

UKTI DSO PRIORITY MARKET BRIEFS

DEFENCE & SECURITY OPPORTUNITIES: THE UAE



WHY THIS MARKET IS IMPORTANT

The UAE is strategically important to the UK because of its location, energy resources, shared history and the strength of relationship on different levels, as illustrated by the recent State Visit. The UAE's policy of economic diversification (away from oil and gas) has created a plethora of opportunities for UK companies in all sectors, including Defence and Security. However the Political relationship at the most senior levels has not been as strong over recent years and the new UK government has been proactive in rebuilding this relationship through initiatives such as the UK-UAE Taskforce.

DEFENCE ECONOMICS

Defence Budget:

2010: US\$2.6bn estimated

2009: US\$2.6bn estimated

The volume of defence products and services imported by the UAE has increased significantly in the past decade and the country is likely to remain a major defence importer in the coming years. Contracts for the delivery of 62 Mirage-2000-9 combat aircraft from France and 80 F-16E combat aircraft from the USA were completed in 2005-2008. In 2008-2009, 30 AH-64D combat helicopters were delivered from the USA.

Contracts currently being implemented include delivery from the USA of 4 Patriot surface-to-air missile (SAM) systems, 60 UH-60M armed transport helicopters, and 12 C-130J-30 and 6 C-17 transport aircraft; from France of 3 A-330 MRTT tanker/transport aircraft and 6 Baynunah corvettes; from Russia of up to 50 Pantsyr-S1 air defence systems; and from Italy of 2 Falaj-2 corvettes and 1 Abu Dhabi frigate.

The UAE's defence procurement plans include 3 Terminal High Altitude Area Defence (THAAD) anti-ballistic missile systems and 16 CH-47F transport helicopters from the USA; 60 combat aircraft from France or the USA; 48 M-346 advanced trainer aircraft and another 2 Falaj-2 corvettes and 1 Abu Dhabi frigate from Italy; and 3 airborne early warning aircraft, which several countries are competing to supply.

A leading client for major weapon systems, the UAE has been moving steadily towards building and reinforcing its domestic defence industry and tertiary sector to enhance both its self-reliance and exports into Gulf Co-operation Council (GCC) states and beyond. The UAE has long sought to build up its domestic defence and aerospace industry by demanding significant technology transfer from international defence companies that supply equipment to its armed forces. Shipbuilding and

aviation repair services are currently in the forefront of these efforts, although interest in developing a local Unmanned Aerial Vehicle (UAV) capability has been growing, particularly given the success in recent years of Abu Dhabi Ship Building (ADSB). Moves to establish local capability to maintain and upgrade land forces equipment gained momentum in early 2007 when the state-owned Mubadala Development Company established the Al-Taif joint venture to maintain UAE land forces wheeled and tracked vehicles. There is no specific defence budget published by the UAE, instead defence forms part of the wider Interior and Defence budget of which no further details, other than a total figure, are provided. **Given that the official Interior and Defence budget has hovered around the USD2.4-2.5 billion mark** since 1996, during which time the UAE has imported around USD10 billion of military equipment, it is probable that additional off-budget funds are made available for major military procurements. As it is, the published Defence and Interior budget has averaged around 40 per cent of overall government expenditure for the past six years.

DEFENCE & SECURITY OPPORTUNITIES

There are many defence and security opportunities in the UAE UK Government has many UK Loan-Service Officers, Military Contract Officers, and Police Advisers working alongside their UAE counterparts in the UAE. But in spite of this, sales of UK kit in the Defence and Security sectors have been limited, although there has been significant movement in this regard in the Security sector over the last 12-18 months with UK companies of various sizes and capabilities, such as Cassidian EADS, Ultra Dascam, APD, winning contracts. We are now hopeful that a change in policy in relation to Defence Sales, driven by the UK-UAE Taskforce and the change in political relationships at the most senior levels, will also take place. Defence & Security Sales are also our number one trade and investment priority in the country. The UAE is currently the second largest defence buyer globally and the UK is currently the second largest defence exporter. Therefore there should be more bilateral trade and investment benefits for companies in this sector.

