



2016 Defense Markets Report Regional and Country Case Study

Western Europe

Similar to the United States, austerity measures and budget cuts curbed European military spending over the past several years. Following ongoing aggression in Ukraine, the terrorist attacks in Paris in November 2015 and Brussels in March 2016, activity in the Mediterranean and Syria, and lessons learned from Libya, NATO allies are providing additional resources to protect national and European security. While Germany, the United Kingdom and France already comprise more than 60 percent of regional military spending in Europe, those countries, plus Belgium, the Netherlands, Norway, Finland and Sweden, are all examples of countries that have increased their defense military budgets for 2016.

UNITED KINGDOM

Based on the 2016 budget, the United Kingdom announced plans to invest over £27.7 billion (USD 39.9 billion) to strengthen military forces during 2016 through 2017 and up to £30 billion through 2020. The United Kingdom continues to have the second-largest defense budget in NATO (behind the United States), despite a weakened economy, and provides one of the best opportunities for U.S. companies hoping to export to this region. The Ministry of Defence has committed to meet NATO's target to spend 2 percent of GDP on defense through 2020.

Additionally, in 2010, The United States and The United Kingdom signed a Defense Trade Cooperation Treaty, with a goal to ease the flow of defense items between the two countries. This agreement includes numerous export licensing exemptions, which are intended to encourage and expedite mutually beneficial and cooperative defense trade.¹

Opportunities in the United Kingdom

Based on 2015 Census data, the United Kingdom is now ranked as the fourth top destination for U.S.

defense exporters. The United Kingdom is a major recipient of weapons systems and ranks among the top 10 importing countries in the world. Although the United Kingdom sources domestically from BAE and other domestic suppliers, it also imports a significant amount of equipment from the United States and other European suppliers. The U.S. companies most successful are those that have been able to distinguish themselves from the competition.

Spending for major programs in the United Kingdom is anticipated to focus on surface ships and submarines, land equipment, and new precision weapons, including the Common Anti-Air Modular Missile (CAMM), the maritime variant CAMM and the delivery of a new anti-surface guided weapon, according to the British budget documents and Commerce Department analysis. The Royal Air Force will increase its F-35 and Typhoon squadrons. The United Kingdom has committed to increasing its intelligence surveillance and reconnaissance aircraft fleets, by purchasing numerous P-8 Maritime Patrol Aircraft, as confirmed in late 2015. The formal contract has yet to be signed, but the first three aircraft are scheduled for delivery by 2020. The country will continue to service and modernize its C-

17 and A400M fleets and extend the life of its C-130J transport aircraft. Spending is expected for upgrades to existing helicopter airframes, investment in new airframes and longer term rationalization to four core helicopter fleets: Chinook, Merlin, Apache and Wildcat. These actions will provide increased opportunities for airframe and aircraft parts manufacturers and large manufacturing suppliers.

Challenges

The United Kingdom has a sophisticated and mature defense industry and is therefore highly competitive. U.S. defense companies looking to export into the United Kingdom must demonstrate a clear competitive advantage. Large British defense companies, such as BAE, regularly seek to expand supply chains and remain open to procuring equipment from third parties if those products demonstrate better value than domestic alternatives.

Trade Promotion

While often a benefit, establishing a local presence and teaming with UK companies may be keys to accessing this market.

The FARNBOROUGH INTERNATIONAL AIR SHOW, held outside of London, United Kingdom in July 2016 is the largest international aerospace and defense trade show being held this year. With a special focus on the internationally developed F-35 Lightning II/Joint Strike Fighter, the 2016 show will provide an excess of opportunities for U.S. manufacturers to establish new relationships with British companies. For more information see: www.farnborough.com. Companies interested in working more closely with British companies should consider resources from the [UK Trade and Industry \(UKTI\) office](#). UKTI aims to connect U.S. and UK companies to increase trade and jobs in both economies.

Other Resources

To contact the UK Commercial Officer within the Department of Commerce, access the following domain: <http://www.export.gov/unitedkingdom/>

To contact a Supplier Relations Team in the United Kingdom, send an email to: DEFComrclSRT-D55@mod.uk or call 011 44 306 793 2832.

Defense Contracts Online (DCO): MOD DCO is the official source of UK MOD contracts, giving companies instant and free access to all of its contract opportunities.

