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DEFENCE WHITE PAPER: SPEECH TO NEW ZEALAND INSTITUTE OF INTERNATIONAL AFFAIRS

In a major policy speech to Massey University's Centre for Defence Studies in May 2009, I set out three reasons why the Government went into the 2008 general election promising a major review of Defence.

First, we needed to more clearly understand how defence contributed to our security, both within our region and in respect of advancing our interests in the wider international context.

Second, New Zealand needed defence capabilities matched to our strategic interests. These capabilities needed to be primarily focused on a reasonably foreseeable range of contingencies.

Third, the defence establishment needed to be more efficiently configured and focused on delivering value for money.

Today I want to show how the Defence White Paper 2010 has addressed these issues. In particular, I will discuss the strategic settings which shaped the Government's decisions on defence capabilities, as well as the programme for reconciling those decisions with current fiscal requirements.

My objectives for the White Paper were to articulate a clear policy framework based on an assessment of our current and future security environment. That would determine the capability mix and force structure that provides the Government with an appropriate set of options for meeting its security obligations.

To achieve this, particularly given current economic realities, means that we must deliver value for money.

The White Paper is a long-term policy, looking ahead for 20 years. It addresses fundamental challenges such as swiftly rising depreciation on capital assets and the operational costs of new capabilities. It forecasts the need to replace major capabilities over the next two decades.

We need to plan now to ensure that sensible and timely decisions can be made when needed. Therefore, the emphasis on value for money is not just a short-term reaction to current circumstances. It will be a requirement for the foreseeable future.

The Defence White Paper 2010 has achieved what I set out to do.

Tonight I want to give a broader background to the White Paper. In particular, I want to focus on three things:

- the strategic environment
- the capabilities we require
- the financial implications.

The strategic environment

The assessment process determined that New Zealand's strategic environment is far from benign. While we are unlikely to face a direct military threat in the foreseeable future, the security of our interests is much broader than the defence of New Zealand's territory.

In the South Pacific, the outlook is one of fragility.

Underpinning the White Paper's assessment of a more fragile South Pacific is the fact that the island states in our near neighbourhood are smaller than most, although their maritime areas are larger than most.

The ability of Pacific Islands governments to exercise control over their resources, particularly their extensive marine resources, is being tested. This will intensify, with flow-on implications for New Zealand.

Likewise, natural hazards will continue to pose a disproportionate danger to the people of the South Pacific, who live in high-risk areas and have limited national infrastructure to fall back on.

New Zealanders expect that resources going into defence will provide options for responding to regional crises. This expectation is shared by our partners in the region, including Australia.

Beyond our immediate neighbourhood, Asia-Pacific is the region where the strategic balance is undergoing the greatest change.

Conflict in Asia runs counter to everyone's interests. It has the potential to disrupt trade, undermine business confidence, and depress demand.

Given that our major trading partners are now in Asia, any disruption to the flow of New Zealand goods and services to and from region would have very serious consequences.

Currently, relations between the major powers in Asia are stable thanks to close engagement between the United States, China, Japan, and India. But the dynamics are changing.

As Asia becomes more prosperous, expenditure on defence capabilities has increased to levels more closely aligned to how the region's countries see their place in the world and the responsibilities that come with that. While the United States will remain the pre-eminent military power within this space, other powers will test it.

While not a large player, New Zealand has been part of the regional picture over a long period.

We are a member of the major regional institutions. We have a good regional network and good standing. We have a significant economic foothold in the region. And we have long-standing military ties with some Asian countries, particularly Malaysia and Singapore, through the Five Power Defence Arrangements.

This requires us to play a real role in ensuring that the security architecture in the region continues to evolve to accommodate any changes in the strategic balance between the major powers.

In the medium to long-term, the focus of regional security engagement will shift to more concrete related activities as members test each others' commitment to playing an active part in maintaining peace.

In this context, we must make a meaningful contribution. Relevant capabilities will be valued above anything else. It is the benchmark against which a country's contribution to regional peace and security will be judged.

Having effective combat capabilities, such as the ANZAC frigates and the modernised P-3 Orions, is therefore critical if we want to continue to be considered a reliable partner in the region.

