

## EXECUTIVE SUMMARY

This report is divided into five parts. Part one provides an analysis of the social and economic reasons that have contributed to the reluctance among Bulgarian politicians to strengthen arms controls. It describes the transformation of the defense industry in the post-Communist transition period, as well as its current state. Part two provides an analytical description of Bulgaria's arms control mechanism. Part three examines the factors contributing to illegal arms exports from Bulgaria and offers some data from recent cases. Part four focuses on the potential social, economic, and political effects of stronger arms controls. The last section offers a number of recommendations for the improvement of the export-control system.

### THE BULGARIAN DEFENSE INDUSTRY IN THE TRANSITION PERIOD

The roots of the current problems relating to Bulgarian weapons exports can be traced back to the days of communist rule, when about 90 percent of all defense industry products were exported. The technology and production structure of the Bulgarian military-industrial complex (MIC) was determined by its position within the Warsaw Pact. Bulgaria supplied weapons to other Warsaw Pact countries, as well as countries in the Middle East, Asia and North Africa, and to a number of other smaller markets. This trade was worth several hundred million US dollars a year and the arms industry was an important part of Bulgaria's national economy.

The difficult process of transition to democracy and a market economy, characterized by financial and economic crisis, a weakening of state control, and political instability, had a huge impact on the Bulgarian arms industry. Bulgaria's traditional export markets declined rapidly, for a number of reasons. Firstly, on a global level, an increased demand for modern armaments hurts exports of some of Bulgaria's relatively low-tech items, such as small arms and light weapons (SALW).<sup>1</sup> Secondly, increased export control measures, at the national and international level, restricted exports to a number of countries that Bulgaria had previously supplied, some of which came under United Nations (UN) embargoes. Thirdly, some of Bulgaria's traditional clients developed their own basic production capabilities, reducing their need for imports. Fourthly, most arms importers, especially those from former communist countries, shifted demand to weapons produced to NATO standards, thus reducing the demand for old soviet-style weaponry.

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<sup>1</sup> The definition of small arms and light weapons used in this report is the one used in the 1997 United Nations Secretary General Report of the Panel of Governmental Experts on Small Arms (United Nations A/52/298, 27 August 1997). Small arms include revolvers and self-loading pistols, rifles and carbines, sub-machine-guns, assault rifles, and light machine-guns. Light weapons, some of which could be mounted on light vehicles, include heavy machine-guns, hand-held under-barrel and mounted grenade launchers, portable anti-aircraft guns, portable anti-tank guns, recoilless rifles, portable launchers of anti-tank missile and rocket systems; portable launchers of anti-aircraft missile systems, and mortars of calibers of less than 100 mm. SALW also includes the ammunition for these weapons, anti-personnel and anti-tank hand grenades, landmines, and explosives.

During the transition period, the arms trade, previously a purely state enterprise, became very much a private undertaking. Over 50 companies were granted general arms trade licenses. Throughout the 1990s, Bulgaria came under criticism by international human rights organizations and western media for lax arms export controls resulting in actual and alleged transfers of Bulgarian arms, often SALW, to embargoed states or countries of concern. This highlighted the need for Bulgaria to introduce more stringent controls over its arms exports.

## THE CURRENT EXPORT CONTROL SYSTEM

The foreign trade in arms is regulated by the 1995 Law on the Control of Foreign Trade Activity in Arms and in Dual-Use Goods and Technologies, last amended in July 2002, and a government Regulation on the Implementation of the Law on Foreign Trade Activities in Arms and Dual-use Goods and Technologies. The amendments to the above Law and Regulation, which became effective in the second half of December 2002, include comprehensive provisions to control the activities of middlemen or brokers, requirements to improve the identification of end-users and prevent diversion of weapons shipments and increased penalties in case of violation.

The control system has a three level structure:

(1) Companies are first required to obtain a license to trade in arms and dual-use goods. This license is issued by the Interdepartmental Council on the Issues of Military Industrial Complex and Mobilization Preparedness of the Country (henceforth 'the Council') within the Council of Ministers. The Interdepartmental Council is chaired by the Deputy Prime Minister and Minister of Economy and members include the Deputy Ministers from several government departments.

