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DISCUSSION PAPER SERIES

Pressing Issues for the 2015 Defence White Paper

Gary Waters

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ABOUT THE AUTHOR

GARY WATERS

Dr Gary Waters spent thirty-three years in the Royal Australian Air Force, retiring as an Air Commodore in 2002. He subsequently spent almost four years as a senior public servant in Defence and then worked with Jacobs Australia as Head of Strategy for just over seven years. He left Jacobs in March 2013 and now acts as an independent consultant.

He has written thirteen books on doctrine, strategy, cyber security, and military history. His latest two books are 'Australia and Cyber Warfare' (with Professor Des Ball and Ian Dudgeon, 2008), and 'Optimising Australia's Response to the Cyber Challenge' (with Air Vice-Marshal John Blackburn, 2011).

He is a Fellow of the Royal Melbourne Institute of Technology (graduating with majors in accounting and economics); a CPA; a graduate of the United Kingdom's Royal Air Force Staff College; a graduate of the University of New South Wales, with an MA (Hons) in history; a graduate of the Australian Institute of Company Directors; and a graduate of the Australian National University with a PhD in political science and international relations.

He has been a Fellow of the Australian Institute of Company Directors, a Vice President of the United Services Institute, and a Board member of Defence's Rapid Prototype, Development and Evaluation (RPDE) Program. He currently serves on the Board of the Kokoda Foundation.

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Published and distributed by:

The Kokoda Foundation
2/10 Kennedy Street
(PO Box 4060), Kingston ACT 2604

T: +61 2 6295 1555

F: +61 2 6169 3019

Email: manager@kokodafoundation.org

Web: www.kokodafoundation.org

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INTRODUCTION

A Defence White Paper was launched by the then Prime Minister Julia Gillard and Defence Minister Stephen Smith on 3 May 2013. The need for a new White Paper had become increasingly clear due to the major cuts to Defence funding over the previous four years. The Coalition Government has announced that it intends to produce a new Defence White Paper by the end of the first quarter in 2015 or earlier if possible.

The Kokoda Foundation developed an in-house critical analysis of the 2013 Defence White Paper (DWP13) in order to highlight areas that might be addressed in DWP15. Sponsored by Northrop Grumman and Chemring Australia, this analysis draws on the findings from several workshops that examined the critical areas of policy development (particularly industry policy), military and capability planning, and defence funding. The analysis also brought together the essence of the commentary from a number of leading experts who had contributed to the Kokoda Foundation's *Security Challenges* Journal special edition¹ which looked at specific failings of the 2013 Defence White Paper.

This Kokoda Discussion Paper presents a summary of that detailed analysis. There was much solid work in DWP13 concerning the key themes, the strategic outlook and the strategic approach that would be expected to be included in the next White Paper. However, there are several areas that could be strengthened in DWP15.

DEFENCE WHITE PAPERS

The generic Defence White Paper is the most important public document in Australia's defence policy.

The generic Defence White Paper is the most important public document in Australia's defence policy. The first was released in 1976: there have been five Defence White Papers since, including those in 1987, 1994, 2000, 2009, and 2013. Besides the Defence White Paper, there are other documents, such as the Defence Planning Guidance and the Defence Capability Guide, but the Defence White Paper remains the most important public document for a comprehensive understanding of Australia's appraisal of its strategic environment, its strategic objectives, the tasks of the Australian Defence Force (ADF), the acquisition and development of equipment, and budget and financial planning.

The Defence White Papers in 1987 and 2000 carried the most impact as they built the ideas that form the foundation of Australia's current defence policy. The 1987 White Paper, based on the findings of the 1986 Review of Australia's Defence Capabilities by Paul Dibb, cemented the concept of self-reliance in the direct defence of Australia. While the concepts of the defence of Australia and self-reliance had been discussed and debated earlier, the 1987 Defence White Paper positioned them as the core objectives of defence strategy and policy.

¹ Kokoda Foundation, *The 2013 Defence White Paper*, Security Challenges, Volume 9, Number 2, 2013.

This concept of self-reliance in the direct defence of Australia has continued to the current day. However, subsequent changes in Australia's strategic environment such as instability in Australia's neighbouring countries (Timor Leste in 1999 for example) have necessitated new thinking about the defence of Australia and the self-reliance concept. Australia has also had to recognise that it needs to play a substantial role in contributing to the stability of neighbouring countries. In this respect, Australia has expanded its military diplomacy within the Asia-Pacific while actively participating in peacekeeping activities globally.

