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## Synopsis of First Half of 2011



Throughout the first half of 2011 Epicos' Newsletter provided up-to-date information and intelligence to its readers. Intelligence for several countries of the world, international industry news, interviews of government officials and top positioned entrepreneurs provided through comprehensive articles. In this issue Epicos' Newsletter Team republishes a selection of some of the articles that have been published throughout the first half of 2011.



## Romanian Defence Procurements under the New Security Strategy of the Country



### Ministry of National Defence

Romanian defence doctrine has been adopted in the new tense and complex environment in which the security of each individual country, as well as that of the international community as a whole, largely

depends on the ability to anticipate and to take proactive actions, rather than reacting to events. That is the reason why Romanian forces should always be in alert, ready to identify potential threats and tackle with them before creating any further unpleasant situations for the Romanian society. Additionally, it is obvious that it is equally important to be able for them to mobilize the society in order to carry out in cooperation with the armed forces national projects and find the proper way of harmonizing individual initiative with modern civic spirit. In order to achieve the aforementioned goal Romanian armed forces have to undertake a comprehensive project of modernization. For this purpose Romanian authorities allocated for the year 2009, 6,960 million new lei, while in 2000 the amount was significantly lower at 2,031 million new lei.

#### Military expenditure of Brazil

	2005	2006	2007	2008	2009
In local currency ( m. new lei)	5,757	6,324	6,358	7,558	6,960
percentage of gross domestic product	2	1.8	1.6	1.5	-

Source: SIPRI Publications (<http://milexdata.sipri.org/result.php4>)

The national defence budget was even bigger for the year 2008 when 7,558 million new lei were spent. This amount represented 1.5% of Gross Domestic Product (GDP). With this Romania procured armament equipment for several countries. The first four (4) countries that export arms to Romania, based on the amount of funds allocated are Germany, Israel, USA and France. As it is clearly illustrated Romanian arms exports are rather diversified in its geographical structure as the aforementioned countries represent (3) different continents,

#### Imports (expressed in US\$ m. at constant 1990 prices)

	2006	2007	2008	2009	Total
Germany	48	36	37	-	120
Israel	17	20	20	20	77
USA	3	22	2	32	59
France	-	12	6	0 <sup>me</sup>	18

Source: SIPRI Publications, Arms Transfers Database

Europe (Germany & France) North America (USA) and Asia (Israel).

Germany is currently the main exporter of arms in Romania. One of the defence systems that the country procured from Germany during the last years are (36) Gepards. The delivery

was completed in 2008. The tanks were in service with the German armed forces before procured from Romania and were modernized before the delivery.

Israel is another important country regarding the imports of armaments systems to Romania. In 2009 Israel completed the delivery of (750) Spike-MR/LR anti- tank missiles. Furthermore, Romania acquired from USA (138) C-9 Diesel engines for the modernization of (180) MLI-84 infantry fighting vehicles to MLI-84M version. The original MLI-84 is an indigenous variant of the Soviet BMP-1 infantry fighting vehicle, with a lengthened hull and additional heavy machine gun mounted over the troop compartment. The delivery was completed in 2009. Finally, Romania procured three (3) SA-330 Puma helicopters from France.

As it is already mentioned the goal of the Romanian security strategy is to prevent potential dangers and if this fails, to counteract them in order to guarantee the state of domestic security. The aforementioned procurements will definitely help the armed forces to fulfill this goal, though the multidimensional nature of modern security threats also requires the help of civilian factors in order to shape a successful and viable security policy.

Kyriazis Vasileios,  
Epicos Newsletter Head Editor

## Special Focus: Croatia



Throughout the years Croatian authorities are trying to further modernize the national armed forces and to align them with the developments in the international scene. The fact that Croatia is a full member of NATO since April 1, 2009, has definitely helped the country develop the national armed forces as the fulfillment of obligations resulting from NATO

membership put before Croatian armed forces (CAF) have redefined their missions and tasks and gave them a detailed "roadmap" for achieving the modernization developments required. Additionally, NATO membership created new obligations resulting from the necessity of creating an army compatible with the armed forces of the other NATO members. Despite this Croatian authorities cut the defence budget of the country. It is indicative that the total sum of military spending reduced in 2010 to 1,060 million US dollars in constant 2009 prices from \$1,239 billion that it was in 2008. Additionally, the defence budget, as a percentage of the national Gross Domestic Product (GDP) decreased by 1.9% of GDP that was in 2008 to 1.8% in 2009 a trend that was further reinforced in 2010.

