

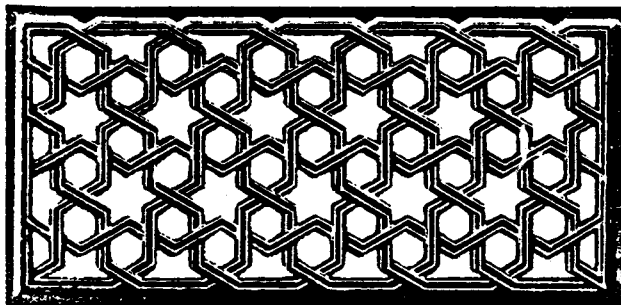
POLICY FOCUS

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TOWARD THE MIDDLE EAST**

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EXECUTIVE SUMMARY

The collapse of the Soviet Union in 1991 dealt Middle East rejectionists a crippling blow. For four decades, Moscow supplied "rogue" regimes throughout the region with massive quantities of arms with which to pursue their goals: fighting Israel, sponsoring terrorism, and attacking Western interests. Usually, these weapons were provided on easy credit terms, or even as outright gifts. Political suitability, not economic rationality, was the driving force in Soviet arms sales policy.

The emergence of a democratizing Russia on the ashes of Soviet communism has altered this picture. While Russia intends to remain a player on the international arms market, it now insists that profit, not ideology, will guide its decisions. And where questions of international law arise—as with UN sanctions against Iraq and Libya—Russia has complied by severing its military ties with these states, despite their revenue-earning potential.

In response to the disarray resulting from the Soviet collapse, the Russian government has focused much attention on securing its oversight of arms sales, including commerce in nuclear materials. Inter-agency commissions have been set up to establish regulatory procedures. Presidential decrees have been issued to define what is permissible and what is not. But for now, the system remains in flux, as weapons producers fight for greater independence to sell abroad, and new mercantile exchanges across the former Soviet Union offer greater opportunities for circumventing government controls.

While cash has replaced communism as the lodestar of Moscow's arms sales policy, the results are by no means entirely sanguine from a U.S. perspective. Russia inherited more than 70 percent of the gigantic Soviet defense sector. This military-industrial complex remains a potent political force; it employs millions and produces one of the few Russian products with any short-term export potential. In today's dire economic circumstances, the pressure is mounting to sell as many weapons as possible—including the most advanced—at cut-rate prices to whomever is willing to pay. The motives may be economic, but the outcomes can have significant geopolitical consequences.

Russia has made a concerted attempt to break into arms markets traditionally dominated by the West, such as the Persian Gulf, but to date with only minimal success. Consequently, it increasingly seems inclined to fall back on military relationships with former Soviet clients, provided they offer some economic payoff. Most alarming is Russia's commitment to expanding ties with Iran, an impulse bolstered by Moscow's conviction that Iran can be a useful partner in efforts to promote stability on Russia's volatile southern borders.

To sway Russia from this course, America's best hope is to convince Moscow that the economic costs—in terms of lost aid, trade, and investment—outweigh the benefits. But such a strategy would require a coordinated approach by the entire Western community, a policy for which no consensus currently exists. Until it does, Russia's arms sales to the Middle East are likely to pose growing headaches for U.S. interests.

RUSSIAN ARMS SALES POLICY TOWARD THE MIDDLE EAST

Even before the Soviet Union collapsed in December 1991, Russian President Boris Yeltsin indicated that Russia, which inherited more than 70 percent of the Soviet defense industry, would pursue a different arms export policy than the USSR. In an October 1991 interview, Yeltsin claimed that Russia's military cooperation with other states would be conducted strictly on a commercial basis: "[W]eapons," he stressed, "are goods for sale to get necessary hard currency for conversion and financing critical imports."¹

An analysis of Russia's arms sales in 1992 bears out this basic change in policy; Russia's priority now is to make money, not to influence the behavior of its customers or to seek political gain. This indeed represents a dramatic reversal from the Soviet era, when Moscow provided free "gifts" of military hardware to those it regarded as ideological friends and allies.

The Middle East represents an important traditional market for Russian arms exports. In the mid-1980s, the former Soviet Union accounted for nearly 34 percent of all weapons supplied to the region. It sold arms to a long list of clients; some, like Syria, Iraq, Libya, Algeria, and North and South Yemen were heavily dependent on Soviet equipment; other, more pro-Western states seeking to diversify their sources for arms, like Jordan, Kuwait, and the United Arab Emirates (UAE), were also customers, though on a much smaller scale.

Today, Russia's military relationships in the Middle East are in flux. Russia is committed not to sell weapons to countries subject to United Nations sanctions, including one-time major customers like Libya and Iraq. It also refuses to sell to former clients that cannot pay either their current bills or their past debts, such as Yemen. Russia is, however, very interested in maintaining and expanding its ties with those clients that are relatively solvent. This includes states like Syria and Algeria, which, while heavily indebted to Russia, do make some debt payments; they are also capable, as is Iran, of paying for new arms in hard currency.

For Russia, then, maintaining military ties with the Middle East provides both an opportunity to receive at least partial compensation for past debts, as well as to earn new hard currency revenues. At a time when Russia's economy is suffering great turmoil, and where weapons rank only behind oil and gas as its most important export, Moscow's solvent clients in the Middle East are viewed as a badly-needed source of revenue.

This study provides an overview of Russia's emerging arms export policy to the Middle East. It outlines the key players affecting Russia's policy, explains the institutional and procedural changes that have occurred since the Soviet collapse, and examines the evolving status of Russia's military relations with several important Middle Eastern states.

¹ *Izvestiya*, October 3, 1991.

ARMS-TRADING ORGANIZATIONS

Russia has inherited all of the USSR's bureaucratic structures responsible for arms exports. The two most important were the Chief Engineering Directorate (GIU) and the Chief Technical Directorate (GTU) of the Ministry for Foreign Economic Relations. When the Soviet Union collapsed, GIU had a staff of 1,500 people, 80 percent of whom were military officers—mostly majors and colonels—with expertise in different weapons systems (tanks, artillery, missiles, etc.). Most came from the navy, whose officers were considered to be better educated than their counterparts in other branches of the Soviet armed forces.

GIU's civilian employees were generally regional specialists, knowledgeable about the USSR's relations with its clients and fluent in the local languages; about half of the employees spoke Arabic. Since late 1989, however, thirty-five Persian speakers have been hired, reflecting the growing military relationship between Russia and Iran.

In January 1992, following the USSR's collapse, GIU was turned into a Russian state-owned company for the export of military goods and services—"Oboronexport." Approximately 70 percent of the old GIU staff was kept on. Oboronexport is headed by Major-General Sergei Karaglonov, formerly of the Defense Ministry's intelligence service (GRU). The rest of Oboronexport's senior officials are also GRU officers.

In April 1992, GTU was also transformed into a state-owned arms export-import company—"Spetsvneshteknika." Spetsvneshteknika retained about 60 percent of GTU's staff. Soon after its formation, Spetsvneshteknika's president, Major-General Valery Brailovsky, defined the company's mission as selling Russian arms and technologies on the world market, with a special emphasis on expanding Russia's presence in the potentially lucrative Persian Gulf.

