RUSSIA’S DEFENCE REFORM

ASSESSING THE REAL ‘SERDYUKOV HERITAGE’

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• The Russian Armed Forces are undergoing a long and expensive reform, which aims at preparing the country to new security threats. The reforms were initiated during the term of the former minister of defence, Anatoly Serdyukov. His dismissal in November 2012 initiated a debate on the future of the reforms.

• As of yet, the changes made by the new minister of defence Sergei Shoigu are corrections to the existing plan, and not an overall revision of its contours. The most pronounced difference is a shift in favour of domestic military industry.

• In its current condition, Russia’s defence industry is not able to absorb the major increase in military spending in an efficient manner. From the technological and managerial perspectives, most of the military-industrial enterprises function far below the international average.
**Introduction**

The reform of Russia’s Armed Forces has been portrayed as one of the success stories realized by the country’s current leadership in the last ten-year period. The reform was also thought to be irreversible. The dismissal of Defence Minister Anatoly Serdyukov on November 6, 2012, and his replacement with army general Sergei Shoigu, the former Minister of Emergency Situations and governor of the Moscow region, has undermined previous certainty. For better or worse, it has also sparked a debate on the future of the defence reform.

Indeed, the debate in Russia over the real ‘Serdyukov heritage’ has brought to the fore the inherent weaknesses of the current political system and its limited capacity to steer such a major transformation. But more than anything, the ‘Serdyukov heritage’ is a reminder of the fact that any reform - however essential it may be - is subject to incompleteness and the recurrence of all things old in a new form.

The purpose of this paper is to illuminate the real contours of the defence reform, and thus to point out the key factors that aid in understanding its incompleteness. The paper will also participate in the debate on Russia’s military procurement, insofar as it pays attention to some recent changes in the political significance of this colossal task. Questions relating to Russia’s evolving security landscape and strategic thinking remain, however, outside the scope of this paper.

**The defence reform will be polished not reversed**

The implementation of the ‘New Look’ (Novyi Oblik) reform has been regarded as an essential step that needs to be taken in order to prepare Russia for 21st century warfare. The change was outlined by President Vladimir Putin back in 2006, but the reform process was not activated until after the August 2008 war with Georgia. Although Russia gained what it was fighting for in that conflict, the operation of Russia’s Armed Forces during the war was far from satisfactory. The reform plan was formally launched in October 2008 under President Dmitry Medvedev’s supervision, and was set to prepare Russia’s Armed Forces for the needs of local and regional conflicts, as opposed to large-scale mobilization à la Cold War.

The main components of the reform, summarized in the Swedish Defence Agency report, include: downsizing of the officer corps, dismantling of empty cadre units, and the introduction of a new command system as well as a new arms branch. In addition, 70 per cent of the weaponry and equipments of the Armed Forces should qualify as modern by 2020. What made the difference to previous attempts at reform was an idea to “simultaneously change the organization, introduce modern command and control technology, and improve procedures and the competence of officers”.  

According to an announcement made by Minister Serdyukov in November 2011, the ‘New Look’ reform of the Armed Forces had been fulfilled. Indeed, far-reaching changes have taken place. Yet, for external analysts this conclusion seems premature as far as the implementation of the ‘permanent readiness’ objective and the transition to a ‘non-mobilization’ army are concerned. The critics, among them military analyst Roger N. McDermott, say that the new elements introduced in the course of the reform process are blended with “the old army and its manifold problems”, and the outcome of the reform is incomplete at best. It is this incompleteness characterizing the reform that makes it vulnerable to calls to reverse the whole process.

However, President Putin’s message to new Defence Minister Shoigu has been unambiguous in this regard. “The future leader of this vitally important ministry,” Putin declared to him at their first meeting on November 6, 2012, “must be able to continue all the positive initiatives that have been carried out in recent years and guarantee the dynamic

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development of the nation’s Armed Forces”. He emphasized “matters that had not been addressed for years”, such as a pay increase for servicemen and solving the housing problem. Later, at the expanded meeting of the MoD Board on 27 February 2013, Putin acknowledged the major changes made to command systems at the tactical and operational levels, and underlined that the reform process in general was on the right track. The subsequent changes would not imply the reversal of the earlier decision but would be about “polishing and fine-tuning”, Putin stated.