The fact is, the participation of a significant ship such as a frigate, or highly capable aircraft, is noticed. There are not so many in the region that our capabilities are meaningless. By contrast, a company of soldiers is less noticed by countries that have armies of hundreds of thousands.

Recent events on the Korean peninsula show just how complex this region is.

They also show that the whole region has a real involvement in security developments. My own involvement with the ADMM+ forum has reinforced just how seriously the nations of Asia take regional security issues.

Asia has become the world's economic engine. Our own future economic security depends on a continuation of peace, stability and orderly development across the region.

At a global level, the White Paper restates our commitment to a rules-based international order. This order has served our interests well.

But it is under pressure from a confluence of challenges. To this end, the White Paper signals our intention to invest more time and effort in building strong bilateral and regional partnerships, both old and new.

As PACOM commander Admiral Robert Willard recently observed, "No single nation has enough military capacity to be everywhere at once". With the strategic environment in Asia becoming more complex " ... this is a time for partnering like never before".

The White Paper reaffirms our commitment to Closer Defence Relations with Australia.

Through its size, location and strategic reach, Australia is a major contributor to our security, particularly in the South Pacific and Asia where our common interests are strongest.

The White Paper also acknowledges the contribution of the United States in underwriting peace and prosperity in the Asia-Pacific region and beyond.

Capabilities

The White Paper establishes the starting point for choosing New Zealand Defence Force capabilities as our maritime zone and the South Pacific.

Not only is this the area where we have the least discretion, but structuring our capabilities in this way will ensure we have the resources needed to add weight to Australia, and to support our regional obligations in Asia and further afield.

A basic tenet of the White Paper is that the NZDF should prioritise those capabilities that they are most likely to use. We need to optimise for the most likely operational contingencies.

While the White Paper does not rule out the possibility of high-intensity, inter-state warfare in the period to 2035, it judges that intra-state warfare and inter-state conflict, short of war, will remain the most common forms of conflict.

Our forces should therefore be optimised for intra-state conflict in weak or fragile states, while also maintaining some high-end capabilities.

The White Paper sets out a pathway to retain and enhance existing NZDF capabilities. No cuts to front-line capabilities are proposed.

The Capital Plan being prepared based on the White Paper focuses on the force options required to deliver Government policy. These are land combat, strategic projection and combat service support, naval combat, and intelligence, surveillance and reconnaissance capabilities.

This slide highlights the key projects on the Capital Plan.

At a strategic level, the focus is on improving the mobility, combat effectiveness and sustainability of our land forces so that the Army can provide more troops, and for longer, than it can at present.

The ability to project our defence forces across large distances by air and sea will remain critical supporting capabilities, and will be maintained and enhanced.

The ANZAC frigates will be maintained and upgraded as the cornerstone of our maritime capability.

The major new direction to emerge from the White Paper is the priority given to enhancing the intelligence, surveillance and reconnaissance (ISR) capability of the New Zealand Defence Force.

This is a niche area in which our people and platforms can and do provide a discrete, valuable contribution to international operations and exercises.

Significant capabilities proposed for the next five years include:

- pilot training
- a versatile lower-end utility and patrol aircraft capability
- ANZAC frigate self-defence upgrade
- HMNZS Endeavour replacement
- land combat support

- land C4ISR
- rolling renewal of the land transport fleet
- a littoral warfare support ship
- additional A109 helicopters
- soldier modernisation.

Significant capabilities proposed beyond the next five years include replacements for the strategic air transport and air surveillance fleets and the Naval Combat Force.

These three capabilities are by far the most capital-intensive that we have. The White Paper demonstrates that we can replace them when needed with equivalent capabilities.

Achieving this outcome was one of the reasons why a long horizon was used. We have not put future Governments in a position where they are forced to downgrade one of these critical capabilities. Of course, the actual replacement decisions will be made by the Government of the day. The important thing is they can make them.

Financial considerations

Expenditure on defence is being cut around the world as governments look to reduce public debt. In the United Kingdom, for example, defence spending is forecast to fall by eight percent over four years.

