

MEMORANDUM

April 26, 2012

To: Senator Richard G. Lugar
Attention: Marik String

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Subject: **Recent Sales of Military Equipment and Technology by European NATO Allies to Russia**

This memorandum responds to your request for an analysis of recent sales of military equipment and technology by European NATO allies to the Russian Federation. As requested, we focus on the factors behind the sales, allied responses to the sales, implications for alliance cohesion, the role of the sales in Russian military doctrine, and possible policy options for the United States. The memorandum also includes appendices on selected conventional arms export control mechanisms and the European Union's "arms embargo" on China. The analysis is based on open sources and interviews with allied diplomats in Washington, D.C. and at NATO headquarters in Brussels, Belgium.

The memorandum includes the following main sections:

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I. Overview

The signing in January 2011 of a Franco-Russian intergovernmental agreement authorizing the sale of four French amphibious assault warships to Russia prompted criticism from some NATO member states and some Members of Congress. The sale—the first ever of a significant offensive military capability by a NATO member to Russia—and additional contracts between Russia and German and Italian defense companies, have exposed tension within the alliance over NATO’s relations with Russia and the alliance’s defense posture vis-à-vis Russia. The divide within NATO on these issues reflects divergent perceptions of Russia, with geography and history playing a key role. Countries that were once under Soviet control, such as the Baltic states and Poland, are generally more skeptical of Russian intentions than countries with different historical ties to Russia, such as Germany, France, and Italy.

Critics portray the recent military sales as an indication that some NATO member states may be prioritizing domestic economic interests and a political goal to enhance bilateral and NATO ties with Russia over the security concerns of other NATO allies. Most allies agree that the specific recent sales do not in themselves pose a significant security threat to the alliance. Some express concern, however, about the precedent set by the sales and argue that a willingness in Europe to pursue additional bilateral military sales to Russia should prompt formal consultations at NATO on the implications of these sales for alliance security and collective defense planning.

The recent military sales by French, German, and Italian companies appear to be motivated primarily by economic considerations and political leaders’ views that the deals could advance broader efforts to develop strategic partnership with Russia. Officials from these countries acknowledge that Russia has been and continues to be a difficult partner. They maintain, however, that Russia does not pose a military threat to NATO and emphasize that their governments would not approve the sale of military equipment that could significantly alter regional security dynamics. They underscore their firm commitment to the collective defense of the alliance and to the principle, stated in NATO’s 2010 Strategic Concept, that a “strong and constructive partnership [with Russia] based on mutual confidence, transparency and predictability can best serve [NATO’s] security.”¹ These allies tend to argue that defense cooperation with Russia provides an important means by which to influence the country’s military modernization process, adding that the “constructive partnership” could benefit from more modern and interoperable Russian military forces.

According to U.S. officials, the Obama Administration opposed France’s decision to sell assault ships to Russia, arguing, among other things, that the sale could send the wrong message both to Russia and to some Central and Eastern European allies. It reportedly voiced this opposition in bilateral consultations with the French government. Some analysts suggest that the Obama Administration’s lack of more vocal opposition is at least partly a reflection of the priority it has placed on improving ties with Moscow. Administration officials appear to be skeptical of proposals at NATO for formal consultations on allied military sales to Russia and to other countries outside the alliance. They emphasize the importance of enforcing and strengthening existing national and multilateral conventional arms export control mechanisms. Existing mechanisms, including the U.S. International Traffic in Arms Regulations (ITAR), have played a role in limiting sales from allied countries and could continue to do so.

¹ NATO, *Active Engagement, Modern Defence, Strategic Concept for the Defence and Security of the Members of the North Atlantic Treaty Organization*, November 2010.

Several factors could influence the extent to which European members of NATO pursue additional military sales to Russia. These include economic pressures on the European defense industry and European reactions to political and defense policy developments in Russia. A particularly significant factor could be Russian willingness to continue to acquire military equipment and technology from NATO members. There is considerable debate within Russia on this issue. Some analysts believe that Russia will continue to seek foreign defense and technology transfers to improve military capabilities in the near- to medium-term. Others argue that President-elect Vladimir Putin's close association with domestic defense industrial interests could result in a decreased emphasis on defense sector reforms, including through foreign technology transfers, in the coming years.

In light of these factors, U.S. policymakers might consider a number of policy options to shape U.S. and NATO policy on allied military sales and to address the effects of these sales on alliance cohesion. These include: rigorous enforcement and congressional oversight of U.S. arms export control law and regulations; efforts to increase transparency and information exchange among NATO allies on bilateral military sales; more visible assurances of NATO's commitment to the defense of its member states; measures to enhance cooperation and mutual trust between NATO and Russia; and a renewed commitment to conventional arms control measures in Europe.

II. NATO's Role in Addressing Military Sales to Third Countries

NATO does not regulate the arms exports of its member states and alliance members are not obliged to discuss proposed military sales at NATO. The recent sales to Russia and broader trends in the global defense market have, however, led some allies to call for a more formal NATO role in this area. They note that while European defense spending and procurement levels have been in decline, other countries, such as Brazil, China, India, and Russia, are increasing military spending and improving capabilities. They highlight NATO's 2010 Strategic Concept to argue that it is incumbent on NATO, as a collective defense organization, to study and discuss the effect of these trends—including the role of allied arms sales—on alliance security. The Strategic Concept states that "...the conventional threat cannot be ignored. Many regions and countries around the world are witnessing the acquisition of substantial, modern military capabilities with consequences for international stability and Euro-Atlantic security that are difficult to predict."²

A group of allies has argued that NATO should establish a mechanism for political consultations on the consequences of the acquisition of modern military capabilities by countries beyond NATO's borders and on the implications for NATO's defense posture. Such consultations would include discussion of allied military sales and technology transfers to non-NATO countries. Proponents stress that they are not seeking a new arms export control regime, but rather a forum for exchange of information supported by a mechanism to monitor the consequences of military sales. They add that discussions should not be limited to Russia, but should address NATO's role in, and response to, global trends. An initial proposal in this regard was put forth at NATO earlier this year. Its backers believe that the alliance's ongoing Deterrence and Defense Posture Review (DDPR), which primarily has been viewed as a forum for discussion of NATO's nuclear force posture, is also the appropriate forum for a more rigorous assessment of

² NATO, *Active Engagement, Modern Defence, Strategic Concept for the Defence and Security of the Members of the North Atlantic Treaty Organization*, November 2010.

conventional force posture. The final results of the DDPR are to be presented at NATO's upcoming summit in Chicago, May 19-20.³

A number of allied governments, including the United States, appear to be skeptical of such proposals. These countries maintain that the decision to pursue conventional arms sales should remain a decision of national governments and express concern about additional constraints on what they view as a sovereign decision. They emphasize that military sales by all NATO member states are governed by national arms export control laws that, in turn, are subject to multilateral arms export control mechanisms, including at the EU level (for an overview of selected conventional arms export control mechanisms, see **Appendix A**). Officials from these countries note that key considerations in national and multilateral arms export approval processes include levels of technology transfer and the effect of proposed arms sales on regional security and stability. They add that the EU's Code of Conduct for Arms Sales and conventional arms export control arrangements such as the Wassenaar Arrangement on Export Controls facilitate transparency and information exchange among members, despite the fact that these arrangements do not have enforcement mechanisms. These governments also express faith in the existing processes by which NATO conducts defense assessments. This includes consensus procedures in developing annual defense and threat assessments.

III. Recent Reported Allied Military Sales to Russia

Analysts and officials from NATO member states concerned about the implications of allied military sales to Russia point to contracts signed in 2010 and 2011 between Russia and French, German, and Italian companies. These include what is considered the first sale of a significant offensive military capability to Russia by a NATO ally (the "Mistral" amphibious assault ship) as well as the first sale of a western military training center. Russia's acquisitions reflect an apparent desire to acquire modern military technology and to secure licensing rights for future domestic production of this technology.

France

Mistral-class Amphibious Assault Vessels

On January 25, 2011, after at least two years of negotiation, France and Russia signed an intergovernmental agreement to pave the way for France to sell four Mistral-class amphibious assault vessels to Russia.⁴ A contract for the sale of the first two ships was signed on June 17, 2011 by France's state-owned naval defense company DCNS (*Direction des Constructions Navales Systèmes et Services*) and Russia's arms import/export agency Rosoboronexport. Russia will reportedly pay €1.12 billion (about \$1.47 billion) for the first two vessels, which will be constructed at the STX shipyard at Saint-Nazaire in western France.⁵ Construction began at Saint-Nazaire in February 2012. Reportedly, about 20% of the

³ The DDPR was launched at NATO's 2010 Lisbon Summit to further examine NATO's overall posture in deterring and defending against potential threats. By most accounts, consultations in the DDPR have been "dynamic and extremely delicate," characterized by deep disagreement between France and Germany about the future role of nuclear weapons in the alliance. David S. Yost, "Carrying Forward NATO's Deterrence Review: A Report on a Workshop in Brussels, 25-26 October 2011," NATO Defense College, December 2011; Oliver Meier, "France and Germany agree on truce over nuclear arms control committee as NATO works on Deterrence and Defense Posture Review," armscontrolnow.org, October 3, 2011.

⁴ The intergovernmental agreement was signed by former French Defense Minister and current Foreign Minister Alain Juppe and Russian Deputy Prime Minister Igor Sechin.

⁵ "Russia Signs Billion-Euro Contract for French Warships," AFP, June 17, 2011.

construction of the first warship and 40% of the second will be carried out by Russian firms. DCNS says it will deliver the first ship to Russia in 2014 and the second in 2015.⁶ The second two ships are to be built in Russia, but a final contract has yet to be agreed. New shipyard facilities reportedly will be built in Kronstadt, Russia to construct the two Mistral, after which the facilities will be used to build other warships.⁷

The U.S. Navy classifies the Mistral as a Landing Helicopter Dock (LHD) amphibious assault vessel. DCNS designates the Mistral as a Force Projection and Command vessel (BPC, or *Bâtiment de Projection et de Commandement*), describing it as “a multi-mission ship allowing force projection from the sea while acting as a joint HQ ship.” At 199 meters long with a displacement of 22,000 tons, the Mistral LHD is the second-largest ship in the French navy. It can reportedly transport up to 16 helicopters, four landing craft, 13 main battle tanks or 60-70 vehicles, and anywhere from 450 to 900 combat troops, depending on configuration and duration of deployment. The ship also includes a 69-bed hospital, which can be expanded if necessary.⁸ Analysts note that although the Mistral offers an impressive force projection and command and control capability, it carries only minimal defensive weaponry and would therefore require escort ships to protect it in combat situations.⁹ French officials report that the ships being sold to Russia do not include any armaments.

The French navy currently has two Mistral in its fleet and is expected to add another in 2012. It has used the ships in humanitarian operations, for example in post-earthquake relief efforts in Haiti, and to assist in at least one combat operation, NATO’s Operation Unified Protector in Libya.

