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Defence Spending in Europe, The Impact of Economic Crisis



European States play an important role in the international market of defense equipment. According to Stockholm International Peace Research Institution (SIPRI), for the period 2006-2010 their share of international transfers of major conventional weapons was 21%, whereas European Union's member-states had 17% of global arms imports. Surprisingly, Greece a rather small and poor country was the largest importer of major conventional weapons in Europe. Greece is followed by UK and Poland both of which are among the 20 largest importer of the world for the period 2006-2010. Several other European countries, such as Germany, France, UK and Italy are among the one with the biggest military expenditure, however, these countries are significant arm manufacturers and they import relatively small volumes of weapons.

As it is already mentioned Greece is the largest importer of major conventional arms in Europe. Greece is placed in a rather unstable and crucial geo-political region. Being in the Balkan Peninsula, an area that created more than a few political disorders in the last decade, Greece has to be prepared to tackle with a considerably complicated and potentially precarious environment. Additionally, Greece has to take into consideration the new type of threats that had been introduced globally and has to do with the new notion of uncertainty that the nations and the international community are called to confront and which we usually call "asymmetrical threats". Furthermore, Greece is the only EU member that is still having opened disputes with one of its neighbour countries, namely Turkey.



For these reasons the country's authorities decided to allocate considerable human and financial resources towards National Defence. Nevertheless, the economic crisis hit the country and forced Greek government to downgrade defence budget. In 2010 country's defense budget was at 2% of GDP, down from 3% in 2009. Greece's defense budget was cut by around 18% in 2010 (- €1.1bn) and will in all likelihood be reduced by a further 19% in 2011, and fall from €6 billion to €5 billion.

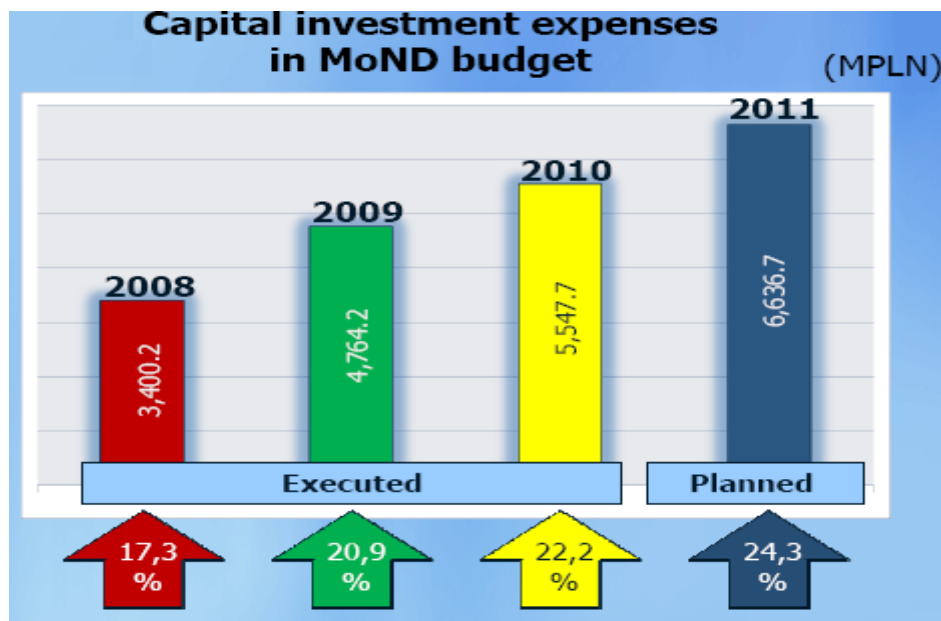


United Kingdom, the second biggest importer of conventional arms in Europe, is currently facing a rather thorny situation. The financial crisis that hit the country affected defence budget that was already under stress from an overcommitted defence procurement programme and growing strains from ongoing operations. It faces a debt of £36 billion (€43 billion) over the next decade. This excludes the potential costs of £20 billion

(€24 billion) for the upgrade of submarine based trident nuclear weapon systems. Therefore, British authorities had to introduce large cuts to the defence budget. Estimations were that the reductions will be up to 23%. However, defence budget will face a cut of about 8% for the period 2011-2014. Spending limit for defence is at around 38 billion pounds for 2010-2011, 37 billion for 2011-2012 and 34 billion for 2012-13. This amount of money will be the spending ceiling until 2015. Then defence budget may be further cut by 10% once combat troops withdraw from Afghanistan from 2015 onwards.

