

National Report on Arms Export Controls of the Republic of Hungary

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Hungarian Trade Licensing Office
Authority on Military Industry and Export Controls

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INTRODUCTION

The Authority on Defence Industry and Export Controls (Authority) of the Hungarian Trade Licensing Office (HTLO) fulfils the requirement of reporting on the licensing activities on the field of conventional arms foreign trade to the various parliamentary committees (on defence, *internal order*, foreign affairs and national security affairs) as prescribed in the Government Decree 16/2004 (II.6.) on the licensing of the export, import, transfer and transit of military equipment and technical assistance. The Authority furthermore submits data on foreign trade activities to several international regimes (European Union, United Nations, Organisation for Security and Co-operation in Europe, Wassenaar Arrangement), the data are available on their websites. Aiming at transparency and trust building, also in line with the international practice, the HTLO hereby publishes a publicly available national report on the foreign trade activities.

1. ABOUT THE AUTHORITY

Hungary has assumed political obligation to ratify and incorporate in her national legislation the principles of export controls of sensitive goods, set by the non-proliferation regimes and agreements jointly with other participating states. The appointed authority for carrying out export control activities is the Authority on Military Industry and Export Controls of the Hungarian Trade Licensing Office. The export control activities include three different fields.

The **trade licensing of conventional arms** is a non-EU-harmonised activity, i.e. it is under the discretion of the national legislation. However it respects the directives of the EU foreign and security policies, the provisions of the „Council Common Position 2008/944/CFSP on defining common rules governing control of exports of military technology and equipment” and proceeds according to the „European Union’s Common Military List”.

The same List is the basis for the licensing activities of the **control of military industry production and services**, which covers the registration of the local military industry manufacturers and service providers, and control the obligations of the licencees for product marking and keeping the records thereof.

The Authority implements all national export control measures in relation to the commitments made in international agreements in relation to the fulfilment of the international obligations on the conditions of international trade with **dual-use items and technology**.

The Authority implements the obligations and tasks of the National Authority prescribed in the **Chemical and Biological Weapons Conventions**. Its measures aim to hinder the development and production of weapons of mass destruction by terrorist groups and states which pose a threat to regional and international peace,

furthermore to obviate the destabilising accumulations of conventional arms. These activities fall under licensing obligations and stand under the controls of the authority which is derived from the national security strategy of the Republic of Hungary, besides her international obligations. The Authority takes part in the working groups of the export control regimes, submits reports to the UN, OSCE and the EU and also a yearly report to the National Assembly.

The Authority maintains a registry of licence holders, including their regular data reports, and possesses the tether of controlling and forfeiting. Appeals against the first instance administrative resolution of the HTLO are judged by the minister of national development and economy. The Authority works in close co-operation with related partner organisations, organises seminars and issues news letters to fully inform the partners involved in the field of military foreign trade and military production and the provision of services. The Authority consist of three sections: the Department of Conventional Arms Trade Control, the Department of Defence Industry and the Department of Export Controls.

2. HUNGARY IN THE EXPORT CONTROL REGIMES

The Republic of Hungary is participating state of several multilateral weapons control agreements, export control regimes, has signed the below international instruments and incorporated the below procedures when creating its licensing mechanism.

Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on Their Destruction (BTWC)¹

The Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on Their Destruction (BTWC) is the first international treaty that aims at the total liquidation of a category of the weapons of mass destruction. The Convention sets a ban on the development, production, stockpiling or otherwise acquisition or retain of microbial or other biological agents, or toxins that have no justification for prophylactic, protective or other peaceful purposes. The ban also includes weapons, equipment or means of delivery designed to use such agents or toxins for hostile purposes or in armed conflict. The Convention was opened for signing in 1972 and entered into force in 1975.

Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction (Chemical Weapons Convention - CWC)²

The Chemical Weapons Convention is a result of a 24 years-long discussion between 40 states on the Geneva Disarmament Conferences and has entered into force on April 29, 1997, with Hungary's ratification. The CWC aims to eliminate an entire category of weapons of mass destruction by prohibiting the development, production, acquisition, stockpiling, retention, transfer or use of chemical weapons by States Parties. States Parties, in turn, must take the steps necessary to enforce that prohibition in respect of persons (natural or legal) within their jurisdiction. All States Parties have agreed to chemically disarm by destroying any stockpiles of chemical weapons they may hold and any facilities which produced them, as well as any chemical weapons they abandoned on the territory of other States Parties in the past. States Parties have also agreed to create a verification regime for certain toxic chemicals and their precursors in order to ensure that such chemicals are only used for purposes not prohibited, the Australia Group.

Australia Group (AG)³

The Australia Group (AG) co-ordinates the non-proliferation of the chemical weapons. The AG is an informal forum of countries which, through the harmonisation of export controls, seeks to ensure that

exports do not contribute to the development of chemical or biological weapons. Coordination of national export control measures assists Australia Group participants to fulfil their obligations under the Chemical Weapons Convention and the Biological and Toxin Weapons Convention to the fullest extent possible. Hungary has joined in 1992.

Nuclear Suppliers Group (NSG)⁴

The NSG Guidelines aim to ensure that nuclear trade for peaceful purposes does not contribute to the proliferation of nuclear weapons or other nuclear explosive devices which would not hinder international trade and cooperation in the nuclear field. The NSG Guidelines facilitate the development of trade in this area by providing the means whereby obligations to facilitate peaceful nuclear cooperation can be implemented in a manner consistent with international nuclear non-proliferation norms.

The NSG Guidelines governs the export of items that are especially designed or prepared for nuclear use, including nuclear material, nuclear reactors and equipment therefor, non-nuclear material for reactors, plant and equipment for the reprocessing, enrichment and conversion of nuclear material and for fuel fabrication and heavy water production and technology associated with each of the above items. It also governs the export of nuclear related dual-use items and technologies, that is, items that can make a major contribution to an unsafeguarded nuclear fuel cycle or nuclear explosive activity, but which have non-nuclear uses as well, for example in industry.

Zangger Committee (ZC)⁵

The Zangger Committee was formed following the coming into force of the Nuclear Non-Proliferation Treaty, to serve as the "faithful interpreter" of its Article III, paragraph 2, to harmonize the interpretation of nuclear export control policies for NPT Parties. It has been focussing on what is meant in Article III.2 of the Treaty by "especially designed or prepared equipment or material for the processing, use or production of special fissionable material." The Zangger Committee maintains a Trigger List (triggering safeguards as a condition of supply) of nuclear-related strategic goods to assist NPT Parties in identifying equipment and materials subject to export controls. Parties to the Treaty should not export, directly or indirectly, nuclear material and equipment to non-nuclear-weapon States unless the export is subject to International Atomic Energy Agency (IAEA) safeguards. By interpreting and implementing article III,

¹ <http://www.opbw.org>

² <http://www.opcw.org/chemical-weapons-convention>

³ <http://www.australiagroup.net>

⁴ <http://www.nuclearsuppliergroup.org>

⁵ <http://www.zanggercommittee.org>

paragraph 2, the Zangger Committee helps to prevent the diversion of exported nuclear items from peaceful purposes to nuclear weapons or other nuclear explosive devices, and thereby furthers the objectives of the Treaty and enhances the security of all States. As circumstances are changing with respect to the use of nuclear technology, it is the Zangger Committee's mission within the framework of the NPT to take account of changing security aspects and to adapt export control conditions and criteria from time to time according to the needs.

