



**Submission to the review of the  
Defence Annual Report 2012-13  
from the  
Australian Strategic Policy Institute (ASPI)**

This submission addresses the terms of reference of the review of the Defence Annual Report 2012-13 being conducted by the Defence Sub-Committee of the Joint Standing Committee on Foreign Affairs, Defence and Trade.

**1. Submarine capability**

- Status of implementation of recommendations from the Coles Report

Both the first and second parts of the Coles Review concluded that failings of the Collins fleet were much more to do with organisational and management issues than with the systems in the submarine. In summary, Coles found that the critical issues were:

- Poor availability caused by a crew shortfall, lack of spares and unreliable equipment
- Strategic leadership lacking cohesion
- Finance, DMO, Navy and Industry not acting collectively as an 'Enterprise'
- Lack of clarity of accountability, authority and responsibility
- Submarine domain knowledge thinly spread
- Lack of robustness of Navy's contribution to manning and sustainment
- DMO tending to seek direct involvement at the tactical level
- Performance based ethos yet to be embedded in the ASC
- No long term strategic plan for efficient asset utilisation
- Unclear requirement and unrealistic goals

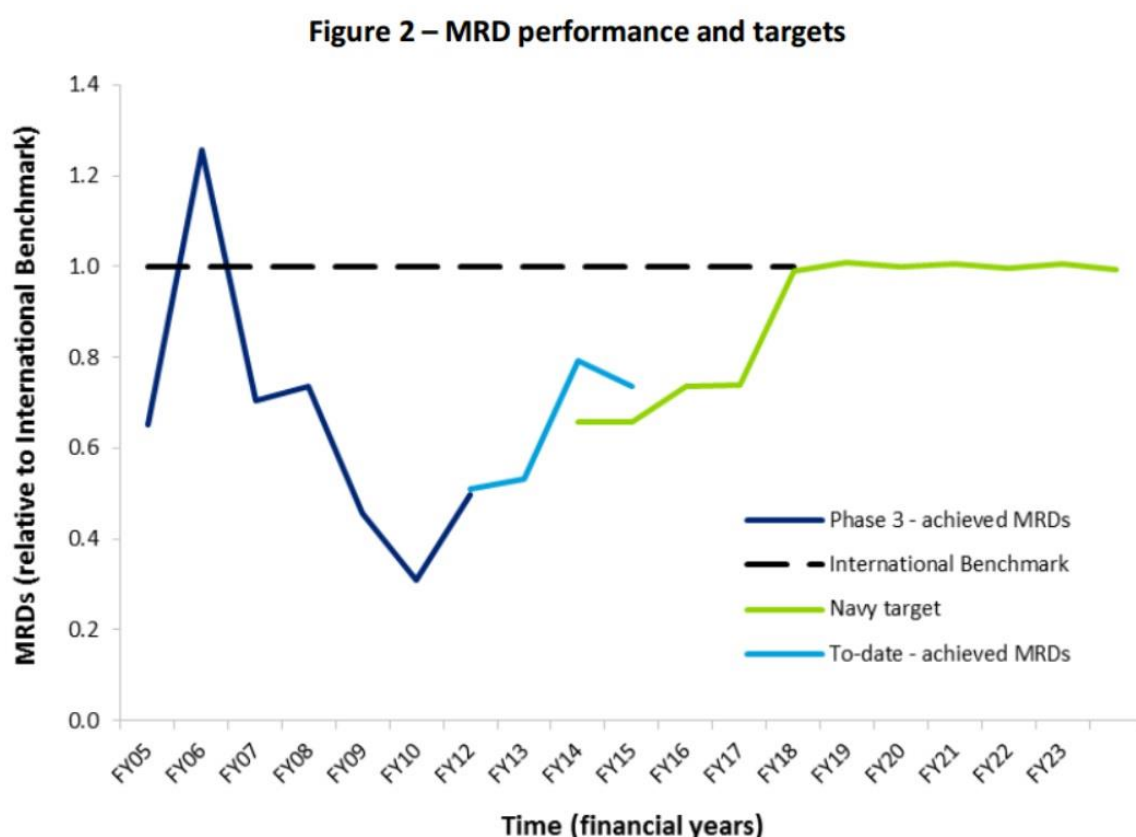
Of these contributing factors, only one of the ten refers to the equipment in the submarine—the other nine are management failings.

