



2016 **Defense** Markets Report Regional and Country Case Study

Eastern Europe

Growth in defense spending seems most prominent in *Eastern Europe*, which is primarily in response to tensions in the Crimea. Poland is likely to remain reliant upon foreign suppliers for larger subsystems and major platforms in the near term. In addition, the Czech Republic, Romania and Slovakia offer defense export opportunities for aircraft, helicopters, unmanned systems and related parts.

POLAND

Poland is now spending 2 percent of its GDP on defense. Due to Poland's strong defense budget and the high number and variety of defense orders underway and planned, Poland is expected to generate ongoing demand and has the strongest potential for U.S. defense exporters in the region.

Although Poland has not ranked in the top 15 destinations for U.S. defense exports in the past two years, heightened tensions with Russia has led to Polish government plans strengthening and modernizing its defense forces, mainly through Western equipment and partnerships. Poland leads the former Eastern-bloc countries in transitioning from Soviet-era equipment with plans to spend \$45 billion on its defense modernization program through 2020.

Opportunities

Poland has identified a lengthy list of equipment needs, including the following contract opportunities: a missile shield, anti-aircraft systems, armored personnel carriers, armored vehicles, submarines, drones, multi-role and combat helicopters, land or submarine-launched cruise missiles, short and medium-range air defense systems, and tanker

aircraft.¹ Parts and support equipment for Poland's new fleet of F-16 fighter aircraft will also be needed.

Challenges

Companies exporting to Poland should understand the country's Public Procurement Law, Polonization and its new Offsets Act. For example, Polonization is part of Poland's long-term plan to become more self-sufficient and to increase and promote local industrial production. Technological quality, industrial participation and cost are important award criteria for procurement tenders in Central and Eastern Europe, as government policies, particularly in Poland, include promotion of local industry and development of the defense industrial base.

In the wake of recent Polish industrial consolidation, U.S. defense exporters are strongly encouraged to perform due diligence in the selection of partners and to closely monitor Poland's evolving defense industrial plans.

The Polish Government also has a new Offset Act in place as of July 2014 which replaces the prior Act from September of 1999. The new law increases the powers of the Polish Ministry of Defence (MON) by shifting the responsibility for overseeing offset agreements from the Ministry of Economy. A key structural change allows the MON to decide whether offsets will be used

at all while also determining what shape offsets will take. Historically, Polish offset requirements were automatically implemented, which was unacceptable under European Union law. As a result, Poland adopted the European Union law's format and removed the automatic application. EU law, in accordance with the European Commission, determined that the use of offsets is permissible only when necessary for the protection of essential interests of state security.

Additional Resources

The opportunities listed above demonstrate the wide range of Poland's priorities overall as well as its renewed interest in deepening partnerships with Western providers. U.S. companies entering the Polish market should seek local representation to build relationships with Polish counterparts, the military and government procurement officials. Poland has already announced several programs via public tender procedures—an area where local representation would help U.S. companies more easily navigate the process. Another market entry strategy to consider is the formation of long-term partnerships or joint ventures with Polish defense companies and suppliers.

Additionally, through the Department of Commerce, services such as the International Partner Search (IPS) and/or the Gold Key Service (GKS) can help U.S. companies identify and screen potential distributors or agents. These services can be utilized in most any country where exporters need assistance.

For a list of International Offices within the Department of Commerce by country, simply type in that country following the domain:
<http://export.gov/poland/>

REST OF EASTERN EUROPE

Notably, **Hungary's** Ministry of Defense is aiming to increase its defense spending as much as 22 percent in 2016.² Some Hungarian programs and contract opportunities highlighted during 2016 to 2020 include new multi-role helicopters and air defense systems, opportunities for U.S. companies that specialize in these sectors, or the potential to supply parts and components related to these platforms.

The two other major Eastern Europe countries **Romania and the Czech Republic** are also expected to

increase their defense spending to 2 percent of their GDP to meet the NATO requirement, however these countries have smaller budgets compared to the scope of Poland's defense modernization plans.

Ukraine and NATO officially signed a joint declaration for defense cooperation in September 2015. Ukraine plans to increase its military budget by approximately 30 percent with a focus on air defense. Ukraine needs to focus on rebuilding from various crises and recent conflicts, in which it lost half of its fighter jets. The best opportunities in Ukraine for U.S. suppliers include aircraft, aircraft parts and MRO services, all depending on capability. Sources indicate defense cyber security is also a big issue in Ukraine and will be a growing infrastructure concern.

Estonia is now spending approximately 2 percent of its GDP on defense, and some sources indicate that this may go up. Estonia was the first Baltic state to reach 2 percent of its GDP for defense spending. The country has already bought and fulfilled its radar needs. Requirements will be reviewed every four years and will be revised as necessary. Estonia's "wish list" of new weapons and military equipment includes third-generation anti-tank systems and a mid-range air-defense system. Heavy tanks and cyber defense capabilities may also be added to the list. Estonia reportedly does not have funding for new fighter aircraft, but as a small country, will work closely with NATO response teams for support.

Turkey is the 13th largest importer of U.S. defense goods based on 2015 Census Bureau data. It maintains the second largest land force in NATO (after the U.S. Armed Forces) and operates the second largest fleet of F-16s, just second to the United States, leading to significant opportunities for military vehicle and aircraft parts manufacturers. The Ministry of Defense (MOD) has allocated an estimated \$8.7 billion (TL (Turkish Lira) 26.117 billion) for 2016 defense spending, which is a budget increase of approximately 15 percent from 2015. With the refugee crisis and strategic location of Turkey, demand for safety/security and defense imports is escalating, particularly for armored vehicles, and many related opportunities are expected to continue into the future.

¹ BMI, Business Monitor, "Industry Forecast - Poland, 2015."

² "Russian Aggression Drives Increase in Europe Spending," DefenseNews.com, Feb 2016.