

Chapter 8.

ARMED FORCES – THE PROBLEM OF EFFECTIVENESS

In 2005 development of the army and of the military-industrial complex finally gained political significance. One of the possible presidential successor candidates is Sergey Ivanov, Minister of Defense and Vice-Premier of the Russian Federation. *Therefore the situation within the armed forces is often made a token in the confrontation of the leading nomenclature and political groups. For example, lately the complicated situation in the Russian Army has been actively used against Ivanov as a possible successor.*

Usually his enemies blame Sergey Ivanov for the failed army reform, for negative social and psychological atmosphere in the army, as well as for the weak management qualities of the Minister of Defense. Therefore, Ivanov often becomes a subject of criticism, and his opponents have rather substantial reasons for it.

Russian Army reform is one of the priorities in the process of modernization. *Vladimir Putin has numerously mentioned the need to intensify changes in the armed forces, but his directives are often ignored by the army generals.* The Ministry of Defense announced that the army reform has entered the final stage. However, real changes are nowhere to be seen.

The main reforms in the army had been made before Sergey Ivanov became the head of the Ministry of Defense. In the last 15 years the structure of the armed forces has been substantially transformed. By the time when in 1992 Boris Yeltsin signed a Decree on Establishing Armed Forces of the Russian Federation, the structure of the armed forces included 5 types of troops: Infantry, Strategic Missile Troops, the Navy, Air Force, and Air Defense Forces.

During the first stage of large-scale reforms the Air Force and Air Defense were merged. The main goal of this reform was to substantially reduce the number of military personnel in both types of troops, which was supposed to reduce the cost of their maintenance. In the framework of this target of the reform many subdivisions equipped with old technology were terminated. This policy lead to *losing control over the most part of the Russian air space*. Financial limitations forced the aviation to minimize spending on purchase of fuel and on repair and maintenance, in the end the annual flight time of the pilots in most of the units dropped to 10-20 hours (while the norm is 120-130 hours), which in turn lead to their actual disqualification. Furthermore, we cannot fail to mention another problem. For the most part, military personnel of units consists of the officers that had been trained back in the times of the Soviet Union, their age is closely approaching retirement. Therefore, in 5 years it may turn out that there are no experienced officers left in the Air Force, and this will have negatively impact the defensive capacity of the country.

The second major stage of reforming the armed forces structure became demoting of the Strategic Missile Troops to one of the branch of troops. ***This step was accompanied by a substantial cut-back in financing allocated to the Missile Troops. The paradox is that this branch of troops is lately being positioned as the main shield of our country and is one of the main components of the Strategic Containment Forces (SCF).***

This curtailment of the offensive component of the Russian Armed Forces has reflected on the Infantry Troops as well. They also were subjected to substantial staff reductions. Large groups in the West and in the East of the country were placed under control of the Baltic and Pacific Fleets. At the same time, until 2004 exercises had been a rare and a rather local phenomenon, which resulted in deterioration of the military efficiency of the troops. A series of large-scale exercises in 2004 and 2005 demonstrated that the situation is getting worse by the year. The most efficient are only the troops that participated in the military operations in the North Caucasus. Technical equipment of the Infantry Troops is in a very sad condition.

The Navy has maintained its presence in all of the marine theatres. At the same time, it has lost most of its fighting capacity. Certain subdivisions of the Navy have been completely terminated. For example, the Coastal Guard forces were almost completely liquidated, the military personnel was transferred to other units or fired from the army, and the available coastal defense means (missiles) were put for storage. This continuous reforming left behind only one marine missile-carrying air division (out of the four that had existed prior to the reform). Thus out of the five air carriers we now have only one (it is constantly being repaired and upgraded). The number of nuclear submarines has reduced by more than three times. The number of campaigns is also being constantly reduced. In the end, most of the Navy is always being idle, which substantially undermines the national military efficiency.

