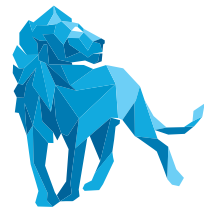




DEFENCE, FOREIGN POLICY AND SECURITY



New
Direction

the foundation for european reform



RUSSIA'S INFLUENCE AND PRESENCE IN LATVIA

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New Direction



A Brussels-based free market, euro-realist think-tank and publisher,
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Tomasz Poręba

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its former ‘soviet republics’ and its attempts to undermine European unity through energy interests, political funding, and media (dis)information.

Similar to its efforts in Bulgaria, the Russian regime is using gas exports as a political weapon in the Baltic States in order to undermine European solidarity by creating political and economic rifts. As the Baltic States form an energy island, traditionally heavily reliant on Russian imports, they have little manoeuvring space to lead an autonomous and independent energy policy.

With regard to (dis)information, Russia exerts a firm influence by ‘generously’ funding Baltic media outlets at both the local and national levels. Ethnic minorities still use Russian media (mainly TV channels) as their main source of information. There is a strong correlation between time spent watching Russian TV channels and perception of Putin’s policies in a more positive light. The recent propaganda multimedia project called Sputnik poses a threat to the Baltic States’ information security and challenges their sovereignty.

Moreover, due to historical ties, it is much more difficult to grasp the Russian regime’s influence in Baltic States than it is to grasp its influence in other EU Member States. The Kremlin can play the Soviet nostalgia card as a way to influence public opinion. The same logic is behind the funding of political parties which are mostly supported by Russian-speaking populations.

Last but not least, the Baltic States’ vulnerabilities in the case of military aggression should not be treated as purely hypothetical. The last NATO summit held in Warsaw drew special attention to the Suwalki gap, a key weakness in the area’s military defence.

After the study on Russia’s influence in Bulgaria, this new research by New Direction should be used by policy advisers and politicians to better understand the Russian regime’s behaviour and reshape their policy towards Russia. Before we are able to compete externally, we must first establish internal sovereignty. •

These three reports by New Direction on the Russian regime’s influence in the Baltic States come in a very important time period, especially in light of the current debates on lifting sanctions against Russia, the increase in polls of political parties being neutral towards Russia, and the never-ending hybrid war in Ukraine led by President Putin. Using its old divide et impera tactics, Russia is challenging the unity of the EU Member States by taking full advantage of different factors, including economic links and support from political parties with especially strong ties to the Kremlin.

It is time we look closer at Putin’s game, a big part of which is a conflict in the East of Ukraine, and react before it is too late. As stated in these New Direction studies, ‘at the heat of the fighting in Donbass in early 2014, 87 per cent of Lithuanians admitted fear that Russia might again occupy their country’.

If Ukrainian conflict teaches us something, it is that the Russian regime has recently diverted much of its resources and focus from mobilising hard power in protecting its interests to soft power, including funding media outlets and political parties.

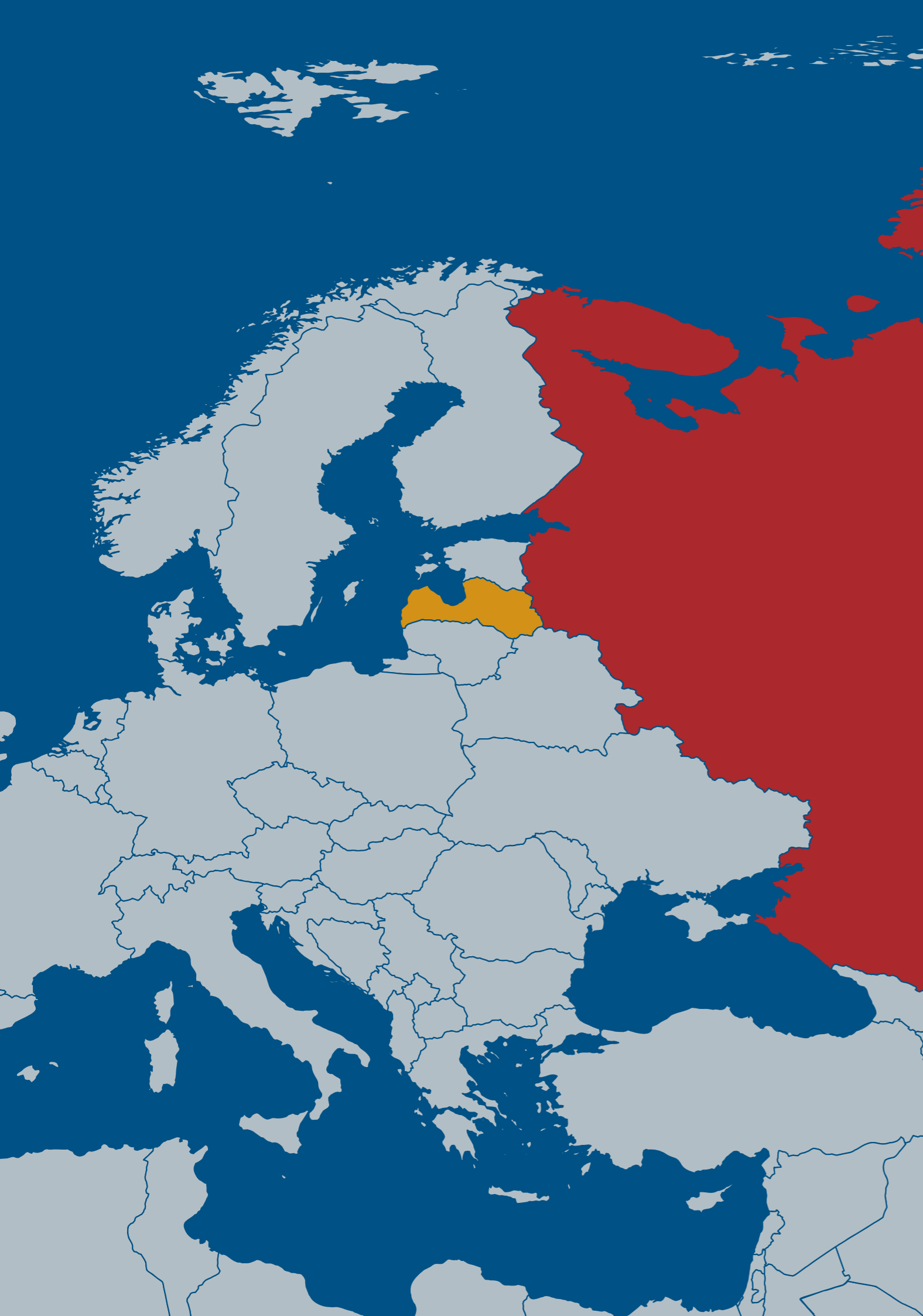
The Baltic cases precisely identify this new aspect of Putin’s influence across the EU. These studies describe in detail the ongoing game played by the Russian regime and neatly sums up its current policy towards

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INTRODUCTION

RUSSIA'S PRESENCE AND INFLUENCE IN LATVIA



Russia has been an important neighbour and regional actor for Latvia since regaining independence in 1991. Russia has been perceived in Latvia as both a significant trading partner and regionally ambitious successor of the Soviet Union. The annexation of Crimea and war in the Eastern Ukraine have strengthened the concerns in Latvia over Russia's intentions

and its scope of presence and influence in the neighbouring countries. Apparently, Russia's factor is present in Latvia and it may have an influence on a number of issues varying from mutual trade, investments and business environment to perceptions of regional security dynamic, domestic political configuration and role of Russian-speaking minority to media and culture. •

1

OVERVIEW OF RUSSIAN-LATVIAN RELATIONS

HISTORICAL BACKGROUND AND LEGACY



Latvia has been historically exposed to the geopolitical ambitions of its large neighbouring states. Latvia's historical trajectories correlate with a fall and rise of empires and patterns of ensuing regional conflicts and cooperation. Latvia and Russia have been linked throughout history – first and foremost due to the geographical proximity. The first documented Russian impact dates back to the Middle Ages when the territories inhabited by the Baltic tribes experienced Russian expansion in the North East of the current territory of Latvia. Along with military expansion, Russian missionaries began to spread Greek Orthodox faith among the local pagan population. However, the Russian presence and impact did not last for long and Latvia came under the long and formative German domination soon after. Throughout the coming centuries, Latvian people and territories at various times also came under the Polish, Swedish and eventually Russian rule and influence.

In 1710 the Russian Tsar, Peter I conquered the North-East part of current Latvia – Vidzeme, which together with Riga provided an exit to the Baltic Sea and its important trading lines. The Baltic Sea Eastern shores were perceived by Russians as a “window to Europe”. After the partitions of Poland in 1772 and 1795 all of the current Latvian territory was incorporated into the Russian Empire. The territories of Latvia and Estonia retained a relative autonomy and became one of the most developed parts of the Empire with high level of education and very competitive industry. In the early 19th century economic and political situation led to the abolishment of serfdom in Vidzeme and Kurzeme and ultimately in Latgale in 1861 and precipitated a further development. This, in the context of growing national sentiments in Europe encouraged and facilitated popular and seminal national movement or “awakening” in Latvian society in the mid 19th century. The Awakening created the bedrock for a later independence movement.

Due to the traditional Latvian status as working class (nobility was predominantly German or Russian), the national awakening in the late 19th century became intertwined with the political ideas of Marxism. Development of socialist political leaning, prevailing social injustice and limitations of freedom created a fertile ground for the 1905 Revolution, which mainly targeted the German aristocracy. It was also the first time the ideas of Latvian national independence were voiced. However, there was no real belief yet that the lands, separated into three Russian *gubernias*, actually had a realistic chance of achieving their own national, political and territorial unity and independence.

