

SUBMISSION TO THE SENATE STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE**INQUIRY INTO DEFENCE PROCUREMENT**

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This Submission to the Senate Standing Committee's *Inquiry into Defence procurement* is in two complementary parts: a paper I wrote in 2010 entitled *Defence and the Need for Independent Policy Analysis* (published in *Security Challenges*, Volume 6, Number 2, Winter 2010), and this note, which for the most part summarises the principal ideas in that paper in a way which is more reflective of the Inquiry's Terms of Reference. I commend also to the Committee the edition of *Security Challenges* entitled *Assessing the 2009 Defence White Paper*, a collection of fifteen essays written by experts on various aspects of the White Paper (*Security Challenges*, Volume 5, Number 2, Winter 2009).

The Terms of Reference for the Inquiry are both broad and far-reaching. I do not attempt to address them all, but instead offer some observations about the early phases of the procurement chain.

The issues that I address are contemporary and reflect what I believe to be the current state of play in the Department of Defence. But it is important to note that Australia's strategic circumstances are changing and, while there is a wide spectrum of possible developments, it is easy to conclude that Australia's strategic future will most likely become more challenging. It is important also, therefore, to try to anticipate the new pressures that these changes will bring to bear on procurement practices. In brief, we need to prepare for the future, not the past.

Australia's Strategic Circumstances

At the level of the policy principles that derive from Australia's strategic circumstances, there is a high degree of consistency across the first four of Australia's Defence White Papers (1976, 1987, 1994, and 2000 – as it happens two from each side of politics). These principles are: a focus on self-reliance in the defence of Australia; the conclusion that, while minor attacks on Australia could be seen as credible in the shorter term, the prospect of major attack was distant or even remote; the observation that, in a global context, the scale of Australia's military capabilities is modest; and a greater prominence in defence planning to operations closer to home than to those in more distant theatres.

In many respects, the 2009 Defence White Paper, *Defending Australia in the Asia Pacific Century: Force 2030*, continues this pattern, but with one important exception and potential discontinuity. While it is perhaps ambiguous on the matter, the 2009 White Paper does imply a belief that, with the economic growth of China, Australia could now be entering a period of strategic warning. This would mean that the conclusions of earlier decades that no country had either the capability or the motivation to pose a major threat to Australia are now less secure.

It is important to avoid being alarmist about the rise of China and its growing economic, political and military strength. It is also important, however, when thinking about Australia's future defence and security needs, to consider a range of possible strategic developments. This range is wide.

Developments might include circumstances of sustained high levels of tension between the United States and China, parallel in some respects to the Cold War tensions between the US and the former Soviet Union (implying *inter alia* the need to pay close attention to the management of the associated high levels of nuclear risk). On the other hand, the skilful management of their relationship might lead instead to a situation in which China and America recognise and accommodate each other's interests, reflecting *inter alia* a view that their common interests far outweigh their differences, and leading to a relationship in which any military tension is contained at a relatively modest level. Some might imagine that the continued existence of China as a unified political entity might be questionable under some circumstances. And when thinking about the range of possible futures, it is important not just to focus on the immediate term but also to attempt an assessment over several decades.

The point in this paper, however, is not to assess what the most likely future will be, but rather to observe that Australia now faces higher levels of strategic complexity and uncertainty than it has for several decades. Coping with this uncertainty will make the difficult work of decision-making on the development and the support of the Australian Defence Force yet more challenging – as it will for other aspects of public policy, such as Australia's foreign policy. And the critical point is that, as the sound analysis of Australia's strategic circumstances is the foundation on which all other defence decision-making builds – or falls – it is vital to get this right.

In terms of greater transparency of defence policy and its rationale, it would be appropriate for ministers to make more frequent and substantive statements in the Parliament on the strategic basis of Australian defence planning than has become the practice over recent years.

A further point might be noted: it is the role of the Department of Foreign Affairs and Trade, not the Department of Defence, to be Australia's centre of excellence for the understanding of trends in the international environment, the consequences for Australia, and for ensuring that Australia takes an integrated approach to the pursuit of its national interests. Yet, over many years now, DFAT has been starved of resources to the extent that its ability to meet its responsibilities in policy planning must in some respects be questioned.

Better Decision-Making through Independent Policy Analysis

Experience tells us that the interpretation of strategic policy in terms of priorities for force structure development is a most difficult challenge for any defence organisation. Success in this area requires a workforce which has the aptitude, experience and interest for some of the most demanding policy issues that governments can face. The selection of individuals to work in these areas needs therefore to be done with care – civilian and military alike.

There is also the issue of contestability. Impartial and independent analysis is central to the processes of public-sector decision-making, yet Defence spending these days is subject to very little of this. Given the importance to Australia of its defence effort, the associated costs, and the potential harm from getting it wrong, this relative absence is surprising, and, one would have thought, not easy to defend.

