Defence forces require substantial support from industry for essential equipment, goods and services. Frontline equipment (e.g., aircraft, submarines and ships) embodies the leading edge of world technology. Rations, clothing, ammunition and fuel are often technologically ahead of their civil counterparts and employ advanced production processes. Services such as repair, maintenance, transport and communications draw upon civil industrial capabilities and advanced civil technology.

Australian industry has the potential to participate in a wide range of defence activities in times of peace and would provide an essential underpinning of ADF operations in times of tension or hostilities.

Industry involvement and levels of conflict

The capacity to maintain, repair, modify and adapt defence equipment to the Australian environment, independently of overseas sources, is of fundamental importance for our combat effectiveness in all levels of conflict. This requires Australian involvement in design, development and production to acquire the necessary detailed knowledge, skills and facilities. Through such work local industry can make an important contribution to the sustained operational effectiveness of our forces in combat.

Low level conflict

In low level conflict equipment would be used more intensively than in peacetime, especially for surveillance and response tasks. Harsh operating conditions would be demanding of maintenance capacity and spare parts. Requirements for other consumable items, such as ammunition, would be relatively modest. Nevertheless, there would be a need to build up stocks and to ensure adequate supplies of items little used in peacetime.

Reflecting this priority, over 90 per cent of defence repair and maintenance work is done in Australia and some 70 per cent of replacement equipment and spares are supplied locally. We are largely self-sufficient in military consumables, such as food and the more common ammunition types, and could provide defence needs for petroleum fuels and lubricants other than a few special items required in small quantities. We are self-sufficient in, or have substantial reserves of, industrially important minerals and strategically important chemicals. The capabilities of the manufacturing sector to meet priority defence needs are also adequate, apart from some specialist areas.

Higher level conflict

Higher level conflict would involve maintenance, repair and adaptation of a wider range of equipment and higher usage of consumables, such as ammunition. The Defence Force would need to be expanded by the acquisition of selected additional weapons platforms and major systems. Equipment losses would need replacement. The particular requirements would depend on the nature of the conflict.

Production facilities appropriate only for a major expansion of the ADF take a low priority because of the speculative nature of the requirement, the high cost, and the lack of a peacetime workload to maintain skills so expensively acquired. Moreover, the time required for a substantial threat to develop would allow development of some additional capabilities, as well as redirection of civil industrial capacity for defence work. Substantial industrial sectors in Australia could, if the need arose, undertake defence work, including the heavy and light engineering, motor vehicle, telecommunications, and manufacturing industries.

Under past policies only some 30 per cent of expenditure on new capital equipment has been incurred locally. Most of the Australian content, has been directed towards capabilities for subsequent through-life support and has often involved substantial subsidies. This reflected the nature of equipment then being procured and the poor competitiveness of Australian industry at the time.

It is the policy of this Government to encourage the widest possible cost-effective involvement of Australian industry in defence work. Such involvement in peacetime can establish the involvement and familiarity with defence requirements essential to timely escalation in contingencies.

The need for special industrial capabilities and the capacity of key sectors of Australian industry to support defence is kept under review by the Government’s principal defence industrial advisers through the Defence Industry Committee.

It would benefit our self-reliance and our industry if all of our defence requirements could be developed and supplied locally. Such a course is simply not feasible for a country of Australia’s size, nor indeed for any country other than, perhaps, the two superpowers. Despite such difference in size (US expenditure on defence research and development, for example, is several times the total Australian defence budget) Australian research agencies and industry have a commendable record of developing world class products. It is in “niche” areas, rather than in competing across the board, that Australian industry can expect most opportunities to arise.

The ADF requires equipment embodying sufficiently advanced technological capabilities to be credible. A careful balancing of indigenous and overseas sources, complemented, where appropriate, by stockpiling is necessary to meet this requirement. In defence equipment development, the Government’s
policy is to concentrate scarce indigenous resources in areas where we have special operational requirements and to draw on developments in other countries where they are clearly ahead.

6.18 In practice, there are many suppliers in Australia who can meet the requirements of the ADF for goods and services and who can compete successfully with overseas suppliers on performance, quality, timeliness and price grounds. The Government’s policies are intended to increase the number and scope of such suppliers.

6.19 Recognising, however, that Australian industry cannot be expected to be competitive across the full range of defence requirements, the Government in June 1984 agreed that defence policy for industry is an integral part of defence policy and set priorities for the use of defence resources for the development of local industrial capability. The priority requirements are:

- the repair, overhaul and adaptation of military equipment fundamental to Australia’s defence in circumstances to which the Government has given priority, and the provision of munitions, spares and other consumable stores for which we could least rely on overseas supply (including stockpiling and other actions for greater assurance of supply); and

- the range of technology and supply and support capabilities (including design, development and manufacture) that meet the longer term needs of the ADF in accord with Government policy and Defence guidance as to an acceptable balance of strategic benefits and costs.

6.20 These priorities, and the assessments underlying them, determine the acceptability of cost, time and performance penalties in achieving higher local content in procurements. Such judgements are necessarily made on a case-by-case basis.

6.21 In many cases, other countries are the only practicable source for additional defence items. Australia is dependent on overseas sources for many special materials, components, production equipment and know-how. For example, there is no Australian manufacturer of ball bearings, aircraft grade aluminium or very high performance integrated circuits. In the peacetime economy, manufacturing such items has so far not been viable. Judicious stockpiling is required to reduce the risk of an inadequate response, or even denial of Australian requests for supply.

6.22 Even in times of serious tension or hostilities, when cost and performance penalties for local production would be more acceptable, it will still not be practicable to aim at self-sufficiency, particularly in major weapon platforms and systems. Lead times for establishing local production will also limit the level of self-reliance attainable.

Defence assistance to industry

6.23 Defence and defence-related industrial activities in Australia are eligible for the same Government assistance as industry generally.
involved and the low probability that items needing this form of assistance will later become competitive in local or export markets.

6.32 Where there are special Australian requirements for equipment, development contracts are let. These involve higher risks in terms of performance, time and cost than purchasing products already in production and proven in operational use. Hence they are restricted to items not available in acceptable commercial variants or from overseas inventories. The number of such contracts, often for adaptation of equipment for local requirements, is quite high.

6.33 Firms that take advantage of early advice of Defence projects and prospective work will be better placed to develop competitive new products on a commercial risk basis where there are proven overseas products. Such developments are eligible for assistance under general Commonwealth policies, e.g. the taxation provision for 150 per cent write-off of expenditure on research and development in Australia, and would not usually receive additional assistance from Defence.

Australian industry involvement

6.34 When defence equipment is purchased overseas, or where there is substantial imported content in a local product, high strategic priority is given to independent local repair, maintenance and adaptation capabilities. To assist Australian industry to acquire the necessary technology, equipment and expertise, Defence procurements have a requirement for Australian Industry Involvement.

