CCW Russia Brief

Issue 2
May 2018

Contents

Michael Kofman  
The Durability of Russian Military Power: Moscow’s Prospects for Sustaining Direct Competition

Nazrin Mehdiyeva  
Rosneft’s Dual Goals of Political Expediency and Profit

Richard Connolly  
Playing it Safe: Continuity Through the “New” May Decrees and “New” Government

Julian Cooper  
Arms Procurement in Russia: Some Challenging Issues

Andrew Monaghan  

About the Authors

Copyright and Disclaimer
© 2018 Changing Character of War Centre. All rights reserved. Material in this publication is copyrighted under UK law. Individual authors reserve all rights to their work and material should not be reproduced without their prior permission. The views and opinions expressed in these articles are those of the authors and do not necessarily represent the views of the Changing Character of War Centre, Pembroke College, or the University of Oxford.
The Durability of Russian Military Power: Moscow’s Prospects for Sustaining Direct Competition.

MICHAEL KOFMAN

Political analysis in the West retains a strong bias towards measuring state influence and status according to economic foundations of power, yet Russia has demonstrated that military power remains an important instrument in international politics. Having enacted a period of military reform 2008-2012 and financed a sustained program of modernization, Russian foreign policy is increasingly underwritten either by the use of force, or threat of force, as part and parcel of coercive diplomacy. Though much attention is drawn today to indirect competition, it is Russia’s successful resurrection of military power which enables the country to 'bench press' above its weight in the international arena. Indeed, indirect competition is often messy, indecisive, and ineffectual without the weight of conventional military power supporting it.

While observers are cognizant of the resurrection of Russian military power, there remains, however, a considerable debate as to its durability. Simply put, many believe that demographic, economic and industrial trends are against Russia – the country will not be able to sustain this level of direct competition. Yet there is little to suggest, looking ten years out and even beyond, that Russia will suffer from those severe shortages of either manpower, money or materiel which would reduce Russia’s ability to underwrite its foreign policy. On the contrary, Russian demographic trends reflect only an increasing availability of manpower for the growing force, a sustainable defence budget in terms of spending, and a modernization program that will suffice to arm the force well into the 2020s. It can go on, and it will.

Much of the conversation on Russian demographics is simply ill informed. A decline of birth rates throughout the 1990s lasted until 1999. Russia suffered through a decade of declining health standards, fertility, falling birth rates, and emigration. Despite the decline in numbers of 18 year olds available for service, Russian armed forces expanded from perhaps around 700,000 in 2011 to over 900,000 in 2017. The contract share of the force swelled to as much as 380,000, or more than 50% of the enlisted force. Russian birth rates increased year on year from 1999 until 2015. This means that men born in 2000 will be of service age this year, 2018, and the pool of men aged 18-27 should increase every year from now until 2032.

Birth rates are hardly the only indicator responsible for growing manpower availability in Russia. The draft board, Voenkomat, has also helped clean up corruption in the number of health exclusions granted to those seeking to dodge service. In the past, many Russians would spontaneously become unhealthy upon turning 18. But with health exclusions revised, and the rampant buying of disqualifications now attended to, the amount of those deemed unfit had declined to only about 23% in 2016 according to head of the General Staff's Mobilization Directorate Colonel General Tonkoshkurov. Russia’s chief military prosecutor, Valery Petrov, stated more recently in 2018 that overall draft evasion is down by about 30% from the corrupt heydays of the past. Beyond reductions in draft dodging, increases in pay, growing public respect for the armed forces, and overall improving conditions in the military have all had a positive effect on recruitment. Starting in 2018, a change in the conscription law now offers draftees the option of one year conscript service or two years under contract with better terms.

General demographics trends offer a complex picture of Russia’s future. Russian life expectancy actually reached a record high in 2017, and fertility rates are closing in on those in the United States, up from 1.157 in 1999 to 1.75 in 2016 (U.S. was at 1.8). Russia suffers from three principal problems in demographics: the demographic echo from the disastrous 1990s which will return to haunt Moscow in the mid-2030s, a declining workforce which is losing perhaps 600,000 per year in retirements, and the recent economic recession which slowed birth rates 2015-2017 (even despite generous state sponsored family programmes) which will have knock on effects years from now. Russia’s main problem is not so much the size of its population, but its productivity. Nevertheless, because Russia remains the primary labour market for the former Soviet Union, and is host to a large pool of immigrant labour, it does have answers readily available for the present decline in the labour force. Despite all these challenges, therefore, Russia’s current population is much healthier of late, with the longest lifespan witnessed, and manpower availability is likely to see sustained increases into the mid 2030s.
From a materiel standpoint, it is also difficult to observe looming shortages. The previous State Armament Program 2011-2020 was meant to jumpstart the defence industry, and effectively provided for a dramatic increase in the modernization rating of Russian equipment from 15% in 2010 to almost 60% in 2017 (according to official figures). That program’s achievements merit briefly recounting, as they include the acquisition of 418 aircraft for tactical aviation, 3 combat aviation brigades and 6 combat aviation regiments, 16 air defence regiments of S-400, more than 70 radars of various types for VKS Aerospace forces, 10 Iskander-M brigade sets, completion of Russia’s early warning radar network, 55 military satellites launched into orbit, 12 new regiments of Yars road-mobile ICBMs deployed, more than 3,000 modernized ground force vehicles, 3 new SSBNs and 2 new 4th generation SSGNs, together with diesel-electric submarines, corvettes, and auxiliary ships. This list includes upgrades in more specialized fields, including electronic warfare brigades and companies, new command and control systems to enable recon-strike and fires, together with more than 1800 drones acquired across services.

