

ROADBLOCK Challenges remain for signing mega contracts, including the ₹39,000-crore deal for S-400 air defence system; direct currency exchange being unlocked but sanctions to shadow Putin-Modi summit

India, Russia Defence Trade Tries to Beat US Sanctions Amid Hurdles

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New Delhi: India and Russia are finding ways to work around US imposed financial sanctions on Moscow but challenges remain on big defence contracts, including the ₹39,000 crore deal for S-400 air defence system that is expected to be inked later this year.

Though India has obtained exemptions from the US Countering America's Adversaries through Sanctions Act (CAATSA), financial sanctions that prevent money to be transferred for weapons purchases from Russia are still in effect, casting a shadow on at least three defence contracts likely to be finalized during a bilateral summit between Prime Minister Narendra Modi and President Vladimir Putin in October.



Critical payments like a \$15 m transfer to repair INS Chakra nuclear submarine are frozen

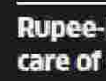
India has paid for defence hardware from Russia in dollars but with that route now closed, a limited transfer will be made — referred to as the Rupee-Rouble trade. However given the large volume of defence purchases, the domestic currency trade may not be adequate for all buys.

"We are in the process of solving financial issues (due to sanctions). We are open to finding new ways on how to go about that. There can be a number of options, one being trade



Trumped By Sanctions

 India has to pay Russia more than **\$2 billion** for military equipment and spares

 Rupee-Rouble trade can take care of only **limited payments**

 Payments for earlier deals not as **problematic** as new deals post-US sanctions

 Talks in final stages to produce **AK-103 assault rifles** in India

 **\$1-billion contract** for 48 new **MI-17V-5 choppers** in signing stage

 Two nations **struggling** to find banks that run risk of **US sanctions** for transactions



in national currencies. At least for some part (of the payments)," Dmitry Shugaev, head of the Russian Federal Service for Military Technical Cooperation, that oversees military exports to India told ET.

As reported by ET, India has to transfer in excess of \$2 billion to Russia for the purchase of military equipment and spares, currently halted by sanctions. Even critical

payments like a \$15 million transfer to repair the damaged INS Chakra nuclear submarine are frozen.

While there could be a solution for paying legacy contracts, new deals are likely to face higher scrutiny from the banking system impacted by the US sanctions. The absence of a permanent solution could impact at least three deals in advance stages of negotiations and domestic currency trade will

not be able to cover the full volume of payments.

Besides the S-400 missile shield, talks are in the final stages to produce the AK-103 assault rifles in India with the Ordnance Factory Board. Yet another contract at the signing stage is the \$1 billion contract for 48 new MI-17V-5 choppers, which could be bought in two batches. Yet another deal for purchasing four new frigates from Russia — two

of which would be built at Goa — is expected to take longer for negotiations to conclude.

The two nations are struggling to find banks that would run the risk of facing US sanctions for transferring money. On the Indian side, the banks being talked with include Vijaya Bank and Indian Bank while on the Russian side, its largest banking entity in India, Sberbank has been approached.