



# State capture case study: arms industry

“Despite the effort and priority accorded to maintaining a healthy local defence industry, there’s surprisingly little hard data in the public domain about the size and shape of the sector.”

Australian Strategic Policy Institute, 2017

At first glance the Australian arms industry is a world away from the fossil fuels industry, with highly distinct markets, structures and relationship to government. The industry was chosen as a second case study in state capture for three reasons. First, to demonstrate that while the methods of capture are quite different in each case, the anti-democratic outcomes are fundamentally similar. Second, because the military is the world’s largest consumer of fossil fuels while being exempt from emissions reduction obligations. And third, because in making multi billion dollar life-or-death decisions on national security, it is essential that policymakers prioritise the national interest, however that may be conceived, rather than the commercial interests of arms manufacturers, most of them based offshore.

Extraordinary amounts of Australian public funds flow into the arms industry, with an extra \$270 billion, on top of the allocated Defence budget, earmarked for the decade 2020-2030.<sup>56</sup> It’s an industry described as being ‘awash with money’<sup>57</sup> often under conditions of secrecy afforded by

56 The two together totalled \$575 billion. media release, Minister Reynolds, 6 October 2020, ‘A safer and stronger Australia - Budget 2020-21’, <https://www.minister.defence.gov.au/minister/lreynolds/media-releases/safer-and-stronger-australia-budget-2020-21>; ‘Defence budget climbs to \$44.6 billion’, Marcus Hellyer, ASPI: The Strategist, 12 May 2021, <https://www.aspistrategist.org.au/defence-budget-climbs-to-44-6-billion/> (accessed 4 January 2022)

57 Examples include Australian strategy in an age of coyness, Rod Lyon, 16 March 2016, <https://www.aspistrategist.org.au/australian-strategy-in-an-age-of-coyness/>; and UPDATED: Australian government rejects Airbus Helicopters A\$3 billion savings offer, Kym Bergmann, 7 October 2020.



reference to national security.

“We are really in ... exciting times in the Australian market,” noted the international managing director of the UK’s BAE systems in 2017, “The government procurement plans are hugely ambitious. There aren’t too many countries who have that scale of defence procurement ambition in the next 15 years”.<sup>58</sup>

A major change in Australian defence policy in the 2016 Defence White Paper brought the arms industry into the heart of defence policy by designating it a “fundamental input to capability”.<sup>59</sup> One flow-on effect can be seen in Australia’s arms export policy, with the loosening of restrictions on selling arms into violent hotspots, such as the Middle East and Africa. Australia now actively seeks increased arms sales with nations known for grievous human rights abuses, including Saudi Arabia, the United Arab Emirates, Indonesia and

several African nations. Being designated a “fundamental input to capability” created an environment in which the national interest was conflated with arms industry interests. It is a small step to use the industry’s economic viability to justify relaxing strict controls, including arms deals with dubious regimes. In Australia, we have seen an expansion in the number of arms sales to violent hotspots under the overarching policy of building up the economic viability of a ‘sovereign’ defence industry.<sup>60</sup>

Arms corporations in Australia do not need to cultivate influence and a positive image with the public because their main customer is the government. Instead, they make extensive use of the revolving door, backroom lobbying, manipulation of research and policymaking, and supplying information to ‘expert’ commentators who can be relied upon to talk up tensions, arms races and possible war.

However, as the focus on building a ‘sovereign defence industry’ in Australia has sharpened, accompanied by the immense rise in funding, arms companies are increasingly cultivating a positive image to secure a ‘talent pipeline’ of future employees. Companies have partnered with universities for this purpose, and their influence is also extending to school-age children.

The arms multinationals have morphed into ‘innovators’ in science, technology, engineering and maths (STEM), usually with the willing partnership of respected educational institutions keen on securing extra funding and more students. Euphemisms abound: “high end technology”, “leading edge systems integration”, “global security and aerospace”, “defence technology and innovation”.

Children are targeted through programs like the National Youth Science Forum, whose major sponsor is Lockheed Martin<sup>61</sup> and Maths Alive!, sponsored by Raytheon<sup>62</sup> and others.

The Australian defence industry is dominated by multinational arms manufacturers, including BAE Systems (UK), Thales (France), Boeing (US), Raytheon (US), Lockheed Martin (US) and Airbus (Europe).

<https://asiapacificdefencereporter.com/government-rejects-airbus-helicopters-a3-billion-savings-offer/>

58 Defence giant BAE targeting growth in Australia, The Australian 7 April 2017 <https://www.theaustralian.com.au/nation/defence/defence-giant-bae-targeting-growth-in-australia/news-story/62bf699b407d07f87df73ed79f2972d8>

59 Australian Defence White Paper 2016, p 84 paragraph 4.7 <https://www.defence.gov.au/about/publications/2016-defence-white-paper>

60 The Bloody Trade, Michelle Fahy, Arena Quarterly September 2021 <https://arena.org.au/the-bloody-trade/>

61 National Youth Science Forum, list of partners <https://www.nysf.edu.au/our-partners/> (accessed 4 January 2022)

62 Bringing maths to life: Raytheon’s new MathsAlive! exhibition debuts in Canberra,’ Raytheon media release 26 November 2018 <https://www.raytheon.com/au/news/feature/bringing-maths-life>

Four of the top five defence contractors in each annual listing since 2016 in the Australian Defence Magazine (ADM) Top 40<sup>63</sup> were foreign owned. Of the top 20, three quarters are foreign owned.

In 2017, an analysis by Australian Strategic Policy Institute (ASPI) of ADM top 40 data showed that over the 20 years from 1995-2015, the largest five firms in any given year accounted for, on average, about 65% of total revenue of defence materiel contractors. In 2015, the top 10 took 82% of the revenue and 91% of revenue went to the top 15, leaving less than 10% for the rest, which is where the Australian-owned companies exist.<sup>64</sup> Excluding Lendlease and Downer/Spotless (which supply base maintenance/upgrades and catering/cleaning services to Defence), the largest Australian arms-related defence contractor is government-owned ASC Pty Ltd (formerly Australian Submarine Corporation), which is in the top 10. After ASC, the next largest Australian arms contractors appearing in the ADM top 40 have been Austal, EOS, CEA Technologies and, in the last couple of years, NIOA. In recent years, these generally appear around 15-25th place.

