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## An Update on Naval Group



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<b><u>NAVAL GROUP REPORTS ON ITS ANNUAL EARNINGS: HERVÉ GUILLOU'S LAST APPEARANCE AT THE ANNUAL EVENT</u></b>	<b>3</b>
<b><u>'PEP' TALK AT NAVAL GROUP</u></b>	<b>6</b>
FIGHTING FOR THE SURVIVAL OF EUROPEAN MILITARY NAVAL CAPABILITIES	6
'PEP' BECOMES THE NEW CEO	7
<b><u>FRENCH NAVAL GROUP CHANGES CEO'S: A CHANGE OF DIRECTION?</u></b>	<b>9</b>
<b><u>FRENCH NAVAL GROUP AND THE GREEK NAVY: BUILDING OUT THE FDI FRIGATE</u></b>	<b>12</b>
<b><u>FINCANTIERI AND NAVAL GROUP MOVE FORWARD ON COOPERATION: THE POSEIDON PROJECT</u></b>	<b>15</b>
<b><u>FRENCH NAVAL GROUP AND THE AUSTRALIANS: WORKING THE CULTURAL CHALLENGES</u></b>	<b>17</b>
RESHAPING A WORK CULTURE	17
AUSTRALIAN BARBECUE AS CULTURAL SIGNIFIER	18
PREPARING FRENCH STAFF	18
CULTURAL PLAY OF THREE NATIONS	19
CURRENT FRENCH SUBMARINE BUILDING APPROACH	20
<b><u>DESIGNING AND BUILDING THE BARRAMUNDI SUBMARINE: IS NAVAL GROUP UP TO THE CHALLENGE?</u></b>	<b>21</b>
<b><u>SHOULD AUSTRALIA MOVE ON FROM THE NAVAL GROUP DEAL TO BUILD NEW ATTACK SUBMARINES?</u></b>	<b>23</b>

# Naval Group Reports on Its Annual Earnings: Hervé Guillou's Last Appearance at the Annual Event

02/22/2020

By Pierre Tran

NG reported a six percent rise in 2019 net attributable profit to €188 million (\$204 million) from a year ago, on sales of €3.7 billion, up three percent.

Operating profit rose six percent to €282 million, with an operating profit margin of 7.6 percent of sales, up 0.2 percentage points.

The company won orders worth €5.3 billion, up 44 percent, bringing the order book to €15 billion, up nine percent.

The orders were boosted by a joint order for 12 minehunters from Belgium and the Netherlands. NG seeks a sale of the minehunters to France.

The book-to-bill ratio, or ratio of orders to sales, was 1.4.

NG has €1.2 billion in shareholders equity, and invested €480 million of own funds for research and development.

Export deals accounted for 38 percent of 2019 orders, and accounted for 29 percent of sales.

Those exports are needed to maintain NG between domestic orders for warships, submarines and service, said Hervé Guillou, executive chairman of the French shipbuilder, who gave a broad review of the company's financial progress, programs, and employees over the last five years, a period covering the second term of his stewardship.

One of the financial oddities was France covering the cost of building two Mistral helicopter carriers for Russia but only after NG's pursuit of the finance ministry for payment, after Paris cancelled the controversial sale to Moscow.

## Main consolidated data

<i>(in millions of euros, IFRS standards)</i>	2019	2018	Variation
Order intake	5,306	3,686	+44%
Order book	15,062	13,830	+9%
Sales	3,712	3,608	+3%
EBITA[1]	282.0	265.9	+6%
<i>Operating profit (EBITA/sales) in %</i>	7.6%	7.4%	+0.2 pt
Consolidated net income – group share	188.2	178.2	+6%

**[1]** Earnings before interest, tax and amortisation

However, the company was unable to recover an estimated €100 million of profit from the ministry, an executive said.

Egypt, which later bought those helicopter carriers, is considering buying two multimission frigates from Italy, in a €1.2 billion deal which would thwart DN's offer of two Gowind corvettes, website La Tribune has reported.

Cairo's reported preference for a warship deal with Rome stems from French president Emmanuel Macron's call for human rights during a visit to Egypt last year.

DN continues its sales effort to Egypt, until a sale to Italy is completed, a second executive said.

### **And Guillou addressed the issue of Naval Group's Australian engagement as well.**

Naval Group is looking for strong local participation in Australia's plans to build a fleet of attack submarines, contrary to Australian media reports, Hervé Guillou, said Feb. 21 at the Press Conference.

Australian media reports on NG's lack of support for local industry were "groundless" and marked by "spitefulness," he told a news conference on Naval Group's 2019 financial results, effectively his media swan song before he takes his retirement March 24.

Guillou was commenting on a Feb. 12 report in The Australian, a daily newspaper, based on an interview with John Davis, chief executive of Naval Group's Australian unit.

That report pointed up what NG saw as a shortage of local capability in building the 12-strong submarine fleet and a lack of commitment to assign half the work to Australian firms.

The remarks by the NG senior executive were “reported out of context,” Guillou said.

The new boats will have more local content than the Collins submarines, which have some 60 percent of Australian content, he said. There will be extensive transfer of technology, in a long and complex program backed by Australian industrial associations and the government.

Australia and Naval Group made a Feb. 13 joint statement pointing up cooperation with local industry, he said.

“Sovereign control over the Attack class submarine fleet and maximising Australian industry involvement throughout all phases of the Attack class submarine program are contracted objectives in the Strategic Partnering Agreement between Defence and Naval Group,” the Australian department of defence and NG said in the statement.

More than 137 local companies and associations have signed up as subcontractors on the present preliminary design phase, and that list would be extended, the statement said.

No value was given on those contracts. Naval Group receives payment in stages, as the company completes a phase in the design work. Building the submarine is due to start in 2023 in the Adelaide shipyard, southern Australia.

Such was the impact of the media report, the Australian and French defense ministers, respectively Lindsay Reynolds and Florence Parly, made a Feb. 14 statement which underlined a commitment to Australian industry.

“Today we have reviewed the implementation of the Strategic Partnering Agreement that underpins Australia’s Future Submarine Program,” the ministers said.

