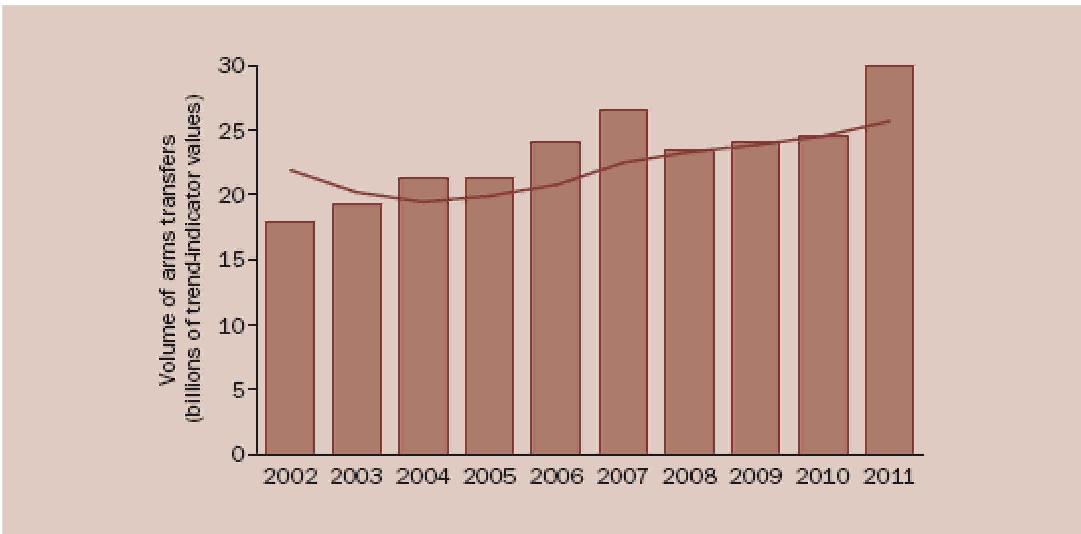
New Portal Officially Launched
Click here or visit www.epicos.com

Volume 4 Number 12– Wednesday, 21 March 2012

Global Defence Spending, Asia on the Lead

On March 19th, 2012 the Stockholm International Peace Research Institute (SIPRI) published its report about global international arm transfers. According to it the volume of worldwide arm transfers of major conventional weapons in the period 2007-2011 was 24% higher than in 2002-2006. This augmentation in arm transfers was mainly driven by the Asian demand as the five largest arm importers for the period 2007-2011 were Asian states. The rest of the regions followed. Europe was second with a share of 19% of the global trade, Middle East third with 17%; America and Africa were the two last regions with 11% and 9% respectively. On the other hand the five biggest suppliers of major conventional weapons for the period 2007-11 were the United States, Russia, Germany, France and the United Kingdom. USA and Russia remained by far the largest exporters as they accounted for more than half of the total of the exports. USA accounted for 30% of all exports, whereas Russia accounted for 24%. All the five top suppliers accounted for 75% of total exports for the period 2007-11, compared with 78% that they exported in the period 2002-2006.

The trend in international transfers of major conventional weapons, 2002–11



Source: Stockholm International Peace Research Institute (SIPRI)

As it is already mentioned the five biggest importers of conventional weapons were from Asia. In more details, India was the largest recipient of arms, accounting for the 10% of global arm imports. The four next were South Korea with 6%, Pakistan with 5%, China with 5% and Singapore with 4%. This trend continues within 2012 as one of the latest developments that really "rocked" the global aerospace and defence market came from the region and was the announcement from the Indian government that the Rafale fighter aircraft built by France's Dassault Aviation has emerged the lowest bidder in the contest to sell the Indian Air Force (IAF) 126 medium multi-role combat aircrafts. The total value of this procurement is estimated to be worth $12 billion.

On the other hand USA was once again the biggest exporter of conventional arms for the period 2007-2011. In fact, exports increased by 24% compared to the period 2002-2006. Asia and Oceania was the largest recipient region of US weapons (accounting for 45% of exports), followed by the Middle East 27% and Europe 18%. Aircrafts were the main conventional arms that USA exporting constituting for 63% of the volume of deliveries in 2007-11.

As it is already mentioned Russia was the second larger exporter of conventional arms, accounting for 24% of the global exports. The volume of Russia's arm exports increased by 12% between 2002-2006 and 2007-11. The region of Asia and Oceania was the largest recipient of Russian weapons 63%, followed by Africa 17% and the Middle East 10%. Additionally, Russia built an exceptional bond with India as the Asian country received 33% of Russian arm exports, while Russia provided 80% of India's arm imports.

