

Testimony for the
United States House of Representatives
Committee on Foreign Affairs
Subcommittee on Europe, Eurasia, Energy, and the Environment

May 21, 2019

**“Undermining Democracy: Kremlin Tools of
Malign Political Influence”**

Dr. Michael Carpenter
Senior Director
Biden Center for Diplomacy and Global Engagement
University of Pennsylvania



Note: The statements, views, and policy recommendations expressed in this testimony reflects the opinions of the author alone, and do not necessarily reflect the positions of the Penn Biden Center for Diplomacy and Global Engagement or the University of Pennsylvania.

Chairman Keating, Ranking Member Kinzinger and distinguished members of the Committee, thank you for this opportunity to testify before you today on the subject of the Kremlin's tools of malign political influence.

In my previous role as Deputy Assistant Secretary of Defense, I was the senior Pentagon official responsible for coordinating our defense policies and posture against Russia. It is my belief today that it is not Russian ICBMs or hypersonic vehicles that pose the greatest threat to our national security but rather Moscow's covert influence and destabilization operations.

In terms of hard power, the United States and its NATO allies retain a significant conventional military advantage over Russia and a credible nuclear deterrent that provides for strategic stability. In the area of covert political influence, however, not only have we failed to establish a credible deterrent for Russia's malign activities, but we are failing to address the vulnerabilities that are continuously being exploited by Russia, China and other state and non-state actors to undermine our democratic institutions. Russia's growing use of malign influence operations combined with our lack of pushback and failure to address crucial governance gaps is leading us into an era of dangerous strategic instability and possible escalation.

What is Russia trying to achieve through its malign influence? The Kremlin's chief geopolitical goals vis-à-vis the West are to weaken Western democracies, fragment the transatlantic community (to include NATO and the EU), and undermine international norms pertaining to the promotion of democracy and human rights. The Kremlin has concluded that only by going on the offense can it shore up its corrupt authoritarian regime against the influence of Western norms of democracy, transparency, and accountability. Ever since President Vladimir Putin's return to the Kremlin in May 2012 on the heels of an unprecedented wave of anti-regime protests, the Putin regime has taken a far more aggressive stance towards suppressing internal dissent at home and subverting Western democracies abroad. Indeed, these are two sides of the same coin since both are efforts to shield Russia's kleptocratic regime from democratic principles.

While the Kremlin has not hesitated to use military force to achieve its geopolitical goals, as was the case in Georgia in 2008 and Ukraine in 2014, it may now be recognizing (or at least some Kremlin strategists are) that even successful military action can result in strategic failure. Following Russia's military operations in

Georgia and Ukraine, both nations came to see the Kremlin as an implacable enemy. This is one of the reasons why President Putin has increasingly turned to covert influence operations or “active measures” (*aktivnyye meropriyatiya*) to achieve his geopolitical aims. The goal of such measures is to cripple or weaken an adversary without it even fully realizing it is under attack, or as the Chinese strategist Sun Tzu put it, “to subdue the enemy without fighting.” Putin’s various successes with covert action in the last five years show that such operations are not only more effective and cheaper, but they have also resulted in far fewer international repercussions than conventional military operations.

Active measures to undermine Western democracies can be grouped into three main categories: cyber operations, information warfare, and corrupt influence operations. Today I will focus my testimony on corrupt influence operations since these have received far less attention than cyber attacks or information warfare.

Unlike traditional espionage activity, whose aim is to gain access to state secrets or sensitive technologies, Russia’s influence operations aim to shape and influence the target society, and especially its political class. The ultimate goal of these active measures campaigns is not just to change the target’s behavior but to alter its perceptions of what constitutes a threat and who is an ally and an enemy. This is an intelligence officer’s holy grail. As KGB defector Yuri Bezmenov put it, influence operations ultimately seek “to change the perception of reality of every American.”¹ Or as Kremlin strategist Vladislav Surkov recently boasted to a Western audience, “Russia [seeks to interfere] in your brains, [to] change your conscience.”²

Influence Campaigns

To fully appreciate how the Kremlin runs influence operations one has to first understand the nature of the informal networks that underpin Russia’s political and economic system. In today’s Russia, power is only sometimes wielded through formal institutions, positions, and offices. More often, though, it is wielded through

¹ Tomas Schuman (aka Yuri Bezmenov), *Love Letter to America* (Los Angeles: Almanac Panorama, 1984).

