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Defence Committee

Oral evidence: The Navy: purpose and procurement , HC 168

Tuesday 21 September 2021

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Members present: Mr Tobias Ellwood (Chair); Martin Docherty-Hughes; Richard Drax; Mr Mark Francois; Mrs Emma Lewell-Buck; John Spellar; Derek Twigg.

Questions 108 - 152

Witnesses

I: Christopher Pyne, Former Australian Minister of Defence; Professor Tetsuo Kotani, Professor, Meikai University, and Senior Fellow, The Japan Institute of International Affairs.



Examination of witnesses

Witnesses: Christopher Pyne and Professor Tetsuo Kotani.

Q108 **Chair:** Welcome to this Defence Committee hearing on Tuesday 21 September 2021. Our session today focuses on the Royal Navy, its purpose and procurement. This is our third session focusing on this area, and I am delighted to welcome two witnesses from the Pacific: Christopher Pyne, who is the former Australian Minister of Defence, so very welcome indeed; and Professor Kotani, who is a senior research fellow at the Japan Institute of International Affairs—welcome, too. Thank you for joining us this morning. I really appreciate your time today.

Obviously this is very topical indeed to understand what is happening in the Indo-Pacific. You will be aware that in the integrated review there was a tilt towards an interest in what is happening in that part of the world. Our aircraft carrier is currently in that region on its return leg now, heading back towards the UK.

Of course, it would be remiss of us not to begin with the AUKUS deal and the consequences of the manner in which this has been rolled out. Can I begin with you, Christopher, and your reflections? Perhaps break it down into two sections: first, the operational aspects of this—the benefits, if you like, of nuclear propulsion and the deal itself—and, secondly, maybe the clumsiness, if I can be provocative, of the manner in which this has been rolled out. We have created one alliance, it seems, but perhaps we have ruffled feathers in a wider alliance.

Christopher Pyne: Thank you very much, Chair. It is very nice to be invited to be part of your inquiry into the UK naval shipbuilding strategy and I have been on your side of the table many times over the years, not so much the last 16 years of my political career, but certainly the first 10 before I went on the Front Bench. I have only appeared as a witness once before, in the inquiry as to whether I had breached ministerial standards by taking on EY as a client when I left politics, which went very well, I have to say, and the Senate Committee found that I had done nothing wrong at all. This is my second time, in much happier circumstances, and hopefully I can make a contribution.

It is nice to see my old friend, John Spellar, who might be on the wrong side of politics, but he is a decent and good man. Thank you for the opportunity to be part of it. You might not all agree with that, of course, but I can speak up for him because I have retired.

AUKUS is very interesting. It is pretty early days from an operational point of view. As you would all know, as people who are interested in defence, the Australia-UK-US military engagement is very deep and wide already through the Five Eyes nations, through our ANZUS treaty that we have with the US, which is our only treaty, by the way, and through our very longstanding close relationship with the UK as a former colony until 1901. It is not like this is a new arrangement in terms of operational activities.



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As you would also all know, we even have people in your Parliament. Tom Tugendhat when he was in Iraq was actually commanded by an Australian officer, so as recently as only a few years ago Australians were commanding Brits in theatres of war and vice versa. From an operational point of view, the jury is still out on whether there will be a dramatic change in how the US, the UK and Australia operate together, because it is hard to imagine what new areas Australia, the UK and the US could operate in that they are not already doing, except of course nuclear-powered submarines, which is the reason why AUKUS has come about.

AUKUS is important from a number of other perspectives, though, before we turn to nuclear-powered submarines. One is the really important message that it sends in the Indo-Pacific. I will be fascinated to hear what Professor Kotani says about that, because it is really the newest piece of architecture in what has been quite a tense part of the world, especially in the last year or so, when Australia and China have been experiencing, as opposed to enjoying, quite tense relations. ANZUS is an important alliance but, as you know, the New Zealanders have particular views about nuclear, whether it is nuclear power or nuclear weapons. That has its limitations from that point of view.

Five Eyes has been critically important for the Anglophone countries, the Anglosphere, and more recently in the last few years the Quadrilateral has come into being. In the last year, and particularly in the last few months since Joe Biden has become President of the United States, the Quadrilateral has been elevated very substantially. In fact, probably as we speak, the first in-person Quadrilateral meeting is happening in Washington between Prime Ministers Suga, Modi, Morrison and President Biden, which is really important and interesting.

The Quadrilateral has gone from a dialogue of officials and Ministers to a strategic dialogue around a number of different aspects. The most celebrated one recently was around Covid response and supporting India, but it is certainly a new diplomatic defence dialogue in a way that has changed the Indo-Pacific.

AUKUS changes that again, because it really formalises the idea of the UK being interested in the Indo-Pacific beyond mere rhetoric. You have obviously been an Indo-Pacific power and, as you said, your carrier strike group has not been out of the Indo-Pacific for long. In fact, it went through the South China Sea and has been here, and that has been very welcome. As European powers go, France has New Caledonia, has military troops based here, and has 7 million French citizens in the South Pacific.

Britain has given up most of its territories across the Indo-Pacific. Hong Kong was the last significant territory. While of course Britain has always had an interest in the Indo-Pacific from a military and foreign policy point of view and lots of friends here, AUKUS puts a structure around that, which is very important to Australia, to the US and to the UK. That is



where the optics are the most significant. How it operates operationally remains to be seen.

This is becoming a long answer, so I will try to wrap it up. From our point of view, having nuclear-powered submarines sitting alongside our conventional Collins class submarines is a very significant step, only made possible because the US has decided to share the nuclear reactor from the Virginia class submarines, which means we do not have to have a civil nuclear industry, which would be just too difficult for us to manage, given that we have not had one. Whether we should have had one from the 1950s is a moot point; we have not had one, so we do not have that structure and politically it is almost untenable.

Because we do not need to have a civil nuclear industry, the access to the Virginia class nuclear reactor has significantly changed the game. That has come through the AUKUS arrangements in sharing of technology. That means that we will be one of seven countries in the world with nuclear-powered submarines. We will not have nuclear weapons, but we will have nuclear-powered submarines. Sitting alongside conventional submarines, that is really a step change in our military capability, for which we should be very welcome. It is very significant and we are pleased about it, and it will be good for the UK, the US and Australia, but it will also be good for the Indo-Pacific.

This is probably another question for later in this session, but it is interesting. The fact that Australia has felt that it can do that in the midst of a tense relationship with China sends a very important signal: that the Chinese Government in Beijing putting the screws on Australia from an economic and trade point of view has had almost precisely the opposite effect. It has caused Australia to look to other markets. It has caused Australia to think about its military and defence posture. Importantly, it has caused other countries across the Indo-Pacific to think, "Well, if China is prepared to treat Australia that way, let us see how Australia responds".

The response has probably not been what China expected and it has had precisely the 180-degree wrong impact for China, which has been to cause ASEAN countries, Japan, South Korea and India, to think, "We need to be looking to our friends and allies across the Indo-Pacific, because China is not as benign as we had hoped it would be five or 10 years ago".

