

TO THE VICTOR ... -

Industry 'self adjusts' after warship contracts signed

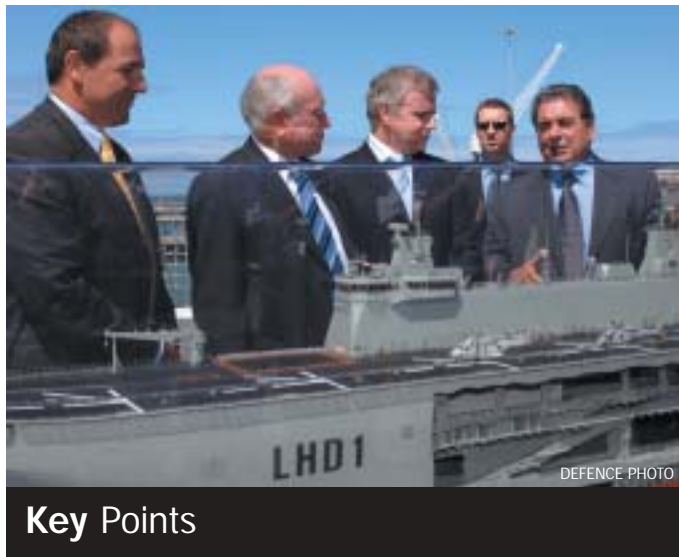
■ Trevor J Thomas/CANBERRA

Representatives of the Commonwealth of Australia (including: Defence Minister Nelson; the Chief of Navy, VAdm Russ Shalders; and CEO of the DMO, Dr Stephen Gumley), Tenix Defence and Spanish-based Navantia signed 9 October contracts for the build phase of the RAN's two new 'Juan Carlos I'-class amphibious ships (Landing ship, Helicopter & Dock - LHDs), onboard HMAS 'Kanimbla' at Tenix's Williamstown Dockyard, in Melbourne, Victoria.

Tenix Defence (in partnership with Navantia) were selected 20 June by the Government to provide a version of the Spanish Armada's Buque de Proyeccion Estrategica (BPE) design as the basis for Australia's LHDs to be acquired for "approximately \$3 billion" under phases 4A/4B of Joint Project 2048. The two ships are to be substantively constructed at Navantia's Ferrol (Spain) facility, and then transported to Australia, where a locally constructed superstructure will then be incorporated and integrated with each flat-top at Williamstown, for estimated cost of \$500-800m.

At the time of design selection, Defence Minister Nelson described the JP 2048 decision as representing a "bonanza for Australian contractors." He said "more than 1000 contractors with 3,500 new jobs throughout this country will benefit from this, not only in South Australia and Victoria, but - between the LHD and air warfare destroyer projects - at least \$300m in work will go to NSW. There will also be at least another \$250m of work in the state of Queensland, close to \$75m work up for grabs in southern Tasmania and (inaudible) in the state of Western Australia."

Cabinet chose Tenix/Navantia's baseline Option 2 for



Key Points

- **Prior to calling of the Federal election**, the government moved to lock-in the future substantive force structure of the Royal Australian Navy by signing construction contracts for both new air warfare destroyers, and amphibious ships.
- **Contracts were signed 9 October** with Tenix Defence and Spanish-based Navantia to build two new 'Juan Carlos I'-class landing ships-helicopter & dock, onboard HMAS 'Kanimbla' at Tenix's Williamstown (Melbourne) dockyard.
- **The amphibious ships contract signing was surrounded** by controversy given that the previous day, media had speculated Tenix would shortly put its infrastructure and defence assets up for sale to new investors.
- **The AWD Alliance contract - along with a supporting** design contract from key technology supplier, Navanta - were signed in Adelaide on 4 October 2007.

the two new LHDs, which will basically see the majority (Zones 1-7) of each vessel built in Spain, with construction of the superstructure (Zone 8) and systems integration being done by Tenix, at Williamstown. All platform equipment (except combat & communications) for Zones 1-7 will be procured by Navantia, whilst bulk materials and consumables (termed 'Category C' items) for Zone 8, will be procured by Tenix Marine.

Through Life Support for the two LHDs (which will be homeported in Sydney), was not included in the LHD acquisition contract, and will therefore be subsequently tendered.

