

**MICHELLE FAHY – IPAN conference 23.11.22**

**Undue influence of the arms industry in Australia**

*[Delivery may not have exactly matched text in parts.]*



*I was born in Gadigal country in the Eora nation and now live here in Ngunnawal Ngambri country. I acknowledge and pay my respects to the past and present elders of the traditional owners of this land.*

*My thanks to IPAN for your valuable work for peace and for inviting me to speak today.*

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Most stories I do end up being about two things: *transparency* and *accountability*. More accurately, the lack thereof, in this industry.

Today I'll give you a snapshot of the intersection between the arms industry and the Australian government – the power and influence on one hand, and the secrecy and lack of accountability on the other. It's hard to do simply and in a short space of time, so I have chosen a particular example from my work

so far – as a case study which typifies how it works – to shine a spotlight on the undue influence of this industry. It's by no means the only example, but it's a really good one for illustrating how this industry can manipulate and control government decision-making to undermine the public interest to serve its own private interests. We know a fair bit about this one thanks to the Australian National Audit Office and [its report](#).



This undermining of the public interest to serve private interests, when it becomes entrenched, is called state capture. The World Bank describes it like this: "State capture is 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 interest."

First, a bit of context showing how the arms industry here fits in with the global arms industry.

You don't need to read the chart. The simple point I'm making is the number of names in red – on both sides.

## Global vs Australian 2020

GLOBAL Top 15	AUSTRALIAN Top 15
Lockheed Martin (US)	BAE Systems (UK)
Raytheon (US)	Thales (France)
Boeing (US)	Boeing (US)
Northrop Grumman (US)	Lendlease (Aust)
General Dynamics (US)	Broadspectrum (Spain/Aus)
BAE Systems (UK)	Lockheed Martin (US)
Norinco (China)	Downer (Aust)
AVIC (China)	Rheinmetall (Germany)
CETC (China)	ASC (Aust)
L3Harris Technologies (US)	Airbus (Europe)
Airbus (Europe)	Babcock (UK)
CASIC (China)	Leidos (US)
Leonardo (Italy)	Northrop Grumman (US)
Thales (France)	L3Harris Technologies (US)
Huntington Ingalls (US)	KBR (US)
16. Leidos (US)	
27. Rheinmetall	
39. Babcock (UK)	
43. KBR (US)	

At left is a list of the top 15 global arms manufacturers. At right is a list of the top 15 contractors to Defence in Australia. The names in red are those that appear in both lists – showing a large amount of crossover. This is not surprising, but it's useful to get a visual sense of the overlap.

Eleven of these top 15 Australian defence contractors are foreign-owned (73%) – highlighted red on the right side. If we take out the three Australian companies that are not arms manufacturers – they work on expanding and maintaining defence bases and infrastructure, catering, other services – there is only one Australian arms manufacturer in the 12 listed, ASC – formerly Australian Submarine Corporation, in South Australia.

The left column shows where those foreign companies rank globally. All of Australia's 11 foreign-owned top defence contractors are global top 40-ish companies (KBR = 43<sup>rd</sup>), seven of them are in the global top 15.

I'm making this point, using the top 15 in particular, because the Australian Strategic Policy Institute (ASPI) did a study in 2017 that found, on average, in the 20 years to 2015, the top 15 contractors in Australia took 91% of the revenue.

Along with this quick look at the extensive presence of the global arms industry here, I'll mention a 2020 report from SIPRI (the respected Stockholm International Peace Research Institute which tracks global arms sales and military expenditure). The report is called [Mapping the international presence of the world's largest arms companies](#).

The report took the world's top 15 arms manufacturers and systematically investigated how many subsidiaries and joint ventures they had dotted around the globe. To be included, the subsidiaries had to be involved in **arms production and military services activities** and they had to be selling their products or services to military clients. They couldn't just be sales or marketing shopfronts, or shell companies: those types of entities were excluded.

SIPRI found 400 subsidiaries of these 15 companies spread across at least 49 countries. They are mostly in countries that have two features:

1. the country is a large arms importer
2. it's trying to establish a local arms industry.

Makes sense, right? You can see why a foreign arms-maker would move in.

And – you guessed it – Australia ticks both those boxes. Australia is currently the world's [4<sup>th</sup> largest arms importer](#), and we are one of America's biggest clients. In the five years from [2016-20](#) Australia was the United States' second biggest arms customer, after Saudi Arabia. Even before that, we have been a [top 5](#) US arms industry customer for a long time. It's worth bearing that in mind when the US calls us its very good friend.

We are also BAE Systems' (UK) fourth largest market. After the Turnbull government announced its massive planned spend on weaponry, BAE's director of international markets [said in 2017](#): "We are really in ... exciting

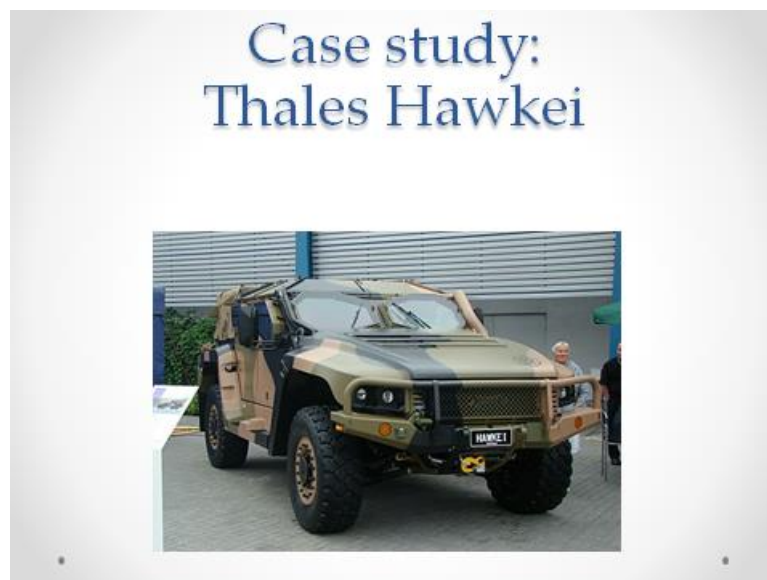
times in the Australian market. The government procurement plans are hugely ambitious. There aren't too many countries who have that scale of defence procurement ambition in the next 15 years."