Q109 Chair: Christopher, thank you for that comprehensive reply. You have covered a number of really chunky areas there, which we are going to break down a little bit, not least wider economics and the competition from China.

Professor, turning back to the AUKUS deal itself, from a purely procurement perspective, you can easily see from outside why Australia would want to upgrade from diesel electric to nuclear propulsion, given the threat that you face. On the manner in which this has been done,



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would you agree that perhaps it could have been rolled out in a different way that kept alliances together? We are not going to beat China by military means alone. You need to have all alliances and all means pushing in the same direction.

The Quad has been mentioned. Would it not make sense, if AUKUS is more to do with an operational commitment, that the Quad then takes the lead more on the geostrategic? To include Britain and, indeed, France there might have been a better way to smooth the waters, given of course France was going to be a little upset, as it proved to be, in losing a large procurement deal.

Professor Kotani: Thanks very much for the invitation. Regarding AUKUS, Japan has a mixed feeling. First of all, it was a total surprise. We did not know about it and the Japanese Government was notified only one day before the announcement. As you may know, five years ago Japan competed with the French over the Australian submarine deal and we were defeated. When we heard about this AUKUS, we felt like we were defeated twice. We have a mixed feeling towards the announcement of AUKUS.

On the other hand, we totally understand its strategic implication for the Indo-Pacific, particularly in the Western Pacific. China currently operates about 60 submarines and the United States possesses about 60 submarines in total, but deploys 60% of its entire submarine fleet to the Western Pacific, meaning around 40 submarines. Japan is now building up 22 submarines and our basic objective is to deploy six to eight submarines in the East China Sea all the time. If Australia builds up nuclear submarines and deploys two or three submarines in the South China Sea, closer to Taiwan, that makes total sense for us. We do understand the strategic implication.

On the other hand, it was a little bit unfortunate that the three countries did not deal with the French in a different way. The French are now very angry and some people say this is going to be a severe issue between the US and France, and Australia and France. That will encourage China more.

The delivery of the scheme was a little unfortunate but, as I said, overall, we very much welcome the announcement of AUKUS. The building of nuclear submarines in Australia means Australia will possess a capability for repair and maintenance of nuclear submarines. I would guess the Australians could repair and maintain US and UK nuclear submarines in the future. We could expect the UK's role to expand under the AUKUS in the future.

Q110 **Chair:** Can you just expand a little on the Quad, because this is something that we are not so familiar with in the UK? From a geostrategic perspective, as I mentioned before, should this be the lead on working out the wider strategy for the Indo-Pacific, rather than the AUKUS itself? Is that perhaps the graceful way that we might be able to advance



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forward from the current diplomatic position and the difficulties we are experiencing?

Professor Kotani: The Quad and the AUKUS are different. The Quad is now becoming more like the scheme for providing public goods to the region. We have established working groups on Covid vaccinations and supply chain, and on climate change. We are trying to work with other likeminded nations on those issues of common interest, while the AUKUS is basically focusing on the military technology. These two schemes can complement each other, but the Quad is a broader scheme to provide public goods.

Chair: That is very helpful indeed. It has prompted a number of questions on this side here.

Q111 **Mr Francois:** Christopher, this was one big Government announcement that did not leak. It came out of a clear blue sky to many parliamentarians in London, as well as people in Paris or elsewhere. With your contacts, have you any idea or any feel, at least, for how long AUKUS was in gestation before it was announced.

Christopher Pyne: It is a dangerous question, Mark.

Mr Francois: Bless you.

Christopher Pyne: The Prime Minister has made it clear that he has been discussing with President Macron the changing nature of our military capability needs for a good six months. Particularly at the G7 in Cornwall, there were significant one-on-one and one-on-two discussions with your Prime Minister and President Biden, asking the question whether the US and the UK would share nuclear capability for propulsion in a way that they had not offered in 2015-16.

You have to remember, I was part of the NSC that chose Naval Group to build the submarines in Adelaide, which is my city. We had only the Japanese, the French and the Germans bidding, and they were all conventional submarines because there was no offering or suggestion of nuclear propulsion.

The discussions about nuclear reactors and nuclear capability began in earnest in person in Cornwall. That is public knowledge. Our Prime Minister had been raising our capability needs with President Macron for some time, at least six months. I cannot tell you when the private discussions started occurring between US, UK and Australian military personnel, because I retired over two years ago, so I would not be privy to those discussions. You also know that, because the US, the UK and Australia are all such close friends—genuinely, I am not just saying we are friends—it would not take very much for the MoD, the DoD and the Pentagon to knock out such an agreement around technology transfer and nuclear capability if they wanted to. Equally, if they did not want to, we all know that they could take forever and never make a decision.



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I think there was a will to do it. The truth is that militaries can do well to have both conventional submarines doing certain tasks and nuclear submarines doing other tasks. We announced at the same time as AUKUS the life-of-type extension on our Collins class submarines, of which we have six, which will give them at least another couple of decades' life. The new class will be a combination of Virginia and Astute, probably more Virginia but I am speculating; I do not know for sure. There will be an 18-month assessment of that and they will come online as well.

To go to Professor Kotani's point, they will probably operate together for some time, especially if the geostrategic situation does not improve in the Indo-Pacific. But I cannot tell you. It is a long way of answering the question by saying I do not know when the private discussions began, but I am glad they have.

Q112 Mr Francois: Christopher, if we have heard you correctly, you were saying that President Macron was informed about six months ago that Australia had issues with the original programme. If we heard you right, it would not be fair to say that this completely came out of a blue sky in Paris if, in fairness to you and your countrymen, you had been telling the French for half a year that you had problems. It is important to get that on the record, thank you. Can I just ask you a quick question about programmatics and then I will hand back?

Christopher Pyne: That is not exactly what I said, Mark.

Q113 Mr Francois: I am sorry. Forgive me; I do not want to misrepresent you, but I thought you said that about six months ago you had started to tell the French that you had concerns.

Christopher Pyne: They were not concerns about the Naval Group submarine, not concerns about the conventional capability. The Prime Minister has indicated that he started to tell President Macron that our military capability needs might be changing, which might require us to think differently about conventional submarines versus other capabilities, which is different to being concerned about the programme. It is more a question of whether our needs were changing around capability. Of course nuclear submarines have greater range and depth; they can stay underwater for much longer without having to surface, so therefore they are stealthier.

Q114 Mr Francois: With respect, we know the difference, but the French also build nuclear submarines. If you decided you now needed SSNs, rather than just conventional submarines, for all the reasons the professor was very well articulating, you could have asked the French to build you a nuclear submarine instead, could you not?

Christopher Pyne: The difference is that the French do not have the Virginia class nuclear reactor with a 33-year life. I am not sure they have access to that technology. Only the Brits and the Americans do. The hurdle for us having nuclear-powered submarines five or six years ago was that we would have to have a civil nuclear industry, which would be



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quite impossible to have the legislation to put in place, because you would need to get it through upper Houses in Australia.

