
6. The process of policy making and licensing for conventional arms transfers

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I. Introduction

The background to Russian policy making is the fact that Russian arms transfers fell year by year between 1987 and 1994. The result was the loss of the dominant role that Soviet arms exporters had played on the world market, reflecting the serious economic and political problems of the country. Russian policy has been to try to halt and then reverse this tendency. The Russian leadership has made several attempts to support the military–industrial complex. However, the main emphasis has been on organizational and structural changes in the sphere of military–technical cooperation.

Since 1992 Russian policy on arms transfers and military–technical cooperation has been subject to constant changes and reforms. There is no sign that the process of change has ended. At the end of 1996 additional changes were being made to the process of decision making for arms transfers. In negotiating and implementing arms transfers and conducting military–technical cooperation there are also regular changes in approach. After 1993 Rosvooruzhenie, the newly established state company for the export and import of arms, became the major supplier of Russian arms. Nevertheless, since 1994 several decrees of the President of the Russian Federation have allowed other producers of conventional arms to enter the international market.

After the collapse of the previous Soviet system that governed arms transfers the new one has been emerging in an atmosphere of crisis, difficulty and constant reorganization. This is hardly surprising. The Russian Federation itself is in a state of profound change and the political strife around the military–industrial complex and such potentially beneficial related areas as arms transfers is understandable.

II. The organization of arms transfers in Russia

The most important elements of arms transfer policy are controlled by the president of the Russian Federation.

The president adopts decrees governing this area and decides all of the sensitive and most important issues. As of late 1997 there is no law on Russian military–technical cooperation with foreign countries as the draft law is yet to be adopted by the State Duma. The president decides questions which establish new precedents in state policy. He decides on the list of weapons proposed for export for the first time. He also makes decisions on the establishment of

military–technical cooperation with foreign countries. Under Russian rules even a shipment of a couple of revolvers to a foreign country sometimes demands an internal decision on the establishment of military–technical cooperation with that country.

If problems occur with any particular decision it may be brought up in the Security Council, under the chairmanship of the president, and it can decide what to do and how to handle that case.

The Government of the Russian Federation is the main body that executes military–technical cooperation with foreign countries on a day-to-day basis. It decides what kind of military production may be exported on what terms and on what conditions. It gives permission for the export and import of ordnance, military equipment and services as well as approving lists of states to which the export of particular types of arms is prohibited. By the end of October 1996 the key agencies involved in this process were the MFER, the Ministry of Defence, the Ministry of Foreign Affairs, the Ministry of Defence Industry, the Federal External Intelligence Service and the Federal Security Service.¹

The State Committee on Military–Technical Policy (Gosudarstvenny komitet po voyenno-tekhnicheskoy politike, GKVTTP) was established by Presidential Decree no. 2251 in December 1994 and was supervised by the president himself.² It prepared conceptual documents on military–technical cooperation with foreign countries, issued licences and resolved the practical questions of arms trade. Decisions were made on the basis of documents presented by a subsidiary organ, the Interdepartmental Coordinating Council for Military–Technical Policy (Koordinationny mezhvedomstvenny sovet po voyenno-tekhnicheskoy politike, KMSVTTP), which was headed by First Deputy Prime Minister Oleg Soskovets until his dismissal by the president. The KMSVTTP replaced the previous Interdepartmental Commission on Military–Technical Cooperation between the Russian Federation and Foreign States (Komitet voyenno-tekhnikeskogo sotrudnichestva, KVTS). Its main task was to coordinate and exercise control over the different bodies involved with transfers of arms and related technologies and services: for example, it coordinated the preparation of lists of controlled items subject to export licensing and lists of countries to which exports of each type of technology are allowed. In preparing such lists each agency represented on the KMSVTTP offered views and information based on its own competence.³

¹ On 17 Mar. 1997, President Yeltsin signed decree no. 249 which reorganized the Russian Government. Among the changes were the abolition of the Ministry of Defence Industry. Its responsibilities were placed in the Department for the Reformation of Industry and Defence Industry Conversion. Directive of the Russian Federation no. 484-r, 8 Apr. 1997, *Rossiyskaya Gazeta*, 22 Apr. 1997, p. 4 (in Russian) in Foreign Broadcast Information Service, *Daily Report–Central Eurasia* (hereafter FBIS-SOV), FBIS-SOV-97-106, 22 Apr. 1997.

