the route for them. Above, if required, there would be the combat air patrol with the fighter of the day—AEWC and so forth. We will create a bubble around this to move it through because it is going to be a precious cargo. On top of that there will be space assets to increase our situational awareness and any other intelligence we can glean about where we are going. We will put the best defence around these that we can. The vessel will have some point defence capability against missiles that might come at it.'

What does this tell us? Well, although Defence has said that it is not structuring for opposed amphibious assaults, we are clearly looking at something well beyond an administrative move. What we have is an amphibious landing of a combined arms battle group complete with tanks and an air-mobile combat team onto foreign soil against an adversary with sufficient sea, air and land capabilities to demand a comprehensive response involving sophisticated air and maritime platforms. But where might such a scenario arise? There are two alternatives:

First, the challenge of responding to incursions into, or controlling the approaches to, Australia has grown substantially in the past five years. However, it's hard to point to any significant changes in our region to support this proposition. (The ongoing availability of shoulder launched anti-tank weapons was used to justify the tank replacement, but that's a long way short of justifying an amphibious combined arms capability.)

Second, the expeditionary land force might be designed for intense combat operations in coalition with United States forces further afield—plausible given that these plans first emerged in the immediate aftermath of main combat operations in Iraq. If so, this would mark a significant departure from the long standing policy of only sending relatively low risk niche contributions to distant wars. (A policy that was, moreover, confirmed in the 2003 *Update*.) In extreme, it could see us returning to the sort of land contributions we made to conflicts in Korea and Vietnam[6].

One way or another, the government needs to make its intentions clear in the *Strategic Update*. If there is to be return to large pre post-Vietnam style boots-on-the-ground involvement in coalition combat operations they should say so. If, instead, we are developing a 'silver bullet' to cure some range of credible (but previously unforeseen) contingencies in our approaches, then we need to know what they might be, and especially how they relate to having the amphibious capability to lodge forces onto foreign soil against a capable adversary.

There is, unfortunately, a third possibility. That is that there is no clear strategic rationale behind the changes. Rather, in a multi-billion dollar triumph of form over function, top down strategic planning has been replaced by the fulfilment of single-service aspirations. If this seems outlandish, ask yourself this; what is the overarching strategic framework behind developing a hardened and networked Army? While it's true that networking is a Defence-wide goal, hardening for combined arms operations is not. All signs are that there has been a bottom-up push by Army which has filled a strategic planning vacuum left in the wake of 9/11 and subsequent events.

If this is what's occurring, it's an expensive indulgence. The emerging plans represent a big jump from the goals of *Defence 2000*.

Soldiers from the Australian Army Training Team Iraq 4 [AATT-I (4)] at the firing line during live fire practice outside As Samawah. © Department of Defence

The escalation from being able to deploy forces in circumstances akin to East Timor to one demanding a 'networked and hardened' combined arms land force explains the extra funds already committed for tanks, artillery and combat identification. Similarly the amphibious capability, has seen the planned amphibious vessels double in size and the additional troop-lift helicopters more than double in price. Yet we may not have seen the end of what will be needed.

Defence is already examining whether the short-take-off-and-landing variant of the Joint Strike Fighter can refuel and rearm from the deck of the yet to be acquired amphibious vessels.

To start with, there is a clear gap in capable ground based air defence in the current make-up of the combined arms capability. In addition, although there are no current plans, Defence is already examining whether the short-take-off-and-landing variant of the Joint Strike Fighter can refuel and rearm from the deck of the yet to be acquired amphibious vessels. Eventually the realities of vessel maintenance and availability will drive the argument for an increase to three amphibious vessels in the fleet to provide an assurance that two will be ready for action at any one time. And it remains to be seen if the demand for protecting the force will escalate into a requirement for the Air Warfare Destroyer to be fitted with a theatre ballistic missile defence capability. None of this will come cheap.