There is no upper House in Australia that is controlled by the Government, except in Victoria, and so you would need to convince the Greens that it was a good idea to have a civil nuclear industry. Even the Labour party has said that the only reason it is prepared to support this AUKUS announcement and the nuclear-powered submarines is that it does not include the creation of a civil nuclear industry. We could not consider these five or six years ago, because we knew that it would be entering a minefield from which we would never emerge.

Q115 Mr Francois: Lastly on programmatic, if access to the Virginia class reactor was part of the driver, if I am following you, we have a strong industrial relationship with Australia on the Hunter class frigates, the Type 26, of which you are buying nine. They are being assembled in Australia. What is your instinct? I know there is an 18-month assessment phase. What is more likely—that Australia will buy a Virginia or an Astute off the shelf, or that it will buy components, which will then be finally assembled in Australia?

Christopher Pyne: I chose the Hunter class, the Type 26, as the capability for anti-submarine warfare frigates. They are not being assembled at Osborne. They are being built at Osborne, and there will be significant technology transfer as a consequence and intellectual property being shared. I do not agree with your assessment that they are being assembled in Osborne.

Q116 Mr Francois: Sorry, I apologise; I put that badly. You are quite right, but what about the subs?

Christopher Pyne: It is hard for me to predict where the 18-month assessment will take the subs, but the announcement is that at least eight submarines will be built at Osborne in South Australia and that they will be based on the Virginia class and the Astute class, which share characteristics. I assume that will involve an assessment of the size and the tonnage that is required, and the weaponry that we want to include, and experts will make those assessments and make recommendations to Government. The promise is that they will be built in Osborne, so I can only assume that that promise will be fulfilled.

Mr Francois: That is very helpful. Thank you.

Q117 Martin Docherty-Hughes: I have two very quick questions, Professor, to you. You stated earlier in your evidence that Japan was informed of AUKUS the day before the official announcement, yet the ambassador of the French Republic in Australia, Monsieur Thebault, stated, "We discover through the press that the most important person in the Australian Government kept us in the dark intentionally until the last minute and was not willing to at least have the decency to enter conversation about the alternative". Could you confirm whether what you said is that Japan



was informed of AUKUS before the French Republic?

Professor Kotani: In fact, my remarks reflect my private conversations with a Japanese Government official. I do not think it is the Government's official stance on the announcement, so I need to be cautious about it. Maybe there was a problem of time difference. We knew this in the early morning Japan time, but for France that was at midnight, so maybe there was an issue of a time difference.

Q118 **Martin Docherty-Hughes:** Let me just push slightly further. I have to admit, I do not think time difference would make much of a difference to those making the decisions. You also mentioned, I have to say, some substantial submarine development and construction in Japan. Could you maybe tell us a bit more about the debate in Japan around nuclear propulsion?

Professor Kotani: Of course there are some people advocating that Japan should have nuclear-powered submarines, but it is not a mainstream view. Our basic operational area is the East China Sea, which is very close to our home. The East China Sea is shallow, so a nuclear-powered submarine is not a good fit for our strategic environment.

Q119 **Chair:** We need to move on, but it was important to devote some time to this. There are just two points I wanted to clarify. Professor, did you say that you competed with France for the diesel-electric deal? Did I understand that correctly?

Professor Kotani: Yes, correct; five years ago the Japanese industry and the French industry were competing over the Australian diesel-electric submarines.

Q120 **Chair:** Secondly, to Christopher, Mark asked the important question as to why France itself did not then offer the Barracuda capability, the nuclear propulsion systems. We need to move on, but maybe in writing could you perhaps send us your thoughts on what it is Australia might be looking for compared with Astute, Virginia and Barracuda? What is your solution that means that the Barracuda as an option was ruled out? Could I invite you to do that? Would that be all right?

Christopher Pyne: Not really, no. I am not going to do that, no. It is not for me to send you an assessment of the merits and strengths of the Barracuda, the Virginia and the Astute class. I am happy to give you evidence about what I know, to do with naval shipbuilding and the Australian defence programme, but I am not going to do that body of work.

The reality is that the French were not asked for a nuclear propulsion option in the Barracuda-based Australian programme, because the nuclear option was not one of the options being asked for. Let me make it very clear. The French were part of the competitive evaluation process, as were the TKMS in Germany and the Soryu class in Japan. None of the three was asked for a nuclear option, because there was no suggestion



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from the Australian Government that a nuclear-powered submarine would be considered.

That only changed because of the offering from the United States, at the request of Prime Minister Morrison, as to whether it would consider sharing the 33-year life nuclear reactor that does not require a civil nuclear industry in order to sustain and maintain it. Doing that work would be rather a waste of time, because the French were not asked to compete for a nuclear propulsion submarine, because they do not have the one piece of technology that was the gamechanger in Australia moving to nuclear-powered submarines.

Chair: It was better for us to then understand why it is was that the French did not then say, "We can advance this. We can actually perhaps look into this and develop this capability." They have their own nuclear-propulsion submarines anyway, but it does not seem to be factored in. Let us move on to the carrier strike group.

Q121 **John Spellar:** Chris, you have already said that the deployment has been welcomed in Australia. Professor Kotani, how was the deployment of the carrier strike group seen in Japan?

Professor Kotani: Japan welcomed the visit of the carrier strike group very much. Also the dispatch provided good opportunities for Japan to train and exercise with the UK carrier strike group, as well as other allied partners. As you may know, Japan is also converting our large helicopter carrier into a light aircraft carrier to operate F-35B. Training with the Queen Elizabeth carrier strike group provided good lessons to operate our own F-35Bs.

Q122 **John Spellar:** How would you see that co-operation and interoperability being taken forward between the Royal Navy and the Japanese navy?

Professor Kotani: We have been working with the Royal Navy over the past several years, and the dispatch of the carrier strike group enhanced and upgraded our bilateral and multilateral co-operation with the Royal Navy. As Japan develops its own carrier capabilities, we will continue to work with the UK, as well as the US and Australian navies, particularly in the Western Pacific.

Q123 **John Spellar:** Christopher, was there disappointment that none of the vessels in the group went to Australia? How important would you say it is that future deployments to the region include a port visit to Australia? Following on from the question to Professor Kotani, what lessons did Australia draw from the joint exercises?

Christopher Pyne: I was the Minister when Boris Johnson was your Foreign Secretary and Sir Michael Fallon was your Defence Secretary, and they came to Australia for our Australia-UK ministerial talks, at which your Prime Minister announced that they would send a carrier through the South China Sea, which I think startled Sir Michael Fallon at the time.



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It was very welcome here. It was welcome to have your carrier strike group in the Indo-Pacific, particularly to navigate through the South China Sea, probably more so than most people in the UK would realise because the US and Australia have probably done as many of the navigations through the South China Sea between them as any of the other countries put together. Certainly the US by far and away has the greatest number, but New Zealand has been through; Canada has been through; and Australia has been through, as have Britain, Germany and France.