But where will this ‘fine-tuning’ lead the reform? Can the steps taken so far by Shoigu bring about more comprehensive adjustments to Putin’s plan than were perhaps originally intended? And finally, how deeply will the real ‘Serdyukov heritage’ – the set of arrangements used in implementing the reform – be re-adjusted? Not all of these questions can be answered directly at the moment. This paper focuses on the last question since it certainly sheds light on some of the main problems of the reform process, as well as the overall political constraints of the reform.

The three spheres that are critical for understanding what the ‘Serdyukov heritage’ is all about include outsourcing, the management of MoD property, and the implementation of the military procurement programme. The first two spheres are at the core of the defence reform as far as the reorganization of the army units and reduction in personnel are concerned. However, the third sphere touches on the conflict between the MoD and the domestic military industry over military procurement.

The changes introduced by Serdyukov were aimed at ‘optimization’ of the existing resources, including minimizing corruption and maximizing the use of scarce human resources within the Armed Forces. Interestingly enough, both outsourcing and property management were handled through the state-run defence ministry company, Oboronservis. It is this company that is currently at the heart of the corruption scandal that led to the dismissal of Minister Serdyukov.

However, at the same time, Serdyukov “did not encourage transparency and independent scrutiny, but instead concentrated power and control in himself”, as a recent report on the Russian MoD concludes.3 This latter factor may imply, at least in theory, that the new minister has significant administrative leverage over the reform process. However, with hindsight, it is safe to say that the methods chosen to implement the objectives of the ‘New Look’ reform have created a new set of problems. It is this part of the ‘Serdyukov heritage’ that is most difficult, if not impossible, to address under the current political system. In the following, the three main components of this heritage will be scrutinized.

The ‘Serdyukov heritage’ under review

Outsourcing as a partial fix for a fundamental challenge

For the Russian Armed Forces, the main defence reform issue has been the planned cuts in the number of officers and the shift from a large mobilization army to a more compact but allegedly more mobile structure. According to the initial scheme, over 90 per cent of army units and almost half of the air force and navy units were to be abolished. In early 2011 the original plan to reduce the number of officers from 320,000 to 150,000 was reversed and the current objective is to have 220,000 officers in the Armed Forces.4 The steps away from the mass-mobilization army towards the ‘New Look’ were deemed necessary given Russia’s changing security landscape and the actual scarcity of resources to maintain the military in its previous form.

Consequently, the most significant structural factor behind the defence reform is the demographic crisis and the poor state of public health, which both undermine the purported goal of having a million strong army. Between 2011 and 2020, the annual number of men reaching the age of 18 will be only 600,000 to 700,000. This is at approximately the same level as the annual recruitment rate required to reach the numerical strength of one million men.

4 Minister Shoigu has publicly welcomed the idea to look into cases where an officer has been discharged unfairly and offer these individuals a chance to return to service. How far-reaching this reverse movement will be, is difficult to estimate at the moment.
Analysts have suggested that the size of the Armed Forces is likely to diminish to between 500,000 and 700,000 men by 2020. This evidently also has implications for Russia’s ability to achieve the goal of creating fully manned, combat-ready units. 5

Given this situation, two issues should be tackled simultaneously: army service should be made more attractive to young Russian men, and the effectiveness of the military training should be considerably improved. Outsourcing was offered as part of the solution. Since January 1, 2012 catering, cleaning, electricity, central heating and the maintenance of housing and training facilities have been transferred to independent commercial companies, many of which were subsidiaries of the state-led company, Oboronservis. The idea was that by relieving the units of non-core functions, such as cleaning and catering, the effectiveness of conscript training (the duration of which was reduced to twelve months) could be enhanced. Other changes were also introduced in the hope of attracting much-needed specialists capable of conducting modern, high-technology combat operations. 6

Those who choose to reject this part of the ‘Serdyukov heritage’ have emphasized that the outsourcing model was, in itself, detrimental to the military capability and only facilitated the embezzlement of state funds. In his first interview, Minister Shoigu referred to information according to which 35–37 per cent of the 120,000 personnel working in catering and catering are “not citizens of Russia”, thus implying that the outsourcing contributed to the influx of low-paid immigrant workers. According to the minister, the preference in the future would be to transfer jobs to “those living in the military towns”. Reportedly, the responsibility for cleaning the barracks has been transferred back to the soldiers, but in other respects, the changes aimed at ‘humanizing’ army life will be maintained. 7 All in all, the restructuring of the Oboronservis company will result in changes to the current practices, although in principle, outsourcing certain functions to the commercial sector will continue.