The funds spent by 2017 doubtfully exceed 50-60% of the original 19 trillion RUB allocated. Thus the new state armament program 2018-2027, at another 19 trillion RUB, plus 1 trillion for infrastructure, and 3 trillion for other security services, represents a sustained investment. Albeit with reduced purchasing power, the new state armament program will focus on areas neglected, or perhaps ‘jump started’ by its predecessor. These include large-scale acquisition of precision guided munitions, long-range standoff cruise missiles, transport aviation, bomber modernization, expansion of artillery, armour, and missile formations in the ground forces, more capable drones, and next generation tech like hypersonic weapons.

Even in Russia’s lagging industry, shipbuilding, one can see that core sectors of competence such as submarine construction remain capable of producing some of the most sophisticated platforms available. Russia currently has 11 nuclear powered submarines laid down, and is able to build a diesel-electric submarine in 18 months, with a division of 6 currently in production for the Pacific Fleet. Despite a messy divorce from Ukraine’s defence sector, the material is not only there to sustain Russian military modernization, but the production rates are more than sufficient even in troublesome sectors.

In other areas, such as the ground forces, the conflict in Ukraine and Syria has illustrated that Russian ‘good enough’ is can deal with the country’s military requirements for the coming decade. Modernized Soviet platforms are able to beat any former Soviet republic on Russia’s borders. Possessing them at high readiness, and large numbers, means Russia can effectively impose its will on neighbours or coerce them in a crisis. If anything, most of the challenges faced by Moscow are self-imposed, such as the decision to expand the ground force structure so quickly that it will inherently suffer in readiness and mobility. The defence industry has shown itself capable of producing current generation technology such that Russia has a viable path towards conventional deterrence vis-a-vis the United States, meanwhile less advanced elements of the Russian military are more than suitable for compellence in local and regional conflicts.

Assuming levels of economic growth at 1.5%, there is little to suggest that Russia cannot sustain this level of military expenditure, which will amount to no more than 4% of GDP. Meanwhile Russian spending on national defence will likely hover at around 2.8% of GDP, as the defence budget is only seeing modest cuts relative to other sections of the budget. The fact that oil prices are 50% above the $40 per barrel mark which the government used to underpin its budget expectations is yet another indicator that the economic outlook for defence spending is considerably better than usually appreciated. While the defence budget may still have fat to trim, coming off of historic highs in 2014, there is less urgency in spending on procurement after major gaps have been filled in 2011-2017, and the defence industry revitalized in the process. Adjusted for purchasing power parity, Russia remains just behind Germany as the second largest GDP in Europe. Although it is technically a middle income country, Russia’s raw GDP hides considerable purchasing power when it comes to defence spending and the ability to sustain its armed forces.

On the basis of macro indicators such as manpower, materiel, and money, therefore, Russia is positioned to sustain its policies, even if this means a prolonged confrontation well into the 2020s, and perhaps 2030s. More importantly, Moscow’s ability to leverage military power as one of the more decisive instruments in pursuit of its foreign policy objectives should be clearly understood. Russia can retain the current degree of military activity, snap readiness tests, large strategic exercises, expeditionary operations in Syria, and a rotating presence in Ukraine. The challenges Russia faces are consequential, often resulting in cycles of stagnation and mobilization, but they are not deterministic, as has historically been the case for this particular power.
Rosneft’s Dual Goals of Political Expediency and Profit

NAZRIN MEHDIYeva

Rosneft’s rise from a company that controlled only about 5% of Russian oil output in the 1990s to Russia’s biggest oil producer, responsible for over 40% of its annual crude and condensate production is nothing short of spectacular. Rosneft’s average production of liquids, 4.55 million barrels per day in the fourth quarter of 2017, was almost double that of the world’s largest IOC, ExxonMobil. Today, the company describes itself as the “standard-bearer of the Russian oil industry” and touts its large – and growing – domestic and international portfolio.

On the list of Russia’s strategic companies, Rosneft is controlled by the state through holding company Rosneftegaz (50% plus one share). In addition to Rosneft, Rosneftegaz owns 10.9% of gas giant Gazprom and 27.63% of Russia’s largest diversified utilities holding, Inter RAO UES. Rosneftegaz is fully owned by the Russian state and its board of directors is chaired by Igor Ivanovich Sechin, who also chairs the Board of Inter RAO and is the CEO of Rosneft.

Rosneft owes much of its success to Sechin, who was widely regarded as “the boss” long before his appointment as the company’s CEO in May 2012. Sechin has been closely involved with Rosneft since at least July 2004 when he became chairman of the company’s board of directors while at the same time serving as Putin’s deputy chief-of-staff. In those early years, his strategic leadership of the company was underestimated even by Rosneft insiders, but it became apparent by 2007 after 24 senior managers loyal to then Rosneft President Sergei Bogdanchikov left Rosneft over the course of three years. Bogdanchikov himself was replaced in 2010 by Eduard Khudainatov.

The timing of Sechin’s appointment to deputy prime minister in 2008, frequently and erroneously regarded in the West as demotion, was of paramount significance. The appointment came soon after Putin had switched jobs for a four-year term as prime minister and thus the move meant that Sechin stayed in Putin’s closest circle. Crucially, supervision of energy policy came under Sechin’s remit, which enabled him to establish his authority and influence over the oil and gas sector. He capitalised on this after leaving his post in 2012.

