Cabinet

Minute of Decision

Defence Force Future Air Surveillance: Approval to Purchase the Boeing P-8A Poseidon Aircraft

Portfolio **Defence**

On 2 July 2018, following reference from the Cabinet Government Administration and Expenditure Review Committee, Cabinet:

Acquisition of Boeing P-8A Poseidon aircraft

1 **agreed** to the order of four Boeing P-8A Poseidon maritime patrol aircraft (P-8A), training systems and other support equipment and services as a sole source selection through the US Foreign Military Sales process, and the acquisition of infrastructure and other components as required to bring the P-8As into service;

2 **agreed** that the Chief of Defence Force may, at his discretion, base the P-8A fleet, and associated ground services and personnel, at Base Ohakea;

3 **noted** that s9(2)(f)(iv) a complementary air surveillance capability, with further analysis to take place during the Defence Capability Plan review and through the business case process;

4 **noted** that s9(2)(f)(iv) s9(2)(f)(iv) the Future Air Mobility Capability project, with further analysis to take place during the Defence Capability Plan review and through the business case process;

5 **noted** that s9(2)(f)(iv) the Future Air Mobility Capability project s9(2)(f)(iv) with further analysis to take place during the Defence Capability Plan review and through the business case process;

Financial implications of acquiring the P-8A

6 **noted** that the initial P-8A capital cost (including contingency) is NZ $2,346 million and is made up of s9(2)(b)(ii) to acquire the aircraft and training systems and s9(2)(i) for infrastructure and introduction into service costs;

7 **directed** that the Defence Estate Regeneration Plan prioritise activities supporting the P-8A and Complementary Capability infrastructure development;

8 **noted** that, of the NZ $2,346 million initial capital cost (including contingency of s9(2)(i)) for the P-8A, s9(2)(i) is sought by way of capital injections, s9(2)(i) is sought as tagged contingency, s9(2)(i) will be funded from within existing Defence baselines, and s9(2)(i) is sought through an operating to capital funding swap;

9 **noted** that the capital contingency in paragraph 8 above includes s9(2)(i) for the potential foreign exchange risks of the exchange rate movement prior to hedge implementation following Cabinet approval to proceed with the P-8A purchase;

10 **noted** that any funding that is not required from the s9(2)(i) contingency for this project will be used to contribute toward other projects on the Defence Capital Plan (DCP), and that Defence will keep Ministers informed of the impact of this through updates of the DCP;

11 **noted** that:

11.1 the capital and operating funding provisions for Defence have been determined using inflation and foreign exchange rates used for the 2016 Defence White Paper;

11.2 Whole of Life Costs are calculated using foreign exchange rates provided by Treasury's Debt Management Office in May 2018;

12 **approved** the following changes to appropriations and capital injections for the capital, associated capital charge, depreciation, direct operating costs, and personnel costs required to give effect to the acquisition of four P-8A aircraft, training systems, other support equipment, services infrastructure and other components noted in paragraphs 1 and 2 above, with the following impact on the operating balance and debt:

	NZ $M - increase/(decrease)					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears
Operating Balance Impact	s9(2)(i)					
Debt Impact						
No Impact						
Total						

13 approved

	NZ $M - increase/(decrease)					
Vote Defence Force Minister of Defence	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24 & outyears**
Capital Injection: New Zealand Defence Force – Capital Injection	s9(2)(i)					
Departmental Output Expense: Air Capabilities Prepared for Joint Operations and Other Tasks (funded by revenue Crown)						
Multi-Category Expenses and Capital Expenditure: Protection of New Zealand and New Zealanders						
Departmental Output Expense: Resource and Border Protection Operations (funded by Revenue Crown)						
Total Operating						
Total Capital						

the following operating to capital swap associated with New Zealand Defence Force personnel involved in the P-8A project management activities to give effect to paragraphs 1 and 2 above;

14 agreed

	NZ $M - increase/(decrease)						
Vote Defence Force Minister of Defence	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
Capital Injection: New Zealand Defence Force – Capital Injection	s9(2)(i)						
Departmental Output Expense: Air Capabilities Prepared for Joint Operations and Other Tasks (funded by revenue Crown)							
Multi-Category Expenses and Capital Expenditure: Protection of New Zealand and New Zealanders							
Departmental Output Expense: Resource and Border Protection Operations (funded by Revenue Crown)							
Total Operating							
Total Capital							

to set aside the following amount in a tagged contingency for Vote Defence Force to fund

the infrastructure component of the project contingency if required, expiring on 30 June 2022:

Capital contingency	NZ $M – increase/(decrease)
Capital contingency for the associated infrastructure for the P-8A Poseidon capability	s9(2)(i)

15 **authorised** the Minister of Finance and Minister of Defence to jointly draw down from the tagged contingency in paragraph 14 above, if required;

16 **noted** that the P-8A capability average annual direct operating and personnel costs (excluding depreciation and capital charge) are estimated to be NZ $87 million in today's dollars from 2023/24, which is an estimated increase of NZ$ 25 million compared with the current Orion costs;

17 **noted** that:

17.1 Defence will continue to determine with greater certainty the direct operating and personnel costs, depreciation, and capital charge requirements;

17.2 as a result, the costs in paragraphs 12 and 13 above may change as the transition period gets closer, and that Defence may seek changes to reflect that through future Budgets;

18 **noted** that s9(2)(f)(iv) which will be assessed during the Defence Capability Plan review and through the business case process;

Changes required for the Secretary of Defence to commit to the acquisition process

19 **approved** the following changes to appropriations for the Secretary of Defence to commit to the acquisition process associated with the Boeing P-8A Poseidon Aircraft capability project:

	NZ $M – increase/(decrease)							
Vote Defence Minister of Defence	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Non-Departmental Capital Expenditure: Defence Equipment	s9(2)(i)							

20 **agreed** that should the NZD/USD exchange rate drop below the rate used for cost calculations between the dates of Cabinet approval to proceed and the purchase of forward cover, to the extent that the difference is greater than the foreign exchange contingency, the Minister of Finance and Minister of Defence (Joint Ministers) may approve the change to Vote Defence, Non-Departmental Capital Expenditure appropriation in paragraph 19 above;

21 **authorised** the Secretary of Defence to commit and approve expenditure of public money up to the amount of s9(2)(b)(ii), s9(2)(i) to acquire the Boeing P-8A aircraft, training systems, infrastructure and other goods and services as required;

22 **noted** that the expenditure in paragraphs 19 and 21 above are offset by a capital receipt from the New Zealand Defence Force;

23 **noted** the following changes to appropriations in accordance with the New Zealand Defence Force – Capital Expenditure PLA authorised by section 24(1) of the Public Finance Act 1989, reflecting the forecast costs of developing the maritime patrol aircraft capability, with a corresponding impact on debt;

	NZD $ M – increase/(decrease)							
Vote Defence Force Minister of Defence	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Departmental Capital Expenditure: New Zealand Defence Force Capital PLA	s9(2)(i)							

24 **noted** that:

24.1 there is estimated to be s9(2)(b)(ii) capital for through-life upgrades over the next 30 years that will need to be funded from future Defence Capital Plans subsequent to initial capital investment;

24.2 s9(2)(b)(ii), s9(2)(f)(iv) ;

25 **agreed** that the proposed capital injection and changes to appropriations for Vote Defence Force and Vote Defence for 2018/19 above be included in the 2018/19 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

26 **agreed** that the operating expenses be charged as a pre-commitment against Budget 2019;

Reporting back to Cabinet

27 s9(2)(f)(iv)

28 **noted** that the Minister of Defence intends to report back to Cabinet in s9(2)(f)(iv) on options for the complementary capability;

29 **noted** that the Minister of Defence intends to report back to Cabinet s9(2)(f)(iv) on options for s9(2)(f)(iv) the Future Air Mobility Capability, following completion of the Defence Capability Plan review.

