

Introduction

With the entry of Estonia, Latvia and Lithuania ('the Baltics') into the EU and NATO in 2004, Russian influence in the Baltic region appeared greatly diminished. The fact that Tallinn, Riga and Vilnius still perceive it as a potential threat to their economies, energy sectors and societies is often surprising to outsiders. Some may argue that it is only natural for Russia, like any country, to seek influence in its neighbouring states, particularly ones with which it has a common history and close cultural and economic links. There is arguably nothing *prima facie* illegitimate or reprehensible about Russian influence. The EU and the United States also sought influence in this region before the Baltics joined the EU and NATO, and continue to do so today.

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What sets Russia’s influence in the region apart and raises concerns are its objectives and the means it uses to achieve them. Its discourse and policies demonstrate a resolve to maintain a ‘zone of privileged interest’ in the Baltic region and post-communist Europe, often irrespective of the wishes of the countries concerned. This paper sets out to show that Russian influence in the Baltics aims to constrain their independence and undermine the political, economic, and civilizational choices they have made. Russia’s means to achieve these objectives involve a combination of hard- and soft-power tactics, and often take forms that are covert, implicitly coercive or of dubious legality. Inherent problems are posed by its economic diplomacy owing

to the relationship between Russian business and the Russian state, which work together to achieve Moscow’s goals.

This paper starts by summarizing the domestic political conditions in the Baltic states over the last decade. It then addresses the harder means of influence such as coercion and blackmail in the energy sector. Next, it considers Russia’s softer use of power – the creation of Kremlin-friendly networks in the cultural, economic, political and energy sectors, and the use of public diplomacy and the media. The paper concludes by noting the limits of Russia’s influence and arguing that in the Baltics, the Russian state and business entities characteristically mix hard and soft approaches, often making it difficult to distinguish between Russian soft and hard power, diplomacy and intelligence activities.

Domestic political conditions

Despite the generally successful transformation of Estonia, Latvia and Lithuania into democratic polities with market economies, their political systems remain marred by institutional weaknesses such as fragmentation and commercialization. This makes their politics particularly vulnerable to corruption and thus Russian influence. In addition, the sizable Russian minorities in Latvia and Estonia have been an important factor enabling Russia to successfully establish networks based on common language, values and interests.

The domestic political systems in the Baltics are characterized by a large number of small and weak political parties vying for power. This was particularly notable in Latvia and Lithuania in the 2000s though less so in Estonia, and by the late 2000s it was also somewhat less the case in Latvia. While the Baltics do not markedly stand out among European countries in terms of the number of parties represented in parliament and the influence of commercial interest groups, their fragmented political systems do pose additional risks for these rather new democracies. The reasons lie in the comparatively poor regulatory framework, institutional weakness, poorly developed standards of responsibility and accountability, and a weak ethos of professionalism

in the private and public spheres as well as the mass media. Thus their small, new and weak parties are more susceptible to influence by third-party actors such as Russian interests. Baltic governments also tend to be fragile and often do not last a full term in office. Throughout the 2000s coalition governments were prevalent and since the last few elections governments have been made up of two to four political parties or party blocs. While this is not extraordinary in the European context, in the Baltic states sensitive issues can induce government collapse or party fragmentation, making united and consistent policies towards Russia difficult to achieve. These conditions enhance Russia's influence in the three countries.

The commercialization of politics, or the high degree of penetration by business interests, is another enabling factor for Russian influence, particularly in Latvia and Lithuania. In new states with small economies that are still dependent on Russia for exports and energy sources, and where corruption and lack of transparency in the financing of political parties are prevalent, the influence of business interests becomes more significant. Both local and Russian business groups engage in political lobbying and party financing to favour Russian interests in the Baltic states. They include local businesses that export goods to Russia, local companies active in the energy and transit sectors, and Russian oil and gas companies operating in the region. While there is limited verifiable documentation of such activities, unofficial testimony from Baltic decision-makers and media accounts shed light on such activities and will be detailed below.

The last structural feature of the Baltic domestic environment, and a legacy of the Soviet era, is the Russian minorities in Latvia and Estonia, which make up approximately 30 per cent of the population in both countries. Despite their size, the influence of these minorities on the political process has been limited in the 2000s. One reason is that political parties representing Russian minorities have not participated in any government coalitions. Another limiting factor is the fact that roughly 15 per cent of Estonia and Latvia's Russian minorities have not obtained citizenship and

therefore cannot vote. But, in recent years political parties representing Russian minorities have gained in strength. In the 2011 Latvian parliamentary elections, Harmony Centre, a political party representing primarily Russian minority interests, came in first in terms of votes collected. Although it was not invited to join the government coalition, its leading member, Nil Ushakov, has been the mayor of Riga since 2009. Likewise in Estonia, the Centre party, the most popular party among Russian minorities, is dominant in the politics of Tallinn and is led by Mayor Savisaar. It is likely that, as Russian minorities become more engaged politically, they will gain greater influence in national decision-making in both states.

