

## IV. Arms transfers to Armenia and Azerbaijan, 2007–11

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There have been regular warnings since the 1994 ceasefire about the prospect of a renewal of the 1992–94 war between Armenia and Azerbaijan over Nagorno-Karabakh, an Armenian-populated region of Azerbaijan (see figure 6.3). In 2011 several observers noted particular pressures in the two countries that could push them into war in the near future.<sup>1</sup> Armenia and Azerbaijan have both identified the settlement of the Nagorno-Karabakh conflict as a key national security priority.<sup>2</sup> While both sides stress a commitment to a peaceful resolution of the conflict, each accuses the other of violating the 1990 Treaty on Conventional Armed Forces in Europe (CFE Treaty) and of pushing them into an arms race.<sup>3</sup> In military parades held in 2011 both states displayed new and previously unseen military equipment in obvious shows of strength.<sup>4</sup>

Azerbaijan had the largest real-terms increase in military expenditure between 2010 and 2011, while in 2010 Armenia spent a larger proportion of its gross domestic product (GDP) on military expenditure than any other state in Europe.<sup>5</sup> Between 2002–2006 and 2007–11 Azerbaijan increased its volume of imports of major conventional weapons, and it rose to become the 38th largest recipient, up from 53rd in 2002–2006, while Armenia's imports fell and it dropped from 71st place to 84th. While in 2002–2006 Azerbaijan imported 2.5 times the volume of major conventional weapons imported by Armenia, by 2007–11 the gap had widened, with Azerbaijan importing 7.5 times more arms than Armenia (see table 6.7). However, during 2010–11 Armenia made declarations that indicate that it is seeking to procure greater quantities of weapons in response to Azerbaijan's arms

<sup>1</sup> E.g. International Crisis Group (ICG), *Armenia and Azerbaijan: Preventing War*, Europe Briefing no. 60 (ICG: Tbilisi, 8 Feb. 2011); 'The Nagorno-Karabakh conflict: still just about frozen', *The Economist*, 7 May 2011; and Babayan, A., [According to Russian experts, the Karabakh conflict sides are actively preparing for war], Radio Azatutyun, 1 Aug. 2011, <<http://rus.azatutyun.am/content/article/24283732.html>> (in Russian).

<sup>2</sup> Armenian National Security Council, 'National Security Strategy of the Republic of Armenia', 26 Jan. 2007, annex to Presidential Decree no. NH-37-N, 7 Feb. 2007, <<http://www.mil.am/1320693104>>, p. 4; Armenian Ministry of Defence, 'Military doctrine of the Republic of Armenia', 2007, <<http://www.mil.am/1320693242>>, p. 4; and President of Azerbaijan, 'National Security Concept of the Republic of Azerbaijan', Instruction no. 2198, 23 May 2007, <[http://www.un.int/azerbaijan/pdf/National\\_security.pdf](http://www.un.int/azerbaijan/pdf/National_security.pdf)>, p. 6.

<sup>3</sup> US Mission to the OSCE, '27 January Plenary—Azerbaijan, Armenia trade charges on Russian arms transfers', Cable to US Department of State, no. 09USOSCE15, 2 Feb. 2009, <<http://www.wiki.leaks.org/cable/2009/02/09USOSCE15.html>>. On developments related to the CFE Treaty see chapter 10, section IV, in this volume. For a summary and other details of the treaty see annex A.

<sup>4</sup> Holdanowicz, G., 'Armenia displays surface-to-surface missile system hardware during anniversary parade', *Jane's Missiles and Rockets*, Nov. 2011, p. 11; and Holdanowicz, G., 'Azerbaijan shows new equipment at parade', *Jane's Defence Weekly*, 6 July 2011, p. 8.

<sup>5</sup> See chapter 4, section VII, in this volume.



**Figure 6.3.** Map of Armenia and Azerbaijan

**Table 6.7.** Suppliers of major conventional weapons to Armenia and Azerbaijan, 2007–11

Recipient	Share of global arms transfers (%)	Main suppliers (share of recipient's transfers, %)		
		1st	2nd	3rd
Armenia	0.1	Russia (95%)	Ukraine (4%)	Belarus (1%)
Azerbaijan	0.6	Russia (55%)	Ukraine (34%)	Belarus (5%)

Source: SIPRI Arms Transfers Database, <<http://www.sipri.org/databases/armstransfers>>.

procurement. Further details of Armenia's and Azerbaijan's arms acquisitions in the period 2007–11 and the stated policies underlying those acquisitions appear below.