Despite the fact that defence spending has been decreased Croatian authorities are planning to further develop the competence of CAF so as to be able to develop the following capabilities: availability of forces on time, command and control capabilities, capabilities for the efficient use of information, deployment and mobility capabilities in areas of operation, efficiency in the engagement of forces, sustainability and capability for conducting long-term operation, survivability and finally force protection. These are the main priorities that the Croatian authorities had set for CAF in the coming years and in order to fulfill them they will develop a series of projects and tasks in the most important areas of development, such as human resources, material resources, the logistic system, doctrine and training, international military cooperation and R&D.



For the following years, CAF has planned a series of armament modernization. Regarding infantry weapons for the period 2011-2015 CAF units will start to be equipped with selected weapons of NATO caliber. Additionally, they will continue to be equipped with optic-

electronic devices and equipment for activity in night and harsh weather conditions. Priority in equipping with these new infantry weapons will be given to units foreseen for engagement in international military operations.

Regarding Croatian navy the main modernization plan for the period 2011-2015 will be the introduce of (4) open sea patrol ships into operational use. Additionally, for the same period the Croatian air force will introduce a new aircraft into use.

Despite the fact that Croatian authorities do not allocate enough funds for the modernization of armed forces, they have planned a rather ambitious plan that will end in 2015 and will further equip the armed forces with up to date armament.

Kyriazis Vasileios,  
Epicos Newsletter Head Editor

## Australian Defence Industry



Australia's defence industry comprises an important part of the country's wider national economic and industrial capacity. The national defence industry, including the primes and Small to Medium Enterprises (SMEs) employs around 29,000 people. SMEs account for approximately 50% of the employment in the sector. Nevertheless, about 70% of the value of defence materiel produced in Australia for the national

Defence Ministry is initially sourced from eight prime contractors. In total the aforementioned companies recorded sales revenue of 3.8 million US dollars. Despite the predominant place that these eight companies have in the local industry around 30% of their work is subsequently subcontracted to smaller firms in Australia and overseas. Estimations suggest that there are over 3,000 SMEs in Australia's defence industry.

The aforementioned data highlights the important place that SMEs have in Australian defence industry and the enhanced position that may have in the future. One of the main factors that will shape the future of the defence SMEs is innovation and their ability to place themselves in a constantly changing national and international environment.

### The Primes in Australian Defence Industry

Prime	Parent Company/Owner	Country of Origin	Key business in Australia	Per cent of parent's total revenue from Australian sales and exports	Stock Exchange listed on
ASC Pty Ltd	Australian Government	Australia	Submarine maintenance and ship construction	Not applicable	Not applicable
Australian Aerospace	EADS	France, Germany & Spain	Helicopters	< 1	Euronext Paris
BAE Systems Australia	BAE	UK	Varied, including aircraft maintenance and upgrades, ship construction and maintenance, upgrades to the M113 armoured personnel carriers and support to the Black Hawk helicopters	3.2	London Stock Exchange
Boeing Defence Australia	Boeing	US	Aircraft production and maintenance	0.5	New York Stock Exchange
Raytheon Australia	Raytheon	US	Combat systems integration	1.3	New York Stock Exchange
Saab Systems	Saab AB	Sweden	Land and maritime combat management and C2 systems	3.1	Stockholm Stock Exchange
Lockheed Martin Australia	Lockheed Martin	US	Electronic and Information systems delivery and support	< 1	New York Stock Exchange
Thales Australia	Thales	France	Ship upgrades and maintenance, production of military vehicles and provision and maintenance of EO	3	Euronext Paris

### Ministry of Defence, Australia

Innovation is as key driver of productivity. It refers to the introduction of new or improved



goods and services and the implementation of better processes. It can include the development of new technology, an adaptation of existing technology to a new use or organizational and managerial change. Hence, innovation is a prerequisite for the maximization of productivity. Australian SME's have often provided an innovative niche capability in support of defence, especially in the area of high technology.