In 2020, a research report by the Stockholm International Peace Research Institute (SIPRI) revealed that after the UK, Australia hosts the second largest number of subsidiaries of the top 15 global arms manufacturers – 38 of them – eclipsing even Saudi Arabia, the world’s largest weapons importer, which has 24.<sup>65</sup>

When the Government introduced its major new policy direction in 2016 - bringing defence industry into the centre of defence policy and decision-making as a ‘fundamental input to capability’ - ASPI noted “the focus on industry in government thinking will increase the influence of firms with a stake in the industry.”<sup>66</sup>

The industry also supports worthy social causes, particularly those that involve veterans, such as the Australian War Memorial, Legacy, Soldier On, and the Invictus Games.

## Financial interventions in politics

Political donations by arms industry corporations are not significant in size when compared with corporations in the fossil fuels sector. Federal donation records back to 2012-2013 for Australia’s top defence contractors show that while Austal Ships, Raytheon, BAE Systems and NOIA have made financial contributions to the major political parties, no financial contributions at all were recorded for many companies.<sup>67</sup>

On the basis of publicly available data, direct donation is not a significant channel for this industry: it exercises its considerable influence on government through the other channels. A red flag in Australia is significant and repetitive overspending by government of billions of dollars on large military procurement and sustainment contracts.

The Australian Government enforces a high degree of secrecy over its arms procurement, sustainment, and export deals. This secrecy is coupled with strong resistance from the Department of Defence and

63 The ADM Top 40 is voluntary and some firms choose not to participate, for various reasons, sometimes reflecting a policy of non-disclosure. <https://www.australiandefence.com.au/industry/top-40>

64 The Cost of Defence: ASPI Defence Budget Brief 2017-2018, Mark Thomson, 25 May 2017, p.206, <https://www.aspi.org.au/report/cost-defence-aspi-defence-budget-brief-2017-2018> (accessed 4 January 2022)

65 Mapping the International Presence of the World’s Largest Arms Companies, SIPRI, December 2020, Alexandra Kuimova, Pieter D. Wezeman, Siemon T. Wezeman, Dr Lucie Béraud-Sudreau, Alexandra Marksteiner, Dr Diego Lopes da Silva and Dr Nan Tian, <https://www.sipri.org/publications/2020/sipri-insights-peace-and-security/mapping-international-presence-worlds-largest-arms-companies> (accessed 4 January 2022)

66 The Cost of Defence: ASPI Budget Defence Brief 2017-2018 <https://www.aspi.org.au/report/cost-defence-aspi-defence-budget-brief-2017-2018>

67 Australian Electoral Commission database accessed via Democracy For Sale website: <http://democracyforsale.net/search-aec/>

the political establishment to public demands for improved transparency.

Since Peter Dutton took on the defence portfolio in March 2021, the Department's transparency and accountability has declined further.

Defence staff have been instructed to limit their engagement with media, described by Australian Defence Magazine as an "unprecedented clampdown on Defence's engagement with media".<sup>68</sup> The potential for corruption in such an environment is greatly increased.

## Revolving doors and personnel exchange

Large numbers of Australia's senior military officers, defence and intelligence officials, and politicians leave their careers in public life and pass through the 'revolving door' into roles with arms and security-related corporations. Arguably, in no other industry is the revolving door between the public sector and industry more extensive.

Regulation exists to prevent revolving door appointments being made within specified minimum periods of leaving the military, politics and the public service, but these restrictions apply only to some positions. The minimum 'cooling off' periods (18 months for defence ministers and 12 months for the military and public servants) are manifestly inadequate at dealing with significant potential conflicted interests in this sector. These already weak barriers are regularly circumvented with no repercussions.

The 'cooling off' periods when career-switching between the defence establishment and private industry are enormously important.

When senior public officials and senior defence personnel 'retire' from public service and move into lobbyist roles in the arms industry, they take with them an extensive contact network, deep institutional knowledge, and rare and privileged personal access to people at the highest levels of government. Their presence in the private sector entrenches the influence of the arms industry over policymaking and government procurement decisions - decisions that should be entirely unmoved by the commercial imperatives of weapons manufacturers.

Examples of this include:

**Former Chief of the Defence Force Mark Binskin** was appointed as 'non-executive director, defence and national security policy'<sup>69</sup> at BAE Systems Australia, one of Australia's top three defence contractors, exactly a year after he retired as Defence Force Chief, the nation's top military office. On Binskin's watch at Defence, the \$35 billion (now \$45 billion)<sup>70</sup> future frigates contract and the \$1.2 billion contract to upgrade the Jindalee Operational Radar Network (JORN) were awarded to BAE.<sup>71</sup>

**Duncan Lewis** was head of the Australian Security Intelligence Organisation (ASIO) from 2014-2019, a position that capped his extensive career of public service in military, departmental, diplomatic and intelligence posts. A mere five months after leaving ASIO, Lewis joined the Australian board of Thales, a French arms and security multinational and a top three Australian defence contractor.<sup>72</sup>

68 Senate Estimates more important than ever, Julian Kerr, 30 September 2021, <https://www.australiandefence.com.au/defence/budget-policy/senate-estimates-more-important-than-ever> (accessed 4 January 2022)

69 Despite this title, ASIC records show Mark Binskin is not on the board of BAE Systems Australia (at 29.9.21). See also Revolving Doors profile of Mark Binskin, <https://www.michaelwest.com.au/air-chief-marshal-mark-binskin-ac-rettd/> (accessed 4 January 2022)

70 Government frustrations and concerns grow over Australia's multi-billion-dollar submarine and warship programs', ABC News 24 February 2021, <https://www.abc.net.au/news/2021-02-24/government-frustrations-future-frigate-warship-fleet-program/13184064>

71 Boon for Australian Defence Industry as our JORN gets an upgrade, Australian Air Force media release 6 March 2018, <https://www.airforce.gov.au/news-and-events/news/boon-australian-defence-industry-our-jorn-gets-upgrade>

72 Duncan Lewis AO DSC CSC to join Thales Australia Board, Thales media release, 21 February 2020 <https://www.thalesgroup.com/en/australia/press-release/duncan-lewis-ao-dsc-csc-join-thales-australia-board>

Lewis was described as having a “breadth of experience in senior national security positions in Australia [that] is unique in our country’s modern history” by the president of the Australian Institute for International Affairs.<sup>73</sup> On his retirement from the public service, Lewis said: “Proximity to the head of government [as National Security Adviser] was the experience of a lifetime. I had the opportunity to meet with kings and queens, presidents and prime ministers, bishops and billionaires”.<sup>74</sup>

**Ian Watt**, described as “one of Australia’s most esteemed government elders” in *The Mandarin*,<sup>75</sup> a career-long public servant, worked for two decades at the most senior levels of Australian Government. Eighteen months after leaving the top position in the federal public service, Secretary for the Department of Prime Minister and Cabinet, Watt joined BAE Systems Australia as its Australian chairman, a newly-created role.<sup>76</sup> This was a timely appointment given the company’s bid to win the future frigates contract, the largest surface warship contract in Australian history. Less than three years later, with two lucrative long-term contracts locked in, BAE’s need for an Australian chairman disappeared. Watt retired and was not replaced.

