

Russian reaction to EU sanctions targeting import and export of military equipment and related materials

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Following the Russian military intervention in Crimea, and the controversial referendum leading to its integration into the Russian Federation in March 2014, a number of Western countries decided to adopt sanctions against specific Russian actors.

This article explores on the EU sanctions related to military and dual-use goods and technologies and the reaction of the Russian Federation to them.

1. SANCTIONS OVERVIEW

In order to “de-escalat[e] the crisis in Ukraine”²⁶⁴ and “to express its support for the country’s territorial integrity and sovereignty”,²⁶⁵ the European Council agreed on a number of restrictive measures. They can be classified in 4 following categories:

A. Diplomatic measures (since March 2014):

Instead of the G8 summit, which was planned to take place in Sochi, the meeting was held in Brussels in June 2014 without the participation of Russia. The majority of the EU Member States supported the suspension of negotiations over Russia’s joining the

264 European Union, “EU sanctions against Russia over Ukraine crisis”, Highlights, Newsroom, Last update: 11/03/2016, http://europa.eu/newsroom/highlights/special-coverage/eu_sanctions/index_en.htm.

265 *Ibid.*

OECD and the International Energy Agency.²⁶⁶ The EU-Russia summit was cancelled and the Council of the EU decided not to hold regular bilateral summits. Bilateral talks with Russia on visa matters as well as on the New Agreement between the EU and Russia were suspended.²⁶⁷

B. Restrictive measures (asset freezes and visa bans – since April 2014):

Restrictive measures against specific natural and legal persons, including those “responsible for action against Ukraine’s territorial integrity, persons providing support to or benefitting Russian decision-makers and 13 entities in Crimea and Sevastopol that were confiscated or that have benefitted from a transfer of ownership contrary to Ukrainian law”.²⁶⁸

C. Restrictions for Crimea and Sevastopol (since June and December 2014):

Substantial restrictions on economic exchanges with the territory (including a ban on imports of products from Crimea unless they have Ukrainian certificates, on investments in Crimea, tourism services, export of goods and technology for the transport, telecommunications and energy sectors or the exploration of oil, gas and mineral resources, technical assistance, brokering, construction or engineering services related to infrastructure in the same sectors).²⁶⁹

D. Measures targeting sectoral cooperation and exchanges with Russia (“Economic” sanctions – since July and September 2014):

Measures to “limit access to EU capital markets for Russian State-owned financial institutions, impose an embargo on trade in

266 *Ibid.*

267 European Union, “EU sanctions against Russia over Ukraine crisis”, *op.cit.*

268 *Ibid.*

269 *Ibid.*

arms, establish an export ban for dual-use goods for military end users, and curtail Russian access to sensitive technologies particularly in the field of the oil sector”.²⁷⁰

These measures put an embargo on the import and export of arms and related material from/to Russia, covering all items on the EU common military list, with some exceptions.

The Council regulation (EU) no. 833/2014²⁷¹ addressed more precisely the dual-use goods and sensitive technologies as follows: It shall be prohibited to sell, supply, transfer or export, directly or indirectly, dual-use goods and technology, whether or not originating in the Union, to any natural or legal person, entity or body in Russia or for use in Russia, if those items are or may be intended, in their entirety or in part, “for military use or for a military end-user”.²⁷² Where the end-user is the Russian military, any dual-use goods and technology procured by it shall be deemed to be for military use.²⁷³

However, “[t]he competent authorities may [...] grant an authorisation where the export concerns the execution of an obligation arising from a contract or an agreement concluded before 1 August 2014”.²⁷⁴

The Regulation was revised on 3 October 2015 and permitted the sale, supply, transfer or export to Russia and/or the import, purchase or transport from Russia of certain EU Common Military List pyrotechnics where for use by the European space industry.

This Regulation also prohibited “to provide, directly or indirectly, technical assistance [...], financing or financial assistance [...] related to the goods and technology listed in the Common Military

270 European Council, “Statement by the President of the European Council Herman Van Rompuy and the President of the European Commission in the name of the European Union on the agreed additional restrictive measures against Russia”, Press Statement EUCO 158/14, Brussels, 29 July 2014.

271 The Regulation is directly applicable in all EU Member States.

272 Highlighted by the author.

273 European Union, Council regulation (EU) no. 833/2014 concerning restrictive measures in view of Russia’s actions destabilising the situation in Ukraine, Article 2 (1), Official Journal of the European Union, L 229/1, 31 July 2014, Brussels.

