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**A NATIONAL SECURITY & INTELLIGENCE
FRAMEWORK**

FOR

NEW ZEALAND

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OVERVIEW AND KEY POINTS

Many demands, from different sources and for different purposes, are made on New Zealand's security intelligence agencies. Demands exceed capacity and the agency heads, and those at the centre of Government, are faced with hard choices about priorities. How to set priorities, and annual budgets, and how to decide "what is enough" to meet New Zealand's interests, are difficult enough. These are more difficult where there is no agreed definition of our national security interests, or the metrics to assess their priority.

The reviewers were asked for a definition of the concept of National Security and, based on that definition, a process for setting priorities, and a list of those priorities for endorsement.

A definition of National Security is put forward in detail in Part 3, which proposes the core areas of our national interest which are to be protected or advanced. But endorsement of a definition of National Security is a first step. Only when this is agreed is it sensible to move to the next step – setting priorities.

A risk based approach to priority setting is proposed for its inbuilt discipline. Threat assessment, by itself, is of limited use for determining priorities for intelligence collection, or the action which might follow. Judgements about likelihood and impact, and the cost-effectiveness of intelligence, (as opposed to other interventions), to address the threat, place a more structured framework around decisions on intelligence priorities.

System and process need to be in place to ensure that: national security risks are being identified; priorities are effectively set and recalibrated from time to time; resources are cost-effectively deployed; crises are managed; and investment is made in the right capability for the future. The reviewers (Part 5) have assessed New Zealand's system against a conventional standard. Governance needs strengthening if priority setting is to be improved.

The Five Eyes relationship is explicitly incorporated into our core national security interests. It is not an add-on, but integral to the protection, or advancement, of those interests.

The reviewers have tested the approach and provided a brief, preliminary assessment of priorities in Annex A. They are not complete but have confirmed for the reviewers the effectiveness of the approach as a basis for priority setting, agreement on tasking, and resource allocation.

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1 INTRODUCTION

1.1 This report sets out an approach for developing a national security and intelligence framework for New Zealand, within which the country's security and intelligence priorities can be determined, and the responsibilities, priorities and funding of its national security and intelligence agencies can be set.

1.2 It proposes a national security and intelligence framework, which can be considered, modified and/or confirmed by officials and put before the Government for approval. Annex A is a first cut at a set of priorities, based on this framework - in part to test it, and in part to give a "start" for those who may be required to do the planning and priority setting should the approach proposed be adopted.

1.3 Getting to this point has been something of a journey for the reviewers. The Terms of Reference for the review (Annex C) while fair and sensible, set a challenging goal. As the project got under way it became apparent that:

- There are divergent views (or no views) on what "national security" is, or might encompass, for New Zealand, *Redacted 9(2)(g)(i)*
- There are multiple "lenses" through which national security, and the secret intelligence which informs national security understanding and decision making, are viewed and interpreted. Some see national security as a sub-set of our foreign policy. Others see domestic and foreign distinctions increasingly irrelevant in a "joined up" world. Some view national security in terms of "threat"; few seem to make resourcing decisions, (or take action), based on "risk".
- *Redacted 6(a), 9(2)(g)(i)*

1.4 These intellectual crevasses have been compounded by two characteristics of the secret intelligence world: the well-founded principle of "need to know" and, in the past, some agency resistance to external challenge. *Redacted 6(a), 9(2)(f)(iv), 9(2)(g)(i)*

1.5 That said, there is acceptance of, and support for, change. Within the proper constraints of maintaining the security of operations, and in some cases the physical safety of those involved, the current heads of the security and intelligence agencies are open to, in fact supportive of, a more "whole of Government" approach to priority setting. *Redacted 6(a), 9(2)(f)(iv), 9(2)(g)(i)* They understand that the sum of those individual decisions might not add to the most effective disposition of our resources from a whole of Government perspective.

1.6 For these reasons this report addresses two matters which were not explicitly required in the Terms of Reference – the features of an ideal security and intelligence *system*, and *governance*. They were implied in Item 4 in the Terms of Reference – *The process for setting and recalibrating priorities*. It is our view that they need to be addressed if "churn" and inefficiency in setting our national security and intelligence priorities are to be reduced,

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and if our scarce resources are to be applied to get the best national security outcome for the dollar.

1.7 During the preparation of this report a review of the intelligence agencies was announced. That process has proceeded independently of the setting of a national security and intelligence framework. Logically, form should follow function and the outcome of this review inform any consideration of structural options for New Zealand's intelligence agencies.

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2 TERMS OF REFERENCE AND WORKING ASSUMPTIONS

Terms of Reference

2.1 The Terms of Reference for the review specify six outputs:

1. Definition of the concept of National Security.
2. Set of shared operating principles.
3. Recommended agency roles and responsibilities for: collection; assessment; and use of intelligence.
4. Process for setting and recalibrating priorities.
5. Articulated Risk Categories and Vectors of significance.
6. Current priorities list for ODESC endorsement.

2.2 The preamble to the specification of these outputs articulates the purpose of the review as the development of:

- A shared understanding of New Zealand's national security risks and interests; and
- National security intelligence requirements to support achievement of that national security.

Working Assumptions

2.3 The reviewers have worked under several assumptions or "givens" which have had a significant effect on the approach to, and results of, this review. We have tried to make these explicit in the report. Five in particular should be made clear at the outset.

(1) *The Five Eyes Relationship*

2.4 It is impossible to consider our national security interests without considering the collective security arrangements to which New Zealand has committed. *Redacted 6(a)*

1. *Redacted 6(a)*
2. *Redacted 6(a)*
3. *Redacted 6(a)*

2.5 The report is based on these assumptions, which are of sufficient importance in the context of this report that they are elaborated in Annex B.

(2) *Foreign Intelligence and National Security Intelligence*

2.6 At the outset the reviewers had to consider whether to 'ring fence' the current system of setting New Zealand's foreign intelligence requirements and recommend a separate and parallel priority setting process for national security intelligence.

2.7 The Auditor General has in the past recommended that there should be a statement of domestic intelligence requirements similar to the FIR. Today that would probably be the wrong solution. The boundary does not lie between foreign intelligence and domestic intelligence. That is a matter of the geography of collection. Any distinction should be based on function or purpose:

- Intelligence collected to inform and advance our *foreign policy*. This is almost exclusively collected offshore.
- Intelligence collected to maintain or enhance our *national security*. This may be collected offshore or within New Zealand.

2.8 Intelligence to advance foreign policy, and intelligence to help maintain national security, have connections and overlaps. But they are not the same thing. *Redacted 6(a), 6(b)*; or more generally to provide background and context to the formulation of our foreign policy; is regarded, in this report, as falling outside the definition of national security.

2.9 On the other hand, the distinction between domestic (security) intelligence and foreign intelligence collected to help maintain our national security is increasingly blurred. In fact they are increasingly interdependent e.g. in counter proliferation, counter terrorism or counter espionage. This is elaborated and illustrated in Part 4.

2.10 While acknowledging the risks, the reviewers have recommended leaving in place the current system for setting foreign intelligence requirements, while a separate and different process for setting national security intelligence priorities is put in place. The latter will include significant foreign intelligence requirements. These will need to be reconciled, and assigned relative priority, with the foreign intelligence requirements which have been established to further our foreign policy aims.

(3) *A Risk-Based Approach*

2.11 The language of the intelligence community is peppered with references to "threats". But threat assessment, by itself, is of limited use for determining priorities for intelligence collection, or the action which might follow.

2.12 There are five further judgements or decisions to be made after a threat has been identified:

1. What is the likelihood of the threat becoming a reality?
2. What are the consequences if that happens?

2.13 This is conventional risk analysis and should provide an order of priority for action to mitigate risk. However, in the context of setting priorities for secret intelligence, two further decisions need to be made.

3. What action, if any can be taken to mitigate the risk?
4. Can secret intelligence improve the quality or effectiveness of that action?
5. And even if the answer to question 4 is “yes”, are there more cost effective ways of risk mitigation?

2.14 The latter could include: “hardening” areas of vulnerability against cyber or physical attack; engagement with the private sector to reduce the likelihood of the export of dual use technology contributing to the proliferation of weapons of mass destruction; and engagement with ethnic communities to minimise the risk of radicalisation.

2.15 Moving directly from threat identification to the collection of secret intelligence is likely to be both inefficient and ineffective. But to take the other steps outlined above will require a consistent framework, some staff work, and cross agency collaboration at the planning rather than just the operational ends of their businesses.

(4) A System View

2.16 Output 3 of the Terms of Reference (Agency roles and responsibilities for the collection, assessment and use of intelligence) seems based on a model or view of our national security effort:

- First, as a sequence of discrete activities, from specification of requirements (what is to be collected) through assessment, production, dissemination, and review, leading to re-specification; and
- Second, that the agencies involved have distinct and separate responsibilities for each of these activities.

2.17 That is not the case.

2.18 First, the activities are interdependent (e.g. analysis may lead to re-specification before action), and require integration (i.e. collection which is not matched by analytical capacity or end-user capability to convert the intelligence into effective action may be wasted effort).

2.19 Second, one organisation may be both a “producer” and “consumer” of intelligence. The business processes of security intelligence organisations, particularly but not exclusively

the Service, require them to specify, collect and assess intelligence and, on occasion, to act upon it, on their own accord or with other agencies.

2.20 The US Vision 2015 for the intelligence community anticipates a shift from “today’s product centred model” toward one that blurs the distinction between intelligence producer and consumer¹. Networked systems can be accessed by “collectors” and “assessors”, “analysts” and “customers” who may each contribute input and use output – a national security Wikipedia.

