4. THE IMPACT OF STRICTER SALW CONTROLS

4.1. PREREQUISITES FOR SALW PRODUCTION RESTRUCTURING

No measures for imposing stricter SALW export controls would be successful without taking full account of the overall effect of the MIC restructuring. Thus, export control and restructuring policies need to be coordinated. The arms trade is dependent on both the political framework reflected in the national defense-industrial policy and the capabilities of the defense companies. The development of Bulgaria's defense industry and the tightening of arms export controls are closely correlated. Establishing an appropriate balance between industry development and arms controls requires an in-depth knowledge of the state of the defense industry.

Prospects for development and growth in alternative directions amongst East European countries' traditional defense companies are quite narrow given the absence of defense industrial co-operation and the degree of competition on the western markets. There are only a handful of options that would increase the chances for the survival of the Bulgarian defense industry. One option is to increase domestic demand for defense products by curbing imports of defense goods. This could be done by raising tariffs or introducing quotas or other limitations on certain imports. However, besides the political obstacles, this strategy would lead to autarchy and low quality defense output.[166] Another path would be to raise the export levels, but, keeping in mind the restricted access to arms markets in developed countries, most of the opportunities lie with exports to countries in conflict, especially in Africa and Asia. Such an option would run contrary to Bulgarian, NATO- and EU-oriented policy goals of preventing conflict and contributing to peace and stability.

Although the EU and NATO accession processes have been used by NATO and the EU to exert pressure on Bulgaria to strengthen its controls, the result should not only be viewed as an obstacle to export growth. The two processes have also been the foundation of some partnerships and a growing interest of NATO members' defense companies in the Bulgarian defense industry. The preservation of some defense industry potential in the aspirant countries is clearly a necessity. If the new NATO members preserve or develop their defense industries, they might be willing to modernize their armies faster. On the other hand, Bulgaria's accession to NATO does not mean direct access to the corresponding markets. It would take some time before all Bulgarian defense companies meet the standard NATO technology and quality requirements. Furthermore, NATO member countries protect their national markets and balance their defense procurement, taking into account both national interests and relationships with partner countries.

EU membership itself should not be seen as panacea for the defense industry because the EU does not regulate defense industry or defense procurement. This is considered a matter falling under the national remit.[167]

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[166] Dimitrov D, *Restructuring and Conversion*, p 85.

[167] Article 223 of the Treaty of Rome unambiguously declares that member states may exempt conventional arms production and arms trade from EU common rules.

On the other hand, NATO and the EU would make a mistake if they waited for their East European partners to restructure and modernize their defense industries on their own. The delay of co-operation and integration in the arms field between Eastern and Western European states and the lack of funds for relevant programs, including conversion programs, makes progress difficult for the Eastern partners. These countries, including Bulgaria, play a crucial part in international security by curtailing exports to countries outside NATO and the EU. Many such restrictions are self-imposed and derive from the reorientation towards European markets. They could be interpreted as simply a sign of good will in the accession process.

Bulgaria and other Eastern European countries are paying a high price for their contribution to international security, through more rigorous arms trade control policy and legislation. It is the price of substantial MIC reduction, a high level of unemployment and shrinking arms markets. Without this policy, developed countries would probably have to spend much more on humanitarian aid, economic recovery and peacekeeping deployments worldwide. These arguments should be an incentive for EU- and NATO-coordinated programs to assist Bulgaria. Help should focus on the restructuring of its defense industry, through conversion of the most unprofitable production lines and participation in European defense projects. The latter will enhance the country's integration prospects and reduce manufacturing spending.

Bulgaria does not have any particular political or geostrategic interests to pursue through arms production. The motives for exporting arms are thus purely economic. This implies that the restructuring of the defense industry is a question of attaining the right balance domestically in social and economic spheres. The government should make an assessment and decide which defense companies are of importance to national security and focus its support on them. Otherwise, indiscriminate support or incentives for the defense industry would simply increase the profits of arms dealers, further distort the arms market, and incur high political costs.

The MoD has unpaid liabilities to its military repair companies which have led to social unrest at some factories.[168] The delay in restructuring (Terem was registered as an independent company as late as 1999), the lack of a well-formulated development strategy for the companies that are part of Terem, insufficient production orders as well as the bureaucratic state administrative control could lead to more illegal exports, like the October 2002 Targovishte branch scandal.

