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RUSSIA STRATEGIC INITIATIVE



RUSSIAN PROCUREMENT PLANS AND THE AVIATION SECTOR

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WITH

CHRIS MILLER OF THE FOREIGN POLICY RESEARCH INSTITUTE
POST-EVENT WRITTEN Q&A ANSWERS

During the webinar, the Russia Strategic Initiative and Chris Miller were only able to answer a few questions. Chris Miller answered the questions below that were not addressed during the event.

1. How does the price of oil impact the ability for Russia to fund its military priorities?
In the short term, no. In the long term, yes. Taxes on oil and gas make up roughly 40% of Russia's government revenue (the exact number varies along with the price of oil and the ruble-dollar exchange rate.) So declining oil prices reduce the Russian government's resources. Over a 1-3 year time horizon, the Russian government has plenty of reserves and budgetary flexibility to maintain its current spending patterns. Over a longer time horizon, a period of low oil prices, or rising demands for social spending, would certainly constrain the Russian government's resources, as happened in the 1990s.
2. What effect has the loss of military production capability in Ukraine had an effect on Russian aviation production especially transport? Antonov was a major supplier for planes and parts in the past to include engines which is one source lost. I am curious what has been lost or retained in Donbas?
We are currently researching this question and plan to present a full briefing on the topic in our May or June deliverable.
*RSI NOTE – This is part of RSI and FPRI's FY20 project. Stay tuned for future issues!
3. What has Russia done to mitigate/changed in the procurement process within the Western sanctions? What, if anything, has Russian procurement planning been changed from them pulling out of the INF?
Answered during event.
4. Prior to 2014 and the imposition of sanctions, did Rostec have an international presence or were they on track to export?
Pre-2014, the Russian military industrial complex was already focused on arms exports. Given Russia's historic position as a major arms exporter, its existing defense relationship, and its willingness to supply relatively advanced military technology to countries that Western countries won't export to gave Russia a strong position in global arms exports markets. This effort has accelerated in recent years, though U.S. CAATSA sanctions—which threaten financial sanctions on any country not reducing its purchases of Russian arms—are a disincentive for some potential Russian arms customers.
5. Yesterday Mishustin warned of a coming economic shock coming from oil price collapse and COVID. Effects?



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The oil price crash and COVID will both have major negative effects on Russia's economy, and threaten to spill over to the political sphere. The economy is likely to be in recession through 2020. Household incomes adjusted for inflation are currently below 2013 levels, and will stay at these depressed levels until perhaps 2024. The depressed economic situation will continue to degrade the Russian government's popularity and increase demands for more government social spending at home.

6. Your projections suggest a bleak outlook for Russia. Is this a sign of an overall global downturn in the military industrial complex?

The Russian military industrial complex is currently benefitting from over a decade of elevated defense spending and investment, so it is performing at its highest levels since the collapse of the Soviet Union. Current government spending plans imply a decline in procurement of new military equipment, particularly when adjusting for inflation. This will inevitably impose pressures on the Russian military industrial complex. Defense firms are being urged by the government to compensate for this by finding other markets among Russia's civilian population or foreign export markets. Our research suggests that these other markets look likely to remain small. This suggests that Russian defense firms will struggle to make up for declining procurement spend by finding other revenue sources. Yet the Russian government is highly unlikely to let crucial defense firms go bankrupt, so if companies face financial problems they will be bailed out by the government.

7. How do improvements on Chinese weaponry, specifically weapons based on original Russian design, change the Russian plans for export?

We will examine this in future research.

8. Has there been a COVID-19 effect seen on oil/gas production and/or delivery?

No, COVID has not negatively affected oil or gas production and delivery. Given that oil and gas industries are not highly labor intensive, we do not expect a substantial effect. Quarantine and lockdown rules in Russia will be designed in a way not to impact oil and gas production.

9. How critical are EU sanctions (as distinct from US sanctions) on Russia in frustrating not just export sales but modernization as well? If those sanctions are eliminated, what short-run impacts do you expect to see across all service modernization efforts?

The EU does not impose sanctions on Russian arms exports to third parties. The U.S. does so via its CAATSA sanctions. The US and EU both impose sectoral sanctions on different firms in the Russian defense sector, which prevents them from raising capital in Western capital markets. This was not particularly important for Russian defense firms before sanctions, so does not substantially affect their business model today. More substantive are EU and US decisions to tighten export controls in 2014, which substantially limited the sale of military and dual-use goods to Russian defense firms. We think it is unlikely that export controls will be eliminated or even explicitly loosened, but export controls require regular maintenance from regulators to ensure that the list of dual-use goods is updated and enforced.

