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THE KREMLIN PLAYBOOK 2

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Case Study

Czech Republic

Since the fourteenth century, the Czech Republic has been an important intersection between East and West. The country's relationship with Russia dates back to the emergence of the pan-Slavic movement in the mid-nineteenth century, but these ties frayed in the early twentieth century following the collapse of the Russian Empire and Czechoslovakia's independence in 1918. At the end of the Second World War, a Soviet-supported communist coup in 1948 led to Czechoslovakia's incorporation into the COMECON, an economic association of former Communist states, and the Warsaw Pact. The country remained a Soviet satellite until the 1989 Velvet Revolution (despite a brief and tragic period of reform in 1968, the Prague Spring, which was brutally repressed by the Soviet military). Following the fall of the Berlin Wall, the Czech Republic separated peacefully from the Slovak Republic in 1993. The country ultimately joined NATO in 1999 and the European Union in 2004, cementing its Euro-Atlantic orientation.

Yet, despite its almost half-century struggle against communism and aspiration for reform, the Czech Republic remains divided today: the government espouses a pro-Western foreign and security policy, while the country retains an active Communist Party and has elected successive Czech presidents who have been reluctant to embrace Euro-Atlantic institutions and values. This, in turn, has made the Czech Republic a target-rich environment for Russian malign influence. This paradox has shaped Prague's cautious and hesitant regional policy approach, such as its initial reluctance to recognize Kosovo's independence in 2008 (Social Democrats and Communists were firmly opposed to it) or its generally ambivalent position on EU-imposed sanctions against Russia.¹

The Czech Republic's governance standards have not substantially improved since its accession to EU membership, apart from the strengthening of judicial independence and transparency. State capture risks persist, allowing the commingling of oligarchic and political interests in decision-making. Corruption has worsened in recent years, fueled by clientelism, while media freedom has suffered from the concentration of ownership in a few hands and the spread of disinformation. The increasingly fragmented political landscape has enabled the decline in governance standards and encouraged political instability in the country: there have been eight prime ministers since 2005, two of which resigned after financial scandals, two suffered no-confidence votes in

1 Jan Richter, "Czech Government Hesitates to Recognize Kosovo," Radio Praha, February 19, 2008, <https://www.radio.cz/en/section/curaffrs/czech-government-hesitates-to-recognize-kosovo>.

parliament, and only one finished his full four-year term.^{2,3,4,5,6} Governing majorities have grown thinner in recent elections, contributing to this political fragility and limiting the country's ability to tackle tough policy challenges (the most recent election yielded a coalition of 93 seats out of 200, with the tacit support of the Communists' 15 seats creating a narrow total of 108).⁷ Popular disillusionment with politics has given rise to populist and nationalist voices as well as increasing Euroskepticism, providing entry points for Russian malign influence in a country that was at the vanguard of post-Communist democratization and pro-Europeanism in the 1990s.

Though much of the governance failings are internally driven and the public remains generally wary of close ties with Russia, Moscow's presence in the Czech Republic remains visible at the economic and political levels. The country offers a central geographic location, strong regional linkages, and perhaps most importantly for Russian interests, lackluster enforcement of anti-corruption laws.⁸ It provides a lucrative target for Russian malign influence through its public procurement contracts (in energy, transportation, and infrastructure) and a gateway for illicit funds through its banking system and telecommunications. Its nuclear and automotive industries are well integrated into Western technological and value-added chains.

The local level—which has seen several corruption scandals in the past ten years—is an additional potential point of entry for malign economic influence. Because of the decentralized government structure in public funding, the local level is still responsible for many procurement contracts in transportation, infrastructure, and forestry that can be abused. For example, in 2012 the governor of Central Bohemia, David Rath, was arrested on charges of bribery (kickbacks worth millions of Czech crowns) and fraud related to an alleged manipulated tender.⁹ This is particularly worrying as the Supreme

2 Luke Harding, "Czech PM resigns after home loan scandal and waning support," *Guardian*, April 10, 2005, <https://www.theguardian.com/world/2005/apr/11/lukeharding>.

3 Kilian Kirchgessner, "Czech PM Petr Necas resigns over major corruption scandal," *Deutsche Welle*, June 17, 2013, <https://www.dw.com/en/czech-pm-petr-necas-resigns-over-major-corruption-scandal/a-16887266>.

4 Andrew Gardner, "Topolanek toppled: loses vote of no confidence," *Politico*, March 24, 2009, <https://www.politico.eu/article/topolanek-toppled-loses-vote-of-no-confidence>.

5 "New cabinet under Rusnok loses confidence vote in Czech Republic," *Deutsche Welle*, August 7, 2013, <https://www.dw.com/en/new-cabinet-under-rusnok-loses-confidence-vote-in-czech-republic/a-17004874>.