Although both countries are the subjects of a voluntary Organization for Security and Co-operation in Europe (OSCE) arms embargo, a number of OSCE participating states—including Belarus, Russia, Turkey, Ukraine and the United States—supplied major conventional arms during 2007–11.<sup>6</sup> Among these suppliers, Russia's role is particularly important as it

<sup>6</sup> In 1992 the OSCE's predecessor, the Conference on Security and Co-operation in Europe (CSCE), requested that its participating states impose an embargo on deliveries of arms to forces engaged in combat in the Nagorno-Karabakh area. Although it is not a mandatory embargo, several OSCE participating states have denied licences to export arms and military equipment to Armenia and Azerbaijan on the grounds that it would violate the embargo. Conference on Security and Co-operation in Europe, Committee of Senior Officials, annex 1 to Journal no. 2 of the Seventh Meeting of the Committee, Prague, 27–28 Feb. 1992. For a brief description and list of states participating in the OSCE see annex B in this volume.

co-chairs the OSCE's Minsk Group—a forum for negotiations on a peaceful settlement of the conflict. But instead of pushing for a peaceful resolution of the conflict, Russia appears to have helped preserve the status quo, and at the same time it has emerged as a major supplier of arms to both sides.<sup>7</sup>

## Armenia

Armenia's military expenditure in 2011 was \$414 million. Although this was 2.8 per cent lower in real terms than in 2010 (when military spending represented 4.2 per cent of GDP), over the decade 2002–11 spending increased by 165 per cent. However, it has been argued that to gain a fuller understanding of Armenian military expenditure (and the military balance with Azerbaijan), spending by the self-proclaimed Republic of Nagorno-Karabakh should also be considered.<sup>8</sup> According to one estimate, total military spending by Armenia and Nagorno-Karabakh in 2011 was at least \$600 million.<sup>9</sup>

There is little public information on international transfers of major conventional weapons to Armenia in recent years. According to SIPRI data, the volume of deliveries of conventional weapons during 2007–11 was 11 per cent lower than in 2002–2006, although the overall volume for both periods is low. Russia is Armenia's largest arms supplier by far (see table 6.7). The most significant known delivery from Russia in this period was of S-300PMU (SA-10C) surface-to-air missile (SAM) systems, which Armenia revealed for the first time in late 2010. Ukraine delivered two second-hand L-39C trainer aircraft. Several European Union (EU) member states have reported issuing export licences for a small quantity of military equipment during 2007–10.<sup>10</sup> Montenegro has reported issuing licences worth €2.9 million (\$3.8 million) and exporting mainly small arms and light weapons (SALW) and ammunition worth €1.3 million (\$1.7 million) in 2009.<sup>11</sup>

In August 2010 an Armenian Government ad hoc task force recommended measures for the modernization of the Armenian armed forces, focusing on arms acquisitions and development of the domestic arms

<sup>7</sup> The Minsk Group was established by the CSCE in 1992 to encourage Armenia and Azerbaijan to reach a peaceful, negotiated resolution to the conflict over Nagorno-Karabakh. France, Russia and the USA are co-chairs, but in recent years Russia has played a leading role. For a full list of members see annex B in this volume.

<sup>8</sup> Mukhin, V., [Commonwealth of militarized states], *Nezavisimaya Gazeta*, 17 Mar. 2010 (in Russian).

<sup>9</sup> Mukhin (note 8).

<sup>10</sup> Council of the European Union, 10th–13th EU annual reports on arms exports, <<http://www.consilium.europa.eu/eeas/foreign-policy/non-proliferation,-disarmament-and-export-control/-security-related-export-controls-ii?lang=en>>.

<sup>11</sup> Montenegrin Ministry of Economy, *2009 Annual Report on Foreign Trade in Controlled Goods* (Ministry of Economy: Podgorica, 2010), p. 35.

industry. The Defence Minister, Seyran Ohanyan, explained that the Armenian Government planned to acquire long-range, precision-guided weapons and did not deny that Armenia's planned acquisitions are related to Azerbaijan's acquisitions and orders.<sup>12</sup> In December 2010 Armenian President Serzh Sargsyan and the National Security Council approved the State Programme of Developing Weaponry and Military Hardware in 2011–15, which drew on the findings of the task force.<sup>13</sup> There is little public information on the systems to be procured under this programme, although in June 2011 officials of Russia's Rosoboronexport announced Armenian interest in acquiring BM-30 Smerch multiple rocket launchers (MRLs).<sup>14</sup> The Strategic Defence Review 2011–15 called for 'an integrated system of radar and air surveillance assets, linked to a modernized ground-based air defense system'.<sup>15</sup>

