10. Military–technical cooperation between Russia and countries of East–Central Europe

Irina Kobrinskaya and Peter Litavrin

I. Introduction

The years 1994–95 appeared to be a period in which the underlying forces shaping Russian policy on arms transfers and defence production were beginning to stabilize—at least in comparison with the complete turmoil which accompanied the dissolution of the WTO and the disintegration of the Soviet Union at the beginning of the 1990s. This does not mean that there is now complete clarity in the future path of development. It is true that decision-making processes are still in a state of flux across the entire space occupied by the post-Soviet independent states and East–Central European countries.[1] However, in 1996 it is possible to identify some of the main tendencies that are likely to define further developments in military–technical cooperation.

In spite of the differences in scale of the problems facing Russia and the countries of East–Central Europe, there are certain similarities between them as regards their defence industrial structures. This chapter is confined to a discussion of arms transfers and military–technical cooperation between Russia and the non-Soviet countries which were members of the WTO[2] but, because of the structural similarities of state socialist command economies, some of the observations in this chapter probably apply across East–Central Europe.

The present state of arms procurement, arms transfers and arms production in the Russian and Central European states is closely linked to the tectonic shifts that have occurred in Europe in the last decade. One of the primary characteristics of this change has been the significant and asymmetrical cuts in defence expenditure that have occurred in Europe.[3] These reductions have not been fully compensated for by increased spending in other potential markets. At the same time, the countries of East–Central Europe retain significant arms production capacities. The current circumstances could therefore change if developments in the international arena led to increases in military expenditure and arms procurement.

[1] In this book East–Central Europe is defined as those non-Soviet countries that were members of the WTO—Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia—but excepting Albania.

[2] Military–technical cooperation and arms transfers between Russia and other members of the Commonwealth of Independent States are discussed in chapter 9 of this book.

[3] For example, while military expenditure among the European members of NATO between 1990 and 1995 fell by 14% in real terms, Poland's (the former WTO country for which the most reliable data are available) declined by 36%. George, P. *et al.*, 'Military expenditure', *SIPRI Yearbook 1996: Armaments, Disarmament and International Security* (Oxford University Press: Oxford, 1996), table 8A.2, pp. 365–66.

Domestic economic, political and social developments in these 'transitional societies' are also of tremendous importance for the future national policies on military–technical cooperation, arms transfers and arms production.

The following basic questions have to be answered before a full understanding of the factors which define military–technical cooperation between Russia and East–Central European countries can be achieved:

1. Is there a final understanding of the structure, priorities and needs of the defence industries in the post-socialist countries within the frameworks of national security policy?
2. What role will the defence industries play as a sector in the post-command economies? and
3. Will the pattern of future relations between the defence industries of what was an integrated WTO production system be characterized by cooperation and reintegration or by disintegration and competition?

None of the post-socialist countries has resolved the questions what structure and size of defence industry can best meet their defence needs or what role the defence industries should play in national economic policy.

II. The legacy of the WTO

One element of the WTO's work was procurement of equipment for the armed forces. With the ending of the WTO the bureaucratic mechanisms for managing the relationships between governments, armed forces and industrial enterprises broke up. This breaking of ties did not occur according to a gradual and phased timetable but was sudden and abrupt. The peaceful end of the WTO was possible because of the strategic decisions taken by the then leaders of the Soviet Union in 1990 not to use force (either directly or in cooperation with certain elements in former allies) to prevent the disintegration of the alliance. However, the dissolution of the WTO reflected decisions taken at the initiative of the governments of Czechoslovakia, Hungary and Poland in particular.[4] These decisions were taken without consultation with, for example, their armed forces or representatives of their domestic arms industries.

The break-up of the common trade and payment system managed by the CMEA also had a major impact on the defence industries of both the former Soviet Union and East–Central Europe.[5] The ending of the trading system based

[4] The decision to dissolve the military structure of the WTO was finally taken after a meeting of WTO states in Budapest in Feb. 1991. However, throughout 1990 a series of decisions—such as bilateral agreements on the withdrawal of Soviet troops from various former allies and the statement of the WTO Consultative Political Committee after their meeting in Moscow on 7 June 1990—highlighted the accelerating pace of political change in Europe in that decisive year. Most of the relevant documents are reproduced in Rotfeld, A. D. and Stützle, W. (eds), SIPRI, *Germany and Europe in Transition* (Oxford University Press: Oxford, 1991).

[5] The CMEA was dissolved in two stages in Jan. and July 1991. At the end of 1990 its membership consisted of Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania, the USSR, Cuba, Mongolia and Viet Nam.

on material quotas and a clearing system for payments led to an immediate reduction in intra-regional trade of over 40 per cent in 1991. The impact was particularly severe in Bulgaria (where the reduction in trade within the CMEA was the equivalent of a contraction in GDP of 10 per cent in one year) and in what was then Czechoslovakia.[6]

The sudden break in relations with the Soviet Union caused great disruption in the system of military–technical cooperation and arms transfers. This was made worse by the consequences of the disintegration of the Soviet Union only a year later. Then, in 1992, the new Russian Government began to formulate a foreign policy in which relations with the United States in particular and the Western countries in general were given central place. In this phase little or no attention was paid to relations with countries in East–Central Europe.

The state of military–technical cooperation between Russia and East–Central European states can be explained by a number of factors on both sides. The problems that the two sides faced in 1990 had some common characteristics, but the fact that they all tried, for political reasons, to define their own independent and separate solutions aggravated their economic and financial conditions.

The lack of attention and, if anything, unwillingness on the Russian side to increase military–technical cooperation with East–Central European states in the first half of the 1990s can be explained by three factors.