6 Robert Muller and Jason Hovet, "Czech PM quits as party leader but remains head of government," *Reuters*, June 14, 2017, <https://www.reuters.com/article/us-czech-politics/czech-pm-quits-as-party-leader-but-remains-head-of-government-idUSKBN1952LS>.

7 Jan Lopatka and Robert Muller, "Czech center-left party approves joining coalition, new government close," *Reuters*, June 14, 2018, <https://www.reuters.com/article/us-czech-politics/czech-centre-left-party-approves-joining-coalition-new-government-close-idUSKBN1JB05C>.

8 "Czech Republic Corruption Report," *Business Anti-Corruption Portal*, November 2017, <https://www.business-anti-corruption.com/country-profiles/czech-republic>.

9 Jeremy Druker, *Nations in Transit*, Czech Republic (Washington, D.C.: Freedom House, 2013), <https://freedomhouse.org/report/nations-transit/2013/czech-republic>.

Audit Office has no enforcement power and limited oversight competences at the local level, leaving the decentralized procurement structure vulnerable to abuse.

As early as 2005, the country's Security Information Service (intelligence services, BIS) warned that "Russia strives to use economic instruments for influence on the Czech Republic."¹⁰ BIS has noted this influence risk in all its reports since 2005 and observed that the Russian embassy in Prague is abnormally large for the size of the country (implying that there is a large presence of Russian agents under diplomatic cover). In 2014, the U.S. Department of State also warned the Czech Republic was vulnerable to money laundering and its financial institutions were targeted by criminal groups (particularly from former Soviet republics) for laundering purposes.¹¹ This makes the Czech Republic a sort of hybrid model of malign Russian economic influence: halfway between a more typical Central European recipient of such influence and an enabler of influence through its financial, telecommunications, and industrial sectors.

Russia's economic footprint in the Czech Republic has increased since 2006, principally through rising inward stocks of foreign direct investments (from €90 million in 2006 to €718 million in 2016), though these investments remain low at 1.3 percent of total inward FDI stocks. Czech exports to Russia saw a substantial rise before Ukraine-related sanctions went into force, but the country still runs around a €300 million trade deficit due to oil and gas imports from Russia (though this trade balance tilted in Prague's favor in 2016 with a surplus for the first time since 1989). Although Russia's corporate footprint has remained marginal (around 1 percent of the economy), the Czech Republic seems to play an important role in facilitating and transmitting Russian economic influence in Europe.

Out of the 86,000 companies directly owned or controlled by foreigners in the Czech Republic, Russian firms make up the largest share with over 13,000 registered entities (though this number has decreased slightly since 2015). The majority of these companies serve as shell entities with no or only minimal economic activity, and until 2009, some were used as vehicles to purchase real estate.¹² A significant number of companies in the Czech Republic have unclear ownership and many of them are suspected to be under Russian control; estimates from the Bisnode corporate data provider range from hundreds to several thousands of such companies.¹³ As an indicator, only around 100 of the Russian-owned companies operating in the Czech Republic declare over €1 million in annual revenues.¹⁴ Apart from these directly-owned companies, Russian business

10 Security Information Service, *Annual report of the Security Information Service (BIS) for 2005* (Prague, Czech Republic: Security Information Service, 2006), 8.

11 Bureau of International Narcotics and Law Enforcement Affairs, "Countries/Jurisdictions of Primary Concern – Czech Republic," U.S. Department of State, 2014, <https://www.state.gov/j/inl/rls/nrcrpt/2014/supplemental/227766.htm>.

12 "Conditions for foreigners when buying real estate in the Czech Republic," Central Group, <http://www.central-group.cz/page.aspx?page=titul-03&jv=3>.

13 Robert Břešťan, "Ruský byznys v Česku. TOP 10 ruských firem podle tržeb a kapitálu. Kdo vede?" *Hlidacipes.org*, September 14, 2015, <https://hlidacipes.org/rusky-byznys-v-cesku-top-10-rusky-ch-firem-podle-trzeb-a-kapitalu-kdo-vede/>.

