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Defence Industry and the Reinvigorated UK-UAE Security Relationship

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Defence Industry and the Reinvigorated
UK-UAE Security Relationship

In his foreword to a RUSI Briefing Paper of April 2013, Michael Clarke discussed the UK seeing an element of its future security as being critically located in the Gulf region:

The military intends to build up a strong shadow presence around the Gulf; not an evident imperial-style footprint, but a smart presence with facilities, defence agreements, rotation of training, transit and jumping-off points for forces that aim to be more adaptable and agile as they face the post-Afghanistan years from 2014.

At the heart of this stance is the UK’s relationship with the United Arab Emirates (UAE). The Al-Minhad airbase in Dubai will undoubtedly form a major focal point of the future British presence in the region, and certainly offers much military utility for the application of flexible and adaptable force.

Beyond this ‘smart’ basing, however, lies the potential for increased mutual defence and security through the development of the defence-industrial relationship between the UAE and the UK; this may prove to be more significant, enduring and strategic than plans for highly visible military co-operation or the provision of host-nation facilities.

For the UK appears close to the moment where some kind of strategic orientation of its defence and security posture towards the Gulf region becomes de facto government policy. Logically, this also means that the UAE government in Abu Dhabi is committed to reinvigorating its relationship with the British now, in 2013, possibly at the expense of other potential strategic alliances.

This paper is a short and selective treatment of a complicated, shifting and amorphous topic. The authors’ intention is merely to contribute towards – and perhaps inflame – the whispered debate on the significance of defence-industrial engagement and participation to the notion of a refreshed UAE-UK strategic relationship.

The paper first briefly addresses the ambitions and perceived strategic and operational needs of the UAE in the context of its bilateral relationship with the UK. It then explores notions of defence industries and the military component, and considers the UAE’s visions for its economy and defence and security, and how these shape and refine its policy actions and responses. The paper concludes with a discussion of the potential for joint UK-UAE defence and security programmes.
Defence businesses should be characterised as both an integral ingredient of the modern military component, as well as an instrument of diplomacy and inter-state relations. This realisation is at the epicentre of the unfolding governmental dialogue between the two countries as the relationship reshapes in 2013.

The Drive for Partnerships
In responding to complexity and uncertainty within the geopolitical system, states are forming or reaffirming enhanced strategic partnerships. At this level of analysis, the emerging UK-UAE relationship makes much sense – especially in a region where the long shadow of Iran complicates strategic calculations.

Of course, the signals of a relationship between the two states as somehow being more significant and strategic than before, following summit discussions in London at the end of April and early May, could also be conceptualised as business as usual. A Defence Cooperation Accord between the two states was signed in 1996; whilst nothing much happened during the Blair and Brown years of government to flesh out this agreement, it could be argued that the British ‘return’ to the UAE from 2013 onwards merely marks a return to a traditional, long-running strategic partnership that had been simply allowed to cool.

The UK and UAE governments are coming closer in response to existing hazards and risks within a highly contingent and uncertain geopolitical system, building upon a relationship that already has artefacts of co-operation and a shared history. Both sides are also conscious of commercial opportunities for sales from the UK to the Middle East and, potentially, from the UAE to Europe. As will be discussed, it should not be underestimated just how important this commercial driver is to those officials and industrialists championing greater strategic ties between the two states.

Defence Industries, the UAE and the Military Component
As a consequence of globalisation, government, military and security authorities rely ever more on local, regional or international industry players to fulfil national objectives. This is driven by multiple factors, including the:

- Pressure on public budgets, especially in the West
- Complexity of defence technology
- Lack of highly skilled resources both in advanced and emerging countries
- Growing role of defence industries in delivering technology, innovation and R&D activities
- Development of common regulatory frameworks in the US and Europe
- Perceived benefit from public-private partnerships in improving the efficiency and effectiveness of defence projects
- Application of offset agreements as a way to enter new markets.
The UAE is very much in line with the global trend of the development of strong relationships between industry, governments and military authorities. Due to its strategic position, the need to protect its critical infrastructure such as oil and gas facilities, and the goal to diversify its economy and become more self-sufficient, the UAE is developing its own defence-industrial base through collaboration with leading original equipment manufacturers (OEMs).