It is very important for the Indo-Pacific for all countries, but particularly countries like the UK, to indicate to China that we do not recognise its claims over the South China Sea as being any greater or lesser than the other countries that border the South China Sea, whether it is Vietnam, the Philippines, Brunei or others. That was very welcome. They did not come to Australia, but they would be welcome here, of course. We are always happy to have business from the UK Navy, Her Majesty's Navy, but it is not the end of the world from our point of view. The more important thing was that it was in the Indo-Pacific and in east Asia.

Next time, we would love them to come and visit, of course, but it is not as important to us as them being in the area that is one of the No. 1 hotspots in the world.

John Spellar: We will pass that invitation on.

Chair: Staying with the carrier strike group, let us now turn to the competitors, the adversaries and their reaction.

Q124 **Martin Docherty-Hughes:** Gentlemen, I wonder if you can tell me your thoughts on what China's reaction to the carrier group's presence tells us about how it views the deployment in the Indo-Pacific region. Did China achieve its aims with this response? Professor, could I come to you first?

Professor Kotani: As we know, China has dispatched submarines to chase the carrier strike group. It was the Chinese version of a welcome for the carrier strike group. That is common practice for China whenever a foreign nation sends naval forces into the South China Sea. China is just doing whatever it has to do. Before the dispatch of the carrier strike group, Chinese media carried an article that China did not expect the UK carrier strike group would exercise freedom of navigation operations in the South China Sea, unlike the United States. So far, the UK carrier strike group has not conducted such operations.

On return, I do not know, but the carrier strike group might conduct a freedom of navigation operation in the South China Sea. Then the Chinese reaction would be very negative and aggressive. We will see, but China is still closely monitoring and watching what the carrier strike group will do on return.

Martin Docherty-Hughes: Chris, do you have any thoughts on both the deployment and the return?



Christopher Pyne: The reality is that China and the US are involved in a competition and a challenge to each other's power in the Indo-Pacific. The UK's activities in Asia were measured, sensible and in no way designed to increase the tensions in the Indo-Pacific, but simply to demonstrate to all countries in the Indo-Pacific that we regard those waters as international waters. They are very important for our mercantile trade. The UK, France, New Zealand, Australia, or whoever it might be, has every right to traverse the South China Sea and other parts of Asia.

China has claims over those waters. It has been quite active in pressing those claims, and it has a dispute with all its neighbours that also border the South China Sea, except for Singapore, which is one of the few countries in the ASEAN area that does not have any claims over the South China Sea. It reflexively repeats those claims and indicates to countries that have done what the UK has recently done that it regards those waters as its waters.

China's response was no heavier or lighter than it has expressed to most countries that traverse the South China Sea. We are quite used to China saying the things that it said about the UK and I do not think it worried the UK Government either. It is very different to any belligerent act and I do not think anybody could accuse the UK of being in the least bit belligerent.

Q125 **Martin Docherty-Hughes:** Finally on that point, in terms of the lack of freedom of movement being exercised on the way out, Amitai Etzioni always talks about mutually assured restraint between, for example, communist China and the United States in the future. I do not know if either of you has heard of that theory. If so, has it any relevance to the future development of relations between communist China and the United States and its allies? Professor, do you want to come in first?

Professor Kotani: Although the strategic competition between China and the United States is becoming tougher, the United States and China are also trying to establish crisis management and crisis communication mechanisms. So far, some elements of the existing mechanisms are working. I would say that China and the United States will continue to try to manage whatever crisis happens.

Christopher Pyne: It is in everyone's interests for the US and China to manage their relationship. If people want to call that mutually assured restraint, they are welcome to do so, but that should not mean that China can keep extending its influence over areas that are international waters, so it is a bit of a definitional issue.

I would say that, broadly, the Biden Administration's approach is welcome in Australia from a policy point of view, because it is so much more consistent and predictable than the Trump White House's approach to the Indo-Pacific and China. It is much less likely that there will be a conflict by mistake over, say, Taiwan in the Biden Administration than



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there would have potentially been in the Trump Administration, where President Trump was capable of having significant shifts of opinion about what was in the best interests of the United States.

The change from Trump to Biden has been a welcome development from Australia's point of view—I speak not on behalf of the Government, but on my own behalf—because we have now returned to a much more predictable US foreign policy towards the Indo-Pacific. They have also made it quite clear, through military sales, the provision of vaccines and their speeches, that they will protect and support Taiwan, and it is important for China to get very clear messages.

That said, China has every reason to expect to be treated as a superpower. There are only two superpowers in the world—one is China and one is the United States—and they have every right to expect to be treated as a superpower. That also has responsibilities that come with it in terms of treating all the other powers with respect and recognising that there is a place for us all in the Indo-Pacific.

Mutually assured restraint sounds like a perfectly reasonable term to describe the relationships that exist, as long as it does not become a continual movement of the boundaries in favour of one power over another.

Q126 Richard Drax: Gentlemen, good morning or good afternoon—whatever it is where you are. We are beating around the bush with China, are we not? We know that this is a flashpoint, and all the warning signs are there. They clearly think the South China Sea is theirs, and they want to stop us using that particular route.

Bearing in mind that we see China as one of our major threats, how long will it be before it, potentially, as it gets more powerful, takes military action and, for example, puts a missile into an American destroyer or into one of ours? Do you think that we will ever get to that point? Do you think that China will establish herself in that way at some point in the near future, bearing in mind that all the signs are there?

They can follow our aircraft carriers with their submarines and give us verbal threats, but the Chinese normally end up doing something, and I wonder before how long they are going to do something. If you think that they are going to do something, could it be something as aggressive as sinking a ship or something like that? Christopher, perhaps I can come to you first.

Christopher Pyne: The likelihood of China taking such precipitative action is extremely limited. Is the Indo-Pacific more dangerous today than it was five or six years ago? The answer is yes, which is one of the significant reasons why the current Prime Minister decided that nuclear-powered submarines should become a priority. I would be very surprised if China took such action as you described of putting a missile into a vessel of the RAN, your own Navy or the US navy. That would have significant implications.



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The real question in the Indo-Pacific is whether China is prepared to wait to have Taiwan reunified with mainland China in the way that has been the policy since Deng Xiaoping was the premier in China, or whether it wants to accelerate that process. President Xi's speech to the People's Congress earlier this year was probably more bellicose than previous speeches from leaders in China about how he wants to see Taiwan reunified with mainland China.

How much that is for domestic digestion or for the international community, or how serious he is about taking action, I cannot tell you. I am not in his mind, but any action that China took to have a military response in Taiwan would be one of the most significant developments in the world's history at the moment, so I do not think that it would take such action lightly. If I was asked what the chances were, I would have to say that it was very unlikely.

Q127 **Richard Drax:** Professor, just very briefly, do you think that China would resort to an action of the sort I have described to make her point at some point in the near future?

Professor Kotani: In the short-term future, I do not see much likelihood that China would use force against neighbouring countries. China's basic approach is called grey zone. It is gradually expanding its jurisdictions in and around its jurisdictional waters. It is using coastguard vessels and maritime militia to exercise its jurisdiction, while putting military capabilities on artificial islands. If we allow China to exercise its jurisdiction in international waters, they will become quasi no-go zones for China. Although I do not think that China will use military force in the near future, we have to counter its grey zone challenges.

