

RUSSIAN DEFENSE SECTOR'S RESULTS IN 2013

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Indicators of output growth in the defense sector have lagged far behind the target figures. Growth in public investment rates is overtaking growth in output, thereby causing abnormal growth in prices of defense industry products and upsurge in corruption. Meeting the President's requirements on creating a transparent military economy, streamlining the governance and pricing in the defense industry complex is still facing major challenges.

It wasn't until the final decade of April 2014 that it became possible to evaluate the Russian defense sector's 2013 key results, when Russia's Prime Minister Dmitry Medvedev stated, making the April 22, 2014 Russia's Government report on its performance in 2013 at the State Duma of Russia, that the defense industry complex (DIC) saw a 13.5% growth in output and a record-breaking amount of \$15,74bn of export of defense-oriented products (DOPs) as proof of the first signs of payoff from the public financial support to the defense industry complex which has been provided over the recent years¹.

Official evaluation of the foregoing actual growth, beginning with just 10% on January 22² and reaching 10.5%³ by March 19, eventually increased by 3 p.p. over three months, failing to meet the target value of 15–17% which the government expected to reach during the past year⁴. And such optimistic expectations of high-ranking politicians could be easily explained, because as early as June Deputy Minister of

Economic Development A. Klepach expected the defense industry complex to gain about 19% in output⁵.

Neither in general nor in particular does the Prime Minister's message about the first signs of payoff in 2013 from growing investment in the DIC can support the statistics on growth rates in output in the DIC and DOP export, as presented in *Table 1*. Within the 12-year timeframe under review, the 2013 results of overall growth in output are ranked 5th, i.e. quite a moderate score, growth in DOP export are ranked *the lowest*, i.e. a very poor but not disastrous score – 2013 saw no well acceptable reduction in the international arms trade. Lagging behind the target growth in output in 2013 may seem insignificant, however, within three years of 2011 thru 2013 actual growth in output stood at 28% instead of the target 52%.

The growth, as reported by Medvedev, in public investment in the defense industry complex reached an unprecedented scale in 2013: the volume of state defense order (SDO) "increased 1.6 times relative to 2012"⁶, federal budget allocations under the National Economy function increased 1.3 times⁷ while state guarantees to DIC entities so that they fulfill the Ministry of Defense's SDO and implement the federal targeted program (FTP) *The Development of the Russian Federation Defense Industry Complex in 2011–2020* increased 1.7 times.

The published data on the federal budget allocations to the SDO covered only the period of 2003 thru 2005, whereas no data on the SDO fulfillment has been published to date. Truly, the values of these indicators are available in public, not documented though, statements of government officials. Furthermore, it

1 Отчет Правительства о результатах работы в 2013 году: Стенограмма. М., 22.04.2014. <http://government.ru/news/11875>. [Government report on its performance in 2013: Shorthand report. М., 22.04.2014. URL: <http://government.ru/news/11875> (date of access: 22.04.2014).]

2 Стенограмма заседания Госдумы 22 января 2014. <http://old.minpromtorg.gov.ru/press/news/211/>. [Shorthand report of the State Duma meeting on January 22, 2014 (date of access: 31.01.2014).]

3 Совещание с членами Правительства. Ново-Огарево, 19 марта 2014. <http://www.kremlin.ru/news/20612>. [A meeting with Government members in Novo-Ogarevo, March 19, 2014. URL: <http://www.kremlin.ru/news/20612> (date of access: March 19, 2014).]

4 See: Рабочая встреча с Заместителем Председателя Правительства Дмитрием Рогозиным: Стенограмма. Ново-Огарево, 21 марта 2013. <http://www.kremlin.ru/news/17719> [A task meeting with Deputy Prime Minister Dmitry Rogozin: Shorthand report. Novo-Ogarevo, March 21, 2013 (date of access: 21.03.2013)]; Стенограмма эфира программы «Арсенал» с Д. Рогозиным // Радиостанция «Эхо Москвы». 2013. 16 декабря. <http://www.echo.msk.ru/programs/arsenal/1218709-echo/#element-text> [Shorthand report of the "Arsenal" radio program attended by D. Rogozin // Echo of Moscow Radio station. December 16, 2013. URL: (date of access: 25.04.2014).]

5 Оборонные гарантии России // Красная звезда. 2013. 29 июня (№ 112). <http://www.redstar.ru/index.php/newspaper/item/9939-oboronnye-garanti> [Russia's defense guarantees // Krasnaya Zvezda. June 29, 2013 (No. 112) (date of access: 25.04.2014).]

6 Government report on its performance in 2013.

7 Contributions to the charter capital, subsidies to the defense industry complex's entities (open and closed ones) in 2013 under the Federal Law of 03.12.2012, No. 216-FZ On the Federal Budget in 2013 and the Planning Period of 2014–2015.