Michael Webster
Secretary of the Cabinet

Hard-copy distribution: (see over)

Hard-copy distribution:
Prime Minister
Deputy Prime Minister
Minister of Finance
Minister of Defence

Cabinet Government Administration and Expenditure Review Committee

Minute of Decision

Defence Force Future Air Surveillance: Approval to Purchase the Boeing P-8A Poseidon Aircraft

Portfolio **Defence**

On 26 June 2018, the Cabinet Government Administration and Expenditure Review Committee **agreed to recommend** that Cabinet:

1 agree to the order of four Boeing P-8A Poseidon maritime patrol aircraft (P-8A), training systems and other support equipment and services as a sole source selection through the US Foreign Military Sales process, and the acquisition of infrastructure and other components as required to bring the P-8As into service;

2 agree that the Chief of Defence Force may, at his discretion, base the P-8A fleet, and associated ground services and personnel, at Base Ohakea;

3 note that s9(2)(f)(iv) a complementary air surveillance capability, with further analysis to take place during the Defence Capability Plan review and through the business case process;

4 note that s9(2)(f)(iv) the Future Air Mobility Capability project, with further analysis to take place during the Defence Capability Plan review and through the business case process;

5 note that s9(2)(f)(iv) the Future Air Mobility Capability project s9(2)(f)(iv) with further analysis to take place during the Defence Capability Plan review and through the business case process;

Financial implications of acquiring the P-8A

6 note that the initial P-8A capital cost (including contingency) is NZ $2,346 million and is made up of s9(2)(b)(ii) to acquire the aircraft and training systems and s9(2)(i) for infrastructure and introduction into service costs;

7 direct that the Defence Estate Regeneration Plan prioritise activities supporting the P-8A and Complementary Capability infrastructure development;

8 note that, of the NZ $2,346 million initial capital cost (including contingency of s9(2)(i)) for the P-8A, s9(2)(i) is sought by way of capital injections, s9(2)(i) is sought as tagged contingency, s9(2)(i) will be funded from within existing Defence baselines, and s9(2)(i) is sought through an operating to capital funding swap;

9 note that the capital contingency in paragraph 8 above includes s9(2)(i) for the potential foreign exchange risks of the exchange rate movement prior to hedge implementation following Cabinet approval to proceed with the P-8A purchase;

10 note that any funding that is not required from the s9(2)(i) contingency for this project will be used to contribute toward other projects on the Defence Capital Plan (DCP), and that Defence will keep Ministers informed of the impact of this through updates of the DCP;

11 note that:

11.1 the capital and operating funding provisions for Defence have been determined using inflation and foreign exchange rates used for the 2016 Defence White Paper;

11.2 Whole of Life Costs are calculated using foreign exchange rates provided by Treasury's Debt Management Office in May 2018;

12 approve the following changes to appropriations and capital injections for the capital, associated capital charge, depreciation, direct operating costs, and personnel costs required to give effect to the acquisition of four P-8A aircraft, training systems, other support equipment, services infrastructure and other components noted in paragraphs 1 and 2 above, with the following impact on the operating balance and debt;

	NZ $M - increase/(decrease)					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears
Operating Balance Impact	s9(2)(i)					
Debt Impact						
No Impact						
Total						

Vote Defence Force Minister of Defence	NZ $M - increase/(decrease) 2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears
Capital Injection: New Zealand Defence Force – Capital Injection	s9(2)(i)					
Departmental Output Expense: Air Capabilities Prepared for Joint Operations and Other Tasks (funded by revenue Crown)						
Multi-Category Expenses and Capital Expenditure: Protection of New Zealand and New Zealanders						
Departmental Output Expense: Resource and Border Protection Operations (funded by Revenue Crown)						
Total Operating						
Total Capital						

13 approve the following operating to capital swap associated with New Zealand Defence Force personnel involved in the P-8A project management activities to give effect to paragraphs 1 and 2 above;

Vote Defence Force Minister of Defence	NZ $M - increase/(decrease) 2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Capital Injection: New Zealand Defence Force – Capital Injection	s9(2)(i)						
Departmental Output Expense: Air Capabilities Prepared for Joint Operations and Other Tasks (funded by revenue Crown)							
Multi-Category Expenses and Capital Expenditure: Protection of New Zealand and New Zealanders							
Departmental Output Expense: Resource and Border Protection Operations (funded by Revenue Crown)							
Total Operating							
Total Capital							

14 agree to set aside the following amount in tagged contingency for Vote Defence Force to fund the infrastructure component of the project contingency if required, expiring on 30 June 2022:

Capital contingency	NZ $M – increase/(decrease)
Capital contingency for the associated infrastructure for the P-8A Poseidon capability	s9(2)(i)

15 authorise the Minister of Finance and Minister of Defence to draw down from the tagged contingency in paragraph 14 above, if required;

16 note that the P-8A capability average annual direct operating and personnel costs (excluding depreciation and capital charge) are estimated to be NZ $87 million in today's dollars from 2023/24 which is an estimated increase of NZ$ 25 million compared with the current Orion costs;

17 note that:

17.1 Defence will continue to determine with greater certainty the direct operating and personnel costs, depreciation, and capital charge requirements;

17.2 as a result, the costs in paragraphs 12 and 13 above may change as the transition period gets closer, and that Defence may seek changes to reflect that through future Budgets;

18 note that s9(2)(f)(iv) which will be assessed during the Defence Capability Plan review and through the business case process;

Changes required for the Secretary of Defence to commit to the acquisition process

19 approve the following changes to appropriations for the Secretary of Defence to commit to the acquisition process associated with the Boeing P-8A Poseidon Aircraft capability project:

	NZ $M – increase/(decrease)							
Vote Defence Minister of Defence	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Non-Departmental Capital Expenditure: Defence Equipment	s9(2)(i)							

20 agree that should the NZD/USD exchange rate drop below the rate used for cost calculations between the dates of Cabinet approval to proceed and the purchase of forward cover, to the extent that the difference is greater than the foreign exchange contingency, the Minister of Finance and Minister of Defence (Joint Ministers) may approve the change to Vote Defence, Non-Departmental Capital Expenditure appropriation in paragraph 19 above;

21 authorise the Secretary of Defence to commit and approve expenditure of public money up to the amount of s9(2)(b)(ii), s9(2)(i) to acquire the Boeing P-8A aircraft, training systems, infrastructure and other goods and services as required;

22 note that the expenditure in paragraphs 19 and 21 above are offset by a capital receipt from the New Zealand Defence Force;

23 note the following changes to appropriations in accordance with the New Zealand Defence Force – Capital Expenditure PLA authorised by section 24(1) of the Public Finance Act 1989, reflecting the forecast costs of developing the maritime patrol aircraft capability, with a corresponding impact on debt;

	NZD $ M – increase/(decrease)							
Vote Defence Force Minister of Defence	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Departmental Capital Expenditure: New Zealand Defence Force Capital PLA	s9(2)(i)							

24 note that:

24.1 there is estimated to be s9(2)(b)(ii) capital for through-life upgrades over the next 30 years that will need to be funded from future Defence Capital Plans subsequent to initial capital investment;

24.2 s9(2)(b)(ii), s9(2)(f)(iv)

25 agree that the proposed capital injection and changes to appropriations for Vote Defence Force and Vote Defence for 2018/19 above be included in the 2018/19 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

26 agree that the operating expenses be charged as a pre-commitment against Budget 2019;

Reporting back to Cabinet

27 s9(2)(f)(iv)

28 note that the Minister of Defence intends to report back to Cabinet in s9(2)(f)(iv) on options for the complementary capability;

29 note that the Minister of Defence intends to report back to Cabinet s9(2)(f)(iv) on options for s9(2)(f)(iv) the Future Air Mobility Capability, following completion of the Defence Capability Plan review.

