



Statement before the
Senate Judiciary
Subcommittee on Crime and Terrorism

***“The Modus Operandi and Toolbox of Russia
and Other Autocracies for Undermining
Democracies Throughout the World”***

A Testimony by:

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Mr. Chairman, Ranking Member, and members of the Subcommittee, thank you for this opportunity to testify today on a subject of great importance: our ability to understand how Russia's strategy of influence works in our democracies and to develop an effective strategy for its defeat. I would like to commend the members of this subcommittee for their bipartisan leadership and dedication to this issue. It is essential that we not only recognize the wide range of instruments Russia uses to exert influence and coercion on democratic countries (particularly in Europe as the continent faces crucial elections this year – one of which is taking place today in the Netherlands) but that we educate our citizens to recognize and defeat this influence. This is why the British and German governments have recently warned their citizens to be alert to Russian influence tactics that will impact their democracies. The British government has recently created the position of a Subversion Tsar to combat Russian influence operations.

As described in Russia's doctrine of New Generation Warfare, Russia's primary goal of strategic influence is not one of using brute force but of "break[ing] the internal coherence of the enemy system." Russian influence works through varying economic and political channels and adapts to specific national situations, including biased news outlets, intelligence networks, Russian-financed non-governmental organizations, business linkages and friendly politicians. But while each of these tactical elements must be understood in their own right, we must not lose sight of their cumulative effect and overarching strategic objective: the weakening of U.S. global leadership and its dominance of the international system, the weakening and ultimate collapse of NATO and the EU, and finally the breakdown of the internal coherence, credibility, and moral authority of Western democracies. Once European cohesion and coherence breaks down and, with it, U.S. leadership, a "post-Western world" will be achieved and a new international security architecture can be negotiated.

However, it is important to underscore that Russia does not engineer the entire framework in which it conducts its strategy; rather, it takes advantage of pre-existing institutional, political, and governance weaknesses and exploits them, typically through manipulation and corruption. Indeed, consecutive crises in Europe have laid bare existing deficiencies in its institutional structures and societies that the Kremlin has identified.

Over the past two years, CSIS, in partnership with the Bulgarian think-tank the Center for the Study of Democracy, studied how Russian economic influence impacted five European countries from 2004 to 2014 when four of these countries joined NATO and the EU, by examining changes to their institutions, civil society, governance, and trans-Atlantic policy orientation. This study focused on five Central and Eastern European countries (Bulgaria, Latvia, Hungary, Slovakia, and Serbia), culminating in the publication of a report, the Kremlin Playbook, outlining such influence and impact. I ask that a copy of the report be submitted for the record (<https://www.csis.org/analysis/kremlin-playbook>).

We describe Russian tactics as an “unvirtuous cycle” of influence which takes hold and spreads in democratic societies through two main channels: political and economic influence. The former concentrates on political and cultural aspects that allow Russia to insert itself into the domestic sphere: early positioning and partnerships with anti-European, fringe parties that may go on to win elections, with influential individuals (possibly businessmen turned politicians, or aspiring autocrats), or with NGOs that help spread “Russian culture” and values. The Kremlin also relies on ethnic Russians, the Orthodox Church and “information war” tactics that lead to disinformation campaigns through state-owned media such as Sputnik and Russia Today (RT), as well as local media purchased by Kremlin-affiliated oligarchs. By funding and supporting such organizations and parties, Russia champions certain values and ideas, and fosters networks of patronage that it can call on at an opportune time – elections, for example.