² Quoted in Cristina Maza, “Vladimir Putin’s Advisor Tells Americans: ‘Russia Interferes in Your Brains, We Change Your Conscience,’” *Newsweek*, February 12, 2019. <https://www.newsweek.com/russia-president-vladimir-putin-election-americans-1327793>.

personal connections to the key players who sit atop the neo-feudal network of patronage that defines the contemporary Russian polity. President Putin and a small circle of former KGB colleagues and friends sit at the apex of this network, and through a mix of bureaucratic power and personal ties they maintain influence or control over not just state institutions but also private companies, charities, and cultural and religious organizations. In this highly personalized and networked system of power, a modern-day “baron” like Igor Sechin, the chairman of Rosneft, can even order the arrest of a cabinet official like Economic Development Minister Alexei Ulyukayev.³ Personal connections are what count, not official positions.

Russia’s influence operations abroad are essentially efforts to extend this personalized system of influence beyond Russia’s borders to Western political, media, business, and cultural elites. Although some of these operations are managed by Russia’s intelligence services, they are just as often carried out by oligarchs, politicians, or even organized crime figures who have connections to the ruling elite. To maintain plausible deniability, Moscow in fact prefers to leverage non-official relationships wherever possible so as to avoid any direct connection to the Russian state. In the case of Maria Butina, for example, who was arrested by the FBI for conducting an influence operation here in the United States, Ms. Butina’s lack of any formal bureaucratic role is far less significant than her personal ties to influential Russian officials such as former Senator and Deputy Central Bank Governor Alexander Torshin.⁴ The same is true of Russian oligarch Pyotr Aven, who told Special Counsel Robert Mueller that he was given an “implicit directive” by President Putin to make inroads with the Trump transition team.

Russia uses similar methods to conduct influence operations in Europe. In 2004, Russian oligarch Yuri Borisov contributed \$400,000 to the campaign of Lithuanian presidential candidate Rolandas Paksas. Shortly after Paksas was elected president, it was revealed that Borisov had received Lithuanian citizenship. Following a parliamentary inquiry, however, Paksas was impeached and removed from office. More recently, it was revealed that French far-right presidential candidate Marine

³ Amy Knight, “A Show Trial in Moscow,” *The New York Review of Books*, September 8, 2017. <https://www.nybooks.com/daily/2017/09/08/a-show-trial-in-moscow/>.

⁴ United States District Court for the District of Columbia, “AFFIDAVIT IN SUPPORT OF AN APPLICATION FOR A CRIMINAL COMPLAINT.” <https://www.justice.gov/opa/press-release/file/1080766/download>.

Le Pen received a €9 million loan from the First Czech-Russian Bank, which is owned by a Kremlin-connected oligarch, during the course of her presidential campaign. Subsequent investigation showed the loan was secured following extensive discussions between members of Le Pen's party and affiliates of a prominent Russian politician, Alexander Babkov, who in turn had ties to the bank's owner.⁵

Influence operations are also used to directly influence geopolitical outcomes. In the Netherlands, Russian proxies posing as Ukrainians were engaged in efforts to sway a 2015 referendum against Ukraine's Free Trade Agreement with the EU.⁶ In the UK's Brexit campaign, Russia also played a role in supporting the Leave campaign to advance its aims of fragmenting the EU and creating divisions within the transatlantic community. Media reporting has uncovered, for example, that the biggest financial backer of the Leave campaign, Arron Banks, had numerous meetings with Russian Embassy officials and businessmen who offered Banks and his associates attractive investment opportunities in the Russian minerals sector.⁷

