International Security and Estonia

2017

TEABEAMET
Estonian Information Board

Layout: Kalle Müller
ISSN 2461-4459

Dear reader,

This is the second public overview of Estonia's security environment brought to you by the Estonian Information Board (EIB). As we stated at the launch of the first overview, our aim is for International Security and Estonia to become an annual publication. Intelligence agencies – generally not given to making public pronouncements – publish public security environment overviews such as this one to establish clarity in an otherwise static-filled information space, to promote awareness in society and to debunk falsehoods and half-truths in what has often been termed the post-truth age. The guiding principle is: if we ourselves don't say it, someone else will in a distorted way.

The main function of the EIB, Estonia's foreign intelligence agency, is to collect, analyse and forward information on Estonia's external security threats. In addition, the EIB is responsible for ensuring secure communications over the state's classified networks and carry out counterintelligence for the protection of Estonian diplomats and military personnel posted abroad. Although the Estonian foreign intelligence community lacks, and will always lack, global reach and unlimited resources, this aspect is compensated for by long-term focus, consistency and close ties with allies.

Similarly to last year, this report will mainly discuss Russia. Our eastern neighbour is the only country that could potentially pose a risk to the independence and territorial integrity of the Republic of Estonia, and thus the emphasis is self-evident. Naturally, developments in Russia in 2016 were partly foreseeable; in other respects, they were not. The ones that could be anticipated were the deepening of the economic downturn, aggressive foreign policy patterns, a move toward an increasingly hermetic autocracy, and the results of the elections to the State Duma. At the same time, the seriousness of the Kremlin's concern for its hold on power – as evidenced by an extensive leadership reshuffle – was somewhat surprising. Hopefully, Russia's intervention in the US elections and involvement in a (failed) coup attempt in Montenegro served as a wake-up call for the international community. Old habits die hard, as the saying goes.

Undoubtedly, 2017 will offer both routine and surprises – perhaps more of the latter – as the number of variables in international relations has increased at the expense of the constants. In the strategic view, the most important factor for Estonia's security is the dynamic of Moscow's relations with the new presidential administration in the US and how the Kremlin will cope with the increasingly restive domestic climate. Our job is to keep an eye on the continuing Russian military activity in Ukraine and Syria, and to be prepared for potential new developments. In a situation where the Kremlin continues to probe the boundaries of what is permitted and what is not, the vitality of the transatlantic security system based on trust and shared capabilities is at a critical stage, which is why close watch must be kept over any efforts by Russia to fracture European unity in the context of elections held in various countries as well to ensure that the sanctions remain in place. A test of strength is taking place every day in cyberspace as well.

An entire chapter in this year's report is devoted to Russia's influence activities against the West. This behaviour is very similar to Soviet practice in that it is coordinated by the secret services and massive in scale, but it is only during recent months and years that it has received the international attention it merits. No doubt we will hear more of this phenomenon in the near future.

2017 will bring a significant and long-awaited allied presence to our region, which will undoubtedly elicit an outpouring of displeasure from Russia, even though it is clear on that side of the border as well that four battalions of NATO troops stationed in the region do not pose a threat to the armies and divisions of Russia's Western Military District. Logical reasoning does not change the fact that the scenario for Zapad 2017, a major exercise taking place in immediate proximity to the Baltic Sea in late summer, will pit a "peaceful" Moscow against "provocations" from a NATO adversary. The function of intelligence agencies in a democracy is to remain vigilant and to distinguish actual intent and capability from mere cant and rhetoric. Some of the greatest risk factors continue to be the possibility of the Kremlin making a miscalculation and its risk appetite on the NATO and European Union fronts.

Although the risk of a terrorist incident in Estonia is low, this is not the case in a large part of Europe. Brussels, Nice and Berlin are, unfortunately, unlikely to be the end of a sad series of events. Regrettably, this underscores the axiom that security institutions have to succeed always, while a terrorist only has to succeed once. The humanitarian catastrophe amplified by the actions of Russia and its allies in Syria does not help efforts to contain terrorism.

By way of providing a key to reading this report, I would like briefly to make note of the following. First of all, this public threat assessment contains the information gathered and analysed by the EIB, and the assessments do not necessarily coincide with the conclusions of our partner services in all respects. That does not mean that Estonia's assessment of the overall situation differs from those of its closest partners. Secondly, this text does not delve into all key facets of Estonian security – inevitably the report provides only a selection from among many topics. Thirdly, the security environment around Estonia has become more dynamic and complex in recent years. As a result, analysis of open sources could result in assessments and forecasts that diverge from those of the EIB. Writing this document took time, as a result of which new ground-breaking events may have happened in the world by the time it goes to press. In any case, the assessments in this document should not be used to make long-range forecasts for the state of the world in, say, 2030, as the document focuses on major events in 2016-2017. And finally, I would stress that the EIB is not a policy-making institution, and it does not decide what Estonia should do in terms of foreign policy, defence policy or other areas on the basis of a given assessment.

The EIB is on the front line of national defence in Estonia because intelligence is what ensures an early warning for events that pose a threat to us. At the same time, intelligence in the 21st century is not limited to traditional collection and analysis of information; it increasingly also means use of information for the purposes of prevention. This has been a driver in publishing this report as well.

Bonne lecture!

Mikk Marran
Director General, EIB

31 December 2016

Russia: foreign policy

Russia's current leaders measure the success of their foreign policy in terms of how well they are succeeding in restoring the superpower status they lost over the last 25 years. With Russia's economy and society suffering from economic stagnation, reinforcing its status as a global power has become a more inviting goal. With Russia's standard of living flatlining again, its leaders are looking for ways of legitimising their power and achieving recognition in foreign policy and security policy. In 2016, Russia made major efforts to undermine the united Western approach to resolving security and economic problems. Attempts to incite extremist sentiment in order to undermine public trust in the democratically elected governments in the West were particularly striking. European countries were blackmailed by the claim that they were lackeys for the US's supposed grand geopolitical designs.

In 2016, Russia made major efforts to undermine the West's unity in its approach to resolving security and economic problems.

Increasingly, the Kremlin looks to the past for ideas and motivation for its actions. On a number of occasions, Russian leaders have expressed regret over the collapse of the Soviet Union. Pining for the USSR has now been joined by accusations that Western leaders' allegedly misguided and hostile actions are to blame for most of the ills in the international situation. In this way, by shifting

Russian President Vladimir Putin shakes hands with Syrian President Bashar al-Assad in the Kremlin, with Foreign Minister Sergei Lavrov (right) in the background. The use of Russian armed forces fighting for the Assad regime has taken a massive toll on the civilian population.

Reuters/Scanpix

responsibility on to Western leaders, the Kremlin tries to leave the impression that Russia is merely reacting to the West and is not, in fact, aggressive. In actuality, it is the other way round.

Russia's foreign policy stance has several facets that could destabilise security. For one thing, it is difficult for democracies to cultivate a sustainable relationship with a regime bent on revanche. Second, even if one wanted to, it is far from easy to rely on Russia as a partner without knowing what grounds from the past the Kremlin uses to define its interests in international relations. Third, it is inconceivable for security interests to be served unless mutual trust is restored. Yet the prospects of regaining such trust have been destroyed by the Russian leadership, with its military aggression against Georgia and Ukraine and its intervention in Syria.

The threat Russia poses to stability in Europe remains an unresolved issue. Its unpredictable and aggressive behaviour has made other countries in Europe fearful for their security. The Russian regime sees the bolstered cooperation within NATO and outside the alliance as a threat to Russia's security. The Kremlin is startled by the repercussions of its own actions, and does not realise its own role in causing the escalation. With alarming frequency, there are cases where Russia's leaders appear to fall for the lies spouted by its own propaganda machine. Misled by its own propaganda, the Kremlin has assigned a paranoiac interpretation on the Western position and has concluded that West is driven by Russophobic sentiment. Above all, this belief is planted in the minds of ordinary Russians. The objective is to demonstrate to Russians that hostile external forces are primarily the ones responsible for keeping Russia from realising its potential. The outcome is a sort of nationalist patriotic euphoria that, in turn, would appear to condone Russia's erratic and abrupt actions in the international arena.

Russia's reactive behaviour whenever certain "red lines" are crossed gives its foreign policy some degree of penetrability, but the risk lies in the unpredictable nature of the actual views of the Russian leadership. This stems from the type of leadership, which is based on personalities, and from the informal networks the Russian elite uses to influence politics, and which has been known to be directed by the elite's own business interests. The policymaking process does not take place in official institutions but rather in backrooms, and it subscribes to an anti-Western way of thinking. Conspiracy theories that cast the US in particular as an evil genius are widespread even among senior state officials. Russia's international views are defined by the Byzantine relationships in the Russian

administration and the need to ensure the leader's popularity among the people. The new "Foreign Policy Concept of the Russian Federation", released in late 2016, makes Russia's foreign policy no less understandable. The Concept reflects the changes that have already taken place in Russia's foreign policy course and activity. The arguments described therein are used to justify steps that have already been taken in foreign and security policy.

In its foreign policy strategy, the Kremlin insists that any improvement in relations with the West must take place on its own terms. The goal is to show that Russia is prepared to risk further deterioration of relations if its terms are not considered. Russia feels that relations with the West can improve only if the West openly disavows its controlling sanctions policies and acknowledges that Russia has an indispensable role to play in world affairs. The Kremlin tries to signal that the alternative is for Russia to act as a "sovereign" power, for which it believes it possesses sufficient resources and justification. The Russian Federation's global political role is primarily expressed through adopting an aggressive, antagonistic stance.

The Kremlin insists that any improvement in relations with the West must take place on its own terms.

The Russian Federation's global political role is primarily expressed in the striking of an aggressive, antagonistic stance.