A key factor in the protracted negotiations over the Mistral sale was the question of how much technology would be transferred and/or licensed to Russia. As noted, in its arms deals with western countries, Moscow has prioritized acquisition of modern military technology and the licenses to reproduce it. According to press reports, the French government was initially intent on limiting the level of technology transfer to the civilian modular construction methods used to build the ship’s hull. Russia reportedly pushed to include the *SENIT-9* combat information system used on the Mistral in the French fleet.¹⁰ It appears that over the course of the negotiations, France agreed to include more electronic technology than initially envisioned. French officials state, however, that they have limited the technology transferred to Russia to civilian applications only. This includes the aforementioned modular hull construction methods and “civilian-level” elements of a basic navigational system. They say the deal includes no data links, no military communications or command and control technology, and no NATO communications or other

⁶ DCNS, “New international success for DCNS with the BPC,” June 17, 2011, <http://en.dcnsgroup.com/2011/06/17/nouveau-succes-a-l%e2%80%99export-pour-dcns-avec-le-bpc-mistral/>.

⁷ Open Source Center, *Central Eurasia Daily Report* (hereafter *CEDR*), January 26, 2010, Doc. No. CEP-349004.

⁸ DCNS, “New international success for DCNS with the BPC,” June 17, 2011, <http://en.dcnsgroup.com/2011/06/17/nouveau-succes-a-l%e2%80%99export-pour-dcns-avec-le-bpc-mistral/>; Patrick Thomas Baker, *A Study of the Russia Acquisition of the French Mistral Amphibious Assault Warships*, Naval Postgraduate School – Thesis, Monterey, CA, June 2011; “Russia Signs Billion-Euro Contract for French Warships,” AFP, June 17, 2011.

⁹ Patrick Thomas Baker, *A Study of the Russia Acquisition of the French Mistral Amphibious Assault Warships*, Naval Postgraduate School – Thesis, Monterey, CA, June 2011; pp. 49.

¹⁰ See, for example, Dmitry Gorenburg, “The Mistral’s C2 systems,” *Russian Military Reform*, February 21, 2011; Isabelle Lasserre, “Paris, Moscow Do Not Agree on ‘Mistral’ Warship’s Price Tag,” *Le Figaro*, March 15, 2011. Open Source Center EUP20110315029001; and Vladimir Socor, *France’s Sale of the Mistral to Russia: The Challenge to NATO’s Transatlantic Partners*, Jamestown Foundation, June 31, 2011.

capabilities.¹¹ The transfer of any NATO communications systems would require the unanimous consent of all NATO member states.¹²

Russia reportedly decided to acquire Mistral ships in the wake of the 2008 Russia-Georgia conflict. In August 2009, Admiral Vladimir Vysotskiy, the commander-in-chief of the Navy, declared that the Mistral would have allowed “Russia’s Black Sea fleet to accomplish its mission in 40 minutes, not 26 hours, which is how long it took us” during the Georgia conflict.¹³ While the Russian military has not confirmed where the first two Mistrals will be deployed, Russian media have reported that one Mistral may be deployed to Russia’s Northern Military District (which includes the Baltic and Northern Fleets), or the Southern Military District (which includes the Black Sea Fleet). The other Mistral may be deployed to the Eastern Military District (which includes the Pacific Fleet), perhaps reflecting Russian concerns about China’s growing military power.

According to analyst Vladimir Socor, Russia’s amphibious operations on Georgia’s Black Sea coast during the conflict were of peripheral impact and mainly involved securing the port of Poti. If Russia possesses Mistrals, he suggests, Russia’s Baltic or Black Sea fleets would “gain the ability to land troops onshore quickly and seize coastal footholds during hypothetical crises. This potential threat (whether carried out or not) could pressure a target country.” Because littoral NATO countries would face an added threat from the Mistrals, they would call upon NATO and the United States to buttress their security, he warns.¹⁴

According to one Russian media report, the Russian Navy plans to put antiaircraft, antisubmarine, anti-ship, and land attack artillery and missiles on the Mistrals in addition to helicopters, naval infantry, armored vehicles, and amphibious landing craft. This added weaponry is planned in part to compensate for the shortage of escort ships in the Russian Navy (permitting the use of fewer escort vessels), but will make the Mistrals top-heavy and compromise their mission as amphibious assault ships, according to the report. Reportedly, the blueprints of the Mistrals being constructed in France have been altered to accommodate these changes.¹⁵ In February 2012, Admiral Vysotskiy verified that the Mistrals would operate as elements of naval groupings, rather than independently, to “considerably increase the combat capabilities of the entire grouping.”¹⁶

Reported Negotiations on Additional French Sales

According to press reports and commentary by Russia analysts, Moscow has been in talks with French firms for the possible purchase of infantry combat and communications equipment and light armored vehicles.

¹¹ Interviews of French officials, Washington, D.C. and Brussels, Belgium, March 2012.

¹² Statements from some Russian officials suggest differing interpretations of the level of technology transfer involved in the agreement. For example, in June 2011, the head of Russia’s United Shipbuilding Corporation, Roman Trotsenko, ostensibly referred to elements of the *SENIT-9* system when he stated that “the French side has accepted an unprecedented level of cooperation in the handover of know-how, and will transfer know-how to Russia, including the basic computer codes of the combat information control systems and communications systems.”¹²

¹³ *CEDR*, September 13, 2009, Doc. No. CEP-950041

¹⁴ *Eurasia Daily Monitor*, June 27, 2011. Russian defense analyst Konstantin Makiyenko has reported that the Russian Ministry of Defense started exploring the idea of purchasing the Mistral even before the August 2008 Russia-Georgia conflict. Open Source Center CEP-20090929358010.

¹⁵ *CEDR*, March 23, 2012, Doc. No. CEP-20120323358005

¹⁶ *CEDR*, February 21, 2012, Doc. No. CEP-20120221358006

A February 2011 report in *RIA Novosti* cited Russian First Deputy Minister of Defense Vladimir Popovkin as saying that talks were underway for Russia to purchase so-called “soldier of the future” or *FELIN* (*Fantassin à Equipements et Liaisons Intégrés*, or integrated equipment and communications gear for the infantryman) gear kits from French firm Sagem, part of the Safran group.¹⁷ The units include state-of-the-art protective gear, optronics, and high-tech communications equipment. According to Sagem, the French government has ordered 22,600 FELIN units for use in all French infantry battalions.¹⁸ Russia has reportedly sought to purchase a limited number of FELIN units for testing and possible domestic production under license.¹⁹

In February 2011, the CEO of French military manufacturer Panhard was quoted in the French press as saying his company was in “advanced talks” with Russia over the possible sale of 500-1,000 light armored vehicles (LAVs) for use by Russian border guards. A potential deal could be valued at anywhere between €200 - €500 million (\$261 million - \$654 million).²⁰

Germany

Army Training Center

On November 24, 2011, German defense giant Rheinmetall announced that it had signed a contract with the Russian Ministry of Defense to build “a major army training centre” in Mulino, in Russia’s Volga region.²¹ Rheinmetall’s Russian partner in the deal is the state-owned Oboronservis (“Defense Service”) firm. According to Rheinmetall, the simulation-supported center will be able to train 30,000 troops a year by 2014. The center, considered by Rheinmetall to be “the most advanced system of its kind worldwide,” will be modeled on an existing high-tech army training center used by the German *Bundeswehr*. The over-500 square kilometer facility will be designed to train a reinforced mechanized infantry or armored brigade. Training stations are to include live combat simulation, commander training simulation, and marksmanship at modern firing ranges. The centerpiece of the facility is a so-called Live, Virtual, and Constructive, or LVC simulation network, which Rheinmetall says, “promises to set a new standard in military training.”

The Rheinmetall contract is worth over €100 million (about \$131 million) with further options. The German company appears to view the deal as a precursor to additional contracts, stating that “In light of the plans to modernize the equipment of the Russian armed forces, the opportunities for follow-on order from the Russian Federation are considerable.”²² Some allies have expressed concern about potential plans for Rheinmetall to construct additional training centers in Russia (see “V. Allied Reactions to the Sales and Implications for Alliance Cohesion”).

¹⁷ “Russian Ministry of Defense Releases Details of 2011-2020 State Armament Program,” RIA-Novosti Online, February 25, 2011. Open Source Center CEP20110301349001.

¹⁸ Safran – Sagem, *Felin Soldier System*, <http://www.sagem-ds.com/spip.php?rubrique116&lang=en>.

¹⁹ “Russian Ministry of Defense Releases Details of 2011-2020 State Armament Program,” RIA-Novosti Online, February 25, 2011. Open Source Center CEP20110301349001.

²⁰ “French Firm ‘in advanced talks’ over light armoured vehicle sales to Russia,” AFP, February 21, 2011.

²¹ Rheinmetall, “Rheinmetall wins major order in Russia,” November 24, 2011. <http://www.rheinmetall-defence.com/index.php?lang=3&fid=5653>.

²² Rheinmetall, “Rheinmetall wins major order in Russia,” November 24, 2011. <http://www.rheinmetall-defence.com/index.php?lang=3&fid=5653>.

Italy

Lynx Light Multirole Armored Vehicles (LMVs)

In December 2010, Russian media reported that the Italian and Russian defense ministries had reached agreement on the sale of 10 light multirole armored vehicles (Lynx LMVs) manufactured by the Italian company Iveco, a subsidiary of Fiat. At the time, Russian Defense Minister Anatoly Seryukov was quoted as saying that the initial purchase would lead to the establishment of a joint venture for the production of the vehicles in Russia and that Italy had agreed to pass over technologies for the production of the vehicles.²³ In December 2011, the two sides reportedly signed a contract for Russia to purchase 60 *Lynx* LMVs from Iveco, including an agreement for partial assembly at a subsidiary of Oboronservis in the central Russian city of Voronezh. The first batch of 57 vehicles will reportedly be delivered by the end of 2012.²⁴

According to industry analysts, the Lynx LMV is a four-wheel drive armored vehicle “designed primarily for strategic and tactical mobility with a high level of protection against anti-tank and anti-personnel mines.”²⁵ The vehicle can carry up to five soldiers and can be fitted with large weapons systems including air-defense missiles.

After the initial December 2010 intergovernmental agreement, reports suggested that the deal could lead to joint production of up to 2,500 Lynx LMVs in Russia. However, progress on joint production appears to have stalled, possibly due to western reluctance to transfer the rights to manufacture key components of the vehicle, including its armor. One industry analyst reports that Russian vehicle manufacturer Kamaz decided to leave the program in 2011 due to concerns that Iveco either could not or would not transfer these rights.²⁶ Dutch and American companies involved in the production of the Lynx LMV’s armor and engine parts may have refused to transfer the rights to reproduce these components. Kamaz reportedly was concerned that unlicensed production of the vehicles could mean it might later be denied access to western markets. Russian officials hope that over the next 3-4 years, the local content of the vehicles will rise to at least 50%.²⁷ Given the uncertainty about licensing rights, plans for further production remain unclear.

Reported Negotiations with the Eurocopter Division of the European Aeronautic Defense and Space Company (EADS)

In March 2012, the Russian Defense Ministry closed a tender open to international firms to deliver 45 light helicopters, ostensibly for training. Russian media reported that the Defense Ministry tender appeared to favor the Eurocopter Division of the European Aeronautic Defense and Space Company (EADS) for AS350 and AS355 *Ecureuil* helicopters. EADS is a pan-European aerospace and defense company formed in 2000 through a merger of French, German, and Spanish companies. According to

²³ “Russia Defence Ministry to buy 10 Italian armoured vehicles,” Interfax, December 3, 2010. Open Source Center CEP2010203950223.

²⁴ “Russian Army to Receive first Lynx LMVs in 2012,” *Army Technology*, March 15, 2012.

²⁵ “Russian Army to Receive first Lynx LMVs in 2012,” *Army Technology*, March 15, 2012.