Adelaide-based Saab Systems will supply the company's 9LV Combat Management System (CMS) for the two amphibious ships, a system already developed for the 'Anzac'-class frigates and currently being enhanced as part of the project Sea 1448 'Anzac' Anti-Ship Missile Defence upgrade. While the scope of the subject LHD work is yet to be finalised, Saab management has publicly stated it expects to hire about twenty new personnel in a variety of engineering areas as a result of the contract, meaning a total of 75 people will be engaged in the CMS endeavour.

An Industry Capability Network Victoria & Tenix Pty Ltd

proposal to enhance Australian industry participation in the LHD project was confirmed 12 October as one (of six) proposals to share \$1.1 million in funding under the Federal Government's 'Supplier Access to Major Projects' (SAMP) program, which is designed to boost opportunities for Australian industry participation in major ventures. According to Federal Industry Minister, Ian Macfarlane, "since 1997, SAMP has helped Australian companies win contracts worth more than \$1.7 billion for work which might have otherwise gone to overseas competitors."

More intriguing than the LHD contract signing, however, was an official Tenix Pty Limited statement 8 October confirming media speculation of its intention to offer to interested parties participation in the ownership of its defence and infrastructure businesses, as part of the next generation of growth and development. How the Government could on one day sign up to a \$3 billion LHD acquisition, whilst on the previous day the winning contractor announced it would not probably be around to assure final delivery on-time, within budget, and to the specified capability, was never officially explained.

Assuming the question was asked during the contract signing event at Williamstown, the necessary public visibility of the answer has also been lost in history due to an alleged malfunction of the sound recording device used by a Ministerial staffer. Public visibility of the event was also unusually denied due to the Department of Defence leaving the issuing of a media advisory to specialist defence media in Canberra to 8.48am on the day of the contract signing, and advising they needed to assemble at Endeavour House (Williamstown) at 11.15am on the same day.

Tenix Chairman, Paul Salteri, confirmed 8 October a recent "internal review process to determine the strategic direction of the businesses" had focussed on positioning Tenix for future growth, in particular, concentrating on defence and infrastructure services. The review, he said, had

found that "future growth opportunities and value creation will be superior when combined with the operations, scale and market strengths of leading companies with a global focus in these sectors." In short, Tenix, just boosted by a \$500-800m cash flow over the coming seven years, is now being put up for sale.

Confirming the appointment of UBS as financial adviser, Tenix Group MD & CEO, Greg Hayes, stated "considerable interest has been shown by multiple parties in participating in the growth of Tenix's defence and infrastructure businesses, and it is expected this interest will result in a positive outcome ... the time is right for us to evaluate the ownership structure of our defence and infrastructure businesses to position them for continued success. The ongoing involvement from the existing shareholders will be determined after all the proposals have been examined."

ADBR reported in May that following its exclusion from bidding into the \$8 billion project Sea 4000 air warfare destroyer (AWDs) design and build program, a Tenix Group re-structuring had seen the separate establishment of Tenix Marine - prospectively paving the way for the company to either sell out of its defence businesses altogether, or restructure its operations in order to bid for the sale of ASC Pty Ltd, the Government-owned company charged with through life support of the 'Collins'-class submarines, and also selected to build the three new AWDs.

Protracted negotiations in regard to the building of Australia's new fleet of three AF-100 Air

Warfare Destroyers (AWDs) were concluded 4 October in Adelaide, with the signing of a three-way Alliance Based Target Incentive Agreement to govern the \$8 billion project between: the Defence Materiel Organisation (as deliverer); ASC AWD Shipbuilder Pty Ltd (as ship constructor); and Raytheon Australia Pty Ltd (as AWD mission systems integrator).

A second - Platform System Design contract - was also signed in Adelaide between the Commonwealth (as customer) and Navantia SA (as intellectual property supplier) for the chosen F-100 AWD design - which will see the RAN's 'Hobart'-class destroyers based on the upgraded F-105 (or F-100 Flight 2) design, and featuring a larger hangar and extra provision for fuel carriage. The RAN is also proposing to modify the ship's superstructure to carry an horizon search radar which is not included on Spanish Armada ships.

Navantia's Euros 285m contract is said to include: the transfer of technology relating to the three destroyers; the provision of technical assistance to ASC's shipyard in Adelaide; and the provision of certain specific equipment, such as the platform control system, engines and turbines. The Commonwealth has previously contracted with Lockheed Martin for supply of the 'Aegis' Combat System, which is further governed by a separate agreement between the Australian and United States Governments (including the US Navy).

