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FROM BULLETS TO SUPERSONICS: V4 ON THE BRINK OF INDUSTRIAL COOPERATION

DAV4 III EXPERT GROUP REPORT

Zoltán Bali, Daniel Bártha, Wojciech Lorenz, Gabriel Merňák, Jaroslav Naď, Róbert Radič, Milan Šuplata, Marcin Terlikowski

Edited by Marian Majer

INTRODUCTION

Defence comes at a costs, and no matter how obvious this sounds, in today's security and economic environment these words carry weight. While it is a national responsibility to establish a national defence system, cooperation is now the name of the game. First, because of waning financial resources and weak growth in Europe and, second, because of the ever-rising costs of modern equipment.

After the years of shrinking defence budgets in most European countries, the idea of defence collaboration is widely considered a necessary tool for overcoming the problems with meeting the capability needs of today`s armed forces. The Visegrád group is not an exception. Defence cooperation in Visegrád was widely described in the previous volumes of the DAV4 reports containing manifold recommendations as well as some risk alerts. First of all, reports have warned, that collaboration as such is not a panacea. If not approached properly, it may become an expensive failure. When referring to the defence industry, the reports argued that all countries of the group have their own conditions and environments for their defence companies. This is still a challenge, but not an obstacle to cooperation.

As the first DAV4 report, entitled *"Towards a Deeper Visegrád Defence Partnership"*, stated almost three years ago, potential cooperation in the area of defence industry and procurement may, under some circumstances, generate opposition from some parts of the region's defence businesses. Joint procurement means that some companies will not win an order that they would have secured had all four countries procured individually.[1] Moreover, it is clear that the opening of national procurement programmes to competitors among the V4 may hurt some uncompetitive companies, though the case might be made that those would suffer from shrinking budgets anyway. For those who are more apt at competition, co-operation may present a way to improve their chances to expand abroad and survive. Because those competitive companies tend to be concentrated in Poland and, to a lesser extent, the Czech Republic, friction was very likely. The Slovaks and the Hungarians may be tempted to insist on distributing the work among all four states as a way of propping up their companies.[2]

Unfortunately, things have not changed significantly since these words were written. Although V4 ministries of defence cooperated regularly on a variety of defence projects from 1991 until today, in fact only a few of them might be considered a true success. This is even more valid in the sphere of the defence industry. The lack of political will to implement the political declarations is the main reason for the negative situation. The NATO Wales Summit commitments as well as recent commitments stated in the documents adopted at the V4 level should be a strong incentive for reversing this negative tendency.

Although attitudes of some of the regions political representatives are not always promising with regards to the enhancing of regional defence cooperation, the Visegrád group should not resign itself to this situation. Poland, Hungary, the Czech Republic and Slovakia should still consider V4 as the key regional dimension of their security and defence policy. Neither in terms of the actual record of cooperation, nor the overall assessment of its importance and future prospects, can any other regional format be as useful as the V4 for these countries.

Despite different threat perceptions and interests vis-a-vis Russia, NATO and the EU are the main pillars of our defence and security policies. For the Czech Republic, Hungary, Poland and Slovakia, developing cooperation in the V4 format can increase their political leverage, contribute to the development of crucial capabilities and strengthen both organizations.

Changes in the current strategic environment produce new requirements for maintaining and developing appropriate defence capabilities. Cooperation in this regard can, in many respects, be the most effective method, especially when it involves nations with similar history, strategic culture and needs. Although the fields of defence industry and procurement are perhaps the most complex and complicated for finding the right way for the countries in the region to collaborate, the positive outcomes can be worth the effort invested.

Enhanced defence industrial cooperation - covering common procurement, joint development and joint research and technology projects - within the Visegrád

[1] Valášek, T. and Šuplata, M. (eds), *DAV4 Full Report. Towards a Deeper Visegrad Defence Partnership.* Central European Policy Institute, Bratislava, 2012, p.8.
[2] Ibid, pp. 8-9.

Four would be a strong impulse for all other aspects of security-related interactions among the countries of the group. First of all, it would help to regenerate the Visegrád`s tarnished reputation and strengthen the position of the group in the broader European security environment. What is even more important in the long-term, is that it would also play an important role in re-invigoration of the V4`s internal cohesion. This factor is especially relevant as differences in the management of actions of some states with regards to the Ukrainian crisis caused substantial damage to the cohesion of Visegrád. Moreover, effective cooperation in the fields of industry and procurement could also have significant economic benefits. For instance, joint investments and shared research and development capacities would ensure not only fulfilment of capability needs, but could also grant top level solutions with potential of wide market success. This could strengthen the defence industry and contribute to the attainment of certain levels of competitiveness as well as V4 independence on crucial technologies.

