

## 1. Russian arms exports

The key indicators used to quantify Russian arms exports include:

- value of deliveries made over the reported year (i.e. the worth of the arms and military equipment already delivered);
- revenue (money received under arms contracts);
- accumulated value of arms contracts signed during the year; and
- accumulated portfolio of contracts by the year's end.

The headline figure for arms exports is usually the value of deliveries made. But in any event, a distinction must be made between the four key indicators listed above, as they are sometimes confused by journalists, who unwittingly misinterpret the source figures and draw the wrong conclusions.

Starting from 2007, Rosoboronexport (ROE), a state-owned company, has been the only Russian entity that holds the full license to export arms and military equipment. Previously, similar licenses were also held by RSK MiG aircraft corporation (Moscow), KBP instrument design bureau (Tula), KBM machine-building design bureau (Kolomna, Moscow region) and NPOmash research and production company (Reutov, Moscow region). Now defense companies (only 21 of them) can export only spare parts and components for weapons systems exported via Rosoboronexport.

It is therefore useful to make a distinction between:

- total Russian arms exports;
- exports via Rosoboronexport (ROE); and
- exports of independent spare parts suppliers.

It must be taken into account that total exports do not equal ROE exports plus direct spare parts contracts signed by independent suppliers. The difference is made of deliveries still being made under weapons system contracts signed by MiG, KBP, KBM and NPOmash prior to 2007, when ROE became the sole authorized Russian arms exporter. Also, as far as we know, NPOmash has the right to extend previously signed supply contracts with India under the BrahMos Aerospace, a 50-50 joint venture between Russia and India. Essentially that means that NPOmash has partially retained its status as an independent arms exporter<sup>1</sup>.

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<sup>1</sup> BrahMos is NPOmash's main export project. The joint venture develops and manufactures various versions of the eponymous anti-ship missile.

## Deliveries

Information about Russia's total arms exports and exports via ROE are almost always available from open sources. This data is regularly announced by Russian officials, although no official annual report on Russian arms exports is published at this time. However, information about results of independent spare parts exporters (a total of [23 companies](#)) seldom appears in the media (Figure 1.1).

**Figure 1.1. Russian arms deliveries under export contracts, million USD in current prices**



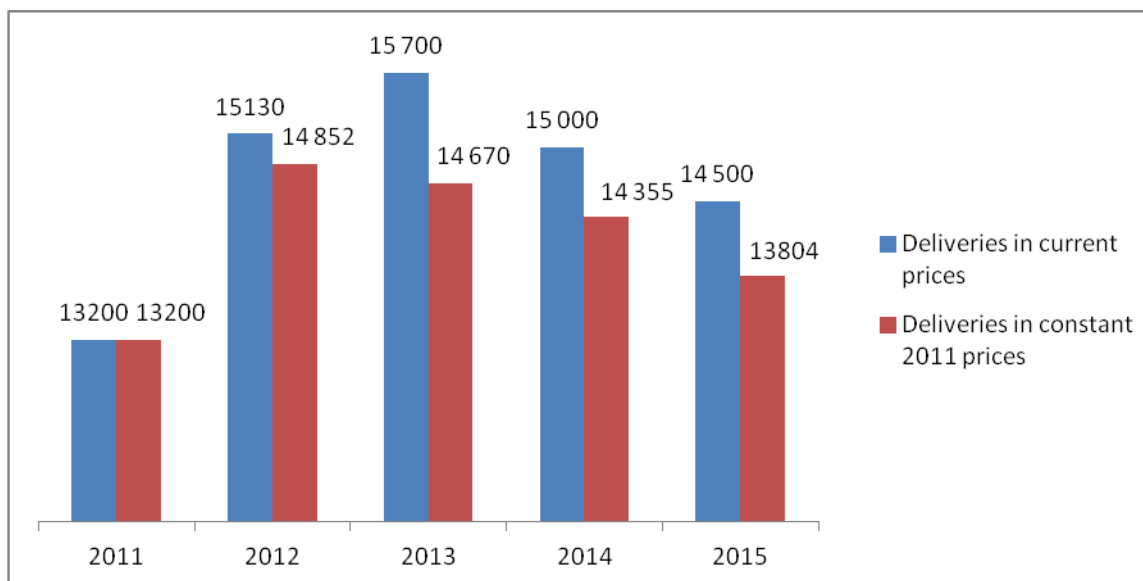
	2011	2012	2013	2014	2015
Total	13 200	15 130	15 700	15 000	14 500
Rosoboronexport	10 900	11 340	13 200	13 000	13 000

