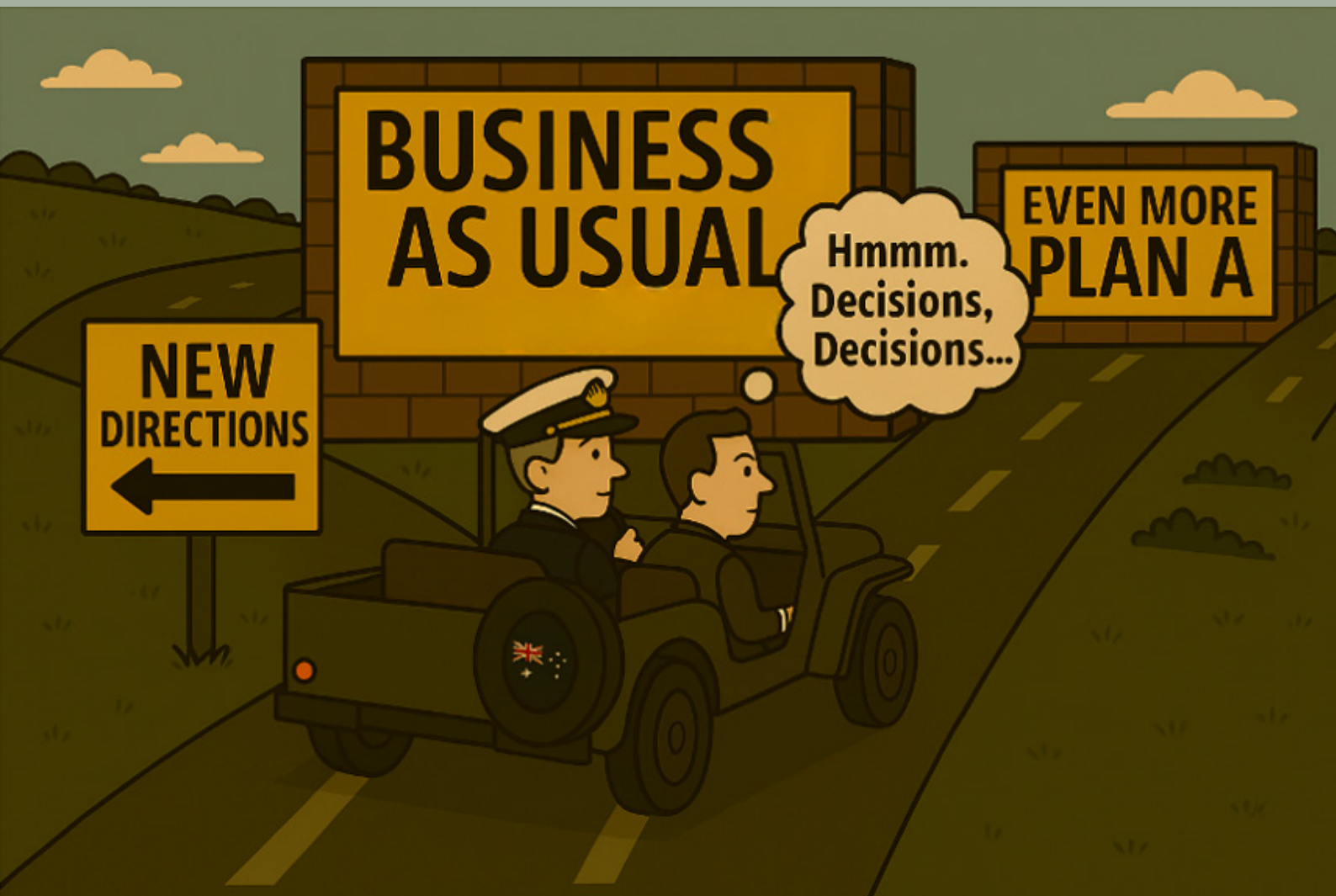


# Defence 2025:

## Dollars and decisions



**STRATEGIC  
ANALYSIS  
AUSTRALIA**

Marcus Hellyer  
Michael Shoebridge  
Peter Jennings

April 2025



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First published April 2025.

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# Defence 2025: Decisions and dollars in a time of change

This report comes at an unusual moment for Australian security. We're in the middle of a federal election campaign and it's at a time of great global upheaval, dominated for now by big new uncertainties being injected rapidly by the Trump administration in Washington DC.

But the turmoil is bigger than Washington. Two wars are still underway, in Europe and the Middle East, and neither shows any sign of slowing. Iran's leadership has been embarrassed by security weaknesses and severe damage to its regional proxy network, but looks determined to rebuild its strategic position and its threats towards Israel. And Xi Jinping continues to build a military to invade Taiwan and exert global power.

Military power relativities are changing, and new ways of war are showing their power in the Middle East and in Ukraine. We're at the beginning of that change, not even at its middle.

It's a bad time to realise that our key ally, which has underwritten Australian and regional security for decades, has now become less reliable and more demanding than at any time since the signing of the ANZUS Treaty in 1951. But it would be even worse not to notice or to ignore that new reality.

So, here are six chapters to help the Australian Government and its defence apparatus negotiate our security environment. They're written in plain English to inform both the denizens of the national-security community and every Australian with an interest in how our defence is being managed and how wisely the \$59 billion annual defence budget is being spent.

Unsurprisingly, the analysis and recommendations apply that old saying, 'Follow the money!' Whatever people say they're doing, what shows you what's really happening is how the cash is being applied. The four chapters focusing on the money trail are bookended by Chapters 1 and 6.

Chapter 1 tangles with the question Canberra doesn't want to ask, let alone answer: how can Australia thrive in a world where our major ally has changed in two ways, becoming simultaneously less reliable and more demanding?

Then it's into the money.

First, the basics in Chapter 2. What's the funding envelope for the Defence organisation, and how has it morphed over the past decade? How true are claims of 'historic' increases, and what connection can we see between pronouncements of dire strategic circumstances and funding changes?

Chapter 3 divides the pie into the three big pieces of acquisition, sustainment and personnel and assesses how the Integrated Investment Plan's ambitious target of acquisition reaching a 42% share of the defence budget is going. Keep expectations low here to avoid disappointment.

The most surprising part of the work is Chapter 4, taking us through the rapidly growing submarine enterprise being created around AUKUS and the ageing Collins-class subs. The spend, still seven years or so from the first Australian-flagged nuclear submarine, already has the submarine arm of the ADF on its way to becoming a fourth service: this newcomer is outpacing the Army, Air Force and surface Navy in its spending, complexity and risk.

Chapter 5 examines the question of how dependent the ADF is on US military technology. The answer is, unsurprisingly, very dependent. But it appears to be becoming even more so. Whether you like that situation or not, it's an important reality we need to acknowledge, whatever our preferred pathway forward on self-reliance and the alliance.

After that journey through the dollars and decisions, Chapter 6 is a practical user's guide for whichever Australian cabinet minister is appointed as Minister for Defence after May's election. The recommendations from Peter Jennings are informed by close personal experience both as chief of staff to a former Defence Minister and as a senior bureaucrat in Defence and at the heart of government in the cabinet secretariat.

SAA is delighted that we've been able to do this work and provide transparency on \$59 billion of annual public spending through the support of Boeing, C2 Robotics, Gilmour Space and NIOA Group.

# The Australia–US alliance in a time of Trump: ‘How does this work for me?’

## Michael Shoebridge

Australia isn't alone in having to reassess basic things about our defence policy and plans as the shape of a new 'America First' US emerges from the directions being taken by the Trump administration. America is both a less reliable and a more demanding ally than at any time since the end of World War II.

That requires Australia to be able to do more to meet our own defence needs, and to work more closely with key non-US partners such as Japan, South Korea and India. And it also requires us to think harder about how we engage with this new America to get what we want out of our defence relationship. An Australia that's doing more to meet our own needs and is clear about what it wants from America and what it's willing to do to get that is likely to be far more successful than an Australia that acts as if nothing has changed and just sticks with older plans and approaches.

This chapter sets out what's changed about the US and our alliance relationship and how Australian security can thrive in the light of this more demanding and less reliable ally.

## The cornerstone alliance and its two key assumptions

Australia's security alliance with the US has been the foundation of Australian defence policy since World War II, even before the signing of the ANZUS Treaty in San Francisco on 1 September 1951.<sup>1</sup>

And, beyond defining our defence policy, the alliance has also provided the basis for Australia's approach to equipping and supplying our military, which is predominantly a user of US defence systems across our three services (think Abrams tanks, F-35 and C-17 aircraft, and Aegis-equipped warships, as well as whole chunks of the missile catalogues of US defence companies like Raytheon and Lockheed Martin).

Australia has gone all-in on the alliance for both strategy and equipment. Our strategy assumes that we'll never fight alone and that our interests and those of America's are so closely aligned that our military only needs to be able to fold into a larger US force structure, because if we're at war, then the US will be, too, and we'll be operating to achieve a shared outcome. Since World War II, that shared outcome has been to maintain a rules-based order, albeit one backed by American power.

That foundational assumption also drives AUKUS, because eight conventionally armed nuclear submarines in Australian hands 30 years from now in and of themselves don't give Australia a strategic deterrent even in the 2050s, let alone anytime in the 2030s or 2040s.<sup>2</sup> They're mainly a supplement to the combined nuclear submarine fleets of the UK and the US, with Australia perhaps also expanding the operational bases for that combined fleet and adding some financial and maintenance capacity.

The purpose of the larger combined fleet is to shift the military balance in the Indo-Pacific away from China and make conflict less likely, and so maintain a 'free and open Indo-Pacific' governed by predictable rules and norms, instead of a region dominated by coercive Chinese power.<sup>3</sup>

But, as with other aspects of the alliance, AUKUS's purpose only makes sense if the US continues to share it. And here's the problem that Canberra's political class and Canberra's national-security mandarins running our defence, foreign-policy and security and intelligence agencies don't want to face but must: America is no longer signed up to defending the global rules-based order and has little interest in helping its partners and allies to maintain a 'free and open Indo-Pacific'. Now, American military power isn't reliably available to partners and allies such as Taiwan,<sup>4</sup> the Philippines, South Korea or Japan. Instead, any US military presence is likely to come with an increasingly large bill attached and without a solid commitment from the US Government to act in common interests in times of crisis or conflict.

American policy appears to be much more likely to be one of much narrower calculations of immediate self-interest in specific situations, instead of enduring decades-long partnerships and alliance actions that are predictable and reliable as the basis for others' defence decisions and actions.

This isn't a matter of simply translating America's approach to its European allies and partners to our part of the world. Arguably, the much more narrowly self-interested approach that the US is now taking to Ukraine and NATO in this second-term Trump administration was trialled in our region in President Trump's first term, when he insisted on radically increasing the bill to South Korea for hosting forward-deployed US forces in that country.<sup>5</sup> He also demanded a quadrupling of Japanese payments for the US military presence there.<sup>6</sup> Back then, President Trump cast this as all about the US doing South Korea and Japan a favour by providing troops and argued that America should be paid accordingly. There was little recognition that the US military presence served US interests, too, by contributing to stability on the Korean Peninsula and across North Asia.

In 2025's Washington DC, there's an arm wrestle going on between traditional national-security types who see the US as needing to focus on the 'pacing threat' of China as a strategic competitor, isolationists who think America must devote its time and resources to domestic concerns and leave the wider world to look after itself, and MAGA types who can be isolationist but who also carry grievances and resentments towards America's allies for taking advantage of them.

On top of that three-way arm wrestle inside the Washington Beltway is Donald Trump, who may share some or none of those differing convictions at different moments in time, but who has demonstrated much more interest in business outcomes and deal-making than he has in security issues, strategy or defence and military matters. He continues his long-term focus on being seen as a leader who ends wars and starts none, which fits with his prioritisation of policy areas such as tariffs and inward investment deals into the US from both countries and companies. From that perspective, Ukraine is a place to recover military spending from and to secure American business interests in critical and other mineral wealth. Greenland is a place to control to access mineral wealth and build US bases. And the leaders who matter are himself, Vladimir Putin and Xi Jinping, with some side time available for Benjamin Netanyahu and Kim Jong-un. Most others seem to bring requests for special treatment and favours, which he suspects will weaken and constrain America.

Amid the chaos and change flowing out of Washington DC, we can say two things relevant to the Australia-US alliance with a fair degree of certainty: the US is a more demanding ally than it's been since World War II, and is a less reliable ally now than at any time since we signed the ANZUS Treaty in 1951.

Both those elements require change in long-held and long-cherished behaviours and policy settings for Australia and our national-security apparatus, and our Defence organisation is affected at least as much or more than our intelligence agencies through the US-centred Five-Eyes partnership.

## A more demanding America

A more demanding America at its simplest is a US that looks at Australia as a defence actor and wants more as the price of continued cooperation. From Washington's perspective, Australian defence spending is a proxy for Australia's contribution to the alliance that measures the extent to which Australia is—or isn't—free riding on America's own military spending and power.

While Marco Rubio and JD Vance have only focused so far on NATO allies' defence spending, when the administration turns its attention to our region, Australia, Japan, South Korea, India, the Philippines and every other partner will have our defence spending as a share of GDP checked as an entry ticket to continued or deeper cooperation. And the goalposts for what's reasonable military spending are moving. During his first term and in his campaign for re-election, Donald Trump talked about 3% of GDP as the required defence spending benchmark. Now, though, Marco Rubio has presented NATO allies with the US demand that they have credible, time-bound plans to grow their spending to 5% of GDP, and, if they do so, has told them the US will remain a reliable NATO member.<sup>7</sup> He has left the 'if not' implied.

If it's true that the US administration now sees our region as its strategic priority, and Europe as a place where it will do less and push European partners to step up and do more for themselves, then it's almost certain that America will want its Indo-Pacific partners and allies to contribute much more to security in this high-priority region.

The US has consistently spent around 3.4%–3.5% of its GDP on defence in recent decades. Of America's key Indo-Pacific partners, Australia and others look anaemic by comparison: South Korea is spending around 2.8% of GDP,<sup>8</sup> Japan 1.6% of GDP,<sup>9</sup> and Australia 2% of GDP.<sup>10</sup>



Japan is able to say that it's in the middle of a historic postwar shift to double its defence spending from 1% to 2% and point to the fact that 2% of the world's fourth-largest economy's GDP is real money. South Korea can show that its long-term higher military spending, driven by having North Korea as a neighbour, has delivered both real military power and real industrial capacity in defence that can now be harnessed to meet US needs in critical areas such as naval shipbuilding.

Australia has no credible argument for continuing to devote such a low share of our national wealth to meeting our security needs, particularly as we now plan to not just have the conventionally equipped military that we've maintained for decades but now want to add enormously expensive nuclear-powered submarines into our order of battle. Telling Washington that we intend to do that by raising our defence spending to 2.3% of GDP by 2035 will only solidify US assessments that we're free riding on US taxpayers' willingness to finance US military spending, and that we plan to continue to do so.

That won't go down well with whatever mix of China hawks, isolationists or MAGA activists ends up winning the Washington Indo-Pacific policy fight. And lowballed increases to our spending—such as copying UK Prime Minister Keir Starmer's promise to increase UK defence spending from 2% to 2.5% by 2027, offset by cuts to the UK foreign aid budget, will be seen as half-measures that leave the core problem unsolved.

Beyond demands about headline defence spending, a more demanding America might do other things. Demanding payment for US military and intelligence presence and activities in Australia is a possibility. That would look like overturning the cost-sharing agreements for Force Posture Initiative activities such as the US Marine Corps presence in our north and the rotational presence of US bombers and other aircraft.

It could involve renegotiating the cost-sharing aspects of the AUKUS deal or the timing of events such as the delivery of Virginia-class submarines to Australia. A renegotiation of AUKUS is a credible possibility for two reasons. The first is because the US faces growing challenges meeting its own submarine needs from its submarine industry, and those challenges will become acute in the 2030s, right when Australia wants the US to sell us submarines. The second reason is that the AUKUS 'deal' was negotiated by Donald Trump's predecessor, Joe Biden, and Mr Trump has seen just about every other deal Mr Biden made as being worse than one he could negotiate himself.

Even the financial aspects of the joint Australian–US intelligence facility at Pine Gap could be on the menu, as could areas of policy constraint affecting US forces' activities in Australia, such as the biosecurity and quarantine measures we currently require of rotating Marine units. Ending the Chinese company lease of northern Australia's only deepwater port in Darwin might be a requirement of the new administration, because of its constraining effect on the use of Darwin as a place for military cooperation and presence.

The worst policy approach would be to see all those areas of potential US demand as unthinkable because that isn't how we've worked together in the alliance before now. That would leave Canberra open to being surprised and blindsided by developments that we see as impossible even as they occur.

The most obvious policy option for Australia to get in front of all those 'micro-deal' negotiations would be to raise defence spending to at least 3% of GDP in this next three-year term of government before being coerced into doing so, and to be able to present that action as evidence that we're willing to be an equally committed contributor to our own defence as is America and so a credible partner.

That level of spending looks like what we'll need just to fund the military that's already on our books under current government policy and plans, so it would simply be acting in our own interests, however hard finding the money in the federal Budget might be, given other political priorities.

## A less reliable America

It's sacrilege to even raise the issue of Australia doing anything differently in the area of defence policy or capability in the light of the America we see under Donald Trump, but it's vital that those sacrilegious thoughts not just be had but be acted upon.

People such as Dennis Richardson probably speak for many retired Canberra national-security figures as well as the current crop of defence and security mandarins when they acknowledge that the US is now less reliable and more demanding. But they then insist that the biggest risk isn't America, but Australia.<sup>11</sup> On AUKUS, for example, the biggest risk, they tell us, is not maintaining the 'political will' in Australia to stay the course, or worrying about the extreme risks in the program instead of simply getting on with it as a national endeavour. Another example is

Australia taking a critical position on something that America does elsewhere—like with Greenland or Canada—and so causing Trump to question our alliance relationship.

That seems an unlikely judgement. The current Australian pursuit of 'interchangeability' between American and Australian military systems also looks out of step with reality, as does the 'seamless integration' of the US, Australian and UK defence industrial bases being sought under AUKUS. But America's unreliability isn't something that's materialised with the arrival of Donald Trump into the White House for the second time. It's something that's been growing for at least a decade and is showing no signs of slowing.

That unreliability is as much a material thing as a matter of political decision and will. To apply the Dobbins-era principle of defence policy: judgements about military power and threats involve calculating a combination of capability and intent. A partner or potential adversary can have particular material capabilities to act in the area of defence, but, regardless of its capabilities, how its leaders intend to use that power determines what then happens. The intent of the new US administration to use military power to serve the collective interests of its allies and partners isn't able to be reliably predicted, and that has consequences for what Australia and other partners do.

As noted earlier, a large proportion of the systems and weapons Australia's military uses—and is planning to purchase over this next couple of decades—comes from American companies. There's a new political risk that an American government—this one or a future one—could change its mind (or intent towards a partner) and interrupt supply of systems or the parts and software needed to operate and maintain them. Ukraine has just had exactly that experience with the Trump administration, in the middle of a war. That risk has to be understood even by nations that consider themselves close allies of America, because of changing US perceptions on alliances and security. However, Australia's military has had access to uniquely powerful defence items—such as the Aegis combat system on our Navy's warships and the Air Force's F-35 fighters—that we couldn't acquire elsewhere and that we can't make ourselves. So, while diversification instead of increasing dependence on US suppliers is sensible and necessary, unique capabilities like Growler aircraft or potentially B-21s or F-47s can still be very rational defence acquisitions for Australia to make from America, even with the changed risk landscape.

And, setting intent aside to look at capability, a partner or adversary can have big dreams or strong intentions to use military power in particular ways, but it may lack the capability to put those ideas into effect. The US now lacks the industrial capability to meet many of its own defence needs and so is simply unable to meet the priority needs of others. It's now an unreliable supplier of critical inputs to others' militaries. The challenges in submarine production are well documented and will play out over decades in AUKUS. The US has similar challenges in its ability to produce surface warships for the US Navy and is looking at major domestic industrial changes as well as possible cooperation with South Korea to help meet the Navy's needs. But the particular challenges that matter for Australian military power over the next two decades are in the areas of munitions, missiles and advanced armed and unarmed drones—all the 'consumables' militaries need to have reliable high-volume flows of in times of crisis and war.

America is busily trying to retool and rearm its defence industrial base. It needs to urgently restock inventories of advanced missiles because of the demands that the combination of Ukraine, Israel and the Red Sea counter-Houthi mission have made on US holdings. It faces similar challenges with the range of munitions used in those conflicts, for example 155-mm artillery shells. The US is well behind the Ukrainian military—and probably the Chinese military—in designing, producing and operating classes of drones, counter-drone systems and related electronic warfare systems and is playing catch-up.

Those industrial base pressures mean that, in those areas, America will simply meet its own needs first, and allies and partners will be in some position in the queue after that. That unreliability can leave overdependent allies exposed and vulnerable. Australia is already experiencing that with the slow flow of advanced missiles to our Defence organisation, shown by budget plans for missile acquisitions being radically underachieved<sup>12</sup> as US priorities divert the missiles elsewhere and production struggles to ramp up (LRASM, JASSM and the AIM series of missiles that Australia is acquiring are examples) .

The policy approach to such areas of scarcity must be to diversify away from over-reliance on US supply. Acquisition from and co-production with other partners, such as Japan and South Korea, of advanced missiles is an option (fast-tracked in the case of Japan, if we choose the Mogami-class frigate for the RAN general-purpose frigate).<sup>13</sup> And production in Australia of US designs and local Australian designs is also sensible.

In some areas of military production, the problem is reversed: US industry can produce more than America's military can consume (examples are F-35s and B-21s, and US military downsizing as cuts across the Pentagon take place are likely to produce more opportunities).<sup>14</sup> If what Australia wants from America in the area of defence support and equipment has some overlap with those areas of excess US production capacity, then there's obvious

opportunity with the new administration. Australia can use those acquisitions to strengthen our military at a critical period in our region, while also demonstrating our value as a more powerful defence partner. The extent to which new areas of excess production arise as European partners cancel plans to acquire US systems is something to monitor.<sup>15</sup>

The opportunity here is real. An Australia that has stepped up its defence spending to a credible level to meet our own needs will have the funds required to purchase advanced systems like the B-21 bomber. For those who say that America would never sell us a system such as the B-21, the precedents are obvious: Australia is the only other nation to operate the US advanced electronic warfare Growler aircraft,<sup>16</sup> and Washington has already agreed to share another 'crown jewel' technology and system with Australia in the form of nuclear-powered submarines. And Northrop Grumman is tooled up and will be capable of producing more B-21s than the US Air Force intends to acquire from a live production line.<sup>17</sup>

At the same time, an Australia that has understood the vulnerabilities in American defence production in the area of 'consumables of conflict' and invested our own money in local Australian capacity won't be vulnerable when American supplies fail to flow to us in crisis or war. And Australia will be a much more credible partner and ally for the US as a result.

A more demanding and less reliable America is part of our new reality. Therefore, it's time to change our own thinking, policies and behaviour to deal with and thrive in this new reality.

# Defence funding—past, present and future

Marcus Hellyer

## This year's dollars in summary

The consolidated defence budget (that is, for the Department of Defence, the Australian Signals Directorate and the Australian Submarine Agency) this year is \$58,988.6 million, or near enough to an even \$59 billion. That's 4.2% growth in nominal terms on 2024–25, but only 0.8% in real terms. In other words, this year the budget is barely keeping up with inflation.

Based on the GDP estimates in the Budget papers, that funding will equal 2.05% of GDP, up from 2.03% in 2024–25, but still a long way short of the government's National Defence Strategy (NDS) target of 2.4% by 2033–34.