Russia's major foreign policy goals include preserving or restoring influence in neighbouring countries. Attempts on the part of these neighbours to become European Union or NATO members are seen by Russia's leaders as crossing a red line, which conditions Russia's response. President Vladimir Putin sees the West as having forced the Ukraine crisis on him. From his point of view, he had no other choice but to use all means available to him to combat Ukraine's Western orientation. Although the Kremlin has achieved its tactical goals – Crimea is occupied and eastern Ukraine is destabilised in order to keep Kiev vulnerable – it has not been able to achieve its strategic goal of integrating Ukraine into its sphere of influence.

Yet Russia does not limit its efforts only to its immediate neighbours – it is also resorting to extreme measures in the western Balkans to achieve its foreign and security policy goals. Russia's ties to a coup attempt planned in Montenegro during the 2016 parliamentary elections have now come to light. The Serbian citizens arrested for plotting the coup have admitted having ties to Russian special services. The actions in Montenegro were supported from Russia, while people and organisations in Serbia and Montenegro were largely responsible for carrying out the coup attempt.

In 2017, Russia will be preoccupied with reinforcing its status as a power vying for a dominant position in the new world order.

Over the last year, clear public dissatisfaction with economic hardship has become evident, and a power struggle within the elite can be discerned.

The Kremlin considers the trend toward Euro-Atlantic integration, according to its Foreign Policy Concept, as a "manifestation of the geopolitical expansion of the NATO and EU", and sees this as the cause of the problems that have piled up over the last quarter century. Therefore, no fundamental slackening of tensions between Russia and the West is to be expected. Undoubtedly, the Kremlin will do everything it can to persuade the new governments taking office in the US and Europe to improve their attitudes towards Moscow, without changing its own aims. In the hopes that the shocking nature of the illegal annexation of Crimea and the war in eastern Ukraine will start to fade in the perceptions of Western democracies, Russia will continue to seek justification for ending the sanctions imposed on it. But the seeds and tragic consequences of Russia's aggression leave hardly any room for a softening of the conflicts between starkly different worldviews.

Russia: domestic policy

The complicated economic situation and political stagnation in Russia have led to tensions on the domestic stage as well. Over the last year, clear public dissatisfaction with economic hardship has become evident, and a power struggle within the elite can be seen. Steps taken by Putin to deal with the worsening situation are indicative of a fear that the elites he is surrounded by could turn on him in order to placate the population and improve relations with the West.

Russia's top leadership is thoroughly corrupt; President Putin is seen as a guarantee that the current system will continue. This sort of system – a corrupt bureaucracy and the lack of an independent judicial and law-and-order system – make it hard to stimulate the economy and create better living conditions in the country. Domestically, preparations for the presidential election planned for 2018 already now play an important role. No major structural reforms will be undertaken before that time. Due to the fear of unrest breaking out in the regions, the domestic focus is being put on managing the situation in the regions.

With the economy weak and the elites restive as a result, Putin has made efforts to centralise his power even more and protect himself from emergent challengers. For example, the National Guard security force, established in April 2016 and directly subordinate to the president, is an effective means of suppressing both popular unrest and ambitions on the part of political insiders. The major shakeup in power structures and elite circles shows that Putin deems it necessary to send a reminder regarding "who butters their bread," as it were.

The high-level personnel changes and reshuffles can be seen as part of the preparations for the presidential elections in 2018, and, more broadly, President Putin's desire to keep the apparatus of power in a state of constant flux to keep the "power structures" from gaining disproportionate strength.

Reshuffle at the top

2016 saw several rounds of high-level personnel changes and reshuffles of senior positions in Russia. The most important of them occurred at the epicentre of state power – the Presidential Administration (PA), where the chief of staff and deputies were replaced. After that, restructuring was carried out at the local levels – federal district and regional representatives were replaced. The reshuffles

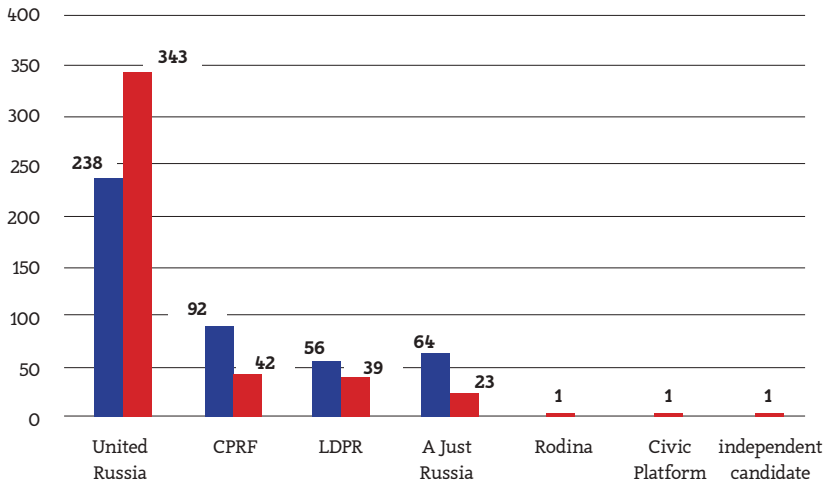
can be seen as part of the preparations for the upcoming presidential elections, and, more broadly, President Putin's desire to keep the apparatus of power in a state of constant flux to keep the "power structures" some positions from gaining disproportionate strength.

ELECTIONS TO THE STATE DUMA

The elections to the Duma took place on 18 September 2016. The 450-seat Duma is elected every five years. Russians see the State Duma elections as unimportant, and the very low interest in a quite passive election campaign had an effect on turnout.

The Russian authorities managed to avoid a recurrence of the protests seen after the 2011 elections by creating the most favourable conditions for United Russia to remain in power. Successful too was the work of the Central Electoral Committee led by Ella Pamfilova in registering violations and voiding results from election precincts to show that free and fair democratic elections were being taken seriously this time. Nevertheless, the EIB has reason to believe that election results were falsified both during election day and in the counting of votes.

The 2016 elections in Russia did not result in real change. The dominance of United Russia is now even more complete, and Putin no longer needs the support of other parties to implement constitutional changes. The figure shows the distribution of seats in the Duma after the 2011 and 2016 elections (CPRF – Communist Party of the Russian Federation, LDPR – Liberal Democratic Party of Russia).



On 12 August 2016, the Kremlin made an unexpected announcement that a long-time Putin ally, chief of staff of the Presidential Administration Sergei Ivanov, had been dismissed and replaced by his deputy aide, Anton Vaino. Putin appointed Ivanov as the Special Presidential Representative for Environmental Protection, Ecology and Transport. The new position has less prestige and influence, but the fact that Ivanov has remained a standing member of the Security Council shows that he retains a significant voice in the Kremlin.

Anton Vaino is not expected to be involved in shaping policy. He is seen as a follower of orders and an impeccable manager of the administration's affairs. An internal change such as this, where a senior, more influential policy planner is replaced by a young civil servant likely to tow the line, points to greater centralisation of Putin's power. Vaino's promotion sparked discussion regarding the prospect of other changes in the PA. Already, before the Duma elections, rumours were afoot that the first deputy director of the PA and the *éminence grise* of Putin's domestic policy, Vyacheslav Volodin, would become the chairman of the new Duma – Volodin had been on official leave ever since Vaino's appointment. On 23 September 2016, as anticipated, Putin made the proposal to Duma deputies to back Volodin for the post of Duma Speaker. A day earlier, Putin had appointed the previous Duma Speaker, Sergei Naryshkin, as head of the foreign intelligence service, the SVR. The changes at the top came into effect on 5 October, the date of the first sitting of the new State Duma. The Kremlin was said to be dissatisfied with the previous head of the SVR, Mikhail Fradkov. A number of Russian spy scandals went public during Fradkov's term, the best

Anton Vaino has been a diligent technocrat, showing himself to be loyal to Putin and hard-working. Vaino has held various posts in the Putin administration since 2002, coinciding with Putin's time as president and prime minister.

TASS/Scanpix

Vladimir Putin, the previous head of Russian foreign intelligence, Mikhail Fradkov and the new head, Sergei Naryshkin, in the intelligence agency headquarters.

TASS/Scanpix

known of which was the arrest of deep cover agents in the US in 2010. Officially, Fradkov's ousting from the SVR was presented as his retirement, but later Putin decided to make him head of the Russian Institute for Strategic Studies and chairman of the supervisory board of the weapons manufacturer Almaz-Antei.

Ostensibly, Volodin received a promotion, as the Speaker is the fourth most important position in Russia after the President, the Prime Minister and the Chairman of the Federation Council. But in real terms, Volodin's power diminished as, when he was in the

THE ARREST OF THE MINISTER OF ECONOMIC DEVELOPMENT

Besides the major shakeup in the PA, one of the most noteworthy events of 2016 was the arrest and dismissal of Minister of Economic Development Alexey Ulyukaev in November. He is accused of extorting a USD $2 million bribe from the state oil company Rosneft. The investigation committee claims that in exchange for the bribe, Ulyukaev said he would approve the merger of the oil company Bashneft with Rosneft, which he had previously openly opposed. It is likely that the reason for the arrest was a standoff with the director of Rosneft, Igor Sechin. It seems suspicious that Ulyukaev, who had long been a senior Russian official, would take the risk of requesting a bribe from Sechin, who has ties with Putin. Ulyukaev's arrest seems like a dark threat aimed at business circles and the civil service, and points to deepening unease and a power struggle within the Kremlin. Pictured, from left: Russian Finance Minister Anton Siluanov, former Minister of Economic Development Alexey Ulyukaev and Rosneft director Igor Sechin. RIA Novosti/Scanpix

PA, he had been in charge of the whole of Russian domestic policy, organising elections and running political organisations. Volodin's role as the head of domestic policy in Russia went to Sergei Kiriyenko, who was briefly, prime minister in 1998, and had, since 2005, headed the state nuclear energy corporation, Rosatom. Before his post at Rosatom, Kiriyenko had been the presidential representative in the Volga Federal District. Kiriyenko is no mere technocrat – in light of the difficult economic conditions and related problems in the regions, his job will likely be dealing with the situation in the outlying areas. In the bigger picture, his duty will be to lay preparations for the presidential elections. In late October, a new head was selected for the Domestic Policy Directorate, subordinate to Kiriyenko. Andrei Yarin has broad experience in positions in the oblasts, republics and federal districts, and his appointment is also indicative of the Kremlin's concern for the situation in the regions.

