

**SUBMISSION TO THE SENATE FOREIGN AFFAIRS, DEFENCE AND
TRADE REFERENCES COMMITTEE**

**INQUIRY INTO THE INDIAN OCEAN REGION AND AUSTRALIA'S
FOREIGN, TRADE AND DEFENCE POLICY**

The security of the Indian Ocean Region goes to the heart of global, regional and Australian strategic interests. The Indian Ocean's critical importance as a global trading thoroughfare mean that this region must be at the forefront of Australia's strategic planning. In particular, the ADF must be appropriately geographically positioned for the security issues associated with expanding offshore resource exploitation in Australia's northwest and northern approaches, which were highlighted in the progress report of the Australian Defence Force Posture Review.

The 2009 Defence White Paper (DWP 2009) assessed that the Indian Ocean would have greater strategic significance in the period to 2030, and would eventually join the Pacific in terms of its centrality to Australia's maritime strategy and defence planning. The White Paper evidenced its claim through reference to the centrality of the region's maritime trade routes to the energy security of many Asian states, growing strategic competition along its periphery and in the straits leading to and from it, and transnational security risks such as piracy.

Defence continues to hold this judgement. Key reasons for the Indian Ocean's increasing importance include the greater reliance of Australia and its key trading partners on Indian Ocean trade routes and likely growth in the presence of regional navies in the Indian Ocean in coming years. To respond to these changes, Defence recommends strengthening of Indian Ocean regional architecture, as well as Australia's bilateral security relationships in the region.

Australia's strategic interests in the Indian Ocean

Strategic interests are those national security interests that concern the structure and features of the international order that ensure our security from armed attack, and in relation to which Australia might contemplate the use of force. From this Defence perspective, Australia's primary strategic interest is defence against direct armed attack, integral to which is control of the air and maritime approaches to the continent. In this context, the Indian Ocean will become more salient as regional powers increase their power projection capabilities, notably their ability to project maritime power. These considerations include the security of Australia's Cocos Islands and Christmas Island territories, which are located in the Indian Ocean.

Another key national strategic interest is the security and stability of Australia's immediate neighbourhood. The significance of the Indian Ocean to the energy security and prosperity of its littoral states, and to several of the Asia-Pacific's major powers, is discussed below. Relevant in this context is the continuing problem of piracy in the Indian Ocean, and its potential links with drug trafficking, arms trafficking and terrorism.

In addition, the Indian Ocean is of growing economic importance to Australia. Australia is increasing its reliance on imported crude and petroleum products to meet growing demand, partly as a result of declining domestic oil reserves. This leaves Australia increasingly dependent for supplies on long and vulnerable sea lanes, many of which pass from the geopolitically unstable Middle East through the Indian Ocean.

The Indian Ocean is also increasingly important to Australia's energy exports. The progress report of the Australian Defence Force Posture Review (FPR) released in January 2012 drew attention to the significance of offshore resource exploitation in Australia's northwest and northern approaches. The Pilbara region of Western Australia currently produces 29 percent of Australia's merchandise exports by value, and 60 per cent of Australia's exports to China. Over \$190 billion has been invested in development of offshore liquefied natural gas (LNG) extraction in Australia's northwest. These projects have made Australia the world's fastest growing LNG exporter, due to become the world's second largest exporter of LNG by 2015.

The FPR progress report assessed that the rapid growth and scale of this resource development, together with the growing significance of the Indian Ocean Region, reinforce the need for an ADF posture that can support operations in Australia's northern and western approaches. It assessed that an increased and more visible ADF presence in Australia's North West is warranted, but that this does not require new permanent bases.

It should be noted that the FPR progress report's conclusions are preliminary in nature and have not been agreed to by Government. The FPR's final assessments will be submitted by the end of March 2012, and will feed into the 2014 Defence White Paper.

Significance of the Indian Ocean to major Asian powers

The Indian Ocean is of growing importance to the energy imports of Australia's major Asian trading partners, including China, India, Japan and South Korea. Over two thirds of global petroleum shipments pass through Indian Ocean maritime lanes, including approximately 80 percent of China's and over 87 percent of Japan's oil imports. Imported oil currently constitutes around 70 percent of India's oil consumption, a figure estimated to rise to 95 percent by 2025. The significance of Middle East suppliers to these large Asian economies – Saudi Arabia alone supplies around 27 percent of South Korea's oil imports – underpins the importance of the Hormuz and Bab-el-Mandeb straits at the western end of the Indian Ocean. The concentration of oil shipments through the Strait of Malacca at the eastern end of the Indian Ocean creates another vulnerable choke point.

In view of the Indian Ocean's critical importance to their energy supplies, and also as a transit route for a significant portion of their export trade, major Asian powers are increasing their security presence in the region.

China's concerns about its resource security are a matter of public record. In 2003, Chinese President Hu Jintao declared that "certain major powers" were intent on controlling the Malacca Strait, and called for strategies to mitigate China's "Malacca Dilemma".

While Beijing has maintained its policy of not seeking overseas military bases, China has invested in civil-military dual-use facilities in regional ports including Gwadar in Pakistan, Hambantota in Sri Lanka, Chittagong in Bangladesh, and Kyaukpyu and Sittwe in Burma, and in late 2011 was considering an offer by the Seychelles to use its ports for naval re-supply. While China does not yet have a significant capacity to project power into the Indian Ocean, since late 2008 it has maintained a naval task force in the Gulf of Aden for the conduct of counter-piracy operation, demonstrating its capacity to maintain a constant maritime presence in the region.