274 Council regulation (EU) no. 833/2014, Article 2, paragraph 2.

List; [...]technical assistance or brokering services[...], financing or financial assistance related to dual-use goods and technology [...] to any natural or legal person, entity or body in Russia or for use in Russia, if the items are or may be intended, in their entirety or in part, for military use or for a military end-user”.²⁷⁵ It excludes, however, “contract or an agreement concluded before 1 August 2014, and to the provision of assistance necessary to the maintenance and safety of existing capabilities within the EU”.²⁷⁶

From October 2015, the existing prohibition on the provision of certain ancillary services related to these activities (technical assistance, brokering services, financing, financial assistance and other services) was also removed.²⁷⁷

This Regulation applies “to any person inside or outside the territory of the Union who is a national of a Member State”; “to any legal person, entity or body, inside or outside the territory of the Union, which is incorporated or constituted under the law of a Member State;” as well as “to any legal person, entity or body in respect of any business done in whole or in part within the Union”.²⁷⁸ However, the regulation does not have an extra-territorial application while the “EU candidate countries are systematically invited to align themselves with EU restrictive measures”.²⁷⁹

“Finally, exports of certain energy-related equipment and technology to Russia will be subject to prior authorisation by competent authorities of Member States. Export licences will be

275 Council regulation (EU) no. 833/2014, Article 4.1 (a), (b), (c), (d).

276 Council regulation (EU) no. 833/2014, Article 4.2.

277 Baker & McKenzie, “EU amends arms embargo against Russia to benefit European space industry”, Sanctions Update, Blogs, 1 October 2015, <http://www.bakermckenzie.com/sanctionsnews/blog.aspx?entry=3612>.

278 Council regulation (EU) no. 833/2014, Article 13 (c), (d), (e).

279 Council of the European Union, Fact Sheet: EU restrictive measures, Press Office, 29 April 2014, Brussels.

denied if products are destined for deep water oil exploration and production, arctic oil exploration or production and shale oil projects in Russia”.²⁸⁰

2. IMPACT OF THE EU SANCTIONS ON RUSSIA’S MILITARY AND DUAL-USE INDUSTRY

The most direct impact of the Ukrainian crisis was the sudden freezing of the Russian-Ukrainian Military cooperation with significant repercussion on the Russian defence industry. Even if only 4,4 % of Russia’s total imports come from Ukraine,²⁸¹ Russia has been dependent on the supply of some crucial subcomponents for its industry produced in Ukraine as a consequence of the common past.²⁸² Major supplies included key components for its warships, aircraft (such as helicopter engines²⁸³) and weapons systems and related services (including, helicopters Mi-8, frigates, weapons for MiG-29, certain torpedo systems as well as air defence systems). “Russian defence officials openly recognise that 30% of Ukrainian

280 EU Delegation to the United Nations official website, “Background note: EU restrictive measures in view of the situation in Eastern Ukraine and the illegal annexation of Crimea Economic sanctions”, Ref: CL14-145EN, 29 July 2014.

281 Igor Sutyagin, Michael Clarke, “Ukraine Military Dispositions”, *Briefing Paper*, Royal United Services Institute, April 2014.

282 During the Soviet Union, different soviet republics shared the military-industrial complex of the union. When Ukraine became independent in 1991, it inherited around 750 sites of defence industry as well as 140 scientific and technical institutions involved in the defence contracts [Ukraine – Index/Special Issue (Kyiv: ISC Ukrriat)]. It is estimated that in total 35% of Ukrainian industry was linked to the defence sector. In 1993, Russia and Ukraine signed an Agreement on Industrial and Scientific-Technical Cooperation of Defence Industry Enterprises. In 2014, Russia-Ukraine defence trade turnover included 7-8 thousand items, while the cooperation involved 1330 enterprises of the Russian Federation and Ukraine.

283 “The company Motor Sich has been delivering some 400 engines a year for Russian Mil and Kamov combat and transport helicopters under a five-year, 1.2 billion US dollars contract signed in 2011.” In: Julian Cooper, “Sanctions Will Hurt Russia’s Rearmament Plans”, *The Moscow Times*, 12 August 2014.

imports to Russia's defence industry cannot be substituted domestically".²⁸⁴ Besides, "one out of every five pieces of Russian military hardware is either Ukrainian or depends upon Ukrainian parts."

