



UKTI DSO MARKET BRIEF: SPAIN



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WHY THIS MARKET IS IMPORTANT?

Spain has a highly developed, competitive market, with a strong commercial bilateral relationship with the UK. Spain is the twelfth largest economy in the world by nominal GDP. It is a member of the United Nations, European Union, NATO, OECD and WTO. The UK's seventh largest export market is Spain with exports worth £9.61 billion (€10.5 billion) in 2010. The UK and Spain have been NATO allies since 1982 working together on operations such as ISAF (Afghanistan) and the anti-piracy Operation Atalanta. They are engaged in major collaborative projects such as the Eurofighter, A400M aircraft and the RAF's Future Strategic Tanker Aircraft, as well as a number of bilateral personnel exchange programmes. In 2010, some 2640 British Armed Forces personnel undertook training exercises in Spain, 43 Royal Navy warships visited, and there were over 43 Royal Navy warships visited, and there were over 400 UK military overflights or landings in Spanish airspace. Under the current economic climate the Spanish MoD needs to redesign its Armed Forces and increasingly adopt financial burden- and risk-sharing solutions with the private sector.

MILITARY OVERVIEW

Military cooperation

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In 2010, some 2,640 British Armed Forces personnel undertook training exercises in Spain, 43 Royal Navy warships visited, and there were over 400 UK military overflights or landings in Spanish airspace.

Defence reform

After the Madrid bombings of 2004, the Spanish intelligence services in the army, navy and air force were combined in the National Intelligence Centre, CNI. Furthermore, the National Anti-Terrorist Coordination Centre, CNCA, a permanent body drawn from National Police, Guardia Civil and CNI, was also created based on the UK's Joint Terrorism Analysis Centre.

Current reform focuses on the concept of force projection as opposed to the more traditional of territorial defence. The army is now required to be capable of deploying forces to 2 separate conflicts and sustaining them indefinitely while the navy must be able to lead a multinational force. Also a Joint Rapid Reaction Force is available to deploy under NATO, EU, UN, OSCE, etc.

It seems clear that restructuring under this concept has not affected a deepening involvement with NATO's military framework. Proof of this is the creation of a High Readiness Force (Land) HQ capable of commanding a NATO force of 60K, together with the establishment of the first HQ for the maritime component of the NATO Response Force. The government also announced its intention to double to 7,700 the number of troops who can be rapidly deployed abroad at short notice.

Deployments

The following table shows Spain's foreign deployments as of Q4 2011 (Source: Ministry of Defence).

Country of Deployment	Strength of Deployment	Mission
Afghanistan	1,555	NATO-ISAF
Democratic Republic of Congo	2	MONUC observers
Lebanon	1,100	UNIFIL II
Kosovo	2	UNMIK observers
Indian Ocean (Somalia)	Frigate (200 crew)	EU Operation Atalanta
Chad	2	MINURCAT observers

Special Acquisition Programmes Investment Cuts

The so-called "special acquisition programmes" which led to the MoD current massive level of debt started back in 1997 with the government's approval to buying F-100 frigates (for a value of €2.8 bn) and Eurofighter aircraft (for over €9.2 bn). As of today, the joint value of the largest 19 programmes amounts to c. €26.7 bn, with the payment instalments lasting until 2025. The accumulated debt stands at €31 bn, half of which is with the industry and the other half with other government departments (and may be fully or partially written off).

Recent Developments

In September 2011, Spain joined in with a bid by France, Germany, Italy and Poland to strengthen an EU defence policy by signing a letter of agreement highlighting the need for common defence structures. This came despite the UK abstaining from participation.

The Navy's new flagship carrier Juan Carlos I (LHD) built by Navantia entered service in 2011. Its submarine capability will be enhanced significantly with the delivery of 4x diesel-electric S80 SSK submarines due from 2013.

Delivery to the Army of the Leopard battle tank fleet by General Dynamics Santa Barbara Sistemas (GDSBS) and the Pizarro combat vehicle (ASCOD platform). The UK industry contributed to this process by delivering the core RG31 armoured vehicle despite the contract being primed again by GDSBS.