² ‘On the State Committee of the Russian Federation on Military–Technical Policy’, Decree no. 2251, 30 Dec. 1994, *Sobranie zakonodatelstva Rossiyskoy Federatsii* [Collection of legislative acts of the Russian Federation], no. 10 (1995), article 865; and Statute of the State Committee of the Russian Federation on Military–Technical policy, *Sobranie zakonodatelstva Rossiyskoy Federatsii*, no. 41 (1995).

³ Transcript of Press Conference with Vice-Premier Yakov Urinson at Russian Federation Government House, Moscow, 25 Aug. 1997, provided by Federal News Service, Inc., Washington, DC.

In August 1996 the GKVT, the body responsible for coordinating Russian arms exports, was disbanded and licensing authority was transferred to the MFER.⁴ The GKVT (an agency that was directly accountable to the president) was unable to consolidate its position within the system and lacked the resources and influence to play a leading role in the decision-making process. The other agencies preserved their status after this change, although further changes cannot be ruled out. One effect of these changes was to increase the role of the Ministry of Defence and the Ministry of Defence Industry in giving advice and information about aspects of export licensing decisions and this will have the indirect effect of reducing the importance of Rosvooruzhenie in the process.

In 1997 further changes in the policy-making process occurred. During the first eight months of the year several decrees were issued revising aspects of military–technical cooperation. In July a decree was issued charging the Chairman of the Government of the Russian Federation (Viktor Chernomyrdin) with supervision of military–technical cooperation.⁵ In August 1997 two more followed, of which the first defined the roles of the different economic actors in military–technical cooperation.⁶ These actors are the enterprises granted the right to conduct exports, together with state authorities. By this decree the Rosvooruzhenie state trading company was transformed into a wholly government-owned unitary enterprise. The decree also created two additional government-owned unitary enterprises—Promexport and Rossiyskiye Tekhnologii.

Rosvooruzhenie is charged with managing complex export contracts requiring the coordination of many enterprises. Promexport is charged with managing follow-on support (spare parts, components and service support) as well as disposal of surplus equipment from the Russian armed forces. Rossiyskiye Tekhnologii is charged with managing exports of intellectual property (licences and know-how) connected with controlled items. The main functions of Promexport were the subject of a separate decree,⁷ and the new status and tasks of Rosvooruzhenie were elaborated and a supervisory commission established to oversee the activities of the company in another decree again.⁸

The basis for policy is that every arms sale from Russia is permitted provided that the exporter has a licence. As noted above, these licences are now issued by the MFER.

⁴ ‘On the structure of the federal organs of executive power’, Presidential Decree no. 1177, 14 Aug. 1997, reproduced in *Rossiyskaya Gazeta*, 16 Aug. 1997 (in Russian) in FBIS-SOV-96-162, 20 Aug. 1996.

⁵ ‘On measures to improve the system of management of military–technical cooperation with foreign states’, Presidential Decree no. 792, 28 July 1997, reproduced in *Rossiyskaya Gazeta*, 2 Aug. 1997, p. 6 (in Russian) in FBIS-SOV-97-232, 20 Aug. 1997, and in appendix 3 in this volume as document 25.

⁶ ‘On measures to strengthen state control of foreign trade activity in the field of military–technical cooperation of the Russian Federation with foreign states’, Presidential Decree no. 907, 20 Aug. 1997, reproduced in appendix 3 in this volume as document 26.

⁷ ‘On the Federal State Unitary Enterprise Promexport’, Presidential Decree no. 908, 20 Aug. 1997, reproduced in appendix 3 in this volume as document 27.

⁸ ‘On the Federal State Unitary Enterprise Rosvooruzhenie’, Presidential Decree no. 910, 20 Aug. 1997, reproduced in appendix 3 in this volume as document 28.

