

## How the European corporations arm Russia

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Despite the EU introduction of sanctions against Russia the enterprises of the Russian military industrial complex (MIC) continue importing components from the EU necessary for the production of modern armament. It turned out that commercial interests for the European business appeared to be more important than political conjuncture.

Not too long ago Russia has been actively developing military and technical cooperation with the EU states, Russian enterprises have bought dozens of thousands of components in the West. However, Russia has been exposed to sanction already for two years for annexation of Crimea and military aggression against Ukraine. Consequently, Russian defense industry should at least significantly reduce the armament production if not suspend it at all. However, as the report of Stockholm International Peace Research Institute (SIPRI), published on February 22 2016, states, Russian armament export in Europe not only wasn't reduced during 2011-2015 but on the contrary increased by 264%. In this regard the logical question appears - how did the Russian state companies manage to develop production of previously imported components? The answer is quite evident - in circumvention of sanctions Russia is continuously armed by European corporations. And there are lots of relevant examples...

### **Italian offender**

On 4 September 2014, the day before NATO summit in Wales, Italian Prime-minister Matteo Renzi condemned the Russian aggression against Ukraine, supporting the idea of strengthening sectoral sanctions against Russia: *"We are ready to expand the list of restrictive measures in the field of finance, defense, a number of technologies and dual-use goods."* As early as the next day La Stampa informed that Italian prime-minister announced the sale of 90 armored cars IVECOLMV ("Rys"). However, Ukraine has still not received the promised technique. Whereas the Russian company "Harnizon" (former "Oboronservice") bought 81 kits for "Rys" armored cars assembly from Italy in 2014 and 93 vehicle sets in 2015. And that is in the face of sanctions!

The history of supply of Italian armored cars in Russia is quite interesting. In 2011, before the introduction of sanctions, Italy transferred 10 armored cars into the Russia's inventory. It was planned that the Russian factory in Voronezh would assemble armored cars from Italian components. Although in 2012 the new defense minister of Russia Sergey Shoigu forbade introducing "Rys" armored cars into the inventory and the Ministry of Defense of the Russian Federation in 2013 supposedly ceased the supply of Italian machines, stating that the armored cars didn't meet specifications, the supplies of Italian components to Russia were not cut off. This is also confirmed by the industrial program for 2015-2016 pursuant to which Russia expects to produce 356 "Rys" armored cars for the period.

Who then is the final recipient of the armored cars assembled from the Italian components? That is the military unit 48670 located in Kamensk-Shakhtinskiy, Rostov region. 91<sup>st</sup> Central Automotive Vehicles Reserve Base of the Russian Federation is located at the same place. In other words, in fact Italian armored cars are prepared for transportation in Donbass, occupied by Russian troops. And in 2015 they have been already observed in Crimea annexed by Russia.

Notably, since 2013 assembly of the IVECO cars is performed in NaberezhnyeChelny at "Remdizel" plant, which managed to dissociate itself from the Russian major supplier of armament - state corporation "Rostech" and to evade European sanctions in such a way. It also has been known that "Remdizel" belongs to sphere of influence of the other industrial giant KamAZ which also was into luck to evade EU sanctions.

### **The Germans take the sanctions easy**

As it happened, KamAZ production is actively involved in the military conflict at the east of Ukraine. Russia regularly forms and sends the so-called "humanitarian" convoys to Donbass (by-passing official authorities and international organisations) consisting of the cargo vans produced by KamAZ Russia, which carry armament and weapon for pro-Russian insurgents.

The fact that KamAZ manufactures dual use goods which are highly demanded by military was confirmed by the Company's press-secretary Sergey Afanasyev. On 13 February 2016, during the celebration of 40<sup>th</sup> anniversary of the first van production he also stated that the corporation supplies its production to defense enterprises - "Remdizel" and "Special Vehicle Plant." Proceeding from this it is possible to make a conclusion that all the statements that "*KamAZ doesn't have any relation to military and industrial complex*", put it mildly, does not reflect reality. So how does the Russian corporation manage to evade sanctions?