Hard power in the energy sector

The politically fragmented, commercially open and ethnically mixed domestic political environment of the Baltic states creates a number of opportunities for Russian influence. Despite their EU and NATO membership, Moscow continues to rely on both subtle and overt coercion in the Baltic states to keep them within its political, economic, and energy sphere. These measures range from the blatant use of sanctions, networking, financial inducement and to public diplomacy, which in combination make the coercive element less obvious. While Moscow employed a number of hard-power tactics in the 2000s – such as boycotts of Baltic goods, sanctions on Baltic transit and a cyber-warfare campaign against Estonia – the most consistent focal point of pressure has been the energy sector. The reason for this is obvious. All three states are roughly 90 per cent dependent on Russia for oil and nearly 100 per cent for gas.

The energy sector is a particularly telling example of Russia's ability to exert influence in the region, not only through policies of coercion but also owing to the sector's inherent structural features. The Baltic states remain highly dependent on Russian energy because of the lack of domestic resources and the legacy of the Soviet-era infrastructure of pipelines, electricity and gas grids that are linked to Russia.

For much of this ongoing dependence, the Baltic states are at least partially to blame. Both their commitment and institutional capacity to implement costly energy diversification projects fall woefully short of their professed aspirations. Beyond the rhetoric and memorandums, the only two successes have been the completion in 2007 of Estlink, an electricity link connecting Finland and Estonia, and the opening in 1999 of an oil terminal in Butinge, Lithuania that can receive oil from the international market. Although the Baltic states support the European Commission's Baltic Energy Market Interconnection Plan, most projects have remained at the planning stages, such as an electricity link to Sweden and one to Poland, a gas link to Poland, an LNG terminal, and a new nuclear power plant in Visaginas, Lithuania. None of these initiatives have yet entered the execution phase.

Oil sanctions

Russia's coercive use of energy has not been confined to the Baltic states. It has been used as a tool of geopolitical influence in many states of the former Soviet Union since the early 1990s. Under the leadership of Vladimir Putin, energy has become a consistent means to reach foreign policy goals. Between 2000 and 2006, Russia cut off energy exports on around 40 occasions,¹ most often to the Commonwealth of Independent States and to central and eastern Europe. The most recent incidents in the Baltics include the halting of oil supplies to the Latvian port operator Ventspils Nafta (VN) since 2003 and to the Lithuanian oil refinery Mažeikiu Nafta (MN) since 2006, as well as interruptions to the oil supply via rail to Estonia in May 2007.²

The immediate causes of these actions stemmed from Moscow's attempts to punish the Baltic governments for policies that were at odds with Russia's interests, and to attempt to alter them. Russia's closure of the pipeline supplying Lithuania's oil refinery MN is a prime example of its use of energy to punish uncooperative states. Even

studies that insist Russian energy policy has been primarily driven by pragmatic economic considerations admit that in the MN case energy is being used as a weapon.³ Lithuania had experienced previous interruptions to the supply of crude oil via the Druzhba pipeline before but this stoppage continues to this day. Moscow has argued that the closure occurred because of technical difficulties. For the Lithuanian elites this lacks credibility as the Russian government reported the accident on the pipeline immediately after the Lithuanian government approved transfer of the MN refinery ownership from Russia's Yukos to Poland's PKN Orlen in May 2006. Vilnius and Warsaw perceived the alleged accident and subsequent stoppage as Moscow's attempt to derail the sale in order to facilitate the purchase of the refinery by a Russian company. The Kremlin's preferred buyer for the Lithuanian refinery was Lukoil, which has a very close and cooperative relationship with the Russian government. However, despite such arm-twisting, Moscow failed to alter the course of the MN privatization or Vilnius' caution regarding Russian investment in the energy sector.

Very similar circumstances pertained when the oil supply to Latvia's port facility of VN was halted. As in Lithuania, the trigger was the Latvian government's resistance to Russian investment in VN. In 2002, Russia's pipeline company Transneft and several Russian oil companies such as Lukoil expressed an interest in acquiring VN, which was the second largest exporting terminal for Russian oil, and the largest outside Russian territory. Following lengthy negotiations, the Latvian state and private owners rejected a purchase offer from Russian buyers. After numerous interruptions in 2002, crude oil flows were terminated by Transneft in January 2003 and have been blocked ever since, with Russian oil flows being rerouted from Ventspils to the Russian port of Primorsk. However, the Latvian government and owners of VN have not backed down and Russian companies have not yet acquired the port facility.

1 Robert L. Larsson, *Russia's Energy Policy: Security Dimensions and Russia's Reliability as an Energy Supplier*, Swedish Defence Research Agency, March 2006.

2 Outside the Baltics there were oil interruptions to Belarus in January 2007 and gas interruptions to Ukraine in March 2005, March 2008 and December 2008–January 2009 and to Belarus in June 2010.

3 Dmitri Trenin, 'Energy Geopolitics in Russia-EU Relations', in Katinka Barysch, ed., *Pipelines, Politics and Power: The Future of EU–Russia Energy Relations* (London: Centre for European Reform, 2008), p. 23.

The interruption to Estonian oil supplies in May 2007 highlights Russian coercive policies even more clearly than those in Lithuania and Latvia, where arguably Russia's motives may have been driven in part by economic priorities and an attempt to alter investment policies. In Estonia, by contrast, Moscow sought to influence domestic political choices. Estonian-Russian energy tensions began when Tallinn decided to relocate a Soviet-era monument from the capital's centre to a military cemetery in April 2007. The move, just days before Russia's national holiday of 9 May celebrating Soviet victory in the Second World War, was strongly opposed by Moscow and the local Russian minorities in Estonia. For the latter the monument represented Soviet glory and remained an important symbol of their national identity. For ethnic Estonians it was an offensive reminder of Soviet occupation and repression. After diplomatic tensions, on 2 May 2007 the state-owned Russian Railways cited planned track repairs and halted rail deliveries of Russian crude oil, gasoline and other resources to Estonia.