Officially, there was always a strict division of labor between GIU and GTU. GIU's responsibilities were signing contracts and transferring arms; GTU managed maintenance, repair services, military construction work in client countries, and the selling of licenses. However, beginning in the late 1980s, when Soviet arms trade moved increasingly to a commercial footing, this strict division of labor began to break down. Encouraged by the government of President Mikhail Gorbachev, GIU and GTU started competing against each other for contracts and profits. "When [arms sales] became connected with profits, the mutual coordination and bilateral consultations between GIU and GTU ended," one former GIU employee told the author. "While seeking new contracts with our clients, we would often run into our counterparts making competing offers." As a result, a strong rivalry developed between these two branches of the same ministry, which continues today.

Following a July 1992 exhibit in Moscow of advanced missile and artillery systems, Spetsvneshteknika's public activities seemed to come to a halt. At the same time, its rival, Oboronexport, maintained a high public profile, with its officials frequently giving interviews. In early October, a brief news item revealed that three high-ranking officials from Spetsvneshteknika had been arrested for corruption. According to the company's employees, three vice presidents were accused of taking bribes amounting to 200 million rubles (about \$1.5 million at the October 1992 exchange rate). As part of the investigation, KGB officers had confiscated many of Spetsvneshteknika's documents, virtually paralyzing its activities for more than two months.

While acknowledging the likelihood of corruption, many Spetsvneshteknika employees believed that Oboronexport, whose president has excellent connections in the KGB and Ministry for Foreign Economic Relations, instigated the investigation. The Ministry for Foreign Economic Relations, in particular, was said to be unhappy with Spetsvneshteknika's penchant for independent action and may have sought to undermine the company's credibility among potential clients.²

If so, this tactic certainly worked, much to the benefit of Oboronexport. In October 1992 when the scandal broke, Oboronexport's share of Russia's arms exports stood at 52 percent to Spetsvneshteknika's 28 percent; by March 1993 that had changed to 63 percent and 15 percent respectively. In addition, Oboronexport was granted exclusive rights to manage Russia's participation in a major international arms show in Abu Dhabi in February 1993.

While GIU and GTU (and their successors) have always been the key government departments responsible for arms exports, in 1988 the Ministry for Foreign Economic Relations did create another department, the General Department for Cooperation (GUSK), whose mandate was to manage cooperation with socialist countries in matters of arms licenses and joint arms production. One of its main responsibilities was to oversee China's large-scale procurement of Russian weapons on a so-called barter basis. What Russia actually received were Chinese coats and canned meats of very low quality. The Russian government responded to GUSK's inefficiency by transforming it into a joint stock corporation—"Konvimeks"—with some of Russia's largest arms producers involved as shareholders. To date, however, Konvimeks' role in arms exports has been negligible; Oboronexport continues to hold a privileged position due to its strong ties to the Ministry for Foreign Economic Relations.

THE NEW MERCANTILE EXCHANGES

A growing outlet for arms exports is the system of mercantile exchanges that now exists in Russia and several other former Soviet republics. While the largest of these are in Russia—in Nizhni Novgorod and Suzdal—it is through the Ukrainian-Siberian Exchange in Kharkov, Ukraine that most Russian arms are sold.

On the exchanges, arms sellers are anonymous. To operate, they need a license to sell arms, a permit to export to the client country, and documents specifying the point of disembarkation. Selling weapons to any former Soviet republic through the exchanges is strictly prohibited.

Three arms auctions took place at the Ukrainian-Siberian Exchange in late 1992 and early 1993, at which a wide variety of weapons was sold. In contrast to normal government-to-government contracts, prices on the exchange are openly advertised. Since prices for Russian arms are still largely coordinated by the Ministry for Foreign Economic Relations, the cost of weapons on the exchange represents a good indicator of the prices charged for Russian weaponry in general.

² Interview with official of Ministry for Foreign Economic Relations.

4 RUSSIAN ARMS SALES

Table I: Comparative Prices on Ukrainian-Siberian Exchange (in dollars)³

Weapons	10/25/92	4/2/93
Kalashnikov AK rifle	227	227
KV machine gun	275	275
anti-tank guided missile	16,000	15,400
IL-76 aircraft	30 million	30 million
Su-27 aircraft	32.3 million	31 million
Mig-27 aircraft	16 million	16 million
Su-25 aircraft	11.3 million	11.9 million
T-72 tank	2.9 million	3 million
MI-8 helicopter	4.1 million	4.2 million
Air Defense Missile Unit C-300 (SA-10)	60 million	65 million

By selling weapons in Ukraine, a state with its own defense industry,⁴ Russia can “hide” some of its exports; no casual observer can determine whether Ukraine or Russia is the source of any particular transaction. In 1992, estimates suggest that 13 to 15 percent of Russia’s arms exports occurred through exchanges in Ukraine and Russia.

A scandal erupted in January 1993 when it was discovered that a number of the weapons offered on the Ukrainian-Siberian Exchange violated a clause of the Treaty on Conventional Forces in Europe (CFE), which prohibits the sale of treaty-covered weapons slated for destruction. Ukraine quickly declared that “all the arms suggested for sale are Russian and are situated in Russia.”⁵ Two weeks later, Viktor Glukikh, chairman of Russia’s State Committee for the Defense Industry, denied the accusation. He insisted that Russian arms were not for sale on the Ukrainian-Siberian Exchange and that the Ukrainian army was the source of the sale. A few days later, Yeltsin’s advisor on military conversion, Mikhail Maley, admitted that some of the newer weapons systems (Su-27 aircraft, T-80BV tanks) included in the package were produced only in Russia. All the same, he continued to reject Russian responsibility for the treaty violation, stating that “arms export controls in Russia are as strict as ever.”⁶ Not surprisingly, the incident raised questions about Moscow’s capability (or willingness) to regulate arms sales effectively.

RELATIONS BETWEEN ARMS PRODUCERS AND ARMS TRADERS

During the Soviet era, the military-industrial complex was governed by the Council of Ministers’ Military-Industrial Commission (VPK). The commission was in charge of ordering military equipment for both domestic and export needs; it was not, however, directly involved in decisions about arms sales. Rather, acting in accordance with guidelines set out by the Communist

³ *Nezavisimaya Gazeta*, October 27, 1992.

⁴ According to some estimates, Ukraine exported more than \$230 million worth of arms in 1992, including MiG-27, Su-27, and Su-25 aircraft, as well as some cruise missiles.

⁵ *Kommersant Daily*, February 2, 1993.

⁶ *Kommersant*, volume 7, February 15-21, 1993.

Party's Politburo, the military department of the Central Committee formulated arms export policy in cooperation with the International Department. The International Department—responsible for relations with the Third World—selected favored clients based in large part on their dedication to a pro-Soviet/anti-American line.

The VPK consisted of nine state concerns responsible for different areas of military production: tanks and artillery; aircraft; ships; components for nuclear missiles and bombs; radio-electronic intelligence and early warning systems; electronics for weapons systems; special construction, such as bunkers; ballistic and cruise missiles; and chemical weapons and defenses.

In 1991, Mikhail Gorbachev liquidated the VPK and the Central Committee's military department; many of the latter's employees were brought onto Gorbachev's staff. After the USSR's collapse, Yeltsin summarily fired most of these people and put the defense industry under the supervision of the Ministry of Industry, headed by a reformer, Alexander Titkin. Titkin opposed efforts by Russian defense industrialists to operate independently on the world market. As a result, few arms producers were granted the authority to deal with foreign clients on their own.

In the fall of 1992, the Ministry of Industry was dissolved. The Russian Committee for the Defense Industry was created to supervise defense enterprises directly. Viktor Glukikh, formerly of the VPK, was named the committee's head, reflecting the growing strength of the military-industrial lobby in Yeltsin's government. Glukikh is considered a staunch supporter of the arms producers' rights to act with maximum independence from the arms exporting structures of the Ministry for Foreign Economic Relations. The same views are attributed to Yeltsin's advisor on military conversion, Mikhail Maley.