In terms of organisation, the UAE military is divided conventionally into an army, navy and air force (including a police air wing). The army, which is headquartered in Abu Dhabi, is organised into one Royal Guard brigade, two armoured brigades, three mechanised infantry brigades, two infantry brigades, and one artillery brigade of three regiments. Dubai has two mechanised infantry brigades that are not integrated into overall union forces. The air-defence force has two brigades.

The individual emirates have set targets for commercial growth, such as Abu Dhabi’s formal economic Vision 2030, that include the development of local businesses and foreign direct investment (FDI), as well as developing national-champion enterprises. Within this long-term vision, the UAE government has set in place a programme of military modernisation to improve the country’s defence capabilities. These initiatives are reflected in the growth of the defence budget and embrace multiple deals signed with foreign OEMs. The country is the fourth-largest defence importer globally and is expected to spend about $52.3 billion on defence and security equipment in the next four years. In comparison, the 2012 spend on defence was about $9.3 billion. This market could be a significant prize for a Western state faced with stagnating (or falling) national defence budgets and shrinking demand for home orders for its indigenous defence industries. It hints at, in part, the British government’s motivation for a refreshed relationship with its peers in Abu Dhabi.

The United Arab Emirates probably has three main areas of focus in the development of defence and security capabilities: fighter jets, anti-missile systems and homeland security capabilities. For example, in 2011, aircraft, parts and materials represented 61 per cent of the country’s defence imports. Not surprisingly, the UAE is considered to be one of the world’s most-promising markets for global defence OEMs.

The country also has a long history of engaging with other countries in addition to the UK – such as France, China, Russia, Germany and the US.

The relationship with the US is significant; a defence pact was signed in 1996 allowing the US to pre-position troops and equipment in the UAE, including the use of air bases across the country. The pact includes the training of nearly 1,000 UAE personnel at US Army aviation centres in the US, and also
embraces the UAE’s hosting of the Integrated Air Missile Defence Centre, a major training facility for Gulf-US co-operation on missile defence.

Yet despite the importance of the military relationship with the United States, the UAE has a procurement-diversification strategy for its own defence needs. France, for instance, has been a primary source of military materiel in a relationship which has expanded into other forms of cooperation. In January 2008, the UAE signed an agreement to allow a French military presence including the use of the Zayid Port by the French navy; an installation at Dhafra Air Base to be used by the French air force; and an Abu Dhabi military facility that houses about 400 French military personnel. The country is also host to Australia’s Middle East Headquarters at Al-Minhad.

The UAE is keen to change from being a net importer of defence capabilities to being an exporter. For the first time this year, for example, the UAE took part in the 19th LAAD Defence and Security International Exhibition in Brazil to develop overseas sales of its land equipment. Moreover, deals were signed during the IDEX 2013 defence exhibition in mid-February involving UAE-based, government-sponsored companies such as Mubadala, Tawazun and the International Golden Group, suggesting the increased ambition and know-how of indigenous UAE defence businesses.

**UAE Vision and the UK Relationship**

The UAE’s national ambition is captured within specific written objectives that fuel, in part, the country’s interactions with other states:

- The construction of a safe and secure nation: the ‘UAE Government will continue to be the custodian of a safe and secure nation, ensuring economic resilience and stability, upholding fairness and justice, and offering an advanced welfare system to allow all Emiratis to overcome adversity and contribute positively to the society’
- The development of a sustainable and diversified economy: the ‘UAE will benefit from a sustainable and diversified economy, flexible in adopting new economic models, and capitalizing on global economic partnerships to guarantee long-term prosperity for current and future generations of Emiratis.’

As discussed, the implementation of the UAE vision has been captured and codified by the government, for example, within the Abu Dhabi Economic Vision 2030. This document aims to provide a long-term roadmap for economic progress and the establishment of a common framework of engagement with indigenous and investing corporations. As the document states, ‘Abu Dhabi will continue to diversify its economy, investing in those capital-intensive, export-oriented sectors in which it has or can build a competitive advantage’. Aviation, aerospace and defence are the markets
identified as the focal sectors for the provision of long-term, sustainable growth and diversification.