In June 2012, it emerged that Sechin had established a closed “oil club” for the leaders of Russia’s largest oil companies, which, consistent with the tradition that went back to his time in government, was due to meet every Saturday. Sources disagree on whether the idea of setting up a presidential committee supervising the strategic development of the fuel and energy complex emanated from Sechin himself or the oil company leaders. Yet it is acknowledged that such a proposal emerged from the first meeting of the Oil Club and was presented to Putin in a letter from the oil industry leaders. The creation of the committee, known as the Presidential Committee on Strategic Development of the Fuel and Energy Complex and Ecological Safety, was decreed by Putin on 15 June – that is, within a week of the first meeting of the Oil Club.

Sechin, by then Rosneft president, became the executive secretary of the Committee and was credited by people involved for his strategic acumen. The presidential committee achieved two sets of goals. First, it strengthened Putin, who was inaugurated for a third presidential term in May 2012, by moving the centre of gravity in decision-making on key energy issues back to the Kremlin. Second, it enabled Sechin to influence decisions in the energy sector as a whole, reaching well beyond the purview that he would have held as “only” the head of Rosneft.

Created on the basis of the Oil Club, the composition of the presidential committee was not constrained by it and, from the time of its establishment, comprised not only oilmen but also top government officials, including Dvorkovich, Energy Minister Alexander Novak, Natural Resources Minister Sergei Donskoi, Minister of Economic Development Andrei Belousov and Finance Minister Anton Siluanov (among others). Gazprom CEO Alexei Miller and Novatek CEO Leonid Mikhelson were also included. The Committee was given a broad remit: it replicated and went beyond the powers of a similar committee in the government which Sechin had chaired only months earlier. In the context of Russian politics, market players understood that the establishment of the new committee signalled that key decisions will be taken in the Kremlin.
Asked to characterise Sechin, Putin stated that he appreciates his “professionalism” and “tenacity”, adding that if Igor Ivanovich takes on a task, “you can be sure he will complete it”. Sechin’s ability to prioritise work and get the job done, whatever the complexity and cost, appears to be the key point on which people who know him agree. Kremlin officials and Rosneft managers emphasise Sechin’s “hellish working capacity” and his high demands as he expects people working with him to keep up the pace. One difficulty, particularly for people travelling with him, has been that Sechin appears well able to function on “three hours of sleep a night”. Alexander Nekipelov, chairman of Rosneft in 2011-15, summarised Sechin’s decision-making style in a sentence: “when he takes a decision, he sticks to it”.

Sechin’s spectacular rise has not been just the result of his loyalty to Putin, as many in the West assume, but of the work that he puts into achieving results. On one occasion, when asked about his future in the government, Sechin responded: “There is a leader who makes decisions about where he sees specific people. Where it’s necessary, that’s where I’ll be.” Regardless of whether Western observers agree with the aims and the tactics of the projects that Sechin has overseen through the years, there is no doubt that the design and execution of each one of them has required competence and perseverance. At Rosneft, Sechin has been the locomotive behind some of the most complex deals in the Russian hydrocarbons sector. Putin’s praise for Sechin’s achievements was on show in a 2017 meeting in which the president highlighted that the work undertaken at Rosneft to strengthen the company has “turned it into one of the leaders of the global oil and gas industry”.

It was during Sechin’s chairmanship of the board that Rosneft transformed itself into Russia’s biggest oil company by acquiring Yukos’s assets, namely Yuganskneftegaz in 2004 and Tomskneft in 2007. Rosneft’s aggrandisement continued in a systematic manner: in a March 2013 presentation, Sechin outlined the trajectory of the company’s development, showing how the acquisition of TNK-BP would make Rosneft the world’s largest publicly listed company by output and reserves. The $55 billion deal with TNK-BP, the largest in the history of Russia’s oil industry, was finalised that month. The acquisition of Rosneft’s smaller rival, Bashneft, took place in 2016.

Unveiling the company’s five-year strategy, known as Rosneft-2022, in December 2017, Sechin stated that the company plans to grow its annual production by 30 million tonnes of oil equivalent, net of acquisitions, by the end of the period. Such a large increase is deemed to be possible thanks to technological achievements and the company’s international projects, which have been an important focus, despite investors’ cautious attitude.

In a research report produced in October 2017, Sberbank’s division CIB estimated that since the acquisition of TNK-BP, Rosneft spent a net $22 billion on purchases “with no clear focus”. The unusually critical report, which Sberbank retracted following a complaint from Rosneft, highlighted the growing debt of the company. In a section entitled “Rosneft: We Need to Talk About Igor”, the report stated that Sechin “almost single-handedly sets the company’s strategy”.

This is untrue. As a state-owned company, Rosneft has to contend with political guidance and requests from the Kremlin. And whereas the battles with the government can be fought and won, requests from the president are rarely disputed. The payout of dividends is one example. Rosneft decided to pay 35% of its net profit as dividends on the 2016 results. Initially, Rosneft exercised its political clout and avoided paying 50% as required by the government. But when Putin personally requested in mid-2017 that the payout be increased to 50%, Rosneft press secretary was quoted as saying: “we do not discuss the president’s requests; we comply with them”. The dividend policy was duly amended in autumn 2017 and, in April 2018, it became known that the board of directors recommended paying out in dividends half of the company’s net profits for 2017. The general shareholder meeting at which the recommendation can be expected to be approved is to take place on 21 June. Rosneft shares went up 5% on the announcement, the highest they had been since the sale of 19.5% of Rosneft to Qatar Investment Authority and Glencore in early 2017.

Overall, despite being the largest company by output and reserves, Rosneft’s market capitalisation is incomparable to Exxon Mobil, and lags significantly behind privately owned European oil producers such as Shell, Total and BP. In a sign that market capitalisation is prominent in the thinking of Rosneft management, a statement detailing additional initiatives to Rosneft-2022 was released on 1 May. The initiatives, approved
by the board of directors, aim to increase Rosneft’s profitability and returns on the existing assets through a range of measures, including divestment of non-core assets.

