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## Defence Spending in Gulf States; Oil Revenues and Defence Modernisation



According to industry estimations, Gulf States is expecting to continue embarking on a defence spending spree that could exceed \$100 billion US dollars by 2020. Almost all Gulf States (Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and the UAE) devote a larger share of their gross domestic product (GDP) to military spending than the global average. Saudi Arabia and the UAE are the biggest spenders in the

area, yet this is expected to be challenged by Iraq in the near future. The impending exodus of U.S. forces from the country will necessitate the investment of a vast amount of funds from Baghdad that will be entailed with the task of solidifying the country's borders and providing security.

Arms production capabilities in the area are rather limited. Abu Dhabi is trying to tackle this problem by launching several industrial initiatives, such as Tawazun, Abu Dhabi Ship Building and Caracal that will eventually reduce the country's dependency on imported equipment. Despite this development, Gulf States are highly depended on arms imports for equipping their army. For the period 2005-2009 10% of major conventional weapons were exported to the region. The weapons were supplied by at least 30 different countries. USA is traditionally the main exporter of arms in the region. Apart from USA, other countries that export arms to the Gulf States are France, Russia, the United Kingdom, Russia and China.

Suppliers' percentage shares of each recipient's total volume of imports

| Recipient/Supplier | China | France | Russia | UK | USA | Others |
|--------------------|-------|--------|--------|----|-----|--------|
| Bahrain            | -     | -      | -      | 34 | 55  | 11     |
| Iran               | 35    | -      | 65     | -  | -   | -      |
| Iraq               | -     | -      | 14     | 1  | 52  | 33     |
| Kuwait             | -     | 3      | -      | -  | 91  | 6      |
| Oman               | -     | 15     | -      | 4  | 79  | 2      |
| Qatar              | -     | -      | -      | -  | 98  | 2      |
| Saudi Arabia       | 6     | 4      | -      | 42 | 40  | 8      |
| UAE                | -     | 35     | 2      | -  | 60  | 3      |
| Gulf Region        | 4     | 21     | 9      | 5  | 54  | 7      |

Source: SIPRI Arms Transfers Database, <http://www.sipri.org/databases/armstransfers/>

USA accounted for 54% of the total volume of imports of major conventional weapons over the period 2005-2009. USA is followed by France with a total share of 21%, and France is followed by Russia, United Kingdom and China, with 9%, 5% and 4% respectively. Russian and Chinese exports went mainly to Iran, which received no major arms from the USA and from most European states.

It is regardless to say that the main income of the Gulf States and the main sponsor of defence procurements are oil revenues. Additionally, natural resources can be a source of international tension and conflict meaning that Gulf States are obliged to protect oil infrastructure from internal or external enemies. Oil revenue is financing the procurement of new defence equipment with which oil infrastructure is protected, creating a vicious circle.

Using oil funds Gulf States finalized several defence procurements during last years. One of them is the procurement of (72) Eurofighter/Typhoon combat aircrafts from Saudi Arabia. The deal is worth about £4.4bn but contracts for maintenance and training are expected to take the bill to £20bn. From the (72) aircrafts (48) were assembled in Saudi Arabia.



UAE procured (3) A-330 MRTT Tankers/transport from France. Deliveries will start in 2011. In 2009 UAE procured (14) S-70/UH-60L Blackhawk Helicopters. The total amount of the procurement is \$171 million dollars and the deliveries are expected to start by 2013. In 2010 Bahrain received (8) S-70/UH-60L Blackhawk Helicopters (UH-60M version) from USA. When the procurement was signed in 2007 Bahrain was the first international

customer for the UH-60M.

In 2008 Qatar, signed a deal for the procurement of (4) C-130J Hercules-2 Transport aircrafts from USA. The deal costs 394 million dollars and deliveries are expecting to commence in 2011. In 2007 Oman, among others, procured (3) Khareef Frigates from United Kingdom for a total amount of 700 million dollars. In 2009 Kuwait bought (3) KC-130J Hercules for 245 million dollars but contracts for support are expecting to raise the total amount up to 1.1 billion dollars.

