

Defence spending

‘Lost the plot’: How an obsession with local jobs blew out Australia’s \$90 billion submarine program

By Anthony Galloway

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Australia’s program to build an attack-class submarine fleet has been plagued by cost blowouts and delays.
NAVAL GROUP

Nick Minchin isn’t surprised Australia’s future submarines are arriving later than expected and \$40 billion more expensive. He has seen it all before.

As finance minister for six years in the Howard government, Minchin was responsible for the taxpayer-funded company ASC, which built Australia’s six Collins-class submarines between 1990

and 2003.

Shortly after taking over the portfolio, Minchin noticed the original projections for the cost of maintaining and operating the [Swedish-designed submarines](#) seemed significantly out of step with reality. By that stage, the submarines were costing taxpayers hundreds of millions of dollars a year to maintain.



Nick Minchin was responsible for ASC, the company that built the Collins submarines, in the Howard government. GLEN MCCURTAYNE

Minchin asked senior Defence officials how they came up with the estimate. One defence official told the then-finance minister they assumed the cost of maintaining the previous generation of submarines, the Oberons - built in the 1950s and 70s - would be the proper basis for calculating the cost of the Collins.

“I was staggered by that, no wonder we ran into financial difficulties with Defence’s estimates of maintaining and operating these things,” Minchin tells *The Sydney Morning Herald* and *The Age*.

“The cost of maintaining the Collins submarines has always been significantly beyond any sort of budget that Defence had contemplated.

“We had enormous issues with the Collins. Almost every National Security Committee meeting, Cabinet meeting, Expenditure Review Committee meeting that I was involved in – the issue of

submarines came in.”

Now, history is repeating itself.

Australia’s [12 new attack-class submarines](#) – Australia’s largest military acquisition in its history – were originally slated to cost between \$40 billion and \$50 billion. According to the latest projections they will now cost about \$90 billion to build and \$145 billion to maintain over their life cycle. Despite the fact former prime minister Tony Abbott promised the first of the submarines would be in the water by the mid-2020s, it is now not scheduled to become operational until the mid-2030s.

In the current debate on Australia’s submarine debacle, French-bashing has been all the rage. And with French builder Naval Group’s [cost blowouts, schedule slippages and dubious commitments](#) on meeting local content requirements – it’s been an easy sport. But it’s worth asking: would we have arrived at this point regardless of which bidder we chose? After all, Defence’s acquisition debacles are not confined to French-designed submarines.

The transition from the Oberons to Collins was badly botched – the first Collins was commissioned to the Royal Australian Navy in 1996, 18 months behind schedule. Despite this, based on international benchmarks, the Collins fleet is now seen as a [well-performing fleet in terms of availability](#).

And it’s not just submarines where there are inherent problems. The government this year announced an 18-month delay to the \$45 billion Future Frigate program, meaning the first frigate will not be in service until 2033.

In Minchin’s view, the rot set way back in the 1980s, as a bipartisan view formed that Defence’s major acquisitions must be built in Australia.

“The real problem goes back to the decision in relation to the Collins where frankly it was driven by industry policy and regional employment policy, rather than strict defence capability criteria. That is really the beginning of our problems with submarines.”

Why submarines?

Submarines, which can travel both underwater and on the surface, have long been a vital military capability for the biggest navies in the world. Modern submarines can operate under the surface undetected for long periods of time, providing an indispensable tool for surveillance as well as a credible threat to sink surface ships with torpedoes or anti-ship missiles. China is estimated to have about 74 submarines, while the United States has 69. North Korea is widely listed as having the most submarines in the world with 75, but the majority are believed to be outdated and regionally inferior. Australia only has the six Collins-class submarines.

China’s growing assertiveness across a number of flashpoints – the Taiwan Strait, the South China Sea or East China Sea – has increased the chance of conflict breaking out on the high seas.

Last year's Defence Strategic Update said the "prospect of high-intensity conflict in the [Indo-Pacific](#), while still unlikely, is less remote than in the past". It warned the country no longer had a 10-year window to build its defences. With the first future submarine not projected to arrive until 2035, and the frigate just two years earlier, Defence's warning is bleak.

The proposal for 12 new submarines first appeared in the 2009 Defence White Paper, and was championed by then-prime minister Kevin Rudd. This was the year Beijing announced its expansive sovereignty claims in the South China Sea, which was the beginning of its drive to militarise the disputed waterway by building naval bases on artificial reefs.