Under such changing circumstances, the 2000 Defence White Paper proffered the idea of presenting Australia's strategic interests as concentric circles representing geographic distance. In this respect, a clear order of priority was made, with the highest priority continuing to be the direct defence of Australia, while the second highest priority was the stability of neighbouring countries; namely, Indonesia, Timor Leste, Papua New Guinea, New Zealand and the island countries of the South Pacific. The third priority was the security of Southeast Asia, with the security of the Asia-Pacific region as the fourth strategic interest, and finally, global security as the fifth.

The defence-of-Australia doctrine and self-reliance established in the 1987 White Paper have never precluded the international deployments and activities of the ADF. The 'concentric circles' notion formulated in the 2000 Defence White Paper successfully re-defined Australia's strategic interests in a geographically wider context by explicitly reflecting Australia's increasingly wide defence activities and interests. The 2009 Defence White Paper, to a great extent, adhered to the idea of such concentric strategic interests, and the 2013 Defence White Paper retained it. It will be important for DWP15 to retain this consistency and clarify the Coalition Government's thinking on Australia's strategic interests.

It should be pointed out here that previous implementation programs associated with defence policies, structural reforms and savings goals outlined in previous Defence White Papers have not fully met Government expectations or goals. In many cases, the failure to achieve the stated goals has left a legacy of force structure and organisational deficiencies, which has adversely impacted the war-fighting capability of the ADF.

Thus, it will be important for the Coalition Government's commitments to Defence funding in DWP15 to be sustained. The capability impacts of funding shortfalls have proven to be significant in the past, particularly when Defence policy goals remain largely unchanged. Project cancellations are a rare response to funding shortfalls; rather, projects tend to be 'slipped' because of 'insufficient justification' (with compounding effects on subsequent Defence budgets). Budget pressures can also result in platforms being acquired without a full suite of operational equipments on the assumption that advanced systems could be retro-fitted once the threat level (and thus funding) grew – this is referred to as 'fitted-for-but-not-with'. DWP15 offers a significant opportunity to see a break with the past.

DEFENCE WHITE PAPER 2015

The need for a new Defence White Paper had become increasingly clear through 2011 and 2012 due to the major cuts to Defence funding since 2009, which had made the 2009 White Paper untenable. However, the Defence White Paper launched on 3 May 2013 did not address the mismatch between capability aspirations and funding levels provided. DWP13 followed the strategic objectives and the Force 2030 capability vision that were outlined in the 2009 Defence White Paper, but it also addressed important items that were not canvassed in 2009, such as the organisational issues within the Defence department and the Australian Defence Force (ADF), logistics, and force posture. DWP15, thus, has a solid base on which to start; however it does need to align capability aspirations and funding levels.

DWP15 should, as did DWP13, address the need to be forthright about Australia's worsening strategic environment and show how the defence budget might provide force options for protecting the nation's large and growing interests, but unlike DWP13, DWP15 should include a roadmap for getting the defence budget and capability modernisation back on track.

Australians have every right to look to a White Paper for a definition of strategic interests, possible threats, necessary priorities, and a clear plan and path forward.

Australians have every right to look to a White Paper for a definition of strategic interests, possible threats, necessary priorities, and a clear plan and path forward. Thus, DWP15 must start with the strategic environment; not with the limited budget. An honest appraisal of Australia's strategic outlook should then be followed by the desired military capability, and the necessary funding for that capability should be identified and made available.

The 2015 White Paper needs to make a clear choice about Australia's strategic role in the future; design a defence force consistent with that role; and commit the necessary resources to the task. It also needs to provide sufficient information and confidence to allow defence industry (and state governments) to support Defence; and to provide confidence that the 2015 White Paper will be implemented and the Government's commitment to it sustained.

DWP15 must match means to ends and provide the resources for needed capabilities. It must set the strategic direction in terms of: correctly interpreting Australia's strategic circumstances and outlook; outlining priorities for capability and force structure planning; and emphasising priorities for international defence engagement. All three are critical to Australia's interests.

There will be criticism of DWP15 once it is issued, and whilst some of that might be justified, it is important to acknowledge that Defence White Papers are public declaratory policy documents, and as such would not normally contain detail on contingency planning, nor would they contain classified assessments or judgments about the strategic environment or force structure planning. This classified work is contained in other internal documents. So, it is important to understand the limits of just what can be achieved with a Defence White Paper.

In this context, a public declaratory document such as DWP15 will have particular strengths and purposes, but it will not be a substitute for other internal processes. The strategic environment assessment should link to a strategic policy direction that responds to it, and this should then flow through to shape the required posture and capabilities required to give effect to that strategic policy direction, all conditioned by the available resources.

