

Examining the Feasibility of the Philippines' Submarine Acquisition

Executive Report



FOUNDATION FOR THE NATIONAL INTEREST



Report Prepared By

ARS
AMADOR RESEARCH SERVICES

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Foundation for the National Interest (FNI) is an independent think-tank that specializes and focuses on the strategic and national security interests of the Philippines. The think-tank is a network of academicians, observers, and former government officials who seek to advance the national interests of the Philippines.

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Amador Research Services (ARS) is an independent advisory firm for companies, international organizations, non-profit organizations, and governments seeking to understand and invest in the Philippines. ARS seeks to provide insights on the country and its international affairs from a Filipino perspective. The company connects stakeholders, provides expert consultants to advise on technical issues, and conduct rigorous studies to understand political and market risks in the Philippines.

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Cover photo of Malaysia's first Scorpène-class submarine docked at Port Klang, Kuala Lumpur. A French-made design, the submarine is widely used by other countries including Brazil, Chile, India, and Malaysia. The Philippines is among the platform's slate of potential operators, including Indonesia, Norway, Poland, and Spain. The design and make is eyed as the Philippines' top choice for its planned submarine acquisition program. Photo taken from Wikipedia.

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Executive Summary

In recent years, the Philippines has developed a keener sense of its national security and has endeavored to augment its defense posture. The final *Kwentong Mandaragat* webinar of 2021, held on **16 December**, brought together experts from the Philippines and abroad to discuss the feasibility and potential impacts of submarine acquisition. This webinar was attended by over a hundred (100) participants from Government, the academe, military/uniformed services, and think tanks.

The webinar began with an overview of the “submarine ecosystem” – the interconnected aspects of defense budget, submarine purchase and sustainment, suitable infrastructure, and emergency response. Speakers from Australia and France then provided international perspectives on the costs and impacts of submarine acquisitions. Both speakers concluded their presentations with recommendations on how the Philippines could best proceed. The webinar concluded with perspectives from the Philippines including, first, how submarines are a part of the current defense rationale; and finally, concluding with the infeasibility of the current economic situation to shoulder the weight of the entire submarine ecosystem.

With the speakers’ insights, the webinar featured various recommendations. First and foremost, the Philippines needs to address current political and economic barriers in order to ensure that submarine acquisition is fiscally responsible and strategically productive. This includes developing a long-term plan for revenue-generating activities that does not burden taxpayers. Furthermore, the Philippines must legislate a dedicated roadmap, should it continue to pursue submarine acquisition. In line with long-term strategic thinking on national security, the Philippines must explore alternative means to submarines. Whether the Philippines pursues submarine acquisition or not, these decisions must be made after extensive consultation and cooperation with allies and partners, and after careful consideration of the recommendations provided by international experts.

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Introduction

The Philippines is among many states in the Indo-Pacific region that experiences an upward trend of defense spending and military modernization. This comes amid the great power rivalry between the United States (US) and China and insecurity brought about by Chinese gray-zone activities. China has invested heavily in the modernization of its navy and its air force. Its navy already surpasses the US in numbers. The rest of the region has been actively catching up.

The Philippines is not exempt from this but given its size and priorities, it ought to tread with caution. One aspect the Philippines is considering for its defense is the acquisition of submarines, an underwater asset with a multitude of uses. It has most recently been the center of discourse following the announcement of the trilateral security pact among Australia, United Kingdom, and United States (AUKUS) and Australia's deal for nuclear submarines.

The Foundation for the National Interest (FNI) together with Amador Research Services (ARS) continues the *Kwentong Mandaragat* webinar series with the subject of the Philippines' submarine acquisition. It is designed to provide an overview of the submarine ecosystem, the considerations and costs involved, and the implications for the Philippines.

The specific objectives include:

1. Determining the costs and impacts of submarine acquisition on the Philippines.
2. Learning from the technical and practical/operational experiences of our neighbors.
3. Providing key policy recommendations anchored on the experts' assessments.

Summary of Activities

The Kwentong Mandaragat webinar titled “**The Philippines’ Submarine Acquisition: Costs, Opportunities, and Learning Curve**” held on 16 December 2021 highlighted the nature of the submarine ecosystem, the various considerations the Philippines needs to decide upon, and the potential impact on the Philippine defense posture.