Q128 **Chair:** Just leading on from Richard, Professor, I wanted to get your views on the wider geostrategic in the South China Sea. We see these pictures of the Paracel and Spratly Islands being militarised and turned into fortresses. We see them today. Where do you think they will be in 10 years and what implications will they have for patrolling and keeping the freedom of navigation in this critical area of the globe?

Professor Kotani: I would say that the militarisation of those artificial islands is 99% complete. The only remaining piece is the permanent stationing of fighter aircraft and bombers. Otherwise, they have put every capability on those islands, so they can use it in wartime. The important implication of that militarisation is that they could disrupt peacetime operations, and particularly ISR activities in the South China Sea. In that sense, not only the United States but other likeminded nations have to conduct operations to challenge their excessive claims in the South China Sea.

Q129 **Chair:** Just very quickly, if China were to head in this direction—indeed, Russia does regularly and has no qualms about going through the English Channel—was it a mistake for us not to go through the Taiwan Strait with one ship or, indeed, the carrier group itself this time round?



Professor Kotani: I would have expected one of the carrier strike group vessels to transit the Taiwan Strait. Otherwise, China will be emboldened.

Chair: That is interesting. Thanks very much indeed.

Q130 **Derek Twigg:** Looking to the future, what do you think the most useful role is that the Royal Navy can play in the region? What capabilities will it bring to it? There is a view that us Brits should stick to keeping our resources nearer to home, rather than going off to the Pacific. What do you think we can bring, on a permanent basis, to the Indo-Pacific, and what should those capabilities be? Could I start with you, Professor?

Professor Kotani: We would welcome any capabilities from the Royal Navy in the Western Pacific. I remember, a couple of years ago, the UK dispatched an air defence destroyer to Japan for the first time, followed by other vessels, and finally the carrier strike group. Honestly speaking, there is some discussion in Japan about whether the UK's occasional deployment to the Western Pacific makes a difference and can change China's behaviour. I do not think that we can change China's behaviour easily, but at least we can change China's perception by conducting a collective response to China's aggressiveness in the Western Pacific.

This time, the carrier strike group is named CSG21, so I wonder in what year you can send the next carrier strike group to the region. Will it be CSG22 or CSG23? I do not know, but we would like to continue to see the Royal Navy sending its primary ships to the region.

Q131 **Derek Twigg:** What you are saying, Professor, is that you want to know whether this is going to become a regular deployment of Royal Navy ships and possibly a carrier group, rather than an occasional one every few years. Is that what you are saying?

Professor Kotani: I am not saying that the dispatch should be regular. It could be occasional, because it is not easy for you to send naval vessels to far waters, but we would at least like to see the continued deployment of the Royal Navy's assets.

Derek Twigg: Christopher, do you have any views on that?

Christopher Pyne: I read recently that the Brits were thinking about putting a couple of minesweepers permanently in the South Pacific. Where you are going to headquarter or port those is an interesting question, because I assume that you would need to have a friendly ally who was happy to have you port a couple of ships in its ports. Singapore would be an option. Australia would be an option too, and that would be an interesting development, but that is completely separate to the carrier strike group.

From the point of view of the globe, it is critically important that countries like Russia and China know that likeminded countries like the UK, Australia, Japan, India, France, the US and Canada are going to stick together. An interesting aspect of the change dynamic in China in



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challenging the US is that, if the policy had been to boil the frog slowly, that has dramatically altered.

All countries in the region that might have been hoping that the force posture of China would have been benign, since the militarisation of the South China Sea—the Paracel Islands and so on that Tobias referred to—are no longer in a resting position vis-à-vis China. The UK sending a carrier strike group to the Indo-Pacific is important, and it is important that it happens again, because it sends a clear message to everyone that the UK's friends and allies in the Indo-Pacific are not alone. That does not seem that significant, but it is. In the last 120 years, it has been the unity of democratic nations of the world that has maintained us all in the position that we are in, so that is significant. I would be interested to see what happens with your minesweepers—whether you go ahead and base them in the Indo-Pacific, and where.

Minister Dutton is in Washington at the moment for the AUSMIN talks with Marise Payne. As part of AUKUS, we also announced that we are going to expand the US's presence in Australia—and we have a marine base in northern Australia—potentially housing US aircraft logistics in Australia. As part of our expanded relationships with Japan and Singapore, we have already announced the housing of equipment logistics here. That connection between countries like ours is really an important signal.

Q132 Mr Francois: Christopher, those two ships are going to be River class batch 2 patrol vessels, so they are more akin to corvettes than to minesweepers. You might say that, in terms of capability, they are one notch up. There is quite a lively debate going on here about whether they should be “home-quartered” in one location, if a nation were willing to host them, or whether they should be deployed more peripatetically. It is quite an interesting development.

In terms of a future carrier deployment, Queen Elizabeth's sister ship Prince of Wales is now in commission and the intention is that, at some point over the next couple of years, Prince of Wales will also carry out a deployment into great waters. I am not sure that the Government have made formal announcements or agreed a route, but it is possible that she might come to Australia at some point in the next couple of years. That is also being mooted, but I am not sure that there are any firm plans on that.

I have a quick question for you: to what degree is it important that allied navies—the Royal Australian Navy and the Japanese navy—can exercise with carrier groups like that when they enter the region to give a practical demonstration of allied solidarity?

Christopher Pyne: I do not know whether the carrier strike group did any exercises with the Australians. I do not think that it did. I am not sure if it was part of the Malabar naval exercises, so I cannot tell you that, but it is good if it does. I probably just do not have that information



to hand as to whether it did exercises. My sense is that it did not; otherwise, it would have been quite a story in Australia, and I do not know about Japan. I would very much welcome it being part of any exercises with the Australian navy. It is not unusual for the UK and Australian navies to do exercises together. I just do not know if they did on this occasion when the carrier strike group was in our part of the world.

Q133 **Mr Francois:** I am looking at my Chair, who is intimating to me that we think that there may be some joint exercises on the return route.

Christopher Pyne: That would be good.

Q134 **Martin Docherty-Hughes:** Most people in Europe see the French Republic as merely a European state, and yet it has several million citizens in the Pacific region, so it is also a Pacific state and extends into the Pacific. I wonder if either of you have an idea of how the Royal Navy specifically can enhance and improve its collaboration with European partners, like France, that have a substantial presence in the region.

Professor Kotani: France maintains a small-scale naval presence—*[Inaudible]*—and, occasionally, the Japanese navy conducts exercises and training with those French naval forces, mainly for maritime security operations. We also work with the US and Australia on this. I understand you are dispatching two patrol vessels for five years to this region, so your frigates definitely can fit into this scheme.

Christopher Pyne: One of the significant outcomes of AUKUS is that what had been an extremely exciting development, which was the French being even more closely associated with the Indo-Pacific than they were before, has clearly taken a significant setback, which is possibly an understatement. They do have 7 million citizens in the South Pacific, not just in New Caledonia, and they have a standing military presence of about 2,000 French military personnel. President Macron has twice visited Australia and given very significant speeches about France being an Indo-Pacific power.

