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DEFENCE INDUSTRIAL POLICY IN SERBIA:

DRIVERS AND INFLUENCE

By
Katarina DJOKIC
Researcher in Belgrade Centre for Security Policy

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SUMMARY

Serbia is a candidate country for the EU membership, with a signed Administrative Arrangement with European Defence Agency and declared interest in strengthening cooperation with the EU members in the field of defence research and technology. At the same time, the core strategic orientation is military neutrality and supporting domestic defence industry is regarded as one of the instruments to pursue this. Nevertheless, Serbia is yet to adopt defence industry development programmes and no coherent policy could be observed in the previous period.

Serbian defence industry is dominated by large state-owned arms manufacturers, managed by the Ministry of Defence. These enterprises have struggled with accumulated debts, unresolved ownership structure and outdated production capacities. In the recent years, the Government has tried to solve these issues through a series of not fully transparent measures, such as conversion of debts into creditors' shares, favourable loans and direct financial assistance. Furthermore, the new law on arms production authorizes partial privatization of state-owned defence companies, whereas the Government is still required to retain the golden share.

The Ministry of Defence is pushing for modernization of production capacities and enhancing investment in research and development. To this end, Serbia is interested in taking part in joint European projects, but is also open to cooperation with other countries, such as Belarus, Russia and United Arab Emirates. However, investing in new technologies will have to be juggled with efforts to safeguard employment, which seems to be the Government's primary concern at the moment.

Keywords : European Defense Agency, NATO, Military Technical Cooperation, Serbian Ministry of Defence, DTIB Development Programme, Arms Import and Export, Serbia, Russia.

POLICY FRAMEWORK

Serbia does not have a strategic document on defence technological and industrial base (DTIB). The current defence strategy (2009) affirms in a single sentence that Serbia 'in accordance with its national interests, maintains and develops defence industry capabilities and potentials, [both] on its own and in cooperation with other states'[1]. Industrial Development Strategy 2011-2020 does not explicitly mention defence industry, bar in problem analysis of decoupling between research and industry.[2]

The draft defence strategy presented in May 2018 emphasizes developing own DTIB as a precondition for fulfilling Serbia's core strategic orientation – military neutrality.[3] Hereby

[1] Defence Strategy of the Republic of Serbia (2009): 14.
[2] Strategy and Policy for Development of Industry in the Republic of Serbia (2011): 82.
[3] Draft Defence Strategy of the Republic of Serbia (2017): 6. The document was publicly presented in 2018.

neutrality is understood as refraining from NATO membership and parallel defence cooperation with NATO and Russia. DTIB development is foreseen to improve Serbian defence capabilities, strengthen domestic industry and bring Serbian products to new markets. Priority is given to research & technology. Hence, the draft suggests an orientation against buying off the shelf, supporting instead own development. Protectionism also seems dominant over market competitiveness. However, there is a strong interest to pursue joint projects with 'other countries and international organizations'[4], though no specific areas of cooperation are proposed.

'Advancing national security through EU integrations process' is defined in the draft strategy as one of defence policy interests. It is planned to be pursued through several policies, including enhancing cooperation with the EU in the field of defence research. Serbia already signed Administrative Arrangement with European Defence Agency (EDA) (2013)[5], and participates in several EDA's databases and activities, including the EU SatCom Market project.[6]

Major changes are expected after a new law on production and trade in arms and military equipment was passed in May 2018. The Law stipulates that arms and military equipment manufacturers with public/state majority ownership[7] belong to Defence Industry of Serbia (DIS) group. Whereas the Law creates conditions for privatization of these companies, it obliges Serbian state to retain golden share.[8] For the first time, foreign investors will be allowed to have ownership in defence companies.[9] The Law also requires the Government to adopt two five-year programmes: 1) DIS capacity development programme and 2) Serbian DTIB development programme.[10] Both documents are due by January 2019.[11]

The Government's activity plan for 2018 envisages financial consolidation of eight defence companies and modernization of DIS 'key capacities'.[12] As the aforementioned programmes have not been adopted yet, it is unclear what the 'key capacities' are.