Rudd says the proposal for the new submarines was a "realistic assessment of China's evolving strategic posture in our region, particularly the South China Sea". "Some doubt the value of submarines, often because they only think of submarines in the context of open warfare," he says. "Submarines are worth it for their strategic strike, intelligence collection and special operations support capabilities, as well as anti-ship and anti-submarine warfare. We need the flexibility to respond to all sorts of challenges, and submarines are an essential arrow to that strategic bow."

After Rudd was deposed a year later, the Labor government never ventured close to choosing a builder. While Rudd has been critical of then-treasurer Wayne Swan's "gouging of the defence budget" in his "fruitless pursuit of a budget surplus in the years following the global financial crisis", he says there is no evidence this ever affected the delivery of a new submarines program. "It's a nonsense proposition to draw a line from that period to the delays today, since the Liberals could easily have rectified any funding problem in their first economic statement of December 2013," Rudd says.

But Australian military strategist Hugh White, a former senior Defence official, says the Rudd and Gillard governments bear a heavy responsibility for failing to proceed with the new submarine project while they were in office. "I think the reason they didn't make a decision was that successive defence ministers were uneasy about the very ambitious proposals they were presented with – proposals that flowed from the capabilities demanded by the 2009 White Paper," White says. "But instead of sending them back for more modest and realistic plans, they sat on them because they lacked the courage to take on the Defence system."

Politics gets in the way

Tony Abbott put submarines back at the top of the agenda after taking office as prime minister in 2013, but this is where deep-seated problems started to fester. Abbott faced two big questions. Firstly, should we purchase "off-the-shelf" submarines from another country for a much faster and cheaper build, but less capable in terms of range, endurance and combat system? Or should we start from scratch to build a "regionally superior" submarine? Secondly, if we are starting from scratch, should the submarines be built overseas? Or should they be built within Australia to maximise local employment and help sustain a local shipbuilding industry?

As these debates raged, then-defence minister [David Johnston famously declared he would not trust the ASC to "build a canoe"](#), which led to the perception the government was seriously considering an overseas build. Abbott favoured going with a Japanese-designed submarine, but

this unravelled when he faced the “empty chair” spill in 2015. In an effort to shore up party room support, particularly from South Australia, Abbott then opted for a “competitive evaluation process” – of which Japan, Germany and France were the three contenders.

White says the Abbott government got off to a good start under Johnston, but before he could make a decision Abbott made a “unilateral decision” to buy the submarines from Japan. “This made no sense strategically, commercially or technically. When this became clear, the Abbott government opted for a deeply flawed Competitive Evaluation Process which led to the current mess.”

Rudd contends Abbott was “pathologically opposed to supporting Australian manufacturing – whether in the automotive sector, or the maritime industry”.

“The damage that wrought can’t be overstated,” he says. “They played games with national security and a huge amount of ground was lost. It wasn’t just foolish. It was incompetent.”

Despite the original problems with the Collins-class submarines, they are now considered to be performing well. DEFENCE DEPARTMENT

Kevin Andrews, who took over from Johnston as Defence Minister in 2014, says the process he put in place was designed to compare the costs of three options: a full off-shore build, an on-shore build and a “hybrid” build. “We had a Rand Corporation study that indicated that a full onshore build for surface vessels in Australia was some 30-40 per cent more expensive than an offshore

build. It was widely believed that the premium for submarines was even higher,” Andrews says. “It was also well known that the build cost fell significantly after the first couple of ships. Hence the desire to compare not only the cost of each bid, but the comparison of offshore, onshore and hybrid builds.”

Multiple senior sources within the government now concede not enough consideration was given to the “hybrid” build. According to this line of thinking, the first few boats would have been in the water sooner, but the government could have still entrenched a local capability to build submarines at the back-end of the program. Defence and industry sources say it is now too late to reverse course and go with a hybrid build: Naval Group’s shipyards in France are fully occupied building the first Barracuda nuclear submarines and plans are advancing for new aircraft carriers, while the company has already begun construction of the Osborne shipyard in Adelaide.

Marcus Hellyer, a senior analyst with the Australian Strategic Policy Institute, says the government should have been seriously considering building the first few submarines in another country back in 2015 and 2016.

“My view has always been that the Defence budget is there to acquire and support defence capability, it is not an industry program,” he says. “Over the last five years we have lost the plot collectively about that. At the moment we’ve reached a point where if it can be done in Australia, it will be in Australia. And both parties have jumped on that bandwagon.”

Hellyer also believes the government faltered by not inviting the Swedes to put forward a proposal to build a “Son of Collins”, saying it was the “most perplexing and bamboozling decision in Defence’s acquisition history”.