The country's authorities acknowledged this and created new programs that will further enhance their innovation, productivity and competitiveness.

A total of 445.7 million US dollars in programs especially for the defence industry out to 2019 will be invested. This funding includes 44.9 million US dollars to sustain the Priority Industry Capabilities (PICs), 59.9 million US dollars for the Global Supply Chain (GSC) program, 34 million US dollars for the Defence Export Unit, 89 million US dollars, for the Skilling

Australia's  
Defence Industry  
program, 49.2 million US  
dollars for the Industry  
Skilling Program  
Enhancement package



and 27.1 million US dollars for the Defence Future Capability Technology Centre Program. Finally, as approved in 2009, the government is investing 51 million US dollars in research and development through funding for the Capability and Technology and Demonstrator program, as well as 31.6 million US dollars for the Capability and Technology Demonstrator Extension program.

The increased globalization of the defence industry in recent years has enabled Australia to source many of its defence acquisitions from other countries. Of course this has weakened the prospect of the Australian SMEs as they had to compete with the "giants" of the industry. On the other hand new paths have been opened for them as they had a clear advantage in becoming a part of the global supply chain by creating synergies with the foreign companies activated in Australia. The approach that Australia SMEs will have towards this will, in a great extent, from their future.

Kyriazis Vasileios,  
Epicos Newsletter Head Editor



## The New Dimension of Hungarian Procurements



Hungary was heavily hit by the global economic downturn. Declining exports, low domestic consumption and fixed asset accumulation, dampened by government austerity measures, resulted in an economic downsize which reached 6.3% in 2009. This situation was altered in 2010 when the new FIDESZ government implemented a number of socioeconomic measures that helped the country to rebound quickly. The main reason behind this was the big boost from exports, especially to Germany. Growth is expected to continue in 2011 and the first estimations are that it will reach 2.5%. Despite the aforementioned economic fluctuation Hungarian defence budget increased. In 2008 total Military expenditure of Hungary was according to SIPRI 1,868 million US dollars in constant 2008 prices whereas in 2009, reached 1,900 million US dollars.

### Military expenditure of Hungary

	2005	2006	2007	2008	2009
In constant ( 2008 ) US\$ m.	2,201	1,973	2,010	1,868	1900
percentage of gross domestic product	1.4	1.2	1.3	1.2	-

Source: SIPRI Publications (<http://milexdata.sipri.org/result.php4>)

During the last years the country did not procure a variety of defence equipment. Sweden has a leading role in the Hungarian armament imports. Apart from Sweden, other important countries that export arms to Hungary the five last years are USA, Italy and Sweden. Imports are rather limited in their geographical structure as (3) of the (4) first countries that export arms to Hungary, based on the amount of funds allocated are European. This can be easily explained by the intense socioeconomic relations that the country has developed with European Union member states after 2004, when Hungary entered EU.

### Imports (expressed in US\$ m. at constant 1990 prices)

	2006	2007	2008	2009	2010	Total
Sweden	220	165				385
USA	32	27		4	18	81
Italy	13	13				26
Israel			5			5

Source: SIPRI Publications, Arms Transfers Database

Sweden is in the first place of arm exports to Hungary mainly due to the fact that the Hungarian Air Force has (14) Gripens on a 10 year lease-and-by arrangement, including (2) two-seaters (C/D versions). The final (3) aircrafts were delivered in December 2007. The purchase included an offset package of a 110% value of the amount of the procurement.

As it is already mentioned USA is the second country that exports defence equipment to Hungary. The collaboration between these two countries in this domain has been intensified during 2009 and 2010 when Hungary purchased or loaned several types of armed vehicles

such as Cougar APC/ISV, HMMWV Up-Armoured APV 2010, MaxxPro APC in order to use them in Afghanistan.