KEY POLITICAL DRIVERS

The principal actor influencing defence industry is the Ministry of Defence (MoD). The MoD plays a manifold role. First, it leads drafting relevant policies and legislation. Second, it

[4] Draft Defence Strategy of the Republic of Serbia (2017): 6. The document was publicly presented in 2018.
[5] European Defence Agency (2013).
[6] European Defence Agency (2016).
[7] There are two types of public ownership in Serbia: state ownership (the Republic of Serbia is registered as owner) and 'social' (public) ownership, the later one being legacy of the socialist system. The goal of Serbian government now is to convert the second type of shares into the state ownership. In this paper, both types will be covered with the term 'state ownership' or 'state-owned' for the sake of brevity, unless the specific type of ownership is relevant. In addition, the term "state-owned" will also refer to companies with majority state ownership.
[8] ZPiPNVO (2018): Articles 39-40 and 43-44.
[9] Including those belonging to DIS. ZPiPNVO (2018): Articles 13 and 40.
[10] ZPiPNVO (2018): Article 41.
[11] According to the Law, the programmes are to be adopted within nine months after the Law was passed (ZPiPNVO 2018: Article 41, paragraph 1).
[12] Government Activity Plan for 2018 (2018): 457-8.

administers production by issuing licences and keeping record of manufacturers.[13] Third, it manages state-owned defence companies[14] by delegating representatives into supervisory boards and setting the companies' strategic priorities. Fourth, the MoD acts as a contracting authority. Nonetheless, the competence to manage defence companies endows it with more influence than its position on the market, since some state-owned companies claim up to 95%[15] of revenues through export. Finally, part of defence technological base is situated within the MoD and Serbian Armed Forces (SAF), which wield own research and development (R&D), testing, maintenance, repair and overhaul (MRO), and demilitarization capabilities,[16] some of them employed to offer commercial services at a limited scale.[17]

In preparation of DIS and DTIB development programmes, the MoD is instructed to consult Ministry of Economy and Ministry of Education, Science and Technological Development.[18] Beyond this formal requirement, the two ministries' influence on defence industry is non-existent. None of them was involved in an interministerial body which contributed to drafting the Law, and which encompassed the MoD, Ministry of Trade, Tourism and Telecommunications (MTTT), ministries of foreign affairs, interior, justice, finance, and the civilian security and intelligence agency.[19] MTTT authorizes export and import of arms, military equipment and dual use goods.[20]

The Government is formally competent to 'monitor and direct' production and trade in arms.[21] In practice, its key influence is exercised through the 'power of purse'. State-owned companies have been struggling with long-term debts and outdated infrastructure. This poses an opportunity for the Government to influence their production policies through conversion of debts, restructuring programmes and favourable loans. Although Serbia has changed four governments since 2012, the same party has remained dominant in power and continuity can be observed regarding defence industry.

[13] ZPiPNVO (2018): Article 16.
[14] Law on Defence (2007, 2009, 2015 and 2018): Article 14, paragraph 2, Item 44.
[15] Gligorović (2018).
[16] It ought to be noted that in Serbian legislation 'production' entails a range of activities from research to demilitarization.
[17] For instance, SAF aeronautical MRO centre is currently undertaking overhaul of two Mi-17 helicopters belonging to Macedonian military (Banković, Ž. " Zvanično potvrđeno: Srbija remontuje makedonske helikoptere Mi-17" [Officially confirmed: Serbia Overhauls Macedonian Mi-17 Helicopters]. Tangosix, 20/12/2017, https://tangosix.rs/2017/20/12/zvanicno-potvrdjeno-srbija-remontuje-makedonske-helikoptere-mi-17/).
[18] ZPiPNVO (2018): Article 41, paragraph 2.
[19] Ministry of Defence (2015).
[20] Law on Export and Import of Arms and Military Equipment (2014): Articles 4 and 12; Law on Export and Import of Dual Use Goods (2013): Articles 5 and 10.
[21] Law on Defence (2007, 2009, 2015 and 2018): Article 12, paragraph 2, Item 22.