Polish priority when it comes to defence is the integration of the country in NATO and EU. In a great extent Poland managed to implement this goal thanks to a augmented defense budget, which according to legal provisions in force since 2002, must equal to 1,95% of GDP every year. The legal commitment to spend the aforementioned amount de facto fell to 1.85% of GDP in 2009 due to the economic crisis that the country was facing. Cuts were mainly made on investment expenses that were reduced by about 50%. Polish economy recovered in 2009 and 2010 resulting in stopping defense cuts. In 2011, defense budget rose by 7.1% in comparison to 2010, reaching 6.8 billion Euros.

Capital Investment Expenses in MoND Budget



Source: Ministry of National Defence, Poland

Additionally, Polish ministry of defense is planning to allocate a bigger amount of funds in capital investments. In 2008, 3,400.2 million Zlotys were spent on capital investments representing 17.3% of total budget. In 2009 this number increased to 4,764.2 million Zlotys representing 20.9% of total budget, while in 2010, 5,547.7 million Zlotys were spend on capital investments representing 22.2% of total budget. For 2011, 6,636.7 million Zlotys is planned to be spend representing 24.3% of total defense budget.

Kyriazis Vasileios,

Epicos Newsletter Head Editor

Defence Spending in Asia and Oceania, Large Importers- New Acquisition



During the second half of the first decade of the 21st century the amount of deliveries of major conventional weapons to states in Asia and Oceania was 17% higher than in the period 2001–2005. However, this raise was lower than the global average and as a consequence the region's share of the global volume fell to 43% in 2006–10 from 45% in 2001–2005. Furthermore, 6 of the 10 largest importers for the period 2006–10 are from the region, namely India (1st), China (2nd), South Korea (3rd), Pakistan (4th), Singapore (7th) and Australia (9th). Of course the lion's share of these imports belongs to India as it is no tall statement to say that the government of the country does not spare funds for defence, especially for Capital/New acquisitions.

India is one of the largest users and importers of conventional defence equipment. It ranks among the top ten countries in the world in terms of military expenditure. Its cumulative defence budget for the period 2010-11 will be approximately 31.9 billion US dollars. Approximately, 40% of this is capital expenditure. According to estimates, nearly 70% of the defence requirements are met through imports, with only 30% being met through domestic

Military expenditure of India

	2006	2007	2008	2009
In constant (2008) US\$ m.	28,465	28,866	32,334	36,600
As percentage of gross domestic product	2.6	2.5	2.6	-

Source: SIPRI Publications

production. Government stated that aims in reversing this trend and manufacture 70% or more of its defense needs indigenously.

China was the second largest importer of the region. Nevertheless, deliveries were almost half of the volume of the period 2001–2005. Another important importer of conventional arms is Pakistan. This poor country of Asia, mainly due to the conflict with India has to allocate a significant amount of funds in defence. Pakistan's imports increased by 128% between the periods 2001–2005 and 2006–2010, according to Stockholm International Peace Research Institution (SIPRI).

Australia entered the list of top 10 importers, in 2006–10, increasing its imports by 66% compared to 2001–2005. This boom alerted the country's authorities which decided to reduce defence budget. Therefore they signed the Strategic



Reform Program (SRP). The aforementioned program comprises a comprehensive set of reforms that will fundamentally overhaul the entire organization, driving efficiency and creating around \$6.4b in cost reductions over the Forward Estimates that are necessary to deliver Force 2030. Force 2030 is the new Defence White Paper that explains how the Government plans to strengthen the foundations of Australia's defence. Additionally, it sets out the Government's plans for Defence for the next few years, and how this plans will be achieved. Furthermore provides an indication of the level of resources that the Australian government is planning to invest in defence and the main objectives that the Armed Forces should accomplish.

It is regardless to say that the effort of the government to reduce the amount of funds allocated in defence does not mean that the defence budget of the country will be totally diminished. The total Defence funding for 2010-11 is \$26,896.6m and with these funds the different branches of the armed forces should fulfill their scope and further enhance their abilities.

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...

[For Further Information Press Here](#)

Provision of rapid prototyping services for new casting designs to be used in Aerospace and Defense applications



A company specialized in Complete Design, Engineering, Rapid Prototyping, Casting and Post-Cast Services for the aeronautical and military industry, is proposing, in the frame of an offset program, the collaboration with Aerospace and Defense primes or lower tier companies for the provision of Rapid Prototyping services for new casting designs that will be used in specific Aerospace & Defense programs.

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

Mail at: g-menexis@epicos.com

Provision of repair and restoration services for structures and equipment using advanced composite materials technology



A company with outstanding experience in designing and manufacturing of composite parts and sub-assemblies, mainly for the aerospace industry is proposing, in the frame of an offset program, the cooperation with prime contractors or lower tier companies, either locally or worldwide, for the provision of repair and restoration services for structures, components and equipment that are manufactured of advanced composite materials.