²⁶ “Russia: Licensing snags compel armoured vehicle manufacturer pullout – paper,” BBC Monitoring International Reports, August 14, 2011.

²⁷ *Interfax*, January 24, 2012; *CEDR*, March 14, 2012, Doc. No. CEP-950207.

Russian sources, the Defense Ministry plans to eventually acquire more than 100 of the helicopters, with a joint venture formed for final assembly in Russia.

Andrey Reus, General Director of Russia's Oboronprom ("Defense Industry") state firm, has objected to the possible acquisition of helicopters from Eurocopter, stating that the latter is one of Oboronprom's competitors in the global helicopter market. He asserts that his firm is finalizing the development of the Ka-226T helicopter, which will be supplied with an engine built in France (by the same firm that builds the Ecureuil engines; this engine will replace a lower-power Rolls-Royce engine used in some of the currently-produced Ka-226s). Another Russian article condemned the planned purchase as an effort to obtain luxury helicopters for generals and called for Russian rubles to be spent on Russian helicopters.²⁸

IV. Factors Influencing Allied Military Sales To Russia

French, German, and Italian sales of military equipment and technology to Russia appear to be motivated primarily by two key factors: economic pressures during a period of fiscal austerity and deep defense budget cuts in major western markets; and political leaders' stated commitment to develop and advance strategic partnership with Russia, both bilaterally and at the NATO and European Union (EU) level.

The global financial crisis of 2008/2009, the subsequent economic slow-down in the EU, and sovereign debt crisis in the 17-member Eurozone have led to a period of unprecedented fiscal austerity in what have traditionally been the West's largest defense markets. According to Jane's Defense Industry and Markets Intelligence Center, France, Germany, Italy, the United Kingdom (UK), and the United States saw their combined military expenditures drop by more than \$4 billion in 2011. This was preceded by a similar decline in 2010 and is expected to be followed by at least \$100 billion in additional cuts through 2015.²⁹ Estonia and Norway reportedly are the only NATO members not currently cutting defense spending.³⁰ These developments follow a long-standing downward trend in European defense spending. Analysts also argue that the European defense industry remains fractured and compartmentalized along national lines, with too much overlap and redundancy. From this perspective, accessing markets outside of Europe has been crucial to many of these companies' survival.

At the same time, defense investment and procurement has been rising throughout east and southeast Asia, the Middle East, and South America. China and Russia, in particular, have pledged significant increases in defense spending. These trends have led to a "rebalancing" of the global defense market, with Western defense companies increasingly looking beyond domestic markets for export opportunities.³¹ Western governments have to varying degrees sought to publicly assist and promote the efforts of national defense companies to access new markets, including the Russian market. The French government has played a particularly visible role in this regard, in line with long-standing French industrial policy. The German government, on the other hand, has been less public in promoting its domestic defense industry, reflecting deep sensitivities regarding arms exports, rooted in the legacy of the Second World War.

²⁸ CEDR, February 22, 2012, Doc. No. CEP-767002; March 21, 2012, Doc. No. CEP-358007; March 14, 2012, Doc. No. CEP-358008; February 27, 2012, Doc. No. CEP-358003.

²⁹ Jane's World Defence Industry, *Executive Overview: Defence Industry 2011*, February 13, 2011.

³⁰ Benoît Gomis, *European Defence and Security 2012: Commitments, Capabilities and Cash*, Chatham House Conference Summary, January 23-24, 2012.

³¹ Jane's World Defence Industry, *Executive Overview: Defence Industry 2011*, February 13, 2011.

French, Italian, and German officials confirm the economic benefits of defense exports, including to Russia. French President Nicolas Sarkozy publicly announced his government's decision to sell Mistral-class LHDs to Russia at a speech in Saint-Nazaire, where the first two ships will be built, touting that the deal would bring "6 million hours of work and 1,200 jobs maintained over 4 years."³² He added that he hoped to make the shipyard town, which has faced high unemployment levels, a symbol of French industrial achievement. Several French commentators asserted that the economic and associated political benefits—Sarkozy had in the past personally committed to boosting orders for French shipyards—played a key role in his government's approval of the sale.³³ Likewise, Italian officials echo what they consider a legitimate desire for a successful domestic defense industry. They point out that 2011 was a particularly difficult year for Italian industry, with significant contracts lost due to the conflict in Libya and other major contracts expired. Italian defense giant Finmeccanica, the world's eighth-largest defense company, reported losses of \$3.1 billion in 2011.³⁴

French, German, and Italian officials stress that recent military sales to Russia should be viewed as a logical step in advancing a broader political goal of strategic partnership with Russia. They argue that it is in the interest of NATO and its member states to build a relationship with Russia based on mutual trust and the pursuit of a range of shared interests. Proponents of this view often emphasize the importance of securing Russian cooperation on key foreign policy and security issues such as the Iranian nuclear program, global counter-terrorism efforts, and the war in Afghanistan, among other things. According to French Prime Minister François Fillon, for example, one "cannot win Moscow over on the major issues of the day—such as Iran's nuclear program—and refuse to sell it weapons."³⁵

As discussed below (see "Effect of the Sales on NATO-Russia Relations"), there is disagreement in the alliance about the extent to which individual countries and NATO as a whole have benefited from the current policy of engagement with Russia, including from the sale of military equipment and technology. Although they concede that Russia has been and continues to be a difficult partner, supporters of the sales argue that treating Russia as a threat could lead it to become less cooperative and create a diminished regional security situation. As President Sarkozy has stated, "If we want Russia to behave as a partner, we must treat her like a partner, in connection with security and defense, too."³⁶

These views on NATO-Russia relations are also reflected in German, French, and Italian bilateral ties to Russia. Of the three countries, Germany has the deepest and longest-standing bilateral relationship with Russia, with modern roots in the 1960s and 1970s when German leaders increased diplomatic and economic engagement with the Soviet Union and other Eastern Bloc countries. Today, Germany is Russia's largest trading partner and the two countries share a broad range of political, economic, cultural, and even military ties and exchange programs. France's bilateral relations with Russia are not as extensive as Germany's, but the French government in recent years has emphasized its intention to "develop large-

³² Nicolas Sarkozy, as quoted in Open Source Center Analysis: *European Officials, Media Concerned About French Sale to Russia*, EUP2011031863900, March 18, 2011.

³³ Open Source Center Analysis, *Potential French-Russian Deals Highlight Deepening Ties, Raise Security Concerns*, February 24, 2010.

³⁴ "Finmeccanica Reports \$3.1B Loss in 2011," DefenseNews.com, April 4, 2012; Alessandro Giovannini and Giovanni Faleg, *'Advice from a caterpillar: the conundrum of EU military spending in times of austerity*, Center for European Reform, April 2012.

³⁵ Open Source Center Analysis, *Potential French-Russian Deals Highlight Deepening Ties, Raise Security Concerns*, February 24, 2010.

³⁶ As quoted in Isabelle Lasserre, "France-Russia: New Strategic Axis," *Le Figaro*, May 25, 2011. Open Source Center EUP20110525029004.

scale partnerships in all areas, including defense and security.”³⁷ A 2009 report on a popular Russian news website stated that French-Russian relations are “considered in Moscow to be optimum for [Russia’s relations with] the entire European Union.”³⁸ Italy has also boosted bilateral ties with Russia in recent years, with the close personal relationship between former Italian Prime Minister Silvio Berlusconi and Russian President-elect Vladimir Putin seen as playing an important role.³⁹

Rheinmetall’s construction of an army training center could be viewed in the context of the broader bilateral defense cooperation between Germany and Russia. The German government sponsors several programs aimed at promoting defense reform in Russia, in particular to foster modern defense planning techniques and democratic control of the military. The government’s approval of the contract to construct a training center also appears to be in line with long-standing German policy to promote military training and joint exercises with partner countries.

V. Allied Reactions to the Sales and Implications for Alliance Cohesion

Some NATO member states have criticized the recent military sales to Russia and have expressed particular concern about not being consulted before the sales were approved. Public criticism—at times sharp—has been mainly limited to France’s sale of the Mistral, but some allies have also voiced concern at NATO about the German and Italian sales. The sales have exposed tensions within the alliance on NATO-Russia relations and NATO’s defense posture vis-à-vis Russia. This includes different perceptions of the operational risks posed to the alliance by Russia’s acquisitions and the effect of the sales on NATO-Russia relations. The willingness of some NATO members to export military equipment and technology to Russia has also raised questions about how responsive some member states are to the security concerns of other allies. Disagreements such as these are by no means a new occurrence at NATO, but additional military sales to Russia could heighten tensions further.

Differences within the alliance over the significance and potential consequences of the recent military sales are rooted in divergent perceptions of Russia, of its government’s intentions, and of the potential threat it poses to NATO. History and geography play a key role. Although they support NATO’s stated goal to build a strategic partnership with Russia, countries that were once under Soviet control tend to be more skeptical of Moscow’s commitment to the partnership than some of their Western allies and more critical of and sensitive to what they consider acts of Russian hostility. Officials from these member states tend to draw attention to Russia’s designation of NATO as a potential threat (discussed in more detail below, “The Status of NATO in Russian Military Doctrine and Other Programmatic Statements”), Russia’s redeployment of military assets toward its western borders, the government’s suppression of democratic forces at home and abroad, hostile rhetoric toward NATO from Russian officials, including President-elect Putin, and what they perceive as a political goal to sow disunity within the alliance. They

³⁷ Open Source Center Analysis: *European Officials, Media Concerned About French Sale to Russia*, EUF20110318639001, March 18, 2011.

³⁸ “Commentary Sees Russian-French Ties as Model for Russian-EU Relations,” *Gazetta.ru*, November 26, 2009. Open Source Center CEP20091126006019.

³⁹ Italy and Russia have close ties in the energy sector and Italian energy companies have entered into several significant and potentially lucrative agreements with their Russian counterparts in recent years. For example, in March 2011, Italian energy company ENEL announced plans to invest about €1 billion (about \$1.3 billion) in Russia to improve its power generating capacity in the country.

cite Russia's 2008 invasion of Georgia as a clear example of Moscow's willingness to use force to reassert an exclusive "sphere of influence" near its borders.

French, German, Italian and other allied government representatives say they understand these concerns and acknowledge that Russia has been a difficult partner. They emphasize, however, that Russia does not pose a military threat to NATO and contend that their governments would not approve the sale of military equipment that could significantly alter regional security dynamics. They underscore their firm commitment to the collective defense of the alliance as enshrined in Article 5 of NATO's founding treaty and point to NATO defense plans, the Baltic air policing mission, and NATO military exercises as concrete examples of their commitment to the defense of NATO member states.

To varying degrees, Estonian, Latvian, Lithuanian, and Polish officials publicly criticized the Mistral sale and what they considered a lack of communication from France before approving the sale. Lithuania was the most vocal critic, with Lithuanian Defense Minister Rasa Juknevičienė calling the decision by a NATO country to sell, "extremely complex offensive weaponry to a country where the level of democracy is not one that we can feel safe about," a "big mistake."⁴⁰ Estonian and Latvian government officials also criticized the sale but sought to downplay the regional security implications, focusing instead on the lack of French consultation before approving the sale.⁴¹ One Polish official was quoted as saying the Mistral sale set a bad precedent and that the government hoped Russia would not acquire additional modern armaments.⁴² In interviews in Brussels and Washington, diplomats from all four countries confirmed these views. They add that they have received assurances from the French government that no significant military technology would be transferred to Russia.