**Sources:** Russian Federal Service for Military and Technical Cooperation, Rosoboronexport, CAST estimates.

## Nominal and real growth of arms exports

Let's count Russian arms deliveries in constant prices. This will allow us to evaluate the real (inflation-adjusted) growth of Russian arms exports. As Figure 1.2 shows, in real terms Russian arms deliveries grow slower than officials used to say.

**Figure 1.2. Nominal and real annual growth of Russian arms deliveries, billion USD**



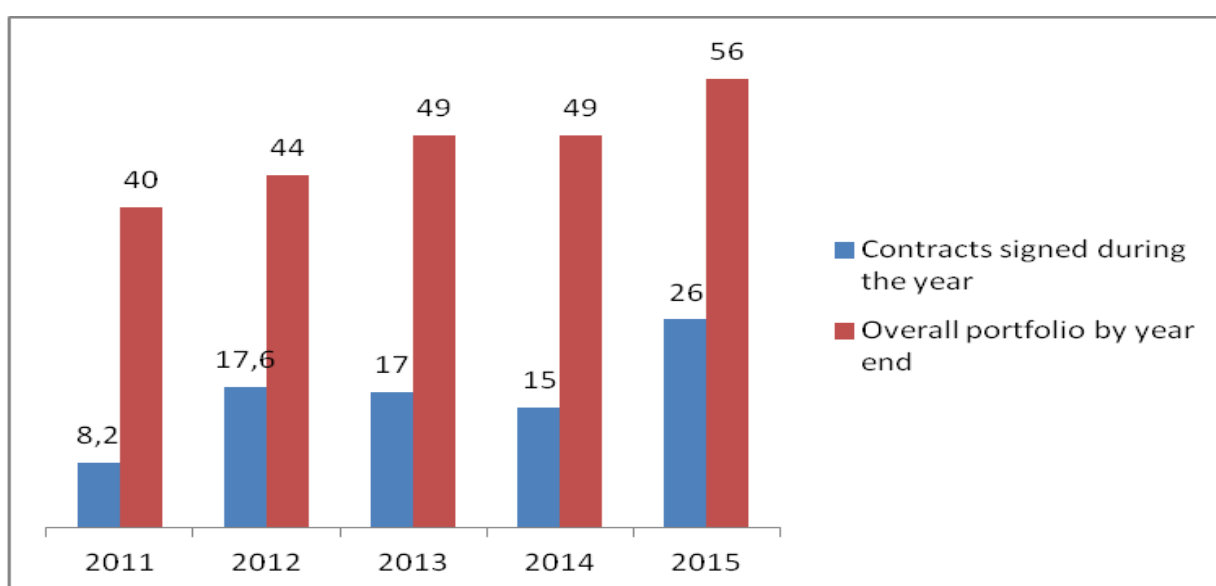
	2011	2012	2013	2014	2015
Deliveries in current prices	13 200	15 130	15 700	15 000	14 500
<b>Nominal growth, %</b>	<b>27,2</b>	<b>14,6</b>	<b>-1</b>	<b>-4,5</b>	<b>-4</b>
Inflation/deflation in the USA, %	3,16	1,8	1,2	1,3	0,5
Deliveries in constant 2011 prices	13 200	14 852	14 670	14 355	13804
<b>Real growth, %</b>	<b>24</b>	<b>12,8</b>	<b>-2,2</b>	<b>-2,15</b>	<b>-3,9%</b>

**Sources:** Russian Federal Service for Military and Technical Cooperation, [www.inflationdata.com](http://www.inflationdata.com), CAST calculations.