Major changes occurred with the outbreak of the World War I. Like other stateless nations in Europe, Latvian nation was dragged into war between Russian and German Empires. The historical resentment for the ruling German nobility, and hope for a change in *status quo* led to the fact that Latvian Rifleman units were formed and fought enthusiastically on the Russian side. Often this was perceived as a fight for the Latvian people and their freedom rather than Russian Empire itself. Quickly this led to actual political moves. In 1917, the Latvian Provisional National Council was created and already in January 1918 it declared its aim to establish a sovereign republic that would encompass all the territories inhabited by Latvians. On November 18, 1918, an independent Latvian Republic was proclaimed. This,

however, did not mean an actual end of the warfare in Latvia – the country was soon dragged into fight against Russian Red Army and remaining German forces. Only in August 1920, Latvia finally signed a peace treaty with the Soviet Russia, in which the latter recognised the Latvian independence and gave up its claims to Latvian territory for “all times”. In 1921, the Allies also recognised Latvia's statehood and independence.

Russia, however, did not abide to the peace treaty and its commitment of “all times” for long. In 1939 with a secret protocol added to the non-aggression treaty between Germany and Soviet Russia, Latvian territories fell into the Russian sphere of influence. The same year Russia under the pretext of “mutual assistance” forced the Latvian government to permit deployment of the Soviet forces into Latvia, which had attempted to stay neutral throughout the interwar period. Latvia was occupied by the Soviet Army in 1940, and a year later, on 14 June 1941 the first wave of mass deportations took place with over 15,000 Latvians (mainly intellectual elite) sent to Siberia. Soon after Latvia was occupied by German Nazi troops until the Soviet Army gained victory in 1945 and Latvia was re-incorporated in the Soviet Union. On 25 March 1949, the second wave of mass deportation took place and more than 44,000 people, this time mainly from rural areas who were resisting collectivization, were deported to Siberia. In addition,





it is estimated that from 1940 until Stalin's death in 1953 more than 190,000 people suffered from the regime's reprisals, constituting about 10% of Latvia's pre-war population. The 1940s became a formative traumatic period in Latvian's collective memory and have considerable negative repercussions on Latvia's relations with Russia after regaining independence.

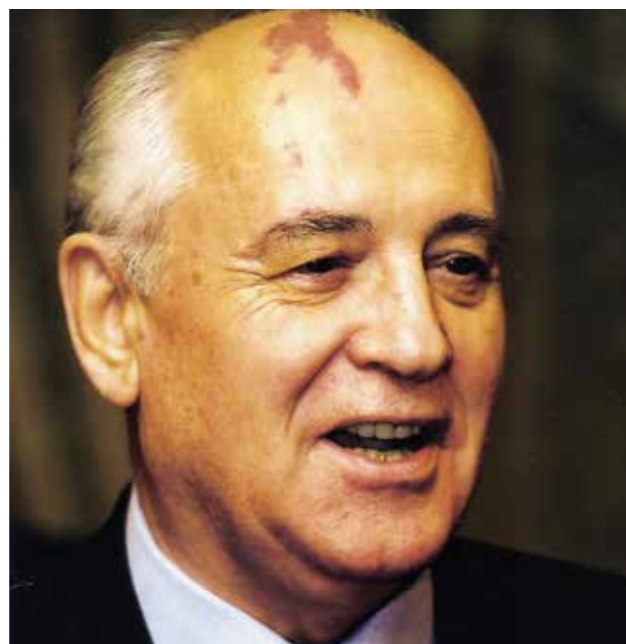
During the Soviet times, due to its geographic location, Latvia became an important military and industrial centre of the Union. This also led to a perceived deliberate and more intensive Russification policy in Latvia than in the other two Baltic States. A large number of Russian speaking industrial workers and army personnel were stationed in Latvia, while Latvian language usage was limited and Russian was introduced as mandatory in schools and most workplaces. As a result, by the 1989 the percentage of ethnic Latvians in Latvia was 52%, while in 1935 it had been 75.5%. The number of ethnic Russians residing in Latvia had grown from 170,000 to 905,000, while the number of Latvians had decreased from 1,470,000 to 1,390,000.¹ The other ethnic minorities that had experienced a rapid growth in their numbers were Ukrainians and Belarusians. Both the differing interpretation of historical events and the large ethnic minority in Latvia create a tension-prone environment in day-to-day Russian and Latvian relations, and are often manipulated by nationally leaning political forces in both countries.

Largely thanks to the Perestroika and Glasnost policies of the last Soviet leader, Mikhail Gorbachev, and after another "awakening" period in late 1980s, Latvia's Supreme Soviet adopted a Declaration of Independence on 4 May 1990. In January 1991, Soviet military forces launched an attack on Baltic countries to overthrow their governments. It was met by non-violent resistance from Latvian society and strongly

criticized by the international community. Finally, on August 1991, after the failed coup d'état in Moscow Latvia regained its independence, and reinstated its statehood.

The full restoration of independence did not happen overnight though. The Russian troops left Latvia only in 1994, while the last military object (radiolocation station in Skrunda) ceased its operations only in 1998. Politically Latvia chose to immediately distance itself from Russia and embarked on its pro-Western policy often labelled as the "return to Europe". Unlike many of the post-Soviet countries, Latvia together with two other Baltic nations said a strict "no" to membership in the Commonwealth of Independent States or any other Russian dominated regional integrationist initiative. Hence, the success of the country's reform process is largely a result of an unambiguous strategic choice of foreign policy. Latvia immediately set the NATO and EU membership as its primary and vital foreign policy goal. This also resulted in negative reactions from Russia. Notwithstanding the neighbour's objections, Latvia succeeded in joining the NATO and the EU in 2004 and with that formally accomplished its "return to Europe".

The Soviet legacy and Russian influence are undeniably still present in Latvia's society. History and collective memory remains one of the formative elements of the Latvian nation and consequentially of its foreign policy making. The Soviet occupation



¹ As of the beginning of 2016 the proportion of Latvians in the society has grown to 62 %, while the number of ethnic Russians has proportionately declined. For more information see: "Latvijas iedzīvotāju etniskais sastāvs," 2016, http://www.csb.gov.lv/sites/default/files/skoleniem/iedzivotaji/etniskais_sastavs.pdf



remains a traumatic emotional experience in Latvian society. According to several surveys, around one third of the respondents reported that they had someone in their family deported, executed or imprisoned by the Soviet regime (in comparison, 5% reported to have suffered from Nazi regime, while 6% reported to have had suffered from both).² This explains the tensions that arise around the "Victory Day" celebration on 9 May widely celebrated by Russians. For Latvians, the Soviet victory over Nazis meant just a replacement of repressive occupation regimes. The diverging historical collective memory divides two communities in Latvia and mutual attitudes between Latvians and Russian speaking minority.

This contrast between Latvians and Russians internally is also reflected in the tensions of the inter-state politics. Latvia and Russia strongly disagree with the portrayal of its occupation and the outcome of the World War II. While Latvia criticizes Russia for failure to acknowledge the fact of occupation and repressions against Latvian population, Russia accuses Latvia in glorification and rehabilitation of

Nazism. While Latvia is constantly suspicious over Russia's steps, it is perceived in Latvia that Russia uses the history in order to discredit the Latvian government in the eyes of its own population, Russian minorities abroad and among Western countries. Russian state media attempts are recognizable to impose the image of Latvia and other Baltic states as countries that did not refute fascism or Nazism. Image-building takes different forms and uses variety of occasions. On the occasion of approaching New Year celebrations and city decorations, *Russia Today* published a non-commentary video report regarding winter installations in Riga's centre. Their perspective provided the resemblance of swastika.³ However, in reality these installations were installed as a setting of traditional local symbols. Another TV show "Zvonok" on pro-Kremlin channel *NTV* claimed to connect allegedly radical politicians in Ukraine and Latvia. By editing the initial prank call, *NTV* attempted to create perception of support for SS divisions.⁴ These and other cases exemplify Russia's media interest and its deliberately manipulative image-building in the context of competing history narratives. •

² Nils Muižnieks, "History, Memory and Latvian Foreign Policy," in Nils Muižnieks (ed.) *The Geopolitics of History in Latvian-Russian Relations*, The Geopolitics of History in Latvian-Russian Relations, Academic Press of the University of Latvia, 2011, http://www.lu.lv/fileadmin/user_upload/lu_portal/eng/news/The_Geopolitics_of_History_in_Latvian-Russian_Relations.pdf, p.22.

³ "Swastika-looking snowflakes pop up at Latvian Xmas market", RT, 08.12.2016, https://www.youtube.com/watch?v=WgR_q2_eL9k

⁴ "Пранк-шоу «Звонок». Второй №2 (07.05.2016)", НТВ, 07.05.2016, <https://www.youtube.com/watch?v=547IfHd6CA8>

2

ATTITUDES TO RUSSIA IN LATVIA'S SOCIETY

Immediately after the breakdown of the Soviet Union and the restoration of independence, Latvia decisively set the integration in NATO structures as a foreign policy priority. Since the aim to join NATO was in a clear contrast to Russia's plans for the Commonwealth of Independent States, this has remained a controversial issue in Russian – Latvian relationship. It is clear that Latvia's chosen foreign policy course was based on historical experience and the consequential mistrust in Russia's security guarantees. That, in addition to other disagreements, such as border agreements, minority issues and contrasting historical interpretations, provided for unproductive and mutually suspicious relations between Latvia and Russia, often resulting in a label on Latvia as a Russophobic country. Yet, building rational and constructive relations with Russia has been part of the official Latvian foreign policy strategy since the collapse of the Soviet Union. While working towards its NATO membership, Latvia experienced an increased Russian military activity near its borders as well as political pressure from Russia. Furthermore, war in Georgia in 2008, the annexation of Crimea, Russia's informational warfare and protracted military turmoil in Eastern Ukraine have demonstrated that some of the concerns have been justified.

