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# THE KREMLIN PLAYBOOK

UNDERSTANDING RUSSIAN INFLUENCE  
IN CENTRAL AND EASTERN EUROPE

PROJECT DIRECTORS

HEATHER A. CONLEY

RUSLAN STEFANOV

AUTHORS

HEATHER A. CONLEY

JAMES MINA

RUSLAN STEFANOV

MARTIN VLADIMIROV

A REPORT OF THE  
CSIS EUROPE PROGRAM AND THE CSD ECONOMICS PROGRAM

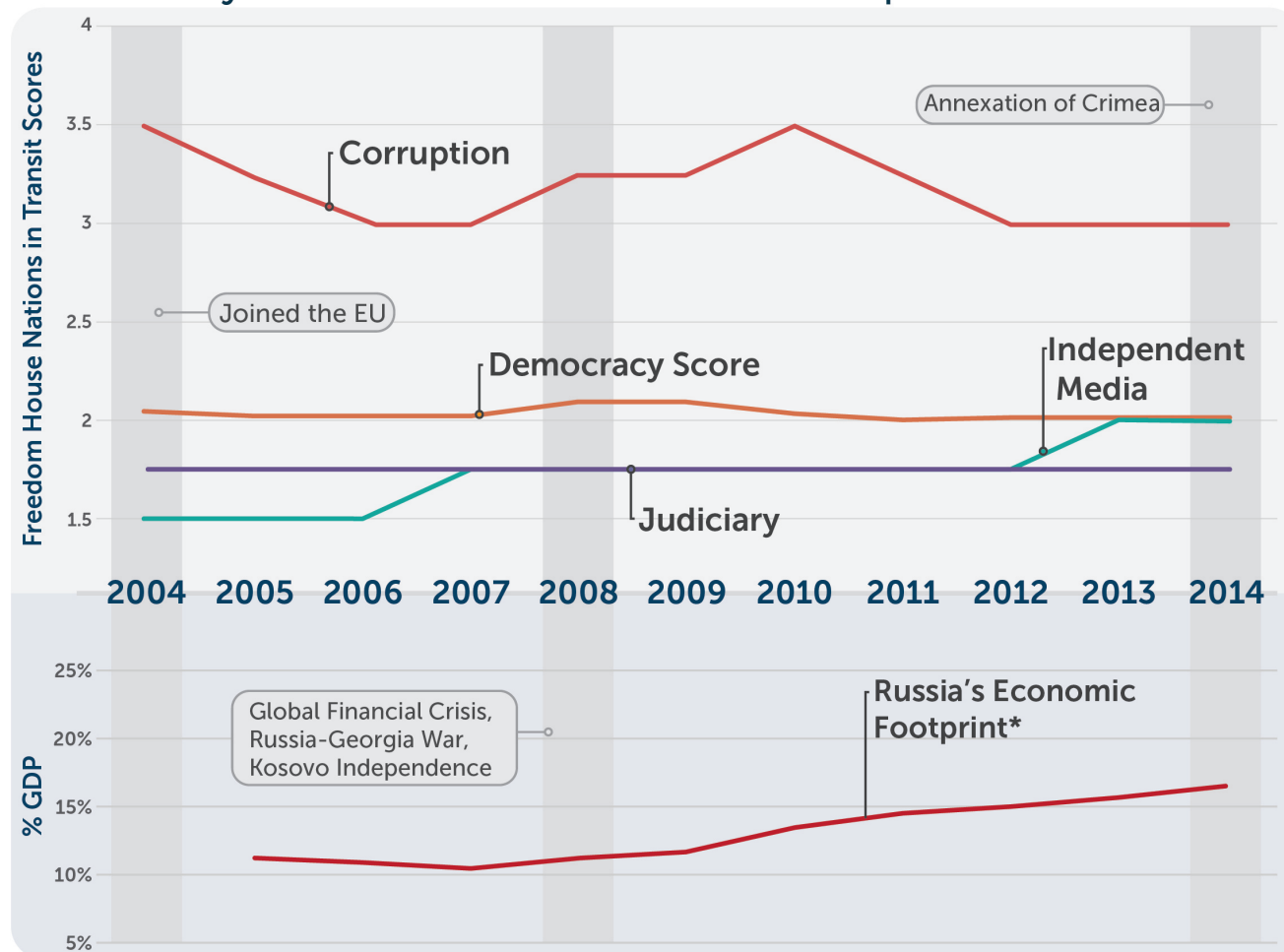
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# LATVIA: HOW TO BREAK THE UNVIRTUOUS CYCLE