6.35 Australian Industry Involvement comprises, firstly, 'Defence Designated and Assisted Work' (DDAW), under which elements of the item being procured are required to be manufactured, assembled, tested or set-to-work in Australia. DDAW often incurs cost and delivery time penalties. Such penalties must be justified for each item in terms of their contribution to independent supply and support compared with alternatives such as spare parts stockpiling.

6.36 The second element of Australian Industry Involvement is Defence Offsets. This Government revised the Offsets policy in January 1986. Under the new policy, technology transfer and work to the value of 30 per cent of the imported content of a project valued at $2.5m or more must be placed with Australian industry. The Offset activities are to lead to internationally competitive industry in Australia and in the Defence area, to the support of self-reliance.

6.37 Defence Offsets often relate to capabilities established in local industry under DDAW. This ensures that a longer product run is provided and the expertise acquired at a cost premium is retained for a longer period. It can reduce the costs attributed to each item associated with setting up capabilities and becoming proficient in their operation.

6.38 Projects initiated in the past, such as the F/A-18 Hornet aircraft, had relatively low local content with correspondingly high requirements for Defence offsets. New projects, such as the submarines, light patrol frigates and OTHR will have high levels of local content. It will be important for Australian industry to use the linkages established in achieving higher local content to build longer term relationships with overseas principals. These will be essential if opportunities for competitive sub-contracting and exports, previously provided under the Defence Offsets program, are to continue.

Exports

6.39 The export of defence and defence-related products can foster skills and capacity in Australian industry and reduce the costs of indigenous supply and support for the ADF. Successful competition in overseas defence markets benefits our overall trade interests as well as the firms involved.

6.40 In October 1986 this Government announced a package of measures designed to assist Australian firms to gain overseas acceptance of their defence and defence-related products, penetrate markets and provide follow-on support. Important elements of the package include product trialling by the Army, Navy, or Air Force, support in management of acquisitions and spares, and the use of Defence Offsets commitments to assist initial exports and collaborative ventures culminating in exports.

6.41 Successive Australian Governments have, of course, controlled the export of defence material. Defence exports must take into account Australian strategic and security interests and the operational concerns of the ADF. As an aligned nation and a responsible member of the international community, Australia opposes private traffic in arms, abides by its international commitments to limit the arms trade and circumscribes the export of defence material to countries engaged, or likely to be engaged, in hostilities. Australian controls on defence exports will be administered with a view to achieving a balance of Australian defence, international and commercial interests.

International collaboration

6.42 As military equipment has become more capable and complex, it has also become much more expensive. As a result, international collaboration is now becoming increasingly common as a means of sharing risks, spreading costs, increasing market size, and exploiting specialization and economies of scale. The European nations have been particularly active in collaborative defence equipment development programs and the United States has recently enacted legislation to facilitate participation by its agencies and firms.

6.43 Opposition is growing to the traditional Offsets mechanism used by Australia. Governments are seeking to further restrict foreign access to their defence purchases on security and self-reliance grounds. Hence collaborative projects are likely to become increasingly important for Australia.

6.44 The Government has used the Offsets program and the leverage afforded by major Defence procurements to provide opportunities for Australian industry to collaborate in future developments with major overseas defence equipment manufacturers. Recognising the inherent difficulties in matching
operational requirements, timing and financing, of defence procurements with other countries, we have commenced negotiations of government-to-government agreements to facilitate this process.

Defence industry structure policies

6.45 The Government's policy for industry seeks to provide an environment where industry itself, in consultation with unions and Government, can move towards more efficient and internationally competitive activities. In the defence industry area, belated recognition of fundamental economic, industry and defence factors has caused some severe structural problems. These must be rectified to enable defence industry to conform with the Government's general industry policies.

Competition for defence contracts

6.46 Previous policies have tended to establish important defence capabilities in industry and then allocate them work exclusively. This has established sole sources, which have subsequently lapsed into the poor performance and high costs that often characterise monopolies.

6.47 It is this Government's intention that, unless there are compelling reasons to the contrary, defence work will be allocated on a competitive basis using fixed price (as opposed to cost-plus) contracts, with payments against milestones (rather than elapsed time) and with other incentives for improved performance where appropriate. Wherever possible, opportunities are to be provided for Australian organisations to bid as prime contractors.

Ownership of machinery and facilities

6.48 Consistent with our emphasis on normal commercial practice in our dealings with industry, and to facilitate the commercial exploitation of capabilities built up for defence work, the Government has begun selling much of the Commonwealth-owned machinery and plant now located in industry.

6.49 In future, wherever practicable, industry will own the machinery, plant, licences and other items required to undertake defence work in Australia. The Commonwealth's interest in the ongoing provision of the capability in Australia will be protected by contractual clauses that have such items revert to it, perhaps with some payment, on failure of the company to meet contracted performance or maintain agreed strategic capabilities.

Australian ownership, control and influence

6.50 Australia protects sensitive international defence technology not only by physical security but also by requiring local branches of multi-national firms to isolate themselves from parents of other than approved nationalities. Such policies and procedures are common to our main allies, including the United States, and can be a precondition to Australian access to some overseas technology.

6.51 Australia is now developing a number of sensitive indigenous technologies, of which OTHR and the Nulka anti-ship missile defence system are examples. These require similar protection to that previously afforded overseas technology. Measures are being developed to restrict access to Australian nationals and to enterprises that can demonstrate a very high level of Australian control of their local operations.

Government factories and dockyards

6.52 The Government has recognised that, despite significant past expenditure, the capabilities and capacities of its defence factories and dockyards are ill-matched to our strategic needs. Since the incorporation of the Defence Production Establishments into the Department of Defence in 1984, reform has proceeded on three levels—revision of the relationship between customer elements of the Department and the supplying establishments, restructuring of factories, and reassessment of the work they undertake.

6.53 The Office of Defence Production, is now responsible for the efficient and effective operation of the Government's defence factories and dockyards. As far as possible, those establishments are treated by the "customer" elements of the Department as simply another source of goods and services. Their maintenance of important, dedicated and exclusive defence capabilities can, however, lead to closer relationships with Defence customers than usually occur with commercial organisations. In place of the contracts that Defence places with commercial firms, work is now sought from Office of Defence Production establishments under Production Management Agreements (PMAs). As far as possible, PMAs are the equivalent of commercial contracts. They include damages for failure to perform to 'contract', in the form of authority to withdraw work rather than as monetary damages. Progressively, the Government expects that the establishments will enter collaborative arrangements with local and overseas industry and will compete against local commercial enterprises for defence and other work.