MAIN FINDINGS AND PRINCIPAL RECOMMENDATIONS

- The Russian-Ukrainian conflict revealed different threat perceptions and views on the possible consequences of the current crisis within Visegrád. This may potentially hamper future cooperation in security and defence. For the establishment of an appropriate environment for defence industrial cooperation in Visegrád, the mutual tuning of the capability requirements, procurement schedules and overall force posture is a precondition.
- At the working level, the V4 defence cooperation is continuing, but if the political climate remains difficult, it may not generate concrete results beyond the already agreed on projects, like the EU Battlegroup 2016. In order to avoid the deepening of strategic disagreements within Visegrád, more commitment to mutual political dialogue on various levels is needed.
- One of the main practical obstacles on the road towards a more robust V4 cooperation is the lack of agreed long-term acquisition plans and stable financial frameworks in most of the V4 countries. For this reason a strict implementation of financial commitments and a tighter attachment of the Visegrád cooperation to the NATO Defence Planning Process would inject more stability, sustainability, and thereby also credibility to the common V4 projects.
- V4 industrial cooperation is highly supported politically, but there is no visible project in the implementation phase today. Consequently, any large defence industrial project would require a strong top-down initiative. A bottom-up initiative of V4 defence companies is likely to generate only limited results, mostly due to the incompatible defence industrial bases, divergent business interests and defence industrial policies.
- There are some concrete bilateral activities but they are not making a visible impact on the V4 defence industry, let alone the European defence market. Hence, a flagship V4 defence industrial project should take the form of either joint procurement of a state-of-the-art weapons system provided by a leading US or European contractor and followed by V4 cooperation in its integration, deployment and maintenance, or a joint R&T programme in a domain within which the V4 has technological and industrial capacities.
- Cooperation among individual companies in the V4 is more feasible than cooperation under the umbrella of defence industry associations. Also, V4 national armaments directors are not equipped with comparable decision making power and authority in the defence procurement area. Therefore, the reinforcement of the regional institutional structures (such as regular meetings of the national associations of defence industry), timely and early defence industry involvement in all the different stages of capability development, and open and effective interaction between ministries of defence and defence industries, are highly recommended.
- Legal barriers represent a considerable obstacle narrowing the opportunities for collaboration from the regional and European Union`s point of view. Adjusting national legislation and defence acquisition processes within a stable legal background, in accordance with EU standards, would facilitate the work of various indigenous defence industry actors.

STRATEGIC FRAMEWORK AND EXTERNAL CONDITIONS

When considering the strategic environment for enhancing Visegrád industrial defence cooperation, one should not overlook NATO and EU principles in this area. One of the fundamentals of ''NATO - Industry policy'' comes from the *Chicago Summit Declaration* on defence capabilities. It argues for maintaining a strong defence industry in Europe and making the fullest possible use of the potential of defence industrial cooperation across the Alliance. That remains an essential condition for delivering the capabilities needed for 2020 and beyond. While NATO has no direct leverage over industry or market regulations, it has a role to play through the harmonization of national and multinational capability requirements. That is the main precondition for multinational defence industry collaboration.

Defence industries as the main provider of new defence technologies have a role to play in support of the *NATO Strategic Concept*. Effective and timely industry involvement can ultimately contribute to the enhancement of NATO´s capability development. That means early engagement of industry is of great importance in saving resources and time and maintaining a strong defence industry.

"It is often claimed that, if nations decide, industry will follow. I see that as a blatant underestimation of the role of industry, and frankly as a bit of an insult. We need our defence industry to play its full part in all the different stages of capability development – and not least in the early stages, when we are defining our requirements and capability goals, where we need innovation and creativity to help clarify a sometimes uncertain, challenging and politically sensitive way ahead."

Ambassador Alexander Vershbow
NATO Deputy Secretary General
at the 2013 NATO Industry Forum, Istanbul, Turkey

Within the European Union the importance of the European Defence Technological and Industrial Base has been emphasised by the European Commissions` activities as one of the basic components of European defence. On 24 June 2014 the European Commission presented a roadmap for measures to strengthen the Single Market for defence, to promote a more competitive defence industry and to foster synergies between civil and military research. To foster cooperation and enhance the efficiency of the sector, the Commission decided to take steps to strengthen the industry's competitiveness by supporting work to identify a new mechanism for developing defence technological standards in Europe, by supporting European defence research and SMEs, including the development of networks between defence-related regions within the EU. The importance of supporting a regional networks of SMEs and strategic clusters was highlighted also by the European Council of December 2013.