Figure A.3. Latvia

## Democracy Scores vs. Russia's Economic Footprint



Source: Freedom House, CSD Calculations

## Economic Data

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
FDI stock from Russia as share of GDP (%)	2.7	2.4	1.6	1.6	2.0	1.9	1.9	2.2	2.4	3.6
Operating Revenue of Russian Controlled Companies as a share of Total Operating Revenue for the Economy (%)	4.9	5.1	4.7	5.0	5.4	5.3	5.5	5.2	5.2	5.6
Oil and Gas imports from Russia as a share of GDP (%)	1.9	1.8	1.9	2.8	2.6	2.7	2.6	2.6	2.5	2.2
Exports to Russia as a share of GDP (%)	2.5	2.6	2.6	2.7	2.4	3.9	4.5	5.1	5.0	4.7
*Russia's Economic Footprint	12.0	11.9	10.8	12.2	12.4	13.8	14.5	15.0	15.1	16.0

Source: CSD Calculations based on data from EUROSTAT, National Central Banks, and Corporate Registers and Databases.

Of the five case countries under consideration, Latvia is the only country that was an integral part of the Soviet Union during the communist era. In 1940, following the Molotov-Ribbentrop Pact with Nazi Germany, an independent Latvia was claimed by and incorporated into the Soviet Union after the conclusion of the Second World War. For more than six decades as a Soviet republic, Latvia was directly integrated into Soviet economic and political structures. Latvia is also the only case country to share a 168-mile<sup>29</sup> border with Russia and is host to one of the largest ethnic Russian communities in the European Union and NATO; nearly 25 percent of all Latvians boast Russian lineage and 37 percent of Latvian citizens are native Russian speakers. Many ethnic Russians in Latvia migrated during the Soviet era, and the community maintains close relations with family members in Russia, with Russia granting visa-free travel. Ethnic Russians in Latvia rely almost exclusively on Russian language media outlets for their news and entertainment, which are increasingly controlled by entities close to the Kremlin, making these populations susceptible to state-directed media campaigns.

Latvia is highly dependent on Russia economically (second only to Bulgaria). Russia's economic footprint in Latvia, over the course of the study period, has expanded from 12 percent in 2005 to 16 percent in 2014 (see Figure A.3). Latvia is 100 percent dependent on Russia for its fossil energy needs. One-half of all existing deposits in Latvian banks come from Russia and other post-Soviet countries. Russia is also Latvia's third-biggest export market. Nearly 11 percent of Latvia's GDP derives from Latvia's transportation sector, which transports goods and resources to and from Russia via its many Baltic ports. This dependency not only provides Russia with a great deal of economic leverage over Latvia but it creates a conducive environment where Latvian businesses, oligarchs, and politicians—and on occasion organized crime networks—establish close yet opaque links to Russian entities. Leaked diplomatic cables state that “many people in Latvia, including key political figures, have very lucrative business relationships with Russia that they fear losing.”<sup>30</sup> Three of Latvia's most prominent businessmen—Aivars Lembergs, the mayor of Ventspils; Andris Skele, the former prime minister; and Ainars Slesers, the former minister for transport and the economy—have been described possessing “complex but often pragmatic and cooperative” relationships with Russia.<sup>31</sup> The 2015 arrest of the CEO of Latvian Railways, Ugis Magonis, in connection with an alleged €500,000 bribe that may have been intended for the Russian railways chief, highlights the potential power and durability of this network.<sup>32</sup>

Local businessmen in Latvia with links to Russia may have used their influence in certain sectors to further Russian interests (for example by portraying the government as unable to perform its

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29. Associated Press, “The Latest: Thousands More Migrants Reach Slovenia,” *Business Insider*, October 20, 2015, <http://www.businessinsider.com/ap-the-latest-thousands-more-migrants-reach-slovenia-2015-10>.