As mentioned above, among different restrictive measures introduced by the European Union is a ban on new arms contracts with Russia. According to the SIPRI, between 2011 and 2013, Russian arms contracts with the EU were worth 75 million US dollars.²⁸⁵ Russia's defence imports from Europe were about 300 million euros (400 million US dollars) in 2013.²⁸⁶ In the context when "Russia is actively expanding the production of arms and keeps their exports at a significant level (more than 10 billion US dollars a year)",²⁸⁷ this ban has rather symbolic dimension. Nevertheless, due to the sanctions Russia lost at least two important military import deals with the EU countries: two Mistral-class helicopter-carrying assault ships from France (with the option of building two more under licence in Russia) and the contract with German Rheinmetall to help build a combat training center in the Volga region.²⁸⁸

The sanctions related to dual-use goods and technologies have a significantly bigger impact on Russia. Some estimates the value of EU exports of such equipment to Russia at about 20 billion euros per year.²⁸⁹ Introduced by the EU and other countries among other economic measures, these sanctions became particularly sensitive

284 Igor Sutyagin, a military analyst at the RUSI think-tank in London, in: Jonathan Marcus, "Russia boosts military might despite sanctions", *BBC News: Europe*, 8 May 2015.

285 *TIV of arms exports from Russia, 2010–2013*, SIPRI, in: Jarosław Ćwiek-Karpowicz, Stanisław Secieru (eds), "Sanctions and Russia", The Polish Institute of International Affairs (PISM), Warsaw, 2015, p. 85.

286 Alexander Panin, "Sanctions on Technology Imports Leave Russia Playing Catch Up", *The Moscow Times*, 3 August 2014, <http://www.themoscowtimes.com/article.php?id=504484>, retrieved on 30 October 2015.

287 Andrey Movchan, Senior Associate and Director, Economic Policy Program, Carnegie Moscow Center, *Economic FAQ*, Carnegie Moscow Center web-site, <http://carnegie.ru/commentary/2016/03/04/ru-62952/iuue>, retrieved on 4 March 2016.

288 For more details please see Julian Cooper, Centre for Russian and East European Studies, University of Birmingham and Chatham House, London, "Sanctions Will Hurt Russia's Rearmament Plans", *The Moscow Times*, 12 August 2014

289 PISM, op.cit.

in the context of the ambitious plan to rearm the Russian military to 70% new or modern equipment by 2020 that was announced by the Russian Defence Minister in January 2013. As part of this plan, Russia was supposed to modernize its production base to manufacture new generation armaments including the S-500 air defence system, the fifth-generation fighter jet and three new families of tanks and armoured vehicles.²⁹⁰ This modernization is essential as “Russia’s domestic machine tool industry is unable to produce this advanced weaponry and can meet barely 10% of needs”.²⁹¹

Particularly important for Russian defence industry is the import of foreign electronics. Some estimates that up to 50% of the microelectronics used in modern information systems in the Russian military are imported. The electronics that are produced domestically are mainly replication of foreign approaches at a design stage.²⁹² As to the electronic components, up to 80% of the chip-sets for the most critical electronics in the Russian electronics industry are imported mainly from the West.²⁹³ To achieve self-reliance in this particular category can take more than 6 years as a best scenario.²⁹⁴ But, according to Russian specialists, Russian technology will be anyway lagging behind due to the significant drawbacks in R&D, professional resources, management, economic and other factors.²⁹⁵ “Metaphorically speaking, Russia would have to make a bicycle that the rest of the developed world is already riding on and while doing so a new generation of that bicycle will be invented

290 Julian Cooper, op.cit.

291 *Ibid.*

292 Alexander Larionov, the Deputy Chief Designer of MKB Vypel for *Voyenno Promyshlennyy Kuryer* no. 25 (543), July 16, 2014, in: Roger McDermott, “Russian Defence Industry Creaks Under Rearmament Program”, *Eurasia Daily Monitor*, Volume 11, Issue 133, The Jamestown Foundation, 22 July 2014.