When the dust has settled, as it inevitably will, on the AUKUS announcement and the naval group contract being cancelled, we will need to have a very clear and dynamic policy about engaging with France about its role in the Indo-Pacific and how much we will want it to be involved here. It is very important to us that France continues to be an Indo-Pacific power. It will not stop being an Indo-Pacific power, but its morale about Australia has clearly taken a knock. You do not need to be Einstein to work that out.

How can the Royal Navy or the UK assist in encouraging other European powers to be involved in the Indo-Pacific? I guess through diplomacy. Because of Brexit, Britain is no longer part of Europe.

Q135 **Martin Docherty-Hughes:** Forgive me, Chris, but we are still a part of the continent of Europe. We might not be in the European Union but we



are European.

Christopher Pyne: Yes, no longer part of the European Union. Britain was our best friend in the European Union before Brexit and is now not part of the European Union, and so Australia has to look to other countries in the European Union. We have excellent relationships with France, the Netherlands, Italy, Germany and so on, and longstanding defence ties with the Spanish, so there are all sorts of good reasons why we can continue to use leverage in those relationships. I do not know if the Europeans would welcome Britain telling them what they should be doing in the Indo-Pacific. That is really something only you can answer.

Q136 **Chair:** I am going to hand back to Martin, who is going to talk about wider alliances. I just wanted to pursue that point, because it is rather pertinent. It is the bigger-picture issue here that perhaps was missed in the political and diplomatic fallout with France. There is a misalignment between NATO and the EU. We see this in the Galileo programme, which you may be familiar with, which we are no longer part of. We have Tempest, the successor to the F-35, which we are procuring ourselves, but France and Germany are pursuing FCAS.

I just wonder whether we could have been cleverer with our international statecraft in advancing AUKUS and perhaps linking in the Quad, but also looking at procurement in Europe to have consolidated and reconciled some of the procurement differences that have resulted in the EU choosing to pursue its own procurement programmes and to exclude Britain. When you divide the West in this way, the only winners are our adversaries. Would you agree with any of that or am I missing the picture here?

Christopher Pyne: It is really up to the British to decide about combined procurement with the Europeans. I am not going to lecture the British from Australia about whether Brexit was a good idea. Your country decided to decouple from the EU, and that means that you cannot really tell the French, the Italians, the Spanish, the Swedes or anybody else in that part of the world that they should be procuring your products and services. It is a competition.

Q137 **Chair:** I was suggesting that we move ahead jointly. AUKUS was an opportunity to focus on the Indo-Pacific, and we could have perhaps advanced things by including France, but using it as a quid pro quo. We could have looked at some of these wider geostrategic and procurement issues to get more collaboration. We would not be telling anybody what to do whatsoever. It would be moving forward in a more unified manner. We have created one alliance but we have damaged NATO, which is a wider alliance.

Christopher Pyne: My experience as a Minister for Defence and Defence Industry is that the competition between Britain and France, even within the same companies, is fierce in defence procurement. Thales UK and Thales France compete fiercely over sonars for the Naval Group contract, which has now been cancelled. I do not see a lot of collaboration between



them. I see a lot of competition between them, and I do not see that as a problem. From an Australian point of view, if you are procuring something, you want a healthy competition because you get the best capability. How NATO works and how you and your European allies combine, whether it is against the Russians or in the Indo-Pacific, is really not a matter for me as a former Australian Defence Minister to comment on.

Q138 **Mr Francois:** Just for the record, on Galileo, they kicked us out. They took £1 billion of British taxpayer money—

Christopher Pyne: I do not want to become a spokesperson on Brexit. We are shaking our heads here about Brexit but you all seem very happy about it.

Chair: You are going to get lots of excited characters here. Let us not go down the Brexit rabbit hole. We have to live where we are today, but Mark makes a very pertinent point. We led the Galileo programme and we are now outside of it because we are not in the EU. We could have boxed cleverer upon this. This is a new alliance and a new focus—you are absolutely right—in the South China Sea. With procurement, perhaps there was a cleverer way of advancing this, but I think we have milked that one. Let us turn to those alliances.

Q139 **Martin Docherty-Hughes:** We have been over it a bit, but I want to talk very briefly about what you both think in terms of the impact of AUKUS on the Quad, the Five Power Defence Arrangements and other existing structures, but also the possibility of trilateral co-operation, for example, that could emerge between France, India and Japan.

Professor Kotani: In Japan, we have been discussing how to best mix the existing frameworks in the Indo-Pacific to promote our own security interests. The Quad is becoming one of the main pillars in addition to the US-Japan alliance. We are seeking some co-operation with Five Eyes. We are also looking at other triangles. We are very interested in the triangle between France, India and Australia or Indonesia. We are closely monitoring those emerging frameworks, particularly trilaterals. The basic trend in this region is that we will see more emerging frameworks. AUKUS is one of them, but we need more functional frameworks for many different objectives. We do not see any one framework that can resolve everything, so we need more frameworks for each—*[Inaudible.]*

Christopher Pyne: Professor Kotani's phrase "functional frameworks" is a starting point. These pieces of architecture are not mutually exclusive, and they all have an important role to play, whether it is the Southeast Asia Treaty Organization, the Quadrilateral, now AUKUS, ASEAN or the Trans-Pacific Partnership. All of these different mechanisms are about bringing people together and understanding each other, and we should include China in as many of those if possible, especially ones that it wants to be involved with and to make a positive contribution to.



Five Eyes is a great example. It has become a model in south-east Asia for Our Eyes, where Malaysia, Singapore, Indonesia and Brunei are working together on the exchange of intelligence that they have gathered to monitor internal terrorist cells and to protect their national interests in a wider sense. That is one example. Australia and New Zealand are assisting them as Five Eyes nations with the kinds of capabilities that they need to have a functional framework.

Q140 Martin Docherty-Hughes: Sorry to interrupt, but I am just conscious of time. The professor mentioned India briefly, but you have not so far. China is a dominant power in the region at the moment, but give it 30 years and India will probably dominate China. I am just wondering if there is anything in terms of the security, military and co-operation aspect that I mentioned in my question about India's role in the Indo-Pacific region.

Christopher Pyne: We do not want anyone to dominate anybody in the Indo-Pacific. We want the United States to maintain its interest in the Indo-Pacific and to continue to pivot sensibly and in a functional way to the Indo-Pacific. India has, until recently—recently being the last 10 years—stood slightly apart from the rest of the Indo-Pacific. Things have changed, however, and India is now much more engaged in organisations like ASEAN, for example, which Australia has been involved in from its inception. India has a significant military exercise called Exercise Malabar, which Australia was in and then out of after the previous Labour Government exited the Quadrilateral. We are now back in it again.

