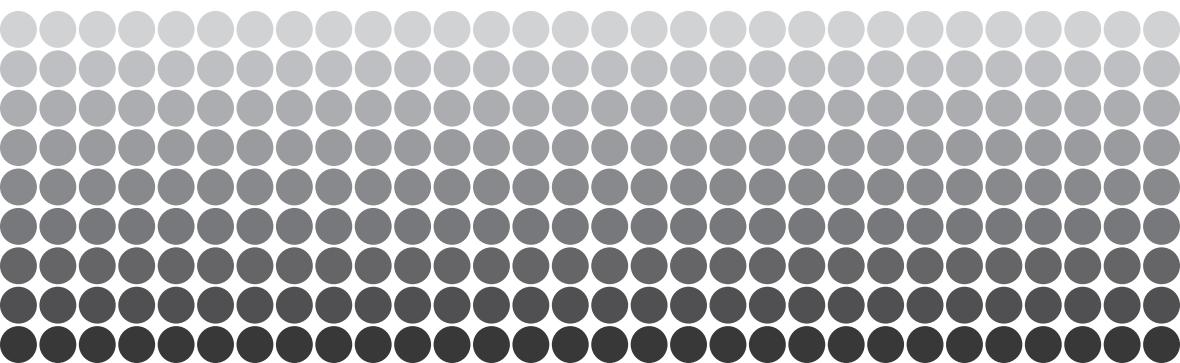


# **SIPRI YEARBOOK 2013**

## Armaments, Disarmament and International Security

Arms transfers to Western and Central Europe

MARK BROMLEY



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## II. Arms transfers to Western and Central Europe

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There is no necessary, direct relationship between trends in military spending and trends in arms transfers. For example, the majority of most states' military budget is spent on personnel costs, rather than arms acquisitions. Also, a number of states acquire the majority of their arms domestically. Nonetheless, falling military spending can lead to reductions in the funds available for arms procurement. Moreover, reduced military budgets combined with overall declines in government spending and rising economic uncertainty can lead states to favour arms procurement from domestic producers over imports. This section looks at the effect of declining military spending on the volume of international arms transfers to states in Western and Central Europe in the light of rising economic uncertainty.<sup>1</sup> In particular, it examines delays and cancellations of imports as well as attempts to favour domestic arms producers when making procurement decisions. It also examines how these processes have interacted with, and affected, efforts to consolidate and strengthen the European arms industry and national efforts to boost arms exports.<sup>2</sup>

The 2008 global financial crisis and consequent economic crisis has led to declining military spending in Europe. In Western Europe military spending started to decline in 2010, while in Central Europe it began to fall in 2009 and at a sharper rate. Between 2008 and 2012 military spending decreased in Western Europe by 8 per cent and in Central Europe by 10 per cent. However, there have been steeper decreases in spending in some states than others, while states that have been less affected by the financial crisis have increased spending. Between 2008 and 2012, military spending fell in Greece (by 37 per cent), Romania (18 per cent), Portugal (16 per cent) and Italy (13 per cent), while it rose in Poland (by 19 per cent) and Norway (6 per cent).<sup>3</sup> These falls in military spending came at a time when both Western and Central Europe were more exclusively reliant on commercial arms acquisitions for their procurement needs than at any point since the end of the cold war. Aid, which was still an important component of

<sup>1</sup> Western Europe is taken here to consist of Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Malta, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom. Central Europe consists of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, FYR Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia.

<sup>2</sup> For a more in-depth discussion on these issues see chapter 4, section I, in this volume.

<sup>3</sup> In certain cases, the proportion of military spending devoted to equipment expenditure has also fallen sharply. Between 2008 and 2011 it fell from 16% to 7% in Greece and from 21% to 7% in Spain. NATO, 'Financial and economic data relating to NATO defence', Press Release (2012) 047 13, 13 Apr. 2012, <[http://www.nato.int/cps/en/natolive/news\\_85966.htm?mode=pressrelease](http://www.nato.int/cps/en/natolive/news_85966.htm?mode=pressrelease)>.

transfers to states in Central and Western Europe in the early-1990s, has been essentially non-existent since 2008.

The trend in the volume of major conventional weapons imported by states in Western and Central Europe broadly matches recent trends in military spending in the region. Between 2003–2007 and 2008–12, imports in Western Europe fell by 16 per cent and in Central Europe by 49 per cent. In Western Europe the overall fall in imports was largely driven by declines in imports by Greece and Italy, which fell by 61 per cent and 55 per cent between 2003–2007 and 2008–12, respectively. During this period, Greece fell from being fourth largest arms importer in the world to 15th largest, while Italy fell from being 16th largest to 37th largest. In Central Europe the overall decrease in arms imports was largely driven by declines in imports by Hungary, the Czech Republic and Romania, which fell by 93 per cent, 83 per cent and 63 per cent, respectively. At the same time, some states whose military spending rose also increased imports. For example, Norwegian arms imports increased by 91 per cent between 2003–2007 and 2008–12.