Some allies also express concerns about Rheinmetall's and Iveco's recent sales. As discussed below (see "Perceived Operational Risks Posed to NATO as a Result of the Sales"), they do not believe the specific military capabilities transferred to Russia necessarily pose a direct threat to the alliance. They argue, however, that the willingness to sell equipment and technology without first consulting NATO allies to discuss the security implications could set a bad precedent and ultimately lead to a deterioration of regional security.

Perceived Operational Risks Posed to NATO as a Result of the Sales

Most allies, including some that have criticized the recent military sales to Russia, publicly have downplayed potential operational risks posed to NATO by Russia's acquisitions so far. In this regard, they appear to agree with defense analysts who argue that the four Mistrals, the army training center, and the armored vehicles would not in themselves shift the balance of military power between NATO and Russia in a meaningful way. That said, officials from some Baltic and other NATO member states do express concern about possible deployment of the Mistral in the Baltic Sea and argue that NATO should adjust its defense plans to account for Russia's acquisition of this new capability.⁴³ They add that Russia has in the

⁴⁰ Lithuanian Minister: France's Decision to Sell Warship to Russia 'Big Mistake', Baltic News Service, December 27, 2010. Open Source Center EUP20101227070001.

⁴¹ Open Source Center Analysis: *European Officials, Media Concerned About French Sale to Russia*, EUF20110318639001, March 18, 2011.

⁴² Open Source Center Analysis: *European Officials, Media Concerned About French Sale to Russia*, EUF20110318639001, March 18, 2011.

⁴³ For example, in November 2009, then-Latvian Defense Minister Imants Liegis stated that "the presence of such a vessel in the Baltic Sea may change the security situation in the region." Estonian Foreign Minister Urmas Paet was quoted as saying the deal would lead to a "broken security balance." See Open Source Center Analysis: *European Officials, Media Concerned About French Sale to Russia*, EUF20110318639001, March 18, 2011.

past conducted military exercises that appeared to simulate actions against NATO attack and has planned what may be an anti-NATO exercise for 2013 (see “Russian Military Training Exercises Involving Simulated NATO Engagement”).

A more significant concern of some NATO member states is the importance of acquisitions in the Russian government’s overall defense modernization plans and the precedent these initial sales might set for future sales. According to some analysts and allied officials, a key Russian goal is to acquire advanced technology in order to strengthen existing military hardware and to assist in a “bottom-up” approach to develop a new combat posture based on better equipped, more flexible military forces (see “Debate in Russia Over the Role and Value of Foreign Arms and Technology Acquisition”). They view the Rheinmetall training center, the purchase of armored vehicles, and the possible purchase of the *FELIN* infantry gear kits as important early steps in these efforts. The battlefield simulation technology that is the centerpiece of the army training center could, for example, play a key role in efforts to train smaller, more flexible brigades that could be outfitted with modern weapons derived from technology acquired from NATO members.

There is disagreement within NATO over the extent to which Russian military reform plans could lead to future operational risks for the alliance. Some allies argue that NATO should be more proactive in assessing the possible operational risks posed by Russia’s military modernization program and the role of new acquisitions in that program. They assert that this would be particularly prudent in light of perceived Russian hostility toward some NATO member states and along its western and southern borders. As mentioned, Russia’s invasion of Georgia is of particular concern. In addition to the aforementioned examples, some allied officials have raised concerns that one of Russia’s new army brigades has been deployed to the Russian enclave of Kaliningrad, which borders Lithuania and Poland.

Other allies maintain that Russia’s recent military acquisitions do not pose an operational risk to the alliance. German, French, and Italian officials appear to share the view that Russia’s conventional military capabilities are in what some analysts characterize as a deplorable state.⁴⁴ They acknowledge that Russian rhetoric toward NATO is at times threatening, but see little if any substance behind the statements. They add that they do not have any indications of Russian intentions to attack NATO members.

Effect of the Sales on NATO-Russia Relations

All NATO allies have committed to the goal of partnership with Russia, agreeing in the alliance’s 2010 Strategic Concept that “[the allies] remain convinced that the security of NATO and Russia is intertwined and that a strong constructive partnership based on mutual confidence, transparency and predictability can best serve our security.”⁴⁵ Nonetheless, efforts to build a cooperative NATO-Russia partnership have had mixed results.

There is disagreement within the alliance over the extent to which military sales to Russia could benefit NATO-Russia relations. Some allies do not consider the military sales to Russia as beneficial and question Russia’s commitment to partnership with NATO. These critics emphasize what they perceive as Russia’s unpredictability, acts of Russian hostility toward NATO and its partners, and areas where Russia has sought to create disunity within the alliance. They note that Russian officials have never publicly offered to use their new military acquisitions to advance cooperation with NATO, for example, in joint exercises

⁴⁴ Interviews of officials from NATO member states, Washington, D.C., and Brussels, Belgium, March 2012.

⁴⁵ NATO, *Active Engagement, Modern Defence, Strategic Concept for the Defence and Security of the Members of the North Atlantic Treaty Organization*, November 2010.

or joint operations. They add that Russia has been at best a reluctant partner in several areas of ongoing cooperation, including NATO's territorial missile defense system. Some observers express concern that some allies at times appear more committed to advancing bilateral and NATO ties with Russia than to addressing the legitimate security concerns of other members of the alliance. In this view, a goal to increase trust with Russia could lead to a decrease in trust within NATO.

By contrast, other allies argue that it is in NATO's interest to continue to engage Russia and seek to expand defense cooperation, as the alliance does with other partners. In their view, NATO engagement provides an important means by which to influence Russia's military modernization process. According to one analyst, France, for example, is seeking to "draw Russia toward an international framework," in the belief that Russia's "intrinsic weakness," will "eventually force it to turn resolutely to the West."⁴⁶ Supporters of this approach also tend to highlight what they consider the potentially negative consequences of generally rejecting military sales to Russia. They believe such a general policy could increase political tensions with Russia by signaling that NATO is not committed to a course of partnership. French, German, and other allied officials highlight several areas that they consider to be examples of successful defense cooperation between NATO and Russia, including counter-piracy operations off the Horn of Africa, counter-terrorism operations in the Mediterranean Sea, emergency search and rescue assistance, helicopter maintenance in Afghanistan, and theater-based missile defense.

VI. Russian Perspectives on NATO and Evolving Russian Military Doctrine

The Status of NATO in Russian Military Doctrine and Other Programmatic Statements

In programmatic defense documents and statements, the Russian leadership has continued to assert that the United States and NATO are potential, if not existential, threats to national security. Russia's latest military reform effort—launched in late 2008—was justified in part by highlighting these security threats. In May 2009, President Medvedev promulgated a new National Security Strategy for Russia through the year 2020, which in principle provides the basis for Russia's military doctrine and foreign policy.⁴⁷ NATO is criticized as an obsolete regional security organization that should be superseded by a new regional security architecture. The strategy states that NATO's enlargement to countries sharing borders with Russia and NATO's adoption of out-of-area missions are "unacceptable," although it also avers that Russia is open to cooperation with NATO. An increasing global competition for resources could lead to military conflict, including near the borders of Russia and its allies, the strategy warns.

The United States (though not named explicitly) appears to be criticized as threatening Russia's military security by attempting to achieve "overwhelming supremacy in the military sphere." The strategy proclaims that despite this U.S. effort, Russia will "undertake all necessary efforts at the lowest level of expenditures to maintain parity with the United States in strategic offensive weapons." At the same time, the strategy calls for establishing a "strategic partnership" with the United States that appears to be

⁴⁶ "French Commentary Identifies 'Ambiguities' in Relations with Russia," *LeMonde*, January 29, 2010. Open Source Center EUP20100129029008.

⁴⁷ Russian Federation Security Council, *Russian Federation National Security Strategy Until 2020*, May 12, 2009. For an English language text, see *CEDR*, May 13, 2009, Doc. No. CEP-557001.

envisaged as a global diarchy. U.S. analyst Stephen Blank suggests that the U.S.-Russia “reset” of relations being undertaken at the time of the release of the strategy led to the removal of explicit references to the United States as a threat.⁴⁸

Another major programmatic document, the military doctrine, was approved by President Medvedev in early 2010. The doctrine has legal force as state policy and in theory guides decisions on capabilities. The doctrine qualifies language it repeats from the previous 2000 doctrine—that the threat of large-scale war is reduced—by raising concerns that “dangers” are increasing that could develop into threats. The 2010 doctrine follows the 2009 national security strategy in mentioning NATO as a “danger” because of its enlargement to states bordering Russia and its assumption of out of area missions. Some analysts suggest that the doctrine assesses NATO as a “danger” (potential threat) rather than a current “threat” (defined as an enemy ready to attack) because of Russia’s involvement in the NATO-Russia Council and the developing U.S.-Russia “reset” in relations, although these are not mentioned in the doctrine. According to some observers, the military doctrine largely fails to reflect the military reforms launched a year before the doctrine’s release. In this view, the doctrine continues to call for the armed forces to be prepared to project great power status worldwide and fight major land battles in Europe and Asia.⁴⁹ Despite the doctrine’s presentation of NATO as a rising “danger,” analyst Roger McDermott argues that the Russian leadership had decided after the 2008 Russia-Georgia conflict that the risk of a possible NATO intervention on its periphery had lessened, and that this lessened risk provided breathing room to launch conventional military reforms.⁵⁰

The NATO military action in Libya in 2011 may have exacerbated anti-NATO suspicions among a segment of the Russian elite that has blamed the “Arab Spring” on NATO and western interests intent on “regime change,” including in Russia.⁵¹ Most recently, Prime Minister Vladimir Putin’s February 2012 campaign article on national security raised concerns that unnamed foreign powers were triggering local wars, some close to Russia’s borders. Because of these challenges, he stated, the Russian armed forces needed to be bolstered. In particular, he pointed to U.S. and NATO deployments of a missile defense system in calling for strengthening Russia’s air and space defenses.⁵²

Debate in Russia Over the Role and Value of Foreign Arms and Technology Acquisition

Russian conventional military reforms launched in late 2008 have appeared mainly aimed at forming a more professional and modernized military force able to carry out counter-terrorist and other limited operations, rather than major intercontinental warfare involving the United States and NATO. Part of the reforms include plans through 2020 for weapons acquisition and the modernization of defense industries. At the same time, as discussed above, major programmatic documents and some statements by Russian leaders continue to stress NATO as at least a possible threat and Russia’s efforts toward military reform since 2008 have been justified in part by highlighting the security challenges posed by NATO and the United States.

⁴⁸ Stephen Blank, “‘No Need to Frighten Us, We Are Frightened of Ourselves,’ Russia’s Blueprint for a Police State, the New Security Strategy,” in Stephen Blank and Richard Weitz, eds., *The Russian Military Today and Tomorrow*, pp. 19-149.

⁴⁹ Kier Giles, “The Military Doctrine of the Russian Federation 2010,” *NATO Research Review*, February 2010.

⁵⁰ Roger McDermott, *The Reform of Russia’s Conventional Armed Forces*, Washington, D.C.: The Jamestown Foundation, 2011, pp. 368, 372.

⁵¹ Kier Giles, *The State of the NATO-Russia Reset*, Conflict Studies Research Center, Oxford, United Kingdom, September 2011.

⁵² *CEDR*, February 20, 2012, Doc. No. CEP-46001.