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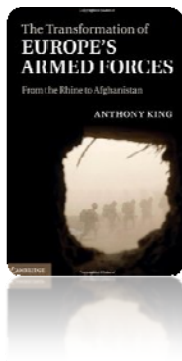


The European Defence Market, by Johannes Kuschel



The ever-increasing number of international missions and the diverse tasks European Forces carry out does not match the decrease in defence budgets in most European countries. Since both, however, are unlikely to change, the transformation will have to come from new ways that armament are procured in the European Union. Therefore, in the European defence sector must change. This book examines the strategic options that they will have. It explores the players in the market, assesses their market position in their respective national industry and forecasts their potential position in a common European defence market. It explores duplication and absence of armaments and technological skills as well as the reasons for them. The paper suggests strategies to overcome the aforementioned market distortions and provides options for companies to deal with the situation favourably.

The Transformation of Europe's Armed Forces: From the Rhine to Afghanistan, by Anthony King



Since the End of the Cold War, there has been extensive research into the issue of European Security and defence. The reason is the development of new strategic threats that transformed Europe's land forces that are currently undergoing a historic transformation which may reflect wider processes of European integration. Europe's mass, mainly conscript armies are being replaced by smaller, more capable, professionalised militaries concentrated into new operational headquarters and rapid reaction brigades, able to plan, command and execute global military interventions. This book is a groundbreaking study of the military dimensions of European integration, which have been largely ignored until now. It will appeal to scholars across the social sciences interested in the progress of the European project, and the nature of the military today.



Australia's Qantas more than doubles profit

Qantas Airways said Wednesday it more than doubled its full-year net profit to Aus\$250 million (US\$262 million) but warned of challenging times ahead as it revamps its loss-making international arm.

The results for the year to June 30, from an airline that announced Asia-focused restructuring plans earlier this month, compared with a net profit of Aus\$112 million dollars in the previous corresponding period.

Its underlying profit before tax -- the airline's preferred measure of financial performance -- was Aus\$552 million, above the Aus\$377 million achieved in 2009/10.

The company said it achieved the result despite a Aus\$224 million impact from natural disasters, including floods and cyclones in Queensland state, the Christchurch and Japanese earthquakes and Chile's volcanic ash cloud.

"This result reflects the strength of the Qantas Group's portfolio and is our best performance since the global financial crisis," said chief executive Alan Joyce.

"We achieved the result while overcoming significant external and operational factors, including a series of natural disasters, a 28 percent increase in average fuel prices and an underperforming international business."

While there were improved earnings for its domestic and freight business, and strong results from budget offshoot Jetstar, whose earnings before tax and interest rose 29 percent, the international operations lost Aus\$200 million.

Joyce said this was unacceptable.

"It is important to put the result in context. The Groups planned capital expenditure over the next two years exceeds Aus\$5 billion," he said.

"Fuel prices are expected to remain high and there is considerable uncertainty in the global economy." Qantas International reported a loss of over Aus\$200 million in the year on invested capital of over \$5 billion, an unacceptable return. Continuing down this path would be unsustainable."

Earlier this month, the airline announced a five-year plan to turn the international arm around.

It will see 1,000 jobs slashed as part of a new emphasis on Asia, which has been met with a firestorm of criticism from unions, who have threatened strike action.

The revamp also involves Qantas spending US\$9.5 billion on new planes and teaming up with Japan Airlines and Mitsubishi Corp. to launch a new low-cost domestic airline, Jetstar Japan.

It will also set up a joint-venture premium airline based in Asia.

"We will reduce investment in underperforming business areas and direct capital towards growth opportunities," Joyce reiterated Wednesday.

"Our intention is that in five years' time Qantas Airlines -- domestic and international combined -- will exceed its cost of capital on a sustainable basis."

With its share price languishing near record lows, at Aus\$1.53 in afternoon trade, talk has been rife that Qantas could be a takeover target, but Joyce played this down.

"There's no formal or informal bid on the table and nobody has approached us. It is pure speculation," he said."

The Australian newspaper reported speculation about a Aus\$3.5 billion-plus bid for the national icon from a private equity fund, but said senior government figures were inclined to oppose it on national interest concerns.

Qantas said it was not possible to provide profit guidance for the year ahead because of the volatility, uncertain economic conditions and the major changes taking place in the company.

