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Special Focus: Chile



Chile is a rather peaceful country with very few internal or external military threats. Furthermore, any historical disputes that have been arisen the last decades with its neighbors were settled with diplomatic solutions. Nevertheless, Chile is currently investing in a large-scale modernization plan for the armed forces, sourcing advanced weapon systems from abroad. Actually, Chile was the biggest importer of conventional weapons in the Latin America for the

period 2004–2008 and the 11th largest in the world, up from 36th place for 1999–2003. Furthermore, the national defence budget was nearly doubled in size between 1996 and 2009. In 1996 was 2,948 whereas in 2009 was 5,683.

Military expenditure of Chile (In constant (2008) US\$ m)

	2005	2006	2007	2008	2009
In constant (2008) US\$ m.	5,364	6,282	6,116	5,982	5,683
percentage of gross domestic product	3.6	3.7	3.4	3.5	-

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

While three of the five largest suppliers of major conventional weapons for the period 2004–2008 namely the USA, Germany and the UK plays an important role in the export of arms in Chile, the national arms market has not been dominated by a single producer. It is indicative that for the period 2006–2009 sixteen (16) different nations exported arms in the country. Furthermore, Netherlands, which is not in the first line of arms suppliers, occupied the first place for the aforementioned period.

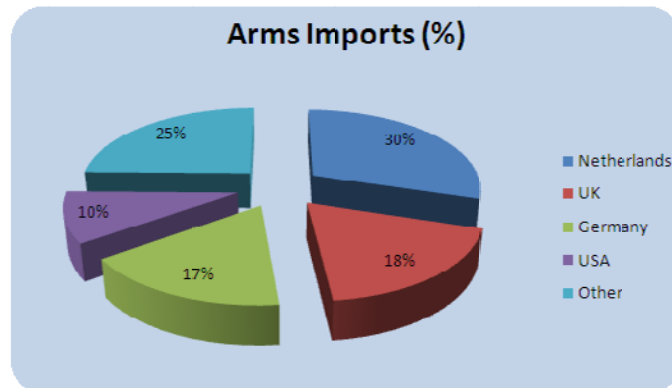
Imports (expressed in US\$ m. at constant 1990 prices)

	2006	2007	2008	2009	Total
Netherlands	346	386	5		737
UK	124	167	167		458
Germany	1	35	304	76	416
USA	237	74		38	349
Total	1041	723	577	231	2572

Source: SIPRI Publications, Arms Transfers Database

One of the major arms imports from Netherland that Chile contacted in this period was the acquisition of eighteen (18) F-16C aircrafts. The deal totally amounted 270 m US dollars. The delivery of the aircrafts will start in 2010. The purchase raised concerns among the neighbor countries and it was perceived as the start of a South American “arms race”. However, Chilean Defence Minister Mr. Francisco Vidal stated that: “It is not an arms race. It is a renewal of equipment which was totally obsolete,” smoothening the concerns of neighbor states.

With 458 million US dollars expressed at constant (1990) prices, UK is the second biggest exporter of arms in Chile. One of the major procurements from UK is the acquisition of three (3) Duke/Type-23 frigates. The total amount of funds allocated was 260 million US dollars (including 125 million US dollars for spares, training and ammunition).



Germany plays a significant role in the Chilean arm procurement. In March 2006, Chile signed a contract for the acquisition of 140 Leopard 2A4 tanks from the German Army. The first was delivered in December 2007 and the deliveries completed in 2009. The total amount of the deal was 125 million US dollars.

USA is the fourth most important exporter of arms in Chile. For the period 2006-2009 exported 349 million US dollars at constant 1990

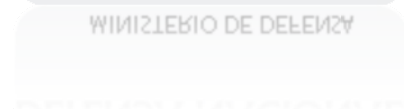
prices. One of the most important arms deals between USA and Chile was signed in 2003. Chile acquired ten (10) F-16C, for a total amount of 660 million US dollars. In return for the 660 million acquisition Chilean aerospace industry received a 100% offset package.

Offsets will be a key vehicle for the development of the Chilean industry, which is rather small. Chile now manufactures armored and soft-skinned vehicles, artillery, ballistic rocket systems, anti-aircraft equipment, infantry support weapons, naval and air craft, aerial bombs and rockets, and radar and electronic equipment.