6.54 In December 1985 the closure of the Albion Explosives Factory in Victoria was announced with the transfer of important capabilities for manufacture of military high explosives and propellants to the Mulwala Explosives Factory in NSW. Sale of the Pooraka Aircraft Engineering Workshops in South Australia was announced concurrently. In July 1986, the Government announced its decision to convert the Government Aircraft Factories (GAF) in Victoria to a Government owned company, Aerospace Technologies of Australia. Membership of the board of the new company was announced in December 1986 and its "takeover" of GAF is planned for 1 July 1987.

6.55 All of the Government factories and dockyards will use commercial costing and pricing procedures from 1 July 1987. Williamstown Dockyard adopted these arrangements when it undertook construction of the Australian frigates.
6.56 In recognition of changing technology and workload, and of the very substantial subsidies of their operations, substantial workforce reductions have been made at individual establishments and at the central office of the Office of Defence Production.

6.57 The highly specialised and excess capacity of some factories is costly and detracts from their ability to compete effectively in wider markets. Wherever possible, such capacity is being minimised or avoided by techniques that reduce the lead time for its establishment to within likely warning times for its use. It will be retained only where it can be shown that difficulties could be expected with overseas supply (eg where sources are limited and likely to be unsympathetic, or where transport to Australia would be difficult), stockpiling is difficult or prohibitively expensive (eg where shelf life is short), and where local commercial production capacity could not be redirected.

Industry and some major procurements

6.58 The procedures for acquisition of major capital equipment have been streamlined and the responsibility of project managers strengthened by the creation, in July 1984, of the Capital Procurement Organisation (CPO) within the Department of Defence. The CPO has placed greater priority on project management training and procedures, and has sought more responsible involvement of Australian industry in defence work in accordance with the Government's defence policies for industry.

6.59 Major defence acquisitions vary widely in the nature of the equipment, the likely sources, the potential for local activities in design, development, production and Australian industry involvement, and, hence, the strategy for acquisition. While no two projects are the same, there are some common policies and principles that can be applied. Some examples follow illustrating the application of this Government's policies to procurements with substantial potential for local industry involvement.

Indigenous design and development projects

6.60 The impetus for local design and development projects can come from local research and development undertaken to meet special local requirements (eg OTHR and sonar systems) or as a consequence of research undertaken to maintain the technology base (eg Project Nulka and minehunter systems). The main difficulty in such projects is to manage the cost, schedule and technical risks to produce an acceptable final product. An important consideration is to set up projects in ways that encourage industry to exploit the results in wider markets.

Over-the-horizon radar

6.61 Following a decade of research and trials by the DSTO, the principles of OTHR using reflections from the ionosphere have been largely established, the basic hardware and software elements have been demonstrated in an experimental system, and the Government has authorised the first stage in the establishment of an operational system.

6.62 The Australian OTHR system is adapted to the ionospheric, geographic and strategic circumstances of Australia. Other countries have sought different technical solutions. There is high security attached to the details of such systems, particularly their performance and susceptibility to countermeasures. As a result, there is likely to be scope for exchange of research and technical information with close allies, but, at least at this stage, little scope for exports of complete systems. Australian industry will benefit by acquiring expertise in a number of high technology aspects of the system, applicable in other defence projects, and may be able to develop commercial products based on some elements.

6.63 Australian electronic, software and other companies have been involved in the development of the experimental and now operational systems, and may be able to develop commercial products based on some elements.

Anti-ship missile defence system

6.64 Innovative techniques for the protection of ships from some of the more recent anti-ship weapons have been developed by DSTO in co-operation with Australian industry, including the Government's defence factories. Unlike OTHR, Australian needs for such a system are neither unique nor substantial and would command most priority in higher levels of conflict considered more remote in time and less likely. Such a system could, however, be expected to be of considerable interest in other theatres. This raises the prospect of substantial exports.

6.65 There are high costs and risks in taking the experimental results obtained by DSTO through full-scale engineering to an operational system which can be shared by collaboration. A joint project can also bring access to technology and markets which would otherwise be restricted. Such a joint project, known as Nulka, has been established with the US Navy. It will draw on the technology developed in both countries, and their industrial bases.

6.66 Nulka is our first major collaborative equipment project with the United States. It will be managed in both countries through competitive fixed price contracts for defined tasks. This contrasts with previous Australian development projects, such as the Basic Pilot Training Aircraft, which have been run and 'cost-plus' basis with work directed to designated establishments. The approach used in Nulka will place much more responsibility for performance on Australian
industry. That performance will, of course, be an important influence on both future production work on Nulka and prospects for further collaborative projects with the United States.

Local development and production programs

6.67 In some cases, equipment with the fundamental capabilities required by the ADF may be available overseas, but it must be developed, adapted or integrated into a system tailored to our specific requirements. Many defence systems require only minimal local adaptation (eg in their communications fit to major platforms), while others are more extensive (eg submarines, new surface combatants). Such projects require close technical and managerial control to ensure that performance, time and cost goals are met. Local capabilities are required for independent through-life support and subsequent mid-life modernisation and adaptation. Involvement of Australian enterprises in detailed design can ease production difficulties and facilitate incorporation of local components.

Submarines

6.68 It was recognised from the outset that Australian industry had little of the specialised knowledge and experience needed to design and build submarines to replace the present fleet of Oberon class vessels. Industry had, however, many of the basic industrial capabilities and the existing submarine designs needed substantial modification to meet Australian operational requirements. The vessels require a large and complex infrastructure for their through-life support, independently of the overseas source, which would be assisted by local construction.

6.69 This Government decided that the vessels would be built in Australia. It judged that the cost premium for local construction could be justified in terms of the self-reliance gained in the local capabilities established for subsequent set-to-work, repair, maintenance, modification, refit and, probably, mid-life modernisation.

6.70 The Government also agreed that Australian industry should be encouraged to take a major role in the project, including sharing the risks, and consortia were formed between local organisations and the overseas tenderers for the platform and combat systems to undertake Project Definition Studies and to bid for production. A substantial portion of the work will be subcontracted by the prime contractors to Australian enterprises, which will have to comply with strict quality standards within delivery schedules and to cost.

6.71 This model for Australian industry participation in a major defence development and production project offers the prospect of substantial industrial and defence self-reliance benefits. It is demanding on the resources of industry and Defence project management.

New surface combatant (light patrol frigate)

6.72 This project aims to acquire eight ships at a cost of some $3.5 billion. The Government intends to select an established overseas design for construction in one or more Australian shipyards under ‘local prime’, ‘fixed price’ contracting arrangements. Some modifications to the design will be necessary to meet Australian requirements and to facilitate construction in Australia.