"The EU has the ambition to act as a security provider, in its neighbourhood and globally, both to protect its own interests and contribute to international peace and security. To be able to do so, we need capabilities. And to have capabilities, a sound industrial base is vital."

Catherine Ashton
High Representative of the Union for Foreign Affairs and Security Policy
European Commission Press Release, Brussels, 24 July 2013

POLITICAL CONDITIONS FOR COOPERATION IN VISEGRAD

Although the V4 Ministries of Defence cooperated continuously from 1991 until today in a variety of defence projects, industrial cooperation did not lead to one single running or successful project. A similar situation characterizes the area of procurement, although there was a chance to use the opportunity of parallel modernization processes in some of the V4 countries (for instance the modernization of fighter jets fleets in the Czech Republic, Hungary and Slovakia).

Over the last 3 years, the political conditions for moving the defence cooperation in the V4 Group to a higher level, including genuine industrial collaboration, seemed favourable. It resulted from the previous efforts of the V4 states, mostly since the Slovak V4 Presidency in 2010. Already the *Joint Communique of the Ministers* of Defence of the Visegrad Group, issued in Litomerice in May 2012, welcomed the DAV4 initiative and signaled a possibility of "joint acquisitions". What followed were more intense meetings of experts – the armaments directors of the V4 and their staff, tasked to re-evaluate options for defence industrial cooperation. The *Joint statement of the V4 Ministers of Defence* from their meeting in Brussels in June 2013 announced the following areas to be further explored by the group: wheeled and tracked platforms, ammunition, personal equipment of soldiers, counter-IED systems, unmanned systems and C4ISR. This, however, required a more sustained mechanism, which would allow the coordination of defence planning between the V4 partners – a precondition for genuine military collaboration. Such tasking – together with the point regarding the preparation of the long term vision of the V4 defence cooperation and strengthening collaboration in training and exercises – has been put on the Hungarian V4 presidency (July 2013-June 2014) by the heads of V4 governments, at their meeting in Budapest in October 2013.

The results, presented at the end of the Hungarian presidency in mid-2014, consisted of the three documents: *Long Term Vision (LTV), Framework for an Enhanced Visegrad Defence Planning Cooperation and New Opening*. The first one set the strategic goals of cooperation, the second described in more detail the tools and mechanisms to finally allow harmonization of procurement, training, exercises, investment etc., and the third, a non-paper initiated by Poland, proposed concrete projects and initiatives to fill-in the LTV and "the Framework" with content and to inform the Action Plan being prepared by the Slovak V4 presidency 2014/15 (with the Polish suggestion of the modular armoured platform as one of the most promising projects). The Slovak Presidency ensured continuity in V4 procurement cooperation, put emphasis on strengthening the cooperation of defence industry enterprises in the V4 countries, continuation of the open exchange of information in the area of acquisition projects and identifying common areas in procurement and development plans with the final objective of specific joint armament projects.

The political and practical meaning of these documents is significant. By identifying, within a single document, the purposes and the core principles of cooperation, the V4 got clear strategic guidance regarding the level of ambition, scope, time horizon and rationale for cooperation. Despite a generally weak strategic culture in the V4 countries, one could expect that the LTV will serve as a point of reference for future decisions. The adoption of the *Framework for an Enhanced Visegrad Defence Planning Cooperation* serves the same purpose. Once an administrative process is launched (meeting of the V4 Planning Group[3], proceedings of Working Teams)[4], it should become independent to some degree of the actual policy of the top V4 leadership. In practical terms, however, the situation is much more complicated and cooperation is not as smooth as one would hope.

[3]The V4 Planning Group (V4 PG) is an integrated defence planning body, in charge of the expert-level work in the field of V4 defence planning cooperation. The V4 PG explores the potential areas of cooperation with regard to capability development and provides recommendations to the V4 Senior Body of State Secretaries/Defence Policy Directors/Armament Directors on these areas.

[4]The Working Teams are supporting the V4 PG and they are non-permanent structures established on a case-by-case basis, comprised of the defense planning experts and the subject matter experts of the project areas.

DIFFICULTIES OF INDUSTRIAL COOPERATION IN V4

Motives for industrial cooperation amongst the Visegrád Four countries are manifold. One of them is the legacy of a shared past. The V4 countries all belonged to the Warsaw Pact until the demise of communism, which meant that the region's armed forces operated similar military infrastructure. Membership in the Warsaw Pact also meant that there was a clear division of labour where one country and its companies manufactured only certain types of products, reducing and limiting the defence industry actors' production portfolio to a considerable extent. As this was the order of the day for decades, the regime change found these actors in a situation with little capacity to transform their agenda to the civil sector's needs, while the number of military orders shrunk dramatically.