Missile Technology Control Regime (MTCR)⁶

The Missile Technology Control Regime is an informal and voluntary association of countries which share the goals of non-proliferation of unmanned delivery systems capable of delivering weapons of mass destruction, and which seek to coordinate national export licensing efforts aimed at preventing their proliferation. The MTCR, established in 1987, has increased to a total of thirty-four countries, all of which have equal standing within the Regime.

The MTCR rests on adherence to common export policy guidelines (the MTCR Guidelines) applied to an integral common list of controlled items (the MTCR Equipment, Software and Technology Annex). All MTCR decisions are taken by consensus, and MTCR partners regularly exchange information about relevant national export licensing issues. Hungary has become a member state in 1993 and the authority responsible for implementation is the HTLO.

Wassenaar Arrangement (WA)⁷

The Wassenaar Arrangement has been established in order to contribute to regional and international security and stability, by promoting transparency and greater responsibility in transfers of conventional arms and dual-use goods and technologies, thus preventing destabilising accumulations. Participating States seek, through their national policies, to ensure that transfers of these items do not contribute to the development or enhancement of military capabilities which undermine these goals, and are not diverted to support such capabilities. The decision to transfer or deny transfer of any item is the sole responsibility of each Participating State. All measures with respect to the Arrangement are taken in accordance with national legislation and policies and are implemented on the basis of national discretion. Therefore, for specifics on Export Controls in Participating States contact the National Authorities in that country.

⁶ <http://www.mtc.info>

⁷ <http://www.wassenaar.org>

Hungary has been involved in WA's activities by conducting the General Working Group's work in 2001, by chairing the Expert Group between 2005-2006 and also, by co-ordinating the Task for on Transparency in 2007. Hungary supports the improvement of transparency and the harmonisation of national export policies. Between 4-7 April, 2008, accepting the invitation of the Hungarian Government, the Head of the Secretariate, Mr. Sune Danielsson met the Hungarian authorities and institution involved in the WA agendas.

UN Program of Action to Prevent, Combat and Eradicate the Illicit Trade in Small Arms and Light Weapons in All Its Aspects (UN Document A/Conf.192/15)⁸

The UN Program of Action to Prevent, Combat and Eradicate the Illicit Trade in Small Arms and Light Weapons (SALW) in All Its Aspects determines principles and provisions to eradicate and prevent the illicit trade of SALW. Hungary takes part in the implementation of the Program of Action and submits annual reports to the UN on the export-import data of SALW and the developments of the legal background.

Such data are also reported to the OSCE (Organisation for Security and Co-operation in Europe), based on the prescriptions of the OSCE SALW Document. The prevention of the illicit trade in SALW is also of high importance on the European Union's agenda.

COARM – the European Union Council's working party on the export control of conventional arms

The COARM working party operates based on the Code of Conduct of arms exports (adopted by EU Council on 8 June, 1998), which has later been replaced by Council Common Position 2008/944/CFSP on defining common rules governing control of exports of military technology and equipment. The HTLO delegates an expert into the working group, where besides the general agenda items (preparation of a published annual report, updating the EU CML, organisation of outreach seminars to third countries to promote export control mechanisms), actual questions of export controls are discussed (i.e. country evaluations).

⁸ <http://www.poa-iss.org>

3. THE LICENSING OF THE FOREIGN TRADE OF MILITARY EQUIPMENTS AND MILITARY PRODUCTION

Article 296 point b) of the Treaty establishing the European Community says that *any Member State may take such measures as it considers necessary for the protection of the essential interests of its security which are connected with the production of or trade in arms, munitions and war material; such measures shall not adversely affect the conditions of competition in the common market regarding products which are not intended for specifically military purposes.* Furthermore, Article 140. of the Law on legislative amendments deriving from the Accession to the European Union stipulates that *legislative acts adopted by the Parliament and the Government on the export, import, transit of goods and services should be in harmony with the legislation in force in the EU.* On these above legislative acts Hungary controls the licensing activity of military production and provision of services and the export, import, transfer, transit and broker activities.

3.1. Licensing the trade of conventional arms

Before 1990 the control of foreign trade of conventional arms was exercised by the individual decisions of the Defence Committee of the Council of Ministers. The 5-years term Agreements and the annual Reports of the Warsaw Pact Member States tackled the values and quantities of the trade in the various military equipment categories. The licenses were issued by the Technical Department of the Foreign Trade Ministry, based on the decisions of the Defence Committee of the Council of Ministers. The foreign trade has been carried out by the Technika Foreign Trade Company.

After the fall of the Iron Courtain, the monopoly of the state foreign trade has terminated and induced changes in the legislation and procedures, resulting in a Government Decree 48/1991. (III.27.) on the export, import and re-export of military equipments and related services, that authorized the Inter-Ministerial Committee to make decisions on the political and practical questions of licensing. Members of the Committee included delegates from the Ministry of Interior, Defense, Foreign Affairs, International Economic Relations, National Security, Industry and Finance.

Since January 1995 the tasks of political guidance and decision-making have been separated in such a way that a high level Inter-Ministerial Committee (IMC) on Military Foreign Trade has set the directions on destination, while the license applications have been evaluated by the Operative Committee (OC) on Military Foreign Trade.

The President of the IMC was appointed by the Prime Minister, its Secretary was appointed by Minister of Industry and Commerce, with the consent of the Minister of Foreign Affairs.

The President of the OC was the deputy State Secretary of the Ministry of Industry and Commerce, and its Secretary was appointed by the minister.

During the preparations for Hungary's accession to the European Union, the need arose for the formulation of new licensing procedures on the field of military foreign trade, while keeping the good practices of the current legislation.

Current Legislation

The licensing of the export, import, transfer and transit of military equipment and technical assistance is regulated by the Government Decree 16/2004 (II.6.) and the authority assigned for completing the issues related is the Authority on Military Industry and Export Controls (Authority) of the Hungarian Trade Licensing Office (HTLO). The 3-tier licensing system of the foreign trade of military equipments follows a very strict procedural sequence, where the listed stages are non-interchangeable:

1. Activity Licence (i.e. registration of traders, authorisation to enter into foreign trade activities)
2. Those registered traders planning to engage in business talks with foreign partners have to obtain a Licence for Negotiation in advance that allows proceeding with negotiations and to conclude a contract. Prerequisite to apply for a Licence of Negotiation is the Activity Licence.
3. To perform the contract, the applicant has to obtain a Contract Licence (authorization of export/import. Prerequisite to apply for a Contract Licence is the Licence of Negotiation.