Chile is currently the number one spender in Latin America. Its small industry necessitates Chilean government to spend most of its enhanced defence budget in purchasing arms from abroad. Of course, as in every other Latin American market, Chilean market is difficult. Nevertheless, is constantly developing and despite the initial difficulties that someone may encounter the market exists and rewards await those whose efforts are serious and persistent enough.

Kyriazis Vasileios,
Epicos Newsletter Head Editor

Chilean Defence Industry in the New Socioeconomic Environment



The Chilean defence industry is rather restricted. Therefore, the country is heavily depending on arms imports in order to modernize its arsenal and a vast majority of the national defence budget is dedicated on buying arms from international vendors. Chilean army has its own guaranteed permanent source of income in the form of a fixed percentage of copper revenues. Due to the Copper Law (*Ley del Cobre Reservado*) established in 1958 during the era of military rule under Augusto Pinochet, the armed forces are automatically granted a fixed 10% of the nation's export earnings from the state-owned (and the nation's largest) copper company, the *Corporación Nacional del Cobre de Chile* (CODELCO).

The revenues that this law brings in the defence budget are not trivial as CODELCO is the world's largest copper producer, with an annual output of around 1.8 million metric tons (two million tons). Thus, Chilean armed forces have a stable income no matter what the profitability of the copper company is. This is because regardless of how much the final production of the company is or how high the price of copper rises on the international market, the law requires 10% of the total value of CODELCO's revenue to be reverted to Chile's armed forces. Additionally, this has as a result that when there is a rise in copper prices, the enhanced earnings of CODELCO are translated into a bigger amount of buying power for the Chilean armed forces.

From the abovementioned ascertainment is clearly illustrated that the performance of the national economy is significantly interrelated with the development of



armed forces, more than it is usually in other countries. By estimating the fluctuation of the copper national production and the price that it has in the international market one can have a draft estimation of the Chilean defence budget. Copper is the key industry of the country as it provides 1/3 of government revenue.

Thus, it is important to examine some fundamental economic indicators of the country as in this way one can estimate the trend of the Chilean defence budget. Over the last years the country is performing well. Foreign direct investment inflows amounted to around 17 billion US dollars in 2008. Of course this amount was dropped to about 7 billion US dollars in 2009 due to global economic recession and the diminish of investment throughout the world, something that created a vicious circle in the Chilean economy that showed signs of



recession. Nevertheless, economy started to show signs of recovery in the 4th quarter in 2009, although GDP still fell more than 1% for the year.

The improvement of the economic situation of Chile illustrates that the national defence budget will possibly stay in high levels and new acquisitions of arms will be made. Offset obligation derived from these

acquisitions is possible to increase the size of national defence industry and create synergies with international firms. Towards this direction was the agreement signed on August 24th, 2010 between the defence ministers of Chile and Brazil. According to it Chile's company ENAER company will join Embraer's KC-390 industry team.

Chilean defence budget largely depends on copper and the funds received from the Copper Law. With these funds the country is updating its armament and with the use of offsets derived from these acquisitions will try to enhance its rather restricted defence industry.

Kyriazis Vasileios,
Epicos Newsletter Head Editor

Epicos Project Opportunities



Epicos "Project Opportunities" 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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Cable harnessing for military, aeronautical and space applications



A company with long standing experience in the field of cabling for industrial and communication purposes is willing to expand the activities in the field of specialized cabling for military and aerospace applications.

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

Mail at: a-dimou@epicos.com

Production of metallic parts for the defense and aeronautical industry



military ground vehicle parts.

A company with significant experience in the production of metallic components and subassemblies for the automotive, electrical/electronic and domestic electrical equipment industry and association with companies involved in vehicles modification, painting and final assembly on Complete or Semi Knocked Down (CKD or SKD) basis is proposing the collaboration for establishment of a production line for manufacturing aeronautical and/or

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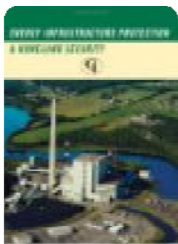


**Global Politics of Defense Reform (Initiatives in Strategic Studies: Issues and Policies),
Thomas Bruneau (Author), Harold Trinkunas (Author)**



It is increasingly clear that since the end of the Cold War a number of important global trends have become self-perpetuating, far beyond the ability of any state to control. The current world-wide struggle against transnational terrorism since 9/11, the spread of democracy, the globalization of commerce and communications and the implications of new technologies all have affected military organisations and their civilian counterparts profoundly. This volume analyzes the impact of the aforementioned key global trends and by comparing cases across Europe, Asia, North and South America, argues that democratization and globalization have had an outsized role in determining the timing and sequence of defense reform and the consequent impact on civil-military relations.