Bad debts and opaque solutions: the government's financial assistance to defence industry

In 2013, the Government adopted a fiscal consolidation programme for state-owned defence companies, with objective to solve the accumulated debts towards other public entities (e.g. municipalities, for unpaid utility bills). This document has never been published, but according to available information, it stipulated conversion of debt into companies' shares.[22] *None of the creditors publicly voiced opposition, so, for instance, the city of Valjevo ended up with 41% ownership of a local arms manufacturer.*[23]

In May 2017 the Government allocated a total of EUR 49.9 million to eight state-owned companies and four SAF MRO and testing centres, either in the form of interest-free loans or through budgetary reallocations.[24] *The assistance was said to be based on a proposal the MoD had submitted to the Government in April 2017.*[25] *However, this proposal was never published and the action seems to have been administered ad hoc, in the midst of the fiscal year.*

Although without any direct competences, the President can indirectly influence defence industrial policy by resorting to other powers vis-à-vis the SAF (adopting guidelines for capability development[26]). However, primary influence is informal. The current president held posts of Prime Minister (2014-2016) and defence minister (2012-2013). He is still undertaking activities such as visits to state-owned companies and promoting government investments in defence industry.[27]

National Assembly has significant formal legislative and oversight powers in regard to defence policy in general.[28] Nevertheless, its influence in practice is very limited, especially as the Government has a comfortable majority and party discipline is strong. For instance, 333 amendments to the current law on production and trade in arms had been submitted by opposition. Three were accepted by the Government. All 330 remaining amendments were rejected in plenary voting.[29]

INDUSTRY AND EXTERNAL ACTORS

By October 2017, 96 companies were licenced to produce arms and military equipment in accordance with the previous legislation.[30] Around 80 enterprises appear active.[31] Arms manufacturing is almost exclusively carried out by six state-owned enterprises, which

22 Tanjug/RTS (2015).
23 Central Securities Deposite and Clearing House. Statistical overview of ownership structure of companies, Issueer: Holding Korporacija Krušik – 07096364. https://bit.ly/2O3y7oU
24 Ministry of Defence (2017): 12.
25 Ministry of Defence (2017): 12.
26 Law on Defence (2007, 2009, 2015 and 2018): Article 11, paragraph 2, Item 10.
27 Ministry of Defence (2018).
28 The role of the National Assembly in the field of defence defined in Law on Defence (2007, 2009, 2015 and 2018): Article 9.
29 National Assembly of the Republic of Serbia (2018)
30 MoD (2017).
31 Judging by an overview of participants in Belgrade arms fair Partner 2017 http://www.partner.mod.gov.rs/izlagaci-2017#.W1XyplIUmUl

together employ nearly 10,000 people.[32] Three or four more arms and equipment-producing companies with state ownership are undergoing or used to be in administration.[33] Empirical evidence suggests that governments try to prevent their bankruptcy not only with financial assistance, but also by obliging the MoD to procure from them, and, sometimes, to take over management.

MoD steps in to keep a lorry manufacturer afloat

Lorry manufacturer FAP Priboj, which produced platforms for rocket launchers but was not managed by MoD, was struggling for years to pay salaries and bills, accumulating debt of nearly 70 million euros.[34] After announcements that FAP would be bought by foreign companies[35] had fallen flat, Serbian government decided to convert debts into company shares.[36] As a result, the second biggest shareholder is the national pension fund (18%), followed by the Municipality of Priboj (12%) and national health fund (12%).[37] A new supervisory committee with participation of MoD representatives was constituted in 2018.[38]

An important player in Serbian defence industry is public enterprise[39] specialized in arms trade, Jugoimport SDPR, which regularly facilitates export deals for state-owned enterprises and brokers MoD's purchases from abroad. Jugoimport has recently extended its activities to arms production. Its daughter company assembles howitzers and armed vehicles[40], and has invested in a new ammunition factory, causing some controversies, because the factory would produce the same type of ammunition as state-owned "Prvi partizan".[41] This suggests Jugoimport's independence from the Government and the MoD in formulating its company strategies. There have been concerns about possible influence of Jugoimport on policy making in the MoD, since the acting Assistant Minister for Material Resources is a former deputy CEO of this company.[42]

