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SHADOW MINISTER FOR DEFENCE
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ADDRESS TO THE SUBMARINE INSTITUTE OF AUSTRALIA

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(SUBSTEC5)**

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*****CHECK AGAINST DELIVERY*****

Good afternoon.

I wish to acknowledge the Traditional Owners of the land upon which we meet today and pay my respects to their Elders past, present and emerging.

Acknowledgement of dignitaries

We live in the most dynamic part of the world at an historic time.

Over the past decade, Asia has recorded the highest trade growth of any region.

It now accounts for nearly half of world manufacturing output.

This incredible transformation has lifted millions out of poverty.

China's rise sits at the very centre of these momentous changes.

I travelled to China in September to meet with academics, officials and business people.

I came away with a clearer sense of the opportunities and challenges that China's rise presents for Australia and the region.

Make no mistake – China sees itself as regaining a place of great power.

What kind of power it will be is a matter for history books yet to be written – but we can be certain China will be assertive about its interests.

And it will seek to reshape the institutions, architecture and norms we have become accustomed to since the end of the Second World War. China's actions in the South China Sea are an example of that.

China's importance is self-evident, but it is not the only factor at play.

There is also the rise of India, the realisation of Indonesia's full potential which will see it become one of the five biggest economies in the world by the middle of the century, the dynamism of South Korea, and an active and engaged Japan – to name only a few.

But with this economic rise has come strategic competition.

This is apparent from the massive military modernisation under way.

According to analysis by the Stockholm International Peace Research Institute, military spending in Asia and Oceania accounted for 28 percent of global military spending in 2018.

There was a 46 percent increase between 2009 and 2018 – the largest of any region.

And it is the only region in which annual growth in military spending has been continuous since 1988.

To this one might add an assessment about the continued role of the United States in East Asia. I believe that those who suggest a reduction in American presence in East Asia over time are being a little premature. During the first term of the Trump Administration the military footprint of the US in East Asia will actually increase. And certainly a strong ongoing role for the US in East Asia is in Australia's national interest which in turn emphasises the ongoing relevance and importance of the US Alliance.

However the US has made it clear that it expects its Allies to play their part in national self defence. Their message appears to suggest that the US will not continue to shoulder the burden of global defence in the way that it has. The decision to withdraw from Northern Syria speaks to this. And the withdrawal from the Trans Pacific Partnership will have the US play a smaller economic role in East Asia in the absence of any other economic strategy to replace it.

Of course, Australia must do what it can to encourage the US to remain present in East Asia. But prudence around protecting our long term national security, demands that we at least think about the signals coming out of the US.

All of this means that Australia now faces the most challenging set of strategic circumstances since the Second World War.

This has important implications for how we pursue our national interests and, in turn, how we structure our defence force.

It is a reality that the Morrison Government has also come to acknowledge.

By its own admission, our strategic circumstances are changing more rapidly than the Government predicted in its 2016 Defence White Paper.

And so it has announced that it is reviewing the White Paper's strategic underpinnings and conducting a force structure review.

But there is a disconnect between the Government's words and deeds – a disconnect that flows as a consequence of six years of decisions made for the wrong reasons.

Six years of decisions without any sense of a clear strategic rationale for a local defence industry – and the critical capabilities it produces and sustains for our defence forces.

Nowhere is this more apparent than when it comes to Australia's submarine capability.

For as long as the oceans provide a veil of secrecy that obscures their depths, submarines will be among the most potent capabilities in any nation's arsenal.

They allow a country to respond to strategic circumstances, but also to influence those strategic circumstances.

Their stealth, ability to loiter undetected for extended periods, and to strike at a moment's notice provides a unique deterrence capability.

They give an adversary pause to question their assumptions.

They are the tip of the spear.

Australia's submarine capability is a national strategic asset.

It is the why the Collins class, and the work Labor undertook to get it back on track, is so important. And it is why the Future Submarine program bears an enormous responsibility to deliver a regionally superior submarine capability well into the second half of this century.