The defence budget is divided between the three agencies this way (PBS Table 4a):

- Department of Defence: \$56,112.7 million
- Australian Signals Directorate: \$2,478.4 million
- Australian Submarine Agency: \$397.6 million<sup>18</sup>

The Department of Defence's funding is divided between the Big 3 cost categories of workforce, acquisition and sustainment/operating in the following way (PBS Table 4b):<sup>19</sup>

- Workforce: \$17,170.9 million
- Acquisition: \$18,800.5 million
- Sustainment/operating: \$21,449.8 million

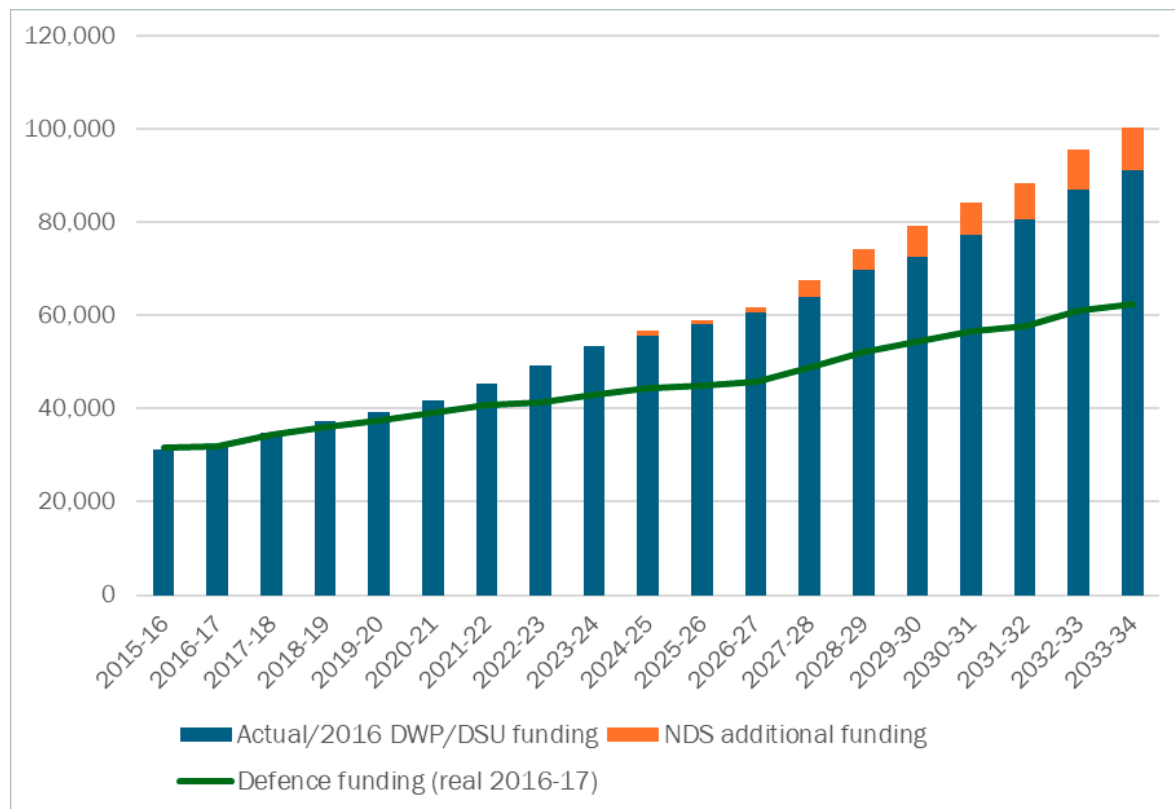
Those are the numbers. But numbers are only meaningful in context, so in the rest of this chapter we'll put them in context to explain what they mean.

## A quick recap of the story so far

The 2016 Defence White Paper (DWP) set out a 10-year funding line in black and white out to 2025–26. The 2020 Defence Strategic Update (DSU) extended that until 2029–30, essentially at the same rate of growth. By and large, both Coalition and Labor governments have delivered the funding set out in those documents.

2025–26 will be the 10th Budget since the 2016 DWP, and we can see that its funding line has delivered significant growth in both nominal and real terms (that is, adjusted for inflation). In Figure 2.1, the columns represent nominal funding, while the green line shows funding in real terms in 2016–17 dollars. Using the last Budget year before the 2016 DWP as our starting point, the defence budget has grown from \$31,151 million to \$58,989 million in nominal terms, or 89.4%. Real growth, which takes inflation into account, is a better way of assessing the scale of growth and is still a substantial 41.5%. Defence funding has also grown from 1.88% to 2.05% of GDP.

Figure 2.1: Defence funding in nominal and real terms, 2016–17 to 2033–24 (A\$ million)



Source: Defence PBS.

There are two important caveats around this picture. The first is that, beneath the top line, governments have reassigned funding to new priorities (termed ‘Budget measures’ and listed in PBS and PAES tables as well as Budget paper no. 2). Changing priorities is the prerogative of governments, but most of them require Defence to fund the new measures out of its existing resources, and we rarely hear what’s been given up to find the money.

Those ‘measures’ have included military support for Ukraine and efficiency dividends. Some are very considerable: the 2023–24 PBS included \$924 million for Pacific engagement, and the 2024–25 PAES included \$972.8 million for workforce retention measures.

The most substantial measure over the past decade was the REDSPICE cyber program contained in the previous Coalition government’s final Budget in March 2023. That transferred nearly \$1 billion per year within the portfolio from the Department of Defence to the Australian Signals Directorate to enhance cyber capabilities. This may be a good use of the money, but REDSPICE’s impact is \$981.4 million in 2024–25 and \$974.9 million in 2025–26 that isn’t available to acquire or operate military capabilities.<sup>20</sup> The cumulative effect of those changes is now considerable.<sup>21</sup>

The second caveat is that inflation has eroded Defence’s buying power, and the organisation hasn’t been compensated for that. The 2016 DWP funding line was developed on the assumption that inflation would be within the Reserve Bank of Australia’s target zone of 2%–3% per annum. Over the past several years since the Covid-19 pandemic, inflation has been significantly higher, although it’s now returning to the longer term norm.

We can assess the impact by comparing Defence’s funding in real terms using the predictions for inflation in the 2019–20 Budget papers (that is, pre-Covid in Table 2.1) against actual inflation (current Defence buying power) since then.

Table 2.1: The impact of inflation on the defence budget (A\$, 2019–20 real dollars)

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27
Pre-Covid-19 Defence buying power	39,246	40,882	43,334	45,792	48,318	50,079	50,912	52,077
Current Defence buying power	39,246	41,199	42,856	43,371	45,015	46,676	47,069	48,060
Buying power loss (\$)	0	316	-478	-2,421	-3,303	-3,403	-3,843	-4,017
Buying power loss (%)	0.0%	0.8%	-1.1%	-5.3%	-6.8%	-6.8%	-7.5%	-7.7%

Source: SAA analysis.

By 2025–26, it's become a 7.5% shortfall or a \$3.8 billion annual loss in buying power and a cumulative \$13.1 billion since 2019–20. Those aren't small numbers, and Defence receives no budget adjustments to compensate for inflation.<sup>22</sup> Even if inflation returns to historical norms—as the Budget papers predict—that loss of buying power will continue. That's unless we experience significant deflation. With Donald Trump in the process of destroying and attempting to rebuild the global economy, it's anyone's guess what will happen with inflation.<sup>23</sup>

But the biggest issue with the defence budget since 2016 is that, until the 2024–25 Budget, neither government increased it. Despite all the global and regional events that occurred in one of the most consequential decades since World War II, the defence budget remained fundamentally the same funding line contained in the 2016 DWP. Despite assessing that our region was becoming more insecure and that Australia no longer had 10 years of warning time to prepare for potential regional conflict, the 2020 DSU didn't increase Defence's funding line.

However, more and more new capabilities were being entered into Defence's acquisition program, the biggest of which was the nuclear-powered submarine (SSN) program to be delivered under AUKUS Pillar 1. The combined effect of new capabilities with a funding line being eroded by inflation and new Budget measures created an 'exploding suitcase', with more capabilities contained in Defence's wish list than there was anywhere near enough money for (technically referred to in bureaucratese as 'unacceptably high levels of overprogramming'). Something would have to give.

Finally, as part of the 2024 NDS, the current government did increase Defence's funding line, and that was reflected in the 2024–25 defence budget. The increase consisted of \$5.7 billion over the forward estimates (that is, 2024–25 to 2027–28) and \$50.3 billion over the decade to 2033–24.

Again, two key points should be noted. The first is that nearly all the additional funding was dedicated to the funding gap between the cancelled Attack-class submarine program and the nuclear-powered submarine enterprise, plus some going to the government's new general-purpose frigate program. Only \$1 billion of the \$50.3 billion was for new capabilities:

- Nuclear-powered submarines: \$3 billion (forward estimates) / \$38.2 billion (decade)
- Surface combatant plan: \$1.7 billion (forward estimates) / \$11.1 billion (decade)
- Other capabilities: \$1 billion (forward estimates) / \$1 billion (decade).

Secondly, the bulk of the money was far into the future when the SSN and frigate programs would be ramping up. Even with the forward estimates funding, the bulk of the new money (\$3.8 billion) sat in the last year. Defence got only \$400 million of new money in 2024–25. That was essentially the only new funding for that year since the 2016 DWP and represented a mere 0.7% increase. The increase over the forward estimates is shown in Table 2.2.

Table 2.2: Additional Defence funding in the National Defence Strategy (\$ million)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
2024–25 forward estimates	400	770	730	3,800		5,700
2025–26 forward estimates		770	730	3,800	5,300	10,600

Source: Defence PBS.

Since the defence budget was already being squeezed by a decade of new measures, inflation, existing overprogramming and the SSN program, the new funding was insufficient to cover those pressures. As we've noted, something had to give; \$72.8 billion in previously planned projects were cancelled or delayed over the coming decade in the new investment program that accompanied the 2024 NDS.<sup>24</sup> SAA has previously discussed the capabilities affected in some detail.<sup>25</sup>

## ‘Additional’ funding in the 2025–26 Budget

The return of Donald Trump to the White House didn’t prompt a government rethink of Defence’s funding. Overall, the funding line in the 2025–26 PBS is the same as the one produced by the 2024 NDS.

Deputy Prime Minister Richard Marles has stated that the ‘additional funding’ over the forward estimates in the 2025–26 Budget is \$10.6 billion. But we can see from Table 2.2 above that that’s simply the funding that was already programmed in the 2024 NDS. Since only \$5.7 billion of the original \$50.3 billion was in 2024–25’s forward estimates, that left around \$44.6 billion over the remaining six years. As we move forward in time, each year a share of that will flow into the final year of the forward estimates. This year, \$5.3 billion comes into 2028–29. We should also note that around \$7.7 billion will flow into the new final year of the decade as we move through time.

However, there’s been some ‘reprofiling’ of funding over the forward estimates. Unfortunately, rather than seizing the moment, the government has only made minor tweaks. First, \$1 billion has been reprofiled from 2028–29, half of which goes into 2026–27 and the other half goes into 2027–28. That’s a good start but hardly transformational.

Another adjustment also looks at first sight as if it’s moving money further forward (\$700 million moving from 2027–28 to 2024–25), but we should read the fine print. In plain English (and with apologies to actual accountants), that’s simply an accounting treatment. The PBS states that ‘the movement will be represented as an equity injection and not as increased Defence funding.’ That’s because it will provide Defence with sufficient working capital ‘to address existing expenditure commitments already incurred/recognised such as pre-payments [see PBS page 18, Table 4b, note c].’ It’s not new money and it’s not about acquiring additional capabilities earlier. Essentially, it’s a cash-flow measure intended to keep Defence’s capital fund solvent. That’s why we’ve put it in brackets in Table 2.3.

Table 2.3: Defence funding adjustments in the 2024–25 PBS and 2025–26 PBS

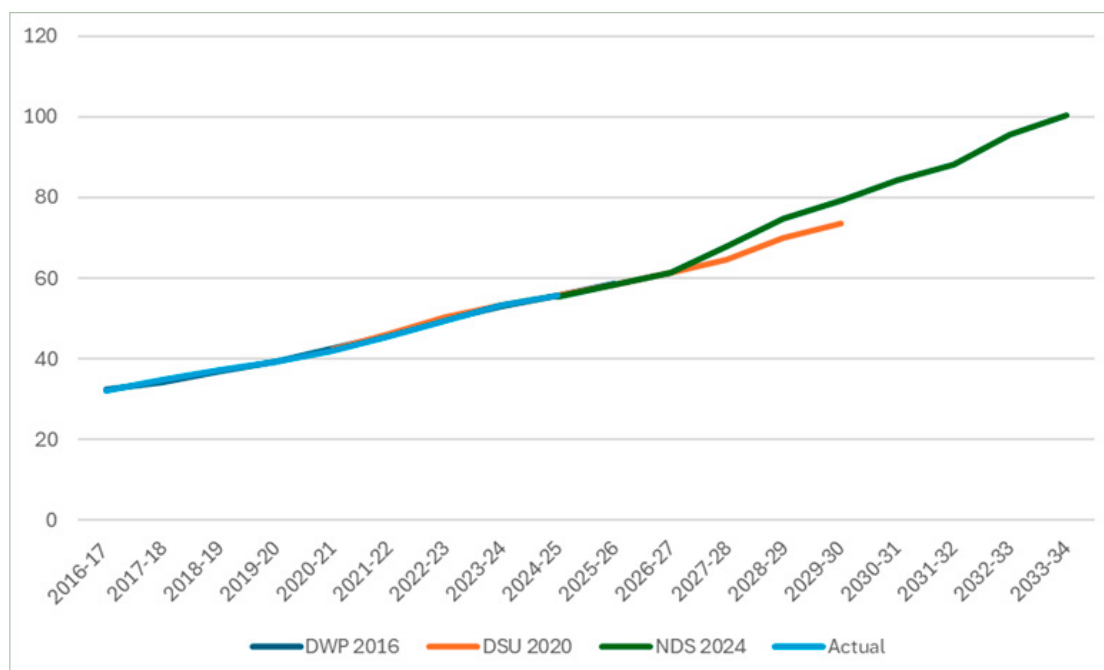
	2024–25	2025–26	2026–27	2027–28	2028–29	Total
NDS additional funding (i.e. the starting point)	400	770	730	3,800	5,300	11,000
Reprofiling for acceleration			500	500	-1,000	0
Working capital adjustment	[700]			-700		0
Mystery funding						46.6
Net effect on PBS 2025–26	[1,100]	770	1,230	3,600	4,300	11,046.6

Source: Defence PBS; communication with Defence officials.

When the dust of the last two Budgets has settled, we’re left with the net effect set out in Table 2.3. We can see that there’s been no actual increase to the financial year that’s ending beyond the original rather humble \$400 million in the NDS. Similarly, despite all that’s happened in the intervening decade, the funding for 2025–26 is still only \$770 million above the 2016 DWP funding line.<sup>26</sup> Even Trump’s up-ending of the world order has made no difference to last year’s NDS plan, which increased 2024–25’s and 2025–26’s combined funding only by around 1%. One wonders what it would take for the government to increase defence funding in the near term.

Figure 2.2 illustrates how little has changed over the past decade by comparing the funding lines in the 2016 DWP, 2020 DSU, 2024 NDS (as adjusted by the 2025–26 PBS) and what was actually spent. They map directly on top of each other, showing that nothing has changed significantly since 2016. It’s only when we get to 2027–28 (the back end of the next term of government) that we see any noticeable divergence between the old and new plans. That’s when the \$3.8 billion (now down to \$3.6 billion) cuts in. For now, we’re still stuck in a spending plan that dates back to an earlier, very different era.

Figure 2.2: Defence spending: a comparison of planned and actual spending (A\$ billion)



Source: 2016 DWP, 2020 DSU, 2024 NDS, Defence PBS.

If anything shows the extent to which the defence budget has been on autopilot, it's this. It's hard to believe that the government believes the assessments in its own strategic documents.

## Defence funding as a percentage of GDP

Defence spending in 2024–25 is coming in at 2.03% of GDP, and 2025–26 is estimated at 2.05% (Table 2.4). It's remained stuck between 1.9% and 2.1% since the previous government got it back to 1.9% in 2017–18. On current estimates, it will remain in that band until 2026–27. That stagnation refutes any suggestion that governments have transformed defence spending.

Table 2.4: Defence spending as a percentage of GDP, planned versus actual, 2019–20 to 2029–30

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
PBS 2019-20	1.93%	2.01%	2.10%	2.19%	2.21%	2.21%	2.21%				
PBS 2020-21	1.98%	2.19%	2.27%	2.35%	2.38%	2.39%	2.38%	2.38%	2.39%	2.44%	2.45%
PBS 2021-22		2.01%	2.09%	2.21%	2.25%	2.23%	2.30%	2.30%	2.31%	2.36%	2.37%
PBS 2022-23			1.97%	2.11%	2.18%	2.15%	2.12%	2.22%	2.23%	2.28%	2.29%
PBS 2023-24				1.92%	2.04%	2.06%	2.05%	2.05%	2.10%	2.15%	2.16%
PBS 2024-25					1.99%	2.02%	2.04%	2.01%	2.12%	2.23%	2.24%
PBS 2025-26						2.03%	2.05%	2.07%	2.15%	2.23%	2.26%

Actual achieved (read column down)
PBS prediction for current year
PBS prediction for forward estimates
DWP/2020 DSU prediction

Source: Budget paper no. 1; Defence PBS

The government has stated that the defence budget will hit 2.4% of GDP by the end of the 2024 NDS decade in 2033–34 (a remarkably lackadaisical ramp-up, particularly in comparison to what other countries facing strategic uncertainty have committed to). But, in this space, predictions have a habit of not coming true. According to GDP projections in various Budget papers over the past decade, the defence budget should have hit 2.21% of GDP or even more by 2025–26. However, due to rapid GDP growth caused by high inflation since the Covid-19 crisis, the defence budget has stagnated as a percentage of GDP, so it's only 2.05% (assuming Trumpian chaos doesn't change GDP outcomes—a rather rash assumption). That also means that, while Defence has received the dollars set out in the 2016 DWP and 2020 DSU, those dollars have been significantly devalued by inflation, as we discussed earlier.



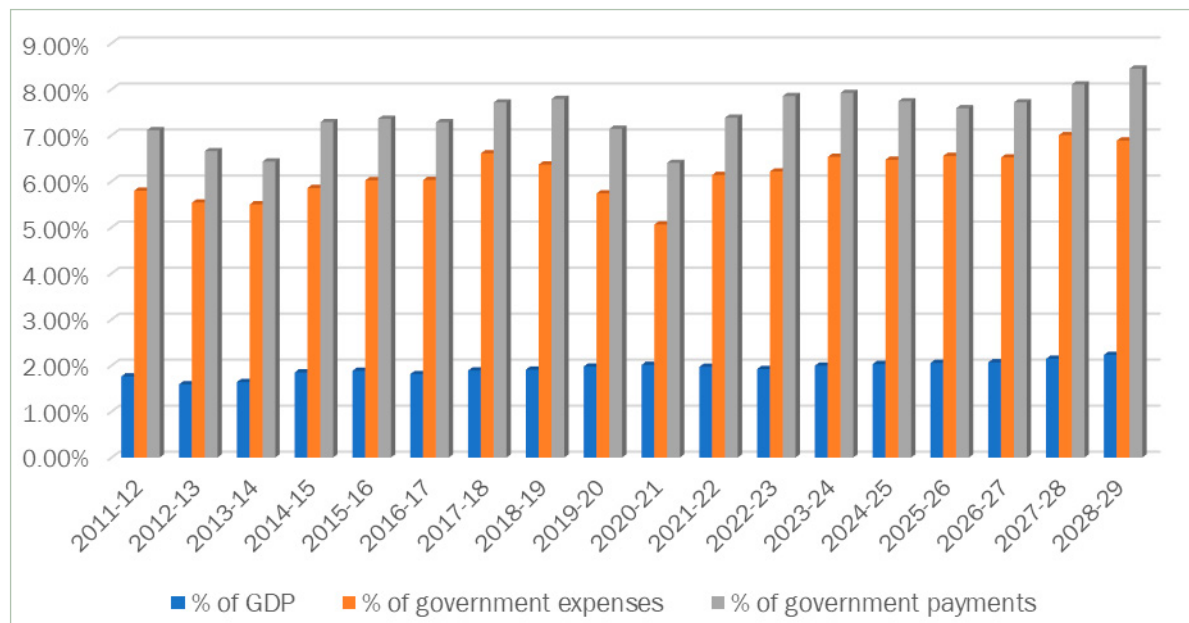
In sum, it's best not to get too wrapped around the axle about percentages of GDP. The bigger question is always 'Are we spending enough to address our security challenges?'

That said, SAA has argued that the Australian Government should put the defence budget on a rapid trajectory to 3% of GDP.<sup>27</sup> Since the 2024–25 defence budget is around \$56.6 billion and 2.03% of GDP, getting to 3% would be an increase of around \$28 billion in current day terms. Since the government's expected deficit for 2024–25 is \$27.6 billion, a defence budget of 3% of GDP would be broadly equivalent to doubling the current deficit in current day terms. It's not surprising that substantial increases to the defence budget aren't an appealing prospect for governments and will require substantial moral courage.

## Defence funding as a share of government expenditure

There are two ways of expressing defence spending as a percentage of the federal Budget: as a percentage of government expenses and as a percentage of government payments. Expenses don't include capital expenditure, while payments do. Since the defence budget has a large capital element to fund Defence's capability acquisition program, the percentage of payments is probably the better measure. We've provided both, along with the percentage of GDP, in Figure 2.3.

Figure 2.3: Defence spending as a percentage of government expenses, government payments and GDP, 2015–16 to 2028–29



Source: Budget paper no. 1, Defence PBS.

We can see that Defence payments dipped during the Covid-19 crisis as overall government payments soared. They then recovered but have been declining in 2024–25 and 2025–26; government spending is growing faster than the defence budget. That's consistent with the slow ramp-up in additional defence spending discussed earlier. It's only at the back end of the forward estimates that Defence increases as a percentage of payments. That will put it over 8% for the first time since 1994–95.