In addition to this long-term intent, the UAE faces immediate challenges. The protection of critical infrastructure, the territorial dispute with Iran, and the ongoing state-building initiatives in the Gulf are driving near-term strategy and shaping the way in which the UAE government seeks to invest. Leveraging their substantial financial resources, the UAE is investing heavily in fighter-jet capabilities, anti-missile systems and border-security systems.

Significantly, as the world’s fourth-largest defence importer, the UAE accounted for almost 5 per cent of global defence and security imports in 2011. Moreover, between now and 2016, the country is projected to spend on average almost 6 per cent of its GDP annually on defence and security, or $4,076 per capita. Its annual defence budget of approximately $10 billion, for a nation with a population of almost 5.5 million (including non-nationals), points to the scale of its ambition and the sense of its exposure to geopolitical hazards and risks. In contrast, the UK has a defence budget of $60 billion, but for a population of close to 65 million citizens.

All this underscores the view that the UAE is committed to maintaining a capable and flexible military, in the short term, to meet the challenges it faces regionally, but also to enable the country to play an increasing role in international affairs – it must be remembered that the UAE was a leading champion of Arab participation in the Libyan campaign in 2011, committing six F-16s and six Mirage aircraft. In contrast, for the long term, the development of its defence and security capabilities is seen within the leadership as a key enabler of its strategic economic vision of diversification from dependency on traditional, high-value Gulf industries to a high-tech, high-margin exporting economy of goods and services.

Recent events should be viewed through the prism of this short-term expediency and long-term developmental intensions of the UAE government. During the 2013 IDEX defence exhibition, UAE orders were made for military vehicles, support services, ammunition, personal weapons and even Predator remotely piloted air systems (RPAS) – the latter an interesting vignette of the overall UAE strategy; buy off-the-shelf in the short term to meet a specific defence capability need whilst in the long term developing indigenous capabilities with an international partner. This is where the British relationship becomes important, as the emerging bilateral agreement may include a line for the possible development of a joint unmanned aerial system as a platform for the projection of multiple, as-yet unidentified, future capabilities.
Defence Industry and the Reinvigorated UK-UAE Security Relationship

From a UAE perspective, critical defence and security relationships are both politically ‘streetwise’ but also shaped inexorably by economic goals. The UAE’s defence sector is perceived as a way to stimulate economic activity, develop critical skills and competencies that can permeate throughout the wider economy, generate significant export potential and make the UAE significant to the West – not just as a potentially useful base, but as an economic partner and repository of critical defence research, development, manufacturing and support capabilities. A state, in short, that is pivotal to the West’s security but also to its potential order of battle and supply base.

For example, the UAE is keen to replace its ageing Mirage fighter aircraft fleet. The French Dassault Rafale aircraft has been shortlisted as a possible solution, as has the BAE Systems Typhoon. A possible deal to take the Mirage out of service and replace it with the Typhoon (accompanied by a long-term support, upgrade and training package), coupled with the research and development of RPAS capabilities – itself tied to an emerging UK military footprint in the region – seems the stuff of a remarkable and pivotal UK-UAE treaty, and is certainly more than business as usual. Such an outcome would possess the ‘wow factor’ and satisfy the UAE’s short-term/long-term test. As an aside, what such an eventuality would mean for the Anglo-French relationship is an interesting question, but one beyond the scope of this paper.

Special Economic Zones: Operationalising a 2013 UK-UAE Treaty

Within the UAE, the long-term strategic vision and short-term geopolitical challenges are being addressed in part by the political leadership through a number of distinct economic and commercial structures. Understanding these will become important within the UK as the relationship between the two states develops. The first of these is the use of economic free zones, which aim to bring Western investment to the country (especially in the form of skills and competencies), generating employment, exports and foreign-exchange earnings.¹¹

The idea of a free zone is a relatively simple one; an identified, bounded area within the UAE in which businesses within a particular industrial sector can operate. Such a zone would have a number of specific legal and commercial features in common. First, a business within a free zone can be owned outright by non-UAE shareholders enjoying full rights of repatriation of capital, profits and the protection of national intellectual property. Second, there is the right of total exemption from domestic commercial and personal taxes, and the free zone can offer to overseas businesses various landlord services such as security, the provision of cheap energy and extended, below-market-value leases for buildings, plant and machinery. Co-locating multinational businesses, indigenous small and medium enterprises and start-ups within a specific free zone creates a cadre of qualified and experienced personnel
and a focal point for new business opportunities. Abu Dhabi’s AutoCity is an example of an effective free zone.