(2) Once a company has a trading license, it needs to obtain a permit for every single transaction that entails export, import, transit, and re-export of arms or dual-use goods. The permit is issued by the Interdepartmental Commission on Export Control and Non-Proliferation of Weapons of Mass Destruction (henceforth 'the Commission') within the Ministry of Economy. The Commission is chaired by the Minister of Economy and also includes representatives from the Ministries of Defense, the Interior and Foreign Affairs (MoD, Mol and MFA).

(3) The company is subject to a number of additional controls and permits that include:

- A permit from the Control of Hazardous Devices Office of the National Police Service.
- An inspection by the Customs Agency and National Security Service at specific border crossings.
- Monitoring of the export by the export control specialist that every licensed company is required to have.
- The cargo shipping company also needs to be licensed by the Interdepartmental Council to transport arms to and from the territory of Bulgaria.

- Defense and arms trade companies under the MoD are obliged to obtain personal approval for all transactions from the Minister of Defense.

In addition to its national arms controls, Bulgaria is also committed to arms sale restraint in the context of regional and international control regimes, including the EU Code of Conduct on Arms Exports, the EU Joint Action on SALW, the OSCE Document on SALW, the Wassenaar Arrangement, the Australian Group, and the Nuclear Suppliers Group.

## **MAIN FINDINGS AND AREAS OF CONCERN**

Despite important progress in strengthening arms controls and improving their implementation and enforcement, there are areas that continue to present Bulgaria with serious challenges.

## **SOCIAL AND ECONOMIC CHALLENGES**

Under general conditions of economic underdevelopment and high unemployment, the government commitment to arms restraint faces serious obstacles, especially in towns and regions where defense companies continue to provide the majority of jobs. Since there is no substantial internal market, greater restraint in arms exports, in particular for SALW, would cause production cuts and significant job losses in regions that are already economically depressed.

Privatization through employee/management buyouts has not contributed to company development. Some companies remain in a poor state, with limited access to fresh capital, unable to invest in new technologies and lacking marketing, trade, logistics and business planning skills. Possibilities for alternative development of the traditional defense industry are quite narrow given the absence of defense industrial co-operation or access to western markets.

Several conversion programs have been developed during the transition to the free market economy, but they have had minimal or no impact. Conversion has been left to the companies' management rather than pursued purposefully by the government. There are no investments for restructuring and/or conversion, nor tax incentives or subsidies.

## **CONFLICTS OF INTEREST**

There remain conflicts of interests. Although the arms trade is being transformed from a public into a private business, a number of production, trade, and repair companies remain state-owned. At the same time, the state institutions that oversee these companies, like the MoD and the Ministry of the Economy also exercise arms transfer control. Combining responsibility for control with development, production and trade activities may make controlling bodies too dependent on business.

### **WEAK OPERATIONAL CAPACITY**

The application of the highest standards in the implementation and enforcement of arms export controls requires significant financial resources and well qualified civil servants. The low pay of the government administration and the lack of personnel development policies in most government institutions often result in a brain drain towards the private sector. Most of the relevant institutions lack sufficient capacity, especially in terms of qualified individuals. When the limited financial resources of state institutions are added to the picture, it becomes clear that the application of the highest standards in this field is problematic.

### **DESTRUCTION OF SURPLUS ARMAMENTS**

Bulgaria has destroyed close to 100,000 SALW and around 7,500,000 ammunition units under a project funded by the US government. However, there remain significant quantities of arms stockpiles, in particular ammunition and SALW. Bulgaria's plans for military modernization and streamlining are likely to increase the stocks of surplus weaponry.