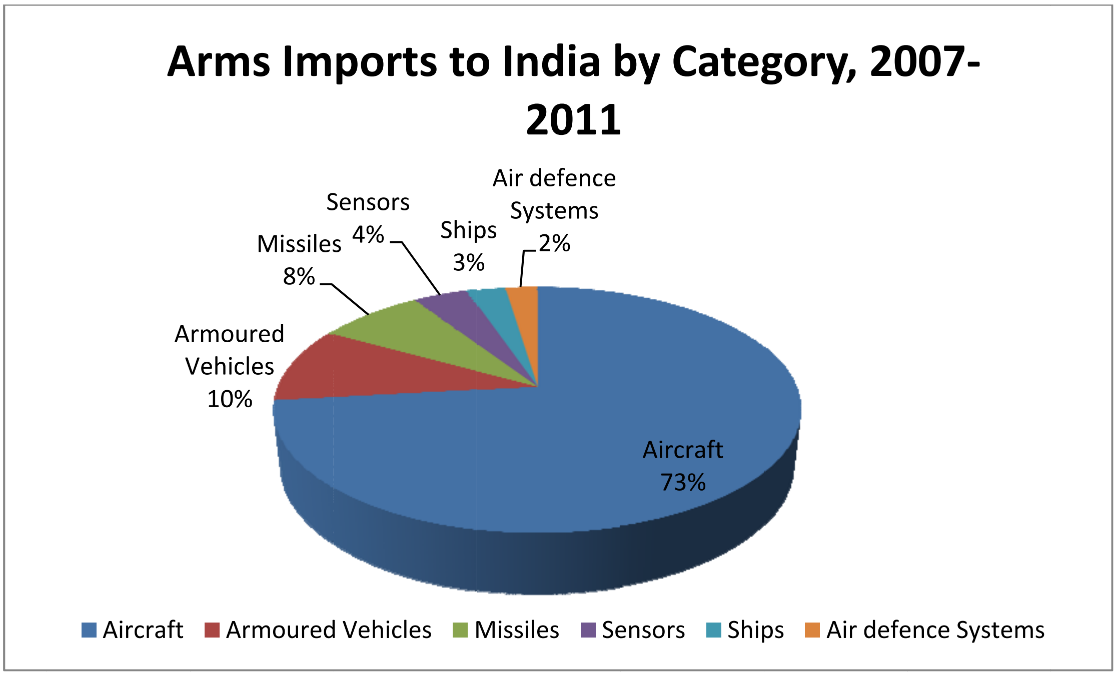
It is important to mention that despite the fact that the European Union is experiencing a rather thorny economic crisis; the European states are still importing a fair amount of conventional weapons. In fact the volume of deliveries of the European states increased by 13% between 2002-2006 and 2007-11. Greece was the largest importer in the region in 2007-11. Nevertheless, the country's imports decreased by 18% between 2002-2006 and 2007-11. Greece is now the 10th largest arm importer, down from being the 4th largest in 2002-2006. Greece placed no new order for major conventional weapons in 2011.

Kyriazis Vasileios,
Epicos Newsletter Head Editor

Defence Imports of Asia and Oceania: The Predominant Place of India

According to the Stockholm International Peace Research Institute (SIPRI) Asia and Oceania was the region with the biggest volume of arm imports for the period 2007-2011 accounting for 44% of global arms imports, up slightly from 43% in 2002-2006. The main recipient sub-region was South Asia with 37% of transfers to the region, followed by East Asia with 29%, South East Asia with 23%, Oceania and Central Asia with 8% and 1% respectively. India was the world's largest recipient of arms followed by South Korea, Pakistan, China, Singapore and Australia. It is worth mentioning that China was the largest recipient of arm exports in 2002-2006 and now declined to fourth place. This decline coincides with the improvements in China's arms industry and rising arm exports, which increased by 95%, making it the sixth largest supplier.

India was the world's largest recipient of conventional arms for the period 2007-2011, accounting for 10% of global arm imports. Aircrafts were the predominant area of imports for this period with a total amount of 9031 US$ million at constant 1990 prices. The second most important sector was that of armored vehicles with 1216 US$ m. at constant 1990 prices whereas other areas such as missiles, sensors and ships followed with 952 million, 492 million and 347 million respectively.



Source: SIPRI

Another important importer of conventional arms in the region is Pakistan. This poor country of Asia, mainly due to the strained relations with India, has to allocate a significant amount of funds in defence. Pakistan was the world's third largest importer of conventional arms for the period 2007-2011, accounting for 5% of imports. Pakistan, among others, procured during this period, (50) JF-17s from China and (30) F-16s from USA.

As it is already mentioned China significantly reduced its defence imports, mainly due to the progress made in its arm production capabilities. Additionally, the country increased its volume of exports by 95%. The main region that China exported for the period 2007-2011 was Asia and Oceania accounting for 73% of the total volume. Middle East with 12%, Africa with 9% and South America with 6% followed. Pakistan was by far the country which imported the biggest volume of arms from China as it received 64% of the total amount of Chinese exports. China continued to rely on the import of engines from Russia for its combat aircraft and of other key components and designs from Russia, France, Switzerland, the UK, Ukraine and Germany, something that highlights that the Chinese defence industry still has to cover a long road to mature.