DEFENCE & SECURITY OPPORTUNITIES

The current level of debt and the wider economic environment, leave little margin for new procurement programmes. The Army has highlighted the importance of renewing the fleet of armoured vehicles (the low level of protection of some of the platforms deployed in Afghanistan claimed a significant toll to IEDs), and even published a Prior Information Notice in the OJEU (February 2012) to issue a public tender within a relatively short timeframe.

However, it seems unlikely that any sizeable defence acquisitions would take place in 2012, with the big industry players claiming long outstanding payments of the ongoing programmes. In that respect it is significant that the Spanish Treasury (Hacienda) has held off some contracts initiated by the MoD in 1Q12.

It is also significant that according to a recently published independent report (May 2012) the percentage of local companies that win business with the Spanish MoD has gone up, from 95.4% back in 2008 to 98.1% in 2011. The report highlighted a trend towards reducing the overall number of contracts year on year, but also towards increasing transparency and accountability. Whereas in 2008 only 9.7% of the defence contracts were open tenders, last year they accounted to 61.2%.

ECONOMIC BACKGROUND

Spain's mixed capitalist economy is the 12th largest in the world, and its per capita income roughly matches that of Germany and France. However, after almost 15 years of above average GDP growth, the Spanish economy began to slow in late 2007 and entered into a recession in 2Q08. GDP contracted by 3.7% in 2009, ending a 16-year growth trend, and by another 0.1% in 2010, before turning positive in 2011, and experiencing again negative growth in 4Q11 (-0.3%) and 1Q12 (-0.4%) to officially re-enter recession. The prospects for the rest of 2012 alternate quarters with negative growth and flat growth.

Government efforts to boost the economy through stimulus spending, extended unemployment benefits, and loan guarantees did not prevent a sharp rise in the unemployment rate, which rose from a low of about 8% in 2007 to circa 24% in 1Q12. The government budget deficit worsened from 3.8% of GDP in 2008 to 9.2% of GDP in 2010, more than three times the euro-zone limit. Madrid cut the deficit to 8.5% of GDP in 2011, well above the deficit reduction target of 6% negotiated between Spain and the EU, and aims to reduce it as much as 5.3% by the end of 2012. Spain's large budget deficit and poor economic growth prospects have made it

vulnerable to financial contagion from other highly-indebted euro zone members despite the government's efforts to cut spending, privatize industries, and boost competitiveness through labour market reform.

DEFENCE ECONOMICS

Spain's conservative government led by PM Mariano Rajoy has committed itself to retaining a national defence industry by pushing overseas sales to counterbalance the country's recent savage cutbacks in military spending. The Spanish Secretary of State for Defence Pedro Argüelles told parliament on 17th April that the government would be "seeking the right mechanisms for safeguarding the Spanish defence industry, its jobs and technology capacities" He further said that this would lead to government-to-government accords that would "permit the industry to open itself up to new clients with more guarantees for all sides. Arguelles described the 2012 Spanish Defence Budget, with spending due to fall by 8.8% to €6.3 billion (USD 8.2 billion) as "the most difficult and complicated for decades", adding to an accumulated overall reduction that had reached 25% since 2008. The budget figure represents roughly 0.84% of the GDP, well below the NATO objective for its member states.

Meanwhile the budget for modernisation programmes has been reduced to €214.9 million in a year when due payments total €2.3 billion. Spain's long-term commitments are estimated to be worth around €32 billion. Argüelles said the Spanish Defence Ministry will be looking to "avoid the situation worsening" and will be "concentrating Spanish effort on achieving financing that helps Spain to comply with the commitments that Spain has with its partners in the programmes". He also promised a "strengthening of supervision and control of programmes, to try to avoid generating instability and mistrust among our partners and companies in the sector".

With support from the industry ministry, which for several years has been providing advances on some defence programmes from its budget, there will be an extra €507 million available. However, some €309 million of this has already been earmarked for payments owing on the multinational Eurofighter programme.

The defence ministry is still seeking further "solutions to redirect the financial situation of the department", Argüelles added. Although market analysts have already pointed to this leading to more deferments in defence ministry payments.

With the Government cutting social spending, defence cuts are largely seen as necessary in order to prevent a public outcry. An article recently published by El País (centre-leftist daily) criticised a 2.5% increase in defence investment when compared to 26% drop in civil construction in 2011.