Capability outcomes are dependent on the management of the submarine fleet. The 2012 appointment of a senior manager to oversee the nation's submarines was a step in the right direction. But there are a lot of moving parts in the submarine enterprise—ASC as builders and maintainers, the DMO as contract managers and procurement authority, the Department of Finance as the owners of ASC and, not least, the RAN. Underperformance by any of those has the potential to derail the process. Having the right review and oversight mechanisms in place remains crucial.

The latest instalment of the Coles Report reveals that Australia's submarine capability basically collapsed in the second half of 2009. There were no days on which three boats were even in principle available for operations, and two boats were available less than 10% of the time. This compares to Navy's targets of: two deployable submarines consistently available, with four submarines available to the Fleet Commander; and of these four, three submarines consistently available for

tasking with one in shorter term maintenance and two submarines in long term maintenance and upgrade.

However, significant advances have been made in recent years. The figure below shows the fleet availability through to the end of last year, compared to the international benchmark. (The absolute figure isn't given, but our previous estimates were about 1,200 annual days from the fleet of six boats.)



Source: Collins Class Submarine Sustainment Study, Department of Defence, p. II

Progress is clearly being made. Other statistics in the most recent Coles report show that maintenance times are coming down, and defects are less frequent than before. We're not up to the benchmark yet, but are well above the lowest point, and even ahead of where we hoped to be.

Yet, these promising achievements come with some qualifications. Some obsolescence issues are still outstanding, which the Collins life extension program that we're now committed to will need to address. And there's a message in here for government as it contemplates DMO's workforce. A shortage of qualified engineers in that organisation is identified as a potential threat to further progress. Coles observes that DMO doesn't have the flexibility to manage its workforce appropriately, which suggests that some targeted reforms, as well as apparently imminent cuts, are needed in the acquisition organisation (see Section 2 below).

## 2. Defence Materiel Organisation and Capability Development Group

- Review of Capability Development Improvement Program initiatives and Test and Evaluation support

### **Defence funding and capability development**

Funding Defence is a first-order challenge for the department and the government.<sup>1</sup> Put simply, current and projected funding is inadequate to deliver existing plans, and fiscal considerations are likely to place further pressure on defence funding. Moreover, the Defence enterprise has become top heavy and reform savings are increasingly hard to come by; complex defence projects often run late and sometimes over budget; the Defence Capability Plan (DCP) is unaffordable; and Australia needs a more efficient defence industry base to support and maintain the Australian Defence Force (ADF).

As things stood after the release of the 2013 White Paper, Defence was in an unsustainable situation with an unaffordable investment program, a directive to retain the size of its uniformed workforce, and steadily mounting additional costs due to the entry into service of major platforms purchased over the past decade.<sup>2</sup>

There is a huge problem on the horizon. By any reasonable calculation, the DCP is heavily oversubscribed. We cannot recall a time in which there were so many very large projects. The DCP does not just have an elephant in the room; it has a herd of them. The future submarine, the future frigate, the F35 Joint Strike Fighter, armoured vehicles for the Army and maritime patrol aircraft projects total, by ASPI's estimation, over \$100 billion for the acquisition phase alone. To put that in perspective, the current annual acquisition budget is around \$5 billion. In other words, the five mega projects would consume two decades worth of current funding on their own, leaving little or no room for all the other projects that are necessary to keep the ADF effective. This cannot work. Simply put, there is nowhere near enough money in the Defence budget, even if promised increases in funding manage to fight their way through the competing government priorities.