Consequentially, the Latvian official position towards Russia has been cautious ever since the restoration of Latvian independence. The 1990s and the first half on 2000s were tainted with the lasting disputes over border agreements, citizenship issue, Russian language issue, arguments surrounding the World War II commemoration events. Border issues concerned Pytalovo (Abrene) – a town 102 kilometres southwest of Pskov. The Latvian–Soviet Peace Treaty of 1920 passed Pytalovo/Abrene region to Latvia. After the Soviet occupation in 1945, the town and the surrounding areas were transferred to Pskov Oblast and the town's Russian name (Pytalovo) was restored. The region's de facto status was not legally accepted by Latvia until 2007 while political impact of the deal is still felt until now.

The citizenship legislation became another contentious issue. After collapse of the Soviet Union, the Latvian parliament reaffirmed country's legal continuity with Latvia's statehood and legislation, which existed prior to occupation. The citizenship law determined that the individuals, who were Latvian citizens as of 17 June 1940 or prior the Soviet occupation, became citizens, along with their descendants regardless their ethnic background. The law also granted citizenship to all permanent residents, who did not hold another citizenship and



were either Latvians or Livonians, or individuals (along with their children up to age 15), who have graduated from the school with the Latvian language of instruction. As a result, the large part of Russian-speaking people⁵, who arrived during the Soviet era, received the status and passport of non-citizen. The non-citizens could neither vote in elections (both parliament and municipal), nor to be elected. By 2016, there were 252,017 non-citizens living in Latvia.⁶ Many, however, have already obtained citizenship through naturalization.

The large proportion of Russian-speaking population has also raised the issue of language usage. The Russian language in Latvia is the second most commonly used language at home - 37.2% according to 2011 census.⁷ The political initiative to elevate usage of the Russian language in Latvia eventually led to the constitutional referendum in 2012. Proposed amendments implied providing for the Russian language the status of the second official language. With high voter turnout - 71% (in last parliament

elections it was 58%), almost three-quarters voted against proposed amendments. The usage of the language in the education, however, still remains sensitive societal and political issues.

The above-mentioned issues have also resonated in the bilateral relations between Latvia and Russia with mixed implications and dynamic. After 2007 when Latvia stepped back from its territorial demands and concluded the border agreement with Russia, the dynamic in the relationship had somewhat improved. It was both the result of a thaw in the bilateral relations and the change in Russia's foreign policy focus. Latvian officials for the most part have tried to seek pragmatic and mutually beneficial relations with Russia. Even before 2007- in 2005 Latvian president Vaira Vīķe-Freiberga visited Victory Day celebrations in Moscow. In 2010, Latvian president Valdis Zatlers paid an official and historic visit to Russia, where both countries signed about 10 bilateral agreements. Furthermore, Latvian Prime Minister Valdis Dombrovskis participated in Baltic Sea forum held in Saint Petersburg in 2013.

⁵ A term used to coin ethnic minorities that use Russian as their first language – traditionally Russians, Belarusians, Ukrainians.

⁶ "Latvijas iedzīvotāju sadalījums pēc valstiskās piederības", Latvijas Republikas iekšlietu ministrijas pilsonības un migrācijas lietu pārvalde, 2016, http://www.pmlp.gov.lv/lv/assets/documents/statistika/IRD2016/ISVP_Latvija_pec_VPD.pdf

⁷ "Results of the 2011 Population and Housing Census in Latvia", Centrālā statistikas pārvalde, 2011, http://www.csb.gov.lv/sites/default/files/publikacijas/2015/Nr%2012%20Latvijas%202011.gada%20Tautas%20skaitisanas%20rezultati_Results%20of%20the%202011%20Population%20and%20housing%20census%20in%20Latvia%20%2815_00%29_LV_EN.pdf, p. 97.

During his visit, he had a meeting with Russian Prime Minister Dmitry Medvedev. Moreover, the visit of the Russian president to Latvia was discussed but the intention was abandoned after Russia's adventurism in Ukraine. Latvia was one of the staunchest supporters of Ukraine's territorial integrity and supported strongly the sanctions imposed on Russia for annexation of Crimea and interference in Eastern Ukraine.

Societal attitudes in Latvia have largely correlated with perceptions of international developments, country's security concerns and governmental stances. In the context of the crisis in Ukraine, Latvian society sees Russia's military threat to Latvia not as a hypothetical, but as fully possible. However, it has to be kept in mind that Latvia's society and its attitudes are partly divided through ethnic affiliation. For example, in early March 2014, 58% of respondents in an opinion poll believed that Russia had no grounds to deploy military forces to Crimea and Eastern Ukraine, but examined in detail the data demonstrated that while 77% of Latvians agreed with this statement, only 24% of other ethnicities shared this opinion. The support or partial support to Russia's actions was expressed by 17% of Latvians and 66% of other ethnicities.⁸ Other research from spring of 2015 demonstrated that 60% of the Russian-speaking population saw Vladimir Putin in positive light, while the same opinion was shared by only 12.1% of Latvians.⁹ These findings

demonstrate that Latvia is experiencing divergence of societal interpretations and assumingly more fundamental integration challenges.

At the same time, those challenges and differences should not be overstated. A survey from June 2016 demonstrated some lessening of concerns and expectations of improvement of relations. 35% of the respondents indicated that Latvia should move towards more positive relations with Russia (ethnic Latvians – 24%; Russian speakers – 55%) and not engage in the Ukraine crisis, while 26% preferred manoeuvring between Russia and the West (Latvians – 21%; Russian speakers – 34%) 26% sided with the government position to condemn Russia's actions in Ukraine (40% of Latvians and only 3% of Russian speakers). The same research also demonstrated that only 48% of the Latvian society sees Russia as a threat, while 70% believe that Russia is crucial in Latvian economy, which is clearly a result of the impact the Western sanctions and Russian counter-sanctions have left on the Latvian society, which still sees socio-economic problems as the most important issue.¹⁰ The June 2016 survey also revealed mixed (and largely positive) results about the integration successes. 95.5% of Latvian respondents and 84.3% of Russian speakers stated that they feel the sense of belonging to Latvia, while the same feeling towards Russia was only admitted by 3.6% Latvian and 28.3% Russian speakers respectively.¹¹ •



⁸ "Vai saskatāt pamatu Krievijas karaspēka ievešanai un izvietošanai Ukrainas Krimā un potenciāli arī citos Austrumukrainas apgabalos?", LETA, March 2014, <http://stor1.leta.lv/za-feb3f20/ig/a/f/2/af2ddb47-0d56-4964-b324-a439772b2396/index.5553f8a186ae.html>

⁹ Girts Vikmanis, "Latvijas krievi atbalsta Putinu. Ko nu?", Latvijas Avīze, 12 May 2015, <http://m.la.lv/latvijas-krievi-atbalsta-putinu-ko-nu/>; "Putina darbību pozitīvi vērtē 60% Latvijas krievvalodīgo," Ir, 10 May 2015, <http://www.irlv.lv/2015/5/10/putina-darbibu-pozitivi-verte-60-latvijas-krievvalodigo>

¹⁰ "Sabiedrības destabilizācijas iespējāmība Latvijā: potenciālie nacionālās drošības apdraudējumi Latvijā," Latvijas Nacionālās aizsardzības akadēmijas Drošības un stratēģiskās pētniecības centrs, June 2016, <http://www.naa.mil.lv/-/media/NAA/AZPC/Publicakcijas/WP%2004-2016.ashx>

¹¹ Ibid.

3

RUSSIA'S COMPATRIOT POLICY IN LATVIA

CULTURAL AND RELIGIOUS TIES



Compatriot policy and interests of Russian-speaking minority abroad have become a resonant issue in Russian domestic politics. Many experts paid attention to a well-known Vladimir Putin's statement that the collapse of the Soviet Union was "a major geopolitical disaster of the century". Yet, less attention was paid to the second part of his statement that hints at Russia's foreign policy dilemmas and ambitions: "as for the Russian nation, it became a genuine drama. Tens of millions of our co-citizens and compatriots found themselves outside Russian territory". As the result, the compatriot policy has become an important component of Russia foreign policy. Russian foreign policy concepts have advanced among its main

objectives to "ensure comprehensive protection of rights and legitimate interests of Russian citizens and compatriots residing abroad". From Kremlin's perspective, Russian compatriots are carriers of Russian culture, values and language.

Rossotrudnichestvo has become one of the key actors in implementing Russia's compatriot policy. Subordinated to the Ministry of Foreign Affairs as an agency, it primarily aims to "implement the state policy of international humanitarian cooperation and promote the dissemination of objective representation about modern Russia". *Rossotrudnichestvo* "has been the system of support of the Russian language abroad", promotes "the Russian educational services"

and “is directly involved in program of assistance to voluntary resettlement of compatriots to the Russian Federation”. Besides, the agency pays “special attention” to the young people by organizing short-term study visits to Russia and introducing them with “socio-political, socio-economic, scientific-educational and cultural life in the Russia”. One of the aims of these short-term visits is “further growth of a number of young foreign states’ citizens, having constructive view towards Russia and attracting them to the empowerment of partnership between the Russian Federation and the countries they represent”. Although it is challenging to identify precise numbers, the representatives from Latvia’s Russian-speaking community have been participating in some of Russia’s promoted activities.

