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**HOW RUSSIA ACHIEVES ITS POLITICAL AND  
ECONOMIC GOALS IN CENTRAL AND EASTERN EUROPE:  
THEORY AND PRACTICE**

**Filip Scherf (né Tucek)**

**Note on the text**

The paper is an inter-mediary output of an ongoing long-term research project. Rather than being a final, fully-developed research paper, the text aims at highlighting key areas for current and future research.

## INTRODUCTION

Russia's goals in the region of Central and Eastern Europe (CEE; here and thereafter defined as the Czech Republic, Hungary, Poland, and Slovakia) fall into two categories.

The first category are immediate, measurable and highly practical goals. These focus primarily on topical economic and political developments. The second type are long-term goals, a creation of friendly governments and societies in the region.

Russia deploys a variety of interacting tools to achieve the respective goals.

First, Russia has cultivated a network of friendly politicians and businessmen. The cultivation is conducted by Russian government officials, by representatives of the Russian state enterprises and, to some extent, by Russian influence agents affiliated with non-governmental organizations (NGOs).

Second, Russia has built a network of affiliated businesses in the critical sectors, primarily in the energy sector, but also in other strategically important and economically attractive segments of the CEE countries. This network consists of Russian firms' acknowledged daughter companies or subsidiaries, but more often of firms linked informally through personal and/or economic ties.

Third, the Russian intelligence services have run operations in the CEE not only to collect information on economic and political developments, but also operations to influence decisions in both politics and business. The operations leverage ideological affinities, economic interests, and personal links.

Finally, the Russia-sponsored network of media has supplied the public with the Russian narrative of major international events, as well as of domestic developments in the CEE

countries. As such, the media helps drive political and popular support behind views that serve Russian interests.

The combined deployment of these interconnected tools is demonstrated at the example of the regional energy sector.

All four CEE countries largely depend on Russia's supplies of commodities (oil, gas) and technology (nuclear power plants). Through and in addition to the supplies, Russia has developed and leveraged a complex network of seemingly local subsidiaries, who in reality are controlled by Russian individuals and firms. Many, though not all, of these subjects have formal or informal links to the Russian state. Using the energy sector to enter the region, the Russian-controlled subjects often engage in economic and influence activities (i.e. lobbying, PR) far beyond the energy sector. As a result, Russia's influence, with various strength, reaches to most levels of the political, economic, and social life.

## CEE ENERGY MARKETS OPEN THE DOOR TO RUSSIAN INFLUENCE

Russia has worked with and within the regional energy sector, as well as the respective national energy sectors, to develop a wide influence network. Given the high regional dependence on the Russian commodities and energy-related technology, Russia has benefited from the “open door” into the regional energy sector.

But Russia’s presence in the CEE energy sector has been a tool, rather than an end in itself. The supply of commodities and building of nuclear power plants (NPPs) is but one part of the more complex reality.

Russian individuals and companies have invested into regional energy giants. Others have bought small, unknown local firms that supply equipment and technology *not only* for energy-related projects.

On the surface, many of the small firms have retained a national character – a locally sounding name and local employees. However, the management has been Russian, and so are the incoming investments. Such *de jure* local but *de facto* Russian legal entities can relatively freely operate in the region and on the European Union (EU) market as a whole. For there are few restrictions to commercial exchange and financial transactions between (formally) EU-based firms.

It logically follows that economic and political influence of such Russian entities gradually increases as they integrate within the regional – and the EU – markets. They open new subsidiary firms with activities outside of the energy sector, including consultancies, PR agencies, and construction firms.

With greater outreach comes greater influence through formal and informal networks, spanning from politics to the media to the economy. And the farther the original energy-related Russian business expands, the harder it is to trace the Russian footprint to its root. It is precisely these

grey areas that are most conducive to the growth of the Russian economic and political influence in the CEE and beyond.

## **GIVEN THE ENERGY DEPENDENCE, CEE COUNTRIES CAN HARDLY BID RUSSIA FAREWELL**

The post-2014 efforts have done little to undo the regional energy dependence on Russia that had been increasing for decades.

### **Oil Markets in the CEE**

All the CEE countries are largely dependent on oil imports from Russia, primarily through Druzhba pipeline with total capacity of 1 million barrels per day (bbl/d), Russia's biggest oil pipeline in both length and volume. Oil represents around one quarter of total energy consumption in Poland and Hungary, and one fifth in Slovakia and the Czech Republic.<sup>1</sup>

While Slovakia and Poland are almost 100% dependent on the Russian oil,<sup>2</sup> the Czech Republic has a somewhat more diversified supply, with 23% of imported oil coming from the Caspian reserves in Azerbaijan and Kazakhstan through the IKL Pipeline, running from the German town of Vohburg, where the IKL is linked to the Trans-Alpine pipeline with crude oil from Italian Trieste.<sup>3</sup>

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<sup>1</sup> "EU Energy in Figures," *The European Commission, Directorate-General for Energy*, 25 September 2018 <https://publications.europa.eu/en/publication-detail/-/publication/99fc30eb-c06d-11e8-9893-01aa75ed71a1/language-en/format-PDF/source-77059768>, accessed April 2019.

<sup>2</sup> "Country Analysis: Poland," *U.S. Energy Information Administration*, November 2016, <https://www.eia.gov/beta/international/analysis.php?iso=POL>, accessed April 2019

<sup>3</sup> "IEA Statistics - Slovakia," *International Energy Agency*, 10 April 2019, <https://www.iea.org/statistics/?country=SLOVAKIA&year=2016&category=Natural%20gas&indicator=NatGasImports&mode=chart&dataTable=GAS>, accessed April 2019

<sup>3</sup> "Energy Security of the Czech Republic," *Center for Social and Economic Studies* (Prague: Charles University, 2011), <http://ceses.cuni.cz/CESES-70-version1-Energetika.pdf>, accessed April 2019

The key oil companies in the CEE countries are to a large extent independent in terms of their ownership structure. However, they fully rely on a steady supply of foreign crude oil (primarily from Russia).