Russia's motivation for acquisitions from NATO member states are a subject of debate. Russian military analyst Aleksandr Golts and others have argued that Medvedev, Defense Minister Anatoliy Serdyukov, and Chief of the General Staff Nikolay Makarov have supported targeted foreign arms transfers as a stopgap measure to improve military capabilities in the near- to medium-term to conduct net-centric and rapid response warfare pending retooling of the defense industries, which they view as a longer-term process. Putin, however, has remained ambivalent about such acquisitions and cooperation because of his close association with defense industrial interests, Golts claims. He predicts that now that Putin has been re-elected as president, defense industrial sector reforms—including through foreign technology transfers—will be reduced.⁵³

The 2010 military doctrine calls for maintaining the Soviet-era objective of manufacturing all the weapons used by its armed forces, although these efforts have faced extreme challenges. Most recently, the August 2008 Russia-Georgia conflict has contributed to greater recognition that some military equipment and technology needs to be purchased abroad to supplement or bolster problematic domestic military production. Russian military arms orders to its domestic arms producers fell in the early post-Soviet period, and the arms firms faced financial insolvency and obsolescence, although some were able to sell arms abroad to partly recoup their losses. Many observers argue that modern international arms industries need to establish inter-relationships, including military technology exchanges, in order to remain competitive. In addition to such exchanges, Russian arms industries reportedly also increasingly are relying on imported machine tools from NATO and other countries in their efforts to modernize.⁵⁴

In the wake of the Russia-Georgia conflict, Lieutenant-General Vladimir Shamanov, who helped lead Russia's invading forces during the conflict and subsequently was the chief of the Defense Ministry's Main Combat Training Directorate, stated that "if domestic industry cannot create a competitive product for the troops, we will purchase it from foreign manufacturers."⁵⁵ As explained by former First Deputy Defense Minister Vladimir Popovkin in late 2010, "our task is not to buy foreign equipment [per se], but technologies on the basis of which we would be capable of organizing production in Russia. We, unlike some other countries [perhaps referring to China], are not secretly copying examples, but openly we say we are prepared to pay for technologies, to buy licenses for production."⁵⁶ Anatoliy Isaykin, the General Director of Rosoboroneksport (Russian Defense Export; the designated state-owned firm for the export and import of weapons), argued in August 2011 that collaboration with foreign defense industries is necessary so that Russia will be able to offer modern weapons for export.

Despite these efforts to acquire foreign arms and technology, potential suppliers have often been reluctant or unable (because of arms export controls) to provide sensitive technologies to Russia. In March 2012, Russian Deputy Defense Minister Anatoliy Antonov decried the restrictions on NATO arms technology transfers, stating, "let us recall the Mistral [helicopter carrier] problem. How much has been said about the hampering of this deal because Russia is trying to get not just a weapon but also high technologies? Regrettably, these hidden restrictions are still in place." He also criticized the lack of progress in U.S.-Russia talks over an agreement for cooperation in defense technologies.⁵⁷

⁵³ CEDR, March 22, 2012, Doc. No. CEP-358008; see also February 28, 2012, Doc. No. CEP-358001.

⁵⁴ Roger McDermott, p. 375.

⁵⁵ CEDR, December 2, 2008, Doc. No. CEP-548024.

⁵⁶ "Popovkin on OPK, IVECO, Mistral, and Bulava," *Russian Defense Policy*, October 26, 2010, at <http://russiandefpolicy.wordpress.com/tag/vladimir-popovkin>.

⁵⁷ *Interfax*, March 13, 2012.

The Soviet-era thinking of the military doctrine and some officials in Russia have also discouraged foreign defense acquisitions.⁵⁸ For example, some Russian officials and analysts condemned the purchase of the *Mistral* on the grounds that foreign defense acquisitions “weaken” indigenous capabilities, but also on the grounds that Russia does not need such a capability. Russian defense analyst Ruslan Pukhov has complained that “the Navy just never properly explained why [it] needs this ship,” and that Russia’s status as a mid-level world economy does not support its acquisition of the *Mistral* to support “phantom Great Power illusions” of power projection.⁵⁹

During his presidential election campaign, Putin was backed by a “Public Movement in Support of the Armed Forces and Defense Industry” that mainly represented defense industry interests. The effort was championed by recently appointed Deputy Prime Minister Dmitry Rogozin, the head of the Military Industrial Commission (MIC). In his election article on national security, Putin stated that the priorities in weapons procurement for the military would be the nuclear forces, air and space defense, communications, reconnaissance, command and control, and electronic warfare systems, unmanned aerial vehicles, robot attack systems, modern transport aircraft, individual battlefield protection gear systems, and precision weapons and means to counter them. He asserted that weapons procurement through the year 2020 should aim to ensure technological superiority so that Russian troops will “see further, shoot more accurately, and respond more rapidly than any potential enemy.” He admitted that the defense industrial sector had “missed several cycles of modernization” over the years since the collapse of the Soviet Union, and pledged to assist the sector to reclaim global “technological leadership.”

However, Putin warned the defense industries against too much cooperation with international partners, which he cautioned could result in the adoption of “borrowed models” and the abandonment of self-reliance and military-technological and scientific independence. He stressed that foreign acquisitions should not substitute for domestic arms production, and that the main goal should be technology acquisition.

At the end of January 2012, Deputy Prime Minister Rogozin, who had been appointed head of the MIC in December 2011, announced that he would launch an assessment of new risks and threats over the next 30 years to Russia’s national and technological security and independence. Such a new assessment, he asserted, would provide a basis for revamping military industries for equipping the armed forces.⁶⁰ He had stated in early January that “there are good reasons to close the issue of purchasing foreign weapons from now on and raise it only as an evident exception from the general rule.”⁶¹ In mid-February, Rogozin submitted an over-\$100 billion plan to refurbish the defense industry by 2020.⁶² At the same time, he called for Russia to step up its contacts with the NATO Research and Technology Organization, but urged that Russian scientists who are detailed to the organization not cooperate with the scientific work of the organization, but merely gather intelligence.⁶³

⁵⁸ Keith Crane and Artur Usanov, “Role of High-Technology Industries,” in Anders Aslund, Sergei Guriev, and Andrew Kuchins, eds., *Russia After the Global Economic Crisis*, Peterson Institute for International Economics, 2010, p. 122; Susan Jackson, “Arms Production,” *SIPRI Yearbook 2010* (Oxford, UK: Oxford University Press, 2010), p. 261.

⁵⁹ *BBC Monitoring Former Soviet Union*, February 6, 2012; *CEDR*, March 16, 2012, Doc. No. CEP-358016.

⁶⁰ *CEDR*, January 31, 2012, Doc. No. CEP-358006.

⁶¹ Matthew Bell, “Russia,” *Jane’s Defense Industry*, February 1, 2012.

⁶² In early February 2012, Rogozin called for Russia’s defense industries to “develop a compact, mighty, fearsome army armed to the teeth.”

⁶³ *Interfax*, February 9, 2012.

On February 14, 2012, Chief of the General Staff Makarov publicly revealed that the Defense Ministry had decided not to purchase domestically-produced armored personnel carriers and tanks for the next few years until better armored protection was developed. This announcement immediately was denounced by Rogozin, who stated that Makarov was not the only one who made decisions about arms acquisition. Not backing down, Makarov referred to the purchase of the Iveco armored vehicles in stating that “we only buy weapons where our industry will not have breakthrough positions in the coming five to ten years.” He re-emphasized, however, that the Defense Ministry would not purchase foreign weapons, even as a stopgap measure, without technology transfers.⁶⁴

Russian Military Training Exercises Involving Simulated NATO Engagement

Some observers have voiced concern that Russia’s recent defense acquisitions from NATO member states could be used in military exercises that simulate attacks on NATO allies. Below is a description of various Russian exercises, previous and planned, that could be illustrative of possible areas of concern:

- In October 2011, the Russian and Belarusian defense ministers agreed to host a 2013 “Zapad” (“West”) military exercise in Belarus, “to help prevent foreign aggression.”⁶⁵ Details on the exercise have not been announced, though the two countries held an exercise by the same name in August-September 2009 (see below).
- In September 2012, Russia will conduct the “Kavkaz” (“Caucasus”) military exercise in southern Russia. Despite initial reports, Russia recently has denied that the exercise will include its military forces in Armenia and in the occupied regions of Georgia (Abkhazia and South Ossetia).⁶⁶ Georgia has raised concerns that the exercise may simulate operations against it. There is a slight chance that a few armored vehicles being supplied by the Italian Iveco firm might be available for the exercise.
- In September 2011, the Russian-Belarusian “Union Shield” exercise reportedly simulated repulsing a NATO attack. The exercise was held in central and southern Russia and involved about 7,000 Russian troops, about 5,000 Belarusian troops, and a few invited Ukrainian troops (below the total number of 13,000 troops subject to observation under the OSCE’s Vienna Documents on Confidence and Security Building Measures).⁶⁷ Belarusian Chief of the General Staff Petr Tsikhanovskiy announced that the focus of the joint exercise would be countering operations like those carried out by NATO in Libya and Afghanistan.⁶⁸ Seemingly to reassure NATO countries that had been alarmed by exercises in 2009 (see below), Makarov stated that “we made a decision to hold the Union Shield-2011 exercises on Russian territory, far from the borders with NATO member states in order to demonstrate the transparency and the peace-loving policy of the Russia-Belarus Union.”⁶⁹ One part of the exercise was held

⁶⁴ CEDR, February 14, 2012, Doc. No. CEP-330001.

⁶⁵ CEDR, November 6, 2011. Doc. No. CEP-950023; Belapan News Agency, October 26, 2011.

⁶⁶ Ministry of Foreign Affairs of the Russian Federation, *Press Release: Regarding the Nineteenth Round of the Geneva Discussions on Issues of Security and Stability in Transcaucasia*, April 6, 2012.

⁶⁷ OSCE, *Istanbul Document 1999*, November 16, 1999; *Vienna Document 2011 on Confidence- and Security-Building Measures*, November 30, 2011.

⁶⁸ *Interfax*, August 29, 2011.

⁶⁹ *Interfax*, August 26, 2011. For commentary on this statement, see Roger McDermott, “Russia and Belarus Prepare Union Shield 2011,” *Eurasia Daily Monitor*, September 13, 2011.

along with air defense forces of the Russia-led Collective Security Treaty Organization in Astrakhan Region in southern Russia. Russian media reported that Syrian troops were invited and underwent training to shoot down NATO aircraft during the exercise. Russian and Belarusian media did not report use of any NATO-derived weaponry during the “Union Shield” exercise.⁷⁰

- In August-September 2009, 6,000 Russian and 6,000 Belarusian troops conducted the “Zapad” (“West”) military exercise in Belarus along its borders with Lithuania and Poland and in Russia’s Kaliningrad exclave, and 7,000 Russian troops conducted an associated “Ladoga” (a lake near St. Petersburg) military exercise in areas bordering Baltic and Scandinavian countries. The Zapad exercise ostensibly involved operations against terrorists who had infiltrated into Belarus and the eastern part of the Kaliningrad Oblast from the territory of Lithuania, but actually simulated repulsing a NATO attack on Belarus, according to many observers. The Ladoga exercise ostensibly involved repelling a terrorist attack launched from Lithuania, but the main focus appeared to be on operations on the territories of the Baltic States and Finland. The Ladoga exercise included an amphibious landing in Kaliningrad.⁷¹ According to some allegations, a nuclear strike on Poland also was simulated. A major goal of the exercises was to practice advanced technology “net-centric” warfare by brigades as part of the reforms being undertaken by the Russian military. NATO objected that the exercises were operationally linked and that Russia should have invited observers in accordance with commitments under the OSCE’s Vienna Documents (Belarus reportedly did invite observers from Latvia, Lithuania, Poland, and Ukraine).⁷² Russian and Belarusian media did not report use of any NATO-derived weaponry during the exercises.