The current situation exemplifies the intrinsically long-term nature of acquiring and operating military equipment. Decisions made today about major acquisitions generate operating and personnel costs which might not arise for a decade but which could persist to mid-century. This feature of the defence enterprise demands robust planning backed up by reliable long-term funding to prevent waste and nugatory investment.

Over the past thirty years, Defence has stumbled from one budget crisis to the next—each time struggling to reconcile plans with funding. Two factors have caused this cyclic crisis. First, Defence has persistently underestimated the actual cost of

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<sup>1</sup> For more on the challenges facing Defence see: Peter Jennings, Mark Thomson, Andrew Davies, Anthony Bergin, Kristy Bryden, Russell Trood and Ryan Stokes, 'Agenda for change: Strategic choices for the next government', *ASPI Strategy* (August 2013) available at [https://www.aspi.org.au/publications/agenda-for-change-strategic-choices-for-the-next-government/3\\_55\\_03\\_PM\\_Strategy\\_agenda\\_for\\_change.pdf](https://www.aspi.org.au/publications/agenda-for-change-strategic-choices-for-the-next-government/3_55_03_PM_Strategy_agenda_for_change.pdf).

<sup>2</sup> For more on defence funding and capability development see ASPI's submission on defence to the National Commission of Audit available at <https://www.aspi.org.au/media-centre/parliament/parliamentary-submissions/submission-to-the-national-commission-of-audit-submission-one-defence/ASPI-Commission-of-Audit-Response-Defence.pdf>.

acquiring and maintaining capability. This has nothing to do with simple uncertainty, which would yield compensating over- and under-estimates across the portfolio which would average out to the actual aggregate cost. Rather, the systematic underestimation of costs represents a combination of optimism bias and the deliberate understatement of costs (by Defence and Industry alike) to make proposals more attractive and 'get them onto the books'. Estimates for the cost of the three vessel AWD project, for example, grew from a maximum \$4.5 billion in 2001 to \$8.1 billion at approval in 2007, and we now await the final bill as the project careens into deeper trouble by the day.

Second, governments have consistently failed to deliver the funding commitments upon which Defence formulates its plans. Of the five White Papers issued by Australian governments between 1976 and 2009, only the Howard government's 2000 White Paper fulfilled its funding promise (though its capability goals soon turned out to be unaffordable due to underestimates of the cost of acquiring and operating capability).

The recurring gap between funding and plans is wasteful and dangerous. Wasteful, because it prevents a realistic allocation of resources and results in relative over- and under-investment in particular capabilities depending upon when they arise in the cycle. And dangerous, because funding shortfalls can cause capabilities to be held past the point of military obsolescence or hollowed out to the point of uselessness. To prevent these problems from recurring, action is needed on both the supply and demand side of defence funding—the alternative is a continuation of the past pattern of waste and compromised defence capability.

On the supply side, the government needs to make a realistic commitment to long-term defence funding and stick to it. Whatever long-term fiscal plans emerge following the Commission of Audit, reasonable predictability in defence funding is essential if the pitfalls of the past are to be avoided.

On the demand side, the government should seek a strong assurance that the plans underpinning the 2015 Defence White Paper are robustly costed. The scale of the issue needs to be borne in mind. Assuming the next White Paper has a time horizon of 20 years, the financial cost could easily exceed half a trillion dollars in today's terms. Although Defence's understanding of its current and future costs has arguably improved in recent years, there is so much at stake financially and strategically that the government should commission an independent audit of the affordability of the 2015 White Paper to run concurrent with its development.

### **Capability development—organisation and processes**

Defence's Capability Development Group continues to be staffed by predominately military personnel with short tenures and limited experience in capability development—despite successive recommendations to the contrary. So long as multi-million dollar projects are conceived and managed by people whose professional training and future careers lie elsewhere, there's a limit on what can be achieved. Some military expertise on the operational realities of using defence systems is essential, but it needs to be recognised that conceiving, costing and developing defence acquisition proposals are skills in their own right.