Soon after the fall of the communist regimes, within the boundaries of a market liberalization narrative, Western companies started to appear one by one. The rationale behind their appearance was an expectation that demand for state-of-the-art military hardware would soon be blossoming in the Eastern bloc and that due to the lack of a modern indigenous industry this demand would remain largely unsatisfied. Thanks to this, on the one hand, countries of the region enjoyed modern defence industry support from the West, which gradually made their forces NATO compatible. On the other hand, it further pushed indigenous actors into the background and isolated them further from opportunities of modernization. This resulted in the further downscaling of the national defence industry. What Western companies failed to consider, however, is that the Soviet infrastructure and existing military hardware set specific and clearly defined demands on the region's defence industry. In certain cases Western companies could not satisfy these outdated demands entirely, as their portfolio focused mostly on globalized, Western military hardware, or, if they could, it came with extra costs. This fact allowed indigenous V4 companies to survive, although in reduced form, and maintenance and upgrades of post-Soviet equipment allowed them to maintain some employment and production lines operating.

The collapse of the communist regimes also had an enormous impact on the development of the local defence companies in Visegrád. The fall in defence spending, leading to serious deficits and the loss of former export markets as a consequence of the dissolution of the Warsaw Pact and downsizing of the armed forces, both in manpower and military infrastructure, demanded reductions of defence industry capacities, a reduction of funding for research and development, and laying off a considerable number of employees. The process of privatization had a big impact too, especially in the three smaller countries of the V4. Also, the portfolios of companies were transformed as a consequence, starting to focus on maintenance, repair and small-scale modernization. Some enterprises became fully or partly restructured, which led to fundamental changes in the organization of these enterprises, as well as to the reduction of the number of employees. Some enterprises were divided into smaller individual companies to facilitate better and easier conversion and reorganization.

With the exception of Poland, we can observe long lasting and continuing stagnation as much as the elimination of defence research & technology area. It was caused mostly by the absence of state defence industry strategies and the reluctance of ministries to open effective and concrete engagement with the defence industry. Moreover, there are divisions between the two approaches to the armaments and procurements policies. Poland considers the defence sector as the backbone of the defence system of the state. That means it hardly accepts market-driven logic, proposed by both the European Union (through its regulations regarding the European Defence Technological and Industrial Base - EDTIB and the European Defence Equipment Market - EDEM) and top global contractors, seeking entrance to the Polish weapons market, which will be worth more than 30 billion EUR by 2022. From the Polish perspective, meeting the requirements of armed forces and the security of supply is the top concern. The concept is broadened to also include the ability to independently service and modify/upgrade weapons systems used by the Polish military. This approach results in a strict law on off-sets, meant to force foreign contractors to transfer technology, including source codes (or "black boxes"), to the Polish defence businesses. It is also the root of protectionist policy, favouring home defence companies over foreign off-the-shelf purchases in cases in which Polish firms are able to provide quality weapons and weapon systems. The intention of the European Commission to rapidly phase-out offsets from the EDEM puts Poland under political pressure, but according to EU law (article 346 of the TFEU), the use of off-sets is not forbidden if the state proves that a given contract is meant to safeguard crucial national security interests. And Poland is determined to use this clause in its top investment programmes.

The policy of the Czech Republic, Slovakia and Hungary towards their national defence industrial and technological base arguably places economic and operational aspects first, and the security of supply only second. Based on past investment programmes, one can make the argument, that, in the cases of these countries, the operational needs of the armed forces and the final price of the purchased defence system play the key role in deciding the scope and form of contracts. There are limited off-set requirements and home defence companies are favoured only in some niches, where they have been traditional contractors. For instance, basically none of the Hungarian companies could have any significant role in the biggest state procurements of the last decade, notably in the Gripen lease-to-buy program or in the acquisition of Cougar mine resistant ambush protected (MRAP) vehicles (although in the case of this latter procurement, the deal was brokered by one of the major defence companies, Milipol Ltd). On the other hand, the Czech Republic has been able to profit from an "off-set agreement", when leasing Jas 39 Gripen fighters since 2004, worth of 130% of the original contract value. Although the same mechanism is no longer possible due to the restrictions of EU law, there is still the opportunity to directly involve local industries in modernization projects. The likely Slovak contract on leasing Gripens could become one of the examples of such support.

