The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

U.S. Sanctions Russian Arms Export Agency for Non-Proliferation Violation

By Matthew Bodner

September 02, 2015



The sanctions prevent any U.S. companies or government agencies from doing business with the sanctioned Russian arms entities.

The United States imposed sanctions on Russia's state arms export agency and four defense industry enterprises for alleged violations of international arms control regimes restricting export of nuclear and missile technologies to Iran, North Korea and Syria on Wednesday.

A notice posted on the U.S. government's Federal Register on the State Department's behalf Wednesday said the move was a response to violations of the Iran, North Korea and Syrian Nonproliferation Act (INKSNA).

The act prohibits the transfer of goods, services and technologies restricted under international arms control agreements such as the Missile Technology Control Regime to Iran, North Korea and Syria.

A spokesman from the U.S. Embassy in Moscow, Will Stevens, told The Moscow Times that the Russian entities sanctioned under the act were among 23 foreign entities — including firms and entities based in China, Turkey and the United Arab Emirates — found to be engaging in violations of arms export conventions.

"These entities were sanctions based on credible information that they have been involved in the transfer or purchase to or from Iran, North Korea or Syria of goods, services or technology listed on multilateral export control lists, U.S. national control lists, or other items that could make a material contribution to the development of weapons of mass destruction or missile proliferation," Stevens said.

The Russian Foreign Ministry in a statement on Wednesday slammed the U.S. move as the latest example of Washington's desire "to punish us for the rigorous pursuit of [our] national interests, and for the free choice of the inhabitants of Crimea and Sevastopol [to join Russia last year]."

The Foreign Ministry continued, accusing the U.S. of systematically destroying all possible avenues for normalizing U.S.-Russian relations in the future.

The specific arms and technology transfers that provoked the latest sanctions were not listed by the State Department in its announcement of additional sanctions, and the Russian arms export agency Rosoboronexport said it was unable to comment on the issue at this time.

The Russian defense industry firms that were involved in the alleged INKSNA violations were fighter jet manufacturer MiG, the high-precision weapons maker Instrument Design Bureau (KBP) Tula, NPO Mashinostroyenia — a rocket and missile design bureau in Reutov, outside Moscow — and Katod in Novosibirsk, which makes night-vision optics, among other things.

The sanctions prevent any U.S. companies or government agencies from doing business with the sanctioned Russian arms entities.

Lack of Clarity

The U.S. did not specify which arms deals in particular triggered the latest sanctions actions imposed on Russia's defense industry, and Russian analysts polled by The Moscow Times on Wednesday did not expect such information to be forthcoming.

In response to Russia's annexation of Crimea last year, the United States and European Union began placing sanctions on Russian defense manufacturers. The EU arms embargo already prevented any Russian defense firm from doing business in Europe, and the U.S. targeted large firms with sanctions that cut them off from Western debt markets.

But, "until the list and allegations are published, it is hard to say exactly what the problem is [this time]," said Pyotr Topychkanov, an international relations and arms trade expert at the Moscow Carnegie Center think tank.

Vadim Kozyulin of the Moscow-based PIR Center think tank argued that the imposition of sanctions under the Iran, North Korea and Syria Non-Proliferation Act was politically motivated and "mainly based on rumors and general distrust."

“The Russian system for export control is quite tough and complex,” Kozyulin said. “The Russian Foreign Ministry would never give the green light to something that violates international obligations.”

Kozyulin speculated that the arms transfers in question are deliveries to Syrian President Bashar Assad’s embattled regime, or the expected future delivery of advanced S-300 air defense systems to Iran — which, he pointed out, is not prohibited by any United Nations resolutions governing arms sales to Iran.

“As for North Korea, I know that arms trade with this country was terminated after its nuclear tests and there are no officials in Russia with the authority to restart [arms trade with Pyongyang],” he said.

Limited Impact

As with previous rounds of U.S. sanctions against Russian defense industry enterprises, the latest move is not expected to have any serious impact on the industry, which is deeply tied to trade with non-Western nations, analysts said.

Russia’s largest arms export partners are nations such as China, India and Algeria, and last year the Russian defense industry saw surging revenues despite U.S. and European sanctions slapped on the industry in the wake of Russia’s annexation of Crimea, according to the annual Defense News ranking of the top 100 global arms producing companies, published in July.

The gains were driven by record exports, which Rosoboronexport placed at $13.2 billion in 2014, and around 2 trillion rubles ($30 billion) in Russian military procurements as part of President Vladimir Putin’s ongoing 20 trillion ruble ($300 billion) rearmament campaign.

“This is not the first time that the U.S. has imposed sanctions on Russian defense companies,” Kozyulin noted. “I used to compile a list of such cases and I guess that you can count about 40 to 50 times when Russian companies were sanctioned by the U.S. since 1998.”

“Rosoboronexport has been sanctioned two or three times, so they have experience. I am sure that Russian manufacturers expected these sanctions and were prepared for them,” Kozyulin said.

However, Yury Barmin, an independent Russian expert on the global arms trade, said that “some Russian companies may import spare parts from the U.S. and the latest sanctions may force them to revise their procurement strategies and delay some outstanding orders.”

Timing and Politics?

Russians responded to the timing of the U.S. decision to place sanctions on 23 global entities for alleged INKSNA violations by accusing Washington of pursuing and protecting its own interests in the global arms market.

Barmin argued that Wednesday’s sanctions were only implemented after the completion of a Pentagon contract with Rosoboronexport to deliver 30 Russian-built Mi-17 helicopters to the Afghan military in the wake of NATO’s withdrawal.

“Now that this deal has been concluded the U.S. deemed it possible to impose sanctions,” he said.

The CEO of Russian defense firm Katod, which was producing night-vision goggles for sale on the U.S. market, told the TASS news agency Wednesday that his company was sanctioned because the U.S. feared Russian competition in this segment of the arms market.

“Before we arrived [on the market], the U.S. had a monopoly. On the one hand, we are glad this happened because we understand that [it shows] we have reached a very high level in our technologies,” Vladimir Loktionov said.

“So, Russia doesn’t just pump oil, it can also do something that can compete with American companies,” he said, adding that the sanctions will have no economic impact since the company’s main partners are members of the Russia-led Eurasian Economic Union and BRICS nations.

Recourse and Banking

PIR Center’s Kozyulin downplayed the impact the latest round of defense industry sanctions will have on the Russian defense industry.

“On the one hand, there is no mechanism for contesting these sanctions and the reasons for imposing them are not usually exposed,” he said.

“On the other hand, Russian arms manufacturers have very little contacts and contracts with U.S. manufacturers, and generally they don’t have accounts with U.S. banks, so the financial or economic effect of these sanctions will be very small,” Kozyulin concluded.

Barmin too pointed to the lack of contact with U.S. financial institutions and argued that existing measures will have little impact, “unless Rosoboronexport [is] prevented from performing banking transactions globally, which would imply cutting Russia off from SWIFT altogether.”

“However, I don’t think the White House is ready for such steps,” Barmin said.

If the tit-for-tat game of sanctions with Russia continues, and the U.S. manages to cause significant damage to the Russian defense industry, Kozyulin pointed out that Russia holds certain trump cards that it could use to fight back at the U.S. defense industry.

“For example, Russian titanium,” which is used for Boeing aircraft, “and engines for space rockets might be prohibited for export to the U.S.”

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Original url:
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