Rossotrudnichestvo is generally responsible for a public diplomacy - the implementation of the interaction between various non-government organizations of Russia to create a united image of taking care of Russian speakers abroad. In their view, public diplomacy in particular promotes specific foreign policy state interests on social and interpersonal levels. One of these interests is “strongly counteracting attempts to rewrite history and revise the outcomes of World War II”. Hence, much effort is directed in support of the “Victory Day” - 9 May, when Russian citizens and Russianspeakers all around the world celebrate Victory in the Great Patriotic war (1941-1945). The *Rossotrudnichestvo*



claims that this victory not only showed “a power of our weapons”, but also “strength of Russian mind”. *Rossotrudnichestvo* traditionally supports actions such as “Ribbon of Saint George” and “Immortal regiment”.

The celebration of “Victory Day” is one of the most popular events amongst Russian-speaking minority in Latvia, regardless of their age and political preferences. Approximately 150 thousand people each year visit Victory Memorial to Soviet Army.

The celebrations are among the largest events in scale in Latvia. Throughout the day, people are entertained with patriotic musical performances from the Soviet era on a specially built stage, and may participate in smaller side events, some of which are dedicated to children. The celebration ends with a salute. Russian Embassy, *Rossotrudnichestvo*, various Russian-affiliated NGOs and private individuals provide support for the event. Riga’s mayor and chairman of “Harmony” party Nils Ušakovs plays an important role in organizing the celebration. Overall, Russia assumingly tries to consolidate Russian-speaking minority of Latvia, incorporate and then defend their values and interests by supporting these events annually in Riga and elsewhere.

A promotion of Russian language is another important activity of *Rossotrudnichestvo*. The agency claims that support and promotion of Russian language abroad is one of the most important instruments of expanding international cultural-humanitarian cooperation of Russia with other countries. Providing support for 94 Russian minority schools (out of 104 ethnic minority schools) has become one of the obvious ways to defend and promote Russian language in Latvia. It is considered that schools with Russian as a language of instruction must remain an important platform for Russia to promote its values, interests and perceptions of history by using Russian language and culture. This has led to a tension with official state policies and sentiment of majority of Latvia’s population. During the educational reform in 2004, which resulted in a transition to bilingual education in Russian speaking schools, Russian embassy and Russian affiliated NGOs and pro-Russian parties, in particular



“For Human Rights in a United Latvia” actively resisted to implementation of legislation by organizing mass protests and information campaign against this reform.

Rossotrudnichestvo also represents Russian cultural heritage abroad and promotes international cooperation in the sphere of culture. Popularization of Russian culture is one of the foreign policy tasks. For example, 2007 was declared the Year of the Russian Language and Culture in Latvia. During the year, Russian Embassy and Russian-affiliated NGOs organized variety of activities aimed at promoting Russian culture: folk concerts, music and dance performances, meetings with famous Russian cultural figures, exhibitions, the latest Russian films shows, Russian theatre performances for variety of audiences.

Moscow House is to be considered as the largest Russian culture centre in Latvia. Located in Riga’s city centre, it is financially supported by Moscow city government. The events hosted by the centre ranges from theatre performances and concerts to arts exhibitions, fashion shows and conferences. Many performances are dedicated to children, especially before New Year’s Eve, thus creating a strong and positive bond with Russian culture from early childhood. This place is popular amongst Russian historians, where they present their publications

and books. It has also caused a controversy. In 2012, Alexander Dyukov was named a persona non grata in Latvia due to his controversial exhibition and statements about the World War II. According to the Latvian government, his activities were “harming the Latvian state and its citizens.”

Recently, the Russian Orthodox Church (ROC) has become one of the promoters of Russia’s foreign policy priorities and interests. Its affiliate- Latvian Orthodox Church (LOC) remains in a somewhat ambiguous position and it would be incorrect to claim that the LOC would let itself be exploited as an instrument of Russian foreign policy. This is explained by LOC status - it is semi-autonomous entity from Eastern Orthodox Church, which is under the jurisdiction of the Russian Orthodox Church. Yet both the Latvian Orthodox Church and the Russian Orthodox Church activities are still worth paying attention. According to the data of 2015, LOC is the third biggest church in Latvia, with approximately 370,000 members and 123 parishes.¹² Most worship take place in Russian but there were also about 30 Latvian congregations. As Latvian political scientist Nils Muižnieks has stated, the Orthodoxy in Latvia is an important social phenomenon and serves as a means for Russia to exercise its soft power. During the third term of Vladimir Putin and due to patriarch Kirill, who is a strong defendant of current Russian regime,

¹² “Reliģisko savienību (baznīcu), diecēžu pārskatu par darbību 2015. Gadā apkopojums”, Latvijas Republikas Tieslietu ministrija, 2015, https://www.tm.gov.lv/files/11_MjAxNi9STy9UYWJlOGUyMDE1X0Jhem7Eq2NhcY5kb2M/2016/RO/Tabula-1_2015_Bazn%C4%ABcas.doc



the Russian Orthodox Church (ROC) has become an active actor in Russia's foreign policy.

Before the death of Kirill's predecessor- Alexy II, ROC activities towards Latvia were considered mostly in a positive light among Latvia's governmental officials, politicians and experts. The exhibition of the Tikhvin icon of the Mother of God in Riga in 2004, Patriarch Alexy II's visit to Latvia in 2006 and the inclusion of Metropolitan Alexander, the head of the Latvian Orthodox Church, in the official delegation of the Latvian President for a presidential visit to Russia in 2010 – all these events strengthened bilateral relations between two countries, especially the visit of Patriarch Alexy II's. First of all, it was the first visit of such kind since the establishment of Orthodoxy in Latvia. Second, Latvian President Vaira Vīķe-Freiberga, who invited Patriarch, presented him the Three Stars medal while Alexy II presented the restored First Class Order of Holy Princess Olga to her. "Witnesses of the visit said that the Patriarch in talks with Latvian officials expressed great understanding of the Latvian affairs and did not talk about the national minorities or any other controversial political issues," as claimed by Andis Kudors.¹³ However, the Moscow Patriarchate representatives tend to influence opinions of Russian-speaking minority in Latvia. For instance, Metropolitan Ilarion - Moscow Patriarchate's representative - advertised Patriarch Kirill's new book in Riga in March 2012. During the presentation, Ilarion stressed out

that elderly non-citizen should be granted a Latvian citizenship even if they do not know Latvian language, because it is difficult for them to learn another language.

LOC is careful not to be perceived as an instrument of Russian "soft power" among Latvia's society. Although times have changed, it is important to mention that LOC has always been careful to avoid demonstrating patronising attitude towards Russians living in Latvia. The head of the LOC Metropolitan Alexander was diplomatic regarding the language referendum, stating that "the Russian language in Latvia should be of public importance", but refrained from stronger wording. Usually Alexander's statements include calls for mutual understanding and unity between Latvians and Russians rather than calls of a political nature.¹⁴

Another aspect of Russia's culture diplomacy is pop culture events. The most conspicuous presence of Russia's pop culture in Latvia was an annual "New Wave" festival- a popular weeklong music contest organized in resort city of Jurmala. This event was popular amongst influential Russian artists as well as Russian and Latvian businesspersons, bankers and politicians. The Crimea's annexation, however, became a game changer. As the significant part of Russia's artists vocally supported the annexation of Crimea, it became politically unpopular to continue with organization of the festival in Latvia. Moreover,

three popular Russian singers – Oleg Gazmanov, Josef Kobzon and Valeria (Alla Perfilova) became personas non grata in Latvia. As Latvian Ministry of Foreign Affairs stated: "these individuals, through their own words and actions, have contributed to the undermining of Ukraine's sovereignty and territorial integrity." This eventually led to the departure of "New Wave" from Jurmala to Russia's Sochi. The city of Jurmala, however, still remains one of the most popular destinations for Russian artists. The resort also attracts tourists from Russia. Moreover, Russian representatives of business and culture communities have invested estimated 100 million euros in Jurmala's real estate.

Media has become an increasingly important leverage of Russia's influence in Latvia. Major Russian media (*First Channel, Russia 1, NTV, Ren TV*) are under direct or indirect control of Russian government. Russian National Security Strategy clearly states that one of the key priorities in strengthening Russian security is "development of a unified humanitarian and information area in the territory of the CIS and neighboring regions". Respectively, the Baltic countries belong to the "neighboring regions" The objective is not simply to inform the audience but to reach political objectives. Abovementioned Russian TV channels are amongst the top 10 most popular media in Latvia, especially *First Baltic Channel* – Baltic branch of *First Channel*, which is the most popular channel in Russia and controlled by Russian government. *First Baltic Channel* has traditionally supported Latvian pro-Russian political partisan NGO's such as "*9majs.lv*", which is responsible

for organizing "Victory Day" celebrations in Riga. Additionally, the Baltic branches of these channels try to influence particular social and political processes in Latvia. The referendum on status of Russian language in 2012 became a prime example. Finally, they tend to create and promote positive perception of Russia, its values, history, politics and international processes. In general, all these channels are rather openly defending Vladimir Putin's foreign policy decisions and activities, including the annexation of Crimea and providing military support to rebel groups in Eastern Ukraine.

Are these channels effective? Survey conducted in 2014 concluded that approximately one third of the TV audience in Latvia preferred Russian channels to Latvian. Another survey showed that only 21% of Latvian citizens fully or partly support Russia's activities in Crimea, while Russian-speaking minority support was almost twice as much – 41%. One more poll indicated that one third of interviewed justified the presence of Russian troops in Ukraine, but the support of Russian-speaking minority was twice as strong. Latvian expert Andis Kudors claims, that Russian media activity in Latvia facilitates the creation of a pseudo-social way of thinking "based on content of separate media, its clichés and one-sided explanations". Certain informative segregation of Russian speakers in Latvia with the help of Russian media may prevent the consolidation of Latvia's society. Among ethnic Latvian population, Russia's informative reach is limited. Russia's attempts to fight for "hearts and minds" of Latvians in the internet environment have been even less effective. •



¹³ Andis Kudors, "Orthodoxy and politics in Latvia" in Religion as the Instrument of Russian Foreign Policy towards Neighboring Countries: Georgia, Latvia, Ukraine, International Centre for Geopolitical Studies, 2012, <http://appc.lv/wp-content/uploads/2013/02/Orthodoxy-and-politics-in-Latvia.pdf>; 107-108.