It's also possible that a bid for additional troops will be made. By itself, this would make a lot of sense. The systemic undermanning of Army units needs to be addressed to provide the six full strength infantry battalions required to rotate and sustain forces on operations. Especially now that the regular commando regiment has been assigned responsibility for counter-terrorist response on the East Coast, the ability to sustain a brigade on deployment as outlined in *Defence 2000* is far from assured. The danger is that resources will be diverted to 'hardening and networking' at the expense

of building up the basic capacity—including troops—to meet the goals set in 2000 following the lesson of East Timor.

Replanning the plan

The hard reality of defence budgeting is that you can spend each dollar once and once only. In the absence of extra funding, any new initiatives to network and harden the Army must unavoidably displace existing projects—there is always an opportunity cost to be paid. The option most often mentioned by Army proponents is to raid the Joint Strike Fighter project, arguing that we can afford not to replace all of our current fleet of 95 combat aircraft. But this is not the only challenge ahead for the *Defence Capability Plan* as it stands.

To start with, there are the inevitable cost pressures due to overly optimistic cost estimates and creeping capability aspirations. Examples are not hard to find. Last month the final phase of a project to upgrade the anti-missile defence capabilities of the ANZAC frigates was approved; budgeted at between $75 million and $100 million in 2004, the final bill now stands in excess of $184 million[7]. And this project is not without considerable risk. Rather than choose an off-the-shelf system that's already in operation, a new Australian-unique solution has been chosen for the upgrade. This does not bode well given recent experience with the Australian-unique upgrade to the FFG frigates that has resulted in a 48-month delay so far. Meanwhile the amphibious ship project looks to be too expensive to build in Australia, with an estimated $600 million cost premium for domestic production.

But perhaps the biggest risk is the Australian manufacture of a new class of three Air Warfare Destroyers. This is the most complex and technically challenging ship project in our nation's history, yet a novel acquisition strategy has been chosen where Defence leads a multi-party alliance involving domestic and foreign firms to deliver the project. The good news is that in choosing the off-the-shelf AEGIS radar and combat system, a lot of technical risk has been avoided. The bad news is that the preferred design is a paper ship that's never been built. In mid-2005, the project manager went on the record to say that the vessels can be delivered within the current $6 billion cost ceiling. This is a brave call for a vessel that's yet to be designed in any detail. Let's hope he's right.

There's also a range of potential cost pressures arising from off-shore aircraft acquisitions. Australia's biggest defence project ever, the Joint Strike Fighter, has already seen unit production costs increase in the parent US program by more than 20% between 2001 and 2003[8], and the US Quadrennial Defense Review is reportedly considering reduced numbers of aircraft. If this occurs, economies of scale will be lost and costs will rise as a result. In any case, future increases cannot be discounted given that it's early days yet in the project, which the independent Congressional Budget Office says entered development with critical technologies immature. Not surprisingly, production has already been delayed by a year. It could easily get worse. The last US fighter to enter production, the F-22 Raptor, was delayed 27 months and saw unit production costs grow by 67% while planned numbers fell from 648 to 279.