In summer 2016, a number of other high officials were replaced, and the Crimean Federal District was abolished. The Kremlin said that this was an ordinary rotation. The last major rotation of federal districts and governors took place in May 2014, when 12 people changed positions at one time. In both, the redistribution of posts and by ordering searches related to corruption accusations, Putin showed his power and control over the regions. The merging of the Crimean Federal District and Sevastopol into Russia's Southern District represents an attempt to more closely bind these areas to Russia and strip them of their special status. It also shows that after a certain time, it is no longer necessary to curry favour with local inhabitants by appealing to their "exceptionalism".

Although the 2016 reshuffles were extensive and there are rumours of additional changes to the PA's structure under the new head, no sweeping substantive changes in public administration are expected in 2017. The main emphasis lies in laying the groundwork for presidential elections that will be favourable to Vladimir Putin and, in this regard, constantly "putting out fires" stemming from the weak economic situation.

The ascension of Sergei Kiriyenko (as of 2016, the new deputy director of the Presidential Administration, to the post of Prime Minister in 1998 was unexpected and, given that he was only 35 at the time, won him the nickname "Kinder Surprise".

Sputnik/Scanpix

Influence activities vis-à-vis the European Union

The goal of Russia's influence activities on the European Union is to create tensions and sow confusion both in member states' relations with each other and within individual member states. By doing so, the Kremlin hopes to influence the decision-making process and steer the narrative in its own interests.

For Russia, exerting political influence both domestically and in foreign policy is a relatively economical, effective and proven tool. Influence operations can be used to serve both long-term interests and contingency situations. Russia sees events in Syria and the problems of the European Union – such as Brexit, the migrant crisis and the debt crisis – as a weakening of West-centred world policy and seeks to reconfigure power relationships in international politics. Influence operations are a central tool for Russia in striving for its interests, and besides public propaganda, influence also encompasses a broad arsenal of concealed measures. It should be stressed that this is not just the domain of Russian special services; the entire state apparatus is involved.

Russia makes use of open propaganda as well as a wide arsenal of covert means to exert influence. It should be stressed that this is not just the domain of Russian special services; the entire state apparatus is involved in influence activities.

In Russia's armed forces doctrine, "information confrontation"[1] has a central and increasing role in achieving goals both in the lead-up to and during a military conflict. In other words, Russia sees influence operations as a means of warfare that can be used even during peacetime to groom terrain for a potential conflict and to be applied as a conflict escalates.[2] The annexation of Crimea in March 2014 succeeded largely because of a successful information war that allowed a direct military clash to be avoided. In the future as well, Russia will use extensive manipulation of information to support its military goals, in order to achieve strategic advantage – forcing the adversary to doubt, verify the facts and thus delay its response.

1 *Informatsionnoe protivoborstvo* is the Russian expression for the use of information and physical means of influence to achieve information superiority over an adversary.

2 In General Valeri Gerasimov's vision of modern military conflicts (so-called hybrid warfare), information confrontation is the only means of warfare used in all six phases of a conflict. General Gerasimov is the Chief of the Russian Armed Forces General Staff.

"We are entitled to doubt in the police's objectivity." A poster at a local Russians' demonstration in Berlin in front of Chancellor Angela Merkel's office, 23 January 2016.

Reuters/Scanpix

In influence operations aimed at domestic audiences, Russia emphasises the message that it is a fortress besieged by enemies, and Russia accuses the West of threatening its security. For example, the increase in NATO's presence in the Baltics or its continued expansion is depicted as proof that the alliance is a threat to Russia. The Kremlin freely manipulates the connections between cause and effect, calling justified criticism or steps to counter Russian aggression manifestations of an unfair and politically motivated information war or Russophobia.

To amplify tensions, Russia, both on its own and through allies, spreads disinformation – a mix of truth and lies intended to mislead the target. The Kremlin makes extensive use of Russian-language and foreign-language media outlets, as well as countless fake social media accounts. The fabricated information often falls on fertile soil in anti-elite circles in the EU, who further disseminate the Kremlin's talking points.

A vivid example of this was the Liza incident in Germany in January 2016, when the Russian state media amplified and exploited a baseless rumour of how Middle Eastern immigrants raped a 13-year-old girl of Russian origin in Berlin.[3] Spurred by the cynical actions of the Russian media and organisations advocating for "Russian compatriots" living in Germany, hundreds of people demonstrated in around 10 German cities against government agencies. It is noteworthy that German ultranationalist movements helped the

3 In fact, the girl left her home at night of her own volition and when she returned, she said that immigrants who "looked like Arabs" had held her hostage for 30 hours and raped her. The girl later admitted to making up the story.

Russian "compatriots" organise the rallies. The Liza incident showed the power of Russian disinformation to mobilise people outside Russia, even though in the long term the incident ended up making German society take notice of the hazards of Russian influence activities. The European migrant crisis returned to the focus of Russian state media later as well, in the form of a tangle of fragments of information taken out of context and outright lies, helping to divert the attention of the Russian public from the deepening economic crisis in Russia.

Cooperation with extremists and populists

To carry out its foreign policy goals, the Kremlin is increasingly reliant on the right and left populist parties arrayed against the European Union and NATO – now a political force to be reckoned with across Europe. The networks linked to pro-Kremlin parties have, alongside the media and the so-called "compatriots policy", become Russia's main instrument for its influence activities in EU member states.

To influence domestic audiences, members of extremist parties are used as "independent experts", who are tasked with increasing the credibility of Russia's messages. The Kremlin displays a cynical flexibility toward the preferred ideology of its European allies – the only thing left and right-wing extremists have in common is their hostility toward the US and the EU or the current situation broadly. Left-wingers are drawn by Russia's opposition to the US, while right-wingers are drawn by Moscow's fierce protection of its interests and so-called conservative values. Together, they highlight

The leader of the Front National, Marine Le Pen, in Moscow, May 2015. The Front National has sought funding for the 2017 presidential election campaign from Russian banks.

AFP/Scanpix

the role of Russia and Vladimir Putin as a defender of basic family values, a saviour of Europe and a model of civilisation that the "decadent" West should follow. It is worth mentioning that Russia, which purports to be concerned about fascism rearing its head on the international arena, is itself collaborating with figures who openly avow support for Nazi ideologies, such as the leader of the pro-Russian Zmiana movement in Poland, Mateusz Piskorski.

Russia's cooperation partners are often marginalised in their own countries and thus tend to welcome Russian support, which may be expressed in financial contributions, high-level meetings, diplomatic support and media attention. For its part, Russia welcomes cooperation with any forces prepared to support it, but they favour populist parties who are close to the mainstream. The most important of these is the Front National in France, which, backed by financing from Russian banks, hopes for success in the presidential and parliament elections in 2017.[4] In Germany, where general elections will take place in autumn 2017, the Kremlin is banking on both left and right populists – Die Linke and Alternative für Deutschland.

Influence activities vis-à-vis the Baltic states

Russia is consistently sending the message that Estonia, Latvia and Lithuania do not honour the rights of Russian-speaking inhabitants, and claim that they falsify history. Russia wants the Baltics to be perceived in the West and by international organisations as undemocratic, problematic partners, so as to weaken their relations with their allies and reduce their international role in shaping policy on Russia. The Kremlin wants to introduce tensions into the relations between the Baltics' titular peoples and the Russian-speaking communities who, strongly influenced by the Russian Federation's state media, sow mistrust in their countries of residence. At the same time, there is an attempt to instil the belief that only Russia can stand up for their "real" interests.

The main themes of influence activity on the Baltic states front have long included the accusation that the rights of the Russian-speaking community are being violated because all residents were

4 The Front National may not be obliged to pay back the loans from Russian banks, considering the party's covert financing schemes and the incident involving First Czech Russian Bank, which is close to the Kremlin. In July 2016, the Russian central bank revoked the licence of the bank, which had lent the Front National €9.4 million in 2014, citing asset quality problems. The bank had sold Front National's debt to a third party before it was stripped of its licence.

not automatically granted citizenship and the right to vote in general elections, the issue of the status of Russian and Russian-language education in schools, and falsification of history – allegedly "rewriting" the history of World War II and lionising the Nazis. It is noteworthy that these fields, while different in content, are treated as interconnected at the same events by the same persons under the same slogans. For instance, the violation of the rights of the Russian-language population is described as "ethnocultural genocide" and a form of neo-Nazi sentiment. The presence of NATO forces in the Baltics has emerged strongly as a third main topic. The rhetoric in this area is full of contradictions: On the one hand, the Russian media runs claims that NATO is provoking Russia or even preparing the Baltics as a bridgehead for an invasion of Russia; yet the Baltics are also painted as inconsequential small countries still grappling with historical complexes, whose war hysteria keeps larger countries from reaching a compromise.

