Defense

The Argentine Defense Industry – Market Opportunities, Entry Strategies, Analyses and Forecasts to 2016

Reference code: DF0035MR

Published: April 2012

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1 Introduction

1.1 What is this Report About?

This report offers insights into the market opportunities and entry strategies adopted by foreign OEMs (original equipment manufacturers) to gain a market share in the Argentine defense industry. In particular, it offers in-depth analysis of the following:

- **Market opportunity and attractiveness:** detailed analysis of the current industry size and growth expectations during 2012–2016, including highlights of the key growth stimulators. It also benchmarks the industry against key global markets and provides detailed understanding of emerging opportunities in specific areas.
- **Procurement dynamics:** trend analysis of imports and exports, together with their implications and impact on the Argentine defense industry.
- **Industry structure:** five forces analysis to identify various power centers in the industry and how these are expected to develop in the future.
- **Market entry strategy:** analysis of possible ways to enter the market, together with detailed descriptions of how existing companies have entered the market, including key contracts, alliances, and strategic initiatives.
- **Competitive landscape and strategic insights:** analysis of the competitive landscape of the defense industry in Argentina, providing an overview of key defense companies (both domestic and foreign), together with insights such as key alliances, strategic initiatives, and a brief financial analysis.
- **Business environment and country risk:** a range of factors at country level, assessing business environment and country risk. It covers historical and forecast values for a range of indicators, evaluating business confidence, economic performance, infrastructure quality and availability, labor force, demographics, and political and social risk.

1.2 Definitions

For the purposes of this report, the following timeframes apply:

- **Review Period:** 2007 to 2011
- **Forecast Period:** 2012 to 2016

The following are definitions of military expenditure:

- **Revenue expenditure** includes troop training, institutional education, construction, and maintenance of various undertakings. It also covers the salaries, allowances, pensions, transportation, food, insurance, welfare benefits, and miscellaneous expenditures pertaining to all unit allowances for training, contingency and other grants for officers, non–commissioned officers, enlisted men, and contracted civilians.
- **Capital expenditure (capex)** covers research and development (R&D), procurement, maintenance, transportation and storage of weaponry and other equipment. It also includes expenditure on aircraft and aero engines, heavy and medium vehicles, naval equipment, and expenditure on the purchase of land, construction plants, and machinery.

The following are definitions of defense categories:

- **Military hardware** refers to the broad range of machinery, systems, equipment, and weapons used by defense forces.
- **Air defense systems** are defined as all measures designed to nullify or reduce the effectiveness of hostile air action. They include ground- and air-based weapon systems, associated sensor systems, command and control arrangements, and passive measures. This may be to protect naval, ground and air forces wherever they are positioned, but does not include missile defense systems.
- **Missile defense systems** are systems, weapons, or technologies involved in the detection, tracking, interception and destruction of attacking missiles.
- **Naval defense systems** are used to protect sea lanes, ferry troops, or attack other navies, ports, or shore installations. They include surface ships, amphibious ships, submarines, and seaborne aviation.
- **Homeland security (HLS)** involves the protection of a country's civilians and critical infrastructure from natural or man-made disaster. Its margins extend to border and maritime patrol, customs checks in ports and airports, search and rescue operations, disaster recovery, combating terrorism and cyber-attacks.

The following are miscellaneous definitions:

- **Indirect offsets** involve both barter and counter trade deals, investment in the buying country, or the transfer of technology unrelated to the weapons being sold.
- **Direct offsets** is defined as an arrangement wherein the purchaser receives work or technology directly related to the weapons sale, typically by producing the weapon system or its components under license.
- **Multipliers** are additional credits assigned over and above the market value provided to offsets for a technology, product or service being offered.
- **Command, control and communications and intelligence system (C3I)** refers to an information system employed by a military's top command to direct its forces. This system provides the military with information on various parameters associated with executing a strategy during a military exercise. The parameters include reconnaissance and surveillance, troop positions, inventory levels, and weather conditions. The communication system enables the transfer of images and videos captured by surveillance systems and data and voice between the command and control center. In addition, the system aids in joint operations between the army, navy and air force.
- **Maintenance, repair and overhaul (MRO)** involves the servicing of a defense system with the objective of restoring it to a state where it can perform its intended function. It could be routine maintenance, replacement of faulty spare parts, or checking the entire system to ensure smooth functioning.
- **Airborne early warning and control systems (AEW&C)** are airborne radar systems used by the military to detect the movement of aircraft in its airspace. Used at high altitudes, they are used in both defensive and offensive air operations and have the ability to help distinguish between civilian and military aircraft.

1.3 Summary Methodology

ICD Research's dedicated research and analysis teams consist of experienced professionals with a background in industry research, and consulting in the defense sector. The following research methodology is followed for all databases and reports.

1) Secondary Research

The research process begins with exhaustive secondary research to source reliable qualitative and quantitative information related to the defense market. The secondary research sources that are typically referred to include, but are not limited to:

- Industry associations
- National government documents and statistical databases
- Company websites, annual reports, financial reports, broker reports, investor presentations
- Industry trade journals and other literature
- Internal and external proprietary databases
- News articles, press releases and webcasts specific to the companies operating in the market

2) Primary Research

ICD Research conducts hundreds of primary interviews a year with industry participants and commentators in order to validate its data and analysis. A typical research interview fulfills the following functions:

- Provides first-hand information on market size, market trends, growth trends, competitive landscape, and future outlook
- Helps to validate and strengthen secondary research findings
- Further develops the analysis team's expertise and market understanding
- Primary research involves e-mail interactions, telephone interviews and face-to-face interviews for each market category, division and sub-division across geographies

The participants who typically take part in such a process include, but are not limited to:

- Industry participants: CEOs, VPs, business development managers, market intelligence managers and national sales managers
- External experts: investment bankers, valuation experts, research analysts, and key opinion leaders specializing in defense markets

3) Conventions

- Currency conversions are performed on the basis of average annual conversion rate format calculations
- All the values in tables, with the exception of compounded annual growth rate (CAGR) and compounded annual rate of change (CAGR) are displayed to one decimal place; therefore, growth rates may appear inconsistent with absolute values due to this rounding method

1.4 ICD Research Terrorism Index

The ICD Research Terrorism Index classifies countries across the world into one of the following categories, based on the risk of terrorism:

- Worst affected
- Highly affected
- Moderately affected
- Some risk
- Low risk

It takes into account the total number of terrorist incidents, the total number of people affected by these attacks, and the presence of foreign terrorist organizations in a country. Based on these parameters, the terrorism index is developed using a weighted average scorecard.

1.5 About ICD Research

ICD Research is a full-service market research agency and premium business information provider, specializing in industry analysis in a broad set of B2B and B2C markets. Our products and services help companies make better decisions, win business and position themselves more effectively.

ICD Research’s areas of expertise include online research, qualitative and quantitative research, industry analysis, custom approaches, and actionable insights. ICD Research has access to over 500 in-house analysts and journalists, and a global media presence in over 30 professional markets, enabling us to conduct unique and insightful research via our trusted business communities.

1.6 About Strategic Defence Intelligence (www.strategicdefenceintelligence.com)

This report is one of a series that is available to subscribers of our premium research platform — Strategic Defence Intelligence. Strategic Defence Intelligence provides a stream of continuously updated customer and competitor intelligence as well as detailed research reports providing an unrivalled source of global information on the latest developments in the defense industry.

Strategic Defence Intelligence's unique monitoring platform tracks global defense activity for over 2,500 companies and 65 product categories in real-time in a highly structured manner - giving a comprehensive and easily-searchable picture of all defense industry activity. The site features: daily updated analysis, comment and news; company and customer profiles; defense spending, tenders and contracts; product and technology intelligence; a research and analysis database giving you access to industry and competitor reports to inform your business and market planning as well as fully customizable tools, including instant personalized report generation and custom alerts.