Decisions about what to sell and to whom involve several steps. However, the actions of government (which has a control function) and the exporting agent (which is responsible for negotiations with a customer) are now separate.

Any organization applying for a licence must present the following documents in order to have its request considered: (a) a permit from the Russian Government authorizing the applicant to engage in arms trade; (b) a licence application; (c) the original of an end-user certificate which must be issued by a responsible organization in the recipient country; (d) a signed export or import agreement; and (e) permission given by a responsible organization of the recipient country which names the partner firm in Russia that will conduct the export–import operation. This partner firm must be registered in Russia and authorized to conduct export–import operations.

During the evaluation of the export request, different aspects related to the sale, including political and military factors, the current state of bilateral relations with the future recipient, security interests and of course commercial conditions, are studied. If the deal is particularly sensitive a special decree by the president is needed. All the key ministries and agencies mentioned above are involved in the process of preparing a governmental or presidential decision.

After presidential or governmental approval has been granted and provided that the necessary information has been provided by the exporter, the MFER issues a licence. Once this has been done spare parts, components and auxiliary equipment may be exported without new, special permission from the government provided that they are required for the arms already transferred.

III. The changing relations between government and industry

One important feature of the present situation in Russia regarding arms exports is the ongoing struggle on the part of producers to receive permission from the government to conduct military–technical cooperation themselves. This permission is required before a producer can seek foreign partners, conduct negotiations, sign contracts or organize exhibitions of military equipment either in Russia or abroad. Until recently only Rosvooruzhenie, the Moscow Aviation Production Organization (MAPO) and a few other producers had this permission, although all were still required to follow the licensing process before a transfer could be made.⁹ It is important to note that only producers of arms may apply for such permission and not trading companies which are only engaged in import–export transactions. To receive permission the applicant must pass a rigorous certification procedure so that the government is confident that they can meet the necessary standards. There were many applicants for permits but it was not until 1994–95 that new agents were certified. In 1996 seven new enter-

⁹ Decision of the Government of the Russian Federation on granting the enterprises of the Russian Federation the right to participate in military–technical cooperation with foreign countries, no. 479, 6 May 1994. Reproduced in appendix 3 of this volume as document 10.

prises were granted this right provided that they only traded the arms they produced themselves.¹⁰ Not all the producers which received permission to export were making major complex systems. Large state companies like Rosvo-oruzhenie are not flexible and dynamic enough to discover and fill all the niches that exist in the international market. The activity of MAPO, producer of the MiG-29, is an example of such a success.

The state approach is not to allow too many potential producers to get access to foreign markets because of the possibility that existing rules and procedures for arms exports will be violated. This concern on behalf of the state is understandable since many gross violations in the past have come to light.

While often referred to, the leaking of state secrets and advanced technologies and the 'brain drain' are only part of this problem. Sporadic, unauthorized contacts by Russian arms producers with foreign counterparts in the period 1992–94 sometimes led to direct damage to the military potential of Russia. Some sophisticated military systems or unique technologies were transferred for nearly nothing. Lack of coordination between Russian exporters also resulted in a harmful competition among themselves that weakened the position of Russia on the world market.

On the other hand it is not possible to re-establish the old system under which the state was the only producer and exporter of arms. According to Russian terminology the policy of arms transfers is still a state monopoly. In reality this means that the government strictly controls the process of sales and licensing. The Russian state is no longer, as was the case, the absolute and sole owner of weapons produced in Nizhniy Novgorod or by the Sukhoi plants. Moreover, the recent steps taken in the field of conventional arms transfers demonstrate the tendency to permit new producers to enter the world market.

The realities of the current situation facing the defence industries in Russia dictate that the voice of arms producers should be decisive among the various agents engaged in arms transfers. Unless the interests of manufacturing industry are taken into consideration and unless all those involved in producing arms have their share of profits alongside those who are marketing, advertising and trading them, the overall state of Russian arms production and exports cannot turn radically for the better. Equally, trading from existing stockpiles will not change the general situation of decline and destruction in the industrial sphere.