2.21 That is not an entirely frivolous comparison and seems driven as much by the increasingly IT-savvy demographic of the intelligence community and its customers, as by operational requirements.

2.22 In summary, while roles, responsibilities and accountabilities need to be clear, a more flexible and responsive system, based on risk, requires sophisticated governance, openness and information sharing among the participants, as well as goodwill. New Zealand has two advantages; scale - we are small; and culture - for the most part effective working relationships and professional impartiality are a feature of the senior levels of the public service, including the security and intelligence community.

(5) Governance

2.23 The reviewers have sought, with input from those involved in the sector, to define and articulate the problems which we understand helped trigger the review.

2.24 Many of these problems are to do with “governance” – the way in which the system as a whole is tasked, funded and monitored; the way in which conflicting demands, or demands which exceed capacity, are resolved; and the way in which decision rights are allocated among the participants.

2.25 This is understandable in a system where few of the participants know fully what each agency is doing. The principle of “need to know”, while important for obvious reasons, is a contributor to this state of affairs. *Redacted 6(a), 6(b)*

2.26 In addressing Outputs (3) – Roles and Responsibilities of Agencies, and (4) – Priority Setting Processes, of the Terms of Reference, governance is integral to our recommendations.

¹ *Vision 2005 A Globally Networked and Integrated Intelligence Enterprise. Director of National Intelligence USA July 2008*

3 NATIONAL SECURITY DEFINED

Introduction

3.1 The Terms of Reference require a definition of the “concept of national security” for the purpose of developing a shared understanding of:

- New Zealand’s national security interests and risks; and
- The national security intelligence requirements to support achievement of that national security.

3.2 The intention is to place intelligence in an agreed national security context, and enable choices to be made on the most cost-effective disposition of New Zealand’s limited intelligence resources and capability to help achieve a desired national security outcome.

What is National Security?

3.3 National security means many things to many people. It is a term that was not often used in a New Zealand context until after September 11 2001, and is most commonly used by, and associated with, the United States.

3.4 Terms relating to New Zealand’s security are:

- “Domestic security” – what the United States refers to as “homeland security”; and
- “External security” – what most other nations refer to as “national security”.

3.5 New Zealand’s enduring governance and co-ordination arrangements in this area (DESC and ODESC – see Part 6)) are based on the terms “domestic” and “external security”.

3.6 Today there is increasing use of the term “national security outcomes”, which are largely about the safety and security of New Zealand, New Zealanders and New Zealand interests (whether at home or abroad); and the promotion of New Zealand and New Zealand interests. The use of the term “outcomes” is also consistent with the thrust of our public management systems over the last decade.

3.7 International experience since the defining events of September 11 has reinforced that the “homeland”, and the world beyond the homeland, have merged. Events that can cause harm at home may have their roots beyond the borders - and vice versa. The concept of security, like that of the border, has gone global, reflecting the emergence of the cyberworld and the general interconnectedness of today’s world.

3.8 New Zealand is not immune from these developments and our security and intelligence organisations, and the system within which they operate, must continue to adapt to them. This review is one initiative to facilitate that adaptation.

National Security Defined in Legislation

(a) *The New Zealand Security Intelligence Service Act 1969*

3.9 Security is defined in section 2 as:

*" a). The protection of New Zealand from acts of espionage, sabotage, and subversion, whether or not they are directed from or intended to be committed within New Zealand;
b). The identification of foreign capabilities, intentions, or activities within or relating to New Zealand that impact on New Zealand's international well-being or economic well-being;
c). The protection of New Zealand from activities within or relating to New Zealand that—
i. Are influenced by any foreign organisation or any foreign person;
ii. Are clandestine or deceptive, or threaten the safety of any person; and
iii. Impact adversely on New Zealand's international well-being or economic well-being;
d). The prevention of any terrorist act and of any activity relating to the carrying out or facilitating of any terrorist act."*

3.10 Section 4(1) describes the Service's role in protecting New Zealand's security.

*"b) To advise any of the following persons on protective security measures that are directly or indirectly relevant to security:
i. ministers of the crown or government departments
ii. public authorities
iii. any person who, in the opinion of the Director, should receive the advice:
bb) to conduct inquiries into whether particular individuals should be granted security clearances, and to make appropriate recommendations based on those enquiries;
bc) to make recommendations in respect of matter to be decided under the Citizenship Act 1977 or the Immigration Act 1987, to the extent that those matters are relevant to security;"*

(b) *The Government Communications Security Bureau Act 2003*

3.11 Security is also referred to in this Act by way of describing the Bureau's functions to gather, analyse and report on foreign intelligence and communication in New Zealand or abroad, and to advise and assist in the protection of public authority or entity information. Section 2 provides the following restriction:

*"2). The Bureau may perform its functions only for the following purposes:
a). to pursue its objective;
b). to protect the safety of any person;
c). in support of the prevention or detection of serious crime."*

3.12 Both of these definitions are partial, and are intended to mandate or constrain the purpose and functions of the respective organisations rather than provide a definition of national security to support priority setting and resource allocation decisions.

Agency Roles in National Security

3.13 The national security roles of the agencies which are members of the Intelligence Sub-Committee of the Officials Committee for Domestic and External Security Coordination (ODESC(I) – see Part 5 paragraph 5.9) are defined in their mandates and described in detail in their Statements of Intent, Annual Reports and other “corporate information”.

3.14 The agencies which work in the national security “space” have a broad range of functions, not all of which relate to national security. The “intelligence” agencies i.e. the Service, Bureau, Defence Force (DDIS in particular), and EAB are predictably more aligned with the concept of national security, but have mandates which go wider.

The Role of Defence in National Security

3.15 *Redacted 6(a)*

3.16 The 2009 Defence Review will, *inter alia*, define the national security context in which New Zealand’s defence policy and resourcing are formulated. It will necessarily take a “defence-centric” perspective.

3.17 In 2002 the Hunn Review² of the structural arrangements supporting Defence governance made a number of observations and recommendations of direct relevance to this review. In particular Mr Hunn recommended that “*at the strategic level, there needed to be permanent machinery to provide direction for national security, of which Defence is only a part.*” (Hunn Review, page x)

3.18 This recommendation was based on his view of “*the growing awareness of the globalisation of security and the expansion of its scope into areas which touch the ordinary citizen ever more closely. It is suggested that we lack machinery to deal with this phenomenon and that we should be thinking about processes which ensure the coordination of all Government agencies whatever the type of threat to our security. This has been coupled with an argument that, unlike our strategic partners, we do not have permanent policy and strategy systems in place to bring together the Government and its principal advisers both in respect of national security overall and defence specifically.*” (Hunn Review, page y)

3.19 This current review doesn’t go quite so far in either defining the problem or posing solutions. That is beyond our brief. But it does lend support to addressing the lack of national security “machinery” identified by Mr Hunn, (at least at officials level) and which has not become any less problematic over the last 7 years.

² The Hunn Review – add reference.

National Security for New Zealand

3.20 New Zealand has neither a National Security Act nor a Department of National Security. Rather, we have a range of agencies, operating under their own legislative and policy mandates, who come together (principally under the ODESC structure), on an ad hoc or topic related basis. This is intended to ensure alignment and cooperation, which by and large it does on one-off operational matters, but not across defined and agreed national security outcomes.

3.21 Looking at the statutory definitions referred to above, what agencies do in practice, and mindful of what a national security management system is trying to achieve, we can portray New Zealand's national security as shown in Figure 1.

