Defense and industry.
Romania can not be a relevant regional player without a modern army and a strong security industry

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In September 2015, the New Strategy Center launched a series of debates and meetings under the title ”Defense and Industry Strategic Forum”, aiming to create a platform for dialogue between institutions and the private sector, as well as to identify solutions in this field. From September 2015 to February 2016, the New Strategy Center organized eight debates and workshops.

The main topics referred to the acquisition projects of fighting technique by the Romanian Army in the next decade, the need of restructuring and reorganization of the defense industry in order to become again a strategic industry, the possibility of strengthening technology partnerships between world large weapons companies and the national defense industry, the relaunching of national production of combat equipment following the strategic acquisition projects that Romanian Army will undertake, the resumption of weapons export and the inter-institutional cooperation for a viable export strategy, as well as the enhancement of the political and military strategic partnerships that Romania has due to the increasing technological and industrial cooperation in the defense field.

We need a coherent public policy in the security field, as well as we need medium and long term strategies to be undertaken and carried through by all the political forces, regardless of the successive governments in power. Because Romania is above political sympathies, above the left or right orientation.
Premises

• In the new geostrategic context of the early 90s, marked by the end of the Cold War, the national defense industry has not been considered a priority any more. The companies belonging to the national defense industry have been transferred from a centralized economy to a market economy without the necessary legislative and institutional foundations for such a complex process being established.

• The downfall of both the national and international orders has caused the loss of important financial resources necessary for the implementation of strategies and restructuring plans, resulting in unemployment, default on loans, impossibility of upgrading technology, gradual decline of research, development and engineering capabilities, disqualification for NATO standard products, and the impossibility of accessing loans or financial guarantees.

• There is still a major gap between the state companies and the Western companies, caused by aging technological and human resources. Also, the state industry is dependent on the export of traditional products and outdated technologies, as well as on the import of raw materials and subcomponents. Many of the traditional subcontractors have been disbanded, declared insolvent or bankrupt, or they are no longer performing in the security sector.

• The debts of state companies to local, social and state budgets have increased, exceeding in some cases the value of the company assets. They own land/buildings for which are paying taxes, but which have no connection with the production process any more.

• The implication of the political factor has hindered the profound change and often has altered the quality of management.

• The Public Private Partnership (state - private security industry) is fragile, the private sector often playing the role of subcontractor for foreign companies and providing assistance in the integration of new equipments on existing platforms.

• The defense and security field is over-regulated, with unconform and unorganized laws and stipulations, often confusing, contradictory, and impeding the activity.

• The unpredictability of government funding for coherent multi-annual acquisition programs affected both the state and private industry. The practice of fulfilling too ambitious or even unrealistic requirements comparing to resources resulted in supplying the army with expensive products more than once, while the products interoperability was questionable.

• The state non-involvement was visible also in the military research underfunding and a quasi-public-private cooperation in this field. An inter-institutional strategy to determine a coherent research and security technologies development process is lacking. Not any major national project has been developed during the last 25 years in order to properly equip the army and to relaunch the export of based on advanced technology Romanian products.
History

- In 1989, the national defense industry has almost 100 companies with about 130,000 employees, and the Romanian arms export turnover reached $800 million.

After successive reorganizations, 22 state-owned enterprises work today, 15 being grouped within CN ROMARM SA, a company under the Ministry of Economy. The security industry is also represented by 17 private companies.

The part that belongs to the state still needs an objective assessment and restructuring, which is quite difficult due to the local political interests and, sometimes, the trade union pressure. There are companies that hardly survive in the absence of orders, but there are also companies with important export contracts, with similar activities. These companies might merge, but often the temptation to keep the boards of directors is too big, most of the members being appointed on subjective criteria, as a reward for political services, without having the professional training in order to be able to take useful decisions for the companies they lead. Moreover, the unions have a strong influence, even though there are far fewer employees (about 5,900). The workforce is aging, the average being 53 years, while the constant lack of orders from the state accelerated the departure of many competent employees to the private sector or abroad.