It is from this starting point of being a national strategic asset that decisions about our submarine capability should flow.

The starting point should not be about job creation – although the highly-skilled jobs that come with a sovereign submarine program are vitally important to our nation.

It should not be about a simplistic 'smart buyer' dogma – although we must ensure we achieve value for the Australian taxpayer.

It most certainly should not be a bargaining chip in a leadership contest for the Liberal Party.

And yet that is precisely how our submarine capability has been mismanaged over the past six years by the Abbott/Turnbull/Morrison Government and its five Defence Ministers.

In 2014, David Johnston questioned the need for 12 Future Submarines, stoked fears of an overseas build, and infamously declared that he would not trust ASC to build a canoe.

In 2015, Kevin Andrews announced a submarine acquisition process that explicitly called for options for an overseas design and build.

At the time, he said that the Future Submarines:

"... must be delivered in time to avoid a capability gap in the mid-2020s when the Collins Class submarine is scheduled to be retired from service".

Kevin would only last until Malcolm Turnbull rolled Tony Abbott for the Liberal leadership.

With Mr Turnbull's release of the 2016 Defence White Paper came a new mantra about the importance of local naval shipbuilding and a new timeframe for the Future Submarines.

Gone was any reference to the mid-2020s; instead the first of the Future Submarines was to begin entering service in the early 2030s.

And now we know that the first Attack class submarine will not be in full operation until about 2035.

In the six years of this Government, the Future Submarine program has been delayed by a decade.

Now the Government belatedly has realised that the strategic challenges we face are changing at such a rate that a review of the structure of our defence force is required.

Labor had already committed to a Force Posture Review had we been successful at the election.

Yet because of the decisions of this Government, a fundamental defence capability has been put at risk. The possibility of a submarine capability gap now looks real and concerning.

Given the significant delay of the Future Submarines program, for the foreseeable future, the potency of our submarine capability rests squarely on the shoulders of the Collins class.

That is a direct consequence of the failures of the Abbott/Turnbull/Morrison Government.

The Government's plan is to extend the life of the Collins class into the 2040s.

As Dr Marcus Hellyer from the Australian Strategic Policy Institute has observed, in practical terms this means:

- it is now likely that some of the Collins boats are not even halfway through their service lives;
- and some members of the last Collins-class crew have not yet been born.

It also puts a premium on ASC as the critical enabler for maintaining and sustaining Collins.

Yet the Government is allowing ASC to atrophy, with attrition among its engineers now running at an alarming 10 and a half percent per annum.

And with the Coalition having chased the car industry out of the country and skilled manufacturing jobs with it, two States are fighting for Collins full cycle docking jobs – while the Government's delay in making its decision on this question only adds to the uncertainty for ASC's workforce.

The Government is also yet to explain how it plans to transition from the Collins to the Attack class.

So I am concerned that we are standing on the edge of a capability gap for which there is no easy solution.

We know from the Naval Shipbuilding Plan and Senate Estimates that the 2016 Integrated Investment Program included \$6.7 billion to extend and sustain three Collins boats.

Evidently, that was the plan circa 2016 – extend three Collins boats, with the remaining three to be replaced by the first three Future Submarines.

But earlier this year Defence revealed it is now planning to extend at least five of the Collins boats – leaving open the possibility of extending all six.

Which begs an obvious question: why the change? For it is neither a small nor inexpensive undertaking to potentially double the number of Collins submarines to be extended.

Defence put on a brave face and suggested this could allow for a mixed fleet of eight submarines by the late 2030s.

But when you examine the timelines, it is hard to escape the conclusion that this change is driven by concerns about a capability gap in the 2030s.

HMAS Dechaineux, Sheean and Rankin will undergo full cycle docking from 2020, 2022 and 2024, respectively.

After two years of maintenance, they will be able to operate until about 2032, 2034, and 2036, respectively.