The regional champion is Hungarian MOL Group which has considerably expanded and maintains extraordinary interest in route diversification and in building better energy security in Europe. MOL owns 98,4% of the largest Slovakian oil company, Slovnaft.<sup>4</sup>

In the recent years, MOL has found itself at the center of a political turmoil. In 2006, MOL became 100% privately owned when the government in Budapest had given up its last shares.<sup>5</sup> Shortly after, Russia's Surgutneftegas agreed to buy a 21,2% stake in the company from Austrian OMV Group for \$1,9 billion.<sup>6</sup> Becoming a key share-holder, Surgutneftegas had argued that the "acquisition of MOL shares will establish a firm foothold to start long-term beneficial cooperation and will promote energy security in Europe."<sup>7</sup> However, when Viktor Orban became Prime Minister in May 2010, his government started a series of direct negotiations with representatives of Surgutneftegas to repurchase the shares in order to "restore or strengthen the role of the State as an owner in the companies of the various sectors of strategic importance in the national economy."<sup>8</sup>

In May 2011, Hungary thus bought back the 21,2% share package for about \$2,5 billion (financed from the IMF Loan), in what Prime Minister Orban described as a strategic step to

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<sup>4</sup> „Ownership Structure,” *Slovnaft*, <https://slovnaft.sk/sk/o-nas/pre-investorov/vlastnicka-struktura/>, accessed April 2019

<sup>5</sup> „Mol Group,” *MOL Official Website*, <https://molgroup.info/en/about-mol-group/our-history>, accessed April 2019

<sup>6</sup> Polya Lesova. „Russia's Surgutneftegas buys 21.2% stake in MOL,” *The Wall Street Journal Market Watch*, 30 March 2009, <http://www.marketwatch.com/story/russias-surgutneftegas-buys-212-stake-hungarys>, accessed April 2019

<sup>7</sup> „Surgutneftegas acquired 21.2% of Mol shares,” *Surgutneftegas Press Centre*, 30 March 2009, <http://www.surgutneftegas.ru/en/press/news/item/266/>, accessed April 2019

<sup>8</sup> „Hungarian State to repurchase MOL shares,” *Hungarian Ministry of National Development*, 25 May 2011, <http://www.kormany.hu/en/ministry-of-national-development/news/hungarian-state-to-repurchase-mol-shares>, accessed April 2019

have one of the most important national corporations in safe hands.<sup>9</sup> Such an open opposition to Russian ownership of a key national company is very indicative of the embedded suspicion towards Russian capital among many CEE politicians. Interestingly, MOL itself has been conducting significant exploration and production activities in the Russian regions of Western-Siberia and Volga-Ural.<sup>10</sup>

As regards other important regional oil companies, the Polish behemoth PK Orlen, one of Central Europe's largest refiners of crude oil,<sup>11</sup> is owned by the state from 27% (ING holding has other 9,5% and the rest is divided among smaller investors).<sup>12</sup> Despite the relatively secure ownership structure, PK Orlen needs continuous supplies of Russian oil in order to keep the price of its shares high. Finally, the largest operator on the Czech oil market is Ceska Rafinerska, jointly owned by the Italian ENI and Unipetrol, a company owned by PK Orlen from 62,99%.<sup>13</sup>

Clearly, oil companies in the CEE region are largely dependent on the Russian commodity supplies, deeply intertwined between themselves and with a strong Russian presence throughout the value chain.

## **Gas Markets in the CEE**

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<sup>9</sup> Chris Bryant and Catherine Belton. "Mol buy-back to cost €1.9bn," *The Financial Times*, 25 May 2011, <http://www.ft.com/cms/s/0/b22c1c9c-8619-11e0-be9b-00144feabdc0.html#axzz2zLMGzE1w>, accessed April 2019

For information on present MOL Group ownership structure, see: „Ownership structure,” *Mol Group Official Website*, <http://ir.mol.hu/en/corporate-governance/ownership-structure/>, accessed April 2019

<sup>10</sup> „The CIS Region,” *Mol Group Official Web Site*, <https://molgroup.info/en/our-business/exploration-and-production/operations/cis>, accessed April 2019

<sup>11</sup> The firm has seven refineries, including in other CEE countries; three are located in Plock, Trzebinia and Jedlicze (Poland), another three in Litvinov, Kralupy and Pardubice (the Czech Republic) and one in Mazeikiu (Lithuania).

<sup>12</sup> “Shareholders Structure,” *PK Orlen Official Web Site*, [www.orklen.pl/EN/Company/ShareHoldersStructures/Pages/default.aspx](http://www.orklen.pl/EN/Company/ShareHoldersStructures/Pages/default.aspx), accessed April 2019

<sup>13</sup> “Group Structure,” *Unipetrol Official Web Site*, <http://www.unipetrol.cz/cs/ONas/Stranky/Struktura-skupiny.aspx>, accessed April 2019

The CEE Countries are characteristic by a relatively high reliance on natural gas imports from Russia. The supplies often come via a single route and with very limited options of switching to alternative sources in case of a supply disruption. However, the newly installed regional interconnectors, reverse-flow capabilities, and storage expansion have somewhat increased flexibility and resilience to supply disruptions.

Slovakia imports as much as 95% of its gas consumption,<sup>14</sup> followed by the Czech Republic with 90% of its gas flowing from abroad; Russia delivers almost 100% and 64% of these imports respectively.<sup>15</sup> Moreover, natural gas is currently the most significant energy source for Slovakia, accounting for about 30% of the country's primary energy supply. The European Commission has repeatedly warned that the "dependence on a single supplier makes the Slovak Republic vulnerable to supply disruptions."<sup>16</sup>

In contrast to Slovakia, Poland covers much as 30% of the total demand by domestic production (primarily shale gas).<sup>17</sup> However, 90% of the imported gas still comes from Russia under a long-term agreement with Gazprom, the remaining 10% flows from Germany and Norway.<sup>18</sup>

Hungary imports about 78% of its gas consumption,<sup>19</sup> 70% of which comes from Russia.<sup>20</sup> However, the share of the Russian gas purchased by Budapest has been steadily decreasing

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<sup>14</sup> "Share of Russia in national extra-EU imports of each Member State, first semester 2018," *Eurostat*, [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Share\\_of\\_Russia\\_in\\_national\\_extra-EU\\_imports\\_of\\_each\\_Member\\_State,\\_first\\_semester\\_2018\\_\(share\\_\(%25\)\\_of\\_trade\\_in\\_value\).png](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Share_of_Russia_in_national_extra-EU_imports_of_each_Member_State,_first_semester_2018_(share_(%25)_of_trade_in_value).png), Accessed April 2019

<sup>15</sup> *Ibid.*

"Quarterly Report on European Gas Market," *The European Commission Directorate-General for Energy*, [https://ec.europa.eu/energy/sites/ener/files/documents/quarterly\\_report\\_on\\_european\\_gas\\_markets\\_q3\\_2018.pdf](https://ec.europa.eu/energy/sites/ener/files/documents/quarterly_report_on_european_gas_markets_q3_2018.pdf), 2019, Accessed April 2019

<sup>16</sup> *Ibid.*

<sup>17</sup> *Ibid.*

<sup>18</sup> Russia transports its natural gas to Poland through the Yamal pipeline, with a capacity of 974 billion cubic feet; Yamal has the second largest volume of Russia's gas pipelines after Nord Stream.