## Value of contracts signed

Information about the value of arms exports contracts signed during the year appears quite seldom. But it can be calculated with a certain degree of precision based on the worth of the overall arms exports portfolio (that information is published much more frequently in the media) and the worth of the deliveries made during the reported year. To illustrate, the worth of the contracts signed in 2010 equals the overall arms exports portfolio as of the end of 2010 minus the 2009 portfolio plus the 2010 deliveries.

**Figure 1.3. Russian arms exports portfolio, billion USD in current prices**



	2011	2012	2013	2014	2015
Contracts signed during the year	8,2*	17,6	17	15	26
Overall portfolio by year end	40	44	49	49	56

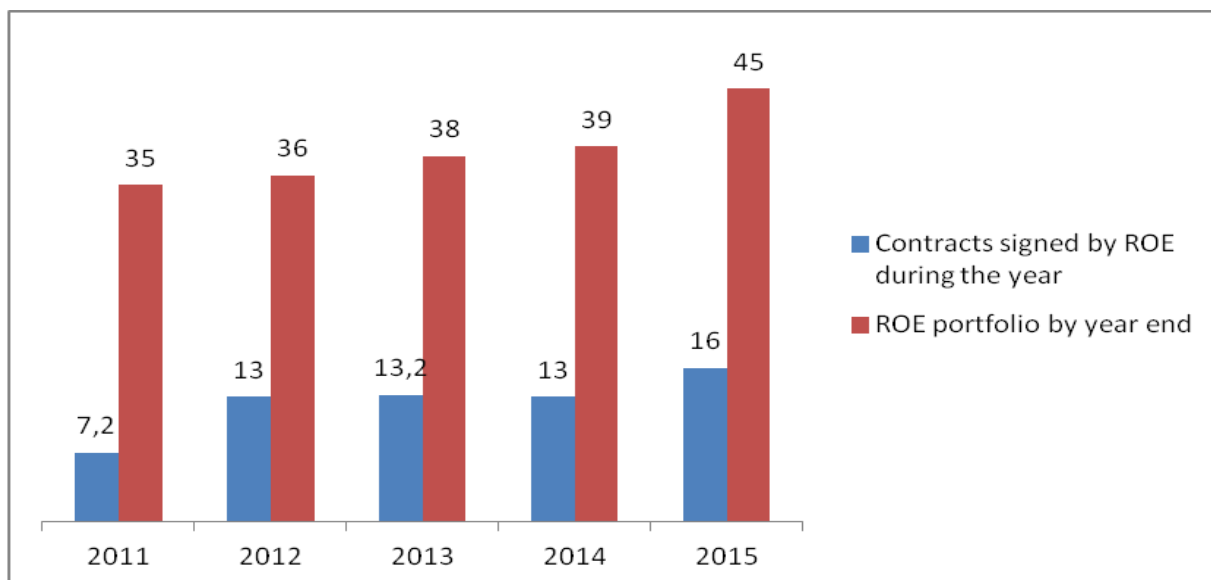
\* - CAST estimates. Rosoboronexport official data is also used in these estimates (see below).

**Sources:** Russian Federal Service for Military and Technical Cooperation, Rosoboronexport, CAST estimates.

In any discussion about the contracts, a distinction must be made between Russia's overall arms exports portfolio and the ROE portfolio (as well as between overall contracts signed and ROE contracts signed during the reported period). The ROE figures are, of course, lower than the overall exports. The difference is made of contracts signed prior to 2007 bypassing ROE (MiG, KBP, KBM and NPOmash), deliveries on which still continue in some cases, contracts signed by BrahMos

Aerospace joint venture, and the spare parts contracts signed by independent supplies.

