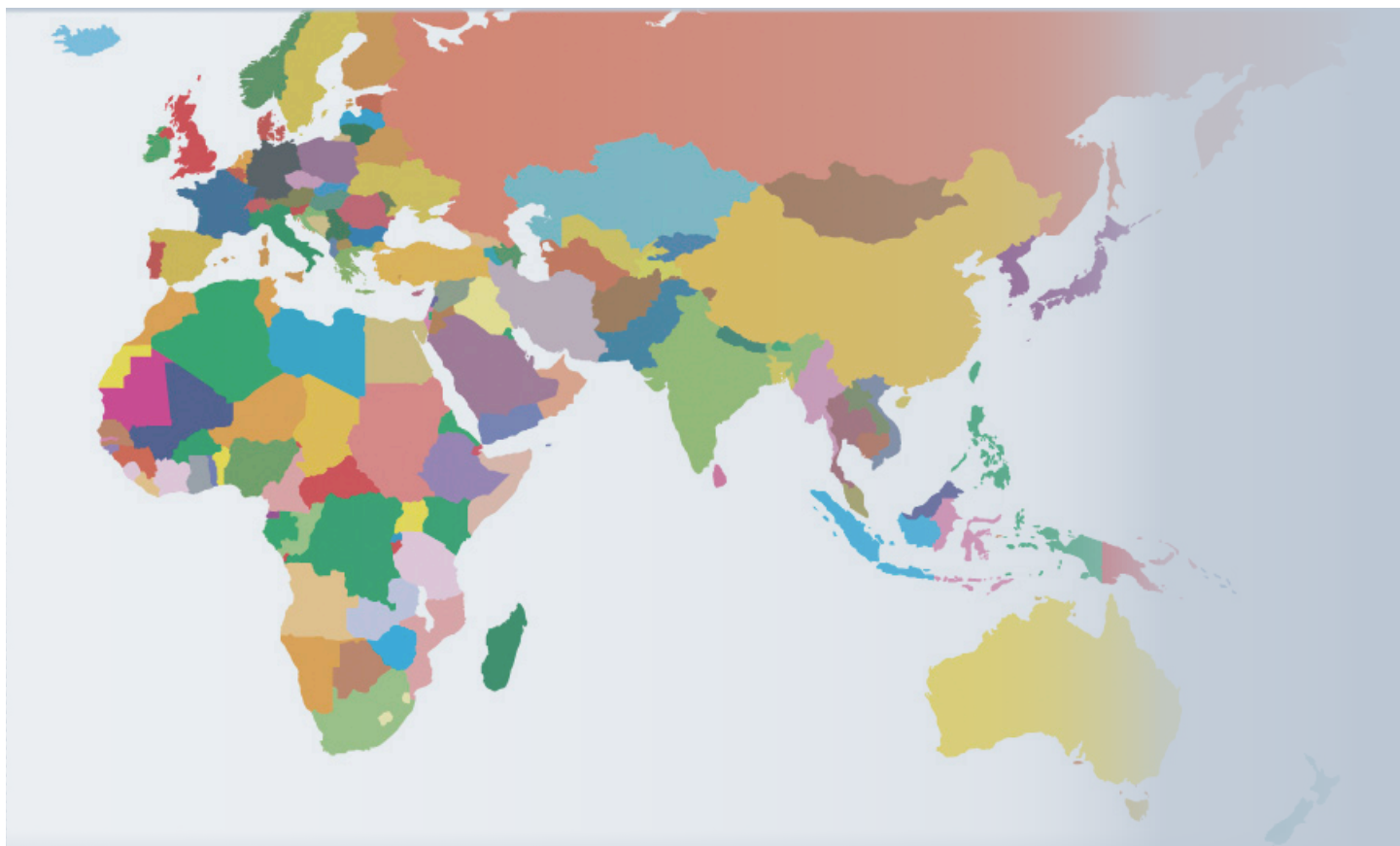


INTERNATIONAL MILITARY MARKETS

EUROPE

SAMPLE



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Toll-Free 800.451.4975 (U.S. & Canada) • Email: sales@forecast1.com • Website: forecastinternational.com

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Market Analyses


Analysis 1 - The Military Market for Europe

Appendices

Appendix I - Recommended Websites
Appendix II - U.S. Foreign Assistance Request

Luxembourg:

Section 1 - Data

	Local	USD
		
Defense Spending (2019)	345 million	396.1 million
Total Forecast Spending (2020-2024)	1,847 million	2,120.6 million
Avg Annual Defense (2020-2024)	369.4 million	424.1 million
CAGR (2019-2024)		2.2%