- All the companies lack the adequate technology, and the ammunition and weapons are manufactured using equipments and technology from the 60s - 70s, in the best case from the 80s, which negatively reflects on the products competitiveness for export (in other cases, as SC Pirochim Victoria, the equipments are from 1936, and in UM Sadu the cartridges are packed manually). The state investments in technology for the defense industry were very poor. Also, the state lost control over the production of strategic elements like powder, Romania depending on imports from Serbia. A modest investment started in 2015 with €400,000 for the resumption of powder production in Făgăraș, hindered by bureaucracy. Its duration can not be predicted given that the total amount is estimated at around €60 million.

- Romania has a weak internal market for the armament industry, a deficiency aggravated by the lack of predictability of the Defense Ministry funding programs. The economic crisis has forced the Defense Ministry to reconsider the procurement plans and the acquisitions were sporadic, based on the Minister of Defence power of persuasion and his relation with the Prime Minister and the Minister of Finance rather than on a real procurement plan. This had some major negative effects. Firstly, the army did not follow, most of the times, a multi-year planning process, which impaired the logistics and the interoperability of systems (equipping the battalions with different communications systems, deficient in terms of interoperability and maintenance costs, and equipping the motorized infantry brigades with various combat systems, as MLI and Piranha fighting vehicles). Secondly, these deficiencies were overlapped by the temptation to include unjustified requirements for the products, becoming impossible or too expensive to integrate the old equipments with the new products, which also had to last longer and meet the future challenges. In some cases, this approach has led to purchasing overpriced products, with major problems in the theaters of operation. This was the case for Piranha transporter: a different kind of turrets were requested and, in the end, the final product was more expensive because Romania has actually paid the research and development costs to the producing company.
Another vicious approach is the practice of (re)allocating the funds between ministries at the end of the year, which causes a conjectural and disarticulated reaction and generates much higher future costs. In December 2015, the ground forces bought 60 Iveco trucks in order to reduce the huge shortage they were facing. The acquisition was not part of a truck procurement strategy for the whole army (the number being very small compared to the total needs estimated at 10,000 trucks) but it was determined only by an immediate opportunity created by some year-end funds that had not been originally scheduled. Given such a sizeable demand, a coherent multi-annual program would be 100% justified and could also provide a chance to the domestic industry. Instead, a cyclical approach and the absence of centralized procurement strategies give no guarantee that the next products will not be manufactured by another producer, a situation which will have a negative impact on the maintenance costs and interoperability.

Not least, the sporadic financing, the unpredictability of procurement costs, the decreasing amounts allocated for exercises and trainings, that characterized the period of massive budget cuts, have affected the maintenance process in terms of rhythm and consistency. The security industry, especially the private industry, has lost orders for the maintenance on many products, which was negatively reflected on their stability.

The export has noticeably saved the national defense industry. Romania’s arms export has developed over the past 5 years: 2010 – $163 million, 2011 – $180.8 million, 2012 – $106.1 million, 2013 – $235.1 million, 2014 – $211.3 million, 2015 (the first three quarters) – $132.5 million. Also, the state sector performed well in terms of exports: Romarm’s exports value reached $83.33 million in 2014 and $95.40 million in 2015. Still, there are many delayed orders due to the outdated technology, and without a real plan of refurbishment, supported by significant investments, there is a major risk of future limitation of exports. Despite the increases, the arms export represents a very small share of the total Romanian exports (only 0.25% of the total of €57 billion in 2015). Romania has a European market share of only 0.44%, meaning it lacks quality and modern products for export.

Romania has invested very little in research too. The achievements are due to the people that accepted, because of their passion, to create and innovate within a system with little interest in investing for future. For example, the Romanian Ministry of Defense allocated 2.67 million lei (roughly $670,000) for research in 2015, while Serbia annually invests $3 million for military research. Between 2006 - 2015, the amount allocated to research was nearing $6.5 million, including the costs of personnel and utilities. Moreover, there is no inter-ministerial cooperation, as for example between the Ministry of Economy and Defence, to address common research topics and to finance, even at a minimal level, significant security programs. The fifth generation F-35 aircraft, Leclerc AMX 56 tank or Leopard tank have been developed through these kinds of research and development programs. We need the cooperation between the state and private entities in the research and development field for the security industry, based on a robust involvement of the state. There are private companies in Romania investing now in research for the military field more than the Romanian state does (see the private investments for the development of unmanned systems).