30. “Russia-Georgia Clash Worries Baltic States,” A Selection from the Cache of Diplomatic Dispatches, *New York Times*, August 15, 2010, <http://www.nytimes.com/interactive/2010/11/28/world/20101128-cables-viewer.html#report/nato-08RIGA496>.

31. Agnia Grigas, “Legacies, Coercion, and Soft Power: Russian Influence in the Baltic States,” Chatham House Briefing Paper, August 2012, [https://www.chathamhouse.org/sites/files/chathamhouse/public/Research/Russia%20and%20Eurasia/0812bp\\_grigas.pdf](https://www.chathamhouse.org/sites/files/chathamhouse/public/Research/Russia%20and%20Eurasia/0812bp_grigas.pdf).

32. “Estonian Newspaper: Magonis Was Only a Courier,” Baltic News Network, August 19, 2015, <http://bnn-news.com/estonian-newspaper-magonis-courier-132044>.

functions well, with the solution to all these problems being closer cooperation with Russia in both the political and economic realms). In the energy sector, Juris Savickis, the CEO of Itera Latvija (subsidiary of the Russian Itera)<sup>33</sup> and a former KGB officer, has spoken out against the liberalization of the natural gas market in Latvia in favor of the current arrangement, noting that after the changes Russia would still remain the sole provider albeit at prices 20 to 30 percent higher.<sup>34</sup> Curiously, in 2002 it was reported that President Putin was “considering Juris Savickis . . . for the position of board chairman of the Russian gas monopoly, Gazprom” and that “Savickis and Putin have had a good relationship since the mid-1980s.”<sup>35</sup> Beyond energy, Itera Latvija has financed initiatives in the sports sector, for example by sponsoring a popular hockey team,<sup>36</sup> which could be seen as an attempt by the company to cultivate soft power. Juris Savickis is also the largest shareholder in one of Latvia’s biggest road transportation companies, Nordeka.<sup>37</sup>

It could be easily assumed that the existence of these networks could negatively impact Latvia’s democratic institutions and reduce the transparency and rule-of-law measures that could influence Latvian decisionmaking. Yet Latvian national policy has proved resilient to the potential malign influence of the Russian-linked oligarchic networks. While Russia has succeeded in influencing economic decisions (such as the significant delay of the gas market liberalization reform) in Latvia, the country remains deeply committed to its Euro-Atlantic orientation; has supported the continuation of sanctions against Russia—despite the economic backlash; has been consistent on policies related to NATO and Ukraine; and has encouraged greater NATO force presence in Latvia, in contrast to other Central European peers. How has Latvia withstood the pressures of Russian economic influence, and how can other countries in the post-Soviet space emulate its experience?

There are two possible factors that have contributed to the development of Latvian antibodies to malign Russian influence. First, Latvia has more successfully deepened its nascent democratic institutions and reinforced the rule of law. Unlike other case study countries, Latvia’s democracy scores have improved steadily during the study period, with the most dramatic change in the area of fighting corruption. Latvia’s score declined from a high of 3.5 to 3.0 by 2014 due to the efforts of KNAB—Latvia’s Corruption Prevention and Combating Bureau, an independent investigative entity. Since its 2003 inception, KNAB has brought forward more than 194 cases of high-level corruption for prosecution, levying charges against 492 people, most notably what became known as the 2011 “Oligarch Scandal” that resulted in voters rejecting politicians that were

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33. “Elering Bought Itera Latvija’s 10% Stake,” Baltic Course, September 25, 2015, <http://www.baltic-course.com/eng/energy/?doc=111021>.

34. “Gas Boss: Competition Will Drive Prices Up 30%,” Public Broadcasting of Latvia, August 24, 2015, <http://www.lsm.lv/en/article/economics/economy/gas-boss-competition-will-drive-prices-up-30.a142687/>.

35. “Latvian Gas Company President Might Head Russia’s Gazprom,” Transitions Online: Regional Intelligence, April 17, 2002, <http://www.tol.org/client/article/4171-latvian-gas-company-president-might-head-russias-gazprom.html>.