Rachel Clarke
Committee Secretary

Hard-copy distribution: (see over)

Present:
Hon Kelvin Davis
Hon Grant Robertson (Chair)
Hon Phil Twyford
Hon Chris Hipkins
Hon Dr David Clark
Hon Stuart Nash
Hon Iain Lees-Galloway
Hon Clare Curran
Hon Ron Mark
Hon Tracey Martin
Hon Kris Faafoi

Hard-copy distribution:
Minister of Finance
Minister of Defence

Officials present from:
Office of the Chair
Officials Committee for GOV

Office of the Minister of Defence

Chair,
Cabinet Government Administration and Expenditure Review Committee

DEFENCE FORCE FUTURE AIR SURVEILLANCE:
APPROVAL TO PURCHASE THE BOEING P-8A POSEIDON AIRCRAFT

Proposal

1. Cabinet is invited to approve the acquisition of four Boeing P-8A Poseidon maritime patrol aircraft to replace the aging P-3 Orion fleet. Cabinet is also asked to note s9(2)(f)(iv) for a complementary air surveillance capability, and for s9(2)(f)(iv) the Future Air Mobility Capability, with further analysis to take place during the Defence Capability Plan review and through the business case process.

Executive Summary

2. For over 50 years, our six P-3 Orion maritime patrol aircraft have played a significant role in promoting New Zealand's security by patrolling the ocean to protect New Zealand's sovereignty, trade routes and the international rules-based order. They have also supported search and rescue, resource and border protection, disaster response and engagement with our key security partners.

3. s6(a) For all these reasons, government policy has stressed the importance of maritime patrol over many decades.

4. A series of upgrades have kept the Orions going but they will need to be replaced by 2025. There are limited options in the same class of maritime patrol aircraft as the Orion: the Kawasaki P-1 by Japan, the Boeing P-8A being acquired by the US, UK, Australia, Norway and South Korea, and concept aircraft such as the Lockheed Martin Sea Hercules.

5. Acquiring maritime patrol aircraft is a once in a generation investment. New Zealand purchased the P-3 Orions in 1966. Successive governments have deferred the need to replace the Orion maritime patrol aircraft through a series of upgrades. New Zealand now has the oldest Orions in continuous service anywhere in the world by at least a decade.

6. Key criteria to ensure value for money and reduce risk are the ability to multi-task, full operability from the get-go, a proven capability, a clear upgrade path and a supportive user community. The P-8A is the only aircraft which meets all of these criteria. It is also the lowest cost option.

7. There is limited time for a decision on the P-8A as Boeing has recently confirmed that the last chance to guarantee the reduced price is to make an order by 14 July 2018. This follows a series of extensions granted by the US Government over the last year, detailed in the body of this paper. If New Zealand delays until early 2019, it runs the risk of price increases in the order of s9(2)(b)(ii) s6(a), s9(2)(b)(ii).

8. The initial capital cost (including contingency) for four P-8As is NZ $2,346 million and is made up of s9(2)(b)(ii) to acquire the aircraft and training systems and s9(2)(b)(ii), s9(2)(i)

for infrastructure and introduction into service costs. Of the initial capital cost of NZ $2,346 million, s9(2)(i) will be funded through capital injections, s9(2)(i) funded through a tagged contingency capital injection, s9(2)(i) funded from accumulated baseline depreciation, and s9(2)(i) through an operating to capital funding swap.

9. The need to replace the maritime patrol capability sits in the context of a series of Air Force investments that are required to ensure the overall fleet remains fit for purpose, including a low-end air surveillance capability to complement the P-8A, the tactical airlift component of the Future Air Mobility Capability project, and the already completed Air Crew Training Capability project.

10. Given the interrelated nature of these investments s9(2)(f)(iv) for the complementary capability (e.g. small aircraft, or unmanned systems that perform more basic, non-military tasks more cost effectively) and for s9(2)(f)(iv) the Future Air Mobility Capability project. s9(2)(f)(iv) further analysis that will take place during the Defence Capability Plan review, and through the business case process.

Background

11. On 14 May, Cabinet approved the Strategic Defence Policy Statement 2018 ([ERS-18-MIN-008] refers) which provides a basis for our consideration of the P-8A proposal against the government's priorities and policy settings.

Maritime patrol's role in promoting New Zealand's security interests

12. The importance of New Zealand's maritime domain has been an enduring characteristic of our strategic and security policies for generations. This was reinforced through our policy review this year, which noted that "maritime security – from our shores and territorial waters to our EEZ and considerable Search and Rescue Zone, through to approaches and sea lines of communication – is fundamental to national security".

13. Maritime patrol aircraft provide a wide capability that ranges from military combat to support for civilian contingencies such as search and rescue and disaster response. Military maritime patrol aircraft have sophisticated s6(a) weapons systems. Key maritime patrol capabilities include: anti-submarine warfare; anti-surface warfare; overland surveillance; combat capability s6(a). Systems designed for general surface surveillance (e.g. border protection and search and rescue) are very basic by comparison. Maritime patrol aircraft can conduct all general surface surveillance tasks. The converse is not true.

14. For over 50 years, the P-3 Orion maritime patrol aircraft have played a vital role in promoting New Zealand's security by providing a wide area surveillance capability that is critical to maintaining awareness of activities in New Zealand's maritime domain. Beyond our shores, the Orion has been a welcome and vital presence throughout the Pacific, especially supporting our small island neighbours through tasks ranging from immediate assessment after natural disasters to protecting fishing grounds and searching for lost vessels.

15. The Orion has also been at the forefront of New Zealand's global contributions, with frequent deployments to combat piracy, provide surveillance in support of military operations and act as a deterrent through its surveillance, detection and combat capabilities both above and below the water.

16. The Orion is a versatile capability that is at the forefront of our policy objectives for Community, Nation and World. It is combat capable, flexible and ready, crewed by highly trained professionals, and contributes to us being a credible and trusted international partner. However, age is catching up with the Orion. This is resulting in steadily rising maintenance costs (with an average increase of over 6% per year), an increasing rate of unplanned repairs needed during scheduled maintenance periods, and a marked increase in the time required

to undertake major scheduled maintenance periods with the consequent impact on overall fleet availability.