The other channel, Russian economic influence, uses the Kremlin’s network of businessmen, former intelligence officers and local oligarchs to manipulate and dominate strategic sectors of a country’s economy (principally energy, financial and media sectors). To achieve this, Russia can rely on foreign direct investment (FDI), local power brokers with whom it establishes business relations, and Soviet-era financial networks. A potent example of sectorial dominance is the oil and gas sector: Central and Eastern European countries reliant on Russia for 75 percent of their gas import needs are estimated to overpay 10 to 30 percent more for their imports than Western European countries. This in turn provides additional graft to deepen a country’s energy dependency on Russia and make it vulnerable to political manipulation. An example of how the economic and political influence can work together can be seen in an example in Bulgaria where a member of parliament holds significant business interests which span several economic sectors, including a major media group which was built and sustained with loans from the now-defunct Bulgarian Corporate Commercial Bank, a financial entity partly owned by Russia’s VTB Capital.¹ This parliamentarian has advocated for pro-Russian policies from his parliament seat such as the now-defunct South Stream pipeline, for which the Bulgarian companies selected to work on the line allegedly had ties to Peevski², thereby expanding Russia’s network of patronage and grip on Bulgaria’s energy sector. In 2013, the Bulgarian government nominated the parliamentarian to head Bulgarian’s national security agency. The unvirtuous circle was completed.

Both the political and the economic influence channels rely on corruption as the principal conduit for Russian influence. As the Bulgarian example suggests, there is a corrosive comingling of public and private interests through which the power to award and reward (money, power, resources) ensures the continuation of this unvirtuous cycle: contact with or funding of a domestic

¹ Elizabeth Konstantinova, “Bulgaria to Boost Capital at Ailing Corporate Commercial Bank,” *Bloomberg*, June 22, 2014, <http://www.bloomberg.com/news/articles/2014-06-22/bulgaria-to-boost-capital-at-ailing-corporate-commercial-bank>.

² Jim Yardley and Jo Becker, “How Putin Forged a Pipeline Deal That Derailed,” *New York Times* December 30, 2014, <http://www.nytimes.com/2014/12/31/world/europe/how-putin-forged-a-pipeline-deal-that-derailed-.html?r=1>.

element by the Kremlin establishes loyalty and possibly culpability, thereby tying said element's interests with the Kremlin's. Culpability and the prospect of further enrichment act as incentives to continue working with Russian 'influencers', as well as to bring new actors within the cycle. Some of these actors sometimes take on a bigger role, be it in the political sphere by entering government (as in the Bulgarian case), or in the economic sphere by taking control of important companies and sectors of the economy, at which point the Kremlin has direct access to high-level power brokers whom can help acquire more influence (by drawing from state resources) or further destabilize domestic institutional structures.

What has allowed Russia's strategy to be successful is Western susceptibility to and at times complicity with Russian exploitation. Two recent European examples stand out. First, in 2014, the Hungarian government awarded Rosatom (Russia's state-owned nuclear operator) a sole-source contract worth about €10 billion for two new nuclear reactors at the Paks facility – a contract awarded without any tender and the tender documents have been deemed classified, possibly breaching EU competition rules. In November 2016, the European Commission disregarded public procurement infringement claims on the basis that the contract could only reasonably be given to one company given technical and safety requirements. After months of assessment, the European Commission recently determined that Hungary had made enough commitments – such as selling a third of the generated energy on an open exchange – to satisfy EU rules, and could thus go ahead with the reactors.³ Both decisions inadvertently serve Russian interests by clearing the legal ground for its increased economic presence. The second example concerns the European Commission's recent and unexplained decision not to publish its annual Anti-Corruption Report in 2016 or this year. The Commission originally published the report to take stock of the nature and scope of corruption among member states, calling it "a useful background for wider debate" but nonetheless questioned the format's utility.⁴

The total *effect* of this cycle is state capture, i.e. influence over critical state institutions and the economy, as well as the protection of Russian interests at varying levels of power. The *goal* is to use these local affiliates to influence and direct decision-making and policies, leading to the enrichment of the inner circle and the slow deterioration of liberal democratic institutions through malign influence. This cycle of influence thus allows Russia to utilize the system from within, for example by taking advantage of lax ownership disclosure requirements, a weakened independent press and judiciary, the lack of transparency into party financing and NGO registration, or the spread of false or misleading news. What perhaps surprised us most about our findings was that the unvirtuous circle was in some way connected to the Kremlin's inner circle which is opaquely connected to intermediaries which opaquely interface with local affiliates.