Outlook

- Luxembourg purchases two H145M utility helicopters from Airbus Helicopters in July 2018
- Luxembourg's parliament approves financing plan for operation of lone A400M due for delivery in May 2020; planned operational period set at 35 years at cost of EUR11-12 million per year

Market Attractiveness

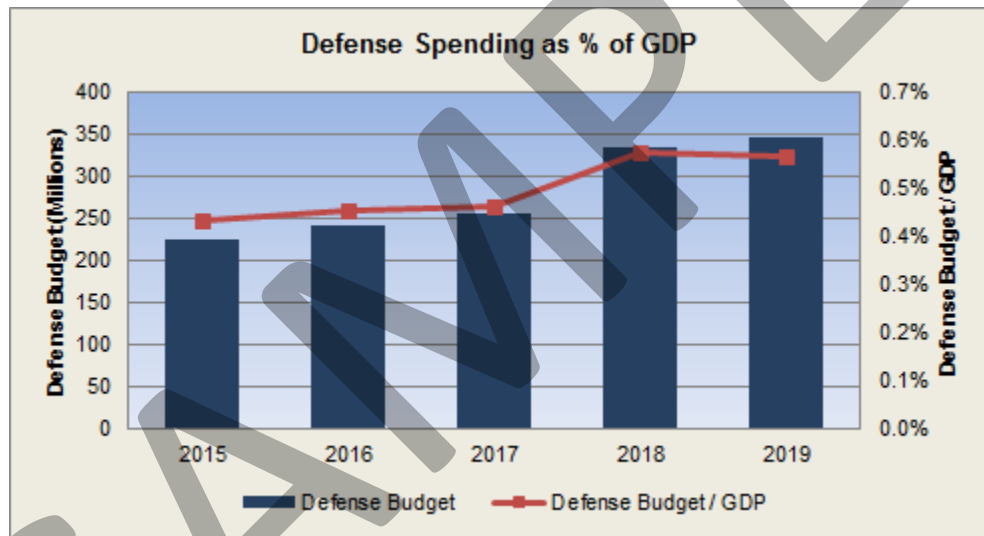
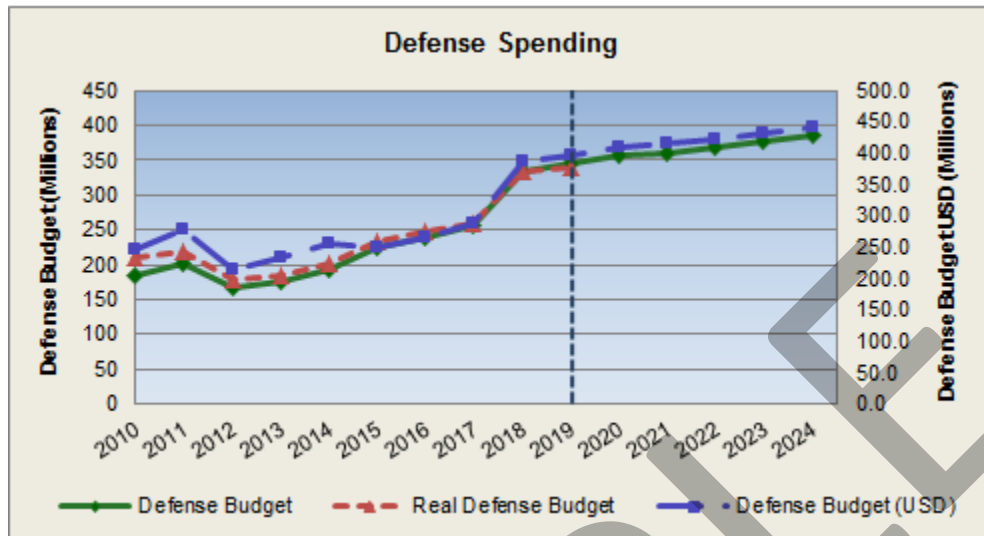
The following table presents a broad analytical framework for examining Luxembourg's defense market. It assesses the market in terms of Industry, Military Posture, Acquisition & Budget, Government, and Economy (IMAGE), with a focus on how these areas might impact defense acquisition by Luxembourg over the coming years. It is presented from the perspective of a defense contractor looking to sell equipment to Luxembourg. Factors that could benefit sales are presented as opportunities, while factors that could potentially reduce sales are presented as risks.