Private enterprises licenced for arms and military equipment production are largely small and medium enterprises pursuing defence-related projects as secondary activity.[43] DTIB also encompasses several public academic institutions. Some of them have founded own enterprises specialized in defence, adding up to complexity of ownership structures in Serbian defence industry.[44]

The only active business association, Group of Armaments and Defence Equipment

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[32] Data for these companies ("Zastava oružje", "Milan Blagojević namenska", "Prva iskra namenska", "Prvi Partizan", "HK Krušik" and "Sloboda") for 2017, retrieved from financial reports database of Serbian Business Registry Agency http://pretraga3.apr.gov.rs/pretragaObveznikaFI.

[33] "Teleoptik Žiroskopi", "Prva petoletka", "Fabrika automobila Priboj" (FAP) and "Zastava kamioni".

[34] Korporacija "Fabrika automobila Priboj" A.D. Priboj (2016).

[35] For example, D.I.K. (2015).

[36] Korporacija "Fabrika automobila Priboj" A.D. Priboj (2016).

[37] Central Securities Deposite and Clearing House.

[38] Pejović, (2018).

[39] Public enterprise is a special legal status defined by Serbian legislation and not the same as state/socially-owned enterprise.

[40] Borbeni složeni sistemi (n.d.) https://www.borbenislozenisistemi.rs/proizvodi/sistemi/

[41] Kovačević (2017).

[42] Vojinović (2015).

[43] Zrnić (n.d.)

[44] For instance, Institute of Physics Belgrade has spin-off companies Senzor Infiz and MTT-Infiz.

Manufacturers under Serbian Chamber of Commerce, gathers 76 members, including state-owned and private companies, five centres within MoD/SAF, and six academic institutions.[45] Its influence on policy making is unclear, especially regarding its heterogeneity. While the arms producers took part in discussion on the draft law on production and trade in arms,[46] the Group has not publicly taken a common stance vis-à-vis this law or any specific policy (e.g. conversion of debts).

Several trade unions representing workers in state-owned defence companies were very active in opposing the Law, organizing strikes and voicing their concerns in the media. The trade unions challenged the MoD's statement that they had been consulted in the legislative process.[47] Main arguments against the Law were that foreign investments would endanger national security[48] and that privatization would enable 'shady capital' to enter defence industry[49]. Worries about possible dismissals were expressed more discretely.[50]

Few think-tanks show interest in defence industry and their participation in policy processes is mainly indirect, through analyses, discussions and media statements.

As Serbia is a candidate country for EU membership, its legislation is generally influenced by the *Acquis Communautaire*. The Law on Public Procurement is harmonized with EU legislation, including Directive 2009/81/EC. Announcements have occasionally been made from technocratic structures within the MoD that enhanced cooperation with EDA will be sought.[51] This notwithstanding, support for defence cooperation with the EU is seldom expressed in high political discourse in comparison to explaining the country's balance between Russia and NATO. None of the political officials has so far proclaimed interest in the European Defence Fund or a possibility to join PESCO projects as a third state before the EU accession.

Serbia ratified agreements on military technical cooperation with Russia (2015) and Belarus (2017). The agreement with Russia is focused on creating possibilities for procurement, overhaul and modernization, training and consultations, but there is an interest to cooperate in the field of R&D.[52] The agreement with Belarus affirms willingness to engage in joint development projects, transfer exclusive rights for arms production and cooperate in reconstruction and modernization of arms manufacturing enterprises.[53] In its 2018 report, the European Commission stated that Serbia had not aligned with the EU restrictive measures related to Russia and noted Serbian military-technical cooperation with this country, but the tone of these observations remained neutral.[54] Nonetheless, Chapter 31 of accession negotiations referring to foreign, security and defence policy has

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[45] Članovi grupacije proizvođača naoružanja i vojne opreme (n.d.) Group of Armaments and Defence Equipment Manufacturers. Accessed 16/07/2018.
[46] Ministry of Defence (2015).
[47] "Sindikati nezadovoljni predlogom zakona o naoružanju" (2017).
[48] Miloš (2017).
[49] Radovanović (2017).
[50] Radovanović (2017).
[51] Zrnic (2018b).
[52] Law ratifying Agreement on military-technical cooperation signed by the Government of Serbia and the Government of Russian Federation (2015).
[53] Law ratifying Agreement on military-technical cooperation signed by the Government of Serbia and the Government of the Republic of Belarus (2017).
[54] European Commission (2018): 85.

not been opened yet.