### **ILLICIT TRADE IN SALW**

In the past two years no cases of significant illicit trade in SALW have been detected. It is increasingly common for small quantities of SALW to be smuggled by individuals across state borders. Such individuals utilize routes already established for smuggling drugs, human beings, cigarettes, etc. Strong controls have brought about the emergence of small illegal arms production shops. No organized criminal groups who specialize in illicit arms trafficking have been identified. Previous CSD reports have identified border and customs corruption as the biggest obstacles to tackling smuggling activities.

### **STOCKPILE MANAGEMENT**

The levels and trends in illicit arms trade are also dependent on controls over stockpiles. All significant SALW stockpiles in Bulgaria are operated by the MoD. The MoD has a secure stockpile management system in place but some cases of theft persist. The security of stockpiles during transportation to different warehouses is a yet more significant problem. Such transportations have been more frequent during the past years of reorganization of the Bulgarian Armed Forces.

### **TRANSPARENCY**

In the past decade very few Bulgarian NGOs have worked on arms control issues, and then only sporadically. Since the government seems to be reluctant to increase the level of transparency on the arms trade, domestic pressures for transparency will come mostly from the civil society sector.

## RECOMMENDATIONS

This report concludes that despite the evolution of Bulgaria's arms export controls and its relatively clean record, compared to most of the 1990s, there is still room for improvement. The best approach to tackling all the issues raised in this report is through stricter implementation of the new export control mechanism adopted in 2002.

Such steps should focus on improving the enforcement practices and strengthening the capacity of Bulgarian governmental agencies by ensuring that they have the specialization and the resources to implement the new normative provisions. These steps must be accompanied by programs that address the root of the problem – the economic and political considerations of the defense industry. Although a national policy on the defense industry is a separate and complex issue, in the long term, arms export controls will be politically supported, implemented and strengthened only if the defense industry and the livelihoods of its 25,000 workers are not jeopardized but given prosperous alternatives.

The effective implementation of Bulgaria's export controls would boost its credentials as a reliable producer and exporter of arms while seeking membership of the European Union. It would also put Bulgaria at the forefront of the Stability Pact's efforts to tackle SALW in South East Europe. The recommendations provided in this report could serve as a baseline for taking some decisive steps towards improving the current system. The key recommendations are as follows:

### TO THE BULGARIAN GOVERNMENT

Improve the implementation of the current export control system, particularly the organization and work of the Interdepartmental Commission, or establish an autonomous National Agency responsible for control over domestic distribution, import and export of arms, including SALW.

### IMPROVING THE WORK OF THE INTERDEPARTMENTAL COMMISSION

- Introduce appropriate mechanisms to resolve existing conflicts of interests between political responsibilities and business activities.
- Remove the structural possibility of conflicts of interest affecting procedures for granting licenses and permits.
- Diminish the concentration of discretionary powers held by single individuals (particularly the Secretary of the Commission) in the export controls regime.
- Counteract the risk of corruption by regular rotation of key appointees.
- Increase the attention paid when evaluating permit applications to potential negative impacts of an export on conflict, instability, human rights abuse, or the attainment of development goals in the recipient country and the surrounding region.

- Give law enforcement bodies a greater role in the process of granting export permits.
- Reinstatement of the system for certification control over arms and explosives produced and establish a national centre for SALW tracking.
- Earmark license and permit fee revenues for activities which strengthen export controls.

#### **CREATING A NATIONAL ARMS TRADE CONTROL AGENCY**

- Consider the formation of a National Agency responsible for coordinating all aspects of the control of trade in arms and dual-use goods and technologies. The agency's activities would include – but not be limited to – coordinating: background checks and inspections; end-user verification; records of foreign and domestic transactions with information about all key participants; training of law-enforcement, civil service and defense company officials; a network of MIC officials responsible for self-regulation.

#### **STRENGTHENING CONTROLS ON DOMESTIC TRADE IN ARMS AND DUAL-USE GOODS AND TECHNOLOGIES**

- Introduce tough penalties for illicit internal trade in arms and dual-use goods and technologies in line with those applied to foreign trade.
- Ensure authorities are informed of domestic sales between Bulgarian companies.
- Introduce a permit requirement for domestic transportation of arms and dual-use goods and technologies.
- Improve information systems for tracking the sale and movement of weapons, and the acquisition of weapons by criminals.
- Pursue a program to collect illicit arms.