The reasons for these differences are twofold: divergent strategic outlooks of the V4 states and incomparable defence industrial and technological bases. Poland openly seeks autonomy in the decision to use its armed forces, and assumes that if a crisis breaks, it might find itself in a situation when Allied assistance comes only with delay and the armed forces would need robust support from industry. The Czech Republic, Slovakia and Hungary see their armed forces more as one element of a larger allied machinery and, first and foremost, seem to read the trends of the Central and Eastern European security environment more positively than Poland does. Moreover, Poland is now quite openly declaring reluctance to participate in the crisis management operations and points to the need to re-configure its armed forces to be foremost able to defend the territory of the state. On the contrary, among the smaller V4 states there is still a concept of the armed forces to be used mostly for crisis management, thus as part of a larger coalition of forces. As a result, the defence sector in the Czech Republic, Slovakia and Hungary lacks the strategic weight it enjoys in Poland.

The differences at the strategic level are reinforced by the different sizes of the defence industrial and technological bases of the V4 partners. Even if the Polish defence sector is far behind countries like France, Great Britain, Germany, Italy, Spain or Sweden, it stands out in comparison to the Czech Republic, Slovakia and Hungary. There are almost 130 companies registered in the Polish Chamber of National Defence Producers, whereas a similar Czech association (AOBP) involves around 100 companies, the Slovak association (ZOBP) has around 30 and the Hungarian association around 25 (although not all companies are registered in associations). The direct employment in the Polish defence sector is estimated at around 18-20 thousand people, in the Czech Republic around 11 thousand and in both Slovakia and Hungary less than 3 thousand people. The consequences of the difference in scale is the preferred model of cooperation – Poland is likely to look at its partners from the Visegrád countries as subcontractors or vendors of components in the supply chain fully controlled by Polish businesses.

This approach is incompatible with ambitions of the Czech, Slovak or Hungarian companies, which in some niches consider themselves able to play a role of prime contractor, or at least a peer partner in a project. The true challenge is, however, the fact that the size of the Polish defence sector makes it relatively easy to find a national, Polish substitution for components potentially to be delivered from the Visegrád. In other words, in many potential common industrial projects, Polish defence businesses may not have a clear economic interest in the cooperation, and if they do, acquiring a complete license for a technology developed by another V4 state could be the preferred option (as in the case, for instance, the components of the Polish artillery system DANA).

Another characteristic of the V4 defence industry, which complicates the cooperation, is the structure of the sector. In Poland, the defence industry remains in the hands of the state with the exception of aeronautics branch, which has been almost entirely privatized. The majority of Czech, Slovak and Hungarian companies are privately owned with very few exceptions, such as Rába Automotive Holding, which dominates the Hungarian defence industrial sector with its 1500 employees (although the majority of the products are for civilian use). Publicly-owned companies are, according to some assessments, more likely to engage in projects, which do not necessarily need to be economically sound, but vital for military/operational reasons. Privately-owned companies, on the contrary, care mostly about their financial condition or, simply, the value of their shares. Consequently, they may not be interested in projects whose sole rationale is political or operational.

In other words, whereas the Polish defence sector should be regarded as largely centralized under the newly established Polish Armaments Group (PGZ), with the exception of the aeronautics branch, shipyards and some smaller companies, active mostly in the military electronics/sensors/communications market, private companies in the remaining Visegrád countries are largely independent of each other (with the exception of subsidiaries of the top European and American contractors). As a result, Poland may be inclined to involve defence companies controlled by the state within the PGZ in a common V4 project for purely political and military reasons. On the other hand, the Czech, Slovak and Hungarian companies may very well refuse such a proposal, if it constrains, rather than broadens, their growth envelope.

In spite of the above, defence industries of the three smaller Visegrád countries are still able to produce desired defence products. Those products are still able to meet current minimum military requirements in traditional branches as well as in new and emerging technologies. Moreover, the necessary brain capacity is also at the disposal of these countries, which can serve as a base for developing the industry and cooperating with regional partners. The limitation, however, is that the defence industry in these countries goes beyond defence-related issues, first and foremost because of dual-use products in the production of which civilian companies play a significant role. This means that when designing strategies for the establishment of an effective and strong defence industry, the interests of civilian firms are also to be taken into consideration.