Still, the actual strength of the military-industrial complex in Yeltsin's government should not be exaggerated. Neither Glukikh nor Maley is considered a major bureaucratic power. Organizationally, Glukikh's committee, not being a ministry, has less clout than the Ministry for Foreign Economic Relations. While Yeltsin's vice president, Alexander Rutskoy, was considered a powerful ally of the military-industrial complex and had actually made a number of foreign visits to lobby on its behalf, his future in power is uncertain. As a result, it is hard to identify a single advocate for the defense industry at the highest levels of Russia's government.

At the non-governmental level, the Defense Factories Assistance League is the main lobbying association for Russian arms producers. Formed in July 1992, it is headed by Alexei Shulunov, director of Russia's biggest military-electronics concern. The league includes five giant firms, the most famous being the makers of Sukhoi aircraft. It participates in all inter-governmental bodies dealing with arms exports, such as the Council on Industrial Policy under first Vice Premier Vladimir Shumeyko; the Council on Foreign Economic Policy headed by the Ministry for Foreign Economic Relations; and the Defense and Security Committee of the Russian Supreme Soviet. Nevertheless, the League remains dissatisfied with government policy. Shulunov has complained that "We are still segregated into black slaves [arms producers] and white lords [officials from the Ministry for Foreign Economic Relations], who live pretty good at our expense."⁷

⁷ *Kommersant*, volume 15, April 12-18, 1993.

According to existing rules, an arms producer wishing to export must obtain no less than nine signatures of approval from different government agencies, including the Office of the President, the Office of the Prime Minister, the Commission on Military-Technical Cooperation (KVTS), the Foreign Ministry, the Ministry of Economics, the Ministry for Foreign Economic Relations, the Defense Ministry, and the Foreign Intelligence Service. In addition, the producer must go through one of the intermediaries from the Ministry for Foreign Economic Relations, such as Oboronexport.

Many producers complain that it takes months to get approval from all these groups. In one case, a Russian firm signed a preliminary protocol with Syria for air-to-air missiles worth \$85 million. Between the time the deal was approved by President Yeltsin and Prime Minister Viktor Chernomyrdin, 200 days elapsed. In that time, Syria found an alternative supplier and canceled the protocol.

At an April 1993 meeting of KVTS, Russia's inter-agency coordinator of arms exports, a major debate occurred on arms sales procedures. On one side, arguing for fewer controls, was the Committee for the Defense Industry. On the other side, arguing for stricter regulations, was the Ministry for Foreign Economic Relations and the Defense Ministry.

Sergei Glaziyev, Minister for Foreign Economic Relations, stated his position clearly: "The authority to fulfill contracts and agreements must only belong to departments of the Ministry for Foreign Economic Relations." For his part, Defense Minister Pavel Grachev demanded a greater role for his ministry in coordinating arms production, while also claiming a 10 percent commission for the military on each weapons deal.

In response, the Committee for the Defense Industry demanded that it be granted the authority to license arms exports. It also defended the right of several arms producers to operate on the world market independently. In exchange, the committee proposed to spend not less than 10 percent of the hard currency earned from arms sales on research and development, to ensure the future competitiveness of Russia's military-industrial complex.

KVTS turned down the defense industry's pleas. Among its reasons was a concern that an increase in the number of independent arms exporters would flood the market and collapse the price of Russian weapons. A similar situation occurred in the area of metals and mineral fertilizers when Moscow lifted foreign trade barriers on Russian exporters.

Despite these continuing official constraints on its operations, the military-industrial complex has proceeded to create its own exporting structures. With the backing of Glukikh and Maley, four different organizations now exist: the Military-Industrial Business Center, located on the sixteenth floor of the Moscow mayor's office (which searches for foreign clients); the Military-Industrial Bank; the Military-Industrial Insurance Company; and the Military-Industrial Information Agency, which advertises for Russian arms producers at home and abroad.

Still, for now, the Ministry for Foreign Economic Relations retains its dominant position in control of arms sales; it retains responsibility both for defining the volume of weapons transferred abroad and the prices at which they are sold. This fact can be attributed to its strong backing from Yeltsin as well as the Defense and Foreign Ministries.

The Ministry for Foreign Economic Relations' monopoly status provides reasonably adequate export control in Russia, despite the occasional scandal. Nevertheless, the continuing absence of strong border controls in Russia means

that some illegal weapons leakage cannot be excluded. The most porous points exist along Russia's southern periphery. Russia is committed to strengthening control over its frontiers and stopping smuggling, especially of raw materials, to Russia's neighbors. Officials have identified late 1993 as their target date for establishing a more robust border control system. When it is in place, the illegal transfer of arms and nuclear materials should become much more difficult, although it will probably never be 100 percent effective.

REGULATING RUSSIAN ARMS EXPORTS

In the first part of 1992, the Russian government set out to establish clear guidelines for the regulation of arms exports. The pressure to do so came from several quarters. First, the United States was pressing Russia to establish an effective control mechanism. Second, President Yeltsin was eager to protect his executive authority and ensure that Russia's Supreme Soviet did not seize the initiative in regulating arms sales. Third, Russia's military-industrial lobby was demanding that a clear system be set up that would allow arms firms to get on with the job of exporting weapons and earning hard currency.

Yeltsin's first step in building an export administration was a decree on April 11, 1992 creating the Russian Federation's Export Controls Commission. This was followed on May 12th by Decree 507, which created the Commission for Military-Technical Cooperation (KVTS) to oversee and coordinate Russian arms exports. The commission included representatives from the Foreign Ministry, responsible for controlling the "observance of Russia's international obligations;" the Ministry of Economics, which together with the State Committee for the Defense Industry "defines the volume and specifications of arms to be exported;" and the Defense Ministry, which the decree stated should "promote assistance in training logistics and service support for arms supplied abroad," as well as military advisors and technicians.

Decree 507 also gives the Defense Ministry the right to sell "excessive special property abroad." This essentially allows the military to sell weapons outside the normal controls of the Ministry for Foreign Economic Relations and keep 100 percent of the profits it earns to use for its own purposes.

Beyond this exception, however, Decree 507 clearly implies that the Ministry for Foreign Economic Relations and its subordinate departments will play the central role in the pricing of weapons exports and controlling the revenues earned. (Here, it is worth noting that only 10 percent of the profits actually go to the arms producers.) The Ministry for Foreign Economic Relations was also granted the authority to permit or bar an arms maker from selling directly on the world market. Not surprisingly, only the politically powerful giants of Russia's military-industrial complex, like the producers of MiG and Sukhoi aircraft, have received the green light to sell large parts of their production directly to foreign clients.

Decree 507 also identifies the Russian Foreign Intelligence Service (the former first directorate of the KGB) as a key player in arms export procedures; it is responsible for providing "political, legal, and economic analysis of military-technical cooperation." Foreign intelligence is headed by Yevgeny Primakov, one of Yeltsin's few holdovers from the Gorbachev era. Primakov's pro-Arab sympathies are well known; they were most prominently on display during the Gulf crisis of 1990-91, when he strongly opposed military action to drive Iraq from Kuwait. Speculation exists that Primakov is pushing for the renewal of Russian arms exports to Libya and Iraq as soon as UN sanctions are lifted. He

also insisted that Russia retain an “unofficial” military-advisory presence in Libya, even after sanctions were imposed in April 1992.

