

Senate, Wednesday 13 May 1998

COMMITTEES: Foreign Affairs, Defence and Trade Committee: Joint: Report

The ACTING DEPUTY PRESIDENT (Senator McKiernan) —Pursuant to standing order 38, I present the report of the Joint Standing Committee on Foreign Affairs, Defence and Trade entitled *Funding Australia's defence*, together with submissions, Hansard record of proceedings and minutes of evidence which were presented to the Temporary Chair of Committees, Senator Murphy, on 8 May 1998. In accordance with the terms of the order the publication of the documents was authorised.

Ordered that the report be printed.

Senator MacGIBBON (Queensland)(6.02 p.m.) —by leave—I move:

That the Senate take note of the report.

In February 1997, the Senate referred to the Joint Standing Committee on Foreign Affairs, Defence and Trade an inquiry into the future expenditure requirements of the Department of Defence in the immediate future. The committee found that there were two problem areas in relation to funding. Firstly, there was a shortfall in present funds and, secondly, there was a huge problem looming in about 10 or 15 years from the present time. In other words, there was a shortfall both in day-to-day funding for the Department of Defence and in the longer term.

It is informative to look at the history of how defence funding got into the position it is in. It has been subject to decline for many years. It has been popular to talk about a peace dividend after the ending of the Cold War in the 1989-90 period. The Australian community certainly have had a peace dividend in so far as they have seen their defence expenditure considerably reduced. For example, in the early 1980s, 2.8 per cent of GDP went to defence, or roughly 10 per cent of all federal government outlays. In the budget brought down last night, 1.9 per cent of GDP now goes to defence, and only 8.7 per cent of all federal government outlays.

The Labor years were when this decline really took place. For many years there were successive cuts in defence outlays in real terms, for a few years the vote stayed the same, and on one or two occasions the vote went up marginally. But there was, overall, a very significant reduction in the amount of money going to defence. That was accompanied, of course, by a significant reduction in the number of members employed in the Defence Force, both uniformed and civilian. In rough terms, in the last 10 years, something like 16,000 employees—11,000 in uniform and about 5,000 in civilian employment—were removed from the Department of Defence.

At the same time, in real terms, federal outlays kept going up. During that period federal budgets have grown significantly. Nearly all departments have benefited from this increase in growth. For example, Social Security's percentage has gone up from about 27.2 per cent of federal outlays 10 years ago to 40.1 per cent in the budget last year.

Compounded with this shrinking budget, the country requires more and more from its defence forces. You have only to think of the deployments that the Australian Defence Force has undertaken in support of United Nations activity in the last 10 years to realise that.

A lot of equipment which had been bought for the Vietnam War has become obsolete. Again, if we go back to the early 1980s, something like 17 per cent of the defence vote—a much larger defence vote, relatively speaking, in those days—went on new capital equipment. For more than 10 years now, about 28 per cent of the defence vote has gone on new capital equipment. So the budget has shrunk but the proportion for new equipment has increased. As a consequence, expenditure for personnel numbers, exercise times, ammunition, war stores, flying hours, steaming time and the rest of it, has diminished to cope with it.

Side by side with this, there has been a rapid expansion in the expenditure on regional defence forces. We will not discuss what has happened in China, but there has been a very great expansion in China's defence budget. Even countries like the five original ASEAN states have increased in real terms by 75 per cent their expenditure on defence in the last 10 years. While that has come to a bit of a halt at the moment, with the Asian currency crisis, clearly that will resume in a year or two when they get through their financial problems.

This government, coming into power, accepted the forward estimates prepared by the Labor government in their last budget. That means they have not changed the forward estimates. Those forward estimates did involve, despite the popular view that there has been no cut in defence, a reduction of 0.5 per cent in real terms in the first budget brought down by this government, in accordance with the Labor estimates, and the maintenance of no reduction in real terms in the budget last year and in the one brought down last night. Those figures, as the defence committee showed, were inadequate.