6.73 Construction of civil and naval surface vessels has a long history in Australia. Recent defence projects include patrol craft at Cairns and Fremantle, large support vessels at Newcastle and Sydney, and frigates at Williamstown, Victoria. The ability to perform the projects to cost and on time has been varied.

6.74 The procurement strategy aims to keep overseas designers and qualified Australian shipyards in competition until production contracts are signed. It allows for early and substantial involvement of Australian shipyards, early introduction of the vessels into service, and a high level of local content. The latter is important for independent through-life support and will confer a capability, should the need ever arise, for a high degree of self-reliance in construction of additional vessels to expand the Fleet. Risk is low in the design, but Australian shipbuilders will be expected to carry the construction risk in arrangements with the overseas designer. Planning provision is being made for possible joint procurement involving the industries of other countries.

6.75 The project is seen as important for the local shipbuilding industry, which, in common with the industry world wide, has substantial excess capacity, which is being further exacerbated by changing technology reducing ship docking and repair work.

Local production of overseas designs

6.76 In some cases, the requirements of the ADF can be met most cheaply and expeditiously by existing overseas products where there is no economic or technical prospect of a local competitor. Local industry involvement in such projects is through Designated Work and Offsets. This can involve a substantial element of local production and may include opportunities for follow-on work and exports. Examples include battlefield helicopters, rifles and missiles.

Battlefield helicopters

6.77 Extremes of temperature, areas of higher elevation, and rugged operating conditions in northern Australia place severe demands on a battlefield helicopter. The ADF requires a helicopter with a radius of action including tactical flying of over 160 km, and able to carry an infantry section of ten troops with sufficient personal equipment to enable sustained independent operations. Exercises have shown the existing fleet of Bell Iroquois UH1H aircraft to be deficient in these conditions. The French Aerospatiale Super Puma M and the US Sikorsky Blackhawk were found to be acceptable aircraft after competitive evaluation.
6.78 Following the formal tendering process, the two companies were invited to negotiate contracts with the Commonwealth. Considerable emphasis was placed on warranties of performance, particularly in the conditions likely to be found in northern Australia, price, and the involvement of Australian industry in the project.

6.79 This competitive procedure resulted in selection of the Blackhawk and yielded better warranties than had been achieved previously in helicopter purchases, a significant price reduction, and Australian Industry Involvement of over 40 per cent of the contract value, including items of considerable strategic and industrial importance. There is also provision for Australian collaboration in future design and development projects.

6.80 While not universally applicable as a purchasing strategy, the approach used in this case demonstrated clearly the benefits of competition being held open as long as possible.

The new individual weapon for the Australian Defence Force is the Steyr rifle. 70,000 will be manufactured at the Small Arms Factory, Lithgow, NSW.

Rifles

6.81 In 1982 the Government approved the replacement of the Belgian designed FN L1A1 individual weapons with new, smaller calibre, lighter weight, automatic weapons. In October 1985, after exhaustive competitive trials, the Austrian Steyr AUG 1 was selected.

6.82 Initial production of some 70,000 rifles for the ADF is to be undertaken at the Small Arms Factory at Lithgow, NSW, which is the sole local mass producer of small arms with a long history of weapons production.

6.83 To avoid the need to establish substantial facilities duplicating those available in civil industry, and to exercise the relationships with private firms that would be necessary should strategic circumstances require greatly increased production rates, a large proportion of the weapon components are being sub-contracted. The new technology of the AUG 1 has facilitated this approach. Costs and subsidies will be reduced and the problems of workforce rundown at the conclusion of the production program minimised. This is a break with the past practice where the factory produced the entire weapon.

6.84 Other features of this project have been the full cost 'contractual agreement between the factory and the Army, the scope the industry strategy provides for other countries seeking to purchase weapons from Australia to provide work for their own industries, and the export agreement with the principals, Steyr of Austria. New Zealand has agreed to purchase the rifle from the Small Arms Factory under these arrangements.

Defence work in Australian industry

6.85 In 1985-86, the Australian Defence Budget was some $7,000 million of which some $2,800 million was spent on activities directly relevant to industry (new capital equipment, replacement equipment and spares, repair and maintenance, and direct subsidies to industry, including the Government’s factories and dockyards). Of the latter, some $1,300 million was spent in Australia. Over one quarter of the Defence outlay was spent on new capital equipment, which reflects the high technology nature of modern warfare and the need to acquire and maintain important operational capabilities. Australian industry also benefits from the Defence Offset obligations generated by defence purchases, which provide technology transfer and workload to the value of over $200 million per year. Exports of defence products, unrelated to offsets, are estimated at some $40 million per year.

6.86 While such funds seem substantial in the Australian context, they will be adequate only if utmost economy is pursued in meeting ADF requirements. Inefficiency, unnecessary subsidies, cost and schedule over-runs and other poor policies and management practices will cause important projects to be deferred or deleted from the program, including projects that would have been of importance to industry.

6.87 The Government is providing opportunities for industry to increase substantially its share of the Defence new capital equipment program and to improve its export prospects. The efficiency and competitiveness of industry will largely determine the extent to which the opportunities are exploited and result in more defence work being undertaken in Australia with enhanced self-reliance for this country.
Chapter seven
Defence personnel

7.1 Our people—the men and women of our fighting forces and our defence civilian staff—are our most valuable asset and a vital resource in the security of Australia. In total some 137,000 men and women apply their professional knowledge, skills and commitment to maintain and improve our defence capabilities. There are some 70,000 Regular and 27,000 Reserve members of the Australian Defence Force (ADF) and 40,000 civilians within the Defence organisation (Figure 1 shows the allocation of Defence personnel).

DEFENCE PERSONNEL—PLANNED STRENGTHS 1986-87

7.2 The Defence organisation needs to attract, train, and retain skilled men and women for combat and support roles, including the operation and maintenance of increasingly complex equipment and support facilities. In addition, initiatives detailed earlier in this Paper designed to enhance our defence self-reliance will increase the Defence organisation's demand for highly qualified professional, technical and tradespeople already the subject of strong competition in the market place. Competition for manpower will increase in future years as the changing age distribution of Australia's population reduces the number of people available for recruitment into the ADF: To be successful in attracting sufficient people of the right calibre, the Government must offer rewarding and challenging careers, and competitive pay, allowances, and conditions of service.

The regular component of the ADF

7.3 The planned strength of the ADF for 30 June 1987 is: Navy 15,732, Army 32,000 and Air Force 22,797; a total strength of 70,529 (see Figure 2). The reduction from a peak in 1981-82 reflects the Government's decisions on the aircraft carrier and naval fixed-wing aviation, and a reduction of 677 in the authorised terminal strength of the Army in the 1985-86 Budget.

