HON JUDITH COLLINS KC, MINISTER OF DEFENCE

DEFENCE CAPABILITY PLAN 2025: PUBLIC RELEASE, DEFENCE INDUSTRY AND COMMUNICATIONS

May 2025

This publication provides the April 2025 Cabinet paper and associated minute of decision, in which Cabinet agreed to publicly release the *Defence Capability Plan 2025*.

The pack comprises the following documents:

 the redacted Cabinet paper and associate minute Defence Capability Plan 2025 Public Release, Defence Industry and Communications [CAB-25-SUB-0114 and CAB-25-MIN-0114]

This pack has been released on the Ministry of Defence website, available at: <u>www.defence.govt.nz/publications/defence-capability-plan-2025-public-release-defence-industry-and-communications</u>.

Annex A, *Public version of the Defence Capability Plan 2025,* is available at: <u>https://www.defence.govt.nz/our-work/equip/defence-capability-plan/</u>. Annex B, *New Zealand Defence Spending as a Percentage of GDP*, is available at: <u>https://www.beehive.govt.nz/release/multi-billion-dollar-defence-plan-unveiled</u>.

Information is withheld where making it available would be likely to prejudice:

• the security or defence of New Zealand or the international relations of the Government of New Zealand [section 6(a)].

Information is also withheld in order to maintain:

- the confidentiality of advice tendered by Ministers of the Crown and officials [section 9(2)(f)(iv)]
- the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any department or organisation in the course of their duty [section 9(2)(g)(i)].

Where information is withheld under section 9(2) of the Act it is not considered that the public interest outweighs the need to protect it.

Indicative investments outlined in the DCP are subject to government approval of individual business cases which justify the investment and to funding being made available through the annual Budget process.

Further Cabinet considerations relating to the Defence Capability Plan in April 2025 are withheld in full under section 6(a) and 9(2)(g)(i). The outcome of these decisions can be found in the published version of the Defence Capability Plan 2025.

Cabinet



Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Defence Capability Plan 2025 Industry and Communications		s6(a)	: Public Release, Defence
Portfolio	Defence		O C
On 7 April 2025, Cabinet:			XO
1		s6(a)	MINIS

- 2 **agreed** to publicly release the Defence Capability Plan 2025, attached as Annex A to the paper under CAB-25-SUB-0114, subject to any minor or editorial changes that may be approved by the Minister of Defence prior to its release;
- 3 **noted** that officials are developing a new industry strategy that will support the implementation of the Defence Capability Plan and align with the Government's economic growth agenda;
- 4 **noted** that public communications relating to the Defence Capability Plan will use total forecast Defence departmental appropriations to calculate defence spending as a percentage of GDP;
- 5 **noted** that diplomatic communication of the Defence Capability Plan provides an opportunity to reiterate with partners how New Zealand views the strategic environment and the Government's commitment to increase defence spending in response.

Rachel Hayward Secretary of the Cabinet

Office of the Minister of Defence

Cabinet

Defence Capability Plan 2025 <u>s6(a)</u> Public Release, Defence Industry and Communications

Proposal

1 This paper asks Cabinet to agree to publicly release the Defence Capability Plan 2025 for a modern, combat capable NZDF that pulls its weight internationally and domestically. This paper also asks Cabinet to note that officials are developing a new industry strategy that will support implementation of the DCP and the Government's economic growth agenda.

Relation to government priorities

2 Global tensions are increasing rapidly and continued investment in the NZDF is necessary to achieve the Government's foreign, defence and trade policy priorities, particularly that New Zealand has an active defence policy agenda that enhances our security and underpins prosperity, and that the Government will be vigilant in the protection of the values of democracy, freedom and security.¹

Executive Summary

- 3
- 4 Cabinet is asked to agree to publicly release the attached Defence Capability Plan 2025, s6(a)
- 5 Given the size of the Government's forecast investment in Defence under this Plan, officials are developing a new industry strategy that will support implementation of the DCP and align with the Government's economic growth agenda. The DCP presents a significant opportunity for growing New Zealand domestic industry, especially in the supply chain and through-life support of military capability and the building of infrastructure.

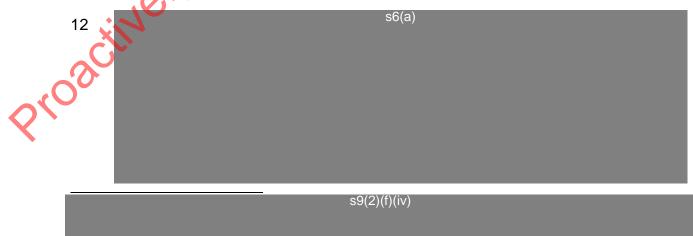
Cabinet is also asked to note that public communications for the Defence Capability Plan 2025 will use total forecast Defence departmental appropriations to calculate defence spending as a percentage of GDP, in line with the internationally recognised SIPRI methodology for New Zealand. Under this measure, Defence spending 6(a) is projected to reach 2% of GDP in 2032/33 increasing from current spending of 1.1% of GDP.