Estonia's policy elites had little doubt that these stoppages were politically motivated. It was widely believed in Estonia that Moscow was involved in organizing and supporting the ensuing riots by some 1,500 local Russians and the cyber attacks against Estonian websites. Whether this is true is difficult to determine but there are known links between Moscow and Estonian parties and organizations that supported the riots. Some rioters were mobilized by the 'Nochnoy Dozor' (Night Watch), a Kremlin-backed right-wing group, and members of the far-right pro-Kremlin Russian youth group Nashi. According to the Estonian secret service, the Russian embassy in Estonia was reported to have held meetings with the organizers of the protests.⁴ The Centre party criticized the Estonian government and took the side of the rioters.⁵ The Centre party is known to have close ties with Vladimir Putin's United Russia party, with which it signed a cooperation agreement in 2004.

These events, while clearly demonstrating Moscow's hard-power tactics, also highlighted the limits of Russian power and influence. The Estonian government led by Prime Minister Andrus Ansip of the Reform party did not resign, as it was urged to do by Moscow; nor did it alter its policies, but it pressed on with the relocation of the monument. The government gained popularity. After several months energy flows were resumed while after a year Estonian-Russian trade grew to pre-crisis levels. Estonia's allies showed solidarity with the cause. Indeed, their attitude hardened. Nashi activists were blacklisted from entering Schengen countries and a NATO centre of excellence on cyber terrorism was established in Estonia along with contingency planning for the defence of the region. In the immediate term Russian hard power failed.

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While it seems that Russia's decision to cut off the oil supply to the Baltics was primarily punishment for their policies, these policies were just a catalyst for Moscow to implement its broader energy strategy of 'economizing' relations with its neighbours. Since the 2000s Russia has been notably and purposefully reorientating energy export flows to Western clients away from old routes via the East European states to new direct routes through Russian territory and ports.

4 *Postimees*, 25 April 2007; *Baltic News Service*, 18 April 2007.

5 'Lohestaja number uks,' *Postimees*, 30 April 2007.

But cutting transit states out of Russia's energy export flows was also a means of influence. Russia was able to increase its leverage on the transit states because it was no longer dependent on them, while the transit states remained dependent on Russia for their oil supply. Without the risk of endangering its exports, Moscow was able to implement oil cut-offs to transit states such as the Baltics. This re-routing of energy flows was achieved when Russia updated its energy export infrastructure through the completion of Baltic Pipeline System (BPS) in 2001 and the two Primorsk oil terminals in 2006 and 2008. Going forward, Russia aims to expand BPS to bypass Belarus and the Baltic states completely, and to nearly double the capacity of its northwestern ports of Ust-Luga, Primorsk, Vysotsk, Kaliningrad and Murmansk by 2015. Thus future interruptions or reductions of oil supply to the Baltic states will be even easier to implement.

Gas isolation

Moscow has had greater success in influencing the Baltic states through the gas sector than the oil sector because of the even more acute dependency of the Baltics on Russia in this sector. There are two reasons for this. First, oil is traded internationally and all three Baltic states have the capacity to import non-Russian oil and oil products via their terminals on the Baltic Sea. In contrast, their gas import infrastructure is limited to Soviet-era pipelines and wholly dependent on Russia. Second, unlike in the oil relationship, Russia does not depend on the Baltics for gas transit to foreign markets, leaving the three states effectively as 'gas islands'. As a result, Russia could cut off gas supplies to them without interrupting supplies to other European countries. Yet, unlike Belarus and Ukraine, the Baltic states have never had a 'gas war' with Russia.

There are four reasons for this apparent paradox. First, Russia secured its interests in the region when its national gas company, Gazprom, acquired a controlling share in

all three Baltic national gas companies (Eesti Gaas, Latvijas Gaze and Lietuvos Dujos).⁶ Second, Moscow has created a powerful network of local gas interests with ties to Gazprom, which serve as a tool for many of Russia's soft means of influence. These include the national gas companies, all local gas distributing companies such as Itera (operating in Latvia and Estonia), Dujotekana, Stella Vitae and Vikonda (all operating in Lithuania). Third, the Baltic states' gas markets are profitable for Gazprom because they pay market prices and do not receive any discounts (unlike Ukraine and Belarus). Fourth, Russia is at least somewhat dependent on Latvia and Lithuania because the pipeline feeding Lithuanian territory continues onwards to the Russian exclave of Kaliningrad, and because Gazprom largely owns the Latvian gas storage facility in Incukalns, which holds supplies not only for the three Baltic states but also for the Russian Pskov region.