ECONOMIC BACKGROUND (2009 FIGURES)

GDP (Current Prices)

	2008	2009	2010	2011	2012	2013	2014	2015
National currency (Units)	934.262	822.177	880.113	936.79	1,015.81	1,098.88	1,184.42	1,279.58
U.S. dollars (Units)	254.394	223.874	239.65	255.082	276.599	299.218	322.511	348.421

GDP Per Capita (Current Prices)

	2008	2009	2010	2011	2012	2013	2014	2015
National currency (Units)	196,067.58	167,519.41	174,100.96	179,915.06	189,408.98	198,930.10	208,170.98	224,895.33
U.S. dollars (Units)	53,388.04	45,614.54	47,406.66	48,989.80	51,574.94	54,167.49	56,683.73	61,237.67

THE UAE DEFENCE MARKET AND HOW TO DO BUSINESS

The following general information is intended as a preliminary guide to help UK defence companies understand the UAE Defence Market. It is not intended to be exhaustive.

Although building long-term relationships with procurement and other Senior officials in key organisations e.g. GHQ, CNIA, NCEMA, AD and Dubai Police and Emirates Advanced Investments (EAI) are important, major defence sales are primarily stimulated through senior political negotiation.

Success in business in the UAE is contingent upon relationship building; choosing the right partner(s); identification of the real decision makers; illustration of long-term commitment to the UAE; contribution to the Emiratisation process e.g. through training and professional development of UAE nationals and, contribution to economic diversification e.g. development of an industrial and/or R&D base. There are no quick wins here. However, amendments to the UAE's Offset laws have made it possible for offset obligations to be "spent" in defence and security manufacturing projects coordinated through Tawazun, a subsidiary of the UAE's Offset organisation.

ARMED FORCES – MILITARY STRENGTH

Active	51,000
Army	44,000
Navy	2,500
Air	4,500

Source IISS and the Military Balance 2010

SECURITY ISSUES

Involvement in overseas deployments:
NATO (ISAF)

IDENTIFIED DEFENCE IMPORTS AND EXPORTS 2005-09

UAE Defence Import Procurement:

Total: \$6.3BN

Top Five Country Suppliers /Market Share :

USA	\$2.2BN (35%)
France	0.9BN (14%)
German	\$0.8BN (13%)
Switzerland	£0.6BN (10%)
UK	\$0.5BN (8%)

Identified UAE Defence Exports:

Several contracts declared over the last 5 years but not by value.

Key Customers

Bahrain

Jordan

Tunisia

Oman

Kuwait

COMPETITORS

The UAE market is courted by the major suppliers but historically the U.S. and France have enjoyed more success notwithstanding the strenuous efforts of other nations including the UK.

In the Aerospace sector, France's Dassault (with strong Presidential support) has been in discussions to sell Rafale: a French consortium (Dassault, Thales, MBDA and Sagem) has offered to set up facilities in Abu Dhabi to build the aircraft. Press reports in June 2010 suggested that to bring the aircraft up to UAE's standard, could cost US\$5.4-\$6.7 billion. The UAE would pay part of the bill, a French newspaper reported, but the client would only pay half "at best." The remainder of the bill would be for France's Defence Ministry to pick up along with the industrial partners.

The U.S. is well-placed in the market. The UAE agreed last year to buy 16 military transport planes from Lockheed Martin and Boeing valued at almost \$3 billion (interestingly 8 international lenders were involved in the December deal). Spending on Homeland Security is set to reach around US\$10.9bn in the next ten years [Source: HSRC], so there are opportunities in this sector for U.S. and other firms. Raytheon is a very active player in the market, seeking to maintain defence business as well as to expand into emerging security fields. The company has forged links with the increasingly important Critical National Infrastructure Authority (CNIA), which is charged with defending 26 strategic assets (inc: oil rigs/power stations). Raytheon has been in talks with the CNIA over its "less-lethal" directed energy system (pain ray), called Silent Guardian, mainly used for crowd dispersal. Last year, the CNIA agreed to buy 34 fast interceptor vessels from ADSB, which Raytheon would like to equip with its missile systems. Raytheon is also a major partner in the THAAD missile defence system that the UAE is interested in: that deal would be worth up to US\$7bn in total (up to US\$1.5bn for Raytheon). The UAE has expressed interest in smaller and shorter-range missile systems, and surface-launched, medium-range air-to-air missiles. Raytheon is also involved in a maintenance facility for the UAE's Patriot missiles, due to begin arriving in mid-2012: a local facility would eliminate the time/expense for missiles to be shipped to the US for maintenance work.

The Italians appear to be particularly active in the Naval sector: in Jan 2010, Fincantieri announced it had won an order for two stealth vessels, "Falaj 2". This contract includes an option for a further two sister ships for the UAE Navy and technology transfer from the company to a local shipyard. In early November 2010, at Muggiano shipyard (La Spezia) there was the traditional sheet cutting ceremony for the commencement of construction of the first of the two vessels. The market has become increasingly strategic to Fincantieri in terms of naval and civilian business opportunities, as witnessed by the launch of the joint venture in the area "Etihad Ship Building", recently announced during Euronaval. The new company will be tasked with the design, construction and sale of a range of merchant and naval vessels as well as managing maintenance and refitting activities.