In the late February, 2015 the European Commission granted a permission to German concern Daimler, the manufacturer of Mercedes-Benz cars, to establish joint enterprise with KamAZ. As a result the Germans obtained 15% of shares of the Russian automotive giant. After the notice of the Ukrainian party on the infringement of sanction regime by German company the European Commission stated that "*There is not a prohibition on the formation of mergers or joint ventures by EU entities where the merged entity operates in Russia and is active in the area of dual use goods and technology for military use to Russian military end-users.*"

However, there is more to come. Pursuant to the research, based on the data of the so-called Panamanian records, KamAZ tied to the close Vladimir Putin's surrounding and to the people whose last names are entered into the EU sanction lists. Thus, for example, it is known that the stock of KamAZ shares is controlled by cellist Sergey Roldugin, godfather of the Russian president, through the offshore company Avtoinvest Limited, whereas negotiations regarding sale of the Russian enterprise securities to German Daimler were conducted by Vitaliy Mashchitskiy, the playmate of "Rostech" CEO Sergey Chemezov. Also he owns 11% of KamAZ shares. It is worthwhile noting that the state company "Rostech" and its director Chemezov (close Putin's brother-in-arms) are mentioned in the EU punitive lists. But that is not an object to produce components necessary for military industrial sector based on the same KamAZ. And all of these things are covered by the cooperation with German corporation. Daimler is not the only German company that helps the Russian MIC staying up in spite of sanctions.

For example, UlyanovMechanic Plant, leading Russian manufacturer of the air defense systems, cooperates with German corporations ROHDE and SCHWARZ. Scientific and industrial complex "Geofisika" developing electro-optical systems for the needs of space assets, aviation, navy, land forces, purchases repair parts from the German company PFERD. Scientific and industrial complex "Strela" involved in developing of military radars, permanently purchases OPTIUM machine tools. Recently set up "Kirov Machine Builder", which manufactures rockets for air defense weapons, purchases equipment from the German Trump corporation and joint German and Japan DMGMori. There are dozens of examples of such cooperation.

There is no telling whether German authority has the relation to closing covert deals between Russian and German companies, the only thing is clear that thanks to secret cooperation of German suppliers with the enterprises of Russian MIC, Germany becomes involuntary contributor to Russian aggression.

### **Frenchmen are also on board**

Thales, a French company, has been working at the Russian arms market for a long time. Before introduction of sanctions the corporation was the major supplier of the modern armament and air borne systems for MiG-21, MiG-29, Su-30MKI, Su-30 MKM, tanks T-90, BMP-3 IFVs etc. Besides it, optical and mechanical plant in Vologda which belongs to Schvabe holding (as part of Rostech) produces thermal imagers for Russian army based on Thales technology. Although press-secretary of the corporation Sonia Le Guevel claimed that "*Thales fully complies with sanctions introduced in respect of Russia and is adherent to legislation related to subsystems and components of the equipment,*" nevertheless the thermal observation devices of Russian tanks seized at the Ilovaysk in August 2014 had been produced by Thales. Also, the Russian tanks T-90 produced by "Uralvagonzavod" also have fire control systems produced by Thales' affiliated company Thales Optronique S.A.

Thales is not the only one supplier of military-oriented component parts for the Russian MIC. For instance, French Sagem supplies thermal imagers for tanks T-90, component parts for helicopters Ka-52. Yet in 2011 Sagem jointly with "Rosoboronekspert" and Inertial Technologies of "Technocomplex" JSC established RS Alliance, an enterprise which produces navigational systems designed for combat air force.

What is the role then of the official Paris in the issue of maintaining cooperation with Russia in armament field?

First of all, the French side managed to assure the European Union to make an exception for the contracts between the defense enterprises of both states concluded before August 1, 2014. And in case of conclusion of the "framework contract" where the precise scope of supply is not indicated, further sale of the armament to Russia becomes possible.

However, there's more to come. French manufacturers evade sanction prohibitions selling its production to Russia at Asia or Africa markets. Thus, currently Russia quite successfully purchases required French component parts in India and China. Besides it, a joint enterprise with Russians was founded in Algeria in order to assemble tanks T-90S. And all of this happened against the François Hollande's statements that only following the implementation of Minsk agreements the possibility of "step-by-step lifting of sanctions" may be considered.

Thus, what is the point of the Western sanctions? After all, from the early beginning it was clear that Russia was looking for the sanctions bypass and seeking to make covert arrangements with European business on the purchase of required military equipment. It was also evident that the dual use goods would point an issue as they can be used both for civil and military purposes. Surely, all these factors shall be considered when administering the anti-Russian sanctions, not only monitoring the compliance with sanction regime in respect of certain Russian companies but also applying strict measures in respect to those European companies which continue searching for a loophole in order to further maintain cooperation with aggressor. In the current situation sanctions against Russia became the test for honesty, adherence to freedom and democracy for the European Union.

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