## Ferguson's Law in the Australian context

British historian Niall Ferguson recently proposed that any great power that spends more servicing its debt than on defence:

... risks ceasing to be a great power ... This is because the debt burden draws scarce resources towards itself, reducing the amount available for national security, and leaving the power increasingly vulnerable to military challenge.<sup>28</sup>

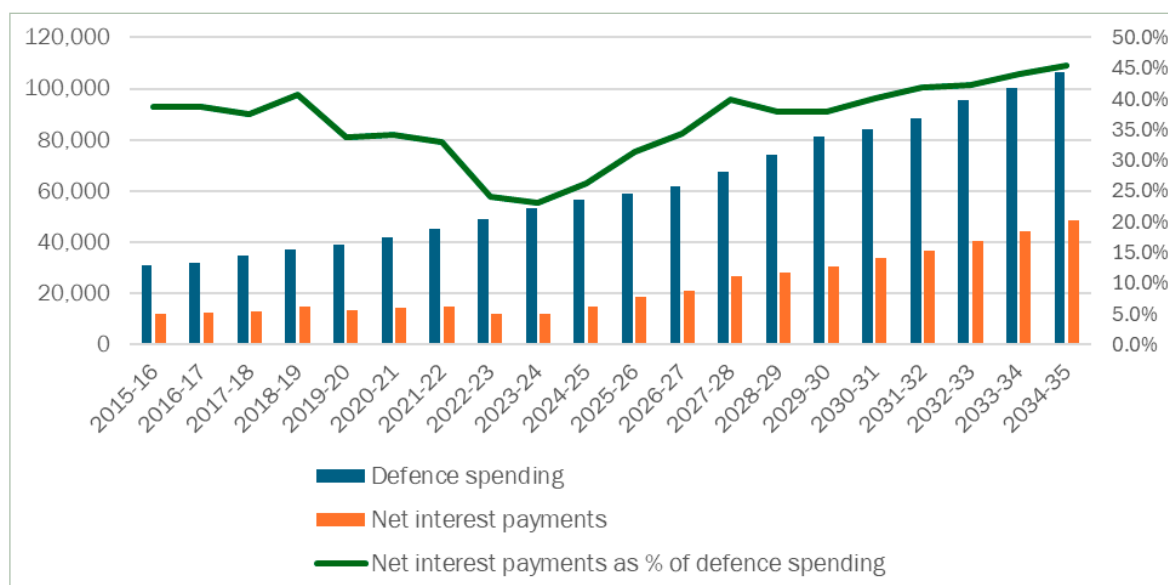
Short-term breaches of the limit may be manageable, but repeated and extended breaches are a reliable indicator of decline. Ferguson's historical examples include Hapsburg Spain, the *ancien régime* of France, the Austro-Hungarian Empire and the Ottoman Empire. More contemporary examples include the United Kingdom. He named this Ferguson's Law or Limit after the eighteenth-century Scottish philosopher Adam Ferguson

More concerning for Australia, the United States passed the Ferguson limit in 2024 ‘when net interest outlays on the US national debt reached 3.1% of GDP, surpassing defence spending (3.0%) for the first time in nearly a century.’ Based on Congressional Budget Office projections, that situation will worsen: net interest payments will reach nearly double the defence budget by mid-century (4.9% of GDP to 2.5%).

Australia is by no means a great power, but Ferguson’s ratio is a useful way to assess any state’s ability to signal its willingness to maintain its geopolitical position, as well as to assess the point at which it can no longer afford its defence spending. Put another way, in an area that’s inherently subjective, it can help us to determine what level of defence spending is affordable.<sup>29</sup>

While the defence budget under the 2024 NDS is projected to grow at an average of around 6.2% over the decade, debt payments are projected to grow even faster at an eye-watering 9.5% rate. Nevertheless, when we compare Australia’s planned defence spending over the decade with the government’s predictions on debt payments, Australia’s position is nowhere near as difficult as the US’s. Using net debt payments, as Ferguson does (see Figure 2.4), the debt payments to defence spending ratio reaches 45.5% by 2034–35. The picture is worse using gross debt payments, but still significantly less than the Ferguson limit at around 62%.<sup>30</sup>

Figure 2.4: Ferguson’s Law in the Australian context



Source: Budget papers, Defence PBS, 2024 NDS.

This suggests that, should Australia need to spend more on defence in the medium term to address its current strategic circumstances (as SAA does argue, due to the increasingly clear limits on the US’s ability and willingness to assist Australia), it has room to do so. A larger defence budget, even if it required moderate deficit spending in the medium term, wouldn’t break the bank, or push Australia into strategic decline.

# The Big 3—an impossible spending target?



## Marcus Hellyer

In this chapter, we examine how the planned defence spending is divided up between the ‘Big 3’ cost categories of acquisition, personnel and operating (including sustainment) costs. We give the planned numbers for 2025–26 as well as unpack how the Defence organisation has performed at achieving spending targets over the past decade. That will raise some serious questions about its ability to deliver the force structure set out in the 2024 NDS.<sup>31</sup>

The NDS and accompanying Integrated Investment Program (IIP) envisage a very large increase in acquisition spending over the decade. A fact sheet accompanying the NDS and IIP predicts that acquisition spending will grow from \$17.6 billion per year to \$42.1 billion by the end of the decade as part of overall defence budget growth reaching \$100.4 billion per year—a hefty 139% increase in nominal terms (Table 3.1).

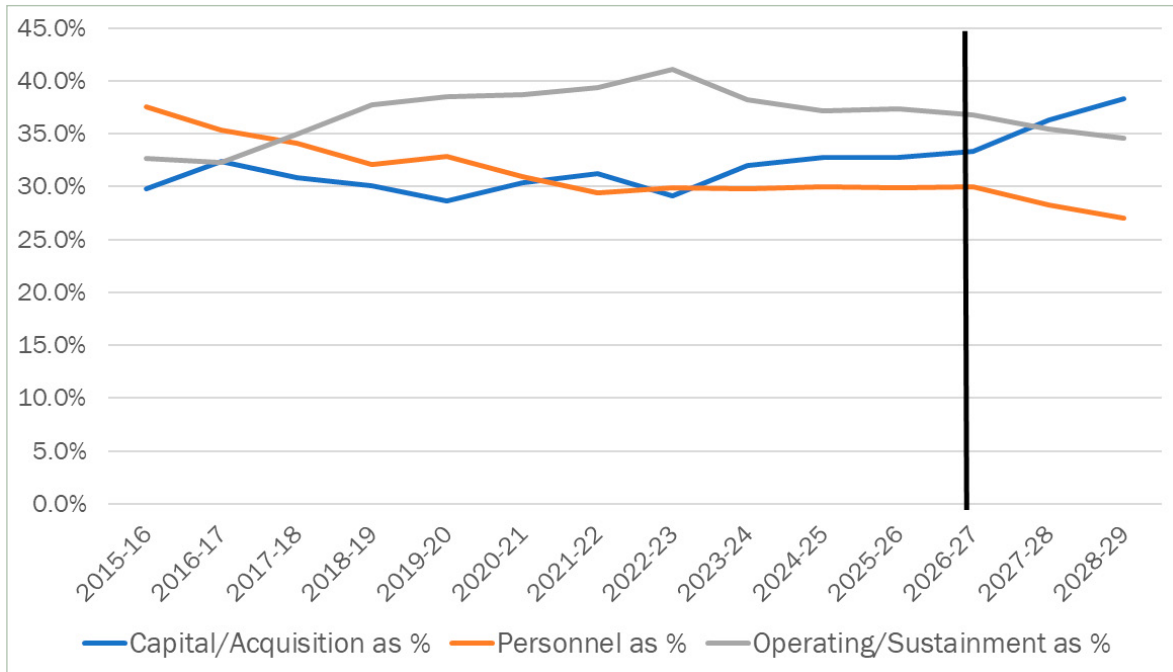
Table 3.1: Defence funding increases in the 2024 NDS, by key cost category

DEFENCE BUDGET CATEGORIES			
Categories	2024-25 \$'b	2027-28 \$'b	2033-34 \$'b
Acquisition	17.6	23.5	42.1
Sustainment	17.8	21.1	29.1
Workforce	17.1	20.0	25.2
Operating and Operations	3.0	3.3	4.0
<b>Total Funding<sup>1</sup></b>	<b>55.5</b>	<b>67.9</b>	<b>100.4</b>
<b>Percentage of GDP<sup>1</sup></b>	<b>2.1%</b>	<b>2.2%</b>	<b>2.4%</b>

Source: 2024 NDS budget fact sheet, [online](#).

It's important to note that this represents a substantial increase not just in dollar terms but also as a percentage of the overall defence budget. That \$42.1 billion, if achieved, would represent almost 42% of the defence budget. And that's the key qualifier: *if achieved*. Figure 3.1 gives the breakdown of the Big 3 from the 2016 DWP through to the end of the 2025–26 forward estimates; compared to where we are today, Defence has a big hill to climb.

Figure 3.1: The Big 3 of acquisition, personnel and operating costs, 2015–16 to 2028–29 (%)



Source: Defence PBS.

Defence will need to overcome two challenges to deliver the force set out in the NDS and IIP. The first is simply spending its acquisition budget. The second is finding a way to increase spending on acquisition without increasing spending on workforce, sustainment and operating costs commensurately; if you’re acquiring new equipment, you’ll be likely to need to spend money to crew and sustain it.

If recent history is anything to go by, Defence will have great difficulty overcoming both challenges. We should note that the NDS’s ambitious goal is actually nothing new. The 2016 DWP aimed to increase capital spending to 39.2% (\$23,041 million of \$58,742 million) by the end of its decade in 2025–26, and the 2020 Defence Strategic Review aimed for a similar 39.6% acquisition spend (\$29,170 million of \$73,687 million) by the end of its decade.

So, where have we got to? Now that we’ve reached 2025–26, we can see how Defence fared in hitting its 2016 DWP goals.

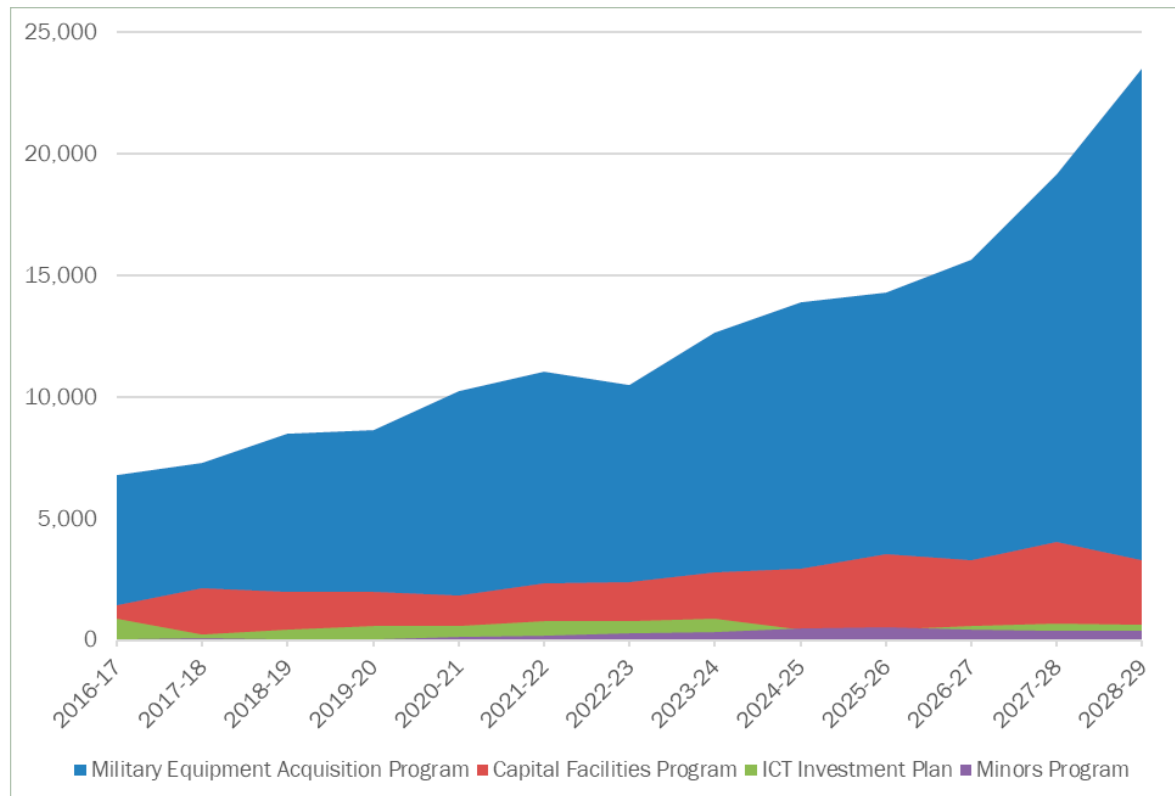
## The capability acquisition program in 2025–26

First, the numbers for 2025–26. The Defence Department’s planned acquisition spend for 2025–26 is \$18,800.5 million. That’s very healthy nominal growth of \$1,097.8 million or 6.2%, but more moderate real growth of 2.9%. That’s 32.7% of the total budget.

The government has stated that it’s investing record amounts in acquiring new capability. That’s true in a fairly vacuous way; when the defence budget increases in nominal and real terms, then every year is a record. And most years it does increase in both. The only time in the past decade when the acquisition spend didn’t increase in nominal terms was in 2022–23 (under the current government). 2025–26’s 6.2% is in fact less than the average annual increase over the decade since the 2016 DWP, as is the following year’s planned 6.0%.

Overall, the numbers look good, particularly when presented in an image, as in Figure 3.2. Like the overall defence budget, the acquisition budget will experience significant growth over the NDS decade. Unfortunately, like the overall defence budget, the big growth doesn’t start until later in the forward estimates, when the additional 2024 NDS funding kicks in with a very hefty 21.7% increase in 2027–28 and 14.5% in 2028–29. And then much of that goes on maritime programs that don’t deliver until well into the 2030s. The sleepiness that characterises the government’s approach to defence is reflected in its acquisition spending.<sup>32</sup>

Figure 3.2: Defence's capability acquisition budget, 2016-17 to 2028-29 (\$ million)



Source: Defence PAES and PBS.

It's just more evidence that the current government doesn't believe its own strategic assessments. Despite repeated strategic documents, speeches and doorstep interviews stating that Australia is facing its most uncertain and threatening strategic circumstances since World War II, the government isn't making any significant changes to the capability acquisition budget that came out of the 2016 DWP until 2027-28, a full 11 years later.

## Defence's dirty little secret

Another cause for concern is that Defence hasn't been able to hit its acquisition spending targets even before it attempts to deliver the more ambitious plan presented in the NDS. According to the 2016 DWP, that spend should have hit 39.2% of the total budget this year. As Figure 3.1 shows, it's fallen well short. We can see that, after being stuck at around 30.0% for around six years, Defence has made some progress in the past three years. Nevertheless, the PBS's estimate for 2025-26 is still only 32.7%.

Those percentages mean that Defence hasn't spent the money it had to in order to deliver planned military capabilities. Over the past decade, it's fallen short by a massive \$26 billion. Every year has fallen short, and 2022-23 fell short by over \$5 billion. In 2025-26, using the estimates in the PBS, the shortfall will be \$4,241 million. Put another way, that's \$26 billion in capability that wasn't delivered.

Why has that shortfall occurred? Certainly, there have been many problems in the capability acquisition program of the kind set out in a constant stream of the Australian National Audit Office's performance audits and its annual Major Projects Review. Projects have taken too long to move through the capability development and delivery process. Unexpected delays have frequently occurred. In some cases, such as the Attack-class submarine program, the combination of slow ramp-up and then cancellation has meant that billions haven't been spent on schedule.<sup>33</sup> Some of the funds not spent on the projects they were intended for can be absorbed by other projects (that's why Defence runs a level of overprogramming in its capital program), but we still need to account for that awkward \$26 billion. It appears that the main reason those funds weren't spent as intended on acquisition projects is that they were used instead for sustainment, as we discuss below.

## Sustainment—a voracious appetite

The second element of the Big 3 is operating costs, consisting of sustainment, operating and operations costs. The estimate for the Defence Department’s operating costs for 2025–26 is \$21,449.8 million, which is nominal growth of \$1,374.3 million or 6.8%.

Defence’s long-term plan since the 2016 DWP and continued in the NDS is to get operating costs down to one-third of the total budget. It’s had mixed success; while they blew out to over 40% in 2022–23, Defence estimates that they’ll be 37.4% in 2025–26 and is planning on future decreases over the forward estimates. We’ll consider whether that’s achievable.

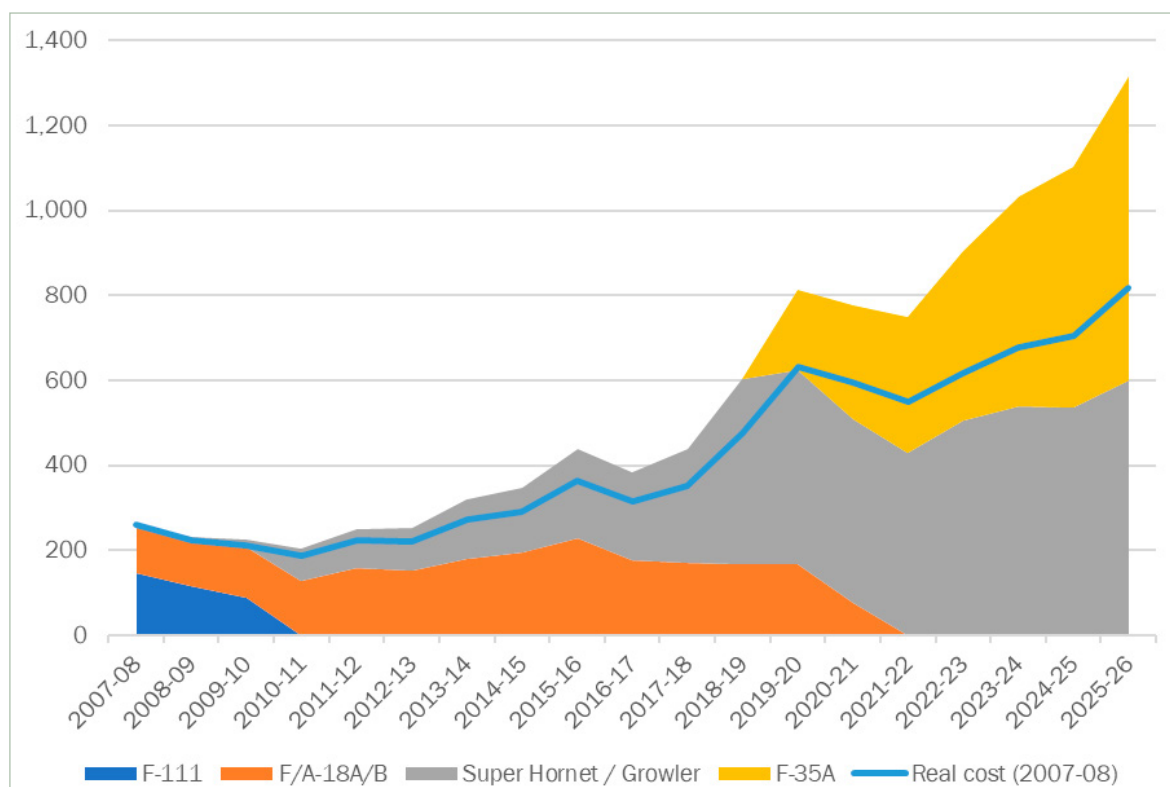
The vast bulk of operating costs are for sustainment (that is, the maintenance and use of military systems), so we’ll focus there. The Defence Department’s estimated sustainment cost for 2025–26 is \$18,758.8 million—a nominal increase of \$1,528.3 million, or 8.9%. Sustainment costs have shown significant growth since the 2016 DWP in both nominal (133.7%) and real (74.7%) terms.

That’s driven by a couple of factors. A lot of sustainment is conducted by ‘outsourced service providers’ (OSPs), whose costs are attributed to sustainment budgets, not personnel. Around one-third of Defence’s external workforce is engaged in sustainment; their costs are covered by sustainment products’ budgets.<sup>34</sup> That has essentially shifted costs from Defence’s personnel budget, which only covers ADF and APS staff, to sustainment.

The second, probably more significant, factor is that it’s not just the cost of acquiring military equipment that’s going up faster than inflation; so, too, is the cost of operating it. Improved capability is driven by increases in the size and the number of military systems. The new system always costs more. Always. And the jump in cost from one generation of a system to the next is significant.

We can illustrate that by looking at the capability transition in Australia’s air combat fleets over the past decade and a half. The sustainment cost has risen dramatically as the Air Force has moved from its F-111 and ‘classic’ F/A-18 A/B Hornet fleet to the current fleet of F/A-18F Super Hornets, F/A-18G Growlers and F-35A Joint Strike Fighters. It’s been a nominal increase of 408%. Even in real terms (see the blue line in Figure 3.3), that’s still an increase of 215%.

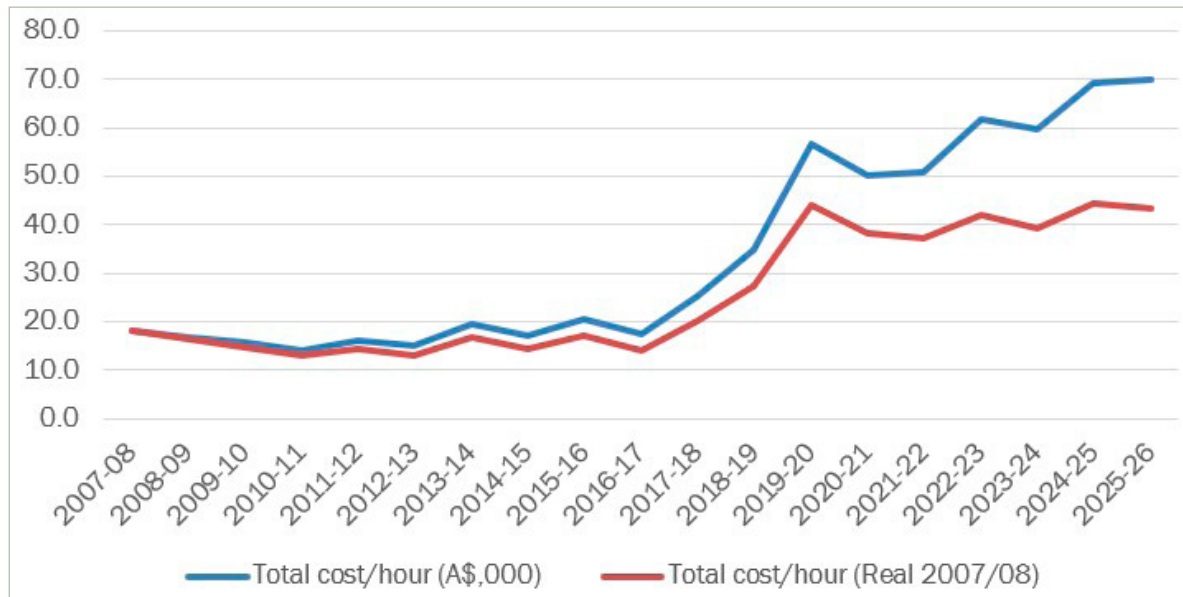
Figure 3.3: Air combat capability sustainment costs, 2007–08 to 2025–26 (\$ million)



Source: Defence annual reports; Defence PBS.

That's not primarily being driven by an increase in flying hours, which have increased by only 21.5%. The key driver is the generational jump in capability (and cost) of the newer platforms.<sup>35</sup> Consequently, the average cost per flying hour has increased by 285% in nominal terms and 139% in real terms. That's confirmed by Figure 3.4: the steepest period of cost increase coincides with the entry into service of the Growler and F-35A.

Figure 3.4: Air combat average hourly flying cost, 2007–08 to 2025–26 (\$'000)



Source: Defence annual reports; Defence PBS.

The good news is that the Air Force has largely completed that capability transition, so the steepest part of the curve has flattened out.<sup>36</sup> The bad news is that Defence is conducting many other capability transitions right across the ADF. It's also introducing into service systems that are completely new and not replacements for existing capabilities. That's going to drive huge increases in sustainment costs. The challenge is probably most acute in maritime capabilities, which we discuss in the next chapter.

The question is whether Defence has accurately predicted those costs and built them into the NDS funding model. Based on its historical performance, one would be entitled to be sceptical. In the previous section, we asked where the \$25 billion underspend in the acquisition program ended up—it's largely gone to the sustainment program. Actual sustainment costs over the past decade have exceeded the 2016 DWP expectations by almost \$20 billion. One might suggest that it's unfair to hold Defence to account for predictions made a decade ago. It may well be, but the NDS and IIP are essentially predictions for the coming decade, and, if it hasn't improved its cost estimation, it won't be able to deliver against those predictions. Or put another way, if Defence has got its forecasts wrong, sustainment will continue to eat a bigger chunk of the acquisition budget than planned, meaning Defence won't be able to deliver the capabilities set out in the IIP.