However, despite all the losses and problems, the Russian Army is still one of the most bulky military mechanisms in the world. The Ministry of Defense and the General Staff are supervising 6 command regions (Moscow, Leningrad, Privolzhsko-Uralsky, North Caucasus, Far East), and a special region (Kaliningrad), and 4 fleets (North, Pacific, Black Sea and Baltic), 8 general troop armies, 6 armies of the Air Force and Air Defense, 6 small fleets, 2 army corps and 2 squadrons.

Currently the structure of the Armed Forces includes three types of troops (Infantry, Air Force and the Navy), three branches of troops (Strategic Missile Troops, Space Troops and Airborne Troops), as well as the troops outside of the armed forces structure, Rear Services and Construction and Housing organizations and military units.

In the nearest time the army structure is not supposed to change. However, there is an issue of setting up management mechanisms for the existing subdivisions, as well as the question of changing the system of recruitment. These two problems are among the most salient issues for the Ministry of Defense.

Officially the army reform priorities include maintaining the Strategic Containment Forces potential, increasing the number of formations and permanent alert forces, and establishing groups of units on their basis, improving the military (combat) training of the troops (force), improving the recruitment system, upgrading the military science and military education system, and improving the system of social security for the military personnel. In practice, the only problem that is being reviewed is probably only the issue of recruitment of the army and its rearmament, improving the military education level and setting up a system of social support for the soldiers and officers.

In 2005 some attention was paid to the issues of military training of certain units. ***However, in the course of training on different levels it turned out that at first it is necessary to solve other problems.*** First of all, it is necessary to limit the negative influence of the „human factor”, the source of which is the lack of social protection of the military personnel, low level of training among the officers and difficulties in recruiting soldiers and junior commanding officers.

8.1. Military Duty

Low level of social security is the reason for retirement of many highly qualified officers. Furthermore, there is a problem with recruiting privates and junior commanding officers (sergeants, sergeant-majors etc). This problem has two aspects: the issues of draft service and of contract service.

Right now there are more than 20 reasons for draft deferment in Russia. ***The majority of young people of military age are trying to avoid being drafted.*** The reason for this is that currently the situation in the Armed Forces is rather unhealthy. For privates this first of all entails arduous service conditions and abuse from senior soldiers. The army officials are claiming that the problems with adequate supplies for drafted units have been practically resolved. However, the job is done only on paper. Consequently, the service conditions are not improving. Furthermore, very often these recruits are misused, specifically, they are forced to perform various works that are not stipulated in the legislation. At the same time, combat training, which is supposed to be the main occupation of drafted recruits, is very poorly organized, which in most

cases makes it rather senseless. All of this is happening against the background of negative social and psychological environment in which the draftees are forced to exist.

Representatives of the Ministry of Defense for a long time have been trying to reduce the number of reasons for deferment. ***In 2005 were introduced the first legislative bills that the military establishment is planning to submit to the State Duma and that are supposed to cancel a great number of deferments already in 2006.*** By the year 2008 it is expected that the period of draft service will be reduced to 1 year instead of the current term of 2 years. This measure will require doubling the number of recruits. In the opinion of Sergey Ivanov, this program requires a substantial reduction in the number of reasons for deferment. In the beginning of 2005 there were rumors that almost all deferment reasons will be cancelled, including the educational deferment. Even the idea of such a project caused a powerful wave of protests from civil rights advocates as well as from the independent youth organizations.

In October 2005 Vasiliy Smirnov, Head of the Chief Organizational and Drafting Board at the General Staff announced a list of deferments that the Ministry of Defense is planning to cancel by the 2006 spring draft. The Ministry of Defense is planning to cancel 40% of the current reasons for exemption and deferment from military service. This list does not include the so called medical reasons, the deferments to be cancelled are mostly social and professional. By cutting these deferments, the Ministry of Defense is planning to increase the annual draft by 200,000 recruits.

