

# India, Russia may miss signing defence deals worth \$8.5 b during Putin's visit next month

**KSENIA KONDRATIEVA**

Mumbai, September 28

With just a week left before the Russian President Vladimir Putin arrives in India for the annual bilateral summit, there is still no clarity on the several high-profile defence deals worth around \$8.5 billion that the two countries were expected to sign.

Some of the contracts that Russia has proposed to sign during the summit scheduled for October, 5 include five S-400 Triumph missile systems, four Project 11356 frigates, 48 Mi-17V-5 helicopters and 200 Ka-226T helicopters. The inter-governmental agreements for the deals were signed in 2015-16.

However, India's Cabinet Committee on Security (CCS) is yet to give its clearance, several independent sources close to the negotiations told *BusinessLine*. "Without CCS approval, no deals can be signed during this visit," an official who did not wish to be named said.

With Indo-US 2+2 talks held in New Delhi earlier this month and continuing speculations over whether India will get a waiver from the US Countering America's Adversaries Through Sanctions Act (CAATSA) imposing sanctions on countries that engage in defence deals with Russia, chances that these contracts won't be signed in October are high, sources suggested.

The request for comments



Russian President Vladimir Putin

sent to the Ministry of Defence and the External Affairs Ministry did not elicit any response.

India may now have one more reason to delay signing the above contracts as the US, last week, imposed sanctions on China for buying Russian Sukhoi Su-35 jets and S-400 systems.

"China's reaction was clear. We will see what our Indian partners have to say," the person quoted above said.

China has requested the US to remove the sanctions or "bear the consequences", while Russia, which is considered to be the main target of the sanctions against China, said imposing sanctions had become sort of "national entertainment" for the US.

According to Konstantin Makienko, Deputy-Director of Moscow-based Center for Analysis of Strategies and Technologies (CAST), there are multiple reasons for delays in signing of the contracts. The US sanctions as well as issues with payments for ongoing

defence contracts are just the tip of the iceberg, he suggested.

"There is an apathy in Indian bureaucracy's decision-making which is somewhat aggravated by the declarative "Make in India" programme as well as using defence procurement issues in political campaigns by Opposition parties," Makienko told *BusinessLine*.

"Another reason (why fresh contracts may not be signed) is that India's Ministry of Defence just might not have enough financial resources. It has huge obligations for procurement of European defence systems, with only Rafale jets almost "eating up" the annual procurement budget of Indian Airforce for the next 5 years. And secondly, the cost of army manpower has escalated, especially with implementing of One Rank One Pension (OROP) formula," the expert said.

He added that the volume of Russia's defence sales and supplies to India has dropped from \$4.7 billion in 2013 to just around \$2 billion annually in the period from 2014 to 2017.

## Payments stuck

While new contracts are uncertain, the payments for ongoing defence contracts have been pending since January, industry sources said, with no solution yet been practically implemented.

As *BusinessLine* reported earlier, Indian banks stopped

processing payments worth billions of dollars, citing high risks due to US sanctions against Russia.

"The problem was very serious in the first half of this year. The issue is not solved till today, but having lost hope in getting any solutions worked out at the government level, many companies have found some or the other ways to transact the payments," a person working with leading defence supplier told this newspaper.

## Rupee-rouble settlement

A defence official who did not wish to be quoted said the both countries have agreed to use rupee-rouble settlements instead of US dollars. However, implementing this in practice remains a problem.

"For payments to go through we need to rework all the contracts and recalculate the amounts, this obviously takes time as there are dozens of large contracts and the exchange rates are volatile," he said.