Until today, the fruits of cooperation are visible on a bilateral rather than a regional level. For instance the Slovak industrial company ZVS holding a. s. has cooperated since the year 2000 with some Polish defence industry entities. Cooperation is focused on research, development and production of 155 mm calibre ammunition for artillery systems KRAB and KRYL. In 2013 the production licence was transferred to the hands of the Polish defence industry for the further production of the ignitions for 155 mm artillery ammunition. Joint certification of the Slovak 155 mm artillery ammunition is underway in Polish armed forces involving collaboration between VTSU Záhorie and WITU Warsaw. Notable examples of bilateral collaboration within the V4 framework is the Slovak and Czech cooperation in the joint Czech and Slovak venture CZ – Slovakia in Military Repair Plant Nováky, based on the intention to unify both armies' small arms inventories. There was also the hope that the Czech-Slovak BMP-2 modernisation project within which Military Repair Plant Trenčín and EVPÚ Nová Dubnica could be the main Slovak industrial participants. However, there is a question mark on serial production for the Slovak and Czech Armed forces. In addition there are some sporadic discussions between V4 Defence Industry Associations with a clearly declared will to cooperate but with no concrete projects underway. Not only for this reason is cooperation firm to firm more feasible than cooperation based on Defence Industry Association platforms.

INDISPENSABLE CONDITIONS FOR EFFECTIVE COLLABORATION

With the shared experience of communism and the difficult path towards European and transatlantic integration, similar challenges regarding the transformation of post-Soviet armed forces, geographic proximity and warm relations with the USA, the V4 format should remain cooperation format of choice for all the regional countries. For almost the entire decade, through the accession of V4 to NATO and the EU, the Group has been a useful vehicle for leveraging the position of Central and Eastern Europe in both organizations. This was achieved mainly through the coordination of actions at the political level.

The best proof of the success of the V4 as a "defence cooperation brand" is the fact that in recent years the "VIDEFCO" has been considered one of Europe's top regional collaboration clusters, right next to the Franco-British tandem and the NORDEFCO. Still, it has not delivered any meaningful all-V4 capability and its flagship project, the V4 EU Battle Group, scheduled for 2016, required unusual effort. Ambitious ideas, like joint programmes to modernize post-Soviet equipment (helicopters and armoured infantry vehicles), or R&T projects involving development of state-of-the-art technologies (like the future soldier systems), eventually collapsed following disagreements over specific goals (technical, operational), money and burden sharing.

The way towards effective industrial cooperation must be paved with a thorough demand analysis in which the needs and requirements articulated by the individual states are clearly assessed and evaluated. Among the top concerns for the further development of mutual coordination on the V4 level in the fields of defence and procurement are the lack of long-term acquisition and investment plans and sustainable financing frameworks, which would prevent some of the Visegrád countries from changing cooperation priorities with every change of leadership in the defence or foreign policy area. It was one of the reasons for the failure of previous capability and defence industrial initiatives, with the Mobile Air Defence Radars being just the latest example. In this context, the attachment of V4 defence cooperation to the NATO Defence Planning Process, as declared in the LTV, is meant to be a further safety measure and to inject more stability and sustainability and thereby also credibility into the common V4 capabilities projects.

Logically, the instability of modernization priorities goes hand in hand with the recent 20-30% budget cuts in the three smaller Visegrád countries between 2009 and 2013, which are constraining the defence sector's financial room for expansion. What followed was a virtual halt of investments and a reduction of training efforts, undermining the credibility of their armed forces. In this regard, according to the recent announcements of regional officials, the Ukraine crisis is going to cause a change of approaches to the financing of defence in Visegrád. Poland, with its defence budget already at least 1.9% of GDP, expressed the will to increase this number over the NATO advised threshold of 2% from 2016 on. The Czech government committed to increasing military spending from approximately 1.1% to 1.4% of GDP by 2020. According to the agreement made by the Slovak political leadership, the defence budget should be raised to 1.6% of GDP from 2016 to 2020, while halting its decrease since 2015. Hungary reiterated its declaration that it would increase military expenditures starting in 2016 - from the present 0.8% of GDP up to 1.39% of GDP in 2022. The Czech, Hungarian and Slovak commitments need to be implemented with a far-reaching goal of moving towards the 2% guideline within a decade as agreed to by the Allies in the Wales declaration. Also, with personnel costs in most of the V4 states still around 60% and consequently pushing procurement expenses much below the recommended 20% share of the whole budget, the distribution of the defence budgets of the V4 countries also requires a correction in the long run.

The mutual tweaking of the capability requirements and military expectations is another condition which must be met for the establishment of a more appropriate environment for industrial cooperation in Visegrád. Scenarios for usability and possible deployments of the armed forces still do not align between V4 countries. The divergence and inequality of the level of ambitions on the desired defence capability inside of the V4 countries, compounded by differences in defence industry governance, in many cases generates impassable barriers for concrete regional industrial collaboration. The position of Poland, emphasizing the role of Article 5 and accommodating a policy of "territorial defence first", is in this aspect different from the positions of the rest of the Visegrád group. Therefore, the V4 cooperation towards generating capabilities can be also seen as a way of maintaining all Visegrád partners' commitment to defence. Besides that, through practical defence cooperation of the V4, the US could also be kept engaged and interested in Central and Eastern European security, although encouragement for it may slightly differ among V4 states. The efficiency of any further cooperation within Visegrád would also depend on the practical response of countries to the Alliance's effort regarding the reassurance of the Central and Eastern European region, not only within the Readiness Action Plan, but, most importantly, after 2015, when the issue of sustaining the beefed-up Allied presence in the CEE will be atop NATO's agenda.