14 CSD based on national and international corporate databases.

interests can be represented in other companies in the Czech Republic via proxy owners. Since regulation of the transparency of beneficial owners is weak in the Czech Republic, many large companies, including those significantly involved in public tenders, are not forced to disclose their ownership structure and/or ultimate beneficial owners.¹⁵

As in nearly all the case study countries, Russia's economic presence in the Czech Republic is most visible in the energy sector; around 66 percent of all imports from Russia are made up of oil and gas. In 2016, 55 percent of oil imports and 61 percent of gas imports came from Russia.¹⁶ BIS also warned in 2014 that Russian intelligence services were beginning to focus on power engineering and nuclear power in the Czech Republic as a way to expand their influence in Central Europe.¹⁷ The Czech Republic's two nuclear power plants, Dukovany and Temelin, are operated by the state entity, CEZ. They were built with Soviet technology, and all of their nuclear fuel needs are met by Russia's TVEL.¹⁸ In recent years, the government has looked at options to replace the aging nuclear plants, with the costs of new reactors for Dukovany estimated at 300 to 400 billion Czech koruna (or between €11 and €15 billion)—a potentially lucrative contract.¹⁹ Russia's Rosatom has been actively involved in the tender process for the modernization and expansion of Dukovany, though U.S. and Chinese investors have looked at those prospects as well.²⁰ The government may decide to simply extend the life of the Dukovany reactors to buy time before it makes a decision on this large project.

The government's approach to this procurement has been at odds with Czech president Milos Zeman's, who has publicly advocated for the contract to go to Rosatom along similar (non-competitive) conditions as Hungary's Paks power plant.²¹ Kirill Komarov, one

- 15 Eliška Hradilková Bártová, "Nejvíce v Česku investují firmy s německými majiteli a s vlastníky z daňových rájů. Čína se v žebříčku propadá," *Hlidacipes.org*, July 24, 2017, <https://hlidacipes.org/nejvice-cesku-investuji-firmy-nemeckymi-majiteli-vlastniky-danovych-raj-u-cina-se-zebričku-propada/>.
- 16 "Do České republiky proudí nejvíce ropy z Ruska," *Statistikaamy.cz*, November 2016, <http://www.statistikaamy.cz/2016/10/do-ceske-republiky-proudi-nejvice-ropy-z-ruska/>; See also: David Tramba, "Česko snižuje závislost na ruské ropě. U plynu a jaderného paliva to ale neplatí," *Euro.cz*, April 23, 2017, <https://www.euro.cz/byznys/cesko-snižuje-zavislost-na-ruske-rope-u-plynu-a-jaderneho-paliva-to-ale-neplati-1342892>.
- 17 Security Information Service, *Annual report of the Security Information Service (BIS) for 2014* (Prague, Czech Republic: Security Information Service, 2015), 10.
- 18 Jan Žižka, "Na palivo pro Dukovany získali monopol Rusové," *E15.cz*, December 6, 2011, <https://www.e15.cz/byznys/prumysl-a-energetika/na-palivo-pro-dukovany-ziskali-monopol-rusove-723511>.
- 19 James Shotter, "Prague weighs replacement options for nuclear plants," *Financial Times*, November 21, 2018, <https://www.ft.com/content/26cced6c-c8be-11e8-86e6-19f5b7134d1c>.
- 20 Jan Brož, "Jsme ochotni v Česku zafinancovat nové jaderné reaktory, nabízí Rusové," *Idnes.cz*, January 29, 2017, https://ekonomika.idnes.cz/rozhovor-s-kirillem-komarovem-dzk-/ekonomika.aspx?c=A170129_140709_ekonomika_ozr; See also: "Ruský Rosatom projevil zájem postavit nový jaderný blok v Česku," *Novinky.cz*, November 1, 2016, <https://www.novinky.cz/ekonomika/419292-rusky-rosatom-projevil-zajem-postavit-novy-jaderny-blok-v-cesku.html>.
- 21 Dalibor Rohac, "Murky Nuclear Business in New Europe," *American Interest*, November 12, 2018, <https://www.the-american-interest.com/2018/11/12/murky-nuclear-business-in-new-europe/>.

of Rosatom's directors and its chief negotiator in the Czech Republic, reiterated that Russia would be the financial guarantor of the contract, providing credit up to the full amount of construction costs. He suggested that a direct intergovernmental contract, reflecting Rosatom's previous experience in Paks, Hungary, would be more effective than a public tender.²²

The banking, engineering, and real estate sectors have also attracted Russian investments, some of which raised concerns within the government as early as 2008.²³ State-owned bank Vneshekonombank (VEB)—under EU and U.S. sanctions since 2014—owns one of the two largest suppliers of heavy vehicle parts in the Czech nuclear energy industry (Pilsen Toll) and rescued another engineering company operating in the Czech Republic, Pilsen Steel, from bankruptcy in 2012.^{24,25} Skoda JS, another large supplier of heavy vehicle parts, is owned by Russia's OMZ Holding. It is currently under U.S. sanctions for attempts to circumvent Ukraine-related sanctions on Russia.²⁶ In 2017, Škoda JS representatives were involved in the corruption investigation of former Ukrainian MP and Prime Minister Arseniy Yatsenyuk's advisor, Mykola Martynenko. Skoda JS's director, Miroslav Fiala, sent 30 million Swiss francs (around €25 million) from the company's bank account to Bradcrest Investment, a consulting company based in Panama, the beneficial owner of which is believed to be Martynenko. While Škoda JS claims that the sum was a consultation fee, Martynenko is under investigation in Ukraine for accepting a bribe and Skoda JS is under investigation in the Czech Republic for tax evasion in connection with the money transfer.^{27,28}

Scientific and technical sectors also provide important EU funds that Russia can tap into through Czech "middlemen," according to the Czech security services.²⁹ While Russian economic presence is not nefarious in and of itself, it seems to be concentrated in lucrative fields that either involve large public tenders (which have been the locus of corruption and bribes in the past) or poorly-regulated fields like real estate.