Property management under Serdyukov

In essence, the defence reform is about rearranging the property and people that the Russian Armed Forces have accumulated over the years. This process affects close to one million people and calls for the relocation and ‘optimization’ of enormous quantities of military hardware, thousands of garrisons, and other infrastructure.

The state-led company Oboronservis was created in 2008 to manage the ‘optimization’ of military property. It has over 200 subsidiaries that manage property and real estate, construction, maintenance, as well as the growth and delivery of agricultural products. In November 2008 the company was granted exclusive rights to sell ministry real estate. This the company did, focusing especially on property located in Moscow and St. Petersburg. The investigation into corruption at the company has revealed that it has been involved in auctioning off military property below market prices, and in other schemes which, according to preliminary estimates, have resulted in around 4 billion roubles in losses for the state. 8

According to media reports, one of the biggest construction companies in Russia, the SU-155, has been named as one of the beneficiaries of deals undertaken by Oboronservis. Between 2009 and 2010, the MoD ordered new apartments from SU-155 to the tune of 21 billion roubles, and in early 2012 the same company secured a new housing contract for 13 billion roubles. During 2012, the company built four out of fifteen assigned residential buildings in Molzhaniino near Moscow. The area was previously earmarked for the Inteko company (owned by the wife of the former Mayor of Moscow, Yuri Luzhko),


and would serve as an alternative thoroughfare for the Moscow–St. Petersburg motorway. Should the road be built, the value of property in Molzhaninovo is likely to increase.9

From the viewpoint of the military, the problem with this (and other) projects is that the residential buildings built for the ministry are of low quality, sometimes lack hot water or electricity, or are located in inconvenient places. There are also cases where the buildings have been constructed without permission altogether or cost twice as much as apartments in adjacent areas. Apart from the possible embezzlement of government funds, the situation poses serious obstacles to solving the ‘housing problem’, contrary to President Putin’s statement above.

Due to often contradictory or simply unavailable figures, it is difficult to grasp the dimensions of the housing problem with any degree of accuracy. Officers discharged from service may have waited in line for a decade for housing which, according to the law, the state must provide for them within three months. In November 2007, President Putin ordered the then new minister of defence to solve the matter by 2012. Over 330 billion roubles (9 billion euros) were allocated for this task in 2008, and the plan was to build over 300,000 new apartments for the ministry in the three-year time frame, in addition to the already existing pool of 226,000 apartments.

According to one estimate, in the period 2008–2012, 130,000 apartments were built. Nevertheless, in early 2012 almost 80,000 officers were still in line for housing. By the end of the year, this number had dropped to 33,000, only to climb again by 24,000 due to people needing an apartment in 2013. In his first interview, Minister Shoigu argued that instead of managing the construction process itself, the ministry should provide those in line with a monetary transfer that would allow them to buy an apartment on the property market. A decision has already been made to allow lump-sum payments for officers, starting on January 1, 2014.10

Signals are mixed on the future direction of the MoD’s property management. Shoigu has indicated that Oboronservis will be reorganized, and related to this, the ministry’s property management will be ‘de–commercialized’. On the other hand, the previous policy line regarding the military towns has been maintained. Their number will decrease from 23,000 (in 2008) to between 400 and 500 (not 200 as originally planned).11

The responsibility for public infrastructures, including the housing of officers and servicemen, heating systems, electricity providers and other facilities in these towns will be transferred from the military to regional and municipal governments. This process got underway a few years ago and will continue under Shoigu’s supervision. Yet, given the dire economic straits that many Russian regions and municipalities are in at the moment, coupled with the low growth prospects for the future, this transformation may lead to the further degeneration of public infrastructures on the Russian peripheries. This, in turn, will contribute to increasing, not decreasing disparity between the rich and poor regions in the country, and growing social tensions.

