



## 2016 **Defense** Markets Report Regional and Country Case Study

### Middle East

**Although Saudi Arabia surpassed Russia as the third largest global military spender after the U.S. and China in 2015, recent declines in oil prices will likely impact future defense spending in Saudi Arabia and the region. Many governments in the region hold vast currency reserves, but the longevity of these reserves will depend upon the adjustments each government makes. Projections at this point indicate that oil prices could remain low for an indefinite period of time.**

#### UNITED ARAB EMIRATES

In contrast to Saudi Arabia, the United Arab Emirates (UAE) has a more diversified economy, which has reduced its dependency on oil reserves. The UAE was the top importer of U.S. defense articles in 2013, and in 2015, ranking fifth, based on Census Bureau export data. Based on current budget projections for 2016, UAE spending will focus on several sectors, overall economic growth, fiscal prudence and diversification. Both national security and persistent regional conflict will continue to drive UAE's defense budget.

The UAE remains a strong ally of the United States and has a defense cooperation agreement in place.<sup>1</sup> The UAE contributes forces and assistance to U.S. and coalition military actions and has two ports that are crucial to U.S. naval operations in the region, as well as many other factors that signify continued and long-term economic and security ties.

#### Opportunities

The UAE is a net importer of military assets, offering vast potential for U.S. exporters. Previously signed contracts with U.S. defense companies exporting to the Middle East focused largely on longer-term investments, maintaining existing equipment and building up weapons stocks. More recently, fourth

quarter 2015 exports from the United States consisted largely of tactical equipment, such as bombs, missiles, tanks, armored trucks and antitank weapons, needed on the battlefield immediately.

The UAE defense expenditure in 2016 is expected to increase by 7.4 percent to reach about USD 23.5 billion, from USD 21.8 in 2015, with a number of large weapons and systems contracts pending. The UAE armed forces rely heavily on defense imports, with high-tech requirements for the navy and air force. The biggest needs for the UAE include high-tech naval, air power and surveillance, and missile products and systems. The Air Force traditionally receives the lion's share of UAE's total defense procurement with land forces second, followed by Special Operations and the Navy. The UAE also focuses on border control, cyber, space and reconnaissance, digital warfare, and modernization of telecom and Command and Control centers. The Critical Infrastructure & Coastal Protection Authority (CICPA) is also expanding rapidly and is tasked with protecting key infrastructure, such as water desalination plants, oil and gas platforms, pipelines, and the Barakah nuclear site.

Due to security reasons, many Middle Eastern countries do not publish defense white papers or specific defense procurement plans. Despite low oil prices, the UAE is forecast to increase its defense budget over the next few years and is expected to

reach \$41 billion (152 billion AED) by 2025,<sup>2</sup> as the country continues to diversify. It is expected to be one of the world's largest defense spenders and has consistently ranked in the 14 top defense global spenders for the past three years (based on SIPRI data).

Opportunities exist for various sized companies that manufacture these larger platforms as well as smaller companies that manufacture parts, components, military electronics, and MRO and other related services.

The UAE has a number of U.S. military programs in place, including the C-17 and C-130, F-16 E/F and multiple weapon systems associated with this fighter, UH-60 Blackhawk Helicopters, the AH-64 APACHE, and more.

As part of its vision, Abu Dhabi is investing in the Advanced Military Maintenance, Repair and Overhaul Center (AMMROC). AMMROC is a joint venture between Mubadala, a strategic investment arm of the Abu Dhabi Government, and the U.S. firms Sikorsky Aerospace Services and Lockheed Martin. AMMROC aims to provide innovative platform solutions for all fixed and rotary-wing aircraft operated by the UAE Armed Forces and other customers in the region: <http://www.ammroc.ae/>

In December 2014, Mubadala Development, Tawazun Holding and Emirates Advanced Investment Group (EAIG) finalized the formation of Emirates Defense Industries Company (EDIC) after signing an initial agreement in April 2014 to combine their defense services businesses. EDIC is set to help drive the UAE's defense industry by providing manufacturing, training, mapping, logistics, technology development and communications as well as maintenance, repair and operations services for air, land and sea platforms.

### Challenges

Like many countries, as mentioned, the UAE is hoping to expand their local industrial base, so U.S. companies must be strategic to gain access while also ensuring the protection of U.S. technology based on U.S. export controls and national security objectives. UAE companies are in need of high-tech military assets and import largely from the United States, the UK and France, since they have a lack of qualified, high-tech platforms.

Due to the strong competitive nature of the A&D sector in this country, governments will try to secure lucrative offsets. Companies should be aware that although offsets are extremely common in A&D business, the U.S. Government cannot assist and must remain neutral on the subject.

### Resources

Foreign firms seeking to sell in the UAE must have a local agent or distributor, so the first important step is to find and select a local partner. Exporters are encouraged to use the International Trade Administration's *International Partner Search (IPS)* to identify and screen potential distributors or agents, or visit <http://export.gov/UAE/>.

Overall, the local defense industry is largely dependent on imports. The local industry will remain in the earlier phases of development in the medium-term. Several U.S. companies are taking advantage of partnerships and are forming joint ventures or subsidiaries as an entry point due to heavy foreign competition, and the UAE is definitely open for business to the U.S.

To learn more about the UAE markets, companies could take advantage of business services offered by the Department of Commerce and should track the contract opportunities. One source to obtain tenders is through the UAE embassy or a [global tender service](#).