**Brendan Nelson**, former Liberal Party leader, Defence Minister, and director of the Australian War Memorial, is now president of Boeing Australia, New Zealand and South Pacific, a top five contractor to Defence. Nelson’s move to Boeing was announced in January 2020,<sup>77</sup> soon after he left the Australian War Memorial, a tenure that itself caused controversy given Nelson’s open pursuit of sponsorship from the arms industry.<sup>78</sup> In Nelson’s final appearance at Senate Estimates as War Memorial director, in October 2019, he made positive mention of Boeing several times, including its \$1 million sponsorship of the memorial.<sup>79</sup> While Defence Minister (2006–2007), Nelson stunned Royal Australian Air Force (RAAF) chiefs when he circumvented the government’s rigorous procurement protocols for large defence purchases and authorised the \$6.6 billion acquisition of 24 Boeing Super Hornets following a strong sales pitch from Boeing. The highly controversial decision was taken against the advice of the air force chiefs who just weeks earlier had said such a purchase was unnecessary.<sup>80</sup>

Nelson caused consternation once again in March 2019 when his entry on the government’s new Foreign Influence Transparency Scheme Register revealed he had been on French multinational Thales’s Australian ‘advisory board’ for four years while concurrently director of the Australian War Memorial.<sup>81</sup> Thales is another top five contractor to Defence, and a donor to the memorial. Under section 24 of the *Australian War Memorial Act*, Directors are not permitted to accept such

73 ‘Ex-ASIO Head Duncan Lewis (Part 1): On His Military & Govt Career, And The Challenge of Terrorism’, Dr Darren Lim and Allan Gyngell AO FAIIA, 19 December 2019 <http://www.internationalaffairs.org.au/australianoutlook/ep-35-ex-asio-head-duncan-lewis-part-1-on-his-military-govt-career-and-the-challenge-of-terrorism/>

74 Valedictory Address Duncan Lewis AO DSC CSC, Transcript of Proceedings, 11 September 2019 [https://vs286790.blob.core.windows.net/docs/Transcript\\_Valedictory-DuncanLewis\\_Sep2019FIN.pdf](https://vs286790.blob.core.windows.net/docs/Transcript_Valedictory-DuncanLewis_Sep2019FIN.pdf)

75 What Ian Watt did next: board of a defence contractor’, *The Mandarin* 29 April 2016 <https://www.themandarin.com.au/64032-ian-watt-next-board-defence-contractor/>

76 BAE Systems appoints Australian Chairman, BAE media release 29 April 2016 <https://www.baesystems.com/en-aus/article/bae-systems-appoints-australian-chairman>

77 Dr Brendan Nelson AO to lead Boeing’s Oceania operations, Boeing media release 20 January 2020 <https://www.boeing.com.au/news/releases/2020/january/dr-brendan-nelson-to-lead-boeing-oceania-operations.page?>

78 ‘Why are weapons makers sponsoring the national war memorial?’, JJJHack 22 May 2018 <https://www.abc.net.au/triplej/programs/hack/why-are-weapons-makers-sponsoring-the-national-war-memorial/9788666>

79 Hansard, 23 October 2019, Foreign Affairs, Defence and Trade Legislation Committee, p. 147 <https://bit.ly/3EVvz5s>

80 ‘Probe likely into Defence’s Super Hornet purchase’, *The Age* 6 August 2007 <https://www.theage.com.au/national/probe-likely-into-defences-super-hornet-purchase-20070806-ge5imi.html>; <https://www.abc.net.au/4corners/flying-blind/8953260>; <https://www.theage.com.au/technology/the-hornets-nest-20070709-ge5b0u.html>

81 Brendan Nelson first former politician to register on foreign influence scheme, *The Australian* 6 March 2019 <https://www.theaustralian.com.au/nation/politics/brendan-nelson-first-former-politician-to-register-on-foreign-influence-scheme/news-story/bed88f33ecc83142ec129cd0891bbcdf>

appointments without the express permission of the government of the day.<sup>82</sup>

In early 2015, the then Veterans' Affairs Minister Michael Ronaldson approved Nelson's proposed extracurricular activity.<sup>83</sup> He noted the potential for the roles to come into conflict and asked Nelson to take steps to avoid such conflicts. Unmentioned in the correspondence between the two<sup>84</sup> was the fact that, at the time, the Government was in the late stages of assessing a potential \$1.3 billion armoured vehicle deal with Thales, discussed below. In 2019, Nelson responded to concerns about this previously hidden arrangement with Thales by saying he donated the fees he received to the War Memorial.

**The board of Lockheed Martin Australia** since October 2013, has included multiple former senior Australian public officials: at least two, more often three, and even four during one 20-month period. They included: Chris Ritchie, former Chief of Navy; Allan Hawke, former Chief of Staff to Prime Minister Paul Keating, and former Defence Secretary; Kim Beazley, former Australian Ambassador to the US, former Defence Minister and Leader of the Opposition; Geoff Brown, former Chief of Air Force; Amanda Vanstone, Howard Government Minister. Brown and Vanstone remain on the Lockheed Martin Australia board.<sup>85</sup>

In addition, three former senior Australian Defence Force (ADF) officers have been employed as Chief Executive of Lockheed Martin Australia following their retirement from the ADF: Raydon Gates retired from the navy in late 2008, after 40 years. In early 2011 he was appointed Lockheed's Australian chief executive, a position he held for almost six years; Vince di Pietro retired from the navy in March 2016, after 40 years. Five months later (August 2016) he joined Lockheed Martin, then served as its chief executive from December 2016 to April 2019; Warren McDonald retired from the air force in December 2020, after 41 years.<sup>86</sup> Seven months later (1 July 2021), he joined Lockheed's leadership team and took over as chief executive in late 2021.