According to estimates of specialists from the then State Committee on Defence Industries (Goskomoboronprom, which became the Ministry of Defence Industry) the volume of production of military equipment in Russia dropped by 17 per cent in 1995 compared with 1994. On the basis of these and earlier figures some predict that in five years the Russian defence industry will

¹⁰ Instructions of the Government of the Russian Federation, no. 202-i, 19 Feb. 1996; Instructions of the Government of the Russian Federation, no. 203-i, 19 Feb. 1996; Instructions of the Government of the Russian Federation, no. 204-i, 19 Feb. 1996; Instructions of the Government of the Russian Federation, no. 205-i, 19 Feb. 1996; Instructions of the Government of the Russian Federation, no. 206-i, 19 Feb. 1996; Instructions of the Government of the Russian Federation, no. 207-i, 19 Feb. 1996; and Instructions of the Government of the Russian Federation, no. 208-i, 19 Feb. 1996. Reproduced in appendix 3 of this volume as documents 16–22.

be completely ruined.¹¹ The only way to reverse this tendency is urgent investment—at least 3–4 billion dollars—in the military economy. By dramatizing the situation the ‘captains of defence industry’ seek government support for this investment for at least the near future.

The demise of many defence enterprises and companies is a natural process not only in Russia but also in Europe and the United States. The difference is that in the West the acceleration of this process in the 1990s was a result of competition under conditions of reduced procurement expenditure. The strongest could reasonably be expected to survive. In Russia the situation looks very different. Lack of financing has meant that essentially competitive industries are also on the verge of collapse. Sometimes a factory or enterprise is unable to bridge the period before a new product that is in demand becomes available on the market.

Reflecting the need to take account of factors such as these, the role of industry is growing within the government decision-making process. The gradual increase in the number of enterprises able to conduct foreign trade activities and the decision to give the MFER enhanced responsibilities are examples.¹²

IV. New principles underlying decision-making procedures

In the 1960s and throughout the 1980s, Soviet arms shipments were strongly ideologically motivated. This situation started to change in 1990–91 when an attempt was made to lay down a more commercial principle as the basis for a new Soviet arms trade policy. The USSR declared that it was ready to sell ordnance to any country that could pay in the hard currency it so badly needed. Military grants to allies in the developing world were reduced to a minimum.

Unfortunately for the ideologists of this ‘new thinking’, neither Western states nor many others lined up to buy cheap Soviet weapons. At the same time, the markets in former clients like the East–Central European countries, Cuba, North Korea and Syria were almost entirely lost. Military–technical cooperation with Iraq, Libya and the former Yugoslavia was curbed for political reasons: mandatory UN arms embargoes were in place.

As a result of this short-sighted policy the USSR lost traditional (albeit not profitable) markets but instead of gaining beneficial relations with new customers—which would have been a good substitute for the old clientele—it gained nothing. This outcome was logical as the new approach had been based on a wrong assumption—that the Soviet Union could easily find its place in the crowded world arms market.

¹¹ See chapter 8 in this volume.

¹² As part of the reorganization of the Russian Government in Mar. 1997 (see note 1), the Ministry of Foreign Economic Relations became the Ministry of Foreign Economic Relations and Trade. The minister responsible, Oleg Davydov, kept his title as the Minister for Foreign Economic Relations but lost his position as deputy prime minister. In future the ministry, now responsible for both foreign and internal trade issues, will come under the supervision of the Deputy Prime Minister and Minister for Economics, Yuriy Urinson. *Business Law Review*, Interfax (in English), 25 Mar. 1997, in FBIS-SOV-97-062, 25 Mar. 1997.

What was not taken into consideration was that selling weapons—not just giving them away—demands certain features which could not be met by Soviet producers and exporters such as a developed system of marketing and an after-sales system for supporting the equipment throughout its lifetime with spare parts and maintenance. These arrangements are demanded by rich clients such as those of the Persian Gulf. In addition, Western countries have not hurried to become customers of Moscow for political and military reasons.