DEFENCE MARKET AND HOW TO DO BUSINESS

Best route to market

Irrespective of the European Defence Agency policy on defence procurement, and at the light of the data above regarding the increasing number of contracts awarded to local companies, we would advise UK industry against covering the Spanish market without some sort of presence on the field. The UKTI team in Madrid has links with a large number of agents and representatives of defence and security products in Spain, who may have interest in adding yours to their portfolio –assuming there aren't conflicts of interest.

HMG Support

HMG support for the defence and industry sectors is channelled in market through the UK Trade & Investment network with offices in Madrid, Barcelona, Bilbao and Seville. The British Embassy in Madrid has a Defence Attaché office which carries out coordination activities as well as advisory roles for both the UKTI team and UK companies (resources permitting).

In the UK, the point of entry for companies interested in the Spanish market is UK Trade & Investment Defence and Security Office (UKTI DSO) sitting in UKTI HQ at BIS - 1 Victoria Street, London SW1H 0ET.

ARMED FORCES - MILITARY STRENGTH

In 2010, the Spanish Armed Forces were 153,780 strong (26,980 Navy; 92,000 Army; 24,800 Air Force; and 10,000 reserves – Source: DA Defence Factsheet Spain). Official provisions foresaw a reduction in the number of effectives (and expenditure) which is in line with the latest figures published in the media establishing the total figure in 125,000 - 135,000.

Materiel capabilities

Army:

www.ejercito.mde.es/materiales/index.html

Navy:

www.armada.mde.es/ArmadaPortal/page/Portal/ArmadaEspannola/buques_principal/

Air Force:

- Combat capabilities:

www.ejercitodelaire.mde.es/ea/pag?idDoc=D8F1020A8749EE08C12574480029AA7F

- Transport capabilities:

www.ejercitodelaire.mde.es/ea/pag?idDoc=86CE48F02C0CB52CC12574480029ABE1

- Helicopter capability:

www.ejercitodelaire.mde.es/ea/pag?idDoc=B82F93BF1406F87EC12574480029ACE4

- Other capabilities:

www.ejercitodelaire.mde.es/ea/pag?idDoc=8D6397FEE6BBF256C12574480029ADE6

Spain does not possess any offensive nuclear delivery systems or warheads, neither chemical or bacteriological weapons capability.

SECURITY ISSUES

The Guardia Civil (70,000) and Policía Nacional (72,000) are the 2 police forces with national deployment. Mossos d'Squadra in Cataluña (12,000), Ertzaintza in the Basque Country (8,000) are the other 2 established police forces with regional deployment. Other regions have police forces at different stages of development.

In January 2011 ETA, the Basque independentist organization, declared the ceasefire announced in September 2010 to permanent and verifiable. This is not the first time this has happened and the group has broken such ceasefires in the past. However, there have been no deaths attributed to ETA since then and there have been suggestions by the political arm of the organization, Batasuna, and current ETA operatives that there may be the possibility of an internationally verified de-arming.

DEFENCE IMPORTS & EXPORTS

Source: Spain Defence & Security Report 2011

	EXPORTS	IMPORTS
Arms and ammunition	32.6	114.9
Military weapons (excluding guns and swords)	1.32	19.4
Bombs, grenades, mines, missiles, ammunition	26.1	54.4
Revolvers and pistols	0.6	4.7

COMPETITORS

The main players in the Spanish market are:

General Dynamics Santa Bárbara Sistemas (www.gdsbs.com). Part of the European Land Systems Group of General Dynamics, it employs 2,300 people in Spain and Germany. Supplier of land equipment mainly: combat vehicles, artillery systems, light weapons, explosives, tracks, EOD charges, missiles and munitions. In 2008 won contract to supply 100 RG31 Mk5E (BAE South African subsidiary actually manufactured the vehicles). Main products: Leopard 2 tank, Pizarro armoured vehicle, mid-weight armoured vehicle BMR-2, THE 155/52 APU SBT howitzer, and the M-3 Rapid Deployment Amphibious Equipment.

EADS CASA (www.casa.eads.net). CASA joined France's Aerospatiale-Matra and Germany's DASA to create EADS. The Spanish weight is 5.4% owned by the Spanish government. It employs 7,000 workers and concentrates its business on aircraft, maintenance and space. Its main divisions are Defence and Security (Eurofighter, missile systems, defence communications systems and electronics); Astrium (leading European supplier of satellites, launchers and space services); Eurocopter (involved

in the production of NH90 – two versions, i.e. Tactical Transport Helicopter and NATO Frigate Helicopter); and Airbus.