Finally, the last point of Decree 507 notes that Russia will not abandon secrecy in its arms export policy, stating that “all cooperation in the military-technical sphere must be run in compliance with the strict secrecy procedures established.”

On July 24, 1992, another decree—Decree 517—was issued to regulate the sale of arms production equipment from Russia to its neighbors in the CIS, or Commonwealth of Independent States (Russian firms are not permitted to sell ready-to-use weapons within the CIS). Compared to Decree 507, Decree 517 imposes much fewer restraints on arms producers and customers. Within the CIS, the tougher regulations of Decree 507 would only apply in cases where the recipient state is at war. Otherwise, the Ministry for Foreign Economic Relations is the lone government agency whose involvement in the transfer is required. Arms producers are granted much more latitude to sell equipment independently without being required to use Oboronexport’s services as a middle man.

In practice, Decree 517 has applied only to certain CIS states that Russia considers privileged partners; Deputy Defense Minister Andrei Kokoshin identified these as Belarus, Kazakhstan, Uzbekistan, and Kyrgyzstan.⁸ States which have ongoing political disputes with Russia, such as Ukraine and Georgia, are prevented from acquiring this status.

Russian military cooperation with CIS states creates its own risks of proliferation, since—perhaps with the exception of Belarus—none of them have even rudimentary export control systems in place, and all suffer from large-scale corruption. Given their proximity to the Middle East, the chances are high that these states could become a source of illegal weapons procurement by anti-Western countries in the region. A preview of this danger occurred in Kyrgyzstan, where it was discovered that the vice president had authorized the purchase from Tajikistan of 150 machine guns and an unspecified number of armored vehicles without ever informing Kyrgyzstan’s president or parliament.⁹

On January 28, 1993, in Decree 80, the Russian government, acting on the work of KVTs, issued the list of military items and goods that could be exported abroad (excluding CIS countries) only with a government-approved license issued by the Ministry for Foreign Economic Relations. The decree is quite specific, defining step-by-step what an arms producer must do to acquire an export license. According to the decree, every arms producer, both private and state-owned, has an explicit right to export weapons—a formulation included under pressure from the defense complex and its official allies on the Committee for the Defense Industry. In the end, though, the power of the Ministry for Foreign Economic Relations remains secure, since the decree left untouched its authority to issue all export licenses.

REGULATION AND EXPORT OF NUCLEAR MATERIALS

Russia’s Export Control Commission issued Decree 68 on January 27, 1993 to control the “exports of nuclear and dual-use materials, equipment and

⁸ *Izvestiya*, January 19, 1993.

⁹ *Finansoviya Izvestiya*, February 3, 1993.

technology, which could be used for nuclear purposes." As with Decree 80 relating to conventional arms, nuclear-related exports require a license from the Ministry for Foreign Economic Relations. While all private as well as state-owned firms have the right to export nuclear and dual-use materials, the current reality is that the field is monopolized by the Ministry of Atomic Industry's commercial apparatus, "Techsnabexport."

The USSR's nuclear fuel complex was originally created for two purposes: first, to meet the increasing demands of the Soviet military for nuclear weapons; and second, to rapidly develop a nuclear energy sector. By the late 1980s, both justifications were disappearing. The Chernobyl nuclear disaster ended the construction of new nuclear power plants, while the end of the Cold War sharply reduced the military's demand for new weapons.

Today, Russia's biggest problem is securing and disposing of its excess supplies of radioactive materials. The disarmament process is making it necessary to dismantle thousands of nuclear warheads, producing tons of useless, but still deadly, uranium and plutonium. Simultaneously, Russia's nuclear fuel production facilities continue to overfulfill their production quotas established in past years. As a result, more than 130,000 tons of uranium are now stocked in the former Soviet Union, enough to fuel every nuclear power plant in the former USSR for fifteen years.¹⁰ To this total must be added 600 tons of bomb-grade uranium and 120 tons of plutonium, stockpiled since the onset of nuclear disarmament.

Since the 1960s, Soviet nuclear exports were managed by the state company, Techsnabexport, whose primary responsibility was meeting the fuel needs of nuclear energy plants built by the former Soviet Union in neighboring countries.

In the early 1990s, efforts to promote the mass export of Soviet natural uranium began. In 1991, the USSR's export of nuclear materials and related services earned \$600 million.

After the Soviet collapse, Russia, Ukraine, Kazakhstan, and Uzbekistan rushed onto the world uranium market as independent sellers. As a result, American uranium prices fell from \$20/lb. in 1988 to just \$7/lb. in 1991. In the same period, U.S. imports of uranium from the former USSR increased from 190,000 pounds to 3,000,000 pounds, badly cutting into the market share and profits of U.S. uranium producers. Accusations quickly arose that the new independent states were illegally dumping uranium on the U.S. market, and legal proceedings were undertaken to limit their access to U.S. markets. In October 1992, the U.S. government reached an agreement with the four uranium-producing states of the CIS: they would not be allowed to sell more than 1,200 tons of natural uranium annually in the United States, a figure far below Russian sales for 1992. Moreover, the quota was valid only if the price of uranium on the U.S. market exceeded \$13/lb.¹¹

The dispute over uranium quotas touched a raw political nerve in Russia. Many officials accused the United States of discriminating unfairly against more efficient Russian producers. Russia is now in search of other clients for its

¹⁰ Estimate provided by the Ministry of Foreign Economic Relations' Institute of Market Studies.

¹¹ In fact, the price in April 1993 was just \$9.5/lb. As a result, there was an effective embargo on imports from the CIS.

cheap uranium, and has held successful initial discussions with Japan, South Korea, and Taiwan.

In the Middle East, Iran is viewed as the best potential customer for Russian nuclear materials and technology. On a visit to Tehran in March 1993, Russian Foreign Minister Andrei Kozyrev reached an agreement to promote joint Russian-Iranian projects in the field of nuclear energy, beginning with the sale of two 440 megawatt reactors. According to many officials in Moscow, Russia intends to go forward with the project despite protests from the United States. Kozyrev insisted that the deal is strictly linked to Iran's pledge not to acquire nuclear weapons and will be conducted in accordance with the International Atomic Energy Agency's (IAEA) guidelines as well as Russia's own nuclear regulation procedures as set out in Decree 68. According to some officials, while Russia fully intends to go forward with the sale to Iran, it may also use the deal as leverage to gain greater access to America's uranium market.

Experts in Russia's Supreme Soviet have suggested that Techsnabexport is now prepared to work with "reliable [foreign] corporations" to provide uranium-enrichment services. Any such arrangement would require the approval of the Ministry of Atomic Industry and other government bodies. But given the poor shape of Russia's nuclear industry, as well as the potential profits to be gained through uranium enrichment, future approval of such deals is possible. Already, officials in the Ministry for Foreign Economic Relations argue that if Russia does not provide such services, China will. The dangers would increase should more conservative groups ever come to power in Russia; to their minds, the nuclear industry—the most significant branch of Russia's economy, they assert—must be saved "at any price."¹²

THE FOREIGN MINISTRY, ARMS SALES, AND UN SANCTIONS

During the Soviet era, the Foreign Ministry's only role in arms exports was to provide diplomatic cover at Soviet embassies for officials of the arms exporting organizations. Normally, GIU and GTU representatives conducted their business out of the economic affairs section, usually independent of the rest of the embassy. (One former head of the Soviet consulate in Libya has testified that the ambassador was kept unaware of the details of Soviet arms sales, although he was provided with aggregate year-end figures.)