As previously canvassed in ADBR, the Sea 4000 (Phase 3) AWD contract specifies the first of the destroyers will be delivered in late-2014, followed by the sec-

ond and third ships in early-2016 and mid-2017 respectively. Defence Minister Nelson told media at the contract signing "obviously, we have kept the option open ... of seeing a fourth destroyer being built ... but we'd be talking about \$1.5 billion ... and we've got to make sure the ink dries on the contracts we have just signed."

Dr Nelson added that because of considerations relating to the longevity of the Lockheed Martin 'Aegis' combat system production line - noting the Government had originally argued the need to commit to an early contract to secure long lead 'Aegis' components due to its potential closure following the satisfaction of US Navy requirements in 2010 - "we will need to make a decision (on the 4th AWD) before the end of next year." The Minister also confirmed expectations that ASC Pty Ltd "will go to sale some time next year."

ASC Pty Ltd announced 17 October that for the 2006/07 financial year it had achieved net earnings of \$29.6m, the company's biggest profit in 14 years. ASC Managing Director, Greg Tunny, attributed the 60% increase in profit to achieving unprecedented levels of efficiency and effectiveness in the company's principal activity of maintaining the Royal Australian Navy's (RAN) fleet of six 'Collins'-class submarines.

Tunny added, "we achieved 20% growth in revenue to \$312.4m (\$260.9m in 2005/06) primarily as a result of obtaining record incentive payments under the submarine through-life support contract." The company also paid a fully-franked dividend of \$17.8m

to the Commonwealth of Australia (the company's 100% owner), which was also a 60% increase on the \$11.1m paid in 2005/06. The annual report notes that further efficiencies are due to come on line in late-2008 when it undertakes its first major submarine maintenance activity at its new \$35m site at the Australian Marine Complex (AMC) Common User Facility (CUF) in (WA).

To this effect, former WA-based Geraldton Boat Builders (now re-badged as Strategic Marine) won the \$65m contract to build the floating dock for the AMC-CUF, which is critical to ASC being able to lift 'Collins'-class submarines out of the water and onto a rail transfer system to access its new maintenance facility. The pontoon (or base) of the 99m long, 53m wide submergible dock is being built at Strategic Marine's new 10,000sqm yard in the Dong Xuyen Industrial Zone, Ba-Ria Vung Tau, Vietnam.

The pontoon will then be shipped to Australia for integration with the sidewalls, machinery, electronics and ballasting systems at the AMC-CUF. The Australian component will involve over 1,000 tonnes of structural steel work, estimated to cost 60% of the contract value.

The new floating dock will be able to lift 12,000 tonne vessels from the water for refit, and transfer 3,500 tonne vessels to the CUF's hardstands. Strategic Marine's new globalised shipbuilding strategy, with yards in Singapore and Vietnam, has seen them earn a huge backlog of orders with 124 vessels, valued at \$245m, including a second 143m-long Dive Support Vessel sitting on the books. ADBR

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One example of this approach was the use of UBIEDs to destroy an Israeli 'Merkava' Mk.2 at the start of the Israel-Hezbollah 2006 'Summer War'. Hezbollah is said to have launched an operation to kidnap Israeli soldiers, and anticipating likely Israeli response routes, seeded such routes with UBIEDs. Rapidly responding in order to recapture the kidnapped soldiers, at least one 'Merkava' was destroyed, thus frustrating the Israeli recovery effort, whilst prompting a need for additional Israeli units to be deployed to rescue surviving tank crew.

As such, the active employment of UBIEDs by insurgents to counter coalition military responses to pre-planned insurgent operations must now be considered as highly likely in the future. Whilst the use of flexible routes might cut down on UBIED attacks against routine coalition road usage, the wider employment of pre-meditated ambush tac-

tics has potential to turn every Coalition response into a potential catastrophe. Despite Coalition ISR superiority, the initiative essentially lies with the offensive insurgent against the defensive security force, no matter how aggressive the latter may be.

Twenty-six (at time of writing) of the twenty-nine Canadian Forces soldiers killed in the last six months in Afghanistan (located in Kandahar province, just south of the Australian Provincial Reconstruction Team in Oruzgan) - Canada has lost 71 personnel in total - have been the victims of UBIED attacks. The effect of these casualties has raised serious political questions within Canada about sustaining its force in Afghanistan beyond the current February 2009 mandate (see story page 23).

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