The list of deferments that the Ministry of Defense is planning to cancel includes persons with retired parents (one parent), full-time employees in private rural educational institutions, professional employees of government organizations from a list approved by the RF Government (MIC facilities), deferments for residents that are entitled to it in a „motivated presidential decree” (gifted young men, such as musicians, artists, athletes), deferments for residents that are caregivers for a family member requiring help, and deferments for Master students. Furthermore, in the draft of amendments to the Law on Military Service and Military Duty, there are items regulating the most controversial group – the students. The idea is that students will be getting only one deferment throughout the entire period of their studies (instead of the two existing right now for sabbatical and for other reasons of suspending education, and for the period of obtaining their bachelor’s degree (four years). Therefore students that want to get a master’s degree (six years) or a specialist diploma cannot use this deferment.

8.2. Reduction in the number of military departments in higher education institutions

In the beginning of 2005 protests about the possible military draft of students superimposed with discontent with the social policies of the authorities when there were numerous protest activities against replacing benefits with cash compensation. *At the time of setting up many oppositional youth movements the draft issue was actively used to mobilize supporters.* All of this forced Sergei Ivanov to make a number of special announcements stating that students will not be taken from universities and drafted for service. At the same time, the Ministry of Defense confirmed information that the number of Military Departments at higher education institutions will be substantially reduced.

During the spring and summer of 2005 there were plenty of rumors going around about the universities where Military Departments will remain in place. Announcement of the first approximate list caused a substantial increase in the number of applicants to the universities that were included in this list. Originally the Ministry of Defense claimed that Military Departments will remain only in 30 higher education facilities across the country. *However, finally there were published two lists of higher education facilities where Military Departments will remain in place (the lists include a total of 68 universities and institutes). The first list includes 35 higher education facilities where Military Departments will remain in place and their graduates will not have to serve in the army with the exception for the time of war. The second list includes 33 higher education facilities that will train army officers.*

Ministry of Defense officially admitted that Russian higher education facilities are divided into elite and regular institutions. Graduates of the universities in the first list will be exempt from serving in the army. At a press-conference held on September 8, 2005, Nikolay Pankov, the Chief of HR at the Ministry of Defense, announced that graduates of elite higher education facilities should be employed in their professional area and facilitate development of the country. *We can state that the first list contains the best educational lobbyists in the country.* In the original plan there were no elite graduates totally exempt from serving in the army. After publishing of the approximate list in the summer of 2005, rectors of these universities started lobbying their version of reducing the number of Military Departments, which turned out to be more favorable both for them and for the students, because the number of such department increased twofold.

The second list of higher education facilities is also important because these institutions will be training officers, and studying at these Military Departments will

be their pass to the army, rather than an opportunity to escape military duty. In the meanwhile, the term of service for the officers that graduated from civil educational facilities is increased up to 3 years. The Ministry of Defense promises to pay the students that want to study in the Military Department a scholarship that exceeds the federal scholarship by five times. ***This way the Ministry is trying to find solution to their staff shortage at the expense of civil colleges.*** Currently the army is lacking qualified specialists that could effectively perform the tasks at hand. Furthermore, many young officers that graduated from military colleges retire after serving the 5 year term stipulated in their contract. First of all this involves professions that are in demand in civil life. Due to deteriorating living conditions of enlisted personnel, in the army remain only those officers that cannot find a place for themselves outside of the Ministry of Defense, or the ones that have an opportunity to receive substantial and not always legal benefits from performing their duties. Any army reform will be very difficult to implement without solving the staff problems, and this will in its turn negatively impact the defensive capacity of the country.

Reducing the number of Military Departments may be viewed as one of components in the educational reform. According to the concept suggested by Andrey Fursenko, the Minister of Education and Science, the number of state universities in the country should be substantially reduced. Furthermore, they will be divided into several categories. The best financing and privileges will be allocated to the universities and institutes in the first category. This category will include up to 15 of higher education facilities, and they will become the most privileged facilities in the country. Perhaps the number of institutions in the first category will be increased up to 30. In this case the list of elite educational institutions of the Ministry of Defense may become the basis for financial differentiation at the Ministry of Education. It would be logical to allocate more financing to the higher education institutions the graduates of which are protected from serving in the army, because they can engage in science and other important projects without looking back at the military registration and recruitment office.