In addition, Serbia has started using defence industrial cooperation as an additional means of boosting political ties with Republika Srpska (RS; ethnic Serb entity of Bosnia and Herzegovina), by sending SAF equipment for overhaul in RS-based companies.[55]

CONSEQUENCES OF THE (LACK OF) POLICY

The lack of coherent defence industrial policy has left much of Serbian defence industrial and technological infrastructure in the pre-1990 ownership-, management-, infrastructural and technological setting. Although financial reports[56] for most state-owned companies indicate an increase in revenues in the recent years, the industry is still struggling to overcome loss of its principal contracting authority (Yugoslav People's Army), as well as damage from NATO intervention and economic sanctions in the 1990s.[57] A SWOT (strengths, weaknesses, opportunities, threats) analysis presented in an article by the Head of the MoD's Defence Technologies Department lists staff skills, size of production capacities, and visibility on foreign markets as advantages of Serbian defence industry. The identified weaknesses are outdated technology, high average age of employees, low investment in R&D, insufficient use of civilian research for military purposes, insufficient application of environmental standards and low energy efficiency. The opportunities the MoD counts with are bilateral agreements on joint arms development and production, civilian projects, pooling and sharing 'at regional level and beyond'. Unresolved tax debts, non-completed ownership transformation, insufficient investments and high risks of accidents are the issues defence industry has to confront.[58] The risk of accidents is a particularly urgent issue: according to evidence available in the media, 16 accidents occurred since 2006 resulting in 15 deaths and dozens of injuries.[59] The new law on arms production is addressing this problem by defining stricter requirements for companies in regard to safety and security.[60]

Political officials have regularly emphasized employment as a priority of defence industry.[61] The numbers of employees in six major state-owned defence manufacturers have been on a continuous rise since 2013, even in a company which has continued to

[55] Fena/N1 Sarajevo (2018).
[56] Retrievable at Business Registries Agency portal http://pretraga3.apr.gov.rs/pretragaObveznikaFI.
[57] Zrnić (n.d.)
[58] Zrnić (n.d.)
[59] In July 2017, media reported that there had been 14 accidents in defence industry in the previous 11 years, resulting in 15 casualties. ("U nesrećama u namenskoj industriji za 11 godina poginulo 15 radnika", Beta/Blic, 15/07/2017 https://www.blic.rs/vesti/hronika/u-nesrecama-u-namenskoj-industriji-za-11-godina-poginulo-15-radnika/z4mm06g). One of these accidents took part in a military ammunition MRO centre, 12 in state-owned enterprises and one in a private enterprise. In the meantime, two more accidents were reported (Santovac, A. "Automatizacija jedini lek protiv nesreća u namenskoj". N1, 13/09/2017 http://rs.n1info.com/a317778/Vesti/Vesti/Nesrece-u-namenskoj-industriji.html and Santovac, A. "Tragedije u Lučanima i pitanje odgovornosti". N1, 18/01/2018. http://rs.n1info.com/a357731/Vesti/Vesti/Nesrece-u-Lucanima-nisu-retkost-ali-koliko-ih-je-tacno.html.
[60] ZPiPNVO (2018): Articles 30 and 35.
[61] For instance, in her presentation speech ij June 2017 the current Prime Minister included increasing investments in defence industry capacities and employment in defence industry to security policy priorities (Brnabic, 2017: 74).

record losses (Zastava).[62] Five of these companies have generated over 50% of their revenues from selling their products on foreign markets,[63] which suggests that keeping arms exports on the rise is vital for securing employment and social welfare in communities western part of Serbia, where most of these companies are concentrated.