First, in the Russian military there was a predominant feeling of distrust towards its East–Central European counterparts after the dissolution of the WTO. This unwillingness to cooperate with former allies probably stemmed more from psychological factors than from objective arguments.

Second, the possibility of short-term profit from arms transfers was a new phenomenon for Russia and the long-term possibilities that could come from continued cooperation with traditional partners were not sufficiently taken into consideration. Obviously, the immediate attractiveness of the East–Central European market was less than that of Asia or the Middle East, and these regions received most attention.

If these reasons for indifference have proved to be erroneous, a third was perhaps more valid: Russian arms producers were wary about agreements such as issuing production licences to their former East–Central European 'brothers' if that meant creating or sustaining potential competitors in third-country markets.

In the East–Central European countries themselves, the initial reactions to the breakdown of relations with the Soviet Union and then Russia among managers and the government ministries and departments responsible for the defence industries were not always the same. However, in many cases there was anger and frustration at what was seen as sudden abandonment by the responsible authorities.[7] Many of these industrial managers and government officials

[6] 'Trading patterns and trade policies', European Bank of Reconstruction and Development, *Quarterly Review*, 30 Sep. 1992, pp. 4–10.

[7] Kiss, Y., SIPRI, *The Defence Industry in East–Central Europe: Restructuring and Conversion* (Oxford University Press: Oxford, 1997).

regarded the breaking of relations with their counterparts in the former Soviet Union as damaging and counter-productive since it deprived them in many cases of their most important suppliers, technologies and customers. In most cases the governments of East–Central Europe broke their old ties with no clear alternative security policy or defence industrial policy. The only policy was to hope for rapid integration into Western political, military and economic structures.

In the period since 1991 there has been a gradual recognition in some of the countries of East–Central Europe that managing the consequences of the decisions taken in 1990 will be easier if they do not rule out all forms of cooperation with Russia. By 1996 all had re-established some form of military–technical cooperation or arms transfer relationship with Russia. However, the nature of these relations has been different in different countries depending on their specific national conditions. One country—the Czech Republic—has been less interested in re-establishing military–technical cooperation with Russia than, for example, Bulgaria and Slovakia. Hungary, Poland and Romania fall somewhere between the positions of these three other states.

The policies of the East–Central European states can be grouped according to two basic motivations. First, although the non-Soviet WTO states had some arms production capacity, their armed forces are still dominated by equipment of Soviet origin. Second, they have realized that cooperation with Russian partners can help East–Central European producers to be successful in future projects. To this could be added disappointment with the extent of cooperation achieved with new partners in the West and elsewhere.

Similarly, from the Russian side it is possible to see the gradual development of greater interest in military–technical cooperation and arms transfer relationships with former allies.[8] Russian foreign and security policy has become more multi-dimensional and less centred on relations with the United States and the West. The view that it is unwise to abandon markets in which it has advantages has become more widely held. Undoubtedly, however, by 1995 the position of Russia in the East–Central European market had been undermined even though the principal feature of the armed forces of those countries has been and still is the dominance of Soviet arms and military technology.

General tendencies in Russian defence industries and export policy

Apart from aspects which are specific to Russia's relations with East–Central Europe, the development of military–technical and arms transfer relations is also affected by overall Russian policy priorities.[9] This approach has been characterized by Zinoviy Pak, at one time head of the Ministry of Defence Industry, as 'the state turning its face to the "oboronka" [defence establish-

[8] This change can probably be dated to mid-1993. de Weydenthal, J., 'Russia mends fences with Poland, the Czech Republic and Slovakia', Radio Free Europe/Radio Liberty, *RFE/RL Research Report*, vol. 2, no. 36 (10 Sep. 1996), pp. 33–36.

[9] These developments are described in detail in chapters 5, 6 and 7 of this book.

ment]'.[10] This new approach is motivated primarily by the need to use arms transfers to help achieve both economic and military reform objectives—specifically, to provide the armed forces with modern arms and equipment and to shift the accent in Russian exports from raw materials and energy to a more broadly based mix of goods.

The reasoning behind this policy is based on premises that never lost their popularity among either the military or the techno-scientific élite, who have always regarded the defence sector as a 'locomotive' able to pull the Russian economy out of crisis.[11] Historically, in Russia the bulk of the scientific, technical and industrial potential has been concentrated in the defence industry and this sector is still believed to account for 60–65 per cent of total national R&D. The new attitude towards the defence industry is motivated to a significant extent by the belief that: (*a*) Russia's future scientific and technological position will be decided by the fate of this sector, and (*b*) the sector cannot be preserved during the process of market transformation without direct state intervention.

More subjectively, there is also a view, in Moscow at least, that strategic decisions are increasingly motivated by the struggle between various political lobbies. The relative importance of the two most powerful economic complexes in Russia—the oil and gas industry and the defence industry—as a political power base is the subject of much discussion. This focus sharpened in 1996 as the political profile of two individuals—the Prime Minister, Viktor Chernomyrdin, and the National Security Adviser to the President (later presidential candidate), Alexander Lebed—was raised.[12]

In other words, it is still true that in Russia there is a real danger that the national authorities will 'put the cart before the horse'. Policies on military–technical cooperation and arms exports are being made before any coherent programme is in place that defines the size and shape of the future Russian armed forces on the basis of a comprehensive national security doctrine. Rather, the new tendency seems to be to provide the defence industry with orders for modern weapons and military equipment and then to reform the armed forces on the basis of the outcome of these programmes. For example, the Ministry of Defence and General Staff have drafted a new long-term defence programme for developing the armed forces up to the year 2005 which is intended to ensure

[10] At the time the new ministry was created the president issued a decree 'On urgent measures to support the Russian Federation defence complex enterprises', 8 May 1996. *Delovye Lyudi*, June 1996, pp. 24–27 (in Russian).