Initiative of the Ministry of Defense calling for reducing the number of Military Departments will have very negative consequences for the image of the authorities. Young people are currently acting as a very powerful opposition. Cutting the number of Military Departments and increasing the military duty period for university graduates gave new reasons for criticizing the Military Forces. Furthermore, declarations of the Ministry of Defense officials stating that education in certain universities is so elite that their graduates should be exempt from military duty, give political parties new arguments in their election campaigns.

8.3. Rusoboronexport (Russian Defense Export) and „weapon budgets”

One of the main goals of the army reform is development of the Military-Industrial Complex, as well as upgrading of its technical facilities. In the last few years expenditures on internal defense orders as well as volumes of export sales of Russian-made weapons have been growing. *However, these active business operations of the Military Industrial Complex bring about first of all growth of grey budgets of the power agencies, rather than modernization of the army.*

Liberals and power agencies are preparing for a decisive battle that will determine the fate of Vladimir Putin's successor in his presidential post after he resigns from his duty. In order to successfully implement its version of the Successor Project, each group must follow the path of resource concentration: establishment, media and, certainly, financial resources. At the same time, financial resources are even more important because they can be easily converted in any other type of electoral advantages. Without proper material support either part of the political elite would have a hard time implementing its Successor Project.

The main asset of the liberals is the Stabilization Fund, as well as their capability of redistributing the budget flows regulated by Alexey Kudrin, the Finance Minister. Along with the financial flows controlled by the Ministry of Finance, the liberals secured participation of a part of the „old” business. The liberals are partially controlling Gazprom, but in the framework of the gas monopoly they are fighting a constant battle with the power agencies for redistribution of financial flows.

In its turn, the nomenclature and political group within the power agency system has control over the accounts of Rosneft State Company. The power agency part of the elite has access to resources of Rosneft State Company. In its turn, a NPG at a power agency can allocate Rosneft's resources. Assets of the power agencies part of the elite also include several large mineral companies, such as Surgutneftegas, Severstal etc., and in Gazprom they are in control of Sibneft and export contracts for gas. *For the power agencies elite the most convenient asset is Rosoboronaexport and supervision of the internal defense order.* These assets are important because the armament budgets are almost completely non-transparent. Moreover, all controlling agencies that may interfere with redistribution of the armament funds, are also a part of the power agencies' establishment resources. In the end, the money of Rosoboronaexport and the Federal Defense Order Service are the most convenient for financing political projects of this elite group

Financing of political projects of the power agencies elite requires substantial sales resources. In this case the „power agency businessmen” decided to divide their

areas of responsibility. For example, Severstal and Surgutneftegas are actively working on the group's media projects and are currently investing into the most influential TV asset of the group – REN-TV". ***Financing of exclusively political project is much more complicated and much less transparent, for example, than financing of parties and fashion. For this purpose Rosoboronexport suits much better considering that its financial activities are very hard to control.*** If Surgutneftegas or Severstal have to open their doors for the auditors, publish its accounting reports etc., the armaments middleman reports only to the state, moreover, directly to the establishment controlled by power agencies.

An opportunity of latent financing of political projects and the general lack of transparency at Rosoboronexport give its General Director Sergey Chemezov a chance to use in his business projects all the establishment resources of the group. It is important to note that Andrey Belyaninov, the closest partner of Chemezov and a former director of ROE is currently the head of the Federal Defense Order Service, and this means that the entire Military-Industrial budget is in the hands of two persons closely cooperating with each other. The total volume of financial flows controlled by the Chemezov-Belyaninov union is approximately 16 million US Dollars per year.