A slightly different model of influence operation can be seen in the deployment of private Russian military contractors and "political technologists" with expertise in rigging elections. Such contractors have been deployed to the Central African Republic, Libya, Sudan, Madagascar, Syria and Venezuela. In most of these countries, Russian contractors provide a suite of services ranging from personal security to technical support for manipulating elections (in the case of several African countries). In return, the parent company – in most cases the Wagner private military contractor – receives a cut of mineral extraction revenues and of course has direct influence over the host regime.⁸ The brainchild of this vast network of private contractors is Putin crony Yevgeny Prigozhin, who manages

⁵ German Marshall Fund and C4ADS, "Illicit Influence: A Case study of the First Czech Russian Bank," 2019. <https://securingdemocracy.gmfus.org/first-czech-russian-bank-case-study/>.

⁶ Andrew Higgins, "Fake News, Fake Ukrainians: How a Group of Russians Tilted a Dutch Vote," *New York Times*, February 16, 2017. <https://www.nytimes.com/2017/02/16/world/europe/russia-ukraine-fake-news-dutch-vote.html>.

⁷ Ed Caesar, "The Chaotic Triumph of Arron Banks, the 'Bad Boy of Brexit,'" *The New Yorker*, March 18, 2019. <https://www.newyorker.com/magazine/2019/03/25/the-chaotic-triumph-of-arron-banks-the-bad-boy-of-brex-it>.

⁸ Neil Hauer, "Russia's Favorite Mercenaries: Wagner, the elusive private military company, has made its way to Africa—with plenty of willing young Russian volunteers," *The Atlantic*, August 27, 2018.

<https://www.theatlantic.com/international/archive/2018/08/russian-mercenaries-wagner-africa/568435/>. Ilya Rozhdestvensky, Michael Rubin, and Roman Badanin, "Master and Chef: How Russia interfered in elections in twenty countries," *Proekt*, April 11, 2019. <https://www.proekt.media/investigation/russia-african-elections/>.

Wagner and bankrolls the St. Petersburg-based Internet Research Agency, whose disinformation operations were at the center of Russia's interference in the 2016 U.S. presidential election.

Finally, a third model of conducting influence operations is to use Russia's state-owned enterprises – Rosneft, Gazprom, Rosatom, Rostech, etc. – to offer foreign government officials preferential deals in return for influence. The hiring of former German Chancellor Gerhard Schröder as Chairman of Nordstream AG and Rosneft testifies to the close ties that Russian parastatal companies form with leading European politicians.

Destabilization Operations

While bearing many similarities to influence operations and often using many of the same techniques, Russia's destabilization operations aim not just to influence, but also to stoke or amplify divisions, recriminations, and disorder among Russia's adversaries.

In Montenegro, Russia's military intelligence service, or GRU, developed connections to the leaders of a small pro-Russian political party that later merged into a larger coalition bloc called the Democratic Front as part of a systematic effort to derail the country's plans to join NATO. At first, Russia's support was alleged to consist primarily of financial resources laundered through various corrupt schemes into party coffers. Subsequently, the operation expanded into an attempt to foment a violent coup d'état against the country's Prime Minister in October 2016 using right-wing thugs recruited from Montenegro and the neighboring region. Two GRU agents, Eduard Shirokov and Vladimir Popov, have been charged and sentenced in absentia for masterminding the plot.

Based in nearby Thessaloniki, former Duma member Ivan Savvidis provides another example of how Russian oligarchs who either live in foreign countries or have investments there can be leveraged to financially support local destabilization operations. Intercepted communications have reportedly shown how Mr. Savvidis used personal funds to support violent protests against the Prespa Agreement between Greece and North Macedonia. The goal of these efforts, which dovetailed closely and may have been coordinated with influence operations conducted by Russian intelligence agents based in the Russian Embassy in Athens (several of

whom were later expelled by the Greek government), was to block North Macedonia's membership in NATO.⁹ According to media reports, Savvidis helped advance the Kremlin's cause by paying Macedonian soccer hooligans to demonstrate against the Prespa agreement in the hopes of undermining a crucial referendum on the agreement that was held in North Macedonia in September 2018 and by seeking to generate a political backlash against the agreement in Greece.