<sup>19</sup> "Energy Policies of IEA Countries: Hungary, 2017 Review," *International Energy Agency*, (Paris, 2018), <https://www.iea.org/publications/freepublications/publication/EnergyPoliciesofIEACountriesHungary2017Review.pdf>, Accessed April 2019

<sup>20</sup> *Ibid.*

(largely thanks to new interconnectors, mostly to the Balkans),<sup>21</sup> leading the International Energy Agency “to applaud Hungary’s general approach to gas security.”<sup>22</sup>

Finally, while Poland and the Czech Republic rely on gas only from 12% and 18% of their total energy consumption respectively.<sup>23</sup> Slovakia (28%) and Hungary (38%) remain more dependent on this commodity.<sup>24</sup> The low usage of gas for generating electricity in the Czech Republic (3,5%) contrasts with Hungary’s high gas-fired electricity capacity (31%).<sup>25</sup> Interestingly, Hungary’s share is higher even than that of Russia itself, where 25% of electricity is generated from gas.<sup>26</sup> In Slovakia, gas serves primarily for heating,<sup>27</sup> making potential disruptions politically sensitive as the effects are felt directly by households-voters.

The network of companies operating on the gas market in the CEE countries is very complex, with many subsidiaries and holdings. The non-transparent environment serves Russian interests.

In Poland, based on an 1993 Intergovernmental Agreement between PGNiG and EuRoPol GAZ, PGNiG provides 98% of Poland's 14 bcm/year of gas supply. Two thirds of this volume purchased from Russia.<sup>28</sup> PGNiG has a long-term supply contract with Russia’s gas monopoly, Gazprom, until 2022. Like most of Gazprom’s contracts with European customers, it is a take-or-pay contract. The market share of PGNiG was 98% in 2010, easing to 97% in 2011.<sup>29</sup>

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<sup>21</sup> Hungary has successfully launched several interconnectors with the Balkans, however, interconnection with the CEE remains very weak.

<sup>22</sup> “Energy Policies of IEA Countries: Hungary, 2017 Review”

<sup>23</sup> “Share of Russia in national extra-EU imports of each Member State, first semester 2018,”

<sup>24</sup> “Energy Policies of IEA Countries: Hungary, 2017 Review”

<sup>25</sup> The vulnerability is decreased by the fact that to a large extent the generators can be switched to use oil.

“Energy Policies of IEA Countries: Hungary, 2017 Review”

<sup>26</sup> “Country Report: Russia,” *U.S Energy Information Administration*, 31 October 2017,

<https://www.eia.gov/beta/international/analysis.php?iso=RUS>, accessed April 2019

<sup>27</sup> “Share of Russia in national extra-EU imports of each Member State, first semester 2018,”

<sup>28</sup> “Partners: Poland,” *Gazprom Export*, 2014, <http://www.gazpromexport.ru/en/partners/poland/>, accessed April 2019

<sup>29</sup> „New Players on the Central European Gas Market,” *Natural Gas Europe*, 15 April 2013,

<http://www.naturalgaseurope.com/russia-and-poland-agrees-on-gas-price-reduction>, accessed April 2019

Recently, the PGNiG had been replacing a part of the Russian pipeline-supplied gas by LNG imports from Qatar, Norway and the USA to the Świnoujście terminal, while preparing to transport non-Russian gas from the Norwegian Continental Shelf.<sup>30</sup> The Polish pipeline network is administered by EuRoPol GAZ; Gazprom and Poland's PGNiG both hold 48% stakes in EuRoPol GAZ, with Gas-Trading holding the remaining 4% stake in the company.<sup>31</sup>

Slovakia also relies on a long-term agreement with Gazprom Export from 2008 to guarantee a steady inflow of gas at least until 2018. Slovakia compensates for the high dependency on Russia by efforts to keep Russian firms out of the key gas companies on the Slovak market. Moreover, the transmission operator SEPS is 100% state-owned.

In Hungary, the gas transport network is operated by Földgázszállító Zrt, fully owned by MOL Group.<sup>32</sup> The leading natural gas provider in Hungary is Panrusgaz, providing 65% of the deliveries. In line with the well-known model, a long-term contract for the period between 1996 and 2015 was signed with Gazprom, a key shareholder in Panrusgaz next to German EON Ruhrgas International GmbH.<sup>33</sup> Interestingly, to ensure a better position for negotiating a new, post-2015 supply deal with Russia, MVM Hungarian Electricity Private Limited Company purchased 100% shares of EON Földgáz Trade Zrt and EON. Földgáz Storage Zrt, entitling MVM to buy also EON Ruhrgas International GmbH's stake in Panrusgáz.<sup>34</sup> "This transaction proves that MVM is becoming the main player who will set the trends in Hungary's gas policy,"

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<sup>30</sup> "Gas consumption in Poland is on the rise. Share of gas purchased from Russia is in decline, while imports of LNG have grown," *PGNiG Official Website*, 8 August 2019, <http://en.pgnig.pl/news/-/news-list/id/gas-consumption-in-poland-is-on-the-rise-share-of-gas-purchased-from-russia-is-in-decline-while-imports-of-lng-have-grown/newsGroupId/1910852>, Accessed April 2019

<sup>31</sup> Olga Razumovskaya. "Gazprom, EuRoPol GAZ Sign Memorandum On Yamal-Europe-2 Pipeline," *The Wall Street Journal*, 5 April 2013, <http://www.mvm.hu/en/news/SitePages/newsDetails.aspx?NewsID=227>, accessed April 2019

<sup>32</sup> "Energy Policies of IEA Countries: Hungary, 2017 Review"

<sup>33</sup> "Panrusgaz: About Us," *Panrusgaz*, <http://www.panrusgaz.hu/en/ceginf.htm>, accessed April 2019

<sup>34</sup> "MVM Signs the Contract for the Acquisition of E.ON's Hungarian Natural Gas Holdings," *MVM Official Web Site*, 28 March 2013, <http://www.mvm.hu/en/news/SitePages/newsDetails.aspx?NewsID=227>, accessed April 2019

reflecting Viktor Orbán's desire to decrease Hungarian dependence on gas from Russia.<sup>35</sup> Despite the relatively strengthened position, Hungary remains bound by renewed long-term agreements with Gazprom.<sup>36</sup>

The key transmission operator in the Czech Republic is Net4Gas owned by a consortium of Germany's Allianz and Canada's Borealis Infrastructure. Gas distribution is divided between six major providers (RWE Group holding owns four of them) and other seventy-one local companies.<sup>37</sup>

### **Nuclear Markets in the CEE**

Nuclear energy plays a key role in the energy mix of all CEE countries but Poland. Hungary has four nuclear reactors generating more than one-third of its electricity.<sup>38</sup> Slovakia's four reactors cover a half of the country's electricity demand.<sup>39</sup> The Czech Republic has six nuclear reactors generating about one-third of its electricity.<sup>40</sup> All the CEE countries plan to considerably expand their nuclear base and they all have to juggle the ambiguous question of Russia's involvement in the process.