India is a very significant military and economic power in the region. Since its independence from Britain, India's interests and focus appear to have been on its neighbours—Pakistan is the most obvious example, and you can understand that—and on feeding, clothing and providing employment and housing for a billion-plus people. It has had a lot of distractions from being a local military power in the Indo-Pacific, but we very much welcome its engagement with the Quadrilateral and want it to be more engaged in the Indo-Pacific, not as a dominant force but as a balancing nation, along with Japan, South Korea, Australia and the US. That is the role that it sees for itself as well.

Q141 Derek Twigg: Following on from my question before, in order to be an effective partner, do you believe that the Royal Navy has a good understanding of the local issues and challenges, and of the logistics of operating in the Indo-Pacific?

Professor Kotani: Of course, we have our own problems in this region. The Indo-Pacific is very big. In north-east Asia, south-east Asia, the South Pacific and south Asia, we have different issues and there are lots of existing sensitivities, so it is better for the Royal Navy to understand local issues. You also need partners in this region in addition to either Singapore or Australia. For example, Japan can provide the Royal Navy certain capabilities for maintenance and repair. You first need to



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understand local issues but you can also expand your partnerships in this region.

Q142 **Derek Twigg:** Do you believe that the Royal Navy understands local issues or could more be done by the Royal Navy to improve its understanding?

Professor Kotani: I do not know.

Christopher Pyne: It is not for me to speak on behalf of the Royal Navy's capabilities. I would say that the Royal Navy has had the good fortune to be close to a country like Australia, which provides the UK with extremely good on-the-ground knowledge about the Indo-Pacific. It is probably also fair to say that, after Britain exited Hong Kong, there has been a hiatus period when Britain has been less engaged in the Indo-Pacific and has had significant involvements, understandably, in places like Afghanistan and Iraq. So have we, but Britain even more so.

That is one of the reasons we have welcomed the carrier strike group visiting the Indo-Pacific, because it resets, in some respects, the view of Britain in the region that Britain does see itself as having interests in the Indo-Pacific. It is obvious that France does, because France has territory in the Indo-Pacific. As Martin said, it has citizens and military capability. That is one of the reasons we welcome that carrier strike group's visit.

From all of my dealings with the Ministry of Defence and your Secretaries of State of Defence, their knowledge of and interest in the Indo-Pacific is second to none. They have great knowledge of it. I still think that Australia has not been forgotten in Great Britain, not least at times when we play our tests, and we have another one coming up. We are very much aligned in so many respects. You have always been able to fall back on Australia for local knowledge. The more that the UK is engaged, the better, because it means that we all gather more intelligence and knowledge. I am sure that the Royal Navy would welcome sending its vessels into the Indo-Pacific.

Q143 **Martin Docherty-Hughes:** I am afraid that, as a Scotsman, I will not be taking any questions about cricket, because I do not have a clue about it. In terms of the Australian national shipbuilding plan and your work on it, can you tell us anything about how the Australian shipbuilding industry can learn from the UK, and vice versa? How can the shipbuilding plan be adapted to allow for new decisions on submarines under AUKUS?

Christopher Pyne: The naval shipbuilding plan was developed when I was Minister for Defence Industry, because of the significant build-up of our military capability, which is the largest since the second world war and the largest in our peacetime history, worth about 270 billion Australian dollars now, or about 205 billion Australian dollars then, over 10 years. The largest component of that is naval vessels, and that takes us to about 2.1% of GDP being spent on defence. One of the few things



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on which I agreed with President Trump was that he wanted to have allies, not protectorates, and Australians have rallied to that cause.

The largest component of it when it was 200 billion Australian dollars, which was about 90 billion Australian dollars, was naval vessels, so we thought it was important to have a naval shipbuilding plan that would be easily followed by industry, primes, state and territory Governments, the Department of Defence in terms of the bureaucracy, the Australian Defence Force and overseas countries like Britain, so that everyone could study the plan and see a very clear framework for how we are going to spend that money.

Q144 **Martin Docherty-Hughes:** You were talking about Ministries. In terms of the industry, for example, the practicalities in Australia of building a vessel will clearly be very different if you are, for example, in the north-east of England, in the North Sea, or on the west coast of Scotland, in the North Atlantic. Is Australia still building ships out in the open or do you use sheds for construction? I would imagine that the weather is far better where you are than it is for us. The reason I ask that is that, if, for example, you are taking 40 hours in your plan to weld bulkheads together, it is going to be 80 hours in the north-east of England and in the west of Scotland, because the weather is so atrocious during the year that you are going to have to down tools and do something else. In terms of your national shipbuilding plan, are big sheds for internal and interior work a major decision that you have made?

Christopher Pyne: I am sorry, but I did not realise that you wanted to be so granular about the practical aspects.

Martin Docherty-Hughes: I ask because it has a huge impact on the procurement and costs of shipbuilding in the UK that you might not need to suffer in that sense.

Christopher Pyne: Under the Abbott Government, we decided that we would have two centres for shipbuilding: small ships at Henderson, Perth, and big ships at Osborne, Adelaide. That meant the closure of a very large shipyard in Melbourne, and much less, if any, naval work going to some of the smaller shipyards up and down the east coast. We did that because the policy over the previous several decades had been to share out, in a not very scientific way, work among many shipyards. That was unsustainable and meant that we were probably paying a lot more than we should have, and we were not building the economies of scale that you can if you focus on a couple of shipyards.

We announced that the 12 offshore patrol vessels, which are about the size of a corvette, would be begun in Adelaide and then move to Henderson, which has happened, and that the nine anti-submarine warfare frigates, the three air-warfare destroyers and the 12, now eight, submarines would be built at Osborne. We call them the combatants. The non-combatant vessels are built in Western Australia. They align with large vessels and small vessels.



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That meant very significant—billions of dollars—infrastructure building in Henderson and particularly in Osborne, because Osborne was where we had built the Collins class submarine, and where we maintain and sustain it and do full-cycle docking. That has led to a complete rebuild of the Osborne shipyard.

Q145 Martin Docherty-Hughes: Does that mean that both the submarines and ships in the major shipyard at Osborne are built inside a shed and not outside?

Christopher Pyne: That is right. We have built sheds that are bigger than the football stadiums that we have for our AFL. Cricket and AFL are played at the same place. They are all built in sheds, like an old-fashioned production line. They move around and then pop out at the other end, with submarine and ship lifts at Osborne, and ship lifts at Henderson. There has been a massive spend on sheds. They were always built in sheds, but they were sheds of a different scale. Now they are massive, which is great, and has added to the industry aspect of the defence industry policy. Is that what you wanted to know?

Q146 Martin Docherty-Hughes: That maybe teaches everyone in the UK a lesson, where it rains more than it is sunny, when you are building ships. Thank you.

Christopher Pyne: I see. I did not know where you were leading me, but I have answered the question honestly.

Martin Docherty-Hughes: It costs a lot of money to build ships in the rain, let me tell you.

Christopher Pyne: We do not build our ships in the rain.

Q147 Mrs Lewell-Buck: Good afternoon. My question is similar to my colleague Martin's, but directed at Professor Kotani. Our shipbuilding strategy is due a refresh. As you will know, your navy can build two destroyers in three years, yet we have to wait 10 years to get our first Type 26. Where are we going wrong and what can we learn from Japan to incorporate into our strategy refresh?