What maritime patrol achieves

17. Our maritime patrol capability plays a key part in meeting all of the Defence Force's principal roles set out in the Policy Statement. Examples include:

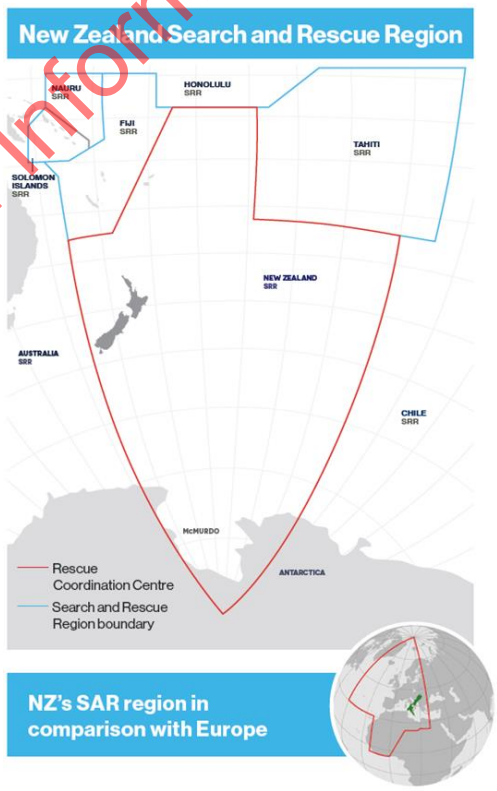
17.1. Responding to the increase in transnational criminal activity (e.g. drugs, people smuggling), and the use of the South Pacific for this (see Annex C). *(Nation, World)*

17.2. Monitoring marine resources and responding to illegal activity (e.g. fishing). *(Community, Nation)*

17.3. Environmental monitoring and responding to extreme weather events resulting from climate change. *(Community, Nation, World)*

17.4. Working with other agencies to monitor and respond to activity in the Southern Ocean. *(Nation, World)*

17.5. Search and rescue in our region which stretches from the South Pole almost to the Equator and halfway to Chile, and therefore demands the speed, range and endurance of maritime patrol (see Annex A and diagram below). This search and rescue capability provides support to our less well-resourced Pacific neighbours s6(a), s9(2)(g)(i) [redacted] In the last seven years search and rescue operations, supported by maritime patrol, have saved 119 lives. This is estimated to have averted a social cost of NZ$ 450.7 million.[1] *(Community, World)*



17.6. Making a credible contribution to joint operations, regional security arrangements s6(a) which is valued by our partners. s6(a), s6(b)(i) [redacted] *(World)*

17.7. Supporting maritime surveillance, humanitarian aid and disaster response, resource protection and search and rescue in the South Pacific. *(Nation, World)*

17.8. Supporting the international rules-based order through, for example: (i) counter-piracy and counter-terrorism missions; and (ii) ensuring New Zealand can meet its obligations under Pacific and Antarctic marine resource conventions. *(World)*

18. Recent examples of tasks New Zealand's maritime patrol aircraft have undertaken are:

[1] Based on the Value of Statistical Life (VOSL) figure from the Ministry of Transport's "Social cost of road crashes update" (2017).

18.1 participation in international operations to counter piracy and illicit smuggling off the Horn of Africa;

18.2 surveillance of the volcano in Vanuatu, the Kiribati ferry disaster and assessing damage in the aftermath of Cyclones Winston and Gita;

18.3 surveillance of critical infrastructure in the aftermath of the Kaikoura earthquake;

18.4 s6(a)

18.5 monitoring fishing for MPI through Operation TAPESTRY and multi-national resource protection tasks (such as for the Pacific Forum Fisheries Agency (FFA)); and

18.6 search and rescue in New Zealand and the Pacific and the search for Malaysia Airlines MH370.

The Pacific dimension

19. As the above outline of Defence principles, roles and recent activities clearly illustrates, maritime patrol has a key role to play in the Pacific and therefore a continued investment in this capability goes hand-in-hand with the reset of New Zealand's foreign policy direction in the Pacific ([CAB-18-MIN-0054] refers). As the Pacific Reset strategy notes, New Zealand's national security is directly affected by the Pacific's stability, we have a shared destiny with Pacific Island countries, and New Zealand's Pacific identity carries with it certain expectations and responsibilities.

The options for maritime patrol

20. Acquiring a maritime patrol aircraft is a significant, once in a generation investment. Key criteria to ensure value for money and reduce risk over the aircraft's life-cycle are:

20.1 *The ability to multi-task* – New Zealand has a small air force by international standards and therefore its assets are required to perform multiple roles.

20.2 *Community size/Close relationship with community* - Being part of a group of partner countries with the same platform provides access to critical mission and logistics support in different locations. It would be best for New Zealand to participate in as large a user community as possible, with as many friends as possible, for support.

20.3 *Already developed?* - Maritime patrol is a sophisticated technology that requires significant R&D investment to achieve (the US has invested over US$ 9 billion in R&D for the P-8A, for example). New Zealand should therefore look to identify a capability which has already been developed and works from the get-go.

20.4 *Successful introduction into foreign markets?* - Maritime patrol involves complex systems which tend to be more demanding to keep operational than basic ones. It would therefore be best for New Zealand to go with a proven capability.

20.5 *Support for technology growth path?* – The Strategic Defence Policy Statement 2018 states, "As partners acquire ever-more sophisticated capabilities, contributing to coalition operations will require high-level network interoperability and contributions that do not present a defensive liability to them…To retain New Zealand's reputation, freedom to act, and mitigate risks to mission and personnel, Defence must strive to keep pace with technological evolutions." Maritime patrol technology is rapidly advancing. It is becoming increasingly IT-based requiring regular upgrades. New Zealand should therefore look to a platform which will be

fully supported through the upgrade path and where upgrade costs can be shared with other users.

21. There are a number of a smaller class of maritime patrol aircraft in the market that have insufficient range for New Zealand's vast ocean region and that would not meet the multi-tasking criteria. There are also satellites and remotely piloted aircraft systems which offer the potential to assist the maritime patrol platform with some lower order, civilian surveillance tasks but cannot perform the full range of maritime patrol functions.

22. It is only large, manned maritime patrol aircraft that have the full package of speed, endurance and sophisticated military functions necessary to meet New Zealand's demanding requirements (Annex B provides a diagram of these complex systems). That market is limited to three options:

22.1 US Boeing P-8A Poseidon – the US investment in a replacement for its Orion fleet. It is based on the trusted Boeing 737 platform.

22.2 Japanese Kawasaki P-1 – Japan's investment in a replacement for its Orion fleet. It is currently operated by Japan only.

22.3 A concept aircraft, exemplified by the Lockheed Martin "Sea Hercules" - a design proposal based on the well-known military transport aircraft.

23. A summary of the assessment of each aircraft is below:

4 Maritime Patrol Aircraft	Boeing P-8A	Kawasaki P-1	Lockheed Martin Sea Hercules
Capability includes: Training devices and systems; Stores (weapons and self-protection systems); Mission support and IT systems; Training; and Infrastructure			
Initial capital cost (including 85th percentile contingency – NZ$M)	$NZ2,346M*	s9(2)(b)(ii)	s9(2)(b)(ii)
Community size	164 for US, Australia, UK, India, Norway & South Korea	s6(b)(i), s9(2)(b)(ii)	Nil
Close relationship with community	✓	s6(a), s9(2)(g)(i)	X
Already developed?	✓	✓	X
Successful introduction into foreign markets?	✓	s6(a), s9(2)(g)(i)	X
Support for technology growth path?	✓	s6(a), s6(b)(i), s9(2)(b)(ii), s9(2)(g)(i)	X

s9(2)(b)(ii)

24. It is clear from the analysis that the P-8A is the best maritime patrol option for New Zealand. It is the lowest risk and lowest cost option.

s9(2)(g)(i)

28. [redacted] New Zealand could acquire complementary assets to share the P-8A burden for low end, civilian tasks. Such assets (e.g. small aircraft, remotely piloted aircraft systems, or satellites) cannot perform the high end tasks of a maritime patrol aircraft but are able to perform certain low end, civilian tasks more cost effectively.

29. In the context of other planned and completed investments in the overall air fleet mix, four P-8As, paired with a complementary capability, represents the best value for money across the range of surveillance tasks our Air Force is required to conduct. Further details on the proposed complementary capability, and the overall air fleet mix, are provided later in this paper.

Acquisition details and implications

30. If approved, the P-8A acquisition would be through the US Foreign Military Sales (FMS) process. This would be a direct source procurement not put to a competitive market.[2] [redacted]

[2] This is permitted under Ministry of Defence policy and the Government Rules of Sourcing.

s6(a), s9(2)(b)(ii), s9(2)(g)(i)

The US Government will require the Minister of Defence to provide an indemnity as a standard, non-negotiable requirement of the FMS process. This has low likelihood of being called on and risk management strategies are in place to minimise the Government's exposure.

