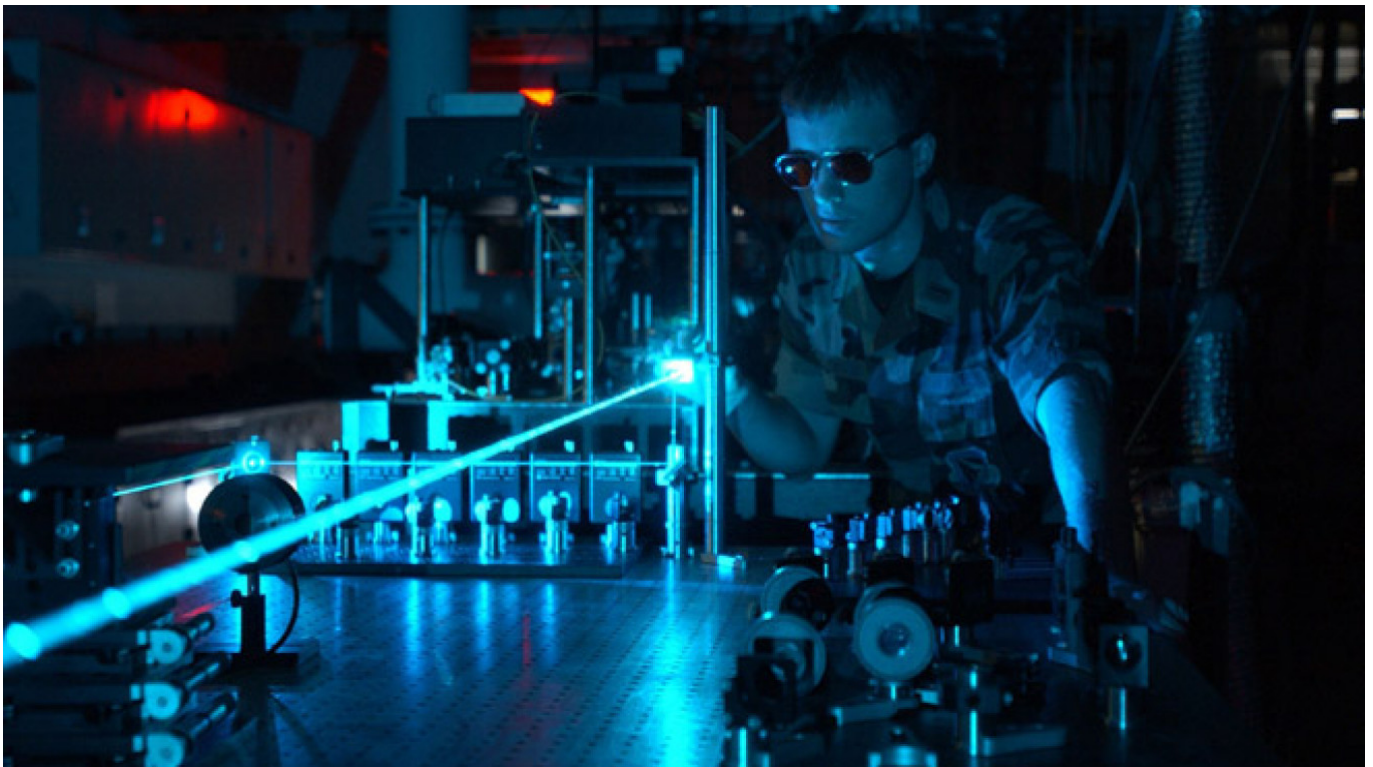


Sanctions on Technology Imports Leave Russia Playing Catch Up

By [Alexander Panin](#)

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The impact of the EU's latest and harshest sanctions on Russia will be felt most keenly in the country's economic sectors that are largely dependent on state-of-the-art Western technology, ranging from the extraction of hydrocarbons to civil aircraft production, analysts said.

The European Union late last week officially approved new measures aimed at pressuring Russia into changing its approach to the crisis in Ukraine. The sanctions target Russian state-owned banks, which will have trouble attracting long-term financing abroad, and ban EU exports of military products and dual-use technology to Russia. EU deliveries of equipment and technology for oil exploration in the Arctic and shale oil projects in Russia have also been blocked.

Of the various measures imposed by the EU, the most significant are the restrictions on Russian imports of equipment and technology related to the oil industry, said David Cadier, a fellow at International Strategy and Diplomacy at the Department of International Relations of the London School of Economics and Political Science.