¹⁴ Ibid, 109.

4

ECONOMIC RELATIONS TRAJECTORIES OF TRADE AND INVESTMENT



Russia's relative economic presence and influence in Latvia is formed by the patterns and scope of mutual trade and investment.¹⁵ The economic interaction in its turn has been shaped by the trajectories and character of political relations. Recently, annexation of Crimea, EU sanctions and Russia's counter-sanctions have had a considerable impact. As a result, the share of Russia in Latvia's total trade has decreased following the EU sanctions that were put in place in 2014. Despite sanctions imposed against Russia due to annexation of Crimea and undermining territorial integrity of Ukraine, and despite economic crisis in Russia primarily caused by cheap oil prices, it is still amongst biggest Latvian trade partners. In the first half of 2016, the total trade turnover between two countries was 789 million EUR, which accounts for 8.36% of the total share of Latvian trade, therefore making Russia the fourth largest trade partner. It has also decreased

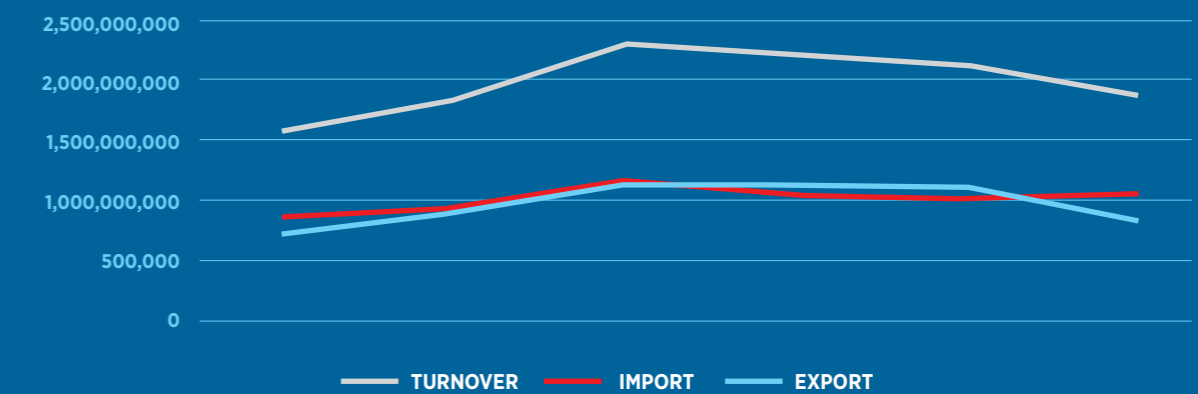
by 9.44% in comparison with the first half of 2015. Overall trends indicate a considerable decline in trade turnover between both countries. For example, in 2012 the trade turnover between Russia and Latvia was 2.3 billion euro, but by 2016 it had decreased threefold.

It is necessary to point out, that Latvian imports from Russia exceed the exports – 463 million euro (9.17% from the total export) and 326 million euro (7.42% from total import) respectively. Main imported goods from Russia are metals and metal products as well as energy resources, in particular gas and oil. They make up almost 60% of the total import (42.09% - energy resources; 19.42% - metal products, mainly iron or non-alloy steel products). Although the trade relations between two countries have significantly decreased since the annexation of Crimea and Latvian dependence on Russian energy resources

¹⁵ Andris Spruds (ed.), The Economic Presence of Russia and Belarus in the Baltic States: Risks and Opportunities (Riga: Latvian Institute of International Affairs and CEEPS, 2012), <http://www.liia.lv/en/publications/the-economic-presence-of-russia-and-belarus-in-the-baltic-states-risks-and-opportunities-242>

LATVIAN AND RUSSIAN TRADE DYNAMICS 2010 – FIRST HALF OF 2016 (EUR)

YEAR	EXPORT	IMPORT	BALLANCE	TURNOVER
2010	716 863 944	858 941 774	-142 077 830	1 575 805 718
2011	90 6170 810	938 361 536	-32 190 726	1 844 532 346
2012	1 128 859 072	1 178 570 307	-49 711235	2 307 429 379
2013	1 154 668 054	1 058 214 276	96 453 778	2 212 882 330
2014	1 105 268 055	1 025 293 820	79 974 235	2 130 561 875
2015	829 890 599	1 048 082 609	-218 192 010	1 877 973 208
2015 Q2	378 126 018	493 510 484	-115 384 466	871 636 502
2016 Q2	326 260 658	463 063 870	-136 803 212	789 324 528



and raw materials has also declined, Moscow still has instruments to affect Latvian economy. Russia reciprocated to EU economic sanctions with its counter-measures such as food embargo imposed in August 2014. These sanctions forced some of the businesses to look for alternative markets. Some of the interest groups also advocated easing the regime of mutual sanctions but generally there was an agreement among business community about the necessity and appropriateness of economic sanctions.

Latvian dependence on Russian energy resources has significantly decreased during the last three years. In 2013, Latvia imported energy resources worth 591 million euro, which accounted for 56% of the total imports from Russia (1.058 billion euro), whereas in the first half of 2016 the import of energy resources accounted for 42% of the total import. Moreover, the main shareholder in *Latvijas Gāze* – the biggest natural gas company in Latvia, which holds a monopoly on the natural gas market in Latvia – is *Gazprom* (34%). Taking into consideration, that *Gazprom* is the Russian state company and to be

considered as one of the most effective Kremlin influence instruments, it has provided additional motivation for Latvian government to implement EU's Third Energy Package in order to reduce *Gazprom's* influence. It has not been an easy task as the company has insisted that it had an alleged right to maintain monopoly until April 2017.

The investment figures have demonstrated a somewhat different tendency. According to the Latvian Bank, at the end of the third quarter of 2016, the amount of direct Russian investments to Latvia was 1.3 billion euro. In comparison, at the end of the third quarter of 2014 it was 0.89 billion and the same period of 2015, 1.135 billion euro showing a rather steady increase since the imposition of Western sanctions. Moreover, the total amount invested in companies with share capital originating in Russia amounts to 727 million euro. The only country with more direct investment in Latvia was Sweden, which dominates Latvian banking sector. This clearly demonstrates Russian business interest in Latvian market, but also may hint at the impact of Russian capital on Latvia's business environment.

RUSSIAN INVESTMENT IN LATVIA (IN MILLIONS, €)



Source: Latvijas Banka

The sector of real estate is among the most popular investment directions. In 2010, Latvian government approved amendments to the immigration law, which implied granting a residence permit in exchange for investments in real estate. By owning a property worth 142,300 euro (in Riga) or 71,500 euro (in other regions), a citizen of another country could obtain a permanent residence permit. Already in 2012, the total number of people who had benefited from this program exceeded 4000 of whom 3000 were Russia's citizens. A number of people who received the residence permits through this program were managers of Russian state companies (such as *Transtelekom*, *Aeroflot* and others) and their subsidiaries, as well as Russian banks (e.g. *Gazprombank*, *VTB*, *Bank of Moscow*) or their family

members. Some of these companies were later listed on the US and EU sanction lists in relation to the turmoil in Ukraine. The total amount of investments in real estate by early 2015 amounted to 1.26 billion euro, and the number of obtained permits was 13,518 with most of the investments floating into real estate and banking sectors rather than in Latvian economy. In 2015, the program was drastically changed. Now, in order to get a residence permit, a foreign citizen has to invest 250 thousand euro in real estate. Although this decision raised some controversies, it has reduced the potential influence of Russian citizens and dependence on capital from Russia.

Transit remains another important area of economic relations between Latvia and Russia. Due to Latvia's favourable geographical location, Russia has traditionally used Latvian ports and railways to transport its goods to Europe. For example, the Port of Riga, leading the Baltic States in 2012, ranks 4th in the Eastern Baltic Sea region, behind Primorsk, Ust-Luga, and St. Petersburg. In 2013, Latvia has provided transport services to Russia on the amount of 161 million euro. However, since 2014 the amount of transit has declined due to economic crisis in Russia and development of Russian ports, in particular St. Petersburg and Primorsk. It's a similar situation in railway and road transport sphere. The Western sanctions and Russian countersanctions have left an obvious impact on Russian transit through Latvian ports. In 2015, Ventspils port was hit hardest by decreasing Russian cargo transit



(-14.1% in comparison with 2014). Ventspils port was the leading Latvian port for Russian transit for a long period until replaced by Riga port. The largest decrease in turnover was in coal (26.1%) and fertilizer (89.7%) transportation (and almost all of it was Russian goods). Moreover, in September 2016, Russian *Transneft* announced that it would discontinue transit through Latvian ports by 2018. This prospect is assessed by Latvia in dual light: on the one hand, it decreases the income of Latvian Railways and country's revenues; on the other, it decreases its dependence on Russia, which has been traditionally seen as an important but unpredictable and dominating partner in business dealings. Currently, Latvia is seeking for closer cooperation in transit sector with China, Kazakhstan and Belarus.