The Romanian state was not able to economically capitalize on its presence in theaters of operations and on the considerable human and financial effort made in Iraq or Afghanistan. It
has not negotiated major contracts to support the national industry production, compared to other countries that were far less involved with troops in these areas of conflict. For example, in 2009, Serbia has managed to conclude a $300 million contract with Iraq for purchasing 20 trainer aircrafts, a contract which has already been completed.

**Present: the army and the national defense industry in the new security context**

- The development strategy of the national security industry must take into account that it addresses to a market driven by possible threats (hybrid, asymmetric, cyber) and by the missions within NATO (expeditionary, intelligence, early warning). A feature of the arms market is competitiveness imposed by the high requirements. In addition, this type of market is fluctuating, depending on the evolution of tensions and military conflicts, and also having a strong political dimension: the purchase of military equipment is often associated with national security guarantees of the seller state (which favors the main global military actors). Particularly in Romania, the fluctuation of orders is connected to the domestic politics (in 2007-2008, it was considered that the development gap of Romania should be covered also by the resources that should have been allocated to the army; therefore, some programs were delayed such as the acquisition of the multirole aircraft. Another example is the Government’s attitude during the subsequent economic crisis, which has seriously reduced the defense budget, as the military was considered to be a lower social and political risk).
- The diversified threats of the hybrid war are shaping the requirements of the industry. NATO and Romania should consider the steady increasing of the Russian military force in the Black Sea following the illegal annexation of Crimea. Moscow plans to build 30 warships for the Black Sea fleet until 2025, the financial burden being estimated at more than $2 billion. Air forces have been deployed in Crimea to test more often the responsiveness of NATO states, and missile systems capable of hitting targets in Romania, Bulgaria or Turkey have been installed. Russia is building a technologically advanced network of A2/AD (anti-access, area denial) capabilities aimed at blocking the access of NATO forces in the Black Sea area and increasing the relevance of the Russian military in the Eastern Mediterranean. In the context of Russian military intervention in Syria, the Black Sea fleet has become of greater importance for Russian expeditionary operations in Eastern Mediterranean. Russia’s secular quest for getting access to the warm seas is supported by Kremlin with considerable resources, while the Crimean military infrastructure is vital for providing logistical support to the Tartus base, in Syria. The response to these developments can only be credible deterrence, as demonstrated by the rapid response capability, precise and almost 100% fatal for unexpected threats, either hybrid or conventional, but "disguised" in asymmetric or cyber attacks.
- The programs for responding to unexpected, rapid, air and sea (eg. submarines), hybrid and terrorist attacks, and for countering the conventional challenges should be the priority (it is unlikely that the current conventional attacks could degenerate into widespread conflict, but there are already conventional challenges that would be deterred by a quick reaction), given the probability and type of early threats, as well as the ability of the Allies to dislocate the first troops. The ground attacks require a long preparation/dislocation time, they are detectable and
thus predictable, and they give the Allies time to react. Moreover, under the European Reassurance Initiative, NATO ground troops will be deployed to Romania. So, the defense and hence the industry should focus on the most likely threat and on NATO requirements for the necessary support in the region. Given these new challenges, the Romanian Army begins to plan its acquisitions based on the fact that “defense begins at home”. In the current context of regional security, Romania becomes highly relevant within NATO by positioning as an outpost of observation (detection and early warning sensors, intelligence), logistical outpost (interoperability with NATO troops and equipments), and early defense (response systems capable of annihilating hybrid, asymmetric and cyber attacks).

Future: what should be done?