Two reasons explain Russia's dominant supplier relationship with Armenia. First, Armenia's membership of the Collective Security Treaty Organization (CSTO) and bilateral agreements with Russia relating to its military base at Gyumri, in north-west Armenia, mean that Armenia can acquire arms from Russia cheaply or for free.<sup>16</sup> In August 2010 Russia provided security guarantees to Armenia and extended a commitment to provide arms and military equipment as military aid in return for Armenia's agreement to extend Russia's use of the base at Gyumri until 2044.<sup>17</sup> Second, Armenia has a limited pool of potential suppliers due to the OSCE arms embargo, conflict concerns and pressure from Azerbaijan on potential suppliers. EU member states denied 22 of the 30 reported licence applications for the export of arms and military equipment to Armenia during 2007–10; 21 of these denials cited criterion 1 of the EU Common Position on arms exports as grounds for denial, which includes consideration of OSCE arms embargoes.<sup>18</sup>

The political sensitivities of supplying weapons to Armenia were underlined in September 2011 when the Moldovan Ministry of Defence announced that it had sold 'obsolete ammunition' to Armenia via a Latvian

<sup>12</sup> 'Armenia seeking long-range weapons', Radio Free Europe/Radio Liberty, 10 Aug. 2010, <<http://www.rferl.org/articleprintview/2124214.html>>.

<sup>13</sup> Danielyan, E., 'Armenia displays sophisticated air defence systems', *Eurasia Daily Monitor*, 19 Jan. 2011.

<sup>14</sup> 'Armenian military "interested" in acquiring Russian rocket artillery', Radio Free Europe/Radio Liberty, 9 June 2011, <<http://www.rferl.org/articleprintview/24230218.html>>.

<sup>15</sup> Armenian Ministry of Defence (MOD), *Strategic Defence Review 2011–2015, Public Release* (MOD: Yerevan, [n.d.]), p. 13.

<sup>16</sup> For a brief description and list of members of the CSTO see annex B in this volume.

<sup>17</sup> President of Russia, 'Ratification of Protocol No. 5 between Russia and Armenia', 27 June 2011, <<http://eng.kremlin.ru/news/2477>>.

<sup>18</sup> Council of the European Union (note 10); and Council Common Position 2008/944/CFSP of 8 Dec. 2008 defining common rules governing control of exports of military technology and equipment, *Official Journal of the European Union*, L335, 13 Dec. 2008.

company.<sup>19</sup> It emerged that Moldova had agreed to supply 60 tonnes of anti-tank missiles and launchers and MRL systems and munitions, with 40 tonnes delivered in September 2011. According to the Latvian Ministry of Foreign Affairs, the Latvian company involved in the transaction did not have a licence to conduct this deal, while the Moldovan Parliament investigated the deal due to concerns that the surplus arms were being sold too cheaply.<sup>20</sup> Moldova decided to freeze the deal; in doing so, it is likely to have been influenced by Azerbaijani pressure, as the Moldovan ambassador to Baku declared the deal an 'unfortunate mistake' that had damaged relations with Azerbaijan.<sup>21</sup>

## Azerbaijan

Azerbaijan's military expenditure in 2011 was \$3.1 billion, a real-terms increase of 89 per cent since 2010 and of 742 per cent since 2002. In 2010 military expenditure represented 2.9 per cent of GDP, down from 3.3 per cent in 2008 and 2009. In late 2010 the Azerbaijani Government announced that it planned to spend 20 per cent of the 2011 national budget on military expenditure, to pay for modern weapons and military reform.<sup>22</sup> Azerbaijan's 2011 military budget of \$3.1 billion, announced in October 2010 shortly after the Armenian Government had proposed a total budget of \$2.8 billion, included budget lines for state prosecutors and the courts, suggesting that the military budget was padded with non-military spending items.<sup>23</sup> It can be questioned whether Azerbaijan's military expenditure will translate into increased military capabilities. Some sceptical observers have highlighted the impact of corruption on military spending or suggested that military expenditure has been inflated to ensure that President Ilham Aliyev could fulfil his 2007 promise that Azerbaijan's military spending would be larger than the total budget of Armenia.<sup>24</sup>

The volume of deliveries of conventional weapons to Azerbaijan in 2007–11 was 164 per cent higher than in 2002–2006. Russia, Ukraine and Belarus were the main suppliers of arms in 2007–11 (see table 6.7), but

<sup>19</sup> Moldovan Ministry of Defence, 'Sale of ammunition considered legal', 21 Sep. 2011, <<http://www.army.md/?lng=3&action=show&cat=122&obj=871>>.