Proportionate with its increasing economic size and great power aspirations, India is engaged in a naval modernisation program that will significantly enhance its capacity to project power around the Indian Ocean. Capabilities being introduced include P-8 Poseidon maritime patrol aircraft, India's first indigenously-designed aircraft carrier, new classes of frigates and destroyers, and numerous submarines including both conventionally and nuclear powered boats. In December 2011, India's Chief of Navy announced plans to build infrastructure in four Indian Ocean island groups to enhance maritime surveillance and forward operating capabilities in the region, enhancing its existing military presence in the Andaman and Nicobar islands.

Though not always directly concerned with resource security, North Asian countries such as Japan and South Korea are also increasing their security presence in the region. During 2011 South Korea deployed a unit to the United Arab Emirates to train UAE special forces under a two-year commitment, while Japan opened a military base in Djibouti to facilitate maritime air patrols around the Gulf of Aden. China, Japan and South Korea have deployed naval vessels to the Indian Ocean, to participate in exercises or to conduct counter-piracy operations.

While the number of countries with a capacity to project power in the Indian Ocean region is increasing, the United States remains the strongest maritime power in the Indian Ocean. The US maintains a substantial maritime presence around the Persian Gulf and on the centrally-located atoll of Diego Garcia, with the capacity to deploy assets into the region from the Pacific and Atlantic Oceans.

Australia has maintained a near-continuous security presence in the northwest Indian Ocean since 1990. The ADF maintains a continuous maritime deployment in the Gulf of Aden, currently consisting of an ANZAC-class frigate, which supports counter-piracy, counter-terrorism and maritime security operations. The ADF also conducts airborne and maritime surveillance patrols throughout the Indian Ocean, including a substantial contribution to Australia's whole-of-government border protection effort. Australia's submarine force is home-ported in Perth, providing direct access to the Indian Ocean.

Australia's contribution to strengthening regional cooperation

In this increasingly competitive strategic context, a continuing US presence in the Indian Ocean, including strong relationships with regional countries, is the best means of ensuring the region's security and stability. However, Australia's interests in the Indian Ocean will also be enhanced by promoting cooperative security approaches among key energy consumers, including China, Japan, India and the US, as well as

energy producers such as Saudi Arabia, Iraq and the Gulf states. The underdeveloped character of multilateral organisations in the region, together with high levels of poverty and social instability levels in some regional countries and frequent natural disasters, increases the importance of regional cooperation.

To further this aim, Australia is supporting the development of regional multinational architecture. The two notable bodies in this regard are the Indian Ocean Naval Symposium (IONS), which brings together Chiefs of Navy from twenty-six states, and the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC), a Ministerial-level forum which brings together 19 regional states, among which Australia was as founding member. IONS provides a consultative forum for discussion of maritime security issues, while IOR-ARC focuses on promoting sustainable growth, economic cooperation and trade liberalisation within the region.

India is currently chair of IOR-ARC and Australia vice-chair, with Australia due to assume the chair from late 2013 to late 2015. Australia will host the IONS Conclave of Chiefs in Perth during 2014. Australia will also host an international counter-piracy conference in Perth during 2012, which will explore ways to assist Somalia and other affected countries in addressing the drivers of piracy.

Australia is also enhancing our bilateral security relationships in the region, notably with India. During the Minister for Defence's visit to India in December 2011 he visited Headquarters Western Naval Command in Mumbai, and agreed with his Indian counterpart to establish annual Defence Policy Talks as well as a bilateral 1.5 track defence strategic dialogue, as well as to work towards a formal bilateral maritime exercise. The US is similarly emphasising security cooperation with India, with the Strategic Guidance released by the Department of Defense in January 2012 stating that the US is investing in a long-term strategic partnership with India to support security in the Indian Ocean region.

As naval operations in the Indian Ocean become more frequent and routine, there is increased potential for international accidents and instances of misunderstanding. However, there are already cooperative mechanisms in place to address such issues. Notable is the Shared Awareness and Deconfliction Initiative (SHADE) which coordinates regional counter-piracy efforts, covering several multinational initiatives such as NATO's operation Ocean Shield, the European Union's Operation Atlanta and Combined Task Force 151 operating under US Central Command, as well as independent national operations in the region. The maritime dialogue between China and India announced on 2 March 2012 is a notable bilateral confidence-building initiative, which is expected to involve the two states' navies and coast guards and to encompass counter-piracy operations.

Conclusion

Over the period to 2030, the Indian Ocean security environment is likely to be shaped by both cooperation and strategic competition among China, India and the US, and to a lesser extent by the continuing threat from piracy and terrorism. The quest for energy security and the security of sea lines of communication will be key factors in this regard.

Over the next decade, Australia's defence posture and relationships will need to place greater emphasis on the Indian Ocean in response to this emerging environment. Australia. The FPR progress report emphasised that Australia's force posture needs to support enhanced cooperation and engagement with regional partners. Australia's involvement in IONS and IOR-ARC, and in regional security initiatives such as Combined Task Force 151, demonstrates our commitment to promoting regional stability through multinational cooperation.

Australia continues to build its bilateral security relationships in the region. Our relationship with India now includes regular security dialogue at Government and non-Government levels, as well as intent to conduct a formal bilateral naval exercise. Australia is also continuing discussions on options for future cooperation with the United States under the US Global Force Posture Review. These discussions will include consideration of Australia's Indian Ocean posture and the implications of developments in this strategically important region.