The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

EU Arms Embargo: A Shot Across the Bow of Russia's Defense Industry

By Matthew Bodner

July 31, 2014



Engineers building tanks in a factory in Omsk, Siberia.

The West's latest round of sanctions on Russia will not have much immediate impact on the county's defense industry, but they do have the potential to strike a blow to Russia's 23 trillion ruble ($646 billion) military modernization drive, analysts say.

The European Union on Thursday formally banned the import and export of arms from Russia, but stopped short of canceling existing contracts, while the U.S. placed sanctions on Russia's United Shipbuilding Corporation, or USC, which owns 80 percent of the production capacity of Russia's shipbuilding industry.

Critics of the EU arms embargo say that the measures are shallow and purely symbolic, because they did not cancel France's delivery of two Mistral-class amphibious assault carriers to the Russian navy in 2014 and 2015.

Washington and several of its NATO allies have lobbied for Paris to call off the deliveries, which form part of a 1.2 billion euro ($1.6 billion) signed by France and Russia in 2011. Paris has so far refused to heed their calls.

"Restrictions on arms trading with Russia are not very significant in relative terms, unless and until they affect the French sale of Mistral-class helicopter carriers. Preventing delivery of these warships would not only have serious economic implications, it would also reinforce the message that now is not the time to be providing Russia with an entirely new capability for future seaborne military adventures against Europe," said Keir Giles, a Russian military expert at the British think tank Chatham House.

But some of the EU's other restrictions do pack a real punch, Giles said, particularly the economic vice that is being used to squeeze Crimea, which the West maintains was illegally seized by Russia in late March.

"To take just one example, the sanctions list includes the port authorities of Sevastopol and Kerch. That means EU vessels should not have dealings with them, which prevents them from calling at those ports. This will contribute still further to Crimea's economic isolation," Giles said by email.

EU Arms Exports to Russia

Russia imported a mere $246 million worth of arms from abroad in 2012 and 2013, with just under 10 percent coming from the EU, according to the Stockholm International Peace Research Institute, or SIPRI. Ninety percent of the imports, which were predominantly engines, aircraft and related components, came from Ukraine.

"Russia is not a major market of military equipment from EU states. The Mistral deal is by far the largest deal. Only a few other deals are known, and they are all 150 million euros ($200 million) or much less," Siemon Wezemen, a senior researcher at the SIPRI, told The Moscow Times on Thursday.

Defense analyst Colby Howard, a visiting fellow at the Center for Analysis of Strategies and Technologies, or CAST, a Moscow-based private think tank, said that the EU arms embargo would likely put an end to Russian cooperation with French high-technology and defense firm Thales, which has been providing the Russian army with modern battlefield essentials such as night-vision and thermal imaging equipment, as well as communications hardware.

But the most significant hit has come from Germany's decision to cancel defense contractor Rheinmettal's development of a new training facility for Russian infantrymen in mid-March, said Howard, a former U.S. Marine.

"In terms of dollar value, [the training center] was decent, but its a rather significant hit because it plays to the intangibles of training," said Howard.

The facility could have put 30,000 Russian trainees through its program annually, significantly boosting the basic combat skills of Russian ground forces.

Russian Exports to the EU

Russia was the world's largest arms exporter last year, SIPRI data suggests, though some countries underreport their figures and analysts typically say Russia is just behind the U.S. in arms exports. However, with much of the EU using NATO equipment, Russia is not losing access to an important market, as more than 60 percent of Russian exports go to India, China and Algeria.

Russia exports about $3 billion worth of arms annually to the EU, most of which is used to service old-Soviet hardware. The EU arms embargo does not impact existing contracts, and the use of Soviet hardware is being rapidly phased out in favor of newer NATO equipment.

Furthermore, it seems that EU companies that help Russia modify certain weapons and military vehicles for export outside the EU will be free to continue their work, as EU embargo only covers equipment for use by the Russian military, Wezeman said.

Russia, for example, exports Su-30 fighters to India, but the aircraft use French avionics systems rather than the standard system used by the Russian Air Force, he added. This practice would not be effected by the EU's measures.

The main threat is the prevention of new contracts from being signed, which will eventually create a gap in orders that could force production lines to close in the face of dissolving demand, Howard said.

Long Term Consequences For Modernization

The real impact of the EU arms embargo will be felt in Russia's $646 billion military modernization drive through 2020, which relies on high-tech foreign components with no domestic analogues.

Wezeman said that Russia would need to find new partners to develop the wide range of new weapon systems it desires, as Russia's financial situation makes domestic self-sufficiency practically unattainable.

In the context of Western attempts to upset Russia's modernization plans, the U.S.'s decision to place sanctions on the USC seems purely symbolic at first glance. The U.S. is not engaged in any joint-ventures with Russia's shipbuilding industry. Aside from the Mistral-class carriers, neither is the EU.

"The direct impact of sanctions on USC will be minimal," said Mikhail Barabanov, a naval analyst with CAST.

"Joint ventures with foreign companies and the USC have not been very successful," he said, "the only known USC project with a Western company is the development of the Project S-1000 submarine with Italy for export to third countries, but that project has been frozen."

It is possible, however, that the USC's construction of equipment and vessels used to develop offshore Arctic oil and gas fields might suffer, Barabanov said.

Howard echoed this point, suggesting that the U.S. decision to target the USC — which

effectively cuts off the entire Russian shipbuilding industry from receiving financing from U.S. creditors — indicates coordination with the EU's oil sector sanctions.

In recent years, the USC has moved to expand its civilian shipbuilding portfolio 200 percent in light of the opening of the northern sea route and the influx of offshore equipment to Russia's arctic territories.

"They thought it was going to be a very strong part of their portfolio for the next 20 years, so they need to invest now if they want to build for that," Howard said.

The problem is that they cannot turn to U.S. financing for these projects, and Russian banks historically do not dish out the type of high-value long-term credits needed for shipbuilding projects, leaving the Russian state as the only possible financier of these projects.

However, this might force the USC to become a more efficient by restructuring to deal only in military shipbuilding, Barabanov said.

Indeed, the general consensus among many analysts is that the sanctions will encourage the already trend of increasing domestic production capabilities and weaning off of foreign supplies entirely.

See also:

[Weapons Used by Ukraine's Rebels Point Toward Russian Origins]

Contact the author at bizreporter@imedia.ru

Original url:
https://www.themoscowtimes.com/2014/07/31/eu-arms-embargo-a-shot-across-the-bow-of-russias-defense-industry-a37895