## People costs—static because people numbers are, too

The third leg of the Big 3 is personnel. The Defence Department's estimated personnel budget for 2025–26 is \$17,170.9 million. That's a \$965.9 million (6.0%) increase over 2024–25 and makes up 29.9% of the total budget.

Defence's personnel costs have remained relatively flat in real terms over the past decade, particularly in comparison to the growth in its acquisition and sustainment budgets. After falling significantly as a share of the total defence budget from 2016, personnel costs have levelled off at between 29% and 30% of the total defence budget over the past five years.

Personnel was previously the largest of the major cost categories—at times earlier this century over 40% of the total—so that's been a big change. It's been driven by several factors. First, it's been part of Defence's long-term plan for a decade to grow acquisition spending as a share of the overall budget (albeit with limited success, as we've noted). Second, Defence has failed to hit its growth targets for ADF personnel, meaning it hasn't needed to spend money on people it doesn't have. And third, the external workforce, which is still growing, shows up not against Defence's personnel cost category, but against acquisition and sustainment budgets. Put another way: Defence's personnel costs haven't necessarily flatlined; rather, they've been moved.<sup>37</sup>

Should Defence succeed in meeting two high priorities (hitting its ADF growth targets and reducing contractor numbers by growing its APS staff), one would expect to see personnel as a share of the budget to grow. However, that's not consistent with the 2024 NDS, which plans on personnel costs falling even further to only 25% of the total over the coming decade. Moreover, meeting those priorities would also suggest that personnel costs will grow at a faster rate over the forward estimates than the annual average 4.9% (nominal) / 2.1% (real) predicted by the 2025–26 PBS.

## Has Defence solved its people problems?

It's no secret that Defence has struggled to meet its ADF workforce targets. The 2016 DWP put the ADF on a growth path that was reinforced by the 2020 DSU. On the eve of the 2016 DWP, it was at 58,016. Broadly speaking, the ADF was meant to grow by around 20,000 full-time people to around 80,000 over 20 years.

Five years later, it had managed to grow by around 2,200, almost keeping up with the rate of growth required. But then it hit a three-year streak of falling numbers, undoing the previous five years' progress, leaving it by the end of 2023–24 at 58,242, around 5,350 short of the steadily growing target (Table 3.2).

Table 3.2: Full-time ADF numbers, planned and achieved, 2020–21 to 2028–29

	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29
PBS 2020–21	60,826	61,459	62,054	62,726					
PBS 2021–22	60,330	61,468	62,063	62,735	62,905				
PBS 2022–23		59,803	62,063	62,735	63,597	64,532			
PBS 2023–24			58,642	59,673	63,597	64,532	65,595		
PBS 2024–25				58,242	63,597	64,532	65,595	66,873	
PBS 2025–26					58,850	59,373	61,049	63,272	64,704
Revision to target						-5,159	-4,546	-3,601	

Actual achieved (read column down for that year)
PBS prediction for budget year
PBS prediction for forward estimates

Source: Defence PBS, PAES and annual reports.

This, it must be said, has been in an era of virtually unconstrained resources to be thrown at the problem, so the issue certainly hasn't been money. Hitting the ADF's personnel target would require less than 0.25% of Australia's rapidly growing population, or 1 in 400 Australians. The fact that Defence has been unable to secure an adequate supply of what it publicly describes as its most important resource raises serious questions about the effectiveness of Defence's leadership over that period.

Unable to meet the required growth, Defence has adopted the time-honoured strategy of moving the goalposts. Following the 2024 NDS, the government released the Defence Workforce Plan in November 2024. While the new workforce plan seems to have kept the same end goal of a combined workforce of 100,000 by 2040, it flattened the ramp-up. The revised ramp-up and changes to the previous targets are in Table 3.2.

Defence estimates that the ADF will hit 58,850 in 2024–25. With the new target for 2025–26 now only 59,373, the ADF has gone from being around 5,000 people short to only 500.<sup>38</sup> The new target for 2025–26 may well be achievable; the ADF grew by around 600 in 2024–25, which suggests there may finally be some light at the end of tunnel. But we've been here before, when green shoots of growth failed to mature. And, even if the ADF remains on track, there's a long way to go. It still needs to grow by around 2,000 people per year to hit the workforce plan's target of 69,000 by the early 2030s, with a further 1,000 or so per year throughout the 2030s.

## External workforce

One area where some progress has been made against the government's priorities is in the reduction of contractors. Defence conducts an external workforce census annually (previously twice annually), providing useful data. Contractor numbers grew rapidly by 82.5% between the July 2019 and March 2023 censuses. However, the current government's policy has been to bring some of those people and their skills back inside the APS. Based on the numbers in Table 3.3, that appears to be happening; the number of contractors fell from 8,523 in March 2023 to 6,742 in September 2023, with a small further drop to 6,681 in March 2024; overall, a drop of 1,842.<sup>39</sup>



Concurrently, Defence's APS workforce has grown from 16,497 in June 2023 to 18,048 in June 2024 and on to 19,237 by the end of 2024–25.

Table 3.3: Defence's external workforce, by category

Workforce category	July 2019	March 2020	Sept 2020	March 2021	March 2022	March 2023	Sept 2023	March 2024
Contractors	4,669	5,361	5,646	6,810	8,311	8,523	6,742	6,681
Consultants	250	255	284	314	370	361	326	285
OSPs	18,405	23,017	25,710	25,363	26,199	28,446	28,856	29,073
Total	23,324	28,633	31,640	32,487	34,880	37,330	35,924	36,039

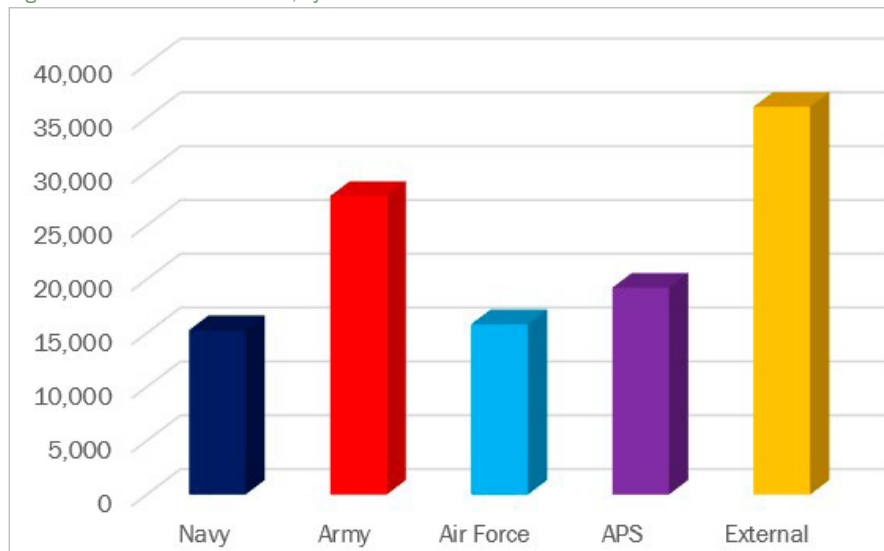
Source: Defence external workforce censuses, provided by the Defence Department.

Of course, it's difficult to tell from the raw top-level numbers what's actually going on with the workforce at the coalface; are those new APS members filling roles that contractors had performed? Are they former contractors? However, at the macro level, the picture looks good as workforce returns to the APS. That also has significant cost benefits in the light of the cost differential between contractors and permanent APS staff, particularly in ongoing positions.

The Coalition has stated it will cut APS numbers again should it win the upcoming election. We hope those cuts won't be applied to Defence, since much of the growth in the Defence APS workforce since the last election is due to the reduction in contractors, which has reduced costs and returned skills to the public sector. Any discussion of the 'right' balance between the ADF and APS workforce needs to be based on deeper analysis than the rather vacuous appeals to 'sharpening the spearhead' and 'tooth to tail ratios' that characterised decisions to cut APS numbers in the 2010s.

While contractor numbers have fallen, the number of OSPs has continued to grow, hitting a new peak of 29,073 in March 2024. That's not necessarily a bad thing. OSPs perform a vast range of tasks that don't require uniformed personnel; they provide meals, services and security on base and perform maintenance on Defence's various fleets. That allows Defence to use its scarce uniformed workforce for tasks that can be performed only by ADF members. But it does mean that the external workforce retains its place as Defence's largest 'service' (Figure 3.5).

Figure 3.5: Defence's workforce, by service



Source: Defence PBS; Defence external workforce census, March 2024, supplied by the Defence Department.

## Can Defence ramp up spending?

The Defence organisation's inability to hit its acquisition spending goals over the past decade raises questions, particularly for those who advocate for greater defence spending (such as SAA). Could Defence actually spend it?

There are a couple of answers to that question. The first is that other countries manage to spend more than 40% of their defence budgets on acquisition. Five NATO countries are currently at over 40%, including Poland at 51.1% and Finland at 45.8%. Both are countries that have discovered a sense of urgency since the Russian invasion of Ukraine and are acting on it, not just talking about it. There are also countries that have managed to rapidly ramp

up their overall defence spending in recent years. Poland figures here again, growing from 2.2% to 4.1% of GDP in just two years.<sup>40</sup> Japan is doubling from around 1% to 2% over several years. So, it's possible, with the right will.

Secondly, achieving that growth will require doing things differently. That needs much more fundamental change than just reducing Defence's paperwork requirements. It means not continuing to buy the same kinds of things through the same kinds of acquisition models that Defence has used. Buying extraordinarily complex systems that require decades to design and then decades to deliver in bespoke industrial facilities will continue to deliver the underspends and poor outcomes we've seen over the past decade. Unfortunately, the future acquisition plan looks a lot like the past in that regard. We look at some aspects of that in the next chapter.

# The rise of the ADF's fourth service



## Marcus Hellyer

Opportunity cost is in play in all spending decisions. That means every dollar spent on one thing isn't available for something else. Defence is no exception. Defence analysts commonly intone that a dollar can be spent only once. But what does that mean in the context of Defence's current spending plan? What's the opportunity cost of the rise of the new kid on the block—the SSN enterprise?

In this chapter, we argue that, in terms of acquisition spending, the SSN enterprise has already become the ADF's 'fourth service'. We attempt outline the opportunity cost involved in that. We also examine other aspects of the long, high-risk capability transition that the Navy is undertaking.

## The incredible expanding blob

It's no secret that Australia will be spending a lot of money on its SSN capability. The government has previously stated that it will cost \$268–368 billion out to 2033–24. As we move through time, the breakdown of that spending over time is becoming clearer, at least in the earlier years.

There three places to find information on the cost of the SSN program in the PBS:

- *The Australian Submarine Agency* (page 187). The ASA is a separate agency within the Defence portfolio and has its own section in the PBS. However, the ASA's funding line covers only the cost of managing the SSN enterprise; it doesn't include the acquisition funding.
- *Program 2.16: Nuclear-powered submarines* (page 88). This is a program within the Defence Department's funding that essentially holds the acquisition funding for the SSN enterprise.
- *DEF 1 (Nuclear-powered submarines)* (page 130). This is the acquisition project acquiring the submarine capability.

We need to combine the first two of those lines to produce the full funding for the SSN enterprise. That's presented in Table 4.1, along with previous years' expenditure. We can see that the planned spend for the SSN enterprise for 2025–26 is \$3,509 million, up \$703 million (25.1%) from 2024–25. Over the forward estimates, it's \$17,349 million.

Table 4.1: SSN enterprise planned expenditure, 2023–24 to 2028–29 (\$ million)

	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2025–26 forward estimates	Total
ASA	243.4	353.0	397.6	529.0	379.5	394.4	1,700.5	2,296.9
Program 2.16	464.0	2,452.8	3,111.3	1,317.8	4,952.2	6,266.8	15,648.1	18,564.9
Total SSN enterprise	707.4	2,805.8	3,508.9	1,846.8	5,331.7	6,661.2	17,348.6	20,861.8

Source: Defence PBS and annual reports.

One interesting feature of the funding profile over the forward estimates is its 'lumpiness'. The funding line nearly halves next year and then triples the year after. That's probably driven by two things. The first is that a large proportion of the spend is being driven by Australia's contributions to the US's and the UK's submarine industrial bases, which are US\$3 billion (nearly A\$5 billion) and £2.4 billion (also around A\$5 billion), respectively. In years when we don't make a portion of contributions, our expenditure will be much lower. The second is that, in the later years of the forward estimates, the construction of submarine construction and sustainment facilities will begin to ramp up.

The third place to find information on SSN expenditure is the entry for Project DEF 1 (Nuclear-powered submarines) in Table 54: Top 30 military equipment acquisition program approved projects (page 130). That table only gives an estimate for the Budget year, not the whole of the forward estimates. The 2025–26 estimate along with previous years' expenditure is presented in Table 4.2.

Table 4.2: Project DEF 1 (Nuclear-powered submarines) expenditure (\$ million)

	2023–24	2024–25	2025–26
Military equipment acquisition	361	2,235	2,684
Other project inputs to capability	98	211	642
Total	459	2,446	3,326

Source: Defence PBS. Figures for 2023–24 are all expenditure to 30 June 2024.

The discrepancy between the estimate for the SSN enterprise (\$3,509 million) and DEF 1 (\$3,326 million) in 2025–26 may be due to the fact that some funds are transferred out of Defence to other agencies involved in establishing the SSN capability (such as the Department of Foreign Affairs and Trade and the Australian Radiation Protection and Nuclear Safety Agency).

We, the public, don't have visibility on how the submarine enterprise's annual spend ramps up over the rest of the decade beyond the forward estimates. But, since the IIP states that the spend on SSNs will be between \$53 billion and \$63 billion over the decade from 2024–25 to 2033–34 and the estimated spend over the first five years of the decade for the SSN enterprise is around \$20 billion (see Table 2.1 above), that leaves around \$33–43 billion for the following five years, so the spend will need to hit around \$10 billion per year by the end of the financial decade in the early 2030s to achieve that target.

Those numbers are big, but 'big' is only meaningful when compared to something else. One comparison is with other projects. The only other time a defence project has passed a \$2 billion annual spend was when AIR 6000 Phase 2A/2B (the F-35A project) was at the peak of aircraft delivery. In contrast, DEF 1 has already passed \$2 billion in annual spending but is still at least six years away from delivering the first submarine and even longer from an operational capability.

We can also compare the planned SSN enterprise expenditure with the capital expenditure of other operational domains. According to the IIP accompanying the 2024 NDS, over the coming decade, 38% of Defence's total investment program is going on maritime capabilities, more than land (16%), air (14%) and cyber (7%) combined. Less than four years earlier, the 2020 Force Structure Plan dedicated only 28% of investment to maritime capabilities.

The growing maritime investment is in part driven by the need to compensate for the train wreck of the previous government's shipbuilding plan, which has delivered nothing to date beyond one offshore patrol vessel in return for around \$10 billion in spending, pushing a huge bow wave of spending in the future in order to deliver the capabilities that this massive waste has so far failed to do. But that's only one small part of the story.

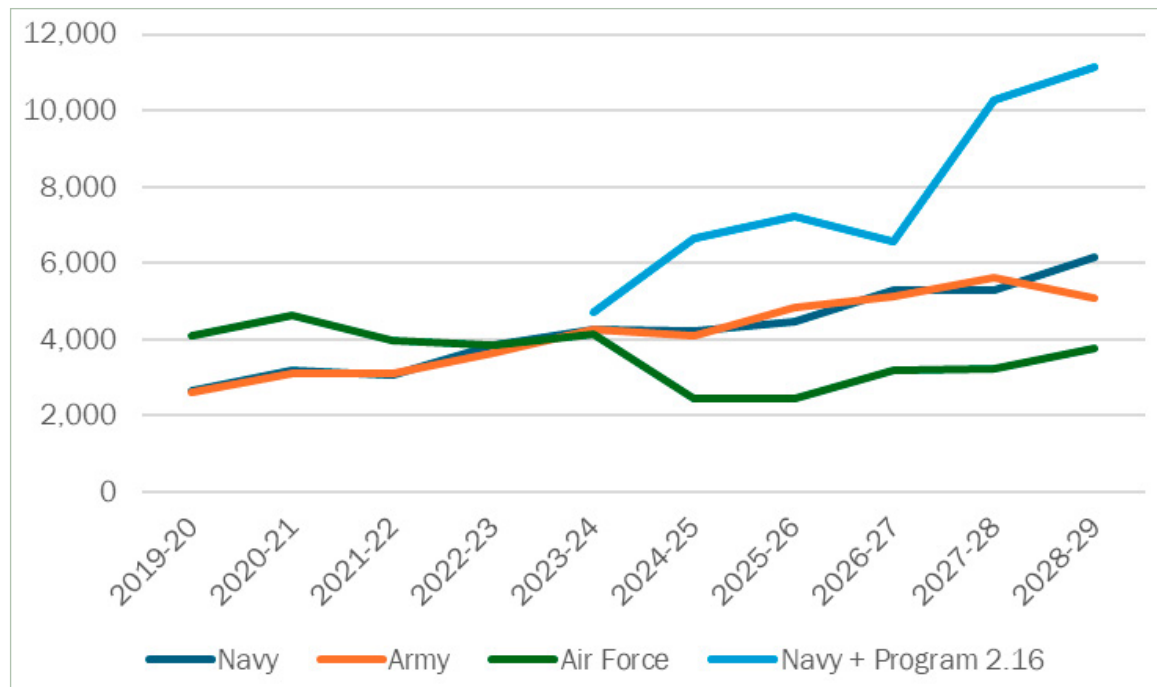
A key element in this distorted picture is of course the SSN program. The total budget for the IIP over the decade to 2033–34 is \$330 billion; the budget for SSNs alone is given as \$53–63 billion, putting SSNs at 16.1%–19.1%, more than either the land or the air domain.

It's hard to grasp how unusual this situation is. Moreover, it's one that will endure for decades, since the key elements of the maritime domain (SSNs and the two frigate programs) will still be in acquisition well into the 2040s. It's quite possible that Defence itself doesn't grasp the situation that it's gotten into.

## SSNs as the 'fourth service'

The PBS allows us to compare the balance of investment spending between the services over the forward estimates. But to give a complete picture we need to recall that the planned spending on the SSN program (Program 2.16 in the PBS) is listed separately from the rest of the Navy's budget in the PBS. When we combine the capital budgets for the Navy and SSN program together and compare them to the other two services, it looks like Figure 4.1.

Figure 4.1: Capital investment, by ADF service, 2019–20 to 2028–29 (\$ billion)



Source: Defence PBS.

Indeed, by 2027–28 the Navy’s capital budget combined with the SSN program (Program 2.16) capital budget (\$10,263 million) easily outstrips the combined capital budgets of the Army and Air Force (\$8,894 million).<sup>41</sup> In 2025–26, the SSN program alone greatly exceeds the Air Force’s capital budget at \$3,509 million to \$2,471 million. The discrepancy is made even more stark when we consider that Defence hasn’t even started to spend on any actual submarines, while air projects are in the middle of delivering MC-55 electronic warfare aircraft, MQ-4 Triton uncrewed aerial vehicles, long-range strike missiles, guided bombs, air-to-air missiles, and so on.

The SSN program’s spend dips next year (that’s the lumpiness we mentioned above), but, over the forward estimates, it outstrips the Air Force’s capital budget (\$17,349 million to \$12,685 million). That’s likely to extend across the decade as the SSN program ramps up to \$10 billion per year.

It seems reasonable then to describe the SSN enterprise as the ADF’s fourth service, at least in terms of its acquisition spending. Over the longer term, as SSNs enter service, we’ll need to pay close attention to whether the total cost of the SSN enterprise (that is, including personnel and sustainment) rivals the services. More on that below.

Overall, while the situation might not be quite as extreme as Pakistan’s President Zulfikar Ali Bhutto’s statement that ‘Pakistanis would eat grass’ to get nuclear weapons, it’s hard to imagine a case in which Australia has pursued a single military capability with such single-mindedness despite the cost.

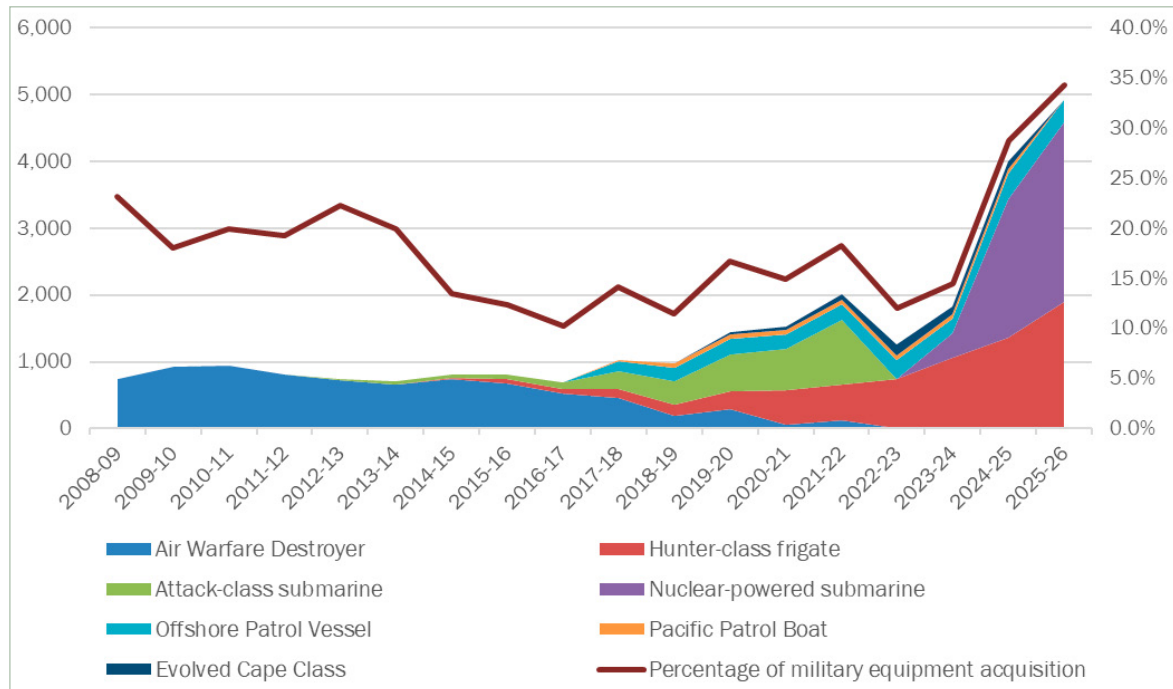
This picture prompts many questions. It has now become clear that many factors, including cost, were not considered in the original decision to commit to AUKUS. But has cost ever been seriously considered since then? Have the government and Defence truly grappled with the opportunity cost that the SSN enterprise will impose on the ADF for decades? Cancelling AUKUS may well be a ‘nuclear’ option in terms of its implications for Australia’s international reputation and relationship with the US, but are we being held hostage by the intangible and financial sunk costs?<sup>42</sup> The hold of the sunk cost fallacy can be difficult to break.

In sum, SAA is not advocating an immediate cancellation of AUKUS, but good policy decisions can only be made and implemented when we fully understand the costs and don’t just wish them away. So far, it seems there has only been a lot of wishing and little analysis.