Luxembourg: Section 1 - Data

IMAGE Matrix

	Description	Opportunities/Strengths	Risks/Weaknesses
Industry	National policies and defense industry strengths that affect competition	<ul style="list-style-type: none"> Lack of domestic defense industry reduces competitive intensity for foreign firms 	<ul style="list-style-type: none"> Small force structure and budget limit number and scope of defense platform requirements and major procurement projects
Military Posture	Internal and external threats that drive purchases	<ul style="list-style-type: none"> NATO membership and EU Common Security and Defense Policy place Luxembourg under pressure to contribute to out-of-theater missions 	<ul style="list-style-type: none"> No direct strategic threats despite NATO membership
Acquisition & Budget	Impact of budget and contract process transparency on ease of selling to government	<ul style="list-style-type: none"> Budget published every year Budget execution reports for previous year issued 	<ul style="list-style-type: none"> Some procurements pooled with other partners, generally Belgium and the Netherlands
Government	Stability, elections, and corruption and their effect on business environment	<ul style="list-style-type: none"> Stable political system Democratic government elected and peaceful transfers of power observed 	<ul style="list-style-type: none"> European regulators' pursuit of competition and regulation standards may hinder Luxembourg's status as a tax haven and business-friendly environment
Economy	Impact of economic environment on the government's ability to spend	<ul style="list-style-type: none"> One of the world's five wealthiest countries on a per-capita basis 	<ul style="list-style-type: none"> Service-dependent economy with little diversification

Military Budget



Defense Spending. Due to the small size of the country's army, Luxembourg does not maintain an independent ministry of defense. The Army and Direction de la Défense are subordinate bureaus of the Ministère des Affaires Etrangères, du Commerce Extérieur, de la Coopération, et de la Défense (Ministry of Foreign Affairs, Foreign Trade, Cooperation, and Defense). Therefore, determining strictly defense-related expenditures can be difficult even with Luxembourg's limited defense spending.

Luxembourg's total defense expenditures encompass numerous activities not strictly related to funding the Army, or even limited to the bureau of defense. For example, total defense expenditures include funding for the gendarmerie (national police) forces. And due to the country's limited human resources, many of its contributions to the NATO Alliance come in the form of funding. Portions of Luxembourg's defense spending are often allocated for infrastructure improvements to other NATO Central Front forces rather than to Luxembourg's own small military. The defense expenditure calculation can also be bound up within foreign assistance budgeting, and the cost of participation in overseas missions also falls into the area of defense spending.

Luxembourg's total defense earmarks fell in the middle years of the 2000-2010 decade, only to begin rising again from 2006 through 2008 before the global financial crisis and eurozone recession resulted in tighter state spending policies. When the economy stabilized in 2010, investment toward defense picked up slightly, jumping 8 percent in nominal value from 2010 to 2011. As the sluggish economy and deficit concerns became the central focus heading

Luxembourg: Section 1 - Data

into 2014, defense spending suddenly dropped year-on-year by 9 percent. But a return to stable growth levels and an increasingly tense European security environment have prompted the government to raise the nominal budget upward, albeit slightly.

Luxembourg's defense spending as a percentage of GDP has remained one of the lowest among NATO members since the 1990s. Luxembourg's defense budget represented about 0.8 percent of GDP in 2005, 0.4 percent in 2006, 0.58 percent in 2007, 0.39 percent in 2008, and 0.47 percent in 2009, and then held steady at about 0.45 percent annually through 2015. Despite repeated government pledges to increase defense spending to at least 1.0 percent of GDP, actual budgets continue to fall short. Nonetheless, with a boost in 2018 to cover expenses for a new government satellite to be used for military observation (with a launch planned for 2020), plus operational funding for the A400M due in 2020, the defense budget topline rose by 30 percent in FY18 over the previous year. The spike pushed the defense budget up to 0.55 percent of GDP.

Much of Luxembourg's defense spending goes to maintaining and repairing its materiel, and paying for personnel and overseas missions. The construction and maintenance of facilities covers roughly 5 to 8 percent of the annual defense budget.

Defense Spending, 2014-2018 Actual; 2019-2024 Projected											
	Historical					Plan	Forecast				
	2014	2015	2016	2017	2018		2019	2020	2021	2022	2023
Defense Budget	194.0	225.0	240.0	256.0	333.0	345.0	356.0	361.0	368.0	377.0	385.0
Defense Budget (USD)	\$257.4	\$249.7	\$265.5	\$288.6	\$387.2	\$396.1	\$408.7	\$414.5	\$422.5	\$432.8	\$442.0
Defense Budget % Chg	10.2%	16.0%	6.7%	6.7%	30.1%	3.6%	3.2%	1.4%	1.9%	2.4%	2.1%
Real Defense Budget*	201.3	233.4	248.8	259.9	333.0	338.8	-	-	-	-	-
Real Defense Budget (USD)*	\$234.1	\$271.3	\$289.3	\$302.2	\$387.2	\$394.0	-	-	-	-	-
Real % Chg	9.5%	15.9%	6.6%	4.5%	28.1%	1.8%	-	-	-	-	-
% of GDP	0.4%	0.4%	0.5%	0.5%	0.6%	0.6%	-	-	-	-	-
% of Nat. Budget	0.9%	1.0%	1.1%	1.1%	1.3%	1.3%	-	-	-	-	-