VI. U.S. Policy Perspectives

Administration Views

According to U.S. officials, the George W. Bush and Obama Administrations opposed France’s sale of the Mistral-class amphibious assault ships, though neither appears to have made public statements condemning the sale. Senior Obama Administration officials did, however, reportedly criticize the proposed sale in bilateral consultations with French officials, including during a February 2010 meeting between then-defense secretary Robert Gates and President Sarkozy.⁷³ In seeking to dissuade Paris, U.S. diplomats reportedly argued that the decision could send the wrong message both to Russia and NATO allies in Central and Eastern Europe, particularly after Russia’s invasion of Georgia. They reportedly urged the French government to explore alternative confidence building measures with Russia that would have less potential to destabilize the region.⁷⁴ U.S. Administration officials have not publicly criticized the sale of additional military

⁷⁰ CEDR, August 30, 2011, Doc. No. CEP-950129.

⁷¹ Jacob Kipp, “Ten Years of Anti-NATO Exercises by Russian and Belarusian Armed Forces,” *Eurasia Daily Monitor*, September 29, 2009; Roger McDermott, “Zapad 2009 Rehearses Countering a NATO Attack on Belarus,” *Eurasia Daily Monitor*, September 30, 2009; Kaarel Kaas, “Words and Steel,” International Center for Defense Studies, Tallinn, Estonia, September 19, 2009.

⁷² NATO, *Weekly Press Briefing by NATO Spokesman, James Appathurai*, November 18, 2009.

⁷³ See: Doreen Carvajal, “French Deal to Sell Ships to Russia Criticized,” *New York Times*, December 28, 2010; Vladimir Socor, “France Stonewalls U.S. Attempts to Discourage Warship Sale to Russia,” *Eurasia Daily Monitor*, December 9, 2010; and “The Cruel Sea,” *The Economist*, February 10, 2010.

⁷⁴ Vladimir Socor, “France Stonewalls U.S. Attempts to Discourage Warship Sale to Russia,” *Eurasia Daily Monitor*, December 9, 2010.

equipment to Russia by German and Italian companies and do not appear concerned that these sales could have significant regional security implications.

Some analysts suggest that the Obama Administration's lack of more vocal opposition to its allies' recent military sales to Russia is at least partly due to the priority it has placed on improving ties with Moscow. The Administration launched a "reset" in bilateral ties with Russia in 2009 and has been a proponent of extending this policy approach to the NATO-Russia relationship.⁷⁵ The Obama Administration's National Security Strategy (NSS), released in May 2010, asserts that the United States endeavors "to build a stable, substantive, multidimensional relationship with Russia, based on mutual interests. The United States has an interest in a strong, peaceful, and prosperous Russia that respects international norms." In his February 2011 threat assessment, Director of National Intelligence James Clapper stated that "Russian military programs are driven largely by Moscow's perception that the United States and NATO are Russia's principal strategic challenges and greatest potential threat." In his 2012 threat assessment, Clapper appeared to stress the limited nature of Russia's military reform efforts, stating that they "will not—and are not intended to—enable Moscow to conduct sustained offensive operations against NATO collectively."⁷⁶ The Defense Department's new strategic guidance, released in January 2012, also appeared to take a more benign view of Russian intentions, stating that as part of efforts to bolster NATO and ensure European security, "our engagement with Russia remains important, and we will continue to build a closer relationship in areas of mutual interest and encourage it to be a contributor across a broad range of issues."⁷⁷

In the context of the U.S.-Russia "reset," the Obama Administration may be reluctant to publicly oppose the sale of military equipment to a country with which it is seeking to develop new areas of cooperation and that it believes does not pose a direct military threat to NATO. The Administration may also want to avoid potentially negative consequences in its bilateral relations with key western European allies. France, Germany, and Italy have been important partners to the United States on a range of foreign and security policy issues, including in Afghanistan and in efforts to curb the Iranian nuclear program. On the other hand, the Baltic states, Poland, and others have also contributed significant resources to NATO operations and to advancing U.S. security interests.

As noted previously, Administration officials appear to be skeptical of proposals at NATO for formal consultations on allied military sales to third countries. In this regard, they agree with some other allies that NATO is not the appropriate forum for discussions of arms exports. They stress the importance of enforcing and strengthening existing national and multilateral conventional arms export control mechanisms, including at the EU level. U.S. officials may be reluctant to support mechanisms that could lead to scrutiny within NATO of U.S. bilateral arms sales. Among other things, they may contend that such forums ultimately could increase tension within the alliance, without actually addressing the larger concerns about specific arms sales.

⁷⁵ For more information on U.S.-Russia relations, see CRS Report RL33407, *Russian Political, Economic, and Security Issues and U.S. Interests*; and CRS Report R42006, *Russian Military Reform and Defense Policy*.

⁷⁶ U.S. Senate, Select Committee on Intelligence, *Statement for the Record on the Worldwide Threat Assessment of the U.S. Intelligence Community*, James R. Clapper, Director of National Intelligence, February 16, 2011; *Unclassified Statement for the Record on the Worldwide Threat Assessment of the U.S. Intelligence Community*, January 31, 2012.

⁷⁷ U.S. Department of Defense, *Sustaining U.S. Global Leadership: Priorities for 21st Century Defense*, January 2012.

The Arms Export Control Act (AECA) and International Traffic in Arms Regulations (ITAR)

It appears that existing U.S. arms export control law and regulations, specifically the Arms Export Control Act (AECA) and the International Traffic in Arms Regulations (ITAR), have played a role in limiting sales from allied countries to Russia. Given the decades-long record of close defense cooperation between the United States and its NATO allies, a significant amount of allied equipment contains U.S.-developed or U.S.-made components that would be subject to ITAR or other U.S. statutory third party export restrictions. As noted above, Dutch and American companies involved in the production of components of Iveco's Lynx armored vehicles reportedly refused to grant licenses for the transfer of this technology to Russia. The involvement of a U.S. firm indicates that ITAR could have played a role in this decision. In October 2010, before agreeing to terms with the French government on the Mistral, Russia announced an international tender for the purchase of two amphibious assault ships. Along with France's DCNS, companies from NATO member states Spain and the Netherlands reportedly submitted proposals. However, the Spanish and Dutch designs reportedly were ruled out of contention because both included U.S. technologies or components and therefore would be subject to ITAR restrictions.⁷⁸ Officials from some allied member states point out that these and other regulations could significantly constrain Russia's ability to acquire more advanced military technology from NATO allies.

Section 38 of the Arms Export Control Act (P.L. 90-629, as amended; 22 U.S.C. 2778), provides the statutory authority for the President to establish ITAR. Through Executive Order 11958, as amended, the President delegated this authority to the Secretary of State, who in turn delegated the authority to administer ITAR primarily to the Deputy Assistant Secretary for Defense Trade Controls and Managing Director of Defense Trade Controls in the Political-Military Bureau of the State Department. Of particular note is that ITAR requires prior authorization of the U.S. State Department before any nation that has previously received defense articles or defense services from the United States can subsequently re-transfer any such items to a nation not partially or otherwise exempt from various ITAR restrictions. Russia has no such exemption from ITAR's provisions, so any nation that wishes to re-transfer U.S. munitions list items or components previously exported to it to Russia, must receive prior written approval from the State Department before it can do so.⁷⁹

Furthermore, Section 3(d) of the Arms Export Control Act (AECA) expressly requires that before the President can authorize "the transfer of any major defense equipment valued (in terms of its original acquisition cost) at \$14, 000,000 or more, or any defense article or related training or other defense service valued (in terms of its original acquisition cost) at \$50, 000,000 or more," he or she must first submit to the House Speaker and the Senate Foreign Relations Committee a written certification regarding the proposed transfer giving specific information about it. This information must include (1) the name of the country or international organization seeking to make the transfer; (2) a description of the article or service to be transferred, including its acquisition cost; (3) the name of the proposed recipient of such article or service; (4) the reasons for the proposed transfer; and (5) the date when the transfer is proposed to be made.

⁷⁸ Patrick Thomas Baker, *A Study of the Russia Acquisition of the French Mistral Amphibious Assault Warships*, Naval Postgraduate School – Thesis, Monterey, CA, June 2011. pp. 44-48.

⁷⁹ The ITAR is found in Title 22 of the U.S. Code of Federal Regulations, Subchapter M. Of particular relevance to the re-transfer issue are Part 120 which defines various terms such as "defense article" and "defense service" and "reexport" or "retransfer" (section 120.19); Part 123 deals with licenses for the export of defense articles, and section 123.9 sets out the requirements for approval of "reexports" or "retransfers." For more analysis, see CRS Report RL31675, *Arms Sales: Congressional Review Process*.

For a non-allied nation such as Russia, Congress would have 30 calendar days to review the proposed transfer. If, prior to the end of those 30 days, the Congress enacted a joint resolution of disapproval, it could block the proposed transfer. To be able to permit the transfer to occur in the event that Congress did pass a resolution of disapproval, the President would have to veto the disapproval resolution and have his veto sustained.

Congressional Views

Some Members of Congress voiced strong opposition to France's sale of the Mistral and have called on the Obama Administration to inform Congress of future arms sales by NATO allies to third countries.⁸⁰ In the 111th Congress, Rep. Ileana Ros-Lehtinen introduced legislation calling on the Administration to urge France and other members of NATO and the EU "not to sell major weapons systems or any offensive military equipment, such as naval warships, to the Russian Federation," until Russia has, among other things, withdrawn military forces from Abkhazia, South Ossetia, and Transnistria, and halted sales of advanced weapons to state sponsors of terrorism.⁸¹ In the 112th Congress, Rep. Ros-Lehtinen's proposed 2012 Foreign Relations Authorization Act includes a reporting requirement for the Secretary of State to submit to Congress an annual report on "sales and financing of defense articles in excess of \$50,000,000 by NATO member countries to non-NATO member countries."⁸²

VII. Prospects for Future Allied Sales to Russia

As discussed previously, French, German, and Italian companies' sales of military equipment and technology to Russia have exposed tensions within the alliance regarding its relations with Moscow. Some allied governments express concern that the willingness of other allies to sell significant military capabilities to Russia could decrease trust and cohesion within the alliance. They suggest that additional sales—particularly in the absence of formal discussions at NATO of the regional security implications—could further strain relations within NATO. They contend that, collectively, past and possible future sales could enhance Russian military capabilities in ways that would pose an increased security threat to some NATO members.

Several factors could influence the extent to which European members of NATO pursue additional military sales to Russia. These include:

- **Continued market pressure on the European defense industry and government willingness to promote arms exports to countries outside NATO and the EU.** As European defense budgets continue to decline, European defense companies have increasingly focused on developing new export markets. Although some governments acknowledge the domestic economic benefits of exports, they underscore their commitment

⁸⁰ In December 2009, six U.S. Senators wrote to France's ambassador in Washington, D.C. to express their opposition to the proposed sale and their concern that the sale would violate provisions of existing arms export control agreements. Letter to Ambassador Pierre Vimont signed by Senator John Kyl, Senator John McCain, Senator Tom Coburn, Senator Roger Wicker, Senator Sam Brownback, and James Risch. December 18, 2009. http://thecable.foreignpolicy.com/posts/2009/12/21/gop_senators_send_letter_expressing_concern_over_french_arms_sale_to_russia.

