

Senate Economics References Committee

Inquiry into Australia's Sovereign Naval Shipbuilding Industry

Opening Statement by *Submarines for Australia*

Friday 6 August 2021

Submarines for Australia made two submissions to the Inquiry, in July 2020 and a supplementary submission the following October. The thrust of our submissions is unchanged but recent developments have raised further points of concern. To summarise:

Overview

- The July 2020 Defence Strategic Update outlined in stark terms Australia's changed strategic circumstances, but the associated Force Structure Plan did not even consider adjustment to the new submarine or frigate acquisition programs.
- We focus on these two programs because:
 - they make up the lion's share of the future demand on our Naval Shipbuilding Industry;
 - they involve vast investment beyond anything we have seen;
 - between them they will provide almost all of Australia's future naval combat power - 21 of the Navy's 24 future combat vessels, the remaining three being the new Hobart class destroyers; and
 - neither seems to be going well, with significant schedule delays already.
- There is strong evidence that we paid substantially more than we should have for the three Hobart class destroyers, compared with global benchmarks. This appears to have been entrenched with the submarine and frigate programs.
- Worse, and more expensive in the long term, very low Australian industry content in the supply chains is a feature of all three.
- Apart from unacceptably high average acquisition costs per vessel, the result will be substantially higher sustainment costs during their service lives, where about two thirds of the total cost of ownership lies.
- This is a dramatic reversal of our previous performance which, less than a generation ago, was as good as any in the world.
- Defence's practices in the past laid project foundations that helped produce world class industrial outcomes from Australia's sovereign industry. Those proven practices have been abandoned for no obvious reasons with these two vital acquisition programs - with results that increasingly look like being disastrous for Australia's national maritime security.

On Submarines

- Prolonged inaction on extending the lives of the Collins class submarines (LOTE) is potentially catastrophic. This major industrial undertaking involves very high technical risk and complexity. It will not go well unless properly planned and executed. We believe that the suggested work will take closer to four years for the early submarines than Defence's two-year estimate, with severe impact on the capability, especially the vital uninterrupted production of submariners.
- Industry must gather the skilled people for LOTE, then properly plan and prepare. First, they must have a clear, funded scope of work. All that takes time, much more than the government may understand. None of it has happened as far as we can see. The existing submarine capability is at great risk as a consequence.
- Combined with delivery of the first new submarine being well over a decade away and follow-on boats arriving at a leisurely rate, there is a very real likelihood of a significant decline in our submarine capability at best - a capability gap.

- We have achieved very high levels of Australian industry involvement in the Collins and Anzac programs but despite being a key national objective, this does not look likely with the Attack program.
- In departure from previous successful practice, the monopoly contract gifted to Naval Group limits Australia's ability to apply meaningful pressure to improve the situation. But even if it does improve during the quarter century of the Attack build program, which will be very challenging to achieve, the opportunity cost will have been immense.
- Finally, we argue that the Attack class submarines will not be fit for their intended purpose in any sensible area of operations. This is simply because, given the many limitations of conventionally powered submarines in our strategic context, how much of the force we can commit to operations at once will be tightly constrained.
- The conventional Attack class will also be increasingly vulnerable to the advanced counter-submarine capabilities arrayed against them proliferating in our region.
- The vast cost of the Attack class represents very poor value for money.

On Frigates

- Whether the Hunter class frigates will be fit for purpose can be questioned too, but we contend that even if they are, their cost makes them poor value for money.
- Why we chose the Type 26 is hard to fathom. Advice from the RAND Corporation was to choose a proven design to minimise risk. The Type 26 is a new design that is not in service even now and construction in the UK of the lead ship is not going well.
- BAES has stated that the Hunter class is a new design – adding very substantially to risk – and also that the designed weight margin will only be around three per cent.
- We note that Australia has not bought a British origin combat ship in over 50 years.
- Australia's decision to fit many key systems and weapons of US origin to the Hunter class is sensible in terms of RAN familiarity and industry support. But those US systems have never been integrated into British warships. This adds to our risk.
- Also, the changes we want to make to the design are very substantial, adding even more risk and making it more likely that there will be no margin for growth during the ships' service lives.
- Recently announced delays mean we will need to extend the aging Anzac class frigates. This will mean additional costs and risk that have not been planned for.
- Reporting suggests the Hunter class will be heavier than the US Arleigh Burke class destroyer, of which there are 69 in service, 11 in build and 20 more in contract. This ship is much more heavily armed than the Hunter class and also cheaper, as will be the USN's FFG(62) frigate of Fincantieri design.

In Conclusion

- Australian naval shipbuilding industries have delivered excellence before and can do so again if given properly constructed acquisition programs.
- Australia's future Navy combat force is at huge risk because the existing programs are poorly conceived.