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At London arms fair, global war fears are good for business

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LONDON, Sept 15 (Reuters) - As Russia's Vladimir Putin and North Korean leader Kim Jong-un met this week to discuss what analysts believe will be a deal for an exchange of weapons, the West's leading companies were descending on Europe's biggest arms show in London.

Since the last iteration of the biennial Defence and Security Equipment International (DSEI) in September 2021, Russia's invasion of Ukraine and dramatically increased tensions over Taiwan and North Korea have given a shot of adrenaline to arms manufacturers worldwide.

According to the Stockholm International Peace Research Institute, European defence spending rose 13 percent in 2022 alone, bringing total global spending to an all-time high of \$2,240 billion.

Consultancy McKinsey reports that Russia saw its defence exports fall 21% over the first year following the Ukraine invasion, creating further openings for Western arms sales in the developing world.

Overall, it expects military spending to increase globally by an

average of 4% a year through to 2028, led by Japan increasing its military budget by an unprecedented 14% a year.

"We are extremely busy," says Michael Elmore, head of sales at MTL Advanced, which specialises in processing and fabricating armoured steel at its factory near Sheffield.

Within days of Russia's invasion of Ukraine in February 2022, it was supplying basic body armour plating for Ukrainian combat troops.

Since then, demand has only increased, particularly for armoured vehicle components to be used by both Britain and other European states. The firm says finding suitably skilled labour is a mounting problem, prompting it to step up its apprenticeship programme over the last two years.

The need for greater armour is one of the more obvious lessons of fighting in Ukraine, analysts say. Others include the importance of being able to move quickly, minimise electronic emissions to avoid detection, and the mounting importance of high volumes of unmanned systems.

Estonian firm MILREM, a market leader for light unmanned ground vehicles, says some of its equipment has already been trialled in action in Ukraine for tasks such as route clearance, surveillance and casualty evacuation.

Already, battlefield experience has highlighted the importance of night operations and resistance to electronic jamming, CEO Kuldar Vaarsi said.

"Ukraine is a very interesting combination of First and Second World War technologies and very modern technology," said Vaarsi,

also pointing to the development of "loitering munitions" and artificial intelligence analysis.

"Before the war in Ukraine, these were more theoretical concepts."

MILREM says it has struggled to secure sufficient financing in Europe, prompting it to turn to Middle Eastern investors in the United Arab Emirates to fund the next round of development and expansion – a move only approved by European Union regulators with the strict provision that data from MILREM's European military work would not be accessible by their non-European partners.

Such nervousness over information leaks is increasingly widespread – the United States and its allies are now engaged in a protracted worldwide effort to minimise loss of critical technology to Moscow and Beijing. Other worries include a lack of sufficient industrial capability to make basic weapons such as artillery shells as well as more expensive items such as drones and rockets.

UKRAINE, SOUTH KOREA

Ukraine fighting continues to consume huge volumes of Western stocks. According to experts at the conference, the waiting time to order a U.S. Javelin anti-tank missile is now in excess of three years. Britain's BAE Systems unveiled a new artillery shell at DSEI this week specifically designed to be cheaper and faster to manufacture.

Britain doubled its arms exports in 2022 to a record £8.5 billion, dominated by major arms purchases from Qatar and Saudi Arabia with significant volumes also going to the United States and Turkey. British officials also hope the AUKUS agreement with the U.S. to provide nuclear submarine technology to Australia will

open the door to further deals.

DSEE is designed to build on that. But according to the organisers, this year has also seen a significant uptick in the presence of Asian, eastern and northern European manufacturers, many of them beneficiaries of Ukraine-related sales and rapidly shifting international partnerships.

South Korea's tech and defence industries have made particular inroads into Europe, viewed as an alternative to China to manufacture high-tech chips and striking an increasingly confident series of defence deals to conquer the European market.

The largest, a 2022 \$13.7 billion deal to supply Poland with equipment including tanks, artillery pieces and jets, began delivering weapons within months. Defence industry insiders say South Korean firms are also now shipping increased amounts of weaponry to Taiwan, although this has not been acknowledged publicly.

Ukraine is also striking its own deals with foreign suppliers. Ukraine and Sweden this month announced a deal to jointly produce 1000 CV-90 infantry fighting vehicles for the Ukrainian army. Multiple firms including Britain's BAE, Germany's Rheinmetall and Finland's Patria have all been reported to be talking with Ukraine to build factories there.

VARYING NATIONAL PRIORITIES

As one defence executive put it: "War is good for business".

Ukraine has used unmanned drones at sea on a scale few Western navies could currently hope to match. On other areas, such as unarmed ground vehicles particularly for major resupply,

the technology is still believed a year or two away from being truly operational – and with different countries pursuing a variety of priorities.

"Germany will most likely field autonomous logistic convoy capabilities before combat vehicles," Rheinmetall Vice President for Business Development and Innovation Alain Tremblay said.

"The UK will probably be the first NATO country to formally integrate unmanned ground vehicles into their land forces. The U.S. Marine Corps are also moving very rapidly."

Much depends on regulation. Rheinmetall and other firms say they already have the technology to push "trains" of multiple trucks across Europe with several vehicles following a single human driver. Getting permission to do that on ordinary roads would either require more testing or a major international crisis.

Such a crisis, however, is what many firms are quietly now preparing for.

Dominic Philpott, chief operating officer of Hanwha Phasor – a UK-based satellite relay firm now purchased by South Korean conglomerate Hanwha that serves both civilian and government clients – noted several shifts. Clients with sensitive projects no longer wanted microchips from China, he said, citing concerns over both security and future supply.

Those wanting satellite communications were also now requesting to access multiple different satellite systems at different levels in Earth orbit, giving them greater resistance to jamming or other deliberate action.

"That's all happened very quickly," he said. "Companies are

looking for resilience."

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