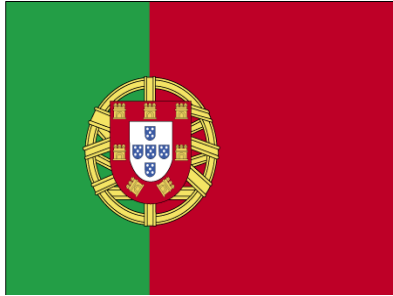




UK Trade  
& Investment

## UKTI DSO MARKET BRIEF: PORTUGAL



**Issue Date:** May 2013

### WHY THIS MARKET IS IMPORTANT?

Portugal is a founding member of NATO and entered the EC (now the EU) in 1986. In January 2011, Portugal assumed a non-permanent seat on the UN Security Council for the 2011-12 term. Portugal is also a founding member of the Latin Union, the Organization of Ibero-American States, OECD, Community of Portuguese Language Countries, and the Schengen Agreement. They are also the UK's oldest allies overseas and play a key role in NATO's international operational support.

### MILITARY OVERVIEW

The Portuguese Armed Forces comprise of the Army (Exército), Navy (Marinha) and the Air Force (Força Aérea). The President of the Portuguese Republic Aníbal Cavaco Silva is the formal Supreme Commander of the Armed Forces but in practice they answer to the Portuguese Government via the Minister of National Defence José Pedro Aguiar Branco. The Portuguese Armed Forces are charged with protecting Portugal's sovereignty and interests, and supporting international peacekeeping efforts. Currently the Portuguese military forces number 44,900. In addition to the three branches of the armed forces there is the Republican National Guard, a mainly security force subject to military law and organisation (gendarmerie) comprising 25,000 personnel. This force is under the authority of both the Defence and the Interior Ministry. It has provided detachments for participation in international operations in Iraq and East Timor.

## **DEFENCE & SECURITY OPPORTUNITIES**

There are opportunities arising from the creation of an aerospace cluster, or the implementation of an integrated management system within the Portuguese MoD and Armed Forces. As for the civil side, in Portugal the UK is regarded as a supplier of security products and services of excellence. Companies often seek technology that may add value to the projects they aim at delivering in Portugal and abroad, namely Angola and other Portuguese speaking countries. Electronic surveillance offers opportunities in a wide range of areas, including system integration, some Municipalities looking at urban surveillance / cctv systems, and a project for traffic control radars, including number plate recognition. There are other niche opportunities referring to projects by the Portuguese Home office equivalent MAI and the Portuguese Ministry of Justice. MAI has been investing in integrating emergency and security networks across the country, and also purchasing border control technologies.

## **ECONOMIC BACKGROUND**

Since the 1990s Portugal's economic development model has been changing from one based on public consumption, to one focused on exports, private investment, and development of the high-tech sector including security. Business services have overtaken more traditional industries such as textiles, clothing, footwear, cork, wood products and beverages. Modern non-traditional technology-based industries like aerospace, biotechnology and information technology have been developed in several locations across the country and from Alverca to Évora the Portuguese aerospace industry is developing led by the Brazilian company Embraer and the Portuguese OGMA.

The country qualified for the Economic and Monetary Union in 1998 and began circulating the euro on 1 January 2002 along with 11 other EU members. The economy had grown by more than the EU average for much of 1990s but fell back in 2001-08 and contracted by 2.5% in 2009 before growing by 1.3% in 2010, but GDP fell again in 2011 as the government implemented austerity measures including a 5% public salary cut and a 2% increase in the value-added tax. A rigid labour market has been an obstacle to greater productivity and growth. Portugal's low competitiveness, low growth prospects and high levels of public debt have made it vulnerable to bond market turbulence. The government reduced the budget deficit from 10.1% of GDP in 2009 to 4.5% in 2011. Without the option for stimulus measures, the government is focusing instead on boosting exports and implementing labour market and other structural reforms to try to raise GDP growth and increase Portugal's competitiveness – which over time may help mitigate investor concerns.

## **DEFENCE ECONOMICS**

The Government was forced to institute strict austerity measures resulting in the decline of Portuguese military expenditure. The total projected for the Ministry of Defence for 2012 is approx. €2.216 billion, which represents a 3.9% reduction of the 2011 figure. Expenses with personnel represent 54.6% of the total budget (€1.2 billion), followed by acquisitions of assets and services which weigh 20.3% with a total of €450.8 million.