The issues set out in the two preceding paragraphs relate to the mention in the Inquiry's Terms of Reference of the operations of the Capability Development Group, as this is the area that has carriage of proposals to develop the Defence Force. The strengthening of processes for systematic independent analysis, using staff chosen for their experience in and aptitude for demanding policy work, would be an important initiative. It would do much to increase the level of confidence that complex and highly consequential force structure issues had been thoroughly thought through, and that individual proposals for major expenditure fitted in to a compelling and internally-consistent interpretation of strategic guidance – and were consistent with realistic projections of costs and financial guidance.

In summary, Defence's structures and practices should be designed to give greater attention to the processes of systematic independent analysis and the selection of staff with the requisite experience and aptitude for success in demanding policy areas.

The Need to Recognise that Risk Must be Managed

A particular matter stands out. It might be recalled that governments' defence policies have consistently recognised the importance to our security of a technological edge, reflecting the criticality of our maritime approaches, and compensating in part for the small size of the Australian Defence Force. Further, if it is accepted that Australia's strategic circumstances will become more demanding, then it follows that, for at least the areas of capability that are key to our security, we need to ensure that Defence is close (or at least closer) to the leading edge of what is technically or technologically achievable – both at the time of acquisition and through in-service upgrades. These factors imply that, in at least some areas of defence capability, there will necessarily be greater technical and therefore acquisition risk: cost, schedule, and perhaps the level of capability that in practice proves to be achievable. It also follows that there is a clear need for a robust and thorough approach to risk management: at the conceptual phase; during procurement; and in through-life support.

This point seems often to be lost in much public commentary on defence procurement, when projects become “late” and costs “blow out”. It is of course important not to take unnecessary risk in defence procurement but even more important is the need to keep the end result in focus. There would be little point in having a defence force which could not achieve success in its operations. For at least some of the kinds of operation that need to be part of Australia’s planning base, advanced technology will play a key role in helping to ensure such success, and this needs to be a central consideration in the approach that is taken to procurement and the associated risks.

It is appropriate at this point to add that science and technology in defence-relevant fields continue to advance, often at breath-taking speeds, especially in anything that is touched by electronics and computing. This adds yet more complexity to decision-making in defence procurement, and serves to increase the importance of the professionalism and impartiality of advice from the Defence Science and Technology Organisation.

In summary, risk is inevitable in defence procurement – as it is on the battlefield – and the challenge for Defence is to manage this risk, not automatically to be averse to it: the key is to be able to judge the best balance between strategic risk and technical risk.

Defence Policy for Industry

A related matter is the area of defence policy for industry. While there has been significant progress over several decades in the development of the ideas encapsulated in the *Defence of Australia*, the same cannot be said with respect to defence policy for industry. In this regard, the 2009 Defence White Paper was a sharp disappointment, although it has to be acknowledged that the subsequent paper *Building Defence Capability: a Policy for a Smarter and More Agile Defence Industry Base*, released in June 2010, does represent an advance.

There are two reasons why progress has been so slow. The first is that the work is intrinsically difficult. The second, perhaps more contentious, is that it has been seen more through an *industry* prism than a *policy* prism, and subsequently given to the wrong part of the workforce to handle it. Some forward movement, however, may be inferred from the *Building Defence Capability* document cited above, where it says (at paragraph 4.32) that Defence’s Strategic Policy Division had taken carriage of that document and will also handle subsequent industry policy statements.

Were new arrangements for independent policy analysis to be put in place, along the lines sketched out earlier in this paper, it would be appropriate also for this area to have carriage of the development of defence policy for industry and its consistent application across the forward program of new capabilities. New capability proposals offer both the need and the opportunity to focus in an integrated way on industry aspects, both for acquisition and for through-life support, within a context which is future-focused and consistent with strategic priorities.

Public Information

In terms of enhancing the availability of public information and parliamentary oversight, there is scope to increase the usefulness of the Portfolio Budget Statements (once known as the Explanatory Notes). It is perhaps an indictment of the present approach to Portfolio Budget Statements that more useful information may be derived from the Defence Budget Brief published each year by the Australian Strategic Policy Institute than from the budget statements themselves. This might be because these documents, in focussing on the type of detail necessary for budgetary or accounting purposes, omit any worthwhile discussion of context. The Defence Annual Reports are perhaps less bad in this respect, but these too tend to be general and descriptive rather than explanatory.

There is scope for the Senate to make representations to the Government to improve the usefulness of the information contained within Portfolio Budget Statements and Annual Reports. While Senators would have their own views on what this might entail, some examples of what would be possible could be gleaned from the approach to budgets statements adopted in earlier years, when a different balance was struck between the length of document and the nature and quantity of the information therein.