As mentioned before, the licensing of the foreign trade of military equipments is not a harmonized activity within the EU, but leaves it in the discretion of the national legislations. However the Government Decree 16/2004 (II.6.) sets out the principles of the common foreign and security policy by implementing the Code of Conduct on Arms Exports (adopted on June 8, 1998), that has evolved into a legally binding instrument: Council Common Position 2008/944/CFSP defining

common rules governing control of exports of military technology and equipment (adopted on 8 December 2008).

The Authority conducts its licensing and controlling activity based on the EU Common Military List, completing it with further categories including the **other equipments especially designed for military purposes, the services especially for military purposes, the equipments for crime surveillance and coercion and the secret service devices**. The First Annex to the Government Decree 16/2004. (II.6.) contains the list of categories as follows:

Chapter I

Smooth-bore weapons with a calibre of less than 20 mm, other arms and automatic weapons with a calibre of 12,7 mm (calibre 0,50 inches) or less and accessories, as follows, and specially designed components therefore (ML 1)

Chapter II

Smooth-bore weapons with a calibre of 20 mm or more, other weapons or armament with a calibre greater than 12,7 mm (calibre 0,50 inches), projectors and accessories, as follows, and specially designed components therefore (ML 2)

Chapter III

Ammunition and fuze setting devices, as follows, and specially designed components therefore (ML 3)

Chapter IV

Bombs, torpedoes, rockets, missiles, other explosive devices and charges and related equipment and accessories, as follows, specially designed for military use, and specially designed components therefore (ML 4)

Chapter V

Fire control, and related alerting and warning equipment, and related systems, test and alignment and countermeasure equipment, as follows, specially designed for military use, and specially designed components and accessories therefore (ML 5)

Chapter VI

Ground vehicles and components, as follows (ML 6)

Chapter VII

Chemical or biological toxic agents, "tear gases", radioactive materials, related equipment, components, materials and "technology" as follows (ML 7)

Chapter VIII

"Energetic materials", and related substances, as follows (ML 8)

Chapter IX

Vessels of war, special naval equipment and accessories, as follows, and components therefor, specially designed for military use (ML 9)

Chapter X

"Aircraft", unmanned airborne vehicles, aero-engines and "aircraft" equipment, related equipment and components, specially designed or modified for military use, as follows (ML 10)

Chapter XI

Electronic equipment, not controlled elsewhere in this Annex, specially designed for military use and specially designed components therefore (ML 11)

Chapter XII

High velocity kinetic energy weapon systems and related equipment, as follows, and specially designed components therefore (ML 12)

Chapter XIII

Armoured or protective equipment and constructions and components, as follows (ML 13)

Chapter XIV

Specialised equipment for military training or for simulating military scenarios, simulators specially designed for training in the use of any firearm or weapon controlled by Chapter I or Chapter II, and specially designed components and accessories therefore (ML 14)

Chapter XV

Imaging or countermeasure equipment, as follows, specially designed for military use, and specially designed components and accessories therefore (ML 15)

Chapter XVI

Forgings, castings and other unfinished products the use of which in a controlled product is identifiable by material composition, geometry or function, and which are specially designed for any products controlled by Chapter I to Chapter IV, Chapter VI, Chapter IX, Chapter X, Chapter XII or Chapter XIX (ML 16)

Chapter XVII

Miscellaneous equipment, materials and libraries, as follows, and specially designed components therefore (ML 17)

Chapter XVIII

Equipment for the production of products referred to in the EU Common Military List, as follows (ML 18)

Chapter XIX

Directed energy weapon systems (DEW), related or countermeasure equipment and test models, as follows, and specially designed components therefore (ML 19)

Chapter XX

Cryogenic and "superconductive" equipment, as follows, and specially designed components and accessories therefore (ML 20)

Chapter XXI

"Software", as follows (ML 21)

Chapter XXII

"Technology" as follows (ML 22)

Chapter XXIII

Other equipments specially designed for military purposes

Chapter XXIV

Services specially designed for military purposes

Chapter XXV

Instruments of coercion and crime surveillance

Chapter XXVI

Secret service devices

In Hungary the transit of military equipments as well as brokering activities fall under the Government Decree 16/2004 (II.6.). Brokering activity is carried out in order to achieve the purchase/sale of military equipment or technical assistance between firms from two or more countries. This includes arranging the transaction, acting as an intermediary between the contracting parties, identifying the possibility of the transaction to either the buyer or the seller, as well as buying or selling on its own account.

The Licensing Process

As mentioned before, the first step of the three-story licensing process is the acquisition of an *Activity Licence* by the firms (business entities, sole entrepreneurs, publicly-financed institutions, trade offices). An activity licence can either be *general*, covering any product, country or transaction, or it can be *specific*, covering only a particular product, country or transaction. Until it receives an activity licence, a firm cannot carry out any preparatory activities (market research, preparation of quotations, preparatory discussions etc.) related to the export, import, transfer or transit of military equipment or to the provision or receipt of technical assistance. An activity licence can be

granted for a maximum of 24 months and can be further extended.

A contract for the export, import, inward shipment or outward shipment of military equipment or for the provision or acceptance of technical assistance can only be prepared if a *negotiation licence* is already held. A negotiating licence authorises the applicant for 12 months to prepare a contract and it can be renewed once for a further period of 12 months. In case of long-term production or sales cooperations, a special negotiation licence can be issued with a validity of 24 months.

A *contract licence* is required for the performance of contracts for the export, import or transfer of military equipment and the provision or receipt of technical assistance. A contract licence can be requested if a valid negotiating licence is already held. A contract licence is valid for 12 months and can be extended once for a further period of 12 months. In case of long-term contracts, a special negotiation licence can be issued with a validity of 2 years. Any application for a licence for the export or outward shipment of military equipment or for the provision of technical assistance shall be accompanied by a copy of the import licence, an International Import Certificate (hereinafter "IIC") or an End-User Certificate by the customer (hereinafter "the EUC"). In case of exports, the HTLO may prescribe the acquisition of a Delivery Verification Certificate (DVC). Upon request of the exporting countries' export control authorities, the HTLO also issues IIC, EUC or DVC.

Firms are required to provide the HTLO every month with a list of licences and details of transactions completed. This must be done on the standard form provided by the HTLO.

The Inter-ministerial Committee on the Foreign Trade in Military Equipment (hereinafter "the ICTME") sets policy relating to the licensing of international trade in military equipment and technical assistance. The Committee on the Licensing of Foreign Trade in Military Equipment (hereinafter „the CTME") is authorised to form expert opinions with regard to applications for activity licences, negotiating licences and contract licences. The HTLO consults the expert delegates of the Ministry of Foreign Affairs, the Ministry of National Development and Economy, the Ministry of Defence, the Ministry of Interior and the civilian and military intelligence services.

