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## **[Fresh Sanctions Take Aim at Russia's Defense Industry](#)**



At the end of October, United States Department of State produced a list of [33 Russian companies from the country's defence industry](#). As of January next year, these companies will be banned from making major transactions with western companies. The list was issued under the [Countering America's Adversaries Through Sanctions Act](#) (CAATSA) which was adopted a few months earlier. CAATSA was adopted in response to a further deterioration in Russo-American relations including, among other things, the Kremlin's alleged meddling in the US presidential election. It expands the scope of sectoral sanctions imposed back in 2014 to include both American companies and individuals.

### **What's at stake?**

The focus of the US is clear: sanctions target manufacturers of air-defense systems, "Iskander" (and other) tactical missile systems, cruise missiles, diesel-electric submarines, aircraft, helicopters, aircraft engines, precision-guided munitions, small arms, and armored vehicles. The list includes both parent companies and their subsidiaries. For example, the listed Almaz-Antey Air and Space Defense Corporation JSC (air defense systems and cruise missiles) is the parent company of the Tikhomirov Scientific research Institute JSC,

Novator Experimental Design Bureau, Dolgoprudny Research Production JSC, and Kalinin Machine Building Plant JSC. Similarly, the listed Rostec (Russian Technologies State Corporation) is the parent company of countless listed subsidiaries.

All this means that Washington does not intend to target tens or hundreds of Russian defense industry companies simultaneously. Sanctions are primarily aimed at legal entities which control major financial flows within Russia's military industrial complex, namely Rostec, Almaz-Antey, United Aircraft Corporation, United Shipbuilding Corporation, and a number of their subsidiaries. Importantly, these subsidiaries include Rosoboronexport OJSC (ROE) which is a global monopoly supplier of Russian arms.

Still, some individual plants are also listed such as those producing air-defense systems, cruise missiles, tactical missile systems and diesel-electric submarines which serve as cruise missile carriers. In other words, the list includes manufacturers of the most advanced Russian conventional arms systems. It is true that plants which produce small arms also appear on the list but this seems to be merely symbolic. The main goal of the US with respect to listed enterprises, it appears, is to hinder major links in the chain of production of highly advanced weapons.

It is also noteworthy that the above-mentioned Almaz-Antey is the largest defense-industry company in terms of export volumes. This is not about curbing competition in the global arms market. Russian and American producers of air-defense systems do not compete with each other since America supplies such systems only to its allies. It seems that Washington is paying special attention to this Russian company as supplies of advanced air-defense and missile defense systems to the Iranian and Syrian regimes increase the risk of regional instability.

Consequently, the Kremlin is facing yet another systemic challenge. Arms production costs, which Moscow invested so heavily in light its confrontation with the West, are only getting higher. Although the exports of Russian arms are unlikely to suffer significantly, the US will have the means to influence major transactions. So these fresh sanctions bring about a number of other problems for Moscow.

### **The mechanics of sanctions**

The confrontation with the West has put an end to the majority of cooperation projects involving Russian defense-industry companies and European and American businesses over the course of the last 4 years or so. Even so, producers in the defense sector are still [using](#) European and American equipment and still require maintenance services, at the very least. They purchase Western components for both military and civilian production. Although refusals to deliver these components were issued [before](#) CAATSA, companies which feature on the American list will soon face a fully-fledged embargo.

Nevertheless, Russia's main problem is the ambiguity of the new sanctions mechanism. The logic of this mechanism is analyzable. For example, the VSPMO-AVISMA corporation owned by the listed Rostec is the main supplier of titanium to Boeing and Airbus. One can be sure that, in this case, all contracts will remain in force. Payments under these contracts go directly to the titanium company bypassing the state-owned corporation.

The sanctions mechanism laid down in the American act may deal a blow not only to the global relations of Russian defense-industry enterprises but their Russian intermediaries as well. The story of Siemens turbines delivered to Crimea bypassing sanctions is a classic example of how to avoid sanctions by using intermediaries. Currently, such companies are at risk of facing sanctions, too. Obviously, this does not mean that there will be no loopholes which will enable them to bypass sanctions, but the economic and political costs of using such loopholes will soar.

Russia will not let the grass grow under its feet and will try to counteract the expanded regime of sanctions.

### **Using contradictions and going "underground"**

Judging by the stoic discontent [expressed by Moscow](#) in reference to this initiative, the Russian authorities have been getting ready for it since, at the latest, summer, when CAATSA was officially adopted. The Kremlin has a couple of tricks up its sleeve.

To begin with, Russia uses US allies and partners to pursue its goals and takes advantage of regional conflicts. The pending attempt to sell a set of S-400 Triumph air-defense systems [to Turkey](#) illustrates that Moscow is always eager to drive a wedge between global partners. The situation with India is somewhat different. India is the [primary buyer](#) of Russian arms today and, at the same time, one of America's key partners in deterring China.

The same goes for Vietnam to a certain extent. The situation is similar in the Middle East in the area of defense: while declaring affinity with Iran, Russia cooperates with many Arab countries that perceive Iran as a potential enemy. Thus, Moscow has created a headache for Washington in terms of the implementation of CAATSA and will no doubt continue to do so.

Secondly, the Kremlin will perhaps expand its espionage efforts in order to gain access to foreign military technologies, equipment, and components. Undoubtedly, this goes on even today. However, reinforced barriers stimulate the development of illegal activities. Increased effort will most likely be invested in cyber espionage. Having [carried out cyber-attacks previously](#), Moscow will inevitably improve its capabilities in terms of intercepting and capturing information.

As a result, with the adoption of CAATSA, Moscow has an additional incentive to play pullback, which requires consistency when it comes to the implementation of sanctions by the US and the West in general.

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