When Malcolm Turnbull took over the prime ministership, Andrews was dumped from the frontbench and Marise Payne took over as Defence Minister. Turnbull wrote in his memoir, *A Bigger Picture*, that Payne was very knowledgeable of her portfolio but suggested she wasn’t able to promote the billions of dollars in new defence acquisitions such as submarines, fighter jets and future frigates.

This led to the appointment of the media-savvy Christopher Pyne as Defence Industry Minister less than a year later. Pyne was also South Australian, and there was no way all 12 submarines wouldn’t be built in Adelaide under his watch.

At the same time as the decision on the submarines was looming, the government was concerned about the prospects of a shipbuilding “valley of death” approaching with the closure of the air warfare destroyer program and the construction on the future frigates not yet ramping up.

On April 26, 2016, Turnbull announced France had won the hard-fought global race for the [\\$50 billion contract](#) and all the submarines would be built in Adelaide. According to Turnbull, the recommendation from Defence was “unequivocal” that the French proposal for a conventionally powered version of the latest French nuclear submarine design - the Shortfin Barracuda - was the best of the three options.

“Certainly, a foreign yard with current experience in building submarines will build faster and at less cost than an Australian yard would build the first one - but stress ‘the first one’. We’ll never have a sustainable continuous shipbuilding industry unless we start building ships and do so continuously,” Turnbull said in his memoir.

Former defence industry minister Christopher Pyne wanted the submarines built in South Australia. DAVID MARIUZ

“This was portrayed as a thoroughly political exercise designed to help Christopher Pyne keep his seat. However, Adelaide made sense in many dimensions. South Australia had a long manufacturing tradition, which had declined with the closure of the Australian auto industry, and it needed some additional stimulus.”

Regardless of the politics involved, Rudd says building the submarines in Adelaide was “the right call for our national interest”.

“Not only are Australians capable of building these submarines, it’s in our national interest to maintain the skills to be able to build and maintain them independently.”

Minchin, a South Australian, believes the decision was driven by politics and delayed the delivery of the submarines. He says the Abbott government’s decision to no longer subsidise the car industry was a significant factor in the Turnbull government deciding to build all 12 submarines in Adelaide.

“That just increased the pressure on the federal Coalition government to come up with a submarine replacement program which maximised the amount of work in Adelaide,” says Minchin, who adds that the cost of sustaining a shipbuilding industry significantly dwarfs any support that the car industry received.

Is it too late to pull out?

Once Scott Morrison took over the prime ministership, the project was already going off course. By late 2019, Defence officials conceded that the cost of building and maintaining the submarines would total \$225 billion over the life of the program, while concerns were mounting about Naval Group’s schedule slippages and its ability to meet its local content commitments, which were never written into the agreement.

With the delivery date for the first of the new submarines now set for the mid-2030s, [Labor began warning about a “capability gap”](#) whereby the Collins-class would be retired without their replacements ready.

No one in the government was seriously contemplating pulling out of the deal just yet; jettisoning the French design and going with another option would only delay the delivery of the submarines for even longer. But the government desperately wanted to put pressure on Naval Group to get its act together.

With this in mind, Morrison tasked Vice-Admiral Jonathan Mead and Commodore Tim Brown to [look at alternative options](#) for the submarine fleet, including long-range conventionally powered submarines that Swedish company Saab Kockums had offered the Dutch navy. The government also [rejected Naval Group’s proposal outlining the next two-year phase of the program](#), telling the company it needed more information on how its cost and schedule projections would be met.

After taking over the defence portfolio, Peter Dutton told *The Sydney Morning Herald* and *The Age* he was having some “frank discussions” with his department. A month later, Dutton revealed he had ordered [life-of-type extensions](#) for all six Collins-class submarines, which involves completely rebuilding them so they can continue to operate beyond their planned retirement date of the mid-2020s. Dutton also tasked Defence to embrace more asymmetric warfare capabilities by acquiring long-range missiles and drones, which can be “produced in bulk, more quickly and cheaply, and where their loss would be more tolerable, without significantly impacting our force posture”.

After meeting with French President Emmanuel Macron in Paris after the G7 in June this year, [Morrison declared the submarines were back on track](#). Morrison confirmed Naval Group had a September deadline to convince the government it can progress with the next phase of the project, allowing for the pressure hull for the first submarine to be built in 2024.

Within the next week, the government is expected to announce it has reached a deal with Naval Group on the next two-and-half years of the submarine program.

By then, it almost certainly will be too late to pull out.

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