**Electro Optic Systems (EOS)** claims to be Australia's largest defence exporter. Chair of EOS' board of directors is Peter Leahy, former Chief of Army who joined EOS less than a year after his retirement. Alongside the former Chief of Army on the board is former Chief of Air Force, Geoff Brown. As Chief of Air Force, Brown was instrumental in deciding on the F35 purchase; upon retirement from the Army, he went on after retirement in 2015 to join the board of Lockheed Martin, the F35's manufacturer.

The EOS revolving door of Directors is not limited to former military heads; former ALP Senator for the Australian Capital Territory (ACT) Kate Lundy is also on the board, serving concurrently with her role on the ACT Defence Industry Advisory board, where she was joined by Geoff Brown. Lundy also serves on the Space Industry Leaders Forum which advises the Australian Space Agency. This is particularly relevant as EOS unveiled its new space laser in 2021 in conjunction with the Space Environment Research Centre, a registered charity controlled by the ANU, RMIT, EOS, Lockheed Martin, Optus and the Japanese National Institute of Information and Communications Technology.

82 Australian War Memorial Act (1980) ([http://www8.austlii.edu.au/cgi-bin/viewdoc/au/legis/cth/consol\\_act/awma1980244/s24.html](http://www8.austlii.edu.au/cgi-bin/viewdoc/au/legis/cth/consol_act/awma1980244/s24.html))

83 Brendan Nelson warned to avoid 'potential conflict' of paid role with Thales, *The Guardian*, 24 May 2019 <https://www.theguardian.com/australia-news/2019/may/24/brendan-nelson-was-warned-of-potential-conflict-of-paid-role-with-thales>

84 Obtained under Freedom of Information, see 2019, no 169: <https://www.dva.gov.au/about-us/overview/reporting/freedom-information/foi-disclosure-log#-02>

85 Lockheed Martin Leadership website page <https://www.lockheedmartin.com/en-au/leadership.html> (accessed 4 January 2022)

86 Lightning fly-past marks change of command, *Leading Seaman Craig Walton*, 1 December 2020 <https://news.defence.gov.au/people/lightning-fly-past-marks-change-command>

The revolving door provides the foundation for significant lobbying and personal influence in the arms industry. More broadly, senior revolving door appointees provide advice on how to pursue company objectives within government. They also exercise their personal influence by helping the company gain ‘access’ to decision-makers, opening doors within government and the military. The significance of this cannot be overstated in an industry where most key decisions are made behind closed doors at senior levels of government and remain shrouded in secrecy.

## Lobbying and personal influence

Significant arms companies operating in Australia usually have at least one, but more often multiple, former military officers, public servants, politicians or political staffers in management positions, on the board, or both.

Arms companies often establish ‘advisory boards’ which assist in their lobbying efforts, although this particular purpose is not always stated plainly. Advisory boards typically include the chief executive and a handful of senior company executives along with selected external influencers such as former politicians from both major political parties and/or former senior members of the ADF.



## The Thales Hawkei procurement

We have examined the Thales Hawkei vehicle procurement in detail because it provides such a strong example of how well-connected industry lobbyists can manipulate checks and balances.

Thales manufactures the Bushmaster medium-weight armoured vehicle that was already in use by the ADF. The company wanted to win the contract to design and manufacture a new light-weight armoured vehicle for the ADF as well. To win the contract, Thales exerted considerable influence over successive governments of both major political parties. The project originated under the Howard Government and ran the length of the Rudd/Gillard/Rudd Governments. The contract was finally awarded to Thales at the crossover of the Abbott/Turnbull Governments.

Thales wasn’t on the starting line for this procurement. New-build Australian vehicle options were considered too risky and expensive, and the Government had decided to partner with the US in its larger light-armoured vehicle project.

How Thales came from nowhere to win a lucrative \$1.3 billion contract is a long, complex, highly political and often disturbing story that can be read in the Australian National Audit Office (ANAO) report in startling detail.<sup>87</sup>

<sup>87</sup> Auditor-General Report No.6 of 2018–19 Army’s Protected Mobility Vehicle – Light  
<https://www.anao.gov.au/work/performance-audit/army-protected-mobility-vehicle-light>

The ANAO's reasons for selecting this program for audit included: "[Defence] commenced the acquisition process in 2006, and in 2008 adopted a strategy to procure the Joint Light Tactical Vehicle (JLTV) being developed by the United States. The vehicle ultimately selected in 2015 was the Australian-developed Hawkei<sup>88</sup> vehicle designed by Thales Australia... This project was selected for audit because of the materiality of the procurement, the adoption of a sole-source procurement strategy, the time taken to select a vehicle, and the risk involved in manufacturing a relatively small run of vehicles [1,100] when the United States was beginning a similar but much larger program".<sup>89</sup>

The ANAO's audit examining the effectiveness and value for money of this acquisition led to some illuminating findings:

- Despite the Government having decided to partner in the US program, in December 2008 Thales made an unsolicited pitch to Defence for a new option to be manufactured in Australia accompanied by "extensive industry lobbying". A major lobbying point was that Thales' Bendigo factory, then manufacturing the heavier Bushmaster armoured vehicle, would run out of work when Bushmaster production ceased, putting jobs at risk. Labor's Defence Minister, Joel Fitzgibbon, decided Australian options should be sought, and publicly announced this intention before he had gained Prime Minister Rudd's approval.
- Prime Minister Rudd was dubious about the competitiveness of an Australian-build option and requested his Ministers of Defence and Finance jointly assess Australian industry responses. Defence alone assessed the responses and did not involve the Finance Minister as requested.<sup>90</sup>
- Defence did not make the Government aware of the results of an economic study it had commissioned that found there would be limited regional economic benefits and that a significant premium would be paid for the Hawkei build. Governments make much of the importance of local jobs, yet the study noted that the jobs created in Bendigo would likely reduce job numbers by a similar number elsewhere, and the majority of Thales' profits would end up with overseas shareholders.<sup>91</sup>
- Defence recommended the purchase of 214 extra Bushmaster vehicles from Thales, despite admitting there was little need for them. This was so Thales could keep its Bendigo plant operational while it was awaiting the possible approval of the Hawkei. Four government departments opposed this plan – Prime Minister and Cabinet, Treasury, Finance, and Foreign Affairs and Trade – yet the purchase went ahead, and Defence's expenditure rose by \$221 million. Treasury's advice to take this amount into account at the Hawkei's next evaluation point was not followed. The ANAO said the alternative plan of closing and later reopening the Bendigo facility would have cost \$33 million, less than one-sixth the cost of buying 214 unnecessary Bushmasters.<sup>92</sup>
- Once Defence dropped the US option and moved into a sole source tender with Thales for the Hawkei it reduced its ability to exert pressure on price. It removed any remaining leverage it had when it sought government approval on the Hawkei prior to the completion of negotiations with Thales. Defence records indicate that once Thales knew the Government had approved the Hawkei, it refused to negotiate anything further of significance.