The Government Decree 16/2004. (II.6.) prohibits the approval of export licence applications to:

- countries where there is armed conflict,
- to countries where armed conflict threatening international peace and security is expected to take place and where the UN Security Council,

the Council of the European Union or the Organisation for Security and Cooperation in Europe have called upon the parties concerned to resolve the dispute underlying the conflict through peaceful negotiations or has declared an embargo on the shipment of military equipment, military technical assistance and related training (list of arms embargoes in force in 2009 to be found in the appendix),

- in those cases where the transaction is contrary to the criteria embodied in the Code of Conduct on Arms Exports, adopted by the Council of the European Union on 8 June 1998.

The Code of Conduct on Arms Exports (adopted on June 8, 1998), has become a legally binding instrument and been updated and replaced by the Council Common Position 2008/944/CFSP defining common rules governing control of exports of military technology and equipment (adopted on 8 December 2008). The Common Position (also found as the second Annex to the Government Decree 16/2004. (II.6.)) sets forth the principles of assessing export license applications according to the following criteria:

- Respect for the international obligations and commitments of Member States, in particular the sanctions adopted by the UN Security Council or the European Union, agreements on non-proliferation and other subjects, as well as other international obligations.
- Respect for human rights in the country of final destination as well as respect by that country of international humanitarian law.
- Internal situation in the country of final destination, as a function of the existence of tensions or armed conflicts.
- Preservation of regional peace, security and stability
- National security of the Member States and of territories whose external relations are the responsibility of a Member State, as well as that of friendly and allied countries.
- Behaviour of the buyer country with regard to the international community, as regards in particular its attitude to terrorism, the nature of its alliances and respect for international law.
- Existence of a risk that the military technology or equipment will be diverted within the buyer country or re-exported under undesirable conditions.
- Compatibility of the exports of the military technology or equipment with the technical and economic capacity of the recipient country, taking into account the desirability that states should meet their legitimate security and defence needs with the least diversion of human and economic resources for armaments.

If the proposed export is likely to be violate any of the above criteria, the application has to be denied. Member States circulate the details of the denied licence applications among themselves.

The Government Decree 16/2004. (II.6.) further stipulates regulations on the implementation of the *Council Regulation 1236/2005 concerning trade in certain goods which could be used for capital punishment, torture or other cruel, inhuman or degrading treatment or punishment*. The equipments listed in Annex III. of the Regulation are contained in Chapter XXV. of the Government Decree 16/2004. (II.6.), therefore their export control falls under the same procedural rules as it is for the military equipments. The export or import activity of the below items is prohibited:

- Gallows and guillotines;
- Electric chairs for the purpose of execution of human beings;
- Air-tight vaults, made of e.g. steel and glass, designed for the purpose of execution of human beings by the administration of a lethal gas or substance;
- Automatic drug injection systems designed for the purpose of execution of human beings by the administration of a lethal chemical substance;
- Electric-shock belts designed for restraining human beings by the administration of electric shocks having a no-load voltage exceeding 10 000 V.

The prohibition does not apply the applications, where the goods will be used for the exclusive purpose of public display in a museum in view of its historic significance.

The same procedural rules apply to transit shipments as in case of evaluating export licence applications of military equipments. The shipping company shall submit the copy of the original exporter's export licence, the receiving country's import licence and the transit licence of the next neighbouring transit country. For the transit of lethal military equipments (weapons, ammunitions, explosives and other dangerous materials) the shipping company is obliged to provide an armed security escort of the goods, for the full route - from the point of entry to the point of exit - within the borders of the Republic of Hungary.

A licence is not required if the military equipment is being transported beyond Hungary's borders a for the purposes of military exercises in Hungary or abroad, approved in accordance with the provisions of the Constitution, in the interests of complying with obligations arising from the North Atlantic Treaty.

The HTLO and the Customs Guard are responsible for monitoring the compliance of the provisions set out in Government Decree 16/2004. (II.6.).

Changes in the Licensing Procedure

Hungary has participated in the **Commission's ad hoc working party's meetings on the free movement of goods**, that resulted in a draft of the **Transfer Directive** by January 2008 as part of the „defence package”. The goal of the directive is to simplify terms and conditions of transfers of defence-related products within the Community and to break down the obstacles standing in the way of free movement of goods and services on the intra-community market. This goal can be achieved by simplifying and harmonising the conditions of licensing procedures, of which now are 27 different ones available among the Member States. As a consequence, it will result in decreased discrepancies in competition, and the strengthening of commercial partnerships in the European defence industry. Currently the national licensing systems do not make a distinction between transfers among Member States and exports to third countries, posing the same administrative and financial burdens to both types of transactions. The Directive 2009/43/EC⁹ of the European Parliament and of the Council on simplifying terms and conditions of transfers of defence-related products within the Community has been adopted on 6 May 2009. As a consequence, it will be necessary to revise the Government Decree 16/2004. (II.6.), since new terms will have to be introduced, such as general, global licences and the certification, for which a national certifying authority will have to be appointed. The deadline for implementing the Directive is 30 June 2011 and the new legislations should be effective from 1 January 2012.

3.2. Licensing the military production and provision of military services

Licence for activities in defence industry is necessary according to the Act CIX/2005 for licensing the production of military articles and providing military services within the territory of the Hungarian Republic. The list of products and services liable for licensing are identical to the Annex 1. of Government Decree 16/2004. (II.6.) on the licensing of the export, import, transfer and transit of military equipment and technical assistance.

The licensing process

Licence for defence industrial activity is permissible, if

- the activity is not contradicting the international obligations of the Hungarian Republic,
- the applicant has all the prerequisites necessary for production, or services to be rendered, i.e. having the related qualifications, practical experience, as well as possessing technically adequate head-quarter/premises for safe-keeping/storing the products, which is according to need by other provision of law national security controlled and complying with all conditions listed in the application form.

The administrative decree licensing defence industrial activity will be issued by the Department of Defence Industry upon the recommendation of the Commission on Defence Industry (CDI).

The Chairman of the CDI is the CEO of the HTLO, members are delegated by the Minister of National Development and Economy, Minister of Defence, Minister of Justice and Security, Minister without portfolio supervising the civilian secret services, Defence Industry Association of Hungary.

Marking, registration, data reporting

The marking of military products, as well as the keeping the records of military services are regulated in the order 32/2007(III.19.) of the Minister of Economy and Transport. Once a year, firms are required to provide data based on their records to HTLO. The purpose of this regulation is aiming to assure, that all military products manufactured locally, received or imported to the Hungarian Republic, will be:

- identified individually by marking,
- product-movements verified continuously, even with retrospective effect with the help of record-keeping,
- providing information to the authorities about quantities and ownership of product types by the means of data-supply.

⁹ <http://eur-lex.europa.eu/JOHtml.do?uri=OJ:L:2009:146:SOM:en:HTML>

4. REPORT ON THE MILITARY FOREIGN TRADE AND THE MILITARY PRODUCTION IN 2009

In 2009 altogether 140 firms were registered as activity licence holders on the field of military foreign trade, while 480¹⁰ firms hold activity licence for military production. Only 66 of the foreign trade activity licence holders have actually performed transactions and 38 companies carried out military production activities.