Local currency scale: millions; USD scale: millions

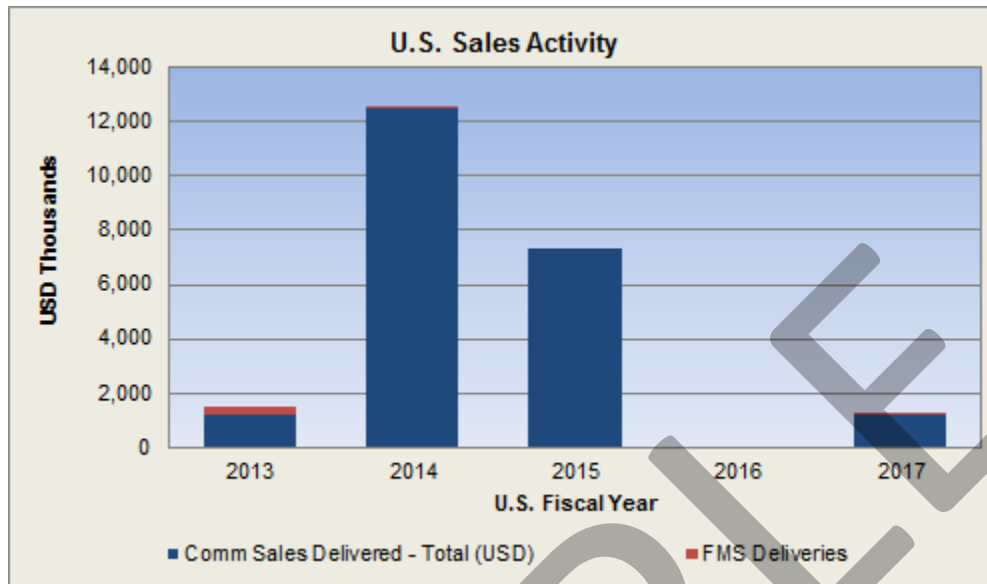
* Real figures are at constant 2018 prices and exchange rates.

Security Assistance

Since 1986, U.S. security assistance to Luxembourg has been limited to \$30,000 in International Military Education and Training (IMET) funds in FY86 and \$26,000 in FY88. Luxembourg currently uses its own funds to participate in U.S. professional defense education programs.

Luxembourg: Section 1 - Data

Arms Trade



Since it has practically no domestic arms manufacturing capability, Luxembourg is dependent on imported arms to fulfill its limited equipment requirements. Arms imports consistently amount to less than 1 percent of total imports.

The most recent major arms import was the procurement of 48 Dingo 2 4x4 all-protected vehicles from German company Krauss-Maffei Wegmann (KMW) in 2009. With the exception of the Dingos, since the 1990s, equipment from the United States has made up almost all of Luxembourg's arms trade imports.

Washington-Luxembourg Activity. Luxembourg has generally bought more of its U.S.-manufactured arms through direct commercial purchases than through the Foreign Military Sales program.

For fiscal years 1950 to 2017, FMS agreements totaled \$28.307 million and FMS deliveries totaled \$28.438 million.