- 22 Jan Brož, "Tendr na jaderné bloky není efektivní. Je to ale možnost, říká šéf Rosatomu," iDnes.cz, February 4, 2017, https://ekonomika.idnes.cz/kirill-komarov-rosatom-rozhovor-jaderne-reaktory-dostavba-pq0/ekonomika.aspx?c=A170130_2302287_ekonomika_rts.
- 23 Former prime minister Topolánek was worried about Russian investments in the energy and media sectors. "The Czech Republic and A Resurgent Russia," WikiLeaks, September 22, 2008, https://wikileaks.org/plusd/cables/08PRAGUE623_a.html.
- 24 "Company Overview of Pilsen Toll S.R.O.," Bloomberg, <https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=276943948>; Pilsen Toll s.r.o., <http://www.pilsensteel.cz/en/pilsen-toll/>.
- 25 Lucie Sýkorová, "Pilsen Steel? To je nešťastný případ, takový vřed kraje," Neovlivni.cz, March 29, 2016, <https://neovlivni.cz/pilsen-steel-to-je-nestastny-pripad-takovy-vred-kraje/>.
- 26 "Treasury Sanctions Individuals and Entities for Sanctions Evasion and Activities Related to the Conflict in Ukraine," U.S. Department of the Treasury, September 1, 2016, <https://www.treasury.gov/press-center/press-releases/Pages/jl5048.aspx>.
- 27 Aneta Ščotková, "Uplácela Škoda JS ukrajinského politika? Vyšetřování se vleče, brzy má ale nastat průlom," E15.cz, July 30, 2017, <http://zpravy.e15.cz/domaci/udalosti/uplaccela-skoda-js-ukrajinskeho-politika-vysetrovani-se-vlece-brzy-ma-ale-nastat-prulom-1335264>.
- 28 Sabina Slonková, "Česká policie řeší korupci v blízkosti ukrajinského premiéra," Neovlivni.cz, January 21, 2016, <http://neovlivni.cz/uplaccela-cesko-ruska-firma-na-ukrajine-policie-rozjela-vysetrovani/>.
- 29 Security Information Service, *Annual report 2014*, 11.

Czech intelligence services and journalists have highlighted the risks of Russian-owned companies using Czech banks and shell companies for money-laundering purposes. The Czech Republic was indeed prominently featured in the Russian Laundromat, where 17 of the 21 main shell companies involved in the scheme sent money to Czech bank accounts.³⁰ These accounts appear to function as a pass-through to offshore accounts rather than be the actual recipient of funds. Large commercial lenders like PPF Bank (owned by Petr Kellner, an ally of Czech president Milos Zeman) and Raiffeisenbank reportedly hosted some of the Russian Laundromat accounts used for these transfers.^{31,32} The banks collaborated with Czech financial investigators and did report these transactions as non-standard.³³

Russian-linked banking entities also offer a foothold into the wider European market. Notably, in 2014, the now-defunct First Czech-Russian Bank, owned by Russian businessman Roman Popov, extended a €9 million loan to France's far-right National Front (now called National Rally) after it failed to secure other sources of funding.³⁴ Popov's other bank, the European-Russian Bank (ERB), was the first Russian-owned bank to acquire a banking license in an EU member state after it opened in Prague in 2008. However, the Czech National Bank stripped the ERB of its license in 2016 for poor risk management and the lack of systems to prevent money laundering.³⁵ The bank's resulting insolvency left it owing €120 million to the Czech Deposit Insurance Fund.³⁶ The second largest bank on the Czech market with 100 percent Russian ownership is Expobank CZ, which is owned by Igor Kim, a Russian-Kazakh banker with alleged ties to Vladimir Putin.³⁷ In 2017, Expobank CZ expanded to Serbia, where it acquired Marfin Bank a.d. Beograd.³⁸ In 2017, Expobank reported 25.5 billion Czech korunas in total assets (€980 million), which is about 0.3 percent of all assets held in the Czech banking sector.

30 "Česka spojka v ruske prace," *Investigace.cz*, March 20, 2017, <https://www.investigace.cz/ceska-spojka-v-ruske-pracce/>.