While many observers have expressed doubts about Rosneft’s acquisitions in Venezuela and the Iraqi region of Kurdistan, it is most unlikely that Rosneft will sell those assets as they are seen as both politically strategic and important for company’s future growth, even though they come with substantial risk. The importance of these acquisitions for the Kremlin and Rosneft has been underscored by the fact that Sechin has personally spent a considerable amount of time travelling abroad to negotiate and seal the deals.

Sechin continues to straddle business and government, aiming to achieve the near-impossible dual goals of making energy decisions that would be at the same time politically expedient and commercially sound. His ability to strike the balance, as possible, will continue to make Sechin indispensable to the Kremlin and dominant on Russia’s energy landscape.
Russia’s recovery from the recession of 2015-16 suffered an unexpected setback at the end of 2017. After registering modest but uninterrupted growth from the end of 2016 to the middle of last year, and despite rising oil prices, seasonally adjusted GDP fell in the final quarter of 2017, according to Rosstat data, due to an unexpected decline in fixed investment and a slump in industrial production. Thus recorded annual growth in 2017, which had been expected to reach close to 2%, instead came in at 1.5% – a surprisingly tepid rate of expansion given Russia has historically registered much faster growth when recovering from recessions (i.e. after 1998 and 2009).

The first months of 2018 do not augur well for those hoping that growth might accelerate to a rate closer to the global average. Economic indicators revealed an economy that is growing in an uneven and uncertain fashion. The imposition of additional sanctions on Russia by the US in April, as well as the possibility of an expansion of the conflict in Syria, only added to this uncertainty.

Furthermore, hopes that Vladimir Putin’s convincing re-election as president might usher in a period of significant economic reform have, at least for now, been dashed after changes in government personnel, alongside the declaration of a number of formulaic socio-economic objectives by the president, signalled that economic policy was more likely to be characterised by inertia than by change.

**Economic performance**

*Output*

Key economic indicators suggest that the reversal registered at the end of 2017 was no blip. Year-on-year GDP is estimated to have grown by little over 1% in the first quarter. As a result, the economy remains smaller than it was in 2014. Seasonally adjusted industrial production also fell in February before recovering only slightly in March.

This uncertain trend looks set to continue. Official forecasts – both external forecasts made by the likes of the IMF and the World Bank, or internal forecasts from Russia’s Central Bank (CBR) and the Ministry for Economic Development – suggest that the GDP will grow at a rate of between 1.5-2% in 2018. Given that the IMF has forecast that global GDP will expand by 3.9% this year, a substantial gap is emerging between Moscow’s intentions for the economy and the international context: during his inauguration, Putin declared that growth should at least equal that of the global economy.

*Trade and investment*

The failure to generate momentum in the recovery from recession is perhaps most surprising given that the price of oil – Russia’s most important export product – has sharply risen. Joint efforts by Russia and OPEC to support prices through production cuts have, alongside rising tensions in the Middle East and the re-imposition of US sanctions on Iran, pushed the price of Urals crude benchmark oil to nearly $75 per barrel, up from less than $60 at the beginning of the year. Ordinarily, a 25% increase in the price of oil would generate faster growth in Russia.

Raising the rate of investment in fixed capital remains the most important challenge facing policy-makers in Russia. For as long as investment accounts for around 20% of GDP, there is unlikely to be structural change. Without new machinery and factories, the potential of the Russian economy will remain limited, especially as the labour force has been, and is forecast to continue, shrinking sharply over the next decade. While investment grew faster than GDP in 2017, a sustained acceleration to around 25-30% of GDP is required if anything approximating broad modernization is to take place. This is not to say that all sectors have performed badly. Investment grew faster than average in energy, agriculture and some sub-sectors of manufacturing. If these trends continue, however, the Russian economy is likely to continue to look very much like it does today: dominated by natural resources, agricultural production and a few defence-related high-technology industries.
**Government spending**

Rising oil prices have, however, boosted government tax revenues. With a budget based on oil prices of around $40 per barrel the recent surge in prices has provided a welcome boon to the Ministry of Finance (MoF). Russia is currently projected to achieve a budget surplus this year for the first time since 2011. According to a recent draft federal budget, a budget surplus of nearly 0.5% of GDP (around $7 billion at current exchange rates) in 2018 might be attained. The previous iteration of the budget plan envisaged a deficit of 1.3%. With the MoF planning to keep expenditure flat in nominal terms (and declining in real inflation-adjusted terms), this will give the government extra funds and obviate the need to increase public sector borrowing. Nevertheless, these additional funds are unlikely to result in an expansion of state spending: official statements indicate that surplus revenues will be used to purchase foreign currency and boost Russia’s official reserves which reached $458 billion at the beginning of May.

**Inflation**

In the early part of the year, the CBR signaled its intent gradually to reduce the key interest rate. But after reducing the rate to 7.25% in March – well above the rate of inflation of around 2%, yielding a real interest rate of around 5% – the turbulence on financial and foreign exchange markets caused by the expansion of US sanctions in April prompted policy-makers to hold back from further cuts to stem outflows of capital. With household inflation expectations reaching historic lows in March, and with consumer price inflation estimated to have reached around 2.5% in April, it is likely that the bank will seek to reduce the key rate further if geopolitical tensions decline.