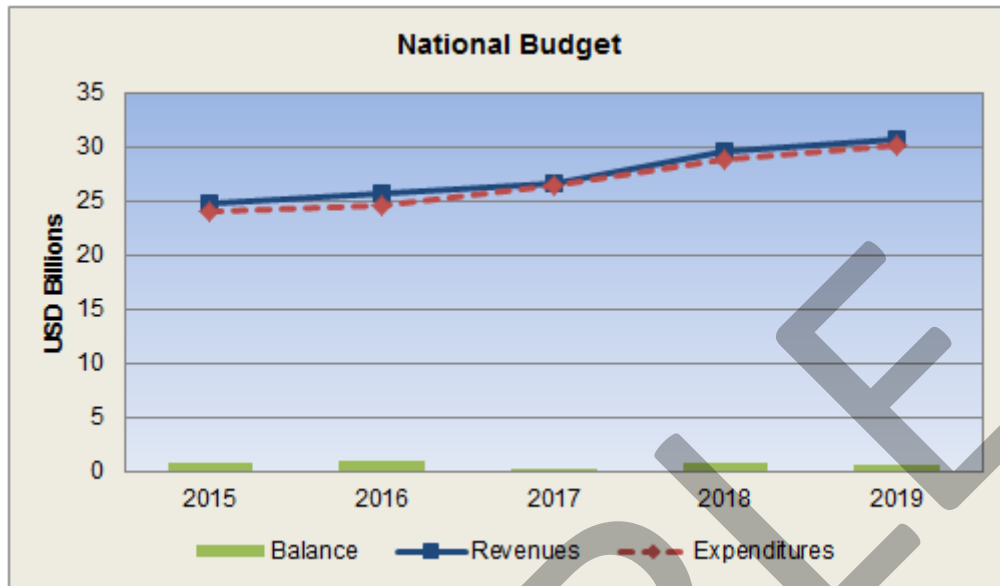
U.S. Sales Activity - Luxembourg, 2013-2017					
	2013	2014	2015	2016	2017
FMS Agreements	\$0	\$0	\$24	\$12	\$147
Comm Sales Auth - Articles (USD)	\$27	\$55	\$1,026	\$62	\$4,781
Comm Sales Auth - Services (USD)	\$10,701	\$0	\$7,232	\$1,269	\$0
Total Commercial Sales Authorized	\$10,728	\$55	\$8,258	\$1,331	\$4,781
Comm Sales Delivered - Total (USD)	\$1,223	\$12,471	\$7,295	\$62	\$1,221
Comm Sales % of Total Deliveries	80.6%	100.0%	100.0%	100.0%	98.1%
FMS Deliveries	\$294	\$1	\$0	\$0	\$24
FMS Deliveries % of Total Deliveries	19.4%	0.0%	0.0%	0.0%	1.9%
Total Deliveries	\$1,517	\$12,472	\$7,295	\$62	\$1,245

Currency scale: USD thousands

* All years are U.S. fiscal years.

Luxembourg: Section 1 - Data

National Budget



National Budget. Luxembourg has traditionally maintained a solid fiscal ledger. The country was the first to reach compliance with the Maastricht Treaty requirements for membership in the European Monetary Union, and Luxembourg continues to maintain some of the healthiest finances within the European Union. While its GDP growth and low unemployment represented anomalies for much of Western Europe, the government remained keen on preparing the country to face future difficulties should they arise. Fiscal and social policies were previously altered (primarily the creation of a flexible labor market) in anticipation of periods of limited growth.

Such conscientious fiscal planning now seems prescient. The global financial crisis that unfolded in late 2008 took its toll on the tiny, banking-dependent country. Revenues fell by as much as 4.3 percent in 2010 due to the knock-on effects of the recession. Despite the drop in revenues, the government still produced budgets with only marginal deficits of 0.7 percent in 2009 and 0.8 percent in 2010. The budget showed a minimal surplus of 0.1 percent in 2011, followed by another deficit in 2012, this time equal to 0.6 percent of GDP. For 2013, the budget again showed a surplus, totaling 0.6 percent of GDP, but it fell back to imbalance in 2014, with a deficit of 1.1 percent. Since then, it has remained in approximate balance annually.

Luxembourg's debt reached 21.7 percent of GDP by year-end 2013, leaving it well beneath the EU Stability & Growth Pact rules concerning both deficits (no higher than 3 percent of GDP in a given year) and debt (no higher than 60 percent of GDP). The debt topped 23 percent of GDP in 2017 (23.7 percent), and is expected to rise, but only slightly, through 2019.