RECOMMENDATIONS – ENABLING DEEPER COOPERATION

Based on the previous arguments and considerations of the broader strategic and regional context, the overall conditions for moving cooperation to a new level and launching joint defence industrial projects seem to be unfavourable. The different reading of the current international environment, reinforced by failures in some common procurement initiatives, have already worsened the climate at the working level of senior military and political decision-makers from within the armaments directorates.

Nevertheless, **in 2014 the Visegrád Group noted significant achievements with adopting the *Long-Term Vision and the Framework for an Enhanced Visegrad Defence Planning Cooperation* which create – for the first time in V4 history – both a strategic concept of the goals, scope and level of ambition in V4 defence cooperation, as well as a mechanism for coordination of defence planning, including acquisition issues.** If properly implemented, these documents could create a waterproof structure, able to uphold the cooperation despite political differences and the occasional worsening of the climate between the partners. This should be the top task for the group, if it wants to develop a true vehicle for regional cooperation.

It is likely that cooperation among the V4 in the short-term will focus on two core deliverables: 1) the EU Battle Group 2016, which can be developed into a flagship military capability of the V4, offered both to the European Union and NATO and enabling further cooperation in training, logistics and exercises; and 2) the participation of V4 – as a cluster – in NATO's Readiness Action Plan, including Allied exercises (Connected Forces Initiative), the Very High Readiness Joint Task Force (the "spear") and the Multinational Corps North-East in Szczecin. At the first glance it seems that there is little space for defence industrial cooperation within these two deliverables. However, in the **long-term, there is still room and, more importantly, both political and military reasons exist for elevating defence industrial cooperation to a higher level.** One further area for improving the cooperation, which could evolve into the third core deliverable, is the field of supersonics and air defence modernization. It would be efficient if three out of the four V4 countries would operate JAS Gripen multirole fighters, with the opportunity for enhancement of regional cooperation in the fields of training, logistics and R&T. For this to become a reality would require not only a full acknowledgement of the above described difficulties, but also detailed analysis on how to overcome them.

In line with the previous arguments the specific recommendations of this paper are:

- **The use of governmental V4 funds for a joint R&T project,** as a market stimulation tool, which could further evolve into a common procurement programme, is one of the possible ways forward for V4. A joint R&T would virtually create a one off market for a consortium of V4 companies, which, if provided with adequate financing, would be forced to do the following: 1) establish functional links between themselves, which might not have appeared had there been no public money injected into a given niche, and 2) development of a technology demonstrator, which should be attractive for the armed forces of the V4 states. Further, such governmentally-sponsored R&T projects would be exempted from the EU law on defence procurement, and could virtually exclude any non-V4 contractor. A potential area for such a project should be innovative and emerging technologies, where the V4 can demonstrate a technological edge even without a state-of-the-art technological and industrial base. Potentially attractive examples are light UAVs, C4ISTAR systems or any other network enabled capabilities, which could rely on the existing defence industrial base in the V4 countries.
- **The establishment of the V4 fund, however,** is not a completely new idea. In compliance with the previous considerations of this option, many potential legislative problems, as well as those with the implementation would need to be overcome. Therefore an incremental approach while implementing this idea should be considered. In other words, the option of **ad-hoc individual contributions to the potential common projects** might be more appropriate in the short and medium-term.
- In a broader context, for defence industry cooperation to be feasible and sustainable in the long run, a **stable and progressive financial and industrial prognosis** from the government is an absolute must. This vital element was so far missing in some of the Visegrád countries. Only this can establish a reliable environment in which long term plans and projects can be coordinated with regional partners, harmonized and then carried out safely. This is linked to providing a stable legal environment, in accordance with EU standards, which can articulate national and regional interests effectively in order to enhance and assist the work of various indigenous defence industry actors.
- Industrial cooperation must be in accordance with a **thorough demand analysis,** in which needs and requirements articulated by the individual states are clearly assessed and evaluated. One of the top concerns for the further development of mutual coordination at the V4 level in the fields of defence and procurement are the lack of long-term acquisition and investment plans and sustainable financing frameworks, which would prevent some of the Visegrád countries from changing priorities of cooperation with every change of leadership in the defence or foreign policy area.
- The harmonization of policy for defence industry governance inside the V4 based on EU and NATO approaches could be supportive of concrete procurement cooperation. The cornerstone of this harmonization could be a **common V4 defence industrial strategy.** This strategy might be the starting point of the V4 countries initiative to revise the European Defence Industrial and Technological Base Strategy.
- **Defence industries and their associations have to be treated as equal partners by their local governments.** Although formal links between ministries and the defence industry were established through various agreements and formal frameworks, there are limited examples of confirmations of the effectiveness of these relationships.
- Before any concrete industrial cooperation is financially supported by the V4 countries, they should also **develop an export strategy**. Without having an idea of what market openings they aim to reach, no serious business plan can be created. Members of the defence industry should be included in the process. **Setting up a V4 Industrial Advisory Group (IAG),** with members from each V4 country coordinating positions before the NATO IAG, would be essential.