Energy Infrastructure Protection and Homeland Security, by Frank R. Spellman



security.

In the post-9/11 world, the possibility of energy infrastructure-terrorism is very real. Energy Infrastructure Protection and Homeland Security is a reference for those involved with this issue and who want quick answers to complicated questions. It is intended to help employers and employees handle security threats they must be prepared to meet on a daily basis. This book focuses on the three interrelated energy infrastructure segments: electricity, petroleum, and natural gas. It presents common-sense methodologies in a straightforward manner and is accessible to those who have no experience with energy infrastructure or homeland

Epicos Newsroom**Britain to announce military cuts as austerity measures loom**

Britain is to scrap major defence assets like its flagship aircraft carrier and fleet of Harrier jets in a defence review being announced Tuesday as part of stinging, across-the-board government cuts.

Prime Minister David Cameron will tell the House of Commons from 1430 GMT the HMS Ark Royal is to be decommissioned almost immediately, while a decision on a replacement for the Trident nuclear deterrent is set to be delayed.

In total, the Ministry of Defence (MoD) is facing cuts of around eight percent from its 37 billion pound (42 billion euro, 58 billion dollar) budget in the defence review.

It comes ahead of a sweeping programme of wider reductions of up to 25 percent in most government departments which will be unveiled in a comprehensive spending review Wednesday.

Cameron's coalition government, which took power in May, is battling to reduce public sector borrowing from 149 billion pounds to 20 billion pounds by 2015-16.

The decision to axe Ark Royal earlier than the 2014 date originally planned -- confirmed by government sources -- will leave Britain without an aircraft carrier capable of launching jets for around a decade.

It will be 2020 before two new aircraft carriers -- which are going ahead in part because it would be more expensive to scrap pre-agreed contracts than to go ahead with them -- can be used for this purpose.

But Cameron defended himself against any suggestion that military strength was being sacrificed for economic reasons.

"You're not a strong and well-defended country unless you have strong and well-defended finances as well as armed forces," he said on a visit to a military base outside London ahead of the announcement to parliament.

"We will make sure that our troops in Afghanistan get every single piece of equipment and support that they need because the work they are doing is vital for our national security.

"We will be making a modest contribution to dealing with the appalling state of our national finances by making sure that what we spend on defence reduces, but reduces by a small amount."

Britain is the second-biggest contributor of foreign troops in Afghanistan after the United States.

News of the cuts have caused concern in Washington, prompting Secretary of State Hillary Clinton to question their possible impact on NATO.

Cameron called President Barack Obama late Monday to discuss the defence review, telling him Britain would remain a "first-rate military power and a robust ally of the United States."

Britain "remained committed to meeting our responsibilities in NATO and would continue to work closely with the US on the full range of current security priorities," Cameron told Obama, according to a Downing Street statement.

The Trident decision is expected to be delayed for up to five years until after the next general election.

This is reportedly to avoid a split between Cameron's Conservatives and their junior coalition partners the Liberal Democrats, who oppose it.

The army, air force and navy all face cuts -- reports suggest the army could lose several thousand troops plus tanks, the air force will see bases closed and the navy will see manpower cuts.

The defence review, the first of its kind for 12 years, comes the day after the government launched a new national security strategy.

This highlighted international terrorism and cyber attacks among the biggest threats to Britain along with natural hazards like flu pandemics and foreign military crises which may involve the country.

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

Russia's Pacific Fleet ready to receive Borey class submarines

MOSCOW, October 19 (RIA Novosti) - A Pacific Fleet's naval base in Vilyuchinsk on the Kamchatka Peninsula is fully prepared to host Russia's new Borey class strategic nuclear-powered submarines, a Russian military analyst said on Tuesday. Borey class submarines, with the capacity to carry 12 Bulava ballistic missiles, are expected to constitute the core of Russia's strategic submarine fleet after 2018. "Prior to the arrival of the Yury Dolgoruky submarine in Vilyuchinsk, all piers and main facilities at the base have been rebuilt, new security and communications systems have been introduced, and the training center has been modernized," said Igor Korotchenko, a member of the Defense Ministry's Public Council. The Yury Dolgoruky, which has completed sea trials in the White Sea, is expected to enter service with the Russian Navy in the near future, pending the outcome of the Bulava testing. Three other Borey class nuclear submarines, the Alexander Nevsky, the Vladimir Monomakh, and Svyatitel Nikolai (St. Nicholas) are in different stages of completion. Russia is planning to build eight of these subs by 2015. Strategic submarines of the Pacific Fleet are included into the 16th Squadron, based in Vilyuchinsk. The squadron includes four Delta III class subs - K-211 Petropavlovsk-Kamchatskiy, K-223 Podolsk, K-433 Sv. Georgiy Pobedonosets, and K-44 Ryazan, which was transferred to Vilyuchinsk from the Northern