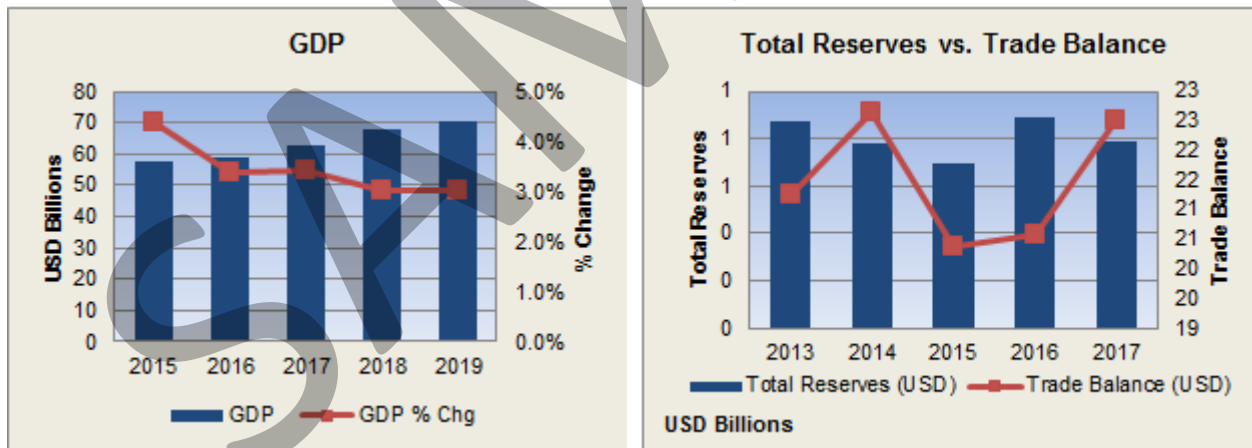
Luxembourg: Section 1 - Data

National Budget and Public Debt, 2015-2019					
	2015	2016	2017	2018	2019
Gov't Revenues	22.3	23.1	23.7	25.5	26.7
Gov't Revenues (USD)	\$24.8	\$25.6	\$26.7	\$29.6	\$30.7
Gov't Expenditures	21.6	22.3	23.5	24.8	26.2
Gov't Expenditures (USD)	\$24.0	\$24.7	\$26.5	\$28.9	\$30.0
Budget Balance	0.7	0.8	0.2	0.7	0.5
Budget Balance (USD)	\$0.8	\$0.9	\$0.2	\$0.8	\$0.6
Gross Debt	11.9	12.7	13.7	14.7	15.9
Gross Debt (USD)	\$13.2	\$14.1	\$15.4	\$17.1	\$18.2
Gross Debt % of GDP	22.8%	23.2%	23.7%	24.2%	24.8%
Net Debt	N/A	N/A	N/A	N/A	N/A
Net Debt (USD)	N/A	N/A	N/A	N/A	N/A
Net Debt % of GDP	N/A	N/A	N/A	N/A	N/A

Local currency scale: billions; USD scale: billions

N/A = Not Available

Economic Synopsis



Economy. After getting back on track following the global downturn of 2001, Luxembourg experienced a slowdown as the aftershocks of the 2008 global financial crisis lingered. As an international banking and finance center, Luxembourg staggered along with the rest of the eurozone as its economy experienced contractions during both 2008 and 2009 before experiencing a slight recovery in 2010. In 2000, the country posted a blistering 8 percent growth rate before slowing in each of the successive three years, to 5.6 percent in 2001, 4.5 percent in 2002, and then grinding to a near halt at 0.3 percent in 2003. Shortly after, however, the economy righted itself, with growth a strong 6.1 percent by 2006.

Luxembourg: Section 1 - Data

But by 2008, when the economic recession began to take hold, Luxembourg had experienced a contraction of 0.9 percent that accelerated due to the global financial crisis. The Luxembourgian economy tumbled downward at the rate of 4.2 percent in 2009. Government hopes that the recession would end in 2010 were met, but the economy grew by just 1.55 percent on average in both 2010 and 2011. By 2012, as European growth tumbled downward, Luxembourg's economy barely remained above water, expanding by just 0.2 percent. More sluggish growth followed in 2013, but the economy began to pick up in 2014 as the economy expanded by 4.1 percent. Further growth of 4.4 percent followed in 2015, and another steady expansion had been forecast for 2016.

Unemployment in Luxembourg remains very low by EU standards. The jobless rate in 2004 was barely more than 2 percent, while the EU average that same year was slightly above 8 percent. As a slow but steady drop in unemployment began to reverse itself across the developed world in November 2008, Luxembourg was still below 5 percent (4.6 percent), while the eurozone overall had an unemployment rate of 7.8 percent. By October 2012, Luxembourg's unemployment rate had ticked up slightly, to 5.2 percent – still well below the eurozone (EU27) average of 10.6 percent for that month – and had grown to 5.7 percent by April 2015.

The core industry that keeps Luxembourg's economy afloat is banking, which employs 10 percent of the workforce and accounts for 25 percent of GDP and one-third of government revenues. Formerly a land of metalworkers and farmers, Luxembourg is now heavily dependent on the financial services sector – making the 2008 global financial crisis all the more worrisome for the tiny nation. Retail banking and investment funds account for two-thirds of all financial sector revenue. Since 2005, when the laws covering pension funds became harmonized, Luxembourg has increasingly become a hub for the cross-border management of pension funds and investments.

Luxembourg is also able to draw on the labor pool from neighboring Belgium, France, and Germany. Luxembourgers tend to be trilingual, consequently there is no problem absorbing workers from the three countries. The sluggishness of its neighbors' economies means that there are plenty of workers to fill the rising number of jobs in Luxembourg without driving wage inflation higher, though Luxembourg already has one of the highest GDPs per head in the European Union.