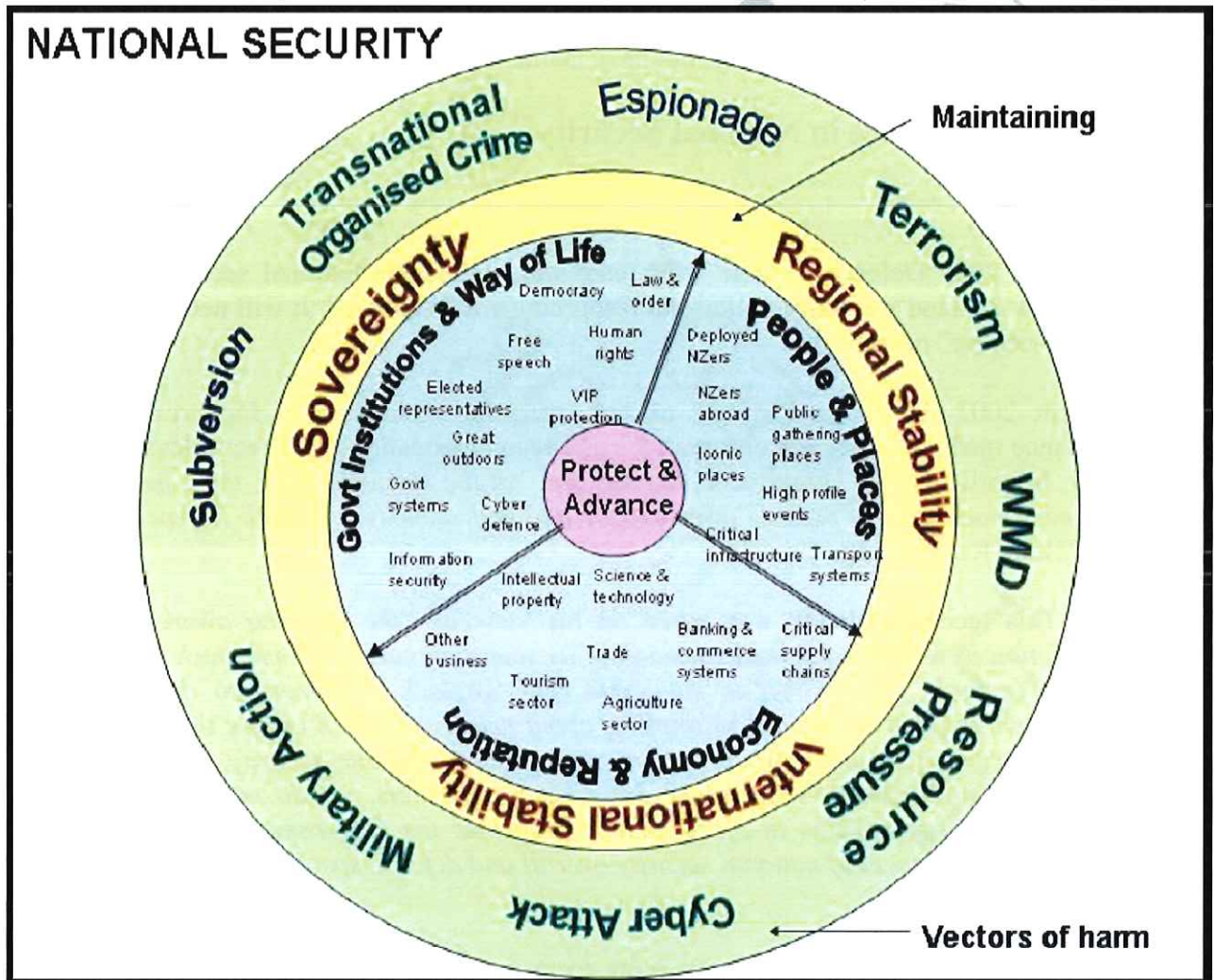


Figure 1: A New Zealand National Security Model

3.22 At the heart of this national security model are three areas of *national interest which are to be protected or promoted.*

(1) People & places

3.23 These are the obvious targets of physical harm. Although our domestic environment may be relatively low risk currently, in comparison to those of some of our partners, (at least as far as can be ascertained), New Zealanders are deployed abroad, in support of our national interests, in high risk environments. High profile visitors who may be high value targets of terrorist organisations visit this country. Their safety is our concern.

3.24 New Zealanders travel and trade. We have an interest in their welfare and safety outside New Zealand.

3.25 Much the same can be said about New Zealand's built environment. This includes public places, iconic buildings and the public utilities, transportation and cyber networks on which we depend for the day to day conduct of our affairs. These are located abroad (in our political, military and trade posts) as well as in New Zealand, and include both public and private sector facilities.

3.26 In almost all foreseeable circumstances any Government will give these the highest priority for protection.

(2) Economy & Reputation

3.27 These are related. We need to protect our economic assets (or at least our ability to control and exercise choices about them), our supply chains and market access. This, in turn, relies on the willingness of others to grant us market access, to protect the trading routes and other infrastructure on which our economy depends, and to support us as we defend, or try to extend, the economic advantage we now enjoy.

3.28 *Redacted 6(a)*

3.29 The activities of New Zealand-based fund-raisers or proselytisers for trans-national terrorist organisations may pose little immediate threat to our people or places. Our failure to identify and constrain their activities may have reputational consequences which, in turn, could erode the levels of protection, and the economic well-being, which we now enjoy.

(3) Government Institutions & Way of Life

3.30 Counter-subversion is a traditional role for security intelligence agencies. In the emotionally charged wake of a terrorist attack on a civilian population, resources are likely to be diverted from counter-subversion to counter-terrorism. But, post Cold War, the threat of subversion remains, albeit in a different form. *Redacted 6(a)* The challenge is to protect the free functioning of democratic institutions from, for example, clandestine foreign influence, while retaining the freedoms, openness and personal privacy which characterise our way of life.

3.31 Making explicit that our “way of life” is an asset to be protected, alongside physical and economic well-being, should afford some protection from its incremental erosion, for the best of “national security” justifications.

Comment

3.32 The boundaries between these are both porous and overlapping. A cyber attack on the banking system would have reputational as well as financial consequences. Hasty and ill-judged responses to perceived terrorist threats could result in an erosion of civil liberties. The failure to protect a high profile visitor to New Zealand could have significant reputational and other consequences.

3.33 The “inner ring” of the diagram connects the priorities for protection and/or promotion to a wider perspective of our national security interests. It reinforces the view that our national security interests are outward looking, connected to our economic and foreign policy, and very much “protection in depth”. It confirms our interest in:

(1) *Maintaining our sovereignty*

To retain control, to the extent we wish and are able, over our political, social and economic destiny.

(2) *Maintaining & promoting regional stability*

To enable us to pursue our legitimate interests in a safe and hospitable environment.

Securing regional stability is both “defence in depth” from the impact of organised crime, illegal people movement, and other consequences of the breakdown of the rule of law. It is also a direct contribution to the protection, within those countries, of our citizens from harm and assets from subvention.

(3) *Maintaining and promoting international stability*

To ensure that the world is a hospitable place for New Zealand to trade and otherwise gain economic benefits.

The comments which apply to regional stability apply in part to this wider canvas, but there are differences. The potential impact on New Zealand of political instability in *Redacted 6(a)*. But we are still a trader with an interest in a safe and stable world, in the international rule of law, in the non-proliferation of weapons of mass destruction, and in constraining the roots of terrorism.

The Vectors of Harm

3.34 In this context a vector refers to the routes by which “adversaries” can inflict harm. They are the “threat vehicles” to those three areas of national interest which have been identified as warranting attention.

(1) *Subversion – political and economic*

The undermining, by clandestine and/or illegal means, of our political institutions and processes (including legitimate expression of dissent); or the ownership or control of our economic assets.

(2) *Espionage*

Obtaining, illegally, our state secrets, our confidential economic and research information, or the secret information of others which has been entrusted to us.

(3) *Cyber attack*

The destruction of, or illegal access to, the ICT infrastructure which supports our public administration and economic activity.

(4) *Terrorism*

Attacks, usually by non-state individuals or organisations, on people and structures, usually intended to maximise harm and disrupt routine activity.

(5) *Military or paramilitary action*

The application of force, by military or paramilitary units, to gain an objective by illegitimate means. This may not be conventional war. *Redacted 6(a)*

(6) *Transnational organised crime*

This can be a Police matter. At some point the scale, and potential impact (and other connections such as funding for terrorist organisations) make this as much a matter of national security as espionage or cyber attack.

(7) *Proliferation and use of weapons of mass destruction (WMD)*

Also referred to as CBRE (chemical, biological, radiological and explosive) threats. The proliferation of WMD poses a threat to regional and global security, and would-be proliferators can access seemingly benign industrial goods to pursue their aims.

(8) *Environmental or resource pressures*

Climate change, and the competition for scarce natural resources such as fuel, water, minerals, and energy sources, are national security concerns in this context when they become a trigger for people movement, military action, or disruption to our supply chains which are outside the conventions and usual processes of international trade and the rule of law.

3.35 The classification is not perfect. None will be. For example: espionage may be achieved through cyber attack; terrorists may be funded by the proceeds of organised crime; economic subversion may be closely related to competition for scarce resources; the boundary between military action and terrorism may be hard to define.

Final Comment

3.36 However the boundaries between these definitions are drawn, the principles underlying this construct of New Zealand's national security remains the same:

- We have some core assets, interests and values which we must protect or advance.
- We need to do enough to understand any threats which we face internally, and do enough to combat these, without undermining the values which we are trying to protect.
- We are dependent on trade and the international environment that allows us to trade. And we are small. These have implications: first, for the type of threats which will jeopardise our national security; and second, for the limited ways open to us to respond to them. In this construct our national security and foreign policies are interdependent. One without the other, and without an appreciation of the other, does a disservice to both.

3.37 The next sections of this report:

- Identify the role of intelligence in promoting national security under this construct;
- Place these in a national security system, which will help support priority setting, decisions on coverage, and resource allocation;
- Propose an approach to setting priorities for our national security agencies.

4 NATIONAL SECURITY INTELLIGENCE

Introduction

4.1 Intelligence informs decision makers. To be of value, it needs to be accurate, timely and relevant. In the context of national security, and with some important provisos, “relevant” should routinely mean “actionable”.

4.2 *In the context of this report*, the use of the terms “intelligence” and “national security intelligence” are, by and large, interchangeable. To national security agencies intelligence is, by definition, information that is hidden, and has a value to those hiding it, and from whom it is hidden. National security intelligence includes intelligence collected at home or abroad, (“foreign” and “domestic” intelligence), by New Zealand or by our partners.

Roles & Functions

4.3 Intelligence is typically thought of in terms of the “intelligence cycle”, portrayed in ways comprising:

- Specification
- Collection
- Processing
- Analysis & reporting (assessment).
- Review and re-specification

4.4 There are three main roles or functions of those engaged in the “cycle” :

- Collection carried out by “collectors”
- Assessment carried out by “assessors”; and
- Use by “customers” (The “users” or “customers” are also typically those who specify what is to be collected.)

4.5 In the New Zealand context, there is at times a perception that these functions run along agency lines: the assessors (e.g., EAB) and the customers (e.g., MFAT) can perceive the Service, and especially the Bureau, as “just” collectors. The collectors use their technology *Redacted 6(a)* to produce a flow of raw information, from which the assessors or customers determine what the decision-makers (Ministers) need to know, or need to make decisions about.