“Both of us reaffirmed our full commitment to the program, in particular with respect to schedule and Australian industry capacity.”

There will be a ministerial assessment of the project every three months this year, with the first meeting in France in April and the following mid-year meeting in Australia, the ministers said.

“We acknowledge the Future Submarine Program is key for both our countries and our strategic partnership.

“We are committed to work together to make it a success,” the ministers said.

The ministers met at the high-level Munich security council.

# ‘PEP’ Talk at Naval Group

2/24/20

By Murielle Delaporte

French Naval Group, one of the key European military shipbuilders, recently announced that its Hervé Guillou, CEO of Naval Group since 2014 is retiring. This is a key event within the world of military shipbuilding and competition, as Naval Group is a key player in the world of naval exports, a world where the Chinese and Russians have grown significantly in the past decade.

## Fighting for the survival of European military naval capabilities

“The game to win” is rather simple: no less than the very survival of European military naval capabilities is what it is all about in a market which has been undergoing a revolutionary shift in recent years. Not so long ago, the market was dominated by European players. Germany and France were indeed leaders on the global military ship export market holding respectively 40 % and 24 % of its total value according to a 2005 Rand Corporation report. Today, in 2020, China and Russia are number one and number two in military shipbuilding with a production rate second to none: China builds one frigate per month and one submarine per quarter, while Russia currently enjoys a 17% growth rate in that field.

The reason for such a leap in capabilities and increasingly in export market share has to do with the consolidation of domestic industries, says Hervé Guillou, CEO of Naval Group since 2014 and currently on his way out. “Whereas Chinese, Russian or Korean shipbuilders merged into sole entities - - South Korea just created a new champion by merging last month Daewoo and Hyundai -- whereas only two companies have been sharing the US market for a long time, Europe is since 2018 more divided than ever with no less than twelve players. (...) The Swedes and the Germans have divorced; the Germans are spread in three different entities and we separated from the Spanish. (...)”

When the Brazilian Navy recently proposed a bid for the acquisition of only four corvettes, twenty-two candidates showed up..., “Guillou told the French Senate Commission on Economic Affairs on January 27th. Warning that the naval shipbuilding in Europe could rapidly experience the same fate as the high-speed train industry, he recalled that the latter was built by four major European companies thirty years ago, which are today gone or way behind (in seventh position to) the Chinese, Korean and Japanese groups...

Indeed, the comparison with the high-speed train industry is a good one. The European Commission must soon decide (by April 17th) whether or not the acquisition of the French state’s share of” Chantiers de l’Atlantique “-- of which Naval group owns 12 % -- by the Italian Fincantieri respects Brussels’ anti-trust and competition laws. The same laws which, about a year ago, actually and unfortunately prevailed against the creation of a European rail champion much more capable to compete against the Asians.

Such a consolidation and battle against fratricidal wars have been the rallying call of Hervé Guillou ever since he became Naval Group’s CEO, for the simple reason that Europe needs to export about 40 to 60% of its military shipbuilding production in order to be able to sustain production for its own

navies. Because the European military naval domestic market represents only about 30% of the Chinese and U.S. ones and about 50% of the Russian one, without exports it would be the end of a certain kind of sovereignty in naval capabilities. A sovereignty allowing the French Navy to be present on five seas and ranking second behind the U.S. Navy in terms of the spectrum of capabilities, know-how and power projection it can display globally at any time.

A cooperation and interoperability valued in current operations such as Operation Inherent resolve against Daesh, which the French aeronaval group (GAN or "Groupe aéronaval") has been supporting from the outset. Indeed, "Mission Foch" has just started on January 21st with the Charles de Gaulle and the GAN leaving Toulon for the Eastern Med.

Maintaining the right skills and the right amount of skills in the military is intrinsically linked to the same challenges industries face today as the temptation to go "Chinese" is omnipresent (on the commercial side of shipbuilding. For example, Fincantieri is teaming up with China to build ocean liners in China. Hervé Guillou has been focused on how best to meet this challenge throughout his mandate as CEO.

In his Senate testimony, he highlighted the challenge of managing Naval Group: "It is a 400-year-old company covering 400 different skills. "But in spite of his success in managing CEO, he must leave because of the imposed age limit of 65. But his success is measurable: a 25% growth rate over the past four years, a 7.5% profitability rate, a 3.7 billion euros turnover with major gains in operational performance characterized by a diminution of shipbuilding time for frigates from 75 to 42 months and for corvettes from 65 to 29 months, etc.

## 'PEP' Becomes the New CEO

The Cambridge dictionary defines a "pep talk" as "a short speech intended to encourage people to work harder or try to win a game or competition." This is exactly what is at stake beyond the current discussion about the change of CEO at the head of the leading European military naval industry, i.e. Naval Group.

« PEP », a.k.a. Pierre Eric Pommelet, is coming from Thales where he is the number 2 in the company, and is the French government's selected successor to Hervé Guillou, who should normally be confirmed with a Presidential decree expected sometime in March.

If you thought navigating European industrial logics is complicated, try sorting out what is going on in each one of the twenty-seven EU member states!

In the case of the ties between Naval Group and Thales, what is interesting is that the 2007 sealed partnership between the two companies (Thales owning 35% of Naval Group's shares since 2011) could be described as a typical love-hate relationship, in which Thales sometimes chose to team up with another competitor to respond to a common bid. Hence, there is a certain nervousness among some French trade unions who perceive the supplier more as an enemy than an ally.

And hence the reassurance campaign which occurred last week to help differentiate the man from the company for which he is number two, while stressing his qualities as a true "man of the sea".

The new 55-year old CEO will have significant challenges to meet in the five years he will lead Naval Group (with the possibility of another five year mandate but no more as the French state has rejected the possibility of being CEO past 65) into the "Reconquest roadmap 2019-2028" set by his predecessor.