The capability development process is internally-consistent, and there is no doubt that those involved take their roles seriously, but it is weighted heavily towards the inputs of professional military judgement. It's generally true that decision-making systems are strongest when their inputs are drawn from multiple expert sources with different perspectives. The balance that existed in past decades between the military world view on one hand and the analysts who could provide different perspectives, and who do not share the service ethos brought to the table by their military counterparts, has been lost.

Defence needs greater levels of internal contestability and something resembling the old Force Development and Analysis (FDA) division—an in-house organisation specifically designed to develop the paperwork on force development proposals for senior committee consideration, and to test the logic and *quantify* the effectiveness, costs and benefits of competing proposals through rigorous operations research and scientific enquiry. Organisationally, FDA was headed by a civilian First Assistant Secretary, at the same level of seniority as the three Service officers in charge of developing materiel bids. The committee responsible for in-house consideration of capability proposals was chaired by a civilian Deputy Secretary at the same seniority level as the three Service chiefs. By having carriage of the development of paperwork (agendum papers) for the committee, FDA had the ability to insist on alternative proposals being included where appropriate and could reflect the pros and cons—quantified where possible—with appropriate weighting. Placing a similar division squarely within the Defence HQ structure—and with sufficient senior representation to mount a robust case should circumstances require it—would be a start to institute contestability in capability development.<sup>3</sup>

There's also been slow progress in reforming two critical aspects of the capability development process: the entry of projects into the DCP, and the estimation of personnel and operating costs associated with new capability. Until these matters are resolved we can have no confidence that the multi-billion dollar plans for developing the defence force are either strategically valid or affordable. And there's a good case to be made that these are related problems—by allowing projects without accurate costings into the DCP (thereby gaining organisational momentum that makes it hard to kill them off later), there's no reason to expect the plan to represent cost-effective capability planning later.

Questions remain about the ability of the Department of Finance to verify Defence's cost estimates. The provision of information to Finance has improved, but this increased reporting is unlikely to fix the chronic underestimation of final costs (and schedules, which also have a financial impact) that has long been the hallmark of Defence projects. For complex financial calculations, arm's length is too far away.

Defence has fallen short of the recommendations of previous reviews to include a rigorous cost-benefit analysis of its developmental projects against a genuine off-the-shelf (OTS) option. Simply put, Defence too often pays lip service to OTS while pursuing expensive and risky bespoke solutions.

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<sup>3</sup> For more on the FDA and internal contestability in Defence see: Andrew Davies, 'Let's test that idea—contestability of advice in the Department of Defence', *ASPI Policy Analysis* (22 January 2010) available at [https://www.aspi.org.au/publications/lets-test-that-idea-contestability-of-advice-in-the-department-of-defence-by-andrew-davies/Policy\\_Analysis54\\_Contestability.pdf](https://www.aspi.org.au/publications/lets-test-that-idea-contestability-of-advice-in-the-department-of-defence-by-andrew-davies/Policy_Analysis54_Contestability.pdf).

It's always possible that the result of 'reform' is the addition of even more layers of review and reporting to an already process-heavy system. This would make it even harder for the no-doubt dedicated staff of Capability Development Group to focus on outcomes; more process and documentation is the last thing they need. In fact, where we are today in many ways reflects the response to past reviews of Defence decision making and capability development—which has been to add even more complexity to the process and more stakeholders to the committees (thus increasing the diffusion of accountability).

The Capability Development Group in Defence is now well into its own Capability Development Improvement Program, which is aimed at addressing many of the points raised as well as some self-identified problems. The success of these initiatives will turn on whether they deliver better cost and schedule estimates, and better capability outcomes.