Poland plans to catch up and build first nuclear power plants in the near future to further increase its energy dependence on Russia.<sup>41</sup> In 2009, the Government in Warsaw presented a five-stage plan to build three nuclear plants.<sup>42</sup> The plan aims to have first two plants operational in 2035

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<sup>35</sup> New Players on the Central European Gas Market

<sup>36</sup> "Government concludes agreement with Gazprom on 2019 Russian gas shipments," *The Hungarian Ministry of Foreign Affairs and Trade*, <http://www.kormany.hu/en/ministry-of-foreign-affairs-and-trade/news/government-concludes-agreement-with-gazprom-on-2019-russian-gas-shipments>, May 26, 2018, accessed April 2019

<sup>37</sup> "Energy Policies of IEA Countries: Hungary, 2017 Review"

<sup>38</sup> "Nuclear Power in Hungary," *World Nuclear Association*, May 2019, <http://www.world-nuclear.org/information-library/country-profiles/countries-g-n/hungary.aspx> accessed April 2019

<sup>39</sup> "Nuclear Power in Slovakia," *World Nuclear Association*, August 2019, <http://www.world-nuclear.org/info/Country-Profiles/Countries-O-S/Slovakia/>, accessed April 2019

<sup>40</sup> "Nuclear Power in the Czech Republic," *World Nuclear Association*, November 2019, <http://www.world-nuclear.org/info/Country-Profiles/Countries-A-F/Czech-Republic/>, accessed April 2019

<sup>41</sup> Energy security of Visegrad region: 2

<sup>42</sup> Energy security of Visegrad region

with a capacity of 3,000 MWe. Polska Grupa Energetyczna (PGE), Poland's largest power group by generating capacity, is owned from 58% by the State Treasury.<sup>43</sup> PGE will retain a 70% stake in the holding with Tauron Polska Energia and Enea.<sup>44</sup> However, a foreign input will also be needed and the Polish side has already been cooperating on various levels with numerous business entities; ostensibly, none of them from Russia.

The construction plan for a future Polish NPP was warmly welcomed by American company Westinghouse.<sup>45</sup> The French companies have already signed memoranda of understanding with numerous Polish construction firms,<sup>46</sup> an agreement regarding ABWR<sup>47</sup> and ESBWR<sup>48</sup> technology was signed with the U.S.-Japanese consortium GE Hitachi. Despite considerable foreign involvement, “Russian technology does not appear to be under consideration.”<sup>49</sup> Poland’s first nuclear power plant is expected to start operating in 2033; it will still provide less than 10% of Poland’s total electricity consumption. Hence the importance of Russian energy supplies for Poland will remain considerable in the foreseeable future.

Public tender process for contractors to build the two new reactors at Dukovany and Temelin NPPs in the Czech Republic commenced in August 2009. The Czech government, lacking a domestic firm capable of carrying the project out, received three bids: from the French Areva; the U.S. Westinghouse; and a consortium between Škoda JS, AtomStroyExport and OKB

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<sup>43</sup> “PGE Shareholders,” *Polska Grupa Energetyczna S.A.*, 2012, <https://www.gkpge.pl/Investor-Relations/Shares/Shareholders>, accessed April 2019

<sup>44</sup> “Poland expects first nuclear power plant to start in 2033,” *Reuters*, 23 November 2018, <https://www.reuters.com/article/us-poland-nuclearpower/poland-expects-first-nuclear-power-plant-to-start-in-2033-idUSKCN1NS1DB>, accessed April 2019

<sup>45</sup> “Westinghouse welcomes Poland’s plan to build first nuclear power plant in 2024,” *Penn Energy*, 5 February 2014, <http://www.pennenergy.com/articles/pennenergy/2014/02/westinghouse-welcomes-poland-s-plan-to-build-first-nuclear-power-plant-in-2024.html>, accessed April 2019

<sup>46</sup> “Going nuclear,” *The Economist*, 31 January 2014, <http://www.economist.com/blogs/easternapproaches/2014/01/polish-energy>, accessed April 2019

<sup>47</sup> *Advanced Boiling Water Reactor*.

<sup>48</sup> *Economic Simplified Boiling Water Reactor*.

<sup>49</sup> “Nuclear Power in Poland,” *World Nuclear Association*, January 2019 <http://www.world-nuclear.org/info/Country-Profiles/Countries-O-S/Poland/>, accessed April 2019

Gidropress.<sup>50</sup> Areva dropped out soon due to its failure to meet formal criteria of the tender and, suddenly, the biggest public tender in the history of the Czech Republic had a geopolitical dimension: a U.S. firm against a Russian-led consortium.<sup>51</sup>

However, in April 2014 – at the height of the Ukrainian crisis – the whole tender was canceled, officially due to doubtful economic feasibility of the project.<sup>52</sup> Nevertheless, the AtomStroyExport-led consortium remains ambitious on the field of the Czech nuclear energy.<sup>53</sup> As of 2019, the Government has refrained from taking a decision on who will build the new blocs of the country's two NPPs. The politicians' unwillingness to take the politically contentious decision puts in doubt the goal to have the new nuclear capacity online by 2035, as articulated in the Czech National Energy Strategy.

In Slovakia, all present nuclear power plants were designed by the Russian Rosatom company Atomenergoproekt. The Russian nuclear know-how thus has a deep tradition in the country. Unsurprisingly, when in 2008 a project to expand the NPP Mochovce began, AtomStroyExport joined Skoda JS, Výskumný Ústav Jadrovej Energetiky, Ensecos, and Inžinierske Stavby Košice to supply the remaining equipment. Preliminary works are also proceeding on the project plans for a new reactor at Bohunice facility, this time Areva and Westinghouse being considered the main possibilities.

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<sup>50</sup> “The Russian-Skoda consortium, or Consortium MIR.1200, in June 2013 established a Czech project company Nuclear Power Alliance a.s. Equity is JSC Atomstroyexport – 51%, ŠKODA JS – 34%, and JSC OKB Hidropress – 15%.

<sup>51</sup> “CEZ cancels Temelin expansion tender,” *World Nuclear News*, 10 April 2014, <http://www.world-nuclear-news.org/NN-CEZ-cancels-Temelin-expansion-tender-1004144.html>, accessed April 2019

<sup>52</sup> “ČEZ dnes rozhodl o zrušení zadávacího řízení na dostavbu JE Temelín” (“CEZ Decided Today to Cancel the Temelin Tender”), 10 April 2014, <http://www.cez.cz/cs/pro-media/tiskove-zpravy/4641.html>, accessed April 2019

<sup>53</sup> “Memorandum of Understanding between JSC «Atomstroyexport», Czech and Slovak companies in the field of construction of NPP,” *Atomstroyexport Press Release*, 19 January 2009, <http://www.atomstroyexport.com/project/eng/33>, accessed April 2019

The Hungarian Parliament has expressed overwhelming support for building two new power reactors. In 2013, the government was considering five foreign PWR<sup>54</sup> reactor types.<sup>55</sup> However, in January 2014 the government signed, without an open public tender, an agreement with Rosatom to build two reactors at Paks. Russia will finance 80% of the project through a \$13,8 billion loan with a maturity of 30 years. The importance of the agreement, symbolizing “long-term Hungarian–Russian friendly cooperation,”<sup>56</sup> is clear from the fact that both Prime Minister Orbán and President Putin met in Russia themselves to sign the document.<sup>57</sup>

It is clear from the analysis of the oil, gas and nuclear markets in the CEE countries, that there are diverging tendencies and varying preferences among the CEE politicians. Moreover, while Poland appears to be the most reluctant to let Russian companies into its energy market, the Czech Republic, Slovakia and Hungary have inconsistent approaches.