7.4 A broad range of employment opportunities is offered, with periods of service available from as little as two years to careers of 20 years or more. A wide variety of skills is developed and practised in the ADF, providing demanding and rewarding employment. Some 7,000-8,000 personnel annually leave the Regular component of the ADF on retirement or to pursue their careers in the civilian workforce. This group is encouraged to join the Reserve force.

Women in the ADF

7.5 The Australian Government's strong commitment to eliminating discrimination against women was evidenced by its ratification of the UN Convention on the Elimination of All Forms of Discrimination Against Women in 1983 and passage of the Sex Discrimination Act in 1984. A major focus of the Sex Discrimination Act is the elimination of discrimination in employment. In this context the Government agreed to exemptions for combat and combat-related duties in the ADF on the understanding that as many positions as possible would be open to women consistent with maintaining combat preparedness.

7.6 Prior to the implementation of the Sex Discrimination Act and new Defence Force employment policies in 1984, the proportion of women in the Defence Force was 6.5 per cent. Although there was no common policy among the Services on employment areas for women, they were generally allocated to the traditional areas of female employment.
Since the introduction of the Sex Discrimination Act and Government reviews of ADF employment policies, the number of women in the ADF has increased steadily under the present Government, with some 5,760 (or 8.4 per cent) serving as at 31 December 1986—a 30 percent increase over the 1984 figure. About 21,750 (35 per cent) of the positions in the Regular component of the ADF are now open to women in competition with men. A further review is underway to expand employment opportunities available to women in the ADF. The Government will continue to make available as many positions as possible on merit.

**Reserve Forces**

The Government will continue to give priority to our increasingly effective Reserve Forces. Additional tasks for the Reserves have already been announced. These include major roles in northern defence, logistic support, surveillance, protection of key installations, and maintenance of expansion base skills in armour, artillery, air transport, and mine countermeasures. Legislation will also be introduced to allow Australia’s Reserve Forces to be called out for service in situations short of a full scale war or defence emergency. The legislation will allow Reserves to play the fullest possible role in the defence of Australia by enabling them to be used in the sort of low level threat which could emerge with relatively little warning.

The defence program provides for an Army Reserve of 26,000 and for modest increases in the smaller Reserve components of the Navy and Air Force to bring the total Reserve strength to over 30,000.

**Civilians in defence**

Civilians not only provide administration and support for the Navy, Army, and Air Force, but are also employed in policy and management areas and in such non-military bodies as the Defence Science and Technology Organisation (DSTO).

Of the 40,000 civilians in the Defence organisation, 39 per cent are employed at ADF bases, workshops and depots, 34 per cent support the ADF in Defence factories and dockyards, 11 per cent work for DSTO, 14 per cent provide administrative support and management services, and 2 per cent provide policy support to the Department.

**Pressures on the defence personnel resource**

The Government will continue to allocate the largest share of the Defence budget to defence personnel. However, the need to acquire new equipment and facilities to ensure an efficient, self-reliant defence force means that overall expenditure on personnel will continue to be restrained. The number of Service personnel has actually declined in recent years (see paragraph 7.3). Tight control of civilian numbers has continued, resulting in reductions in total numbers. The recent restructuring and rationalising of the Government’s defence factories and dockyards have also produced considerable manpower savings.

This constraint on the numbers of Defence personnel is consistent with the Government’s policy of limiting the size of the Commonwealth’s employment force. Nevertheless, some measure of personnel relief is necessary to maintain adequate combat capabilities, and to support and operate the new equipment required for a modern and effective fighting force.
A personnel resource strategy

7.14 Australia's reliance on a volunteer ADF means that its operational strength will fluctuate. To manage the complex ADF personnel resource better, this Government will introduce a more flexible personnel resource policy based on identifying two separate components within the ADF—an operational force of trained personnel and a training force comprising personnel undergoing pre-employment training. This important initiative permits the strength of the training force to be varied with rises and falls in separation rates while maintaining the trained force at the strength necessary to meet the objectives set for it by Government. Given that higher than normal separation rates might continue in the short term, some supplementation of the training component through increased manpower ceilings will be necessary to maintain the trained force at its present level and capability.

7.15 A program of management reviews will enable the Government to make more efficient use of Defence manpower, providing trained personnel for the acquisition and operation of new equipment and facilities, and for the maintenance of essential combat skills. The rationalisation of Defence factories and dockyards will continue. Better management and more efficient work practices will be introduced under the Defence Management Improvement Plan to reduce current demands on ADF and civilian personnel. Tasks now performed by Service personnel that could be performed at less cost by civilians will be identified; the review of Defence warehousing by the Efficiency Scrutiny Unit is a first step. A greater proportion of defence work will be contracted out to private industry.

7.16 These measures, along with the return of a fighter squadron and support staff from Butterworth, will help reduce some of the pressure on defence personnel from the new capital investment programs. This should also allow Defence to achieve a minimum saving of 3 per cent in civilian staff over the next three years (a reduction of at least 1176) thus meeting the Government's efficiency dividend target.

Retention

7.17 The Government is concerned at the present rate of separation from the ADF and positive action is planned to reduce the numbers leaving. While a reasonable turnover of personnel in the ADF is necessary to exercise the training infrastructure and maintain a young fit force, the present level is higher than desired. There are a number of reasons for this. One is the below average separation rates of the recent past. Figure 3 shows that the average annual separation rate over the last ten years was about 11.1 per cent; the lowest rate was 9.4 per cent in 1983-84, the highest 12.3 per cent in 1985-86. Varying age and length of service distributions in the ADF, resulting in part from its growth in the 1960s, are also factors. The state of the national economy, conditions of ADF service, and family aspirations, also influence separations. And the lack of skilled manpower being produced by the wider community for civil purposes adds to the demand for personnel trained by the Defence Force.

7.18 One particular factor that the Government is addressing relates to the impact of changing socio-economic patterns, including the increase in two income families. Dependence on the spouse's income and the spouse's own desire for employment may influence the decision of some serving members to leave the Services to avoid the adverse impact that frequent postings may have on their families.

7.19 Recognising that mobility of ADF personnel is necessary to maintain an effective operational force, the Government is working towards implementing the recommendations of the Hamilton Report to minimise the adverse aspects of essential changes of location. Standards of Defence housing are being improved.
through increased expenditure and better management and a new Defence Housing Authority is being established. These initiatives are explained in more detail later in this chapter.

7.20 Additional initiatives being considered to reduce the present rate of separation include improvements in conditions of service, financial incentives for selected categories, and changes to periods of engagement.

**Conditions of service**

**Defence Force Remuneration Tribunal**

7.21 The Government has changed the system of salary fixation for the ADF by establishing the Defence Force Remuneration Tribunal (DFRT). The DFRT is a totally independent and expert body with power in its own right to determine Defence Force pay and allowances. The Defence Force’s ‘employer’—the Government—is now no longer the final wage fixing authority. This initiative gives Service personnel access to a pay fixing system broadly comparable to that available to the general community.

