

RE-EXPORTATION PERMISSION: AN INSTRUMENT TO CONTROL EXPORTERS

BY KIRILL LEBEDEV, IFS SENIOR ANALYST, JANUARY 21, 2010

This year Rosoboronexport might fulfill the 2006 contract for 100 RD-93¹ aircraft engines. In 2009, the corporation delivered the first consignment of 57 units and agreed to supply another 43 engines worth more than 100 million dollars. A new contract for 100 engines might be signed in spring 2010.

Are deals like these expedient and how do they effect the exporter, importer and third parties?

JF-17 are produced under license in Pakistan, and, under a contract with China, Pakistan will receive 150 such airplanes. So it appears that Russia supplies engines to be used in aircraft made by its competitor, China, though to the 'poor' developing countries². The fact that Pakistan imports fighters with Russian engines puts neighboring India on guard as it anticipates a change in the military balance in the region.

As is known, China has stopped buying readymade arms and combat vehicles opting to buy and master technology. It has already started production of Russian Su-27 fighters³, it also buys Russian AL-31FN engines (designed for the Sukhoi fighter planes) for its new J-10 fighter. There is a possibility that China, having coped with the aircraft technology, can cut military imports and rival Russia in African and Asian markets using Russian technology.

These fears are unfounded, though. Sophisticated technology is still hard for China. If China re-sells airplanes with Russian engines, Russia will be able to control the volume of Chinese aircraft supplies influence the buyer's army efficiency. Should any arguments occur, Russia will stop supplying engines to China and JF-17 and J-10 fighters will be no rival to Russian-made airplanes in the developing countries. For instance, Myanmar did not accept China's offer to supply aircraft late in 2009⁴.

Anyway, supplies of the RD-93 will not affect India. Although equipped with Russian engines, fighters that Pakistan imports are of lower class compared to airplanes that Russia supplies to India (namely, MiG-29 and Su-30MKI of the 4+ generation).

¹ The RD-93 engines used in Chinese fighter planes JF-17 Tander (also known as FC-1) are an export version of RD-33 engines used in Russian MiG-29 aircraft.

² Alongside Pakistan, Russia allowed re-exportation of the RD-93 to Bangladesh, Nigeria, Egypt, Algeria and Saudi Arabia. The latter is unlikely to accept China's offer due to two reasons: as a rich country, it can afford military equipment of much higher level and is used to importing arms from the US.

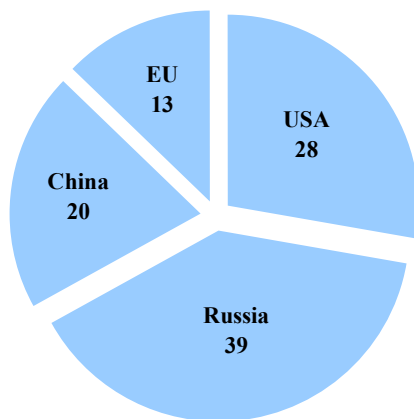
³ In December 1996 Russia and China signed a contract stipulating a Shenyang-based factory to produce 200 Su-27SK airplanes.

⁴ Russian aircraft corporation MiG won a 400 million euro contract for the delivery of 20 fighters for Myanmar's national Air Forces. The MiG-29 was preferred over Chinese J-10 and FC-1 fighters.

All in all, aircraft engines supplies and their re-selling benefits Russia and will not change the balance of powers in the region.

At the same time, China is aspiring to enhance its military exports and could become the third combat aircraft exporter globally between 2010 and 2013.

Largest combat aircraft exporters in 2010-2013, %



Source: ARMS-TASS

China's solid position in the world fighter plane market stems from the price factor. While the MiG-29 costs around 25 million dollars and F-16's price approaches 40 million dollars, JF-17 is sold at just 15 million dollars. For poor developing countries cheapness is more important than technological level, therefore Russia might lose part of the global market. Although currently Russia dominates this market, the situation might change if the EU lifts embargo on arms supplies to China. With European aviation technology, China could make more competitive combat aircraft.