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Nevertheless, Russia has tried to influence Baltic policies regarding the EU's Third European Energy Package, which calls for the ownership of transmission system operators to be unbundled by separating the transmission and distribution of electricity and gas from their generation in order to encourage competition in the

⁶ Gazprom owns 37 per cent of Eesti Gaas and of Lietuvos Dujos and 34 per cent of Latvijas Gaze. Itera, a gas distributing company with close connections to Gazprom, owns 10 per cent of Eesti Gaas and 16 per cent of Latvijas Gaze.

energy sector. In the Baltic states it means separating Gazprom's ownership of gas distribution to consumers from the gas transmission pipelines. Of the three unbundling options proposed by the European Commission, Lithuania selected the most stringent Commission-preferred one of 'ownership unbundling', in which both management and assets of power grids are sold off by the generation companies to someone who has no association with the power industry or to another grid operator. In 2010 Lithuanian law proposed the separation of the transmission business of Lietuvos Dujos (37 per cent owned by Gazprom, 39 per cent by Germany's E.ON, 18 per cent by the Lithuanian state and 6 per cent by private investors) from the distribution business. The decision-making rights regarding the transmission business would be shifted to the Lithuanian state. Gazprom, Lietuvos Dujos and even Vladimir Putin tried to change Vilnius' stance towards unbundling by recourse to indirect threats of higher gas prices, international arbitration and media assaults. Yet all Moscow's attempts failed and in May 2012 Gazprom and the Lithuanian government came to an agreement regarding the unbundling, which is due by November 2014. When implemented, it is likely to reduce Russian influence in the gas sector and over time could challenge existing vested gas interests.

In contrast to Lithuania, both Estonia and Latvia sought an exemption from the new EU gas directive until 2014, which was available to them as members whose energy infrastructure is not connected to the rest of the EU. They have both opted for the 'independent transmission operator' (ITO) option, which was the least stringent and the most favourable option for Gazprom. Latvia's Ministry of Economics argued that in the light of the small size and idiosyncratic features of the country's electricity market, ownership unbundling would result in a fragmentation of the power sector that would not be in its interests. In fact Latvia was among the EU states that initially called for more lenient unbundling options. Insiders suggest that Latvijas Gaze together with the largest Latvian consumer of Russian gas, the national electricity producer Latvenergo, played a significant role in the government's energy policy and position on unbundling. The latter was

also greatly influenced by the fact that the government has an agreement with Latvijas Gaze giving the company exclusive rights to ensure gas supply and distribution until 2017. Unbundling could result in considerable costs for the government for breaking the terms of this agreement. Seemingly in response to Estonia's and Latvia's more lenient positions, Gazprom announced in December 2010 that it would lower the gas prices for these two countries by 15 per cent, but not for Lithuania because of its unbundling policies. This was in line with Russia's tendency to argue that cooperative relations with Moscow would result in benefits such as lower gas prices, and that tensions would result in higher energy prices for the state in question.

Another area of Russia's attempts at influence via the gas sector are apparent from its policies *vis-à-vis* Kaliningrad Oblast. Of the Baltic states, only Lithuania serves as a gas transit state for Russian gas – to Kaliningrad, which is physically separated from the rest of Russia by Belarus and Lithuania. Even though Russia has never cut off gas supplies to any of the Baltic states, since the 1990s gas transit to Kaliningrad has served as a *de facto* guarantee of supply for Lithuania: any cut to Lithuania would affect Kaliningrad, which is an energy island and receives all its gas, oil and electricity through Lithuanian territory. Vilnius used this as a bargaining tool with Moscow on several occasions in the 1990s. In the 2000s, however, Moscow embarked on a strategy of breaking this reliance by planning to build storage facilities and a link for Kaliningrad with the Nord Stream gas pipeline, which will deliver gas from Russia directly to Germany, bypassing the Baltic states. Completion of such an offshoot to Kaliningrad and gas storage facilities could make Lithuania subject to a gas cut-off without any consequences for the Russian territory.

Not all objectives of Russia's policy in the gas sector are illegitimate. In principle, the aspiration of Gazprom and other Russian companies to expand their presence in downstream markets through the acquisition of local gas providers and distributors is consistent with normal commercial practice. Likewise, it is not surprising that Gazprom and Russia would lobby to defend their

interests, which are threatened by the EU unbundling directive. Russia's wish to make Kaliningrad Oblast independent of transit states is also understandable. However, the actual character of Russia's influence raises a number of concerns. Russia's gas companies are not normal commercial entities, and not all of their actions follow a conventional commercial logic. They are controlled by the state and play a key role in its geo-economic and geopolitical policy. Their actions seem designed to maintain the isolation of the Baltic gas sector, and they have been instrumental in strengthening vested interest groups in the Baltic states that promote these ends and in other respects display loyalty to Moscow.

Nuclear energy

Lithuanian efforts since 2008 to build a new nuclear power plant in Visaginas, to replace the Ignalina plant recently closed in response to EU stipulations, also illustrate Russia's hard-power tactics not only towards the Lithuanian government but also on third-party investors. Lithuanian decision-makers believed that the Kremlin had been trying to dissuade foreign firms from participating in the €4–6 billion project, in which a 49 per cent stake would have been awarded to a foreign strategic investor.⁷ German and French investors are believed to have been dissuaded from bidding. Italy's Enel withdrew its bid to participate shortly after Putin's April 2010 meeting with Prime Minister Silvio Berlusconi to discuss nuclear cooperation. Likewise, the last-minute withdrawal in December 2010 of South Korea's KEPCO also raised suspicions in the Baltics of a link with efforts by Russia's Inter RAO UES to persuade KEPCO to participate in Russian projects in Kaliningrad and Belarus.⁸ The Lithuanian elites have perceived this turn of events as proof that the Western policy-makers and business leaders perceive the Baltics as part of the Russian sphere

of influence. Currently, only a few non-Russian companies have invested in the Baltic energy sector: Germany's E.ON Ruhrgas owns shares in all three national gas companies; Finland's Fortum has a small stake in the Estonian national gas company; and Poland's PKN Orlen acquired Mažeikiu Nafta in 2006.