### **ENERGY HAS BEEN RUSSIA’S KEY TOOL OF INFLUENCE IN THE CEE**

Russia is world’s second-largest producer of dry natural gas and the third-largest liquid fuels producer.<sup>58</sup> Energy is one of the few sectors in Russia that are reasonably efficient. Europe has been a key region for Russian energy companies. Therefore, the dependence is rather mutual.

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<sup>54</sup> Pressurized water reactor.

<sup>55</sup> Areva's EPR; the Areva-Mitsubishi Atmea1; Atomstroyexport's VVER-1000 or -1200; the Westinghouse AP1000 and Korea's APR-1400.

“Nuclear Power in the Hungary”

<sup>56</sup> “Russia to start building two nuclear reactors in Hungary soon: Putin,” *Reuters*, September 18, 2018, <https://www.reuters.com/article/us-russia-hungary-putin-orban-nuclear/russia-to-start-building-two-nuclear-reactors-in-hungary-soon-putin-idUSKCN1LY204>, accessed April 2019

<sup>57</sup> Simon Zoltan. „Putin \$14 Billion Nuclear Deal Wins Orbán Alliance,” *Bloomberg*, 15 January 2014, <http://www.bloomberg.com/news/2014-01-14/putin-14-billion-nuclear-deal-wins-orban-alliance.html>, accessed April 2019

<sup>58</sup> “Country Analysis: Russia”

Europe needs the Russian commodities; Russia needs the European market. Despite (or because of) that, oil and gas has been an important tool of Moscow's influence.<sup>59</sup>

### **Russia's Oil, Gas and Nuclear Export Industry**

Most of Russia's oil exports are not refined on the Russian territory. This gives Russian European partners an incentive to build refineries. But profitability of such investments is conditioned by a steady supply of oil, thus tightening the bond between the refiner and the supplier – Russia.

As regards oil transport, the Russian company Transneft holds a monopoly over pipelines.<sup>60</sup> Some three quarters of Russia's crude oil exports go to European countries, particularly Germany, Netherlands, and Poland.<sup>61</sup> Russia's largest oil producer Rosneft, which acquired assets of Yukos after the latter's forced liquidation.<sup>62</sup> Other key companies are Lukoil, TNK-BP, Surgutneftegaz and Gazprom Neft.

In terms of natural gas, Russia holds the largest natural gas reserves in the world and is the second-largest producer of dry natural gas with 1,688 trillion cubic feet (Tcf). Europe consumes around 75% of the Russian gas export. Gazprom has been the unchallenged behemoth on the market, followed by Novatek (a non-state company), Lukoil and Rosneft. Most Russian gas flows to Western Europe, with Eastern part of the continent (including non-CEE states), consuming only 24% of the total exported volume.<sup>63</sup> In more detail, Slovakia 3,38%; Poland 5%; Czech Republic 4%; Hungary 4%.<sup>64</sup>

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<sup>59</sup> Christophe-Alexandre Pailard. "Russia and Europe's Mutual Energy Dependence," *Journal of International Affairs*, Vol. 63, No. 2 (NY: Columbia University, 2010): 72

<sup>60</sup> The remainder is shipped by rail and on vessels that load at independently-owned terminals.

<sup>61</sup> Country Analysis: Russia: 7

<sup>62</sup> Country Analysis: Russia: 6

<sup>63</sup> Country Analysis: Russia: 13

<sup>64</sup> "Country Analysis: Russia"

These figures highlight two significant factors, underlying the whole relationship between Russia and the CEE. First, the importance is political rather than purely economic. Second, there is a great imbalance between export/import dependence in favor of Russia, making the maneuvering space for the CEE considerably smaller (even though Russia's own is limited by the necessity of physical transit through the East to reach the economically key Western markets).

Finally, Russia is also a nuclear power. It is the third-largest generator of nuclear power in the world and the fourth-largest in terms of installed capacity. It has ambitions to export its knowledge and technology on the field of nuclear power abroad.<sup>65</sup> As mentioned before, this has important implications for the dynamics of relations with the CEE countries, all keen to modernize and expand their NPPs base.

### **Energy in Service of Politics**

It is abundantly clear that energy has been among preeminent concerns of Russia's foreign policy. Moscow's related priorities include promoting alternative routes for oil and gas pipelines, maintaining Russia's monopoly as a supplier for many European countries, and controlling access to the Russian market for external investors.<sup>66</sup>

Kremlin's foreign policy has clearly utilized the state power to further Russia's goal of attaining a monopoly over energy supplies to Europe through corporatist industries that have significant levels of state investment and control.<sup>67</sup> The Russian state aims at maximizing its influence over the domestic and foreign policy orientation of the countries in what it perceives to be Moscow's sphere of influence; energy supplies and participation at energy projects, including through

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<sup>65</sup> "Country Analysis: Russia"

<sup>66</sup> Karen Dawisha. "Is Russia's Foreign Policy That of a Corporatist-Kleptocratic Regime?," *Post-Soviet Affairs*, Vol. 27, No.4 (October-December 2011): 11

<sup>67</sup> Karen Dawisha: 22

loans and financing, serves this policy well.<sup>68</sup> Russian entities then leverage their presence in the CEE business and political environment to exercise influence beyond the energy sector.

The Kremlin often uses energy to exercise political pressure, very often without ever having to take actual steps. So when President Putin declares that Russia does not “plan to shut off the gas for Ukraine (...) and guarantees fulfillment of all our obligations to our European consumers,”<sup>69</sup> he makes it clear that energy policy is an efficient political instrument that the Moscow is ready to use.<sup>70</sup> The third case study in the following section will discuss the politicization of the Russian energy industry more illustratively.

## **HOW RUSSIA EXERCISES ITS INFLUENCE IN THE CEE COUNTRIES THROUGH ENERGY**

The following three cases serve as an illustrative example of how Russia *previously* used energy to promote its interests in the CEE region.