**Living standards**

Living standards continued slowly to recover. Private consumption, which began to grow last year, increased in real terms by about 3.5% in 2017 (y-o-y). Nevertheless, notwithstanding robust growth in spending of Russian travellers abroad on goods and services, consumption across all other core categories remains significantly lower than that observed before the recession. Indeed, imports of consumer goods in 2017 were lower than in 2008. If exports continue to rise on the back of high oil prices, this could well change later in the year, although for now consumer sentiment remains wary.

**Sanctions**

The intensification of US sanctions on Russia in April, ostensibly in response to alleged Russian interference in US elections in 2016, and as part of the Countering America’s Adversaries Through Sanctions Act (CAATSA) passed into law in August 2017, caused short-term but considerable turbulence in Russian financial and foreign exchange markets. Most notably, the rouble, which traditionally tended to move in line with changes in global oil prices, depreciated even as oil prices continued to rise.

Over the longer term, it is likely that the policy response from the authorities in Russia will reduce the impact of sanctions. This, after all, is what happened after the imposition of US, EU and allied sanctions in response to the conflict in Ukraine in 2014. Any adaptive measures enacted by the Russian government will, however, incur an economic cost. While policy-makers are likely to see this as an acceptable price to pay for preserving independence in the conduct of foreign policy, sanctions are likely only to reinforce specific characteristics of Russia’s political economy further: state support to targeted entities will bind targeted entities and sectors closer to the Russian state rather than weaken links.

**Economic policy**

*The ‘new’ May decrees*

Putin’s inauguration as president on 7th May saw him present a ‘new’ set of policy objectives for his fourth term in office. But in many ways, these goals (again) represented a continuity of purpose: he continued to emphasise the importance of raising the rate of economic growth to approximate the global rate of growth, to increase population growth and life expectancy in the face of negative demographic forces, to foster the growth of high-technology and knowledge-intensive activities to achieve an “economic and technological
breakthrough”, and to reduce poverty. These were declared policy objectives before the election and will continue to be for the future.

Nevertheless, the fact that the desiderata articulated by Putin offered grand objectives but little in the way of new thinking on the means to achieve these ends caused disappointment to those hoping for a genuinely new economic reform programme. For instance, no indication of how to deal with chronically weak property rights – either for Russia’s elite or for smaller entrepreneurs – was given. Nor were any specific plans elaborated for how small and medium-sized enterprises would be supported.

A ‘new’ government

The feeling that economic policy is characterised by inertia was reinforced when Dmitry Medvedev, the long-serving prime minister, was confirmed by the State Duma, Russia’s lower house of parliament, in his position on 8th May. Medvedev’s (re-)appointment, making him Russia’s longest serving prime minister, reaffirmed that he occupies an important role in the country’s ruling elite, not least because he has been entrusted with implementing the ambitious socio-economic agenda outlined by Putin. However, his proposals for new members of his cabinet did nothing to suggest that any significant changes in economic policy were on the horizon.

Those hoping for significant change in domestic socio-economic policy were also disappointed by the fact that Alexei Kudrin, the former Finance Minister and long-time associate of Putin, was only offered the relatively low-profile position of head of the Accounts Chamber. This position essentially involves monitoring the implementation of policy, rather than shaping its design. Nevertheless, it should be expected that Kudrin will continue to enjoy some informal influence over the policy process through his historically close personal ties with the president.

Conclusion

So far, continuity not change characterises both economic performance and policy in Russia. For some, this is disappointing. Given the external and internal challenges facing the country’s leadership, however, this inertia should not be surprising. Periods of radical change in Russia tend to be associated with upheaval and, more often than not, regression and a diminishment of Russia’s place in the world. As such, it should come as no surprise that the leadership appears intent on employing safe but unspectacular measures to preserve the country’s independent position and ability to conduct a ‘sovereign’ foreign policy, rather than embark on risky efforts to accelerate economic growth.
Arms Procurement in Russia: Some Challenging Issues
JULIAN COOPER

The Russian defence industry has started to implement the new state armament programme to 2027 (SAP-2027), though, as with all such programmes, only the first five years have real significance as the programme will be updated and extended before 2023. Here, some general issues of arms procurement in Russia are briefly explored.

In implementing SAP-2020 during 2011-2017, serious problems were encountered in developing genuinely new weapons and organising their production. New systems such as the ‘Sarmat’ ICBM, Su-57 fifth generation fighter, ‘Armata’ main battle tank, S-500 air defence system, strike UAVs, and the Gorshkov class frigate have suffered long delays and, in some cases, they will not enter service in any volume until the early 2020s. There is still a limited capacity for innovation, notwithstanding the high priority of these projects. The weapons being acquired in volume by the armed force are still modernised variants of Soviet-era systems, and this is likely to remain the case during most of SAP-2027.

The development of some new systems is being delayed by specific weaknesses of the Russian defence industrial capability. One good example, exacerbated by the end of deliveries from Ukraine and sanctions, is poor performance in developing new power units for aircraft, UAVs and naval vessels. The Su-57 fifth generation fighter still lacks a new engine, and the same applies to the extensively modernised Tu-160M2 strategic bomber now under development. The lack of suitable engines could also delay the acquisition of new military transport aircraft, a top priority of SAP-2027.

The situation is even more serious for surface naval ships. Ukraine was a major supplier, and now Russia is having to implement a crash import substitution programme and it will be sometime before suitable engines and power chains become available. Some power units for smaller vessels are being imported from China but these are not really designed for military use. The lack of domestically manufactured engines has been a major factor in Russia’s failure to acquire a strike UAV. The USSR built engines for light aircraft but ceased in the 1990s and now new production is having to be organised as sanctions make it difficult to import engines from Europe. As a result, the first strike drone, the ‘Altius’, may only enter service in 2019. Also, notwithstanding some over-optimistic claims, Russia has yet to develop a viable scramjet for a genuinely hypersonic missile.