Table 1

GROWTH RATES IN INDUSTRIAL OUTPUT IN DEFENSE INDUSTRY COMPLEX AND GROWTH IN EXPORT OF DEFENSE-ORIENTED PRODUCTS IN 2002–2013, Y-O-Y

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
DIC's overall output	16.5	16.3	3.3	3.8	12.2	15.4	5.1	4.3	14.2	5.8	6.4	13.5
DOP export	28.0	12.5	7.0	6.0	5.5	16.9	10.6	5.7	17.4	27.3	14.8	3.8

Source: Ministry of Industry and Trade of the Russian Federation (Minpromtorg); Federal Service for Military and Technical Cooperation; Centre for Analysis of Strategies and Technologies; author's estimates.

appears from Deputy Prime Minister Dmitry Rogozin's December 2013 report at the State Duma that the entire volume of the Ministry of Defense SDO was then estimated Rb 895,6bn¹, whereas Minister of Defense S. Shoigu mentioned nearly Rb 1 trillion 295bn in his January 2014 report at the Board meeting, of which about 62% (i.e. about Rb 803bn) were allocated to the arms procurement, except that the procurement plan was fulfilled 93% (which makes Rb 747bn)². In November 2013, President Putin stated that total budget allocations to SDO in 2013 amounted to more than Rb 1,3 trillion.³ Additionally, the confidential part of the federal budget allocations under the National Defense, a budget function, most part of which is comprised of SDO, was reduced from Rb 1 trillion 108bn to Rb 1 trillion 77bn (no data on The Russian Federation Armed Forces function has been published yet) as a result of two amendments which were made during the year to the Law on the Federal Budget⁴.

Contributions to the charter capital, subsidies and direct budget investment in DIC entities (open and closed ones) in 2013 may be evaluated Rb 134,4bn⁵.

The data on state guarantees provided to DIC entities so that they fulfill the Ministry of Defense SDO and implement *The Development of the Russian Federation Defense Industry Complex in 2011–2020* federal targeted program (FTP) over the past three years are shown in Fig. 1.

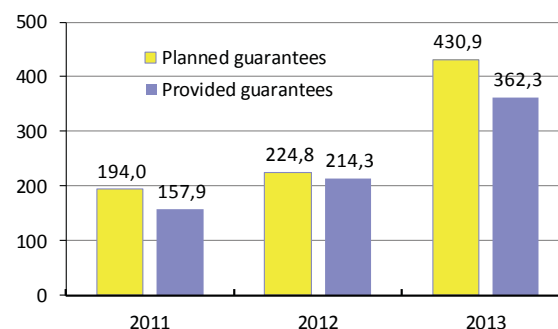
1 Стенограмма заседания Госдумы 11 декабря 2013 г. <http://transcript.duma.gov.ru/node/3973/> [Shorthand report of the State Duma meeting on December 11, 2013 (date of access: 25.04.2014).]

2 Отвечать вызовам времени // Красная звезда. 2014. 22 января (№ 9). С. 1. <http://www.redstar.ru/index.php/newspaper/item/13827-otvechat-vyzovam-vremeni> [Responding to challenges of time // Krasnaya Zvezda. January 22, 2014 (No. 9). P. 1. (date of access: 25.04.2014).]

3 Представление офицеров, назначенных на высшие командные должности. М., 19 ноября 2013 <http://kremlin.ru/news/19645> [Представление офицеров, назначенных на высшие командные должности. М., November 19, 2013. (date of access: 25.04.2014).]

4 Federal Laws On the Federal Budget 2013 of 03.12.2012 No. 216-FZ and 02.12.2013 No. 348-FZ.

5 Российская экономика в 2013 году. Тенденции и перспективы. (Выпуск 35) — М.: Институт Гайдара, 2014. — С.511 [Russian Economy in 2013. Trends and outlooks (Issue 35) — M. Gaidar Institute.]



Source: Federal Laws On the Federal Budget in 2011–2013; Russian Government's executive orders; author's estimates.

Fig. 1. State guarantees on the loans obtained by DIC entities in 2011 thru 2013, billions of rubles

In spite of that the Russian Defense Industry Complex managed to show only a 13.5% growth in output in response to the substantial growth in public investment, and most part of the difference between the respective gains was found to be absorbed, as reported by independent mass media, by growth in prices of DOPs, reaching 30%⁶, Minister of Defense Sergei Shoigu managed to report to President Putin at the Ministry of Defense Open Staff Board early in December 10, 2013 that “the fulfilled SDO-2013 has allowed the arms procurement to be enhanced by supplying cutting edge weapons and military equipment and by the end of the year will reach 45% for the Strategic Missile Forces, 21% for the Land Force, 42% for the Air Force, 52% for the Navy, 62% for the Airspace Defense Forces”⁷, i.e. the target figures of the state arms procurement program which provides for reaching 30% of cutting edge arms procurement by the end of 2015 at the earliest must be reached and substantially lifted for all branches but the Land Force.