**Figure 1.4. Rosoboronexport portfolio, billion USD in current prices**



	2011	2012	2013	2014	2015
Contracts signed by ROE during the year	7,2*	13	13,2	13	16*
ROE portfolio by year end	35	36	38	39	45*

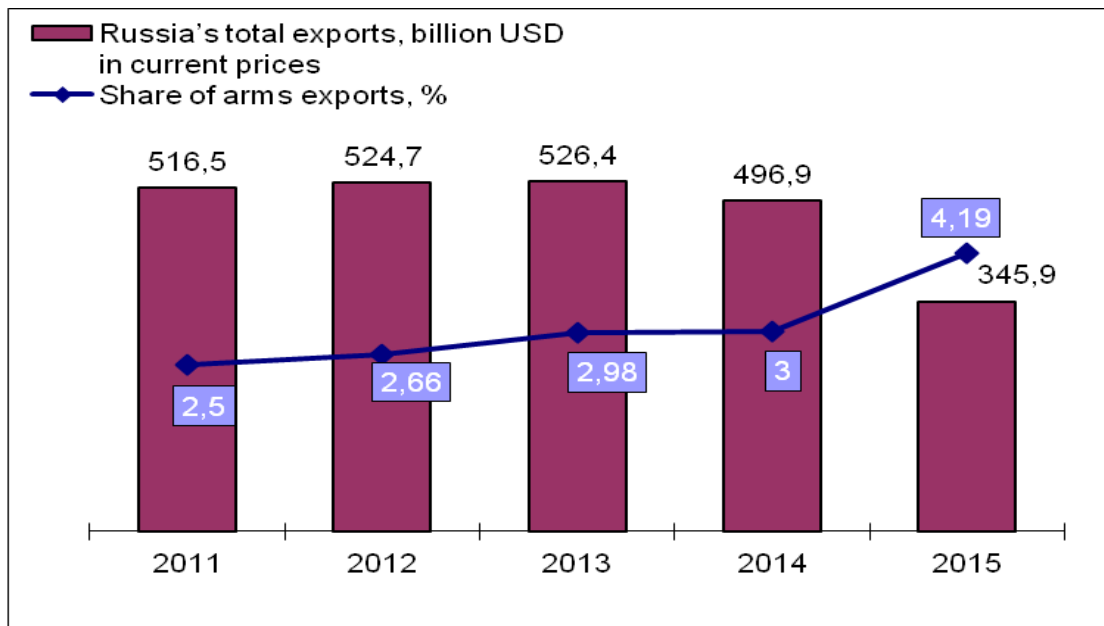
\* - CAST estimates.

**Sources:** Rosoboronexport, CAST estimates.

## Arms exports and total Russian exports

Figure 1.5 illustrates that the share of arms sales in the overall Russian exports is quite small.

**Figure 1.5. Russia's total exports and share of arms exports**



	2011	2012	2013	2014	2015
Russia's total exports, billion USD in current prices	516,5	524,7	526,4	494,6	345,9
Share of arms exports, %	2,5	2,66	2,98	3	4,19