Australia was the sixth country in terms of imports accounting for 4% of the world's transfers. The Australian government is planning to continue this trend throughout the next decade as the total defence expenditure is forecast to grow with a compound annual growth rate of about 3.5%. Sustainment expenditure is planned to exhibit uniform growth over the decade with a compound annual growth rate of about 2.8%. Growth in acquisition expenditure is forecasted to be more variable, and rises at a compound annual growth rate of 4.9%.

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

Portable, Semi-Automatic Heavy Gun Barrel Cleaning System

A well established developer and producer of barrel cleaning solutions, is proposing the implementation of an advanced semi-automatic and environmental-friendly cleaning system to support military and peace keeping operations in harsh environments worldwide.

For Further Information Contact our ICO Department

Mail at: g-menexis@epicos.com

Development of Helicopter Custom Design & Modification capability

A company certified to carry out inspections and repairs on helicopters as well in the helicopters' emergency floats, Life Rafts and several equipments used in aerial activity, is willing to expand its capabilities in custom design and modification for helicopters, to address country’s military and civilian needs.

For Further Information Contact our ICO Department

Mail at: g-menexis@epicos.com

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 materiel 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.

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.

Epicos Newsroom

IATA cuts 2012 airlines profit forecast to $3.0 bn

Industry group IATA on Tuesday cut its 2012 profit forecast for the airline sector to $3.0 billion ($2.3 billion) from $3.5 billion as tensions in the Gulf push fuel prices higher.

However, the International Air Transport Association raised its 2011 earnings estimate for the sector to $7.9 billion from a previous forecast of $6.9 billion.

Source: 2012 AFP, Agence France-Presse (AFP)

High fuel prices threaten airline sector, IATA warns

The airline industry group IATA cut its 2012 profit forecast for the airline sector to $3.0 billion ($2.3 billion) from $3.5 billion on Tuesday as tensions in the Gulf push fuel prices up.

If fuel prices were to soar to $150 a barrel from about $120 at the moment, some airlines could even go bankrupt, warned International Air Transport Association chief Tony Tyler.

The latest figures foresee bigger-than-expected profits for the global airline sector last year, but a drop of about 60 percent this year.

Although IATA cited the European debt crisis as the main risk in December 2011, this threat has now been "taken off the table," it said.

Rather, soaring fuel prices amid supply fears spurred by concerns over Middle East supplies are now key threats to the industry.

IATA had based its initial industry earnings estimate on a forecast fuel price of $99 a barrel in 2012, but prices have now soared to about $120, with an annual average expected at around $115.

"This will push fuel to 34 percent of average operating costs end see the overall industry fuel bill rise to $213 billion," said IATA.

But if oil prices jump to $150, "we cannot rule out the possibility of some bankruptcy, all regions will lose in this case, the most losses will be in Europe, but everywhere, there will be significant effects," said Tyler.

"Political tensions in the Gulf region increase the risk of significantly higher oil prices, the implications of which could put the industry into losses," IATA added.

Tensions between the West and Iran over Tehran's suspected nuclear weapons drive were underpinning oil prices.

Iran insists its nuclear programme is strictly for peaceful purposes, but its threat to close the Strait of Hormuz, a key oil transit, has markets on edge.

Meanwhile, IATA raised its profits estimate for the sector last year to $7.9 billion from a previous forecast of $6.9 billion, thanks to better than expected earnings from Chinese carriers.

For 2012, Asian carriers are expected to continue performing well, with profits of $2.3 billion seen as strong economic growth offset the impact of higher fuel charges.

US airlines are also expected to deliver profits, although this is estimated now to reach just $900 million in 2012 rather than the previously forecast $1.7 billion as oil charges bite into earnings.

European carriers would be the sector's worst performers, with losses of $600 million seen for the year.

"While it appears that a major worsening of the eurozone crisis has been averted, many European economies are in deep recession which will see continued weakness in both the cargo and passenger business," said IATA.

Source: 2012 AFP, Agence France-Presse (AFP)

India's Kingfisher may lose flying licence: minister

India may cancel the flying licence of debt-laden Kingfisher Airlines if it fails to meet safety standards and pay its bills, the aviation minister warned Tuesday.

Kingfisher chief Vijay Mallya has been summoned to meet the Director General of Civil Aviation (DGCA) Bharat Bhushan Tuesday or Wednesday in New Delhi to explain the airline's current situation and discuss a revival strategy.

"We will convey our points to the DGCA," Mallya, who also runs a global liquor empire, told reporters in New Delhi, without elaborating.