Latvia (and Riga and Jurmala especially) has traditionally been popular destinations for Russian and post-Soviet tourists in general. This dates back to the Soviet times when Latvia (and other Baltic states) was considered as "the West" of the Soviet Union, and Jurmala was famous for its resorts and

festivals. From 2014 to 2015 the number of Russian tourists in Latvia fell sharply by 33.33%. To some extent due to the reciprocal sanction regimes, but mainly due to the harsh economic conditions in Russia and plummeting of the Russian ruble in relation to the euro. This was perceived as a blow for Jurmala where tourism was very much focused on Russian market. However, like in other sectors, the fall in Russian tourism was compensated with growing numbers of tourists from other countries, specifically, from neighbouring Lithuania and Estonia, the United Kingdom and other European countries. As a result, 2015 was the first year when Russians were not the largest tourist group by nationality and both Lithuania and Estonia took over the lead, hence strengthening the regional identity and the people-to-people contacts in the Baltic states. Although Russia remains important destination for Latvia's residents, it is worth mentioning that Russia did not rank in top 5 most popular places among Latvian tourists according to surveys. Therefore, Russia's promotion campaign with aim to attract tourists had a rather limited success in Latvia in recent years. •

5

RUSSIA'S FACTOR IN POLITICAL AND BUSINESS LINKS



The Russia factor is reflected in politics and business with an occasional mutual linkage. Since the restoration of Latvia's independence official and unofficial links have remained. The traditional approach of the party system division in the left and right spectrum is not always applicable in Latvia. Since the 1990s, the division between right (mainly Latvian electorate) and left (mainly Russian speaking electorate) was based on ethnic lines and foreign policy leanings (pro-Western vs pro-Russian). Since the 1990s, Russian-speaking ethnic minorities have been represented in the parliament. Latvia has a coalition government and ethnic Russian leaning parties have traditionally remained in opposition. However, it has to be noted that opposition's social democratic party of "Harmony" has developed

into one of the strongest political forces in Latvia – not only it gained the most votes in the last two parliamentary elections, but it also has been in charge of the capital city of Riga, which serves as a major business, political and cultural hub of Latvia. Since 2009 Riga municipality has been led by the "Harmony's" representative Nils Ušakovs. Importantly, this political force has an official cooperation agreement with the United Russia and is known to have unofficial party and individual level ties to Russian government. The municipal elections in 2017 are considered a litmus test for the parliamentary elections in 2018, and as of November 2016 "Harmony" was the most popular political party in Latvia with almost 20% of supporters. The fact that Latvia has a strong Russian-speaking party is

not a problem in itself. The real issue and question is whether Russia can exert impact on Latvia through such political forces. "Harmony" and its politicians try to maintain a moderate and balanced rhetoric in relation to Russia and West. Though, some concerns exist that it is a Kremlin's strategy to ensure that pro-Russian political forces are considered pragmatic and rational. "Harmony" has opposed the international sanctions on Russia and maintained that Ukraine is at least co-responsible for the crisis in Donbass.

Regarding other pro-Russian parties, it is only worth to mention "The Latvia's Russian Union" (former "For Human Rights in a United Latvia") and in particular its permanent leader Tatjana Ždanoka, who is a member of European Parliament. Due to a low voter turnout – 30.24% in European Parliament elections in 2014 and high popularity amongst Russian-speaking elderly segment, Ždanoka was elected as the only representative of the party. However, in local parliamentary elections her party received only 0.78% and 1.58% in 2011 and 2014 respectively. The presence of the party, however, puts some pressure on "Harmony" as both parties compete for the same Russian-speaking electorate.

It is important, however, to understand the dynamics and attitudes in Latvian society and political elite regarding the cooperation with these parties. There is clearly a limited support for forming the coalition

government with the allegedly pro-Russian parties. Respectively, the largest Latvian parties and current coalition partners ("Unity", "Union of Greens and Farmers" and especially "National Alliance") are reluctant to cooperate with "Harmony", let alone "Russian Union". "Harmony" remains rather unpopular among ethnic Latvians. It is estimated that during last elections, approximately only 5% of ethnic Latvians voted for them. This creates both societal sentiment background and political exigency to limit the prospect of unconventional governmental coalitions in the near future.

It would be naïve to believe, however, that the political parties remain the only agents and channel through which Russia may attempt to exert its influence onto Latvian political processes. Latvia's political elite, like in other post-Soviet states, was formed not only from the frontrunners of "awakening" and independence movement, but also from the former "red directors", members of the Soviet establishment and businessmen who had strong links to Russia. Local businessmen with links to and interest in Russia may shape both politics and societal preferences in direct and indirect ways, including through the business culture.

Although in the recent years, and especially after the 2011 anti-corruption protests, which resulted in dismissal of the parliament, the influence of oligarchs has diminished considerably, it is still somewhat present. One of the most lucrative spheres of economy is transit, which is highly dependent on Russian supplies. Just recently, in 2015 two prominent former politicians-businessmen Andris Šķēle (former Prime Minister) and Ainars Šlesers (former Vice Prime Minister and Transport Minister) were reported to have links to a deal in which 50% share in *Liepājas Naftas Tranzīts* (an oil transit company) came under control of the Russian Railway holding company then run by Vladimir Yakunin.¹⁶ Yakunin in turn was known to have close ties to the former CEO of the Latvian Railways, Uģis Magonis¹⁷ who was arrested in spring of 2016 with 500,000 euro under the suspicion that he was carrying a bribe, allegedly intended for Yakunin.¹⁸ Furthermore, Latvian railway and port dependence



¹⁶ "Russian Railways expands its Latvian holdings", LSM, 9 April 2015, <http://www.lsm.lv/en/article/economics/economy/russian-railways-expands-its-latvian-holdings.a124786/>

¹⁷ Leonid Bershidsky, "Putin May Be Tiring of His Cronies", Bloomberg, 18 August 2015, <https://www.bloomberg.com/view/articles/2015-08-18/putin-may-be-tiring-of-his-cronies>; "Blacklisted Russian railway boss welcome at Latvian birthday bash", LSM, 23 March 2015, <http://www.lsm.lv/en/article/politics/blacklisted-russian-railway-boss-welcome-at-latvian-birthday-bash.a122540/>

¹⁸ "Latvian Railways boss detained by anti-graft squad KNAB", LSM, 7 August 2015, <http://www.lsm.lv/en/article/societ/society/latvian-railways-boss-detained-by-anti-graft-squad-knab.a140579/>

on Russian transit is one of the economic tools that the latter has tried to use against Latvia. Indicatively, after the arrest of Magonis, Russia issued unofficial warnings to begin a full-scale railway repairs in Latvia's direction.¹⁹ Although these threats were never fulfilled, it gave an indication of Russia's transit leverage on Latvia's economy and decision-makers.²⁰

Energy sector remains another sector with rather close business and traditionally political ties. *Latvijas Gāze* despite the ruling of Latvian Regulator still enjoys a monopoly in Latvian market and imports 100% of its natural gas from Russia. *Latvijas Gāzes* important stakeholder is *Itera Latvia*, a subsidiary of the Russia's *Itera* now under control of *Rosneft*. *Itera Latvia* CEO and Deputy Head of the Board in *Latvijas Gāze*, Juris Savickis, former KGB official, has actively spoken out against the gas market liberalisation and warning that it will result in a 20-30% increase in gas prices. Savickis, along with Aivars Lembergs (long-standing Mayor of the port city Ventspils) and former Prime Minister Andris Šķēle are believed to have been involved in a lucrative privatisation process of *Latvijas Kuģniecība* (Latvian Shipping Company) back in early 2000s.²¹ However, as already stated above, the limitations that the sanctions and counter-sanctions have imposed on mutual trade, along with Russia's decision to develop its own ports is a blessing in disguise. It has pushed Latvia to look for alternative energy sources and simultaneously diversify its transit sector, lessening the potential for corrupt activities and decreasing the impact of politicians and businessmen with reported links to Russia.

Banking sector remains one of the most lucrative and important spheres of Latvia's economy. It has been mostly dominated by Scandinavian banks. Although generally it has been a well-governed and transparent sector, several ambiguous affairs have occurred. One of the loudest cases took place in 2014 and involved laundering of 1 billion euros from Moldova's state budget through the Latvian-based *Trasta Komercbanka* and two other banks.²² At the

same time the international investigative journalism hub - the Organised Crime and Corruption Reporting Project had already uncovered a scheme labelled "laundromat" through which Russian dirty capital was laundered through Moldovan court and Latvian banking system, permitting the money to legally enter the EU market.²³

A typical scheme began with two UK based companies, which ownership was hidden in offshores (both companies were believed to be owned by the same person or their proxies). These companies then signed a contract of lending a large amount of money to each other (no actual transaction usually took place), while the debts were guaranteed by companies based in Russia. When the borrower refused to repay the debt, the responsibility was shifted to the Russian companies and their Moldovan CEO, and the lender took the case to a Moldovan court. After the court ruling the Russian company would be ordered to pay the debt through a Moldovan intermediary bank *Moldindconbank* into the lending company's account, which was set up in Latvian *Trasta Komercbanka*, believed to be controlled by the businessmen well-connected to Russia.²⁴



This certainly not only demonstrates the Russian capital presence in Latvia, but also shows that close networks of illicit practices exist that permit Russian "businessmen" to use Latvian system. This is further facilitated due to Latvia's legislative loopholes on non-resident banking. In January 2016 during the Latvia's accession to the OECD, the United States urged Latvia to clean its banking system and curb its non-resident banking system, which permits the above-mentioned schemes used by illicit figures from the former Soviet Union.