A new example of Russian influence being exerted with respect to the Baltics is the Russian Association of Baltic Studies (RABS), which was registered in St Petersburg in April 2016 and styles itself as a serious association of scholars in the social sphere and the humanities. In fact, the main function of RABS is to support Russian state influence on the Baltic front, releasing pseudo-scientific publications and organising conferences. The origins of RABS are closely tied with the Historical Memory Foundation,[5] whose director, Alexandr Dyukov first proposed an association along the lines of RABS in 2014. In 2015, Historical Memory received 1.5 million roubles (€20,000) from the Russian Presidential Administration for organising the first RABS conference, held from 22 to 23 April 2016 in Kaliningrad.

Similarly to the previous incarnations of its kind, the most of RABS's activities are aimed at discrediting the Baltic states in pseudo-scientific articles and collections. RABS's products are biased and have no scientific value. The call for papers announced in 2016 elicited studies on the following topics, among others:

5 The main activity of the Historical Memory Foundation, established in Moscow in 2008, is studying 20th century Russian and European history, publishing thematic literature and organising conferences. The main themes of the books published to date are finding justifications for the repressions committed by the USSR and exposing the crimes of "Nazi collaborators" in the Baltic states and Ukraine. The foundation is led by historians Alexandr Dyukov and Vladimir Simindei.

- The Eastern Partnership as an instrument for applying pressure on Russia: role of the Baltic states;
- Direct and concealed mechanisms for restricting freedom of speech in the Baltics as a means for nationalist regimes to remain in power;
- The theory of a "Soviet occupation" as the cornerstone of Latvian, Lithuanian and Estonian statehood.

Russia's influence activities against Estonia in 2017 are likely to revolve around – besides certain annual historical anniversaries – the arrival of new NATO forces, Estonia's presidency of the Council of the European Union, Russia's Zapad 2017 military exercise, and the local elections in Estonia. All of these events may be accompanied by campaigns to spread disinformation in the Russian-language and non-Russian-language media and social networks with the purpose of discrediting Estonia and creating tensions in Estonian society and relations with other countries. Threats from hostile influence activities have nevertheless been reduced by increasing awareness of the methods used by Russia and the untrustworthiness of Russia's rhetoric.

Russia's influence activities against Estonia in 2017 are likely to revolve around – besides certain annual historical anniversaries – the arrival of new NATO forces, Estonia's presidency of the Council of the European Union, Russia's Zapad 2017 military exercise, and the Estonian local elections.

NORD STREAM 2 AND INFLUENCE ACTIVITY

Geopolitically motivated energy infrastructure such as Nord Stream 2 (NS2) and Turkish Stream pose a problem for European Union and its member states. Although they might be in the economic interests of individual member states they also harm the interests of others, as well as non-members such as Ukraine. The new gas pipelines increase Russia's power to influence EU stability and security negatively. Lobbyists working for NS2 have tried to make the Baltics downplay the geopolitical consequences of establishing pipelines and to take a more neutral or favourable position. In 2016, NS2 representatives tried to get propaganda articles published in the media and to organise ostensibly casual meetings with political leaders. Although Gazprom has taken into account Estonian opposition to NS2, it is still hoped that it will not take the form of joint declarations or other public statements.

Harassment of foreign diplomats in Russia

Western diplomats stationed in Russia are the target of systematic harassment: they are followed in public, aggressively pestered by journalists and, without due cause, stopped by the police. They may be assaulted and their apartments can be vandalised.

The culprits behind the incidents are never caught, and the Russian authorities deny the harassment, accusing the West of human rights violations instead.

Under the Estonian Security Authorities Act, the EIB is tasked with counterintelligence for the protection of Estonia's foreign representations. In the most general sense, foreign counter espionage means keeping Estonian diplomats safe from intelligence operations mounted by hostile special services. But recruitment attempts from special services are not the only threat to diplomats abroad. Besides the (counter)intelligence function performed by the Russian special services, Western diplomats stationed in Russia often come under physical, verbal or propaganda attack, commonly described by the word "harassment". The events described in this chapter do not take place at random, and the people carrying out the harassment – the people filming, following, breaking in and assaulting – do not pick their victims haphazardly or act spontaneously. FSB (Federal Security Service) personnel are directly involved in many operations. In other cases, they participate in preparing operations executed by people working in cooperation with them.

Every country has the right to defend its territory and citizens against espionage from other countries, and it is no secret that agents often operate in the guise of diplomats. But the harassment described above is something that any staff member of a Western diplomatic representation in Russia can potentially experience.[6] The goal of the FSB is to intimidate and wear down diplomats by attrition and obstruct their everyday activities. For example, a diplomat might lose their self-control due to the relentless behaviour of a Russian TV station crew and react emotionally; the recording of the incident is then made public, taken out of context or accompanied by subjective commentary. In dealing with fabricated or out-of-context news and videos published in the Russian media, it should be considered that filing a complaint with the press regulator[7] is

6 According to Article 40 of the 1963 Vienna Convention on Consular Relations ("Protection of Consular Officers"), "the receiving State [...] shall take all appropriate steps to prevent any attack on [the officer's] person, freedom or dignity."

7 *Roskomnadzor* – Federal service for supervision in the field of communications, information technology and mass communication.

futile and the wheels of justice grind slowly. Attacks on foreign diplomats are similar to attacks on the "non-systemic opposition" (the leaders of the non-establishment opposition unrepresented in the Duma). The "tools" used by the FSB are the same, and the culprits and actual string-pullers are for the most part never found.

Foreign diplomats and Russia's non-systemic opposition are bound by a common narrative disseminated by the media that is controlled by the Russian authorities. In the eyes of the Russian leadership, the main problem is that besides terrorism, the greatest fear is that public protests in Russia will take place against the government due to socioeconomic reasons. The FSB seeks to nip protests in the bud and destroy the reputation of potential initiators. The means of doing so is to accuse the bold and principled Russians – the potential protesters – of representing the interests of the non-systemic opposition, which, as the claim goes, gets its orders and funding from foreign diplomats and intelligence agents. Put simply, if Russians take to the streets against the country's leaders, they must have been goaded into it by some country in the West, mainly the US, because they would not have independently revolted against the stable life in Russia. This view makes it possible to prevent any kind of influential opposition to the Putin regime from taking shape.

Blaming foreign countries and their intelligence agencies for expressions of discontent from Russian citizens is a product of the Soviet era, when all popular protests against the communist system were attributed to foreign meddling. An example from Estonia's own recent past is the "popular protest rally" organised by Estonian Soviet Socialist Republic's authorities in Tallinn on 24 February 1988, when well-known figures in society led a protest against the intervention of "Western radio voices" in internal Soviet affairs. The same sorts of accusations also accompanied popular expressions of discontent in the communist bloc, at least starting from the time of the 1956 Hungarian Revolution.

The target of the harassment is diplomats from countries considered hostile by the Russian leadership. Russia's age-old enemy, according to the current view from the Russian media, is the US; other NATO and EU member states are depicted mainly as stooges of the US. The Russian special services have a much larger role in fostering this image than it may seem. As Estonia is not high on the list of Russia's enemies, Estonian diplomats are not harassed very actively. The situation may change rapidly when the power dynamic in international relations changes or a one-off attack on Russia's interests or persons takes place. Russia may respond to

A frame from a documentary aired on 1 July 2015 on the Russian state TV channel RTR. The meeting between a US diplomat (right) and LGBT activist Alexandr Yermoshin (left, wearing glasses) was taking place when suddenly a Russian telejournalist (facing away from camera) entered with a cameraman (bottom right corner) and demanded explanations. The whole scene was described in the vein of a conspiratorial late-night hotel-room meeting with a foreign diplomat.

Youtube

such a situation by applying pressure against diplomats from the country that Russia considers responsible for the situation. A vivid example of such action is the events surrounding the Estonian ambassador in spring 2007 in Moscow, following riots in Tallinn.

The main methods of harassment experienced by Western diplomats in Russia involve, firstly, overt and covert surveillance of diplomats and their family members. Surveillance and wiretapping are necessary to learn the diplomat's daily schedule so that the following elements of harassment can be implemented:

- Traffic police stop vehicles with diplomatic plates with tiresome consistency and without reason. The tyres of diplomats' cars are punctured in parking areas;
- Diplomats become embroiled in trouble with the police in order to be discredited. Fights are instigated, and accusations of shoplifting or pickpocketing levelled.[8] Often organisers involve the media in such actions. These methods are effective against people where state secret clearance plays an important part in their activities, and whose reputations must, therefore, be spotless;
- Diplomats are attacked and beaten up by "unknown individuals" or their drinks are spiked with intoxicating substances

8 In the drop ruse, a person walking ahead of the mark "accidentally" drops a wallet or bag. When the mark returns it, the person who dropped it claims that some of the contents are missing. "Witnesses" then happen to be in the area, along with the police, who start to investigate.

in public entertainment venues, without anything being stolen from the victim. Investigations by the Russian authorities usually lead nowhere and the culprits are never found;

- The FSB covertly directs and controls the activities of a large share of Russian media outlets. The FSB tips off its media contacts as to the diplomats' plans; a meeting of a diplomat and local opposition activist in some cafe may be interrupted by a TV station crew, which starts grilling both of them in front of the cameras about the purpose of their meeting;

- Interviews conducted in such a manner or e-mails, photos and screenshots of social media posts recorded secretly by the FSB (some of them falsified as well) and "leaked" onto the Internet have on many occasions been used during prime time programming on major state-controlled TV stations as a part of "documentary films" and talk shows. On these programmes, the non-systemic opposition is accused of plotting to overthrow the "democratic" state order in Russia, and Western diplomats – whom the producers allege are colluding with the intelligence services of their respective countries – are charged with recruiting, handling and funding Russians. Usually, such scenarios are supported by interviews with Russian "experts", who cite the same kinds of chaos, said to be fomented by the West, in the Middle East and North Africa, Ukraine and Georgia. In general, Russian television claims that the local opposition is preparing a "colour revolution" with the connivance of foreign countries;

- Breaking into diplomats' apartments and leaving "calling cards" – meaning identifiable traces. Nothing is taken from the apartments – the purpose is to show the resident that it was not a burglary. The media describes such FSB "calling cards" left in these apartments as rearranged furniture, home appliances and lights left on, and excrement on the carpet. In one case, a dog in a diplomat's apartment was killed. The imagination of the harassers knows no bounds when it comes to "redecorating" the diplomats' apartments. As in the case of physical assaults on diplomats, the intruders are never found.

