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## Middle East Defense

# Oil Wealth Helps Gulf Nation Build Domestic Arms Industry

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ABU DHABI, United Arab Emirates — On the sandy shore of this Persian Gulf nation, the Abu Dhabi Ship Building facility features five wet berths, a climate controlled composite molding facility the size of a football field, eight open air dry berths and a syncrolift capable of handling corvette-class ships.

Hundreds of workers from South Asian nations swarm over the Mussafah Channel facility in the afternoon sun where they refurbish coastal patrol boats from neighboring nations, retrofit others and bend metal in the steel production shop.

In the dry docks, work is ongoing on the largest project the yard has taken on so far: the building of six corvette-class ships for the United Arab Emirates navy. And virtually none of this was here 12 years ago.

The relatively rapid rise of the Abu Dhabi Ship Building facility is indicative of this small Gulf nation's aspirations to become not only a consumer, but a producer of military and security hardware.

Driving the effort is a goal being pushed by the nation's leaders to diversify the oil-based economy.

They are carrying out this vision with strategic partnerships with global arms manufacturers, tax free zones where international firms can set up shop, offset programs — which demand that contractors reinvest some of their profits back into the local economy — and inexpensive foreign labor.

And one other important factor: lots of cold, hard cash.

Years of high energy prices have left the UAE flush. And the recent dip in the cost of a barrel of oil has not slowed down the nation's push to modernize and diversify.

In the past, the government took oil revenues and sank them into overseas companies, said Martin Bennett, regional vice president and general manager of BAE Systems' Abu Dhabi regional office. Now, instead of saying, "'Let's buy a hotel in London,' they're getting away from that and saying 'let's build a factory in Abu Dhabi.'"

Although the nearby city of Dubai's economy has slowed down considerably since the worldwide credit crunch began, skyscrapers are still going up all over the confederation's capital city of Abu Dhabi.

The government has signed contracts with U.S., French and Japanese concerns to build nuclear reactors to supply its growing economy with energy from a power source other than petroleum.

A local trading company is partnering with a European firm to build a state-of-the art space center that will monitor a constellation of four remote sensing

satellites.

Another partnership will build military trucks locally.

All these deals come with technology transfer agreements.

Offset requirements are one way the government ensures that foreign suppliers not only sell their goods and services, but return something to the Emirates, explained Mohamed Al Mosa, a junior projects analyst at the government-run Offset Program Bureau.

"The objective of creating such a joint venture is to transfer the technology and the know-how ... and another objective is creating jobs for locals."

It's not an easy process and it usually involves long negotiations, he said, acknowledging the reluctance of some companies to share proprietary information.

The bureau looks for strategic partnerships and serves as a facilitator. The venture has to be potentially profitable and fill a niche that isn't already oversaturated in the market, he said.

Offset monies don't necessarily have to go toward manufacturing equipment locally, Al Mosa said. If the foreign firms wish, they can simply invest in local companies. But it's understood that the foreign company will act as a mentor to the local concern, he added.

U.S. and European defense industry representatives here at the IDEX show privately said they normally avoid setting up manufacturing facilities in countries with offset requirements. It's easier to invest in local firms.

Dan Darling, Middle East analyst for Forecast International, said the UAE's strategy seems to be paying off.

"That's probably the fastest growing industrial defense market in the Middle East," he said, noting that Israel has already matured as an arms manufacturer.

Sovereign wealth funds, the government's savings garnered from oil revenues, are also a huge asset the UAE can tap into to buy expensive weapons systems. Offset requirements from these big ticket items demands that a percentage of these contracts trickle down to local firms.

Both Saudi Arabia and the UAE spend disproportionately large amounts of money upgrading their military and internal security equipment, Darling said. Saudi Arabia spends some 33 percent of its annual state expenditures on defense. "I've read reports that it's higher than that. That's an awful lot of expenditures to go to one area," he said.

The UAE is at about 3 to 4 percent, Forecast International estimates, but coming up with solid figures is difficult. Some sources claim the Emirates spend upwards of 20 percent on defense, he said.

Despite the downturn in oil prices during the last eight months, the UAE's shopping list at the IDEX conference was long. For example, deals were made to buy four C-17 Globemaster IIIs from Boeing for \$1.17 billion and 12 C-130Js from Lockheed Martin for \$1.6 billion.

Meanwhile, companies such as Abu Dhabi Ship Building can service niche markets and be profitable, Darling said. So far, most of its contracts are with its own government and nearby Gulf nations such as Bahrain.

Turkey is one example of a country that has used offsets to acquire technology and know-how.

After years of building up its manufacturing base, Turkish companies are now selling their wares internationally, Darling noted. The country's pavilion took up a large swath of the IDEX showroom floor.

Martin said there is a secondary purpose to boosting local capacity: "It's both to create new revenue streams in the future, but also to provide work for Emiratis — providing an alternative to just pumping oil and gas from the ground."

Finding meaningful work for the younger generations has been a concern for the leadership of several Gulf states. It's not that there aren't jobs to be had. The Emirates must import most of their tradesmen, unskilled labor force as well as mid-level managers and technical experts.