31 "CEE's Top Business Leaders: Central Europe," *bne Intellinews*, May 12, 2017, <http://www.intellinews.com/cee-s-top-business-leaders-central-europe-121404/>.

32 "Česka spojka v ruske prace."

33 *Ibid.*

34 Damien Sharkov, "France's Front National Accepts €9M Loan from Russian Bank," *Newsweek*, November 25, 2014, <https://www.newsweek.com/frances-front-national-accepts-eu9m-loan-russian-bank-286999>.

35 Jason Hovet and Jan Lopatka, "Russian-owned Czech lender ERB loses banking license," *Reuters*, October 24, 2016, <https://www.reuters.com/article/us-czech-erb/russian-owned-czech-lender-erb-loses-banking-license-idUSKCN12O114>.

36 Daniel Novak, "Banka ERB skončila v insolvenční. Garančnímu fondu dluží přes tři miliardy," *E15.cz*, October 30, 2017, <https://www.e15.cz/byznys/finance-a-bankovnictvi/banka-erb-skončila-v-insolvenční-garancnímu-fondu-dluží-pres-tri-miliardy-1339160>.

37 "Igor Kim preparing offer for purchase of Marfin Bank Serbia", *Ekapija.com*, September 28, 2016, <https://www.ekapija.com/en/news/1556115/igor-kim-preparing-offer-for-purchase-of-marfin-bank-serbia>.

38 "Historie společnosti," *Expobank*, 2018, <https://www.expobank.cz/domu/o-expobank/#profile>.

In addition to Russian economic activity in the Czech Republic, one must also understand the Czech economic presence in Russia as a potential tool of influence and leverage. An interesting pattern emerges when looking at the reverse flow of the Czech-Russian trading relationship. Before EU sanctions were imposed in 2014, Czech exports to Russia had been rising since 2005 before stagnating to around €4.7 billion in 2012 (primarily automotive parts and data processing systems).³⁹ The Czech business community is active in Russia: a delegation accompanied President Zeman to Russia in 2017 to the Czech-Russian Business Forum, and 19 companies signed contracts worth €750 million with Russian counterparts.⁴⁰ PPF Group, PPF Bank's parent company and the largest Czech investment firm, has been active on the Russian market for twenty years; it owns the consumer finance company Home Credit, which is PPF's highest-priced asset in Russia (€2.8 billion).⁴¹ The group has been officially based in the Netherlands since 2001, and in 2017, the reported value of its assets was €38 billion, about 17 percent of which are located in Russia.⁴²

Czech exports and foreign ventures in Russia present political or commercial risks, which are protected by the Export Guarantee and Insurance Corporation (EGAP), a state-run credit insurance corporation. In 2017, EGAP's highest indemnity payments by far were in Russia after the failure of multiple insured projects, totaling close to €75 million.⁴³ By the end of 2017, Russia remained the country where EGAP has its largest gross outstanding insurance exposure—close to €1.4 billion.⁴⁴ The Czech Export Bank (CEB) and EGAP—together forming the Export Credit Agency (ECA)—have recently come under scrutiny for a string of badly managed projects,⁴⁵ including an unfinished gas-fired power plant in Poljarnaja, Russia, for which the CEB had loaned Czech company PSG around €330 million.⁴⁶ These risky investments, some of which are in collaboration with dubious Russian companies and local oligarchs, weigh on the Czech state's finances while potentially enriching Russian companies and oligarchs and their Czech partners at the expense of Czech taxpayers.

Beyond the economic interest of Czech firms, leading Czech businessmen with economic ties to Russia gravitate around high political circles, particularly Czech presidents.

39 Eurostat.

40 "Czech Presidents' visit to Russia: IIB partakes in a dialogue between businessmen from both countries," International Investment Bank, November 23, 2017, <https://iib.int/en/articles/print/vizit-prezidenta-chehii-v-rossiyu-mib-uchastvuet-v-dialoge-biznesmenov-dvuh-stran>.

41 "Richest Czech pursues new investment venture in Russia," *Aktualne.cz*, May 18, 2011, <https://zpravy.aktualne.cz/richest-czech-pursues-new-investment-venture-in-russia/r-i:article:700692/>.

42 "PPF Group Annual Accounts 2017," PPF Group, <https://www.ppf.eu/cs/financni-vykazy>.

43 Export Guarantee and Insurance Corporation, *Vyrocni zprava Annual Report 2017* (Prague, Czech Republic: Export Guarantee and Insurance Corporation, 2018).

44 Ibid.

45 Dan Heuer, "Lack of transparency hindering Czech export agency," Bankwatch Network, February 15, 2017, <https://bankwatch.org/blog/lack-of-transparency-hindering-czech-export-agency>.