That legacy can be summed up along three axes:

First, there is the challenge of fulfilling in a timely and cost effective manner the backlog orders by the French ministry of the armed forces which include new smaller and better protected Frigates (FDI for "Fregates de défense et d'intervention"), 3rd generation nuclear submarines (SNLE 3G for "Sous-marins nucléaires lanceur d'engin de 3ème génération"), as well as the future successor of the aircraft carrier Charles de Gaulle (PA2 for "Porte-avions 2").

Second, there is the challenge of managing and sustaining a diversified strategy of exports and ensuring a strong international presence. Guillou estimates that the return on investment of exports is worth about 400 million euros a year in terms of purchasing power for the French Navy (in other words, and as an example, a French frigate only costs 750 million euros compared to 1 billion for a German one thanks to the exports).

Guillou succeeded to shape an impressive portfolio of new customers (India, Malaysia, Romania, etc.), the key one being Australia with the "Contract of the Century" which is focused on co-developing twelve new submarines for the Royal Australian Navy in a brand-new facility currently being built in Adelaide. The co-development is focused on building a short-fin Barracuda, conventionally powered attack submarine, which is a derivative of the nuclear Barracuda attack submarine being built for the French navy. This contract is considered by many observers as the key to success for Naval Group not only for exports, but for French and Australian sovereignties in this key area of naval warfare.

Third, the Australian relationship highlights the third challenge which is to drive continuing innovation, which has been a trademark of the Guillou's years. Innovations in digital shipbuilding are a key path ahead, which the Franco-Australian working relationship will highlight as part of the innovation push in the years ahead. And the innovation challenge is accelerating. According to Naval Group, where you once needed two cycles of technology, you will need five to seven to be able to compete in the naval military business. Tripling R &D in order to succeed and keeping going full speed on new technologies (renewable energies, 3D printing, C2 innovations) are part of Guillou's legacy being passed to Pommelet.

With exports abroad, and co-development with the Australians, there is also a need for enhanced European collaboration as well to ensure an effective way ahead. The tripling of R &D cannot be done without a strong European base and coordination to avoid redundancies and to enhance a healthy burden sharing among nations. This was indeed one of the main motivations behind the joint venture Naviris initiated between Naval Group and Fincantieri by Guillou and his Italian counterpart Giuseppe Bono and which administrative board just held its first meeting on January 13th. Making sure this joint venture, which was in fact strongly opposed by Thales and Leonardo by fear of strengthening one against the other, does not remain an empty shell and bring to life new projects such as the future European corvette should also be high on the agenda of Pommelet.

And this occurring within the Brexit European environment. The new Fund for European Defense (FEDef) meant to help develop European autonomy in defense and space is being threatened to be cut



by half (from 13 to 6 billion euros over a 2021-2027 period), in part because of Brexit. But that is another complicated European story.

## **French Naval Group Changes CEO's: A Change of Direction?**

02/03/2020

By Pierre Tran

Paris – The government has picked a senior Thales executive, Pierre-Eric Pommellet, as the next chairman and chief executive of Naval Group (NG), the incumbent top executive Hervé Guillou told parliamentarians.

“The person the state is proposing to succeed me is Pierre-Eric Pommellet,” Guillou told Jan. 28 the economic affairs committee of the French Senate.

The state holds 62.5 percent of NG, while Thales holds 35 percent of the company, which builds warships and submarines.

An NG Feb. 20 board meeting is expected to approve the pick of Pommellet, confirmed by a March 24 shareholders meeting, with the government due to publish the appointment in the Official Journal in March.

Guillou is due to retire in March, when he reaches the statutory retirement age of 65. He took up the post of NG executive chairman in 2014.

Rumors had circulated that Pommellet was in line for the top job, sparking dissent among staff, as NG and Thales have long competed for export deals in the key area of combat management systems for warships.

An appointment of Pommellet would make NG, a company of “national sovereignty,” dependent on Thales, an equipment manufacturer, labor unions UNSA and CFE-CGC said in a Jan. 21 statement. Thales also wielded disproportionately large influence on NG in view of its minority stake, the unions said.

Pommellet “will no longer be number 2 at Thales — he will be 100 percent Naval Group chairman and chief executive,” Guillou told senators. That meant “defending 100 percent the strategic interests of Naval Group,” which might entail conflict with suppliers, competitors, and the French government, he added.

An example of that conflict with the state could be seen in NG’s lobbying the economy and finance ministry for payment of some €100 million, the profit the company had to forego when France cancelled the sale of two Mistral helicopter carriers to Russia in 2015. Paris recalled those warships in the wake of Moscow’s backing of armed secession in eastern Ukraine, and then sold the vessels on to Egypt.

Thales received its stake in NG in a sale of assets to the naval company, in the government's move toward French industrial consolidation. However, Thales insisted on retaining its combat management systems, which compete directly with those built by NG, which prides itself as prime contractor for systems and integrating weapons and sensors on warships.

That French fratricide could be seen in a joint Belgian and Dutch competition for a total 12 minehunters, in which Thales partnered with EDR, Chantiers de l'Atlantique and Socarenam to form the Sea Naval Solutions bidding team.

NG partnered with ECA to form Belgium Naval & Robotics, which won the deal last year. That contract was worth €2.6 billion (\$2.9 billion), Belgian daily L'Echo reported.

It was "stupid" there was such competition inside Europe, said François Lureau of consultancy Euroconsult and former arms procurement chief.

Pommellet is "highly competent, undoubtedly the best qualified," with experience in the naval sector, defense and the DGA," he said, referring the Direction Générale de l'Armement procurement office.

There will, however, continue to be competition on exports of combat systems, the high value and high technology part of a naval contract.

"They can't do otherwise," as much depends on the clients' pick of systems and weapons, he said. There is need for communication between the two companies.

There was another view, with the government looking for a resolution of competition.

"This was not an anodyne move," said Loic Tribot La Spiere, chief executive of think tank Centre d'Etude et Prospective Stratégique. This was the government's attempt to develop synergy and avoid competition.

"This is an attempt to harmonize the export policy," he said.

Guillou has long known of the internal competition for foreign sales. When Guillou was head of the French unit of the then EADS defense and communications division, he pointed up the common practice of finding two French companies bidding in a foreign competition when it was likely there was just one bidder from, say, Germany and the US. That internecine warfare drove down profit margins of French companies.