This is not a straightforward mechanical activity and the degree of specificity some commentators are calling for is simply not obtainable and even if it were, it would prove to be illusory. Thus, the strategic policy direction needs to be robust and able to withstand many changes in the environment and other factors. There will always need to be flexibility in implementation of the policy.

There does need to be recognition of the long-term shift that is occurring in the strategic and economic relativities in the region, particularly with Australia relative to regional partners. This indicates the need for two important policy directions - one is to continue to invest in an ADF with high-end capabilities, while the other is to deepen security partnership so that Australia's security is advanced as regional capabilities grow over coming decades. There will be obstacles and setbacks in Australia's pursuit of regional partnerships but genuine strategy is about longer-term aims and, as noted above, strategic direction needs to be robust enough and on a sufficiently long time horizon to see beyond obstacles as they arise.

Strategic Outlook

In terms of the strategic outlook, DWP15 does need to address China's military build-up and modernisation, while encouraging China's peaceful rise and ensuring that strategic competition in the region does not lead to conflict.

The challenge for Australia is to create and deepen defence partnerships and contribute to regional security architecture, while maintaining and enhancing Australia's Alliance with the United States. However, DWP15 also needs to address the desire of the United States for greater Australian commitment in the region and for more overt support should US-China strategic relations become more competitive.

DWP15 must set out very clearly the connection between strategic outlook and force structure and establish concrete links between equipment acquisitions and the budget. Australians expect DWP15 to provide a credible policy on strategy, force structure and funding and to close the structural gap between aspiration and funding.

Strategic Approach

It will be important for DWP15 to strike a balance in describing the cooperative elements of the United States-China relationship and the potential for current strategic competition to deepen between China and the United States. Likewise, as it addresses the need for deeper defence engagement with Indonesia and the Southeast Asian sub-region more generally, it will be important for DWP15 to address the limits to such deeper engagement.

While the Indian Ocean is clearly increasing in importance, it might be somewhat premature for Australia to be suggesting an Indo-Pacific construct as few other countries seem likely to adopt that construct. China has tended to avoid the term as it can be seen as supportive of the United States rebalance. The United States has also avoided adopting the term as it is not seeking American leadership in the Indian Ocean. Furthermore, any expansion of Australia's strategic ambitions into the broader Indo-Pacific would add further strain to an already struggling Defence budget.

DWP15 must ensure that Australia's international defence engagement aspirations are based on a realistic assessment of strategic risk, a clear set of national defence objectives, a range of capabilities to advance them, and a commitment of short-term and longer-term funds. While it is important to build defence and military relationships in the region, DWP15 should address the challenges of effective alliance burden-sharing with the United States and ensure a balanced assessment of the potential benefits that Australia might derive from more intensive defence engagement with countries of the region.

The potential for new opportunities for security partnerships with countries of the region must be balanced with the increased challenge around maintaining an edge in defence capability.

The potential for new opportunities for security partnerships with countries of the region must be balanced with the increased challenge around maintaining an edge in defence capability. DWP15 needs to describe the strategy for managing threats in the region, explaining just what regional security and stability mean for the use of the ADF, and what that consequently means in broad force structure terms.

There is little doubt about the extraordinary benefits that Australia derives from its Alliance with the United States. Shifting power relativities, however, are increasing US expectations of its allies. This will raise new questions about Australia's capacity to meet broader and potentially more demanding obligations, and the scope for an expanded alliance framework. Australia needs to be clear about its

capacity, or perceptions of its capacity, to apply economic leverage over China on behalf of the Alliance.

DWP15's description of bilateral relationships between Australia and the countries of the region will need to explain how expectations raised might be realised and how constraints will be addressed.

Industry

Industry is not being engaged sufficiently in the national security space, and its contribution is not widely appreciated. This is inconsistent with emerging trends that have resulted in strong commodity prices, a high Australian dollar, and reducing trade barriers, which sees Australian industry pursuing economic ties with Asia both as a market for resources (minerals, gas and agricultural products) and services (education, tourism and financial), and for partners and suppliers of low-cost manufacturing and goods.

To make investment decisions so as to be able to cost effectively support Defence, defence industry (and State governments) need: clarity, consistency, commitment and confidence. In essence, this means:

- *clarity* – in terms of what government expects/needs from industry and the policies that will be applied to defence industry;
- *consistency* – in terms of policy so that long-term investments can be made with confidence;
- *commitment* – that government will actually do what it says it will do; and
- *confidence* – so that sound business decisions can be made.