- So far the discussions on cooperation concentrated on the first phases of life cycle management (R&D and production and procurement), while the rest of it (operations and maintenance; upgrade and/or life extension; disposal) have some meaningful background or capacity. Having in mind the costs of the individual elements, it would be worth analysing whether it would not be more effective, if we would support the industry to **develop meaningful capabilities in the fields of operation and maintenance, upgrade and life extension** or to discuss the possibility of different specialization by each country. This kind of specialization was so far only partially the focus.
- An adequate amount of attention has to be paid to **exploiting the tools and opportunities on the European Union level.** Coordination of V4 in the activities on the EU level (for instance within the European Defence Agency) could potentially produce significant outputs in defence research and development. V4 member states could take appropriate measures to **create a V4 defence research and development cluster** as a vital base for its defence industry.
- **To support the introduction of V4 defence industries into the European Defence Equipment Market,** national authorities should take appropriate common measures to enhance their experts participation in the process of the **development of defence and hybrid standards** (applicable also to civilian an defence technologies) in Europe. The new opportunity for a harmonized V4 approach is a negotiation on using EU funds and programs in the sphere of defence-related research and innovation.
- The realization of concrete industrial cooperation based on the common V4 declaration to harmonize armaments plans, as well as defence procurement processes, should be **guaranteed by an interstate agreement.** This treaty should enforce commonly agreed upon industrial activities as well as providing financial and nonfinancial national contributions.
- V4 countries could consider the application of innovative market approaches in the industrial area, for example **Public Private Partnership (PPP) projects.** PPP principles are applicable in defence mainly for long lasting training, infrastructure and equipment projects. The implementation of the PPP approach can afford an opportunity to possess defence capabilities and to avoid inaccessible immediate defence expenditures at the same time. However, it requires a healthy, competent and competitive defence industry capable to accommodate reasonable risks.
- The V4 countries should harmonize their approach to their use of the **EU funds and programs in dual-use research and innovation projects** and consider possible cooperation, particularly encouraging consortia and applying for EU funding of defence and dual-use research projects. The exchange of lessons learned could speed-up the implementation of needed processes and increase the fruitfulness of getting additional sources. Making this happen will require active and sustained state support of research and development domains.
- **The V4 Battle Group** could be a test case for interoperability improvement through **joint procurement projects.** The projects based on V4 armed forces capability gaps in the context of joint V4 contributions to multinational operations should be an engine for industrial cooperation. The V4 defence industry should be engaged early as a main potential supplier.
- To enhance industrial cooperation, nations should **remove all remaining legislative obstacles.** Although the implementation of EU legislation in defence procurement and defence market regulations (directive 2009/81/EC) should have harmonized V4 national legislation and procedures in defence acquisition, there is still some disharmony left to be resolved.

EXPERT GROUP

Zoltán Bali
Head of Defence Planning Department, Ministry of Defence of Hungary, Budapest

Daniel Bártha
Executive Director, Centre for Euro-Atlantic Integration and Democracy, Budapest

Wojciech Lorenz
Senior Research Fellow, Polish Institute of International Affairs, Warsaw

Gabriel Merňák
Former National Armaments Director, Bratislava

Jaroslav Naď
Senior Fellow, Central European Policy Institute, Bratislava

Róbert Radič
Former National Armaments Director, Bratislava

Milan Šuplata
Senior Fellow, Central European Policy Institute, Bratislava

Marcin Terlikowski
Head of the European Security and Defence Economics Project, Polish Institute of International Affairs, Warsaw

Marian Majer
Head of the Security and Defence Policy Programme, Central European Policy Institute, Bratislava

CEPI

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