Fleet. These submarines carry the D-16R missile system with 16 R-29R (SS-N-18) missiles and are being gradually withdrawn from service.

Source: RIA Novosti

Sri Lanka raises defence spending by six percent

Sri Lanka announced Tuesday it would raise defence spending by six percent in 2011 -- broadly in line with annual hikes announced during the government's war with Tamil rebels.

The government allocated 215 billion rupees (1.92 billion dollars) for defence in calendar 2011, according to official figures tabled in parliament Tuesday -- about a fifth of the national budget.

Official sources say the state needs to keep defence spending high, despite the fact the ethnic war has ended, because of hefty installment payments on military hardware bought to fight the separatist Tamil Tigers.

Government forces crushed the rebels in May 2009, ending what had become Asia's longest-running ethnic conflict that claimed up to 100,000 lives over nearly four decades, according to UN estimates.

The highest portion of the defence budget next year in the island nation of 20 million people will go to the army.

The army will absorb just over half of the entire defence spending to maintain its 200,000 personnel, the figures show.

President Mahinda Rajapakse, who is also finance minister, is due to unveil the full 2011 budget on November 22, when he is expected to announce new revenue raising proposals to meet state expenses.

Sri Lanka's fiscal deficit shot up to 9.7 percent of gross domestic product in 2009, exceeding the seven percent target set by the International Monetary Fund when it released a 2.6-billion-dollar bailout package in 2009.

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

Russia's Putin says 2010 budget deficit may be below 5.3 pct of GDP

MOSCOW, October 18 (RIA Novosti) - Russia's 2010 federal budget deficit may turn out to be much lower than the forecast of 5.3 percent of gross domestic product (GDP), Prime Minister Vladimir Putin said on Monday. "We hope that the 2010 federal budget deficit will be significantly lower than the forecast of 5.3 percent of GDP, and next year we plan for it to be a little over three," Putin said at a meeting of foreign investment council. Finance

Minister Alexei Kudrin has said he did not expect this year's budget deficit to be below five percent.

Source: RIA Novosti

Airbus pitches A380 for Japan's busy domestic market

European aircraft maker Airbus landed its A380 airplane at Japan's Haneda airport for the first time Friday as part of an attempt to market the double-decker for the country's popular domestic routes.

The world's largest passenger aircraft was on Sunday due continue its demonstration flight to head for Sapporo in northern Hokkaido island, which the maker said was the world's busiest domestic air route.

The event comes as Haneda, now a domestic and regional hub, prepares Thursday to open a fourth runway and a new international terminal, boosting its role in Japanese capital.

"The smartest way to address airport congestion and to simultaneously meet future passenger demand is to operate a larger, greener, cleaner, quieter and more eco-efficient aircraft," said Airbus executive vice president of operations Gerald Weber.

The world's two busiest domestic routes in the past 12 months were in Japan, and the country also had two more inland routes in the global top 20, added Richard Carcaillet, Airbus' director of marketing for the A380,

Japan Airlines (JAL) and All Nippon Airways (ANA) are already using Boeing 747 jumbo jets on several domestic routes, and Airbus is hoping the airlines will opt to sign contracts for its wide-body plane.

Air France, Lufthansa and Singapore Airlines already use the A380 for Japan routes to Tokyo's main international airport of Narita.

The first-ever landing of an A380 at Haneda was greeted with a ceremony attended by Economy Minister Rainer Bruederle of Germany, one of the countries involved in the Airbus project.

"For the future, I wish this Airbus flagship that it may become a regular and appreciated visitor here in Haneda," he said in a statement.

Haneda, located closer than Narita to the city centre, is expected to emerge as a major international hub for Japan.

Airport authorities have, however, limited the A380 to quieter night-time hours, fearing delays during crowded daytime operations when other planes have to wait longer because of its powerful wake.

"We believe that these limitations have no technical reason and we are in talks for them to be lifted," said Carcaillet.

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