"He's a really nice guy, he knows the business well, he's respected by Dassault," said an executive who has worked with Pommellet. That number two post at Thales was the "worst job in the world," having to say no to everybody and cutting costs, the executive said. The top job at NG was a "once in a life time" opportunity.

Dassault Aviation holds a 25 percent stake in Thales.

Pommellet hails from Brittany, northwest France, which is proud of its regional character. Those Breton roots may help as NG has shipyards in Lorient and Brest in Brittany.

Faced with NG staff resistance, Pommellet will need to win support.

There is need for a “step-by-step” approach to build confidence, which does not come easily and is not set by decree, Guillou told senators.

Among the candidates for the top job were Alain Guillou, NG executive vice president for international development, and Benoit Ribadeau-Dumas, head of the private office of prime minister Edouard Philippe, an industry source said.

A strategic plan awaits Pommellet when he arrives in the NG head office in the 15th arrondissement, with the priority to meet the French navy’s needs as set out in the multi-year military budget law.

NG is called on to deliver the Barracuda nuclear-powered attack submarine, frigate for defense and intervention, and a third-generation nuclear ballistic missile submarine. There will also be the government’s decision on whether the next aircraft carrier will be nuclear or conventionally powered.

Guillou made clear the importance of exports, which helped cut the cost of design and manufacture of vessels for the French navy by earning money overseas. That pursuit of “competitive cost” delivered a unit price of some €750 million for a French FREMM multimission frigate compared to €1 billion for a German frigate and £1.2 billion for a British frigate, he said.

One of the key export files Pommellet will pick up when he takes the chairman’s office is the €30 billion deal with Australia for 12 diesel-electric submarines, based on the Barracuda.

Guillou sought to play down the severity of a recent report on the Shortfin Barracuda project by the Australian National Audit Office, which noted a five-week delay in entering the systems requirements review, a key phase in the project.

That delay arose from “an evolution in operating requirements”, which required extra study, he said, adding such a short slip in the timetable counted for little in a 25-year program. Guillou was confident NG would deliver the first boat in 2032.

Guillou pointed up what he called “malicious intent” in the media treatment of the audit report, with negative articles appearing promptly in Germany and the Netherlands. The Australian government had replied to the report by saying the delay did not present a problem, he said.

Guillou attributed the hostile response to political pressure in Australia and said he could name the politicians concerned.

European industrial cooperation will be another issue for Pommellet to pursue, following the creation of the Navaris joint venture by NG and its Italian partner Fincantieri.

Navaris will seek cooperation in export efforts, which can cost €10 million-€20 million in a sale campaign, Guillou said. Navaris plans to pitch for the European Patrol Corvette, a project backed by the European Union’s Permanent Structured Cooperation (PESCO).

Navaris is open to other European partners, Guillou said, adding that he had been in Berlin the previous week, looking to interest the Germans but found little interest.

Germany is cooperating with France in the Future Combat Air System and in land systems, so perhaps it was not ready for naval cooperation, he said. Perhaps there would interest in Sweden, he added. “The door is open.”

Guillou offered his assistance once Pommellet took up the post. Pommellet is chief operating officer and chief performance officer at Thales.

## **French Naval Group and the Greek Navy: Building out the FDI Frigate**

10/27/2019

By Pierre Tran

LORIENT, France – The Greek navy chief of staff was foreign guest of honor at the Oct. 24 ceremony of first cutting of steel for the frigate for defense and intervention (FDI), signaling Naval Group’s aim to help close a sale of the new French warship.

Admiral Nikolaos Tsounis sat in the front row, along with his French counterpart Admiral Christophe Prazuck and armed forces minister Florence Parly, as executive chairman Hervé Guillou welcomed guests at the company shipyard in northwest France.

The Greek defense minister, Nikos Panagiotopoulos, and Parly signed a non-binding letter of intention for procurement of two FDI warships, the French minister tweeted Oct. 10.

**France launched the FDI program, worth €3.8 billion (\$4.2 billion), in April 2017, consisting of five frigates for the French navy. That warship, under the brand name of Belharra, will be vital to French efforts to win export sales.**

A determination to help the government-to-government negotiations could be seen in Guillou’s ending his speech in Greek, and Naval Group flying the Greek flag along with flags for France, the European Union and the company.

Naval Group provided transport and accommodation for the press trip, which included four Greek reporters, of which three were for television and one for a weekly magazine.

Guillou welcomed the foreign guests, which included the New Zealand ambassador, and the Polish defense attaché and deputy defense attaché, pointing up the priority set on export deals in a tough world market.

**There are potential sales of at least 40 intermediate frigates around the world, a senior Naval Group executive said in 2016.**

Guillou was in New Zealand Oct. 10 and 11 as chairman of the France-Australia business council, part of the international office of Medef, the French business lobby group. Guillou was co-leader with Thierry Mallet, CEO of Transdev on that trip, which included Australia.

Transdev is a transport company,

The international department of the Direction Générale de l'Armement (DGA) procurement office is leading the negotiations, which include a Greek request for arming the 4,500-ton warship with 16 cruise missiles.

DGA chief Joel Barre was at the ceremony, in which Parly started the automated cutting equipment, which produced the outline of FDI. Parly and Guillou went on to sign the cut out.

The DGA program director for FDI, Gregory, declined Oct. 23 to comment on whether the contract for the first FDI was worth €2 billion, as reported by business website *La Tribune*.

The Greek navy's requirements are expected to lead to a unit price of €750-€800 million, depending on the choice of arms and equipment.

Athens would mark a step up in the international arms arena if the deal were sealed.

"This is a political decision, as a naval cruise missile is a strategic weapon with deep strike capability," said Etienne Daum, manager for aeronautics, defense and security at think-tank CEIS. Sailing an FDI would also boost the Greek capability within NATO, he added.