<sup>20</sup> Kudryavtsev, N., [The case of the arms supplier Latspeceksports: 5 million were lost in the course of the transaction], *kriminal.lv*, 28 Oct. 2010, <<http://www.kriminal.lv/news/delo-postavsh-tika-oruzhiya-latspeceksports-po-hodu-sd>> (in Russian).

<sup>21</sup> 'Moldova nixes arm sale to Armenia', Radio Free Europe/Radio Liberty, 11 Nov. 2011, <<http://www.rferl.org/articleprintview/24388532.html>>.

<sup>22</sup> Manafov, R. and Khalilov, Dzh., [In 2011 expenditure on defence to double], *Echo*, 13 Oct. 2010, <[http://www.echo-az.com/archive/2010\\_10/2388/politica01.shtml](http://www.echo-az.com/archive/2010_10/2388/politica01.shtml)> (in Russian).

<sup>23</sup> Sanamyan, E., 'Tight leash: Azerbaijan–Armenia arms race accelerates', *Jane's Intelligence Review*, Mar. 2011, pp. 22–23.

<sup>24</sup> International Crisis Group (ICG), *Nagorno-Karabakh: Risking War*, Europe Report no. 187 (ICG: Tbilisi, 14 Nov. 2007), p. 6; and International Crisis Group (ICG), *Azerbaijan: Defence Sector Management and Reform*, Europe Briefing no. 50 (ICG: Baku, 29 Oct. 2008), pp. 7–8.

Israel, South Africa and Turkey also supplied major conventional arms. Imports of aircraft accounted for 55 per cent of the volume of Azerbaijan's imports, armoured vehicles for 19 per cent, missiles for 12 per cent, air defence systems for 7 per cent and artillery for 7 per cent. The Czech Republic and Romania granted exported licences worth €6.4 million (\$8.3 million) and €12 million (\$15.6 million), respectively, and delivered €4 million (\$5.2 million) and €6.6 million (\$8.6 million) worth of various arms, components and military equipment during 2007–11.<sup>25</sup>

In 2011 Azerbaijan took delivery from Russia of the first of a planned 2 S-300PMU-2 (SA-20B) SAM systems, 4 of a planned 24 Mi-35M combat helicopters and 15 of a planned 60 Mi-17 helicopters, all ordered in 2010. Israel delivered the first Hermes-450 unmanned aerial vehicle (UAV), which was ordered in 2008, and the first Aerostar UAVs produced under licence in Azerbaijan were also delivered. Deliveries of 25 Marauder and 25 Matador armoured personnel carriers (APCs) from South Africa, which were assembled in Azerbaijan, were completed in 2011. Turkey began deliveries of 60 Cobra APCs and 30 Roketsan 107-mm self-propelled MRLs.

Since the establishment of the Ministry of Defence Industry in December 2005, the Azerbaijani Government has stressed its desire to develop indigenous arms production capabilities both to equip its own armed forces and for export.<sup>26</sup> The capabilities of the local arms industry are currently limited to assembly and some production under licence. During 2011 Azerbaijan announced several deals for SALW, armoured vehicles, artillery rockets and UAVs that included arrangements for production under licence or assembly in Azerbaijan. In February 2011 Azerbaijan confirmed that it had a licence from Russia to produce 12 000 AK-74M 5.45-mm assault rifles annually.<sup>27</sup> Cooperation between Azerbaijani and Turkish arms producers is also developing, on the stable base provided by the close bilateral political ties. In 2011 Azerbaijan announced joint production arrangements with Turkish companies for 40-mm grenade launchers, MP5 sub-machine guns and Roketsan 107-mm and 122-mm rockets.<sup>28</sup> In 2011 Azerbaijan also announced an order for 30 more Marauder and 30 Matador APCs from

<sup>25</sup> Czech Ministry of Industry and Trade (MPO), *Annual Report on the Czech Republic's Control of the Export of Military Equipment and Small Arms for Civilian Use, 2007–10* edns (MPO: Prague, 2008–11); and Romanian Ministry of Foreign Affairs (MFA), *National Agency for Export Controls, Arms Export Controls Annual Report, 2007–10* edns (MFA: Bucharest, 2008–11).