When Anatolii Serdyukov was defence minister active measures were taken to enhance the internationalisation of the Russian defence industry. This was beginning to achieve positive results, but enthusiasm for it diminished after Sergei Shoigu’s appointment and then the annexation of Crimea and the imposition of sanctions sharply curtailed international outreach. Now very few examples remain. One is cooperation with India, in particular the successful BrahMos programme to develop anti-ship missiles, but India’s recent withdrawal from the joint programme to develop a two-seater version of the Su-57 fighter is indicative of some tensions. There is also Russia’s assembly of Israeli ‘Searcher’ reconnaissance UAVs at a factory in Ekaterinburg. A new stage is now underway with the aim of achieving a high level of localisation of supply, effectively turning the ‘Forpost’, as it is known in Russia, into a domestically-built system. There is clearly potential to develop joint activities with China but the known priority projects are civil in character, the development of a long-haul, wide-bodied passenger aircraft and a heavy-lift civil helicopter. Russia is still an important supplier of aero-engines to China but there does not appear to be any joint development work. The apparent lack of joint military projects may reflect the fact that for Russia China is emerging as a strong competitor in the arms export market.

The power unit problem identified above relates to another issue, the level of development of Russia’s production technology for manufacturing very high-technology military-related goods. Until now Russia has been heavily dependent on imported machine tools, other production equipment and software for use in engineering. Sanctions are now restricting access to these essential inputs and while China and other non-sanctioning countries can fill some gaps serious efforts are underway to find domestic solutions. There is now a programme to develop the machine tool industry and some defence companies are themselves building advanced equipment needed for military work.
There is a long way to go: imported metal working equipment accounted for 86% of the market in 2016. The Ministry for Industry claims that in 2016-17 the share of domestic equipment in the defence industry was about 20% and has set a target of 40% to be reached in 2018-20, but this looks extremely optimistic. The aerospace industry is beginning to use additive technology (3D printing), and while there is much talk of the digitalisation of manufacturing, implementation remains modest. In developing new software for it, Rosatom, Russia’s state atomic energy corporation, is to the fore. But this weakness of the production base could delay the start of volume production of some new systems.

Innovation and adaptation to new demands is being hampered by the inflexibility of some of the state corporate structures that now dominate the Russian defence industry. This does not apply so much to the vast state corporation ‘Rostekh’, with approximately 25 holding companies specialised in such activities as the development and manufacture of aero-engines, microelectronics, optical equipment, helicopters and infantry weapons, and employing a total of more than 450,000 personnel. It is similar in concept to the Italian company Leonardo (formerly Finmeccanica), established in 1948 and still 30% state-owned. Many of its holding companies produce both military and civil goods and there is a commitment to privatising companies within it when they have achieved adequate economic viability, most recently the ‘Kalashnikov’ concern. This appears to be a more flexible and innovative corporate structure than others.

But problems appear to be especially acute with the United Aviation Corporation (OAK) and the United Shipbuilding Corporation (OSK), the latter having an especially poor record in bringing new projects to completion. Indeed, in the shipbuilding industry one of the most innovative companies is outside the OSK, namely the Zelenodol’sk shipyard in Tatarstan building small missile ships, part of the privately-owned, Kazan-based ‘Ak Bars’ holding company, headed by Ivan Egorov, an experienced Tatarstan industrialist. There is now an urgent need for more competition in the Russian defence industry, and some break up of large, unwieldy, corporate structures that have become obstacles to change and have low levels of labour productivity. Such a reorganisation of some corporate structures could be a task for the newly appointed deputy premier for the defence industry, Yuriy Borisov, formerly deputy defence minister for procurement, with extensive experience of work in the electronics industry.

Looking to the future, there is now an issue that is evidently of concern to the country’s leadership: the exhaustion of the Soviet R&D legacy. As discussed above, most of the systems now being acquired by the armed forces have Soviet origins. This is even true of the advanced new systems presented by Putin in his recent state of the nation speech as most are based on research and development initiatives dating back to the USSR’s response to Reagan’s Strategic Defence Initiative. The Russian MOD is making efforts to strengthen its own research and innovation capability with a project to develop a new science city and the Russian Academy of Sciences is being encouraged to play a larger role in military related R&D. Strengthening the country's military research capability is likely to be a high priority during SAP-2027.

The defence industry in Russia now faces a new challenge. It is under strong pressure to increase the manufacture of civilian goods, especially competitive, high-technology products with export potential. This is becoming a key priority of the government and progress will clearly be closely monitored. The overall goal is to increase the civil share of the defence sector’s total output from 17% in 2017 to 30% in 2025 and 50% in 2030. These targets do not apply to individual companies, but may be used for large corporate structures such as ‘Rostekh’, which produces a wide range of civil goods, including high-tech medical equipment, electronic and optical equipment, and machine tools. It also has a central project office, ‘Konversiya’, to facilitate the adoption of new goods. Rosatom is also strong in some fields, notably the development and building of supercomputers, equipment for the energy sector and advanced materials. But there now appears to be the danger that this new priority task could divert some attention away from the defence industry’s core activity.