Analysts and commentators can only speculate currently on how the development of defence and security capabilities can be underscored by the free-zone concept. But it is an intriguing thought to consider the manner in which defence companies listed in the UK could benefit from a more energetic UK-UAE relationship – the total repatriation of profits and a zero-rate of taxation is enough to get the attention of any chief executive. This is not lost on UAE officials (and their Western advisers). Since about 2008, the government of Abu Dhabi has been exploring the development of a military production zone (MPZ) as a defence-specific free zone. Global advisory and specialist defence businesses have been assisting the UAE in the development of this concept, working for an entity called ZonesCorp. The Higher Corporation for Specialised Economic Zones (ZonesCorp) is a government-backed corporation responsible for the establishment, management and operation of Specialised Economic Zones in Abu Dhabi. ZonesCorp articulates its value proposition around two core competencies. The first of these is the development, operation, management and administration of zones of special economic nature in strategic locations throughout the Emirate, crafted for specific sector requirements. The second is the procuring of new specialised clusters through public-private partnership management structures and the involvement of the ZonesCorp Infrastructure Investment Fund, leveraging on an enhanced financial capability provided by government.

It is worth asking whether the industrial strands associated with the emerging bilateral agreement could in future be developed and ‘operationalised’ through the concept of an MPZ, the groundwork for which – conceptually at least – has already been undertaken. No meaningful answer is currently within the public domain but if not, why not, seems a sensible future enquiry.

Additionally, within the UAE, officials seem ready to embrace the expansion of mutual defence capabilities through joint programmes and projects. ZonesCorp and the International Golden Group signed an agreement in early 2013 to establish a number of defence projects in ZonesCorp’s AutoCity as a mini-MPZ. The chief executive of ZonesCorp, Mohamed Hasan Al-Qamzi, stated that the businesses will be: ‘working together to develop advanced, significant defence-related projects in [the] AutoCity area, thereby adding new types of industries’.

Future joint defence projects will be able to benefit from the strategic advantages offered by the already existing facilities: high-specification infrastructure and services, advanced workshops and service centres, warehousing and distribution, heavy-plant storage, light manufacturing and
assembly. It is not too much of a leap to suggest that future Anglo-Emirati defence projects have a ready-made home in Abu Dhabi.

There are, of course, difficulties associated with international defence programmes and projects centred on the UAE. Extant Emirati policy requires non-national defence contractors to either transfer technology to the country or establish joint ventures with local firms. Defence agreements typically come attached to an offset obligation equivalent to 60 per cent of the contract value.\(^{15}\) This responsibility is managed by the Tawazun Economic Council, whose original national offset programme was established in 1992 to assist with the diversification and up-skilling of the UAE economy. The Tawazun Economic Committee sits between the Council and the UAE armed forces to ensure the coherent development of defence programmes to meet both the military demands for appropriate capabilities and the strategic ambition of economic development.\(^{16}\) Whilst challenging, global defence businesses registered in Britain are increasingly comfortable working within a Middle Eastern regulatory and offset environment. With sound governance arrangements in place at corporate and programme levels, this should not prove a hindrance to the commercial strands of a refreshed UK-UAE relationship.

**Emerging Joint UK-UAE Programmes**

Today, as discussed, the most important contractual discussion in the UAE defence arena concerns the supply of jet fighters. Whilst the competition for this $10 billion award is still notionally alive, the contract award is a real and present test of the strategic relationship between the UK and the UAE. It represents a visual signpost of the significance of the partnership to both governments; but, potentially, at the expense of the French.