Andrey Belyaninov is in an even better state than Sergey Chemezov. He controls the money allocated for an internal defense order, which gives him a number of advantages: ***within Russia power agencies have substantially more resources for significant expansion of the state defense order expansion.*** That is which for Belianinov it is much easier to increase the financial capacity of his establishment. Furthermore, a part of financing for the internal defense order is used not for purchase of new equipment, but for repairs and upgrading of the old one, and serious money disappears exactly in repair factories. One example is a criminal case filed in 2005 by the military prosecution against Dmitry Morozov, Deputy Chief Commander of the Air Force. The Deputy Chief Commander of the Air Force was accused of misuse of funds allocated for repairs and maintenance of equipment, as well as in using mechanisms of money laundering through aircraft repair and overhaul factories, some of which, according to the mass media, he owns himself. Using the „repairs and overhaul” mechanism to reallocate substantial resources for other projects is a very popular phenomenon, judging by the number of claims that never made it to court. However, considering that the state military prosecution is a part of the General Prosecutor's Office that is under the control of the power agencies, Belyaninov has nothing to be afraid of, he is working for the best of the entire group and the prosecutors shall not give him any trouble, at least as long as his interest are not in conflict with the general interests.

**Expenditures on purchase of military equipment and weapons in 2000-2006
(billion RUR)**

Year	Expenses (bln. RUR.)	Percentage of military budget (%)
2000	42.9	15.6
2001	52	21.8
2002	79	33.2
2003	118	31
2004	148	35.8
2005	186.9	35.3
2006	283	42.4

The job of Sergey Chemezov, the General Director of Rosoboronexport, is much harder. He receives financing from export of armaments. The budget of ROE comes from foreign trade agreements. Chemezov and his employees are faced with tough competition in the international armaments market. After the breakdown of the Soviet Union and of the Warsaw Pact Organization Russia's share in the international armaments market has substantially dropped. Western competitions are regularly trying to push the Russian Federation out of the market segments in which it is very much interested. Therefore Chemezov is having a hard time building up his budget, he has to substantially intensify his work. For example, on January 17 2006 it was announced that Rosoboronexport signed a contract to sell to Vietnam two frigates from the Gepard („Cheetah”) Project and the newest coastal anti-ship missile system Bastion, equipped with supersonic Yakhont („Ruby”) missiles. We have to mention that the Russian army so far is not equipped with Bastion Systems even in the experimental form. The deal amounts to approximately 300 million US Dollars. Furthermore, there is information in the mass media that ROE will sell to Vietnam two anti-aircraft systems S-300 PMU-1 and four Mi-171 helicopters. On January 16 the Federal State Unitary Enterprise Rosoboronexport delegation in Delhi began the final stage of negotiations regarding a contract for constructing three 1135.6 frigates for the Indian Air Force. This contract will amount to 1.56 billion US Dollars. Unlike the DRV contract, the Indian agreement is oriented towards a tactical perspective (until the year 2010), rather than strategic. The first payment tranche is supposed to come from the Indian partner already this year and can be spent rather comfortably because this is a long-term contract and in the event if the power agencies fail, the triumphant liberals will have to take responsibility for all the remaining obligations. If the power agencies elite wins, all the withdrawn resources will be returned to the state budget.

Along with the problems involved in signing of contracts, Chemezov has one other vulnerable position – he is controlled by his customers and he must perform his obligations. ***Rosoboronexport cannot violate the agreement without negative consequences for its image and court proceedings.*** Therefore for Chemezov it is harder to build mechanisms of releasing cash for political projects of the power agencies. However, at the same time, Federal State Unitary Enterprise Rosoboronexport has its own fund (about 1 billion US Dollars), which serves as sort of an insurance guarantee under export contracts. The entire fund is completely under Chemezov's control, and the amount of guarantees under each agreement depends only on his negotiation abilities. Projects of the power agencies are also partially financed out of this fund. Probably the car industry expansion project was launched in order to ensure economic independency of ROE, because Rosoboronexport might obtain a permission for increasing the guarantee fund, a part of which will be officially used for investments in car production.