DWP15 should seize the opportunity to identify how local industry might be incentivised to participate in sustainment activities, somewhat akin to what the Global Supply Chain program brings to the acquisition function. DWP15 should give recognition to commercial realities and address those incentives that might be introduced to motivate local industry. It should also acknowledge the greater level of business acumen needed by Defence business managers to effectively manage incentive-based contracts as these become more common-place in future.

There needs to be an understanding that Australia's supply chain is long and complex, and reserves are limited. It has been described as 'fragile beyond belief'. This raises questions about the resilience of not only the ADF and its capacity to sustain operations, but also of the Australian economy and, indeed, society in general. This is evident in the lack of depth in areas such as fuel, where local supplies are sufficient to sustain the economy for a few weeks if not replenished. As some suggest, 'our society is a month deep'. DWP15 would do well to address these aspects.

Defence Funding

Defence funding will always be a critical issue; however, as shortfalls occur, the Government does need to address how and when it will provide additional funding or which capability aspirations and defence activities would be curtailed. The previous Government did not commit enough funding to deliver the force it said was needed in DWP13. In such circumstances, there is always a risk that money will be spent in areas that might have to be cut if further funding is not provided.

There is a need to make an honest assessment of the long-term funding trajectory, and adjust the weighted options in the light of that budget forecast. Defence planners need a sense of funding reality. They also need to address all of the relevant inputs, such as the people issues and recruitment, competition for human capital, and reserve forces – size, capacity and resilience.

The identified funding level available will define the ADF force structure and the roles that it can fulfill. Equally important is the level of confidence which Defence can place on White Paper predictions to allow it to conduct necessary long-term planning. Australian governments have a history of 'promising' considerable funds – and force structures to be developed as a result – but not following through. DWP15 needs to be different.

Legacy challenges that Defence faces that carry over from previously unfunded capability aspirations and that need to be addressed in DWP15 include:

- Even if funds are sufficient for projects identified in the Defence Capability Plan (DCP), new requirements do arise – this is particularly the case in terms of the so-called ‘glue’ projects that enable all the individual projects to work together.
- The funding base needs to be sufficient to keep pace with the escalating cost of defence equipment that has historically increased by about 2.5% p.a. above inflation.
- The implications of any funding that is subsequently removed or deferred needs to flow through into forecasts of what that means for Defence capability and activities.
- Savings from the Strategic Reform Program (SRP) – some of which have failed to emerge – have already been factored into Defence’s forward estimates, which will continue to prevent Defence from achieving agreed goals if not rectified.

The observation that needs to be acknowledged in DWP15 is that a key judgment would need to be made by the Government of the day on how any funding shortfalls and/or delays might be accommodated before a significant change in policy, plans or funding levels is required. Any significant fall in funding should trigger a corresponding re-consideration of the DWP15 goals.

Military and Capability Planning

DWP15 needs to discuss the pattern of rapid military growth; the real state of regional tensions; the assertive use of military, intelligence and cyber capabilities; and the serious implications for the types of security challenges that Australia might face during the coming decades. In so doing, DWP15 should be able to provide sufficient guidance for ADF developers to plan and prepare for the security challenges Australia might expect to face in the period ahead.

Defence decision-making needs to be supported by an honest and realistic assessment of these security challenges. It also needs to be supported by a rigorous process of contingency gaming and analysis of alternative force structure options. The right decisions have to be made and followed through on for effective future military capabilities. Thus, it might be instructive for DWP15 to explain the internal process that will be used to implement the broad strategic policy direction of the White Paper.

The impact of decisions already taken is likely to pose a real challenge for the ADF’s aerospace forces if not addressed in DWP15.

The impact of decisions already taken is likely to pose a real challenge for the ADF’s aerospace forces if not addressed in DWP15. The commitment of billions of dollars to what was an un-forecast Super Hornet acquisition to address an un-defined transition risk at the end of this decade whilst deferring the purchase of the full Joint Strike Fighter (JSF) capability needs to be addressed in DWP15. There is real concern that as a result of operating a mixed fleet of Super Hornets and JSFs in the mid to late 2020s, Australia would have many fewer than the 100 JSFs originally planned for and would, therefore, have a reduced fifth-generation fighter

capability to address an uncertain future security environment. This mixed fleet is also likely to result in increased operating costs that will compound existing concerns regarding budget pressures and associated force capability risks.

The challenge for the Army after a decade of high tempo operations is to repair, rebalance and prepare itself for future deployments. This means being able to deal with both the range and scale of potential future operations. Effective preparation can only come from base funding not supplementation. Any further Defence spending reductions will lead to restrictions on training, deferred maintenance, and delays in acquiring new capital equipment, which all pose the potential for a longer-term capability deficiency in the land force. Adequate and consistent funding from government will be Army's biggest challenge for the future.