4.6 That is not the case. No agency involved in gathering intelligence to pursue national security objectives, that is objectives wider than to inform foreign policy, is solely a “collector” or “user” of intelligence. As we addressed in the working assumptions to this report, the activities involved in the collection, assessment and use of intelligence are

interdependent and all agencies are engaged in some degree in priority setting, analysis and use of intelligence.

The Foreign Intelligence Requirements (FIRs)

4.7 Much work has gone in to the preparation of a set of requirements for foreign intelligence which will support New Zealand's foreign policy interests. They are an important part of the processes for reviewing and refining those interests, and confirming the regional and geopolitical context in which they are to be pursued. But they are not a solution to the problem which this review is intended to address. *Redacted 6(a), 9(2)(f)(iv), 9(2)(g)(i)* :

- *Redacted 6(a), 9(2)(f)(iv), 9(2)(g)(i)*
- *Redacted 6(a), 9(2)(f)(iv), 9(2)(g)(i)*
- *Redacted 6(a), 9(2)(f)(iv), 9(2)(g)(i)*
- *Redacted 6(a), 9(2)(f)(iv), 9(2)(g)(i)*

4.8 *Redacted 6(a), 9(2)(f)(iv), 9(2)(g)(i)*

Foreign Intelligence vs National Security Intelligence

4.9 Implicit in the above brief comment on the FIRs is the question of how far the traditional distinctions can be maintained between foreign intelligence - intended to gain decision advantage in pursuit of both foreign policy and national security (i.e. military) objectives; and intelligence, collected domestically by "security intelligence" agencies, for protection from espionage, subversion or terrorism.

4.10 It is at least a truism (and probably a cliché) that the post-Cold War world, with ever more effective and cheaper communications; the emergence of trans-national, "franchised" terrorist organisations; the convergence of terrorist funding and organised crime; fragmented and sometimes failing states; and ambiguous links between governments and "non-state actors"; mean that distinctions between domestic intelligence and foreign intelligence are blurring, along with fixed notions of national borders. *Redacted 6(a)*.

4.11 Figure 2 illustrates these definitions within the current framework for setting New Zealand's Foreign Intelligence requirements.

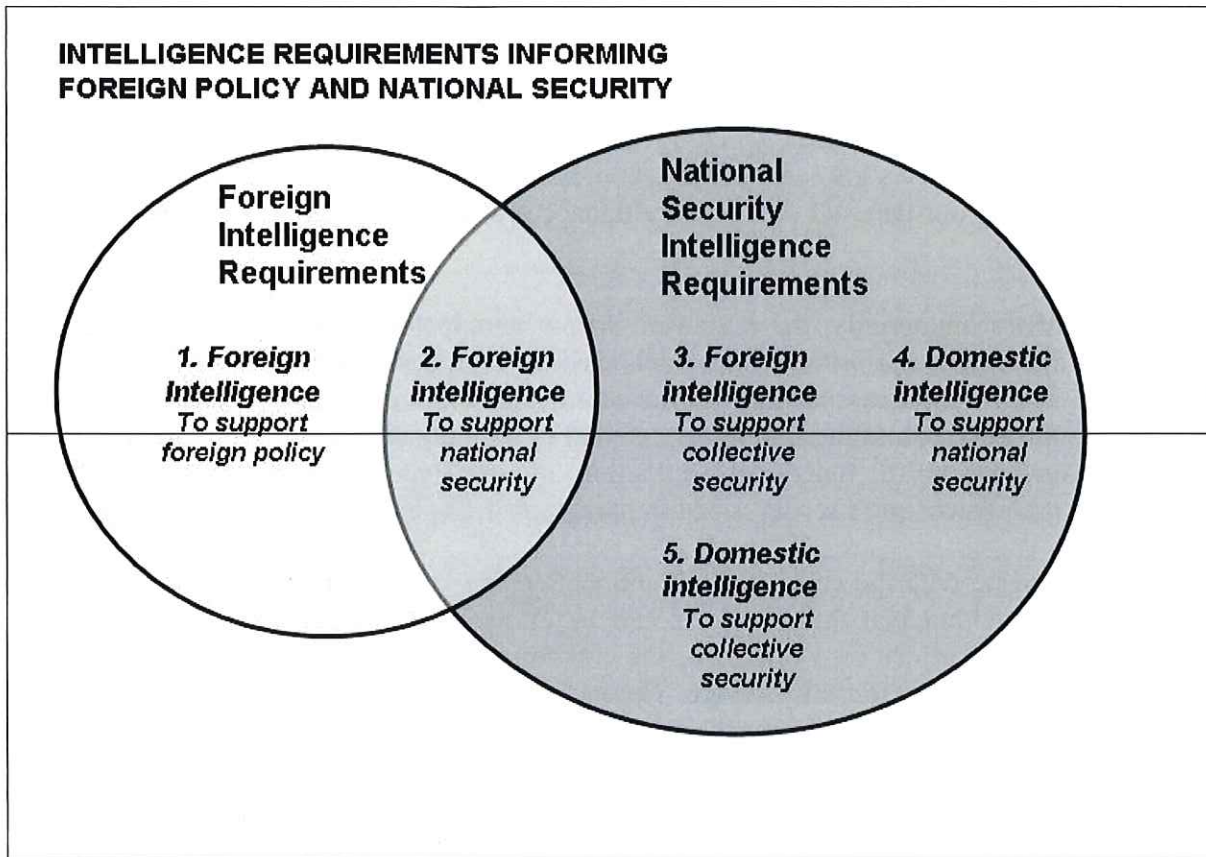


Figure 2
Intelligence Requirements Informing Foreign Policy and National Security

4.12 *Redacted 6(a):*

1. *Redacted 6(a)*
2. *Redacted 6(a)*
3. *Redacted 6(a)*
4. *Redacted 6(a)*

4.13 Should we therefore have one system only for the setting of our intelligence priorities? The argument in favour is that maintaining two systems may perpetuate the problem of misaligned, or conflicting, priorities which agency heads will still be left to resolve. A dual system may also maintain or reinforce a divide between the worlds of security and foreign policy, which is at odds with the concept of national security proposed in Part 3.

4.14 On the other hand:

- There *is* a system in place for setting intelligence priorities from a foreign policy perspective, which is generally understood and has been refined over the years. The reviewers are reluctant to recommend throwing this over before a system for setting our national security intelligence priorities has been developed and put in place.
- More importantly, the reviewers do not anticipate that setting national security intelligence priorities will be achieved by a process similar to that for the FIRs. The FIRs process is led from the centre and, although supported and informed by the Service and the Bureau, is external to both organisations – consistent with the perception of functional separation of intelligence specification, collection, assessment and use, described in paragraph 4.13 above.

4.15 If we agree with the construct of National Security outlined in Part 3, and accept that priority setting within that framework should be informed by judgements about risk, then translating this into priorities, work plans, operating budgets and capital investment, becomes core business planning for the Service, Bureau, Defence Force and other agencies with overlapping or related interests such as Police, Customs and the transport operational agencies. What is required at the centre is sufficient process and capability to ensure alignment among agencies, to test and validate their views about priorities and resourcing requirements, and to maintain a “picture” of our national security priorities, risks and responses.

4.16 Therefore, we have proposed, initially at least, a separate system to set New Zealand’s national security intelligence priorities. There are two important stipulations:

- That national security and foreign policy intelligence priorities are aligned.
- There is a process to ensure that conflicting priorities are resolved at the right level.

The Limits of Intelligence

4.17 *Redacted 6(a)*

4.18 *Redacted 6(a)*

4.19 Because intelligence forms only part of the suite of information on which Governments take action, and because of its sometimes partial and indicative character, it is not amenable to conventional cost-benefit analysis. That places a particular responsibility for careful and prudent judgement on those who commission intelligence collection.

Costs and Benefits

4.20 Collecting intelligence is expensive. *Redacted 6(a)*

4.21 *Redacted 6(a)*

4.22 Financial cost is not the only consideration. *Redacted 6(a)*

4.23 *Redacted 6(a)*. it could well be argued that commissioning intelligence, by whatever technique, should be the last, rather than an early, port of call. It makes sense fully to exploit open source information, or information already held within the system, *Redacted 6(a)*, before commissioning covert collection. *Redacted 6(a)*.

4.24 Given the cost, and in some instances the risks, of collection, good use needs to be made of intelligence. In most cases that should mean a decision or action which might not otherwise have been taken, or taken at the right moment. (A decision to take no action is, in fact, action. Therefore intelligence which confirms a low level of threat may itself be of value.)

4.25 In that context, for example, a request to collect intelligence to inform contextual understanding of political or economic developments in a region or country, should be tested on two grounds:

- Whether open or other sources could provide similar information more cost-effectively; and
- *Redacted 6(a)*

Conclusion

4.26 The roles of specification, collection, assessment and use of intelligence for national security do not align with agency structures. From a national security perspective, the distinctions between foreign and domestic intelligence no longer have much utility. The Foreign Intelligence Requirements are not national security intelligence requirements, although there is overlap.

4.27 Collection of any intelligence can be expensive, and the product has to be “fit for purpose” in that it can be put to effective use.

4.28 This supports the need for priority setting for national security intelligence requirements and reinforces the need for alignment between national security and foreign intelligence requirements. It also reinforces the need for understanding of the potential contribution to, and limitations of, intelligence as a contributor to national security; and highlights the need to look at other ways of managing national security risk. *Redacted 6(a)*

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4.29 But to address such questions, across agencies, and in circumstances where the information sought from an intelligence agency can be a free good to another agency, requires: some broad agreement on our national security priorities; an understanding of where intelligence can add value in advancing those priorities; and some governance to assign priorities, resources and decision rights, and to track progress.