7.22 The establishment of a special tribunal for the Defence Force both recognises the special aspects of military service and acknowledges the convergence that has occurred between military and civilian employment. These arrangements better integrate the Defence Force into the industrial framework applying to the community at large. Underlying this reform is the Government’s fundamental recognition of the right of servicemen and women to equitable pay and allowances and to an independent and impartial wage fixing system. This award was subsequently back-dated to 30 May 1985.

7.23 The establishment of the DFRT and the Defence Force’s participation in the centralised wage fixing system have also provided regular National Wage increases. These increases reflect movements in prices in return for restraint in seeking increases for other reasons. The commitments involved in National Wage decisions have been accepted in both the Defence Force and the wider community.

**Defence Force Advocate**

7.24 As an integral part of the revised arrangements for determining Defence Force pay, the Government created the position of Defence Force Advocate, a publicly funded office, to ensure that the Defence Force is not disadvantaged by not having an industrial organisation to represent it in proceedings before the DFRT.

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**Superannuation and Defence Force Retirement and Death Benefits**

7.25 The Government has supported improvements in superannuation, industry by industry or occupation by occupation. These are to be offset against national productivity and based on a 3 per cent wage equivalent. The Australian Conciliation and Arbitration Commission has accepted this broad proposal but has left it to individual parties to negotiate the terms of such agreements, subject to certain guidelines. Noting that the public sector is already well served in the area of superannuation, the Government has indicated that it will not be at the forefront in concluding productivity arrangements in respect of its own employees.

7.26 In the light of the overall trend, supported by the Government, to improve and extend occupational superannuation in the community, the Government has no intention of reducing the basic Defence Force Retirement and Death Benefits entitlements as some speculation has suggested. It will also ensure that improvements in superannuation in the wider community flow appropriately to the Defence Force.

**Defence housing**

7.27 This Government will continue to rectify the poor living conditions many Defence Force families have had to face through neglect and underfunding in previous years. The 1986–87 Budget provided a real increase of 17 per cent for Defence housing and some $750 million will be spent on new housing over the next ten years.

7.28 A new Defence Housing Authority will commence operations on 1 July 1987 providing the flexibility and efficiency of management needed to ensure better accommodation. The Authority is already operating in interim form pending the passage of legislation. The management board comprises a mix of Service personnel and civilians selected for their knowledge of real estate and management expertise. In addition, the Government will continue to improve living conditions for single personnel. These new arrangements are a major step forward in the management of living conditions for the Defence Force.

**Supporting service families**

7.29 A major initiative taken by this Government was the commissioning of a survey by Mrs Sue Hamilton from the Office of the Status of Women on the problems faced by ADF families. Her report pointed out deficiencies and problems in the support available to Service families and made recommendations as to how these might be redressed.
In response to the report, a National Consultative Group of Service Spouses was established in 1986 and a Defence Families Information and Liaison Service will commence operations in 1987. The implementation of the report's conditions of service recommendations (including a review of the length of postings, disturbance allowances and removal for separated spouses) is under consideration by the Government.

Chapter eight
Resources and programming

8.1 Governments have a fundamental responsibility to allocate resources for the security of the nation. But national resources are finite and subject to many competing demands. Thus governments must also set out Defence policies and objectives, define priorities for their attainment, and ensure that the allocation of resources is consistent with these priorities.

8.2 Our demands for defence resources must not be so high during times of peace as to distort and thus weaken our economy. Our defence development must be based on a rigorous consideration of what is essential for our security and how to achieve this in the most effective and efficient way.

8.3 While all defence activity is constrained by annual financial allocations appropriated by Government for defence, money is not the sole constraint. Our defence plans must also take into account such other factors as the scientific and industrial resources of the nation, the personnel available, and their range and level of skills.

Wider economic considerations in defence funding

8.4 The provision of resources for the defence of Australia cannot be determined in isolation from other national priorities and our economic circumstances.

8.5 The proportion of the nation's resources that are directed towards defence is commonly measured by relating defence outlay to gross domestic product (GDP). Figure 1 (see overleaf) shows that defence outlay peaked at well over 4 per cent of GDP during the Vietnam War. Since the end of our involvement in Vietnam, defence outlay has been around 2.6 to 2.9 per cent at GDP. Naturally, as GDP may fluctuate from year to year there can be no rule that defence spending should, in every year, bear a precise mathematical relationship to GDP. But, broadly speaking, a share of GDP similar to that devoted to defence in recent years will need to be retained if future governments are to achieve the levels of defence capability identified in this Paper.

8.6 In the Government's annual Budget, Defence competes directly with other pressing national priorities such as health, education and social security. Figure 2 shows that Defence outlays have, on average, risen from a low of about 8.4 per cent in the mid-1970s, following the end of Australia's
commitment in Vietnam, to around 9.5 per cent at the start of the 1980s and 9.9 per cent in the Budget of 1986-87. The rise in the past ten years or so has occurred despite the greatly increased pressure on governments to increase spending on social security.

8.7 Given competing national demands, any sustained increase in the overall share of resources going to defence, measured in terms of GDP, could be justified only in the event of marked deterioration in our strategic circumstances.
Defence spending overseas

8.8 One particular element of defence outlays has come under notice in relation to wider economic considerations: a significant proportion of the defence budget (around 25 per cent) is spent overseas and, looked at in isolation, adds to pressures on Australia's external account. But this should not be exaggerated. Direct defence spending overseas in 1985-86 equalled about 5 per cent of imports.

8.9 As outlined in earlier chapters, it is essential that Australia maintain a technological edge in the region; this is practicable only through significant purchases from overseas. Were Australia to direct more funds into domestic procurement than could be justified under our Defence Policy for Industry, our defence capabilities would be reduced and the resulting inefficient use of resources would affect the national economy adversely.

8.10 Economic as well as national security reasons point to the need for a continued significant reliance on overseas procurement. The Budget Statements for 1986-87, tabled by the Treasurer, included the following pertinent comments in analysing the external accounts problem:

> While the size and urgency of the imbalance might be seen as justifying almost any means to increase exports and reduce imports, efficiency criteria cannot be overlooked. If resources are directed into import replacement or export activities which need to be highly protected or subsidised, living standards in the economy as a whole would necessarily be lower than if the same adjustment to the balance of payments were achieved by the expansion of export and import-competing industries that are internationally competitive.

