

Questions for the Record
Senator Amy Klobuchar

1. Independent Press. In your report, you emphasize the important role of an independent press in countering threats of corruption and Russian influence. You also recommend that aid programs be focused on maintaining and strengthening investigative journalism and a free press. My father was a newspaper reporter, and one of my priorities has been protecting the press's role as a watchdog in our own democracy.

1. a. Can you elaborate on what you have observed in terms of efforts to suppress a free press in countries at risk of capture by Russian interests?

There are two main line of efforts to suppress a free press which we observed. The first is political interference and manipulation by government authorities. This has occurred most visibly in Hungary where in 2010, the country passed laws that increased state oversight of the media after which the press environment progressively declined due to government agency and police interference. For example, government supporters were placed in key management roles, replacing independent directors: in 2015, government Film Commissioner Andras Vajna purchased TV2, the second-largest commercial TV station in Hungary, a sale supported by a \$37.9 million loan from the state-owned Eximbank. After the purchase, news programs were completely restructured, and Prime Minister Viktor Orbán's press officer's partner received the position of news editor.¹ Laws were passed in 2010 which restructured media supervision by creating a Media Council that was placed in charge of 'content regulation.' The head of this Council was given the authority to nominate executive directors for all public media. The first head of the Council – deemed a Fidesz “puppet” by opposition parties² – was elected in 2013. After the creation of the Media Council, independent media outlets lost or almost lost their licenses due to irregular tendering and licensing decisions by the Council. One example of this is Klubradio, a popular liberal news and talk radio station that saw its frequency come up for renewal in 2011, for which the Council issued a tender. The tender was made for an almost all-music station which excluded Klubradio from competition. The tender was awarded to an unknown company but strong public pressure allowed Klub to regain its frequency in 2013.^{3,4} Government supported outlets in Hungary which report favorably about the government receive government financial support while independent outlets are frequent victims of governmental retaliation (lawsuits, fines, etc.).⁵ More recently, in the fall of 2016, the largest opposition newspaper in Hungary, Nepszabadsag, abruptly closed its doors due to reports of government interference after the newspaper's last editions reported government officials' lavish expenses and luxury lifestyles – officials serving in Prime Minister Orbán's government.⁶

The second effort is by gaining financial and monopolistic control over the media space. Our report notes that Russian state-funded businesses are increasing their strategic acquisitions of local news outlets in

¹ Budapest Beacon, “Politics has taken over Hungarian media,” February 8, 2016, <http://budapestbeacon.com/featured-articles/politics-taken-hungarian-media/44419>.

² Freedom House, “Hungary,” *Freedom of the Press 2016*, 2016, <https://freedomhouse.org/report/freedom-press/2016/hungary>.

³ Center for Media, Data and Society, “Hungary's Media Authority: The Issue of Powers,” CEU School of Public Policy, September 7, 2012, <http://cmds.ceu.edu/article/2012-09-07/hungarys-media-authority-issue-powers>.

⁴ Hungarian Media Monitor, “Klubradio wins frequency fight,” March 15, 2013, <http://mediamonitor.ceu.hu/2013/03/15/klubradio-wins-frequency-fight/>.

⁵ Freedom House, *ibid*.

⁶ Helene Bienvenu, “Newspaper Closes in Hungary, and Hungarians See Government's Hand,” *The New York Times*, October 11, 2016, <https://www.nytimes.com/2016/10/12/world/europe/hungary-newspaper-nepszabadsag.html>.

Europe, using an opaque network of intermediaries, which allows the Kremlin to gain greater control over the news content and bias while reducing space for independent journalism. We found strong evidence of this in Bulgaria and the Baltic States: for the former, the largest telecommunications operator BTW was acquired through an opaque merger approval process, and for the latter, entities close to the Kremlin increasingly control Russian-language media outlets that make ethnic Russians more susceptible to state-directed campaigns. Political interference and dominance over ownership of telecommunications sectors deliver crippling blows to independent media and favorably shape public opinion in support of Russia's interests.

1. b. How is investigative journalism a necessary tool in addressing these threats? In your view, what measures should the United States take to support these efforts?

Continued support of independent journalism and enabling free outlets to disseminate their research and findings, particularly unmasking corruption and illicit financing, is vital. We found a particularly helpful source for supporting independent journalism was the Organized Crime and Corruption Reporting Project (OCCPR) which receives USAID funding. It is an investigative reporting platform bringing together non-profit investigative centers, journalists and major news organizations from around the world. Its mission is to provide transnational investigative reporting to help readers understand how organized crime and corruption functions in varied countries and sometimes within governments. One very recent report by OCCPR, entitled *The Russian Laundromat*, exposes a complex money laundering system used to move more than \$20 billion of Russian money “stolen from the government by corrupt politicians or earned through organized crime activity”.⁷ Linking shell companies to banks and corrupt judges in Russia, Latvia and Moldova, the report illustrates how Russian funding enters the EU financial system primarily through Latvia and Cyprus. The *Kremlin Playbook* benefitted from such investigative work as the Panama Papers – another project in which OCCPR participated – which provided detailed linkages between Russian figures and local intermediaries. Reports like *The Russian Laundromat* help the public and policymakers better understand how malign influence negatively impacts democratic institutions and jeopardizes national security. Greater public awareness in turn spurs action by policymakers and legislators to eliminate loopholes and punish offenders.