Today, the Russian Foreign Ministry's official role in helping oversee arms sales is significantly greater, as set out explicitly in the respective executive decrees. On his foreign travels, Foreign Minister Kozyrev has become an active salesman, trying to drum up customers for Russian weapons.

In its capacity as the guarantor of Russia's compliance with UN sanctions against Iraq and Libya, the Foreign Ministry has come under significant criticism by the Russian Supreme Soviet. Though the Supreme Soviet plays no official supervisory role in Russian arms transfers, deputies—especially those on the Committee for Defense and Security—are well informed. As part of their overall opposition to the reform-minded Yeltsin government, hardline parliamentary critics have accused the Foreign Ministry of being "too passive" in cultivating Russia's traditional arms markets in the

¹² Statement by Russian leader of the Communist opposition, Ilya Konstantinov, at a hearing of the Russian Supreme Soviet, July 7, 1992.

Middle East, and of "total capitulation" to American interests. In parliamentary hearings, the refrain is frequently heard that Russian officials have done "irreparable damage" to Russia's national interests by participating in UN sanctions. Nevertheless, and despite its rhetoric, the Supreme Soviet has never taken action to withdraw from the UN-imposed regimes. Apparently, its leadership realizes that doing so would even further undermine their image in world public opinion as a reactionary force.

The Foreign Ministry and Supreme Soviet have waged a heated debate over how much UN sanctions against Iraq and Libya have cost Russia. Communist factions in the parliament have issued estimates of \$14 billion.¹³ Foreign Ministry officials have dismissed these claims as "very much exaggerated."¹⁴ Instead, the Foreign Ministry puts the total combined debt owed to Russia by Iraq and Libya at \$6 billion, \$3.7 billion of which would have been paid in 1992-93 if sanctions had not been in effect.¹⁵

The Foreign Ministry has also argued that its critics fail to take account of the additional price Russia would pay if it failed to support sanctions, especially the loss of Western credits, debt relief, and aid packages. According to the Foreign Ministry, this risk of international isolation realistically left Russia with no alternative but to comply with the UN resolutions.

Finally, Russian Foreign Ministry officials also underscore the new positive gains that their cooperation has won. After Moscow supported the anti-Iraq coalition during the Gulf War, Saudi Arabia, Kuwait, Oman, and the UAE provided \$2 billion of low interest credits in 1991-92. These countries also became more open to the possibility of purchasing Russian weapons, though no major breakthroughs were achieved.

THE DEFENSE MINISTRY AND ARMS SALES

The Soviet Defense Ministry's role in arms sales was the provision of technical and advisory support to client states. Those efforts were organized by the tenth department of the general staff. Advisors and technicians trained the local armies and collected intelligence on them, which was duly reported to the army's intelligence service, the GRU. Junior Soviet officers (lieutenants and captains) generally served as technicians, while more senior officers (including generals) provided instruction on planning military operations and conducting day-to-day command of forces.

The Soviet Union had 7,300 military specialists in Iraq prior to the Gulf crisis, most of whom were subsequently withdrawn. However, up to 200 advisors refused to return and proceeded to sign "personal" contracts with the Iraqi military. In Libya, Russia had 5,200 technicians and advisors when UN sanctions were imposed in April 1992. Of these, 700 remain in Libya, allegedly in a "private capacity." Some Russian officials suggest, however, that these advisors were encouraged to remain behind to salvage the Libyan market for Russian arms sales, in preparation for the day when UN sanctions are lifted.

¹³ Hearings before the Russian parliament's House of Nationalities chamber, December 21, 1992.

¹⁴ *Kommersant Daily*, December 23, 1992.

¹⁵ Foreign Ministry note, prepared for House of Nationalities' hearings, December 21, 1992.

The Soviet Union had about 5,000 military advisors in Syria in the late 1980s. By 1993 that number was down to 2,400. This reduction was part of an effort to pressure Syria to repay its large military debt to Moscow.

The general staff's tenth directorate, working with GIU and GTU, was also in charge of providing spare parts support to client states. Every six months, local offices of the Soviet arms exporting structures sent orders for spare parts to the tenth directorate, which would then distribute the orders to military factories. These orders were termed "high priority supplies" because they were viewed as an important tool of influence and important for maintaining the Soviet Union's credibility as a supplier. Nevertheless, the system did not run at all smoothly. Some spare parts and ammunition were regularly shipped in excessive quantities, while others were always in short supply. Airforce bases sometimes received naval missiles and vice-versa. In large part, this poor performance was due to the fact that Soviet (and now Russian) arms support services never had to operate under competitive market conditions. Clients like Iraq, Libya, and Syria were never very demanding of their Soviet suppliers, since they obtained weapons at extremely cheap prices, if not for free, and were not too troubled if they simply went to ruin.

As Russia now tries to enter the world arms market, it is taking several steps to bring its spare parts and support services up to world standards. First, Russia's biggest arms producers, such as Sukhoi and MiG, are now permitted to supply spare parts directly to foreign customers, without using the Ministry for Foreign Economic Relations' intermediaries. They have also been granted tax incentives that allow them to keep up to 50 percent of the profits from these sales.

Second, in an effort to address concerns about Russia's current political situation and its ability to guarantee a steady supply of spare parts, Moscow is now prepared to establish joint ventures in prospective client countries; thus, in February 1993, an agreement was reached to build a SAM-10 (S-300P, the Russian "Patriot") factory in South Korea. In addition, Russia is now more willing to sell production licenses; when India purchased MiG-29s, a production license was included. Finally, Russia is also prepared to establish "regional maintenance and support centers" on foreign soil; examples include a pilot training center in India and a proposed MiG-29 repair and spare parts facility in Malaysia.

EVERYTHING FOR SALE

For most of the Soviet era, arms transfers to the Third World were limited to obsolete weapons or downgraded "export" versions of advanced weapons. Whenever a state-of-the-art system was delivered, it was only on a temporary basis and always operated by Soviet specialists. This has now changed completely; as Russia's deputy minister for foreign economic relations has said, "We will offer state-of-the-art weapons systems for export on a large scale."

The arms sold by Russia fall into three broad categories. The first includes weapons manufactured between World War II and 1991 and involves mostly missile and artillery systems that were never used by Soviet forces. These weapons come from Soviet army stocks, 25 percent of which are in Russia with the rest in Belarus and Ukraine. Getting rid of these arms is difficult, in part because there are so many of them. According to one of

Yeltsin's advisors, "nobody knows where to stick them."¹⁶ Still, some of the systems, like the mobile air-defense missile launcher SA-4 "KRUG" (built in 1987) have reportedly drawn some foreign interest.

The second category of weapons for sale are those that have been or are in use by regular units of the Soviet/Russian armed forces. Among these are the T-55, T-62, T-72, and T-80 tanks; MiG-27, Su-17, and Yak-28 aircraft; and Mi-8 helicopters. Selling them for export is difficult, since these systems are subject to restrictions under the CFE Treaty, which was signed in June 1992 by NATO countries, former Warsaw Pact members, and seven former Soviet republics, including Russia. Under Article 8 of the treaty, once the treaty goes into effect, excess weapons in a signators arsenal must be destroyed—but not sold—within forty months.

Specially ordered new weapons—the most advanced systems produced—comprise the third category of Russian arms sales. This group includes the computerized T-80BV tank, Su-27 aircraft, Mi-24 helicopters, the SAM-10 missile, and BTR-80 armored personnel carriers. Each of these is built only in Russia.

Moscow's readiness to sell the most sophisticated items in its arsenal had first become apparent in the late 1980s. Libya was offered the most advanced version of the MiG-29 in 1987, provided it pre-paid in hard currency. The deal surprised a number of Soviet military officials since their own forces did not yet have these planes in the necessary quantities.