DWP15 might address the challenges associated with maintaining shipping flows and protecting energy shipments and broader trade globally, and address the shared responsibilities across government departments in maintaining Australia's maritime security. Greater systematic effort is needed in addressing the future balance between civil and military contributions. More effective alignment of civil and military maritime capabilities through the adoption of a 'national fleet' approach would seem warranted.

Several trends indicate a stronger defence perspective on the Antarctic is warranted, particularly the increasing use of long-range Unmanned Aerial Vehicles (UAVs), increasing challenges and competition over natural resources, and increasing concerns about environmental protection.

DWP15 should address the need to integrate cyber power into national strategy, describe how this might be achieved, and set the scene for an improved whole-of-nation effort. It should address just how Defence contributes to the National Cyber Security Strategy, what its cyber posture is, and how it is addressing any gaps through planned remediation and implementation plans. It might describe how a national cyber effort and a national Intelligence, Surveillance and Reconnaissance (ISR) construct can be brought together and just what Defence's role might be in realising a more integrated national effort. Without this, cyber and ISR capability gaps will emerge that will hinder the ability to plan for and conduct effective operations in future.

Future Technologies

While it is to be expected that DWP15 will pick up on the capability areas for naval, land and air forces, as well as joint and enabling forces that were identified in DWP13, it might also turn its attention to technologies of the future, which are currently emerging and which might be leveraged to maximise mission effect. Futures studies in several countries have indicated that technological advances in microsystems, nanotechnology, unmanned systems, autonomous systems, communications and sensors, digital technology, bio and material sciences, energy and power technologies, cognitive science, and neuro-technologies, all have potential and important relevance to Australia's defence capability of the future.

While these technologies will evolve, in areas where they come together, such as in cognitive science and Information and Communications Technology to produce advanced analytical and decision-making tools, the combination might be revolutionary. It will also be important to address the potential advantages that might accrue to Australia in terms of cheap lift into space.

In examining just one of these technologies – unmanned systems – this Report recommends that DWP15 should identify the significant capability improvements, cost efficiencies and indirect benefits that would accrue from an increased use of unmanned systems, and seek to take maximum advantage of expected advances in unmanned autonomous systems. Strategic systems have the capacity to deliver ‘better-than-satellite’ quality persistent ISR, at ranges far beyond the capability of current manned systems. These platforms already offer the capability to search enormous expanses of ocean, at the extreme limits of Australia’s area of interest, sending back high-quality pictures, video and electronic data for analysis.

Both strategic and tactical unmanned systems can deliver a significant level of national self-reliance for ISR, and as an adjunct, make a valuable contribution to regional operations.

Both strategic and tactical unmanned systems can deliver a significant level of national self-reliance for ISR, and as an adjunct, make a valuable contribution to regional operations. Additionally, contributions of unmanned systems for humanitarian assistance and disaster relief, border surveillance, cargo delivery, medical evacuation, hydrographic and geographic mapping, climate analysis, and other emerging applications can be made at very short notice, providing immense value to a regional neighbour who has limited ISR resources. Furthermore, unmanned systems can contribute to deeper regional maritime domain awareness and closer United States-Australia ISR cooperation.

The advances in Processing, Exploitation, and Dissemination (PED) tool development are starting to reduce the numbers of personnel required for unmanned system operations. A challenge for the future will be the availability of analysts and sensor operators; however, innovative commercial models for delivering ISR via unmanned systems have not been adequately explored within Australia, largely due to cultural issues, and a lack of familiarity with non-military manning structures.

Australia’s region of strategic interest translates to an enormous geographic area, well beyond the limits of conventional ISR systems. Additionally, the need for energy security, including security issues associated with expanding offshore resource exploitation in Australia’s north-west and northern approaches is now receiving greater attention. Thus, new approaches to surveillance are required if Australia is to maintain a level of awareness of developments in the South-East Asia and the Asia Pacific regions.

The importance of an enhanced United States’ presence in the Asia Pacific has been emphasised as being essential to peace and stability in the region. Cooperation in the development of a fully interoperable unmanned ISR network, based on common strategic assets with reach across the entire region, would provide a practical and productive area of cooperation between Australia and the United States.

It is important for DWP15 to explore and better understand the impact of unmanned systems on the full spectrum of military operations, and explore the potential benefits of these systems in regional operations, including humanitarian assistance and disaster relief, and long-range intelligence collection. DWP15 should also look critically at conventional approaches to resourcing and costing these systems, and challenge the accepted models to achieve long-term savings in delivering ISR.

