

Back in 2000, the government embarked on an ambitious program to expand and modernise the Australian Defence Force (ADF). Central to their vision for a stronger ADF was the Defence Capability Plan; a \$50 billion decade-long shopping list of new equipment. Seven years later, more than \$40 billion worth of projects have been approved yet surprisingly little of the new capability planned back in 2000 has entered service.

Even allowing for the extended time needed to deliver complex defence projects, this is disappointing. Of the projects planned back in 2000 that should have delivered combat capability to the ADF by now, the list of delays is sobering. Army's \$3.5 billion troop-lift helicopters have been delayed by three years until 2010, and their \$2 billion armed reconnaissance helicopters and \$600 million M-113 armoured vehicle upgrade have both been delayed from 2005 until 2008.

Air Force has not done any better. They had expected to be flying their new \$1.8 billion air-to-air refueling aircraft last year but will now have to wait until 2009, and the \$1.2 billion unmanned aerial vehicle project due this year has been deferred to 2009 at the earliest. At the same time, the much-lauded \$3.5 billion airborne early warning and control aircraft has been delayed three years while the \$250 million air defence command and control system originally due in 2003 has been delayed six years. And although the \$2.3 billion Hornet fighter upgrade is largely on schedule, the latest \$700 million phase of the project now costs twice what was originally planned.

Navy, at least, can claim some success. Their \$556 million patrol boat project is on schedule as are the several major upgrades to the Collins class submarines. Against this, however, must be counted the two year delay in the \$770 million ANZAC frigate missile defence upgrade and one year slippage in equipping our submarines with a new torpedo.

To the list of delayed projects must be added the older legacy projects that continue to falter. These include the \$1.5 billion FFG frigate upgrade that's three years late, the \$628 million HF communications upgrade that's six years late, and the \$1 billion Seasprite helicopter project that's seven years late.

The mounting delays are the result of at least four factors. First, rising costs have made the original plan unaffordable. As the cost of individual projects has grown, the number that can be accommodated within the available funding envelope has fallen, leaving no option other than to defer projects. The recent \$2 billion cost increase to the air warfare destroyer project and \$1 billion increase to the amphibious vessel project will only further exacerbate this problem for the future. Second, notwithstanding the reduced flow of projects due to rising costs, Defence has failed to deliver acquisition proposals for approval on schedule.

Third, defence industry has all too often failed to deliver on contracts that are underway. In tandem with the slow pace of project approvals, this has resulted in the deferral of \$2.1 billion of planned investment in the last year alone. Unfortunately, as investment is pushed into the future a 'bow wave' of additional spending is created that will be difficult

to surmount. Although deferring projects results in respite in the short term, it inevitably creates a greater problem for the future.

Fourth, a number of projects that have delivered equipment are either missing critical components or have otherwise failed to meet the performance standards necessary to bring the equipment into service. The armed reconnaissance helicopters, FFG upgrade and Seasprite helicopters all fall into the category of projects where hundreds of millions of dollars have been spent on military capability that is yet to pass muster.

With so many projects failing to deliver the goods, the government moved in 2003 to comprehensively reform Defence's procurement processes. The changes, which have been broadly endorsed by most observers, affect every stage of the acquisition process from conception to entry into service. While encouraging progress has been made in many areas by the reforms, the government has been pursuing a second strategy to get equipment into the hands of the ADF.

In a string of recent new projects, the government has brought off-the-shelf equipment from established production lines. It began in 2004 with the approval of the \$558 million Abrams tank purchase and was followed by the \$2.1 billion C-17 strategic airlift acquisition approved last year – both of which have already delivered combat-ready capability to the defence force. Building on this success, this year the government approved the \$3.9 billion purchase of 24 F/A-18F Super Hornet aircraft to enter service in 2010. Given that the Super Hornet is already in production, there is good confidence that the aircraft will arrive on time.

While the strategic justification behind these recent projects has been questioned, the speed and effectiveness of the acquisitions themselves is impressive. By buying mature off-the-shelf equipment from established production lines, the government has avoided the trap that has underlined the bulk of delays, cost increases and technical failures in Australian defence projects in the past; the persistent tendency to demand Australian-unique solutions.

What happens next will be interesting. The level of investment needed to deliver the government's plans for the ADF is set to rise quickly – from \$4.8 billion this year to \$6.9 billion in three year's time. On past experience, we can have little confidence that the money will be spent, and even less that the capability sought will be delivered on time. The government has to decide how much it can count on the reforms to defence procurement turning things around, and the extent to which they build on recent successes and buy-off-the-shelf equipment in the future.

With the ADF deployed on operations in East Timor, Afghanistan and Iraq, the argument for acquiring workable capability today rather than betting on customized equipment at some unspecified point in the future must look strong to the government.

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