Life of type extension work will then begin in 2026, likely with HMAS Farncomb, followed by Collins and Waller.

Without a life of type extension, HMAS Dechaineux and Sheean will reach the end of their lives before the first Attack class is in full operation in about 2035.

And HMAS Rankin will be perilously close.

This assumes no unexpected slippage in the Future Submarine program.

And what are the chances of that – of no unforeseen slippage with the complex task of building and bringing into service a brand new, developmental class of submarines?

To be clear, I do not doubt the dedication of the defence officials working on this program.

Nor is it any judgement on Naval Group, who I am sure will deliver a top-tier submarine.

We all want this program to succeed.

But we must acknowledge that complex, cutting-edge defence projects are inherently subject to schedule risk.

As the Australian National Audit Office observed last year:

“The Future Submarine Program is highly developmental and does not conform to the Government’s guiding principles on design maturity”

The consequence of six years of Coalition mismanagement is that we have almost no margin for error.

And if this program slips in any meaningful way, we will be faced with some very difficult decisions about our submarine capability.

There is also a second and related risk of cost.

The Collins class will commence life of type extension in 2026, which is now likely to be much more costly than the \$6.7 billion figure the Government originally gave to extend and sustain just three boats.

This is also when the first two Future Submarines should be under construction.

As will be the Future Frigates, and the Offshore Patrol Vessels.

The call on the Defence budget from naval shipbuilding over the next decade will, therefore, be immense.

ASPI has estimated that the submarine, major surface combatant and minor war vessels programs alone will require an annual cash flow approaching \$4 billion – or about 30 percent of Defence’s capital equipment budget.

This will be happening at a time when the Government is attempting to deliver wafer-thin Budget surpluses – its absolute political priority.

And all the while the economy may very well still be dealing with the slow growth, stagnant wages, and global economic headwinds we are experiencing right now.

So I am concerned about the potential for a funding gap.

It seems unlikely that the totemic naval shipbuilding projects would bear the brunt of any funding crunch as the political cost to the Government would be enormous.

But I am concerned about the implications for other defence acquisition projects.

When Defence was asked earlier this year how the Collins life of type extension project will be paid for, officials said the Integrated Investment Program will be reprioritised and reprofiled.

Which is a polite way of saying that other projects will be deferred, reduced in scope or cancelled to free up money.

The refrain from officials that the Integrated Investment Program is “*re-profiled quite often, because of changes in demands*” does not inspire confidence.

Particularly given the Government’s failure to provide the periodic, online updates to the Integrated Investment Program that it promised.

But perhaps I am wrong.

Perhaps there is no need to be concerned about a capability or funding gap.

Yet it is impossible to know from the information available to the Australian public.

And that points to a fundamental problem.

I understand the need for a degree of opaqueness about our defence capabilities.

But it is the role of the government of the day to give the public some level of assurance and certainty.

Certainty that the Future Submarines are making good progress against clearly articulated milestones.

Certainty that the transition from the Collins to the Attack class is well-planned and that there are contingencies in the event of delays.

Certainty that it has a plan to ensure that our submarine capability remains regionally superior throughout the life of Collins and, subsequently, the Attack class.

And certainty that others projects in the Integrated Investment Program have not been, and will not be, de-scoped, delayed or defunded.

Yet the silence from the Government is deafening.

Where is the public account from Linda Reynolds about how and when the Government will transition our critical submarine capability from Collins to the Attack class?

Where is the Government’s plan to stop the bleeding of engineering experience at ASC that is now more essential than ever to extend and sustain Collins?

And where are the promised public updates to the Integrated Investment Program?

It is time the Abbott/Turnbull/Morrison Government properly communicates a plan for the future of Australia’s submarine capability as it transitions from the Collins to the Attack Class.

And it is essential that this plan be based on our submarines’ strategic purpose.

That is not an unreasonable request – it is called governing in the national interest.

ENDS

Authorised by Paul Erickson, ALP, Canberra.