Russia has also made moves to put off Lithuania's potential regional project partners Estonia, Latvia and Poland. Its plans to build the Baltic Nuclear Power Plant (BNPP) in Kaliningrad, with the first unit scheduled for operation in 2016, will serve to undercut the Visaginas plant in the regional market. Russian representatives have already courted the Latvian market and made presentations to Latvian government officials. Sceptics question whether BNPP will ever be built since it would produce a regional electricity surplus. Whether this is the case or not, the BNPP will serve to confuse and put off potential investors in Visaginas. However, Russian strong-arm tactics have not been the only reason why foreign investors have remained cautious. They have also been deterred by Lithuanian dithering, lack of progress over the past five years, policy shifts with changing governments, and an inability to come to agreement with partners such as Latvia, Estonia and Poland, as well as the small Baltic market for electricity.

Soft means of influence

According to Joseph Nye, soft power is the ability to attract based on a state's culture, political values and foreign policy, which must be perceived as legitimate and having moral authority.⁹ Soft power facilitates a state's public diplomacy by building long-term relationships that influence the context for policy-making.¹⁰ In soft-power terms, Russia also establishes networks bonded by mutual interest to promote its objectives.¹¹ Its soft power stems from its ability to attract and co-opt using cultural

⁷ Interview with senior member of Lithuania's Homeland Union party and member of the government of Lithuania, November 2010.

⁸ Statement to the press by Rokas Zilinskas, chairman of the Lithuanian parliament's Atomic Energy Commission. The ruling Homeland Union party and the Ministry of Energy did not publicly comment on this issue.

⁹ Joseph S. Nye, Jr., *Soft Power: The Means to Success in World Politics*, (New York: PublicAffairs Books, 2004), pp. 6, 8, 11–15.

¹⁰ *Ibid.*, p. 8.

¹¹ James Sherr, paper delivered at Conference on Russian Soft Power, 'Russian Soft Power in the "New" and "Old" Europe', Arlington, VA, 13 January 2011.

and political values as well as the compatible business cultures that still prevail in certain spheres. Yet unlike the traditional definition of soft power, Russia's influence does not display the emphasis on legitimacy and moral authority stipulated by Nye.

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Russia's use of soft power in the Baltics is best exemplified by the creation, maintenance and support of Kremlin-friendly networks of influence in the cultural, economic and political sectors. Russia maintains these networks through its compatriot policy and by building on the Soviet legacy of a large Russian minority population in Latvia and Estonia and the familiarity of the populations in all three states with Russian language and culture. The creation of loyal interests groups involves co-opting decision-makers through financing and valuable connections and contracts. The support of existing networks involves organizational assistance, personal and professional links, financial contributions and media strategies for Russian minorities and their organizations, as well as for other pro-Russia interest groups in politics and business. It is difficult to make clear distinctions between the cultural, economic and business spheres of activity since influence in the political sector is often achieved through economic and energy networks. Likewise economic and energy networks often coincide and are maintained by cultural links to Russia.

Russian culture

Russia's soft power in this sphere has been based on the appeal of Soviet and Russian culture, and the financial and organizational support it has devoted to the promotion of its culture abroad since the 2000s. Russia's soft power can be seen both in high and popular culture, education and the media. The main vehicles for exporting and the main enablers to receiving Russian culture are the language, Russian minorities, the Soviet legacy and business networks.

Russian high culture is well regarded and popular among the Baltics' populations as a whole. Russian cultural events are primarily apolitical though they often receive funding and support from both the Russian government and local business interests. In Latvia, perhaps the greatest recipient and consumer of Russian culture among the Baltic states, the House of Moscow, a cultural centre funded by the Moscow city government, has been a key player in promoting Russian culture since it opened in 2004. Other important mechanisms are 'Days of Russian Culture in Latvia' and 'Days of Latvian Culture in Russia', which are joint government-supported festivals launched in 2007 following a détente in Latvian–Russian relations. Following the success of the 2007 and 2008 festivals, Russia expanded its cultural presence in Latvia with additional high-cultural events.¹² These are often organized and sponsored by local businesses owned either by ethnic Russians or by others who have a stake in Russian markets. For example, Lithuania's Ukio bank, owned by a businessman of Russian origin, Vladimir Romanov, organizes an annual cultural charity event involving the Russian arts. Popular culture such as Russian and Soviet film, music and television still appeals to various generations of the general population in the Baltics but particularly for the Russian minorities.

Sport is another form of popular culture that reinforces Russia's soft power. Russia's Continental Hockey League, which since 2008 has united teams from the former USSR, is one such mechanism. The Latvian team Dinamo Riga, which is sponsored by the Russian gas distributor Itera, is an active participant in the league.¹³ In addition, a number

¹² Nils Muiznieks, *Latvian–Russian Relations: Dynamics Since Latvia's Accession to the EU* (Riga: University of Latvia Academic Press, 2011).

¹³ *Ibid.*

of athletes from the Baltic states choose to play for Russian teams or train in Russia where they sometimes receive better funding.