### **A naval cruise missile would add to the Greek air force Scalp cruise missile flown on its Mirage 2000-5 fighter jet.**

The first FDI is due to be delivered to the French navy in 2023, with the last by 2030. If Athens and Paris were to reach agreement, Greece would receive the second ship, while the French navy would receive the third, and the second Greek ship would be the fourth built. Two FDI ships are due to be delivered by 2025.

Greece has long sought a heavily armed French frigate, with the Greek navy previously seeking the Fremm multimission frigate with cruise missiles before 2008. But the financial crisis in that year forced Athens to put a hold on a purchase as deep spending cuts were imposed on the frail Greek economy.

For Poland, there is the Swordfish program, with requirement for a highly capable frigate armed with a cruise missile, the Poland in website reported

"The French navy also needs the FDI, which is a more capable ship than the Lafayette frigate, as there is rising threat and proliferation of weapons," Daum said.

The ship is designed for anti-submarine, anti-air and anti-ship operations, capable to make up a third of the 15-strong French fleet of first-rank warships. That fleet includes eight 6,000-ton Fremm multimission frigates, of which two are air defense versions, and two Horizon air defense frigates.

The contract for the first ship – to be christened Amiral Ronarc'h – includes research and development as well as construction. That ship, effectively the prototype, will include a digital open architecture, two data centers, and Thales Sea Fire 500, a fixed-panel radar.

There will be an expanded version of the Setis combat management system to weave together the various onboard subsystems, a workstation for cybersecurity, and capacity to fight off asymmetric attacks by fast small vessels.

There has been work on an onboard workstation to give a more complete tactical picture and share that with other vessels. The naval cooperative surveillance system, which has been tested on the Charles de Gaulle aircraft carrier, Horizon and Fremm frigates, will be fitted on the first FDI.

For the French navy, the main weapons will be MBDA Aster 15 and 30 anti-air missiles, Exocet anti-ship missile, Leonardo 76 mm canon, MU90 light torpedoes, and two remote control Narwhale 20 mm canons. Light weapons such as 12.7 mm and 7.62 mm machine guns could be used for attacks from small vessels.

MBDA is working on a new launch system to accommodate both A-50 Aster and A-70 naval cruise missile. There is no cruise missile for the French navy FDI.

There is deck space for an 11-ton helicopter such as NH90 and a 700-ton helicopter drone. For 360° low-light visual coverage, there will be banks of Bertin cameras on the single mast, and two Safran Paseo electro-optical infrared sights.

Other equipment includes a Thales hull-mounted KingKlip Mk2 sonar and Captas 4 towed sonar array. MTU will supply the diesel engine, expected to deliver speed of 27 knots.

There will a 125-strong crew, comprising 111 sailors and 14 for the aircraft.

**The DGA, navy and Naval Group, the prime contractor and systems integrator, are working on collaborative design of the FDI on an enhanced version of the Catia computer system.**

The FDI frigate has grown in weight. When France unveiled a reduced scale model at the 2016 Euronaval trade show, the ship had been expected to weigh 4,250 tons rather than the present 4,500 ton.

Naval Group has invested €27 million in the Lorient shipyard, Guillou said.

The shipyard is working on the Alsace, the first of the two Fremm air defense versions, and has capacity for building four warships at the same time. The yard is working to cut the build time, with the Fremm now taking 42 months after 72 months for the first vessel.

The first FDI is scheduled to take 38 months, and a target of 30 months has been set for later units.

“It is close to €12 billion which will be invested in naval combat, anti-submarine warfare and attack submarines,” Parly said at the steel cutting ceremony.

“This military budget law effectively prepares the future for our navy.”

Parly was referring to the funds set aside for the navy in the 2019-2025 military budget law, which requires annual confirmation by the finance ministry.

The graphic shows an artist impression of a Belharra, the FDI frigate (Picture source: Naval Group)

# Fincantieri and Naval Group Move Forward on Cooperation: The Poseidon Project

06/17/2019

By Pierre Tran

Paris – Fincantieri and Naval Group (NG) signed June 14 an agreement setting out cooperation on their Poseidon project, a joint venture aimed at boosting Italian and French collaboration in building and selling warships for navies at home and abroad.

“Following the announcement made on 23 October 2018, today Fincantieri and Naval Group signed in Rome the Alliance Cooperation Agreement, which sets out the operational terms for the incorporation of a 50/50 owned joint venture,” NG said in June 14 statement.

“There was good support from the ministers,” NG chief executive Guillou said.

“Perhaps there will be a share capital deal later,” he added.

The creation of a jointly owned subsidiary is a cooperative step but real consolidation in European defense industry requires change of ownership in the parent companies.

Previously, there had been a plan for a cross-shareholding of five to 10 percent between Fincantieri and NG, but the French authorities dropped that as concern rose over the anti-European sentiment of the Italian government, a fragile coalition between the far-right League and anti-establishment Five Star Movement.

The alliance agreement aims to share best practices between the partner companies, work on selected research and development (R&D), trim procurement costs, and make joint offers for French and Italian programs and export deals.

**Submarines are excluded from the deal, which covers surface warships.**

The joint venture is expected over the next 10 years to win orders worth up to €5 billion (\$ billion), build 10-15 warships and achieve synergies of 10-15 percent, Reuters reported.

Thales, which builds naval combat systems, holds a 35 percent stake in NG, with the French state owning most of the share capital.

There is need for “critical mass,” to be competitive, Guillou said June 14 at Paris Air Forum, a business conference organized by financial website La Tribune.

The French Navy depends on exports to generate a “supplementary” €400 million a year, he added.

“Without exports, the military budget law is beyond execution,” he said.

There is “complementarity” between Fincantieri and Naval Group in the world market, as the former is present in 15 countries, while the latter is in 10, with no overlap, he said.

That bilateral cooperation is essential in view of severe competition from China and Russia, and shipbuilders in Korea, Ukraine and India.

A European cooperative link is needed due to a greater burden of research and technology, and R&D, he said.

Twenty years ago, a warship would sail with two generations of technology, but the French intermediate frigate being built is expected to support six generations in its operational life. That required sharing the cost of R&T and R&D.