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5 AN IDEAL NATIONAL SECURITY AND INTELLIGENCE SYSTEM

Introduction

5.1 Part 3 defined national security from a New Zealand perspective. But system and process need to be in place to ensure that: national security risks are being identified; priorities are effectively set and recalibrated from time to time; resources are cost-effectively deployed; crises are managed; and investment is made in the right capability for the future.

5.2 In this part of the report we set out an ideal security and intelligence management system and, against this ideal, briefly benchmark **those elements of New Zealand's security and intelligence arrangements which are of direct relevance to the Terms of Reference of this review.**

5.3 *Redacted 6(a), 6(b)*, there seems to be a common set of functions or elements which comprise an ideal national security and intelligence system:

1. ***Effective governance.*** Arrangements to ensure that long-term and current priorities are set; resourcing decisions are based on those priorities; roles, responsibilities and decision rights are clear; and performance is monitored.
2. ***Situational awareness 24x7.*** The ability to know what is happening in our environment, in terms of threats and vulnerabilities, both in "real time" and over longer time horizons, and to alert responding elements. (This is sometimes termed "watch and warn".)
3. ***Redacted 6(a) response capability 24x7.*** The ability to respond quickly and effectively to a change in the threat environment.
4. ***Security and intelligence operations best practice.*** Having the right suite of capabilities, to high professional standards and "tradescraft" for each discipline, *Redacted 6(a)*
5. ***Protective security.*** The ability to identify vulnerabilities and put the "right", and "right level" of, protection in place.
6. ***Security and intelligence infrastructure.*** The communications and other infrastructure which allows the intelligence agencies to conduct their business securely and effectively.
7. ***Research and capability development.*** While recognising the risks of overly prescriptive prediction, there needs to be time and space, separate from the tempo of current demands and operations, to plan for, invest and train for the likely national security requirements of the future.

(1) *Effective Governance*

Governance Defined

5.4 There are at least as many definitions of governance as there are of national security. For the purpose of this review governance is defined as the setting of objectives and priorities, the allocation of resources and decision rights, and the monitoring of performance.

New Zealand State Sector Governance

5.5 New Zealand's public management system is characterised by many state sector organisations, often small and narrowly focussed, and with well developed arrangements for objective setting, budget management and review. The 20 year-old statutory framework within which they operate is, effectively, "hard-wired" for annual, output focussed management, on an agency by agency basis, with the priority on production efficiency rather than long term effectiveness.

5.6 State sector reform in New Zealand over the last 15 years or so has been aimed at retaining the efficiency dividend of the reforms of the late 1980s and early 1990s, but trying to ensure that the managers of state sector organisations keep sight of the purpose for which their organisations exist, and the end results they are trying to achieve. Many of these end results, or "outcomes", cross departmental boundaries and, in some cases are so long term as to be inter-generational.

5.7 As a result, an overlay of "cooperative", "steering" or "joined up" mechanisms has developed among government agencies for the purpose of agreeing roles, responsibilities and measures in the pursuit of outcomes. Alignment of some agency Statements of Intent is one manifestation. By and large these have worked, for example in some areas of social policy or crime prevention. However, in part for the reasons touched on in paragraphs xx, there is no well-developed equivalent for national security.

Governance for National Security

5.8 Is a better mechanism for setting New Zealand's priorities, responsibilities and resource allocation for national security required? Yes, for a number of reasons.

- **Others do it.** All other Five Eyes partners have prepared statements of their national security interests and strategies, which are available to the public in open source versions. That is not by itself an argument for New Zealand to do the same. However it does pose the challenge: "Why not?"
- **A fragmented sector.** State sector restructuring in the late 1980s and early 1990s has resulted in a proliferation of transport agencies with national security responsibilities, intelligence functions, or formal access to intelligence flows from partner agencies overseas. Border security is a responsibility of three departments: Customs, Labour (Immigration) and Agriculture and Forestry. Internal Affairs have a role in identity assurance through the integrity of our passport system. *Redacted 6(a)*

- **No common metrics.** Terminology, risk assessment, priority setting and resourcing vary across, and even within, agencies. This makes it more difficult to form a coherent picture of the whole.
- **Budget challenges.** *Redacted 6(a), 9(2)(f)(iv), 9(2)(g)(i)*
- **Decision rights.** The Directors of the Service and Bureau, (and the heads of the other agencies with national security intelligence responsibilities or functions), are often left to decide among competing priorities, domestic and foreign, *Redacted 6(a)*. Some of these are decisions that they should make themselves, (particularly given the statutory authority of the Director of Security). However, the overall allocation of our national security intelligence resources, based on a shared view of the threat environment, should be a Government decision, *Redacted 9(2)(f)(iv), 9(2)(g)(i)*.
- **Performance measurement.** There is no shared understanding of the effectiveness of our security and intelligence efforts. But to make a judgement on how *effective they are*, requires prior agreement on what they are *trying to achieve*. Without agreement on the latter, there is little chance of consensus on the former. *Redacted 9(2)(f)(iv)*
- **Can we afford not to?** *Redacted 9(2)(f)(iv), 9(2)(g)(i)*

5.9 **Officials Committee for Domestic and External Security Coordination (ODESC)**

The role of the Cabinet Committee on Domestic and External Security Co-ordination (DES) is, *inter alia*, “*To consider issues of oversight, organisation and **priorities** for the New Zealand intelligence community...*”(ref) (Emphasis added.)

5.10 But neither ODESC, which services the Cabinet Committee, nor its three major committees are currently tasked, or resourced, to develop, for the Government, a national security strategy or to provide assurance to the Government that priorities are aligned with that strategy. For example:

- ODESC itself is geared for crisis management rather than national security strategy;
- ODESC(I), while ostensibly concerned with intelligence oversight, is more narrowly focussed on the “*New Zealand intelligence community and individual agencies with respect to **foreign intelligence matters**.*”(ref) (Emphasis added.) As argued in Part 4, foreign intelligence and national security intelligence will overlap, but are not the same thing. *Redacted 9(2)(f)(iv), 9(2)(g)(i)*
- ODESC(P), on the basis of its terms of reference, would seem to be the locus for a strategy role. It “*is concerned with the strategic planning and policy development that needs to occur routinely as part of understanding and mitigating significant risks and enhancing New Zealand’s security awareness.*”(ref) But, consistent with the ODESC role in crisis management, its

focus is on ensuring preparedness for a response rather than on national security strategy and priority setting for the intelligence which supports that strategy.

5.11 To the extent national security direction or strategy has been achieved, this has been thematic or issue-based. Policy statements have been developed through ODESC subcommittees on:

- Counter-terrorism (Senior Officials Committee on Terrorism)
- CBRE Incident Management (Chemical, Biological, Radiological, Explosives Steering Committee).

5.12 Work is in train on:

- Government protection of classified information (Inter-departmental Committee on Security)
- Information security of government assets (Officials Committee for the Regulation of Internet Safety).

5.13 None of this is a criticism of ODESC. The ODESC process works for its original purpose of providing whole of government advice (and resources) to decision-makers during times of crisis e.g. natural disasters (also referred to as civil contingencies) such as floods, earthquakes, tsunamis; terrorist attacks; bio-security threats; pandemics; or coups and political instability in our region. From all accounts, the system of Watch Groups, convened by DESG and supported by intelligence agencies, also works well, as does the convening of ODESC at short notice when required.

5.14 *Redacted 9(2)(f)(iv), 9(2)(g)(i):*

- *Redacted 9(2)(f)(iv), 9(2)(g)(i)*
- *Redacted 9(2)(f)(iv), 9(2)(g)(i)*
- *Redacted 9(2)(f)(iv), 9(2)(g)(i)*³.

5.15 This is not a review of ODESC. That is outside our Terms of Reference. But if good governance is part of an effective national security and intelligence system, and if the national security framework proposed in this report is to be developed and put to some use, then the role and resourcing of ODESC will need to be separately addressed.

³ The border & transport agencies have a front-line role in maintaining our borders, 24x7. Border agencies are integrated with law enforcement and security agencies in maintaining terrorist watch-lists, and with respect to transnational organised crime in drugs, weapons, financial transactions, people smuggling and human trafficking. *Redacted 6(a)* Border and transport agencies are also key players in counter-proliferation efforts such as the Proliferation Security Initiative (PSI), and countering the export of dual use technologies, proliferation materials and research.

(2) *Situational Awareness*

5.16 Situational awareness has two dimensions:

- A 24x7 “real time” capability, typically termed “watch and warn”, to ensure that a response can be activated to events as they occur.
- A longer term view of the threats we are likely to face, so that we can be positioned to respond or, more importantly, so we can address vulnerabilities to minimise the need for a crisis response in the future.

5.17 It is difficult to avoid the overworked metaphor of the ambulance at the bottom of the cliff. But having an effective watch and warn system without a well-developed system for longer term situational awareness doesn't seem particularly sensible. An argument, not shared by the reviewers, is that New Zealand's threat environment is so benign that an overly sophisticated system for assessing strategic threats is a waste of effort. There are two problems with this assertion:

- The assertion itself needs to be tested. It would not be a surprise to the reviewers if the longer term threat environment were less benign than generally accepted.
Redacted 6(a), 9(2)(f)(iv), 9(2)(g)(i)
- There is sometimes confusion about the nature of any threat. For example, if the measure of domestic threat is whether New Zealand residents are at risk from imminent attack, then the threat environment may well be low. However, in Part 3 we have set reputation as one of our core assets or interests to be protected or advanced. By that standard a different assessment of the domestic threat environment may be generated.