Iraq is trying to rebuild its armed forces literally from scratch and has procured a wide range of conventional weapons. For the period 2005-2009, Iraq received more than 11 000 light APCs from various countries, primarily the USA. Additionally, Iraq procured (22) Mi-8/Mi-17/Hip-H helicopters from Russia, for a total amount of 80 million dollars, (6) SA-342 Gazelle light helicopters from France and (140) M-1A1 tanks from USA.

Contracts being implemented include the delivery of (140) M-1A1 tanks, (24) Bell-407 armed helicopters and (6) C-130J transport aircrafts from the USA; over (400) BTR-4 APCs from Ukraine; (24) armed EC-135 helicopters from a French–German company; and (22) Mi-17 helicopters from Russia.

Kyriazis Vasileios,  
Epicos Newsletter Head Editor

## Defence Spending in African States; Procurement of Small Amount of Arms, Disproportionately Big Impact in Conflicts



African States import a small amount of defence equipment. For the period 2006-2010 their share of international imports of major conventional weapons was 7%. For the same period the countries importing the largest amounts of defence equipment were Algeria and South Africa with 48% and 27%, respectively. Most of these weapons are procured from outside the continent as only few countries have a viable defence industry. South Africa is topping this list and is followed by Nigeria. Despite the fact that armed imports are rather limited they may have a great impact on the region as even small imports of arms have a major impact on regional conflict dynamics.

Africa is the poorest region of the planet. Economies of African states are trying hard to enhance their Gross Domestic Product (GDP) and to create sustainable socioeconomic systems. Therefore, procurement of defence equipment is not in their first priorities. This small market was dominated by Germany for the period 2006–10. The European country accounted for 35% of supplies of major arms to sub-Saharan Africa, and is followed by China (10%), Sweden (10%) and Ukraine (8%). All German and Swedish supplies to the region went to South Africa, while China supplied arms to (16) different countries in the region and Ukraine to (8).

### Military expenditure of South Africa

|                                      | 2005   | 2006   | 2007   | 2008   | 2009   | 2010   |
|--------------------------------------|--------|--------|--------|--------|--------|--------|
| Million Rands.                       | 24,880 | 25,102 | 26,746 | 29,556 | 33,235 | 32,922 |
| Percentage of gross domestic product | 1.5    | 1.4    | 1.3    | 1.3    | 1.3    | -      |

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

Algeria was by far the most significant importer of major conventional arms in Africa. In 2006 Algeria bought (185) T-90s Tanks from Russia, for a total value of 1 billion dollars. Additionally, it procured (16) Su-30MK/Flanker fighting aircrafts. The total amounts spend for this procurement is approximately 1 billion dollars and deliveries will commence from 2011.

Algeria is followed by South Africa. In 2008 South Africa procured (170) MILAN anti-tank missiles from Germany. The total amount of the procurement was 11 million Euros. The deliveries of the missiles were completed in 2010. The collaboration between Sweden and South Africa commenced in the beginning of the 21st century when the African country procured (25) Gripen fighting aircrafts. This collaboration intensified in 2008 when the African country bought (264) DI-12 diesel engines in order to use them in Patria's AMV APC vehicles.



The defence industry of the region is rather limited if not nonexistent. Africa is one of the few countries that have a viable defence industry, which has recorded exports. In the period 2004-2008 South Africa was the 17<sup>th</sup> largest arms exporter.

Despite the fact that most of the African countries spend a small amount of money in defence procurements the region has experienced violent conflicts in recent years. This actually means that in several cases the supply of relatively small volumes of arms to African countries may have had a major impact and that conflicts has low intensity.

Kyriazis Vasileios,  
Epicos Newsletter Head Editor

## Epicos "Industrial Cooperation and Offset Projects"



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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### Titanium-based Powder Injection Molding Parts for Aircraft/Jet Engine Applications



A company with extensive experience in the development of advanced products and materials applications – complex shape metallic, cermets and ceramic parts – using Powder Injection Molding (PIM), is proposing the development of titanium alloy forming process based on PIM for applications that meet the most demanding standards of aerospace sector. The process development will ultimately lead in the production of complex shape airframe and jet engine parts; the capability for manufacturing of other structural parts (e.g. surgical implants) will also be established.