¹ Speech From the Throne 6 December 2023 https://gazette.govt.nz/notice/id/2023-vr5697

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Defence expenditure as a proportion of Gross Domestic Product

- 8 There are several methods of calculating defence spending as a portion of GDP, as each country has slightly different funding rules and differences in what is included in its GDP calculation. For example, most NATO countries include military pension payments in their calculations, we do not. The Stockholm International Peace Research Institute (**SIPRI**) dataset is a commonly used database for international comparisons of defence expenditure and includes information for over 170 countries. This calculation is based on publicly available documents (in New Zealand's case, the Defence departmental appropriations in the Main Estimates).
- 9 The Main Estimates figures for Vote Defence Force include funding for both depreciation and capital charge, but this is not clearly identifiable for external audiences. The inclusion of depreciation means the calculation effectively double counts some capital funding for the NZDF. Other countries either exclude depreciation from their calculation s9(2)(g)(i) or are not funded for it. Capital charge reflects the cost to the Crown's investment in an agency. Other countries do not apply capital charge to their Defence Forces.
- 10 In recent years Defence has been using an **NZDF** calculation, which removes both depreciation and capital charge in order to more closely reflect the fact that other countries do not include these in their calculations. This methodology is not easily calculated from publicly available information.
- 11 For the purposes of the DCP, New Zealand will use total forecast Defence Departmental Appropriations to calculate defence spending as a percentage of GDP. This aligns with the SIPRI methodology for New Zealand. It allows for comparison with the defence spending levels of our peers. This is the most commonly used independent international comparator.



s6(a)

13 Annex B shows New Zealand's historic spend profile on Defence and the forecast spend as a result of this DCP <u>s6(a)</u>. Note that SIPRI adjusted the way they calculated New Zealand's Defence spending in 2023 and updated their historic dataset to reflect this. This means that the graph shows a lower historic spend than was reported at the time.

Treasury comment on methodology for calculating defence spending against GDP

- 14 While providing context and typically used to compare spending internationally, calculating and comparing defence expenditure as a percentage of GDP is an imperfect measure given different accounting and public finance standards across countries, and different definitions of what constitutes defence expenditure. Further, forecasts should be treated with caution given the indicative scale and timing of investments and uncertainties regarding future GDP growth.
- 15 The Treasury considers that any of the outlined methodologies could be used to show defence expenditure as a percentage of GDP. It considers the SIPRI approach provides some advantages, and it recommends this methodology be used so long as all communications are transparent about what the figures are based on. Whilst the SIPRI measure includes a degree of double counting, it allows for comparisons with over 170 jurisdictions in the SIPRI database, is most consistent with existing reported public figures and can be directly sourced from Estimates documents.

s9(2)(g)(i)

Defence industry

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Supporting the Government's economic growth agenda

Defence is already a significant contributor to New Zealand's economy. Currently, the NZDF spends almost \$1 billion annually on maintenance and repair, training support, and other engineering and commercial services, with approximately two thirds of this spent locally. In 2024/25, the Ministry of Defence spent \$901 million on new capability and infrastructure, of which \$119 million went to New Zealand-based companies.³ Of the top 50 suppliers by

³ Not captured in these figures are the New Zealand businesses sub-contracted by Defence's prime suppliers to provide components, undertake installation work, and/or provide through-life support.

value to the NZDF and Ministry of Defence, 35 and 24 respectively have New Zealand business numbers.

18 A conservative estimate of the size of New Zealand's Defence industrial base is around 800 suppliers. This number is derived from a number of data sources, and is likely to underestimate the level of activity in the sector. For ience example, it does not fully capture New Zealand businesses exporting into other Defence Force supply chains and/or producing technology that could be adapted for military use.

Defence will partner with industry to deliver the Plan

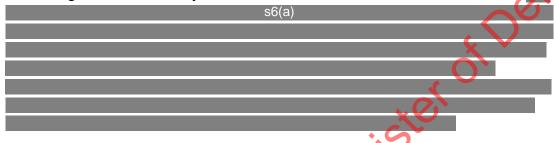
- Delivering the indicative capability investments outlined in the DCP cannot be 19 done without industry, which is a critical partner in both the supply of military capability and infrastructure, and their sustainment and operation through-life.
- 20 Implementing the DCP represents a significant growth opportunity for New Zealand businesses. As a general rule, for every dollar spent on new capability, three to four is spent on supporting it through-life. Given the size of the Government's forecast investment in Defence, officials are developing a new industry strategy that will support implementation of the DCP and align with the Government's economic growth agenda. In scope is:
 - Optimising New Zealand industry in supporting Defence, including New Zealand's advanced technology and innovation sectors;
 - The role of Defence in growing New Zealand Defence industry exports;
 - Current models of procurement and whether they are fit for purpose, both for traditional defence industry and emerging and innovative industries;
 - Building more resilient and adaptive supply chains, including doing more in New Zealand?
 - Closer procurement collaboration, joint procurement, and joint industry integration with Australia; and
 - Other partner and regional-based initiatives to support industrial base resilience.