The most lucrative export destinations according to the latest official data (for 2016) are the United States (export value USD 71.9 million), Algeria (70.7 million), and the United Arab Emirates (50.7 million).[64] The main export products are ammunition, small arms and light weapons. The greatest import value in 2016 was recorded from Russia (USD 36.7 million), Belgium (19.4 million), Bosnia and Herzegovina (17.8 million) and Bulgaria (17.1 million).[65] Belgium's high ranking in 2016 is most likely due to procurement of assault rifles FN SCAR-L[66] for SAF. The import value from Russia rocketed in comparison to 2015 (USD 437 thousand), too, owing to purchase of two Mi-17 helicopters[67]. Russia is likely to top the 2017 and 2018 list, as Serbia is paying for overhaul of six donated Mig-29 jets.[68]

The overview of export and import data in the recent years[69] indicates several patterns. First, the USA has topped the importers' lists though this is not typically acknowledged in officials' discourse and it seems that doing business is separated from policy making. Second, there is a strong orientation towards maintaining 'traditional markets' from Yugoslav times in the countries belonging to Non-Aligned Movement, with some of the biggest importers of Serbian arms being Algeria, Angola, Bangladesh, Egypt and Myanmar. This seems to reflect path-dependency in business rather than any strategic decision made after 1990: Jugoimport SDPR's continuity of working in arms trade has enabled Serbia to retain presence on markets where Socialist Federative Republic of Yugoslavia was well recognized. The United Arab Emirates (UAE) emerged after 2012 as an important market and possible investor[70] for Serbian defence industry. In 2013, a UAE company committed funding to a guided missile system development.[71]

Concerning arms import, Serbia currently relies on Russia for second-hand major weapon systems, mostly owing to lack of money and the strategic orientation towards military neutrality, with the later putting the country under pressure to maintain the entire range of capabilities. However, it would be too simplistic to label Serbia as dependent on Russia. In fact, arms import still tends to cherish the Yugoslav legacy of balancing 'between the East

[62] Data retrieved from annual financial reports for years 2014-2017 submitted by "Zastava oružje", "Milan Blagojević namenska", "Prva iskra namenska proizvodnja", "Prvi Partizan", "HK Krušik" and "Sloboda", available in database of Serbian Business Registry Agency http://pretraga3.apr.gov.rs/pretragaObveznikaFI

[63] Average share of revenues from foreign markets in annual revenues in the period 2013-2017. The only exception is explosive factory "Prva iskra namenska proizvodnja", which on average earned 45% of its revenues abroad. (Own calculation based on data retrieved from the companies' annual financial reports - see the previous footnote. Database available upon request.)

[64] Annual report on export, import, brokering services and technical assistance in the field of arms and military equipment for 2016 (2018): 42-47.

[65] Annual report on export, import, brokering services and technical assistance in the field of arms and military equipment for 2016 (2018): 48-50.

[66] Tanjug/B92 (2017).

[67] Sputnik/B92 (2016).

[68] "Fighters Russia Donated To Serbia To Enter Service By Year-End" (2018).

[69] Annual reports available in Serbian at http://mtt.gov.rs/sektori/sektor-za-multilateralnu-i-regionalnu-ekonomsku-i-trgovinsku-saradnju/spoljna-trgovina-kontrolisanom-robom-nvo-i-rdn/

[70] Bartlett et al. (2015).

[71] Ministry of Defence (2013).

and the West'. In 2016 Serbia signed a contract with Airbus Group to procure nine H145M helicopters.[72] The contract also obliges Airbus to advance capacities of SAF aeronautical MRO centre to maintain, and manufacture spare parts for Gazelle helicopters[73], the type for which Yugoslavia obtained production licence from Aérospatiale.[74]

Offsets remain a considerable grey zone in legislation and practice. In fact, Serbian legislation does not regard offset arrangements[75] and the MoD has denied that those were permitted by law.[76] However, the arrangement with the Airbus Group does resemble an offset. The UAE-based company which invested in guided missile system is linked to a purchase of agricultural land in Serbia.[77] It is unclear if the Government/MoD have an undisclosed policy to seek offsets or there is no policy at all.