⁸¹ 111th Congress, H.Res. 982 *Expressing the sense of the House of Representatives that France and other member states of the North Atlantic Treaty Organization and the European Union should decline to sell major weapons systems or offensive military equipment to the Russian Federation*. Introduced December 16, 2009.

⁸² 112th Congress, H.R.2583, *Foreign Relations Authorization Act, Fiscal Year 2012*. Sec. 1041. Introduced July 19, 2011.

to existing arms export control mechanisms and emphasize that they would not approve sales that would alter the regional military balance.

- **Calls for increased transparency at NATO on bilateral military sales to Russia and their security implications.** The United States and other allies appear reluctant to support formal consultations at NATO on bilateral arms sales. However, calls for increased transparency and information exchange on proposed sales could prompt additional, if *ad hoc*, discussions of such sales within NATO.
- **The role of ITAR or other international conventional arms export control arrangements.** As noted above, Russian officials have expressed concern about a perceived European reluctance to transfer sensitive military technology to Russia and the restrictions in place to prevent such transfers.
- **Russian willingness to continue to acquire military equipment and technology from NATO members.** As noted, there is considerable debate within Russia over the merits of acquiring foreign military equipment and technology. Some analysts highlight President-elect Putin's ambivalence about such acquisitions, while others argue that Russia must pursue additional acquisitions if it is to meet its ambitious defense reform goals.
- **European reactions to political developments in Russia, developments in Russian defense policy, and developments in its management of relations with NATO.** European leaders welcomed the election in March 2008 of Dmitry Medvedev as president of Russia, with many expressing hope that he would spur economic and defense modernization and renew cooperation with NATO and the West. Putin's re-election as president in March 2012, the Russian government's handling of political opposition at home, and Putin's critical rhetoric toward the West could lead some to re-assess their approach toward Russia in the coming months. Changes to Russian force posture and its approach to cooperation with NATO in areas such as territorial missile defense could be of particular concern. On the other hand, positive developments in NATO-Russia cooperation, for example, in Afghanistan or countering piracy, could prompt calls for increased engagement, including in defense cooperation.

VIII. Possible U.S. Policy Options

In light of the aforementioned factors, U.S. policymakers might consider a number of policy options to shape U.S. and NATO policy on allied military sales and to address the effects of these sales on alliance cohesion. These include:

- **Rigorous enforcement and congressional oversight of U.S. arms export control law and regulations.** As noted above, a significant amount of allied military equipment contains U.S.-developed or U.S.-made components that would be subject to ITAR or other U.S. statutory third party export restrictions. ITAR requires U.S. Government authorization of the re-transfer of U.S. defense articles or defense services above a certain value to countries not otherwise exempt from ITAR restrictions. Furthermore, the Arms Export Control Act requires the President to notify Congress of its intent to authorize a re-transfer of U.S. defense articles or defense services at least 30 calendar days before authorizing the proposed transfer.
 - **Increased transparency and information exchange among NATO allies on bilateral military sales to countries outside NATO and the EU.** Proponents of NATO consultations to assess military acquisitions of third countries emphasize that they do not advocate a formal NATO role in regulating the export of conventional arms. They have, however, urged their
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allies to share information on bilateral military sales, including on the level of technology transferred and the effect of the transfer on alliance security. They have called on NATO to develop institutional mechanisms to allow for such information to be requested and exchanged.

- **NATO assessments of trends in the global military balance and the effect on alliance security.** Some allies have called on NATO to take a more proactive role in assessing the security implications of the “rebalancing” of the global defense market, including declining European and American defense budgets.
- **More visible assurance of NATO’s commitment to collective defense, including along its eastern borders.** Such measures could include: continued support of NATO’s Baltic air policing mission; live military exercises in NATO member states, such as the planned *Steadfast Jazz* exercise scheduled to take place in Poland and the Baltic states in 2013; the continued updating of defense plans; and continued implementation of NATO’s territorial missile defense program.
- **Measures to enhance cooperation and mutual trust between NATO and Russia.** As discussed, NATO allies agree that partnership with Russia could lead to increased alliance security. Some allies have reportedly advanced proposals in the NATO-Russia Council for greater information exchange and cooperation between NATO and Russia on military exercises and operational planning. Proponents argue that increased transparency in military exercises could play an important role in building trust and predictability. Russia reportedly has yet to respond favorably to such proposals. Other allies question Russia’s commitment to partnership with NATO. They call on NATO to urge more constructive engagement from Russia in a broad range of areas of cooperation, including on counterterrorism, the stabilization of Afghanistan, counter-piracy, and cyber-terrorism.⁸³
- **Renewed commitment to conventional arms control measures in Europe.** Some analysts argue that efforts to improve mutual trust and security between NATO and Russia could benefit greatly from a renewed conventional arms control regime in Europe. Russia’s December 2007 suspension of its implementation of the 1990 Conventional Armed Forces in Europe (CFE) Treaty came amidst a long-standing dispute with NATO over how to limit the stationing of conventional forces between the Atlantic Ocean and the Ural Mountains.⁸⁴ Numerous policymakers and analysts have declared the CFE Treaty “almost dead,” pointing, most recently, to NATO’s November 2011 decision to stop CFE Treaty-related data exchange with Russia.⁸⁵ They add that lack of progress on the CFE Treaty has also impeded progress on other measures to promote transparency on defense policies and military activities such as the OSCE’s Vienna Documents 1999 and 2011 of Confidence- and Security-Building Measures. At the same time, significant challenges exist to reviving the CFE Treaty or to engage in other conventional arms control arrangements.

⁸³ See, for example, Dominik Jankowski, “The NATO Summit in Chicago: A Central European Perspective,” Foreign Policy Association, March 23, 2012.

⁸⁴ The 1990 CFE Treaty set limits on the number of tanks, armored vehicles, heavy artillery, attack helicopters, and combat aircraft the Treaty’s 30 state parties could station in the area between the Atlantic Ocean and the Ural Mountains. Ongoing disagreement between NATO and Russia centers on Russian calls for NATO member states to ratify the 1999 Adapted CFE Treaty, which would create on national weapons limits for each country, as compared with limits for each bloc, and NATO calls for Russia to first withdraw its military forces from Georgia and Moldova. For more information, see Oliver Meier, “News Analysis: NATO, Arms Control and Nonproliferation: An Alliance Divided,” *Arms Control Today*, April 2009; and Wolfgang Zellner, “Conventional Arms Control in Europe: Is There a Last Chance,” *Arms Control Today*, March 2012.

⁸⁵ See Wolfgang Zellner, “Conventional Arms Control in Europe: Is There a Last Chance,” *Arms Control Today*, March 2012.

Appendix A. Overview of Selected Conventional Arms Export Control Mechanisms in Europe

European countries are party to overlapping multilateral agreements that establish a framework of guidelines for the export of conventional arms and sensitive dual-use items. These agreements also establish mechanisms for consultation and information sharing among participating countries.

Systems of export controls, however, are administered at the national level—individual decisions to grant or refuse each export license are taken separately in each of the national capitals. As a result, the practical implementation of export controls may vary in accordance with national interpretations of criteria and guidelines, national bureaucratic arrangements, or the adoption and enforcement of export control laws and regulations at a national level.

The Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies (Wassenaar Arrangement)

The Wassenaar Arrangement became operational in 1996 as the successor to the Coordinating Committee for Multilateral Export Controls (COCOM), an organization that coordinated restrictions on dual use exports to Communist countries from 1949 to 1994.⁸⁶ With the inclusion of neutral and formerly Communist countries, Wassenaar was founded to increase transparency and foster greater responsibility in transfers of conventional arms and dual-use items, and to ensure that such items do not undermine regional and international security. There are now 41 participating countries, including 31 of the 34 countries that belong to NATO and/or the European Union, and Russia.⁸⁷

There are four main elements to Wassenaar. Participants have agreed to:

- maintain national export controls for items included on a common Munitions List and a common List of Dual-Use Goods and Technologies;
- apply a series of agreed guidelines and best practices in making national export control decisions;
- report to one another regularly on transfers and denials of controlled items to non-Wassenaar countries; and
- exchange information on sensitive dual-use goods and technologies.

Perhaps the most important difference between COCOM and the Wassenaar Arrangement is the enforcement mechanism. COCOM operated on the basis of “consensus,” and functioned without the existence of a treaty or specific legal authorization. In reality, COCOM “consensus” gave any member—and that member was most likely to be the United States—a veto over the export by any other member of a controlled good or technology. The Wassenaar Arrangement, by contrast, relies on national discretion

⁸⁶ For more information on the Wassenaar Arrangement, see CRS Report RS20517, *Military Technology and Conventional Weapons Export Controls: The Wassenaar Arrangement*; and <http://www.wassenaar.org/>.

⁸⁷ The three exceptions are Albania, Cyprus, and Iceland. There are 21 countries that belong to both NATO and the EU. Besides Russia, the other non-NATO and non-EU participants in Wassenaar are Argentina, Australia, Japan, Mexico, New Zealand, South Korea, South Africa, Switzerland, and Ukraine.

with coordination and does not require prior notification of transfers. The Arrangement does envision “more intensive consultations and more intrusive information sharing” among six major weapons suppliers: France; Germany; Italy; Russia; the United Kingdom; and the United States.

The European Union Code of Conduct on Arms Export Controls

The European Union (EU) provides another multilateral layer of controls on conventional arms exports for its 27 member states. In December 2008, the EU adopted a new act defining common rules for exports of military technology and equipment (Common Position 2008/944/CFSP). The act lists eight criteria which EU member states must consider when deciding whether to grant an export license for items on the EU Common Military List, or for dual-use items when the end user is military or internal security forces:

- consistency of the export with international commitments such as arms control treaties and arms embargoes;
- risk that the export would be used for internal repression or human rights violations;
- risk that the export would provoke or prolong armed conflict within the destination country;
- risk that the export would undermine regional peace and security;
- potential effect of the export on defense and security interests of friends and allies;
- compliance of the purchaser with international commitments, attitude toward terrorism, organized crime, non-proliferation, and export controls;
- risk of undesirable diversion or re-export to third parties, risk of reverse engineering and unintended technology transfer; and
- risk that the export would undermine the sustainable development of the recipient by excessively diverting resources to armaments, risk that the export is incompatible with recipient’s technical and economic capacity.

The 2008 act enhanced and expanded the EU’s arms export framework in a number of ways. The eight basic criteria had already been the core of the EU’s earlier 1998 Code of Conduct on Arms Exports. In a legal context, however, the 2008 Common Position elevates the Code of Conduct from a voluntary political agreement to formally binding EU legislation. The Common Position also extended the Code to cover brokering licenses, transit licenses, and technology transfers in addition to export licenses; linked all items on the EU Common Military List to the Code; and emphasized the importance of end-use guarantees for exported articles.

Some analysts assert that the 2008 act raises standards for EU arms exports and increases the overall coherence of EU arms export policy. The act improves member state coordination by requiring extensive consultation and information sharing: member states are required to share information on military exports with one another in an annual report; notify one another when an export license is denied and explain the reason for refusal; and consult with the denying member state when granting an export license that has been previously denied by that member state.

