

Exports under special supervision: Ukraine liberalises arms exports

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Over recent months, Kyiv has accelerated the liberalisation of exports of weapons and military equipment manufactured in Ukraine. Until now, such exports had been subject to an informal ban imposed by the country's top leadership in order to prioritise the needs of the Armed Forces of Ukraine (AFU). In January, the government launched the Defence City platform, which introduced, among other measures, a simplified arms export procedure for companies registered within it. In February, President Volodymyr Zelensky appointed members of the Interdepartmental Commission on Military-Technical Policy, Cooperation and Export Control, the body responsible for issuing permits for foreign arms sales. At the end of April, Zelensky announced the final approval of the arms export procedure.

Kyiv intends to permit exports only for companies that obtain special licences for arms production in cooperation with foreign partners under intergovernmental agreements. The aim is to maintain strict oversight of arms trade conducted under political arrangements at the interstate level. Kyiv also expects that this selective liberalisation of exports will significantly increase state revenues and accelerate the development of the domestic defence industry, which is expected to become one of the pillars of the post-war economy.

Commentary

- **The decision to allow exports of military and dual-use goods reflects growing pressure from Ukraine's domestic defence industry.** The rapid expansion of defence production has pushed manufacturing capacity far beyond the financial resources of the Defence Procurement Agency, the body responsible for contracting, procuring and overseeing military orders. According to the Ministry of Defence, the sector's production potential is expected to reach around \$50 billion this year, while state procurement for the armed forces will amount to no more than \$13 billion. This imbalance threatens to slow the development of strategically important sectors of the defence industry, particularly drone manufacturing and electronic warfare systems. In response, companies have intensified pressure on the authorities to permit exports while also exploring the possibility of relocating production abroad. According to data from October 2025, 51% of drone manufacturers were considering relocating production facilities abroad, with Poland identified as the preferred destination by 52% of those companies. The main reasons cited were security concerns (89%) and restrictions on the export of their products (61%).

- **Export licences will be granted only under strict conditions.** Foreign sales will cover selected categories of weapons and military equipment and will take place exclusively under international agreements within the framework of the “Build with Ukraine” programme (see *‘Build with Ukraine: Kyiv’s new approach to defence industrial cooperation with European partners’*) and the “Drone Deals” initiative for unmanned aerial vehicles. Joint production with foreign partners will continue to prioritise the needs of the Armed Forces of Ukraine (AFU), while exports will be limited to products for which supply exceeds domestic demand. The arrangement is designed to help Ukrainian defence companies expand production by leveraging Western capital and manufacturing infrastructure, while preserving skilled personnel and technological know-how for the needs of the AFU.
- **Kyiv’s objective is to establish a fully supervised arms export mechanism, with revenues reinvested in defence production.** According to National Security and Defence Council Secretary Rustem Umerov, the first arms export contracts are expected to be implemented in the second half of this year, with projected profits reaching several billion dollars annually. Zelensky has argued that the success of Ukraine’s defence sector in foreign markets could eventually make it a pillar of the economy on par with agriculture. An important factor behind the opening of arms exports is the Gulf conflict, which has increased interest in Ukrainian counter-drone solutions. This has strengthened Kyiv’s belief that it can use arms cooperation as a political instrument, making the selection of partners conditional on their support for Ukraine in the war with Russia.
- **Foreign arms sales are likely to face obstacles owing to a complex and highly bureaucratic licensing system.** Export permits are granted by the Cabinet of Ministers only to selected companies and the approval process can take many months. In addition, the sale of specific categories of weapons requires separate authorisation from the Interdepartmental Commission, on the basis of an application submitted by the State Service for Export Control of Ukraine. Restricting arms exports to companies included in interstate defence cooperation agreements may also favour certain firms. Over time, this could concentrate market share in the hands of businesses linked to the authorities and reshape the structure of the defence industry. Until now, one of the sector’s key strengths has been its decentralised nature, with production dispersed among numerous manufacturers, encouraging creativity and innovation.
- **A further challenge for the Ukrainian authorities will be maintaining full oversight of cooperation between domestic defence companies and foreign partners.** Zelensky has publicly criticised firms that have recently begun producing interceptor drones abroad “behind the state’s back” and warned that such companies could lose access to state defence contracts. He also signalled that relations may deteriorate with countries attempting to attract Ukraine’s defence industry without prior agreements with the government in Kyiv.
- **It remains uncertain how Kyiv will deal with Ukrainian companies that had already established cooperation with Western partners before the introduction of the new export framework.** This mainly concerns firms that relocated production outside Ukraine after 2022, primarily to EU and NATO member states in Central Europe. These companies are unlikely to accept greater oversight from Kyiv, particularly as their foreign partners

may resist additional restrictions. At the same time, sidelining such firms would be difficult, as they are major suppliers of weapons and military equipment to the Ukrainian armed forces, including so-called long-range drones used to strike targets deep inside Russia.