There will be six executives on the board of the joint venture, with three from each partner company. Fincantieri will name the chairman and chief operational officer for the first three-year term, with NG appointing CEO and chief financial officer.

Bono will be board chairman, and Guillou will also sit on the board.

The joint venture company will be legally set up by the end of the year, following authorization from the authorities, with headquarters in Genoa, northern Italy, and a subsidiary at Ollioules, just outside the Toulon naval base, southern France, the French shipbuilder said.

“The alliance represents a great opportunity for both groups and their ecosystems to enhance their ability to better serve the French and Italian navies, to capture new export contracts, to develop new technologies and, ultimately, to improve the competitiveness of the naval sectors of both countries,” NG said.

France and Italy “support the key initiatives set by Fincantieri and Naval Group which intend to swiftly put in place, notably setting up in 2019, a joint venture of equal parts, for which the aim is to reach commercial and industrial synergies,” the two governments said in an Oct. 23 statement.

The European Union’s antitrust arm is examining Fincantieri’s acquisition of 50 percent of Chantiers de l’Atlantique, a French shipbuilder. That company is a civil shipbuilder with the sole yard in France big enough to build a future aircraft carrier, so deemed to be of strategic importance.

Giuseppe Bono, chief executive of Fincantieri, and Guillou signed the alliance agreement on the Federico Martinengo, an Italian Fremm multimission frigate at La Spezia naval base.

The Fremm frigate was developed and built in a Franco-Italian program, with a lower level of joint procurement compared to the Horizon air defense frigate, also a project between the two countries.



# French Naval Group and the Australians: Working the Cultural Challenges

04/17/2019

By Pierre Tran

Paris

Naval Group (NG) is implementing a change in employee communications and behavior, in a bid to smooth out cultural differences between French and Australian staff working on a US \$34 billion (A \$50 billion) program to build submarines for the Australian Navy, senior executives said.

That drive to improve “intercultural” relations stems from Australians’ difficulties in understanding the French way of work soon after NG won a three-way competition in 2016 to build 12 ocean-going boats, dubbed the Attack submarine class.

These undersea vessels for Australia’s Sea 1000 Future Submarine Project will be a diesel-electric adaptation of the Barracuda, a nuclear-powered submarine NG is building for the French Navy.

The French company has sold Scorpene submarines and Gowind corvettes around the world, with a transfer of technology to allow local assembly. Among these, Brazil and India are building their Scorpene boats, while Egypt has assembled its first of four Gowind warships.

But this is the first time the company has been asked to rethink its cultural approach, as Australian-French teams were formed and problems of communications unfolded.

## Reshaping a Work Culture

The aim is to develop a common working culture built from Australia and France, allowing these submarines to be built on time and on budget.

“Not everyone thinks like the French,” said Jean-Michel Billig, NG program director for the Attack submarine.

“We have to make a necessary effort to understand that an Australian does not think like a French person, and that it’s not better or worse, it’s just Australian.”

There is a need to organize the Attack program accordingly, he said. That includes translating French not just into English but Australian English.

There is need to go beyond that, “to speak a common language in cultural terms,” he added.

The importance of Australia as a distinct and important region can be seen by The Guardian, a British daily, publishing UK, US, International and Australia editions of its news website.

“Based on discussions, there is a willingness to know the qualities and faults of each other, not to use them but to converge, to find common points so we can work together, so we can deliver.” said Yvan Goalou, NG institutional relationship manager.

“There is search for openness and sharing.”

There is need for listening and humility, he said. Goalou is a former French Navy commander of both the nuclear-missile and nuclear-powered attack submarine.

## **Australian Barbecue as Cultural Signifier**

An example of Australian culture is the barbecue, an important part of fostering good work relations, Billig said.

There is a reciprocal need for Australians to understand the French sanctity of the lunch break, not just a sandwich snatched at the screen.

Another bid by NG to boost its openness to “Anglo-Saxon culture” is publishing its inhouse magazine in French and English, seen internally as a radical move.

Big companies such as Airbus and Thales may have long published inhouse magazines in English and French, but an NG executive said those firms lack a 400-year history as a state arsenal.

Another need to bridge a cultural gap could be seen in the letter to staff from CEO Hervé Guillou, who referred to initiatives to be adopted after “la rentrée.”

It had to be explained to Australians la rentrée that refers to staff going back to work in September after the company closed down for the month of August for the traditional French holiday. A one-month holiday stunned Australians who thought of a short “summer break.”

On the French side, there was surprise to see an Australian insistence on punctuality, that a meeting scheduled for an hour meant just that, not an extra 15 minutes. So, when Australians got up and left a meeting whether an agreement had been reached or not, that startled French counterparts.

In France, there is the concept of a “diplomatic 15 minutes,” indicating that one is not considered to be late if the tardiness is a quarter of an hour.

NG pursues a “multidomestic” approach as it seeks deals with countries with distinct cultural difference such as Malaysia, Brazil or India, said Arnaud Génin, strategic communications director.

“One would think Australia would be relatively easy because of ease of language, but the cultural difference goes deeper,” he said. “We have to work on that.”

## **Preparing French Staff**

NG is training some 20 Australians on design and manufacture of the Attack boat at Cherbourg, northern France, and that is due to rise to more than 150 key staff. Some personnel are accompanied by their family and those Australians need to adapt to life in France.

Meanwhile, French staff are preparing to fly to the other side of the world and work in the Australian subsidiary in Adelaide, south Australia, where the boats will be built.

There are some 350 staff working on the program in France, with 100 in Australia.

In France, that staff tally will climb to a peak of 700 around 2021/22 before falling to 200 by 2030, as the work moves to Adelaide, Billig said. In Australia, the staff will rise “smoothly” to 1,500 in five to six years when the manufacturing hits full pace.

The company is developing tools for the intercultural courses, which include two-hour seminars and one-day workshops, Marion Accary, global human resources business partner said.

These aim to prepare French expatriates and their families “how to behave, how to understand and decode,” she said. “The staff will learn how to communicate, hold meetings and work in French-Australian teams. Personnel will also be encouraged to take distance from situations which might seem to be conflictual due to misunderstanding.”