During the 1990s and the first half of the 2000s the Russian defence industry was starved of funding, received little new investment and possessed a steadily ageing workforce. Since 2010 funding has increased to a very significant extent, many facilities have been modernised and new, younger, personnel have been recruited. As a result of implementing SAP-2020 the defence industry has revived to an impressive extent and its ability to develop and produce new weaponry has been considerably enhanced. Many problems remain, however, and arms procurement is likely to remain a major challenge for Moscow in the years ahead.
ANDREW MONAGHAN

In *Russia: The Story of War*, Gregory Carleton, Professor of Russian studies and Chair of the Department of International Literary and Cultural Studies at Tufts University, presents what he calls Russia’s war myth, illuminating the common stock of assumptions and consistent vocabulary that underpin it. This is myth as sacred tale, central to Russian national identity and a frame of reference based on archetypal sets of causality, character types, scenarios and outcomes on which Russia’s past is structured. In so doing, he depicts the duality of Russia’s image: to many outsiders, it is an insatiably aggressive country, but to many Russians it is a country that is a defender, protector, even saviour, fighting one invader after the next. The distance between these different interpretations is unbridgeable, he suggests, even though they come from the same events and actions.

Carleton draws from a wide range of sources from across Russian culture to make his point, and his argument is structured across seven substantive chapters, with a short epilogue that includes the war in Ukraine. The book also includes a short “filmology” as an Appendix, referencing relevant Russian films, miniseries and television shows, and a useful and interesting collection of maps, images and photos from the author’s personal collection.

Indeed, the book serves as a short, intense course in Russian culture, weaving in the work of Pushkin, Dostoyevsky, Karamzin, Tsvetaeva, Alexievich, and particularly Tolstoy’s *War and Peace*: ‘nothing to this day, even from World War II, can dethrone it as the statement of Russia at war’, Carleton argues [p.51]. And there are many others, too, perhaps less well-known in the Euro-Atlantic community, but deserving of recognition, including Boris Vasiliev, author of *His Name Wasn’t Listed*, a book that Vladimir Putin included in his top ten list of books foreigners should read to familiarize themselves with the Soviet/Russian experience of the Second World War.

Chapter 1 establishes the foundations of the war myth. ‘Invasion, resistance, self-reliance and self-sacrifice constitute the pillars on which Russia’s grand narrative of war rests’ [p.29], Carleton argues, and ‘the ideational fusing of land and faith combined with the need to protect it permeates Russia’s sense of war to the extent that it can function as a signature mark of national identity’ [p.25]. Carleton reflects on both Russia’s salvational role as both a shield and a sacrifice, saving Europe from destruction by the Mongols and as a country ‘becoming Russia under the trial of invasion’ [p.14].

But simultaneously he develops the theme of ‘Rus becoming Russia as an expanding nation, itself attacking and invading neighbours’ [p.14]. This sets the scene for recurring arguments throughout the book, and draws the myth’s direct links between Alexander Nevsky, Dmitri Donskoi and Ivan the Terrible through the ages to today: ‘past as present’. Thus Carleton notes how *The Military History of Our Country*, published in 2003 by the Russian Defence Ministry, points to how Nevsky’s ‘feats instil caution about Russia’s neighbours, particularly those in the West, and Donskoi’s victory underscores that national unity is the precursor to success. Ivan’s conquest of Kazan demonstrates that sometimes the best way to neutralize a foreign threat is to swallow it up’ [p.20].

Chapter 2 takes as its central focus Napoleon’s invasion of Russia in 1812. From here, Carleton riffs forwards in time, to Russia’s wars with the Turks, and back, to the Time of Troubles. The chapter illuminates how the myth frames the roots of Russia’s greatness in terms of feats of arms, and how to attribute Napoleon’s defeat to the cold was seen as an ‘unpardonable insult’.

Chapter 3 addresses World War II, or the Great Patriotic War as it is known in Russia, with all its echoes of 1812. Here, Carleton weaves in not just the official myth of pride in sacrifice, but also Russian critiques of it, particularly shame in carnage. He vividly juxtaposes the official line, for instance, of the 1943 Soviet crossing of the Dniepr (“the River of Heroes”), with Astafev’s criticism of the idiocy of command that cost thousands of lives at the “river of hell”.

In chapter 4, Carleton changes focus from the level of war to that of battle, particularly to Borodino in 1812, and to the battle at Brest Fortress in 1941, to reflect on the Russian soldier’s resilience, and the suffering, death and sacrifice on which the Russian myth of exceptionalism is built. Thus he describes the relationship between “stoikost”, a blend of courage, resilience and defiance, and the extensive casualty lists that have usually accompanied Russia’s wars. He points to the ‘eerie conclusions’ a westerner can encounter in the degree of pride taken in Russian military history: a lengthy casualty list could be interpreted as a positive sign because more dead meant less retreat, which, in turn, meant more “stoikost” on display on the battlefield [p.130].

Chapters 5, 6, and 7 range wider still across the Russian experiences of war from the Russo-Japanese war to Afghanistan and Chechnya, and the struggles to balance the courage of individuals – such as Admirals Kornilov and Nakhimov in the defence of Sevastopol during the Crimean War, and units, such as the crews of the ships Variag and Koreets at Chemulpo in February 1904, with the brutality and appalling conditions of service. In this way, Carleton explores how defeat and fiasco have been transformed by the myth into heroism.

This is not just fascinating historical and cultural reading: the arguments throughout the book are an education for those trying to understand Russian defence and security thinking today, and offer answers to three prominent and related questions that are often paradoxical to Western observers. First, the book explains Russian fears of how invasion and encirclement go hand in hand. In his discussions of the invasions of 1812 and 1941, for instance, Carleton shows how it seemed that Russia took upon its shield the blows not just of France and Germany, but of ‘the whole West that rose with them’. As he states of the war in 1812, ‘for Russia it seemed that Europe – or the non-Orthodox West – had united against them. Alone, Russia would decide its own fate and in so doing change the world’ [p.44]. Encirclement is isolation, Carleton argues, and it is not just geographic, but spiritual.