- Russian authorities usually deny consistent, coordinated harassment of foreign diplomats. If the events do become public, the Russian Foreign Ministry mainly uses one of two tactics: either it mocks the accusations from the West ("sick fantasy" or "dime store detective novel") or it resorts to whataboutism,

The Russian security service, the FSB, is behind the harassment. Its aim is to make it as uncomfortable as possible for diplomats to perform their official duties and represent their country.

a time-honoured propaganda tactic.[9] The ministry will accuse she Western countries themselves of violating the rights of Russian citizens. These, however, do not involve harassment of Russian diplomats; rather, the ministry cites arrests of criminals who are Russian citizens or the alleged abuse of children adopted from Russia.

The foreign ministries of the West do not especially want to discuss the problem, as it is hard to point to a specific guilty party, and only occasionally does a particularly brutal or cynical attack cross the news threshold. Countermeasures taken by other countries with regard to harassment of diplomats are generally understated. Usually, they are limited to providing a thorough briefing of officials to be posted to a diplomatic office in Russia on what conditions they should expect there. The West has not made a tit-for-tat response to the harassment of diplomats, and the Russian Foreign Ministry responds to diplomatic protests with an arrogant denial or formal apology.

9 This is a classic propaganda technique originating in the Soviet period (*kaknaschotism* in Russian), where actions are excused by referring demagogically and out of context to the counterparty's own actions, drawing a false equivalence.

The Russian economy

The decrease in the price of oil in the first quarter of 2016 to less than $30 per barrel posed a new challenge for the oil-dependent Russian economy.[10] Along with the declining price of oil, Russia's GDP fell, but not as rapidly as it did in 2015. The price of oil recovered by the end of 2016 to $50–55 bbl, which will mean a smaller budget deficit but not enough to bring the budget into balance or restore spending to the level of previous periods. Considering the low comparison base, it is likely that Russia will exit its recession in 2017, but there are no prospects for significant economic growth, either.

Russia's GDP in 2016 was about $1.3 trillion,[11] which did not produce enough federal budget revenue to cover expenditure, which remains at the 2011-2013 level, when GDP was more than $2 trillion.

10 Oil prices also fell to a low as a short-term fluctuation during the 2008 financial crisis, but one would have to go back another 10 years to find a comparable price level as a long-term average.

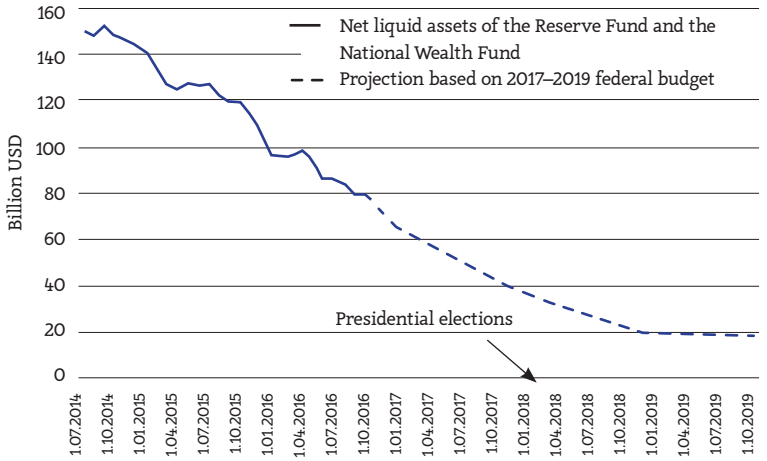
11 Russia's GDP in 2016 was the 12th in the world. In Europe, it would be comparable to that of Spain's, making up 1.7% of the world's economy.

Russia's 2016 federal budget deficit was a planned 3% of GDP – 2.4 trillion roubles – with federal budget expenditures of 16.1 trillion roubles.[12] The supplementary budget adopted in October 2016 increased the deficit to 3 trillion roubles and expenditures to 16.4 trillion roubles, which raised the budget deficit level to 3.7% of GDP. The increase in federal budget expenditures was due to a more than 20% increase in military spending, which was compensated for by reducing other line items and increasing the budget deficit. Cuts were made mainly in education and healthcare.

A situation where close to one-fifth of the federal budget expenditures are not covered by revenue has been resolved by use of two state reserves:

- The Reserve Fund designed to ensure that the federal budget is in balance even if there is a budget deficit;
- The National Wealth Fund, set up to support the Russian pension system.

European Union and US sanctions against Russia have had a noteworthy effect on the target groups and economic sectors, and a broader impact on the economic environment.



12 In the case of Russia's 2016 economic indicators, one should consider that the rouble's exchange rate has fluctuated between 60 and 80 RBL/USD during this period, as a result of which the estimates given in foreign currency may vary depending on which exchange rate was used.

Both reserves have dropped by close to one-half since economic sanctions were imposed in July 2014. Should other conditions remain the same, the funds will run dry by the first half of 2018, which coincides with the presidential election period.[13] The change in the reserves should also take into consideration the fact that the National Wealth Fund resources are only partly liquid. The fund's assets also include receivables that will likely be impossible to liquefy in the foreseeable future.

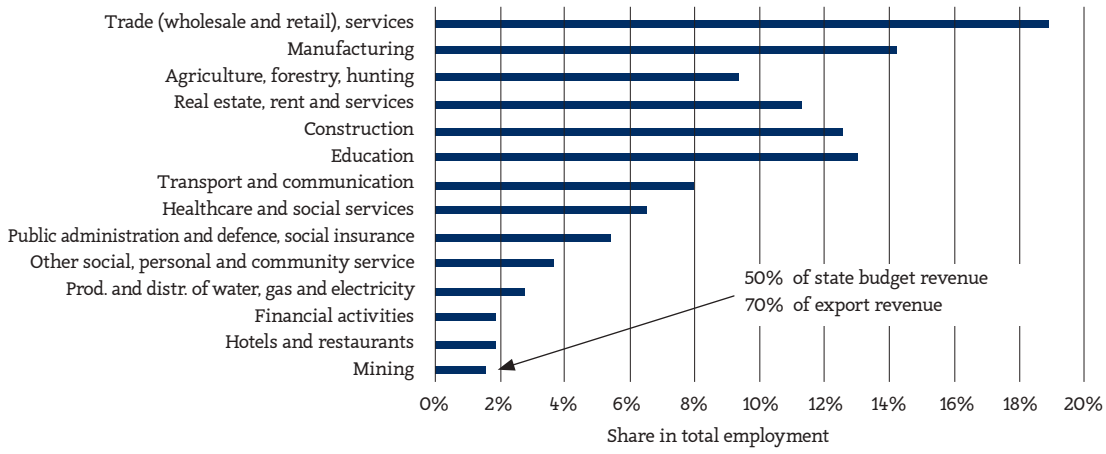
In 2017-2019, it is planned to cover the federal budget deficit only partially from federal funds, and the rest will be covered by increasing government debt (mainly from internal loans). Considering that the planned federal budget cuts are marginal, the solution will probably involve increasing federal budget revenue and increasing the loan burden.

Russia's federal budget is strongly dependent on oil and natural gas revenue. In years past, close to one-half of the federal budget revenue and 70% of the export revenue came from oil and gas sales. As most of the forecasts for the near future do not envision prices of energy sources rising to the 2008-2013 levels, the planned growth in tax revenue will have to come from outside the oil and natural gas sector.

The Kremlin has expressed in general language the necessity of tax changes, but the changes are planned to be implemented only after the presidential elections – that is, not before 2019. The implementation of tax changes is made socio-politically complicated by the

Economic challenges for the Russian government in the years ahead will be slashing the federal budget deficit, and reducing the economic dependence on the price of oil. The government has constantly put off the economic reforms it needs to implement for such changes, focusing instead on geopolitical ambitions and military spending.

13 Provided that the presidential elections are not moved to an earlier date, that the price of oil does not rise significantly and that sanctions remain in place.



fact that less than 2% of Russia's working-age population works in mining-related areas. Tax changes aimed at a more equitable distribution between sectors of the cost of maintaining the state will be shouldered by the other 98% of the labour market participants, and applying these changes will cause additional socio-political tensions. Indirectly, the extremely uneven distribution of the tax burden due to the income received from natural resources is also one factor that makes the Kremlin's geopolitical ambitions and military spending palatable for most of the Russian population. If the income from oil and natural gas do not recover, Russia's taxpayers will face the prospect of footing the bill for the Kremlin's actions – that is, the tax burden will increase and the result will be the continued deterioration of the population's well-being.

At the same time, the lifting of sanctions and a higher price of oil will not be enough for Russia to exit the economic crisis; sweeping economic reforms will be required. The Russian government has, however, constantly postponed the internal reforms, focusing instead on geopolitical ambitions and increasing military spending. Considering the situation as it has shaped up, it is unlikely that there will be changes to the economic policy before the presidential elections. After the presidential elections, the liquid resources for managing economic reforms will be exhausted and the window of time for finding solutions will be even slimmer. Postponing reforms for political reasons will cause the economy to stagnate, and the cost of the changes for society will keep increasing.