**Sources:** Russian Federal State Statistics Service, CAST calculations.

## 2. Defense budget and procurement

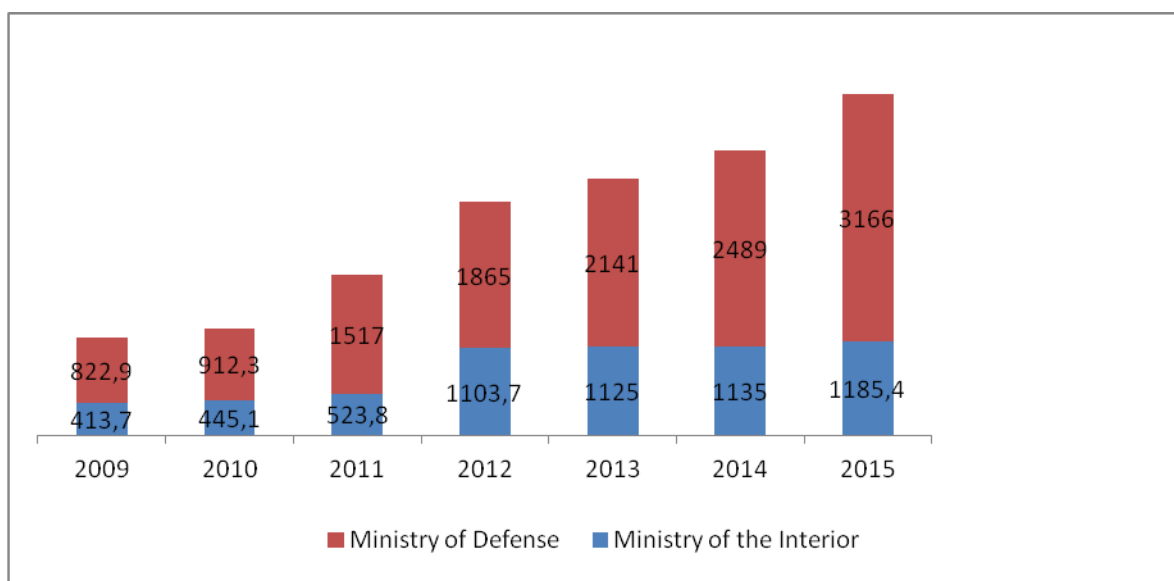
### Defense budget

Defense budget is the part of the national budget channeled into defense-related activities.

There is no official definition of the term in the Russian national budget. The moneys spent on the Russian military are accounted for under numerous articles of the national budget, and the names of these articles are not always obviously defense-related. Calculating the real size of the Russian defense budget is therefore an impossible task for an outsider.

The official figure than can be used as a guideline is the combined spending of the Ministry of Defense and the Ministry of the Interior, the two main Russian agencies in charge of national security (Figure 2.1).

**Figure 2.1. Official guideline figure of Russian defense budget, billion RUR in current prices**



	2009	2010	2011	2012	2013	2014	2015
Ministry of the Interior	413,7	445,1	523,8	1103,7	1125	1135	1185,4
Ministry of Defense	822,9	912,3	1517	1865	2141	2489	3166
Total	1236,6	1357,4	2040	2968,7	3266	3624	4351,4

**Sources:** Russian Ministry of Finance, Russian Ministry of Interior, Russian Media, CAST calculations.

To emphasize, these are just guideline figures that only give an overall idea of Russian defense budget. Russian defense programs have sources of funding other than the Defense Ministry or Interior Ministry spending (that is especially true of defense R&D)<sup>1</sup>.

We therefore believe that a more useful and accurate source of information is the various statements about the size of the country's defense budget made by Russian officials. Obviously, some of those officials can be misinformed - but once the dubious figures are weeded out (using, among other things, the MoD/Interior Ministry spending figures as a guideline), the aggregate of the remaining ones can be a fairly accurate estimate of Russian defense budget

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<sup>1</sup> It is known, for example, that R&D for the fifth-generation fighter project was funded from the budget of the Russian Ministry of Industry and Trade (Ministry of Industry and Energy before May 2008).