6 Право голоса: Вооруженная Россия // Телеканал ТВЦ. 2014. 20 марта. http://www.tvc.ru/channel/brand/id/36/show/episodes/episode_id/30533/?page=3 [The Right to Vote: Armed Russia // TVC TV Channel. March 20, 2014 (date of access: 20.03.2014).]

7 К новым рубежам // Красная звезда. 2014. 13 декабря (№ 230). С. 5. <http://www.redstar.ru/index.php/newspaper/item/13282-k-novym-rubezham> [Towards new targets // Krasnaya Zvezda. December 13, 2014 (No. 230). P. 5. (date of access: 25.04.2014).]

Judging by this, – the data provided by the Ministry of Defense and declared at the Staff Board meeting in December were subsequently confirmed in the January report on the performance of The Ministry of Defense Action Plan on the Fulfillment of the Russian President's Orders of May 7, 2012, No. 597, 601, 603, 604, 605¹ which was published late in June last year – the 2013 growth in public investment in the Russian defense sector was definitely redundant.

In his April 22, 2014 report at the State Duma of Russia Dmitry Medvedev made a point of that in 2013 the plans on arms procurement of the strategic forces, supplying equipment for airspace defense and ballistic missiles² were accomplished, thereby inexplicitly challenging the fulfillment of the plans on arms procurement of the Land Force, Air Force, and Navy. In the latter case, it is a well-known fact that the Navy SDO failed to be accomplished despite a 6.4% growth in output of shipbuilding products³ declared by the Ministry of Industry and Trade of Russia: “Stoiky” corvette (Project 20380), “Grad Sviyajsk” and “Uglich” fast attack guided missile crafts (Project 21631), “Ivan Kartsov” and “Denis Davydov” assault boats (Project 21820), a few support ships⁴ failed to enter service in the Navy while Borei-class ballistic missile submarines “Yury Dolgoruky” and “Alexander Nevsky” (Project 955) entered service without being equipped with R-30 “Bulava”, the main ballistic missile, which still remains to pass government testing, thereby challenging the Prime Minister's statement about both the fulfillment of the strategic forces SDO on arms procurement and the solution of the recurring problem of compliance with SDO schedules faced by the defense industry complex.

1 http://mil.ru/mod_activity_plan.htm (date of access: 22.01.2014).

2 Government report on its performance in 2013.

3 Основные результаты работы Министерства промышленности и торговли Российской Федерации в 2013 году. http://government.ru/dep_news/11861 [The key performance results of the Ministry of Industry and Trade of the Russian Federation in 2013 (date of access: 23.04.2014).]

4 Самсонов А. Ухудшенная копия Минсудпрома – часть I // Военно-промышленный курьер. 2014. 2 апреля (№ 12) <http://www.vpk-news.ru/articles/19727> [Samsonov A. A worsened copy of the Ministry of Shipbuilding Industry – Part I // Voенно-promyshlenny kuryer. April 2, 2014 (No. 12). (date of access: 02.04.2014).]

The fact that the shipbuilding industry is facing not only the skilled personnel training issue but also other problems was confirmed at a meeting at the Expert Council under the State Duma Industrial Committee on April 3, 2014 where First Deputy Chairman of the Committee Gutenev V. made a statement that eight criminal charges were filled as a result of the latest audit at the United Shipbuilding Corporation (USBC) in the Arkhangelsk Region, nine in St. Petersburg and the Leningrad Region, four in the Primorsk Territory, five in the Murmansk Region, three in the Kaliningrad Region, one in the Khabanovsk Territory, etc.⁵ The reason for the created situation is obvious: “a serene environment, when the industrial sector was growing, when the budget was growing, when the state defense order was financed at outstripping growth rates, thereby putting the contractors at ease and creating an atmosphere of impunity and permissiveness”⁶. However, the wording of the Government's report is indicative of that the Government has no such task as combating corruption.

The only serious step towards streamlining the governance in the Russian Defense Industry Complex was made in February 2013 when the Ministry of Industry and Trade of Russia lifted the traditional “For Official Use Only” label for the Consolidated Register of Defense Industry Complex Entities⁷. However, none of the so disclosed respective lists of DIC entities have been published to date, and they are currently available only for subscribers of commercial legal databases. ●

5 Строим долго, дорого, некачественно – часть I // Военно-промышленный курьер. 2014. 16 апреля (№ 14). <http://www.vpk-news.ru/articles/19727> [Never-ending, expensive, low-grade construction – Part I // Voенно-promyshlenny kuryer. April 16, 2014 (No. 14) (date of access: 16.04.2014).]

6 Ibid.

7 The Order of the Ministry of Industry and Trade of Russia of 05.02.2013 No. 137 On the Approval of the List of Organizations Enlisted in the Consolidated Register of Defense Industry Complex Entities (as amended and restated by the Order of the Ministry of Industry and Trade of 23.10.2013, No. 1703).