Real Time Capability

5.18 *Redacted 6(a):*

- *Redacted 6(a)*
- *Redacted 6(a)*
- National Maritime Coordination Centre for marine domain awareness (which includes Maritime NZ, Customs and NZDF).

5.19 *Redacted 6(a)*

5.20 The watch and warn systems have well-developed notification arrangements with the DESG and ODESC chair, and connections to the police and civil defence systems.

5.21 While no doubt a separate study could identify areas for refinement, that is beyond the scope of this review. The point is that there are systems in place for monitoring, and responding to, events as they occur.

A Longer View

5.22 There is no agreed, coherent longer term view. Think-pieces are done in particular areas on an agency by agency basis, sometimes as an assessment piece by EAB, and sometimes via the National Assessments Committee process.

5.23 The Combined Threat Assessment Group (CTAG) may be one place where this could be located. *Redacted 6(a), 9(2)(f)(iv), 9(2)(g)(i)*

5.24 The reviewers are well aware of the resource costs of major, strategic assessments, as well as the risk of using them, uncritically, as a basis of planning and investment. But at the least there should be a broadly shared view of this country's vulnerabilities, and the threat of exploitation of those vulnerabilities, as a basis for resourcing and tasking the security and intelligence agencies. There also needs to be a process for challenging and testing those shared views from time to time.

(3) 24 x 7 Response Capability

5.25 Making good use of a watch and warn capability requires the ability to respond by taking the right action (or no action) at the right time.

5.26 *Redacted 6(a)*

5.27 This report notes without comment that these are in place.

(4) Security and Intelligence Operations Best Practice

5.28 "Best practice" requires qualification, particularly in a New Zealand security and intelligence context. On the assumption that we are not going to do everything, we need to decide what we are going to do and to what standard. There is a classic "wide vs. deep" trade-off involved, in some ways comparable to our decisions on defence force capability – an agile, effective land force, but no combat air wing.

5.29 Those decisions should ideally be made in light of:

- The threats to national security which New Zealand faces, and is likely to face in the future.
- The options available for effectively managing our national security risk.
- The role secret intelligence can play in enhancing that risk management.
- *Redacted 6(a), 6(b)*

5.30 Unless we have some clarity about these it will be difficult to ensure that *Redacted 6(a), 6(b)*

5.31 We already have challenges, including:

- *Redacted 6(a)*
- *Redacted 6(a)*
- *Redacted 6(a)*
- *Redacted 6(a)*

5.32 There are others, but this is not a review of the state of the security and intelligence community. We note also that action is being taken to address many of the challenges, *Redacted 6(a)*

5.33 But there is a risk that efforts to maintain our capability could be compromised without a better, and shared, understanding of the demands *Redacted 6(a)* and an understanding of the costs, and risks, implicit in different levels of response to these demands.

(5) Protective Security

5.34 The term protective security describes measures to protect:

- People from those who would do them harm or exploit them for their knowledge or access.
- Places from unauthorised access or attack.
- Government information and systems from unauthorised access, theft or attack.

5.35 In the context of this review, protective security is important on two counts:

- We are protecting not only our own people, government systems, and secret information *Redacted 6(a), 6(b)*
- If we take a risk-based approach to national security, then protective security should be seen as part of a suite of responses to mitigate risk. *Redacted 6(a)* In other cases it may be more cost-effective to gain a better appreciation of the nature and likelihood of any threat than to go to the expense of increasing the level of protection, throughout the country, of materials which could be used in a terrorist attack – weapons, munitions, explosives and hazardous chemicals.

5.36 Protective security is integral to any consideration of a national security framework. Elsewhere in this report we have proposed a more consistent, risk-based approach to setting our intelligence priorities for national security. In terms of the second point above, protective security should be a part of the decision process to determine our intelligence priorities and,

in particular, the cost-benefit trade-off between commissioning secret intelligence or hardening vulnerabilities.

5.37 Similar comment can be made about two other areas of protective security - information security and management of insider risk.

- There are standards and guidelines in place for the protection of classified information. These, and the measures which give effect to them, are being strengthened through the Interdepartmental Committee on Security (ICS), a subcommittee of ODESC. The protection of government systems and critical infrastructure from cyber attack is the subject of another work-stream.
- The vetting system, and the overall management of insider risk, is the subject of a major shake-up to improve quality and timeliness and, more generally, national security outcomes.

5.38 But these should not be seen in isolation. Vetting of staff and securing information systems from unauthorised access are two sides of the same coin. They are part of the suite of measures intended to maintain our national security and, as such, should not be considered in isolation from the priorities for secret intelligence which is collected to further the same end.

(6) Security and Intelligence Infrastructure

Communication

5.39 To be effective, the sector requires robust and resilient infrastructure. Information is the currency of the agencies which make up the sector, and it is a truism (in fact a “no-brainer”) that this infrastructure should enable information to be stored, accessed, shared, and distributed among the right agencies, at the right time, to the right people so that the right use can be made of it. This needs to be the case not only for business as usual, but for crisis management as well.

5.40 *Redacted 6(a), 9(2)(f)(iv), 9(2)(g)(i)*

Partnering

5.41 An effective national security system is one which is connected with the community it is intended to protect. Three areas in particular are, or are likely to be, important:

- Community engagement in “counter-radicalisation” is well understood by our partners, and is part of our counter-terrorism effort.
- Research institutions and private sector companies are the “front line” of counter-proliferation. Awareness and action on their part reduces the effort required of intelligence agencies.
- *Redacted 9(2)(b)(ii)*

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5.42 There are some arrangements in place. More are being developed. They have been referenced in this report to reinforce the point that a nation's national security infrastructure goes beyond a small number of government agencies and the information systems that link them.

(7) *Research and Capability Development*

5.43 The 2004 review of the Service commented that it was, at that time, at risk of running down its human and intellectual capital. The environment in which secret intelligence agencies operate is complex - technically, legally and contextually. Things are unlikely to get any simpler in the foreseeable future. The importance of maintaining capability for future requirements has been flagged elsewhere. The challenge is to determine those future needs, and then translate them into capital and human investment.

5.44 A more coherent, longer term view of national security threats, and the expectations of the security and intelligence organisations to respond to them, should inform investment decisions. Unlike our partners, New Zealand has little in the way of independent research and informed academic commentary on national security matters. Practitioners hold views (strong and at times divergent) which reflect their experiences in the particular fields within which they have operated. Providing a solution is outside the scope of this report, but any improvements to sector governance and priority setting arrangements will be a good step forward.

Comment

5.45 New Zealand has in place much of the infrastructure, as well as system and process, for setting and managing our national security intelligence priorities. *Redacted 9(2)(g)(i)* But to put in place a set of national security priorities, to which our scarce resources can be more cost-effectively applied, requires something more. The reviewers are not canvassing structural options. That is the subject of another exercise.

5.46 Irrespective of the outcome of that review, the work to: place intelligence and intelligence priorities in a national security context; within a framework of risk to our longer term interests; and set against the suite of options to ensure the protection or advancement of those interests; will still need to be done.

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6 PRIORITY SETTING

Introduction

6.1 The report to this point has:

- Set out some important working assumptions.
- Proposed a construct of national security which defines three priority areas of national interest for long-term protection or promotion.
- Because of New Zealand's economic vulnerability and our dependence on multilateral security arrangements, proposes that our reputation should be explicitly included in these priority areas.
- Defined the place of intelligence in contributing to national security, and the relationships between foreign intelligence and domestic intelligence, and intelligence to advance foreign policy and intelligence to maintain national security.
- Placed this in a national security and intelligence system, with an emphasis on improved governance as a means of getting better alignment of resources with priorities.

6.2 The challenge is to pull this together, in a sensible and timely way, to

- Arrive at a consensus on the priorities for New Zealand's national security and intelligence agencies.
- Inform judgements about the adequacy of the present coverage, *Redacted 9(2)(f)(iv)*
- Inform decisions about the resourcing of the security and intelligence agencies.

Setting Priorities

(a) *Assessment of Threat*

6.3 For each of the three areas to be protected: People and Places (in New Zealand or abroad); Economy and Reputation; and Government Institutions and Way of Life; there should be an informed judgement on the nature and extent of any threats, limited of course to those which fall into a "national security" category. (There will always be threats from

natural disasters, poor commercial decisions, economic cycles or changes in consumer preferences. These are outside this frame.)

6.4 Even at this first step, there is not always consensus. *Redacted 6(a), 6(b)*

6.5 *Redacted 6(a)*

6.6 In terms of the National Security model set out in Part 3, broadly similar comments could be made about most of the vectors of harm. *Redacted 6(a)*

6.7 Finally, there is even less consensus about the threat to our reputation implicit in the current and planned levels of investment in security and intelligence infrastructure, *Redacted 6(a), 6(b)*

(b) Assessment of National Security Risk

6.8 The next step is to assess national security risk. An assessment of threat needs to be set alongside an assessment of vulnerability to the threat. That in turn informs an assessment of likelihood. Likelihood and consequences are the conventional variables used in an assessment of risk.

6.9 In terms of the National Security Framework proposed in Part 3, the task is to:

- Determine, for each of the “vectors of harm”, the adversaries who might use the vector; and
- Assess the risk they pose to the three areas of national interest to be protected or promoted.