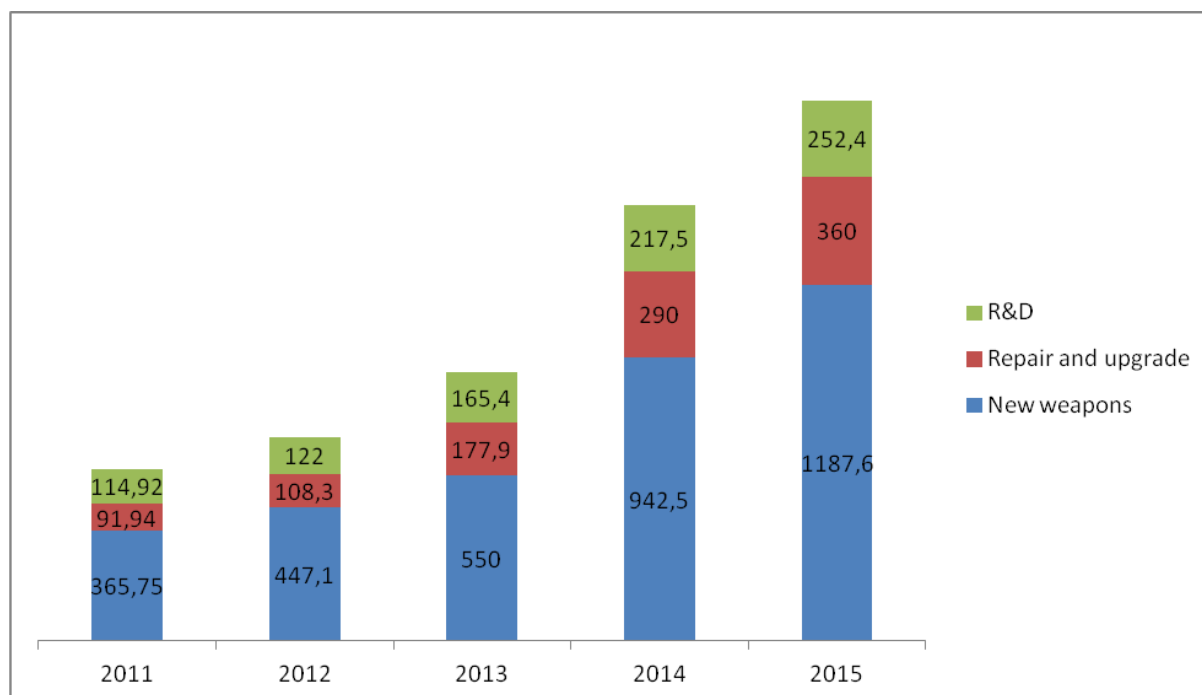


## Defense procurement

Defense procurement is defined as total government spending on repair and upgrade of the existing military hardware, purchase of new arms and equipment, and R&D conducted in the interests of the armed forces and law-enforcement agencies.

There is no official definition of defense procurement in the Russian national budget. In any event, many procurement programs are classified. The only source of figures on Russian defense procurement is therefore statements made by Russian officials. We are focusing on procurement programs of the Russian armed forces (as opposed to the Ministry of the Interior, the Emergency Control Ministry, etc), so our figures are based on statements made only by the Russian Ministry of Defense representatives (Figure 2.2).