In 2000, some 7,500 jobs went to cross-border commuters, the so-called *frontaliers*, who keep the economy running. The potential long-term effect is that these workers are eligible to collect Luxembourg-funded pensions, thus making the country a pension "exporter" in the future. There are now more than 60,000 *frontaliers* working in Luxembourg, commuting from France, Germany, and Belgium.

One other area of economic importance for Luxembourg is the steel industry. Steel accounts for 29 percent of all exports and 22 percent of industrial employment. In 2001, the merger of steel companies Aceralia and Usinor created the steelmaking giant Arcelor, one of the largest steel producers in the world. Mittal, the world's largest Anglo-Dutch company, merged with Arcelor in June 2006 to become ArcelorMittal. The company today commands 10 percent of the global production of steel and is the largest steelmaker in the world.

Luxembourg: Section 1 - Data

Economy, 2012-2019								
	2012	2013	2014	2015	2016	2017	2018	2019
GDP	43.6	46.3	50.0	52.1	53.0	55.4	58.2	61.1
GDP (USD)	\$56.0	\$61.5	\$66.3	\$57.8	\$58.6	\$62.4	\$67.6	\$70.1
GDP % Chg	-0.7%	4.4%	5.6%	4.4%	3.4%	3.4%	3.0%	3.0%
Total Reserves	0.7	0.7	0.6	0.6	0.8	0.7	0.7	-
Total Reserves (USD)	\$0.9	\$0.9	\$0.8	\$0.7	\$0.9	\$0.8	\$0.8	-
Exports	84.7	92.1	104.1	116.0	117.3	127.4	-	-
Exports (USD)	\$108.8	\$122.3	\$138.1	\$128.8	\$129.7	\$143.6	-	-
Imports	69.9	76.1	87.0	97.7	98.7	107.4	-	-
Imports (USD)	\$89.8	\$101.0	\$115.5	\$108.4	\$109.2	\$121.1	-	-
Trade Balance	14.8	16.0	17.1	18.4	18.6	20.0	-	-
Trade Balance (USD)	\$19.0	\$21.2	\$22.7	\$20.4	\$20.6	\$22.5	-	-
Inflation	2.9%	1.7%	0.7%	0.1%	0.0%	2.1%	1.5%	1.9%
Unemployment Rate	6.1%	6.9%	7.1%	6.8%	6.3%	5.8%	5.4%	5.2%
FX Rate (Local to USD)	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9

Local currency scale: billions; USD scale: billions

Manufacturing Capability

Luxembourg has virtually no arms manufacturing capability, though it does have a highly industrialized economy.

Luxembourg: Section 1 - Data

Political and Security Environment



Source: CIA World Factbook

Background. Founded in 963, Luxembourg became a grand duchy in 1815 and an independent state under the Netherlands. It lost more than half of its territory to Belgium in 1839, but gained a larger measure of autonomy. Full independence was attained in 1867. Overrun by Germany in both world wars, it ended its neutrality in 1948 when it entered into the Benelux Customs Union and then joined NATO the following year. Luxembourg became one of the six founding countries of the European Economic Community (later the European Union), and joined the eurozone in 1999. Today, Luxembourg is a constitutional monarchy with a parliamentary form of government. The smallest country in the European Union, Luxembourg is remarkably robust, economically strong, and politically stable.

Executive. The executive branch of government comprises the sovereign, known as the grand duke, along with the prime minister, the deputy prime minister, and the Cabinet, known as the Council of Ministers.

The sovereign serves as the chief of state, though the office is widely circumscribed and largely ceremonial. The sovereign holds a hereditary title; there are no elections. The current sovereign is Grand Duke Henri.

On October 7, 2000, Grand Duke Jean formally abdicated after a 36-year reign in favor of his son Crown Prince Henri. The (then) 46-year-old Grand Duke Henri had trained in economics and political science at the University of Geneva and graduated with honors in 1980. He also earned the Staff College Certificate from the Royal Military Academy Sandhurst, in the U.K. Prince Henri had already assumed many of the grand duke's legislative responsibilities in 1998, making for a smooth transition of power.

Real executive power resides with the office of the prime minister, who serves as the head of government. Following legislative elections, the grand duke traditionally asks the leader of the largest party in Parliament to form a government.

The current prime minister is Xavier Bettel, who first assumed office on December 4, 2013. The leader of the Democratic Party (DP), Bettel replaced Jean-Claude Juncker, who at the time of Luxembourg's elections in October 2013 was the longest-serving head of a government in the European Union. Juncker had remained prime minister since first coming to office in 1995.