The United States can contribute to safeguarding the free press in several ways. First, there must be a new U.S. assistance strategy for Central and Eastern Europe as well as the Western Balkans which prioritizes combating Russian influence through greater anti-corruption efforts, judicial reform and greater transparency of the media and telecommunications sector, as well as “maintaining and strengthening investigative journalism and independence of the media environment”.⁸ This assistance must address both monopolistic control over the media environment, such as requirements to disclose beneficial ownership and financial disclosure laws to track possible Russian-sourced illicit flows or influence in the media landscape, and government action to suppress media freedom. Ideally, the U.S. would work in close partnership with the EU to implement this strategy.

2. Dangers of Economic Concentration. I am the Ranking Member of the Antitrust Subcommittee, and I know that you’ve raised concerns about Russia’s ability to exploit increasing economic concentration in other countries. In the *Kremlin Playbook*, you have a chapter called “Russian Economic Influence: Exploiting Capitalism’s Weaknesses,” and you note that Russia has

⁷ Organized Crime and Corruption Reporting Project, Novaya Gazeta and RISE Moldova, “The Russian Laundromat,” March 2017, <https://www.reportingproject.net/therussianlaundromat/>.

⁸ CSIS and CSD, *The Kremlin Playbook*, October 2016, p. 32.

manipulated policy in countries like Bulgaria and Hungary by exploiting the lack of competition and acquiring market dominance in certain economic sectors.

2. a. How does Russia exploit the lack of competition and regulation in certain economies to advance its agenda and destabilize democracies?

The Kremlin uses its economic influence to manipulate market dynamics to accumulate unfair profits and influence local and national decision-making that can benefit Russia. The main vehicle for this is its dominance of strategic sectors of the economy, principally the energy sector but increasingly the telecommunications, finance, transportation, infrastructure and real estate sectors as well. Russia's activity in these sectors remains concealed to a certain extent thanks to a network of foreign shell companies and offshore accounts. This opacity allows the Kremlin to skirt laws that require local ownership, acquire a dominant position in the marketplace and obscure beneficial ownership. If authorities do not conduct sufficient due diligence and rigorous scrutiny of existing regulations and transparency requirements, these authorities enable (and some profit from) Russian malfeasance. Russia exploits these conditions by effectively using a network of highly knowledgeable and influential local affiliates who know how to secure nontransparent public procurement tender processes or overinflated contracts. Lack of competition, oversight and transparency enable Russian influence.

Furthermore, Russian influence is concentrated in strategic sectors which contain the greatest control as well as financial reward for Russia and the greatest vulnerabilities to the state (such as energy or the financial sector) which make it more difficult for officials to crack down on illicit or questionable transactions and activity at the risk of seeing these flows stop. By exploiting the structural deficiencies in the management of public resources, including a lack of strong regulations, Russia gains significant influence over strategic sectors of the economy which allows it to influence policymaking and possibly destabilize anti-corruption efforts as well as democratization. Market competition, rigorous enforcement of regulations and transparency minimize Russian influence.

2. b. Which countries are most vulnerable, and what should be done to stop it?

Countries with specific historical and/or cultural ties to Russia and those countries that maintain economic links with Soviet/Russian intelligence and security networks are generally more at risk of Russian meddling but no country is immune. The Kremlin effectively uses all of these "touch points" as tools of statecraft. Bulgaria is an example where all of these touchpoints have been actively used to great effect. Russia's economic presence represents over 22% of the Bulgarian economy. Historical and cultural ties with Russia are also strong in Bulgaria.

We are also increasingly concerned about countries in the Western Balkans that have strong Russian networks within their countries but also actively seek partnership with and membership in Euro-Atlantic institutions. The region's challenging economic situation and active Russian networks have allowed the Kremlin's influence to deeply embed in the economy, particularly in Montenegro and Croatia. For example, one-third of Montenegro's foreign direct investment in recent years has come from Russia⁹, while in Croatia exchange of goods with Russia had grown by 25% between 2013 and 2014.¹⁰

⁹ Kenneth Rapoza, "Despite Montenegro's 'Westward Ho', Russian Investment Unlikely to Dissipate," *Forbes*, November 30, 2015, <http://www.forbes.com/sites/kenrapoza/2015/11/30/despite-montenegros-westward-ho-russian-investment-unlikely-to-dissipate/#4a2581c11d17>.

¹⁰ Sven Milekic, "Croatia-Russia Trade Forum Opens in Moscow," *Balkan Insight*, February 17, 2015, <http://www.balkaninsight.com/en/article/high-croatian-representation-in-moscow-despite-eu-sanctions>.

What can be done? First and foremost, the United States must consistently signal that it closely monitors Russian influence in Europe and it will not hesitate to speak out about growing Russian influence. This could be accomplished by the State Department issuing an annual report of European states at the highest risk of Russian influence. We encourage additional Congressional hearings on this subject and Congressional visits to countries of particular concern to highlight U.S. concern. Intelligence agencies should also give greater priority to detecting Russian influence operations in Europe.

Second, U.S. assistance and diplomatic engagement must support activities which strengthen the independence of the judiciary and prosecution offices to ensure that cases of corruption are prosecuted. Policies must be strengthened to enhance public transparency of state-funded business transactions and to help countries develop them where they do not yet exist. National and international authorities should enhance procurement transparency through public disclosure requirements as well as establish regular reports and improve benchmarking for diversification efforts, especially in strategic economic sectors. Finally, in the most egregious cases and where the U.S. financial system is involved in illicit financing, targeted sanctions against involved entities should be considered.