[11] See, e.g., Kokoshin, A., 'Defence industry conversion in the Russian Federation', eds T. P. Johnson and S. E. Miller, *Russian Security after the Cold War*, CSIA Studies in International Security no. 3 (Brassey's: Washington, DC, 1993) as well as many other articles and interviews published in the period 1993–95 by Deputy Defence Minister Kokoshin.

[12] Prime Minister Chernomyrdin is considered to represent the interests of the oil and gas complex and in particular the largest corporation, Gazprom. During his period as National Security Adviser to the President, Gen. Lebed emphasized the need to increase taxes on the oil and gas branches of industry as well as exerting tighter state control over exports of all raw materials. At the same time, Lebed emphasized the need to stimulate new development and production of high-technology products. Voloshin, V., 'Driving the economy', *Business in Russia*, no. 65 (1996), p. 63; and *Kommersant Daily*, 26 June 1996 (in Russian).

'adequate military might based on developed defence industry and science'.[13] At the same time, a comprehensive military reform programme has still not been elaborated, neither is a new military doctrine in place.[14]

There has also been a move in Russia towards widespread acceptance that the state has an important and legitimate role to play in managing the economy. A former Minister of Defence, Igor Rodionov, wrote in 1995 that 'our market economy should be forced—I am not afraid of the word—forced to work for defence'. Defining the priorities of military reform, Rodionov stated that one of them should be 'keeping and enlarging the military–economic potential of the country'.[15]

Thus as an intermediate conclusion it may be said that at present in Russia several domestic political and economic tendencies as well as foreign policy priorities give strong ideological grounds for developing the defence industrial complex.

Apart from these general tendencies, what specific elements in Russia's relations with East–Central Europe determine the future of military–technical cooperation and arms transfers?

III. Military–technical cooperation between Russia and East–Central European states

As noted above, for several years relations between Russia and the East–Central European countries in the sphere of military–technical cooperation were mostly neglected by Russia. Starting in 1993 Russia began to take cautious steps to see whether it was possible to make up for lost opportunities. From 1995 the pace of these contacts increased. However, old fears of and prejudices about Russia among the countries of East–Central Europe and the fact that at least three countries—the Czech Republic, Hungary and Poland—are to become members of NATO make it difficult to achieve new understandings and agreements.

The visit of the newly elected Polish President, Alexander Kwasnewski, in the spring of 1996, before the presidential elections in Moscow, marked something of a culmination to this renewed dialogue. Paradoxically, it could be that the knowledge that these countries are to achieve their long-expected NATO membership might make Poland and perhaps also other East–Central European countries more open-minded in considering cooperation with Russia. However, this is by no means assured.

Since 1995 the Russian approach to East–Central Europe has undergone certain changes. The commercial aspects of military–technical cooperation have become very significant elements of Russian policy. Boris Kuzyk, adviser to the president on military–technical cooperation, has underlined that in formu-

[13] Interview with First Deputy Defence Minister Andrey Kokoshin, ITAR-TASS (in English) in Foreign Broadcast Information Service, *Daily Report–Central Eurasia* (hereafter FBIS-SOV), FBIS-SOV-96-144, 25 July 1996, p. 24.

[14] *Komsomolskaya Pravda*, 4 June 1996 (in Russian).

[15] *Nezavisimaya Gazeta*, 22 Apr. 1995 (in Russian).

lating its new arms transfer policy Russia has carried out a market survey which examines the cycles of rearmament and modernization of the armed forces as well as projections for future defence budgets in the countries that are at present of interest to Russian arms exports. On the basis of this study, as well as an evaluation of the political and economic situation in different regions of the world, seven individual programmes were elaborated. These were for Latin America, the Middle East, South-East Asia, India, China, Western Europe and East–Central Europe.[16]

If this rather pragmatic approach were to be the sole basis of Russian policy, the import prospects of East–Central European states would have low priority as prospective markets. There is general agreement that in 1995 and 1996 Russia began to increase the volume of its arms transfers in spite of the continued overall contraction of the global arms market.[17] Not only are the prospects for modernization of the armed forces of East–Central European states limited; they are also unlikely to be able to make contracts on a direct payment basis. In 1995, according to statements by Russian officials, 75 per cent of Russian arms transfers were concluded on a direct payment basis. As the General Director of Rosvooruzhenie, Alexander Kotelkin, has said, Russia has stopped all philanthropy in the arms market. Weapons and military equipment are sold exclusively on commercial terms, although taking into account Russian strategic interests.[18]

At the same time it is acknowledged that penetrating markets may require significant investment, perhaps in the form of credits. Russia should not retreat from its traditional markets in East–Central Europe. Although these countries want to become part of the West, they do not have the money for full-scale rearmament in the near future. For this reason it may be worthwhile for Russia to consider more flexible forms of trade, including barter deals, which might give it access to consumer goods produced in East–Central Europe in exchange for military equipment.

This statement underlines that recent negotiations between Russia and East–Central European countries have demonstrated that, although both sides realize the existence of certain limits, they have overcome prejudices for the sake of finding mutually profitable solutions to problems—albeit on a more primitive and less ambitious level than was once hoped.