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

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### Rugged mission data recording system for monitoring and debriefing applications in modern digital ground forces



A company with vast experience in industrial rugged computers development and production and video signal processing, is proposing the development of a new rugged mission data recording system to be used in several network centric battlefield applications providing continuous monitoring (multiple video and audio signals) and training (e.g. debriefing) applications. The recording system will interface with vehicle vectorics collecting and storing video and audio from crew members and various sensors providing advanced debriefing capabilities.

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

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*Epicos- Amazon*
**The Economics of Defence Spending: An International Survey, by Keith Hartley, Todd Sandler**


First published in 1990, this is an authoritative account of defence spending and policy in both developing and developed countries. The book provides case-studies and comparative material for policy-makers, civil servants, and military staffs throughout the world. It will also be of great use to students of economics, politics, international relations, and policy studies.

**Globalization and the National Security State, by Norrin M. Ripsman, T.V. Paul**


Since its inception as a social institution, the primary purpose of the nation-state has been to provide security within a geographically defined territory against both external and internal threats. Throughout many political and socioeconomic changes that occurred the last decades nation-states lost some of their jurisdiction. Many have posited a correlation between the spread of globalization and the decline of the nation-state. In the realm of national security, advocates of the globalization thesis have argued that states' power has diminished relative to transnational governmental institutions, NGOs, and transnational capitalism. Initially, they pointed to declines in both global military spending (which has risen dramatically in recent years) and interstate war. But are these trends really indicative of the decline of nation-state's role as a guarantor of national security?





### Russia, China to sign major gas deal next week-ambassador

MOSCOW, June 10 (RIA Novosti) - Russia and China will finalize a major gas supply deal during a visit by Chinese President Hu Jintao to Moscow next week, ambassador to Russia Li Hui said on Friday. "Gas negotiations are going on, an agreement on the gas price formula is expected to be reached in the near future," he told journalists. "An intergovernmental deal and a contract between companies are supposed to be signed during the upcoming visit by China's Chairman Hu Jintao." Hu will be visiting Moscow from June 15 to 18. On Wednesday, Gazprom spokesman Sergei Kupriyanov said the company planned to continue talks on the contract on June 14. President Dmitry Medvedev said he hoped the two countries would sign the deal before the end of 2011 and wrap up years of talks to open a new export route to the world's biggest energy market. Deputy Prime Minister Igor Sechin has said he had reached a broad agreement at a meeting in Moscow with his counterpart Wang Qishan to supply China with 68 billion cubic meters of gas a year for over 30 years.

Source: Ria Novosti

### Hong Kong Airlines plans to place order for A380s

Hong Kong Airlines said Tuesday that it plans to place an order for an unspecified number of Airbus A380s at next week's Paris Air Show, as it looks to expand its international network.

The carrier is likely to sign a letter of intent next week, outlining details of a deal that would make it the second carrier in the Greater China region to buy the double-decker superjumbo, spokeswoman Eva Chan told AFP.

"Our top-level executives are going over the terms with Airbus," she said. "(But) we have not yet decided on the details of the order."

The A380 -- the world's largest passenger jet with capacity for up to 853 passengers -- entered into service in 2007, breaking US rival Boeing's more than three decades of dominance of the jumbo jet market with the 747.

China Southern Airlines, the country's biggest carrier by fleet size, has ordered five A380s, with the first to be delivered later this year.

Hong Kong Airlines currently flies mainly short-haul regional routes between Hong Kong and destinations in Asia, including Thailand and Japan.

But in March, it signed a preliminary agreement for a monster deal with Boeing to purchase 38 wide-body jets, including 777 cargo planes and 787 Dreamliners, worth up to \$8.5 billion at list prices.



The airline's plan to buy the superjumbo comes as Airbus has forecast that Asia will emerge as the world's biggest aircraft market by 2029, accounting for a third of worldwide deliveries as a growing middle class drives travel demand.