³ European Commission, "State Aid: Commission clears investment in construction of Paks II nuclear power plant in Hungary," press release, March 6, 2017, http://europa.eu/rapid/press-release_IP-17-464_en.htm.

⁴ Alex Johnson, "Commission quietly shelves anti-corruption commitments while 100,000s protest corruption in Romania," *Transparency International EU*, February 2, 2017, <http://transparency.eu/ac-report-shelved/>.

How do we defeat this strategy of influence? Although we can describe Russian tactics, at the end of the day, the first line of defense is strengthened Western democratic institutions and societies. First, we must transparently track and trace illicit Russian-lined financial flows. We recommend the Treasury Department's Financial Crimes Enforcement Network (FinCEN) establish a specific, high-level task force solely focused on tracing and prosecuting illicit Russian-linked financial flows if and when they interact with the U.S. financial system. Second, U.S. assistance (through State Department and USAID programs) to Central and Eastern Europe, as well as the Western Balkans, must return to this region following a prolonged absence and be refocused to better combat Russian influence and prioritize strengthened governance. Stronger governance and anti-corruption practices, an independent judiciary, and an independent media are our first line of protection against Russian malign influence. Finally, it is absolutely essential that we implement these programs in collaboration with our European and EU partners who are on the front lines. We must engage with the EU specifically on greater anticorruption and rule-of-law efforts. Better European oversight of its own institutions is equally essential. We must prioritize enhanced financial intelligence cooperation and law enforcement efforts.

There must be greater urgency placed on combatting Russian influence as this influence is being deployed more boldly and recklessly to greater affect. In April 2016, the Netherlands held a referendum in which Dutch voters rejected a trade agreement between the European Union and Ukraine. Prior to the referendum, so-called 'Ukrainian voices' groups which campaigned against the referendum were in fact Russian and some were from breakaway regions of Ukraine.⁵ False stories of Ukrainian soldiers crucifying a Russian-speaking boy were circulated widely in the media. The Dutch government was slow to recognize the importance of this referendum and there was little questioning of the public campaign surrounding the referendum. Low voter turnout combined with an intense effort to discredit Ukraine and the agreement demonstrated that little effort was required for this symbolic victory. Perhaps the most audacious act occurred on October 16, 2016, when an alleged coup was barely thwarted in Montenegro that would have prevented the election – on the day of the election – of a pro-NATO government and possibly assassinated Prime Minister Djukanovic. The plot was orchestrated by Serbian nationals with alleged ties to Russian secret services.⁶ This is why there should be no hesitation or delay for the Senate to ratify an amended NATO treaty to welcome Montenegro membership into NATO. Perceptions of American hesitation are being effectively used as part of a malign influence campaign. The stakes are becoming incredibly high.

I therefore urge the subcommittee to develop specific legislation, in cooperation with other appropriate committees, to build up our defenses against Russian malign political and economic influence by strengthening financial transparency requirements and beneficial ownership as well

⁵ Andrew Higgins, "Fake News, Fake Ukrainians: How a Group of Russians Tilted a Dutch Vote", *New York Times*, February 16, 2017, <https://www.nytimes.com/2017/02/16/world/europe/russia-ukraine-fake-news-dutch-vote.html>.

⁶ Damir Marusic, "Did Moscow Botch a Coup in Montenegro?", *The American Interest*, October 30, 2016, <http://www.the-american-interest.com/2016/10/30/did-moscow-botch-a-coup-in-montenegro/>.

as enhancing transparency requirements of entities which receive Russian financing. This must be a major joint line of effort for the U.S. and European Union. Ironically, the legal attaches in U.S. embassies overseas have perhaps a more important role to play today in defending the United States than do our defense attaches. Our national security, and the security of America's most important allies, rests on our ability to resist Russia's strategy of influence. Thus far, we have unfortunately failed.