The total value of production and provision of services of controlled military equipments in 2009 amounted at 98276,98 thousand Euros¹¹. There were 1821 persons employed in the field of defence industry.

*The value of Hungarian military production broken down to ML categories
(thousand EUR)*

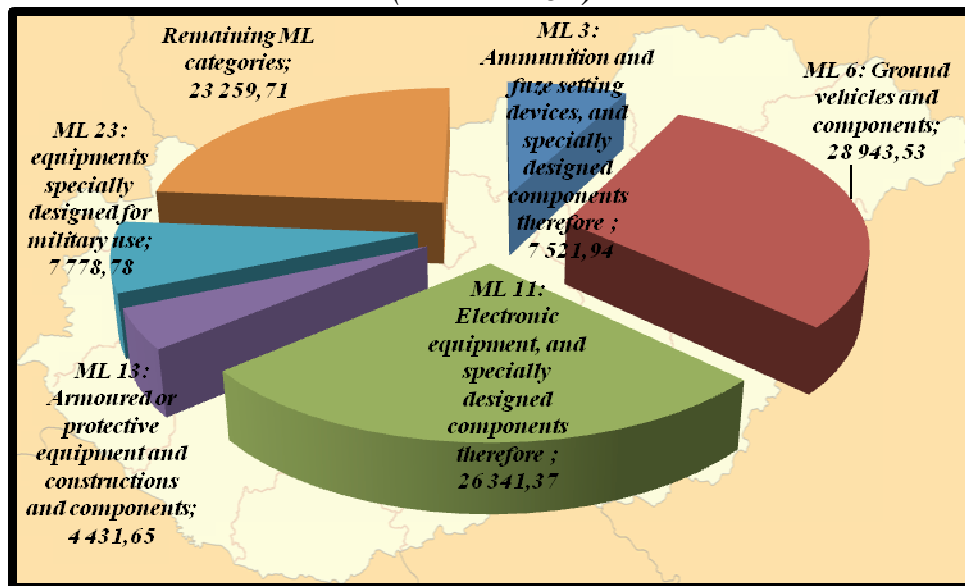


diagram 1.

The Hungarian National Army's procurements from Hungarian production included primarily ammunition, pirotechnical materials, military vehicles, accessories and spare parts, decontamination and chemical protection kits, radiation monitors, aggregators, C3 technologies, training equipments and softwares, military protective garments.

The armed forces and national security and intelligence agencies made their acquisitions from Hungarian production as follows: ammunitions, pirotechnical materials, softwares, information systems, military protective garments, instruments of coercion and crime surveillance.

¹⁰ The license holders include retail- and wholesalers of sport- and hunting weapons, too

¹¹ National Statistical Data Collection Program 2009

***The value of Hungarian military exports between 2004 and 2009
(million EUR)***

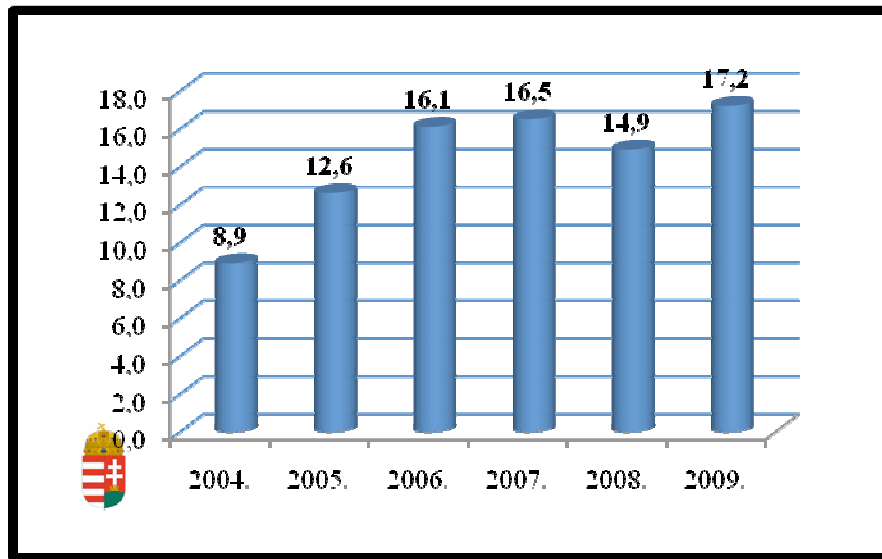


diagram 2.

The value of the Hungarian export in 2009 has reached 17,2 million Euros, indicating a slight, 15,4% increase with comparison to the previous years. The value of military equipments for civilian use (sports- and hunting weapons and their ammunition) runs up to 8% of the total value of exports. The Authority has issued 299 export licences.

The geographical breakdown of Hungarian military exports in 2009

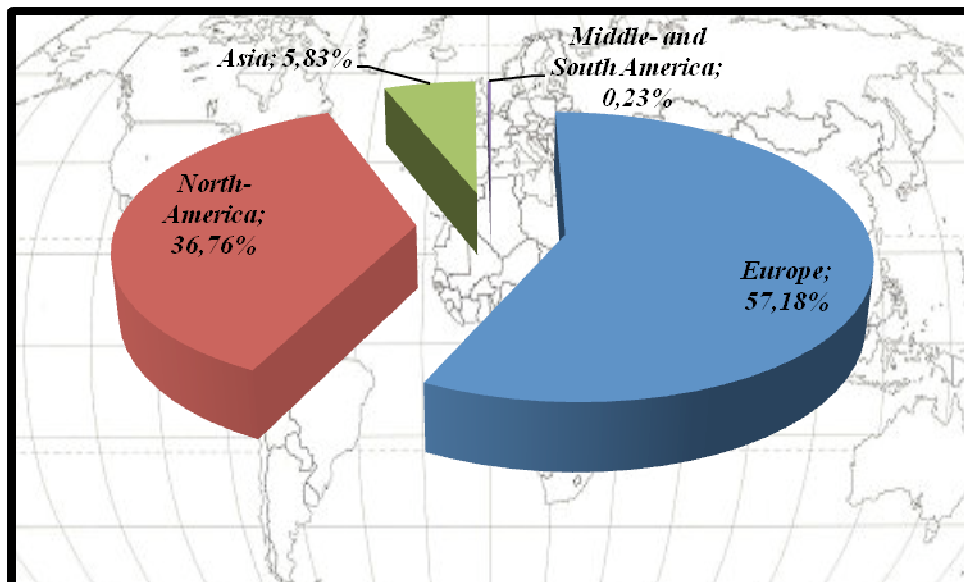


diagram 3.

As indicated in diagram no. 3 (geographical breakdown of exports), more than half of the transfers took place towards European destination – following the tendency of the last years. The value of exports heading the United States of America has increased and our presence in Asia is still significant.