• At the legislative level

  • Transforming the political agreement reached in January 2015 into a law reflecting the imperative of 2% of GDP budgetary allocation for defense, in order to further strengthen the political commitment. The law should be initiated either by the government or the parliament, as an expression of political consensus.
  • Selection by the Ministry of Defense of the military programs that define the essential interest of national security, through a law assumed by the political parties (a direct consequence of the political agreement of 2% of GDP budget allocation for defense), thus bringing orders to the domestic industry.
  • Evaluation by the Secretariat of CSAT (The Supreme Council of National Defense), in collaboration with the Ministry for Relations with the Parliament and the Legislative Council, of the current legislative framework in order to eliminate obsolete, conflicting or overlapping provisions.
  • Replacement by the government of the current criterion – ”the lowest price” with the ”technical and economic” criterion as a means of assessment of the acquisitions for the national security system (the combat technique should have a long life cycle, and meet the real requirements of operation, maintenance and interoperability. The acquisition of cheaper capabilities, but with a less longer life or less quality leads to higher costs on medium and long-term, because the outdated products create a vulnerability of national defense and request a new budget allocation).
  • Adoption of the law on national security industry, enabling the development of this sector and determining the return of the military investments to the economy. (There is a bill prepared by the Ministry of Economy after two years of consultations, and also a legislative initiative of MPs; the most effective way would be to merge the two projects, in order to submit such a law in Parliament by the end of the year. Because of the two rounds of elections, local and parliamentary, the Parliament activity will be greatly reduced).
  • Change of the 346 law on organization and functioning of the Ministry of Defence, in order to reform the Ministry and turn the General Staff into the Defense Staff through the concentration of central command bodies, reducing the number of hierarchical levels, cutting red tape,
reducing duplication of functions/structures with similar responsibilities and reducing the time of decision-making cycle in favour of the time allocated for the execution.

- Initiation by the Government of the law on multiannual planning and financing of defense acquisitions, requested by the high costs and long duration of use of the military equipments.
- Reassessment by the Ministry of Economy of the Strategy for National Security Industry, authorized by CSAT decision at the meeting on 12/17/2013 and approved by 1157 Government Decision on 12/23/2013. The document has a multidisciplinary and integrated approach, covering a wide range of areas, based on the estimated needs of all the structures of national security, as well as on the multiannual financial allocations for the next 10 years, including a perspective until 2050. The document should be disclosed (it is classified as "restricted information" at present) to be submitted to debate in a broader framework. In addition, the strategy must take into account the new requirements made by the Army, following the regional security climate worsening after the annexation of Crimea, as well as the increasing of the budget allocation for military procurement, which should contribute to the involvement of public and private domestic defense industry in major procurement programs.

- **Procurement policy**

  - The adoption by the CSAT of a clear decision regarding the military capabilities to be financed from the state budget by 2027, the programs of national security interest and the beginning of negotiations for concluding "Government to Government" agreements in order to give more substance to the economic dimension of bilateral relations and greater consistency to political and military partnerships of Romania. Arms trade and industry benefit from a powerful lobby of their own governments, so it is desirable to have predictability and a relatively balanced distribution of the security procurement. This way, bilateral technological cooperation will be ensured, based on mixed consortia for the development of specific products in Romania and, whenever possible, for manufacturing and providing maintenance in Romania.
  - Synchronized acquisitions between the institutions of national security for products that require multi-annual expenditures, in order to ensure greater interoperability and to obtain better purchasing conditions for the state.
  - Imposing a minimum share of the defense budget (minimum 25%) dedicated to procurement spending.
  - The emergence of significant resources to equip the Army and the predictability of granting in 2017 - 2027 decade request large-scale projects involving both state and private national security industry, that will relaunch the national weaponry production with high added value. This can not be done without cooperation with experienced international companies in this area, decided to develop products in Romania based on firm orders. One example is the endowment of the Romanian Army with 8X8 armored vehicles and 4X4 armored and soft-skinned vehicles, necessity estimated at around 3,000 pieces. In addition, such a project would also contribute to the development of transport capabilities, represented by platforms and trucks. This would be the first major project undertaken in the last 25 years, with considerable effects on internal
economic plan, and a future export potential that could give Romania a chance to return on the traditional markets.

- The acquisitions should focus on products without interoperability or maintenance problems, and having a long life cycle. Drawing the Document with Operational Requirements (DCO) and the Acquisition Technical Specifications (STA) should avoid the ambiguous or unrealistic requirements which would unnecessarily increase the cost of acquisitions, as unfortunately it has happened before.