Budget associated with LPM (military procurement law) will decrease 17.1% (from €278.2 million in 2011 to €230 million), reflecting the restrictions imposed. Portuguese Armed Forces international participation in military and humanitarian missions has an allocation of €52 million, representing 30% less than 2011. Expenses with healthcare will also be reduced by 30% to €41 million. The Armed Forces will reduce troops until 2013 looking a big cost savings without compromising the quality of the missions. The idea is to reduce staff at a rate of 25% per year.

Trading military goods and technologies in Portugal requires authority by the Portuguese Ministry of Defence, who holds a list of authorised companies. British companies may look at partnering with these aiming at gaining business in the market. One of the major players is EMPORDEF, a Portuguese defence industry holding responsible for managing State holdings in firms directly or indirectly involved in defence activities. They represent a worldwide Portuguese presence with customers and partners in Europe, Asia, North and South America and Africa. Relevant capabilities embrace naval, aeronautics, space, ammunition and explosives, training and simulation. EMPORDEF, among other companies, are shareholders of the aircraft MRO OGMA (65% owned by the Brazilian EMBRAER) and ENVC, a major Portuguese shipbuilder and medium sized shipyard in business since 1944 currently seeking investors interested in acquiring their business

## **THE PORTUGAL DEFENCE MARKET AND HOW TO DO BUSINESS**

Foreign defence & Security companies that wish to enter the Portuguese defence industry can do so by making technology transfers to Portuguese defence companies. An OEM can also sub-contract work such as MRO services to Portuguese businesses, or establish a long-term supply contract for a certain components. Foreign defence suppliers can also enter the market by setting up a subsidiary in Portugal and establishing global supply chains. The domestic defence industry is currently facing a challenge as the government is contracting in foreign companies even when its domestic industry is capable of carrying out the work, such as maintenance, repair and overhaul contracts. Other challenges for defence suppliers include the Portuguese government's budget cuts. Corruption also became an issue of major political and economic significance for the country, nevertheless the Transparency International report for 2010 places Portugal in 31<sup>st</sup> position in terms of perceived corruption, just below Israel, Spain and 34 positions above Italy.

## **ARMED FORCES - MILITARY STRENGTH**

The Army (21,000 personnel) comprises three brigades and other small units. An infantry brigade (mainly equipped with Pandur II APC), a mechanized brigade (mainly equipped with Leopard 2 A6 tanks and M113 APC) and a Rapid Reaction Brigade (consisting of paratroopers, commandos and rangers). The Navy (10,700 personnel, of which 1,580 are marines) has five frigates, two submarines, and 28 patrol and auxiliary vessels. The Air Force (7,500 personnel) has the Lockheed F-16 Fighting Falcon as the main combat aircraft. As of 2008, the three branches numbered 39,200 active personnel including 7,500 women. Portuguese military expenditure in 2009 was \$5.2 billion, representing 2.1 percent of GDP. Military conscription was abolished in 2004. The minimum age for voluntary recruitment is 18 years

## DOMESTIC DEFENCE INDUSTRIAL CAPABILITY

These are the Portuguese defence industry major players: all wholly or partly state owned with foreign shares

1. EMPORDEF: Portuguese defence industries holding company.
2. OGMA: maintenance of aircraft and aircraft engines, as well as to the manufacturing of aircraft components and aircraft engineering and logistic support.
3. INDEP: a Portuguese defence company owned by the Portuguese Government, they manufacture small arms including the Portuguese version of the Heckler & Koch G3.
4. ENVIC: is a major Portuguese shipbuilder and medium sized shipyard in business since 1944 –currently seeking investors interested in acquiring their business.