### **Defence Materiel Organisation (DMO)**

No part of Defence attracts more public attention with regard to performance and efficiency than DMO. There are two key points to keep in mind regarding DMO efficiency. Firstly, attempts to benchmark the size of the DMO workforce through comparison with its foreign counterparts on a 'per dollar' or 'per activity' basis are pointless. Apart from the very different portfolios of activities undertaken by different countries (including greater and lesser levels of developmental work), there are also different demarcations between the support/acquisition agency and the private sector on the one hand, and between the support/acquisition agency and the military on the other.

Secondly, some of the harshest criticisms of DMO come from defence industry. Complaints centre on unnecessarily complex tendering and contracting, time-consuming processes and an unwillingness to enter into cooperative partnering arrangements. While there are certainly lessons to be learnt from industry about DMO and opportunities for improvement, it would be a grievous error to measure DMO's performance on the basis of how pleasant a day at the office it provides for its contractual counterparties.

### ***Acquisition***

DMO is currently managing 180 acquisition projects valued in excess of \$40 billion. As a rule, DMO delivers projects within budget but behind schedule. In recent times, however, schedule outcomes have improved. This is likely a result of ongoing reforms within DMO coupled with a greater number of off-the-shelf purchases. Although it's hard to be definitive about the relative importance of these two factors, it should be borne in mind that delays to projects are almost always the simple result of industry failing to deliver—and there's little in the reforms to DMO that would have increased their ability to drive industry performance.

The essential point is this: the key determinant of DMO's performance is the nature of the projects delivered to it by Defence's Capability Development Group. By definition, the schedule performance of a portfolio of projects will depend directly on the level of risk carried by the projects. Consequently, while there is every reason to continue to refine DMO processes and boost the acumen of its workforce, the only

sure way to avoid problems with major defence acquisitions is to acquire proven off-the-shelf systems from established production lines.

### *Sustainment*

DMO manages more than 100 separate sustainment activities at an annual cost of \$5.6 billion. Sustainment probably accounts for 70% of the 7,000 strong DMO workforce. There are two key questions about the DMO's provision of materiel sustainment services to the ADF. First, does the shared services model work when it comes to something as integral to military capability as the sustainment of weapons systems? Second, is there scope for further efficiencies in materiel sustainment?

Problems with the shared services delivery of sustainment were brought into stark relief in early 2011 by the unexpected failure of the Navy's amphibious fleet on the eve of a cyclone hitting northern Queensland. Among a host of shortcomings exposed, it was clear that neither Navy nor DMO had been taking full responsibility for the material state of the vessels, thereby allowing a critical ADF capability to 'fall between the gaps'. Steps to clarify responsibility and remediate other problems have since been taken—including in the long-problematic Collins class submarine fleet. Critically, the military are now much more intimately involved in decisions about the sustainment services they receive from DMO.

Throughout much of the 2000s, DMO was effectively directly funded for sustainment rather than through the services. An important step in closing the gap between DMO and the military has been to give the services control over their sustainment budgets. Doing so has focused the military's attention on the services they receive, while also creating a vehicle to capture efficiency. DMO now works with its military customers and industry suppliers to understand the drivers of sustainment costs and to shape demand for support services accordingly. This three-way dialogue has allowed the cost of some sustainment activities to be reduced. Importantly, if a more cost-effective approach is found, the military get to redirect the savings to other areas. Given the maturity of the present arrangement and the economies of scale and scope inherent in DMO, the argument for devolving responsibility for sustainment back to the individual services is weak.

Still further opportunities for efficiency exist through reductions in size of the DMO sustainment workforce—principally through the use of performance-based contracts. At present, many fleets are maintained on a 'transactional' basis, whereby DMO contracts specific maintenance services from industry. By its very nature, a transactional approach requires a substantial in-house team to define and oversee work. In other areas, industry takes responsibility for maintaining assets at a particular level of availability via a performance-based contract. Performance-based contracts reduce transaction costs and would allow DMO to operate with fewer in-house personnel. As legacy weapons systems leave service, the opportunity to employ performance-based contracts will grow and DMO should reduce in size.