<sup>88</sup> A vehicle named the Hawkei (ostensibly after the Australian death adder, which had been named for former Prime Minister Bob Hawke) during a Labor Government was ultimately acquired by a Coalition Government.

<sup>89</sup> Auditor-General Report No.6 of 2018–19 Army's Protected Mobility Vehicle - Light, p.7

<sup>90</sup> Auditor-General Report No.6 of 2018–19 Army's Protected Mobility Vehicle - Light, p.36

<sup>91</sup> Auditor-General Report No.6 of 2018–19 Army's Protected Mobility Vehicle - Light, p.38

<sup>92</sup> Auditor-General Report No.6 of 2018–19 Army's Protected Mobility Vehicle - Light, p.41



- An independent review inside Defence noted Thales had been successful in “pressuring the Commonwealth” to relax its requirements in relation to the procurement and that there was a risk Thales could do so again. (Thales rejected this claim of pressure, but its protests can now be seen in light of subsequent pressuring of the Attorney-General to issue the certificate, and legal action against the Auditor-General in the Federal Court.)
- While Thales was in the critical latter stages of efforts to lock in the \$1.3 billion<sup>93</sup> contract it approached former Defence Minister Brendan Nelson to join its advisory board. At the time, Nelson was employed full-time by the Commonwealth as director of the Australian War Memorial. As noted in section 2, Nelson required ministerial permission for this appointment and was given it. This was despite the Government being in the latter stages of this long-running major defence procurement. Nelson joined the Thales Advisory Board on 17 March 2015.<sup>94</sup>

Whether Nelson was involved in advising Thales or lobbying the Government on this procurement is unknown, but the timing is strongly suggestive of the possibility. In his letter to Veterans’ Affairs Minister Michael Ronaldson seeking permission for the appointment, Nelson mentioned that the advisory board considered strategic matters, including “programmes”. Ronaldson’s reply also noted that the advisory board was tasked with providing advice to the Thales CEO on “key programs.”<sup>95</sup> The Hawkei is certainly a key program and it was in a critical phase for Thales at the time Nelson was appointed.

In August 2015, five months after Nelson joined the Thales Advisory Board, the Hawkei was approved for acquisition. This approval was rushed and shown by the ANAO to be driven by industry. The Army had stated it had no urgent need for the vehicles. Six weeks after approval was granted, the acquisition contract with Thales was signed.<sup>96</sup>

## Successful suppression of sections of the ANAO report

In 2018, there was widespread media coverage<sup>97</sup> of the extraordinary way Thales pressured the Government to censor certain statements in the ANAO report, most notably the statements in which it was made plain the project did not represent value for money for the taxpayer. Thales pressure tactics included instigating action against the Auditor-General through the courts (an action it later dropped).

The then Federal Attorney-General Christian Porter went to unusual lengths to override the Audit Office – a key public accountability mechanism – and to suppress sections of the report, inline with Thales’ demands, by issuing a rarely-used legal mechanism under section 37(1) of the *Auditor-General Act*, issuing a certificate to censor the parts of the report that Thales had requested be kept secret.

93 Australian military’s \$1.3 billion Hawkei contract criticisms revealed after previously sealed by the Attorney-General, ABC News 9 January 2021 <https://www.abc.net.au/news/2021-01-09/australian-military-billion-hawkei-contract-criticism-revealed/13044330>

94 Foreign Influence Transparency Scheme Register Registration Record, March 2019 <https://transparency.ag.gov.au/SearchItemDetail/6f0af20c-983f-e911-8122-0050569d617d>

95 Documents obtained under Freedom of Information, see 2019, no 169: <https://www.dva.gov.au/about-us/overview/reporting/freedom-information/foi-disclosure-log#-02>

96 Auditor-General Report No.6 of 2018–19 Army’s Protected Mobility Vehicle - Light, section 4 (page 43 and following)

97 Examples include ‘Gagged: A brazen attack on Parliament and the public interest’, Canberra Times 6 November 2018 <https://www.canberratimes.com.au/story/6000953/gagged-a-brazen-attack-on-parliament-and-the-public-interest/> and Labor accuses Coalition of censoring Auditor-General over defence report, Australian Financial Review 13 September 2018 <https://www.afr.com/politics/labor-accuses-coalition-of-censoring-auditorgeneral-over-defence-report-20180913-h15cia> ;

Following the release of the unredacted report,<sup>98</sup> it became clear Porter had used the cloak of ‘security, defence or international relations of the Commonwealth’ as a false cover to protect the commercial interests of Thales, a significant abuse of the public trust invested in this high office.

It should be noted most of the above would not be public knowledge were it not for the work of the ANAO. On defence procurement, it is a critical accountability mechanism. Despite wide support for a funding increase, in the 2020 Federal Budget the ANAO’s funding was cut.<sup>99</sup> There are calls to protect the ANAO from further cuts by making it a parliamentary department.

### Think tanks and industry groups

Since the Australian Government commenced an unprecedented investment in the arms industry in 2016, the array and strength of defence-related peak bodies and organisations in Australia has increased. Every state and territory government now has a defence advisory board and a defence advocate, often attracting former defence chiefs, and there are numerous other state-based and regional bodies. In addition, most major universities are engaged in significant research collaborations, training programs and other partnerships with the arms industry. The most significant think tanks include:

**Australian Strategic Policy Institute (ASPI):** The most vocal and influential defence-related think tank in Australia was established by the Department of Defence under Prime Minister Howard, with Opposition Leader Beazley’s support. While it insists on ‘independence’, ASPI receives significant additional funding from the Australian Government on top of its core Department of Defence grant funding, along with sponsorships and research funding from many of the multinational arms companies and cybersecurity companies operating in Australia.

**AiGroup:** This industry body describes itself as the “peak national representative body for Australia’s defence industry”<sup>100</sup> and has expanded its defence industry representation significantly in recent years. It hired former Defence Assistant Secretary Kate Louis to run its defence industry program. Louis previously worked on defence industry policy within the Defence Department.

