

DIMDEX 2014 – MENA Submarine Market: North African Navies modernize submarine forces; Gulf States look to submarines and undersea systems

Summary: AMI, as market information partners with DIMDEX 2014 organizers Qatari Emiri Naval Forces (QENF) and Clarion Events, reviews the outlook for new submarine and underwater systems procurements among the 15 countries AMI groups in the Middle East/North Africa (MENA) regional naval market. The fourth and final of AMI's MENA naval market review series will look at the MENA market for amphibious and auxiliary ships and related smaller craft.

Submarine Market Overview: AMI forecasts that MENA navies are set to acquire 27 new submarines in the next 20 years at a total estimated acquisition cost (2013 exchange rates) of almost US\$9.5B. While not as large as the region's MENA surface combatant or patrol and fast attack craft segments reviewed in earlier articles, the MENA submarine and underwater systems market is still of significant interest for several reasons. First, it is capital intensive with a relatively higher amount of new spend planned per platform compared to other ship types in other segments. In the MENA market, the average new spend per submarine is projected to average more than US\$350M over the next two decades.

Further, most of the new submarines acquired in the MENA market will be via export purchases. The developing shipbuilding industry in the Gulf and North Africa has not yet reached the extremely complex and specific levels of manufacturing and systems integration expertise that define the world's submarine market leadership today. Therefore, top tier submarine exporters such as Germany's ThyssenKrupp Marine Systems, France's DCNS, Russian shipyards such as Admiralty and other offerors are expected to be very active in competing for new submarine sales in the region.

The MENA submarine market is also expanding beyond the small group of navies that currently operate submarines in their fleets. The "submarine club" in the MENA now includes Algeria, Egypt, Israel, and Iran. AMI forecasts that a number of countries will at least double the number of MENA navies with submarines over the next decade. While some of these submarines may be hulls originally built for or in service with other navies, others will be new construction orders for small and medium sized designs below 1,500 tons full load displacement, presenting good market opportunities to builders and systems providers alike.

And the market for platforms and services for these new submarine operators is a long term opportunity. This means not only new construction awards, but training, maintenance, submarine-specific facilities and infrastructure and support services requirements stretching over the next decade plus.

As interest in new submarines grows in the MENA region, many navies are also accelerating investments in unmanned maritime systems—increasingly including underwater vehicles

(UUVs)--to meet growing undersea mission requirements. In highest demand in the MENA region are unmanned systems for underwater survey, scouting and reconnaissance, as well as mine and anti-submarine warfare.

While construction and systems integration in the MENA region has advanced to see several locally-built unmanned surface vessels offered, the market for UUVs is also expected to be mainly exports. Here leading industry names such as ATLAS ELEKTRONIK, SAAB, Bluefin and others are expected to be heard, while new market entrants in the UUV market from countries such as Turkey are also expected to compete for new UUV opportunities in the region.

The MENA Submarine and Undersea Systems Market: By the Numbers:

The US\$9.5B new submarine market in the MENA region is detailed below. While the 27 hulls forecasted to be acquired in the region through 2032 represents only 4% of all new naval platforms expected to be acquired by the 15 regional navies, total new spend amounts to about 17% of all MENA new naval spend over the same period.

And planned new spend for submarines for the MENA region –US\$350M per hull—comes in somewhat lower than other regional submarine markets. This reflects that submarine demand in the region includes programs to acquire smaller special operations and/or coastal submarines. These tend to be less costly compared to larger “fleet” submarines above 2,000 tons that are the center of the submarine market in other regions. As the MENA submarine market matures and expands, the average value per hull for new submarine orders is expected to trend upwards.

| Market Region (Estimated number/amount spent on new construction between 2013-2032) <i>Market Value in USD M</i> | Regional Market: New Submarine Hulls | Global Market: All New Naval Ship and Sub Hulls | Submarine Share of Regional Market--Hull Count | Regional Market Submarine New Spend Value | Global Market: All Naval Ship and Sub Hulls New Spend Value | Submarine Share of Regional Market--New Spend | Submarine Planned New Spend per Hull (USD M) |
|-----------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|--------------------------------------------------------|-------------------------------------------------------|--------------------------------------------------|--------------------------------------------------------------------|------------------------------------------------------|-----------------------------------------------------|
| Asia & Australia | 112 | 1032 | 11% | 70238 | 206285.9 | 34% | 627 |
| Caribbean & Latin America | 28 | 309 | 9% | 13551 | 37281.8 | 36% | 484 |
| Middle East & North Africa | 27 | 631 | 4% | 9486 | 56154.7 | 17% | 351 |
| NATO | 57 | 516 | 11% | 52533.2 | 177369 | 30% | 922 |
| Non-NATO Europe | 9 | 70 | 13% | 1790 | 9150.7 | 20% | 199 |
| Russia | 44 | 166 | 27% | 25400 | 54656 | 46% | 577 |
| Sub Saharan Africa | 0 | 40 | 0% | 0 | 2839.3 | 0% | NA |
| USA | 44 | 1042 | 4% | 81311.2 | 291033.9 | 28% | 1848 |
| Total Global Market | 321 | 3806 | 8% | 254309.4 | 834771.3 | 30% | 792 |

And as seen in the MENA market for larger surface ships, the new submarine market is not limited to only a few potential customers. Seven of the fifteen countries AMI tracks in the MENA region have current or projected procurement programs to acquire new submarines.

Most of these are in the North African and Eastern Mediterranean regions. Egypt has started a program to upgrade their submarine force from Cold War era Soviet designs to the widely exported and operated Type 209 from ThyssenKrupp. In contrast, Algeria, currently operating Russian Kilo Project 636 conventional submarines and may expand its fleet with additional Russian-built hulls.

No GCC navy in the Gulf currently operates conventional submarines, although several have naval special warfare submersibles and special operations mini subs. This is expected to change as countries such as Saudi Arabia and UAE actively assess future submarine requirements with an eye towards future new build orders.

And the market for new UUVs and related underwater systems extends to a number of other Gulf and North African navies who do not currently plan new sub buys. This is especially true of UUVs with mine warfare capabilities. A number of threat assessments and exercises by Gulf navies continue to highlight the operational challenges in deploying naval forces fully ready to detect, find, fix and destroy the newest generation of naval anti-ship mines

Conclusion:

The MENA region is particularly reliant on sea lines of communication vulnerable to underwater threats. These threats could imperil massive energy exports through “choke points” such as the Straits of Hormuz, interruption of which would do significant harm to the economies of the MENA region.

These recognized vulnerabilities and gaps in undersea capabilities among MENA nations help spur the growing market new and modernized undersea systems across the region. Offerors and Exhibitors at DIMDEX will find regional naval leaders facing urgent capability gaps and seeking near-term solutions in the undersea warfare domain.

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