The speakers in the event were:

- **Dr. Collin Koh** is Research Fellow at S. Rajaratnam School of International Studies. Dr. Koh provided an overview of the submarine ecosystem and the nature of Southeast Asian submarine fleets.
- **Dr. Marcus Hellyer** is Senior Analyst at the Australian Strategic Policy Institute. Dr. Hellyer shared the Australian experience with its submarine program, perspective on submarines, and what lessons the Philippines can learn.
- **Mr. Stephen Meunier** is Vice President (Operational Marketing) of Naval Group based in France. Mr. Meunier discussed how Naval Group provides support for submarine forces in the Indo-Pacific and stressed the importance of submarines to the Philippines’ defense posture.
- **RADM. Rommel Ong AFP RET** is a Trustee of FNI and Professor of Praxis at Ateneo School of Government. RAdm. Ong provided the contextual situation of the regional security the Philippines currently finds itself in and shares which specific areas that submarines can augment Philippine defense.
- **Mr. Jesse Pascasio** is a Trustee of FNI. Mr. Pascasio discussed the political economy of submarines, delving into the impediments and potential impacts of submarine acquisition on the Philippines’ national economy.

The webinar was attended by over a hundred (100) participants on the Zoom platform.

Key Takeaways

A. The Submarine Ecosystem

Submarines are an enigmatic platform.

Dr. Koh explained that this is due to their nature as stealthy underwater assets which create a sense of uncertainty.

Submarines as peacetime deterrent.

These platforms' use as peacetime deterrents are subject to two factors: capability and credibility. They are used in a variety of means such as reconnaissance, surveillance, intelligence gathering, and joint exercises.

Submarines are a package deal.

Simply acquiring the submarine units is insufficient. Dr. Koh describes it as an *"ecosystem of capabilities"* – submarine acquisition must come with the infrastructure to maintain, sustain, and if necessary, provide emergency response. This also entails the training and welfare of crewmen and sustained funding.

B. International Perspectives

Submarines in the Australian Defense Force.

Dr. Hellyer highlighted Australia's six submarines, the most expensive capability in the Australian defense budget which cost approximately AUD 1.2 billion per year (USD 800 million). This includes the escape and rescue capability, another challenging but necessary capability to keep current and effective. Dr. Hellyer inferred that Australia's shift to nuclear-powered submarines is owed to its *unique* requirements, that is, their utility for long-distance/long-range missions along strategic pathways to its north.

Hard lessons from Australia.

Australia had no *supporting infrastructure* to maintain submarines when it first acquired one. The current industry is under-equipped to handle the new nuclear submarines from AUKUS, hence Dr. Hellyer reckoned that maintaining its subs at home while building them overseas is the most viable option for

Australia. As noted, the *cost of the submarines* (acquisition, use, maintenance, infrastructure, human capital, etc.) consumes a significant portion of the defense budget per year. For one, the sustainment of submarines offers a practical lesson on costs, which Dr. Hellyer estimated to be three to four times more than the acquisition price. As a rule of thumb, he noted that the annual operating cost is about a tenth of the acquisition cost (i.e., for a sub fleet bought for USD 3 billion, the operating cost will be at least USD 300 million). There is also the issue of *critical mass* – one or two do not sufficiently provide the necessary capability. To obtain critical mass, it is ideal to maintain a minimum of six units of conventional subs, or eight to ten units of nuclear subs. Such a number would also be practical since submarine units routinely undergo either training or maintenance, hence only a fraction of the fleet would be operational at any given point.

Submarines as underwater assets.

Mr. Meunier spoke of how submarine acquisition would improve the overall credibility of the Philippine Navy and the defense of the nation. Because the underwater world is “*opaque*,” it is necessary to have platforms that have acoustic superiority. Submarines can also be utilized as a deterrence, undetected missions in hostile territory, and, if necessary, eliminate targets in sea or land.

Challenges to owning the submarine platform.

Both Dr. Hellyer and Mr. Meunier spoke of the need for an existing infrastructure, which the Philippines currently lacks. Dr. Hellyer in particular cautioned that one submarine acquisition is not enough for operations and that a small fleet would need to be composed of at least three units. As previously mentioned, there is also the extensive cost that the submarine ecosystem will impose upon the Philippines’ defense budget.

Further recommendations.