The Council of the EU organizes a Working Group on Conventional Arms Exports (COARM) in which member states discuss arms control priorities and periodically review the Common Position. Member states regularly exchange information with a view to reaching a common understanding about destination countries and reducing divergences in the way applications are considered. Member states may also

request consultations when a sensitive destination raises concerns or doubts—24 destination countries were reportedly discussed in consultation in 2009 and 2010. According to the Council of the EU, France’s sale of the *Mistral* to Russia was the topic of “an exchange of views and information” between the member states in COARM.⁸⁸

COARM, however, is a forum for exchanging views and information and for raising concerns and comments; it does not make enforcement decisions. It is significant to recall that within the agreed EU framework the member states still implement export controls on a national basis. Decisions on the EU’s Common Foreign and Security Policy such as Common Position 2008/944/CFSP are adopted by member state consensus and considered binding, but analysts note that political peer pressure is considered the main form of “enforcement.” In other words, member states are expected to apply the provisions of the Common Position, but there is no EU agency for enforcing the agreement—CFSP decisions are not subject to enforcement by the European Commission or the European Court of Justice. Despite the Common Position and the regular exchanges and consultations it promotes, the decision-making process still takes place almost exclusively in national capitals. Some observers argue that the overall coherence of European arms exports therefore remains subject to differing national interpretations of the criteria.

Domestic legal challenges may potentially represent an additional avenue of “enforcement” on arms exports. In August 2009, for example, two advocacy groups filed a petition with Belgium’s Council of State, the country’s Supreme Administrative Court, challenging the validity of export licenses that had been granted to arms manufacturer FN Herstal. The licenses would have allowed the company to fulfill a €12 million (about \$16 million) small arms contract with Libya. In October 2009, the court ruled in favor of the petitioners and suspended five licenses pertaining to the delivery based on the Libyan government’s widespread violations of fundamental rights and freedoms. Among other things, the court reportedly ruled that the granting of the export licenses violated the principles of the EU Code of Conduct.⁸⁹

The case of Libya also demonstrates that even widely shared interpretations of the arms export criteria can change over time in light of unforeseen global developments. During the violence in Libya in early 2011, the EU’s annual report on military exports showed member states had licensed €343.7 million (about \$451 million) in arms exports to the Gadhafi regime in 2009.

National Level Export Controls

National laws establish the bureaucratic framework for the day-to-day operation of national export control systems. The institutional mechanisms governing arms export control in EU and NATO member states tend to reflect similar principles and are generally implemented in comparable ways. In France and Germany, for example, the exports of “war weapons” and the export of “other defense related goods” or “other military equipment” are each regulated by specific laws and are overseen by designated ministerial agencies. Particularly large or potentially controversial requests for export licenses require the approval of high-level national security councils comprised of the head of government and key ministers. The deliberations of these committees are classified, but French and German officials indicate that key

⁸⁸ European Parliament, *Parliamentary Questions – Decision by France to sell Mistral class warships to Russia and compliance with EU Common Position 2008/944/CFSP*, February 1, 2011. <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+WQ+P-2011-000760+0+DOC+XML+V0//EN>.

⁸⁹ Hughes Dorzee, “FN Weapons in Libya: Licenses Suspended,” *Le Soir*, October 30, 2009. Open Source Center EUP20091030024003; U.S. Commercial Service, *European Union: The new EU Code of Conduct on Arms Export Controls*, January 2010. The following month, however, Belgium’s licensing authority replaced the suspended licenses with new licenses that allowed FN Herstal to complete delivery.

considerations in the approval processes include the proposed level of technology transfer and the potential effects on the regional security situation. In Germany, the export of “war weapons” are subject to particularly stringent controls due in large part to the country’s history in the Second World War.

Appendix B. European Perspectives on Arms Sales to China

In June 1989, the European Union adopted an arms embargo against China in response to the Chinese government's violence and repression against pro-democracy protesters in Tiananmen Square. The EU typically adopts arms embargoes as a formal, binding act of legislation, unanimously agreed by all the member states under the Common Foreign and Security Policy (CFSP). In the case of China, however, there is no such piece of legislation; rather, the embargo is essentially a political agreement based on a line in a European Council Declaration: "In the present circumstances, the European Council thinks it necessary to adopt the following measures...interruption by the Member States of the Community of military cooperation and an embargo on trade in arms with China..."⁹⁰ The unanimous agreement of all EU member states would be required in order to formally overturn this policy; given the number and diversity of member countries (the EU has expanded from 12 to 27 members since 1989), analysts assert that reaching such a consensus on this issue is an inherently difficult prospect.

Past Debate on Lifting the Embargo⁹¹

In 2004-2005, momentum grew within the EU for lifting the arms embargo on China in order to help develop a long-term "strategic partnership" and increase commercial ties. Starting in 2003, China had exerted mounting pressure to end the embargo, holding out the prospect of greater bilateral cooperation. France and Germany were the leading advocates within Europe for lifting the embargo, and for a time there appeared to be a sufficient consensus, with EU officials and many observers suggesting it would likely be repealed some time in 2005.

Proponents of lifting the embargo argued that it was mainly symbolic in any case and that such a move would not be a prelude to any major arms sales to China. Europeans therefore argued that the 1998 EU Code of Conduct on Arms Exports was much more significant in terms of regulating military-related exports, and that any decision to lift the embargo would be accompanied by a strengthened Code of Conduct. On the other hand, opponents of lifting the embargo argued that its symbolism and political guidance remained important and that it did have a restraining effect on sales of military equipment and other sensitive items to China.

The reaction in the United States, from both the Congress and the George W. Bush Administration, was strongly against the EU lifting the embargo. U.S. objections centered on two main lines of argument. First, U.S. policymakers argued that China's record on human rights remained poor. Lifting the embargo would therefore send the wrong signal to Chinese leaders while reducing western leverage to press for improvements. Second, despite Europeans' arguments about the mainly symbolic nature of the embargo and their application of the Code of Conduct, U.S. policymakers maintained that lifting the embargo would damage U.S. security interests. Even if ending the embargo did not result in sales of weapons systems and items such as fighter aircraft and submarines to China, U.S. officials maintained it would lead to the Chinese military acquiring more sophisticated technology in areas such as command, control, and communications systems, and radars. U.S. officials asserted that Chinese military modernization has

⁹⁰ See http://eeas.europa.eu/cfsp/sanctions/docs/measures_en.pdf.

⁹¹ See CRS Report RL32870, *European Union's Arms Embargo on China: Implications and Options for U.S. Policy*.

major implications for U.S. defense commitments in East Asia, and the increased availability of advanced technologies for China would also raise proliferation concerns.

With the scars of the 2002-2003 divides over Iraq still fresh, the EU consideration of ending the embargo threatened to cause a serious breach in transatlantic relations. Some Members of Congress indicated that, should the EU lift its embargo, they would seek to impose restrictions on sales of U.S. defense articles and technology to EU member states, and to impose restrictions on U.S. military procurement from EU member states. In 2005, both the House and Senate held hearings on the issue, and both passed resolutions urging the EU to maintain the arms embargo on China.

Within the EU, countries such as the United Kingdom, the Netherlands, and others were more reluctant to lift the embargo for strategic reasons, including the effect it would have on transatlantic relations; Scandinavian countries and others were also hesitant due mainly to human rights reasons. In any case, China's adoption of an aggressive anti-secession law aimed at Taiwan in March 2005 removed some of the momentum for overturning the embargo, and with the departure of Gerhard Schröder, replaced by Angela Merkel as chancellor of Germany later that year, EU member states in favor of lifting the embargo lost a prime advocate. Although analysts suggested that the end of the embargo was merely a matter of time, the issue was shelved and the embargo remains in place.

Renewed Debate

In a strategy paper presented to EU leaders in December 2010, EU High Representative for Foreign Affairs and Security Policy Catherine Ashton adopted what some observers termed a “pragmatic” approach to the future of the embargo. In the paper, she reportedly wrote that “The current arms embargo is a major impediment for developing stronger E.U.-China cooperation on foreign policy and security measures. The E.U. should discuss its practical implication and design a way forward.”⁹²

The paper generated some renewed interest in the debate over the embargo, but it quickly became clear that EU member states remain divided about lifting the embargo, and a serious move toward lifting it does not appear imminent. The UK remains the most significant opponent; in January 2011, a British government official told the press “Our view is that the time is not right for lifting the EU arms embargo. It is the kind of discussion that comes round from time to time. It is right that the issue is reviewed. But the time is not right.”⁹³ France remains a primary supporter of lifting the embargo; Spain, Portugal and Greece have also reportedly expressed support in recent years for lifting the embargo.⁹⁴

⁹² Andrew Rettman, “Ashton pragmatic on China in EU foreign policy blueprint,” *EUobserver*, December 17, 2010, <http://euobserver.com/884/31538>. The paper reportedly goes on to state, “Europe is no longer the main strategic preoccupation of US foreign policy... The US has recognised the need for an increased engagement with Asia and there is a risk it will see the EU as a less relevant partner given our relative strategic weakness there... The EU should continue to work for the release of individual political detainees through active diplomacy [but] China will not match EU standards of human rights and rule of law for some time to come. Future convergence is best sought by concentrating on common ground... We need to manage mutual expectations.”

⁹³ David Charter, Roland Watson, and Deborah Haynes, “Britain and EU clash on arms sales to China,” *The Times (London)*, January 12, 2011.

⁹⁴ See, for example: David Charter, Roland Watson and Deborah Haynes, “Britain and EU clash on arms sales to China,” *The Times (London)*, January 12, 2011; Jean Guisnel, “Europe Seeks to Lift Ban on Arms Sales to China,” *Le Point*, Jan 3, 2011; James Kirkup, Britain will not lift arms veto for Chinese aid, *The Daily Telegraph*, November 4, 2011; and “France, China Pledge Economic Cooperation,” Reuters, November 4, 2010.

The Eurozone debt crisis that began unfolding in Greece in early 2010 has added a new dimension to speculation about EU-China relations. Some of the EU's economically struggling member countries have looked to China for potential new business and investment deals, and observers have talked about a potential Chinese contribution to "bailing out" the Eurozone. The key question commonly involved in such discussions has been what China would demand in return. European recognition of China as a market economy is one priority for the Chinese government, but with Chinese officials continuing to press for the EU to lift the arms embargo, some analysts assert that Europe's economic problems could potentially give China and European supporters of ending the embargo more leverage in the debate. Others counter that this notion of China's leverage is exaggerated: the Eurozone is an import export market for China in any case, and it is therefore in China's economic interest that stability of the Eurozone be sustained, regardless of the fate of the arms embargo.

In the context of debates about the symbolic nature of the embargo, it is notable that EU countries appear to define what constitutes "arms" differently, and implement the embargo accordingly. Given the general nature of the language in the 1989 Council Declaration, some appear to interpret the language to apply to obviously lethal items and weapons platforms, but have continued to sell items such as avionics, radars, and a range of dual-use equipment. Approval of items included in the EU's annual arms export reports for sale to China averaged €236.6 million (about \$310.5 million) per year from 2006–2010, with France accounting for about 90% of the total.⁹⁵

⁹⁵ The EU's most recent annual report on arms exports in 2010 is the *Thirteenth Annual Report According to Article 8(2) of Council Common Position 2008/944/CFSP Defining Common Rules Governing Control of Exports of Military Technology and Equipment*. This and previous reports can be downloaded at <http://eur-lex.europa.eu/>.