In the view of another official, Sergey Svechnikov, former Chairman of the State Committee on Military–Technical Policy (Gosudarstvenny komitet po voyenno-tekhnicheskoy politike, GKVTP), Russia would even be ready in principle to cooperate with East–Central European states in transforming their armies to NATO technical standards. According to Svechnikov, however, 'that doesn't mean Russia is going to transfer to Western standards itself. But if

[16] *Nezavisimaya Gazeta*, 25 Apr. 1996 (in Russian).
[17] The current trends in the global arms market are described in chapter 2 of this volume.
[18] *Izvestiya*, 27 Dec. 1995 (in Russian); and *Military Review,* no. 5 (14 Apr. 1996).

anybody needs cheaper weapons and equipment that they are more in the habit of using but which are no worse than those of the West, we are ready to do it'.[19]

In 1996 particular attention began to focus on the possibility that East–Central European countries will introduce new models of fighter aircraft into their air forces.[20] According to some estimates, the market for new fighter aircraft in the Czech Republic, Hungary, Poland and Slovakia might reach as many as 600 aircraft in future. Russian officials have stressed that there is no reason why possession of Russian fighter aircraft should prevent a country from cooperating in NATO operations. In particular, attention is drawn to the positive experience of the German Air Force in using the MiG-29 aircraft taken over from the former German Democratic Republic.[21]

Increased attention is being paid by officials and experts to the new relationships emerging between former partners in East–Central Europe and in particular to the identification of a new niche in the world market—the modernization of old Soviet equipment. Some have estimated that this market may be worth huge amounts and that Russian enterprises should win a substantial share of contracts.[22] For example, about half of all tactical combat aircraft currently in service in the world are either Soviet-made or based on Soviet designs.[23] This should give Russia opportunities to dominate the supply of spare parts, maintenance, infrastructure support, staff training and other services—provided that it can improve its performance in post-shipment services.[24]

East–Central European states, along with partners in Western countries and in Israel, have been very active in developing technical approaches to this market niche. East–Central European states are using components and sub-systems of Western origin—such as communication or electronics systems—on platforms of Soviet origin such as tanks. As the point of origin of the weapons is Russian, the question is whether this market development should be seen by Russian industry as a way of widening cooperation with foreign partners or whether it is stimulating competition.[25] One of the reasons for a reformulation of Russian approaches to military–technical cooperation may in fact be a desire to neutralize the danger of growing competition from East–Central European states acting together with Western companies.

As was mentioned above, the particular state of Russia's military–technical and arms transfer relations with the East–Central European countries depends in part on the domestic situation in the countries themselves and their attitude to cooperation with Russia. As far as new contracts for major equipment are concerned, in some cases Russia seems to be the loser even before any tender is

[19] *Financial Izvestiya*, 13 Feb. 1996.

[20] Kolyadin, S., 'Russian fighter planes on international arms markets: new realities', *Military Parade*, July–Aug. 1996, pp. 23–25.

[21] *Segodnya*, 11 Oct. 1995 (in Russian) in FBIS-SOV-95-199, 16 Oct. 1995, pp. 45–46.

[22] Puchov, R., [Russian at the world arms market], *Export Obychnych Vooruzenii* [Conventional arms transfer], no. 1 (May 1996), pp. 9–13 (in Russian).

[23] Dreger, P., 'Selling Russian combat aircraft: an unbiased assessment', *Military Technology*, Aug. 1996, pp. 10–18.

[24] *Bulletin of the CIS States Staff for Military Cooperation*, no. 43 (23–29 Dec. 1995).

[25] Puchov (note 22).

announced. The preference of many East–Central European countries seems to be to modernize their armed forces with equipment of Western origin in spite of the economic difficulties of such an approach.

IV. The defence industry and arms transfer policies of East–Central European states towards Russia

The situation in the defence industries of Central Europe shares many characteristics with that in Russia. These countries also experienced the negative consequences of the collapse of the socialist structure. Difficulties of the transition period have included large budget deficits, the lack of a legal basis and institutions to implement many actions, problems of privatization, domestic political turmoil, clashes between particular interest groups, the formulation of national security and defence doctrines, and other problems of military reform. At the same time, not only has each of the East–Central European countries followed a different path in post-socialist development; they also have different levels of engagement in the process of joining Western structures, first and foremost NATO.

Bulgaria presents a special case. It is geographically close to some of the most vulnerable and conflict-prone regions in Europe—such as Macedonia—where a clash of Russian and US interests is not excluded. It is also a country where Russian strategic interests have not been lost as they have in most of East–Central Europe. Bulgaria may become the East–Central European country where there are the greatest prospects for military–technical cooperation. At present, the forms of this cooperation are only at the stage of being elaborated. An important factor in this process may be the domestic political struggles going on in Bulgaria between proponents of closer alignment with the West and those who place greater emphasis on cooperation with Russia. The forms can also be fairly diverse, ranging from a Soviet-style 'philanthropy' to barter deals or joint ventures producing equipment for third countries.

Russia and Bulgaria established a bilateral committee on military–technical cooperation in May 1994 to work out 'legal, economic and financial conditions for mutually beneficial cooperation in defence industry'.[26] The representation on the committee is at the level of deputy prime minister (on the Bulgarian side) and the deputy chairman of the State Committee on Defence Industries (as it then was) on the Russian side.[27]

Under a June 1995 agreement, in mid-1996 Russia began to deliver 100 T-72 tanks and 100 BMP-1 armoured personnel carriers (APCs) to Bulgaria as military assistance.[28] These transfers were reported to the responsible authorities in

[26] *Balkan News International and East European Report*, 5–11 June 1994, p. 9.

[27] ITAR-TASS, 22 May 1995 (in English) in FBIS-SOV-95-099, 23 May 1995, p. 8.