In order to cope with the shrinking budget, the Department of Defence instituted a large number of reviews. The force structure review has led to a significant reduction in personnel. The defence logistic reform program has handled the logistic side, getting rid of the three major stores depots for the three separate services. In the commercial support program—the CSP—the department tried to seek out all avenues where work could be performed more competitively in the supply of services or in maintenance from civilian contractors and that has produced great savings, in excess of \$300 million a year. Most importantly, the review which was commissioned last year by the present minister, the defence efficiency review—the DER—was followed by the defence support program—the DSP—which will incorporate the findings of the efficiency review and will, in the longer term, produce very significant savings.

We have reached the stage where the salami cannot be cut any thinner. We have certainly reached a critical stage with respect to numbers in the Defence Force. You really cannot maintain training with battalions that are at only half strength. You cannot exercise a battalion with a shortage of one rifle company or take part in exercises, as the Labor Party tried to do, with only four men in a section when you need 10. There are problems today with respect to ammunition supplies, exercise times, flying hours, steaming hours and track miles.

Above all, one of the things that came out of the exercises and the deployments that we made with the United States is a critical shortage of communications equipment. The great change in military affairs that has taken place in the last decade is related to the development of electronics—the electromagnetic spectrum—particularly in relation to communications: satellite communications, high speed encrypted communications, data transfer, intelligence gathering, and the rest of it.

As was shown in the Tandem Thrust exercise—which is probably the biggest exercise we have held since the end of the Second World War involving American forces in Australia—elements of the ADF had significant problems with interoperability with the American forces in relation to communications. Of course, that is one of the problems we are having with the elements we have deployed in Kuwait at the present time—the SAS and, to a lesser extent, the RAAF. Those shortcomings can be overcome and coped with in the short term, but if we are going to operate effectively ourselves and with our allies we simply have to put more money into communications.

The committee recommended that there be a 1½ to 2½ per cent growth in real terms in the defence vote for the next five years—starting after this budget because it was not practicable to involve this budget. That is modest and affordable growth and will go some way to addressing the shortcomings that the Defence Force suffers from at the present time. The really worrying issue for the Department of Defence is the huge block obsolescence which will occur in about 2010 or 2015. Significant equipment blocks like the FA18s, the

F111s, the FFGs—the DDGs will be gone by then—the army's armour and artillery, and, above all, the technology the army needs on the modern battlefield, will need to be replaced. There never has been a time in our history when such a large block of expenditure will be required over a period of around five to 10 years.

There is no way that by incrementally increasing the defence vote at this stage we can accommodate that, because we are talking about an expenditure which, while it cannot be precisely defined at the moment, is of the magnitude of between \$15 billion to \$25 billion. It is a huge amount of money on top of the annual operating expenses.

The committee recommended that parliament must turn its mind to accommodating that expenditure in that time frame of about 10 years hence. We will have to make that expenditure to maintain our independence and our own security. It is a situation that all countries will face. The huge cost of operating in that age is something Australia can do, but we cannot do it unless we turn our minds to it seriously at this stage and make it affordable.

Senator MARGETTS (Western Australia)(6.12 p.m.) —It is interesting that we have had two reports to deal with today: one on uranium mining and milling and one on defence. It is no accident that I am speaking on both because one of the four principles of the Greens is peace and disarmament. That includes working towards a world that removes weapons of mass destruction. Of course, the uranium cycle is an important concern for many of the people working in that direction, and it certainly is not dead. The other issue is peace, in the true sense of the word. It is a vital part of the pillars of Green politics.

From my point of view, this means keeping a watching brief on the issues of defence and defence spending, looking to see whether or not what defence is doing is reasonable, firstly in the terms of whether we are working towards a more peaceful world and also in terms of accountability. Taxpayers' money is used in defence and it is reasonable to assume that the reasons for defence spending of money are supportable and that they are spending it in a way that makes reasonable use of that money.

In my dissenting report to *Funding Australia's defence*, I argued that the majority report failed in a number of ways. I argued that it failed in its scope because, for reasons of time, resources and so on, it was considered that the committee could not look at the issue of security, so we did not deal with the issue of defending what from whom, or why. We were not able to look at what the issues of security are within Australia.

The defence subcommittee was to inquire into and report on the level of funding required to ensure that the Australian defence force is equipped, trained and maintained to a level necessary to provide for the defence of Australia, as principally defined by strategic guidance. So we do not look at security issues here. If you separate, as I have argued, defence from security, you get to a situation where the committee in effect asks Defence what they want. Defence comes up with a shopping list and says, 'How much can you give us?' Then we get down to a measure of efficiency, which is broadly defined as 'bang for your buck'.