### **Case 1: Gazprom in the Czech Republic**

To supply gas to the Czech Republic, Gazprom partners primarily with RWE Transgas. In 2006, the transit deliveries extended to 2035 with possible annual delivery volumes of up to 9 bcm (almost total annual Czech consumption) and transit volumes of up to 30.5 bcm per annum.<sup>71</sup>

In 2006, the same year when the latter agreement was signed, Gazprom Export was contracted to supply gas to a Czech firm Vemex inc. Vemex was founded only in 2001 and had been a

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<sup>68</sup> Ibid.: 24

<sup>69</sup> „Poland: Government Plays Down Gazprom-EuRoPol Memo,” *Natural Gas Europe*, 8 April 2014, <http://www.naturalgaseurope.com/gazprom-europol-yamal-pipeline-two>, accessed April 2019

<sup>70</sup> Natalia Zinets, Alexei Anitschuck. “Amid 'gas war' talk, Russia reassures Europe on supply,” *Reuters*, 11 April 2014, <http://www.reuters.com/article/2014/04/11/us-ukraine-crisis-idUSBREA3A1B520140411?feedType=RSS&feedName=topNews>, accessed April 2019

<sup>71</sup> “Partners: The Czech Republic,” *Gazprom Export*, 2019, <http://www.gazpromexport.ru/en/partners/czech/>, accessed April 2019

marginal firm – until the deal was signed. Then Vemex boomed. In 2009, Vemex witnessed a complete change in shareholders structure with Gazprom Germania GmbH getting 50.14% of shares.<sup>72</sup> The then-new director Managing Director of the Czech company Vemex, a Russian citizen Vasilij Dinkov, lauded the “important strategic step that will substantially expand our activities,” and added that “this is the first time when a Gazprom Group company is going to sell gas and electricity to Czech citizens.”<sup>73</sup>

Indeed, Vemex has rapidly transformed from a minor company into a significant player on the Czech energy market with an outreach beyond, as envisioned by Gazprom and Dinkov. Directly, the company has expanded its operations in the field of natural gas and electricity sale, especially to small customers and households. Indirectly, in 2012, a Compressed Natural Gas (CNG) fueling station in Prague was opened, followed by CNG pumping facility at Lukoil's existing gas station was inaugurated in Ostrava-Muglinov. Vemex's Russian leadership, again, praised “another step in the implementation of the pilot project on introducing CNG at gas-filling stations by Czech Vemex as well as Czech Gascontrol and Russian Lukoil.”<sup>74</sup> The rapid tempo of Vemex's expansion continued in 2013, with another fueling station opened at the Lukoil's station base in the town of Králův Dvůr,<sup>75</sup> and a new CNG station in the town of Pilsen in 2014.<sup>76</sup>

Crucially, the Russia-linked projects impact regional political and economic environment. Directly, as licenses, allowances, and other documents are necessary and formal and informal

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<sup>72</sup> „Vemex Inc.: Our History,” *Vemex Inc. Official Web Site*, <http://www.vemex.cz/en/about/history/>, accessed April 2019

<sup>73</sup> „VEMEX s. r. o. has completed acquisition of a 51% share in RSP Energy a.s. which will soon be renamed VEMEX Energie a.s.” *Gazprom Export Press*, 8 September 2011, <http://www.gazpromexport.com/en/presscenter/news/308/>, accessed April 2019

<sup>74</sup> „Vemex develops a filling station chain together with Lukoil and Gascontrol,” *Gazprom Export Press*, 13 January 2012, <http://www.gazpromexport.com/en/presscenter/news/444/>, accessed April 2019

<sup>75</sup> „Vemex opens CNG gas fuelling station on the D5 highway in Czech town Králův Dvůr,” *Gazprom Export Press*, 3 September 2013, <http://www.gazpromexport.com/en/presscenter/news/1060/>, accessed April 2014

<sup>76</sup> „VEMEX opens a new CNG station in Pilsen,” *Gazprom Export Press*, 4 March 2014, <http://www.gazpromexport.com/en/presscenter/news/1242/>, accessed April 2019

networks form. Indirectly, through creation of jobs, cooperation and cooperation with subsidiaries. The generated capital does not stay in the energy sector. It is invested in real estate and in other firms, as well as on hard-to-control consulting and PR services. Regional media outlets can make or break the more controversial projects. Hence the Russia-linked businesses foster ties with influential (not only) local journalists.

In the political system where national-level representatives are dependent on support of regional politicians and interest groups, the network of interests and influences becomes far-reaching with implications on the national level.

To demonstrate the mechanisms, let us bring in the picture the company MND Group. MND is another major Czech oil and gas production company, and a member of the KKCG Investment Group.<sup>77</sup> In March 2013, an local influential businessman Karel Komarek, Chairman of the MND Group Board of Directors agreed with Alexander Medvedev, Deputy Chairman of the Gazprom Management Committee, on a joint construction of a new underground gas storage facility construction in Dambořice, South Moravia. Mr. Komarek labelled Gazprom a “strategic partner,” calling for more joint projects not only in the Czech Republic, but also in Europe and the Russian Federation.<sup>78</sup>

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<sup>77</sup> „Gazprom and MND Group embark on new UGS facility construction in Czech Republic,” *FE Investigate*, 20 March 2013, <http://www.investigate.co.uk/oao-gazprom--ogzd-/rns/ugs-facility-construction-in-czech-republic/201303201628434948A/>, accessed April 2019

<sup>78</sup> „MND and Gazprom to Build Czech Gas Storage Facility,” *Natural Gas Europe*, 21 March 2013, <http://www.naturalgaseurope.com/mnd-gazprom-to-build-czech-gas-storage-facility>, accessed April 2014  
„Gazprom and MND Group embark on new UGS facility construction in Czech Republic,” *FE Investigate*, 20 March 2013, <http://www.investigate.co.uk/oao-gazprom--ogzd-/rns/ugs-facility-construction-in-czech-republic/201303201628434948A/>, accessed April 2019

The MND Group is only one part of KKCG Investment Company. Both Gazprom Export and KKCG have become the biggest shareholders of Vemex, which has become one of the biggest gas company in the Czech Republic.<sup>79</sup>

## **Case 2: Manipulation of Yamal II Pipeline Project in Poland**

In November 2012, a Polish gas giant PGNiG sought arbitration, claiming that gas prices indicated by the existing long-term contract with Russia were disproportionately above the spot prices of the period. Russia, knowing that its chances to win the arbitration are minimal, backed down and agreed to alter the oil indexation formula of pricing, introducing some elements of future market price.<sup>80</sup> The seemingly banal story has two important implications.