46 Chris Johnstone, "Czech Building Company PSG Withdraws from Major Russian Contract," *Radio Praha*, August 31, 2015, <https://www.radio.cz/en/section/business/czech-building-company-psg-withdraws-from-major-russian-contract>.

PPF owner Peter Kellner has at times praised Vladimir Putin, has donated millions to former Czech president Vaclav Klaus's think-tanks (which are supportive of the Kremlin), and has in the past claimed that U.S. military presence in the Czech Republic would hurt Czech business interests in Russia.^{47,48,49} Martin Nejedly, who is now an economic advisor to President Zeman and was his campaign financial manager in 2013, is another notable individual close to the presidency. Nejedly was the founder of a joint-stock investment company, ENE Investment, and later became the general manager for Lukoil Aviation Czech, a subsidiary of Russian energy firm Lukoil, between 2007 and 2016. Nejedly, who was a car dealer in the 1990s, is believed to have spent years working in Russia during that time.⁵⁰ In 2014, Lukoil Aviation Czech was fined 27 million Czech korunas (€1.03 million) for an emergency kerosene supply procurement that was not properly carried out (the company supplied less fuel than initially agreed).⁵¹ In a positive sign, President Zeman threatened to fire Nejedly if he did not take care of the issue, which was resolved when Lukoil paid the fine in full in 2016.⁵² Nejedly today retains his position as a close confidant and adviser to President Zeman, despite the fact that he is not formally on the government payroll.⁵³

Close to Nejedly is Frantisek Konicek, a former member of the Czech Communist Party who also has ties to President Zeman and is an adviser to Prime Minister Andrej Babis. He was reportedly in the running for minister of trade and industry in the current government, where he would have had influence over some of his own businesses.⁵⁴ Indeed, his company, ICB Prague, has supplied valves for the Dukovany and Temelin nuclear power plants and is part of the Alliance of Czech Energy, which signed a memorandum of cooperation with Rosatom in 2017. The memorandum stated the Alliance was "ready to assist in obtaining export finance for Czech companies to be able to take part in the projects" despite EGAP and ECA incurring losses for similar projects in the past.⁵⁵

47 In 2012, Kellner noted that PPF welcomed Putin's reelection. István Léko, "Kellner o korupci, Klausovi, Ficovi a Putinovi," *Česká pozice*, April 10, 2012, http://ceskapozice.lidovky.cz/kellner-o-korupci-klausovi-ficovi-a-putinovi-fnr-/tema.aspx?c=A120410_105530_pozice_63317.

48 Christian Falvey, "Kellner Donates Tens of Millions to Vaclav Klaus Institute," *Radio Praha*, April 10, 2012, <https://www.radio.cz/en/section/news/kellner-donates-tens-of-millions-to-vaclav-klaus-institute>.

49 "The Czech Republic and A Resurgent Russia," WikiLeaks.

50 Daniel McLaughlin, "Czechs launch anti-propaganda unit with close eye on Russia," *Irish Times*, January 1, 2017, <https://www.irishtimes.com/news/world/europe/czechs-launch-anti-propaganda-unit-with-close-eye-on-russia-1.2922787>.

51 Jan Kalal, "Zeman navštíví Sobotkovu vládu. Dluhy Nejedlého budou tabu," *Echo24.cz*, July 15, 2014, <https://echo24.cz/a/wLxGU/zeman-navstivi-sobotkovu-vladu-dluhy-nejedleho-budou-tabu>.

52 Neil MacFarquhar, "How Russians Pay to Play in Other Countries," *New York Times*, December 30, 2016, <https://www.nytimes.com/2016/12/30/world/europe/czech-republic-russia-milos-zeman.html>.

53 Ibid.

54 Matej Slavik, "Ministrem průmyslu má být muž blízký Hradu. František Koníček v minulosti kandidoval za Zemanovce a seděl v Rusnokově úřednické vládě," *Hospodarske Noviny*, June 13, 2018, <https://domaci.ihned.cz/c1-66167880-ministrem-prumyslu-ma-byt-muz-blizky-hradu-frantisek-kmonicek-v-minulosti-kandidoval-za-zemanovce-a-sedel-v-rusnokove-urednicke-vlade>.

55 "ROSATOM and Czech Power Industry Alliance Sign Memorandum of Understanding," Rosatom, June 20, 2017, <http://www.rosatom.ru/en/press-centre/news/rosatom-and-czech-power-indus>

President Zeman has made no secret of his support for positive relations with Moscow and has repeatedly called for an end to sanctions against Russia,⁵⁶ calling the annexation of Crimea a “fait accompli.”⁵⁷ He is a close friend of Vladimir Yakunin, the former head of Russian Railways, who is under U.S. sanctions for his support of Russia’s annexation of Crimea and aggressive behavior in eastern Ukraine.⁵⁸ Former Czech president Vaclav Klaus has voiced similar opinions on Crimea and in 2008 advocated for a tempered reaction to the Russian invasion of Georgia, even going as far as blaming Georgia for the conflict.^{59, 60} President Klaus grew increasingly Euroskeptic during his tenure (2003–2013) and remains an active pro-Russian voice in the Czech Republic.