### *Status of DMO*

Since 2005, DMO has been constituted as a prescribed agency, subordinate to Defence but with its own financial accounts. The goal of re-establishing DMO in this form was to enable it to develop a more commercially orientated culture and allow it more flexibility in managing its workforce. Although some progress has been made



on both fronts, it would arguably have occurred irrespective of DMO's quasi-independence from the remainder of Defence. What's more, the myriad of formal accounting transactions that now arise between Defence and DMO yield no visible benefit. Little would be lost by reabsorbing DMO into Defence.

Of more interest, and potentially greater consequence, is the proposition to move DMO further away from Defence by reconstituting it as a Government Owned Privately Operated (GOCO) enterprise along the lines considered (but ultimately rejected) in the United Kingdom following the Grey Review. Re-establishing DMO as a GOCO would allow the new organisation to employ people under private sector arrangements, including private sector style incentives and sanctions. But while this would certainly boost the commercial acumen of the workforce, it would inevitably introduce a substantial new layer of transaction costs between Defence and DMO's replacement. Even if this option were to be judged to be worthwhile on balance—and that's far from clear—the United Kingdom's deliberations should be reviewed before acting.

### **Defence efficiency—having the right military capabilities**

Decisions about the make-up of the ADF in terms of ships, planes and troops are absolutely critical to Australia's security. As a small nation we cannot afford to waste money on unnecessary or ineffective capabilities. In a perfect world, the overall structure of the ADF would be suitable for achieving the government's strategic goals (i.e. it would be effective), and specific capabilities would reflect an appropriate balance between the costs, risks and benefits of alternative options (i.e. they would be cost-effective). On neither count is there reason for confidence.

Despite a showcase of labyrinthine internal processes within Defence, the resulting structure of the ADF reflects little more than the historical shape of the ADF and the aggregation of the ambitions of the individual services. Consistent with this, successive Defence White Papers have increasingly failed to establish a connection between declared strategy and the shape of the ADF. And while some progress has been made in vetting individual proposals, more could be done to bolster the internal scrutiny of the multi-billion dollar equipment investment program. Regrettably, scrutiny by the central agencies of government is neutered by the highly specialised nature of military equipment and limited information sharing by Defence.

Decisions about the shape of the ADF could be improved in a couple of ways. First, internal analysis and contestability of capability development decisions within Defence could be bolstered. Indeed, and as a general observation, Defence suffers from being a federated organisation with insufficient central control and inadequate analytic capacity. Second, greater transparency prior to decisions would allow informed public debate. In stark contrast to other areas of government policy, multibillion-dollar defence decisions are routinely sprung upon the public with little or no warning. Realistically, however, such moves would only partially moderate the military's sway over decisions; ultimately only close and diligent oversight by the government itself can change the situation. Only the government has the power to override the military's preferences. In this regard, the forthcoming White Paper is a timely opportunity.



Although some efficiency generating reform continues in DMO and other shared service areas of Defence, the momentum has been lost since 2012—mainly because the substantial cuts to defence funding between 2009 and 2012 forced the department to switch from a focus on productivity enhancing initiatives to the management of acute austerity.

With a root and branch review of Defence planned in tandem with the forthcoming White Paper, a new round of reform is now on the cards. With most of the possibilities for outsourcing already taken, the opportunities of the 1990s cannot be repeated. Nonetheless, bringing together the ideas explored above yields a sensible and worthwhile program, key elements of which would be:

- return the top-structure of Defence to something like it was in the late 1990s and continue the process down through the hierarchy
- cut 20% of funding and personnel (military and civilian) from all headquarters and policy functions across the organisation
- continue reform of sustainment activities and accelerate the adoption of performance based contracts where practical
- use the 2015 White Paper to ensure that plans for the ADF represent a coherent and effective strategy for protecting Australia's interests in the 21st century
- ensure the financial affordability of the 2015 Defence White Paper through an independent audit run concurrent with its development.