Russia is banking on the attractiveness of some of its advanced hardware to Middle Eastern customers. For example, the self-propelled artillery unit, 2S19-Msta-S, is said to outperform its American counterpart, the M-109, in both the rate and accuracy of its fire. Similarly, Russia's training jet, the S-54, is highly competitive on international markets, and 40 percent cheaper than French and British rivals. The problem is that financial constraints prohibit mass production of the S-54 until 1994.

Many Middle Eastern states are said to be interested in the Su-27 aircraft, which has a range of 1,500 kilometers. And the SAM-10 missile is reported to have outperformed America's "Patriot" in testing. As a result, Russian arms dealers believe the SAM-10 could be a big seller in the Middle East, where a growing number of countries now face a threat from ballistic missiles.

Overall, in 1992, Russia managed to sell approximately \$3.4 billion worth of arms. Of this total, an estimated \$2 billion went for cash, with the remainder being exchanged for barter.

Arms Supplies to Syria and Libya

Soviet arms transfers to both Syria and Libya dropped sharply between 1990 and 1991, from \$1.47 billion to \$1.05 billion for Syria, and from \$491 million to \$332 million for Libya.¹⁷ This reduction was caused by Moscow's efforts to pressure Damascus and Tripoli to make payments on their military debts.

As part of this effort, no new arms contracts were signed with Syria from late 1990 until early 1993. Furthermore, in the beginning of 1992, the Russian government shut down the supply of spare parts to Syria as a means of

¹⁶ *Kommersant*, volume 6, February 8-14, 1993.

¹⁷ Data from the Ministry for Foreign Economic Relations.

forcing Syria to recognize Russia as the legal inheritor of the Soviet Union's debts. In response, Syria made efforts to find alternative supply sources in Eastern Europe, without much success.

Russia's strategy began to pay off in February 1993, when Syria recognized Russia's claim to Soviet-era debt and made an initial payment of \$100 million. This, in turn, broke the logjam on new arms deals, and a preliminary contract worth \$1.6 billion was signed, which included 14 Su-27, 30 Su-24, and 52 MiG-29 aircraft; 350 T-72 and 100 T-80 tanks; 10 SAM-10, and an unspecified number of SAM-16 missile units. Were this deal to be completed, Syria would become the only Middle East state to possess the Su-27 and SAM-10. Nevertheless, final solution of the debt problem still stands in the way of the contract's full implementation.¹⁸ Russia is hopeful that Syria's growing oil income (\$2 billion in 1992) and its \$1.5 billion "Desert Storm" aid package from Saudi Arabia will help keep Syria's market open to Russian supplies.

Arms Supplies to Iran

Moscow's arms relationship with Iran began in 1989 following the death of Ayatollah Khomeini. Tehran paid for two-thirds of its military supplies in cash and the rest in goods, instantly making it one of Moscow's most profitable customers. The four-year contract signed in 1989 included 250 T-72 tanks, a T-72 assembly line, 200 BMP-2 armored infantry vehicles, 24 MiG-29 fighter aircraft, 20 MiG-27 aircraft, Su-24 bombers, 150 artillery pieces, SAM-5, SAM-6, and SAM-11 air defense missiles, and missile boats. In total, the deal involved more than 200 items off the GIU's price list and was worth \$3.2 billion.

Russia inherited the contract and, at least in part, has proceeded to execute it, supplying Iran in 1992 with twenty-five MiG-29s as well as some T-72s.¹⁹ Russia and Iran have also agreed to the sale of three Kilo-class diesel submarines, which Iran's defense minister claimed were needed to "control approaches to Persian Gulf ports." The first submarine set out from its Baltic port for Iran in September 1992, replete with an Iranian crew and Russian instructors. The second began its voyage to Iran in early June 1993, accompanied by a Russian support ship, and arrived in August. The third vessel is scheduled to be delivered some time in the first part of 1994. Each submarine is reportedly worth \$230 million, making the total value of Russian arms deliveries to Iran in 1992 worth between \$620 million and \$790 million.

Russia's continued military cooperation with Iran has been actively encouraged by the Foreign Ministry as well as all other concerned government bodies. During his March 1993 visit to Iran, Foreign Minister Kozyrev stated that "Russia will continue to sell arms to Iran," characterizing this as "defensive cooperation, not directed against any third party." Seeking to preempt an unfavorable U.S. reaction, Kozyrev stressed that "our friendly relations with the United States and Iran do not contradict each other."²⁰ With some irritation, Russian officials further point out that Russian sales to Iran will

¹⁸ In September 1992, Jordan paid \$50 million of its \$250 million debt to Russia, with Moscow cancelling the remainder. Officials in Russia's Ministry for Foreign Economic Relations suggest a similar arrangement might be possible with Syria.

¹⁹ Some supplies were withheld due to disagreements over debts Moscow and Tehran owed to each other.

²⁰ *Nezavisimaya Gazeta*, March 3, 1993.

not upset the regional power balance since these sales come in the wake of \$20 billion of U.S. weapons sales to other Gulf countries since 1990. Finally, and perhaps most importantly, Russian diplomats note that military ties with Iran do not violate any international obligations.

Russian officials underscore that the bilateral Russian-Iranian treaty negotiated by Kozyrev (to be signed by the two countries' presidents at an upcoming summit) commits both states "not to allow the use of their territory for aggressive or separatist actions directed against other parties or states" (Article 2), while proclaiming both sides' readiness to "cooperate in the struggle with terrorism and hostage taking" (Article 15). The Foreign Ministry argues that by winning such public commitments, Russia is helping to strengthen Iran's moderates, led by President Rafsanjani.

Of course, in reality, Iran's proclaimed opposition to terrorism continues to be defied by its actions. Though its rhetoric has become slightly less radical from the Khomeini era, it remains a dangerous regime. In this sense, Russia's "demonstration of solidarity with [Iran's] reform-minded course,"²¹ manifested in the sale of submarines and advanced fighter aircraft, seems unlikely to produce more constructive Iranian behavior.

Arms Supplies to Turkey

In a breakthrough of sorts, Russia began military cooperation with Turkey in 1992, marking the first time Russian weapons had been sold to a NATO member. As part of an agreement signed in October of that year, Russia has already delivered rifles, machine guns, and heavy trucks. In May 1993, Russian Defense Minister Grachev visited Ankara, the first such visit in 200 years, and set in motion further deliveries for BTR-80 armored personnel carriers worth \$25 million and twenty Mi-17 helicopters worth \$75 million. Turkey will pay only \$15 million in cash for the supplies, with the rest going to offset Russia's bilateral debt to Turkey.

Russia and Turkey have experienced some tensions over Ankara's efforts to expand its influence in the Caucasus and Central Asia. Indeed, during his May visit, Defense Minister Grachev expressed dismay that Soviet weapons bought in Eastern Europe (presumably by Turkey) had been supplied to the pro-Turkish regime in Azerbaijan, which is engaged in a war with Armenia over the disputed enclave of Nagorno-Karabakh. Grachev also undertook an unscheduled visit to Turkey's Third Army, which Russia had previously accused of conducting threatening maneuvers near the Armenian border.²²

Despite these tensions, it seems unlikely that Russian-Turkish military cooperation will be affected; Russia needs the money, while Turkey seems keen to gain access to Russian weaponry, including acquiring production licenses for various systems.