8.11 Nevertheless, the Defence Policy for Industry announced by this Government in 1984 and the initiatives outlined in this Paper (see Chapter 6), should see a reduction in overseas expenditure on capital equipment in the years ahead. The F/A-18 Hornet currently dominates our acquisition program and the bulk of the expenditure is in the United States. These aircraft are now being delivered. Hence overseas expenditure on this project will start to reduce significantly from 1987-88 and will be virtually completed by the early 1990s. In the Hornet's place there will be OTHR, new submarines, and the new light patrol frigates, which will all have a substantially higher local expenditure.

The Five Year Defence Program

8.12 The rolling Five Year Defence Program (FYDP) provides the framework within which policies and priorities, their timescales for implementation, and the anticipated resources that Governments provide as a basis for forward planning, are reconciled and brought into balance. Such an approach is necessary because of the long timescales involved in defence planning. It takes many years to train for military operations and to learn to operate modern complex equipment. Equipment acquisition times can spread out over many years, for example, expenditure on the construction of the new submarines will extend over at least ten years. Forward commitments on personnel and equipment generally allow only limited flexibility for change in any particular Defence Budget.

8.13 The FYDP is necessarily dynamic, being subject to continuing assessments and change resulting from continued analysis of our defence needs, technological and strategic developments, and management improvements. It takes account of Government decisions on the annual Defence Budget (with the program's consequent rolling forward by one year) and also indicates for Government the longer term implications of those decisions.

8.14 The FYDP must take account of changes in the level of Government's financial guidance to Defence, and differences between this guidance and actual Budget allocations. This Government recognises that considerable waste and inefficiency in defence planning is inevitable when unrealistic guidance is given as a planning basis for defence spending. The Government is committed to more realistic financial guidance for defence planning, although some adjustments will still need to be made when settling annual Budgets.

Recent trends in Defence expenditure

8.15 Figure 3 shows the broad shifts that have occurred over the last decade on the balance of expenditure between the major components of the FYDP: capital equipment, capital facilities, personnel costs and operating costs.

8.16 By the mid-1970s, investment in new equipment and facilities had fallen to little more than 10 per cent of defence expenditure. It became evident then that given the high cost and long lead times involved in acquiring new equipment and facilities, defence capabilities would decline in the decades ahead unless this trend was reversed. It has therefore been the policy of this Government to increase the proportion of defence expenditure on investment. Over the past four years this has risen from less than 22 per cent to over 33 per cent planned for 1986-87. In the same period, expenditure on capital equipment has risen from 17 per cent to over 28 per cent of total defence spending.

8.17 Associated with increased expenditure on investment has been restraint on operating costs and personnel. Some reductions in this regard were the result of specific force structure decisions by this Government with regard to naval air power and the Fleet Air Arm. There have also been economies and efficiencies in production establishments and civilian support.

8.18 In 1986-87 about 28 per cent of estimated expenditure will be on capital equipment, 5 per cent on capital facilities, 40 per cent on personnel and 27 per cent on operating costs.
The years ahead

8.19 The continuing re-equipment program, and the need to continue to pay attention to facilities and infrastructure, indicate a requirement to direct the same broad share of defence expenditure to investment in the immediate years ahead. This will require continuing constraints on personnel levels and only limited expansion of current training and exercise activities. Figure 4 shows the planned percentage allocation of defence expenditure for the period 1986–87 to 1991–92, reflecting these broad principles.

Capital equipment

8.20 Commitments on major equipment projects already approved by Government account for 40 per cent of the funds programmed for major capital equipment over the next five years. Expenditure on approved projects such as the Hornet, and the FFG-7 class frigates will wind down, while new major commitments will be entered into, for example, new submarines, mine countermeasure vessels, more helicopters, and OTHR.

8.21 Figures 5 and 6 show the expected wind-down in expenditure in percentage terms on projects already committed and the planned increase on new proposals yet to be approved by Government. Expenditure is shown in broad capabilities, e.g. maritime warfare and airspace surveillance. Figure 7 shows the aggregate of all major capital equipment, both approved and not yet approved.

Capital facilities

8.22 Expenditure on capital facilities is planned to increase significantly in the years ahead with this Government’s emphasis on strategic initiatives and improved living accommodation for Service personnel. New strategic initiatives will include the continued development of defence facilities to support operations across the north, such as airfields and the northern basing of the 2nd Cavalry Regiment, further development of HMAS Stirling in the west and a possible new fleet base at Jervis Bay. Expenditure on these initiatives will extend well beyond the five years of the current defence program.

8.23 An important area of Government expenditure will involve the substantial improvement of living accommodation for Defence Force members and their families (see Chapter 7). Other facilities initiatives will include the rationalisation and modernisation of defence training and production establishments and office accommodation.

Personnel

8.24 Personnel constraints will demand a more efficient use of Regular and Reserve forces and civilians. As outlined in Chapter 7, the Government is introducing new policies for the management of the personnel resource. The strength of the ADF’s trained force will be directly related to objectives set for
PROJECTED DEFENCE EXPENDITURE
BY MAJOR CATEGORY AS A PERCENTAGE

<table>
<thead>
<tr>
<th>Personnel Costs</th>
<th>Operating Costs</th>
<th>Capital Facilities</th>
<th>Approved Equipment</th>
<th>Proposed Equipment</th>
</tr>
</thead>
</table>

Financial Year
- 1986-87 (Budget)
- 1987-88 (FYDP 1987-92)
- 1988-89 (FYDP 1987-92)
- 1989-90
- 1990-91
- 1991-92

Figure 4

APPROVED MAJOR EQUIPMENT
Expenditure by Major Components

|------------------|---------|------------------------|---------|---------|---------|

Figure 5

PROPOSED MAJOR EQUIPMENT
Expenditure by Major Components

|------------------|---------|------------------------|---------|---------|---------|

Figure 6
TOTAL MAJOR EQUIPMENT
Expenditure by Major Components

![Graph showing expenditure by major components]

**LEGEND FOR FIGURES 5, 6 AND 7**
- **MARITIME WARFARE** - Includes Submarines, New Surface Combatants and MCM Vessels
- **TACTICAL AND STRIKE AIRCRAFT** - Includes F/A-18 aircraft and F-111 improvements
- **MOBILITY AND TACTICAL SURVEILLANCE** - Includes Blackhawk Helicopters, Light and Medium Trucks and AFVs
- **WEAPONS AND AMMUNITION** - Includes Missiles for Ships and Aircraft, and Artillery Weapons and Ammunition
- **SUPPORT SYSTEMS** - Includes Computer systems for supply and manpower and major training systems
- **COMMAND, CONTROL AND COMMUNICATIONS**
- **AIRSPACE SURVEILLANCE** - Includes OTHR, AEW&C Systems and Tactical Air Defence Radars

8.25 Civilian numbers will be reduced with the restructuring and rationalisation of the Government's defence factories and dockyards, and with the return of the fighter squadron from Butterworth, Malaysia. Other reductions will follow from the Government's program to increase efficiency in the public sector.