**Initiatives at the national level**

- The state must have the courage to conclude the evaluation process and privatization of the state companies in the security sector. Merging enterprises with the same profile should be considered, as only the political component - present in the boards - would be affected. Moreover, Romania cannot afford to support companies at subsistence level, exclusively on electoral considerations, a greater efficiency on the domestic and international markets being strongly needed. In 2015, only 5 of the 15 companies of ROMARM had a relevant share on export: UM Cugir, FA Cugir, UM Sadu, U Carfil, and UM Mija.
- Following the completion of merging process and privatization, the state must assume a new management and a real investment policy in the companies it should keep. The production of powder and ammunition should be upgraded and developed, as well as other products considered indispensable by the Army in crisis situations. In our view, the enterprises that the state decides to keep should be coordinated by the Ministry of Defense, as this institution is the main beneficiary of the security industry. In parallel with this decision, the money obtained from the dismantling of expired ammunition and selling the metal derived from obsolete technique should be allocated for the modernization of weapons and ammunition companies for the next decade.
- In parallel with taking over of viable state companies producing ammunition and weapons by the Ministry of Defense, we propose to eliminate the overlapping exports. ROMARM and ROMTEHNICA have competed on foreign markets not only once, and as a result the winner was a foreign third party. ROMTEHNICA should be the only representative of the Romanian state for the arms export, due to the existence of a strong network of military attachés, familiar with specific issues and having relations with local defense ministries, who can be more effective in promoting Romanian arms exports. The Ministry of Defense must also evaluate the opportunity of creating new positions of military attaché in Africa and Asia in particular, to support the export of special technique.
- Making major investments in research and establishing cooperation between the national security institutions and both public and private companies in Romania. The government must undertake the duty of developing a national research program, while modernizing the legal framework to allow private investment in research, having the guarantee that the validated final results will lead to national projects financed by the state.
- Investments in dual-use capabilities, both military and civilian. For example, the unmanned aerial vehicles (UAVs) can be used both for military and civil purposes: gathering data in rescue
missions, border monitoring to prevent illegal migration, poaching areas or deforestation in the Danube Delta monitoring, roads traffic monitoring, Conpet Transelectrica networks monitoring to reduce theft. An integrated surveillance system would be created this way that could be shared in terms of information and costs between different institutions (Ministry of Defense, Interior, Environment etc.), significantly contributing to the development of UAVs production in Romania.

- Adopting a policy of technology standards enforcement in all procurement, manufacturing, research and development activities; the use of technology standards enables the interoperability of the systems, facilitates the dual use (military and civilian) and, not least, significantly reduces operating/replacement costs.
- In parallel with the development of capabilities designed to counter the A2/AD (anti-access, area denial) type developed by the Russian Federation in the Black Sea, Romania has the human resource to set up an entity of cyber-defense to counter possible cyber-attacks against critical or military infrastructure on the national territory. Compared to the deterrence potential that such a capability would generate, the costs are not too high and it could be completed within 3-5 years.
- The Ministry of Defence has also the capability to develop a large program of civil engineering. In 2017, the ministry may begin the construction of a large number of dwellings in the main garrisons (around 2,500 and 6,000 dwellings), without a budgetary effort, by using the proceeds from the rents compensations allocated to those who would benefit from these dwellings during the military service. 21,276 people received compensation for rent amounting to 138.76 million lei in 2014, and 149.39 million lei in 2015. There are large external operators with experience in civil engineering, which could financially support such a program based on public-private partnership, also allowing the state to pay the share of the rent, however allocated to the military employees, for a negotiated period. The same program can be developed in other institutions that pay large amounts of money for rents compensation, such as the Ministry of Interior. At the end of the period, the state takes possession of the dwellings/apartments. Beside the advantage of sparing budgetary resources, such a program may contribute to the development of the construction market in Romania and have a multiplier effect in the economy.