Forecasts concerning global defense industry development predict that it is going to require less funding than in the past. To an extent, this shift is already in evidence. Production contracts are set to decrease in size, while modern production methods will be increasingly important in maintaining low costs. New incentives for international co-operation may make joint ventures increasingly likely. NATO continues to recommend that its members

[168] In October and November 2002, the workers at Terem's Targovishte plant went on a two week strike. (Declaration of the Workers at Terem Targovishte and the Federation of Independent Defense Trade Unions member of the Confederation of Independent Trade Unions in Bulgaria, Press release, 26 November 2002, <http://www.knsb-bg.org/bg/contents/i2/newsboard/articles/17.html>, accessed on 20 September 2003. The workers went on strike again in June 2003, ('Workers in Terem Targovishte Ended their 2-Week Long Strike', *Netinfo*, 18 June 2003). The *Standart* daily newspaper also reported that Terem, just like other state companies, continues to owe its workers 5.6 million leva (€ 2.8 million) in unpaid salaries. ('170,000 Awaiting Their Salaries', *Standart* daily, 15 July 2003). In October 2003 the amount reached 7 million leva and 3,300 workers were about to go on strike ('3,300 Workers from Terem Going on Strike', *News.bg*, 10 October 2003.

reduce defense procurement fragmentation by pooling their military capabilities, through co-operative acquisition of equipment and through common funding.[169]

The issue of the Bulgarian defense industry's international integration and co-operation can evidently no longer be postponed – not least because of the existing requirements for more effective production and the transfer of high technologies. Without external assistance, most East European countries cannot maintain high technology capabilities and act as effective allies to NATO and Europe with the necessary compatibility of their armed forces.[170]

4.2. DIRECT AND ALTERNATIVE ECONOMIC EFFECTS

The economic consequences of reducing SALW production and exports are also predetermined by the present state of the Bulgarian defense industry. Since there is no substantial internal SALW market and there is competition from the sale of surplus arms from the Bulgarian Armed Forces, limiting SALW export through administrative measures, going even beyond export control, will bring the demise of companies like Arsenal or VMZ. Such companies are already on the verge of collapse and use the minimum of their defense production potential. Further shrinking of SALW output without reorientation to other products and markets will cause their closure.

The exact assessment of the possible negative consequences should be the topic of a more extensive analysis. However, the direct negative impact could be summarized as follows:

- Further cutbacks in defense production. A substantial decline has already been recorded. Over the last thirteen years production has dropped seven to eight times as compared to its 1989 level.[171]

- Increase of unemployment. Commonly, defense companies and their subsidiaries were situated in medium to small cities which led to higher population density. In some cases (VMZ in Sopot, Arsenal in Kazanlak, Beta in Cherven Briag) the defense plants gained a dominant role as employers. These are the areas likely to be most affected by stricter arms export controls.

- Increased costs in social assistance allowances, and benefits and retraining for the unemployed.

- Economic losses incurred by subcontractors.

- Decrease of tax revenues and municipal budget revenues.

- Growth of company liabilities to suppliers, banks, the state budget, social security funds, etc.

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[169] The NATO Parliamentary Assembly, *2002 Istanbul Declaration on NATO Transformation*, (Brussels, NATO, 19 November 2002) <http://www.nato-pa.int/default.asp?shortcut=337>, and Lord Robertson, *Speech to Bulgarian Parliament, Sofia, Bulgaria, 17 February 2003*, (Brussels, NATO, 2003), <http://www.nato.int/docu/speech/2003/s030217a.htm>

[170] Bailos, *op cit*, pp 13–14.

[171] BICC Conversion Survey 2001, p 121.

4.3. RESTRUCTURING AND ALTERNATIVE DEVELOPMENT MEASURES

The restriction of SALW exports to countries of concern and the economic viability of production companies should not be seen as alternatives. The key notions in this respect are restructuring, redirection of excessive production capacity into other spheres corresponding to national interests, the country's international commitments and Euro-Atlantic integration. Besides being an owner of MIC companies, the state is also the guarantor of national security, which suggests that the existence and maintenance of MIC companies is not simply an economic process.

A single-minded reduction of SALW exports without providing attainable restructuring chances for defense producers will generate severe economic blocks and in some cases serious attempts to evade the existing arms trade regime. The defense industry has been reduced significantly. The key dynamic to grasp is that its further reduction using purely administrative or legal measures would not bring positive results.

Guaranteeing national security and exercising rigid export controls entails a complex approach to solving state regulation problems for the various spheres. Increased export control must be combined with concrete actions aimed at company restructuring both on the part of the state and the producers. In addition, the Bulgarian defense industry is heavily dependent on the national economy and the reform of the Bulgarian Armed Forces.