REST OF WESTERN EUROPE

For the past several years, **Belgium** has allotted less than 1 percent of its GDP to defense, however, Belgium has recently established an aggressive defense budget and modernization plan through 2030 and has immediate plans to increase its allotment to 1.3 percent of GDP. The new defense budget will include 9.2 billion Euros (\$10.47 billion) to replace and upgrade its fighter aircraft fleet and to build a fully modernized land component that includes weapons, vehicles, communications and combat gear, among other items.²

Belgium's aircraft fleets mainly include F-16A fighter jets and F-16B trainer fighters. The Belgian Government has not expressed equipment preferences regarding needed upgrades for other types of equipment and machinery. While many F-16s are expected to serve until 2022, and could ultimately serve past 2030, Belgium may diversify its procurement through the selection of fighter bombers. Either way, Belgium's selection should result in continued opportunities for F-16 aircraft parts supplies and could lead to increased opportunities for other aircraft parts manufacturers, if a U.S. platform is once again selected.

Belgium has expressed its intention to spend the 9.2 billion Euro defense budget in a way that maintains a balance between its land, sea, air and cyber components without privileging one over the other. To enhance rapid deployability, a NATO trend, Belgium will reduce its personnel to 25,000 fulltime employees (down from 32,000) at an average age of 34 (down from 40). It will also increase training both in the field and in job-knowledge. This will translate to 50 percent of its budget being devoted to personnel costs, 25 percent to overhead and 25 percent to new investments.

With Belgium's new struggle between homeland security and overall defense, the government is developing a more detailed plan that will further define investments in land, air and marine elements as well as in cyber intelligence. Maritime procurements

are expected to include new frigates and several minesweepers.

The Netherlands is one of the original nine partner nations for the F-35; is a key contributor to the development, production and sustainment of the program; and has plans to buy at least 37 new fighter aircraft to replace its F-16 fleet. The Dutch approved an initial order for eight Lockheed Martin F-35s in March 2015, which are scheduled for delivery in 2019. **Norway and Finland** have been slated for high growth in defense spending for 2016, growing 10% and 6% respectively.³ Having been a part of the international development team, Norway has committed to buying 52 F-35 Lightning II/Joint Strike Fighters, but the required budget approvals have not yet been finalized. It is expected that F-35 parts manufacturers will experience significant opportunities as a result. According to *Aviation Week & Space Technology*, **Sweden** also has a new defense acquisition strategy that will include A-26 submarines that are optimal for special operations and intelligence, surveillance and reconnaissance.

Germany has committed to increasing its participation in operations outside of its borders, including Afghanistan, Mali and Iraq. Additionally, Germany completely reversed its planned defense budget by increasing its 2016 spending by roughly 6 percent for new equipment and approximately 3 percent for maintenance, according to the German Defense Ministry. The overall defense budget is projected to grow to 34.3 billion Euros (about \$37.4 billion).⁴

Limited opportunities exist for U.S. defense manufacturers of aircraft parts and defense equipment, however, as additional German funding will likely target existing domestic projects that are delayed or have overruns, such as the *Versorgungsausgaben* or the NH-90. Such allocation may reduce opportunities for U.S. exporters, as Germany seeks to boost domestic returns. Germany appears to be targeting large equipment purchases,

including the Eurofighter/Typhoon, Airbus A400M transport aircraft, the Tiger support helicopter, the NH-90 (a medium-sized, twin-engine, multi-role military helicopter) and the F-125 frigate. Companies should explore building in-country networks and representation to assess the potential for future opportunities.

Overall, **France** is known to have one of the world's leading defense manufacturing sectors, with numerous defense companies capable of developing major platforms and weapons across land, air and sea. Therefore, not only does France not import large amounts of major defense systems from the United States (as their absence in Figure 3 indicates), France often runs a defense trade surplus with the United States. Although France does not buy many end-items from the United States, there is often U.S. content in European platforms, leaving potential opportunities for U.S. military engines and military aircraft parts suppliers.

During 2015, France was ranked as the 17th largest destination for U.S. defense exports. Engines for military aircraft (End use code 50020) and military aircraft parts (End use code 50070) comprised the largest two sectors from 2014 to 2015 (based on Census Bureau data). Engines and turbines for military aircraft exports to France increased significantly from 2013 to 2015 and comprised 39 percent of exports in 2015, followed by aircraft parts, which comprised 37 percent. The top two sectors that spiked high volumes in 2013 were aircraft launching gear (End use code 50010) followed by tanks, artillery, missiles, rockets, guns and ammunition (End use code 50050). These sectors may be potential areas of opportunity for U.S. exporters. Additionally, the United States maintains a technological advantage on UAVs, and niche capabilities represent another export opportunity. To find out about more opportunities in France, contact our Commercial Service office at <http://export.gov/france/>.

¹ Also see appendix 3 at the end of this report.

² Defense Flash, No. 8, December 22, 2015; Commercial Office.

³ "Growing Security Fears Boost Defense Budgets," IHS Jane's, December 2015.

⁴ "The Bundeswehr backs away from the brink," <https://www.foreignaffairs.com>, January 2016.