There is also work in Australia to develop training and communications.

Separate seminars for French NG staff and Australians started last May in Cherbourg. The former includes the history of Australia as a way to explain the behavior of Australians, importance of defense, and strategic significance of the South Pacific for the Commonwealth of Australia.

In France, there is strong staff demand for English language courses. There is interest in learning French in Australia but it is harder to find teachers.

The willingness of French teams to take part in the intercultural program is an indirect indicator of a keenness to overcome cultural problems, Billig said. If there were an “evaporation” of that readiness, that would undermine the program.

### **Cultural play of Three Nations**

NG will work with Lockheed Martin, which will supply the combat management system for the Attack boat. NG does not expect problems in working with the US company, as the French firm has worked with partners on other vessels.

“We will learn by working with Lockheed Martin on this program,” he said. “It will be a three-way process of cultural learning.”

NG will work with its local partner, state-owned ASC, formerly known as Australian Submarine Corporation, as well as working with the Australian authorities.

Asked if there is a change of business culture, Billig said the Australian program “has pushed Naval Group’s ambition a couple of ranks higher in the drive for a multidomestic approach.”

That intercultural approach is part of the technology transfer, as Australians want to extend know-how to know-why.

That requires a great deal more than handing over a sheet of paper and say, “Voilà, I have transferred technology,” Billig said. It is about explaining the French approach to building a submarine. The French way is not the German or Japanese way.

### Current French Submarine Building Approach

The cultural factor is the French intellectual approach to building the submarine, he said. That reasoning led the French to adopt certain methods, allowing the French Navy to deploy a submarine permanently at sea for 47 years.

“That French method is a concentration of history, competence, training, and the French ecosystem,” he said. “Part of the technology transfer baggage is having to explain what we do, why we do it this way, and it is not good enough to say you have to do it this way. If you said that, part of the know-how would have evaporated.”

That approach is offered to explain why the French aim to use water rather than laser to cut steel and use French rather than Australian steel.

“The French have a welding method, Americans have their own,” he said.

NG’s dedication to the Attack program reflects the company’s need to win — and retain — foreign deals, as the company cannot rely solely on the domestic market. Australia picked the French firm in a competition which drew rival offers from German shipbuilder ThyssenKrupp Marine Systems and Mitsubishi Heavy Industries, which led a Japanese group, backed by the Japanese government.

It is clear NG intends to deliver on the intercultural approach as the Commonwealth of Australia, buyer of the Attack submarine, saw the need to improve communications.

“The client asked for this effort,” Billig said.

“This is a key factor for success. It is not for us to be Australian, for them to become French. We keep our roots. We learn the culture of the other.”

**Editor’s Note: This is the initial look at this dynamic between France and Australia.**

To be clear, this is not a technology transfer program of an existing submarine.

This is a co-development of a new build submarine.

As such, the opportunity on the French side is to redo, even significantly, how they build new classes of submarines going forward.

And at the heart of the challenge of working through the program is that the Australians intend in this program and in the frigate to build a manufacturing line around digital production of the sort that Naval Group does not currently do.

Different work styles are also at work, whereby the French follow an approach significantly different from the Australians, and there is likely not just to be cross-learning, but the possibility of significant change on the French side as well.

There is a very significant opportunity for Naval Group to expand its concepts of operations and production technologies and work approach through the program, something useful not just in Australia but in France and globally.

For example, an interesting question in play: What is the nature of the Barracuda being offered to the Dutch Navy and how does it relate to the Australian program?

## **Designing and Building the Barramundi Submarine: Is Naval Group Up to the Challenge?**

02/17/2020

By Robbin Laird

There is a clear misperception with regard to the French and the Australian new build attack submarine.

The assumption seems to be that the contract is in the bag and that the Australians are along for the ride, a ride determined by the French government and Naval Group.

But in reality, only a design contract is signed, with the build set of decisions in front of the team.

**The depth of the potential disconnect between the Australians and the French was suggested in an interview last week with the head of Naval Group Australia.**

*“Less than a week after the government launched an audit of major defence projects to ensure sufficient work went to local firms, Mr. Davis was unable to say whether the boats’ Australian industry content would reach 50 per cent.*

*He said the company, which is set to begin construction in 2022, was encountering “specific challenges” regarding Australian industry that were “new to Naval Group”.*

*“We didn’t know the Australian market before we joined the program,” he said. “Now we have a much deeper insight, and we recognise there is a lot more work to be done than we anticipated.”*

**One can imagine the outpouring of comments which followed in Australia. Naval Group has raised the question of the capabilities of Australia to deliver on the design and build of the new submarine, but the more fundamental question is whether Naval Group is up to the task.**

In an interview I did last year with the former chief of the Royal Australian Navy and a key player in shaping the new shipbuilding approach of Australia, Vice Admiral (Retired) Tim Barrett underscored that the Aussies were NOT building an already designed and built French submarine.

*Interestingly, for this French partner, most French analysts would consider sovereignty to be about an ability of the nation to build its military systems on its own.*

*But for Barrett this approach would be too narrow, particularly in today's world of rapidly changing technologies and capabilities.*

*For Barrett, "sovereignty is the ability to act in a crisis, when government requires it, where it requires it and to be able to do so for as long as is needed, to the level you need, with the resources that are readily available to you."*

*"We can and indeed will buy other nation's equipment, but we will operate it in a sovereign manner and we will integrate into our ADF approach."*

*From his perspective, Australia was not building a Barracuda, for it is a new design submarine.*

*"We are designing the Barramundi (- which is a well-known Australian fish)."*

*But the new build submarine program really is about a two-way street working with France.*

*"The whole point of this exercise is that we leverage each other's skills: they learn from us as much as we learn from them as they develop their business and manufacturing processes as well."*

*This is clearly part of a potential French strategic opening in the region as well.*

*"They are clearly re-establishing their presence in the region, as recent French naval activity demonstrates as well as the public policy statements made by President Macron as well."*

### **Building a Barramundi rather than a clone of the Barracuda is a clear challenge facing Naval Group.**

The Australians are looking for a new approach to building a shipyard, and building out both French and Australian skills to do so.