293 Igor Sutyagin for BBC News, op.cit.

294 Julian Cooper, op.cit.

295 *Voyenno Promyshlennyy Kuryer* no. 25 (543), July 16, 2014.

so [Russia] would still stay behind”.²⁹⁶ It concerns not only electronics – according to the representative of Rostec Corporation²⁹⁷ in its Annual Report 2014, the sanctions can negatively affect “the lack of access to new technologies that could theoretically contain dual-use elements”.²⁹⁸

As civil production is often integrated in the defence sector in Russia, the sanctions related to dual-use items have also an impact on the civil industry. It concerns, for example, civil aviation, automotive industry, space sector as all of them operates with a significant number of the machineries and components imported from the western countries or dependent on foreign services and investments. In 2013, “imports of all types of engineering products from the EU supply 20% of the Russian domestic demand”.²⁹⁹

The sanctions can also threaten the fulfilment of Russian contracts with third countries. For example, in 2009 Russia and India signed a 10-year contract for joint production of helicopters, infantry fighting vehicles and fifth-generation fighters.³⁰⁰ As part of the deal, Russia has to provide to India 272 SU-30 fighters that normally feature French-installed electronics. In December 2015, just ahead

296 Yevgeny Nadorshin, chief economist at the *AFK Sistema* holding company, in: Alexander Panin, “Sanctions on Technology Imports Leave Russia Playing Catch Up”, *The Moscow Times*, 3 August 2014, <http://www.themoscowtimes.com/article.php?id=504484>, retrieved on 30 October 2015.

297 Rostec, formerly Rostekhnologii, is a Russian state corporation created to promote the development, manufacture and export of hi-tech industrial products for civil and defence sectors. According to the EU sanctions, individual and legal entities from the EU are prohibited from: supplying, selling, and/or transferring dual-use products; providing financial or brokerage services related to dual-use products to Concern Kalashnikov, Concern Sirius, RT-Stankoinstrument, RT-Chemcomposite, Tula Arms Plant, Machine Engineering Technologies, High Precision Systems, and Basalt; providing financing with a repayment period of more than 30 days to OPK Oboronprom and the companies under its control (ownership of more than 50% of shares). The CEO of Rostec Corporation, Sergei Chemezov, is on the EU list of sanctioned persons.

298 Alla Laletina, Head of the Legal Department, Rostec Corporation, in: “Annual Report for 2014”, p. 35.

299 A.A. Shirov, A.A. Yantovskiy, V.V. Potapenko (Institute of economic forecasting RAS), “Estimating potential effect of sanctions on economic development in Russia and EU”, *World Economic Association*, 20 January 2015.

300 PISM, *op.cit.*, p. 89.

of Indian Prime Minister's visit to Moscow, India's autonomous auditing agency announced that the aircrafts "[...] suffers from technical problems in the fly-by-wire systems and radar warning receivers", while the operational readiness and serviceability of most of them was low mainly due to a lack of spares.³⁰¹

The same situation can occur to the Russia's tanks T-90 that it mainly exports to India and Algeria. The tanks have the thermo-graphic cameras supplied by French company Thales. According to the *EUobserver*, "both sides' officials declined to tell *EUobserver* if Thales still works with Rosoboronexport despite the EU ban".³⁰² Besides, as the sanctions apply to the contracts signed after 1 August 2014, "[t]his means that if Thales and Rosoboronexport have an old, loosely-worded "framework" contract, which does not specify the number of units to be delivered, Thales can keep selling systems, components, and related services, while having "strictly respected" the EU ban".³⁰³

While some EU companies are trying to continue their deals with Russia, others are blocking the deals even with those entities that are not on the sanction lists. It does not have a direct effect on Russia's defence companies, however, as all of them are currently under the EU sanctions with small exceptions. But it can have a potential effect on the subsidiaries, service providers, etc.

For example, the Annual Report of the Russian corporation Rostec highlights the potential harmful effect of the sanctions on "the investment attractiveness of the corporation's projects and the capitalization of its brand" as well as on "the profit received

301 According to Comptroller and Auditor General (CAG) Report, in: Vivek Raghuvanshi, "India's Auditing Agency Punctures Holes in Russian Sukhoi", *Defence News*, 21 December 2015, <http://www.defencenews.com/story/defence/2015/12/21/indias-auditing-agency-punctures-holes-russian-sukhoi/77688164/>, retrieved on 1 March 2016.