Navantia (www.navantia.es). Leading Spanish military shipbuilding company with premises in Ferrol, Cartagena and San Fernando (Cádiz). 4 business lines: shipbuilding (F100 frigates, aircraft carriers, submarines, strategic projection ships, etc.) diesel engines, repairs/conversions and control and combat systems. They have recently delivered 2 aircraft carriers (Juan Carlos I LHD type) to the Australian Navy (fitted by BAE in Australia). Other recent order was 5 F310 frigates to Norway delivered in January 2011.

INDRA (www.indra.es). Created in 1993 it is Spain's IT champion. It has 40 subsidiaries and project in 110 countries. Employs 31,000 staff globally and spent c. €500 M in the last 3 years in R&D. Indra is a world leader in simulation for training technologies. It has simulators for Eurofighter and A400M aircraft. Earlier in 2011 they won a contract with the UK MoD to supply simulators for the AW159 Lynx Wildcat helicopter. Recently the announced a deal to design and produce an aircrew training simulations system for the naval and army's versions of the UK's new Augusta Westland AW159 Lynx Wildcat Helicopter.

ITP (www.itp.es). Owned by Sener Aeronáutica (53%) and Rolls-Royce (47%) they are active in engineering, R&D, manufacture, assembly and test of aeronautical engines and gas turbines. ITP holds 16% stake of EuroProp International (EPI) in partnership with Rolls-Royce, MTU and Snecma. EPI is the sole supplier of the TP-400 turboprop that powers the A400M. Their main aim is to be competitive in the aircraft and helicopter engine maintenance market, where scale and service are key factors.

PROCUREMENT ORGANISATION

The Strategic Defence Review of 2003 stated that the Ministry of Defence should assume full responsibility for the acquisition of defence systems. In order to do this, it empowered the Dirección General de Armamento y Material (DGAM) to manage autonomously new and sustainment programmes. Defence procurement is now centralised from this department and it has also assumed direct responsibility for non operational logistics. Inputs into the DGAM organisation come from the Joint Headquarters (EMAD) and the headquarters of the 3 services.

Armed Forces requirements are articulated and developed through a 4 yearly planning cycle of Defence. This cycle, which is reviewed every 2 years, looks 15 years ahead. DGAM is responsible for the preparation, planning and development of the policy of procurement. Although MoD recognises that the international environment is important and that considerable coordination is required, it also underlines that it has a duty to support national defence companies when considering new programme procurement.

OFFSET POLICY

<http://www.eda.europa.eu/offsets/viewpolicy.aspx?CountryID=ES>

KEY PERSONALITIES

Defence Minister	Sr. Pedro Morenés Eulate (from December 2011)
CHOD	Admiral Fernando García Sánchez (from December 2011)
Secretary of State for Defence	Sr. Pedro Argüelles Salaverría (from January 2012)
Secretary General for Policy	Sr. Alejandro Alvargonzález (from January 2012)
CGS	General Fulgencio Coll Bucher (from July 2008)
CNS	Admiral Manuel Rebollo García (from July 2008)
CAS	General José Jiménez Ruiz (from July 2008)

FURTHER INFORMATION:

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

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1st Floor
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London SW1H 0ET
Telephone: 020 7215 8209

E-mail: dso.businessservices@ukti.gsi.gov.uk

NEXT STEPS - HOW UKTI CAN HELP

British companies wishing to develop their business in the Spanish 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 Spanish 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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Export Control Organisation

Email: eco.help@bis.gsi.gov.uk
Tel: +44 20 7215 4594

UK MOD Export Policy Assurance Unit

Email: 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>

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

Spanish Ministry of Defence:

<http://www.defensa.gob.es/>

Spanish Defence Procurement Organisation:

<http://www.defensa.gob.es/en/politica/armamento-material/>

Spanish Ministry of Interior:

<http://www.interior.gob.es/>

UK Ministry of Defence:

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

UK Trade & Investment Defence & Security Organisation:

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

FCO Spain Travel Page:

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

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