In contrast, the New Zealand Government is committed to maintaining defence spending at around current levels. This in itself, however, will not deliver the Defence Force the country needs.

A key theme running through the White Paper, and a major focus of the work underpinning it, is affordability.

This is because the size of the funding challenge is significant.

In the next two years, the cost of depreciation alone will increase by around \$100 million as projects currently in the acquisition phase are introduced into service. These include new helicopters and the upgrade of the P-3 Orion and C-130 Hercules fleets.

Not only is the depreciation significant, but the actual operating costs of many of these new assets are significantly higher than those they replace. When you contrast a 5,000 horsepower, 12 tonne NH-90 helicopter with our current 1,400 horsepower Iroquois, you will appreciate that these will not be simple or cheap to run.

Frankly, if we are to take advantage of these new capabilities, we have to be smart.

Financial modelling conducted as part of the work underpinning the White Paper revealed a gap between the current level of defence funding and the projected cost of the Government's capability ambitions.

This reality was already appreciated by Defence. The Defence Transformation Project to improve the efficiency of the NZDF was already under way. However, a fresh appraisal was undertaken, with the enthusiastic support of both the Chief of Defence Force and the Secretary.

The Value for Money Review led by Dr Roderick Deane was tasked with providing options for bridging this gap by reprioritising and reallocating existing defence resources.

Dr Deane concluded that at the front end of the New Zealand Defence Force, the operational units, squadrons, and vessels were delivering value for money. By international standards the NZDF is small, but "in the field" our servicemen and women are ably led, well trained, well equipped, and highly valued by our partners.

This is not the case, however, in the middle and back, which accounts for 55 percent of total defence operating costs.

The Value for Money Review identified middle and back expenditure of approximately \$375 million, on an annual recurring basis, which could be shifted to the deployable front end. This includes \$100 million freed up through the NZDF Defence Transformation Plan, already under way.

This slide sets out Dr Deane's analysis. It demonstrates the feasibility of the resource re-allocation. It is not, however, a detailed prescription.

The White Paper has broadly adopted these fiscal targets. This is the only way we can build capability.

How this is achieved will not be exactly as Dr Deane proposed. The Chief of Defence Force has been given flexibility in how the target is achieved, subject to Ministerial expectations.

Moreover, the Chief of Defence Force will be given full authority as Chief Executive to do this. In doing so, he will be supported by a civilian Chief Operating Officer responsible for driving the organisational reforms needed to redistribute resources to the front line.

The New Zealand Defence Force has responded very positively to the value for money incentives contained within the White Paper. They understand that a dollar redirected is a dollar that will more effectively deliver actual defence outcomes. Money reprioritised will stay in Defence.

To date, over 120 value for money initiatives have been identified by Defence. Key projects include the civilianisation of some middle and back roles, a review of Reserves, non-military procurement, the elimination of duplication in education and training, and a review of options for delivering strategic air transport.

Conclusion

In summary, I would note that a common criticism of past White Papers has been the lack of underpinning detail. The same cannot be said of this document.

Today I am releasing all the key documents that sit behind the White Paper. These include the unclassified version of the Value for Money report, the Secretary of Defence's Assessment and external reports on defence procurement and organisational reform.

I am also releasing the Cabinet papers that document the development of the final policy.

In a speech last year to the 93rd National Council of the Royal New Zealand Returned and Services' Association, I noted that the success of the White Paper would ultimately rest on whether we can provide a durable framework for guiding decisions on two questions.

These are how we use the NZDF; and how we manage the taxpayers' significant investment in Defence Force capability?

The Defence White Paper 2010 provides a durable framework for answering these questions. I acknowledge the very intensive work from all involved, which has resulted in what has been internationally appreciated as very robust and realistic public policy.

In closing, I would like to acknowledge the leadership of Lieutenant General Jerry Mateparae and Secretary of Defence John McKinnon in the whole review process.

I look forward to working with Secretary McKinnon, and the new Chief of Defence Force, Major General Rhys Jones, to ensure that the White Paper is successfully implemented.

LINK TO DOCUMENTS: www.defence.govt.nz