In 2007 Hungary received the last of the (3) RAT-31DL Air search radars from Italy. The procurement was part of the "NATO ACCS" program. Finally, in 2008 Hungary received the last Litening Aircraft EO system from Israel.

Despite the problems that the economic recession created in the country in the last years of the first decade of the 21<sup>st</sup> century, the Hungarian defence budget increased. Nevertheless, the country has to make more steps in order to keep up with the other members of NATO.

Kyriazis Vasileios,  
Epicos Newsletter Head Editor

## Epicos “Industrial Cooperation and Offset Projects”



Epicos “Industrial Cooperation and Offset Projects” provides a unique set of online tools enabling the structure, identification and implementation of comprehensive Offsets programs, through a searchable database. By introducing different offset projects and ideas proposed by local A&D industry it ensures the optimum cost for Prime Contractors and reassures that the priorities of local industry are fully met...

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### Provision of manufacturing and assembling services for electrical and electronic parts and assemblies

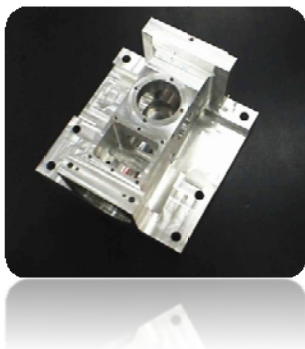


A company with extensive experience in the design and manufacturing of illuminated display and control systems is proposing, in the frame of an offset program, the cooperation with Aerospace and Defense prime or lower tier companies, either locally or worldwide, for the provision of manufacturing and assembling services for electrical and electronic parts and assemblies to be used in specific A&D programs.

[For Further Information Contact our ICO Department](#)

Mail at: [g-menexis@epicos.com](mailto:g-menexis@epicos.com)

### Manufacturing of precise and complex machined parts and components for aeronautical applications



A leading company with extensive experience in producing precision parts for the high-tech, Aviation and Space industries is proposing, in the frame of an offset program, a collaboration with Aerospace and Defense (A&D) prime or lower tier companies for the manufacturing of precise and complex machined parts and components for aeronautical applications. Either by using its existing know-how or by developing additional capabilities, the company is proposing to undertake related metallic parts subcontracting work with devotion to schedule fulfillment, high product quality and adherence to strict A&D specifications.[For Further Information Contact our ICO Department](#)

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**Epicos Newsroom****World economy nears new crisis, say analysts**

The world economy, whose stock markets have lost \$2.5 trillion in the last few days, is nearing a fresh financial crisis and only needs the 'last straw', analysts said on Tuesday. "I am giving you a 90 percent possibility that a new wave (of the crisis) will arrive this year," said Igor Nikolayev, strategic director of FBK audit firm adding that this time Russia was 'in a trap' as its reserve fund of 750 billion rubles was not enough to extinguish the fire of the crisis with liquidity as it did in 2008. Anton Danilov-Daniliyan, deputy head at Delovaya Rossiya, a mid-sized business lobby group, said markets could take information of large piles of debt in any sector of the economy as the last straw that would trigger a new crisis. Global stocks have been tumbling since late last week and dropped sharply when Standard & Poor's rating agency took the historic decision to cut the U.S. top rating by one notch to AA-plus over concerns about America's growing budget deficit. Experts said the Russian market dogged the global trends. Danilov-Daniliyan said that Russia needed to replace state social programs with private investment to avoid worsening of the situation. The share of social spending in the budget increased to around 39 percent this year from 27 percent in 2007, before the crisis. But Danilov-Daniliyan said the Russian government would have to deliver on its promises at least until next March, when the country elected a new president. Nikolayev said the crisis never really stopped as its preconditions had not been eliminated and the U.S. continued relying on a speculative economy model delaying the problem. Russia seems to be trying to follow the U.S. living beyond its means, he said.

**Source:** Ria Novosti

**Cathay Pacific reports 59% drop in first-half profit**

Cathay Pacific on Wednesday said its net profit in the first half of the year plunged 59 percent, blaming the drop largely on high fuel prices and softening demand for its economy seats.