A LOOK AHEAD

Defence industry is frequently described as the driver of Serbian economy.[78] However, in the lack of clear and coherent policy so far, it has been rather confusing in which direction its own development is driven. This should be finally overcome with adoption of DIS development programme and DTIB development programme, due by January 2019. The new programmes will be based on the *Vision 2020*, an unpublished MoD document which was briefly presented to the select parliamentary committee on defence in 2017 and is mostly dealing with DIS. It envisages grouping manufacturers into specialized clusters, attracting private investments and making operational costs more efficient.[79]

DTIB development programme is expected to put emphasize on R&D. It is likely that civilian research centres will be delegated more responsibility for defence projects.[80] A major challenge, however, will be to secure funding. The funding earmarked for both military education and research in the MoD's 2018 budget weights around EUR 1.1 million.[81] What is more, these functions depend on income from MoD's commercial activities, i.e. the national budget would not assign any financial means for defence research but those directly earned by MoD and SAF units. These units include MRO centres, which could soon be transformed into enterprises with majority state ownership[82], thus leaving MoD without some income. Regardless of if this is actually implemented, international cooperation will

[72] Vojinović (2016).
[73] Vojinović (2017).
[74] Alex (2018).
[75] They are neither explicitely or implicitely mentioned in Foreign Trade Act (2009, 2011) and Law on Defence (2007, 2009, 2015 and 2018).
[76] Ministry of Defence (2012): 17.
[77] Company registry log for Yugo Elite Agro, the company owning the agricultural land in Zobnatica, in Serbian Business Registry Agency (https://bit.ly/2mIWQTg) states that it was founded by the company Elite Agro LLC, which itself is a subsidiary of YAS Holding. Another subsidiary of YAS holding is Emirates Advanced Research and Technology Holding LLC (http://www.yasholding.ae/index.php/subsidiaries/emirates-advanced-research-and-technology-holding-llc/), which has invested in the missile development project (MoD, 2013).
[78] Beta/N1 (2017).
[79] Ministry of Defence (2016): 14.
[80] This could be inferred from Zrnic (n.d.) and comments of the acting Assistant Minister in Svedic (2015).
[81] Law on the Budget of the Republic of Serbia for 2018 (2017): Heading 19.3.
[82] Zrnić (2018a and b).

be the best way to obtain funding for research. It remains to be seen if Serbian government will set priority partners in DTIB development programme or keep pursuing a ‘catch all’ tactic, with different tracks of cooperation with the EU members, Belarus, UAE, etc.

Military neutrality as the strategic orientation and the EU relations with Russia will determine future development of Serbian DTIB. Despite negotiating EU accession, Serbia may make decisions which would practically prevent building interoperability with the EU members.

At operational level, the greatest challenge will be to juggle investing into new facilities, reorganizing business in order to cut costs and safeguarding ever higher employment. This will be particularly problematic in case of companies which are still burdened with long-term debt. Moreover, it is unknown if there are any credible private investors in sight. Navigating through these challenges will be task of the Ministry of Defence, which will continue playing a key role in defence industrial policy and harmonizing different policy priorities. ■

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Policy Paper

DEFENCE INDUSTRIAL POLICY IN SERBIA: DRIVERS AND INFLUENCE

BY
Katarina DJOKIC / Researcher in Belgrade Centre for Security Policy

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The views expressed here are solely those of the authors. They do not reflect the views of any organization.

ARES GROUP

The Armament Industry European Research Group (Ares Group) was created in 2016 by The French Institute for International and Strategic Affairs (Iris), who coordinates the Group. The aim of the Ares Group, a high-level network of security and defence specialists across Europe, is to provide a forum to the European armament community, bringing together top defence industrial policy specialists, to encourage fresh strategic thinking in the field, develop innovative policy proposals and conduct studies for public and private actors.

CONTACT [Pilots]:
Jean-Pierre Maulny, Fabien Carlet, Pierre Colomina, Olivier de France, Sylvie Matelly
ares@iris-france.org
+33 (0)1 53 27 60 60

www.iris-france.org/ares
#AresGroup