It is in the area of implementing the DCP and new capital acquisition that the significant opportunity for optimising and growing New Zealand industry involvement lies, especially in the supply chain and through-life support of military capability and the building of infrastructure. Growing this contribution will also make those supply chains more resilient.

22 Currently, Defence tenders for major military capability require Prime suppliers to submit industry engagement plans listing sub-contracts with New Zealand suppliers, including for the supply of components and systems, specialist

expertise, and through-life support. ⁴ s9(2)(f)(iv)	
	•

23 The high technology sector is another area of significant opportunity for New Zealand businesses. A focus of the Strategy will be what Defence can do to support and validate new technologies, thereby helping to make those technologies 'service ready' with the NZDF and/or other Defence Forces.



- 24 Defence will work with the Ministry of Business, Innovation and Employment, Crown Procurement, the Ministry of Foreign Affairs and Trade, and New Zealand Trade and Enterprise as the Defence Industry Strategy is developed.
- 25 Following Cabinet approval, Defence will engage industry across the life of the Plan, including to identify options for different delivery approaches, for example, leasing and agile technology development.

Public version

Release of a public version of the Defence Capability Plan

26 Officials have prepared a public version of the DCP, s6(a) which is included at

Annex A. I am seeking Cabinet approval for its release.

- 27 The public version provides a statement on the strategic environment; details new strategic defence policy settings as agreed to in Cabinet Paper One [CAB-24-MIN-0420 refers]; outlines how Defence will meet this policy; signals indicative capability investments; and discusses how the DCP will be implemented.
 - The public version is structured to focus on the first four years of the DCP s6(a) , with a summary of indicative investments in later years s6(a) . This is a departure from earlier DCPs which costed investments for the first 10 years. This DCP will instead rely on two-yearly reviews to take account of the changing international outlook and thus provide flexibility over time. The

⁴ The predominant contracting model in Defence is to partner with a single Prime supplier for the supply of a capability and/or service. Prime suppliers tend to large overseas contractors and/or their New Zealand-based subsidiaries. Under this model, the opportunity for New Zealand businesses is in partnership with, or as sub-contractors to, the Prime suppliers.

two yearly reviews will also provide the Government with choices on scale, new technologies, and pace of delivery over the life of the DCP. Most importantly, it allows the Government to increase spending as our fiscal position allows, or as the security situation changes.

29 The public version includes specific reference to funding amounts over the next four years for Defence - a planned commitment of \$12 billion of capital and operating expenditure on Defence capability and enablers, including a \$9 billion increase to baseline funding (capital injections and operating uplifts). It also states that in order to deliver on its defence policy objectives the Government needs to commit to sustained investment in the NZDF.

Communications

- 30 31 32 The public version of the DCP will be released following Cabinet approval, at a
- 32 The public version of the DCP will be released following Cabinet approval, at a time coordinated between the Office of the Minister of Defence and the Prime Minister's Office.



Other Implications

34 There are no cost of living, human rights, legislative, regulatory, gender, or disability implications resulting from this paper.

Consultation

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This paper has been prepared by the Ministry of Defence and New Zealand Defence Force. The Treasury and the Ministry of Foreign Affairs and Trade were consulted during the preparation of this paper. The Department of the Prime Minister and Cabinet (Policy Advisory Group) was informed.

Proactive Release

36 I will proactively release this paper, subject to any redactions required under the Official Information Act 1982.

Recommendations

The Minister of Defence recommends that the Committee:

- 1 **note** that Defence officials have prepared a public version of the Defence Capability Plan, <u>s6(a)</u>
- 2 **agree** to publicly release the attached Defence Capability Plan 2025, attached as Annex A;
- 3 **note** that officials are developing a new industry strategy that will support implementation of the DCP and align with the Government's economic growth agenda;
- 4 **note** that public communications for the Defence Capability Plan will use total forecast Defence departmental appropriations to calculate defence spending as a percentage of GDP; and

s6(a)

the

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Authorised for lodgement

Hon Judith Collins KC MP **MINISTER OF DEFENCE**

Paper Three Annexes:

- Annex A Public version of the Defence Capability Plan 2025
- Annex B New Zealand Defence Spending as a Percentage of GDP