First, the influence of energy prices on the economy – and thus the power of being able to manipulate it – was clearly demonstrated. After the agreement was reached, shares of PGNiG on the Warsaw Stock Exchange immediately gained over 9% as well as those of firms in other industries with energy inputs representing a significant proportion of the production cost.<sup>81</sup>

Second, and more importantly, the deal resonated in high politics. Radoslaw Dudzinski, the then Minister of Economy, reacted by proclaiming that Gazprom may soon invest in other energy projects in Poland and both companies can re-launch negotiations on construction of the second leg of Yamal-Europe pipeline.<sup>82</sup>

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<sup>79</sup> „Vemex inc.: Ownership Structure,“ *Vemex Inc. Official Web Site*, 2011, <http://www.vemex.cz/en/about/structure/>, accessed April 2019

„Gazprom a MND podepsali Protokol o výstavbě nového podzemního zásobníku plynu“ (Gazprom and MND Signed a Protocol on Building a New Gas Storage“), *Parlamentní Listy*, 20 March 2014, <http://www.parlamentnilisty.cz/zpravy/tiskovezpravy/GAZPROM-a-MND-podepsali-Protokol-o-vystavbe-noveho-podzemniho-zasobniku-plynu-266416>, accessed April 2019

<sup>80</sup> „Russia and Poland Agrees on Gas Price Reduction,“ *Natural Gas Europe*, 7 November 2012, <http://www.naturalgaseurope.com/russia-and-poland-agrees-on-gas-price-reduction>, accessed April 2019

<sup>81</sup> Ibid.

<sup>82</sup> „Polish Gas Firm CEO Becomes Another Victim of Gazprom Memo Puzzle,“ *Natural Gas Europe*, 29 April 2013, <http://www.naturalgaseurope.com/pgnig-ceo-oliwa-dismissed-gazprom-yamal-memo>, accessed April 2019

Few months later, in April 2013, Gazprom and EuRoPol Gaz (a state-controlled company) signed the St. Petersburg Memorandum on developing the southern offshoot of the Yamal-Europe pipeline.<sup>83</sup> Interestingly, showing the overarching political dimension, the document was signed two days after the Russian President recommended the construction of the new pipeline in a television interview, asking Gazprom Chairman Alexei Miller to “return to the Yamal-Europe-2 project.”<sup>84</sup>

The Memorandum was, at the time, contradictory to the Governments official line of diversifying its energy supplies on Russia. The-then Prime Minister Donald Tusk declared that he had not been informed about the project and that Poland is not willing to participate. By his declaration, Prime Minister Tusk had raised serious questions about state’s control over PGNiG where Polish Treasury holds 72% of the shares. Furthermore, Donald Tusk reiterated his previous commitments to look for more diversification: building the LNG terminal in Swinoujscie, connecting to transport systems of Germany, the Czech Republic, and Slovakia, and pursuing the exploration program, including the country’s hunt for shale gas.<sup>85</sup>

Soon after, Minister Dudzinski was sacked from the government, followed by the Treasury Minister Mikolaj Budzanowski and PGNiG CEO Grazyna Piotrowska Oliwa.<sup>86</sup> Moreover, Gazprom has resigned on construction of the Yamal-Europe 2 pipeline, instead deciding on the

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<sup>83</sup> Yamal II’s planned capacity is over 15 bcm/year (equal to combined yearly consumption of gas in Hungary, 1 bcm/ year, and Slovakia, 6 bcm/ year.

“Gazprom Could Complete Yamal-Europe 2 Pipeline by 2018-2019,” *Natural Gas Europe*, 4 April 2013 <http://www.naturalgaseurope.com/russia-revives-5bn-yamal-europe-pipeline>, accessed April 2019

<sup>84</sup> „Putin Tells Gazprom to Revisit Yamal-Europe-2 Pipeline,” *Ria Novosti*, 4 April 2013 Project, <http://en.ria.ru/business/20130404/180432128/Putin-Tells-Gazprom-to-Revisit-Yamal-Europe-2-Pipeline-Project.html>, accessed April 2019

<sup>85</sup> „Poland: Government Plays Down Gazprom-EuRoPol Memo,” *Natural Gas Europe*, 8 April 2013, <http://www.naturalgaseurope.com/gazprom-europol-yamal-pipeline-two>, accessed April 2019

<sup>86</sup> „Polish Treasury Minister Sacked Over Chaos with Gazprom Memorandum,” *Natural Gas Europe*, 20 April 2013, <http://www.naturalgaseurope.com/polish-treasury-minister-sacked-gazprom-memorandum>, accessed April 2019

construction of another line for Nord Stream.<sup>87</sup> Meanwhile, Poland has opened its first gas link from the West capable of transporting supplies from Germany to help it guard itself against potential cuts of Russian deliveries.<sup>88</sup>

The case shows how politics and economy intersect, and how little control sometimes even the highest state representatives may have when political orders from the Kremlin direct business decisions of Russia's state owned energy firms.

### **Case 3: Manipulation of Prices**

The third case demonstrates how Russia uses price manipulation to promote its political interests. The case is not directly linked to the CEE. But it demonstrates that energy policy of Moscow is influenced by political rather than business interests. Moreover, given the mentioned unbalanced export/import dependency between the CEE and Russia, the following model of price manipulation to support political goals may serve as an indicator of instruments at Russia's disposal vis-à-vis the CEE.

For years, Russia had tied its natural gas prices to crude oil prices. But as gas supplies grew more plentiful and crude oil prices soared, customers resisted the practice. In 2012, many European industrial users and power plants switched to coal, and Russia agreed to renegotiate.<sup>89</sup> By having to cut down prices, Russia's strategic gas industry faced a threat of being weakened and thus aimed at sustaining the new level of prices as high as possible, trying to avoid any further discounts.<sup>90</sup> Yet, contrary to business logic, in reaction to the then Ukrainian Prime

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<sup>87</sup> „Gazprom drops Yamal-Europe II expansion,“ *Warsaw Business Journal*, 7 February 2014,

<http://www.wbj.pl/article-64834-gazprom-drops-yamal-europe-ii-expansion.html?type=wbj>, accessed April 2019

<sup>88</sup> „Poland to draw reverse gas flows from Germany through Yamal pipeline,“ *Oil and Gas Eurasia*, 2 April 2014, <http://www.oilandgaseurasia.com/en/news/poland-draw-reverse-gas-flows-germany-through-yamal-pipeline>, accessed April 2019

<sup>89</sup> Steven Mufson. „Shifting energy trends blunt Russia's natural-gas weapon,“ *The Washington Post*, 28 February 2014, [http://www.washingtonpost.com/business/economy/shifting-energy-trends-blunt-russias-natural-gas-weapon/2014/02/28/7d090062-9ef7-11e3-a050-dc3322a94fa7\\_story.html](http://www.washingtonpost.com/business/economy/shifting-energy-trends-blunt-russias-natural-gas-weapon/2014/02/28/7d090062-9ef7-11e3-a050-dc3322a94fa7_story.html), accessed April 2019

<sup>90</sup> Ibid.