[28] Open Media Research Institute, *OMRI Daily Digest*, no. 141, part II (23 July 1996), URL <http://www.friends-partners.org/friends/news/omri/1996/07/960723II.htmlopt-tables-mac-english->; and 'Bulgaria will receive free Russian armour', *Jane's Defence Weekly*, 31 July 1996, p. 9. During discussions between Bulgaria and Russia the idea of transferring 12 Mi-24 attack helicopters was also raised.

accordance with the 1990 CFE Treaty.[29] According to Western reports, Bulgaria is acquiring 10–12 new MiG-29 fighter aircraft as well as additional T-72 tanks from Russia in a barter deal that apparently includes the transfer of ownership of property in Bulgaria to Russia.[30]

Bulgaria is also involved in some of the alternatives for developing the system of oil distribution from Russia (the Novorossiysk–Burgas–Alexandropolis pipeline) and the current 'strategic pipe game' suggests additional reasons why Russia can be expected to be fairly active in developing its cooperation with Bulgaria.

The most successful country where military reform is concerned has been the *Czech Republic*. It is reported that the restructuring required to meet NATO standards is almost complete. With bilateral technical assistance from NATO, the Czech armed forces have received the information necessary for modifying their logistical and supply systems and the Czech military hopes that by about the year 2000 it will be able to begin exchanging military equipment and weapons and using NATO standards. However, lack of financing is a serious obstacle. The main priority is still to get to know the alliance systems for logistics and supply so that the Czech armed forces can function alongside NATO units.[31]

The Czech Republic seems to have the least interest of all the East–Central European states in cooperation with Russia.

In *Poland*, the largest of the East–Central European countries, military reform is still far from complete either in the armed forces or in the defence industry. Poland has the biggest defence industry of East–Central Europe and intends to retain significant capacities in the future. In 1995, 31 enterprises made up the core of Polish arms production capacity, accounting for 90 per cent of its Ministry of Defence orders. A programme for defence industrial restructuring adopted by the government in April 1996 will keep the core enterprises in full government ownership.[32]

The remaining 10 per cent of orders placed by the Polish Ministry of Defence are shared between roughly 120 enterprises which are civilian in character but whose products can have military applications. Many of these enterprises have been privatized using the model of transferring ownership to a state-owned bank or financial institution (usually through a debt-for-equity swap). As a result, the government and leading political parties still have very significant

However, this was not accepted by the Bulgarian side because the costs of preparing the aircraft for use would have been too high. Presse und Informationsamt der Bundesregierung, *Stechworte zur Sicherheitspolitik*, Bonn, July 1995, p. 56 (in German); and *Air Force Monthly*, Apr. 1996, p. 3.

[29] Interfax, 22 July 1996 (in English) in FBIS-SOV-96-142, 23 July 1996, p. 8; and *Izvestiya,* 24 July 1996 (in Russian) in FBIS-SOV-96-144, 25 July 1996, p. 6. This equipment would allow Bulgaria to take out of service older equipment including T-34 tanks built in the 1950s. Interfax, 30 Jan. 1996 (in English) in FBIS-SOV-96-021, 31 Jan. 1996, p. 20.

[30] *Military Procurement International*, 15 Apr. 1996, p. 6; and *OMRI Daily Digest*, no. 138, part II (18 July 1995), URL <http://www.friends-partners.org/friends/news/omri/1995/07/950718II.htmlopt-tables-mac-english->.

[31] *Bulletin of the CIS States Staff for Military Cooperation*, no. 23 (15–21 June 1996), pp. 3–4.

[32] Kiss (note 7), pp. 115–16.

influence in the strategic direction of the sector. The issue of privatization remains unfinished business and is likely to continue to be politically controversial. The management at some of the enterprises which remain subject to specific defence-related regulations would prefer to be fully privatized.

In addition to these enterprises, there are 13 agencies under the direct supervision of the Ministry of Defence which provide repair and maintenance services to the armed forces. Like Russia, Poland has certain towns where defence enterprises are totally dominant in the local economy, mainly in the former central production region.

Poland lacks coherent plans for equipment procurement. The military has given priority to two strategic programmes—the Loara programme to develop a modern air defence system and the Huzar programme to develop the W-3 Sokol helicopter into an anti-tank attack helicopter. These programmes are regarded as potential 'locomotives' that will pull the most technically capable defence enterprises out of crisis.[33] However, the Polish Parliament, the Sejm, did not receive a list of priorities in 1996 that would have made possible a budget to support these programmes in 1997. Recent levels of military expenditure in Poland do not allow for significant new procurement. In 1994 and 1995 the state did not provide any new orders to six of the 31 defence enterprises that are considered to be the most important. The head of the financial department of the Polish Ministry of Defence, Tadeusz Grabowski, has stated that the arms procurement priorities of Poland include armoured vehicles, modern communication systems and combat aircraft. However, the PT-91 Twardy tank which is entering series production is being ordered by the army in very low numbers, so that the production facility where it is constructed is operating at around 5 per cent of capacity. If Poland is to buy a new fighter aircraft—which would be by far the largest spending commitment of the present plans—a separate decision will have to be taken outside the regular defence budget. No decision had been taken by the end of 1997.

In addition, Poland has not yet adopted a law on military–technical cooperation or what is termed trade in 'special production'. In May 1996 a special commission of the Sejm was established to improve the current draft of the law.

From a Russian perspective this law could have some implications. Up to the present Polish companies have re-exported Russian arms without regard to earlier agreements on re-transfer and are acting practically without any control. This issue was raised by the Russian side in talks between Russian former Deputy Prime Minister Oleg Davydov and Polish Minister for Foreign Trade Jacek Buchacz during talks in Warsaw in April 1996.[34] A Polish law could benefit Russia if it ended this practice. On the other hand, there are strong concerns that any centralization of military–technical cooperation could further reduce the prospects for privatization of the defence industry.

[33] *Rzeczpospolita*, 5 Jan. 1996 (in Polish).