### **3. Asset management**

- Management of land and facilities
- Major capital facilities program

#### **Defence Estate**

The dispersed geographic footprint of the ADF imposes additional costs through foregone economies of scale and elevated personnel costs associated with more frequent posting relocations (not to mention the personal disruption incurred by members and their families). Unfortunately, the capital investment needed to close a base and relocate facilities will often result in a very long payback period even at a zero discount rate for future cash flows. Nonetheless, options for reducing the geographic dispersion of the ADF consistent with strategic imperatives should be sought and judged on their financial merits.

#### 4. Defence Cooperation Program

- Status of the program, particularly the Pacific Patrol Boat Program

The Defence Cooperation Program (DCP) is a core part of how the ADF engages with militaries via joint exercises, training and officer exchanges in our immediate region. While the DCP has been the central element of defence regional engagement in the past, there's concern that it will be increasingly marginalised in the future as other forms of engagement expand in recognition of the enhanced capabilities of some regional defence forces.

In terms of regional focus, DCP activities should be directed toward our nearest neighbours, specifically those in the archipelagic arc stretching from Indonesia through Timor-Leste and PNG to Solomon Islands and Vanuatu. Once these neighbours are serviced through suitable DCP activities, the second priority should be on states in the Indo-Pacific region, including the Pacific island countries, our Five Power Defence Agreement partners, the Philippines and nearer Indian Ocean coastal and island states. When engaging with these neighbours, DCP activities should be concentrated on maritime forces (both navy and air) in recognition of the strategic shift away from land forces and towards maritime forces as a focus of regional defence budgets.

The Pacific Patrol Boat Program (PPBP) is by far the largest defence cooperation project in the region and also the largest component of the DCP, involving the transfer of 22 boats to Pacific Island countries between 1987 and 1995. These boats will need replacing between 2018 and 2028. However, in a period where Defence is facing significant budgetary constraints, there's concern that a least-cost solution will be implemented, which would not be in the best interests of Australia or Pacific Island states.<sup>4</sup> While supporting the Pacific patrol boats is one of Navy's least glamorous roles, it's also one of its most crucial—building regional capabilities to police a vast area we'd otherwise have to monitor ourselves, while promoting the continuing acceptance of the ADF's permanent strategic presence, situational awareness and influence across our maritime approaches. It will pay greater dividends to do it right, rather than do it cheaply.

The Pacific Maritime Security Program (PMSP) has been flagged as the successor to the PPBP. Priority should be attached to implementing the PSMP as the cornerstone of our security engagement in the Pacific.<sup>5</sup> To date, the project that has been plagued by delays and indecision, with responsibility having been passed from Defence to Customs and Border Protection and then back to Defence. Further, despite assurances of the priority of PMSP by the previous Government, no expenditure was included in the last Defence Forward Estimates. It's important that the program and indeed all regional assistance in this area be the result of close

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<sup>4</sup> For more on the Pacific Patrol Boat Program see: Sam Bateman and Anthony Bergin, 'Making Waves: Australian Ocean Development Assistance', *ASPI Insights* (September 2012) available at [https://www.aspi.org.au/publications/making-waves-australian-ocean-development-assistance-by-sam-bateman-and-anthony-bergin/Policy\\_Analysis107\\_maritime\\_aid.pdf](https://www.aspi.org.au/publications/making-waves-australian-ocean-development-assistance-by-sam-bateman-and-anthony-bergin/Policy_Analysis107_maritime_aid.pdf).

<sup>5</sup> For more on the Pacific Maritime Security Project see: Sam Bateman, Anthony Bergin and Hayley Channer, 'Terms of Engagement: Australia's Regional Defence Diplomacy', *ASPI Strategy* (July 2013) available at [https://www.aspi.org.au/publications/terms-of-engagement-australias-regional-defence-diplomacy/Strategy\\_Terms\\_of\\_Engagement.pdf](https://www.aspi.org.au/publications/terms-of-engagement-australias-regional-defence-diplomacy/Strategy_Terms_of_Engagement.pdf).

coordination between departments and agencies—not subject to buck-passing and cost-cutting across government.