36. Alla Petrova, “Itera to Continue Sponsorship of Riga ‘Dinamo,’” Baltic Course, December 6, 2010, <http://www.baltic-course.com/eng/energy/?doc=34627>.

37. “On the Results of the Final Takeover Bid of AS ‘Nordeka’ Shares—Announcement of Juris Savickis,” Nasdaq GlobeNewswire, April 14, 2015, <https://globenewswire.com/news-release/2015/04/14/724193/0/en/On-the-results-of-the-final-takeover-bid-of-AS-Nordeka-shares-announcement-of-Juris-Savickis.html>.

allegedly connected to the named oligarchs.<sup>38</sup> In addition to leading criminal investigations, KNAB has also spearheaded efforts to advance legislation that made political party finances more transparent, reduced conflicts of interest, and improved disclosure standards with regard to officials' income and lobbying activities. While corruption remains a challenge in Latvia, KNAB's role, particularly related to grand political corruption associated with the violation of the rules for transparency and accountability, has reduced Latvia's vulnerability to malign Russian influence despite the strong economic links. The reason for the Latvian success is that one of the primary transmission mechanisms for Russian influence is corruption from opaque business transactions that could be used to mold the politicians' decisionmaking. Latvia's relatively strong and independent judiciary has also been critical in ensuring effective prosecution of cases of corruption.

Second, Latvia's population composition, which has been perceived as a natural vulnerability, has in fact played a role in heightening the awareness of the Russian challenge. While Latvia's ethnic Russian community is rather receptive and sympathetic to Russian information, the vast majority of ethnic Latvians maintain a healthy skepticism toward and acute awareness of Russia as they seek to retain their distinct identity and language as well as recall their experience of Soviet occupation, which stands in stark contrast to the Russian narrative of liberation from Nazi Germany. Ethnic Latvians have remained cautious in their dealings with Moscow and are very sensitive to Russia's implementation of its long-standing compatriot policy toward ethnic Russian populations abroad. There are 300,000 "noncitizens" in Latvia who are mainly ethnic Russians (particularly those who immigrated during the Soviet era) and have not been granted Latvian citizenship or the right to vote. Some ethnic Russians see the citizenship process as an effort to reduce their Russian heritage by requiring them to learn the Latvian language.<sup>39</sup> Other ethnic Russians do not want to give up their visa-free travel to Russia. Since Russia's 2014 annexation of Crimea and incursions into Eastern Ukraine, ethnic Latvians have only grown more apprehensive regarding Russia's hybrid warfare tactics and attempts to interfere in the life of ethnic Russian communities in Latvia.

To navigate these more difficult political and institutional waters, Moscow's principal political ally in Latvia is the center-left Harmony party. Founded in 2010 as a center-left coalition comprised of five like-minded parties, Harmony rose to prominence as an advocate and political voice for Latvia's ethnic Russian community and the expansion of their rights. Harmony's support base primarily consists of ethnic Russians and is seen as the "Russian party." While Harmony has tried to recast itself as a social democratic party and minimized pro-Russian rhetoric outlook (experts believe maintaining a moderate platform is part of a Kremlin strategy to ensure that pro-Russian groups are considered legitimate to obtain power),<sup>40</sup> it asserts a pro-Russian foreign policy. For example, party leader Nils Ushakovs, the 38-year-old mayor of Riga, is a vocal opponent of the EU

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38. Corruption Prevention and Combating Bureau, "10 Years of Corruption Prevention and Combating in Latvia," October 18, 2012, [http://www.knab.gov.lv/uploads/eng/knab\\_10\\_gadi\\_eng.pdf](http://www.knab.gov.lv/uploads/eng/knab_10_gadi_eng.pdf).

39. John D. Stoll, Charles Duxbury, and Juris Kaza, "In Latvia, Tensions Mount under Russia's Gaze," *Wall Street Journal*, May 5, 2014, <http://www.wsj.com/articles/SB10001424052702304163604579531713356133936>.