Developing a Bipartisan Approach to Defence Planning

The Defence White Paper is a useful mechanism for communicating with the public, and could be used to broaden the public interest in defence and national security. However, that would require a strong bipartisan approach to Defence by both sides of politics. The Government of-the-day needs to take far greater account of the things the ADF might need to do in the future if it wishes to adopt a more pragmatic approach than has been the case in the recent past.

Australia used its 1939 and 1956 War Books as a guide to planning the way ahead. The Commonwealth War Book published in 1956 was informed by wartime experience and showed the breadth of the security concept at the time, by including sections on internal security measures, transport, telecommunications, and measures relating to the civil economy as well as a range of mobilisation issues – things that might today be referred to as ‘national support’. It might be timely to re-visit the principles underlying development of these War Books as a means of settling on a bipartisan approach to defence planning.

An attempt to update the War Book during the 1970s was delayed as it proved too onerous. The concept was subsequently abandoned by Defence because of the difficulties of coordinating non-Defence inputs and activities. Alternative approaches have been adopted, which include planning for national resilience, and which is currently undertaken for national disasters but not conflict. Any new initiative would need to be coordinated through the new machinery that now operates in the Department of the Prime Minister and Cabinet. In this way, a comprehensive assessment could be made that addresses issues such as the legislative framework, general workforce, estate, technology, reserves, and human factors. These issues are often overlooked in defence planning today, or simply referred to in passing as complicating challenges.

NEED FOR A STRATEGIC SHIFT

The Kokoda Foundation’s analysis indicates that Australia needs a strategic shift in its Defence plans and priorities. The nation is witnessing an unpredictable, ambiguous, complex and dangerous security environment with accelerating rates of political, operational and technological change, all coupled with fiscal constraints that will demand hard choices and difficult prioritisation decisions. Significant agendas will be needed in areas such as political-military, operational, and force structure changes.

This should see new strategic guidance, force structure priorities and force-sizing constructs, force employment frameworks, budget proposals, operational concepts, preparedness improvement plans, reform priorities, and alliance and partnership-building activities all emerge with greater definition. Taken together, such changes would constitute an important and necessary shift in Australia’s national security strategy and defence affairs.

Defence will need to muster and sustain the capacity to carry out complex and wide-ranging change that has many interacting parts. There will be difficult issues that cannot be finessed and hard decisions will be needed. Success will require exceptional skill in using scarce resources, pursuing difficult innovations, and fielding a future force that has the needed flexibility and agility to meet Australia’s strategic requirements. New concepts will emerge and will need rapid testing and evaluation. Plausible alternatives will need to be considered.

All of this needs to be done well to ensure the future ADF remains capable of protecting Australia's national interests with acceptable, manageable risks. But implementation will be a challenge – it is a complex challenge that requires systems thinking and a system-of-systems approach allowing decision-makers to look at the situation holistically and to analyse and understand the evolving nature of emergent trends and patterns.²

Implementation will demand greater alignment across strategy, force structuring, and changes in people, processes, organisational structures, and technology, particularly information technology. Implementing this successfully will demand coordinated and persistent approaches that leverage whole-of-government initiatives, public-private partnerships, and transnational approaches.

While a priority must be given to developing joint force concepts and constructs, assistance must also be provided to the Service Chiefs as capability managers in raising, training, and sustaining their forces so that their contributions can come together to form a cohesive and joint whole. Leadership development will be critical, emphasising as it must, innovative thinking and action under resource constraints and operational uncertainty. Concepts that support more rapid acquisition and deployment of capabilities deserve far greater attention.

Sustained quality governance in this changing world will be essential, particularly as new abilities required of Defence people – both in staff and operational roles – will need to be supplemented within public-private, whole-of-government, and transnational cooperative constructs. Greater networking across all areas will be needed to minimise stovepipes (or as some refer to them – cylinders of excellence) and maximise information flow.

Feedback mechanisms must be in place to track progress and identify divergence from guidance early.

Feedback mechanisms must be in place to track progress and identify divergence from guidance early. Underlying assumptions will need to be revisited frequently, alternatives examined, and policies, strategies, and plans adjusted as needed. Decision-makers will require insights through actionable foresight early enough for them to act. Short-termism must be a thing of the past.

Core processes that address strategic policy and planning, the development of capability needs and requirements, the integration of joint capabilities, preparedness, programming and budgeting, acquisition, sustainment, and workforce planning all need to be responsive, agile and interactive enough to meet these new challenges. History does not induce optimism and the Defence leadership needs to make this a priority, and it needs to be strongly supported by Ministers. This all starts with DWP15.

² The recent work by the Defence Science and Technology Organisation in developing its foresight study is a most welcome contribution in this regard.