On questions of finance, most DCP spending has been directed towards the South Pacific, largely due to the ongoing costs associated with the PPBP. Despite increased activity, the level of DCP spending has been falling as a proportion of total Defence spending. However, this might not be an accurate reflection of the situation, as other forms of defence regional engagement have increased. The emphasis of the DCP has shifted from assisting regional states to build their own defence forces towards education exchanges and cooperative regional security efforts, such as HADR, counter-terrorism and counter-improvised explosive devices. The costs of these activities are not attributed against the DCP. Defence should rethink the current modest levels of funding for the DCP in consideration of current and future activities and priorities.

ASPI recommends the establishment of an *Australia Defence Regional Engagement Centre*, possibly in Darwin or at RAAF Tindal, which would bolster the DCP.<sup>6</sup> This centre would have the potential to promote regional interoperability, capabilities and operational experience; share doctrinal development for joint and combined operations; provide a professional centre of excellence to bring leaders of regional defence forces together; have oversight of Australia's military exercise program; and provide a networking opportunity for regional military and civilian defence personnel. It could become the 'go to' place for professional military interaction in the region. ASPI also recommends a focus on strengthening inter-personal relationships through careful selection of defence representatives, and the regional engagement of DSTO and DMO.

There are significant opportunities for the DCP and the Australian aid program to align goals in order to achieve positive regional outcomes.<sup>7</sup> OECD guidelines recognise aid on the basis of the development intention that underpins the assistance. Focusing Australian aid on maritime assistance activities in the South Pacific will support good order at sea, ocean management and development and a shared maritime security framework, with the corollary of fostering economic growth in our neighbouring developing countries.

Maritime security assistance for Pacific Island countries goes well beyond security in the narrow sense—it is also an important part of nation-building. It supports the capacity of our neighbours to manage their large EEZs, including the resources within those zones, and to undertake sovereignty protection, law enforcement, search and rescue, humanitarian assistance and disaster relief activities. Opportunities include Australian funding of a Pacific air surveillance program, coastal patrol vessels, offshore patrol vessels and a regional maritime coordination centre.

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<sup>6</sup> For more on strengthening the DCP see: Sam Bateman, Anthony Bergin and Hayley Channer, 'Terms of Engagement: Australia's Regional Defence Diplomacy', *ASPI Strategy* (July 2013) available at [https://www.aspi.org.au/publications/terms-of-engagement-australias-regional-defence-diplomacy/Strategy\\_Terms\\_of\\_Engagement.pdf](https://www.aspi.org.au/publications/terms-of-engagement-australias-regional-defence-diplomacy/Strategy_Terms_of_Engagement.pdf).

<sup>7</sup> For more on aligning Australian maritime and aid activities see: Sam Bateman and Anthony Bergin, 'Making Waves: Australian Ocean Development Assistance', *ASPI Insights* (September 2012) available at [https://www.aspi.org.au/publications/making-waves-australian-ocean-development-assistance-by-sam-bateman-and-anthony-bergin/Policy\\_Analysis107\\_maritime\\_aid.pdf](https://www.aspi.org.au/publications/making-waves-australian-ocean-development-assistance-by-sam-bateman-and-anthony-bergin/Policy_Analysis107_maritime_aid.pdf).

The Australian maritime scientific research community is well positioned to undertake field-specific capacity building exercises with counterparts in the region in areas like climate change and managing coastal flows.

Finally, in a review of the DCP in 2001, the Auditor-General pointed to a lack of financial information management and clear and public articulation of the goals and objectives of defence cooperation activities. This assessment holds true today and greater transparency should be brought to the exercises and activities of the DCP to facilitate greater public scrutiny.