And that was before AUKUS came along!

This is the Australian summary from SIPRI's report:

1. Australia is now the largest military manufacturing hub outside the two major hubs of North America and Western Europe.
2. Australia ranks *second in the world* for the number of foreign subsidiaries of the top 15: we have 38 subsidiaries of those 15 companies here. The UK has most with 56, Saudi Arabia is third with 24.

So, that sets the scene. It's obvious there's a significant presence in Australia of the topmost echelons of the global arms industry: a lot of power and influence.



The Thales Hawkei vehicle procurement is a strong example of undue influence. How the company came from nowhere to win this \$1.3 billion contract is a complex and highly political story that beggars belief, frankly. It

contains many elements of undue influence that pop up across other procurements, yet here they are all in one story, so it's a great example.

It also shows, starkly, how industry bent both sides of politics to its will – that's state capture.

Thales already manufactured the Bushmaster medium-weight armoured vehicle and it desperately wanted to design and manufacture the Army's lighter-weight vehicle as well.

This project originated under the Howard government in 2006, ran the length of the Rudd/Gillard/Rudd governments, and the contract was finally signed at the crossover of the Abbott/Turnbull governments in 2015.

Designing and building a very small number of vehicles (1,100) from scratch was considered too risky and expensive so Defence decided to partner with the US and buy the vehicle the US was developing in a similar but much larger program. That process started... Thales was not in the picture.

Here is a quick summary of what happened.

The government changed from Coalition to Labor: Kevin 07. Thales started "extensive industry lobbying" [p11, [ANAO report](#)] to get an Australian-made vehicle onto the list of options. Its big point was that its Bendigo factory would run out of work when Bushmaster production ceased, putting jobs at risk. Labor's defence minister, Joel Fitzgibbon, was persuaded and **publicly announced he was adding an Australian-built option to the procurement without gaining Prime Minister Rudd's approval first.** [p34]

But, Defence had commissioned an economic study that found there would be limited regional economic benefits to keeping the factory open, that a

significant price premium would be paid, that the jobs created in Bendigo would likely reduce job numbers by a similar number elsewhere, and that most of Thales' profits would disappear offshore. **Defence didn't share the study with the government.** [p38-9]

Defence recommended buying 214 extra Bushmaster vehicles from Thales, despite admitting little need for them, just so Thales could keep its factory open while waiting to see if it won the contract. **Four government departments opposed this plan** – Prime Minister and Cabinet, Treasury, Finance, and Foreign Affairs and Trade – yet the purchase went ahead, costing \$221 million. This amount was **not** included in the overall cost of the project as advised by Treasury. Closing and reopening the factory would have cost \$33 million. [p41]

After this, Defence made two moves that ensured it had zero leverage for negotiating price with Thales: it dropped out of the US vehicle program that had been held as a fallback option; and it sought and got government approval for the Thales vehicle **before** completing negotiations with Thales. Defence records show that when Thales found this out it refused to negotiate anything further of significance.

The government had by now changed back to the Coalition. This next bit isn't in the ANAO report, it comes from other publicly available sources. While Thales was trying to lock in the \$1.3 billion contract, it approached former Liberal defence minister Brendan Nelson to join its 'advisory board'. Nelson was then employed full-time by the Commonwealth as director of the Australian War Memorial. He required his minister's permission to take up the Thales appointment and [he was given it](#), in writing. Nelson joined the Thales advisory board on [17 March 2015](#).

It is unknown whether Nelson was involved in advising Thales about this procurement deal, or maybe even lobbying key people, but the timing is suggestive of the possibility. It was in August 2015, five months after Nelson joined Thales, that the government approved the Hawkei for acquisition.

You may have heard about the next chapter of this saga as it made a few headlines [eg. see [here](#) and [here](#)]. In 2018, as the ANAO was getting ready to publish its report Thales started pressuring the government and the ANAO to censor the parts that made plain the project did not represent value for taxpayers' money. Attorney General Christian Porter overrode the audit office and used a dormant legal power to censor parts of the report as Thales demanded.

After a couple of years, thanks to [Rex Patrick and his FOI](#), the report was finally made fully public which revealed that Porter had used the 'national security' cloak to protect Thales's commercial interests.

So – there you have it – it's a big story and a great example of the undue influence of the arms industry in Australia, bending both political parties to its will, against the public interest, which fits in with the World Bank's definition of state capture – not as the only example of course. If you Google "[Confronting State Capture](#)" you will see the report I contributed to, which includes this story and a lot of other examples, alongside similar material from the fossil fuels industry. It was published earlier this year by the Australian Democracy Network.

Thank you for your attention.

*Further reading: my November 2020 series ([Part 1](#) and [Part 2](#)) contains additional disturbing details about the Thales Hawkei procurement.*