## DEFENCE IMPORTS & EXPORTS 2007-11

### Portugal Defence Import Procurement:

Total: \$325 Million

### Top Country Suppliers

USA	\$162M
Netherlands	\$113M

### Identified Portugal Defence Exports:

Total: \$27M (plus 2 Frigates of unknown value sold to Uruguay in 2008)

## PROCUREMENT ORGANISATION

The Directorate General of Armament and Defence Infrastructure - [dgaied@defesa.pt](mailto:dgaied@defesa.pt)  
- of the Portuguese MoD in close collaboration with the Armed Forces

## OFFSET POLICY

Portugal's defence offsets form a mandatory condition in the awarding of a contract. All contracts above EUR10 million (US\$13.6 million) require an offset equal to 100% of the contract value. The country accepts direct and indirect offsets and allows multipliers in the range of 1-5 for certain offset projects based on their economic relevance and strategic impact. A penalty of 15% of the offset obligation and a lifetime ban from supplying to Portuguese government is applicable for countries which do not fulfil the offset obligation. The country's foreign direct investment (FDI) policy for defence requires government approval for non-EU defence companies wishing to invest in Portugal.

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## KEY PERSONALITIES

1. **President of the Portuguese Republic:** Aníbal Cavaco Silva
2. **Portuguese Prime Minister:** Pedro Passos Coelho
3. **Minister of National Defence:** José Pedro Aguiar Branco
4. **Secretary of State for National Defence and the Sea:** Paulo Braga Lino
5. **Chief of Defence Staff:** General Luís Evangelista Esteves Araújo
6. **Chief of Navy Staff:** Admiral José Carlos Torrado Saldanha Lopes
7. **Chief of General Staff:** General Artur Neves Pina Monteiro
8. **Chief of Air Staff:** General José António de Magalhães Araújo Pinheiro

## **FURTHER INFORMATION:**

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

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Telephone: 020 7215 8209

E-mail: [dso.businessservices@ukti.gsi.gov.uk](mailto:dso.businessservices@ukti.gsi.gov.uk)

## **NEXT STEPS - HOW UKTI CAN HELP**

British companies wishing to develop their business in the Portuguese market are advised to undertake as much market research and planning as possible in the UK. UKTI's team in Spain, with its wide local knowledge and experience, can provide a range of services to British-based companies wishing to grow their business in global markets.

This can include:

- Provision of market information
- Tailored validated lists of agents/distributors
- Key market players or potential customers in the Portuguese market
- Establishment of interest of such contacts in working with you

This work is available via our [Overseas Market Introduction Service \(OMIS\)](#) a chargeable service which assists British-based companies wishing to enter or expand their business in overseas markets.

To find out more about commissioning this work, or accessing other UKTI services and specialist advice, please visit the UKTI website to find [contact details for your local UKTI office](#).

## **Useful Contacts:**

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#### **British Embassy Lisbon, Portugal**

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Portugal  
Tel: +351 213 924 058 / 059 (Cláudia Luís)  
Website: <http://ukinportugal.fco.gov.uk/en/>

## **Other Useful Contacts:**

### **Portuguese Embassy London, UK**

Embassy of Portugal  
11 Belgrave Square  
London  
SW1X 8PP  
Tel: 020 7235 5331  
Fax: 020 7235 07 39  
Email: [londres@mne.pt](mailto:londres@mne.pt)

### **Export Control Organisation**

Email: [eco.help@bis.gsi.gov.uk](mailto:eco.help@bis.gsi.gov.uk)  
Tel: +44 20 7215 4594

### **UK MOD Export Policy Unit**

Email: [CapEPA-Casework@mod.uk](mailto:CapEPA-Casework@mod.uk)  
Tel: +44 207 218 9080

## **Useful Websites:**

### **MOD F680 Applications:**

<http://www.businesslink.gov.uk/bdotg/action/detail?itemId=1084277426&type=RESOURCES>

### **Export Licence Applications:**

<http://www.businesslink.gov.uk/exportcontrol>

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<http://www.bis.gov.uk/exportcontrol>.

**Portuguese Ministry of National Defence**

<http://www.portugal.gov.pt/en/the-ministries/ministry-of-national-defence.aspx>

**Portuguese Ministry of Interior**

<http://www.portugal.gov.pt/en/the-ministries/ministry-of-internal-administration.aspx>

**UK Ministry of Defence**

<http://www.mod.uk/DefenceInternet/Home/>

**UK Trade & Investment Defence & Security Organisation**

<http://www.ukti.gov.uk/defencesecurity.html>

**FCO Portugal Travel Page**

<http://www.fco.gov.uk/en/travel-and-living-abroad/travel-advice-by-country/europe/portugal>

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