Minister's Janukovich refusal to sign an Association Agreement with the EU in December 2013, Gazprom declared that it would discount the price paid by Ukraine for gas by 30% from the already low \$268.50 per 1,000 cubic meters.<sup>91</sup> This decision bluntly demonstrated that gas pricing from Russia was not contingent to business reasoning, but rather a political tool, at the time rewarding Ukraine for staying outside of a formal association with the EU.

However, Moscow can use gas prices also to punish for non-compliance with its wishes. Following the escalation of the crisis in Ukraine and the growth of pro-Western sentiments among the Ukrainian governing elite, the price of Russian gas for Ukraine suddenly went up to \$385.50 per 1,000 cubic metres from the previous rate of \$268.50. This meant a 44% hike in the gas price for the Ukrainian government within a period of a few months. At the height of the Maidan crisis, increasing gas prices was an important tool to weaken Kiev.<sup>92</sup>

As mentioned before, the CEE customers have already been paying one of the highest prices in the EU for Russian fossil fuels. This shows how limited space local governments have to renegotiate prices with Russia. Unless the CEE countries diversify their supply and energy mix significantly, thus having viable alternatives for Russian expensive commodities, they will be at risk of being exposed to price manipulation in service of the Kremlin's political ambitions.

## **CONCLUSION:**

### **RUSSIAN INFLUENCE IN THE CEE GOING FAR AND WIDE BEYOND ENERGY**

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<sup>91</sup> Sergei L. Loiko. „Ukraine announces \$15-billion Russia loan, gas price cut,“ *Los Angeles Times*, 17 December 2014, <http://articles.latimes.com/2013/dec/17/world/la-fg-ukraine-russia-20131218>, accessed April 2019  
Daryna Krasnolutska, Olga Tanas and Ilya Arkhipov. „Ukraine Protesters Want Answers on \$15 Billion Russia Aid,“ *Bloomberg*, December 18 2013, <http://www.bloomberg.com/news/2013-12-17/russia-commits-15-billion-to-ukraine-bonds-as-gas-price-reduced.html>, accessed April 2019

<sup>92</sup> “Gazprom hikes gas price for Ukraine to \$485 per 1,000 cubic metres,“ *Reuters*, April 3 2014, <http://www.reuters.com/article/2014/04/03/ukraine-crisis-gas-idUSL5N0MV2U520140403>, accessed April 2019

In conclusion, a more-detailed look on the Czech Republic will elucidate Russia's means and ends in the CEE region. For in the Czech Republic, Russian subjects have been well established, and their means and ends reach far beyond the energy sector.

As elsewhere in the West, Russia has developed a network of loyal media outlets to promote a counter-narrative to the Western mainstream. The practice has been well documented.<sup>93</sup> They produce volumes of content, much of it harmless, to retain readership. But on sensitive issues their line aligns with that of the Kremlin. The most popular ones are the *Parlamentní listy* newspaper, Sputnik CZ (a Czech branch of the international outlet), *První zprávy* and *Svobodné noviny*. These cheap-to-run and editorially amateurish outlets feed Czech conspiracy theorists and revisionists through articles that question the EU and NATO, the integrity of the West, and the future of the liberal democracy. While the mainstream Czech politicians are lambasted, the anti-systemic ones, such as the populist leader of the anti-immigrant party SPD, Tomio Okamura, are often praised for their courage.

Russia has long cultivated friendly politicians who are ready to support a Russian cause in both politics and business. The most visible proponent of Russia has been the president Miloš Zeman, assisted by his controversial aides Vratislav Mynar and Martin Nejedlý. Both Messrs Mynar and Nejedlý boost ties with top Russian businessmen, politicians and members of the influential Russian Presidential Administration. Meanwhile, the former president Václav Klaus personally facilitates multiple Russian-led business projects through his network of contacts.

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<sup>93</sup> See for example:

“Schéma fungování vlivu Ruské federace v České republice,” *Evropské hodnoty*, 16 August 2016, <https://www.evropskehodnoty.cz/wp-content/uploads/2016/08/SCH%C3%89MA-FUNGOV%C3%81N%C3%8D-VLIVU-RUSK%C3%89-FEDERACE-V-%C4%8CESK%C3%89-REPUBLICI.pdf>, accessed April 2019

For a more general understanding of how Russia's media campaigns work, see for example:

“This Is How Russian Propaganda Actually Works In The 21st Century,” *Buzz Feed*, 31 August 2018, <https://www.buzzfeednews.com/article/holgerroonemaa/russia-propaganda-baltics-baltnews>, accessed April 2019

Other politicians promote Russia's point of view on major international topics, such as migration and the EU. Knowingly or not, Mr Okamura often copies Russia's statements, questioning the legitimacy of NATO and ridiculing EU's impotence. Most Communist Party's (KSCM) politicians, and the more leftist Social Democrats (CSSD), frequently express their support to the Russian regime, contrasting it to the rather supposedly hypocritical corrupt West.

Over the last decade, Russian businessmen have developed a sizeable network in the Czech Republic. They control multiple major firms, directly or indirectly, and have ties with hundreds of others. Most of the Russian-linked businesses, spanning from engineering, to finance to real estate, are centred either in Prague or in Karlovy Vary, a luxurious spa town popular among Russians.

Despite the sizable Russian presence, the actual economic ties between the countries are rather small. In 2017, the total trade volume between Russia and the Czech Republic was only 1.8% of the Czech Republic's total – a negligible share compared to 30% with Germany and 6% with Slovakia. Only some 1% of incoming foreign capital comes to the Czech Republic from Russia. Hence, those using economic arguments to advocate closer ties with Russia have clearly been driven by other than economic interests as Russia is not a major trading partner for the Czech Republic.

On the other hand, Russian firms have had a major interest in participating in strategic business projects, typically in the energy sector. As a result, Rosatom lobbies hugely to be the one to reconstruct the two ageing – and strategically crucial – Czech nuclear power plants. Meanwhile, Gazprom has used its local subsidiaries and partners, such as Vemex and Net4Gas, to develop energy infrastructure to be used for Russian supplies to Central Europe.

Prague has long been a base for many Russian intelligence operations. The Russian embassy in Prague has been repeatedly singled out by the Czech Information Security Service (BIS), the

counter-intelligence agency, as housing dozens of undercover intelligence operatives from both the Russian Foreign Intelligence Service (SVR) and the Military Intelligence Directorate (GRU). These operatives leverage the local Russian émigré community and develop an intelligence infrastructure not only to run influence operations and recruit agents in the Czech Republic, but also to run intelligence activities in other Schengen area countries.

Overall, Russia's influence in the Czech politics and business is, primarily, through informal influence networks. These combine media campaigns aimed at undermining the Western narrative and social cohesion, skilful lobbying by current and former Czech politicians, business involvement in strategic projects, and intelligence operations. Through the combination of multiple channels, Russia enjoys a level of influence over outcomes that is larger than its real strength.