Putting Focus on the Business of Defence

The business challenges facing Defence today are not that dissimilar to those facing companies. Many companies came into being at a time of limited competition and an abundance of resources but as they faced declining top lines and inefficient management practices they have been forced to respond so as to remain in business, especially in the face of newer, more nimble, innovative and low-cost competitors. So, they have had to develop efficient, agile management structures.

The lessons learned in industry should not have to be re-learned in Defence as it faces a smaller budget in the face of increasingly competitive and complex threats. This means that Defence cannot institute quick fixes like across-the-board spending cuts. Instead, it has to look internally for fundamentally new ways to respond. Defence now has to reform its management practices as a source of competitive advantage — getting more capability out of each dollar spent. Granted, this idea is nothing new, but its implementation has now become an imperative.

While it is something of an anathema to view Defence as a corporation, the comparison is apt when listing the management practices of successful versus unsuccessful companies in the 21st century. Defence does not score well in this sense, specifically because it has:

- A heavily centralised corporate governance model where control is concentrated at the very top, creating enormous complexity, driving up costs, slowing decision velocity, and stifling agility and innovation.
- A culture where bad news is filtered out as it travels up the chain of command.
- A tendency to expend resources on non-core activities or capabilities.
- Multiple overlapping layers of redundant management.
- A system that takes too long and pays too much to acquire needed capability.
- Labour skills continuously atrophying because there is little infusion of fresh talent above entry-level.
- Increasingly expensive cost of labour and benefits.
- Little understanding of the cost of doing business or of the major cost drivers.

To truly transform, Defence needs to take a much more businesslike approach. It should reconsider its corporate governance model, work to foster an innovative, risk-based culture, baseline its costs, understand its major cost drivers, rethink its human resources strategy and reform key problem areas. It needs to learn from the best business leaders and business schools on how to be effective in the 21st century.

NEED FOR A STRUCTURAL REVIEW

With an increasingly uncertain strategic environment, increasing budgetary pressure, too many competing capability aspirations, and lack of linkages between strategic planning documents, there is a need for a fundamental structural review of Defence which should be conducted by Defence but supported by several independent people. A fundamental first-principles review along these lines has been announced by the Coalition Government, and it is hoped that the review will address many of the issues discussed in this Kokoda Foundation Paper as it identifies ways of making decision-making faster, expediting processes, and making Defence more cost-effective.

Costs, timeframes and the delivery of essential outputs must all be measurable and be measured. Through this, the benefits of any future functional restructuring can be determined in advance of embarking on the reform.

Any discussion in DWP15 of reform, governance and decision-making must go well-beyond any simple tactical tweaking of long-standing processes.

Any discussion in DWP15 of reform, governance and decision-making must go well-beyond any simple tactical tweaking of long-standing processes. While solid steps have been taken to strengthen various forms of planning, reporting, accountability, consultation and review, there remains the need for a thorough-going process of strategic reform to ensure that Defence achieves world-class levels of efficiency and effectiveness.

This does suggest that the Coalition Government is right to give genuine reform higher priority; but it also needs to work with the Department's leadership to review carefully the priority outputs of the organisation and whether current structures and systems represent world's best practice for their delivery; it needs to foster stronger analytical skills and processes in order to strengthen the quality of the Department's key decisions and other core outputs; and it needs to properly empower the senior output managers to manage the business of Defence.

CONCLUDING COMMENT - POSITIONING DEFENCE FOR 2015 AND BEYOND

The next few years are going to be quite challenging for Australia's national security and its defence strategy and policy, probably more challenging than the nation has seen in the past 25 years. There are five key reasons for this. First, the lengthy expeditionary wars in the Middle East have drawn to a close. Second, the rise of China is having a significant impact on security dynamics in the Asia-Pacific. Third, the guided munitions capability that has evolved over the last ten years is also deriving advances in robotics, autonomous systems, big data, and material sciences. Fourth, and related, the diffusion of this advanced technology is accelerating rapidly within Australia's region; and the nation's ability to stay ahead of this curve is something of an open question. Finally, there's substantial downward pressure on the defence budget, notwithstanding the Coalition Government's desire not to cut Defence funding further and to return it to 2% of GDP as soon as possible. There are a lot of economic factors that conspire to make those aims quite challenging.

These five factors are relatively fixed and will determine the strategic space within which Australia's leaders will have to struggle and make some very hard strategic decisions.