## The rapidly increasing shipbuilding spend

Another way to visualise the expanding blob is to look at Defence's shipbuilding spend over recent years (Figure 4.2). This figure only includes shipbuilding narrowly defined (that is, the construction of new ships) and doesn't include upgrades to existing vessels. Nor does it contain 'other project inputs to capability', but only 'military equipment acquisition'. The key drivers are of course the SSN and Hunter-class frigate projects.

Figure 4.2: Defence shipbuilding spend, 2008–09 to 2025–26 (A\$ million)



Source: Defence annual reports; Defence PBS.

We can see that shipbuilding expenditure is growing rapidly, even though the Hunter only started construction less than a year ago and the SSN enterprise hasn't commenced the acquisition or construction of submarines. The line in Figure 4.2 indicates shipbuilding as a percentage of Defence's military equipment acquisition program. It's around 20% at the peak of the Hobart-class Air Warfare Destroyer program but then declines, in part due to the rapid growth in the acquisition budget (and the previous government's truly bizarre decision, made on advice from Defence, that the best way to do continuous naval shipbuilding was to stop building warships). It's now at 34.3% and is likely to grow further as the SSN and Hunter programs ramp up.

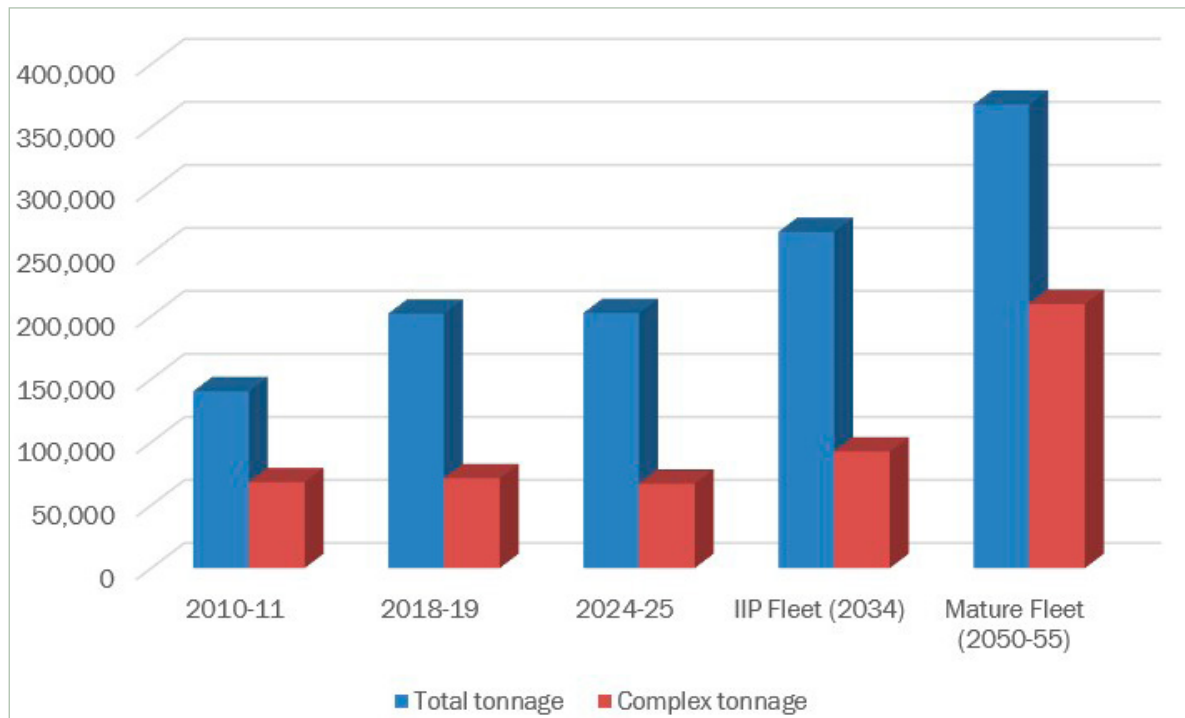
## The coming maritime sustainment tsunami

We noted in the previous chapter that Defence's sustainment costs have risen dramatically. They've doubled in real terms over the past decade. That means they're growing at a much greater rate than inflation. And it's hard to screw down sustainment costs; ADF personnel need to train, units need to exercise, and equipment needs to be kept ready to deploy. Ultimately, there's little point acquiring equipment that we aren't going to use.<sup>43</sup>

As with acquisition costs, sustainment costs are driven by size and complexity. And with large increases in the size and complexity of systems such as ships, submarines, aircraft and armoured vehicles built into the ADF's acquisition plans, that rising sustainment cost trajectory will continue. In the previous chapter, we gave a recent example of that with the Air Force's air combat fleet, which experienced a dramatic increase in cost per flying hour with the transition from third-generation aircraft to fourth- and fifth-generation aircraft. We'll no doubt see a similar phenomenon with the Navy's surface and subsurface capability transitions.

The growth in the Navy's tonnage, based on Defence's public acquisition plans, is set out in Figure 4.3. Not only is the total tonnage growing significantly, but the growth is particularly marked in what we're calling 'complex' tonnes: submarines and surface combatants. Those complex tonnes are more than tripling from where we are now. For example, the Collins-class submarine fleet is around 20,000 tonnes, whereas the future SSN fleet will be around 70,000 tonnes. That's concerning because each of those tonnes is likely to be at least as expensive in real terms as the one it's replacing.

Figure 4.3: The growing tonnage of the Royal Australian Navy



Source: 2024 Defence Integrated Investment Program; Enhanced Lethality Surface Combatant Fleet; 2024 Naval Shipbuilding and Sustainment Plan; SAA analysis.

For example, the annual sustainment cost of the Anzac frigate fleet over the past five years averages out at around \$46.0 million per ship or around \$12,800 per tonne. The Hobart-class destroyers, which are a generation more advanced, are around twice the size. They cost around \$103.7 million per ship (when we factor in the cost of their advanced Aegis combat system), or \$14,800 per tonne. That is, they cost somewhat more per tonne, but they each weigh twice as many tonnes.

Based on this data, it's reasonable to assume that the planned combatant fleet at three times the tonnage of the current fleet will cost at least three times as much to operate in real, or current day, dollars. Most of that growth occurs outside the 2024 NDS's decade, which is another reason why we assess that the cost imbalance between the services we examined earlier in this chapter will continue well beyond this decade.

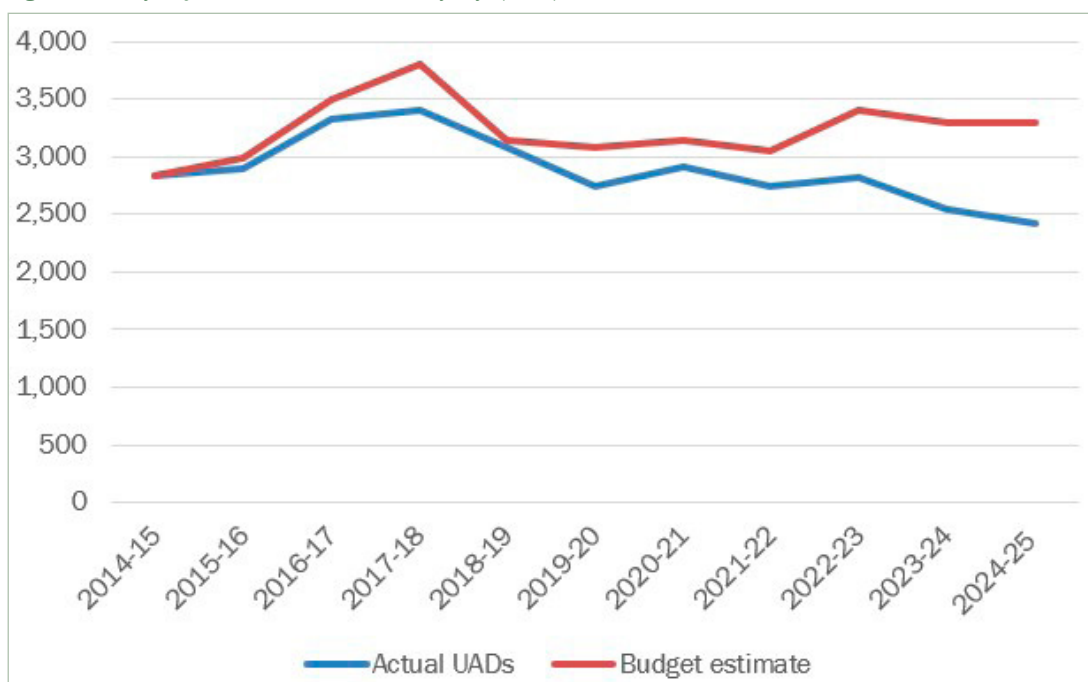
## The maritime capability transition: is the Navy going to make it?

We only spend the dollars to get capability (let's put aside the grifter talk about defence spending somehow driving jobs and growth<sup>44</sup>), so how are we going with maritime capability?

The RAN is currently in the early stages of two major capability transitions in its submarine and surface combatant fleets. Unfortunately, delays in decisions about the replacement fleets and their delivery mean that the existing fleets are ageing and becoming less reliable and relevant capabilities; we're in a race to see whether sufficient numbers of new vessels arrive before the old ones age out. This creates major strategic risk, not just for the Navy but for Australia.

Defence's data shows that the availability of the Navy's major combatants (frigates, destroyers and submarines) has consistently declined since 2017-18, which is a clear indication of an ageing fleet (Figure 4.4).

Figure 4.4: Navy major combatant unit availability days (UADs), 2014–15 to 2024–25



Source: Defence annual reports, PAES.

As fleets age, governments and militaries are faced with choosing between two philosophies. The first is to invest in the existing fleet to get the maximum possible capability out of what you have. The alternative is the ‘divest to reinvest’ philosophy, which retires old assets to free up funds to acquire new ones. Both of those approaches have risks. In the case of the second approach, the risk is that the existing fleet becomes obsolete or irrelevant, but the funds realised have no effect in accelerating the arrival of the replacements.

The government has adopted the second approach with the Anzac frigate fleet. First, it decided in its response to the Surface Fleet Review in February 2024 to retire the first of the Anzac-class frigates, HMAS Anzac, that year, five years before its replacement arrived.<sup>45</sup> That may have achieved moderate savings in sustainment costs. The sustainment cost of the two years following that decision averages \$338.5 million compared to an average \$371.2 million over the previous five years (Table 4.3). The Navy has also stated that retiring a second Anzac early (that is, well before the arrival of its replacement) is a possibility.

Table 4.3: Anzac-class frigate sustainment costs, 2019–20 to 2025–26 (\$ million)

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26
Planned	339	375	338	372	375	313	339
Actual	353	375	354	369	405	338	-

Source: Defence annual reports and PBS.

Second, the government decided to discontinue the Anzac-class capability assurance program, a.k.a. TransCAP. That program spent \$146 million in 2023–24. Strangely, the program spent a further \$171 million in 2024–25 despite being cancelled and, almost inexplicably, it’s spending a further \$154 million in 2025–26 to focus on ‘closure and finalisation of the TransCAP design and procurement activities already underway, and close out of any matters arising from cancellation.’ Cancelling a program seems to be an expensive business (as we’ve learned already from the almost \$1 billion settlement arising from the cancellation of the Attack-class submarine program) and hasn’t yet realised funds to reinvest.

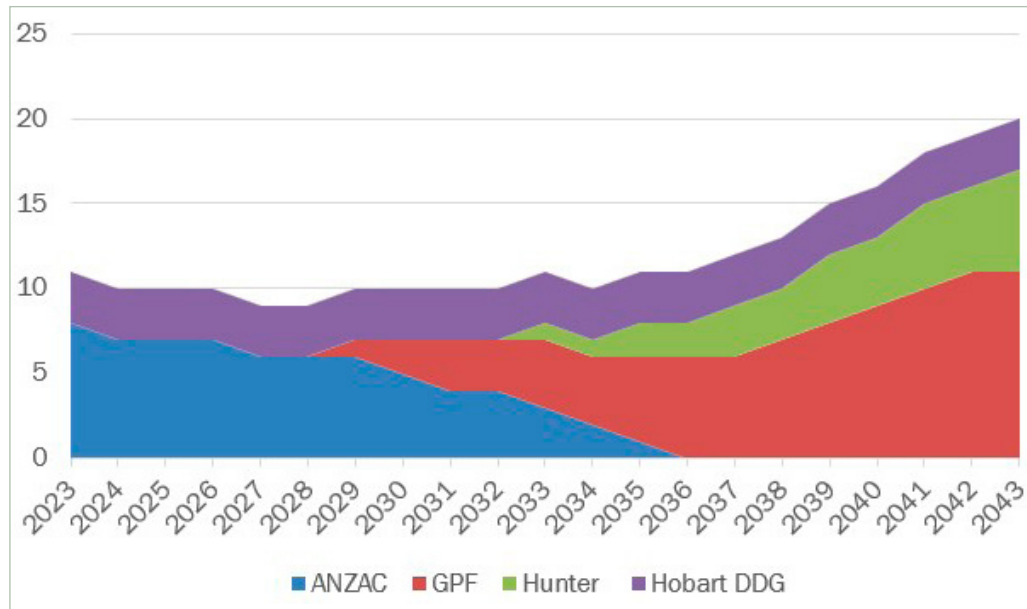
So the Navy appears to be burning its bridges behind it, but that’s risky when you don’t have certainty about what you’re transitioning to or when. Defence has stated that it’s confident that the first Hunter-class frigate will be delivered by 2032 and be operational by 2034. Also, the government has stated that it wants the first general-purpose frigate by 2029, but that’s a pretty racy schedule in shipbuilding terms. Moreover, the delivery drumbeat of subsequent vessels hasn’t been announced. It appears to be dependent both on the capacity of the two remaining industry bidders (Germany’s TKMS and Japan’s Mitsubishi Heavy Industries) in their home yards for the first three ships and on their ability to set up production at Henderson in Western Australia for subsequent vessels. The latter production schedule, in particular, is subject to significant uncertainty; there are many moving pieces in play at Henderson as the government seeks a way to find room and resources for submarine and surface ship construction and sustainment in the precinct.



The other question is about which capability ‘philosophy’ is behind the transition. If it’s to increase the size of the surface fleet as soon as possible, then presumably the Navy will keep Anzacs going even as new frigates enter service. That doesn’t seem to be the plan, in the light of the cancellation of the Anzac capability assurance program.

But, if the philosophy is to get out of the ageing Anzac business as soon as possible, then presumably the Navy will retire Anzacs as new frigates arrive. We can argue over assumptions about the schedule, but that model looks something like Figure 4.5. The key point is that the Navy doesn’t move beyond the current 10 major surface combatants until the second half of the 2030s.<sup>46</sup>

Figure 4.5: Navy surface combatant transition plan: indicative number of crewed surface combatants, by year, 2023 to 2043



GPF = general-purpose frigate.

Source: ‘Enhanced lethality surface combatant fleet’, Defence Integrated Investment Program.

Since quantity has a quality all of its own, and history shows that God tends to be on the side of the biggest fleets, finding ways to generate more quantity should be high on the list of the Navy’s priorities.<sup>47</sup> Accelerating the build of surface ships is difficult, and the general-purpose frigate program is already about as ambitious as we can achieve with traditional crewed vessels.

The other element of the surface fleet review is a small class of six ‘large optionally crewed surface vessels’ (LOSCVs) with a budget of \$400–500 million. The review and the subsequent IIP are short on details, and SAA doesn’t agree with elements of the plan that are public. Autonomous maritime systems are clearly the best path to generating mass in a timely and affordable way, and that needs to occur well before the timeline set out in the IIP, which sees the LOSCVs being delivered in the 2030s. It also needs to occur on a scale far beyond the six envisaged in the IIP; delivering a large number of smaller systems is likely to be more achievable than delivering a small number of larger systems.

## The submarine transition

The situation is equally concerning in the Navy’s other high-risk capability transition: its submarine fleet. The risks, and whether the government and Defence are adequately addressing them, have been the subject of more spilled ink than perhaps any other defence capability, so we won’t delve into the issues here. In short, the risks are similar to those for the surface fleet transition, but probably even more concerning. For one, the end state is even more uncertain. It’s not clear when Australia will get Virginia-class SSNs from the US, and the UK’s SSN-AUKUS submarine that Australia will build under the ‘optimal pathway’ is still a long way from being a mature design, let alone an in-service capability. Second, the risks around the Collins-class life-of-type extension appear to be being realised as the scope of capability upgrades is dialled back.

For more analysis, see SAA’s website, which has numerous essays on these issues including:

- Michael Shoebridge, ‘AUKUS: from strategic partnership to a deal kept on the road by Aussie cash,’ 12 February 2025, [online](#).

- Marcus Hellyer, 'Megaprojects & mega holes: sublime lessons for Australia's submarine enterprise,' 22 August 2024, [online](#).
- Marcus Hellyer, 'The Naval tsunami that'll swamp industry and starve the rest of the ADF,' 24 July 2024, [online](#).
- Marcus Hellyer, 'SSN-AUKUS: a 'mature' design...just with many defining things not settled,' 8 July 2024, [online](#).
- Marcus Hellyer, 'What role should the Collins Life of Type Extension play in Australia's submarine transition?' 30 May 2024, [online](#).
- Michael Shoebridge, 'Awkward truths about US and UK AUKUS challenges,' 7 December 2023, [online](#).

## The other services

We've noted that the Navy and SSN program's capital budget rivals those of the Air Force and Navy combined, and that the SSN program's capital budget alone exceeds the Air Force's. What does that mean?

The Air Force's investment budget is crashing, from \$4.1 billion in 2024–25 to less than \$2.5 billion in 2024–25 and 2025–26. One might argue that the Air Force has had its turn, with new capabilities like the F-35A fleet now delivered, so now it's the Navy's turn. But that 'focused' investment profile is likely to last for decades, and the new 'imbalance' isn't going away anytime soon.

In some ways, it's a strange approach; the Air Force has successfully rebuilt itself into a fifth-generation force, while the Navy has struggled with failed shipbuilding projects. Instead of backing our winners, we've put the Air Force into the doghouse. It's not getting any new aircraft over the decade beyond what was already in the plan before the NDS despite the undeniable relevance and historical impact of air power in our region. But submarines clearly exercise a strange hold over our collective imaginations.

Clearly, any option to hedge the risks around the SSN enterprise by acquiring long-range airborne strike systems (whether based on the B-21 or other platforms, crewed or uncrewed) can't be funded under the current division of acquisition funding between the domains and services. Barring the 'nuclear' option of cancelling AUKUS, an increased defence budget will be needed for serious hedging.

In contrast to the Air Force, the Army, which has long regarded itself as the poor cousin of the three services, is doing very well for itself, despite its flagship infantry fighting vehicle program being very heavily pruned by the 2023 Defence Strategic Review. It's also outstripping the Air Force, with almost double the capital expenditure (\$4,825 million to \$2,471 million in 2025–26).

The Army is in the middle of a massive, almost \$20 billion, recapitalisation of its armoured vehicle fleets, which is moving a lot of money: \$1,878 million in 2024–25 and \$2,648 million in 2025–26. And there's still over \$10 billion to go. Table 4.4 sets out that picture.<sup>48</sup>

Table 4.4: Expenditure on armoured vehicle projects

	Total approved budget (\$m)	2024–25 spend (\$m)	2025–26 spend (\$m)	Expenditure to June 2025 (\$m)	Expenditure to June 2025 (%)
Boxer combat reconnaissance vehicle	5,908	398	523	3,249	55%
Redback infantry fighting vehicle	7,314	605	794	1,011	14%
Armoured combat vehicles (tanks and engineering vehicles)	2,456	515	621	1,335	54%
AS9 Huntsman self-propelled howitzers	1,365	193	231	893	65%
Long-range fires (HIMARS)	2,869	167	479	304	11%
Total	19,912	1,878	2,648	6,792	34%

Source: Defence PBS.

Those programs have taken a long time from concept to delivery. It takes time to set up bespoke manufacturing facilities for complex platforms. Six years after approval, the Boxer program has delivered only a handful of Australian-made vehicles, and the self-propelled howitzer program none. One might wonder whether we're moving at the speed of relevance and whether what's being delivered is what's still required for an Army that supposedly now has an amphibious focus.

On the other hand, the facilities and workforce could be put to other purposes once they've delivered. And having that industrial capacity is proving to be useful as democracies seek to rearm; the Boxer project has led to one of Australia's biggest export successes—selling Boxers back to Germany.<sup>49</sup>

So, \$20 billion is a lot of money for vehicles, but we're paying \$27 billion just for three Hunter-class frigates that will be delivered sometime in the 2030s. We can each make our own call on what's better value for money.

# Self-reliance and the US alliance



The Australian security establishment has a poor record of predicting the future. That's true of most people and organisations. That's why many smart organisations, such as companies that want to remain viable into the future, hedge their risks. They try to imagine multiple futures and choose courses of actions that will be relevant in a range of eventual futures. But those companies are playing with their own and their shareholders' money. And, since decisions can result in success or failure in short time frames, their executives and board members can be held accountable either legally or in terms of remuneration or career prospects, so there are strong incentives to be imaginative and to hedge proactively.

In Australia's Defence organisation, there are no similar incentives. For a start, no one is playing with their own money, so there's minimal incentive to be commercially acute. Delivery time frames for Defence's megaprojects are so long that none of the people involved in Defence's poor decisions is held to account. Moreover, in the artificially protected monopoly of Defence, there's no prospect of the creative destruction that drives capitalism's innovation.

But, worst of all, the culture and structure of Defence and our broader security establishment enable and indeed enshrine lack of imagination and lazy policy. There's no incentive to consider alternative futures to the comfortable one that Australia has envisaged for years, and indeed clung to for years, in its strategic policy documents. The conventional wisdom foresaw a world in which the US would be committed to maintaining its primacy (a slightly less loaded term that 'hegemony'), would be willing and able to maintain its uncontested military dominance, would be committed to upholding the 'rules-based global order' that it established, and—if the rules failed—would be committed to protecting its friends and allies.

That allowed lazy decisions—in particular, decisions that encouraged governments and Defence to double down on acquiring US military technology with even greater fervour. The need for interoperability became the need for interchangeability. Whatever that exactly was in theory, in practice it meant buying exactly the same stuff as the US. AUKUS is of course the culmination of that approach. There was no need to make hard decisions about hedging by buying from a broad range of suppliers to spread risk.

In the wake of Trump's return to the White House and his explicit threats towards US allies such as Denmark and Canada, many countries are now pondering the downside of reliance on US military technology. An example of that has been the recent F-35 'kill switch' discussion; that is, could the US simply switch off other countries' F-35s? Military leaders in a number of countries along with the US and Lockheed Martin, the manufacturer of the F-35, have said that there's no kill-switch function.<sup>50</sup> But the simple fact remains that all users of US systems are heavily dependent on the US for spares and software. The case of the F-35 is actually worse than most, since spares are centrally managed by the US on behalf of all program members, so Australian F-35 operations wouldn't last long if we were cut off, as we don't have our own stockpiles of spares. But, ultimately, it's a similar situation with all US systems.<sup>51</sup> Granted, it's also the situation all systems that rely heavily on overseas supply chains. That is a fact of modern life.

Some US allies have said that they're reconsidering their planned F-35 purchases, but the F-35 is just one US system among the very many that US allies, including Australia, have built their defence capabilities on.

## Our current reliance—the Top 30 sustainment products

We'll have a look at where our lazy approach has gotten us to in terms of dependence on a potentially unreliable and indeed hostile ally (if we consider Trump's self-declared trade war). One admittedly subjective way (is there any other?) is to look at the Top 30 acquisition projects and the Top 30 sustainment products in the Defence PBS and assess how 'American' or foreign they are. Essentially, the Top 30 sustainment products are the force in being, while the Top 30 acquisition products are the (relatively) near-term future force.