***The geographical breakdown of Hungarian military exports in 2009,
focusing on the 5 main destination markets***

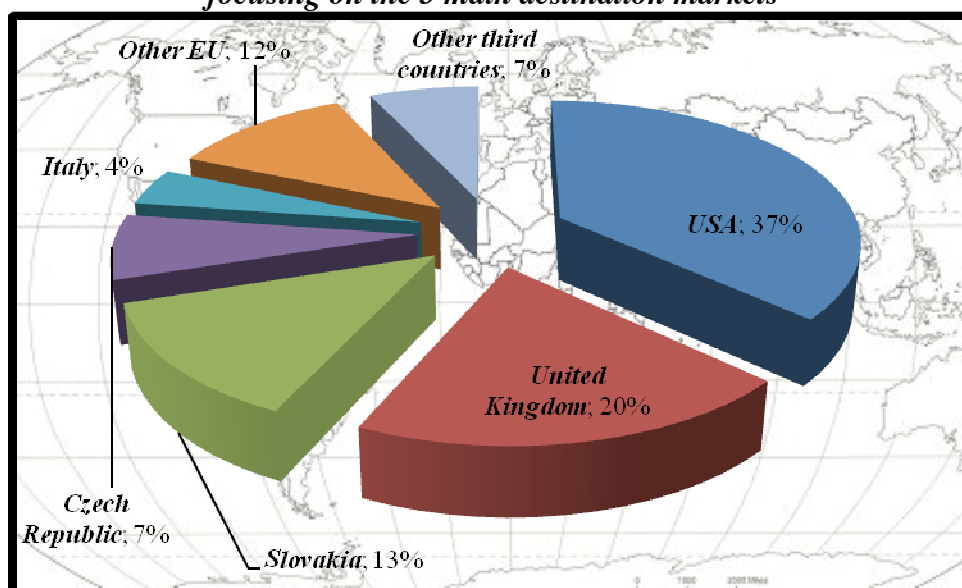


diagram 4.

76,1% of the exports originates from the Hungarian military production, 19,9% comes from surplus military equipments and 4% is a re-export transaction.

***The value of Hungarian military exports in 2009 broken down to ML categories
(thousand EUR)***

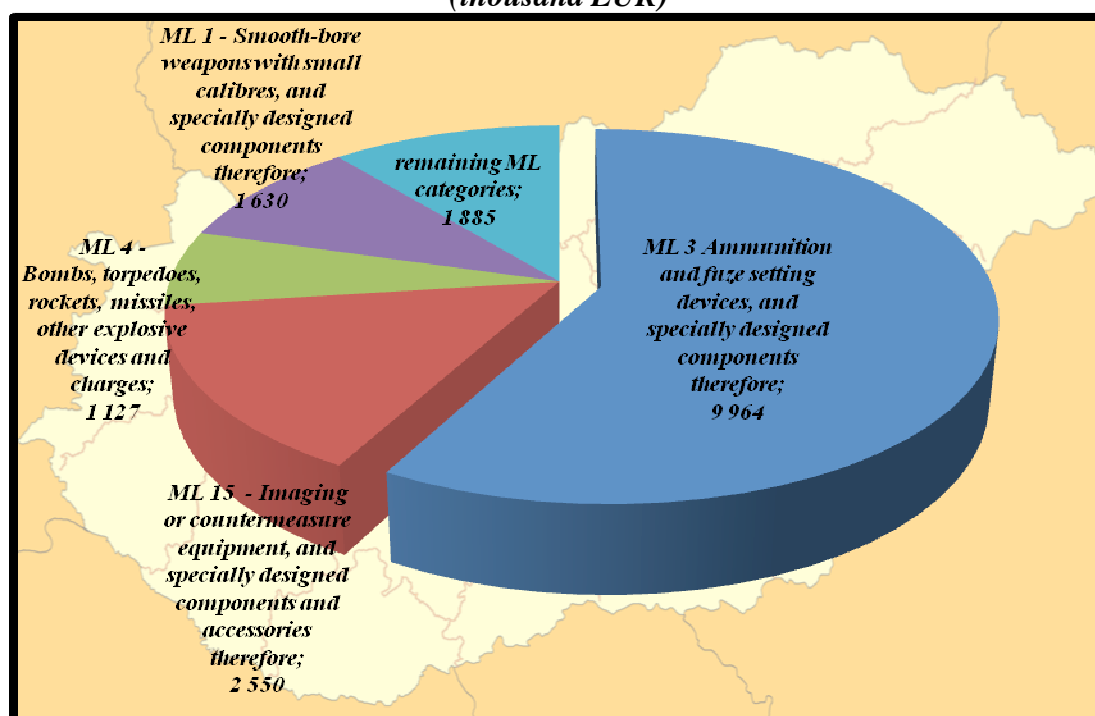


diagram 5.

The exported equipments originating from Hungarian military production include small arms and light weapons, ammunitions and gun powder, pyrotechnical materials, radiation monitors, electronical- and training equipments, direction finder, antennas, softwares, military garments and night vision equipments.

The value of Hungarian military import in 2009 was 36,8 million Euros, decreasing by 10% according to last year's value. The value of military equipments for civilian use (sports- and hunting weapons and their ammunition) runs up to 7,6% of the total value of imports. The Authority has issued 485 import licences.

86% of the imported goods and services was ordered by the Hungarian armed forces and law enforcement agencies.

Annex 2 shows detailed figures on exports, broken down by destinations and ML categories.

The geographical breakdown of Hungarian military import, focusing on the 7 main partner countries

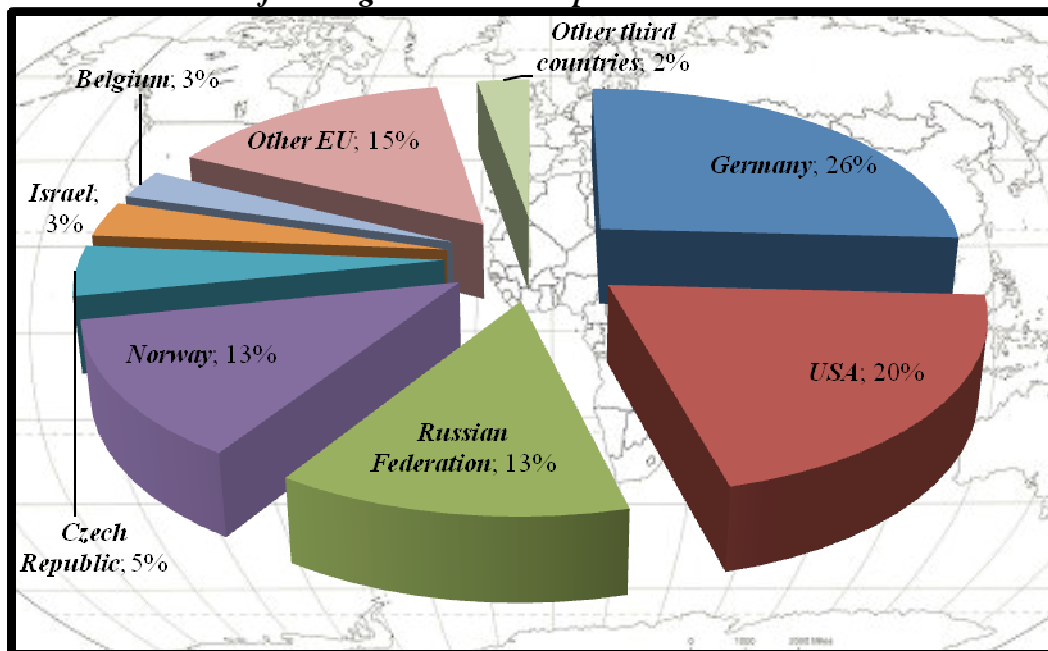


diagram 6.