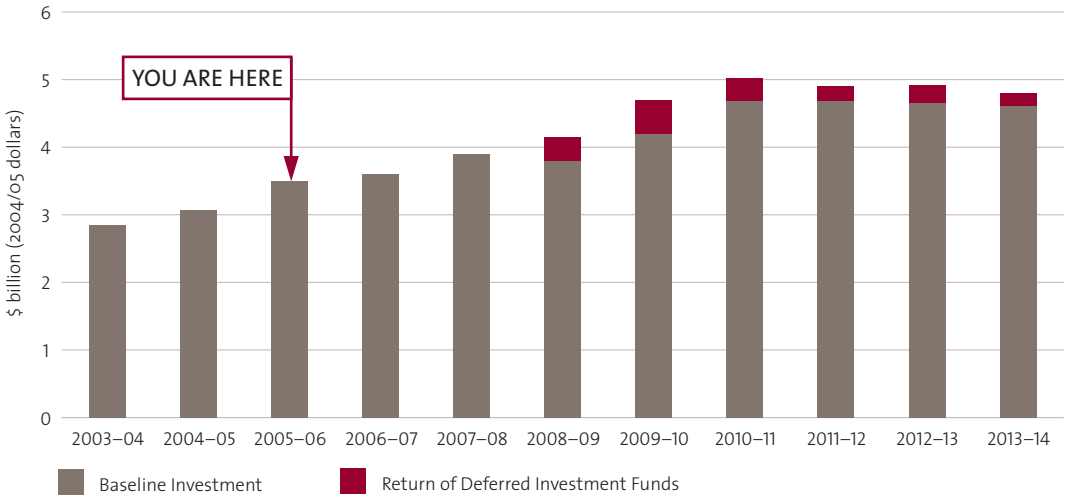
Another immature US project is the Multi-mission Maritime Aircraft, which is a prime candidate for our $4 billion maritime patrol aircraft replacement project. At an *initial* estimated unit cost of between $234 and $311 million (depending on whether we get hit with development costs) it's unlikely that the capability of the current fleet of nineteen maritime patrol aircraft can be replaced once other project costs are taken into account.

To complicate matters further, Defence's ability to deliver major investment projects remains uncertain. Although there have been some promising signs, including the reinstatement of $300 million into this year's investment program and some bold organisational changes, it remains unclear how quick or effective the reforms will be. One problem that's recently emerged is that the approval of new projects has stalled significantly as the newly mandated, and more comprehensive, approval process is introduced and organisational changes are made within Defence. This is an initiative worth sticking to, but it has a cost; until projects are approved they cannot possibly be delivered. To make matters worse, more than 50% of the Defence Materiel Organisation (DMO) workforce is aged 45 years or older, so more than half of the organisation's people may retire over the life of the new *Defence Capability Plan*.

Not only is the ongoing rapid increase in the volume of work a concern (a real increase of more than 70% over seven years, Figure 2), but critical skills shortages are being felt in a number of areas.

There are also big concerns about the capacity of Australian defence industry to deliver new equipment. Not only is the ongoing rapid increase in the volume of work a concern (a real increase of more than 70% over seven years, Figure 2), but critical skills shortages are being felt in a number of areas. In response, Defence is spending $75 million over four years on industry training programs. While a positive move, this will only have a limited impact given that many skill shortages are not restricted to the defence sector—it's unavoidable that trained personnel will leak into the broader economy.

Figure 2: Planned Major Capital Investment 2003–04 to 2013–14



Source: Taken from a presentation by Dr Steve Gumley at the Defence and Industry Conference July 2005. Deferred investment figures taken from 2005–06 Defence Portfolio Budget Papers.

Finally, some consideration needs to be given to the capacity of the Services to absorb so much new equipment over so short a period of time. It takes trained personnel, doctrine and logistical support to turn a piece of equipment into effective military capability. No less than 51 projects in the current *Defence Capability Plan* will deliver some or all of their equipment between 2010 and 2015 inclusive. This will place big demands on developing the enabling components of capability.

Bringing it all together; strategy, capability and funding

The hallmark of successful long-term defence planning is the seamless marriage of strategy, capability and funding into a coherent package. Unfortunately, in the five years since the White Paper, these three components of defence planning have evolved in less than perfect unison, in part because each is the responsibility of entirely separate fiefdoms within the Defence bureaucracy.

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But the government has the chance to rectify this. The first step will be to rebuild the link between strategy and capability. The argument for doing so is strong; there are new proposals on the table to 'harden and network' Army at the same time as cost pressures threaten the *Defence Capability Plan* and uncertainty hangs over the capacity to actually deliver projects. The situation demands that money and capacity be directed to areas of highest priority. To achieve this, the government must resolve the ambiguity in its strategic policy in the *Update* and thereby sort out the role of Australia's land forces. Put simply, its time for strategic policy to either catch up with, or rein in, the Army's aspirations. Only then can we be sure that the billions of dollars to be spent are guided by an overarching strategic intent, rather than being driven by bottom-up demands.