40. Mike Winnerstig, ed., *Tools of Destabilization: Russian Soft Power and Non-military Influence in the Baltic States* (Stockholm: Swedish Defence Research Agency [FOI], 2014), <http://www.foi.se/report?rNo=FOI-R--3990--SE>.

sanctions regime against Russia but has reaffirmed his support for Ukraine's territorial integrity. Harmony has established a partnership with President Putin's ruling United Russia party, and it is believed to have previously received funding from the Kremlin.<sup>41</sup> Some Latvian officials have backed this assertion based on classified evidence estimating that Russia transferred an estimated \$1 million to Harmony in 2005 via "compatriot institutions."<sup>42</sup> Because of its pro-Russian stances, other Latvian centrist parties steer clear of Harmony when formulating governing coalitions, fearing that cooperation would raise questions about Russian influence. In 2014, Harmony emerged from national parliamentary elections as the largest party in the Saeima with 24 seats out of 100, but it was kept out of government by a coalition of centrist and right-wing parties (including the nationalist National Alliance) due to its views on Russia.

While this is a largely positive assessment regarding Latvia's political and economic resilience, it also suggests that there is societal vulnerability regarding Russia's Compatriot Policy. The Kremlin has stated that "Russia will always defend [the interests of Russians and Russian-speakers abroad] using political, diplomatic, and legal means."<sup>43</sup> The crisis in Ukraine was also evidence that the Kremlin has added military means to its list of tactics to resolve the concerns of ethnic Russians abroad, which could be deployed to address questions related to Latvia's ethnic Russian "noncitizens." The Kremlin and Russian-owned media outlets operating in the region have highlighted the challenges faced by ethnic Russians in the Baltics, with a Foreign Ministry official stating in 2014 that "we will not tolerate the creeping offensive against the Russian language that we are seeing in the Baltics."<sup>44</sup> Yet despite the lingering questions about their legal status, ethnic Russians are not subject to overt persecution. As one ethnic Russian remarked when asked about Russia's Compatriot Policy: "Protection from what? Gays and freedom from censorship? All enemies of Baltic Russian speakers are imaginary. Russian national rhetoric uses these images to produce divergence in multiethnic societies."<sup>45</sup>

Many Latvians understandably are concerned that Russia will exploit divisions within their society to create a pretext to discredit and indirectly challenge the government. Could Russia's tactics as it annexed Crimea and its use of "little green men" happen in Latvia? For example, what if Moscow offered Russian passports to "noncitizens" in Latvia with the promise of better pensions if they accept Russian citizenship?<sup>46</sup> Would these actions lead the Latvian government to take action that

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41. Anders Aslund, "Latvia Says No to Populism," Peterson Institute for International Economics, October 4, 2010, <https://piie.com/blogs/realtime-economic-issues-watch/latvia-says-no-populism>

42. Winnerstig, *Tools of Destabilization*.

43. "Transcript: Putin Says Russia Will Protect the Rights of Russians Abroad," *Washington Post*, March 18, 2014, [https://www.washingtonpost.com/world/transcript-putin-says-russia-will-protect-the-rights-of-russians-abroad/2014/03/18/432a1e60-ae99-11e3-a49e-76adc9210f19\\_story.html](https://www.washingtonpost.com/world/transcript-putin-says-russia-will-protect-the-rights-of-russians-abroad/2014/03/18/432a1e60-ae99-11e3-a49e-76adc9210f19_story.html).

44. "Russia Sees Need to Protect Russian Speakers in NATO Baltic States," *Moscow Times*, September 16, 2014, <http://www.themoscowtimes.com/news/article/russia-sees-need-to-protect-russian-speakers-in-nato-baltic-states/507188.html>.

45. Agnia Grigas, "The New Generation of Baltic Russian Speakers," EurActiv, November 28, 2014, <http://www.euractiv.com/section/europe-s-east/opinion/the-new-generation-of-baltic-russian-speakers/>.

46. Stoll, Duxbury, and Kaza, "In Latvia, Tensions Mount under Russia's Gaze."

negatively impacts its ethnic Russian community, which would give the Kremlin the pretext that these populations must be protected from persecution by the Latvian state? The likelihood of such a conflict remains low at present, but the political momentum that this concern generates could manipulate the political environment and mobilize the electorate, providing the Kremlin with a unique lever with which it can pressure Latvian officials.