The Russian language remains an important tool for spreading Russian influence in the Baltic states, where most people educated before the collapse of the Soviet Union speak Russian as their first foreign language. In Latvia and Estonia, where Russian minorities make up about a third of the population, the language is even more prevalent. However, despite a resurgence in the last few years, since the 1990s there has been a general decline in the popularity of the Russian language among the non-Russian population, especially in Estonia and Lithuania. According to the Lithuanian Ministry of Science and Education, by 2006 Russian was not among the top three foreign languages studied in high schools: English, German and French together accounted for 96 per cent of first foreign language study choices. However, Russian was the preferred second foreign language of study for 78 per cent of high-school students. In a seeming response to this decline of the Russian language in the Baltic states, Russia's government-sponsored foundation *Russkiy Mir* opened a Russian language centre in Estonia and two in Latvia in 2008, followed by one in Lithuania in 2009. The Russian government has also been very active since 2006 in promoting educational exchanges and education opportunities in Russia by offering scholarships and invitations to conferences.¹⁴ However, Russia's education system holds little appeal and the vast majority of young people in the Baltics choose to study either at home or in EU countries.

According to Nye the information revolution has created virtual communities where national borders are losing their traditional importance.¹⁵ Using its influence via the media, Russia has been particularly successful in creating a virtual community involving not only the Russian diaspora but also a segment of the Baltic population that remains linked culturally, linguistically and ideologically to Moscow. The state's control of much of

the Russian print and broadcast media is a well-known fact, and it is not surprising that they are often used as a tool of Moscow's soft power abroad, facilitated by the prevalence of the Russian language and the sizable Russian minorities in Estonia and Latvia. Television channels such as First Baltic, RTR Planeta, NTV Mir, and both Russian and locally produced Russian-language newspapers, internet news portals and radio stations are important tools for disseminating information that often has a Kremlin bias.

The media also set the agenda of some Baltic organizations and political groups, promote political forces loyal to Russia and rally support for specific policies. For instance, in the 2010 Latvian parliamentary elections, First Baltic lobbied implicitly for the Russian minority Harmony Centre party.¹⁶ In 2007, the Russian language media tried to shape the perceptions of Estonian Russian minorities regarding the Soviet monument relocation in Tallinn and arguably contributed to inciting the subsequent riots by providing false accounts of the events (for instance, reporting that the monument had been destroyed by the Estonian authorities). The 2007 events also revealed Russia's influence even on teenage Estonians of Russian origin, who – despite never having lived under the Soviet Union – carried placards saying 'The Soviet Union Forever' at demonstrations.

Even in Lithuania, with its small minority of Russian speakers, Russian capital has come to dominate the media. In 2009 the Russian-owned Lithuanian bank Snoras increased its stake to 34 per cent in the largest Lithuanian media group Lietuvos Rytas, which consists of the main national daily newspaper, a television station, a news portal and several publications. Russian consolidation in the media, along with the launch of new cultural festivals and language centres, testify to the importance that Moscow attaches to maintaining Russia's traditional cultural influence.

Lastly, a particularly powerful tool of Russia's influence is its citizenship policy for its 'compatriots' or

¹⁴ Ibid.

¹⁵ Joseph S. Nye, Jr, 'The Benefits of Soft Power', *Compass: A Journal of Leadership*, Spring 2004.

¹⁶ Anda Rožkalne, 'Slēptā reklāma nogalina maigi,' *Politika journal*, 12 October 2010 cited in Muiznieks, *Latvian-Russian Relations*.

ethnic Russians living in the near abroad. This is the more powerful and invasive side of Russia's cultural policies that aim to maintain loyalty among compatriots. Russia offers automatic citizenship to people of Russian descent regardless of their domicile and other citizenship status. Crucially, Moscow offers them protection: *Russia's National Security Strategy to 2020*,¹⁷ approved in 2010 but consistent with the doctrine launched in 2000,¹⁸ declares the intent to protect the rights and interests of Russian citizens and 'compatriots' abroad through political, economic and other means. The strategy also emphasizes that united compatriots are a tool in achieving Russia's foreign policy aims. For instance, in the case of South Ossetia and North Abkhazia, the 'protection of Russian citizens' was one of Russia's main motives for going to war with Georgia in 2008. Not surprisingly Russia's citizenship policy raised concerns in the Baltic capitals as Moscow regularly raises complaints with them about the treatment of Russian minorities. The compatriot policy is perhaps meant and certainly works to create anticipation of leverage; thus it gives Russia influence without the Russian minority factor having to be invoked explicitly in specific disputes.

The co-opting of business and political elites

Another form of Russia's soft power is its co-opting of business and political elites into loyal or at least cooperative networks. Co-opting functions through bribes, financial incentives and the appeal of a Russian business culture that is network-driven rather market-driven, and is marked by opacity, corruption and efforts to influence the conduct of political institutions and the political process in general.¹⁹ In the Baltic business world, many of the elites are former members of the Soviet *nomenklatura* who remain loyal to the Kremlin out of economic interest. Some belong to Russian minorities while others are ethnic Estonians, Latvians and Lithuanians. As noted above, their presence is

particularly prominent in the energy sector, where the success and profitability of their operations depend on close relations with Russian energy giants such as Gazprom or Lukoil. The best examples are the gas distribution companies, such as Itera, Dujotekana, Vikonda and Stella Vitae, whose ownership structure is linked to Gazprom and is not transparent.