[34] Buchacz agreed that in future contracts between Poland and Russia there would be end-user commitments. *New Europe*, 14–20 Apr. 1996, p. 19.

Military–technical cooperation with Russia remains a most controversial political issue in Poland. Almost every word uttered by Minister of Defence Stanislaw Dobrzanski in his talks with the then Russian Defence Minister, Pavel Grachev, in Moscow in April 1996 was discussed and criticized in Poland. According to the Polish mass media, Dobrzanski spoke about strengthening military–technical cooperation. Grachev reportedly mentioned in this connection that the Polish minister was interested in spare parts for MiG-29 and MiG-21 fighter aircraft. *Gazeta Wyborcza* added that Dobrzanski proposed establishing Polish–Russian joint ventures to manage repairs and production.[35]

Commenting on Dobrzanski's visit, a member of Poland's Defence Commission, former Deputy Defence Minister Bronislaw Komorowski, said that Poland should not take on risky obligations.[36] Some cooperation will probably remain necessary from a Polish perspective: around 80 per cent of the equipment in the Polish armed forces is of Russian origin and the Polish defence industry is mostly producing weapons developed in Russia. However, there is a view that Poland should try to replace industrial cooperation with Russia by imports of spare parts from other post-communist countries, notably Slovakia or Ukraine. As early as March 1994 former Polish Defence Minister Piotr Kolodzejczik signed an agreement in Kiev worth $150–200 million for the repair of T-72 tanks as well as MiG and Sukhoi combat aircraft in Ukraine.[37]

In general, many representatives of the Polish political establishment do not regard stronger cooperation with Russia as a secure investment. It is also true that, in the ongoing political struggle in the country, anti-Russian statements have become rather popular. Accusations of cooperation with Russia or the former Soviet Union have become common—most notably the accusations of espionage against the former Prime Minister Josef Oleksy.

In comments on military–technical cooperation with Russia it is often mentioned that both in Poland and in Russia the interests and intentions of the lobbies that support the defence industry and those that are interested in the development of economic relations between the countries are the same. In 1995 Russia offered Poland a package deal to modernize the Polish Air Force with MiG-29 fighters including building a manufacturing facility in Poland.[38] Komorowski noted that the plan would engage Poland in technological and even political cooperation with Russia at a time when, from the point of view of its role in East–Europe and NATO, Poland's main partner should be the United States. No decision on the offer has yet been made.

[35] *Gazeta Wyborcza*, 18 June 1996 (in Polish).

[36] *Rzeczpospolita*, 23 May 1996 (in Polish).

[37] *Kommersant Daily*, 12 Apr. 1994 (in Russian).

[38] Interview with Polish Minister of Defence Zbigniew Okonski, *Defense News*, 13–19 Nov. 1995, p. 70. The MiG-29 fighter was offered in competition with the US F-16 and F-18 fighters, the French Mirage-2000-5 and the Swedish JAS-39 Gripen. According to the Polish press another proposal was to develop a new aircraft, designated the M-2000, which would be based on the latest version of the MiG-29 but with upgraded engines and Western avionics. *OMRI Daily Digest,* no. 169, part II (30 Aug. 1995), URL <http://www.friends-partners.org/friends/news/omri/1995/08/950830I.htmlopt-tables-mac-english->.

One possible form of cost-effective cooperation could be increased exchanges between Poland and Russia's Kaliningrad region. Poland could provide the region with agricultural and other products while getting spare parts in return. Reportedly, this was proposed by Dobrzanski in Moscow. Nevertheless, the comments on this proposal in the Polish media were negative here also.

Military–technical cooperation between Russia and Poland is based on five agreements achieved and signed by the ministries of defence of the two countries in July 1993. These agreements are valid for five years and, so long as there are no objections, are automatically prolonged for the next five years. Nevertheless, Polish military officials characterize this cooperation as being on an extremely low level and stress that much more is needed. In the view of these officials, this cooperation does not conflict with Polish plans for NATO membership, nor with Russian security interests. The Polish Ministry of Defence reportedly makes 20–40 proposals to its Russian counterparts annually and laments that the Russian Ministry of Defence does not encourage greater bilateral military cooperation—sometimes explaining that this is because of its own financial problems.

As this suggests, for Poland the issue of military–technical cooperation is a 'two-way street'. Poland has been interested in repairing aircraft engines and Russian ships built at Polish shipyards and establishing joint ventures for these purposes.[39] From the point of view of some Polish experts, creating joint industrial entities would make the task of cooperation easier. At the same time, taking into account the political sensitivity of the issue and the dominant public mood, Polish state officials prefer to omit the question of defence industrial joint ventures in their discussions with the domestic media. They prefer to reiterate that technical cooperation is necessary as long as Poland uses Russian equipment. Meanwhile, they reject the idea that cooperation will prolong this period of dependence. This will gradually be reduced, depending on the characteristics of the equipment. For instance, it is estimated that aircraft of Russian origin will be phased out between the years 2000 and 2005. In general the Polish Chief of Staff and military experts consider that the framework trade agreements signed by ministers Buchacz and Davydov in Warsaw correspond to Polish interests.

The dominant aim of Polish foreign and security policy has been to become a member of NATO. Leading Polish experts consider that this should be the most important factor in dealings with Russia, especially in the military–technical sphere. There should therefore be no obstacles to purchasing certain types of arms in Russia if they correspond to those of NATO members or permit cooperation with NATO. At the same time Russian arms should be competitive in performance and Poland should get consent for third-party sales of any arms or spare parts produced with Russian partners. In certain cases Poland should even consider the confidentiality of Russian military secrets. However, according to

[39] Vesti newscast, Moscow Russian Television Network, 3 Apr. 1996 (in Russian) in FBIS-SOV-96-065, 3 Apr. 1996, p. 15.

this view, any licences that place restrictions on Poland are not in its interests. It should be stressed that Russia is not eager to give these licences to Poland.