The value of Hungarian military import in 2009 broken down by ML categories (thousand EUR)

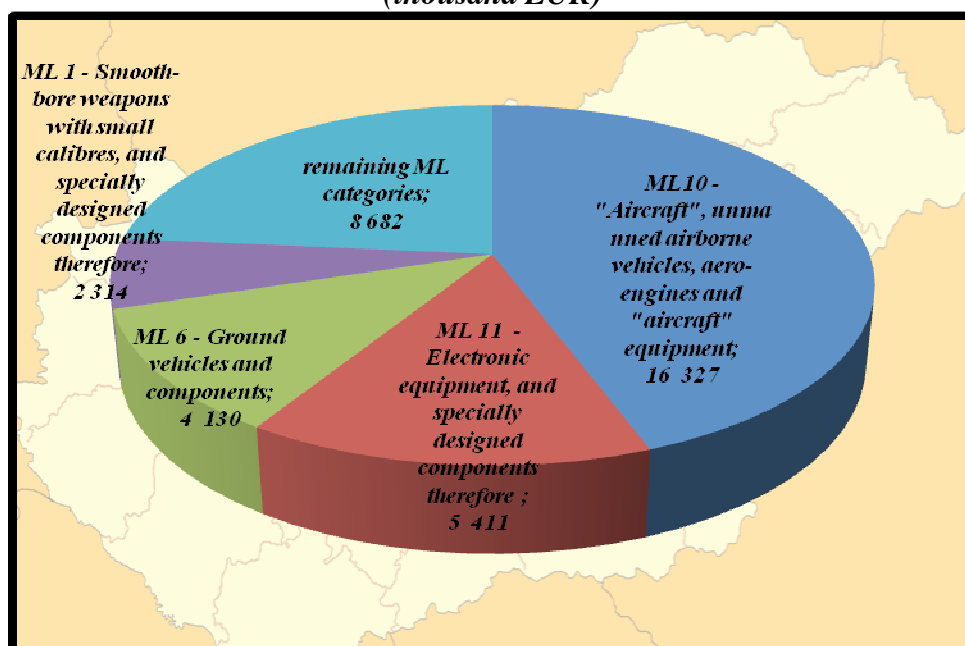


diagram 7.

Comparing to previous years' import figures, the proportion of military vehicles and its spare parts (ML 6) increased, due to the long-term military vehicle procurements of the Ministry of Defense and the modernisation projects of BTR-80 military vehicles. The high value of aircrafts (ML 10) and electronical equipments (ML11) in import figures is a result of the helicopter and aircraft maintenance tasks and procurements.

Should you have further questions, please contact our Authority:

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For more information visit the following links:

<http://www.mkeh.gov.hu>
<http://www.consilium.europa.eu/showPage.aspx?lang=HU>
<http://www.siri.org>

ANNEXES

ANNEX 1.: ARMS EMBARGOES IN FORCE, 2009

***ANNEX 2.: THE HUNGARIAN EXPORTS BROKEN DOWN TO ML CATEGORIES AND
DESTINATIONS, IN 2009***

Arms embargoes in force, 2009

Country	UN SC	EU	OSCE
Al-Qaida and the Taliban	*	*	
Republic of Azerbaijan	*		*
Burma / Republic of the Union of Myanmar		*	
Republic of Cote d'Ivoire	*	*	
Federal Democratic Republic of Eritrea	*	*	
Republic of Guinea		*	
Republic of Iraq	*	*	
Islamic Republic of Iran	*	*	
People's Republic of China		*	
Democratic Republic of Congo	*	*	
Democratic People's Republic of Korea	*	*	
Republic of Lebanon	*	*	
Republic of Liberia	*	*	
Republic of Armenia	*		*
Republic of Sierra Leone	*	*	
Republic of Somalia	*	*	
Republic of Sudan	*	*	
Republic of Uzbekistan ¹		*	
Republic of Zimbabwe		*	

¹ Withdrawn on 15 December, 2009. (EU: 1227/2009/CFSP)

ANNEX 2.

THE HUNGARIAN EXPORTS BROKEN DOWN TO ML CATEGORIES AND DESTINATIONS, IN 2009

a: number of licenses issued b: value of licenses issued (thousand €) c: value of arms exports (thousand €) 1/4.

Destination / ML category	ML 1	ML 2	ML 3	ML 4	ML 5	ML 6	ML 7	ML 8	ML 10	ML 11	ML 15	ML 21	Össz.
<i>United States of America</i>	a	17	0	21	0	0	0	0	0	2	0	0	41
	b	15728		39783						245			55851
	c	1285		5031									6316
<i>Barbados</i>	a	0	0	2	0	0	0	0	0	0	0	0	2
	b			34									34
	c			13									13
<i>Belgium</i>	a	0	0	2	0	1	0	0	0	0	0	0	3
	b			18		5							23
	c			0		3							3
<i>Bulgaria</i>	a	0	0	3	2	0	0	4	0	0	0	0	9
	b			1080	160			265					1505
	c			513	0			115					628
<i>Czech Republic</i>	a	7	9	10	3	0	5	4	3	2	0	0	43
	b	515	1718	3719	1600	2655		293	160	80			10740
	c	244	299	568	11	0	0	80	0	20			1222
<i>South Africa</i>	a	1	0	0	0	0	0	0	0	1	0	0	2
	b	9								210			219
	c	0								0			0
<i>Ethiopia</i>	a	0	0	0	0	0	0	0	5	0	0	0	5
	b								7000				7000
	c								0				0
<i>Finnland</i>	a	0	0	0	0	1	0	0	0	0	0	0	1
	b					11							11
	c					0							0
<i>France</i>	a	0	0	3	0	0	0	0	0	0	0	0	3
	b			1400									1400
	c			9									9
<i>Philippines</i>	a	0	0	2	0	0	0	0	0	0	0	0	2
	b			145									145
	c			25									25
<i>Greece</i>	a	0	0	1	0	0	0	0	0	0	0	0	1
	b			70									70
	c			70									70

THE HUNGARIAN EXPORTS BROKEN DOWN TO ML CATEGORIES AND DESTINATIONS, IN 2009

a: number of licenses issued b: value of licenses issued (thousand €) c: value of arms exports (thousand €) 2/4.