The Latvian Finance and Capital Market Commission reported that non-resident deposits account for 53.4% of total deposits in the Latvian banking sector.²⁵ According to the Treasury's Assistant Secretary for Terrorist Financing Daniel Glaser 1% of all US dollar transactions in the world travel through Latvian financial system.²⁶ The US Vice President Joseph Biden invited to address the challenges of transparency and governance issues in Latvia's banking system during his visit to Riga in August 2016. •

¹⁹ Liudas Zdanavičius, "Economic Development in Russia after 2014 and Its Consequences for the Baltic States" in Andis Kudors (ed.) *Fortress Russia: Political, Economic, and Security Development in Russia*, The Centre for East European Policy Studies University of Latvia Press, 2016, p. 141.

²⁰ В. Матулис, Заваленная российским углем Латвия - словно заложница, *Jura*, 2015-08-24, <http://www.jura24.lt/ru/novosti/port/zavalennaia-rossijskim-uglem-latvija-slovnno-zalozhnica-507401>

²¹ "Publisko liecības par "Latvijas kuģniecības" privatizāciju", *Ir*, 25 August 2010, <http://www.ir.lv:889/2010/8/25/publisko-liecibas-par-latvijas-kugniecibas-privatizaciju>

²² Sanita Jemberga, Evita Purina, "US pressures Latvia to clean up its non-resident banks," *The Baltic Times*, 10 February 2016, http://www.baltictimes.com/us_pressures_latvia_to_clean_up_its_non-resident_banks/

²³ "The Russian Laundromat", *OCRRP*, 22 August 2014, <https://www.reportingproject.net/therussianlaundromat/russian-laundromat.php>

²⁴ Ibid.

²⁵ "Non-resident deposits in Latvian banking sector grew to 53.4%," *The Baltic Course*, 18 February 2016, <http://www.baltic-course.com/eng/finances/?doc=116966>

²⁶ Sanita Jemberga, Evita Purina, "US pressures Latvia to clean up its non-resident banks," *The Baltic Times*, 10 February 2016, http://www.baltictimes.com/us_pressures_latvia_to_clean_up_its_non-resident_banks/

CONCLUSIONS



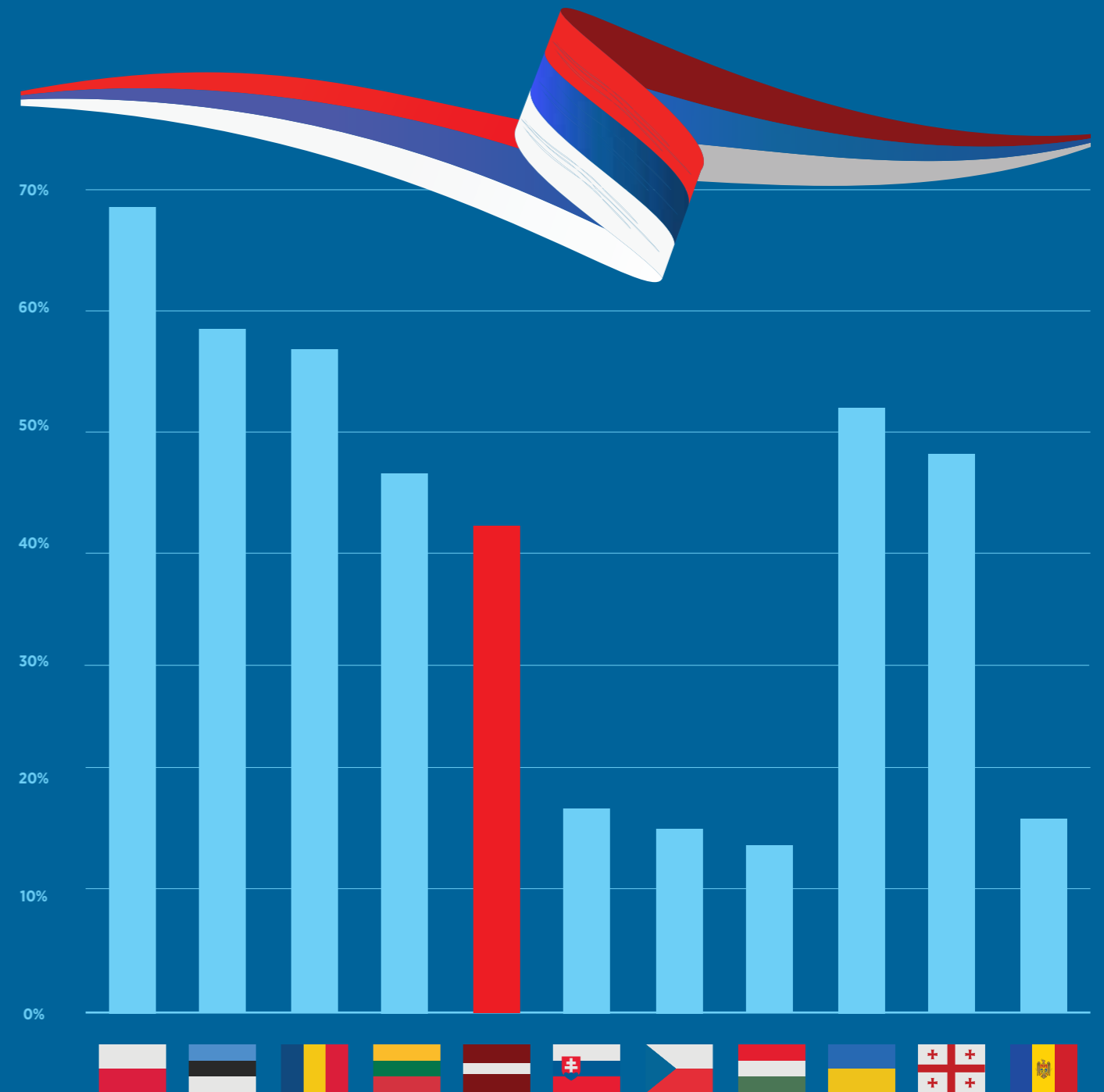
Russia's presence and influence in Latvia is identifiable in a number of sectors. Russia has taken an advantage of its formal and informal tools in Latvia since 1991. During Vladimir Putin's third term, especially after annexation of Crimea, the Russia assertiveness to promote its interests in the neighbourhood has strengthened further, above all in the information and media environment. In comparison with the other Baltic States, Latvia has the largest Russian-speaking minority constituting approximately 30% of the total population. Moreover, a considerable share of the minority is non-citizens that complicates the situation, as they frequently are critical of the Latvian government. As a result, some segments of society remain exposed and vulnerable to Russian media propaganda, which aims to create perceptions of "good and righteous Russia *versus* decadent and declining West". Dissatisfaction with government's policies among some of the Russian-speaking minorities along with the active Russian propaganda may create a favourable environment for pro-Russian agents. This highlights the main vulnerability of the Latvian society – there are intrinsic differences in interpretation of history and relations with Russia by Latvian and Russian-speaking populations. This, along with the political and business links stemming from the Soviet times, gives Russia a certain leverage to influence processes in Latvia. Importantly, however, Latvia's society,

including a considerable part of Russian speakers, and government are well aware of Russia's attempts and aims, and there are state level initiatives in all spheres of life that are aimed at constraining vulnerabilities and promoting integration and shared values and interests.

Overall, an existing vulnerability and exposure to Russia's formal and informal tools notwithstanding, Latvia remains a stronghold of pluralism, the country's domestic politics are stable and feeling of belonging to the country is widely shared across the ethnic lines. Moreover, Latvia's strategic preferences persist unchanged. The country has chosen a strong Transatlantic affiliation. Latvia also remains one of the strong campaigners for leaving the EU sanctions on Russia intact until Minsk agreement's conditions are fulfilled. Under the current circumstances, Russia is perceived as a major strategic challenge for Latvia due to negative historical experiences, the assertive Russian rhetoric regarding its neighbours and its military activities at the proximity of Latvia's borders. Hence the Latvia's policy vis-à-vis Russia since the 1990s remains a balancing act between efforts to maintain cooperative and constructive relations with its largest neighbour and an endeavour to increase domestic resilience and solidarity with its partners against a perceived Russian revisionism and tools of influence. •

ANNEX 1

RUSSIA AS A THREAT TO THE STATES BEING IN THE ZONE OF INFLUENCE



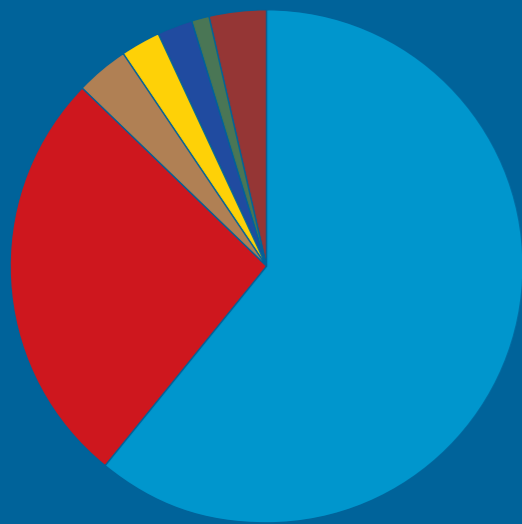
Source: gallup.com (est. 2015)

ANNEX 2

POPULATION AND LANGUAGES IN THE LATVIA, INCLUDING RUSSIAN MINORITY AND RUSSIAN LANGUAGE

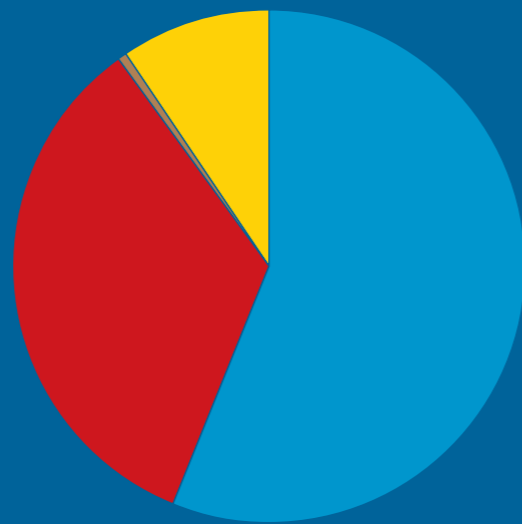
POPULATION: 1,965,686 (JULY 2016 EST.)