The Russian military industry: from oblivion to the centre of politics

The last piece of the ‘Serdyukov heritage’ is perhaps the fundamental one. It concerns the conflict of interests between the MoD and Russia’s domestic military industry over the implementation of the arms procurement programme. The latter


(GPV–2020) was accepted in 2010 and is worth 22.5 trillion roubles, about 550 billion euros. This is a significant increase compared with the previous programme (until 2015), which was allocated around 5 trillion roubles (approx. 113 billion euros).

The argument put forward by ex-chief of the General Staff, General Nikolai Makarov, and Deputy Defence Minister Vladimir Popovkin, was that the MoD would opt for foreign systems as long as the military industry was unable to provide satisfactory products at a reasonable price. Instead of placing orders with domestic industry, the MoD sought partners abroad. It both purchased ready-made western technologies and initiated joint projects between Russian and western companies, the French-built helicopter carrier Mistral being the most famous case. The conflict between the MoD and the military industry has continuously led to a situation where the annual procurement plan had to be resolved at the highest political level.

After Serdyukov’s dismissal, speculation surfaced in the Russian press that the MoD had wanted to bypass the very fundament of Russia’s military export structure: the state-owned arms import and export intermediary Rosoboronexport and its de facto head, Sergei Chemezov. Chemezov is President Putin’s former colleague from Dresden and he has been instrumental in the consolidation of the Russian Technologies State Corporation (Rostec), which was created in 2007 and comprises over 600 companies, one of which is Rosoboronexport. Rumour has it that the unofficial function of Oboronervis was to establish links abroad independently of Rosoboronexport. Minister Serdyukov’s dismissal led to the abrupt demise of this scheme. 12

As already noted, corrections and changes introduced by the new minister, Shoigu, have not been intended as a comprehensive revision of the defence reform, although it may well be that in the course of implementation, the ‘Serdyukov heritage’ will be reformed. This is at least the main hypothesis voiced by many Russian military analysts. But when it comes to the implementation of the arms procurement programme and the modernization of the military industry, the situation seems to be developing the other way around.

The Deputy Prime Minister, Dmitry Rogozin, who is responsible in the Russian government for the development of the military industry, has made it known how dissatisfied he was with the previous minister and the existing practices regarding the implementation of the arms procurement programme. In his annual report on the developments in the military industry, Rogozin declared 2012 as the year of transition from ‘manual control’ to ‘automatic regime’. With this, he was implying that the tense relations between the MoD and the military industry needed to normalize, and that the task of implementing the military procurement plan would become a ‘normal routine’. Recently, Minister Shoigu went so far as to declare that the Ministry of Defence would like to see other ministries taking its place in negotiations with the military industry over prices of weaponry. 13

In the same speech, Rogozin also announced that the military procurement order had been fulfilled by 99 per cent in 2012, and by 100 per cent when it came to the nuclear industry. In another connection, Rogozin has, however, confirmed that a total of 7,200 corrections were required to the original plan before it was actually fulfilled.

According to information leaked about the discussion that took place around the same time in the Russian Duma, only 20 per cent of the existing military–industrial enterprises even come close to international standards technologically. Over half of the industry has already gone beyond the stage where its revival would make any sense, auditor of the Accounts Chamber of the RF Aleksandr Piskunov is reported to have said. The formulation of a new procurement programme for the years 2016–2025, a process that was initiated recently, could therefore be read as an indicator of problems in implementing the current one. 14

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Russian military analysts have pointed out that the gap between public announcements concerning the military industry, and its actual capacity to perform, are diverging rather than converging. The excessive secrecy under which the defence budget is prepared does not allow for independent scrutiny of the situation or public discussion of these matters to evolve. The chairman of the presidium of the Council of Foreign and Defence Policy, Sergei Karaganov, recently referred to the alarming “absence of an academic and public discussion of military priorities” in Russia. The few ‘liberally-minded’ analysts are overwhelmed by those representing the views of the military industry, Karaganov writes. The absence of public discussion may lead to “many mistakes to be paid for too dearly”, he concludes. The rhetoric used to legitimize the increase in defence spending is another cause for concern.