Destination / ML category	ML 1	ML 2	ML 3	ML 4	ML 5	ML 6	ML 7	ML 8	ML 10	ML 11	ML 15	ML 21	Össz.
<i>Croatia</i>	a	0	0	0	1	0	0	0	0	0	0	0	1
	b				251								251
	c				0								0
<i>India</i>	a	0	0	0	0	0	0	0	3	0	0	0	3
	b								1886				1886
	c								486				486
<i>Israel</i>	a	5	0	0	0	0	0	0	1	0	0	0	6
	b	66							60				126
	c	48											48
<i>Jordan</i>	a	0	0	2	0	0	0	0	0	0	0	0	2
	b			140									140
	c			0									0
<i>Kazakhstan</i>	a	0	0	0	0	0	0	0	1	0	0	0	1
	b								35				35
	c								0				0
<i>Cuba</i>	a	0	0	1	0	0	0	0	0	0	0	0	1
	b			68									68
	c												
<i>Poland</i>	a	0	0	1	0	2	0	0	0	0	0	0	3
	b			150		128							278
	c			84		100							184
<i>Latvia</i>	a	0	0	1	0	0	0	0	2	0	0	0	3
	b			65					40				105
	c			0					0				0
<i>United Kingdom</i>	a	2	0	4	1	1	0	0	0	1	7	0	16
	b	191		1126	20	24				1300	16415		19076
	c			848	20	16				0	2550		3434
<i>Germany</i>	a	0	0	11	0	0	0	0	0	0	0	1	12
	b			2569								700	3269
	c			100									100
<i>Italy</i>	a	5	0	5	1	0	0	0	0	0	0	0	11
	b	116		3749	553								4418
	c	0		720	0								720

THE HUNGARIAN EXPORTS BROKEN DOWN TO ML CATEGORIES AND DESTINATIONS, IN 2009

a: number of licenses issued b: value of licenses issued (thousand €) c: value of arms exports (thousand €) 3/4.

Destination / ML category	ML 1	ML 2	ML 3	ML 4	ML 5	ML 6	ML 7	ML 8	ML 10	ML 11	ML 15	ML 21	Össz.
<i>Russian Federation</i>	a	0	0	4	1	0	2	0	2	0	0	0	9
	b			429	100	3500			1097				5126
	c			70	0	0			2				72
<i>Austria</i>	a	0	0	2	6	0	0	2	0	0	0	0	10
	b			5	4094			253					4352
	c			0	647			53					700
<i>Panama</i>	a	1	0	3	0	0	0	0	0	0	0	0	4
	b	225		84									309
	c	0		26									26
<i>Portugal</i>	a	0	0	4	0	0	0	0	0	0	0	0	4
	b			118									118
	c			118									118
<i>Romania</i>	a	11	0	6	0	0	0	0	0	0	0	0	17
	b	1189		326									1515
	c	52		114									166
<i>Switzerland</i>	a	3	0	3	0	0	0	0	0	0	0	0	6
	b	153		401									554
	c	0		0									0
<i>Singapur</i>	a	0	0	1	0	0	0	0	0	0	0	0	1
	b			200									200
	c												
<i>Slovakia</i>	a	1	1	13	1	0	3	5	0	2	0	0	28
	b	101	150	2658	500		207	322		70	120		4128
	c			1657	438		70	23		27	40		2255
<i>Slovenia</i>	a	0	0	1	0	0	0	0	0	0	0	0	1
	b			1									1
	c												
<i>Turkey</i>	a	0	0	1	0	0	0	0	0	1	0	0	2
	b			98						50			148
	c									44			44
<i>Ukraine</i>	a	0	2	0	1	0	0	0	2	1	0	0	6
	b		1550		90				74	255			1969
	c		0		11				68	0			79

THE HUNGARIAN EXPORTS BROKEN DOWN TO ML CATEGORIES AND DESTINATIONS, IN 2009

a: number of licenses issued b: value of licenses issued (thousand €) c: value of arms exports (thousand €) 4/4.

Destination / ML category	ML 1	ML 2	ML 3	ML 4	ML 5	ML 6	ML 7	ML 8	ML 10	ML 11	ML 15	ML 21	Össz.
Vietnam	a	0	0	1	0	0	0	0	1	0	0	0	2
	b			2000					500				2500
	c								403				403
TOTAL	a	53	12	107	17	15	5	10	22	10	7	1	260
	b	18293	3418	58436	9117	6530	322	811	10922	2260	16415	700	127475
	c	1629	299	9966	1127	189	23	248	986	104	2550		17121

- ML1** Smooth-bore weapons with a calibre of less than 20 mm, other arms and automatic weapons with a calibre of 12,7 mm (calibre 0,50 inches) or less and accessories, and specially designed components therefore
- ML2** Smooth-bore weapons with a calibre of 20 mm or more, other weapons or armament with a calibre greater than 12,7 mm (calibre 0,50 inches), projectors and accessories, and specially designed components therefore
- ML3** Ammunition and fuse setting devices, and specially designed components therefore
- ML4** Bombs, torpedoes, rockets, missiles, other explosive devices and charges and related equipment and accessories, and specially designed components therefore
- ML5** Fire control, and related alerting and warning equipment, and related systems, test and alignment and countermeasure equipment, specially designed for military use, and specially designed components and accessories therefore
- ML6** Ground vehicles and components.
- ML7** Chemical or biological toxic agents, "riot control agents", radioactive materials, related equipment, components and materials
- ML8** "Energetic materials", and related substances
- ML9** Vessels of war, (surface or underwater) special naval equipment, accessories, components and other surface vessels
- ML10** "Aircraft", "lighter than air vehicles", unmanned airborne vehicles, aero-engines and "aircraft" equipment, related equipment and components, specially designed or modified for military use.
- ML11** Electronic equipment, not specified elsewhere on the EU Common Military List, and specially designed components therefore
- ML12** High velocity kinetic energy weapon systems and related equipment, and specially designed components therefore.
- ML13** Armoured or protective equipment, constructions and components
- ML14** Specialised equipment for military training or for simulating military scenarios, simulators specially designed for training in the use of any firearm or weapon specified by ML1 or ML2, and specially designed components and accessories therefore
- ML15** Imaging or countermeasure equipment, specially designed for military use, and specially designed components and accessories therefore
- ML16** Forgings, castings and other unfinished products the use of which in a specified product is identifiable by material composition, geometry or function, and which are specially designed for any products specified by ML1 to ML4, ML6, ML9, ML10, ML12 or ML19
- ML17** Miscellaneous equipment, materials and "libraries", and specially designed components therefore
- ML18** Production equipment and components of products referred to in the EU Common Military List
- ML19** Directed energy weapon systems (DEW), related or countermeasure equipment and test models, and specially designed components therefore
- ML20** Cryogenic and "superconductive" equipment, and specially designed components and accessories therefore
- ML21** "Software" specially designed or modified for the "development", "production" "use" of equipment or materials controlled by the EU Common Military List.
- ML22** "Technology" for the "development", "production" or "use" of items controlled in the EU Common Military List