Companies should also identify trade show opportunities in the region, which would allow businesses to take advantage of matchmaking services and network opportunities with potential suppliers.

#### *Suggested Trade Show*

IDEX 2017

Dates: 19-23 February 2017

Venue: Abu Dhabi, UAE

<http://www.idexuae.ae/>

## **REST OF MIDDLE EAST**

### **Saudi Arabia**

Saudi Arabia ended 2015 with continued high military expenditures, becoming the world's largest defense market for U.S. exporters for two consecutive years, as shown in the previous Census table. This data

coincides with the degree of involvement Saudi Arabia has had in leading the fights in Syria and Yemen and is at least partly attributable to the beginning of deliveries of 84 F-15 fighter aircraft. With oil prices remaining at below break-even levels and the fact that Saudi Arabian oil revenues have accounted for more than 90 percent of government income, however, this level of military spending may not be sustainable in the long-run.

As of April 2016, Saudi Arabia's 2016 defense budget has decreased only by a relatively small amount from 2015 levels, as the government appears determined to support the economy and focus on economic diversification. While education and healthcare account for 35 percent of total spending in 2016, military and security still comprise 25 percent of the total budget, representing a sizable opportunity for U.S. aerospace and defense companies.

#### Opportunities in Saudi Arabia

In 2014, Saudi Arabia's top military import from the United States was complete military aircraft, followed by tanks and missiles then military aircraft parts ranked third, based on the United States Census Bureau data used in this report. Because Saudi Arabia operates a large fleet of U.S. military aircraft, the country also requires a regular supply of parts and related equipment to support frequent maintenance, repair and overhaul (MRO). The Royal Saudi Air Force uses a wide-range of U.S. military aircraft, including over 300 F-15 fighter aircraft, 42 C-130J transport aircraft, 61 Bell helicopters, 25 Cirrus trainers and 16 S-70 Black Hawks. Saudi Arabia provides tremendous opportunities for defense and aerospace companies that produce both aircraft and aircraft parts, as well as for those that provide MRO services.

#### **Qatar**

Recent changes at Qatar's Ministry of Defense have resulted in the reduced release of information on 2016 spending and forecasting. (One source, however, values Qatar's 2016 military expenditure at \$4.4 billion, with an expected increase to \$7 billion by 2020.)<sup>3</sup> The United States and Qatar have extensive economic ties. In fact, the United States is Qatar's largest source of foreign investment, with over 120 U.S. companies operating in the country. The United States and Qatar have also signed a trade and investment framework agreement as well as a 2013

Defense Cooperation Agreement that includes joint training and exercises and other cooperative military actions. Such close interaction will require defense products that work seamlessly across the two countries' services.

#### Opportunities in Qatar

Based on Qatar's very high per capita income and its strong involvement in nearby regional conflicts, the potential for defense export opportunities in the future looks very optimistic.

Due to the economy's dual reliance on liquefied natural gas (LNG) and petroleum, Qatar has the lowest break-even point on oil prices in the Middle East at \$56 per barrel. By comparison, the United Arab Emirates break-even point is \$73 per barrel, whereas Saudi Arabia's is \$106 per barrel, according to the International Monetary Fund.

As of April 2016, Qatar was finalizing the purchase of approximately 36 F-15 fighter jets (worth nearly \$4 billion at list prices), balancing the recent Qatari Armed Forces focus on European relations. The Pentagon and the State Department both signed off on this sale and members of Congress wrote a letter asking the White House to come to a decision to approve this sale.<sup>4</sup> This may be an encouraging indication that Qatar is open to U.S. platforms. The March 2016 DIMDEX trade show did not result in many high-value U.S. defense sales. Going forward, U.S. exports to Qatar may continue to increase so long as trade is consistent with U.S. foreign policy objectives.

Historically, Qatar has purchased ballistic anti-missile systems, military electronics and cyber systems, helicopters, light tactical armored vehicles with weapons systems, GBU-35 bunker-buster ammunition, guided air-to-air and air-to-ground missiles, Apache attack helicopters, and Patriot and Javelin air-defense systems.

Future opportunities in Qatar address the expansion of other military branches, such as the Coast Guard. Additionally, Qatar's Naval Forces are relocating to a new base, and several new training initiatives will require new facilities and upgrades as well.

## Challenges

U.S. companies are strongly urged to remain current on U.S. export control regulations, including any potential restrictions on certain countries of destination and entities of concern by referring to the "[BIS lists of Parties of Concern](#)" website.

The Consolidated Screening List in the above website consolidates lists from Departments of Commerce, State and Treasury into one spreadsheet to assist in screening.

## Resources

For additional resources on Qatar, the Commerce Department's Commercial Service Office in Doha, Qatar can assist companies in many ways, including in how to find tender offers. <http://export.gov/qatar/>

### *Suggested Trade Show*

MiliPol 2016  
Dates: 31 Oct – 02 Nov, 2016  
Venue: Doha, Qatar  
<http://en.milipolqatar.com>

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<sup>1</sup> See Appendix 2.

<sup>2</sup> Industry Forecast, United Arab Emirates – April 2016, BMI.

<sup>3</sup> "Future of the Qatari Defense Industry," PR Newswire, 8 March, 2016

<sup>4</sup> "U.S. Urged to Approve Gulf Fighter Deal," Wall Street Journal, 6 May, 2016.