31. Boeing and the US Government have confirmed that the last chance for New Zealand to guarantee the reduced price for the P-8A is to make an order by 14 July 2018 (this follows a previous extension from June 2017 to 30 November 2017, with a price increase of USD s9(2)(b)(ii) due to contractual timing, and subsequent extensions to 31 March 2018, and then 14 July 2018, following the 2017 general election). They have further advised that if New Zealand delays beyond July 2018 price increases are expected. If New Zealand delays until early 2019 it runs the risk of price increases in the order of s9(2)(b)(ii) if sufficient further aircraft orders s9(2)(b)(ii) for the P-8A cannot be found.

32. The Air Force's No.5 Squadron operates the Orion fleet at Whenuapai. The short runway at Whenuapai would require the P-8A to operate with load and fuel restrictions, compromising its long range effectiveness. A runway extension would be difficult. To maximise operational effectiveness, flexibility and safety, the Defence Force recommends operating the P-8A aircraft from Ohakea, which has a longer runway. The cost of operating the P-8A capability at Ohakea has been factored into the financial implications below. Basing the P-8A fleet at Ohakea would relocate an estimated 270 NZDF personnel which together with their families would transfer around 450-560 people to the Manawatu region.

Expected life of capability

33. The P-8A has an initial design life of 30 years and this figure has been used in all financial modelling. However, a test specimen of the aircraft has been tested to nearly three times this life and when this data is analysed and coupled with ongoing operational experience there is a reasonable chance that the life of the P-8A will be extended in the future. s6(b)(i) It is typical that military aircraft have their lives extended as in-service experience is gained and this was the case for the Orion, albeit that a significant proportion of the Orion's life extension was achieved via a re-winging project in the late 1990s.

Spiral upgrades

34. Surveillance aircraft utilise complex systems that require frequent updates due to the pace of change in modern electronics. A key benefit of the P-8A over its rivals is that it has been designed from the outset with a "spiral upgrade" path for the user community to keep the aircraft current and effective. Rather than carrying out large upgrades throughout the life, a spiral upgrade breaks this work down into smaller and more manageable packages that are implemented on a continually rolling basis. This lowers risk and costs and avoids the "boom and bust" cycle of the Orions, which experienced drastic reductions in capability due to increasing obsolescence in the period following major upgrades requiring correction with further costly major upgrades. Over time it is expected that the spiral upgrade programme will cost in real terms around the same as the ad hoc upgrade programme for the Orions, without having to incur the periods of obsolescence experienced with the Orions.

35. The aircraft delivered to New Zealand in 2023 will include all the upgrades up to that point but a further upgrade ("Increment 3, Block 2") is planned to commence in 2026 and be completed around 2029. The cost of Increment 3, Block 2 (estimated at s9(2)(b)(ii) in total) has therefore not been included in the initial capital investment.

36. Based on Defence's experience with the Orion, where failing to keep pace with other users through upgrades limited future interoperability with our allies, Defence's

recommendation is that upgrade costs are included in the Capital Plan to ensure that the P-8A stays in lock-step with the user community. Because the cost of these upgrades were beyond the timeframe of the Defence White Paper 2016 and thus not included, they will need to be considered alongside other priorities in planned capital expenditure through future Defence Capital Plans. s9(2)(f)(iv)

There is an estimated s9(2)(b)(ii) in capital through-life upgrades over the next 30 years.

The P-8A in the context of the overall Air Force fleet mix

37. The need to replace the maritime patrol capability sits in the context of a series of Air Force investments that are required to ensure the overall fleet remains fit for purpose including:

37.1 A capability to complement the P-8A for low-end, civilian maritime surveillance tasks s9(2)(f)(iv);

37.2 The replacement of the five C-130H Hercules, used for tactical transport, known as the tactical airlift component of the Future Air Mobility Capability project s9(2)(f)(iv)

37.3 The four Beechcraft B350 King Air aircraft that were acquired under lease in May 2018 for use in multi-engine training, light utility transport and basic in-shore surveillance: the Air Crew Training Capability project (already completed).

Complementary capability

38. Assuming the P-8A investment is approved, indicative capital funding of s9(2)(j) remains in the Defence Capital Plan to acquire assets to share the P-8A burden for low end, civilian tasks. Such assets (e.g. small aircraft, remotely piloted aircraft systems, or satellites) cannot perform the high end tasks of a maritime patrol aircraft but are able to perform the low end, civilian tasks more cost effectively. This would maximise the opportunity to use the P-8A for high-end tasks and reduce overall operating costs for the low-end tasks.

39. It is proposed that, if Cabinet elects to acquire the P-8As, a further report is given to Cabinet following completion of the Defence Capability Plan review process recommending options for the complementary capability s9(2)(f)(iv). The report would consider the combination of assets to ensure the best value for money to complement the four P-8A aircraft.

40. s9(2)(f)(iv)

41.

42. I will report back on options for the complementary capability in s9(2)(f)(iv).

43. An indicative delivery schedule for the complementary capability, which will be assessed and refined in the Defence Capability Plan review and the complementary capability business case process, is below:

- s9(2)(f)(iv) – Single Stage Business Case and Cabinet Paper;
- s9(2)(f)(iv) - Request for Tender;

- s9(2)(f)(iv)
- s9(2)(f)(iv) - Project Implementation Business Case;
- s9(2)(f)(iv) - Initial Operating Capability achieved for complementary capability;
- April 2023 – Delivery of first P-8A to New Zealand;
- July 2023 - Initial Operating Capability achieved for P-8A.

Tactical Airlift capability

44. New Zealand's tactical airlift capability, the five C-130H Hercules transport aircraft, provide intra- and inter-theatre transport, support disaster relief efforts at home and abroad, provide general logistics and personnel transport, and perform search and rescue missions within New Zealand's areas of responsibility. They are versatile and capable, and have served New Zealand, and many other militaries around the world, very effectively over many decades.

45. Successive governments have deferred the need to replace both the Orion maritime patrol and Hercules transport aircraft through a series of upgrades, s6(a) the Defence Capability Plan 2016 noted the need to replace the Hercules by the early-to-mid 2020s through the Future Air Mobility Capability project.

46. Operating the five Hercules, three of which were delivered in 1965 and two in 1968, is becoming increasingly expensive, and maintenance more time consuming. Over the past 10 years, average maintenance durations have more than doubled in hours against projections, while maintenance and repair costs have increased from $9 million ten years ago, to a forecast $16 million this financial year. While the aircraft are safe to fly, the risk is increasing of an unanticipated fleet-wide structural or subsystem defect emerging, impacting availability of tactical airlift. Over the last year, on average s6(a) aircraft have been available for tasking.

47. The current capital estimate for the overall tactical airlift component of the Future Air Mobility Capability project, as per the Defence White Paper 2016, is s9(2)(i), s9(2)(j) . s9(2)(f)(iv)

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48. To respond to the obsolescence issues facing our tactical airlifters, a business case and Cabinet Paper will be progressed s9(2)(f)(iv), following the Defence Capability Plan review, s9(2)(f)(iv) .

49. s9(2)(f)(iv) Contracting/order timings, platform numbers, capital and operating costs for the Future Air Mobility Capability project will be confirmed during the Defence Capability Plan review and through the business case process.