Some Czech political parties, like the far-right Freedom and Direct Democracy (SPD) party and the Communists (KSCM), pursue pro-Russian, anti-NATO, and Euroskeptic policies. The SPD, formed only in 2015 after splitting from another far-right party, came in fourth place in the 2017 parliamentary elections. Following those elections, SPD obtained the chairmanship of the security committee in the Chamber of Deputies,⁶¹ an influential role that could threaten security cooperation with NATO should SPD misuse information obtained in the committee.⁶² SPD leader Tomio Okamura has ties to the pro-Russian Institute for Slavic Strategic Studies, an organization founded in 2013 that organizes seminars in the Czech Parliament promoting pro-Russian policies and criticizing U.S. and European policies.⁶³

For the first time since 1989, Prime Minister Andrej Babis formed a government that relies on the support of KSCM in parliament, after failing to secure the support of enough deputies from moderate parties. Although no KSCM member has received a ministerial position, they now have the means to exert pressure on government policy. This was already visible during coalition negotiations in June 2018, when the Commu-

try-alliance-sign-memorandum-of-understanding/.

56 Jan Richter, “President Zeman Calls for Lifting of Russia Sanctions at Event Organized by Putin Associate,” Radio Praha, September 29, 2014, <https://www.radio.cz/en/section/curaffrs/president-zeman-calls-for-lifting-of-russia-sanctions-at-event-organized-by-putin-associate>.

57 “Czech President, PM Clash Over Russia Sanctions For Crimea Annexation,” Radio Free Europe/Radio Liberty, October 10, 2017, <https://www.rferl.org/a/czech-president-zeman-crimea-sanctions-russia-sobotka/28785176.html>.

58 Leonid Ragozin, “The Putin adoration society,” Politico, October 11, 2015, <https://www.politico.eu/article/the-putin-adoration-society/>.

59 Gregory Feifer and Brian Whitmore, “The Velvet Surrender,” *New Republic*, September 17, 2010, <https://newrepublic.com/article/77397/russian-aggression-the-velvet-surrender-vladimir-putin-vaclav-klaus-czech-republic>.

60 Ramesh Jaura, “CZECH REPUBLIC: Georgia Sets Off an Old Debate,” Inter Press Service, August 23, 2008, <http://www.ipsnews.net/2008/08/czech-republic-georgia-sets-off-an-old-debate/>.

61 “Radek Koten,” Parliament of the Czech Republic, <http://www.psp.cz/en/sqw/detail.sqw?id=6508&o=8>.

62 “LN: Voices warn against pro-Russia SPD in Czech security body,” *Prague Daily Monitor*, November 2, 2017, <http://praguemonitor.com/2017/11/02/ln-voices-warn-against-pro-russia-spd-czech-security-body>.

63 Petra Vejvodova, Jakub Janda, and Veronika Vichova, *The Russian Connections of Far-Right and Paramilitary Organizations in the Czech Republic* (Budapest, Hungary: Political Capital, 2017), 21-25.

nists and President Zeman opposed the appointment of Miroslav Poche as minister of foreign affairs—and ultimately won, as Poche was seen as too pro-immigration and openly supported President Zeman’s opponent in the 2018 presidential election.⁶⁴ This move has elevated the stature and leverage of KSCM’s Chairman, Vojtech Filip, who has close ties with Moscow and has advocated for a Czech withdrawal from NATO. He visited the Russian Duma in November 2014—months after the invasion of Ukraine—and met with United Russia’s Deputy Secretary Sergei Zheleznyak.⁶⁵ President Zeman has maintained good relations with KSCM; he spoke at both KSCM’s and SPD’s party congresses in 2017 and 2018, the first time since 1990 that a Czech president attended the Communist party’s conference.⁶⁶ Both Tomio Okamura and Vojtech Filip are currently vice-presidents of the Czech Chamber of Deputies.