Dr. Hellyer proffered that, while the US in particular can assist in training, the Philippines would learn more from partners who operate conventional subs such as Australia and France. Australia in particular may have more to offer from its long history in sustaining conventional subs designed overseas, and its extensive learning curve in understanding how to sustain them. Meanwhile, Mr. Meunier proposed that the Naval Group can provide support for training,

building, and maintenance for the Philippines as it does India and Malaysia. He cautioned the Philippines to carefully consider the type and number of submarines it requires, warning that modern combat systems and sonars are necessary.

C. Filipino Perspectives

From the Philippine military's point of view, the rationale of submarine acquisition is for the country to be able to defense itself on its own.

RAdm. Ong shared that the submarine program is a reasonable option given the current security environment in the region where China has dominance in the airspace and South China Sea is not a permissive environment for surface forces. While the Philippine Navy contemplated various approaches on its development strategy such as seeking niche alliances or merging naval capabilities with other countries in the region, it had been concluded that the most feasible strategy was to expand the naval fleet through unilateral build up with consideration of resource challenges and intra-service competition.

Currently, submarine acquisition in the Philippines does not satisfy the optimization requirement for economic equilibrium, which should be neutral or breakeven.

This means that government expenditure for the acquisition must be paid somehow either by an increase in government revenues, private investments or trade transfers, which Mr. Pascasio surmised to be unlikely based on the following factors: *first*, the planned Philippine acquisition will be conducted through importation, thus, there will be no jobs generated to boost private consumption; *second*, the country's lack of local or international shipbuilders means that in-country production of subs cannot be supported, hence, private investments, given the risks and costs, are virtually impossible to secure; *third*, given the gargantuan costs of acquisition (USD 345 - 450 million) and annual operating costs (USD 105 million), government appropriations alone would be insufficient to finance them; and *fourth*, the Philippine countertrade and trade offsets experience have been dismal, which does not bode well for conducting a countertrade on a colossal submarine acquisition.

Barriers to activating alternative funding mechanisms and other sources of taxes and revenues hinder its economic feasibility.

The AFP Modernization Act, which allots Php 75 billion over the first 5 years, may be a source of funding for the subs program, but since it is government appropriation, most of it will be tax revenues. Mr. Pascasio detailed other laws that could provide supplementary subsidy apparatuses. However, almost a decade since these laws were passed, he mentioned the absence of any lease or significant public-private partnerships entered into by the Department of National Defense (DND) and the Armed Forces of the Philippines (AFP) that will reduce its reliance on tax revenues for AFP's modernization. Additionally, many of AFP's prime real estate assets that could be potential revenue sources are mired in litigation.

There are other potential sources of revenues to fund the submarine program.

Mr. Pascasio cited utilization and industrialization of natural resources such as oil exploration and offshore mining as well as sale of government assets as potential sources of funding. He noted, however, that there are also challenges to the access to these resources. First, oil exploration and offshore mining in the West Philippine Sea is not possible due to the current territorial disputes; there is no concrete plan on the sale and development of government real estate (e.g., Ninoy Aquino International Airport - NAIA Complex, Manila Port Area), and the potential gains of the Philippine blue economy cannot be tapped unless the Congress passes the Maritime Zones Act which has been pending in Congress for a long time.

Key Policy Recommendations

The Philippines needs to address current political and economic barriers in order to ensure that its Philippines submarine acquisition is fiscally responsible and strategically productive. This is possible provided that the following conditions are satisfied:

- 1** The submarine program does not dampen consumption and private investments, hence, additional public burden – tax increases – need not be imposed.
- 2** The program does not solely rely on annual appropriations that may entail special taxation.
- 3** Revenues are generated in industries with long-term payouts (i.e., offshore oil exploration, offshore mining, and government and real estate management).
- 4** A model for industrial offsets that can generate real revenues in the long run is developed.

If the Philippines continues to pursue submarine acquisition, this undertaking must be taken in collaboration with allies and like-minded partners. Specifically, the Philippines must construct and conduct its submarine fleet in cooperation with regional partners (i.e., Indonesia, Singapore, and Australia) and international partners (i.e., US Navy and France's Naval Group).

As a viable alternative to submarines, the Philippines must exert its diplomatic capabilities to enter into complex security arrangements. One way this can be pursued is to internationalize its maritime defense concept by forging security alignments and alliances on the basis that no country can defend itself on its own.

Additionally, the Philippines can leverage its international partnerships to develop or enhance security arrangements with US and other like-minded states for more accessible assets such as sub-surface capabilities (i.e., corvettes equipped with torpedoes).



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