In certain cases, trends in military spending and major conventional weapon imports do not correlate, particularly when weapons have been delivered long after they were paid for or if there have been gaps between the completion of one round of acquisitions and the start of another. For example, despite its military spending falling, imports by Portugal increased by 211 per cent between 2003–2007 and 2008–12. Portugal has not placed an order for the import of major conventional weapons since 2009 and had only a limited number of items on order but undelivered at the close of 2012.<sup>4</sup> Conversely, despite seeing an increase in military spending, Poland's arms imports decreased by 47 per cent between 2003–2007 and 2008–12. Poland's fall in imports followed a series of large-scale deliveries in the early-to-mid-2000s. The country had a number of items on order but undelivered at the close of 2012 and has plans for a series of additional arms acquisitions in the near future (see below).

### **Delayed or cancelled arms acquisitions**

As part of their cuts in military spending, several states in Western and Central Europe have taken steps to delay or cancel planned arms acquisitions from abroad since 2008 and these processes continued in 2012. Italy and the Netherlands have reduced or delayed planned acquisitions of F-35 combat aircraft from the USA (see section I above). Elsewhere, states' plans

<sup>4</sup> The Type-214 submarines imported from Germany are reportedly being kept in port for months at a time in order to save money on fuel costs. 'Portuguese military equipment getting less use due to fuel costs, budget cuts', Publico Online, 15 May 2012, Published by Forecast International, 16 May 2012.

for the acquisition of combat aircraft have been put on hold, cancelled or downgraded. Croatia expressed interest in purchasing 12 combat aircraft in 2007.<sup>5</sup> However, in October 2012 the government reportedly concluded that funds were insufficient for the acquisition of either new or second-hand aircraft and would instead focus on overhauling its inventory of MiG-21s.<sup>6</sup> Greece has delayed or cancelled a range of import plans, including the acquisition of 6 FREMM frigates from France and over 400 armoured vehicles from Russia, while Portugal is seeking to offload part of its F-16 combat aircraft fleet. Both Bulgaria and Romania have abandoned previous plans to purchase new combat aircraft: Bulgaria is investigating plans to purchase 9 second-hand F-16Cs; and Romania has decided to purchase 12 second-hand F-16Cs for \$600 million—both from Portugal.<sup>7</sup>

In the context of seeking to reduce the financial burdens imposed by past acquisitions, states in Western and Central Europe have also sought to renegotiate and, in some cases, abrogate existing deals. In October 2012, citing ‘repeated delays’ in the delivery of the equipment, Portugal announced that it was cancelling a 2004 contract with Austria for 260 Pandur-2 armoured vehicles. It stated that it would keep the 166 vehicles that had been paid for and delivered and was hoping to receive €55 million in compensation from the supplier.<sup>8</sup> In September 2012 it was announced that the Slovenian Government had cancelled its 2006 deal for 135 AMV armoured vehicles via a settlement agreement with the Finnish supplier.<sup>9</sup> Slovenia has been pushing for the deal to be abandoned since 2010 as part of wider cost-cutting measures, arguing that the manner in which the contract was awarded breached both fair play and competition laws.<sup>10</sup> Greece’s acquisition of Type-214 submarines from Germany has also been the subject of repeated delays due to a lack of funding, although no official statement has been issued about cancelling the contract.<sup>11</sup>

<sup>5</sup> ‘Croatian Air Force mulling MiG-29M2 for new fighter program’, Interfax, 13 Dec. 2007.

<sup>6</sup> Radaljac, D., ‘Swedes and Grippens: order arrived, decision coming—there is no money, so MiG-21s will be overhauled?’, Novi List Online, 12 Oct 2012, Translation from Croatian, Open Source Center.

<sup>7</sup> ‘Bulgarian Govt to buy third-hand fighter jets from Portugal—Report’, Novinite.com, 3 Jan. 2013, <[http://www.novinite.com/view\\_news.php?id=146529](http://www.novinite.com/view_news.php?id=146529)>.

<sup>8</sup> Portuguese Ministry of Defence, ‘Comunicado do Conselho de Ministros de 18 de Octubro de 2012’ [Communication of the Council of Ministers of 18 October 2012], 18 Oct. 2012, <<http://www.portugal.gov.pt/pt/os-ministerios/primeiro-ministro/secretario-de-estado-da-presidencia-do-conselho-de-ministros/documentos-oficiais/20121018-cm-comunicado.aspx>>.

<sup>9</sup> Patria, ‘The Ministry of Defense of Slovenia, Rotis Plus and Patria sign a settlement agreement’, Press release, 4 Sep. 2012, <<http://www.patria.fi/en/news+and+events/news/the+ministry+of+defense+of+slovenia,+rotis+plus+and+patria+sign+a+settlement+agreement.html>>.

<sup>10</sup> O’Dwyer, G., ‘Lawsuit clouds Patria AMV deal with Slovenia’, *Defense News*, 31 Mar. 2011.