I quoted a spokesperson from the Department of Defence in the transcript as saying:

The starting point of any consideration of adequacy of defence spending is how much capability you are getting for every dollar that is going into the system.

That seems to be Defence's measure of adequacy: bang for your buck; what can we get?

The irony is, that over time—because of the nature of defence budgets which work differently from other budgets—it has been possible for the heads of departments within Defence to be able to save on personnel. This has been going on for a while—save on personnel, outsource, get rid of serving forces and put those savings into more materiel; basically, more war toys, fewer people. Then they come to parliament, put up their hands and say, 'We have not got enough people to run our submarines, or our frigates, or our cruisers. Give us some more money.' We have to start saying that it is the responsibility of Defence to use their resources effectively. If they are saving money on personnel and those things that support personnel and

people are not choosing to stay in the services, then they must start asking themselves why this is happening.

We have got to start asking why Defence has a budget which is not able to be scrutinised on a line by line basis, as are other budgets. There is no real reason why this should not be the case. Much of the detail on purchasing plans is available to private industry, whose main object is to make dollars for themselves. They get more access, I argue, in a regular and integrated way to defence spending and defence spending plans than do members of parliament. As a member of the defence subcommittee I say that on a regular basis. It has got nothing to do with secrecy, it has got nothing to do with national security; it has got something to do with protecting the position of Defence from the kind of scrutiny that other departments have to undergo.

It is interesting to look at the recommendations of the major committee. There is some recognition of major horrific examples of overspending and inefficiency and worse in relation to the JORN project and the Collins class submarines budget overruns—with 95 per cent of the project paid for and no real delivery. Yet the majority report recommends—wait for it—a five-year forward defence budget commitment. There is some recognition that Defence are not pulling up their socks in terms of accountability; but we are going to hand them five years guaranteed spending in advance.

No matter what may happen—a change of government or extra information—we are going to give them this kind of guarantee, along with less scrutiny and less accountability than they have now. We are also proposing to give them up to a 2.5 per cent annual real increase—no matter what happens to the rest of our community—in defence funding. Of course, social security has risen during that time—funnily enough, when more people are unemployed it becomes necessary to pay more social security. If the aim of government were really to reduce unemployment, maybe we would have to pay less in social security. But I do not think those kinds of straight comparisons are particularly useful without the detail.

We have to start looking at why both major parties favour throwing more money at large procurement projects without proper accountability. We have to consider that we may have a situation in 10 years time or so where the major materiel—the major lumpy investments of defence—are no longer useable. We have to start thinking about what we are using them for. What was our strategy 10, 15 or 20 years ago in the Cold War scenario? Do we automatically have to replace military equipment for use in a similar scenario? Do we have to have the highest-tech frigates, the highest-tech submarines for a superpower regional engagement scenario in the next century? The answer, I would say, has not been provided in this report. The rationale for doing things in that way has not been provided in this report. Some people who have concerns about that strategy of the government wrote to the committee. They believe that it is fairly meaningless to come out with a list of what defence needs are and how much should be spent over how much time without any consideration being given to or there being any understanding of the rationale for Australia's security.

I have argued that the real security issues of Australia that concern Australians are things like what happens when we will no longer be able to get fresh water. What happens when our air is polluted to the point where we can no longer operate in the same way we are now? What happens in cases of climate change, droughts, floods and famines? We also have a situation, I believe, associated with globalisation or global warring—that is, we have a situation where the new security threats within our region are mostly within countries not between countries. I refer to security threats caused by inequalities; security threats caused by such things as IMF packages which set one group of people against another in search of scapegoats. We have seen that in Indonesia and in other countries in the region. We have seen it in Bosnia Herzegovina. We have seen it in Africa. We have seen huge horrific examples of the impact of globalisation.

How are we going to arm ourselves against that sort of impact? What are we doing to reduce the security threats of that level of globalisation? The answer is not covered in the majority report. The answer is not even conceived of within the majority report. I really believe that if we are going to be serious about Australia's security—let alone Australia's defence—we have got to start looking at those issues seriously for the future.