"This restriction is probably one of the most important for Russia as it might prevent it from exploiting some resources, in the Arctic for instance," Cadier said Friday. "By contrast, the freeze on five Russian banks from the European capital market is unlikely to have a major effect in the short term as Russia has sufficient reserves."

Most of the state-owned banks have already shrugged off the sanctions, saying they have enough capital of their own to continue operating without any disruptions. Also, Russia's Central Bank has said it will support the banks should the need arise.

The ban on EU exports of oil technology and equipment, Cadier said, is significant because of what it reveals about the crisis in Ukraine and about the state of EU-Russia relations in a broader sense.

"Contrary to the ban on military equipment for instance, these sanctions are not directly linked to the [military situation in Ukraine] that prompted them, but constitute a wider attempt to put pressure on Russia. This indicates that the level of antagonism between the EU and Russia has moved to a new level," Cadier said.

Prior to last week, Europe had been reluctant to apply harsher sanctions against Russia for fear of hurting the interests of European businesses. EU officials finally decided to draw up the sanctions after the downing of a Malaysia Airlines plane in eastern Ukraine in July, resulting in the deaths of all 298 people on board. Several Western governments have blamed the disaster on separatists supplied with Russian weapons. Russia has denied any involvement in the downing of MH17, pointing the finger at the Ukrainian military instead.

The ban on EU weapons exports to Russia will not hinder the country's attempts to develop its military might, because Russia's defense imports from Europe are relatively small, totaling about 300 million euros (\$400 million) in 2013, according to The Wall Street Journal.

Dual-use goods exports to Russia, however, are far larger: amounting to 20 billion euros (\$27 billion) last year, the newspaper reported. Those imports included a vast array of products, such as advanced electronics for satellites, certain kinds of lasers, and advanced materials. The freeze on dual-use goods exports poses a serious danger to Russia's future economic and industrial development, according to experts.

All-Purpose Dual-Use

The production of military and civilian equipment has become increasingly integrated in recent times globally, with some companies capable of making tanks and train cars, for example, or avionics for both military and civil aircraft. Areas where dual-use technology is employed will only broaden, analysts said.

The latest round of sanctions will hamper development of key technologies in Russia both for military and civil use, Yevgeny Nadorshin, chief economist at the AFK Sistema holding

company, said Friday.

"With the import of technology comes the specialists who can explain its use, they tune the assembly line, offer other insights," Nadorshin said. "As a result of the ban on [EU] exports of dual-use technology, Russia could buy, for instance, a complete civil pilot-training center but would not be able to produce its own one using some of the components coming from abroad."

The absence of the required parts means Russia will not be able to produce some newer surveillance satellites that can be applied both for military and civilian purposes. Last year, the Lavochkin engineering firm won a tender to produce five modern radio electronic surveillance satellites to be built with electronic equipment produced either by Airbus Group or Thales Alenia Space — both of which are European firms — or Israel Aerospace Industries. With sanctions in place it is unlikely that the equipment will be supplied, thereby disrupting the whole project.

Ruslan Pukhov, director of the Center for Analysis of Strategies and Technologies, a for-profit think tank, gives another example of how the ban on exports of dual-use goods could hinder production in Russia.

"Take the KamAZ truck producer, for instance. It was essentially a civil manufacturer but now more than 50 percent of its products are for military use," Pukhov said Friday. "At the same time, its trucks resemble a Lego construction kit with more than half of the components coming from abroad. Punish KamAZ and the Russian military would be stripped of its new all-terrain vehicle."

Russian government officials have been stepping up efforts to reduce domestic producers' dependence on imported parts and technologies. Last week President Vladimir Putin ordered officials to speed up the replacement of the imported defense-related components with Russian-made parts.

The extent to which this can be accomplished, however, depends on how well placed the state's coffers are to pay for the transformation, Pukhov said.

"Already Russia's economic growth is close to zero but if the economy starts to contract, the funds the government was going to allocate to import substitution ... would not be available, meaning that import replacement will definitely take a lot more time than the officials say it would," the analyst said.

Following Ukraine's decision in June to cut off military ties with Russia amid deteriorating relations between the two countries, Deputy Prime Minister Dmitry Rogozin said that it will take two years to localize the production of key military items.

In any case, without being able to import ready-made technology, Russia would have to once again engage in a tiresome race to catch up with the West, AFK Sistema's Nadorshin said.

"Metaphorically speaking, Russia would have to make a bicycle that the rest of the developed world is already riding on and while doing so a new generation of that bicycle will be invented so [Russia] would still stay behind," Nadorshin said.

See also:

[With Sanctions, Russia Becomes Crimea's Sole Investor](#)

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