Within the next 20 years, the European plane-maker expects China to become the second biggest aviation market in the world.

China's air travel market is growing fast with a total of 267 million passenger trips in 2010, up 15.8 percent from the previous year, according to official figures.

Beijing will invest more than 1.5 trillion yuan (\$230 billion) in its aviation industry over the next five years to meet surging demand, Li Jiaxiang, head of the Civil Aviation Administration of China, said in February.

China aims to expand its aircraft fleet to more than 4,500 planes by 2015 from over 2,600 at present and increase the number of commercial airports to 220 from the current 175.

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

#### India's Jet, GoAir ready \$6.5bn Airbus order

India's largest private airline Jet Airways and budget carrier GoAir are in line to order \$6.5 billion worth of Airbus aircraft at the forthcoming Paris Air Show, The Economic Times reported on Thursday.

The financial daily quoted Jet chairman Naresh Goyal as saying that they were buying 10 A330 aircraft worth \$2.5 billion as part of plans to expand its routes in Europe.

GoAir is looking to order at least 50 narrow-body A320 jets worth \$4 billion for short-haul domestic routes, which will be brought into service as soon as next year, the report said, quoting two sources familiar with the matter.

Both orders were still being negotiated but were in the final stages, the newspaper added, quoting unnamed sources within Airbus.

A Jet Airways spokeswoman in New Delhi told AFP that she had no details on the exact nature of the orders, as Goyal was speaking on the sidelines of the recent International Air Transport Association annual general meeting in Singapore.

But she added: "We're asking for just a few (aircraft) because that's in line and keeping with our growth plan."

No one was immediately available for comment at GoAir.

The Economic Times said budget airline IndiGo would also push ahead with a previously announced order for 180 A320 aircraft with an estimated value of \$15 billion, after signing a memorandum of understanding with Airbus last year.

Air India, the state-run national carrier, is planning to take 10 A330s and 16 A320s on a rental basis, it added.

Aviation has taken off in India in recent years but private airlines have been grappling with rising fuel prices and a slowdown in economic growth that has hit business.

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

#### **NATO shortcomings could jeopardise Libya mission: US**

US Defence Secretary Robert Gates warned Friday that military shortcomings among NATO allies could jeopardise the alliance's air war in Libya.

With half of the countries in the 28-member alliance not participating in the Libya campaign, Gates said it reflected a worrisome lack of military assets.

"Frankly, many of those allies sitting on the sidelines do so not because they do not want to participate, but simply because they cannot. The military capabilities simply aren't there," Gates said in a speech in Brussels.

He said the NATO-led ground war in Afghanistan had scored important accomplishments but said the mission, along with the Libya war, had reflected chronic under-investment and at times a lack of political backbone.

"Turning to the NATO operation over Libya, it has become painfully clear that similar shortcomings -- in capability and will -- have the potential to jeopardise the alliance's ability to conduct an integrated, effective and sustained air-sea campaign," he said in a speech in Brussels.

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

#### **Qatar Airways' IPO could be this year: CEO**

The national carrier of energy-rich Qatar could launch its initial public offering as early as this year, its chief executive officer Akbar al-Baker said Tuesday.

"It could be this year, it could be next year, it could be the year after. But it will definitely be earlier than people expect," the head of Qatar Airways told reporters at the opening of a new terminal at Doha airport.

"As the performance of the airline improves, the closer it will be for IPO," he said.

Baker had said in the past that the carrier would go public after three consecutive years of profit.

The chief of the fast-growing carrier said Qatar Airways registered \$205 million of net profits in the financial year 2009-2010 and around \$230 million in 2010-2011.

Qatar Airways has a fleet of 97 aircraft, and has orders for 182 planes, including options. These include 80 Airbus A350s, 60 Boeing 787 Dreamliners, 29 Boeing 777s, eight Airbus A321 and five Airbus 380-800 superjumbos.

Baker declined to disclose the carrier's plans for orders at the Paris airshow next week.

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