

Defense Ministry Cancels \$1Bln Worth of Arms Contracts

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The Defense Ministry is canceling arms contracts worth \$1 billion with producers who failed to fulfill their obligations, Defense Minister Anatoly Serdyukov said Thursday.

"We are restructuring toward other needs — mainly high-precision arms, aviation and anti-aircraft weapons — because some of the suppliers for certain reasons cannot provide their products," Serdyukov [told](#) Itar-Tass, adding that the cancellations amount to 30 billion rubles.

But he was adamant that the ministry has fulfilled all procurement orders save one with United Shipbuilding Company, thus meeting a deadline set by Prime Minister Vladimir Putin.

"All the agreed components have gone through. The signings happened yesterday and the day before yesterday," Serdyukov said.

Putin demanded during an Aug. 26 meeting with Deputy Prime Minister Igor Sechin that all outstanding defense contracts be met by Aug. 31.

Serdyukov's comments came as Kommersant reported that the Defense Ministry had missed Putin's deadline.

As of Wednesday, key contracts with United Aircraft Company, United Shipbuilding Company and the Moscow Institute of Thermal Technology remained unsigned, the newspaper reported Thursday, quoting unidentified ministry and industry officials.

The ministry has accused the domestic defense industry of providing overpriced and poor-quality arms. The complaints even led President Dmitry Medvedev to publicly urge the ministry to buy more weapons abroad.

Industry officials have countered the criticism by accusing the ministry of mishandling its weapons procurement plan.

Serdyukov spoke Thursday as Medvedev appointed Alexander Sukhorukov as new first deputy defense minister overseeing procurement.

Sukhorukov, who had headed the Federal Arms Procurement Agency, replaces Vladimir Popovkin, who was appointed head of the Federal Space Agency in May.

Analysts say the lack of a successor for Popovkin resulted in delays in signing defense contracts.

The government has set aside more than 1.5 trillion rubles (\$53 billion) for national defense in its 2011 budget.

Chief Military Prosecutor Sergei Fridinsky said this spring that a fifth of state defense spending is stolen every year by corrupt officials, dishonest generals and crooked contractors.

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