302 Andrew Rettman, "French eyes for a Russian tiger", *Investigation, EUobserver*, 25 August 2015, Brussels.

303 *Ibid.*

by Rostec from the ownership of equity positions and shares in its subsidiaries,³⁰⁴ due to the impossibility of obtaining financing from the US and the EU”.³⁰⁵

Other sanctions introduced by the European Member States, in particular the economic ones, can also have a potential negative impact on Russian defence industry. The EU introduced restrictions on receiving funding from the European financial institutions by the sanctioned entities. While some argue that “foreign financing is very important for the Russian corporate sector, as it represents roughly 40% of total external funding”,³⁰⁶ according to the Rostec Annual Report for 2014, “Rostec and its subsidiaries are pursuing financing from the Russian market, so there are no liquidity problems due to the introduction of sanctions”.³⁰⁷ However, the sanctions target 5 major Russian majority state-owned banks as well by limiting their access to EU primary and secondary capital markets.

The sanctions on Russia came at time in which the country is going through economic slowdown due to other factors such as the significantly low oil prices, falling rouble and low level of investment activity. In this context, the sanctions put an additional pressure on Russian economy and thus on Russian companies.

3. RUSSIAN REACTION TO THE EU SANCTIONS

Since the adoption of the first restrictive measures against Russia related to the Ukrainian crisis, Russian government has been reacting using its usual popularization and propaganda technics.

304 The total number of Rostec subsidiaries exceeds 700, according to its Annual Report for 2014. A significant number of them is depended on the external financing and, thus, were hit by the EU and the US economic restrictive measures.

305 Rostec Corporation, “Annual Report for 2014”, p. 35.

306 Sergei Gorbunov (Ph.D., CFA), “What Do Western Sanctions on Russia Mean for Russian Companies?”, *Enterprising Investor*, CFA Institute, 7 August 2014.

307 Rostec Corporation, *op.cit.*

The emphasis was made on the harmful effect of the sanctions for the EU itself. The Russian Ministry of Foreign Affairs in its English version of the official statement on the EU restrictive measures of the 11st of September 2014 highlighted that “our might-have-been strategic partner is not simply acting by inertia, but that its actions are illogical and make no sense”.³⁰⁸ The original Russian version of the same statement was, however, slightly different, saying that the EU actually made its choice against the peaceful resolution of the Ukrainian internal crisis and its member states (by their actions) “put their own citizens at risks of the confrontations, economic stagnation and unemployment”.³⁰⁹ The statement ends with a call to the EU leaders “Give the people a chance for peace at last”.³¹⁰ It is still not very clear, though, who are these ‘people’ (EU citizens? Russians? Ukrainian? Everyone?). The fact that this message wasn’t translated to any other EU languages presented on the Russian MFA website³¹¹ along with other similar ‘messages’ brings one to a conclusion that the major targeted group of these political statements are still the Russians.

The EU restrictive measures against Russia, besides being ‘illogical and making no sense’, were also characterized by Russian officials as ‘unilateral illegal restrictive measures’ that contradict the International Law.³¹² The possibility of filing lawsuits over the sanctions against Russian entities within the WTO framework were several times pronounced by the Russian officials, including Alexei Ulyukaev, Minister of Economy of Russia. However, to date, neither side has initiated any formal proceedings under the WTO dispute settlement process with regards to the sanctions or

308 Ministry of Foreign Affairs of the Russian Federation, “Comment by the Information and Press Department of the Russian Foreign Ministry on the new EU restrictive measures against Russia”, 2112-11-09-2014, 11 September 2014, Moscow, Russia.

309 *Ibid.* Free translation by the author.

310 *Ibid.* Free translation by the author.

311 The statement is available in German, English, Spanish, Russian and French.

312 For examples, Russian President Vladimir Putin claimed, “the sanctions introduced against Russia is nothing else but a denial of the basic principles of the WTO. The idea of the equal access to the goods and services markets is breached.”

retaliatory measures. Although, certain Russian entities³¹³ filed cases in the European courts in response to the restrictive measures against them. Almaz-Antey – Russian Buk missile complex producer - appealed to the Court of Justice in May 2015 against the European Council because of the financial and reputational losses. According to the latest news, it is also seeking compensation for experiment it conducted into the causes of the downing of MH17 that worth 10 million rubles (163,000 US dollars).³¹⁴ However, to date, no further information is publicly available about the details of this case.