The outcome of these changes was evident even before the collapse of the Soviet Union. Soviet arms shipments abroad had already fallen drastically due to the wrong decisions.

In the late Gorbachev era the shift of decision making from the CPSU Central Committee bureaucracy to the ‘merchants’ from the MFER and governmental experts could not prevent arms exports shrinking at the moment when the country was falling apart and its economy was entering a profound crisis.

In Russia in 1992–93 the difficulties in the defence industry were made worse by the collapse of the organizational structure of the arms trade. The administrative inter-agency coordinating structure was largely maintained, including the Ministry of Defence, the MFER and the Federal Security Service—although now without the Central Committee of the CPSU—but the outside situation had changed. Moreover, the former system was designed to take into account the interests of the agencies concerned and to prevent the leaking of state secrets. It was never intended to be effective mainly from a commercial point of view.

After the decisive role of the Communist Party in this process evaporated all the players involved started a tug of war aimed at increasing their influence. The clashes of interest between different agencies sometimes blocked prospective deals: for example, the sale of T-80 tanks abroad was prohibited at first even though this tank had won praise and awakened interest at the Abu Dhabi defence equipment exhibition. Once the export of the T-80 was permitted several opportunities had already been missed.

The Ministry of Defence and the defence industry enterprises often accused the MFER of inefficiency and red tape. At least in part this was true. On the other hand the Ministry of Defence refused for years to allow the export of systems that could have been extremely competitive internationally. In turn, the moves made by the defence industry in the international market in its eagerness to sell were so clumsy that manufacturers were sometimes their own worst enemies.

The tendency towards commercialization of arms transfers on the one hand and an idealized picture of international cooperation on the other, which characterized the last period of the Soviet Union, was inherited by Russia. In 1992–94 the Russian Federation, because of the serious economic situation, tried to sell arms not only for immediate payment in hard currency but also for barter and against long-term, low-interest credits. The incentive to do so was the attempt at economic survival on the part of a defence industrial base that could not be supported by the national procurement budget. In some cases, however, shipments of arms were made to reimburse debts owed by the former Soviet Union.

Russia did not achieve much success in its attempts to sell arms to Western states, although military–technical relations were established with France, Greece and Turkey.

A low profile was kept where former allies were concerned, for two main reasons. First, these states were not regarded as clients which would be able to bring Russia substantial new business. Transfers of arms to them could not bring money to the Russian treasury in the near term. Second, as Russia oriented its foreign policy largely to the West the Russian leadership came to see many former allies in the developing countries as, in the words of Foreign Minister Andrey Kozyrev, ‘political hooligans’. Thus, close military–technical ties with these countries came to be regarded as giving support to extremism, terrorism and subversive activity even though most of these states—Syria and Viet Nam, for example—were not under any UN embargo or on a Western ‘blacklist’. The Soviet Union had invested billions of dollars in these countries and it was only by preserving military–technical cooperation that Russia had any chance of gaining partial repayment of these debts. However, this argument was not taken into serious consideration until 1994. Several of these arguments also apply to the initial Russian inactivity as far as cooperation with the CIS was concerned in the period 1992–94.

As the hopes of the Russian leadership for closer partnership with the West in the military–technical sphere subsided and attempts to restore Russian arms trade policy started to emerge, the ‘romantic period’ came to an end.

The key elements of the new policy were stricter governmental control over the arms transfer process, attempts to re-establish closer military–technical relations with former partners—such as the East–Central European states, Cuba, India and the CIS countries—and an active search for new non-traditional markets in East and South-East Asia, Latin America and Southern Africa.

With a certain improvement in the economic situation in Russia and the first signs of an increase in arms sales in 1994–95, politico-military factors started to play a greater role in the decision-making process. It became absolutely clear that policy neglect in the field of military–technical cooperation with countries like Belarus, Kazakhstan and Ukraine and former developing country allies was counter-productive. Active state financial and political support was increasingly recognized as an essential element in export success. By refusing to transfer arms and spare parts at reduced prices or on a barter basis, Russia lost important benefits: political influence, the confidence of partners, opportunities for future cooperation and the chance to recover debts. Monopolists like Rosvooruzhenie, working purely on a commercial basis, were not interested in taking these matters into account.