#### **STRENGTHENING CONTROLS ON BROKERS**

- Pursue the systematic availability of information on arms brokers, in concerted cooperation with the authorities in countries where they are registered or have permanent residence.
- Add provisions to the Penal Code which prescribe harsh penalties for the violation of export laws by brokers.

#### **INCREASING TRANSPARENCY AND GOVERNMENT ACCOUNTABILITY**

- Increase transparency to ensure the public accountability of the export control system and a climate of openness appropriate to a modernized defense industry.

- Publish annual reports on arms exports with sufficient detail for evaluating the implementation of Bulgaria's national and international commitments to arms restraint and non-proliferation.
- Create an Arms Control Sub-Committee within the National Parliament to exert parliamentary control over export control policy and its enforcement. Encourage public debate on and civil society involvement in parliamentary hearings on arms proliferation issues.

#### **IMPROVING THE OPERATIONAL CAPACITY TO IMPLEMENT AND ENFORCE CONTROLS**

- Increase funding to ensure that the necessary personnel and infrastructure are in place to implement the highest standards in arms export controls.
- Strengthen the capacity of arms licensing institutions to conduct thorough investigations before, and to monitor transactions carefully after, issuing arms trading licenses and permits.
- Ensure full co-operation with international partners where necessary in fulfilling the above recommendation.
- Improve surveillance and controls at land, sea, and airports.
- Conduct training to deepen company and employee responsibility for export control.

#### **DISPOSING OF SURPLUSES AND IMPROVING STOCKPILE SECURITY**

- Continue to destroy surpluses and seek, where necessary, international assistance. If surpluses are to be sold, this should be done more transparently.
- Strengthen the security of SALW and ammunition stockpiles. Ensure private security firms act within appropriate safeguards.

#### **OVERCOMING ECONOMIC CHALLENGES**

- Complete the privatization of the defense industry and seek to attract foreign investors. Promote joint ventures and offset agreements with foreign partners.
- Encourage conversion to other types of production, with the particular aim of reducing dependency on SALW exports.
- Increase initiatives to reorganize and restructure the SALW industry, using economic measures and other incentives to encourage conversion to civilian output or more sophisticated defense products.
- Restructure and increase investment in research and development activities to: reduce dependency on exports of SALW; and adapt defense production to the

high-technology needs of contemporary world markets in the context of Bulgaria's drive towards Euro-Atlantic integration.

- Offer tax incentives for the shift from SALW to civilian production.
- Intervene to lessen the social impacts of redundancies caused by modernization and conversion.

### **IMPROVING EDUCATION AND DOMESTIC DIALOGUE ON EXPORT CONTROLS**

- Educate state institutions and the defense industry about international initiatives to stem arms proliferation.
- Increase efforts that encourage greater dialogue with the defense industry to promote understanding of and compliance with the new arms control norms.

### **TO THE DEFENSE INDUSTRY**

- Bolster the reputation of the industry by improving transparency, and demonstrating adherence to ethical codes and training procedures in line with the spirit of Bulgaria's commitment to arms control.

### **TO THE INTERNATIONAL COMMUNITY**

- Act to increase co-operation with the Bulgarian authorities, particularly in the fields of exchanging information on international arms brokers, and of building systematic regional links between export and transit control authorities at all levels.
- Assist Bulgarian initiatives to dispose of SALW and ammunition, and discourage further sales of surplus small arms.
- Support civil society initiatives to bring about the goals outlined in the present report.

### **TO CIVIL SOCIETY**

- Conduct a campaign to raise public awareness of SALW proliferation and its implications, both for domestic gun crime and countries and regions exposed to conflict, underdevelopment, and the abuse of human rights.
- Demand an increase in transparency and civil society control over the arms trade through appropriate advocacy and campaigning initiatives.