If the *Update* and *Plan* manage this, significant progress will have been made. In the near term this is as much as we can expect. In the longer term, however, there is a further step that can and should be taken. To really build a robust link between strategy and capability requires the development of Joint Operational Concepts that detail how the three Services will operate together as opposed to separately. Several of these, looking at different situations, would help bring coherence to the planning of the future defence force. Defence has been moving in this direction and is currently implementing a strategic capability planning process, which was used in this year's revision of the *Plan*. It involves internal documents including *Defence Capability Guidance* and a *Defence Capability Strategy*. Almost certainly, these are classified documents that cannot be released. Consequently, we'll have to be satisfied with a clear statement of the government's intentions in the *Update* that explains the broad priorities in the *Plan*.

Even then, the job will not be complete unless the government also comes to grips with the question of long-term defence funding. The government backed up *Defence 2000* with a decade-long funding commitment to an average of 3% real growth per annum, but that runs out in five years. As a result, the revised *Plan* is being formulated on the assumption of zero real growth in the defence budget past 2010 (apart from the return of deferred investment funds[9]), with a promise to review long-term defence funding in the context of the next budget. This makes no sense—it's pointless to plan future capability acquisitions until the overall budget has been decided.

It's not simply that this would probably require revising the revised plan less than six months after it's published—as bizarre as that would be. The real worry is that the government runs the risk of over committing itself if it continues to plan capital investments in isolation of the overall budget. Defence cannot possibly afford to maintain the pre-existing level of investment between 2010 and 2015 and introduce planned new equipment into service without a growing budget—even leaving aside the pressure of new proposals.

The current *Defence Capability Plan* has many projects that will be delivered over the first half of the next decade with partial or no offsetting reduction in costs elsewhere. To start with, the Multi-Mission Unmanned Aerial Vehicle fleet will enter service at the start of the period with no offset. Then two of our current fleet of amphibious vessels will be replaced with supersized leviathans—each larger that the old carrier HMAS Melbourne—with a commensurate increase in operating costs. Over the same period, all three Air Warfare Destroyers will enter service with the offsetting retirement of only one single (smaller) frigate[10]. At the same time a number of projects designed to further enhance the 'networked capability' of the defence force will enter service including the final phases of the Joint Intelligence Support System and the Joint Command Support Environment, and the introduction of a new Space Based Surveillance Capability. The first tranche of Joint Strike Fighters will also enter service around this time although this will, at least to some extent, be offset by the early retirement of the F-111 fleet.

Here's the problem: it looks like the current *Defence Capability Plan* assumes that baseline investment will effectively be held constant in real terms past 2010 (Figure 2). Given the cost of introducing planned new capabilities into service, this implicitly commits the government to increased defence spending over the same period. Alternatively, in the absence of increased spending past 2010 or new efficiency measures, either the level of capital investment must be cut, or the size of the defence force reduced, or both. And the problems don't end here.

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On top of the operating costs of new equipment, there's also the ongoing growth in equipment technology costs which in turn drives logistics and equipment maintenance expenses. Analysis by Defence of historical trends reveals that the rate of unit cost growth for high-tech military equipment has tended to outpace inflation by a clear margin; aircraft (3.5%), warships (3%) and submarines (3.75%). A no less pessimistic story can be told about personnel costs that increase by 2% to 2.5% per annum. The way in which these pressures fold into the budget is complex due, for example, to the possibility of reducing fleet numbers as technology boosts intrinsic capability. Nonetheless, an ASPI analysis in 2003[11] estimated that ongoing real budget growth of around 2.6% would be necessary to simply maintain the force past 2010. This sort of underlying cost growth will add still further pressure to either increase spending, or reduce capability, in the first half of the next decade.