We'll start with the Top 30 sustainment products. We've categorised them in Table 5.1 as 'primarily overseas technology', 'primarily local technology' or 'mixed technology'. We've then marked the ones that rely heavily on US technology. Of course, this is subjective, as every military technology in this world built on interconnected, global supply chains will be mixed and also have some US content.

Table 5.1: The 2025–26 Top 30 sustainment products, by category

Ranking by spend	Product name	Product ID	Planned spend (\$m)	US technology
1	Collins Class Submarine	CN10	1004	Y
2	F-35 Joint Strike Fighter	CAF30	716	Y
3	F/A18F Super Hornet & Growler Weapon System	CAF21	600	Y
4	Anzac Class Frigate	CN02	339	
5	Explosive Ordnance—Army Munitions Branch	CA59	327	
6	P-8A Poseidon Maritime Patrol and Response	CAF35	309	Y
7	Airborne Early Warning and Control System	CAF20	302	Y
8	Hobart Class Destroyer	CN40	284	Y
9	MH-60R Seahawk Romeo Helicopter	CN35	240	Y
10	KC-30A Weapon System Multi-Role Tanker Transport	CAF22	209	
11	C-17 Heavy Air Lift Weapons System	CAF19	191	Y
12	Canberra Class Amphibious Ship	CN34	188	
13	Battlespace Communication Systems	CA31	174	
14	Protected Mobility Fleet – Bushranger	CA04	162	
15	Anzac Class Frigate Capability Assurance Program	CN65	154	
16	Armidale Class Patrol Boat	CN09	149	
17	Large Hull Vessels	CN58	149	
18	Pilot Training System	CAF37	147	
19	C130J-30 Weapon System	CAF06	147	Y
20	Armed Reconnaissance Helicopter Weapons System	CA12	146	
21	Lead-In Fighter Hawk 127 Weapon System	CAF03	144	
22	Explosive Ordnance Manufacturing Facilities	GWEO01	144	
23	Navy Explosive Ordnance	CN54	139	
24	Boxer Combat Reconnaissance Vehicles	CA82	138	
25	C27J Spartan Battlefield Airlifters	CAF34	134	
26	Defence Logistics	CJC034	133	
27	Aegis Combat System	CN60	131	Y
28	MC-55A Long Range ISREW Aircraft	CAF40	128	Y
29	Wide Area Surveillance	CAF13	120	
30	Black Hawk Weapons System	CA11	120	Y

Primarily overseas technology
Primarily local technology
Mixed technology
US technology

Source: Defence PBS; category assessment based on SAA analysis.

Of the 30, 21 are primarily overseas technology, eight are mixed and, rather depressingly, only one is local (the JORN over-the-horizon radar, which recently scored a huge export success to Canada).

We've assessed 12 (40%) as having significant US content, and that's weighted towards the biggest products (seven in the top 10). That includes the highest ranked capability: the Collins-class submarine. Even though overall it's 'mixed', its combat system and torpedoes are American and without them it's essentially useless. Numbers two and three are the F-35A and Super Hornet/Growler fleet, which are also US systems.

The 12 systems that rely heavily on US technology will have a sustainment cost of \$4,172 million out of a total for the Top 30 of \$7,268 million in 2025–26, or 57.4%.

In short, while the force in being is almost exclusively based on foreign technology, it's not exclusively based on US technology.

## The acquisition Top 30

We turn now to the Top 30 acquisition projects, or the future force. It is, however, becoming harder to draw a distinction between existing and future capabilities because Defence has moved towards a program rather than a project or project-phase presentation of the data. For example, all phases of AIR 7000 (the P-8A maritime patrol aircraft program) are now rolled into one line, including those that have already been delivered. Similarly, the Air Force and Navy each now have a single program for guided weapons, which includes weapons already delivered and in service. So, many systems are in both the acquisition and sustainment Top 30s. But we have to work with the data we have.

Here we have four categories:

- Primarily overseas acquisition
- Primarily local assembly of overseas design
- Primarily local design and construction
- Mixed.

We've also assigned a 'primarily US technology' marker (Table 5.2).

Table 5.2: The 2025–26 Top 30 acquisition projects, by category

Ranking by 2025–2026 spend	2025–2026 planned spend (\$m)	Project number	Project name	Ranking by total approved budget	Total approved budget (\$m)	US technology
1	3,326	DEF 1	Nuclear-powered submarines	4	15,448	Y
2	1,932	SEA 5000	Hunter-class frigates	1	27,255	
3	1,105	LAND 4503	AH-64 Apache Attack Helicopter	10	5,269	Y
4	796	SEA 4000 Phase 6	Aegis Baseline	13	4,554	Y
5	794	LAND 400 Phase 3	Redback IFV	8	7,314	
6	781	SEA 1300	Maritime Guided Weapons and Munitions	3	16,836	Y
7	721	LAND 4507	UH-60M Blackhawk Utility Helicopter	14	3,951	Y
8	621	LAND 907	Armoured Combat (Tanks)	19	2,456	Y
9	523	LAND 400 Phase 2	Boxer Combat Reconnaissance Vehicle	9	5,908	
10	486	SEA 1180	Arafura Offshore Patrol Vessel	12	4,691	
11	479	LAND 8113 Phase 1	Long Range Fires (HIMARS)	16	2,869	Y
12	451	SEA 9100	MH-60R Seahawk	11	5,188	Y
13	408	AIR 5349	EA-18G Growler	7	7,629	Y
14	402	JP 2087	Sovereign Weapons Manufacturing	20	2,368	Y
15	342	JP 2092	GWEO Enterprise	26	1,250	
16	308	AIR 6004	Air Launched Multi Domain Strike	18	2,543	Y
17	304	AIR 7001	MQ-4C Triton	15	3,118	Y
18	303	AIR 7000	P-8A Poseidon Maritime Patrol Aircraft	6	8,515	Y
19	275	LAND 8710 Phase 1	Army Water Transport (LCM)	17	2,597	
20	273	AIR 6500	Integrated Air and Missile Defence Command and Control	27	1,212	Y
21	266	SEA 1450	Collins Life of Type Extension	23	1,425	
22	238	AIR 6000 Phase 2A/2B	F-35A Joint Strike Fighter	2	18,434	Y
23	231	LAND 8116	AS9 Huntsman SPH	25	1,365	
24	223	JP 8218	Theatre Logistics	30	421	
25	206	LAND 1508	Special Operations Capability Enhancements	28	904	
26	193	AIR 7404	Medium Air Mobility (C-130J)	5	10,520	Y
27	177	JP 9141	Communications Security Modernisation	24	1,423	

Ranking by 2025–2026 spend	2025–2026 planned spend (\$m)	Project number	Project name	Ranking by total approved budget	Total approved budget (\$m)	US technology
28	162	DEF 129	Uncrewed Aerial Vehicles	29	663	Y
29	150	LAND 19	Short Range Ground Based Air Defence	22	1,532	Y
30	139	AIR 6000 Phase 6	JSF Follow-on development	21	2,183	Y

Primarily overseas acquisition
Primarily local assembly of overseas design
Primary local design and construction
Mixed
US technology

Source: Defence PBS; category assessment based on SAA analysis.

On the positive side, there are three ‘primarily local’ projects.<sup>52</sup> There are also eight that are primarily local assembly of foreign designs, including four in the top 10, which we hope implies that there’s some meaningful level of Australian content. That should also mean, if the projects are designed and implemented well, that it will be easier to sustain them with local supply chains. There are also 16 that are essentially off-the-shelf purchases of foreign technology.

While the sustainment Top 30 has 12 (40%) primarily US systems, the acquisition Top 30 has 19 (63.3%), and 16 of them are essentially off-the-shelf acquisitions, indicating a growing dependence on US military technology as we move from the force in being to the future force.<sup>53</sup> That conclusion is reinforced by the dollars: \$118 billion of the acquisition Top 30’s total budget of \$170 billion, or 69.4%, is for US systems, compared to 57.4% of the sustainment Top 30.<sup>54</sup>

It appears that the Australian Government’s policy of doubling down on US military technology is delivering what it intended to do: greater reliance on the US. Whether that’s a good outcome is another matter, but walking away from US military technology is simply not a short- to medium-term option. That technology permeates the ADF, and it’s hard to imagine what the ADF could currently achieve without it.

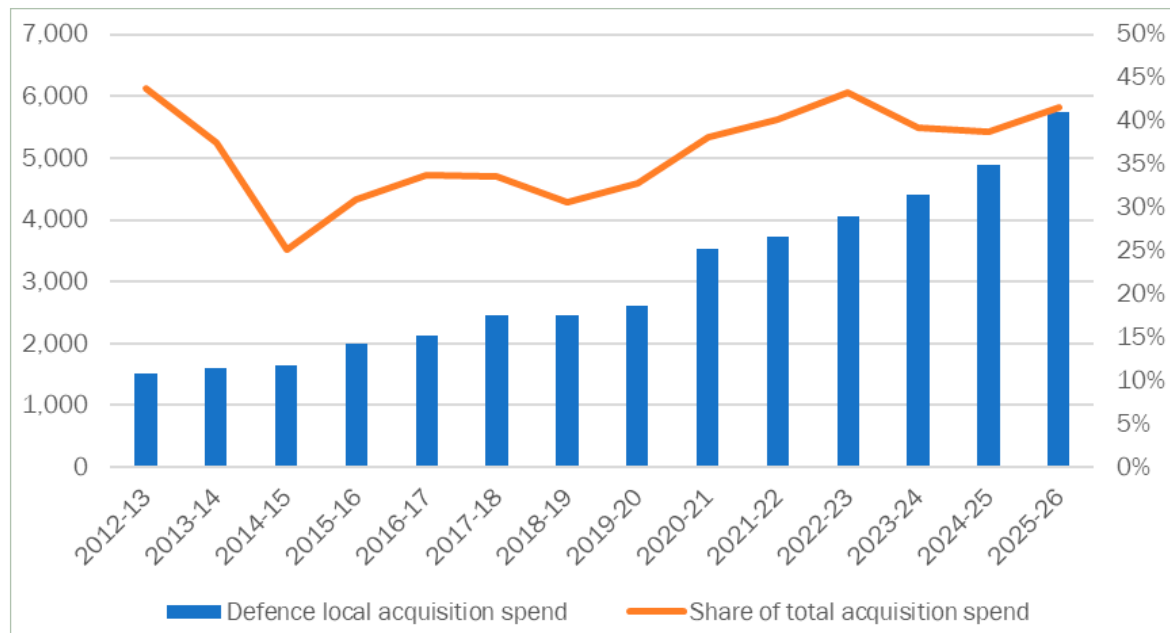
Does that mean Australia should rule out additional F-35s as a relatively rapid capability boost, or new systems such as the B-21 as a hedge against risks in the SSN enterprise? Not necessarily. The key questions in all capability decisions remain. Is it the right capability? Is it affordable? Can we get it in a meaningful time frame? What are the alternatives? And, importantly in the current context, will we be able to operate it as a sovereign Australian capability when we need to? Decisions will be based on all of those factors, many of which can’t be answered with complete certitude and will require informed, open-eyed risk assessments. Ultimately, we would argue that we should invest in opportunities to diversify, but in any foreseeable future we will need to exploit the benefits of advanced US technologies.

## Local and overseas dollars

Another way to assess self-reliance versus reliance on other countries is by comparing local spending with overseas spending. Defence has been releasing data on the spending of its acquisition agencies since 2012–13, broken down by local versus overseas spending for both acquisition and sustainment.

There are some enduring patterns. Broadly speaking, the total acquisition and sustainment spends have been comparable since 2012–13 with approximately \$116 billion on acquisition compared to \$111 billion on sustainment. Also each year has been roughly balanced. However, the ratio of local to overseas spending in the two categories is quite different. Acquisition spending has averaged around two-thirds overseas and one-third local, but the local share has been slowly growing over the past five or six years and is estimated to be around 42% in 2025–26 (Figure 5.1).

Figure 5.1: Defence acquisition spending, 2012–13 to 2025–26 (\$ billion)



Note: Data refers only to Defence’s acquisition agencies, not the entire Defence Department’s spend.  
 Source: Provided by Defence Department.

The sustainment program has the inverse profile. It’s been split one-third overseas and two-thirds local. It’s also remained very consistent in that profile since 2012–13.

We can make a couple of observations. First, it’s encouraging that Australian industry has been able to increase its ‘share’ of acquisition spending even as total acquisition spending has increased significantly, from around \$3.5 billion in 2012–13 to \$13.8 billion in 2025–26.<sup>55</sup> The local spend has grown dramatically from \$1.5 billion to \$5.7 billion.

As always, there are qualifiers. The main one here is that, because Defence considers any company with an Australian Business Number (ABN) that provides defence goods and services to the Defence Department to be sovereign defence industry capability, these local figures are likely to include any payment to a company with an ABN. What happens to the money after that, and how much of it stays in Australia, is anyone’s guess. Many primes pass payments on to subcontractors, some of which are locally owned, some of which are local subsidiaries of foreign companies, and some of which are located overseas. So it’s a blunt tool.

Many analysts would argue that, regardless of where your equipment comes from, you need to be able to sustain it here. From that perspective, it seems that Australia is doing consistently well. As the sustainment spend has grown from \$4.6 billion to \$11.3 billion, Australian industry has held on to its roughly 67% share. Of course, that doesn’t necessarily help if an overseas supplier of critical spares turns off the supply. But assuming that doesn’t happen (for example, the F-35A spares pipeline stays open), we’re in good shape in terms of our ability to sustain foreign equipment here.

## Why does it matter?

Over time, Australia has swung between a policy of investing in local defence industry and a policy of simply buying the ‘best of breed’ in the global market. SAA has frequently argued that the lessons of recent supply-chain shocks such as the Covid-19 crisis and the growing risks posed by an unpredictable and potentially unreliable US strongly suggest that Australia needs to build its defence industry. That, of course, isn’t the same as seeking complete autarky or walking away from US technology.

A recent example shows why developing our own capabilities and broadening our international suppliers are good ideas. Recent governments have announced many times that Australia is acquiring the American AGM-158C Long Range Anti-Ship Missile (LRASM) for our fighter aircraft and potentially P-8A maritime patrol aircraft; the first announcement came with the release of the Defence Strategic Update in June 2020. That makes sense; by all accounts, it’s a very smart, stealthy missile and has much greater range than the legacy Harpoon missile. Indeed, it’s such a good idea that governments have announced several times that they’re ‘accelerating’ the acquisition of LRASMs.

However, when we look at the detail, there's little acceleration going on. The US Defence Security Cooperation Agency announced that the US State Department had approved the export of up to 200 LRASMs to Australia on 7 February 2020. That means Australia must have submitted a request to buy the missiles in 2019.

The Australian Government announced on 21 March 2025 that the RAAF had successfully test-fired the LRASM from an RAAF Super Hornet, over five years after the first enquiry from Australia.<sup>56</sup> That's a good thing, but we don't actually have any of our own missiles yet. The 2025–26 Defence PBS states that 'during 2025–26, the project will deliver an initial tranche of Long Range Anti-Ship Missiles.'

In summary: it will take six years to get 'an initial tranche', whatever that is. Six years is longer than World War I or II. We should note that, unlike air defence missiles such as the SM-2 and SM-6 that the US Navy has been expending in large numbers in operations in the Red Sea protecting commercial shipping against the Houthis, the LRASM isn't a missile that the US has been using in recent conflicts.

The problem with dependence on others for military equipment is that their requirements come first. And when we're talking about very exquisite systems with long design and build times, we're at the back of a queue that takes a long time to move forward, even in peacetime.

## A final statement

Ultimately, we need to hedge our risks and diversify our defence suppliers, in particular local ones. And we need to be much more proactive about it by providing real acquisition contracts to Australian companies that have designed systems here, and not just by prolonging the endless drip-feed of innovation grants.

There's a clear double standard at work. Politicians and Defence leaders rightly say that with defence tenders and competitions there are no guarantees and that no company should expect contracts. Which is true. Except that, when the Minister for Defence says 'AUKUS is too big to fail', he's made some very clear guarantees to the top end of town.

Everybody in defence industry knows local companies that have gone to the wall in the past few years. Those companies were led by people who were just as committed to defending Australia as defence personnel (indeed many of them were previously ADF or APS members), but, unlike Defence's leaders, they've put their own skin in the game, risking and losing their own money.

That's an outcome of putting \$3.5 billion a year right now into exquisite and high-risk capability programs like the SSNs that aren't delivering for years, rather than building sovereign defence industrial capability here in Australia in the very short term.

We can continue to commit ourselves to a single future—one that's growing more and more implausible by the day—or we can act responsibly and start seriously preparing for a range of very conceivable futures by hedging our risk and investing in local defence industrial capability.



# Getting started: early actions to lead in Defence

## Peter Jennings

When the election is over, the winning party gets down to the serious business of government. In a country with three-year political terms, governments have no time to lose. The challenge is to start governing with direction and energy. It's said that new administrations take a year to start feeling comfortable with the business of government. Year two is the time when policy action takes place and, in year three, politicians turn their minds to re-election. The Albanese government broadly followed that pattern after the 2022 election. In Defence, Richard Marles commissioned Stephen Smith and Sir Angus Houston to conduct their root-and-branch review of Defence. Their report was released in April 2023, and the government's policy response—the NDS—was released in April 2024.

In effect, two-thirds of Labor's first term was taken up with planning to have a defence policy. If Labor is re-elected in 2025, the obvious challenge for a second term is to build policy traction, start delivering capability to the ADF, and realise the promise of plans to build missiles and ships.

If the Coalition is elected, there will be even more urgency to get to grips with policy challenges. There are promises to spend more money on defence, so spending priorities will need to be set. A Coalition government will need to deliver on promises to bring the Port of Darwin back into Australian ownership and to buy and bring into service a fourth squadron of F-35 aircraft. Broadly, though, it's fair to say that the parties have much in common on defence policy. The Coalition claims that they'll be smarter implementers. We'll see.

Here, I want to suggest 10 steps that the next government should take to bring energised and focused leadership to Defence. In my book co-authored with Michael Shoebridge and Marcus Hellyer, *No higher priority: a blueprint for immediate action on Australia's defence 2025–2028*, we set out a detailed plan for what an energised government could do in one term of office to strengthen Defence.<sup>57</sup> I'll assume here that this agenda is what the next government will set out to achieve. (Admittedly, that's a big assumption!) The measures set out below deal more with machinery-of-government changes. They're the practical steps a government should take to lead a reform agenda in Defence.

## 1. The Defence Minister takes responsibility for procurement and capability development

In a July 2024 cabinet reshuffle, Pat Conroy was made Minister for Defence Industry and Capability, becoming the most junior member of the 23-person cabinet.<sup>58</sup> In effect, Conroy was given responsibility to bring billions of dollars of defence projects to cabinet. Richard Marles, as Deputy Prime Minister and Defence Minister, was third in the cabinet hierarchy, having given up one of the most significant parts of his portfolio.

That bizarre allocation of roles diffuses and confuses ministerial responsibility in Defence. Who has the ultimate call on shipbuilding, on AUKUS priorities, on 'projects of concern'? Divided responsibility risks many things falling between the cracks. It needs to stop. The next government should have one Defence Minister in cabinet. That individual should carry the responsibility for procurement and capability development. (By all means use ministers assisting to take some of the Defence portfolio workload.) Cabinet positions should avoid overlapping responsibilities.

## 2. Charter letters should be written and made public

It's normal practice for the Prime Minister to write charter letters to ministers, setting out priorities and expectations for their portfolios. Those letters weren't made public, even after a freedom of information request from journalist Karen Middleton.<sup>59</sup> As Anthony Albanese said when in opposition, 'the responsibilities of Ministers

of the Crown shouldn't be a state secret. Australians deserve to know who is accountable for Government decisions.<sup>60</sup> I strongly agree. Early in the next term, the Prime Minister and other ministers should set clear expectations for what needs to be delivered in the next three years. While there are reasonable grounds for classifying some directions to a Defence Minister, a public version of those letters should be released. The Prime Minister needs to make it clear to the cabinet that ministers' performance will be measured against the charter letters' priorities.

### 3. Set five big policy targets

Important as ministers are, much of their time is set for them. Between cabinet, the party room, the electorate and the arrival of events that must be addressed, ministers quickly find that they're driven as much as they drive their day. Defence, moreover, will absorb every available minute. The flow of paperwork is enormous—a consequence of officials refusing to make their own decisions. Unless a minister is careful, they'll end up just reacting to the Defence Department's agenda.

The way around that is to set four or five big policy goals and make that the way to set the department's agenda. An obvious goal, for example, would be to personally intervene to solve the Defence 'workforce crisis', in which large numbers of people are leaving the ADF and not enough young Australians are joining. Make that a priority. Make the department address that interest; set reporting requirements; make it the centrepiece of speeches and visits. Do whatever is necessary to drive that policy agenda.

The alternative is just reacting to the paperwork. More than a few ministers have fallen into that trap. They were all busy, but busy meeting the Defence Department's agenda, which can look awfully like just doing 'business as usual'.

### 4. Identify and appoint a new CDF and Secretary

Richard Marles made a mistake by not replacing the Secretary of the Defence Department and the Chief of the Defence Force (CDF) when he became minister. It put him into a difficult position of claiming to be a policy reformer but doing it with the senior leadership team that had been in place while Marles, as shadow minister, had been a critic of the department.

Particularly for a new government, there's an opportunity to bring in its own senior leadership as a signal that change is in the works. This isn't to make judgements about the incumbents, but it's time to make some big changes to the way the Defence Department and the ADF are run. The department's lack of communication, the ridiculous proliferation of senior positions, the overwhelmingly slow, committee-driven incrementalism, the failure to address our deteriorating strategic outlook. All those things must be addressed, and the best way to do that is to appoint some new leaders.

### 5. Get to know the department

Defence ministers often start (as Richard Marles did) expressing an intention to spend time physically working in the Defence Department. That never happens, because ministers need to be in the ministerial wing of Parliament House, close to their colleagues and the proceedings of the House and Senate. Inevitably, officials will come to the minister. I suggest that the Defence Minister should establish a ground rule that the officials who authored submissions come to the meetings where their efforts are being discussed. The minister should want to know as wide a range of officials and ADF personnel as he can. Too often, this narrows over time to a relationship with the Secretary and CDF and a small number of others.

My experience of Defence is that the organisation really does want to help the minister, even if sometimes that's hard to believe. It's the minister's job to meet as many officials as possible. That should include holding 'town hall' style meetings with officials at all seniority levels. The minister should give people an opportunity to say what they think and to set out his or her expectation for what he or she wants from them. Australia is an egalitarian democracy. Ministers should be accessible, humble, demanding, offer feedback and even the occasional thank-you for good policy work.

## 6. Retake the Port of Darwin now

On 5 April, the Coalition announced:

An elected Dutton Coalition Government will act in the national interest to immediately secure the Port of Darwin by facilitating the return of the Port to an Australian Government-approved operator ... We will appoint a specialist commercial adviser to work with the Northern Territory Government and officials from the Departments of Treasury, Finance, Defence and Infrastructure to provide advice and engage with potential new operators of the Port.<sup>61</sup>

Prime Minister Albanese, long a critic of the port's lease to a Chinese company for 99 years in 2015, has somewhat reluctantly, it seems, agreed that a re-elected Labor government will also end the lease.