### **The question though is France is such a crisis that it cannot make the industrial transition to leverage the Australian opportunity?**

The Australians are not looking to become France West; they are looking for the French to grasp a strategic opportunity to reshape their own approach to design, and production.

It is not about bringing an approach to Australia; it is about co-developing a new one.

Is Naval Group up to this challenge, notably with the change of CEOs underway in the Group?

And with the crisis gripping Europe, and Macron's government in particular?

# Should Australia Move on From the Naval Group Deal to Build New Attack Submarines?

02/03/2020

By Marcus Hellyer

The Australian National Audit Office has just released its latest report on Australia's \$80 billion future submarine capability. It set itself the task of examining 'the effectiveness of Defence's administration of the Future Submarine Program to date'.

**The program's supporters and detractors will both find some validation in this report.**

We all are now calling an \$80 billion spade an \$80 billion spade, not a 'greater than' \$50 billion spade or a '\$50 billion in-constant-dollars spade. Defence finally gave an \$80 billion 'out-turned' number that takes real-world factors such as inflation into account at Senate estimates in November last year.

That \$80 billion figure is repeated in this report.

Defence says that this isn't a cost increase but just a different way of expressing the same number.

But once you add the future submarine's \$80 billion to the \$35 billion future frigate and the \$4 billion offshore patrol vessel, that increases the government's \$89 billion local shipbuilding program by \$30 billion to \$119 billion. \$30 billion here, \$30 billion there; pretty soon we're talking real money.

One of the program's key achievements in the past year has been the signing of the strategic partnering agreement between Defence and Naval Group to govern the design and construction of the submarine.

It was originally meant to be signed in October 2017, but negotiations didn't begin until the next month, and the government agreed to the negotiated outcome only in February 2019.

**The good news is that the ANAO reports that the government and Defence got everything they wanted, including intellectual property rights; transparency on costing; remedial measures and protections; and acceptable levels of Australian industry participation.**

But there's another narrative here.

Many observers suggested that the lengthiness of the negotiations indicated fundamental cultural and commercial differences between the parties.

The ANAO report notes that the Naval Shipbuilding Advisory Board, a panel of experts established to give the government independent advice on the shipbuilding program, had serious concerns.

**Not only did the board recommend in September 2018 that Defence examine alternatives should the negotiations not succeed, but it also advised a year later that Defence should 'consider if proceeding is in the national interest' even if negotiations were successful.**

That's serious stuff.

The ANAO report doesn't say what the advisory board's concerns were.

We can only hope that the final rounds of negotiations addressed them, particularly since the ANAO rightly assesses that the 'success of the program is dependent on Defence establishing an effective long-term partnership with Naval Group'.

Since the government agreed to sign, it must have been confident that the issues were addressed.

The report also looks at aspects of the program's schedule, which it's been difficult to get a clear view of.

There's a high-level diagram in the 2017 Naval Shipbuilding Plan, and information trickles out, such as through Defence's 9 May 2018 response to the estimates committee on foreign affairs, defence and trade.

Moreover, terminology for key milestones has changed, which confuses things. I'd been hoping this report would provide the complete master schedule at different points in time so we could see which milestones had been delayed and where delays could be made up.

That didn't happen, but the report does provide some useful data points.

The report confirms, as foreshadowed at heated estimates hearings in October, that some key design milestones have slipped.

The systems requirements review was originally meant to be completed by March 2019. After the design contract was signed, that milestone moved to October, and the review started only in December (and it's not clear whether it's been completed). Similarly, completion of the preliminary design review has moved from March 2020 to January 2021.

The report also reveals that Defence advised the government in February 2019 that Naval Group had proposed to extend the completion of the design phase by 15 months from July 2022 to September 2023.

Ultimately, Defence agreed to a nine-month extension (to around March 2023).

Construction is scheduled to start in 2022–23 (according to the high-level schedule provided to the Senate in May 2018 at least), so things are getting pretty tight if Defence wants to complete the design before starting construction.

The ANAO hasn't assessed the impact of the extension on the start of construction and the submarine's entry into service, although at Senate estimates in November, Defence officials said that the 2022–23 construction date actually meant 2024 for the start of construction of the vessel itself.

Defence's position is that getting the design right will save time and money in the long run by reducing rework.



With construction scheduled to start in 2022–23 and sea trials scheduled to begin in 2031–32 (according to the high-level schedule provided to the Senate in May 2018), there’s potentially nine years to make up any lost ground.

But, if the critical design review scheduled for June 2022 slips by the same amount as the earlier design reviews, we’re already eating into construction time.

The report also notes that Defence has advised that ‘a delay in the Future Submarine Program of more than three years will create a gap in Navy’s submarine capability’.

What that means isn’t entirely clear.

Based on my own analysis, I suspect that it’s saying that a three-year delay would result in the submarine force falling to fewer than six vessels, even if all six Collins boats go through a 10-year life-of-type extension to mitigate the risk of a capability gap.

But what schedule baseline are those three years measured against?

Have we already eaten into them?

And with Defence now saying that the life-of-type extension program is seeking to replace virtually the entire Collins propulsion system (diesel generators, main motor and DC switchboard), that looks like a high-risk risk-mitigation proposition.

Overall, the report gives the impression that the program is being run according to solid project management principles and is putting integrity above expediency.

It concludes encouragingly: ‘Defence has established the formal arrangements for the effective administration of the Future Submarine Program.’

But it also confirms that, under those arrangements, the first new submarine won’t be in service before 2034.

That’s still a long way off.

Marcus Hellyer is ASPI’s senior analyst for defence economics and capability.

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Whatever happens, the Collins class life cycle is being significantly extended. The featured photo shows a Collins class submarine at sea.

The cover photo is of Minister for Defence, Senator the Hon Linda Reynolds, CSC, (right) meeting with Chairman and Chief Executive Officer of Naval Group Herve Guillou at Seapower 19 at the International Convention Centre at Darling Harbor, Sydney in October 2019. Credit: Australian Department of Defence.

