

Ukrainian Arms Industry Caught Between Moscow and Kiev

By [The Moscow Times](#)

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KRAMATORSK, Ukraine — In quiet defiance of a promise by Kiev's pro-European government to cut arms ties with Moscow, a state-owned defense firm in eastern Ukraine has vowed to work around the clock to fill every Russian order it gets.

As for many of Ukraine's defense firms, the stakes are high for Yuzhmash, an industrial behemoth that was so jealously guarded by the Soviet Union that the nearby city of Dnipropetrovsk was closed to foreigners until the bloc split apart.

Now, in the face of the Ukrainian crisis and greater economic hardship, Yuzhmash faces a difficult balancing act between its political masters in Kiev, its biggest customer in Russia and the threat from pro-Russia separatists in eastern Ukraine who have tried raiding factory stockpiles.

The plight of Yuzhmash, whose full name is the Southern Machine-Building Plant, highlights

the importance of defense ties between Moscow and Kiev for both sides.

Not only are companies like Yuzhmash dependent on contracts with Russia, but their cooperation has also been key to Russia's own multi-billion dollar military modernization — and President Vladimir Putin is loath to lose this.

"Whether it likes it or not, Russia's defense industry is wedded to Ukraine. The interconnection is very deep rooted, and the divorce can only be messy," said Ruslan Pukhov, director of Moscow-based defense think tank CAST.

"We are not talking about hundreds and hundreds of components, systems and so on. We are talking about thousands and thousands," he said.

Yuzhmash, which produces rockets for some of Russia's most powerful missiles, including intercontinental ballistic missile Satan, said it was keeping its contracts with Russia solely for business reasons.

"Due to the situation that has occurred regarding Russia, some projects and contracts have been on the verge of a breakdown," said a statement on the company's website.

"However, the situation has now stabilized. The company will honor all old contracts and will start talks about new projects in the nearest future."

Ukraine's top state arms conglomerate, Ukroboronprom, which sold 14.7 billion hryvna (\$1.24 billion) of arms last year, cut ties with Russia after First Deputy Prime Minister Vitaly Yarema said Kiev would end military cooperation with Moscow following Russia's annexation of the Crimea peninsula in March.

"It is complete madness to manufacture products for the Russian Federation which will later be used against us, and the prime minister has already decided that we are stopping military cooperation with Russia," Yarema said in April.

It was unclear whether the call was meant only to prevent future contracts or also to stop the fulfillment of contracts that had already been concluded.

Pukhov said that before the moratorium, about 70 percent of Ukraine's arms exports were traditionally shipped to Russia — everything from rockets for missiles to engines for helicopters — making Russia a crucial market for Ukrainian industry.

Threat To Russia's Modernisation

The Ukrainian defense industry is so important that Russian lawmakers sent a suggestion to Deputy Prime Minister Dmitry Rogozin, who is responsible for Russia's arms industry, that Russia write off Ukraine's \$3.5 billion debt for natural gas in exchange for giving Moscow shares in its defense industries.

The deputy chairman of the parliament's committee on budget and taxes, Oksana Dmitrieva, said she had not yet received an answer from Rogozin, but expected to by the end of the month.

The moratorium on Ukraine's exports to Russia has thrown a wrench into Russia's plans to spend more than \$600 billion on new arms and equipment to modernize its military by 2020.

Russia announced in 2012 that its defense budget would rise by about 25 percent, pushing spending above that of France and Britain. Moscow says it hopes to equip at least 70 percent of active-duty personnel with modern weapons.

That will include 2,300 new tanks, 1,200 new helicopters, 15 new ships and 28 submarines.

Russia's defense industry has been forced to look at various options to recoup the losses it will suffer by being cut off from Ukraine's defense industry, including turning to China for more parts and components.

"Ukraine has been an important partner in Russia's military modernization, and there is not yet a clear picture on the part of the Russian government on how to deal with that," said Pavel Baev, a defense analyst at Peace Research Institute Norway.

Putin has also said Russia's arms industry should be entirely self sufficient, a goal that he said would take a little more than two years to complete.

A trade pact between Putin and former Moscow-backed Ukrainian President Viktor Yanukovich included a provision to ensure cooperation between Russian and Ukrainian defense firms.

The agreement would have been likely to employ thousands more workers across Ukraine and particularly in the eastern part of the country, where unemployment is as high as 8.2 percent in Donetsk, above the national average of 7.7 percent.

Yuzhmash, like many other defense firms, has seen capacity usage plummet, while the number of workers employed at the factory is a fraction of what it was a year ago, as a cash-strapped Ukrainian government slashed spending.

The moratorium on arms for Russia is expected to cut output further, despite increased orders from Kiev for Ukroboronprom, including 100 new armored personnel carriers for Ukraine's National Guard, which is fighting separatists in eastern Ukraine.

"Right now Yuzhmash is at only 20 percent of its potential. Once, about 70,000 people worked at Yuzhmash. Now there are only 10,000 to 15,000 people left," said Boris Braginsky, an adviser to Igor Kolomoisky, the governor of Dnipropetrovsk, where Yuzhmash is located.

Targets for Rebels

As violence in eastern Ukraine has risen, with armed pro-Russian separatists taking over public buildings, the numerous factories that produced arms during the Soviet Union and after independence in 1991 have become easy targets for separatists seeking to boost their arsenals.

In late April, separatists forced their way into the Novokramatorsk Machine-Building Factory, or NMF, which produced parts for tanks during Soviet times and lies a few kilometers

from the rebel stronghold of Slavyansk, to demand a modified tank. NMF said the rebels left empty-handed.

With police loyal to Kiev unable or unwilling to maintain order in eastern Ukraine, Yuzhmash, like other defense firms, has managed to find its own ways of maintaining security.

In an agreement signed by Yuzhmash's General Director Sergei Voit and regional governor and powerful businessman Igor Kolomoisky, the governor promised to protect Yuzhmash, its facilities and workers from "unauthorized entry".

Kolomoisky, one of Ukraine's richest businessmen, has sponsored an increase in the number of soldiers and police officers across Dnipropetrovsk, paying their salaries and providing body armor and ammunition.

"The province is taking all measures for security, even if those measures are not outlined in the constitution and not outlined in the functional duties of the governor," said Braginsky.

"These are extreme times."

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