‘ In the Baltic business world, many of the elites are former members of the Soviet *nomenklatura* who remain loyal to the Kremlin out of economic interest ’

Because the co-opted business elites engage both directly and indirectly in politics, Russian working culture also influences Baltic political culture. For instance, in Lithuania the Russian-born (and reportedly still a Russian national) Viktor Uspaskich, former owner of Vikonda,²⁰ served as economics minister and is currently a member of the European Parliament. A large shareholder of Dujotekana, Rimantas Stonys, was a highly influential player in Lithuanian politics behind the scenes in 2006–08. In the Latvian parliamentary elections of 2010 Juris Savickis, a reported former KGB officer who now heads the gas distributor Itera, served on the board of and allegedly financed For a Good Latvia, a party run by two of the biggest players in Latvian politics, Andris Skele and Ainars Slesers.

However, one should not infer that all Baltic energy and transit elites are beholden to Moscow. There are interest groups in the Baltic states that lobby against

17 стратегия национальной безопасности Российской Федерации до 2020 года [Russia's National Security Strategy]. Russian Federation, Decree No. 537, 12 May 2009.

18 Министерство иностранных дел Российской Федерации [The National Security Concept of the Russian Federation]. Russian Federation, Decree No. 24, 10 January 2000.

19 Sherr, 'Russian Soft Power'.

20 Now the company's primary owner is his wife Jolanta Balzyte.

closer relations with Russia and in favour of closer relations with the West. There are also individuals and groups who defy easy categorization. For instance, Aivars Lembergs, the controversial Latvian mayor of Ventspils who has been under investigation for abuse of office, has a complicated relationship with Moscow and has resisted Russian efforts to acquire the Ventspils Nafta port facility in the 2000s.

Non-transparent party financing, corruption, lobbying and the dependency of political actors on business groups have all become notable features of politics in the Baltics, though arguably to a lesser degree in Estonia. While lobbying and party financing are common political activities and not necessarily illegitimate, the corrupt and opaque ways in which they are carried out are often at odds with the Baltic governments' commitments to EU standards and do not reflect national interests but rather those of Russian companies such as Gazprom that are linked to the Kremlin.

Moscow also wields direct influence in the political systems of Estonia, Latvia and Lithuania by co-opting certain political groups. Because Russia-friendly political networks in the Baltics are not completely transparent in their membership or practices, their activity cannot be rigorously documented. But aspects of their activity have aroused the interest of analysts as well as the security services of the three countries.

A number of examples demonstrate the existence and effectiveness of Russia's co-opting of political forces. The ongoing investigation launched by the Estonian secret police in 2011 into the financing by Russian Railways of the Mayor of Tallinn and Centre party leader Edgar Savisaar is just the most recent example. Savisaar is charged of being 'Moscow's agent of influence' and receiving €1.5 million from the head of Russian Railways, Vladimir Yakunin, to fund his party's campaign in the parliamentary elections of March 2011. In 2004 Lithuania's president, Rolandas Paksas, was impeached for his close relations with Russian business interests. Other examples include Kazimiera Prunskiene, a former prime minister now heading the

near-defunct Lithuanian Peasants Party. She has strong personal and political ties to Russia stemming from her former membership of the Lithuanian Communist Party, her alleged previous KGB ties and her title of Duchess of Russia – awarded to her and her descendants by the Russian authorities in 2005. In Latvia, in the early 1990s business was dominated by ethnic Russians as a result of the Soviet legacy, which meant they were over-represented as industry managers, members of the *nomenklatura* and KGB officials. But when ethnic Latvians came to dominate politics, they also gained influence in business and even established cooperative relations with Russia. Today Latvian politicians such as Andris Skele, Ainars Slesers and Aivars Lembergs all have complex but often pragmatic and cooperative relations with Russia and its energy companies.

‘It is not unreasonable for the Baltics to conclude that Russia's primary interest is to diminish their independence. This makes it difficult for the governments and citizens of the region to draw a line between legitimate and illegitimate Russian interests’

Another dimension of Russia's influence in the Baltics is its ability to set the political agenda and narrow the policy options of governing elites. Nye highlights an important aspect of soft power – ‘the ability to manipulate the agenda of political choices in a manner that makes others fail to express some preferences because they seem to be too unrealistic’.²¹ The linkage that Moscow has fostered between ‘uncooperative’ policies and high energy prices

²¹ Nye, ‘The Benefits of Soft Power’.

has persuaded many that it would be dangerous to implement certain policies required in the national interest. The result is a form of political self-censorship. Some Baltic leftist political parties, business interests and media have bought into this view and lobby in favour of closer relations with Russia, arguing that it will result in economic benefits or energy security. Likewise fear-mongering was popular among the centre-left political parties as to the consequences of non-cooperative policies towards Russia such as unbundling policies or privatization of assets to non-Russian companies.