Some other WTO-inspired ideas were mentioned in the official statements such as “principle of reciprocity” as well as “Security Exceptions” from the Article XXI of the General Agreement on Tariffs and Trade (GATT) that became almost a ‘legal basis’ for the Russian ‘counter-sanctions’ according to the Russian leaders. These special economic measures are aimed at ensuring the security of the Russian Federation, according to the respective regulation. Thus, while the EU sanctions are considered ‘illegal’, the measure applied by the Russian Federation “[...] does not run counter to Russia’s obligations in the WTO”.³¹⁵ “In our WTO accession agreement, we set it such that in the interests of ensuring the country’s security, we have the right to impose certain restrictions,” confirms President Putin.³¹⁶

An ambiguity in referring to the International Law became very common for the modern practice of the Russian political state-

313 Among them are Rosneft, the Sberbank, VTB and VEB state banks, as well as Russian oligarch Arkady Rotenberg.

314 Almaz-Antey’s CEO Yan Novikov was cited as saying by *Izvestia*, in: Eva Hartog, “Buk-Missile Manufacturer Almaz-Antey Wants EU to Compensate MH17 Experiment”, *The Moscow Times*, 16 October 2015, <http://www.themoscowtimes.com/news/article/buk-missile-manufacturer-almaz-antey-wants-eu-to-compensatemh17-experiment/539288.html>, retrieved on 1 March 2016.

315 Statement by Vladimir Putin, President of Russia, in: Fyodor Lukyanov, “The sanctions war and the role of the WTO”, “Russia Beyond The Headlines”, 26 September 2014, http://rbth.com/opinion/2014/09/26/the_sanctions_war_and_the_role_of_the_wto_40135.html, retrieved on October 2015.

316 *Ibid.*

ment making. Many examples could be found in the statements related to the independence of Kosovo, Georgian War, human rights violations, etc.

3.1. Russia's counter-sanctions against the EU

As to specific measures in response to the EU sanctions, Russia introduced the so-called 'counter-sanctions' in August 2014 - embargo on certain raw materials, agriculture and food products with the EU origin as "an application of the Article XXI of GATT". "They have restricted access [for Rosselkhozbank] to credit resources in international banks... In effect they are creating more favourable terms for their goods on our market, so our retaliatory steps are quite justified...", President Putin has stressed.³¹⁷ Furthermore, since March 2014 a number of the EU officials were banned to travel to Russia, among them 89 politicians and public figures from 17 European countries.

These measures were adopted and came into force with the Presidential Decree no. 560 from 6 August 2014 "On the application of certain special economic measures to ensure the security of the Russian Federation" that was supplemented with a resolution by the Government of the Russian Federation "On Measures on the Implementation of the Decree" from 7 August 2014.

The President of the Russian Federation is empowered to decide on the participation, adoption, duration or lifting of the sanctions³¹⁸ and other restrictive measures by Russia in accordance with the Constitution and the Federal Laws, such as of 30 December 2006 no. 281-FZ "On the Special Economic Measures" and of 28 December 2010 no. 390-FZ "On Security". The decrees of the President of the Russian Federation on "special economic measures are applied in cases of emergence of set of the circumstances requiring immediate reaction to international and illegal act or unfriendly

317 Fyodor Lukyanov, op.cit.

318 Federal Law of the Russian Federation from 8 December 2003 no. 164-FZ "On the Fundamentals of the State Regulation of Foreign Trade Activity", Article 13.3, Article 37.

action of the foreign state or its bodies and officials, posing threat to interests and to safety of the Russian Federation and (or) the breaking rights and freedoms of her citizens, and also according to resolutions of the Security Council of the United Nations”.³¹⁹ Thus, “application of special economic measures” represents one of the “activities for the security” of the Russian Federation.³²⁰ The implementation of such measures is also based on the resolutions and normative acts adopted by the government, ministries and public agencies concerned.

Neither the Decree from August 2014 nor the following Resolution of the government on the implementation of the restrictive measures indicates the liability for their breach. According to the Russian administrative and customs legislation, in such cases a legal entity can potentially bear fines in amount from 100,000 to 300,000 rubles for the importation onto the territory of the Russian Federation of products subject to prohibition and/or restrictions.³²¹

As to the Custom Union between Russia, Belarus and Kazakhstan and its regulations, the embargoes or any import restriction measures should be coordinated and adopted by the Commission of the Custom Union. In exceptional cases, however, such measures can be adopted unilaterally with some conditions.