Separately, the civil aviation regulator told Indian television news channel NDTV that Kingfisher had said it was unable to live up to its earlier flight scheduling commitments.

"It's a completely difficult situation which cannot go on like this. I would not like to speculate more," Bhushan said.

Kingfisher shares plunged 12 percent on investor worries the airline would shut before recovering marginally to trade over seven percent lower at 18.65 rupees. Shares hit an all-time low of 17.55 rupees in November.

"We have to look at how they are meeting safety norms. The regulator continues to examine each Kingfisher flight for safety," Aviation Minister Ajit Singh told reporters.

"If required, the licence can be cancelled as passenger safety is a top priority," Singh said, adding Kingfisher's financial arrears could also force the carrier's grounding.

The carrier has cancelled nearly half of its flights due to a strike by pilots and its financial difficulties, running around 100 flights a day instead of its scheduled 175. The pilots are on strike over unpaid wages.

Kingfisher now operates 18 planes, Singh said, down from 28 last month. Before its cash squeeze, Kingfisher operated 64 aircraft monthly.

Kingfisher announced earlier in the month it was stopping most international flights to reduce costs.

The airline's bank accounts have been frozen by Indian authorities due to a failure to pay taxes which it collected from passengers.

It also has been dropped by a crucial global payments and booking system run by the International Air Transport Association.

The carrier has never turned a profit since its launch in 2005 and owes millions of dollars to suppliers, lenders and staff.

Mallya has promised a full recovery plan for the carrier shortly.

In a separate development, Anil Kumar Ganguly, an independent director, quit the Kingfisher board on health grounds -- the second director to exit within a week. Ganguly's exit means all Kingfisher's independent directors have now quit.

Experts have blamed Kingfisher's woes on a string of factors including too rapid expansion, high fuel costs and price wars among carriers.

Source: 2012 AFP, Agence France-Presse (AFP)

Air Berlin widens losses in 2011

Germany's second-largest airline Air Berlin said Friday that its losses widened in 2011 due to rising fuel costs and a domestic air traffic tax.

Air Berlin said in a statement it booked net loss of 265.6 million euros ($347 million) last year, compared with a loss of 97.2 million euros a year earlier.

At an underlying level, the carrier also flew deeper into the red, with a loss before interest and tax (EBIT) widening to 247 million euros from 9.3 million euros in 2010.

Revenues, on the other hand, grew by 13.7 percent to 4.23 billion euros and the number of passengers rose by 1.2 percent to 35.3 million.

"Despite record figures for turnover and passenger numbers, we cannot be satisfied with the 2011 results," said chief executive Hartmut Mehdorn.

"Not only as a result of the severe winter in Europe in early 2011, the Arab Spring, air-traffic control strikes and the threat of strike action, the results remained well below expectations," he said.

"In particular the introduction of air traffic tax and the rise in fuel prices added costs of around 395 million euros for the company within 12 months."

Mehdorn urged the government to re-think the air traffic tax, which he claimed "leads to distortion of competition, is environmentally nonsensical and puts jobs at risk."

Looking ahead, Mehdorn said Air Berlin was "more optimistic" and a cost-cutting programme was expected to start making itself felt "as early as the first quarter" of 2012.

Despite rising fuel prices, "a better result will be attained in comparison with the previous year's quarter," he predicted.

"Performance in all areas is visibly improving; we have ridden out the bottoming out process," Mehdorn insisted.

Source: 2012 AFP, Agence France-Presse (AFP)

Aerospace sector sets merger record in 2011: study

The global aerospace and defence sectors saw a record number of mergers and acquisitions last year and the trend should be strong this year as well, a study by consultants PwC said Friday.

PricewaterhouseCoopers put the value of aggregate 2011 deal value at $43.7 billion spread over 341 transactions, surpassing the previous record of $42 billion set in 2007.

"The most significant trend affecting the aerospace and defence industry is the contrast in civil and military outlooks," PwC added, noting that the former had benefitted from Asian fleet expansions and a need by airlines everywhere for new, more economical planes as fuel prices climbed skywards.

"While we may not see the record for the largest deal in sector history broken for some time, the weight of evidence suggests that 2012 will be another robust year," the consulting group concluded.

In particular, European groups interested in the North American market have purchased US and Canadian companies to produce more products using dollars, the currency in which global deals are billed.

The value of mergers and acquisitions in the United States totalled $30.1 billion, with 26 deals worth $50 million or more, while Europe accounted for 12 more transactions at that level, and a total of $7.5 billion.

Looking ahead, "there will likely be more moves by defence contractors to establish themselves further in the civil market as well as more consolidation between aerospace suppliers," PwC said.

"In addition, several emerging markets continue to develop their own domestic aerospace industries, which are acting as another spur for aerospace transactions," it added.

Source: 2012 AFP, Agence France-Presse (AFP)