Influence of sanctions on Russia

Western unity in establishing and imposing sanctions on Russia came as an unpleasant surprise for Moscow and has reminded key players that an aggressive foreign policy can have consequences. The sanctions imposed by the European Union and US against Russia have had a noteworthy effect on the target groups and target sectors, as well as a broader impact on the economic environment. The sanctions pertaining to technology have been the most effective, along with the ones targeting top officials in the regime, as these generate noticeable tensions in circles close to those in power.

The technology-related sanctions imposed by the US and EU exert a significant influence on Russia in certain sectors. One of the sectors that is considerably affected is shipbuilding, where sanctions on imports of engine components are causing great difficulties, including in military fields. In addition to engines for

surface vessels, sanctions in the defence contracting sector also hurt Russian aircraft manufacturers, which rely on Western-made microelectronics in avionics, and sectors of the rocket industry (especially those related to rocket fuel).

The sanctions on officials and their business activities are an obstacle to business relationships with the West, and block access to credit. The US-imposed sanctions have had a particularly sweeping effect, as most European financial institutions avoid cooperation with US-blacklisted individuals and their companies to the point where such persons may have difficulty even opening a bank account.

The sanctions do not affect natural gas production and have only a limited effect on oil production. The growth in the production of natural gas is limited by the recessionary downturn in demand on the internal market, but exports have, in fact, increased thanks to low prices in Europe. Output continues to grow in the oil sector as the sanctions do not have an effect on oil service companies of Western origin. The impact of sanctions on the oil sector is more indirect than direct – it mainly results in postponement of investments. It also has a long-term rather than an immediate effect, as it is related to restrictions on imports of technology and equipment needed for extracting difficult-to-access oil.

Likewise, sanctions have mainly an indirect effect on the Russian investment environment, making Western investors less confident about the outlook of business relations. As a consequence, because of the low price of oil, Russia is finding it even harder in an already complicated situation to obtain resources for stimulating and restructuring its economy.

Russia has hit back, establishing countersanctions on foodstuffs, and this is the primary factor behind the rising prices of food and a sometimes dramatic deterioration in the quality of the food available to a majority of the people. The Russian government spin is that agricultural sanctions are a catalyst for the development of domestic agriculture, but in fact the lack of foreign competition has had the opposite effect, stripping producers of the motivation to improve the quality of their food. Agricultural producers, in particular, are the main interest group that would gladly see sanctions continuing and hope that relations with the West will remain at a low.

The situation in Russia's regions

"Notable differences in economic development in the regions can still be seen... the difference between the revenue in the five richest and five poorest regions is 43-fold. If we take the richest and poorest region – I'm not even going to go there, the difference is a hundredfold."

Vladimir Putin at a Security Council meeting devoted to regional development problems, 22 September 2016.

The Russian Federation consists of very disparate regions which are vital for the central government to continue to control if it wants to stay in power. The major regional disparity in the strength of the economy is expressed in differing levels of tax revenue, incomes and standard of living. In the recessionary conditions, the disparity is causing more problems for the central government than it did previously. At the same time, cuts have been made to federal budget appropriations for supporting regions. Very few regions have escaped major cuts – examples are Chechnya and Ingushetia, where the central authorities cannot institute cuts for political reasons.

The major regional disparity in the strength of the economy is expressed through differing levels of tax revenue, incomes and standard of living. In the recessionary conditions, the disparity is causing more problems for the central government than it did previously.

Budgets in the regions

Russia's regions continue to be heavily in debt. Above all, the poorer regions do not have sustainable budgets in the longer term.

A major change took place in 2016 in the structure of debt in the regions, which slightly reduced the cost of servicing the debts. Commercial credit was partially replaced with credit from the federal budget, which comes with a low cost of credit. In the 10 regions with the biggest debt burden, debt exceeds revenue by more than 100%, and in the Republic of Mordovia, the ratio approaches 200%.[14]

In recent years, the debt burden in the regions has increased in leaps and bounds – in 2015 overall, only nine regions ran a budget

14 Data as of 2016.

The difference across regions in the amount of monthly income of a four-member family after deduction of compulsory costs, in 2015.

RIA Reiting

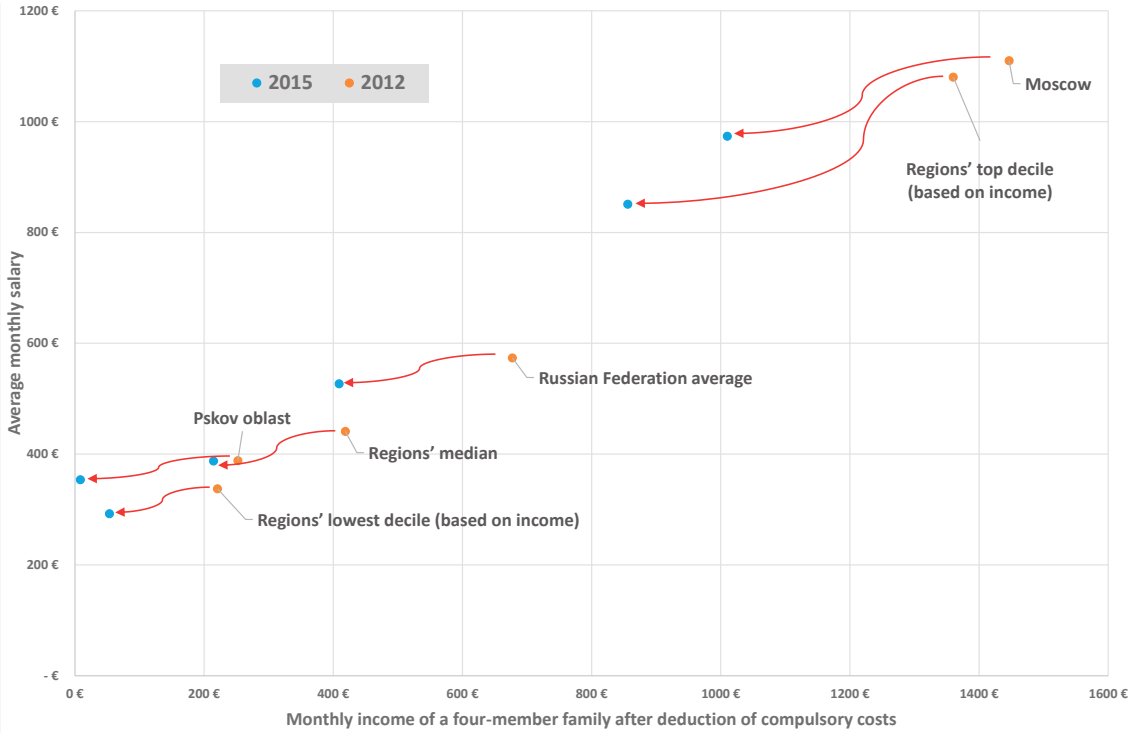
surplus while the other 76 federal subjects[15] of the federation had a deficit. In comparison, in 2011, 26 regions had a budget surplus, and 57 regions had a deficit. The increase in the regions' debts is largely due to the central government's policies. Decisions at the federal level have forced regions to increase social spending more than the revenue base allows. The keyword here is the "May ukazes" – a package of pledges made in 2012 when Putin returned to the presidency, calling for salaries to increase in education, culture and medicine and other additional expenditures in the social sphere. Spending had to be increased, even though most regions had not fully recovered from the 2008-2009 economic crisis, and a new recession soon came to have a negative impact on revenue streams in the regions.

Regional disparities in standards of living

Incomes vary widely from one region to another. Most of the wealth is concentrated in about 10 more affluent regions – in the figure, this is illustrated by the fact that the median indicators are situated close to the indicators for the poorest 10% of regions.

The average wage rankings are led by the regions engaged in mining energy resources – these are predominantly sparsely populated

15 This analysis treats the illegally occupied and annexed territory of Crimea along with Russian federal subjects because including all territories for which administrative expenses are paid will provide a comprehensive understanding of the regional policy issues the Russian central power is facing.



Matrix showing changes in average monthly salary and discretionary income – the amount that a four-member family with two dependents has left after deduction of compulsory costs – in 2012-2015. The lowest decile of the regions includes the eight regions with the poorest population, calculated on the basis of funds left after deduction of compulsory costs, and the top decile has the eight wealthiest populations, determined in the same manner. The median for the regions is the middle value of average indicators of the regions, with an equal number of incomes both higher and lower.

regions, where a large share of the inhabitants works in the oil and gas sector. In 2015, the average regional salary exceeded Russia's average income in just 16 regions.

The top matrix also shows that the economic changes of recent years have significantly eroded discretionary household income. The change is noteworthy in both the richest and poorest region decile, but the decrease is much greater in the wealthiest decile. The differences between the top and bottom deciles are even starker when the monthly wage changes are compared – the decrease in the indicator is modest in the poorest decile and quite apparent in the wealthiest decile. The fact that the decrease in discretionary income outstrips the drop in income is a clear sign that the cost of living has risen.