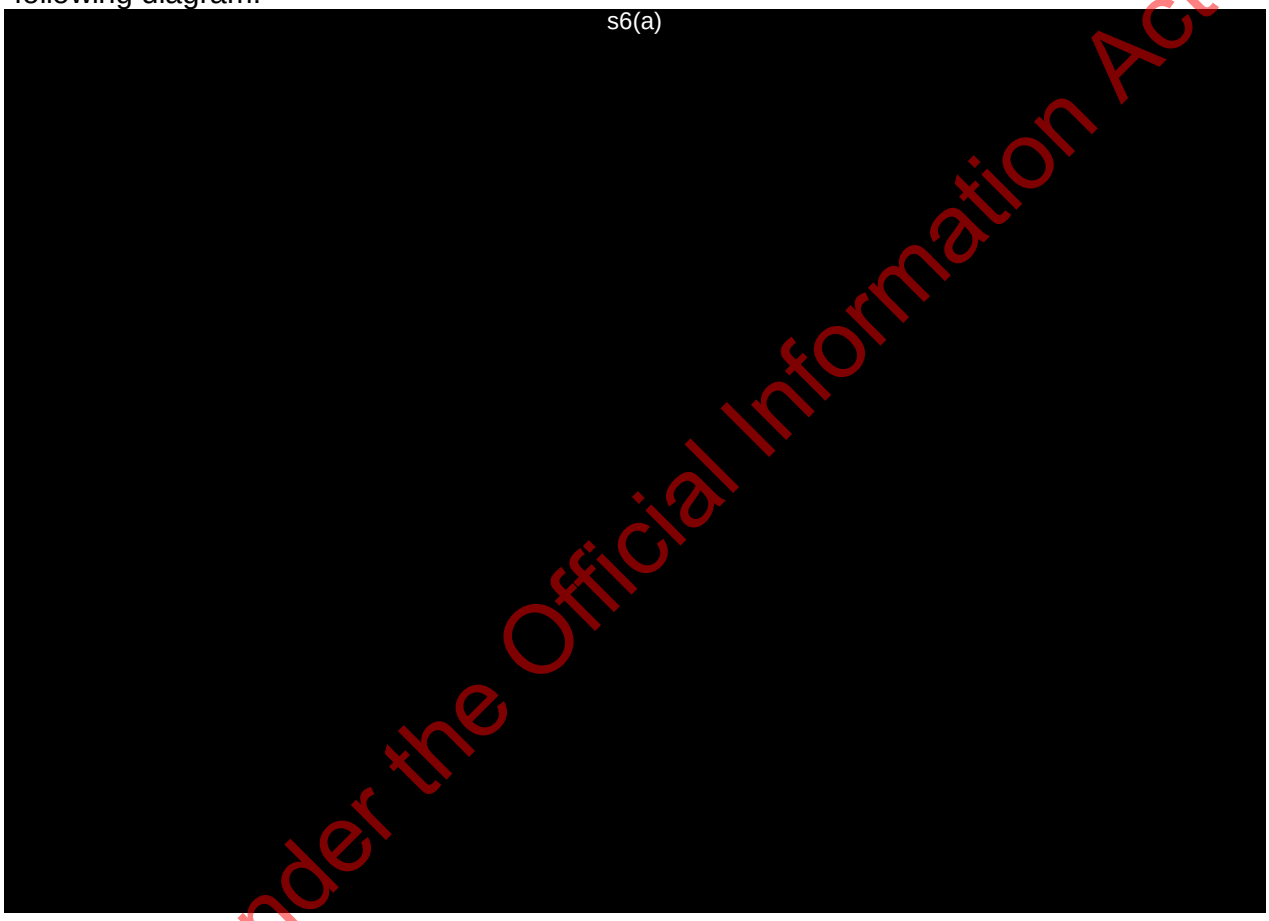
Air Crew Training Capability

50. In May 2018, the Government announced the ten year lease of four King Air 350 aircraft, to replace the B200 fleet which provides RNZAF multi-engine pilot training and light air lift operations such as transport, humanitarian assistance and disaster response. As well

as enabling specialist aircrew training to be brought back to New Zealand from Australia for the first time in two decades, two of the aircraft are being outfitted with basic surveillance equipment to assist with civilian maritime surveillance tasks. Alongside the P-8As and the complementary capability (which will also consider similar basic aircraft options), this represents the less sophisticated, low-end of a comprehensive, layered maritime surveillance system.

Synergies across the overall Air Force fleet mix

51. Progressing these projects will ensure synergies across the air fleet, so that the final combination maximises the opportunity for the fleet to interact together in a way that ensures the greatest flexibility and value for money. These potential synergies are represented in the following diagram:



Key milestones

52. If Cabinet agrees to the procurement of the P-8A, the first payment for the aircraft and training systems of NZ$ 36 million would be in July 2018. Infrastructure planning and design would need to start in the third quarter of 2018 to meet the baseline date for the first aircraft delivery in April 2023 (including contingency). A Capability Integration Plan (CIP) to cover all project activity related to the introduction into service of the P-8A and the retirement of the Orion fleet has been developed. s6(a) During the transition phase the CIP places priority on civilian tasking (e.g. search and rescue, border/resource monitoring).

Consultation

53. This paper has been consulted with DPMC (SIG, PAG), Treasury, Customs, MBIE, MFAT, MPI, Maritime New Zealand, Ministry of Transport, Police, Department of Conservation, National Maritime Coordination Centre, the New Zealand Search and Rescue Secretariat, the Rescue Coordination Centre NZ s6(a). Key themes from the consultation were the enhanced availability and capability of the P-8As, the funding available for the Complementary Capability and the timing of implementation.

Financial implications

54. The Defence Capital Plan ([EGI-16-MIN-0289] refers) included an initial capital provision of s9(2)(i), s9(2)(j) in the 2023/24 to 2025/26 years for the future air surveillance capability. Because of the proposed earlier acquisition compared with the Defence Capital Plan timing, the initial capital provision has been recast and de-escalated to s9(2)(i), s9(2)(j) million[4] over the 2018/19 to 2025/26 period.

55. The capital cost to bring a fleet of four P-8A aircraft into service is calculated at NZ $2,346[5] million including contingency of s9(2)(i) The capital contingency is made up of s9(2)(i) for foreign exchange risks, s9(2)(i) for infrastructure, and the remaining s9(2)(i) for other P-8A capital items. The capital cost includes NZ s9(2)(b)(ii), s9(2)(i) for infrastructure activity indicated in the Defence Estate Regeneration Plan. This infrastructure activity will need to be prioritised in the Defence Estate Regeneration Plan to meet the delivery schedule for the P-8As. The annual capital expenditure of $2,346 million is set out in Table 1.

	NZD$ M – increase/(decrease)								
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	TOTAL
Capital Expenditure	109.469	471.046	797.525	746.104	165.470	44.129	12.238	0.117	**2,346.098**

Table 1: Capital expenditure profile for the P-8A capability

56. Through-life sustainment costs, the majority of which are anticipated to occur beyond 2031 as the aircraft get older and parts require replacing, are estimated to be s9(2)(b)(ii) million over the aircraft's 30-year life.

57. s6(a) s6(a) Additionally, even this sizeable investment would maintain an annual level of defence expenditure no greater than 1% of GDP.

58. Indicative capital funding of s9(2)(f)(iv), s9(2)(j) would be set aside in the Defence Capital Plan for the Complementary Capability (paragraph 38 onwards above refers).

59. The earlier acquisition schedule s6(b)(i), s9(2)(b)(ii) would require expenditure six years ahead of the expenditure forecast in the Defence Capital Plan. Defence has analysed the current Defence Capital Plan and identified opportunities to help

[3] The capital provision was calculated in nominal dollars i.e. escalated into future dollars based on inflation and foreign exchange rates underlying the preparation of the Defence White Paper.