6.10 The national security model, proposed in Part 3, identified eight vectors of harm. The reviewers have carried out a high level assessment of national security risk to New Zealand, now, for each of the vectors, and the adversaries. This has been done to test the framework, illustrate the process to determine and manage national security risk, and provide a first cut at a statement of security and intelligence priorities.

6.11 The assessment, the results of which are summarised in Annex A, was based on the risk method outlined above, populated with information obtained from those managing these broad areas of national security risk, and informed by their judgements. It is neither sufficiently comprehensive nor adequately tested to serve as a basis for action. However, it serves as a snapshot of the risk we currently face, and confirms the approach proposed in this review.

6.12 *Redacted 6(a):*

- *Redacted 6(a)*
- *Redacted 6(a)*
- *Redacted 6(a)*
- *Redacted 6(a)*

6.13 *Redacted 6(a):*

- *Redacted 6(a)*
- *Redacted 6(a)*
- *Redacted 6(a)*

6.14 For WMD proliferation, there are a range of players.

6.15 *Redacted 6(a)*

6.16 *Redacted 6(a).*

6.17 However, this assessment may not *automatically* lead to a shift in priority for our national security agencies. The prior decision is about what, if anything, we can or should do in response.

(c) Responding to the Threat and Managing the Risk

6.18 The reviewers have categorised possible responses under four headings:

1. Detect – discover more about the threat and the risk, via intelligence gathering and assessment. This can be for better situational awareness; or for strategic, tactical or operational purposes, in both the short or long-term.
2. Defend (or Protect) – take risk measures to prevent or mitigate the consequences of a threat, e.g., by hardening a vulnerability.
3. Deter – deter or prevent an attack from occurring. (Visible hardening of a vulnerability may well act as a deterrent in its own right - one of the principles of border and aviation security measures.)
4. Disrupt – take action specifically to stop an attack, preferably before it occurs, or in it's earliest stages.

6.19 The point worth emphasising is that there will be different responses, or mix of responses, appropriate to any situation. Further intelligence gathering is as unlikely to be an adequate response for all risks, just as hardening every vulnerability is both impossibly expensive and probably ineffective. Responses could include some or all of the following:

- *Redacted 6(a)*
- Targeted protective security measures
- Cyber defence
- Partnering with the private sector
- Engaging with community groups
- *Redacted 6(a)*
- *Redacted 6(a)*

- Periodic “assurance” sampling of the risk environment in perceived low threat areas
- Joint operations with border security and or law enforcement agencies
- Public and media engagement
- Incident response preparedness measures
- And so on .

6.20 Some areas are already being actively managed by the security and intelligence sector to varying extents. *Redacted 6(a)*

6.21 However, it is the judgement of the reviewers that the overall risk to New Zealand’s national security, and the relative weighting of the components of that risk, have not been looked at systematically, sector wide, and within a consistent national security risk framework. It is also our view that doing so is likely to redirect resources – even if at the margin – and provide better assurance to the Government on the adequacy of both our assessment of, and response to, national security risk.

Refreshing Risk Assessment & Management Strategies

6.22 National security risk is not static. The role of situational awareness in the national security management system was described in Part 5. A regular cycle of assuring the level of risk is required. How often is a matter for the Government’s advisors to consider. Our suggestion is that a comprehensive assessment of the national security risk environment could be carried out every 3 years, with annual updates.

6.23 In Part 4 (paragraph 4.14), we proposed that, if there is agreement on the construct of National Security outlined Part 3, and acceptance that priority setting within that construct should be informed by judgements about risk, then translating this into priorities, work plans, operating budgets and capital investment, becomes core business planning for the Service, Bureau, Defence Force and other agencies with overlapping or related interests such as Police, Customs and Transport.

6.24 What is required at the centre is sufficient capacity to lead the cycle of assessments, to test and validate agency views about priorities and resourcing requirements and to ensure alignment among the agencies. Achieving that, and maintaining a current “picture” of our national security priorities, risks and responses will be neither easy nor resource-free. But as pointed out in Part 3, it is a different requirement from the development of the FIRs, in that this would not be a process external to the national security agencies, but part of the business planning of the agencies themselves.

6.25 Under the current sector structure this would be a DESG responsibility with oversight by ODESC.

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Comment on Draft National Security Priorities

6.26 It is important to debate and agree the principles which underpin much of the report, and the picture of the current state which it paints. In some ways that is more challenging, and more important, than moving immediately to considering, say, the current and prospective cyber-threats to our government infrastructure, *Redacted 6(a)*. Getting the analytical framework right, within which content can be analysed and – more importantly – action agreed, should help get a better outcome.

6.27 The first cut at national security priorities in Annex A represents only one set of demands on our security and intelligence resources, *Redacted 6(a)*

6.28 *Redacted 6(a)*

6.29 These present opportunities for maximising return from our own scarce resources.

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7 CONCLUDING COMMENT AND RECOMMENDATIONS

7.1 This was not a review whose Terms of Reference required extensive recommendations. The reviewers were asked for a definition of the concept of National Security and, based on that definition, a process for setting priorities, and a list of those priorities for endorsement.

7.2 A definition of National Security is put forward in detail in Part 3 which proposes the core areas of our national interest which are to be protected or advanced. This is, in turn, related to a process for priority setting (Part 5) for our efforts in collection and use of intelligence (Part 4). Unless these definitions are broadly endorsed, the preparation of a detailed schedule of national security intelligence priorities may well be nugatory effort.

7.3 In the Introduction (Part 1) we noted the divergence of views (or no views) on what constitutes "national security", let alone any agreement on where our national security intelligence priorities might lie. The following recommendations reflect this starting point.

Key Recommendations

- 1. Endorse the proposed concept of National Security, in particular the core areas of New Zealand's national interest to be protected and advanced over the longer term as set out on pages 15-21 and Figure 1.**
- 2. Endorse the concept and coverage of National Security Intelligence, as described in Part 4 and set out in Figure 2.**
- 3. Agree that priorities for New Zealand's national security intelligence effort should be set within the framework in Recommendation 1 above, based on risk, and an appreciation of the effective action which can be taken on the intelligence collected.**
- 4. Compile a national security risk assessment to set a "baseline", and formulate specific action plans for each of the vectors described in pages 19-20. (Note that preliminary work by the reviewers, summarised in Annex A can be a contribution to this task.)**
- 5. To enable the staff work and the decision making required under Recommendations 3 and 4 to be effective, strengthen the governance arrangements at the centre (page 30-33).**

Other matters

7.4 Although not part of the Terms of Reference, the overview of the "system" has thrown up areas where better coordination or alignment could generate efficiencies or better outcomes.

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7.5 These could include coordination of watch-and-warn capabilities and functions to maintain and improve short term and longer term situational awareness. There appear also to be opportunities for harmonisation of effort, from engagement strategies with the public and private sectors to the development and sharing of best practice in various training development regimes. The reviewers are willing to engage on these matters with those leading the related structural review and.

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ANNEX A. NATIONAL SECURITY INTELLIGENCE PRIORITIES

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ANNEX B. THE FIVE EYES RELATIONSHIP

Introduction

Redacted 6(a), 6(b):

1. *Redacted 6(a), 6(b)*
2. *Redacted 6(a), 6(b)*
3. *Redacted 6(a), 6(b)*

Redacted 6(a), 6(b)

Redacted 6(a), 6(b)

There is fourth assumption underpinning this report which also provides a context for considering the Five Eyes relationship.

New Zealand's interests are directly served through the maintenance of an international environment in which New Zealanders can travel, trade and conduct their affairs, to this country's benefit.

Under this assumption, New Zealand's "national security" is a broader concept than protection, by our own agencies, of our own people, infrastructure and institutions, and does not stop at this country's borders.

The argument is that:

- The suppression of terrorism at its roots, or frustrating its manifestation, in any part of the world.
- The prevention of the proliferation of weapons of mass destruction (WMD).
- The reduction of political instability, particularly in regions close to New Zealand.

are all contributions to the longer term security of New Zealand, and help make the world a safer and more congenial environment in which New Zealanders can travel, trade and conduct their affairs to the benefit of NZ.

The Immediate Benefits of the Relationship

Five Eyes membership establishes a relationship with the other four members which is consistently characterised as overwhelmingly to New Zealand's net benefit i.e. we get significantly more return from the cost of our participation than we could get from going it alone.

(1) **Direct Security Benefits**

- Redacted 6(a), 6(b)
- Redacted 6(a), 6(b)
- Access to *intelligence*, both information and analysis, on matters relating to New Zealand's national security interests.

(2) Redacted 6(a), 6(b)

- Redacted 6(a), 6(b)
- Redacted 6(a), 6(b)

(3) **Direct Foreign Policy Benefits**

- Access to *Foreign Intelligence* on matters of interest to New Zealand.
- Redacted 6(a), 6(b)

(4) Redacted 6(a), 6(b)

- Redacted 6(a), 6(b)

The Longer Term Benefits

The list above may be accurate, but it is incomplete. It fails to reflect the *raison d'être* for membership, which is that New Zealand's long term interests, whether security or economic, are better served by participation than not. Redacted 9(2)(g)(i)

Redacted 9(2)(f)(iv), 9(2)(g)(i)

(a) Redacted 9(2)(g)(i):

- Redacted 9(2)(g)(i);
- Redacted 9(2)(g)(i); and
- Redacted 9(2)(g)(i).

(b) Redacted 9(2)(g)(i)

(c) Redacted 6(a), 6(b)

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Redacted 9(2)(g)(i)

The proposition in this report is that such decisions should, as far as is sensible:

- Be made explicit and transparent; and
- Be taken within a framework which provides decision points at the right level – whether for the Government or for the heads of the national security agencies.