In fact less than 20 percent of the population is Emirati, according to the CIA World Factbook. The rest of the population is made up of a large local Iranian community, and workers from around the world.

The shipyard is a microcosm of how labor is divided here. The workers doing the boat construction and renovations are contracted from nearby developing nations such as Pakistan and India. Senior managers are veterans of the U.S. shipbuilding industry. The managers of the composite molding facility and the corvette shipbuilding project are from the United States.

The yard was designed and developed in the 1990s in a partnership with Newport News Shipbuilding, which provided the technical experts to build the yard, and remained as a large shareholder for several years. Current yearly statements for the publicly traded company no longer show the U.S. shipbuilder as a shareholder.

"It just goes to show you the amount of money they can put into [a project] overnight and build it up. Building an infrastructure that quickly is pretty impressive," Darling said.

Majd T. Sharaf, manager of facilities and training, said the shipyard employs about 800 laborers who are housed onsite in dormitories. The shipyard brings in Emirati students from local universities who receive scholarships from the company, and then have jobs waiting for them after graduation.

UAE nationals tend to work in human resources and other administrative jobs such as Sharaf's.

"How long before an Emirati can take your job?" a reporter asked Gary Gordon, the combat systems project manager who is overseeing the integration of the weapons, sensors and communications systems in the Baynunah Corvette ships.

He just laughed. "Well, I've been doing this for 25 years."

The first of the seven-ship program is being built in a shipyard under a partnership with Constructions Mecaniques de Normandie of Cherbourg, France. The remaining ships will be built in Abu Dhabi. The high-tech subsystems — such as sensors, weapons and communications — are being supplied by British and U.S. firms.

The 71-meter multi-mission ships are designed for coastal patrol and surveillance, mine detection, helicopter operations and are fully armed with anti-air and anti-surface weapons. They will travel at speeds of up to 30 knots and can accommodate a crew of 55.

Last November, the company won a bid to build two steel 42-meter and two 16-meter composite landing craft for Bahrain's navy. In August, the company formed a joint venture with BVT Surface Fleet Ltd. of the United Kingdom. Company executives said BVT will bring its technical expertise into the joint venture and that the company hopes to strengthen its foothold in the lucrative Middle East market.

At the IDEX show, the company announced a \$255 million deal to build 12 26.5-meter Ghannatha Class boats for the UAE navy, and to retrofit the 12 existing fast patrol craft/ troop transport boats into fully armed fast attack craft. Like the corvette deal, the first three will be built offsite by Swede Ship Marine at one of its three facilities on the west coast of Sweden, and the remaining nine will be built in Abu Dhabi.

Before ADSB, the nearest facilities where Gulf states could take their boats to be refurbished would have been in southern Europe, a representative from a rival British shipbuilder told National Defense. Along with being close to wealthy, maritime Gulf states, imported inexpensive labor also gives the shipyard a competitive advantage over European makers who must rely on a unionized labor force, he noted.

The \$30 million 4C GEOC Gulf Earth Observation Center that will break ground later this year has similar lofty goals for boosting local capacity.

Part of the 10,000-square-meter complex will be a conference center and classrooms where local students can pursue Masters and Ph.D degrees so the nation can start to build its own cadre of space experts, company officials said at a press conference.

The joint venture between 4C Controls Inc. and the Abu Dhabi investment firm Hydra Trading LLC boasts that it will be the largest space center in the Middle East-North Africa region.

But it's not the first foray into space for the nation. Thuraya Telecommunications Co. has provided satellite telephony since 2000 and operates a

constellation of three spacecraft.

The Yahsat program, a two-constellation system that will provide military and commercial telecommunications, is expected to launch its first spacecraft next year. Mubadala Development Co., a public joint stock company headquartered in Abu Dhabi, whose sole shareholder is the UAE government, is spearheading the Yahsat project.

The new space center will spend an additional \$500 million to build and launch its constellation of four low-earth orbit satellites equipped with synthetic aperture radar that can penetrate clouds and make one-meter resolution images in the Middle East region.

SAR sensors have the advantage of gathering images at night and through clouds. The satellites will be placed in orbits that will allow them to revisit the region regularly in a footprint that ranges from 43 degrees south to 43 degrees north. That swath includes regional rival Iran, and the satellites can presumably be used to peer down at military assets there.

Company officials touted the system for its applications in the fields of defense, environmental protection and geology.

"We also intend to create a talent pool specialized in the most advanced space technologies," said Hydra's Director General Mohamed Zahran.

When it comes to filling these high-tech jobs, it's more likely that the candidates will be female rather than male, explained United Arab Emirates University undergraduates, Saif Mohamed Al-Ketbi and Ebtessam Al-Ham.

In a stark reversal of what is found in many U.S. engineering programs, female students outnumber their male counterparts three to one. In Al-Ham's information technology program, the ratio is even more profound: there are about 400 female students and 60 to 70 male students, she said.

Male high school graduates prefer careers in the armed forces or police, said Al-Ketbi. Or if they do go on to university, they choose a less challenging major such as business.

"For the female IT students, there is no problem finding a job after graduation," she said.



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