Although the Kremlin is usually opportunistic about its use of proxies to sow discord in Western societies, it has shown a particular proclivity for supporting far-right fringe groups, as I have written about.¹⁰ GRU veterans, in particular, have directly funded or actively supported right-wing paramilitary groups in Hungary, Slovakia, and several other NATO countries. Russian Spetznaz veterans and possibly even active-duty GRU agents have also been closely associated with a network of *systema* martial arts clubs across Europe and North America, where they have attempted to recruit local sympathizers. In a number of European cities, the Russian security services have developed ties to local soccer hooligans ("ultras") and some believe that these services have also indirectly funded travel for Russian hooligans to go to Europe to engage in violence. Similarly, the GRU is an active backer of the Night Wolves motorcycle club, which played an important role in the seizure of the Crimean peninsula from Ukraine and currently maintains local affiliates in countries ranging from Serbia to the Baltic states to Germany. Finally, "patriotic" organizations inside Russia have been used to cultivate Neo-Nazi fringe groups across Europe. Sometimes these groups have sought to recruit neo-Nazi from Europe to serve as irregular fighters in Ukraine while in other cases they have provided them with weapons training in Russia. The bombers of a Swedish refugee center in January 2017, for example, had received weapons training from a Russian far-right organization that regularly hosts foreigners.

Russia's Illicit Financial Ecosystem

⁹ Helene Cooper and Eric Schmitt, "U.S. Spycraft and Stealthy Diplomacy Expose Russian Subversion in a Key Balkans Vote," *New York Times*, October 9, 2018. <https://www.nytimes.com/2018/10/09/us/politics/russia-macedonia-greece.html>.

¹⁰ Michael Carpenter, "Russia Is Co-opting Angry Young Men: Fight clubs, neo-Nazi soccer hooligans, and motorcycle gangs serve as conduits for the Kremlin's influence operations in Western countries," *The Atlantic*, August 29, 2018. <https://www.theatlantic.com/ideas/archive/2018/08/russia-is-co-opting-angry-young-men/568741/>.

Russian influence and destabilization operations are financed through a financial ecosystem that exists in Western countries thanks to the investments of Russian oligarchs and businessmen. Typically this money passes through offshore financial centers such as Cyprus, the British Virgin Islands, and the Cayman Islands, where its origins are obscured through layers of shell companies, and then it ends up being invested in Western countries such as the United States, Germany or the UK. While we do not know how much illicit Russian money is in the United States, in 2015 the Treasury Department estimated that \$300 billion is laundered annually into this country from different sources around the world. Meanwhile, total private Russian holdings abroad are estimated to be in the range from \$800 billion to \$1.3 trillion.¹¹

The Panama Papers and a number of other sources have helped reveal the precise mechanisms through which Russian money is laundered into Western financial and real estate markets. The Russian Laundromat is one such scheme that used an offshore network of shell companies and financial institutions to enable Russian oligarchs, officials, and organized crime syndicates to launder over \$20 billion into Western financial institutions, mostly through banks in Moldova and Latvia.¹² Another well-known enabler of Russia's illicit financing schemes is Denmark's Danske Bank, which facilitated Russian money laundering through an Estonian correspondent bank that resulted in the transfer of a staggering \$225 billion in illicit funds into Western financial markets.

So how does laundered money end up being used to fund influence operations? The Special Counsel's indictment of 12 GRU agents involved in hacking operations in the United States in 2016 provides one snapshot by showing how the GRU laundered over \$95,000 using bitcoin and other cryptocurrencies to lease servers, register domains, and buy virtual private network accounts. More typically the Kremlin takes advantage of its diverse network of businessmen and oligarchs abroad to channel money – both licit and illicit – to those fronts that carry out its influence operations, such as pro-Kremlin think tanks, lobbying organizations, and nonprofits. In a number of countries, for example, Russia has financially supported

¹¹ Anders Aslund, "It's time to go after Vladimir Putin's money in the West," *Washington Post*, March 29, 2018. <https://www.washingtonpost.com/news/democracy-post/wp/2018/03/29/its-time-to-go-after-vladimir-putins-money-in-the-west>.