[4] The capital provision was calculated based on inflation and foreign exchange rates underlying the preparation of the Defence White Paper.

[5] The initial capital cost and the whole of life cost estimate is calculated using Defence White Paper inflation rates, and foreign exchange rates based on the May 2018 rates provided from The Treasury's Debt Management Office. It excludes depreciation expense and capital charge.

with the cost pressures from bringing forward the P-8A investment. Defence has factored in prioritising baseline depreciation funding to reduce the level of capital injections required for this investment. The nature of the Defence Capital Plan, however, means that even if some projects can be deferred, the majority of the funding for the P-8A will require total capital injections of s9(2)(i). In addition, a tagged contingency is required to fund the s9(2)(i) infrastructure contingency. The annual capital injection drawdown is set out in Table 2.

	NZD$ M – increase/(decrease)								
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	TOTAL
Capital Injection	s9(2)(i)								
Tagged Contingency Capital Injection									
Total									

Table 2: Capital injections required to fund the P-8A capability

60. In addition, Defence requires an operating to capital funding swap of s9(2)(i) to reflect New Zealand Defence Force personnel involved in the P-8A project management activities.

	NZD$ M – increase/(decrease)							
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	TOTAL
Operating to Capital swap	s9(2)(i)							

Table 3: Operating to Capital funding swap for project management activities

61. The P-8A operating costs (including personnel) are estimated to be NZ $25 million per annum higher than current baseline funding of NZ $62 million for the Orions once full operational output capability is reached in 2025. This increase is in part due to the greater prominence of advanced electronics in maritime patrol which are more demanding to keep current. It is also due to the costs of running the training simulators and mission support equipment, which are complex systems in their own right, and deliver enhanced availability of the aircraft and better quality data respectively. Moreover, the P-8A has higher fuel and satellite communications costs, the latter being driven by the high connectivity of the aircraft which is worth investing in as it maximises the aircraft's advanced data sharing capabilities.

62. These higher operating costs were not foreseen in the Defence White Paper 2016. Defence is unable to manage these higher operating costs within its current operating baseline and is therefore requesting uplift now to ensure full transparency. In addition, the future decision on the Complementary Capability would incur operating costs.

63. Defence will require a depreciation baseline movement set out in Table 4. The incremental movement in the early years is due to the reduction of the Orion's remaining service life. This results in spreading the Orion assets book value over a shorter number of years.

	NZD $ M - increase/(decrease)					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears

Operating cost baseline movement	00.000	00.000	00.000	00.000	00.000	22.693
Personnel baseline movement	00.000	00.000	3.800	3.800	00.000	2.199
Depreciation baseline movement	18.162	18.162	10.190	(7.303)	(29.261)	27.546
Capital charge baseline movement	2.982	18.476	51.448	84.286	99.010	101.666
Total baseline movement	**21.144**	**36.638**	**65.438**	**80.783**	**69.749**	**154.104**

Table 4: Incremental direct operating, personnel cost, depreciation, and capital charge expense baseline movement

Human rights, gender and legislative implications, disability perspective, regulatory impact and compliance cost statement

64. There are no implications.

Publicity

65. The Letter of Offer was made public by the United States Congress on 30 April 2017 and there were subsequent media reports that New Zealand was investigating the P-8A. I propose that the Acting Prime Minister and I jointly announce a decision to acquire the P-8As at the post-Cabinet press conference on 9 July 2018, following the completion of foreign exchange hedging the preceding week.

Recommendations

I recommend that the Committee:

1. **Agree** to the order of four Boeing P-8A Poseidon maritime patrol aircraft, training systems and other support equipment and services as a sole source selection through the US Foreign Military Sales process, and the acquisition of infrastructure and other components as required to bring the P-8As into service;

2. **Agree** that the Chief of Defence Force may, at his discretion, base the P-8A fleet, and associated ground services and personnel, at Base Ohakea;

3. **Note** that s9(2)(f)(iv) a complementary air surveillance capability, with further analysis to take place during the Defence Capability Plan review and through the business case process;

4. **Note** that s9(2)(f)(iv) Future Air Mobility Capability project, with further analysis to take place during the Defence Capability Plan review and through the business case process;

5. **Note** that s9(2)(f)(iv) the Future Air Mobility Capability project s9(2)(f)(iv) with further analysis to take place during the Defence Capability Plan review and through the business case process;

Financial implications of acquiring the P-8A

6. **Note** that the initial P-8A capital cost (including contingency) is NZ $2,346 million and is made up of s9(2)(b)(ii) to acquire the aircraft and training systems and s9(2)(i) for infrastructure and introduction into service costs;

7. **Direct** that the Defence Estate Regeneration Plan prioritise activities supporting the P-8A and Complementary Capability infrastructure development;

8. **Note** that of the NZ $2,346 million initial capital cost (including contingency of s9(2)(i)) for the P-8A, s9(2)(i) is sought by way of capital injections, s9(2)(i) is sought as a tagged contingency, s9(2)(i) will be funded from within existing Defence baselines, and s9(2)(i) is sought through an operating to capital funding swap;

9. **Note** that the capital contingency above includes s9(2)(i) for the potential foreign exchange risks of the exchange rate movement prior to hedge implementation following Cabinet approval to proceed with the P-8A purchase;

10. **Note** that any funding that is not required from the s9(2)(i) contingency for this project will be used to contribute toward other projects on the Defence Capital Plan (DCP), and that Defence will keep Ministers informed of the impact of this through updates of the DCP;

11. **Note** that the capital and operating funding provisions for Defence have been determined using inflation and foreign exchange rates used for the 2016 Defence White Paper. Whole of Life Costs are calculated using foreign exchange rates provided by Treasury's Debt Management Office in May 2018;

12. **Approve** the following changes to appropriations and capital injections for the capital, associated capital charge, depreciation, direct operating costs, and personnel costs required to give effect to the acquisition of four Boeing P-8A Poseidon maritime patrol aircraft, training systems, other support equipment, services infrastructure and other components as noted in recommendations 1 and 2 above, with the following impact on the operating balance and debt;

	NZ $M - increase/(decrease)					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears
Operating Balance Impact Debt Impact No Impact	s9(2)(i)					
Total						

	NZ $M - increase/(decrease)					
Vote Defence Force Minister of Defence	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears
Capital Injection: New Zealand Defence Force – Capital Injection **Departmental Output Expense:** Air Capabilities Prepared for Joint Operations and Other Tasks (funded by revenue Crown) **Multi-Category Expenses and Capital Expenditure:** Protection of New Zealand and New Zealanders **Departmental Output Expense:** Resource and Border Protection Operations (funded by Revenue Crown)	s9(2)(i)					
Total Operating						
Total Capital						

13. **Approve** the following operating to capital swap associated with New Zealand Defence Force personnel involved in the P-8A project management activities to give effect to recommendations 1 and 2 above;

	NZ $M - increase/(decrease)						
Vote Defence Force Minister of Defence	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Capital Injection: New Zealand Defence Force – Capital Injection **Departmental Output Expense:** Air Capabilities Prepared for Joint Operations and Other Tasks (funded by revenue Crown) **Multi-Category Expenses and Capital Expenditure:**	s9(2)(i)						

Protection of New Zealand and New Zealanders **Departmental Output Expense:** Resource and Border Protection Operations (funded by Revenue Crown)	s9(2)(i)
Total Operating	
Total Capital	

14. **Agree** to set aside the following amount in tagged contingency for Vote Defence Force to fund the infrastructure component of the project contingency if required, expiring on 30 June 2022;