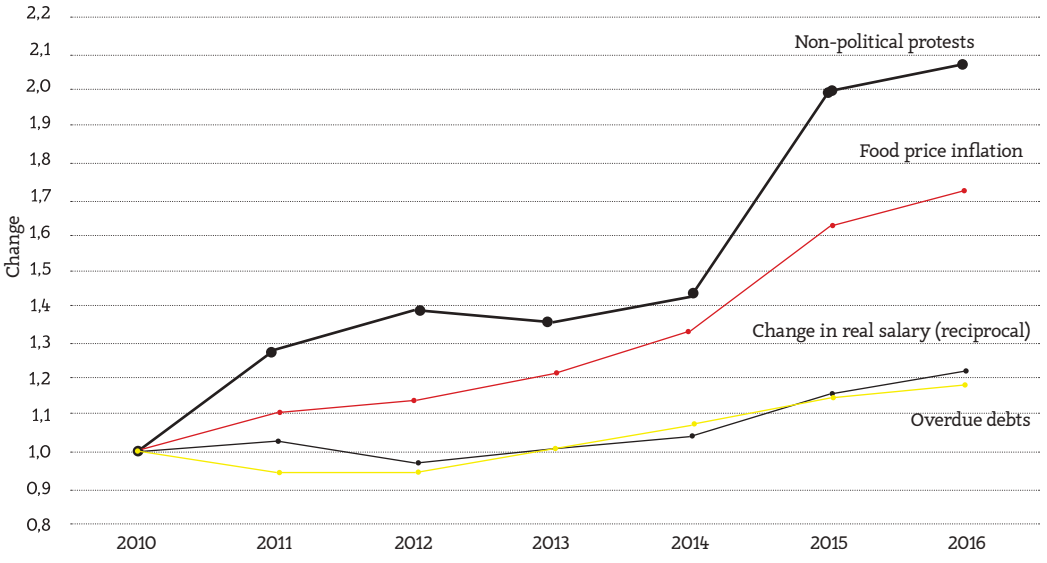
The decrease in incomes and dissatisfaction sparked by the rise in the cost of living has been expressed since 2015 in an increase in the number of non-political demonstrations. The forecasted continuing of the economic stagnation will mean that hard times will persist in the regions, where, in many cases, the situation will be more fraught than in the country's main population centres. Although the standard of living in the periphery is always lower than in the centres, public sentiment will suffer if it falls significantly lower than the accustomed level.

SPREAD OF PROTESTS

One aspect of the mythology connected to Russia in the West involves overestimating the tolerance of the population for suffering. In its rhetoric, the Kremlin has promoted the virtues of stoicism since time immemorial and it has become a part of the Russian national image. Yet the monitoring of socio-economic indicators by Russia's own government agencies shows a noteworthy increase in non-political unrest. Such protests include organised demonstrations of discontent that do not have a direct political agenda, such as utilities, environmental protection and labour disputes. This indicator has more than doubled since 2010. It is noteworthy that the indicator has seen strong growth concurrently with the rise in the cost of living, especially the inflation of food prices. Non-political actions are the main outlet for the dissatisfaction, but it is only a matter of time before it becomes general and the protests take on a political dimension.

Russia's special services consider such unrest to be a significant security risk, and further developments depend on how quickly and adequately they can respond to the manifestations of economic dissatisfaction in the future.

The decrease in incomes and dissatisfaction sparked by the rise in the cost of living has been expressed already since 2015 in an increase in the number of non-political demonstrations.



Cyber threats

Cyber warfare has increasingly become a fixture in the military field. Developments in cyberspace now have a direct impact on relations between countries.

In 2016, the number of malicious cyber attacks globally was in the billions, and it will remain a rising trend. In cyberspace, Russia constitutes the greatest source of a threat to the Republic of Estonia. Estonia is a target for hostile cyber activity both on its own and as a member of the EU and NATO. In 2016, repeated attempts were made to map the foreign networks of Estonian government institutions and test attack campaigns.

Although the crippling of a critical Estonian infrastructure by a state actor in 2017 is not likely, it is certain that Estonia will remain a target of hostile cyber activity. Individual service members of NATO units stationed in Estonia continue to be under the heightened attention of hostile cyber intelligence. Considering the cyber attacks that sowed confusion in the US in 2016 and Latvia's experience in holding the presidency of the European Union in 2015, it is also likely that Estonia will come under increased scrutiny from foreign cyber criminals in the second half of 2017. The goal of such attempts is to cast doubt on the reputation of Estonia as a functioning e-state and to harm Estonia in one way or another.

Threats originating from Russia

Cyber groups linked to the Russian government and special services remain active and carefully plan attacks against select targets. The targets include the information systems of the EU and NATO institutions, as well as those of the government institutions of other countries in Russia's sphere of interest. Leaks of stolen sensitive material mixed with falsified documents managed to sow a large amount of confusion in the US presidential elections and the Democratic National Committee.

As in past years, the Estonian government sector was not unscathed by attacks in 2016. The mailboxes of employees of the Riigikogu (parliament), the Ministry of Foreign Affairs and the Ministry of Economic Affairs and Communications were the targets of phishing attempts. An example of such attacks was an incident in 2016 where an attempt was made to steal information in the possession

of a Finnish member of the Bellingcat research group. The information concerned the military conflict in Ukraine and the downing of the MH17 airliner.

Russia's special services use the exchange of information in cyberspace as a platform for planning and executing spear phishing attacks. Although the attackers hide behind aliases such as Cozy Bear, Fancy Bear or CyberBerkut, it is certain that the aim of all such attacks is to serve the interests of the Russian information security doctrine. Both competitors' and allies' cyber infrastructures are probed and tested in the interests of advancing Russia's position in the world.

Active cyber groups linked to the Russian government and Russian special services received major attention in 2016.

Curbs on Internet freedom

Information is one of the most important resources in both democracies and authoritarian societies, and today it is becoming increasingly difficult to administer and control. It is not always possible at the state level to protect citizens from the threats in cyberspace. Yet ever since the dawn of the spread of free speech on the Internet, there have been attempts to restrict it in one way or another. The People's Republic of China is the most vivid example. State surveillance and filtration of Internet content is part and parcel of daily Web use. The Internet is also restricted in countries like Iran, where the ultimate goal is to create a standalone domestic Internet that is easier for state institutions to monitor and control.

Control measures are also becoming more powerful in Russia, where the aim is to monitor network traffic as well as to adopt domestic software and hardware solutions. According to the new information doctrine in Russia, all cross-border and domestic threats must be combated more actively, and one of the security measures envi-


From: noreply@stratfor.com
Subject: Geopolitical Weekly
To: [redacted]

Dear Sir,
Please read this report by Sratfor Global Intelligence:
http://stratforglobal.net/weekly/51586/ruthless-and-sober-syria
Kind regards,

Stratfor Global Intelligence

P.O. Box 92529
Austin, Texas 78709-2529
USA
T +1 512 744 4300
F +1 512 744 4334

Spear phishing attempt by the group APT28. A fake address (stratforglobal.net) was created to resemble a bona fide address (stratfor.com). The link also leads to an article, but in between, spyware is downloaded. The typo (Sratfor) also points to a possible cyber espionage attack.

ESET

sioned is reducing dependence on foreign IT solutions. The possibility of isolating the national Internet from the information space of the surrounding world is also being considered. In mid-2016, the Duma adopted the so-called Yarovaya anti-terrorism package, which requires network and telecom providers to retain information on clients and to allow special services to have access to encrypted data. The broader idea here is to enable Russian special services to have complete access to Russian nationals' use of the Internet on the pretext of combating terrorism. Such decisions show clearly that Russia is moving toward a more robust policy of controlling information space.

Despite the fact that they operate under cover, it is certain that the Russian state and special services are behind the operations.

Increased spread of ransomware and malware

The spread of malware will not decrease in 2017. Ransomware with an increasingly complex structure continues to pose a high risk. In this type of attack, the victim's files are encrypted and a ransom is demanded in exchange for decrypting them. For cybercriminals, it has become a lucrative business because the attacks have already been packaged as a service. More attention must start to be paid to the security of mobile devices, as phishing schemes developed specifically for these devices have become a new and dangerous trend. Mobile smart device users are still convinced they do not need to use antivirus protection as they would with computers. Yet with the ever-increasing digitalisation of everyday appliances and the Internet of Things, it is important to bear in mind that the closer

SIGNS THAT YOU ARE AT RISK

1. *Someone has attempted to change or has already changed your e-mail or social media account password.*
2. *App(lication)s and software you do not recognise have been installed on your smart device or computer without your permission or knowledge.*
3. *Your computer or smart device is running unusually slowly and it seems like the processor is overburdened; or from time to time, pop-up windows or unusual advertising texts flash, prompting you to click on them.*
4. *You are sent e-mails with suspicious or incomprehensible content and you have tried to open attachments or links within them.*

the integration, the greater the risk of falling victim to malicious cyber activity. For that reason, it is important to put effort into cyber hygiene and security.

Bot networks consisting of home computers and, increasingly, networked and low-security home appliances are used by criminals as a supplemental means of staging everyday attacks. 2016 has also brought reports of incidents where millions of euros were stolen by manipulating the SWIFT system. Along with technological progress, there must be an increase in awareness of related threats and how state-of-the-art technology might be used instead to hurt unsuspecting users.

In July 2016, NATO allies finally agreed that cyber would be treated as a separate domain of warfare. There is an increasing realisation of the important role that cyber means can play in hybrid warfare, which dictates the need for joint action plans to be ready to respond to aggression originating from cyberspace and, if necessary, to the aggressors. As the extensive data leaks in the US, the EU and the rest of the world have shown in 2016, more concerted effort should be poured into cyber security in technological sectors where attacks were previously inconceivable, such as medicine or vehicles. In the context of technological progress and networking society, it is clear that the development of cyber war has a greater role to play in today's active conflicts and in shaping policies around the world.

Russian armed forces in the Western strategic direction

2016 did not see major changes in the development and activity level of Russian armed forces. In general, the trend seen in the last ten years continued – upgrading weapons and a steady growth in the activity of the armed forces. As planned, new units and commands were established in 2016, above all with a focus on the Western strategic direction, in particular, against Ukraine.

As in years past, the most significant events for Estonia in 2016 were related to the introduction of new weapons systems to the Baltic Sea region. In October 2016, the Serpukhov and Zeleny Dol, two Buyan-M class Project 21631 corvettes, entered service in the Baltic Fleet. Both medium-sized combat vessels are equipped with Kalibr-NK missile systems (which have a range of 2600 km). These ships, along with the missiles they carry, give the Baltic Fleet a surface-to-ground attack capability that it previously did not have.