**Figure 2.2. Russian armed forces defense procurement, billion RUR in current prices**



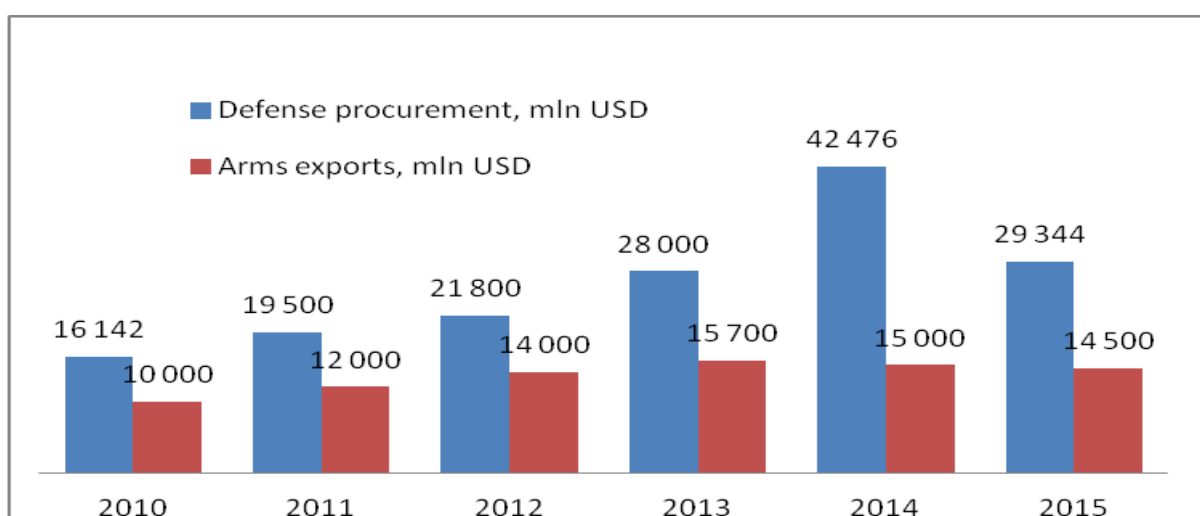
	2011	2012	2013	2014	2015
Total	574,61	677,4	894	1450	1800
R&D	114,92	122	165,4	217,5	252,4
New weapons	367,75	447,1	550	942,5	1187,6
Repair and upgrade	91,94	108,3	177,9	290	360

**Sources:** Russian Media, CAST calculations.

## Defense procurement and arms exports

Let compare Russian defense procurement and arms exports. Economic stability of Russian defense companies was fully depended on export contracts in 1990s. In recent times the situation has changed dramatically. As Figure 2.3 shows, now the defense procurement is the main support for Russian defense Industry, exceeding the national arms exports in one-and-half times.

**Figure 2.3. Russian defense procurement and arms exports, mln USD in current prices**



	2010	2011	2012	2013	2014	2015
Defense procurement, mln USD	16 142	19 500	21 800	28 000	42 746	29 344
Arms exports, mln USD	10 000	12 000	15 130	15 700	15 000	14 500
Exchange rates, roubles / USD	30,38	29,39	31,07	31,91	38,60	61,35

**Sources:** State Duma's Defense Committee, Russian Federal Service for Military and Technical Cooperation, Russian Central Bank, Russian Media, CAST calculations.

### 3. Key\* current contracts for Russian arms exports (as of July 2016)

Contract	No of units.	Year signed	Deliveries time frame	Value, million USD	Comments
<b>India</b>					
Mi-17V-5 helicopters	48	2015	2016-?	1100	
Upgrade of MiG-29 fighters to MiG-29UPG mod.	63	2008	2012-?	964	Six of the planes are to be upgraded in Russia, the rest in India. They will be fitted with Zhuk-ME radars and new RD-33 Series 3 engines.
3BM42 «Mango» APC rounds	66000	2014	n/a	419	
<b>Bangladesh</b>					
YaK-130 training aircraft	16	2013	2015 - 2016	800	Acquisition is made via Russian state loan
<b>Vietnam</b>					
Project 11661E frigates	2	2012	2017	700	
Project 06361 diesel-electric submarines	6	2009	2013-2017	3200	Contract also includes the buildup of land infrastructure
Su-30MK2 fighters	12	2013	2014-2016	600	
<b>Azerbaijan</b>					
BMP-3 AFV	100	2011	2013-?	n/a	

Contract	No of units.	Year signed	Deliveries time frame	Value, million USD	Comments
Algeria					
Project 06361 diesel-electric submarines	2	2014	n/a	1200	
T-90SA tanks	200	2014	n/a	1000	
Mi-28NE helicopters	42	2012-2013	2016-?	n/a	
Egypt					
Ka-52 helicopters	46	2015	2016-2019	n/a	
China					
Su-35 fighters	24	2015	2016-2018	2500	
Iraq					
Mi-28NE attack helicopters	15	2013	2014 - ?	n/a	

**Sources:** Russian media, CAST estimates.