Additional restrictive measures were discussed by Russian officials but were never adopted, for example a ban on the corporate debts reimbursement to the West, the confiscation/seizure of foreign property, the restriction on the access to space technologies and capacity, to the storage of radioactive wastes in Russia, a ban on the return of temporarily supplied equipment, etc.³²²

319 Federal Law of the Russian Federation from 30 December 2006 no. 281-FZ “On the Special Economic Measures”, Article 1.2.

320 Federal Law of the Russian Federation from 28 December 2010 no. 390-FZ “On Security”, Article 3.5.

321 Norton Rose Fulbright LLP website, Russian sanctions, August 2014, available at: <http://www.nortonrosefulbright.com/knowledge/publications/119478/russian-sanctions>.

322 Tatiana Romanova, “Razrushenie proydenogo”, *The New Times* N°21, 22 June 2015, p.36.

3.2. Import Substitution

Interestingly enough, the Russian reaction was not only negative. While some mentioned that the idea of “tightening the belts” in the difficult for the country time is already familiar to Russians, others found a positive side to the extension of sanctions. According to the Vice speaker of the State Duma Nikolay Levichev, “by extending the sanctions against Russia, the EU is also extending Russia’s import substitution programme, and programmes to provide small businesses with support, support for farmers, and our initiatives towards the technical and technological renovation of industrial production”, for which Russia can only be thankful.³²³

Russia’s military and defence industry hit by the break of the long cooperation with Ukraine and export ban for dual-use goods and sensitive technologies from the EU countries had as a crucial task to find the substitution of these products. An import substitution programme had started already before the sanctions but have to be further expanded due to the sanctions. In August 2013, a regulation was passed banning the use of foreign machine tools if their Russian equivalents were available. “The aim of this move was to revive the destroyed Soviet machine tool industry and to raise the share of Russian-made equipment to one third of the industry’s requirement”.³²⁴

While Russian high rank officials continuously downplay the significance of the impacts on the military industry, indicting a time span of 2,5 to 3 years for replacement of the Ukrainian manufactured equipment, replacement of Western supplies will definitely take much more time and would most probably prove impossible to substitute. The Russian industry and Trade Ministry estimates that “if the import substitution policy is successfully implemented, Russia’s

323 Nikolay Levichev, Vice speaker of the State Duma for *RIA-novosti*, *International Information Agency “Russia today”*, 22 June 2015, <http://ria.ru/world/20150622/1080206694.html>, retrieved in October 2015.

324 Alexander Korolkov, “Russian defence sector eyes change of focus to limit effect of sanctions”, *Russia Beyond The Headlines*, 27 December 2014.

reliance on Western suppliers for the most “critical” industries can be expected to decline from 70–90 to 50–60 % by 2020”.³²⁵ Some argue that “without being able to import ready-made technology, Russia would have to once again engage in a tiresome race to catch up with the West”.³²⁶

The inevitable consequence for Russia is to look for new suppliers, i.e. China. Indeed, according to Russian press reports, “Russian aerospace and military-industrial enterprises will purchase electronic components worth several billion dollars from China”.³²⁷ “Establishing large-scale cooperation with Chinese manufacturers could become the first step toward forming a technology alliance involving BRICS member states”, said Andrei Ionin, chief analyst at GLONASS Union [Russia’s satellite navigation system].³²⁸ Russia is also cooperating with China “in the development of missiles, warships, engines, transport helicopters and aircraft”.³²⁹ “Cooperation with China also opens the Russian defence industry up to development through Chinese financing, offsetting budgetary concerns”.³³⁰

However, Chinese technologies being already secondary will not help Russia considerably. Sanctions in the context of the overall economic slowdown and deep problems in the Russia’s defence industry will most probably result in a lag from the world military suppliers.

325 Ren Zhongxi, “Russia to replace all imported military components”, *Xinhua*, 31 July 2014.

326 Yevgeny Nadorshin, chief economist at the AFK Sistema holding company, in: Alexander Panin, op.cit.

327 “Rossiya zakupit kitayskuyu mikroelektroniku na 2 mlrd US dollars”, *Izvestia*, 6 August 2014, <http://izvestia.ru/news/574886>, retrieved in October 2015.

328 “Rossiya zakupit...”, op.cit.

329 “The Hidden Challenges of Modernizing Russia’s Military”, Analysis, *Stratfor*, 6 May 2015, USA, <https://www.stratfor.com/analysis/hidden-challenges-modernizing-russias-military>.

330 *Ibid.*