Arms Sales to the Gulf States

During the Soviet era, Moscow's ties to the oil-rich sheikdoms of the Persian Gulf were limited to Kuwait, and included the supply of BMP-2 armored vehicles, air defense missiles, and anti-tank missiles. After the Gulf

²¹ Remarks of Andrei Kozyrev, *Izvestiya*, April 1, 1993.

²² *Izvestiya*, May 14, 1993.

crisis, when Kuwait turned almost entirely to the United States for its weapons, its purchases from Moscow virtually ended.

In its efforts to expand its markets, Russia has aggressively worked to sell weapons to other Gulf states seeking to diversify their weapons sources. Special attention has been placed on the UAE. The UAE has already purchased 425 BMP-3 infantry combat vehicles from Russia, as well as anti-tank missiles and shoulder-fired SAM systems to go with the BMPs. They are now said to be evaluating the purchase of Russia's new Su-35 fighter aircraft. In recent years, numerous high-ranking Russian defense delegations have visited Abu Dhabi.

Interestingly, in the fall of 1992, while the UAE was embroiled in a territorial dispute with Iran, Russian Defense Minister Grachev declared that "Russia is ready to guarantee the UAE's security." This statement seemed, in part, to be an effort to use Russia's arms relationship with Tehran as leverage with the Gulf states, both to reassure them that Russia could constrain Iran, and to suggest that Moscow might be willing to reconsider its ties to Iran if the Gulf Arabs acted to compensate it with their own military purchases. Grachev himself visited the UAE in January 1993, where he reportedly discussed with his UAE counterpart the sale of two squadrons of Su-27, one squadron of MiG-29s, and a number of SAM-10s.²³

Russia's efforts on the Gulf market intensified in February 1993 at the international arms show, "IDEX-93", held in Abu Dhabi. Russia exhibited more than 370 types of advanced systems, many that U.S. military experts did not know existed. In an effort to demonstrate the high quality of Russian weapons, Oboronexport reserved the test fire range for an hour each day, in contrast to an average of seven minutes for most Western participants. As a result, Russia was awarded two of the show's seven prizes—for best fire testing and most impressive exhibit. While Oboronexport's president said the exhibit cost Russia \$3 million—the price of an advanced tank—it was worth it to ensure that Russia's arms were fully represented.²⁴

Defense Minister Grachev attended IDEX-93 and used the opportunity to hold further meetings with UAE officials. According to sources in Russia's Ministry for Foreign Economic Relations, the UAE intends to spend up to \$70 billion on defense by the year 2000.²⁵ Grachev also visited Kuwait and Bahrain while he was in the region, and some new interest in purchasing Russian arms was expressed. In particular, Oman was seriously considering the purchase of up to eighty BMP-3 infantry combat vehicles.

While Russia's exhibit at IDEX-93 was a success, no major new contracts resulted. Indeed, the day after the show opened, the UAE signed a \$3 billion contract with France to purchase 430 Leclerc tanks rather than T-80s as some Russian officials had anticipated. The blame was placed on former leaders of the Soviet Union's Military-Industrial Commission, who two years before had refused to even discuss a UAE tank request on the grounds of "national security reasons."²⁶ However, another reason for the UAE decision was probably a

²³ A UAE military attache attended a SAM-10 testing in Kazakhstan in October 1992.

²⁴ *Finansoviya Izvestiya*, March 1, 1993.

²⁵ This claim was made publicly by Mikhail Maley, Yeltsin's defense conversion advisor in *Izvestiya*, February 23, 1993.

²⁶ *Ibid.*

continued lack of confidence in Russia's ability to provide spare parts and support services.

Clearly, some Russian officials have overblown expectations as to how successful Russia can be in the Gulf arms market. Defense Minister Grachev's claims about a potential \$11 billion payoff from the IDEX-93 exhibit is almost surely exaggerated. Yeltsin advisor Mikhail Maley was probably more realistic when he said that "even \$2-3 billion would be a lot of money for us."²⁷ While even Russia's relatively modest penetration of the Gulf market represents a significant achievement, dramatically expanding that niche will be a difficult job; the West's traditional dominance in the region as a supplier, and the pro-Western orientation of the regimes, places real constraints on Russia's efforts.

One interesting footnote to Russia's efforts at IDEX-93 relates to efforts by both Ukraine and Iran to hamper Russia's ability to exhibit its arms to the Gulf Arabs. Russian arms sales to the Middle East are mainly shipped from two Black Sea ports, both of which now belong to Ukraine: Ilychevsk and Ocyabrsky. The latter was the Soviet Union's main specialized terminal for export of armored vehicles and tanks. Russia is required to inform Ukraine about all weapons shipped from these ports, although the shipments remain duty free for the time being. At the time of IDEX-93, Ukraine, despite previous agreements, decided to delay the shipment of Russian missiles to Abu Dhabi for a week, nearly disrupting Russia's ability to conduct its live fire exercises.

As for Iran, it refused for two days to allow Russian transport aircraft carrying senior Defense Ministry officials to IDEX-93 to fly over Iranian territory. Only after an angry phone call from Russian Vice President Rutskoy to President Rafsanjani, did Iran relent.

Iran's reaction seemed to reflect its sensitivity to Russian efforts to sell weapons to its rivals among the Gulf Arabs. Ukraine's behavior, by contrast, had less to do with the Gulf, and more to do with other political disputes in Russian-Ukrainian relations. Nevertheless, this could develop into a serious problem for Russia; given its control over Russia's main export terminals, Ukraine, if it chooses, could virtually shut down Russia's military supplies to the region.

Military Ties to Israel

Despite a deluge of media speculation on Russian arms sales to Israel, there is no evidence, and little likelihood, that such cooperation exists, either now, or that it will in the near future. Most of Russia's bureaucracy in charge of arms sales opposes transfers to Israel on the grounds that this would jeopardize Russia's relations with larger Arab clients. Oboronexport's president, Sergei Karaglanov, has said that "while earning some pennies, we would lose hundreds of millions, because the Israeli market is very small." Russian experts understand that Israel's reliance on U.S. equipment is not likely to change, leaving very little room for the purchase of Russian weapons.

THE ECONOMICS OF SOVIET/RUSSIAN ARMS SALES

The Soviet Union was paid surprisingly little for the vast quantities of arms it shipped to the Middle East over the years. Sources estimate that Libya,

²⁷ Ibid.

Syria, and Iraq each paid about 20 to 22 percent of the actual purchase price of the weapons they received throughout the 1970s and 1980s, either in cash or oil. This includes payments made on behalf of Syria and Iraq by the oil-rich Arab states of the Persian Gulf.

Cash payments for Russian arms were made through a banking network in Europe that included Mosnarbank in London, Ostwesthandels in Germany, and other banks in Austria and Norway under the control of Moscow's Gosbank, the state bank of the Soviet Union. Bank accounts with Credit Lyonnais of France were also used for financial transactions. From these various institutions, money was then transferred to the only banks in Moscow licensed to conduct foreign trade transactions—Vneshtorgbank and Vnesheconombank.

Outside of payments in cash or oil, the rest of the price of Soviet arms was financed as foreign aid or as debt, most of which has never been regularly repaid. In some cases, such as after the 1973 War, when Moscow shipped Syria \$600 million worth of emergency supplies, the transfers ended up as a free gift.

Soviet policy with regard to arms shipments is perhaps best illuminated by examining the case of Libya, an oil-rich country which, unlike Syria and Iraq, would have been expected to pay for a greater share of its arms imports. Table II reflects Libya's payments to the USSR for arms transfers, including payments on past debts. As shown, from 1986 through 1990, Libya paid \$1.4 billion to Moscow while receiving \$2.6 billion in arms. In other words, Libya paid for only about 55 percent of its current arms shipments.