<sup>26</sup> 'Azerbaijan to export military hardware of its make in 2–3 years', ITAR-TASS, 20 Nov. 2007; and 'Azeri paper questions need for Defence Industry Ministry', *Baku Zerkalo*, 19 Feb. 2008, Translation from Russian, World News Connection.

<sup>27</sup> Suleymanov, R., 'Azerbaijan starts serial production of AK-74M assault rifles basing on Russian license', Azeri Press Agency, 7 July 2011, <<http://www.en.apa.az/print.php?id=151080>>.

<sup>28</sup> Suleymanov, R., 'Azerbaijan and Turkey to jointly produce grenade launcher and submachine gun', Azeri Press Agency, 21 Feb. 2011, <<http://en.apa.az/print.php?id=141182>>; and Suleymanov, R., 'Turkish company to begin delivering missiles to Azerbaijani Armed Forces in early 2012', Azeri Press Agency, 19 Oct. 2011, <<http://en.apa.az/news.php?id=157658>>.

South Africa, to be assembled in Azerbaijan, and placed orders for the licensed production of Ukrainian–Belarusian Skif (R-2) anti-tank missiles for Azerbaijani border troops and upgraded Mi-24G combat helicopters.

During 2011 there was a lot of visible activity by Azerbaijani UAVs along the line of contact (see figure 6.3), and on 12 September 2011 Nagorno-Karabakh armed forces reported the first downing of an Azerbaijani UAV.<sup>29</sup> Azerbaijan obtained a small number of UAVs from Israel prior to 2011. Cooperation developed in 2011 when Azerbaijan’s Azad Systems Company and the Israeli company Aeronautics established a joint venture to produce 60 Orbiter and Aerostar UAVs. Israel looks set to emerge as a major supplier of arms and military equipment to Azerbaijan, as it was revealed in February 2012 that Israel has concluded deals worth \$1.6 billion with Azerbaijan for UAVs, SAM systems and air surveillance radar systems.<sup>30</sup>

In 2010 Azerbaijan expressed interest in procuring the Chinese–Pakistani JF-17 combat aircraft, and talks continued with Pakistan Aeronautical Complex during 2011.<sup>31</sup> Azerbaijan’s Minister of Defence Industry, Yavar Jamalov, also announced in May 2011 that Azerbaijan was negotiating with Chinese companies for long-range surface-to-surface missiles.<sup>32</sup>

EU member states denied 36 applications for licences to export arms and military equipment to Azerbaijan during 2007–10, with 35 of the denials citing criterion 1 of the EU Common Position as the grounds for denial.<sup>33</sup> In 2010 the Czech Republic announced that it had reconsidered its policy towards both Armenia and Azerbaijan and would ‘only [grant] approvals to permits related to the export of non-weaponized and non-lethal-type military equipment’.<sup>34</sup> The position of some EU member states also has implications for other suppliers willing to provide military equipment to Azerbaijan. For example, Turkey is seeking to supply T-155 Fırtına self-propelled howitzers, but the German company MTU has reportedly refused to provide the necessary engines because of the Nagorno-Karabakh conflict.<sup>35</sup> Turkish companies are therefore trying to either obtain engines from another country or produce them in Turkey.

<sup>29</sup> ‘Azerbaijani drone reportedly downed over Nagorno-Karabakh’, Radio Free Europe/Radio Liberty, 14 Sep. 2011, <<http://www.rferl.org/articleprintview/24328599.html>>.

<sup>30</sup> Teibel, A., ‘Israel inks 1.6 billion arms deal with Azerbaijan’, Associated Press, 26 Feb. 2012.

<sup>31</sup> ‘Azerbaijan interested in purchase of JF-17 Thunder fighters’, News.Az, 9 Aug 2010, <<http://www.news.az/articles/20583/print>>; and Suleymanov, R., [Azerbaijan announced its intention to purchase combat aircraft co-produced by Pakistan and China], Azeri Press Agency, 15 Nov. 2011, <<http://www.ru.apa.az/print.php?id=207656>> (in Russian).

<sup>32</sup> Holdanowicz, G., ‘Azerbaijan shows off its improved missile and rocket-artillery power during parade’, *Jane’s Missiles and Rockets*, Aug. 2011, p. 13.

<sup>33</sup> Council of the European Union (note 10).

<sup>34</sup> Czech Ministry of Industry and Trade, 2009 report (note 25), p. 11.

<sup>35</sup> Suleymanov, R., ‘Turkey insists on selling T-155 Fırtına self-propelled howitzer to Azerbaijan’, Azeri Press Agency, 14 Oct. 2011, <<http://en.apa.az/news.php?id=157324>>.