<sup>11</sup> ‘Greek police clash with protesting shipyard workers’, Reuters, 4 Oct. 2012.

## The wider implications of declining arms imports

Decisions to delay and cancel import contracts appear to be affecting European states' efforts to boost their own arms exports, which have been stepped up in recent years in order to help offset losses in revenues caused by reduced domestic procurement spending.<sup>12</sup> For example, during the period 2006–10 Greece was the largest recipient of German exports and the third largest recipient of French exports. In addition, prior to their shift in focus from new to second-hand aircraft, Bulgaria, Croatia and Romania had all been named as potential customers for Sweden's JAS-39C combat aircraft.<sup>13</sup> European states' efforts to boost exports via supplies to other states in Europe are also challenged by the presence of international suppliers that sometimes prove more able to deliver equipment on time and under budget. In 2011 Sweden ordered 15 UH-60M helicopters from the USA following prolonged delays in the delivery of European-manufactured NH-90 helicopters. In 2012 Norway indicated that it was also investigating the acquisition of helicopters from the USA, due to delays in the delivery of its own order of NH-90 helicopters.<sup>14</sup> There are also increasing signs that European states are looking beyond the traditional arms suppliers for their procurement needs (see Asia suppliers section).

The budget cuts of European states may also affect efforts to promote the consolidation of arms production in Europe and the joint development and acquisition of weapon systems. In recent years the European Union (EU) has taken a series of steps to deregulate the market for defence goods in Europe by relaxing controls on the internal movement of military goods, limiting the situations in which states can award acquisition contracts without issuing international tenders and curtailing the use of offsets.<sup>15</sup> In addition, the EU and the North Atlantic Treaty Organization (NATO) have sought to encourage the common development and procurement of weapon systems, as part of their broader efforts in the field of 'pooling and

<sup>12</sup> For more on national efforts to boost arms exports, see chapter 4, section I, in this volume.

<sup>13</sup> Saab, 'Sweden offers Gripen to Croatia', Press release, 14 Oct. 2011, <<http://www.saabgroup.com/en/About-Saab/Newsroom/Press-releases--News/2011--10/Sweden-offers-Gripen-to-Croatia/>>; 'Sweden offers price cuts to Romania for Gripen', Agence France-Presse, 15 Apr. 2010; and 'Bulgarian defense chief gets Saab offer on Gripen fighter jets', Novinite.com, 4 Feb. 2011, <[http://www.novinite.com/view\\_news.php?id=124921](http://www.novinite.com/view_news.php?id=124921)>.

<sup>14</sup> 'Norway may buy Seahawks instead of European helicopters', Reuters, 16 Aug. 2012.

<sup>15</sup> Directive 2009/43/EC of the European Parliament and of the Council of 6 May 2009 simplifying terms and conditions of transfers of defence-related products within the Community, *Official Journal of the European Union*, L146, 10 June 2009; Directive 2009/81/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of procedures for the award of certain works contracts, supply contracts and service contracts by contracting authorities or entities in the fields of defence and security, and amending Directives 2004/17/EC and 2004/18/EC, *Official Journal of the European Union*, L216, 20 Aug. 2009; and European Defence Agency, Code of Conduct on Offsets, <<http://www.eda.europa.eu/offsets/>>. On the Directive on Intra-Community Transfer see chapter 10, section V, in this volume.

sharing' (by the EU) and 'smart defence' (by NATO).<sup>16</sup> However, the wider adoption of these practices may prove more challenging in a period when governments have less money to spend on procurement and may be more eager than ever to ensure that procurement funds are spent domestically. For example, Poland plans to spend 100 billion złotys (\$30 billion) on a series of large-scale arms acquisitions, including armoured vehicles, helicopters, tanks, unmanned aerial vehicles and surface-to-air missile systems.<sup>17</sup> The Polish Government has made clear that a large proportion of this money will be spent domestically.<sup>18</sup>

<sup>16</sup> Hale, J., 'EDA countries agree on pooling and sharing code of conduct', *Defense News*, 19 Nov. 2012; and NATO, 'Smart defence', <<http://www.nato.int/cps/en/natolive/78125.htm>>. Similar efforts are also taking place at the subregional level, such as among the Nordic states, between the UK and France, and between states in Central Europe. See Möckli, D., 'Smart pooling: state of play in European defence and armament cooperation', Centre for Security Studies (CSS) Analysis in Security Policy no. 126, Dec. 2012, <[http://www.css.ethz.ch/policy\\_consultancy/products\\_INT/CSS-Analysis/index\\_EN](http://www.css.ethz.ch/policy_consultancy/products_INT/CSS-Analysis/index_EN)>.

<sup>17</sup> Lentowicz, Z., 'Defense Ministry: domestic leaders', *Rzeczpospolita*, 12 Nov. 2012, p. B7, Translation from Polish, Open Source Center.

<sup>18</sup> Adamowski, J., 'Poland's spending up as most of E. Europe cuts back', *Defence News*, 24 Oct. 2012.