Conclusions: the implications of Russia's influence

During the Baltic states' period of pre-accession to the EU and NATO, their relations with Russia were described by Carl Bildt as a 'litmus test' of the latter's willingness to leave behind imperialist ambitions towards its 'near abroad'.²² In the light of contemporary Russia's soft and hard-power methods in the Baltics, this litmus test remains equally relevant today. Russia continues to insist upon its presumptive right to maintain a guiding influence on areas of Baltic state policy deemed important to its interests. While there is nothing illegitimate about a foreign state using soft power, lobbying, economic policy and cultural ties to advance its policy objectives, the problem in this case is that Russia's manner of pursuing these objectives impinges upon important areas of national sovereignty and undermines core interests of the target states.

Yet Russian practices emerge in a context that needs to temper judgments. Much of Russia's influence in the Baltics is inherent, the result of Tsarist and Soviet legacies as much as current policies. Russian diasporas and Russian culture have been part of the social matrix in at least two of these countries, and the survival of transnational affinities is hardly remarkable. Likewise, the region's energy dependency is a product of what had been a tight *interdependency* during the Soviet period, and it is not surprising that Russia would retain an

interest in the energy policies of successor states that, after 1991, became transit corridors for its energy exports to Europe. That Russia derives influence from this legacy is not in itself insidious. That it maintains an interest in the policies pursued by its neighbours is not in itself blameworthy.

The context is also shaped by the fact that many of the weaknesses that constrain the Baltic states are self-induced. In this paper, attention has been drawn to the fragility of political parties, the corruptibility of individuals, the lack of professionalism in state service and the relative immaturity of political elites. The loyalty to Moscow exhibited by a portion of Russian minorities reflects as much a failure on the part of Latvia and Estonia to integrate these minorities as it does the success of Russia's compatriot policies. The persistence of energy dependency is also a reflection of the failure of Baltic elites to address the vulnerabilities that they have inherited.

The thesis of this paper is not that Russia has created these weaknesses but that it seeks to preserve them and obstruct those who seek to overcome them. This fact in itself makes Russian influence very different from that of the EU, the Scandinavian countries and the United States. Moscow's approach also differs notably from the prevalent Western understanding of soft power. It serves to divide rather than unite and to arouse apprehension rather than provide comfort. As a number of cases outlined above have illustrated, Russian soft power is often accompanied by harder elements. Under these circumstances, it is not unreasonable for the Baltics to conclude that Russia's primary interest is to diminish their independence. This makes it difficult for the governments and citizens of the region to draw a line between legitimate and illegitimate Russian interests, let alone establish a balance of interests that would transform 'good neighbourliness' from a slogan into a reality.

The paper has also argued that the anxiety generated by Russia's approach does not necessarily translate into success. Where it has succeeded, this can often be

22 Carl Bildt, 'The Baltic Litmus Test: Revealing Russia's True Colors', *Foreign Affairs*, September/October 1994.

attributed to the simultaneous use of softer and harder methods of influence, especially when the latter have been mainly implicit. As noted, this formula has been used effectively with regard to economic investment and the acquisition of gas infrastructure. Yet there also have been cases (notably Russia's response to the 2007 relocation of the Soviet monument in Tallinn) where a less subtle application of the formula rebounded against Russian objectives.

The study also raises two wider questions. The Baltic states are now geopolitically part of the West, but does that mean they are integrated with it? In military and security terms, there is little reason to doubt this. When it comes to many parts of the economy and 'ease of doing business' in these sectors, the answer would also be positive. But in other spheres (especially but not confined to the energy sector), political and business cultures are still highly influenced by, and reflect the values of, the former imperial power. The Baltic example should refine the West's perceptual lens. It suggests that integration is neither indivisible nor irreversible.

The second and more problematic question is what Russia's policy in the Baltics says about its deeper intentions regarding the post-Cold War order in Europe. If there had been any doubt about its dedication to the creation of 'a Europe whole and free', Dmitry Medvedev's assertion of Russia's right to regions of 'privileged interests' has probably dispelled it.²³ The burden of this paper has been to suggest that, irrespective of their membership of NATO and the EU, Moscow is unwilling to forgo a

number of its former 'privileges' in the Baltic states. But where does this sphere of 'historically' privileged relations end? If NATO and EU membership do not demarcate the limits of this sphere, does the demarcation line lie at the borders of the former Soviet Union and former Warsaw Pact countries? Russian policy and sometimes even Western policies towards former members of the Soviet Union and former Warsaw Pact countries seem predicated on the assumption that this is so. The question not addressed here – but that needs to be – is whether this line is a principled one, recognized by Moscow, or a provisional one dictated by the correlation of forces. It would not be surprising if the eurozone crisis led to a revision of this assumption.

Looking forward, ebbs and flows in Russia's influence can be expected. Neither the correlation of forces nor the appeal of Russian culture and values in the Baltics is static. They fluctuate with global developments, the economic performance of Russia and Baltic domestic conditions. During the recent global financial crisis, Russia and its leadership were more positively regarded by a broader segment of the Baltic population than during the Baltic boom years of the early and mid-2000s, which were fuelled by the optimism about economic growth and EU and NATO accession. If the EU and the United States wish to retain their influence in the Baltics and to continue to export the values of democracy and market economics that they represent, policy-makers in Brussels and Washington will need to keep in mind this fluidity and its effects in the Baltic states.

23 Interview with NTV [*Interv'yu Dmitriya Medvedeva telekanalam <Rossiya> pervomu, NTV*], 31 August 2008. The ambiguity is heightened by Medvedev's assertion that 'in these regions countries are situated with which we are tied by good-neighbourly relations, historically based relations'.