One of those decisions will be to avoid the natural temptation under budget pressure to adopt a triage approach to defence funding and deal with this year-by-year and do what has to be done to live within the funding levels and hope that the budget will improve, which seems exceedingly unlikely. Defence cannot afford to adopt a year-by-year approach, shaving margins as it goes. The department needs to project itself ahead into the future, and try to understand the future environment, the core ADF missions, and the priorities that need to be set, and thus take some risk in a fundamentally different budget environment. Armed with that sense of where it wants to end up, Defence can then determine how that should inform the near-term decisions it will need to make.

The second decision to avoid will be the typical mistake nations tend to make in straightened economic times, which is to reduce their force readiness, modernisation and logistics support. Australia cannot solve the budget process on the back of the force; rather, it needs to look at the defence enterprise as a whole. There has been substantial growth in overhead, infrastructure, and in personnel costs and Australia needs to ask how does it resize and reshape the defence enterprise so that it can protect the investment in readiness and modernisation that will be needed to deal with the kind of environment described above. There has also been a substantial increase in the cost of maintaining the force, and far greater attention must be paid to the total cost of ownership. Related to this is that Australia cannot live off its past investment in the ADF; it has to keep investing and modernising, and that includes national logistics support.

Australia's national security framework has been based around a strategy of a technological or capability edge; and if the nation wants that to continue, it needs to be investing more in Research and Development (R&D) and its people capacity that makes technology real, that provides the edge. It is frustrating that the debate tends to be at a very tactical and often very ideological level, and the consequence is that people are arguing decisions at that level and failing to really understand the very strategic and longer-term implications of going down certain paths. These tactical decisions will have a negative impact on Australia's capabilities for leadership, its abilities to protect national interests and ways those interests can be advanced in the future. So, Australia does not seem to be having the debate it needs to have. Perhaps, the budget pressure and the new White Paper can be used as 'burning platforms' to generate some of that debate.

The readiness concern does not end with the ADF, it applies as well to Australia's defence industrial base. The industrial base has to be ready to get things done at all times. And that means Australia has to have the human capacity to do it. Australia must be able to attract and retain the talent needed to be able to provide an edge and both the ADF and the defence industrial base need that talent. Australia's human capital base of the future must have technological currency and readiness. And it will be a robust R&D program that will help to attract the best talent, so the two are related. Australia's shipbuilding industry is a key example where a long-term view needs to be taken in DWP15.

Australia must be very careful not to underestimate the level of challenge that's faced inside the Defence Department right now and how much people are scrambling simply to deal with the budget and manage all the competing priorities – there is no let up. That said, the temptation within the Defence Department with all the crises that happen is to succumb to the tyranny of the inbox – to focus on the detail at the expense of the big picture. People do need to have the 'head-space' to raise their sights and frame some of the more long-term choices – both programmatic and strategic ones – that are required for the future.

There is also a political side to this challenge. While part of Defence's task is determining the way forward, the smart strategy and the associated choices, an even harder part is creating the political support for smart defence enterprise reform that can support some of the hard choices that will have to be made.

There is also a political side to this challenge. While part of Defence's task is determining the way forward, the smart strategy and the associated choices, an even harder part is creating the political support for smart defence enterprise reform that can support some of the hard choices that will have to be made. That will require a lot of engagement on Defence's part to educate, to elevate the debate, and to think from more of a political perspective of what's in it for politicians to support the necessary reforms.

One thing that can be said with confidence is that the force of the future must be agile. Australia does not want a point solution that is good for just one scenario. It needs a force that can perform very well across any number of combinations of scenarios to deal with the incredible uncertainty and volatility that the nation will face in the years ahead.

Healthy commercial organisations that have gone through the economic crisis have had to carry out substantial de-layering or de-thatching. They've done a lot of workforce reshaping and resizing to be more agile and more profitable.

That kind of thinking is needed in government. There is a very basic principle when corporations are going through a transformation in their cost structure: they don't start with the budget they have and work out what they can cut; they start at zero and figure out what they need. It's just a different way of thinking about things.

There is no question that this is difficult – it is extraordinarily hard to do, but it is also an opportunity. And it illuminates assumptions that are made in an organisation about the way it has to operate that are typically historical assumptions that might no longer apply. There is a tremendous opportunity for this today. This is not a negative reflection on the management of the Department of Defence because their hands are tied in so many different dimensions. Government actually needs to help to make any real transformation work.

Government does tend to address problems in Defence by laying on more and more regulation and reporting, without ever going back and seeing how that additional layering has really played out. A mechanism for periodic review of this additional 'soft governance' is sorely needed.

Much is expected of DWP15 and it needs to seize the many real opportunities on offer. It faces an enormous challenge – one that it must step up to and deliver in a number of important areas. The nation, quite rightly, demands it.



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