POPULATION (%) 2013 EST.



- LATVIAN 61.1%
- RUSSIAN 26.2%
- BELARUSIAN 3.5%
- UKRAINIAN 2.3%
- POLISH 2.2%
- LITHUANIAN 1.3%
- OTHER 3.4%

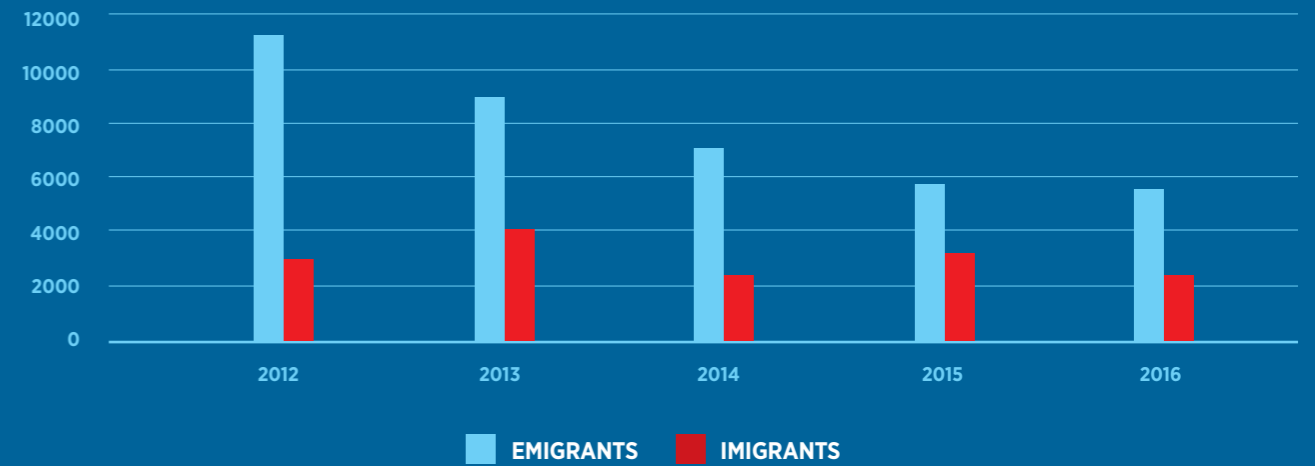
LANGUAGES (%) 2013 EST.



- LATVIAN (OFFICIAL) 56.3%
- RUSSIAN 33.8%
- OTHER 0.6% (INCLUDES POLISH, UKRAINIAN, AND BELARUSIAN)
- UNSPECIFIED 9.4%

Source: Central Intelligence Agency, <https://www.cia.gov/library/publications/the-world-factbook/>

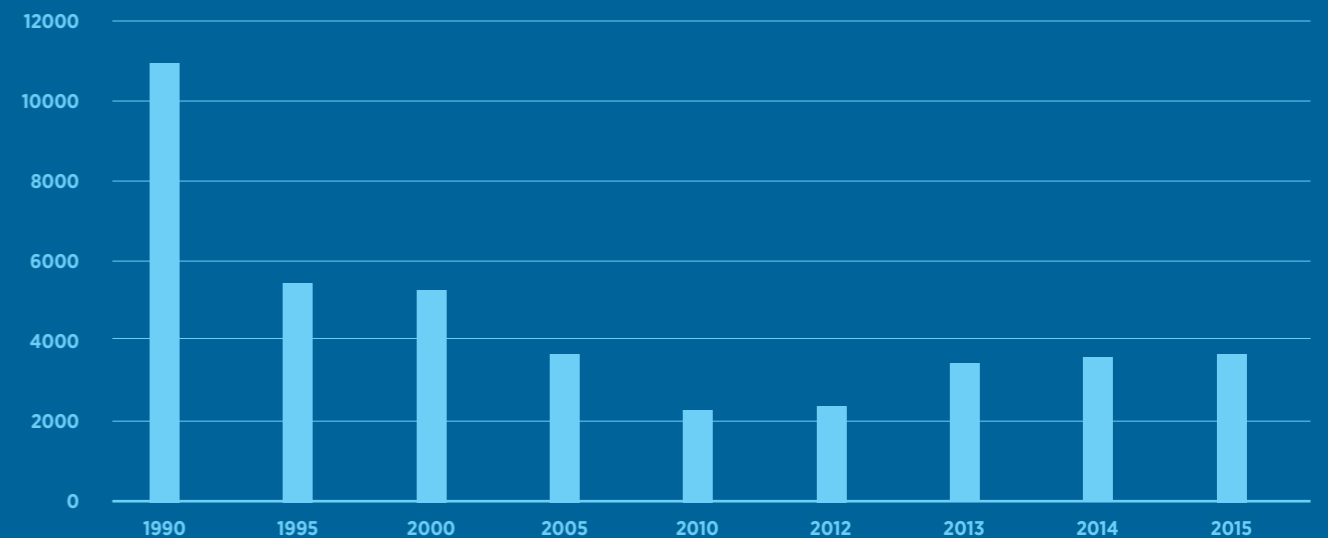
RUSSIANS IN LATVIA 2011-2015



BIRTHS IN LATVIA 1990-2015

YEAR	1990	1995	2000	2005	2010	2012	2013	2014	2015
TOTAL	37918	21595	20302	21879	19781	19897	20596	21746	21979
LATVIANS	21438	13763	12831	14635	12616	12862	14936	15837	15830
RUSSIANS	10910	5370	5350	3649	2194	2341	3454	3554	3632
BELARUSIANS	1840	694	573	145	86	78	111	128	120
POLES	827	450	438	175	83	98	183	183	165
UKRAINIANS	1443	553	382	155	77	59	113	109	106
LITHUANIANS	601	373	313	95	54	47	92	54	61
OTHERS	no data	no data	no data	140	81	93	122	149	153

BIRTHS OF RUSSIANS 1990-2015



Source: cab.gov.lt

ANNEX 3

PARLIAMENTARY ELECTIONS



2010

PARTY	NUMBER OF VOTES	ELECTION RESULT (%)	MANDATES
UNITY	301 424	301 424	33
HARMONY CENTRE	251 397	251 397	29
UNION OF GREENS AND FARMERS	190 025	190 025	24
NATIONAL ALLIANCE	74 028	74 028	8
FOR A GOOD LATVIA	73 877	73 877	8
FOR HUMAN RIGHTS IN UNITED LATVIA	13 845	13 845	0
MADE IN LATVIA	9 381	9 381	0
LAST PARTY	8 458	8 458	0
FOR A PRESIDENTIAL REPUBLIC	7 101	7 101	0
RESPONSIBILITY – SOCIAL DEMOCRATIC ALLIANCE OF POLITICAL PARTIES	6 139	6 139	0
PEOPLE'S CONTROL	4 002	4 002	0
CHRISTIAN DEMOCRATIC UNION	3 487	3 487	0
DAUGAVA – FOR LATVIA	1 661	1 661	0

COALITION: Unity, Union of Greens and Farmers

PRIME MINISTER: Valdis Dombovskis

Source: <http://www.velesanas2010.cvki.lv/results.html>

2011

PARTY	NUMBER OF VOTES	ELECTION RESULT (%)	MANDATES
HARMONY CENTRE	259 930	28,36	31
ZATLERS' REFORM PARTY	190 856	20,83	22
UNITY	172 563	18,30	20
NATIONAL ALLIANCE	127 208	13,88	14
UNION OF GREENS AND FARMERS	111 957	12,22	13
LATVIA'S FIRST PARTY/LATVIAN WAY	22 131	2,42	0
FOR HUMAN RIGHTS IN UNITED LATVIA	7 109	0,78	0
LAST PARTY	4 471	0,49	0
FOR A PRESIDENTIAL REPUBLIC	2 881	0,31	0
PEOPLE'S CONTROL	2 573	0,28	0
LATVIAN SOCIAL DEMOCRATIC WORKERS' PARTY	2 531	0,28	0
FREEDOM. FREE FROM FEAR, HATE AND ANGER	2 011	0,22	0
CHRISTIAN DEMOCRATIC UNION	1 993	0,22	0

COALITION: Unity, Zatlers' Reform Party, National Alliance

PRIME MINISTER: Valdis Dombovskis

2014

PARTY	NUMBER OF VOTES	ELECTION RESULT (%)	MANDATES
HARMONY	209 887	23,00	24
UNITY	199 535	21,87	23
UNION OF GREENS AND FARMERS	178 210	19,51	21
NATIONAL ALLIANCE	151 567	16,61	17
FOR LATVIA FROM THE HEART	62 521	6,85	7
LATVIAN ASSOCIATION OF REGIONS	60 812	6,66	8
LATVIAN RUSSIAN UNION	14 390	1,58	0
UNITED FOR LATVIA	10 788	1,18	0
LATVIAN DEVELOPMENT	8 156	0,89	0
NEW CONSERVATIVE PARTY	6 389	0,70	0
FREEDOM. FREE FROM FEAR, HATE AND ANGER	1 735	0,19	0
GROWTH	1 515	0,17	0
SOVEREIGNTY	1 033	0,11	0

COALITION: Unity, Union of Greens and Farmers, National Alliance

PRIME MINISTER: Laimdota Straujuma



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