If the Emiratis order Typhoon as part of a UK-UAE 2013 defence concordat, it is reasonable to assume that it will come with a maintenance and supportability package that could, in part, be pursued on the ground in the UAE.\(^{17}\) The idea of the Al-Minhad airbase being configured as a Typhoon maintenance hub is not without merit, potentially offering a useful addition to the operating plans of both states. The air base even being enveloped within some kind of virtual free zone could, and perhaps should, be subject to further study if Typhoon arrives in Emirati livery.

The generation of a UK-UAE RPAS capability is a more sensitive proposition, though the potential for the development of test and evaluation services in the empty spaces of the UAE is pregnant with possibilities. It remains to be seen whether both states will be able to pursue this.\(^{18}\)

Moreover, the development of a more robust relationship between the UK and the UAE includes, from an Emirati perspective, the tantalising possibility
of selling Arab defence equipment to UK, European and other NATO users, as well as to other states. For example, Tawazun’s defence vehicle manufacturer, NIMR Corporation, has a catalogue of fifteen different configurations of 4x4 and 6x6 military vehicles. It signed a joint venture in May 2012 with the Algerian Ministry of Defence Mechanical Industry Promotion Group for a production unit to be located in Algeria with a capacity to build up to 200 armoured vehicles per year.19 There is a strong sense in Abu Dhabi that a refreshed relationship with the UK will prove to be a powerful enabler of their ambition for defence exports. This may prove to be correct, but it is difficult at present to discern just what this belief is based upon.20

Conclusions
It seems clear that something significant is unfolding in the defence and security relationship between the UK and the UAE. As yet, it is not fully understood or indeed completely open to public scrutiny. The British military is developing a smart presence in the region post-Afghanistan and the UAE is seeking to enhance and refresh a historical relationship as it works to contain Iran and address a myriad of geopolitical hazards and risks. So far, so conventional; but there is a defence-industrial component to this refreshed defence and security relationship that is intriguing and hints at the centrality of defence-industrial considerations in twenty-first-century notions of security and international diplomacy.

Of course, analysts and researchers are attempting to understand this potentially strategic development when much information, rightly, is still not in the public domain. Politicians, officials and the military, from both sides, are hinting at something significant. Whilst no formal announcements were made following the recent summit meeting in London, it could be that governments, and industrialists, in London and Abu Dhabi are choreographing statements in time for a major event in the Middle East – perhaps even the Dubai Air Show. It certainly does not feel like business as usual.

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Notes and References


10. Author interviews with officials during February and March 2013.


12. An international defence advisory business initially produced a report for the UAE on the viability of a Military Production Zone in Abu Dhabi in January 2008. This was followed by multiple strands of advisory and design work packages throughout 2008 and 2009.


15. In 2010, the UAE Offset Policy was reformed so that project milestones for the discharge of offset responsibilities did not have to be met on an annual basis for each year of a typical seven-year schedule of obligations.

16. The Tawazun Economic Program focuses on eight main business areas: aerospace systems, munitions and weapon systems, land systems, naval systems, autonomous systems, metals and advanced materials, radar/communication/command and control, and electronics. In addition, its required capabilities encompass the overall product lifecycle, from designing to maintenance, repair and overhaul.

17. Abu Dhabi Aircraft Technologies (ADAT), a UAE aircraft-maintenance business, has already maintained the RAF’s TriStar fleet under contract to DE&S.

18. The UAE interest in unmanned air systems is well documented. As well as procuring the Predator from the US, the Emiratis have signed a teaming agreement with Boeing to undertake training and support for the ScanEagle. The government is also seeking to demonstrate its vertical take-off and landing air system, Al-Saber. See Boeing, ‘ADASI Sign Teaming Agreement for UAS’, press release, 13 February 2013, <http://boeing.mediaroom.com/index.php?s=43&item=2592> and Aviation Week and Space Technology, defence technology edition, 28 January 2013.


20. Interestingly, in mid-2012, NIMR was issued with the ‘STANAG 4569 Level 3’ certification for its latest vehicle, the NIMR 6x6 armoured personnel carrier. NIMR is now able to produce 6x6 vehicles that have Level-3 mine and ballistic defence solutions that meet NATO standards.
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