Table II: Libya's Payments to the USSR for Arms (in millions of dollars)

	1986	1987	1988	1989	1990	1986-1990
Payments	211	184	219	167	649	1,430
Arms Imported	667	368	544	526	491	2,596

Note: Calculated in valuta rubles, at .57 rubles per dollar.

The Soviet Union generally permitted oil-producing countries to pay for arms either in cash or in oil. This was essentially left to the client state's discretion, so that one payment could be in oil while the next payment was in cash. This was a disadvantageous arrangement for Moscow, since each five-year contract usually used a fixed price for valuing oil. Not surprisingly, when the price of oil exceeded the fixed price, the customers chose to make payments in cash, and vice-versa.

In the case of Libya, payments in the 1986-1989 period were made at a fixed oil price of \$23.30 per barrel. For most of this time, this was substantially above the world market price. As a result, Libya made about 80 percent of its payments in oil.

The lack of economic rationality in the Soviet Union's policy is further illustrated by its arms sales to Libya after 1989.

Table III: Military Debt of Libya to USSR (in millions of dollars)

	1/1/90	1/1/91	Increase in 1990	Interest Due	Average Interest Rate
Libya	2,281.0	2,780.8	499.8	262.9	9.5 %

Note: Calculated in valuta rubles, each worth \$1.75.

In 1990, the Soviet Union provided Libya a \$500 million credit for arms purchases at a very attractive rate of interest. But this generosity seems to have had little to do with an objective evaluation of Libya as a serious credit risk. In the fall of 1989, Libya's debt to the USSR had been re-scheduled; 36 percent of it—valued at \$5.6 billion—was simply cancelled with the rest to be paid in seven equal annual installments beginning in 1990, 92 percent of which were to be made in oil. With this re-scheduling in hand, a contract was then signed to sell another \$1.5 billion worth of weapons to Libya between 1990 and 1994. Russia inherited this deal, which has since been suspended as a result of the UN sanctions against Libya.

Russian officials have indicated that they are prepared to accept payment for arms in commodities. This is attractive to Russia's arms exporting structures, Oboronexport and Spetsvneshteknika, because of the low value of the ruble; they take the goods received as payment from foreign buyers and proceed to sell them on Russia's domestic market at market prices. The Russian government, for its part, is also amenable to commodity payments, since all cash transactions must go through state banks that are controlled by the politically hostile Russian Supreme Soviet.

In 1992, 33 percent of the payments Russia received for military debts and new arms was in commodities. The problem is that in the case of Syria and Algeria, the valuation Russia accepts for these goods is 45 to 50 percent higher than what they are worth on world markets; in the case of Iran, 15 to 20 percent higher. In the end, Russia's economy as a whole suffers from this method of payment.

ARMS SALES AND GEOPOLITICS: THE IRANIAN CONNECTION

Despite the declarations of its leadership, Russia's arms sales policy to the Middle East is still not entirely dictated by economic factors. It is true that close political relations with states like Syria, Libya, and Iraq are no longer a priority; with these regimes, the desire to export arms has become largely a financial issue. Except for marginal right-wing groups, most Russians now understand that a politically and economically weak Russia has no obvious national interest in countries distant from its borders.

On the other hand, when it comes to countries that do occupy strategic positions on Russia's periphery, Russia's approach continues to be influenced by strategic calculations—not simply whether the state is a potential customer, but whether it is friendly or hostile. Such is the case with Iran, which borders the Caucasus and Central Asia in Russia's backyard, and whose help Russia needs to maintain stability in these regions.

For all the disputes between Russian liberals and hardliners, there is a consensus on the need for military cooperation with Iran. Foreign Minister Kozyrev, perhaps the leading liberal in the government, talked about a

“strategic partnership” with Iran during his March 1993 visit. Russia seeks Iranian cooperation with regard to: the Caspian Sea; Persian-speaking Tajikistan; oil and gas development in Central Asia and the Caucasus; and the competition for political and military influence in these same areas.

In the Caspian Sea, both Russia and Iran are interested in keeping the status quo in terms of territorial waters. By contrast, the new Caspian Sea states of Kazakhstan, Turkmenistan, and Azerbaijan are eager to re-define the current boundaries to their own advantage, in a way that could threaten important Russian interests in areas like fishing rights and caviar quotas.

In Tajikistan, where a civil war has raged between the neo-communist government and an Islamic opposition, Russia wants Iran to maintain a posture of non-interference. Russia is supporting the Tajik government as the best option for stabilizing the situation on its own southern borders; it wants to prevent Central Asia from becoming a way-station for Islamic extremism, drug trafficking, gun running, and hostile foreign influences that could threaten Russia itself. While Iran’s sympathies have clearly been with the Tajik opposition, Kozyrev managed, during his March visit, to extract a promise from Iran that it would not involve itself in the Tajik civil war. It remains to be seen whether this pledge is fulfilled.²⁸

Economically, officials in Russia’s Ministry for Foreign Economic Relations see Iran as a tactical ally in the effort to thwart perceived Turkish desires to win all the most promising oil and gas projects from Kazakhstan to Turkmenistan to Azerbaijan. Turkey has already reached agreement with Turkmenistan to construct a gas pipeline taking Turkmen gas across Turkey to Western Europe, in effect freezing out both Iran and Russia.

Politically, Russian officials increasingly view both U.S. and Turkish efforts to promote the “Turkish model” of political system in Central Asia less as an attempt to oppose Iranian fundamentalism than as an effort to create a “Central Asian Iron Curtain” the purpose of which is to isolate Moscow from this area where its vital interests are engaged.²⁹

In May 1993, Russia’s National Security Council issued a document entitled, “Main Ideas of the Russian Federation’s Foreign Policy Concept.” Containing the contributions of all segments of Russia’s national security apparatus, the document claims that the threat of Islamic fundamentalism from Iran and South Asia has been greatly exaggerated; these dangers are characterized as “dispersed, not posing any real threat to security.”³⁰

The document goes on to urge that Russia “strengthen its position on the Middle East arms market.” In a chapter on relations with the United States, there is much talk about partnership to stop nuclear proliferation. At the same time, Washington is alleged to be suffering from an “inertia of suspiciousness,” and is accused of trying to squeeze Russia out of the world market for arms and technologies.

²⁸ Russian intelligence believes that Iran has provided training camps to Tajik guerillas.

²⁹ For example, see *Nezavisimaya Gazeta*, May 14, 1993.

³⁰ *Moskovskiya Novosti*, May 14, 1993.

U.S. POLICY AND RUSSIAN ARMS SALES

The ability of Western leverage to slow down or stop Russian arms sales to "rogue" regimes in the Middle East is limited. The West's strongest card is in the realm of economics, not politics. Both carrots and sticks could be used: threats to withhold aid packages, or in turn, promises to increase them; and providing Russia with alternative markets for its weapons and other competitive goods. Here, America's influence is not particularly significant as U.S. bilateral aid and trade with Moscow are relatively small.

By contrast, Western Europe, especially Germany, France, and Italy, have much larger economic connections with Russia and could potentially exercise far more leverage. However, there is very little evidence that these states are seriously concerned by Russian submarine sales to Iran or SAM sales to Syria. American efforts to enlist Europe in this effort *vis-à-vis* Russia, therefore, could well face the same difficulties as Washington's frustrated efforts to get Western Europe to cease the sale of dual-use technologies to Iran.

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