Russian economic, political, and societal influences in the Czech Republic blend together in the media sector, though Russian investments themselves have remained subdued. Due to lax ownership restrictions on media companies, many media firms are foreign-owned and media consolidation has increased in recent years.⁶⁷ Communist voters and supporters of President Zeman tend to read more pro-Russian media, and Russia has used the internet and other channels of information to support its interests.⁶⁸ The presence and prevalence of pro-Russian Czech-language media have increased since the annexation of Crimea in 2014 and was actively used in 2015, when a U.S. armored convoy was set to drive through the Czech Republic as part of a military exercise.⁶⁹ Ahead of the tour, opposition groups appeared on social media, and pro-Russian outlets like Sputnik reported large protests were being organized against the convoy. KCSM called for protests and distributed signs with anti-U.S. slogans. Ultimately, the size of the protests was dwarfed by the number of supporters who came to cheer on the U.S. military (still fondly remembered for the liberation of Pilsen in the Second World War). However, many of the websites used to rally protesters remain online and continue to publish distinctly pro-Russian articles, as well as push a negative line against Ukraine in particular. Some of the Facebook groups that opposed the convoy still convey anti-U.S.

64 “Miroslav Poche v 10 bodech: Kdo je politik ČSSD, proč ho Zeman a komunisté odmítají a co má za sebou,” Reflex, June 20, 2018, <https://www.reflex.cz/miroslav-poche-cssd>.

65 Dominik Jun, “Czech Parliament Declares Opposition to Vojtech Filip Russia Trip,” Radio Praha, November 6, 2014, <https://www.radio.cz/en/section/curaffrs/czech-parliament-declares-opposition-to-vojtech-filip-russia-trip>.

66 “Babis aims for Czech administration with Communist ‘tolerance,’” bne Intellinews, February 22, 2018, <http://www.intellinews.com/babis-aims-for-czech-administration-with-communist-tolerance-137215/>.

67 Lubomír Kopeček, *Nations in Transit 2016, Czech Republic* (Washington, D.C.: Freedom House, 2016), <https://freedomhouse.org/report/nations-transit/2016/czech-republic>.

68 Pavel Štrunc, “Zeman a Klaus jsou součástí ruské mašinerie, pro Kreml jsme cenní jako Francie, říká analytik Šlerka,” Info.cz, August 16, 2017, <https://video.info.cz/strunc/zeman-a-klaus-jsou-soucast-ruske-masinerie-pro-kreml-jsme-cenni-jako-francie-rika-analytik-slerka-14406.html>; See also: Miriam Faltová, “Ruská propaganda v českých médiích,” Master’s Thesis, Univerzita Karlova, 2017, <https://is.cuni.cz/webapps/zzp/detail/165673/>.

69 *Nations in Transit 2016*, Freedom House.

and anti-NATO opinions.⁷⁰ Questionable civil society organizations have been formed over these topics, some of which helped organize protests and allegedly received funding from Russia.⁷¹

The Czech Republic is both a target of Russian malign economic influence and an emerging enabler due to its geographic centrality and growing economic weight in Europe. Some have gone so far as to suggest that the Czech Republic has “become a hub for Russian operations in broader Central Europe.”⁷² The country’s unstable political environment—a hardened Communist party and far-right elements, weak governing standards, and general public skepticism over the benefits of the European Union—offers fertile soil to grow Russian malign influence. This allows the Kremlin to successfully exploit Czech weaknesses such as its banking sector’s exposure to Russian finance, its connections to individuals who have ties to senior Czech officials, and societal divisions. Fortunately, elements within the Czech government fully recognize their vulnerabilities and are clear-eyed about Russian intentions. In its 2017 annual report, BIS underscored that Russian activities “have continuously focused primarily on influence operations and exploitation of Czech sources” to fulfill the Kremlin’s long-term aim to influence public opinion and turn it against the European Union and NATO.⁷³ Recognition of the problem is the first step, but the Czech Republic must undertake concrete actions to shield itself and its allies from Russia’s malign efforts.

- 70 Daisy Sindelar, “U.S. Convoy: in Czech Republic, Real-Life Supporters Outnumber Virtual Opponents,” Radio Free Europe/Radio Liberty, March 30, 2015, <https://www.rferl.org/a/us-convoy-czech-republic-supporters-virtual-opponents/26928346.html>.
- 71 Vit Novotny et al., *The Bear in Sheep’s Clothing: Russia’s Government-Funded Organisations in the EU*, (Brussels, Belgium: Wilfried Martens Centre for European Studies, 2016), 23.
- 72 Daniela Lazarova, “Political Scientist: Prague Has Become a Hub for Russian Operations in Broader Central Europe,” Radio Praha, March 19, 2018, <https://www.radio.cz/en/section/curraffrs/political-scientist-prague-has-become-a-hub-for-russian-operations-in-broader-central-europe>.
- 73 Brian Kenety, “Analyst: Czech Intelligence Report Notable for Direct Accusations Against Russian, Chinese Actors,” Radio Praha, April 12, 2018, <https://www.radio.cz/en/section/curraffrs/analyst-czech-intelligence-report-notable-for-direct-accusations-against-russian-chinese-actors>.