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The Morning After: Australia, Japan, and the Submarine Deal that Wasn't

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Nick Bisley and H. D. P. Envall, Professor of International Relations at La Trobe University and Research Fellow at The Australian National University, respectively, explain that “For reasons largely of poor diplomatic management, however, the two parties [Australia and Japan] allowed their more aspirational hopes for a major strategic relationship to get ahead of the complex realities of the biggest defense acquisition in Australian history.”

Barely had the visiting Japanese submarine, *JS Hakuryu*, departed Sydney Harbour on 26 April than Australian Prime Minister Malcolm Turnbull announced to the media that Australia's future submarines would be built by the French contractor, DCNS Group. A week prior to Turnbull's announcement, the news that Japan had finished last in the tender process began to leak from the Cabinet's National Security Committee. Japan's Defense Minister Gen Nakatani expressed “immense disappointment” at the decision and said that he would be seeking an explanation.

Australia's experience in replacing the Collins submarines, which are set to be mothballed over coming decades, has been a story of serial missteps—bureaucratic, political, and diplomatic. Initially, the new submarines were to be designed in Australia and built in Adelaide, South Australia. Prior to the 2007 election, then Defence Minister Brendan Nelson announced that you could “bet London to brick” that, under a Liberal-National government, the submarines would be built in Adelaide. This persisted through two Defence White Papers and the 2013 national election. In 2009, the Labor government led by Kevin Rudd had announced its decision to acquire 12 next generation submarines. These were “to be assembled” in South Australia, with the design and construction to “be undertaken without delay,” although the huge ambition of the project led some to describe it as akin to a moonshot. This goal was reconfirmed in 2012 and again in 2013 under the Labor government led by Julia Gillard.

Upon its election in late 2013 the Liberal-National government led by Tony Abbott appeared to be steering the program toward Japan. In keeping with its belief that government should not prop up industries that couldn't stand on their own, the government began to pursue what came to be known as “Option J.” From mid-2014 intense media speculation had focused on the feasibility of Japan building a reconfigured version of its *Soryu*-class submarine. The idea was prompted by the remarkably close relationship that Abbott had established with Japanese Prime Minister Shinzo Abe and strong advocacy of Abbott's senior national security adviser Andrew Shearer for a closer strategic link to Japan.

It was widely believed in Canberra that the two leaders had a “gentleman's agreement” on the submarines. Australia would get cutting edge boats at a competitive price, Japan could begin to get into the lucrative business of international defense contracting, and it would cement the strategic ties between the two American allies. Submarines would consummate the “virtual” alliance. In August 2014 then Defence Minister David Johnston gave the first official hint of this when he refused to rule out any options regarding submarine acquisition. In November, he essentially said that the Australian Submarine Corporation (ASC) was not up to the task, rhetorically asking “you wonder why I wouldn't trust them [ASC] to build a canoe?”

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Australia’s domestic politics provided the first reality check for Option J. Abbott’s leadership had been questioned by his dire polling and in a suddenly called leadership challenge, he was desperate to get support from the Liberal members of parliament to ensure he remained party leader. The future submarine project had long been viewed as a much needed boost for the depressed South Australian economy. By raising the possibility of an overseas build, Abbott had exacerbated these problems. South Australian Liberal politicians forced Abbott to give them something to take to their constituents in return for their support. This led to the hastily established “competitive evaluation process” that would open up the project to other bidders, including other international players. And it was here that things started to go awry. By some accounts, the Abbott people communicated to Japan that the “evaluation process” was essentially window-dressing and that the deal would still go their way provided they could build or at least assemble in South Australia. When Abbott was ousted by Turnbull, the personal commitment of the prime minister’s office was removed and the competitive process became a genuine competition.

The second reality check came as Option J’s strategic dimension was exposed to greater scrutiny. From the outset, key policy makers and analysts argued that the project should be decided on technical issues alone. Others pointed to the potential strategic risks of locking Australia into a long-term relationship with Japan and the implications of this for the country’s links with China. Whether this was a realistic fear was much debated in Australia, even as the question of whether the deal offered any substantial strategic benefits was mostly overlooked. Indeed, it remains unclear what strategic benefits a submarine tie-up would bring Australia beyond those already delivered by the two countries’ current strategic partnership. Ultimately, the Australian government determined that the Japanese bid was not competitive on technical grounds. These related both to questions about submarine specifics and to serious concerns about Japan’s lack of experience on such projects, a fear that Japan’s approach to the tendering process seemed to confirm. Nor was it confident, if media reports are to be believed, that the Japanese government (outside leadership circles) was itself especially enthusiastic about the project.

So, if the submarine deal was too much of a wild night out for Australia and Japan, what can be expected of bilateral relations the morning after? To the extent that the strategic partnership has lost some momentum, this has occurred largely through Australian clumsiness, which has been distinguished by procrastination, vacillation and some incautious diplomacy. Indeed, Japan’s lack of enthusiasm reflected division with the country’s defense industry as well as a late realization that, on such a big, politically fraught project, Australia might not be the ideal customer.

Over the longer run, the partnership is unlikely to suffer greatly. Their strategic closeness of recent years has been prompted by the growing alignment of their strategic interests, something which has been strengthened by China’s aggressive approach to regional diplomacy. Both countries also continue to share close relations with the US through their respective alliances. Where the two differ is in the immediacy of their strategic circumstances: these are more acute for Japan, given its territorial dispute with China, meaning that its need to cultivate strategic partners beyond the US is greater than Australia’s. This offers Australia something of a bargaining advantage in their emerging partnership and suggests that Japan, with few suitable alternatives, will likely persist in cultivating the relationship. Moreover, Australia’s decision to boost its submarine capabilities is very much in Japan’s strategic interests, regardless of the supplier. Accordingly, although both countries may be feeling somewhat seedy at present, the hangover should not last too long.

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