The risk is that we may already be planning to acquire capabilities that, without extra money, we cannot afford to operate. This might sound like hand-wringing about far off days, but that is what long-term capability planning is all about. Only two years ago precipitous cuts were made to the force to

free up money for personnel and operating costs that had not been properly planned for. Consequently, there is a strong case for delaying the finalisation of the *Plan* and *Update* to allow them to be developed in tandem with the issue of long-term funding.

We should be looking now to plan a defence force that is sustainable taking account of long-term fiscal reality.

More broadly, let's hope that no one seriously thinks that the current defence force can be maintained on a constant budget. The last time this was tried back in the 1990s the result was deferred upgrades, forgone investment and eroded preparedness. (The situation would have been a lot worse if not for the extensive efficiency programs of the era.) Having said that, the question of defence spending has to be carefully balanced against the ability of the Nation to pay in the long run. A recent paper by Treasury Secretary Ken Henry[12] argues persuasively that Defence, along with other government agencies, will face greater competition for resources as demographic factors bite in the coming decades. We should be looking now to plan a defence force that is sustainable taking account of long-term fiscal reality.

What to look for

We can only be sure that the government is developing a sustainable defence force with the right capabilities if we see:

- A *Strategic Update* that clarifies the outstanding issues in Australia's strategic policy, including a clear statement of the role of the Army and its amphibious component.
- A *Defence Capability Plan* that sets out the military capabilities to be developed in the future consistent with the top-down guidance in the *Update*.
- A decade-long funding commitment out to 2015 that covers the cost of acquiring and operating existing and planned capabilities, balanced against what the Nation can afford in the long-term.

Unfortunately, none of this is assured. The current process of ad-hoc periodic updates and revisions has, so far, failed to coordinate the development of strategy, capability and funding. This strengthens the case for a new White Paper, including a comprehensive review of the force structure, sooner rather than later.

Notes

1 *Australia's National Security: A Defence Update 2003*, February 2003.

2 Initial decisions were released in the *Defence Capability Review Defence* (Ministerial Release MIN 142/03, November 2003) with details provided in the *Defence Capability Plan: 2004–2014*, February 2004.

3 *Complex Warfighting* available at http://www.defence.gov.au/army/lwsc/

4 Minister Robert Hill, Keynote Address at the 2004 ADM Conference, National Convention Centre, Canberra, 24 February 2004.

5 Lt General David Hurley AO DSC, Hansard of the Joint Standing Committee on Foreign Affairs and Trade, Defence Subcommittee, Review of the Defence Annual Report 2003–04, 11 March 2005.

6 The most complete argument put forward for such a proposal appears in an article by Brigadier Jim Wallace AM (Ret) in *ADPR Source Book 2003/2004*, p. 28, a counterargument appears in the ASPI Strategic Insight 18; *Punching above our weight? Australia as middle power*, 2005.

7 The first phase of the project was approved at $516 million and the total cost now stands at over $700 million.

8 All US acquisition data quoted here comes from the March 2005 Government Accountability Office report GAO-05-301: *Defense Acquisitions—Assessments of Selected Major Weapon Programs*.

9 This is shown explicitly in Table 1.1 of the *2004–05 Defence Portfolio Budget Statement*.

10 The planned introduction and withdrawal from service of vessels is set out in the *Australian Naval Shipbuilding and Repair Sector Strategic Plan*, September 2002. Note that HMAS *Adelaide* and HMAS *Canberra* will retire this decade with any savings absorbed.

11 *Trillion Dollars and Counting—Funding Defence to 2050*, ASPI Strategy Report, 2003.

12 Dr Ken Henry, 'Australia's defence to 2045: The macro-economic outlook', *Defender*, Spring 2005.

About the Author

Prior to joining ASPI, **Mark Thomson** held a number of positions in Defence working in the areas of capability development and resource management. In 1999 he was Political Military Adviser to major General Peter Cosgrove during the INTERFET operation. Prior to his time with Defence, Mark held a series of academic research and teaching positions in theoretical physics.

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