The general improvement in Russian–Polish relations, the first signs of which appeared at the end of 1995, may promote mutually profitable military–technical cooperation between the two countries. However, in the short term it is likely that controversies over the enlargement of NATO will dominate relations between them and block their further development.

Up to 1996 Russia carried on military–technical cooperation and arms transfers with *Hungary* on a comparatively stable basis. The cooperation was based predominantly on clearing Russian debts as assessed at the time of the dissolution of the payments system within the CMEA.

In April 1994 Russia and Hungary reached agreement on a package of equipment including the BTR-80 APC and 28 new MiG-29 fighter aircraft to offset debts. In 1995 a follow-on agreement included transfers of additional BTR-80 vehicles, 20 Smerch rocket artillery systems and spare engines for MiG-29 aircraft.[40] According to some sources, the total value of this arms-for-debt swap was calculated to be around $1.7 billion of which military equipment could account for $900 million.[41]

From the beginning of 1996, however, Hungary seemed to be beginning to take serious steps towards diversifying the equipment of its armed forces. The Hungarian Government stated its intention to launch an international tender worth an estimated $1–1.2 billion to replace ageing MiG-21 fighter aircraft.[42] Initially this would include 30 aircraft but eventually around 40 more would be needed. This potential order has attracted interest from many companies including the Swedish Saab group, Dassault Aviation in France, and Lockheed Martin and McDonnell Douglas in the United States which produce, respectively, the JAS-39 Gripen, Mirage 2000-5, and F-16 and F-18 fighter aircraft.

As in Poland, the idea of such a significant programme of modernization for the air force has led to disagreements between the Hungarian Ministries of Finance and Defence over national priorities. In May 1996 Finance Ministry officials called for a shelving of the international tender because of financial difficulties.[43] No call for tenders has been issued by the Ministry of Defence but Hungarian Air Force experts have held preliminary negotiations with several foreign companies.[44]

[40] Interfax, 6 Mar. 1995 in FBIS-SOV-95-045, 8 Mar. 1995, p. 8; *Balkan News and East European Report*, 12–18 Mar. 1995, p. 33; *Baltic Independent*, 4–10 Aug. 1995, p. 6; *Jane's Defence Weekly*, 5 Aug. 1995, p. 13; and *New Europe*, 13–19 Oct. 1996, p. 18. Apart from military equipment, Russia also supplied Hungary with oil and gas storage tanks and agricultural machinery under this agreement.

[41] *Military Technology,* Sep. 1995, p. 11.

[42] *Kommersant Daily*, 14 May 1996 (in Russian).

[43] *OMRI Daily Digest*, no. 92, part II (13 May 1996), URL <http://www.friends-partners.org/friends/news/omri/1996/05/960513II.htmlopt-tables-mac-english- >. At the same time, Israel Aircraft Industries has tried to interest Hungary in the idea of rebuilding and modernizing MiG-21 fighter aircraft which could be accomplished for around $130–150 million, one-tenth of the cost of new aircraft. *OMRI Daily Digest*, no. 96, part II (17 May 1996), URL <http://www.friends-partners.org/friends/news/omri/1996/05/960517II.htmlopt-tables-mac-english- >.

[44] Until a call for tenders is announced, the Hungarian Defence Ministry can only conduct negotiations with possible suppliers over prices with the special authorization of the cabinet or parliament. *Magyar*

Like their Western counterparts, Russian aircraft manufacturers are reported to be ready to submit bids. Reportedly, both MiG-MAPO (with the MiG-29) and Sukhoi (with the Su-27) may do so. In negotiations, the financial aspects of acquiring the MiG-29, which Hungary already uses in its air force, would include some element of debt clearing. If Hungary refuses the MiG-29 and chooses a Western aircraft in spite of the difference in cost, this will represent a serious setback for Russian hopes in the East–Central European market.

The prospects for military–technical cooperation with *Slovakia* seem more complicated. On the one hand, it will not be among the first new members of NATO. This (along with the pattern of economic reform in Slovakia known as 'people's capitalism') makes it more interested in closer cooperation with Russia, including military–technical cooperation.[45] On the other hand, in terms of numbers of tanks, armoured vehicles, artillery systems, fighters and bombers permitted under the CFE Treaty, the Slovak arms market is much smaller than those of the Czech Republic or Poland. From this point of view, Slovakia is less interesting to Russia. It has reportedly been active in attempts to establish close cooperation ties with Russia in defence production. According to Slovak experts' calculations the cost of modernizing weapons in cooperation with Russia will be 7–10 per cent of the cost of a transition to Western models.[46]

Russia and Slovakia also negotiated agreements in 1993 and 1994 to use military equipment transfers to settle bilateral debts. According to Oleg Lobov, Secretary of Russia's Security Council at the time of these negotiations, the items transferred by early 1996 included one Il-76 transport aircraft and 13 MiG-29 fighter aircraft.[47]

In March 1995 Russian and Slovak officials agreed in principle to set up joint ventures in the aviation sector involving three Slovak enterprises and Yakovlev and Klimov on the Russian side.[48] The Yak-130D trainer aircraft will use an engine of Slovak design—the DV-2 developed by Povazhska Stroyanye—which will be produced in Russia by Klimov under the designation RD-35. It is not known whether this will lead to any industrial joint venture beyond the sale of the production licence.