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98 A feat achieved by Senator Rex Patrick following a lengthy FOI battle, Attorney-General Must Explain National Security Error to Parliament, media release, Office of Senator Rex Patrick, 9 January 2021 [https://www.rexpatrick.com.au/attorney-general\\_must\\_explain\\_national\\_security\\_error\\_to\\_parliament](https://www.rexpatrick.com.au/attorney-general_must_explain_national_security_error_to_parliament)

99 Coalition accused of trying to avoid scrutiny after audit office budget cut, The Guardian 8 October 2020 <https://www.theguardian.com/australia-news/2020/oct/08/coalition-accused-of-trying-to-avoid-scrutiny-after-audit-office-budget-cut>

100 AiGroup website <https://www.aigroup.com.au/sectors-and-advocacy/Defence/>

## Research and policymaking

Despite its profound impact on international politics, the global arms trade operates largely in the shadows, with insufficient regulation. The Global Justice program at Yale University has noted: “The trade operates with virtual impunity behind a veil of national-security-imposed secrecy”.<sup>101</sup>

Research by the Cato Institute<sup>102</sup> showed the touted economic benefits of arms sales are dubious and their strategic utility is far more uncertain and limited than most realise. If Cato reached this conclusion after looking at the powerful US industry, significant questions should be asked about Australia’s decision to head down a similar path.

When considering the influence of the arms industry on Australian defence policy it is worth keeping in mind that Australia is a very significant customer of the US arms industry – its second largest, after Saudi Arabia, for 2016-2020, according to research by the Stockholm International Peace Research Institute (SIPRI).<sup>103</sup> Even before that, according to the ‘Risky Business’ Cato Institute report, Australia has long been a top five US customer.

Many powerful advocates in the US view its arms sales as providing leverage over the behaviour and policies of ‘client nations’ while also strengthening the US industrial base.

Australia is the fourth largest market for the UK’s arms giant BAE Systems plc. In 2017, BAE Systems said it regarded Australia as a ‘highly strategic’ market and wanted to almost double its Australian-sourced revenues.

It’s obvious why the arms industry is enthusiastic: the amount of money Australia is pouring into it is internationally significant. Defence called the now abandoned submarine deal with Naval Group “a megaproject by all international standards”. Yet despite this unprecedented expenditure – \$195 billion under Turnbull, increased to \$270 billion by Morrison – there has been little research analysing the extent of arms industry influence in bringing it about.

The huge spending on major defence programs has required some justification by government and industry. One avenue has been the commissioning by industry of ‘independent’ reports setting out the economic benefits.

Lockheed Martin has produced extensive literature to justify Australia’s investment in its F-35 fighter jet program. BAE Systems Australia, a significant contractor in Australian naval shipbuilding, has done the same.

In 2017, former senior analyst of defence economics for the Australian Strategic Policy Institute, Mark Thomson, compared two economic impact studies proffered by the Government – the 2015 submarine and the 2016 F-35 analyses.<sup>104</sup> Even though both studies used the same model (General Equilibrium Modeling or CGE) they produced markedly different results. Thomson concluded “two isolated studies are a fragile basis on which to build a policy” and that “without independent replication, we can’t be sure that *either* study is correct”.

101 Exposing Corruption in the Global Arms Trade, Khadija Sharife and Andrew Feinstein, Yale Global Justice Program, <https://globaljustice.yale.edu/news/exposing-corruption-global-arms-trade> (accessed 4 January 2022)

102 Cato Institute Policy Analysis No. 836, Risky Business: The Role of Arms Sales in U.S. Foreign Policy’, A. Trevor Thrall and Caroline Dorminey, 13 March 2018 <https://www.cato.org/policy-analysis/risky-business-role-arms-sales-us-foreign-policy>

103 Trends in international arms transfers, 2020 SIPRI Fact Sheet, March 2021 [https://sipri.org/sites/default/files/2021-03/fs\\_2103\\_at\\_2020.pdf](https://sipri.org/sites/default/files/2021-03/fs_2103_at_2020.pdf)

104 Defence exports—best bang for the buck? The Strategist 23 May 2017 <https://www.aspistrategist.org.au/defence-exports-best-bang-buck/>

Thomson's recommendation was that, as a priority, "the government should commission modelling to properly and systematically determine how Australian defence spending can best be harnessed to create jobs and grow the economy". He noted a good first step would be to "have a third-party replicate the 2015 submarine and 2016 F-35 economic impact studies on a common CGE platform." Sound advice.

Given the high stakes, the corporations themselves cannot be considered independent, unbiased sources of information.

### **KPMG and Lockheed Martin**

In June 2018, Minister for Defence Industry Christopher Pyne released a KPMG report 'The Economic Contribution of Lockheed Martin to Australia',<sup>105</sup> saying, "The Government's commitment to a viable long term defence industry has been validated with the release of an independent report into Lockheed Martin Australia's positive impact on the Australian economy".<sup>106</sup>

Unmentioned by Pyne was the report's lengthy disclaimer which said, in summary, that the report was prepared by KPMG at the request of Lockheed Martin, which had paid KPMG to do the report under an advisory engagement, meaning it was not completed according to Australian auditing and assurance standards. Further, the data and information surveyed was "approved by Lockheed Martin". KPMG did not verify or guarantee the completeness, accuracy, or reliability of the information it had been supplied.

### **BIS Oxford Economics and BAE**

Minister Pyne released another report in November 2018, an Oxford Economics report on the Hunter class future frigates program<sup>107</sup> with modelling that "vindicated the Coalition Government's determination to develop a sovereign naval shipbuilding capability in Australia".

Pyne's media release made a range of statements about the Hunter class program but made no mention of BAE until the final line, indicating the Oxford Economics report had been commissioned by BAE Systems.<sup>108</sup> The impression created was that this was an independent report from BIS Oxford Economics on the future frigates program. However, the attached report was titled 'The Economic Impact of BAE Systems in Australia' and the future frigates information was buried in the final section. Again, there was a disclaimer noting "The modelling and results presented here are based on information provided by third parties upon which BIS Oxford Economics has relied ... in good faith". Pyne's media release pretended the report was generated by Oxford Economics independently and did not disclose that all data was provided by BAE Systems.