Luxembourg: Section 1 - Data

Bettel was able to form a second government (Bettel 2) following the general elections of October, 14, 2018. This coalition government, like his first, consists of Bettel's Democratic Party, the Socialists, and the Greens.

Members of the Council of Ministers are appointed by the grand duke upon the recommendation of the prime minister, and are responsible to the legislature.

Legislative. The national legislature of Luxembourg is a unicameral parliament known as the Chamber of Deputies. The body has 60 seats and is subject to dissolution. Deputies are directly elected to serve five-year terms by proportional representation in four multi-seat constituencies.

The Council of State is an additional legislative branch advisory body composed of 21 individuals, each of whom is selected by the sovereign to serve for life. This body deliberates on proposed legislation and laws and provides views on questions referred to it by either the grand duke or the government leadership.

The most recent parliamentary elections were held on October 14, 2018.

Following that election, the country's largest political party, the centrist Christian Social People's Party (CSV), was pushed back into the role of political opposition for just the third time in its history (the first occurrence was during the period 1974-1979; the second occurrence followed the 2013 general election). Though the CSV garnered the largest share of the popular vote (28 percent), this figure declined for the second straight election, marking a 10 percent drop from the party's performance in the election of 2009. The result was that the CSV won 21 seats but was unable to form a government.

Instead, Prime Minister Xavier Bettel's moderate Democratic Party (DP), which took 17 percent of the vote for 12 seats, was asked by Grand Duke Henri to form a government.

Bettel formed a second consecutive three-party coalition government, consisting of the DP, the Socialists, and the center-left Greens. Altogether, the Bettel coalition government holds 31 of 60 seats in the Chamber of Deputies. The government was sworn in on December 5, 2018.

Military Posture

Luxembourg's volunteer armed forces and paramilitary gendarmerie are composed of only 1,500 individuals. The 900 members of the military are configured as a single light infantry battalion with the capability to support limited domestic and U.N. peacekeeping operations as appropriate. Luxembourg also maintains arrangements for its soldiers to be deployed as part of a combined Benelux (Belgium, the Netherlands, and Luxembourg) force, as well as in Eurocorps, which includes the above in addition to France, Germany, and Spain.

The Grand Duchy of Luxembourg was a founding member of NATO, and a portion of its annual defense budget is allocated to the Alliance's forces and infrastructure. Though the country has no air force, the Alliance's squadron of 17 E-3A Sentry AWACS aircraft is registered in Luxembourg for legal and tax purposes.

Infrastructure

Description. The total area of the Grand Duchy of Luxembourg is 2,586 square kilometers (999 sq mi). The land boundaries of the nation are likewise small, totaling 359 kilometers (223 mi). To the north and west, Belgium shares a 148-kilometer (92-mi) border, while France shares a 73-kilometer (45-mi) southern border. Germany shares an eastern border of 138 kilometers (86 mi). The terrain of Luxembourg is mostly rolling hills with shallow valleys, but the north is slightly mountainous. The national capital is the city of Luxembourg.

Airfields. Two, one of which is paved; one heliport

Pipelines. Gas, 142 kilometers; refined products, 27 kilometers

Roads. 2,889 kilometers; 152 kilometers of expressway

Railroads. 275 kilometers

Ports. One river port (Mertert). Inland waterways (Moselle River) total 37 kilometers (23 mi)

Luxembourg: Section 1 - Data

Directory

Ministère des Affaires Etrangères et de la Défense

Direction de la Défense
6, rue de l'Ancien Athénée
L-1144 Luxembourg

État-Major de l'Armée
38-44, rue Goethe
L-1637 Luxembourg

Mailing Address:

B.P. 1873
L-1018 Luxembourg
Tel: + 26 848 1
Fax: + 26 84 56 01

Procurement Organization

The Luxembourg Army may buy directly from a supplier of its choice for military equipment valued under EUR7,400; however, government approval must be secured for materiel over EUR7,400. If there is only one supplier, the Army may negotiate the sale; if there are a number of potential suppliers, the selection is decided by public bidding.

Assistance for U.S. firms interested in selling defense equipment to Luxembourg is offered by the Office of Defense Cooperation, Belgium-Luxembourg (ODC BELLUX), located at the U.S. Embassy in

Brussels, Belgium. This office handles inquiries from U.S. firms regarding procurement regulations and military spending plans, and provides points of contact for individual programs. The office can be reached at the following address:

Office of Defense Cooperation, Belgium-Luxembourg
United States Embassy
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* * *

Analysis 1

The Military Market for Europe

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