Capital contingency	**NZ $M – increase/(decrease)**				
	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Capital contingency for the associated infrastructure for the P-8A Poseidon capability	s9(2)(i)				

15. **Authorise** the Minister of Finance and the Minister of Defence to draw down from the tagged contingency above if required for the P-8A Poseidon capability;

16. **Note** that the Boeing P-8A Poseidon capability average annual direct operating and personnel costs (excluding depreciation and capital charge) are estimated to be NZ $87 million in today's dollars from 2023/24 which is an estimated increase of NZ$ 25 million compared with the current Orion costs;

17. **Note** that Defence will continue to determine with greater certainty the direct operating and personnel costs, depreciation, and capital charge requirements. As a result, the above may change as the transition period gets closer, and that Defence may seek changes to reflect that through future Budgets;

18. **Note** that s9(2)(f)(iv) which will be assessed during the Defence Capability Plan review and through the business case process;

Changes required for the Secretary of Defence to commit to the acquisition process

19. **Approve** the following changes to appropriations for the Secretary of Defence to commit to the acquisition process associated with the Boeing P-8A Poseidon Aircraft capability project:

	NZ $M – increase/(decrease)							
Vote Defence Minister of Defence	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Non-Departmental Capital Expenditure: Defence Equipment	s9(2)(i)							

20. **Agree** that should the NZD/USD exchange rate drop below the rate used for cost calculations between the dates of Cabinet approval to proceed and the purchase of forward cover, to the extent that the difference is greater than the foreign exchange contingency, then Joint Ministers (Finance and Defence) may approve the change to Vote Defence, Non-Departmental Capital Expenditure appropriation above;

21. **Authorise** the Secretary of Defence to commit and approve expenditure of public money up to the amount of s9(2)(b)(ii), s9(2)(i) to acquire the Boeing P-8A aircraft, training systems, infrastructure and other goods and services as required;

22. **Note** that these costs are offset by a capital receipt from the New Zealand Defence Force;

23. **Note** the following changes to appropriations in accordance with the New Zealand Defence Force – Capital Expenditure PLA authorised by section 24(1) of the Public Finance Act 1989, reflecting the forecast costs of developing the maritime patrol aircraft capability, with a corresponding impact on debt;

	NZD $ M – increase/(decrease)							
Vote Defence Force Minister of Defence	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Departmental Capital Expenditure: New Zealand Defence Force Capital PLA	s9(2)(i)							

24. **Note** that there is estimated to be s9(2)(b)(ii) in capital for through-life upgrades over the next 30 years that will need to be funded from future Defence Capital Plans subsequent to initial capital investment. s9(2)(b)(ii), s9(2)(f)(iv)

25. **Agree** that the proposed capital injection and changes to appropriations for Vote Defence Force and Vote Defence for 2018/19 above be included in the 2018/19 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

26. **Agree** that the operating expenses be charged as a pre-commitment against Budget 2019

Reporting back to Cabinet

s9(2)(f)(iv)

28. **Note** that the Minister of Defence will report back to Cabinet in s9(2)(f)(iv) on options for the complementary capability.

29. **Note** that the Minister of Defence will report back to Cabinet s9(2)(f)(iv) on options for s9(2)(f)(iv) the Future Air Mobility Capability, following completion of the Defence Capability Plan review.

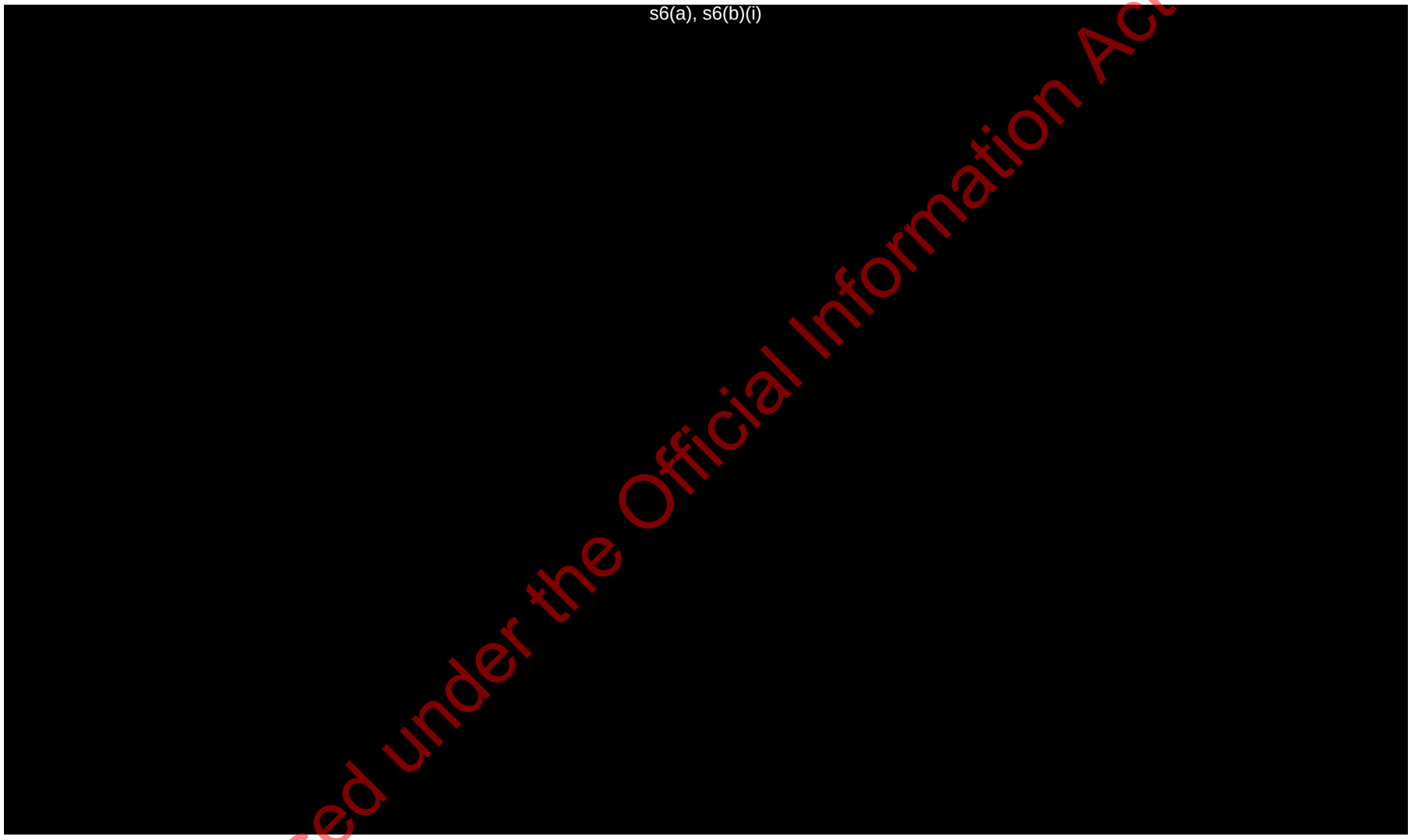
Authorised for Lodgement

Hon Ron Mark
MINISTER OF DEFENCE

Annex A: New Zealand's areas of responsibility

Our areas of responsibility stretch from the South Pole to just below the Equator		
Exclusive Economic Zone ~ 4th largest EEZ in the world ~ 15 times the area of mainland New Zealand	Search and Rescue Zone ~ 1/11 of the globe If transposed over Europe it covers from the North Pole to North Africa (see map)	New Zealand and Australia's search and rescue zones, taken together, cover ~ 20% of the globe

Annex B: Diagram of P-8A systems



Annex C: Small craft seizures: 2016-17

s6(a), s6(b)(i)