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105 The Economic Contribution of Lockheed Martin to Australia, KPMG, May 2018 [https://www.lockheedmartin.com/content/dam/lockheed-martin/au/documents/LMA\\_FinalReport\\_May2018\\_protected%20Plain%20Cover.pdf](https://www.lockheedmartin.com/content/dam/lockheed-martin/au/documents/LMA_FinalReport_May2018_protected%20Plain%20Cover.pdf)

106 Contribution of Lockheed Martin to Australia, Defence Minister Pyne media release 28 June 2018, <https://www.minister.defence.gov.au/minister/christopher-pyne/media-releases/contribution-lockheed-martin-australia>

107 The Economic Contribution of BAE Systems in Australia, BIS Oxford Economics 20 November 2018 [https://resources.oxfordeconomics.com/hubfs/BAESA.pdf?\\_\\_hstc=52718647.2f3f33a24b44870ec4a577029c49e44b.1618012800074.1618012800075.1618012800076.1&\\_\\_hssc=52718647.1.1618012800077&\\_\\_hsfp=19610472](https://resources.oxfordeconomics.com/hubfs/BAESA.pdf?__hstc=52718647.2f3f33a24b44870ec4a577029c49e44b.1618012800074.1618012800075.1618012800076.1&__hssc=52718647.1.1618012800077&__hsfp=19610472)

108 Naval shipbuilding a boon for Australian economy, Defence Minister Pyne media release 28 November 2018, <https://www.minister.defence.gov.au/minister/cpyne/media-releases/naval-shipbuilding-boon-australian-economy>

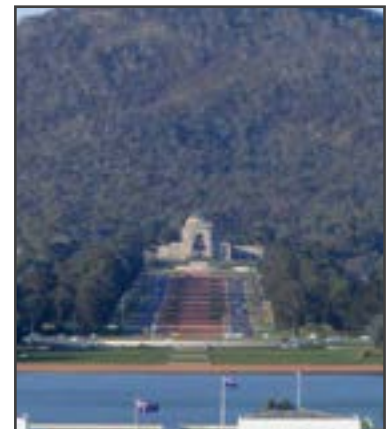
## Institutional repurposing

“Australia’s regulatory framework has failed Australians at every step of this abomination of an ‘assessment’ process. Supposedly ‘independent’ decision-makers have been shown to be nothing more than toothless tigers dancing to the tune of their political masters.”

Clare Cousins, former national president, Australian Institute of Architects on the Australian War Memorial redevelopment

Refocusing government agencies to serve the interests of the arms industry occurs incrementally and unobtrusively. The case of the Australian War Memorial is one example. Its former Director Brendan Nelson gained approval for a massive redevelopment of a nationally beloved and respected building, despite strong opposition from those who believed changes proposed to the iconic building served vested interests rather than its intended purpose.

The Australian War Memorial redevelopment and expansion will cost \$498 million. Research by The Australia Institute found one in two Australians would prefer the money be spent on services such as health and education, a further one quarter (26%) would prefer the money be spent on veterans’ support services and just 13% wanted to spend the money on the redevelopment.<sup>109</sup>



‘Early’ works included the destruction of the architecturally award-winning Anzac Hall and the felling of about 140 trees surrounding the memorial. These irreversible actions began months before the final phase of consultation and approval had begun.

The proposed new two-storey Anzac Hall and glazed link<sup>[46]</sup> will allow for the display of more military hardware such as fighter jets, helicopters and armoured vehicles.

Opposition to the redevelopment has come from diverse sections of the public - architects and historians, two former Australian War Memorial directors and former senior staff, heritage experts, anti-militarism groups, writers, journalists, artists, former public servants and military officers as well as veterans. The redevelopment is widely seen as evidence of Australia’s increasing militarism, supported by arms industry interests keen on their wares being on permanent public display. This backroom influence, underpinned by donations that are small change to the industry but welcomed by the memorial, has overridden the primary commemorative and historical educative purposes of the memorial.<sup>110</sup> Other examples of institutional repurposing underway in Australia include:

- **WA Governor now also an advocate for defence industry:** A year after appointing Kim Beazley as Western Australia’s new Governor, Premier Mark McGowan expanded what had been a role focused on constitutional and legal, ceremonial, and community responsibilities to include advocating for WA’s defence industry. McGowan authorised a larger staff and budget for Beazley to support his additional duties. “This is unique, there’s no question about that in respect of roles the Governor has traditionally played,” said WA Treasurer Ben Wyatt. He agreed that “advocacy was not the Governor’s role but said Mr Beazley’s expanded responsibilities were not political”.<sup>111</sup>

109 Vast Majority of Australians Prefer Funds for War Memorial Expansion to be Spent Elsewhere, Australia Institute, 2021

<https://australiainstitute.org.au/post/vast-majority-of-australians-prefer-funds-for-war-memorial-expansion-to-be-spent-elsewhere/>

110 Stephens, David: War Memorial picks up ‘small change’ donations from military industries, Honest History 28 January 2020

<http://honesthistory.net.au/wp/stephens-david-war-memorial-picks-up-small-change-donations-from-military-industries/>

111 ‘Budget boost for Beazley as governor decides his job now includes ‘advocacy’, WA Today 10 May 2019 <https://www.watoday.com.au/politics/>

- **Australian Strategic Policy Institute (ASPI):** ASPI was created two decades ago to provide independent input into government decision-making processes on major strategic and defence policy issues. Its charter says: “Contestability of advice is an important contributor to good public policy, and [the government] is concerned that in the strategic and defence policy arena the range of alternative views on which the government can draw is not well developed. ASPI is intended to help remedy this”.<sup>112</sup> The charter says ASPI will provide “a valuable source of alternative views on a wide range of issues”. Unfortunately, in the past decade, ASPI’s leadership has become increasingly influenced by and aligned with US Government and arms industry interests, including accepting funding from both. ASPI is now known for espousing views toward China that align with, rather than contest, the more extreme and inflammatory end of government rhetoric. This stance also aligns with the interests of multinational arms manufacturers. While it continues to publish the views of well-qualified alternative sources, these usually receive much less attention.
- **Australian Space Industry Leaders Forum:** Described as the coordination point advising the Australian Space Agency on Australia’s civil space sector, about half of the 20 members of the Space Industry Leaders Forum are from, or closely associated with, Defence or arms industry interests.<sup>113</sup> Australia’s chief defence scientist (head of Defence Science and Technology Group) sits in this Forum, despite its terms of reference<sup>114</sup> indicating that membership is non-government. Rod Drury, Lockheed Martin Space’s vice-president international, was appointed by the Space Agency as forum chair. The forum also includes Boeing’s president in the Australia, New Zealand, South Pacific region, Brendan Nelson; a vice president from Northrop Grumman, a US arms multinational; and Peter Woodgate, the chair of Australia’s SmartSat Cooperative Research Centre, which has a membership including Defence Science and Technology Group, multinational arms corporations BAE Systems and Airbus, Australian company Nova Systems, and numerous universities.<sup>115</sup>

## Public influence campaigns

As observed by Katrina vanden Heuvel, editor and publisher of *The Nation*: “Media outlets regularly invite former military and public officials to comment on U.S. defense policies—without disclosing their financial interests in these policies”.<sup>116</sup> While she was commenting on US media reporting, similar practises occur in Australia.