Slovakia has also sought to develop its military–technical cooperation with Ukraine—a factor which might increase the competition between Russia and Ukraine. However, in mid-1996 it was reported that the Slovak side was not satisfied with the course of the negotiations and from 1997 relations in this sphere would be downgraded.[49]

Hirlap, 21 May 1996 (in Hungarian); and *OMRI Daily Digest*, no. 98, part II (21 May 1996), URL <http://www.friends-partners.org/friends/news/omri/1996/05/960521II.htmlopt-tables-mac-english->.

[45] In Oct. 1996 the Chief of the Russian General Staff, Mikael Kolesnikov, said in Bratislava that Russia and Slovakia would also develop closer military-to-military ties. *OMRI Daily Digest*, no. 191, part II (2 Oct. 1996), URL <http://www.friends-partners.org/friends/news/omri/1996/10/961002II.htmlopt-tables-mac-english->.

[46] *Nezavisimaya Gazeta*, 4 June 1996 (in Russian).

[47] *Balkan News and East European Report*, 19–25 Mar. 1995, p. 42; *Military Technology*, Nov. 1995, p. 72; *Air Force Monthly*, Dec. 1995, p. 13; and *New Europe*, 10–16 Dec. 1995, p. 22.

[48] *Jane's Intelligence Review*, June 1996, p. 247.

[49] UNIAN (Kiev), 31 Aug. 1996 (in Ukrainian) in FBIS-SOV-96-171, 3 Sep. 1996, p. 39.

As noted above, Poland has also developed some ties with Ukraine. In the early stage of independence, some nationalist-minded Ukrainian politicians (such as a former Ambassador to Canada, Levko Lukyanenko) appealed to Poland to form an anti-Russian alliance.[50] Poland has kept firmly to the good-neighbour principle in relations with the two countries to its east. However, in Polish political history the concept of exploiting problems between Russia and Ukraine is well known. A policy of this kind on the part of Poland and Slovakia is not likely but cannot be completely excluded. Military–technical cooperation could serve as one effective instrument.

Although the mandatory UN arms embargo against all the countries that were created after the collapse of the *former Yugoslavia* was lifted in 1996, the prospects for Russian arms transfers there remain problematic. President Yeltsin signed a decree that laid out a three-phase lifting of Russian national export restrictions against the republics of the former Yugoslavia in March 1996.[51] However, financial difficulties hinder these new states from buying large quantities of arms. It is more likely that Bosnia and Herzegovina, Croatia and the Federal Republic of Yugoslavia (Serbia and Montenegro) will try to develop their defence industries and become exporters of second-hand arms. Under the Agreement on Sub-Regional Arms Control of 14 June 1996, the three countries accepted ceilings on their inventories of five categories of armament—battle tanks, armoured combat vehicles, artillery, combat aircraft and attack helicopters. According to article VI of this agreement, up to 25 per cent of the reductions required can be achieved through exports.[52]

The chances for Russian arms exports mostly seem to be connected to clearing Soviet debts in accordance with the agreement on military–technical cooperation that was signed before the sanctions were lifted.[53] One transfer that may occur under this programme is reported to involve 20 MiG-29 fighter aircraft.[54]

V. Conclusions

Some important decisions were taken in mid-1997 regarding the enlargement of NATO. However, while the Czech Republic, Hungary and Poland have begun formal discussions with NATO about accession, for the other countries the question of eventual membership is not resolved. This is a serious limitation on

[50] *Zycie Warszawy*, 24 Sep. 1992 (in Polish).

[51] Interfax, 12 Mar. 1996 (in English) in FBIS-SOV-96-050, 13 Mar. 1996, p. 9.

[52] Details of these exports must be notified to the other parties and to the Personal Representative of the Chairman-in-Office of the Organization for Security and Co-operation in Europe. OSCE, Agreement on Sub-regional Arms Control, 14 June 1996, OSCE document INF/98/96, 18 June 1996, article VI, reproduced in *SIPRI Yearbook 1997: Armaments, Disarmament and International Security* (Oxford University Press: Oxford, 1997), pp. 517–24.

[53] Former Russian Defence Minister Pavel Grachev and Federal Republic of Yugoslavia Defence Minister Pavle Bulatovic met in Moscow in Feb. 1996 to discuss renewed military–technical cooperation. ITAR-TASS, 27 Feb. 1996 (in English) in FBIS-SOV-95-039, 28 Feb. 1995, p. 11; and *Kommersant Daily*, 20 June 1996 (in Russian).

[54] *New Europe*, 6–12 Oct. 1996, p. 18.

Russian military–technical cooperation with and arms transfers to East–Central Europe. If the expansion of NATO takes on an anti-Russian character, for whatever reason, or (as is fairly likely) if it continues to be perceived as such by Russia, the prospects for military–technical cooperation and arms transfers between Russia and East–Central Europe will deteriorate. The competition between the East–Central European countries along with the West on the one side and Russia on the other will increase, particularly in third markets.

Under this scenario it also cannot be excluded that Ukraine would prefer cooperation with the East–Central European and Western states to closer ties with Russia. This would further aggravate the political situation in the European part of the post-Soviet space. Such a development would also pose certain technical problems for parts of the Russian defence industry.

If the transformation of NATO takes place alongside the development of more formalized relations between Russia and NATO in the interests of both sides, the present tendencies in military–technical cooperation and arms transfers between Russia and East–Central Europe will have chance to develop further. In either case, however, the rivalry between Russia and companies from the West will not diminish. It is more likely to intensify—a development that corresponds to the general pattern in global arms transfers.

In the East–Central European region in general, Russia is likely to pay most attention to strengthening its positions in South-Eastern Europe, developing in particular its military–technical relations with Bulgaria. However, even under the best-case scenario, East–Central Europe is not likely to play a leading role in Russia's military–technical cooperation and arms transfers as measured by commercial value. Other parts of the world will be more important for a considerable time to come.