The new government should move on this quickly. Beijing will object and seek to prevent the lease being terminated. China calculates that the lease slows the process of developing the port for greater ADF and allied use. No one, other than the officials who stupidly oversaw the leasing process back in 2015, now supports the lease. The process to end the lease should start on day one after the next government is sworn in.

## 7. Set new strategic policy at the Shangri-La Dialogue

The Shangri-La Dialogue will be held in Singapore from 30 May to 1 June.<sup>62</sup> It will be an early trip for the Defence Minister and a good opportunity to set out some new strategic thinking. Most particularly, the minister's speech needs to explain what the government will do to better align force structure planning with the increasing risk of military conflict in the Indo-Pacific later this decade. An adroit minister would distance himself (and it will almost certainly be a 'he') from Defence's fixation on the 'Fantasy Force' being planned for the 2040s.

Readers will recall the bizarre speech Richard Marles delivered at the Sydney Institute in June 2024:

Some commentators have been fixated on the precise level of Australia's defence capability in the short term, in the event of a worst-case contingency. This analysis lacks wit ... This is obviously not the strategic cat that we are trying to skin.<sup>63</sup>

Well, obviously not, unfortunately, but perhaps it is a good idea to link force structure in time to strategic outlook. A solid speech at the Shangri-La Dialogue will position the minister more authoritatively with his department. (And another tip: don't ask the department to draft the speech.)

## 8. Go to the United States

Marles has met his US counterpart, Pete Hegseth, already, but whoever wins the election has a significant task to shape the defence and security relationship with the Trump administration. Broadly, I think the Australia's well placed, with a strong 'brand' in Washington DC and a reputation for being solidly in the fight in coalition operations, and is (helpfully) a major spender on US military technology. The risk, not least because it's true, is that the Americans will think we're underinvesting in defence—because we are.

Labor and the Coalition recognise (however reluctantly) that spending must increase. The scale of that should be locked in before a visit to Washington, where an agenda for cooperation needs to be hammered out, addressing the interregnum between now and the planned arrival of AUKUS nuclear-powered submarines. That can be done intelligently and with positive outcomes for both parties. For that to happen, a close partnership needs to be developed between Hegseth and the Defence Minister.

## 9. Go to Japan

An early trip should also be made to Tokyo. Labor and the Coalition deserve credit for nurturing the defence relationship with Japan over many years. The relationship is at a point where substantial growth can take place. My hope is that the general-purpose frigate contract goes to Mitsubishi Heavy Industries, and that that creates a foundation for much closer defence industrial cooperation with Japan. A Defence Minister shouldn't leave the outcome to the odd processes used in Defence's procurement system but should push for strategic decision that goes beyond ticking boxes in detailed spreadsheets filled out using the German and Japanese tenderers' responses. Outside of the United States, Japan and Australia are increasingly strategically aligned and disposed to collective security. We need to make much more of the relationship, and that must start with close contact between our defence ministers.

## 10. Cut parliamentary staff numbers

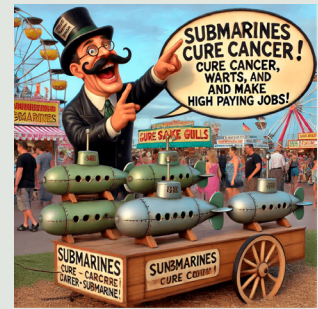
John Howard cut the numbers of parliamentary staff by 20% on coming to office in 1996. I hold out little hope for that to happen if the Albanese government is returned, but the Coalition may do it. The numbers of staff in ministers' private offices have ballooned in recent years. On the whole, they're bad for policy development work. Few staffers in ministers' offices have policy experience. Too many come from party political backgrounds where 'issue management' is the order of the day, meaning that there's an obsession with media and a reactive determination to try to control the spin.

The result is that departments are driven to supply ministers' offices with huge volumes of talking points, all designed to show that current policy settings offer the best of all possible policy worlds. In fact, that damages new policy thinking. (And, frankly, no one believes the policy spin other than the ministers who issue the press releases.)

Cutting private office staff would force ministers to engage more effectively with their departments, reduce their obsession with media and enable them to get on with shaping policy. Is that too much to hope for? Of course! But ministers can choose not to use all their allocated staff numbers. All government would be improved with fewer frantic staffers trying to look like they're central to the government's success, more thinking about policy, and less interest in putting ministers into execrable social-media videos.

Even a returned government has the opportunity at the start of a new term of office to think afresh about how to use the gift of political power that it has received from the Australian people. A new start, perhaps a new minister, perhaps a new government. We should hope that those developments create the possibility of better defence policy delivering a stronger ADF in the 2020s and into the 2030s instead of perhaps at a more distant point.

# Appendix: A selection of Strategic Analysis Australia's previously published work



- Marcus Hellyer, 'How to stop underestimating Australian industry's capacity to support our defence,' 13 September 2023.
- Michael Shoebridge, 'Awkward truths about US and UK AUKUS challenges,' 7 December 2023.
- Michael Shoebridge, 'Success with armed drones comes from numbers and domestic production, not small US contracts,' 9 July 2024.
- Marcus Hellyer, 'Complacency & continuity in urgent times—Australia's military power is stagnating,' 1 November 2024.
- Peter Jennings, 'Forget Collins, these should be our defence priorities,' 18 March 2025

## Awkward truths about US and UK AUKUS challenges

**Michael Shoebridge**

7 December 2023



Three reports over the past two months are required reading for anyone involved in or scrutinising the Australian Government's work on AUKUS. Two are US reports and one is from the UK.

None are from the Pentagon or the UK Ministry of Defence, instead each is from an independent government oversight agency with responsibility for objective assessment of their country's military plans.

Put together, the three reports show an alarming and growing set of challenges in front of Australia's AUKUS partners when it comes to meeting their own submarine needs. AUKUS adds additional demands on top of this, and additional complexity by introducing a third nation, its government, laws, budget and acquisition processes.

The US Navy is required by law to provide to Congress its long-term shipbuilding plan every year (it's a striking contrast to our situation where Defence has not released a public version of its acquisition plan for nearly three and a half years). The [US Congressional Budget Office](#) (CBO) has released its assessment of that plan in October.

The US Navy has set out three options for its future surface and undersea fleets, with slightly different numbers and mixes of ships and submarines in each.

But each option has the same basic flaw: it is unaffordable without massive growth in US shipbuilding budgets. The options require ongoing annual increases to the amount the Pentagon currently spends on building ships and submarines of between 31 and 40 per cent per annum for decades if the US Navy is to look at all like its plans and not shrink substantially. The problem behind these numbers is that the US Navy continues to aspire to larger, more complex and more expensive ships and submarines than it has now, with the costs for even producing similar vessels to those being built now spiralling.

This was followed by the US Congressional Research Service's 13 November 2023 report titled the '[US Navy's Virginia Class submarine program and the AUKUS Submarine Proposal](#)'. The CRS is required to provide independent advice to the Congress on the legislation it will consider. In this case that legislation includes funding for submarines and authorising the President to transfer nuclear-powered submarines to Australia. The CRS report is consistent with the CBO report in its understanding of the challenges to US submarine building and maintenance, but goes deeper on the submarine industrial base challenges.

Its analysis shows that the US is currently producing Virginia Class submarines at the rate of about 1.4 boats a year, which is a shortfall against the targeted rate of 2 boats a year. This is despite years of focused investment into the industrial base and supplier network that builds these boats. But much more significantly, the CRS assessment, which is accepted by the US Navy, shows that the rate of submarine production has to grow not just to 2 boats a year but to the equivalent of five 'standard' Virginia Class boats a year by 2028. That's because by then, the US needs to be building the larger Block V Virginia-class submarines with the missile payload insert along with the much larger and more complex Columbia-class ballistic missile submarines. Each Columbia takes 2.5 times the industrial base capacity that it takes to build a 'standard' Virginia class boat.

So, not only does the US have to invest between 31 and 40 per cent more per annum into its programs, it needs to lift production capacity to over 3.5 times the current rate of 1.4 boats a year. That's without counting the even greater industrial capacity required on top of this to meet the AUKUS demand of producing 3–5 extra Virginia subs for Australia (backfilling ones provided out of the existing US Navy fleet and building new ones sold to Australia before SSN AUKUS (Snorkus) arrives).

The numbers understate the difficulty of doing this. It's not just running a production line faster or replicating the existing production line with a new one. Nuclear submarine building relies on highly skilled shipyard workers that are hard to recruit and retain, and the builders depend on 100s–1000s—of small suppliers for all the components and subsystems that go into each boat. Expanding the capacity or variety of this supply chain is harder than growing the skilled submarine construction workforce. So, the CBO and CRS reports, in their measured, quiet but authoritative way raise real doubts about the US capacity to do what it needs to do—for itself—and on top of this deliver for AUKUS.

In June 2023, a US Government Accountability Office [report](#) had already told us that, because Virginia Class sub construction continued to degrade, it looked like each Block V submarine would take an average of over 2 years longer than reported last year.

Shifting from the US situation, we now have recent news on nuclear sub challenges from across the Atlantic. The [most recent report](#) is from the UK's National Audit Office—the equivalent of Australia's ANAO, which brought us [bad news](#) on Defence's Hunter frigate program.

It has assessed the UK Ministry of Defence's 10-year Equipment Plan 2023–2033 and found that it is unaffordable, with costs for key programs growing rapidly because of inflation and a better understanding by the UK defence ministry of the actual costs involved. Two of the largest cost increases are in the UK's Defence Nuclear Enterprise (that builds the UK's nuclear submarines and nuclear missiles) and the Royal Navy (which is acquiring the BAE Type 26 frigate that is the basis for our Navy's 'Hunter').

The UK's defence nuclear program has had a 62 per cent increase from the costs forecast in last year's version of the Equipment Plan. That's a £38.2 billion increase (equivalent to \$A73 billion). And the Royal Navy's non-nuclear acquisition program has had a 41 per cent cost increase between the 2022 and the 2023 10-year plan—that's an increase of £16.4 billion (equivalent to \$A31 billion).

The UK NAO notes that the Equipment Plan is unaffordable and has yet to include 'must have' capabilities for the UK military identified from studying the lessons of the Ukraine war—integrated air-missile defence, cruise missiles and ballistic missiles, long-range surface-to-surface missiles to strike deep into an enemy's rear areas, unmanned

aerial systems and electronic warfare'. These make the UK plan's unaffordability problem worse, requiring either large cancellations or large budget increases.

Action by the UK government to make the military's plans fit its budget won't affect the nuclear enterprise, because that has been 'ringfenced', but as the NAO says, will 'put greater pressure on programmes not included in [the ringfence]'—including the Royal Navy's surface fleet.

The net result is that both nations were challenged meeting their own surface ship and submarine needs before AUKUS came along, and those challenges are growing because the consequences of many years of low investment are now inescapable.

They also show that both the US and UK face cost spirals in their submarine programs, with forecast costs rising owing to inflation and supply chain troubles that are making everything more expensive. Those costs have not stabilised. This experience means that Australia's stated cost of \$268–368 billion for the eight AUKUS submarines now must be considered to be understated—or at the very least fall at the upper end of that band—as it will be affected by the rising costs faced by the UK and US.

AUKUS helps in one way—Australia is bringing a bag of gold to the effort. But overall, AUKUS makes the total program harder—there's more to be done and it needs to be done across three different governments, economies and defence industries.

So, while much of the domestic discussion and debate on AUKUS has been on Australia's readiness to produce, operate and maintain eight nuclear submarines, the greater challenges to AUKUS come from the 'home games' that the UK and US must play to meet their own needs. These face deep, long term underlying problems. They won't be solved by the US Congress passing [AUKUS-related legislation](#) this year. US investment into its submarine base has increased in recent years, and Congress supports more of it, which is good but insufficient.

Almost 2.5 years since the September 2021 announcement, it's becoming increasingly clear that delivering the 'optimal pathway' requires some more than heroic efforts in both the UK and the US across very broad fronts of activity, all of which must succeed. And that's while both nations help Australia get its training wheels on and shift rapidly from a toddler learning to walk when it comes to nuclear submarines to a mature, high performer in one of the most demanding areas of human endeavour.

Asking for plans or mentioning real world challenges is received here as bordering on un-Australian. That's odd, because the US Congressional Research Service points out, almost every US military acquisition program that hasn't had a proper business case engaging with the real risks and industrial environment it has to operate in has failed. The now cancelled multi-billion dollar Littoral Combat Ship program is just the most recent example.

Public understanding and support is critical to the sustainability and delivery of AUKUS. That begins with openness about the eye-watering challenges faced by each nation in the partnership—and credible plans that match the scale of the challenges, starting now.

# Complacency & continuity in urgent times—Australia’s military power is stagnating

Marcus Hellyer

1 November 2024



As we head into election season, it’s worth reviewing how well the Albanese government has performed on defence. Has it succeeded in shaping the Australian Defence Force (ADF) for what both major parties agree is the most uncertain strategic environment since World War II, one in which any warning time of major conflict involving Australia has evaporated?

Two and a half years in, the government’s record is decidedly mixed. It set a high bar for itself, commissioning the Defence Strategic Review (DSR) that concluded that the ADF was not fit for purpose.

The government presented its response as a deep reset of the ADF. But when we put the hyperbole aside, the overall trajectory has been one of comfortable continuity rather than radical redesign and adaptation.

The core role and nature of the ADF hasn’t changed. The government states that the ADF has moved from being a balanced force to a focused force, but it’s hard to see what that means in practice.

The tasks that the ADF must perform in the National Defence Strategy (NDS) are still just as broad as they were before the DSR—ranging from defending Australia to helping to maintain rules-based global order. What contingencies does the ADF no longer need to be ready for?

The ADF is to adopt a ‘strategy of denial’. Defined as ‘working with the US and key partners to ensure no country attempts to achieve its regional objectives through military action’, it’s hard to see how this is fundamentally different from Australia’s traditional military strategy.

Certainly the DSR did result in some changes; for example, Army adopting a more amphibious role. It appears that the Army is embracing this direction. But presumably the point of this amphibious capability is to be able to operate in littoral regions to protect Australia’s northern approaches, and that has been the primary task of the ADF since World War II.

There is also continuity in the ADF’s people problem. The government inherited a growing gulf between the ADF’s personnel requirements and actual ADF numbers. Despite repeated statements by ADF leaders that it is turning that around, we are yet to see meaningful increases. Moreover, the government has not addressed the problem by reducing the personnel requirement through revising the ADF’s force structure.

Similarly, there has been little news on different models of service that could expand the ways a broader cross section of the Australian population can contribute.

There’s continuity also in the area that matters most, namely funding. For this term of government, Defence essentially has the same funding line that the previous government published in its 2016 Defence White Paper.



The sum total of 'new' money that the Albanese government will have devoted to Defence for the period 2022–23 to 2024–25 will be \$400m. That's an increase of a mere 0.25 per cent on the roughly \$158bn that has been planned since 2016. It's hard to square that with the government's assessments of our declining strategic circumstance and lack of warning time. One has to wonder whether it believes its own narrative.

Furthermore, the acquisition plan the government inherited was massively unaffordable, another factor in the DSR's 'not fit for purpose' assessment. To square the circle in the absence of additional funding, Defence has had to eject numerous planned capabilities from it.

The government's one major addition to the acquisition plan is the rapid acquisition of a fleet of 11 General Purpose Frigates. After inheriting the previous government's trainwreck of a shipbuilding plan that left the Navy at grave risk of having virtually no ships by the 2030s, it had to do something.

Whether the plan of acquiring an off-the-shelf design, with the first three ships to be built overseas followed by eight here, will succeed remains to be seen, but at least it's trying something different. The possibility of injecting the approaches of Japanese or South Korean shipbuilders which, unlike their Western counterparts, can build warships at reasonable cost and in relevant timeframes also offers some cause for optimism.

But fundamentally the current government's defence industry policy is one of continuity. Industry policy mirrors capability priority, and that is still built around small numbers of exquisite, crewed platforms.

So industry policy is centred on large construction programs that build foreign designs largely comprising foreign components. These systems take years to design and build at exponentially increasing cost. They do, however, require thousands of presumably unionised jobs.

Unfortunately, it's the same glacial approach that led to the DSR's judgment that the ADF was not fit for purpose.

If the government had truly wanted to show Defence and industry that there was a new sheriff in town, it would have cancelled another legacy it inherited, namely the Hunter-class frigate, a grotesque program whose cost has spiralled while its scope has shrunk from nine ships to six and won't deliver any capability until 18 years after the program started.

If the Albanese government wanted to achieve something truly new in its current term, it could push the ADF out of its comfort zone and direct it to rapidly acquire locally designed and made systems.

AUKUS, another inheritance, seems to be Deputy Prime Minister (and Defence Minister) Richard Marles's overriding focus. While even hardcore supporters of the SSN enterprise, such as Kim Beazley and former Coalition defence minister Linda Reynolds have voiced concerns about the pace of work, the government insists that the SSN program is on track—it would be dismal indeed if it had gone off the rails only 18 months after the 'optimal pathway' was announced.

But what we have seen so far merely confirms that this will be a long and expensive pathway. The government recently announced three years of studies into the maritime infrastructure needed in Western Australia to support SSNs. So, three years after the original AUKUS announcement, it is only just commissioning studies. And there is still no word on the cost and schedule of the shipyard in Adelaide that will be needed to build the AUKUS submarines or a second submarine base on the east coast.

Between them, the SSNs and Hunter frigates will consume \$75bn-\$95bn over the coming 10 years and that, all going well, will only get us to the first vessels in each program entering service.

The Guided Weapons and Explosive Ordinance (GWEO) enterprise (again, begun by the previous government), aiming to build guided weapons in Australia, is another example of building foreign technology here in large, slow and very expensive industrial programs.

Defence boasts it is using a 'crawl, walk, run' approach that employs mature foreign designs and foreign components. Gradually it may increase the Australian-made content and maybe, just maybe, one day we might aspire to designing guided weapons in Australia. Fear of risk outweighs appetite for opportunity.

Certainly, some enhanced capabilities are trickling into ADF service. The first Australian-built Boxer Combat Reconnaissance Vehicle has been delivered. And that industrial capability has provided Australia with a contract to export 100 Boxers back to Germany. The Norwegian NSM anti-ship has been installed on Navy warships, providing a much needed upgrade.

But we still don't have the US Long Range Anti-Ship Missile (LRASM) despite the previous government announcing its acquisition in 2020 under an 'accelerated' process. That's the nature of complex foreign weapons that need to be integrated onto complex platforms.

The fundamental problem is that these exquisite programs will not deliver what the ADF so desperately needs, namely affordable, renewable mass. ADF leaders, while resolutely determined not to learn any inconvenient lessons from contemporary conflicts, have at least admitted that mass will be vital to success in any future conflict in the Indo-Pacific.

But the combination of Defence's personnel numbers, capability plan and industry policy will not deliver mass. Those are still built around the laborious construction of small numbers of platforms and weapons operated by exquisitely skilled personnel who will be quickly depleted in conflict and can't be replaced.

How do you deliver mass with a navy that can get only a handful of ships to sea?

Achieving mass can be done only by mobilising the population and industry to break out of the current model of a small ADF.

If the government and Defence wanted to learn some lessons from the conflict in the Middle East, there is a key one from the Houthis' blockade of maritime trade in the Red Sea in the US's belated recognition that the Houthis make many of their weapons themselves.

'Our assessment right now is the Houthis maybe do more indigenous production of things than we previously maybe gave them credit for,' a US official stated. The Houthis aren't employing a self-hobbling 'crawl, walk, run' industry policy.

In an era characterised by the democratisation of the technologies used in warfare, Australia shouldn't either. In addition to highly skilled and creative local defence companies, we have companies with deep expertise in 'defence adjacent' sectors such as mining, space, and autonomous systems. They have much to offer the defence sector.

A recent competition run by Defence's new Advanced Strategic Capabilities Accelerator (ASCA) office for general purpose drones identified numerous local SMEs that could meet the requirement and quickly provide mature solutions.

The situation is similar with maritime drones and small land vehicles, loitering munitions, rocket motors, advanced sensors, AI—the list goes on.

If the Albanese government wanted to achieve something truly new in its current term, it could push the ADF out of its comfort zone and direct it to rapidly acquire locally designed and made systems.

We have heard the ADF's demurrals: autonomous systems are too immature and don't have the range needed in the Indo-Pacific; local industry doesn't have the capability; and so on.

But do we really want to continue down a path that is not fit for purpose and can't deliver what we need when we need it? It's time for disruptive discontinuity.

*This article was first published in [The Australian](#).*

# How to stop underestimating Australian industry's capacity to support our defence

Marcus Hellyer

13 September 2023



Australian defence exports have been in the news, with reports that Australian equipment is having an impact in Ukraine's struggle to evict Russian invaders. These include Thales Australia's [Bushmaster](#) protected mobility vehicle, [Droneshield's](#) counter-drone systems, EOS's [Slinger](#) air defence weapons, and [Sypaq's](#) cardboard drones—[reported](#) recently (but not confirmed) to have been used to strike Russian airfields.

Considering the general doom and gloom around Australia's manufacturing sector, readers might be wondering where these advanced technologies have come from. But reports of the demise of Australia's technological base are overstated. We have significant technological and industrial capability here and we should not let views that suggest otherwise blind us to the potential contributions Australian industry can make to defending Australia.

For example, it's fashionable to invoke the [Harvard Atlas of Economic Complexity](#) to bemoan the backwardness of Australia's economy. According to the Atlas, Australia currently ranks 93<sup>rd</sup> in the world for economic complexity, consistently falling from 55<sup>th</sup> in 1995. That puts us right between Uganda and Pakistan. Before last year's election, then-shadow assistant minister for Treasury Andrew Leigh, himself an economist, [described](#) this as a 'troubling picture'.

But when the Atlas ranks the United States 15<sup>th</sup>—behind Slovenia and Hungary—something is amiss. And when it ranks Australia 30 places behind Eswatini, the country formerly known as Swaziland, we need to be deeply sceptical. Unlike Australia, Eswatini isn't designing, manufacturing, and exporting the [world's largest electric ship](#) or world-leading [air-defence radars](#)—or urgently needed defence equipment to Ukraine.

Under the bonnet, the Atlas is driven by a remarkably simple engine. First, it only looks at exports. Secondly, the Atlas assesses a country's economic complexity based on the diversity of its exports and their ubiquity. Ubiquity measures the number of countries that export that product; the more countries that export it, the more ubiquitous it is and the lower the complexity value assigned to the product. That's based on the questionable assumption that if lots of people produce it, it can't be hard and therefore isn't complex.

Australia's largest export, iron ore, is ranked 1183 out of 1222 products in the Atlas's database. Coal, our second largest, is 1153. That's because lots of countries export them. Consequently, the algorithm spits out our miserable complexity ranking of 93<sup>rd</sup> in the world.

Unfortunately, such assessments reinforce stereotypes that Australia can't produce advanced military equipment. Or even if it could, that it would take longer and cost more. But we should be very wary about basing opinions about what Australia can and can't produce on our ranking in the Atlas and its measure of Australian industry's complexity.

In particular, the Atlas's exclusive focus on exports can mislead. Around 90% of the things that go into maintaining our very capable Collins-class submarine are produced here, but since the Collins isn't exported, none of that shows up.

Moreover, exports are outputs, but that glides over the very complex inputs that are used to generate Australia's resource exports. These include complex metal construction, transport systems, software and robotic and autonomous systems. Many of these inputs are generated in Australia, but that doesn't figure in the Atlas's algorithm.

Digging up huge volumes of natural resources at globally best prices is only possible with dizzying amounts of technical and industrial competence, provided by the big resource companies and the huge set of suppliers and tech subcontractors they work with. The scale and competitiveness of Australian agriculture is also powered by an agriculture sector that is technically sophisticated and enormously capable (it's use of drones is a simple example).