The Hong Kong-based carrier said it earned HK\$2.8 billion (\$359 million) in the first six months of 2011, well below its HK\$6.84 billion profit a year earlier, although it still posted a 13.2 percent increase in revenue.

**Source:** 2009 AFP, Agence France-Presse (AFP)

### US asks China to explain why it needs aircraft carrier

The United States said Wednesday it would like China to explain why it needs an aircraft carrier amid broader US concerns about Beijing's lack of transparency over its military aims.

"We would welcome any kind of explanation that China would like to give for needing this kind of equipment," State Department spokeswoman Victoria Nuland told reporters when asked whether the carrier would raise regional tensions.

"This is part of our larger concern that China is not as transparent as other countries. It's not as transparent as the United States about its military acquisitions, about its military budget," she said.

"And we'd like to have the kind of open, transparent relationship in military-to-military affairs," Nuland said.

"In our military-to-military relations with many countries around the world, we have the kind of bilateral dialogue where we can get quite specific about the equipment that we have and its intended purposes and its intended movements," she said.

But China and the United States are "not at that level of transparency" to which the two nations aspire, Nuland added.

The comments came hours after China's first aircraft carrier embarked on its inaugural sea trial, a move likely to stoke concerns about the nation's military expansion and growing territorial assertiveness.

Beijing only recently confirmed it was revamping an old Soviet ship to be its first carrier and has sought to play down the vessel's capability, saying it will mainly be used for training and "research."

**Source:** 2009 AFP, Agence France-Presse (AFP)

### Rosneft discovers new oil field in East Siberia

Russian state-run oil major Rosneft has discovered a new oil field with estimated reserves exceeding 15 million metric tons in East Siberia, Rosneft said on Wednesday. "During the test drilling of well No. 71 at the Danilovsky block in the Irkutsk region, Rosneft as the block's license holder got a gushing oil flow with a daily output of 200 tons. The new field's estimated recoverable reserves exceed 15 million metric tons," the company said in a statement. The new field is the fourth deposit discovered by Rosneft in Russia's East Siberia. In 2006 the oil giant obtained licenses for the East-Sugdinsk, Mogdinsky, Danilovsky, Sanarsky and Kulindinsky fields. In 2008 Rosneft got licenses for the Preobrazhensky and Umotkinsky fields. In 2009 Rosneft discovered the Savostyanov oil field and in 2010 the Lisovsky and Sanarsky fields. The overall recoverable reserves of the three deposits to the C1+C2 categories total almost 370 million tons. "The company plans to make a decision on the terms and approaches to the development of these deposits after it gets additional

geological information and data on fiscal conditions of the development of such projects," Rosneft said.

**Source:** Ria Novosti

#### Russia to borrow 5 trln rbls in 2012-2014 from modernized market-paper

The Russian Finance Ministry will borrow some 5 trillion roubles from foreigners on the domestic market to cover bulging budget spending in 2012-2014, Kommersant business daily said on Monday quoting the ministry's Debt Policy Guidelines for 2012-2014. Before 2008 the ministry had borrowed some 0.2 trillion roubles per year from the market. The new debt will boost Russia's debt to 17 percent of Gross Domestic Product in 2014 from the current nine percent. Japan's debt/GDP ratio stands at 220 percent, U.S.' 92 percent and Brazil's 66 percent. As borrowing internationally is expensive, the ministry plans to cover 90 percent of budget deficit by borrowing from foreign investors on the domestic market where the government will introduce international depositary and clearing systems, allow OFZ bonds to be traded on the corporate stock market and issue primarily medium and long-term securities with a fixed coupon rate. The volume of OFZs belonging to foreigners amounts to 3 percent of the country's debt as only local investors with a depositary license have access to the MICEX stock exchange's section where OFZs are traded. As a result, foreign investors buy Russian debt for speculation while under the international practice sovereign debt is regarded as a long-term investment. Currently, Russia's benchmark OFZ federal loan bonds are too volatile, immature and highly dependent on external factors, Kommersant quoted the ministry as saying.

**Source:** Ria Novosti