Professor Kotani: Frankly speaking, I am not that familiar with shipbuilding issues, but what I hear from my friends in the shipbuilding industry is that, whenever we build our warships, we begin with detailed planning at the design stage. We also make a very detailed preparation, with occasional reviews. Our shipbuilders maintain very good communications with suppliers. As a whole, we can build our major ships within four or five years and always meet the deadline. That is all I can say.

Q148 Mrs Lewell-Buck: Is there anything that the Japanese shipbuilding industry can learn from us in the UK?

Professor Kotani: I am not sure whether there is good advice but my sense is that the Government, the Navy, shipbuilders and suppliers



always have a sense of teamwork and know that the system needs to be effective. That is something that they have in common. It is basically teamwork.

Q149 Mr Francois: Chris, as you quite rightly corrected me, the Hunter class had been built at Osborne. You had some involvement in the decision. Could you give us some idea of why you went for the Type 26 Hunter class as opposed to some of the other options that were available? Clearly, this was a much sought-after contract, and a number of shipbuilders around the world were competing. Why did the Hunter win in Australia's eyes?

Christopher Pyne: That is a good question. Before I answer that, I hope you do not mind if I just add something to Emma's question that she asked Professor Kotani. The lesson we learned in Australia was on two things. First, we needed to have a continuous ship build with a regular drumbeat of ships. We had had a start-stop approach to procurement of major platforms, which meant that we would finish a programme without having committed to the next platform and, therefore, the skills base and our knowledge and capability for design and build would dissipate. That is why we now have a 50-year pipeline of air-warfare destroyers, offshore patrol vessels, anti-submarine-warfare frigates and submarines. By then, we will probably have decided to start the process again. A continuous ship build is critical.

What you do not do in Britain, but we have tried to do here, is to have competition. We do not have one Government shipbuilder or company that does all the Government work. I was around when Sir John Parker did his review of your system of shipbuilding. We tried to have competition, because it increases competitive tension, which is good for the consumer—the consumer, in this case, being the Government.

On the Type 26, I cannot give you chapter and verse on the assessment that was made, but the choices were between Fincantieri's FREMM model, the Navantia anti-submarine warfare frigate, which is the F100, and the Type 26. I chose the Type 26 on the advice of the Department of Defence, which was that we would be able to shape the Type 26 because it was a new design and a new vessel.

The Navantia offering would require substantial alterations to become an anti-submarine warfare frigate, because it was not designed to be for anti-submarine warfare. The Fincantieri vessel did not have enough space for growth in terms of weaponry and other capabilities, because it was not a new vessel. It is a very capable vessel but has been in existence for some time, as you probably know.

The Navantia needed a lot of change; the Fincantieri offering did not give us enough headroom for future growth; and the Type 26 was one that we could shape more. It had cut steel at the time when we chose it, but it was a very new vessel, the newest anti-submarine-warfare vessel in the world; we could help shape what our needs were; and it gave us all the



headroom that we needed. In fact, that has been the case, as we have been changing capability needs, and it has grown quite substantially in terms of tonnage, even in the last two or three years.

It was not really a consideration, but choosing the Type 26 also has the happy coincidence, since the Canadians have chosen it for their general purpose vessel, that the Canadians, the Australians and the Brits will all be operating a very similar platform. They are three of the Five Eyes countries. If the New Zealanders acquire a frigate like that at some point, I would be surprised if they did not choose the Type 26, but that is a matter for them, of course, and not for me. Now that I am out of it, I can say things like that, but I would be surprised if they did not. There are synergies across the Five Eyes as well.

Q150 Mr Francois: I cannot prejudice the New Zealand decision any more than you can, but if they were to do that we would very much welcome that. It would be turning it almost into a Five Eyes frigate, so that would be good.

Just to follow up quickly, we too in this country have learned the importance of what you described, and Emma and others referred to as a regular drumbeat in shipbuilding. When we have had long breaks in production, it has cost us skill-fade and has led to increases in cost. In that sense, we are very much on the same page as you. It has been a painful lesson for us.

We maintain competition too. For our Type 31 frigate, Babcock won that, as opposed to BAE Systems. How important is it within a national shipbuilding strategy to retain at least some element of competition?

Christopher Pyne: It is very important, but I am a Liberal, so we tend to be in favour of competition and not monolithic Government structures. Competition is important, so that the consumer gets the best value for money and the best product available. Let us not forget—and I am sure that you would not, as the Defence Committee of the UK's House of Commons—that is all about capability.

The jobs, the industry, the economy and the growth are all secondary considerations. If they ever became the first consideration, you would lose the support of the military. The military will support Governments in their procurement policies as long as they are always putting capability first, but I think competition leads to that kind of competitive tension. We now have BAE doing the Hunter class, ASC doing the Collins class life-of-type extension and full-cycle docking, and Lueresen and Cimatec doing the offshore patrol vessels. They are just three examples. That brings about the best outcomes. The problem with monopoly structures is that, economically, it does not tend to work out in the long term.

Mr Francois: Some of us might argue that the competitive pressure within the UK shipbuilding industry has forced shipbuilders like BAE Systems to sharpen their pencil a bit, which, in turn, has led to part of the success of the Type 26. It is also important to get on the record that



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there was a great deal of Government support, with visits from our Ministers to Australia. As I understand it, privately, we really—pardon the pun—pushed the boat out in order to support that deal.

Q151 **John Spellar:** Christopher, could you give us a bit of clarity there? You said that the Western Australian yard was for the smaller vessels and the South Australian yard for the larger ones. Where is the competition?

Christopher Pyne: It is between different providers of different vessels.

Q152 **John Spellar:** Who owns the yards? Is it the Australian Government?

Christopher Pyne: Not in Henderson. The Henderson yard is owned by Lueresen and Cimtec. The Austal yard is owned by Austal. It is true that the taxpayer owns the yard at Osborne—the Australian Naval Infrastructure, which I created. When we started the naval shipbuilding plan, we split ASC, which was owned by the Government, into three.

ASC Shipbuilding became the BAE subsidiary to deliver the Hunter class. ASC submarine does the sustaining, maintenance, full-cycle docking and life-of-type extension on the Collins, and continues to do ship work, like the offshore patrol vessel, until it went to Henderson. The Australian Naval Infrastructure owns the shipyard itself and manages the asset, which is important, because the Government promised the taxpayers of Australia that it would remain in Government hands, so that did happen. There are a number of other private shipyards. Port Macquarie has Birdon, and there are private shipyards in Cairns that also do defence work.

Chair: Thank you very much indeed. That concludes our questions for today. This has been a really informative and constructive session in helping us better understand what is happening in the Indo-Pacific from two of our most important and critical allies in that region. This is an unstable time. It is so important that we are able to advance and work together and to learn from each other, and we have certainly done that today. Thank you to Christopher Pyne from Australia and to Professor Kotani in Japan. We are very grateful for your contributions today. That concludes this Defence Secretary hearing and I will bring it to a close.