¹² OCCRP, "The Russian Laundromat," August 22, 2014. <https://www.occrp.org/en/laundromat/russian-laundromat/>.

NGOs opposed to fracking, which is a technology for producing unconventional oil and natural gas resources that are in direct competition with Russian hydrocarbon exports.¹³ As the Savvidis, Borisov, and Aven cases demonstrate, an extensive network of regime-linked oligarchs stands ready and willing to finance all sorts of influence operations, whenever necessary.

Policy Recommendations

To combat Russian malign influence, the United States needs to work with its allies to accomplish three basic tasks. First, we need to coordinate law enforcement and intelligence activities to weed out malign networks of influence in Western societies. Second, we must proactively address our vulnerabilities to foreign malign influence by plugging governance gaps and creating greater transparency within our financial, real state, and media ecosystems. Third, we must impose greater costs on Russia whenever we discover Russian interference in our democratic process. Let me briefly elaborate on each of these.

First, with regards to weeding out Russian networks of malign influence, we need better coordination in the United States between our national security agencies and domestic law enforcement, as well as better intelligence sharing with our NATO allies. The firewall that currently exists between U.S. domestic law enforcement agencies and our national security apparatus needs to be broken down to allow for more information sharing about covert influence networks. My own experience serving at the NSC has shown that NSC staff are often oblivious to ongoing investigations by, say, a U.S. attorney's office, while U.S. attorneys and their staff often lack information on the latest Russian operations in Europe or elsewhere in the world. A standing interagency task force on malign Russian influence chaired at the level of NSC Senior Director is probably the best structure to coordinate such action.

Second, there are a number of good legislative proposals to address our vulnerabilities to Russian malign influence that need to be passed into law as soon as possible. The most important of these is also the most difficult politically:

¹³ James Edgar, "Russia in secret plot against fracking, Nato chief says," *The Telegraph*, June 19, 2014. <https://www.telegraph.co.uk/news/earth/energy/fracking/10911942/Russia-in-secret-plot-against-fracking-Nato-chief-says.html>

reform of our campaign finance system, which is so opaque as to practically invite foreign adversaries to channel dark money into our political process. Legislation to identify the beneficial owners of limited liability companies (LLCs) is also necessary and urgent, since many LLCs function simply as shell companies whose sole purpose is to mask covert financial transactions to evade scrutiny by U.S. law enforcement. Similarly, stricter anti-money laundering regulations are needed to tighten illicit financial flows, particularly between the United States and offshore tax havens. In the real estate market, there needs to be more transparency for high-end real estate transactions as well as greater resources devoted to the Treasury Department's Financial Crimes Enforcement Network (FinCen), so that investigations can be pursued whenever there is evidence of suspicious behavior. Despite a growing recognition of the problem of money laundering through real estate, the U.S. market is simply too big for FinCen to patrol with its current resources and staffing. Lastly, law firms also need to be subjected to greater transparency so that attorney-client privilege does not become a loophole through which foreign entities channel funds to their U.S. legal representatives for nefarious purposes.

The third and final major task for the United States and our allies is to impose more significant costs on Russia for its brazen interference in our democratic process. In January of this year, the Director of National Intelligence and the FBI Director both testified to this Congress that Russian interference in our democratic process is still ongoing. Clearly, our current patchwork of sanctions on oligarchs, government officials, and a few select companies is not enough. To impose real costs on Russia, it is time to look at much more forceful measures, such as full blocking sanctions on select Russian banks, as I have suggested elsewhere.¹⁴ Let's be honest: our current sanctions on Russia are designed to be weak, and this is true despite the fact that we have the capacity to impose devastating costs on Russia for its malign activity. It's past time that we do so.

¹⁴ Michael Carpenter, "How to Make Sanctions on Russia Work," *The American Interest*, December 18, 2018. <https://www.the-american-interest.com/2018/12/18/how-to-make-sanctions-on-russia-work/>.