Future prospects

Russian moves on the world market have become more determined, consistent and oriented towards success in the market-place. It was acknowledged that decisions had to be taken based first of all on the interests of the producers.

Government Decree no. 479 of 6 May 1994 gave more rights to the arms producers¹³ and, at the same time, the Russian state started to give them direct support.

This closer coordination of state and industry led to the realization of profitable deals with Malaysia and the United Arab Emirates in 1994. In these two cases only direct government intervention and guarantees secured deals that the Russian companies could easily have lost.

In 1996 Russia still lacked a strong centre for coordinating activities in the field of arms exports. There are still a number of agencies trying to increase their influence and gain a place in the sun. Until recently the Federal Security Service has also been one of the key players in this area. The Ministry of Defence, which was once a central agent in the arms export control system, has lost its position as a result of Presidential Decree no. 1008 of 5 October 1995¹⁴—although it has not lost the capacity to block any individual deal for reasons of national and military security. During 1993–97 the Ministry of Foreign Affairs has been much preoccupied with issues of compliance with the international obligations of the Russian Federation. It has not been actively engaged in supporting national arms exports. In 1996 the Ministry of Foreign Affairs started to take a more active role, partly as a result of the entry of Russia into the multilateral Wassenaar Arrangement.¹⁵

Russia's ability to re-emerge as a major arms seller is largely dependent on whether it can reorient itself towards new markets, mainly in those countries whose financial solvency is good.

The development of trade with the financially and politically stable countries in the Middle East and the Asia–Pacific region is therefore of vital importance to Russia. Russian arms exporters are also trying to break back into the markets of East–Central European countries which are faced with the task of modernizing existing weapons of Soviet origin. It is possible that this will be done by installing Western technology.

At present, China and India are the largest consumers of Russian services both in the field of ordnance and in the licensed production of military equipment, including design for use by military units.

Russian arms exporters also attach great importance to improving their after-sales servicing of military equipment to bring it to the same level offered by competitors on the world arms market. In conditions where potential buyers have limited finances—particularly with developing countries—the modernization of existing equipment rather than its replacement with new production is also given preference.

¹³ Decision no. 479, 6 May 1994 (note 9); and Regulations on the certification and registering of enterprises for the right to export armaments, military equipment and military-purpose work and services, approved by Decision no. 479, 6 May 1994. Reproduced in appendix 3 of this volume as documents 10 and 11.

¹⁴ 'On military–technical cooperation of the Russian Federation with foreign countries', Presidential Decree no. 1008, 5 Oct. 1995. Reproduced in appendix 3 of this volume as document 1.

¹⁵ See chapter 5 in this volume.

The situation in Russian arms export policy is improving but very slowly. The significance of the fact that Russia ranked relatively high among arms exporters in 1995 and 1996¹⁶ should not be exaggerated. The successes achieved were partly a result of mobilizing the last resources of the military-industrial complex developed in the past. To a great extent the slow pace of change can be explained by the chronic political and social instability in the country. As arms exports are one of the few things that bring money into the Russian treasury, the struggle of political groups around them is inevitable.

Further changes can be expected in the political priorities and administrative arrangements in Russian arms export decision making. However, two things are obvious. First, state control over this matter is going to become stricter. Second, the number of Russian arms producers with access to the world market will increase. These developments are an absolute necessity if Russia is to restore its position as a major exporter of weapons while at the same time being a responsible supplier.

¹⁶ Anthony, I., Wezeman, P. D. and Wezeman, S. T., 'The trade in major conventional weapons', *SIPRI Yearbook 1996: Armaments, Disarmament and International Security* (Oxford University Press: Oxford, 1996), pp. 463, 465; and Anthony, I., Wezeman, P. D. and Wezeman, S. T., 'The trade in major conventional weapons', *SIPRI Yearbook 1997: Armaments, Disarmament and International Security* (Oxford University Press: Oxford, 1997), pp. 267-68.