Words such as ‘saboteur’, ‘foreign agent’ and ‘Gos-plan’ have special connotations in the Russian political lexicon. All of these words have returned to the public sphere, including debates over defence reform and the fulfillment of the arms procurement programme. The choice of Rogozin is no accident in this context. Russia’s former envoy to NATO and former leader of the nationalist party Rodina, Rogozin is expected to play off the nationalistic-patriotic sentiments and traditional threat perceptions that prevail among the general public against the image of Russia portrayed by those who do not want to see the Russian military industry capitalizing on its past success.

There are two possible and plausible explanations for Rogozin’s new role. First, his task is to speak in favour of the military industry and to provide cover for the real restructuring of the almost 1,400 existing defence enterprises. On the eve of his third presidential term, Putin blessed the plan to modernize 500 strategically important companies in the defence industry by 2015. Only those companies involved in the implementation of the military procurement plan may be admitted to the modernization programme. Implicit in this discussion is the idea that the remaining companies will be closed down, although any direct reference to this possibility is usually avoided in the public debate. Some restructuring is evidently ongoing, but whether it will lead to an actual improvement in production performance is difficult to judge.

The other plausible explanation is far simpler and is linked to general developments in Russian politics. Starting with the parliamentary elections in December 2011, the political landscape in Russia has been divided into Kremlin supporters and anti-Putin activists. Rogozin is ‘at the front’ to placate the situation in the monotowns on the Russian periphery, as well as in the vicinity of Moscow, by offering them a ‘ray of hope’ in the form of dividends from the defence budget. Either way, the Kremlin tactic may work. But as many who have followed Rogozin’s career say, he may be a skillful demagogue, but he is also unpredictable and therefore a dangerous politician for Russia to have at the present time.

In conclusion: greater attention required, not alarmism

Many Russian liberal politicians or analysts have drawn the conclusion that the incompleteness of the defence reform and, more specifically, the circumstances surrounding the dismissal of Defence Minister Serdyukov, prove that the current political regime has exhausted its resources for change. The famous ‘Four I’s’ slogan – institutions, infrastructures, innovation and investments, hailed as essential drivers of change at the beginning of Medvedev’s presidency, is actively omitted from present-day debates. The possibility of the evolutionary changes imagined by Medvedev has been replaced with uncertainty. Analysts in Russia are asking whether Putin has embarked upon a ‘revolutionary strategy’, and is about to undo the ‘corruption for loyalty’ scheme, a development that would effectively “undermine the position of Russia’s current ruling

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16 Gosplan was the committee responsible for economic planning in the Soviet Union.
Thus, the weakening of the state capacity to actually carry out and govern its implementation is the main cause for concern in the Russian domestic debate, whether it concerns outsourcing or the introduction of a new type of control mechanism, such as the “vertically integrated multi-level system of automated control”.  

Expectations in the West about Russia’s military build-up seem to be at odds with the Russian domestic debates. The Russian habit of announcing far-reaching goals for reform, and declaring them complete before long, has clearly contributed to the discussion on the heightened military threat from Russia. However, the alarmism with which the increase in Russian military spending has been met in the West seems misplaced. A series of facts derived from the ongoing investigation into the corruption scandal at the MoD attest that Russia’s defence reform is going to be a long and expensive process.

In turn, commencing the serial production of new modern weapon systems as required under the current arms procurement programme remains an open question. This is particularly pertinent if, as some analysts have suggested, the rivalry between ‘foreign imports’ versus ‘domestic production’ is actually about the redirection and management of illicit flows accumulated in this sector. The relative backwardness of the Russian military industry clearly does not help in achieving the purported goals either.

As Sergei Karaganov puts it in the above-mentioned article, “the military buildup is expected to compensate for the relative weakness in other respects – economic, technological, ideological and psychological”. Trapped by this ‘the weak get beaten’ mentality and survivalist strategies, Russia’s current leadership will most likely continue to confuse Western politicians in the future as well. There is no foreseeable easy way out in this situation. Therefore, attention to the evolving Russian security landscape and domestic drivers of the reform process is required, as well as profound knowledge of the details. But alarmism would be premature to say the least, if not entirely misplaced.

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