10. Do you have any insight into the development Russian Anti-Satellite Weapons? What has been the effect of focusing on dual use systems in the individual weapon systems?



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This isn't something we've researched yet, but we have a briefing in the works on Roscosmos, so will examine this as part of this research.

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11. Which aircraft programs will be produced and which programs will likely be delayed either due to sanctions or loss of skilled workers.

The deficit of skilled workers is regularly mentioned by officials at Russian defense firms as a constant problem, but it is difficult to point to a specific weapons system that was delayed as a result. A better way to look at the deficit of skilled workers is as a factor that makes the production of defense equipment slower and less efficient across the board, rather than as an impediment to a specific program.

12. Naval forces received the highest percentage of procurement funding over the last 10 years; has that investment resulted in a definite increase in maritime capabilities or ability to reach new regions?

Yes. The best example of this is the Eastern Mediterranean, where Russia's navy is currently more active than at any point since the late Soviet period. During the Syrian conflict, Russia's navy has transported supplies to Syria, provided air cover over Syria, and launched missile strikes at targets in Syria.

13. Is there any evidence that sales of the SSJ100 have benefitted from recent safety issues with the Boeing 737 MAX?

No. And the downturn in the global civilian aviation industry will further reduce the prospects for exports of the SSJ100.

14. Do you have any idea on the amount of losses that corruption plays? Also, do you have any thoughts on corruption schemes and how they work in Russian Defense? I know that these are tough problems to get concrete information on but would appreciate your thoughts.

By all accounts, corruption is a serious problem in the Russian defense sector, but there isn't any hard data or easy means of estimating its cost. The most common form of corruption is to rig bidding on procurement contracts, or to inflate costs on contracts with only one bidder.

15. What other civil sectors are "feeling the heat" economically speaking, as the airline industry? modernization of rail industry? you mentioned naval industry but wondering how other sectors are overcoming these challenges or are they?

We're going to do a deep dive into infrastructure for future briefings.

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16. Agree that it is not likely to see growth in Russian military exports given their high level at the moment. It seems key is to maintain their current levels. Are you seeing anything that points to a decrease of foreign sales? Russia does seem to provide an important niche of decent but inexpensive equipment that is easy to use for less sophisticated militaries. Will this hold?

We don't see evidence of a decrease in foreign sales, though the spotty data released by Russia makes this difficult to interpret. There is some risk over time that Chinese arms exports begin to eat into Russia's market share. The two countries would likely target similar



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markets, mostly countries that are not U.S. allies or close partners. Russian defense firms are worried about Chinese competition given growing Chinese arms exports over the past decade.

17. Do you observe a decline in Russian exports to India, given increased American FMS sales? Russian arms exports to India were higher in the 2000s, peaking around 2012-2013. U.S., French, and Israeli sales to India began to increase substantially around the same time as Russian sales fell. Nevertheless, Russia is still a major exporter to India, having signed \$14.5 billion worth of contracts in 2018 and 2019, for a range of systems including air defense, fighter aircraft, tanks, helicopters, and surface ships.

FPRI and RSI's FY20 project will carry out monthly monitoring of how Russia's Military Industrial Complex and Arms Export Industry are changing due to U.S. financial sanctions. Each month, program experts will report shifts in Russian defense-sector policies and structures that are motivated by U.S. sanctions. FPRI experts will investigate the specific causes and effects of such policy changes, and will analyze their impact on and relationship with long-term trends.

The project reports will focus on two issues. First, how U.S. financial sanctions on firms in Russia's military industrial complex are forcing changes in how the sector is structured and financed. Second, how U.S. sanctions on countries importing Russian arms are changing Russian arms export techniques.

Stay tuned for monthly reports from FPRI that are disseminated through e-mail and posted to [RSI's website!](#)

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[The Russia Strategic Initiative](#) (RSI) is a U.S. Department of Defense organization that works with structures throughout the U.S. Government and with public and private think tanks around the world to develop a common understanding of Russian decision-making and way of war that supports the Coordinating Authority's integration that lead to integrated planning, assessments, and action recommendations.

[Project CONNECT](#), an RSI project, is a webinar series on Tuesdays and Thursdays that brings experts to present on Russia-focused topics that are educational, focused, and relevant and accessible from around the world. Please reference [Project CONNECT's website](#) for a full event listing with registration information along with detailed past events and their presentation materials and post event recordings.

Please contact the Russia Strategic Initiative with any questions, concerns, or suggestions by e-mail at: eucom.stuttgart.rsi.mbx.rsi-research@mail.mil