- **Initiatives at the international level**

  - Participation in programs with other NATO member states, as part of initiatives to meet the derogatory provisions of Article 21 (c) of the Emergency Ordinance no.114 / 2011 (*Present emergency ordinance shall not apply to contracts governed by specific procedural rules of an international organization purchasing for its own purposes or to contracts which must be granted in accordance with those rules)*.
  - Participation in programs with other EU member states, within the framework of bilateral or regional initiatives that fall within the derogatory provisions of Article 22 (c) of the Emergency Ordinance no.114 / 2011 (*Present emergency ordinance shall not apply to contracts granted under a cooperative program based on research and development to which only Member States participate and which is jointly conducted by at least two Member States, aimed at*)
developing a new product and, where applicable, the later phases of all or certain parts of the life cycle of the product).

- Romania must take the decision for getting integrated in a multinational project carried out at NATO level for developing a defensive capability, according to the national defense needs. Such a program could be MEADS (Medium Extended Air Defence System), developed for Germany by the MBDA European group, which includes Finmeccanica SpA, Airbus Group and BAE Systems companies, and by the Lockheed Martin American company. The German and Italian armies will be equipped with this system, and possibly the Netherlands and Poland. Also the Romanian Ministry of Defense initiated exploratory talks on a possible participation in the MEADS project. Beside the advantage of being part of an initiative encompassing both European and American high technology and providing a robust deterrent capability, the national industry would benefit from such a program, including by exporting this system.

- Promoting the Smart Defense concept at regional level, which aims at developing capabilities that could have a regional market. Romania may be the promoter of such an approach, based on the fact that in any case we can not have an autarchic system producing everything we need. In a region dominated by exacerbated national feelings and nationalism, including in some NATO countries, such an attitude would strengthen Romania's profile as a serious and credible partner. We may start the development of naval capabilities or surveillance radar, jointly operated with Bulgaria, or we may propose joint development programs with Poland, Croatia and Montenegro in the cyber field.

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Who we are

New Strategy Center is a non-governmental organization designed to provide a debating framework on topics of major interest for Romania, especially in areas in which our country should be a regional hub, as well as to enhance its strategic partnership with the USA. New Strategy Center’s members are citizens actively involved in projects that may induce a change for the better in Romania, and companies which have decided to support the New Strategy Center’s initiatives.

The President of New Strategy Center is Ionel Nițu, entrepreneur, general director of the Intelligence Analysis and Trends Assessment Center (CAIET) and IntelSeCo. He is also the president of the Association of Business Intelligence Professionals (ASIA), doctor of military science and information, lecturer and associate professor. Ionel Nițu is supported in his endeavour by people who work in the private sector or who used to work in the Presidential Administration, the Ministry of National Defense, and the Ministry of Foreign Affairs. The Scientific Board of the New Strategy Center is formed by Alexandra Gătej, Mihaela Nicola, Sergiu Celac, Teodor Meleşcanu, Dan Dungaciu, Vlad Nistor, Bogdan Olteanu, Iulian Fota, Teodor Frunzeti, Dan Dima, Radu Ioanid, Marcel Foca, Maricel Pirtea, Ioan Costaș, Bogdan Banu and Mircea Dumitru, the rector of the University of Bucharest, who has recently joined the New Strategy Center team.

Our mission

New Strategy Center is a laboratory of ideas and strategic projects in the main fields of national interest. We aim to gather valuable people around this initiative, holding a solid professional experience, and endorsing Euro-Atlantic values, who believe in Romania’s chance to improve its status and place within the Euro-Atlantic community. We want to contribute to building a solid profile of Romania in the Euro-Atlantic area and to increase the relevance of our country in the Black Sea and the Balkan region, by capitalizing the status that Romania has in this area, as a member of NATO and EU, as well as a strategic partner of the USA.

New Strategy Center submits relevant topics both in terms of threats to national security and opportunities for economic development of the country to the general consideration and debate.

New Strategy Center aims to be the platform where the major projects of this nation to be initiated, debated and followed up. We believe that the main issues pertaining to national security entail the necessity of political and national consensus. We need a coherent public policy in the security field, as well as we need medium and long term strategies to be undertaken and carried through by all the political forces, regardless of the successive governments in power. Because Romania is above political sympathies, above the left or right orientation.