ASPI is a repeat offender at concealing the interests of its donors, council members and fellows, and other writers it publishes. In turn, Australian media outlets regularly use ASPI for commentary on defence and national security matters yet fail to advise the public of its funding sources. Its core annual funding comes from the Department of Defence, supplemented by other federal departments, but ASPI’s next largest source of funding is the US Government, via the US Defense and State Departments, with an average \$1.5 million annually over the past two years (17-18% of its funding).

This is highly pertinent given ASPI’s increasingly strong anti-China rhetoric.

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western-australia/budget-boost-for-beazley-as-governor-decides-his-job-now-includes-advocacy-20190510-p51m0w.html

112 ASPI Charter <https://www.aspi.org.au/basic-page/charter>

113 See Space Industry Leaders Forum, Department of Industry, Science, Energy and Resources <https://www.industry.gov.au/about-us/space-industry-leaders-forum>

114 Space Industry Leaders Forum – Terms of Reference, November 2019, <https://www.industry.gov.au/sites/default/files/2019-11/space-industry-leaders-forum-terms-of-reference.pdf>

115 SmartSat Cooperative Research Centre <https://smartsatcrc.com/>

116 ‘It’s time to break up the military-industrial complex’, Katrina vanden Heuvel, Washington Post 21 September 2021 <https://www.washingtonpost.com/opinions/2021/09/21/its-time-break-up-military-industrial-complex/>

ASPI also receives funding from the UK Government, and numerous multinationals, including from the arms industry.<sup>117</sup>

Some examples of ASPI-affiliated people whose related interests are rarely acknowledged:

- **Kim Beazley:** In between his roles as Australia's US Ambassador and his appointment as Western Australia's Governor, Kim Beazley spent two years closely associated with ASPI.<sup>118</sup> "From May 2016 to July 2018, Kim Beazley was a distinguished fellow at ASPI and, freed from the constraints of his ministerial, political and ambassadorial roles, Kim wrote with relish and spoke at ASPI events with flair and great enjoyment about Australia's defence and international security". Undeclared in Beazley's profile on ASPI's website is that for most of this two-year period he was also a board member of Lockheed Martin Australia (June 2016 to April 2018).
- **Ken Gillespie:** The former Chief of Army (2008–2011) was appointed to the ASPI Council in January 2015 and became its chair in December 2016. His ASPI profile states: "Ken currently sits on several boards, both public and not for profit, and provides consulting services to government departments, corporations and small companies". None of these entities are identified. However, in the defence and security sector, Gillespie sits on the boards of Naval Group Australia and Senetas Corporation as at October 2021. Naval Group's logo appeared as a sponsor of ASPI until recently. Gillespie was also a board member of Airbus Group until February 2020. Airbus is a long-term contractor to Defence, supplying helicopters.
- **Stephen Loosley:** The former Labor senator for NSW in the Hawke and Keating Governments is past chair of the ASPI Council and remains an ASPI senior fellow. While his ASPI website profile mentions an earlier membership of the Thales Australia advisory board, at the time of writing his profile has not been updated to reflect he joined the Thales Australia governance board in December 2019 and is now its deputy chair. In an article for *The Australian* in September 2021, in which he fulsomely praised Defence Minister Peter Dutton as well as ASPI, Loosley declared his interest as a senior fellow at ASPI. Conspicuously, he did not mention his greater vested interest as deputy chair of Thales Australia. As a top five multibillion-dollar contractor to Defence, Thales is heavily reliant on maintaining good relations with the Defence Minister and his Department.<sup>119</sup>
- **Peter Leahy:** The Professor and director at Canberra University's National Security Institute took up his new roles after retiring as Chief of Army in mid-2008. He is the chair of Electro Optic Systems (EOS), one of Australia's largest home-grown arms and space companies and a director of Adelaide-based Codan which supplies military radio, countermeasure technology and other military electronics equipment. Leahy has written for ASPI and in the media, and is often interviewed on defence and security issues. He does not disclose his industry interests. Indeed, his profile at the University of Canberra lists, under 'industry engagement', the Defence SA Advisory Board and a few defence-related charities, but at the time of writing did not disclose his directorships of EOS and Codan.<sup>120</sup>

<sup>117</sup> ASPI Annual Report 2020–21 Annex H, p 152, [https://s3-ap-southeast-2.amazonaws.com/ad-aspi/2021-09/ASPI-Funding-2020\\_2021.pdf?VersionId=tJxiJj2k0UALZCiXY18AOYodZMHFDKHv](https://s3-ap-southeast-2.amazonaws.com/ad-aspi/2021-09/ASPI-Funding-2020_2021.pdf?VersionId=tJxiJj2k0UALZCiXY18AOYodZMHFDKHv)

<sup>118</sup> The Strategist Selections: Kim Beazley, ASPI Event, 10 December 2018 <https://www.aspi.org.au/event/strategist-selections-kim-beazley>

<sup>119</sup> Transparency lacking in Australian defence policy Independent Australia 19 October 2021 <https://independentaustralia.net/politics/politics-display/transparency-lacking-in-australian-defence-policy,15645>

<sup>120</sup> Biography of Professor Peter Leahy AC, University of Canberra

<https://www.canberra.edu.au/about-uc/faculties/busgovlaw/school-of-government-and-policy/professor-peter-leahy-ac>

The World Bank defines state capture as “the exercise of power by private actors — through control over resources, threat of violence, or other forms of influence — to shape policies or implementation in service of their narrow interests”.

This report makes a compelling case that state capture is a problem eating away at the foundations of our democracy, our way of life and everything we care about most.

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- Saffron Zomer



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