For a free demonstration please contact us at sales@strategicdefenceintelligence.com

2 Executive Summary

Argentine defense budget expected to increase at a robust pace during the forecast period

Argentina, like other Latin American countries, is increasing its defense budget at a robust pace. The defense budget, which stood at US$2.96 billion in 2011, recorded a CAGR of 16.55% during the review period, largely due to increased personnel salaries. The Argentine defense budget is expected to register a CAGR of 16.40% during the forecast period, to reach US$6.68 billion by 2016. Defense expenditure is primarily driven by modernization plans, participation in peacekeeping missions, and a dispute with the UK regarding the sovereignty of the Falkland Islands. The Argentine government has announced plans to increase defense expenditure, which stood at 0.7% of GDP in 2011, to 1.5% of GDP over an unspecified period and, it is estimated that, by 2016 the defense budget will stand at 1.2% of GDP. Capital expenditure accounted for an average of 3.6% of the defense budget during the review period. However, modernization plans will increase capital expenditure to an average of 7.2% of the defense budget during the forecast period.

The Argentine army receives the highest allocation of the total defense budget, an average of 40.7% over the review period, which is expected to increase to 42.7% during the forecast period. The budget allocated to the air force is expected to marginally decline from an average of 24.4% of the total defense budget during the review period to 21.7% during the forecast period. The allocation for naval forces is expected to increase from an average of 25.5% of the total defense budget during the review period to 25.6% during the forecast period. The remaining budget is allocated to the Ministry of Defense and joint forces responsible for defense administration, planning, execution and development of the domestic defense industry.

The Argentine homeland security expenditure, which stood at US$3.2 billion in 2011, recorded a CAGR of 27.29% over the review period. The 2012 budget is estimated at US$3.9 billion, an annual increase of 21%, and is expected to grow at a CAGR of 6.19% during the forecast period to reach US$4.9 billion by 2016. The homeland security budget of Argentina is mainly driven by social unrest fueled by rising poverty, illegal immigration and rising organized crime.

Argentina is expected to procure patrol vessels, nuclear submarines, transport ships, multi-purpose vehicles, helicopters, communication systems and fighter aircraft during the forecast period.

Defense imports expected to increase during the forecast period

Argentine defense imports peaked in 2007 but declined in subsequent years due to economic constraints forcing the government to postpone defense modernization plans. However, during the forecast period, imports are expected to increase with the resumption of the modernization plans. The US accounts for the majority of imports, with countries such as Spain, Russia, Brazil and Austria also exporting equipment to the Argentine armed forces, although the US is expected to continue to dominate the market during the forecast period. Aircraft and sensors were the largest import categories during 2007–2011 and are expected to constitute the majority of imports over the forecast period. Russia is expected to enter the market through the supply of transport helicopters, the planned purchase of training helicopters from BELL, transport aircraft and fighter aircraft. The domestic defense industry possesses limited capabilities resulting in negligible exports.

Argentina mandates 100% offsets and encourages technology transfers and partnerships

Argentina mandates 100% offsets for its defense procurements. The country is in the process of reviving its domestic defense industry and encourages technology transfers, partnerships and research and development (R&D) as offsets. Foreign defense companies are free to invest in the Argentine defense sector, do not need to attain any prior approval from the government and don’t face restrictions on profit repatriation, resulting in an atmosphere conducive to foreign investment.

Foreign Military Sales, technology transfers and subsidiaries provide entry opportunities

Defense companies can cater for the Argentine defense industry through Foreign Military Sales (FMS), which involve direct government-to-government transactions. Foreign companies can also establish partnerships and use technology transfers to gain access to the Argentine defense market. The country’s foreign investment policy encourages the establishment of subsidiaries, providing further entry opportunities. The domestic defense industry is totally dependent on its government for sales, and defense budget fluctuations lead to uncertainty among domestic defense suppliers.