Second, although he does not make it explicit, Carleton explains Moscow’s current fears about “Colour Revolution” and regime change operations. In chapter 6, “Deadliest Sin”, he discusses in detail the Russian fear of domestic instability. ‘If, according to myth, no foreign power can vanquish Russia’, he suggests, ‘then only one thing can bring it down, and those seeds of destruction will first sprout on its own land. Internal discontent and division constitute Russia’s Achilles’ heel’ [p.218]. Fratricide is seen to open Russia up to outside predators – a fear that dates back to the Middle Ages but repeatedly recurs through to modern times to the Civil War. This is precisely how the Russian leadership today understands Western “Hybrid Warfare”. Putin has often spoken on this theme, and Carleton cites his inaugural speech in 2000. For further supporting evidence, he might have added that Putin stated in late 2014 that ‘the history lesson about periods of fragmentation must trigger a danger signal. We must treat this very carefully and not allow such things under any circumstances. We must know our history’.

Third, Carleton discusses how Moscow sees efforts to revise history as a national security question and part of the “Information War”. He points to the EU’s declaration in 2008 identifying the USSR with Nazi Germany as partners in crimes against humanity, but with the USSR ‘given first billing’. Carleton is clear: ‘downplaying the Russian role, disparaging it, ignoring it … there is no greater affront, since it effectively writes them out of the greatest moment of their history’ [p.105]. This, he argues, is seen in Moscow as a high stakes battle in the “information war”, with the ‘real goal’ being seen in Moscow to be an attempt to form a new ‘pan-European identity on an anti-Russian basis and at the expense of Russia’ [p.108].

Throughout the book, Carleton treads a fine line between laying out the Russian myth and juxtaposing it with Western views of that same history, while also gently reminding the reader that others, including the UK and USA, have their own war myths. Carleton is admirably concise in keeping the text to 256 pages plus notes. Drawing the line on what to exclude must have been difficult: there is so much to say on these all themes, and there must have been strong temptation to link the myth more explicitly and thoroughly to contemporary policy and rhetoric, to include more on the war in Syria, and perhaps even to reflect on how the Russian approach to History and its methodology differ from current Western approaches, compounding the sense of different conclusions from the same evidence. Nevertheless, this is a fine book – essential reading for those who seek to understand what “Russia at war” really means.
Michael Kofman is a Senior Research Scientist at CNA Corporation and a Fellow at the Kennan Institute, Woodrow Wilson International Center in Washington, D.C. He directs the Russia Studies Program at CNA, where he specializes in the Russian armed forces and security issues in the former Soviet Union. Michael’s other affiliations include a non-resident fellowship at the Modern War Institute at West Point, and as a Senior Editor on War on the Rocks.

Dr Nazrin Mehdieva is an Academic Visitor at St. Antony’s College, Oxford University, and an independent consultant specialising in energy security and geopolitics. She has over a decade of experience working as a senior consultant in leading European consultancies and, subsequently, as head of department at UK’s largest energy distribution company, UK Power Networks. Nazrin is the author of Power Games in the Caucasus published by I.B. Tauris in 2011, as well as numerous articles published in academic and industry journals, and a chapter on energy security in Beyond Blood Oil (Rowman & Littlefield, forthcoming, Spring 2018). Nazrin holds M.Phil. and D.Phil. in International Relations from Oxford University.

Dr Richard Connolly is director of the Centre for Russian, European and Eurasian Studies (CREES) at the University of Birmingham. He is also an associate fellow on the Russia and Eurasia programme at Chatham House, visiting professor on the Master of Global Public Policy (MGPP) programme at the Russian Presidential Academy of National Economy and Public Administration, and editor of the academic journal, Post-Communist Economies. He has acted as a consultant to government ministries in the UK, US, and Germany, the armed forces of the UK, US, Sweden and Norway, and international organisations such as the International Trade Committee of the European Parliament, the Organisation for Security and Cooperation in Europe (OSCE), the Organization for Economic Cooperation and Development (OECD). His book Adapting to Sanctions: How Western Economic Sanctions are Reshaping the Political Economy of Russia will be published by Cambridge University Press in summer 2018.

Professor Julian Cooper OBE, Emeritus Professor, Centre for Russia, European and Eurasian Studies, University of Birmingham and Associate Senior Fellow, SIPRI, Sweden. He was Director of CREES from 1990 to 2001 and again in 2007-08. From 2008 to 2015 he was also an Associate Fellow of the Russian and Eurasia Programme of Chatham House, London.

Dr Andrew Monaghan is the Director of Research on Russia and Northern European Defence and Security at the Oxford Changing Character of War Centre at Pembroke College.

Series Editor

Dr Andrew Monaghan is the Director of Research on Russia and Northern European Defence and Security at the Oxford Changing Character of War Centre at Pembroke College. He has previously held positions as Senior Research Fellow in the Russia and Eurasia Programme at Chatham House (2013-April 2017) and leading the Russia related research in the Research Division of the NDC (2006-2012). He has served as an expert witness to several parliamentary committees including the UK’s National Security Strategy Committee, the House of Commons Defence and Foreign Affairs Select Committees, and NATO’s Parliamentary Assembly. He is widely published, and is the author of the books Power in Modern Russia: Strategy and Mobilisation, (MUP, 2017), The New Politics of Russia – Interpreting Change (MUP, 2016) and The Elements of Impact. Making Your Point in Public Speaking and Writing (2015).

Contact Details
Changing Character of War Centre, Pembroke College, Oxford, OX1 1DW
Tel: +44 (0)1865 276458    Email: info@ccw.ox.ac.uk    Twitter: @Oxford