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ANNEX C: TERMS OF REFERENCE

1 INTRODUCTION

At its meeting on 17 October 2008, ODESC (I) agreed a basic draft scope of a review of National Security and Intelligence Priorities. The draft scoping paper is attached at Annex 1. Subsequently DESG has developed a more formal Terms of Reference (TOR) which contains details of the aim of the review, how it is to be managed and the names of specific sponsors, steering group members and the proposed reviewers, refer Annex 2. This paper seeks formal approval of the refined TOR.

2 THE REVIEW

The review will start in mid January and is planned to take three months. Agencies will be canvassed on a number of areas with a view to building a shared framework upon which national security and intelligence priorities can be calibrated and prioritised. Most of the work will comprise of structured interviews and focus groups, with product reported back into the Steering Group and thence on to ODESC.

There are some matters which need to be agreed.

Review ownership and management

It is proposed that the review will be sponsored by the Chair of ODESC together with the Secretary for the Treasury and Commissioner of State Services. Governance will be undertaken by ODESC (I) and steered by a group including the Director of Security and the Director GCSB and chaired by the Director DESG, who will also manage the review overall.

3 THE REVIEWERS

This will be a closely held process focusing generally on NZSIS and GCSB but including a wider group of agencies also involved in collecting or using classified intelligence. The high security classification and short time frame involved preclude a normal market process and it is proposed that the review be conducted by consultants with high credibility, familiarity with the security system and the requisite top level security clearances.

The lead reviewer will be Michael Wintringham. He will be supported by Jane Jones, *Redacted 6(b), 9(2)(a)*

4 COSTS

Redacted 9(2)(f)(iv), 9(2)(g)(i)

5 OUTCOMES

The outcomes stated in the TOR point towards the creation of an agreed framework in which the key elements of national security in New Zealand are outlined together with agreed roles and responsibilities of agencies in areas where collaboration is either underway or planned for the future. A set of prioritised risks will also be included which will *inter alia*, support existing process including the Ministerial prioritisation process for foreign intelligence, the Foreign Intelligence Requirements Process (currently also under review) and the Domestic Security Intelligence requirements process (which is an ongoing work in progress at NZSIS).

6 RECOMMENDATIONS

It is recommended that ODESC(I)

- 6.1 endorse the aims and intentions of the National Security and Intelligence priorities review;
- 6.2 approve the draft terms of reference for the review;
- 6.3 note the proposed governance, steering and management arrangements;
- 6.4 note the urgency and high security classification of the review;
- 6.5 agree on the choice of reviewers and the closed process by which they have been selected;
- 6.6 agree on the proposed cost allocation and the proposed timelines and;
- 6.7 agree on the proposed outcomes.

S E Long
Director DESG
Department of Prime Minister and Cabinet

2 October 2008

Chair
ODESC(I)

THE CASE FOR A NEW ZEALAND NATIONAL SECURITY AND INTELLIGENCE PRIORITIES FRAMEWORK

Understanding our national security

Against a background of limited financial and human resources, and a very wide range of possible areas of activity, the New Zealand security and intelligence community faces an ongoing challenge to find more effective ways to set and manage priorities. *Redacted 6(a), 9(2)(f)(iv), 9(2)(g)(i)*

A common theme that has emerged is the desirability of an improved and, ideally, shared understanding amongst intelligence customers and producers of the core components of New Zealand's national security. From this, it should be possible to develop better informed decisions about collective and individual priorities for intelligence collection and assessment, and associated resourcing decisions.

The requirement to prioritise

Following this logic, in order to progress a shared view of our national security and intelligence requirements, we would need to better define the concept and key elements of New Zealand's national security. "Security" is defined in law in the NZSIS Act (refer Annex 1.1). However emerging global security risks present new broad issues and problems in new settings. These include cyber security, counter-proliferation, international terrorism and national and transnational organised crime etc. All of these and more need to be fully considered.

Whilst the legal definition is a useful starting point, therefore, we need to develop a broader shared understanding of what the concept of "national security" means to New Zealand, and how agencies should reflect that understanding in their efforts. In addition, ways need to be found to help assign some relative order to this wider national security risk environment, and define those parts of the picture which are most important and therefore should be afforded the most attention. Such a ranking process would assist with directing effort and resources, clarifying linkages between collection agencies, assessors and end-users, and striking a sensible balance between different types of intelligence – classified, open-source, human,

signals and so on. This would need to remain an agile and dynamic process reflecting the fast pace of change and the adaptive nature of the adversaries we face.

Collective risk management

Agencies that operate in the national security and intelligence arena all have their own legislative mandates, accountabilities, and work programmes. A new national security and intelligence framework would assist in identifying areas in which agencies should collaborate in order to address specific and prioritised national security risks and targets. This work would also strengthen ODESC(I)'s role in the provision of security and intelligence community direction, oversight and coordination by providing a more consistent and systematic shared framework upon which to base judgements and policy advice.

Redacted 6(a), 6(b)

Redacted 6(a), 6(b)

The Process

It is suggested that ODESC(I) convene a discussion on this topic with a view to launching a process to develop, firstly, a shared understanding of New Zealand's national security risks and interests, and secondly, national intelligence requirements in support of achieving that national security. An open and consultative ODESC-based process is suggested to better understand what specific risks to national security are addressed by each of the intelligence agencies, alone and in a collaborative sense.

Feedback would be sought by interview in the first instance, and once material was collated, by more focused discussion to canvass the findings and associated issues, and to determine where priorities should be set.

Each agency has a stake in the conduct of sectoral effort in intelligence collection, assessment and use. Some agencies, however, carry more of the load than others and it is envisaged that these core agencies would be engaged through the ODESC(I) review. *Redacted 6(a), 9(2)(f)(iv)*

Outputs

It is proposed that the outputs from this review include:

- agreement by ODESC(I) on the concept of national security;
- a set of shared operating principles;
- agreed agency roles and responsibilities – collection, assessment, use of intelligence;
- agreed process for setting and recalibrating the priorities;
- articulated risk categories and vectors of significance;

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- a current priorities list for ODESC endorsement.

Recommendations

- a) That this paper be distributed to ODESC(I) agencies for a preliminary discussion, with a view, if agreement is reached, to commencing the process outlined, under the coordination of DESG;
- b) That the priorities be reported back to ODESC in February(?) 2009 for endorsement.

S E Long
Director DESG
Department of Prime Minister and Cabinet

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ANNEX 1.1

New Zealand Security Intelligence Service Act 1969, s2(1):

“Security means:

- a) The protection of New Zealand from acts of espionage, sabotage, and subversion, whether or not they are directed from or intended to be committed within New Zealand;
- b) The identification of foreign capabilities, intentions, or activities within or relating to New Zealand that impact on New Zealand’s international well-being or economic well-being;
- c) The protection of New Zealand from activities within or relating to New Zealand that:
 - i. Are influenced by any foreign organisation or any foreign person; and
 - ii. Are clandestine or deceptive, or threaten the safety of any person; and
 - iii. Impact adversely on New Zealand’s international well-being or economic well-being;
- d) The prevention of any terrorist act and of any activity relating to the carrying out or facilitating of any terrorist act.”

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TERMS OF REFERENCE

PURPOSE

This project is a review of New Zealand's security and intelligence priorities. The purpose of the project is to develop a national security and intelligence priorities framework for New Zealand, to enable security and intelligence agencies to make better informed decisions about the collective and individual priorities for intelligence collection and assessment, and associated resourcing decisions.

The project has two key elements:

- To develop a broader shared understanding amongst the security and intelligence sector, of New Zealand's national security interests and risks; and
- To determine national security and intelligence priorities.

Reference

ODESC(I) paper of 2 October 2008, The Case for a New Zealand National Security and Intelligence Priorities Framework, Draft for discussion.

Redacted 9(2)(f)(iv), 9(2)(g)(i)

Project Team

Steve Long, Project Manager
Michael Wintringham Lead Reviewer
Jane Jones Reviewer

Consultation

ODESC(I)
ODESC(I) agencies
Border agencies – NZ Customs Service, Immigration Service
Transport agencies – Aviation Security Service, CAA, Maritime NZ, MOT.
Others – Ministry of Fisheries, others as appropriate.

METHODOLOGY

The project will be conducted by DESG, in close collaboration with the ODESC(I) agencies, and also those other agencies with an active role in the security and intelligence sector (e.g. border and transport agencies).

The methodology comprises the following elements:

- A canvas of agencies with respect to the management of national security risk and the setting of security and intelligence priorities
- A review of the roles of security and intelligence agencies in the collection and analysis of intelligence with particular emphasis on points of shared interest and actual or potential collaboration.
- The development of a national security and intelligence prioritisation framework.
- *Redacted 9(2)(f)(iv), 9(2)(g)(i)*

REPORTING

The Project Team will report to the Steering Group on a monthly basis, or more frequently as required. The Steering Group will update ODESC(I) on an ongoing basis until the review is complete.

FUNDING

Redacted 9(2)(f)(iv)

OUTPUTS

Outputs of the project include agreement on the following:

- The concept of national security and intelligence
- Shared operating principles on points of shared interest and actual or potential collaboration.
- The division of labour (roles and responsibilities)
- The process for setting and recalibrating security and intelligence priorities
- Articulated current risk categories and vectors of significance
- A current priorities list for ODESC endorsement.

TIMING

Agreement of project Terms of Reference	December 2008
Review	January – March 2009
Framework development	March – April 2009
Priorities development	April – May 2009