Dismissive assessments of our capabilities are also belied by Australian industry's ability to move across sectors when provided with the right demand signals. The buzzword of the day is 'adjacent'; Australia's advanced space, aerospace, autonomous systems, AI and biotechnology sectors are all 'defence adjacent' and can potentially be called upon to generate defence capabilities. But so are the more traditional sectors that support those dreadfully 'ubiquitous' exports such as minerals and energy. For example, the construction and heavy engineering company [Civmec](#) was able to draw upon its vast capabilities in the resource and energy sectors to move rapidly into naval shipbuilding and construct the Navy's new Arafura class offshore patrol vessels.

The key factor limiting the speed of our response to our deteriorating strategic circumstances isn't the ability of Australian industry to create advanced new military capabilities, but the willingness of the Department of Defence to move rapidly to mobilise and harness our industrial base. Harnessing this capacity has to include a willingness to remove the large number of barriers to entry to the defence market—which are almost all creations of Defence officials—that turn away and discourage such non-traditional defence players. Numerous reviews have recommended ways to make the Department's acquisition processes both more agile and open to local suppliers. So far that's an innovation which has gained little traction with ministers—who must drive such change.

In contrast, the rapid ramp up of Ukraine's military capabilities suggest that in time of crisis, it's possible to both accelerate an acquisition system and mobilise the national industrial base by stripping away process and focusing on outcomes.

Perhaps in return for our equipment exports, we can import some of Ukraine's sense of urgency and make use of the many things Australia does well to improve our security.

*Dr Marcus Hellyer is Head of Research at Strategic Analysis Australia*

# Success with armed drones comes from numbers and domestic production, not small US contracts

Michael Shoebridge

9 July 2024



Australia's Department of Defence has found a way to [buy a small number](#) of small Switchblade armed drones from a US company. In the world of drone warfare, our military will need many different types of drone and they will use and lose lots of them in any credible conflict.

Local production is the key way of resupplying our military with these essential consumables of conflict, because other suppliers, even our most trusted partners, will meet their own needs first.

These are the lesson of recent wars from Ukraine to the Red Sea and even in 2020 war between [Azerbaijan and Armenia](#).

So, spending some of the \$56bn annual defence budget on Australian-made drones instead of ordering a small number of this US-made weapon would show Australia's Defence bureaucracy was learning and equipping our military effectively.

The American-made [Switchblade 300](#) is a tube-launched loitering munitions system with a range of about 10kms. It was designed in 2011 and has been used by the Ukrainian military since 2022.

Believe it or not, this is the first armed drone to be bought by Defence. We are among the last sophisticated defence forces to adopt these weapons. That makes this a welcome development, but not a Neil Armstrong moment. Instead of a giant leap for mankind, it's a very small step for Australia's defence force.

Defence planners may be beginning to admit that any military must have drones in its order of battle, be able to use them, lose them and get more to continue the fight. Not only that, militaries also need to be able to defend against an enemy equipped with lots of them.

Unfortunately, the announcement shows Defence is still treating drones like its approach to big systems like fighter jets, armoured vehicles, ship and submarines. It's taking a very long time to carefully examine a small number of options and then choosing 'the best' against detailed requirements developed by staff at Defence HQ. After years of deep thinking, we get a contract with a well-established supplier to the US military for a small number of one short range drone.

Success in the world of drones and warfare looks entirely different. [Ukraine's defence industry](#) this year aims to produce 1,000 different kinds of drones—airial ones, armed and surveillance types, land, sea and undersea types. It plans to make one million different actual units of these different types. And Russia is desperately trying to do the same.

The counter drone world requires the same diversity, variation and numbers. That's because one weapon—even 'the best' drone—is a much easier problem for an enemy to defeat than 100 or 1,000 different types, all with different electronic signatures, capabilities and ways of operating.

The Ukrainians are confusing and complicating the larger Russian military's decision making. Just when the Russians work out how to handle a particular drone, 8 others wreak a different kind of havoc. For those who say there's nothing for navies or air forces to learn from the land war in Ukraine, in the Black Sea the Ukrainians are [sinking Russian naval ships](#) with surface and aerial drones and missiles, showing you don't need a navy to defeat a navy.

Like the [Houthis](#)—and the Azerbaijaniis before both—the Ukrainians know that you need to have a flow of drones to replace the ones you use and lose. Here in Australia, we seem fixated on the now vanished peacetime era where a small number of 'warstocks' were bought, stored and cared for lovingly. This leaves us with no clear idea of how our military will have enough of anything if a war starts and the military uses and loses the small stocks at hand.

The other reason the Ukrainians are putting so much effort into making drones locally is that relying on US or European suppliers is risky. At times US politics has held up resupply, and you can be assured if the US military needs supplies for its own wars, then everyone else will be at the back of the queue.

Customers for the US produced Patriot missile defence systems found this out recently when the Biden Administration told allies and partners with orders for these missiles that [they'd have to wait](#), because the US government has chosen to supply Ukraine first before meeting these contractual orders from others.

The same prioritisation will happen when the US military demands first call on limited US production—for everything from drones, to expensive missiles, torpedoes and parts for big US systems like the F35 and Super hornets.

Australia has multiple medium and small companies that are making—and selling internationally—armed and unarmed drones that fly, move on land, or operate on or under the sea.

The Defence bureaucracy will only show they are responding to events in the real world when they place contracts with Australian companies to create active local production lines supported by local engineering capability that can modify and enhance those drones in response to the ADF's needs.

We did that with electronic warfare (another area where Australian industry has world-leading capability) in response to [IED attacks in Afghanistan](#). We need the same agile, domestic industry base for drones and counter-drone systems.

Defence should stop their default approach of buying from US catalogues after the US military has made all the decisions. Volume and diversity can come from our creative local companies—and we know the ADF will be their priority in a time of conflict.

A final point: the Switchblade's 10 km range implies a plan to get our Defence Force close to an enemy force. Looking at a map, how the government intends to do that is a mystery not explained in the latest National Defence policy statement.

Defence has a plan to make the Army amphibious but nothing explains how our force is supposed to 'close with the enemy' after as yet unbuilt ships deposit a force somewhere in the Indo-Pacific.

A version of this article was first published in [The Australian](#).

# Forget Collins, these should be our defence priorities

**Peter Jennings**

18 March 2025

The plan to upgrade the [Collins-class submarines](#) with a [life-of-type extension](#) is the single most important, and the highest risk, of Defence's equipment projects.

If the project can't proceed or is too slow, we lose our ability to deploy submarines. No subs at sea means we start to lose submariners, which means skills and currency decline. Industry loses out, too. A lack of regular challenging work means skilled engineers will leave for more interesting fields.

This is happening at precisely the time we are supposed to be moving from maintaining half a dozen old boats to becoming the builders of the most sophisticated nuclear-powered submarine technology in the world.

Defence Minister Richard Marles's limp assessment of LOTE is: 'I do think it's doable. I think we're going to be really smart and really clever in the way in which we do it.'

There is nothing really smart or really clever in Marles's three-year defence tenure, starting with his astonishing surrender of responsibility for military capability development to his offside, Pat Conroy.

So, who in cabinet is responsible for LOTE?

If the answer is both Marles and Conroy the reality is that neither has the confidence, knowledge, trust or engagement with industry and Defence to actually know what is going on, let alone set clear direction.

Marles says the previous Coalition government 'ripped money out of the sustainment of the Collins-class submarines'. To some extent that's true, but it shouldn't have affected different preparations to modernise the boats. That failing is on the current government's watch.

The Abbott, Turnbull and Morrison governments also were correct to blame Kevin Rudd and Julia Gillard for failing to take decisions on replacing the Collins-class subs as far back as the 2009 white paper.

Remember how that policy planned to double the size of the submarine fleet? Sixteen years later and we still have no clarity about how to keep the old Collins-class boats in the water for a decade past their life of type.

This would be laughable if it were not so serious. The piling up of failure upon failure means that what has been a slow-motion defence crisis for a decade is now speeding up.

Too many capabilities in the current Australian Defence Force are collapsing and today's military is the only one that matters, not the fantasy force planned for 2040. It's happening because, despite Defence trying, you can't build military strength worth 3 per cent or more of GDP by budgeting 2 per cent.

The comfortable continuity so loved by Defence managers is no longer viable. Dramatically new thinking will be needed after the federal election.

Government should start with the realisation that the Collins-class LOTE is not likely to work. The boats have done sterling service but they are old.

Even if the modifications are fully planned out, no one would be surprised if deeper structural problems became clear after work started.

Here's what the government should do: First, cancel the LOTE. Second, buy three new smaller conventional boats, so-called military off-the-shelf boats built overseas, as a training force designed to keep a navy submarine capability functioning.

Third, put substantial funding into several promising uncrewed submersible vehicles now in design or production. This should have happened a decade ago, but even Defence can see today that underwater drones are the future.

Fourth, a major effort should go into building Virginia-class sub maintenance capabilities out of ASC and our wider defence industry base. We should do this to help the US Navy and industrial base deal with their own capacity limitations.

Put to one side the longer-term viability of AUKUS, worrying as those issues are. The short-term problem is to assure sceptics in the Trump administration that we are serious about submarine maintenance and construction.

On our current performance the Americans would be right to ask if Australia is determined and capable enough to proceed with AUKUS. One measure of determination is that the Prime Minister wants to meet Donald Trump to talk about it.

The next government has one shot to prove we are serious. We should make ourselves a useful part of Virginia-class submarine sustainment for the US Navy as a lead-in to AUKUS.

Point five, we need an alternative long-range strike weapon. The answer is to buy B-21 strike bombers. These aircraft are in production and soon will be in US service.

Australia has a history of operating long-range bombers—we flew the venerable F-111 for decades, the only country to do so along with the US. We need two squadrons of B-21s to provide a formidable strike deterrent by the end of the decade. The most effective military service now is the air force because no idiot has come forward saying we should build fifth-generation combat aircraft in Adelaide.

Finally, none of this is viable without immediately lifting defence spending to 3 per cent of GDP.

If our major parties of government don't commit to this going into the next election, they are not being serious about Australia's national security.

This article was first published in [The Australian](#).



# Notes

- 1 'Defining moments: ANZUS Treaty', National Museum of Australia, [online](#).
- 2 Richard Marles, Anthony Albanese, 'AUKUS nuclear-powered submarine pathway', joint media release, 14 March 2023, [online](#).
- 3 State Department, 'Joint Statement by the Quad foreign ministers', media note, US Government, 21 January 2025, [online](#).
- 4 Seema Mody, 'Trump accuses Taiwan of stealing US chip industry. Here's what the election could bring', *CNBC*, 28 October 2024, [online](#).
- 5 BJ Lee, 'South Korea is one of the most loyal US allies. Now we're being bullied by Trump', *Washington Post*, 20 November 2019, [online](#).
- 6 Lara Seligman, Robbie Gramer, 'Trump presses Japan to pay up for US troops', *Foreign Policy*, 18 November 2019, [online](#).
- 7 Lili Bayer, Sabine Siebold, 'Rubio: US is committed to NATO, but Europe must spend more on defence', *Reuters*, 4 April 2025, [online](#).
- 8 'Military expenditure (% of GDP)', World Bank, [online](#).
- 9 Shinnosuke Nagatomi, 'Japan's defense spending climbs to 1.6% of GDP', *Nikkei Asia*, 27 April 2024, [online](#).
- 10 Marcus Hellyer, 'The 2025 defence budget update: still sleeping walking to disaster', Strategic Analysis Australia, 5 March 2025, [online](#).
- 11 Ben Doherty, 'Australia should persist with Aukus despite risk of US relationship "becoming unstuck", former defence department secretary says', *The Guardian*, 31 March 2025, [online](#).
- 12 Defence Department, 'Annual reports', Australian Government, 2025, [online](#).
- 13 Kosuke Takahashi, 'Japan takes steps to win Australia's multi-billion dollar frigate program', *Naval News*, 20 December 2024, [online](#).
- 14 Matthew Olay, 'DOD to cut \$580 million in spending', Department of Defense, US Government, 20 March 2025, [online](#).
- 15 Lorne Cook, 'The EU wants to break its security dependency on the US and buy more European weapons', *AP News*, 20 March 2025, [online](#).
- 16 Royal Australian Air Force, 'EA-18G Growler', Australian Government, no date, [online](#).
- 17 Stephen Losey, 'Northrop expects next B-21 contract by year's end', *Defense News*, 25 October 2024, [online](#).
- 18 The ASA's funding comprises only a small portion of the funding dedicated to Australia's nuclear-powered submarine enterprise, as its acquisition funds are held with the Defence Department's acquisition funding line. ASA's own funding essentially covers its personnel and operating costs. We analyse the ASA's funding in Chapter 4.
- 19 The Department of Defence's cost categories in PBS Table 4b don't add up to the figure in PBS Table 4a because Table 4a only includes funding from government, whereas Table 4b also includes 'own source revenue' and therefore is a slight larger number.
- 20 This transfer appears to extend indefinitely.
- 21 It's very difficult to put an exact total figure around the adjustments that have been listed in the Budget measures table in the PBS and PAES over the past decade. First, many are simply listed as 'not for publication' in the Budget documents, and no figures are given. Second, the PBS and PAES state the impact only over the four years of the forward estimates, even though the actual impact extends for much longer.
- 22 A Defence response to a question at 2024–25 Budget Estimates states, 'Any growth in inflation above the planned Defence Budget inflationary levels (approximately 3%) is managed within the overall Defence Budget, reducing the growth component estimated in 2016. Defence, like all Commonwealth agencies, is required to manage its Budget within the funding provided by the Government.' Senate Foreign Affairs, Defence and Trade Legislation Committee, answers to questions on notice, 2024–25 Budget Estimates, question 133.
- 23 As always, we should note some caveats. First, military equipment increases in cost far more rapidly than inflation in the broader economy anyway, so the Consumer Price Index is not a good proxy. Second, Defence buys most of its military equipment overseas, where inflation is different from Australia's rate. Nevertheless, inflation in the US and Europe has also been severe. Third, inflation might not be immediately passed on to Defence; for example, its employees don't automatically get immediate pay raises to compensate for inflation. So it's very hard to assess the actual impact of higher than normal inflation on Defence's buying power, but it's hard to ignore the raw numbers of 7.5% and \$3.8 billion per year.
- 24 Senate Foreign Affairs, Defence and Trade Legislation Committee, Estimates, Australian Parliament, 5 June 2024, pages 95–97.
- 25 Marcus Hellyer, 'The 2024 Defence investment plan's key changes—or "The subs that ate the ADF"', Strategic Analysis Australia, 9 May 2024, [online](#).
- 26 The 2025–26 Budget measures table also includes new funding of \$48.6 million in the 'Other budget adjustments' line that contains the reprofiling, but, according to Defence's Chief Finance Officer, this is for operations and isn't part of the reprofiling.
- 27 Peter Jennings, Michael Shoebridge, Marcus Hellyer, *No Higher Priority: A blueprint for immediate action on Australia's defence 2025–28*, Institute of Public Affairs, 2025.
- 28 Niall Ferguson, 'Ferguson's Law: debt service, military spending, and the fiscal limits of power', Hoover Institution History Working Papers, paper 202502, 21 February 2025, abstract, [online](#).
- 29 Ferguson, 'Ferguson's Law,' page 3.
- 30 The Budget papers define net debt as 'the sum of interest-bearing liabilities less the sum of selected financial assets (cash and deposits, advances paid, and investments, loans and placements)', so the Reserve Bank of Australia's holdings of Australian Government securities count as assets. Therefore, net interest payments take into account interest earned on those assets. One can argue about whether we should be using gross or net debt payments, but Ferguson uses net.
- 31 This chapter's analysis is based on the Defence Department's spending, not the entire portfolio's. That's because the PBS only presents a breakdown of key cost categories for the department (PBS Table 4b), not for the portfolio (including ASD and the ASA). That doesn't really change the percentages presented here by that much, particularly since the ASA's acquisition budget is held with the department's Program 2.16, not in the ASA's budget.
- 32 Michael Shoebridge, 'In a long peace, a sleepy military is ideal. Time to wake it up', Strategic Analysis Australia, 4 April 2025, [online](#).

- 33 The Navy is underspending its planned capital budget by \$8.25 billion between 2020–21 and 2025–26. It's hard to know exactly where that went. Some of it may have been transferred to the SSN program (Program 2.16), but much of the underspend occurred before the SSN program was established.
- 34 'Defence external workforce census results—March 2024', provided by Defence on 4 April 2025.
- 35 Part of the increase is likely to be due to different sustainment models that, for example, use spiral upgrade approaches that are conducted as sustainment activities rather than the older approach of one-off, mid-life upgrades that are conducted as acquisition projects.
- 36 Unfortunately, there's little sign that F-35A sustainment costs are coming down now that it's a relatively mature, in-service capability. It seems to have got as good as it's going to get at \$50,000–60,000 per hour.
- 37 Since those costs are now buried inside individual projects' and sustainment products' budgets, it's impossible from the outside to work out how much they are. That means it's also very difficult to work out how much would be saved by moving at least some of them back inside Defence as APS. However, we previously developed a rough order-of-magnitude estimate that using contractors instead of APS staff was costing Defence around \$1 billion per year.
- 38 The Air Force wasn't far off its target anyway, but its shortfall was reduced to only 376. The Navy's shortfall was reduced to only 110. And the Army, which had had the biggest problem, had its shortfall of around 3,600 almost erased, dropping to a mere 37.
- 39 Defence hasn't yet processed its March 2025 external workforce census, so SAA doesn't know yet whether that trend has continued.
- 40 NATO Public Diplomacy Division, 'Defence expenditure of NATO countries (2014–2024)', NATO, [online](#).
- 41 Accountants might take issue with treating all of Program 2.16 as capital, since the total for Program 2.16 includes operating expenses. But 'capital' and 'acquisition' aren't the same thing. The extremely large payments Australia is making to the US and the UK to develop their submarine industrial bases are included under Program 2.16's operating expenses line, not its capital line. But Defence itself includes them as acquisition spending and as part of acquisition project DEF 1's budget. At the moment, it seems legitimate to consider all of Program 2.16 to be part of the SSN enterprise's acquisition budget. Also, DEF 1's budget is all acquisition, and that's a similar number to Program 2.16's total. Ultimately, this about capability, not accounting.
- 42 The damage to our relationship with the US could be ameliorated by the acquisition of another US system such as the B-21 that could be put into service at scale far more affordably and make a contribution to the alliance's deterrence power sooner than SSNs and without imposing the cost of reduced SSN numbers on the US Navy.
- 43 This section draws on SAA's analysis presented in Jennings, Shoebridge and Hellyer, *No higher priority*, particularly the chapter titled 'Funding the defence of Australia' (pages 118–121).
- 44 Marcus Hellyer, 'AUKUS grifter watch—beware breathless claims of economic benefits', Strategic Analysis Australia, 4 February 2025, [online](#); Marcus Hellyer, 'AUKUS subs aren't about jobs and growth', Strategic Analysis Australia, 11 September 2024, [online](#).
- 45 Defence Department, *Enhanced lethality surface combatant fleet: independent analysis of Navy's surface combatant fleet*, Australian Government, 2024, [online](#).
- 46 There are some variables that could affect this picture. For example, Japanese officials have suggested that it could supply a Mogami-class frigate earlier than 2029 if Mitsubishi Heavy Industries is selected as the designer. Alternatively, Defence could follow the philosophy of keeping Anzacs in service longer to grow the fleet faster, but with the capability assurance program now cancelled there would be serious questions about their reliability and capability in a 2030s conflict.
- 47 Sam Tancredi concluded that quantity beats quality in naval warfare: 'Using technological advantage as an indicator of quality, historical research on 28 naval wars (or wars with significant and protracted naval combat) indicates that 25 were won by the side with the larger fleet.' Sam J Tancredi, 'Bigger fleets win,' *Proceedings*, US Naval Institute, January 2023, vol. 149/1/1, 439, [online](#).
- 48 For the purists: yes, we're aware that, technically, self-propelled howitzers and HIMARS aren't armoured vehicles.
- 49 Although that status may have been recently trumped by Canada's decision to acquire the JORN over-the-horizon radar system.
- 50 Lee Ferran, Michael Marrow, 'No, there's no "kill switch": Pentagon tries to reassure international F-35 partners', *Breaking Defense*, 18 March 2025, [online](#).
- 51 Marcus Hellyer, 'Buddy, can you spare some spares? Sustainment challenges for the F-35', *The Strategist*, 15 May 2019, [online](#).
- 52 Although now the acquisition Top 30 is determined by the total combined Military Equipment Acquisition budget and Other Project Inputs to Capability budget rather than the former alone, as was previously the case. That means Theatre Logistics has entered the Top 30 even though it seems primarily to be an infrastructure project. Another 'primarily Australian' project, Boeing's MQ-28A Ghost Bat, has fallen out of the Top 30 this year, although the project is continuing.
- 53 For now, we've categorised DEF 1 (the SSN enterprise) as an off-the-shelf acquisition of US technology here, since the first 3–5 boats will be transferred from the US.
- 54 When we look at the 2025–26 in-year spend for the acquisition Top 30, \$11,435 million of \$16,615 million is going on primarily US technologies. That's 68.8%, which is a remarkably similar percentage to that based on total approved budgets.
- 55 These figures don't align directly with the numbers that we considered earlier for Defence's acquisition budget because those refer to the entire Defence Department's acquisition spend. The ones given here are a large subset of them.
- 56 Richard Marles, Pat Conroy, 'Mission success for Long Range Anti-Ship Missile testing', joint media release, 21 March 2025, [online](#).
- 57 Peter Jennings, Michael Shoebridge, Marcus Hellyer, *No higher priority: a blueprint for immediate action on Australia's defence 2025–2028*, Institute of Public Affairs, 2025, [online](#).
- 58 Anthony Albanese, 'Ministerial arrangements: Changes to the Cabinet and to the Ministry', media release, 28 July 2024, [online](#).
- 59 See correspondence between Middleton and PMC Media, January 2020 to September 2022, [online](#).
- 60 Anthony Albanese, 'Lines of accountability a state secret', media release, 27 December 2016, [online](#).
- 61 Peter Dutton et al., 'Coalition to secure the Port of Darwin', joint media release, 5 April 2025, [online](#).
- 62 'IISS Shangri-La Dialogue 2025', International Institute for Strategic Studies, [online](#).
- 63 Richard Marles, speech to the Sydney Institute, 4 April 2024, [online](#).

# Acronyms and abbreviations

ADF	Australian Defence Force
ASA	Australian Submarine Agency
ASPI	Australian Strategic Policy Institute
CDF	Chief of the Defence Force
DSU	2020 Defence Strategic Update
DWP	2016 Defence White Paper
GDP	gross domestic product
HIMARS	High Mobility Artillery Rocket System
IIP	Integrated Investment Program
JASSM	Joint Air-to-Surface Standoff Missile
JORN	Jindalee Operational Radar Network
LOSCV	large optionally crewed surface vessels
LRASM	Long Range Anti-Ship Missile
NATO	North Atlantic Treaty Organization
NDS	2024 National Defence Strategy
OSP	outsourced service provider
PAES	Portfolio Additional Estimates Statements
PBS	Portfolio Budget Statements
RAAF	Royal Australian Air Force
RAN	Royal Australian Navy
SSN	ship, submersible, nuclear (nuclear-powered fast-attack submarine)
UADs	unit availability days



# STRATEGIC ANALYSIS AUSTRALIA