Russian-UAE military cooperation and defence sales developed quite rapidly in the 1990s, to the extent that in 1998 the UAE was actually Russia's 4th biggest customer after China, India and Iran. From 1992 to 2000, the UAE purchased a significant number of Russian BMP-3 infantry combat vehicles. In June 2010, Russian media reports referred to Russia and the UAE holding negotiations on modernising a large number of BMP-3s. There are also rumours that Russia may push additional Pantsir-S1s to the UAE.

PROCUREMENT ORGANISATION

Procurement is carried out through Military and Police GHQs and through other key organisations e.g. Emirates Advanced Investments (EAI) and their subsidiary companies. There are also local companies, agents and distributors in the sector.

OFFSET POLICY

Purchases Subject to Offset

Supply contracts of a cumulative value exceeding USD 10 million in any 5 year period are subject to Offset.

Contractual Requirements

The procurement & offset processes start in parallel. A defence contractor is informed of the requirement to enter into an Offset Agreement during the bidding process. The contract award process is linked to the signing of an Offset Agreement. This ensures that defence contractors are aware of the UAE offset requirements and have ample time to plan the identification and execution of an adequate project to fulfil potential obligations.

Level of Offset Obligations

Offset projects that are implemented by defence contractors to fulfil their obligations are required to add economic and commercial value to the UAE's economy equivalent to 60% of the supply contract value. The level of obligation does not directly correspond to investments made in an offset venture but to the value created by an offset venture in terms of contributions and profits generation over time.

Terms of Fulfilment

Typically, all defence contractors are to fulfil their offset obligations over a period of seven years. At OPB's discretion, certain projects are granted an additional grace period depending on the level of complexity, sophistication and infrastructure requirements.

Milestones

A certain level of obligation is expected at the end of each year of a program. These levels have been carefully assessed and linked to the expected growth cycle of a project. Percentage achievements expected are 5%, 10%, 10%, 15%, 15%, 20%, 25% for each year respectively.

Credit Earning Activities

A hybrid program consisting of input and output based activities has been designed to allow the defence contractors the flexibility to maximize the structure of their obligation fulfilment contribution model. Input credit generating activities are limited to 30% of the total contribution while output credit generating activities should not be less than 70%. A list of approved input-credit activities can be obtained by contacting the OPB.

Liquidated Damages

Liquidated damages of 8.5% will be assessed for non-performance. The liquidated damages are imposed on the unfulfilled portion of the obligation calculated at each milestone. Payment of liquidated damages fulfils 50% of the obligation due.

KEY PERSONALITIES

UKTI UAE work closely with our Defence and Police team in market and with our colleagues back in the UK to cultivate and maintain our contacts. We will be happy to facilitate introductions to key personalities through our tailored services to UK Companies "OMIS", UKTI's online market introduction service.

FURTHER INFORMATION

If you require further information/clarification on anything in this Fact Sheet please contact:

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OTHER USEFUL CONTACTS

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OTHER USEFUL WEBSITES

Aerospace Industries Association
<http://www.aia-aerospace.org>

Association of the US Army
<http://www.USA.org>

The Critical National Infrastructure Authority:
www.cnia.ae

Mubadala, focuses on managing long-term, capital-intensive investments that deliver financial returns for the Emirate:
www.mubadala.ae

Emirates Advanced Investments:
www.eai.ae

Tawazun Holding, the investment branch of the Offset Programme Bureau:
www.tawazun.ae

Offset Programme Bureau:
www.offset.ae

UAE Ministry of Interior:
www.moi.gov.ae

Abu Dhabi Shipbuilding Company:
www.adsb.ae

National Emergency and Crisis Management Authority:
www.ncema.ae

Abu Dhabi Police:
www.adpolice.gov.ae

UAE Travel Advice

Travel information and general embassy contact details can be found at:

www.fco.gov.uk

Foreign Consular Offices in the United States

Travel information and general embassy contact details can be found at:

<http://www.fco.gov.uk>

The CIA World Factbook provides information on the history, people, government, economy, geography, communications, transportation, military, and transnational issues for 266 world entities. The Reference tab includes: maps of the major world regions, as well as Flags of the World, a Physical Map of the World, a Political Map of the World, and a Standard Time Zones of the World map.

<https://www.cia.gov/library/publications/the-world-factbook/>

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