8.26 With the increased roles planned for the Reserves, the defence program has provision for the Army Reserve to increase to a strength of 26,000, and for modest increases in the Reserve components of the Navy and Air Force, to bring the total strength to over 30,000.

**Operating costs**

8.27 Operating costs cover broad areas of defence spending, for example training and exercises, recruitment, repair and maintenance of equipment and facilities, DSTO, the Government factories, and central and regional administration. The Government's defence planning will continue to provide for modest annual real increases in operating costs, recognising that it generally costs more to operate modern and more capable equipment than it did to operate older designs of equipment.

8.28 The level of some defence activities will also increase as resources are directed to training and exercise programs necessary for a better understanding of operations in our north. But training programs must be selective, recognising that not all elements of our defence force need to be at high states of readiness.

8.29 There will also be continued provision for the acquisition of increased stocks to support higher rates of effort in the lower level contingencies that could arise in the shorter term. Again, this does not apply to all elements of the Defence Force but to such elements as the P3C Orion maritime surveillance aircraft that would need to increase their rates of effort early in a time of tension.

8.30 Economies will continue to be pursued, particularly in relation to the operation of the Government's factories, running costs at bases and administration generally. These economies will also have regard to the Government's recently announced reforms aimed at improving public sector efficiency.
Chapter nine
Conclusions

9.1 This Paper has set out the Government's policy for the defence of Australia. It has explained our alliance and regional associations; the capabilities required for an effective Australian defence force, including proper logistic, technical, and industrial support; our need for skilled and properly trained personnel; and the appropriate level of resources to be allocated for our defence effort.

9.2 This Government believes that Australia must be able to provide its own defence in circumstances of military threat posed to Australia from within or through our own region. Although such contingencies are now considered remote, we have explained that they would place great demands on our defence capacity. Our practical defence development over the coming years must ensure that we have, and can be seen to have, the capacity to respond effectively to them.

9.3 The Government has surveyed Australia's strategic circumstances and the interests and policies that relate to our defence and has found a substantial measure of continuity with the recent past. The generally favourable prospects for security in Australia's own geo-political environment have been noted, although there are some situations that require close monitoring for their longer term implications. Our national effort in the defence field, the alliances we have with the United States and New Zealand, and the enhancement of our defence relationships with friendly countries in the region all help to sustain our favourable strategic situation.

9.4 This Paper has stressed that the priority need for the Defence Force is to fulfil the national task of defending the nation. It has also dealt with the need for Australia's defence effort to take account of developments in our region of primary strategic interest, and to be capable of reacting positively to calls for military support elsewhere, should we judge that our interests require it. The Government considers that Australia can deal with both, but to do so we must be alert to priorities.

9.5 The Government considers that its planned defence development will meet Australia's needs. It builds on the programs approved by successive governments for over ten years to develop a more self-reliant defence force. More advantage will be taken of present favourable circumstances to develop and consolidate the ADF, its infrastructure, bases and logistics, and, most importantly, the personnel policies that provide the well-trained and motivated men and women on whom operations in a defence emergency and defence expansion would critically depend.

9.6 The Defence Force development detailed in Chapter 4 will provide the basis for our security into the next century. This Government has given considerable attention to identifying deficiencies and gaps in areas of our force structure which would be important for the defence of Australia. These deficiencies include the lack of a credible mine countermeasures force, the requirement to provide our Army with greater battlefield mobility for operations in the north of the continent, the need to develop an integrated air defence capability, and the need to develop further the command and control arrangements for the ADF.

9.7 The characteristics of range, endurance and mobility that we plan for the Defence Force provide practical options for sustaining our defence activities further afield. In particular, they enable Australia to play a significant role in its own region and, by so doing, to contribute to the security of that region and the protection of Western interests.

9.8 This Paper has stressed the importance for self-reliance of properly sited defence infrastructure and effective logistic support. And it has emphasised the necessity of indigenous scientific and industrial capabilities.

9.9 The Government is developing policies for the rationalisation and greater efficiency of its defence factories and dockyards. Australian industry can make a greater contribution to the defence effort. Programs such as the new submarine and the light patrol frigate will provide the most exciting opportunities for local industry involvement since World War Two. The Government will also emphasise greater transfer of technology and expertise to the industrial base so that it can more readily support the Defence Force.

9.10 Australia's defence personnel are the most valuable resource in our nation's security. The Government will introduce a more flexible personnel resource policy to enable the Defence Force to be more readily maintained at the necessary operational level. The need to give priority to our equipment requirements, and the development of defence bases in the north, will involve overall constraints on manpower levels. However the Government will continue to allocate the largest share of the defence budget to defence personnel. A program of management reviews will result in more efficient use of this vital resource, providing trained defence personnel for the acquisition and operation of new equipment and facilities and for the maintenance of essential combat skills.

9.11 This Government recognises the right of servicemen and women to equitable pay and allowances. It has established an independent and impartial wage fixing system for the Defence Force. It will ensure that improvements in superannuation in the wider community flow appropriately to the Services.

9.12 The Government will provide $750 million over the next ten years for new housing for the Defence Force, a substantial increase over previous years. As part of a major improvement in the management of living conditions for the Services, a new Defence Housing Authority has been created. The problems faced by Service families are being addressed with the progressive implementation of the Hamilton Report. These initiatives by the Government will help counter the current above average separation rate from the Defence Force.
9.13 A priority task for the Government is greater use of our increasingly effective Reserve personnel. A range of additional tasks are being introduced for the Reserves of significant importance for our immediate defence needs. Combined with legislative changes proposed by this Government, these new roles will make our Reserves a much more effective element in a self-reliant Australian defence force.

9.14 We have also explained the major resource considerations shaping our defence posture. A disciplined relationship between strategy, force structure, and financial constraints must be maintained. In our current and prospective strategic and economic circumstances these resources need to be spent wisely.

9.15 There is a need for realism in expectations of the resources that governments will be able to allocate to Defence. If we are to achieve the levels of defence capability and the priorities reflected in this Paper, there is a need, over the life of the program, for an allocation of resources generally within the order of 2.6 per cent to 3.0 per cent of GDP. Annual allocation to Defence will of course continue to be subject to the normal reviews of our economic circumstances and other policy imperatives, as well as changes in our strategic outlook.

9.16 Our basic competence and preparedness in matters of national defence are the necessary foundation for our own security and for our defence activities and influence further afield. The Government believes that the planned development of the Defence Force is attuned to Australia's national security needs. It accomplishes the priority task of defending the nation, ensures that we would be a most difficult country against which to use force, and allows for a realistic contribution to regional security and alliance activities.