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

Putin presses for Russian defense contracts

NOVO-OGARYOVO, August 26 (RIA Novosti) - Russian Prime Minister Vladimir Putin on Friday urged the government to sign all planned defense contracts delayed over price disagreements by September. "Everything should be finished by September," Putin told Deputy Prime Minister Igor Sechin. The premier stepped into an open conflict between manufacturers complaining about delays and the military over "skyrocketing prices." The spat caused serious disruptions in the state order in 2010 and 2011. Sechin reassured Putin that a special commission had been set up for negotiations between the conflicting sides. He said the military had agreed to revise their position. "If earlier the price was based on deflators, now we have agreed with the Defense Ministry to use direct calculation," Sechin said. The situation with defense contracts for 2011 came to spotlight in May after President Dmitry Medvedev openly criticized Defense Ministry officials for stalling the process. On July 26, Putin said 30% of contracts remained unsigned. In mid-August Russia's state-owned United Industrial Corporation (Oboronprom), which produces helicopters, aircraft engines and air defense systems, said it would sign contracts worth a total of 620 billion rubles (\$21 billion) by the end of 2011 against 192 billion rubles (\$6 billion) in 2010. In combat aviation, hopes were pinned on the annual air show MAKS-2011 near Moscow, but the event failed to produce any serious deals. When asked about shipbuilding contracts, Sechin said several conferences had taken place this week involving officials from the Defense Ministry, the Industry Ministry, the United Shipbuilding Corporation and the government's defense sector commission. "Today... three [shipbuilding] contracts will be signed out of the planned 13, and in the next two weeks we will complete work on the other contracts following negotiations on the price," Sechin told Putin.

Source: RIA Novosti

MiG denies stealth technology transfer to China for J-20 fighter

MOSCOW, August 26 (RIA Novosti) - Russia has never transferred any stealth technology to China to assist it with its J-20 Black Eagle fifth-generation stealth fighter prototype, Russian plane maker MiG said on Friday. "We are not delivering any equipment to China, and never have," MiG spokeswoman Yelena Fyodorova said. MiG's statement follows claims in the Russian and foreign press last week that China's J-20, unveiled over six months ago, is based on technology and components from the Russian Mikoyan Article 1.44, a stealth technology demonstrator aircraft, development of which was suspended. Some analysts say the aircraft have close similarities. "The back end of the J-20 looks awfully like the 1.44, as does the overall layout with delta canards," said Douglas Barrie, an air warfare specialist at the London-based International Institute of Strategic Studies. "If it's a coincidence, it's a striking one. Russia may have provided technical support, but there is nothing substantial to prove that. China has however relied on Russia for much of its defense procurement for a decade and a half," he added. China's J-20 Black Eagle is thought to be conceptually similar to the U.S. F-22 Raptor and the Russian T-50 jets, but is likely to be just a technology demonstrator or prototype rather than a viable fighter. China has been working on a future fighter program since the mid-1990s, but the J-20 is not expected to enter service before 2018-2020. Earlier in the month, Mikhail Pogosyan, the head of Russia's United Aircraft Corporation said that China's fifth-generation fighter program is more for effect than substance and branded the maiden flight as a "show-off." China relied on the Soviet Union for much of its aviation technology until the Sino-Soviet split after 1961. China then carried on developing copies of Soviet and Russian aircraft. Beijing also relies on Russian engines, radars and electronic components for many of its other aircraft, such as the JF-17 fighter it developed jointly with Pakistan.

Source: RIA Novosti

Ukraine wants to cut Russian gas supplies 3 times - PM

KHARKOV, August 30 (RIA Novosti) - Ukraine will slash gas purchases from Russia threefold in the next few years, Prime Minister Mykola Azarov said on Tuesday. "We have fixed a very ambitious goal of cutting gas supplies from Russia three times in the next few years," Azarov said without specifying the time period. Ukraine has been seeking a revision of the 2009 gas deal with Russia since last spring, saying that the gas price formula is unfair. Russia has tied the price for gas to the international spot price for oil, which has been rising strongly recently. The contract was signed by former prime minister Yulia Tymoshenko who is now on trial for signing it. Last week Russian President Dmitry Medvedev said the contract must be fulfilled but added that discounts were possible if Kiev joined the Customs Union of Russia, Belarus and Kazakhstan and agreed that acquisition of its Naftogaz energy company by Gazprom.

Source: RIA Novosti

Russia ready to help Venezuela with weaponry purchases

MOSCOW, August 26 (RIA Novosti) - Moscow is ready to loan Venezuela \$4 billion on purchases of military equipment, Russia's Kommersant newspaper said on Friday citing a diplomatic source. "Russia is ready to loan money to Venezuela," the source said. "Considering the current election campaign in the country, this loan would mean the opportunity to support our key ally in the region." Venezuelan Minister of Finance and Planning Jorge Giordani is expected to visit Russia in the near future to discuss the conditions of the loan with Russian officials. Earlier reports indicated that Caracas may ask Russia for an additional \$6.5 million on the development of infrastructure in the oil-rich Latin American country. Between 2005 and 2007 Venezuela reached deals to buy \$4-billion worth of arms from Russia, including Sukhoi fighter jets, combat helicopters, and guns. Chavez' government also secured a \$2.2-billion loan in 2010 to purchase Russian T-72 tanks and S-300 air defense systems.

Source: RIA Novosti