In 2016, the latest coastal defence missile systems, BAL and BASTION, were installed in Kaliningrad Oblast. The temporary transport of Iskander-M tactical missile systems to Kaliningrad Oblast continues to be practised as an exercise. In October 2016, an Iskander-M missile unit was moved to Kaliningrad Oblast on

The Serpukhov, a missile corvette added to the Baltic Fleet in October 2016, in the Bosphorus, en route to the Mediterranean and on to the Baltic Sea.

Reuter/Scanpix

board the civilian ferry Ambal as part of an exercise. A similar exercise was held in December 2014. In the near future, the Kaliningrad missile brigade will likely be permanently re-armed with the Iskander-M.

By repositioning the most modern operational weapons systems in the Baltic region, the Russian Armed Forces Command is trying to increase its capacity to block and isolate the theatre of war in case of a potential military conflict. In military planning, the Armed Forces Command continues to emphasise special operations, asymmetrical measures and strategic and tactical nuclear weapons. These activities support Russia's long-term goal of military planning – to close the conventional forces gap with NATO and to achieve a strategic military edge in the Western strategic direction.

The Russian armed forces have been consistently beefing up their Western Military District for the last ten years, and the recent deployment of weapons systems cannot be attributed to the increased NATO presence in the Baltic Sea region.

Prioritisation of the Western strategic direction by improving military capacity stems from the Russian armed forces long seeing the US and NATO as their main adversary. No action or omission by NATO would likely change this view of the world. The Kremlin's claims that Russia started increasing the military capability on the Baltic operational direction only after the NATO summits in 2014 (Wales) and 2016 (Warsaw) – because NATO was giving the Baltic Sea region greater attention and increasing its presence – are not true. The Russian armed forces build-up in the Western Military District has been going on for some 10 years. During this time, the Western Military District has been the top priority for Russia upgrading to modern technology (the units of this district were the first to get S-400 anti-aircraft systems, Iskander-M missile systems, Steregushchiy-class corvettes and Su-34 fighter jets, for

Iskander missiles in Red Square, Moscow.

RIA Novosti/Scanpix

example), as well as in creating new units and commands – the Western district was the first to reinstate divisions such as the 2nd Motor Rifle Division and the 4th Tank Division, and the tank army – the 1st Tank Army – was established in 2014.

Russian armed forces respond to NATO's bolstered presence in the region mainly with tactical actions. Above all, an increase in intelligence activity and individual provocative manoeuvres has been seen. The latter include Su-24 bombers from Kaliningrad buzzing the US destroyer USS Donald Cook on 11 April 2016.

One of the biggest problems for the Russian armed forces is a shortage of qualified personnel (contract servicemen, junior specialists). On average, just one battalion from each manoeuvre brigade of the ground forces is completely or largely manned by contract servicemen. Only the airborne troops and special forces units are better equipped.

Together with airborne forces, the Western Military District is capable of fielding, for a short-term regional conflict, a maximum of 30 to 34 battalion tactical groups (i.e. 20,000 to 30,000 personnel) in one operational direction. Ground forces units are supported by 2 larger, 6 medium and 23 smaller combat vessels, 4 large landing ships, 2 submarines, about 120 fighter planes, 70 attack aircraft and 120 helicopters. A broader military conflict requires longer preparations, including bringing additional forces from the Central and Southern Military districts or mobilising reserves. But the Russian military latitude is limited by its unfinished conflicts in Syria and Ukraine.

Economic problems have forced Russia to reduce its defence spending. In spite of the economic problems, however, the military is still the second largest expense in the Russian budget, and internal security is fourth.

Economic problems have forced Russia to somewhat reduce its defence spending. The Russian federal budget for 2017-2019 calls for defence spending to drop to 2.7-2.8 trillion roubles (€40 to €41 billion).[16] The short-term changes in the defence budget will not have a direct effect on military capability, as there is a lag time before changes influence the military industry. The existing military capability will remain in place despite temporary funding difficulties, and weapons systems that have already been ordered and are being built will be delivered. Budget cuts must be longer lasting before they affect weapons procurements and major infrastructure projects. Russia's leaders currently hope that the economic difficulties will be temporary.

16 The first version of the 2016 federal budget specified defence spending of 3.1 trillion roubles.

The Ukraine crisis and Western sanctions have affected the construction of warships. The production of nuclear submarines and auxiliary ships is going more or less according to plan, but the difficulties in supplying engine components have affected the completion of some large surface vessels. This does not prevent the Russian military fleet from becoming increasingly active each year or performing military operations or sabre-rattling in nearby regions as well as in distant waters.

In spite of the economic problems, however, the military is still the second-largest expense in the Russian budget, making up 3.7% of GDP according to official Russian data.[17] Internal security is the fourth-largest expense, including the National Guard (formerly the Internal Troops).[18] In 2016, the federal budget code was amended and the Minister of Finance, who is in charge of the budget, was empowered to change the distribution of spending by 10% by executive decision without going through budgetary proceedings. The finance minister can change the budget if necessary for military or internal security reasons, including for ensuring intelligence activities.

The threat of a direct Russian military attack on NATO member states in 2017 is low. However, considering the fact that the Russian government is an authoritarian regime, though, the risk that the Russian leadership will make a strategic miscalculation and decide to test the functioning of NATO's collective defence cannot be completely ruled out. Moreover, the Russian regime has to keep an "external enemy" prominent to divert attention from domestic problems and stifle society's aspirations for democracy. The Russian armed forces will likely be at a high level of activity in 2017. Unannounced combat readiness checks and large snap exercises will presumably continue. Greater activity can be expected in September during the "Zapad 2017" exercise, where the scenario will probably involve a regional conflict with NATO in the Baltic Sea region. The Russian military fleet will demonstrate its presence on the world's seas, carrying supplies to its contingent in Syria. The strengthening of the Russian armed forces grouping will likely continue, and new units will be created in the Arctic region, Crimea and Kaliningrad.

In 2017, Russian armed forces will be very active in the western direction. Greater activity can be expected in September during the"Zapad 2017" exercise, where the scenario will probably involve a regional conflict with NATO in the Baltic Sea region

17 Russian's state spending on its military fields is not transparent. Using SIPRI methodology, defence spending is estimated to amount to as much as 5.4%.

18 The leading expense in the Russian federal budget is social expenditures.

Russia's military-industrial complex

As the Soviet Union collapsed, the Russian Federation inherited an estimated 80% of the defunct superpower's military industry.[19] Still, Russia was capable of producing only 20% of the USSR's weapons systems without production input from other Soviet republics. Outside the Russian SFSR, the military industry was mainly located in Ukraine and Belarus, and the contribution of other Soviet republics to the military-industrial complex (MIC) was mainly limited to manufacturing sub-components. The Soviet nuclear weapons complex was located completely in Russia, so the world's top nuclear weapons capability was passed on to Russia in intact form. Efforts made after the collapse of the Soviet Union to cut the MIC's dependence on defence contractors in Ukraine and Belarus have reached their final phase, although some part of the ties will persist for another 3 to 4 years.[20]

The economic hardship of the 1990s put the Russian military industry into a deep crisis. Weapons production volume dropped tenfold and the number of workers in the military-industrial complex fell from 6.5 million to 2 million. During this time, the Russian MIC's production base was barely propped up by periodic support, minimum state orders – for instance, test batches in the hopes of keeping some sort of production cycle going – and exports of weapons for individual platforms. The military industry reached its nadir in 2000, when the production volume was at 5% to 7%

19 The Russian military industry sector comprises 1300 to 2000 companies, and employs 2 million people, or 2.7% of Russia's workforce and 10% of people working in industrial production.

20 The Belarusian military industry has supplied missile battery carrier vehicles, mobile command point communications systems, microelectronics production machinery and armoured vehicle optoelectronics. Ukrainian defence contractors have supplied Russia mainly with warships, helicopters and cruise missile turbines, ballistic and space missile control modules, electronic intelligence satellites, air-to-air missiles and missiles with seeking sensors, and transport aircraft. The Russian military industry has not yet been able to find a replacement for the (surface) warship engine systems of Ukrainian origin and the control modules for some ballistic missiles. Realistically, independent production capability will be achieved in 2018-2020.

The Irkut aircraft plant's production line.

http://eng.irkut.com

of the 1991 level, the predominant share being export orders. By the mid-1990s, the supply of conventional weapons to the Russian armed forces had nearly ceased, the average age of personnel in the military industrial complex had risen to 58 years, and the depreciation of production lines along with bottlenecks from the loss of technology cut production capacity to a fraction of the 1991 volume. By 2000, the Russian military-industrial complex was less than a decade from irreversible collapse.

In 2000-2010, a restructuring programme for the moribund industry was implemented. The core of the reform, which encompassed the entire sector, lay in consolidation of the research institutes, engineering offices and military plants round vertical industrial conglomerates.[21] The renovation of the infrastructure and restoration of production chains gradually removed the bottlenecks that had hindered serial production.

By 2011, the decline of Russia's military industrial complex had been halted, structural reforms were largely completed, and the material and technical base was seeing widespread modernisation. As a result of the reforms, 50% of the production capacity lost during the "lost decade" had been restored, a noteworthy share of the means of production had been renovated, the number of

21 Almaz-Antei (anti-aircraft batteries), United Aircraft Corporation, United Shipbuilding Corporation, the United Engine Production Corporation, Sozvedie (communications and command and control system corporation) and many other holding companies consolidated all military industry enterprises active in producing a certain type of military system.

As of 2016, the military industry has evolved to the point where it is able to fulfil the Russian armed forces' ambitious state armaments programme for 2011-2020, albeit not within the desired timeframe.

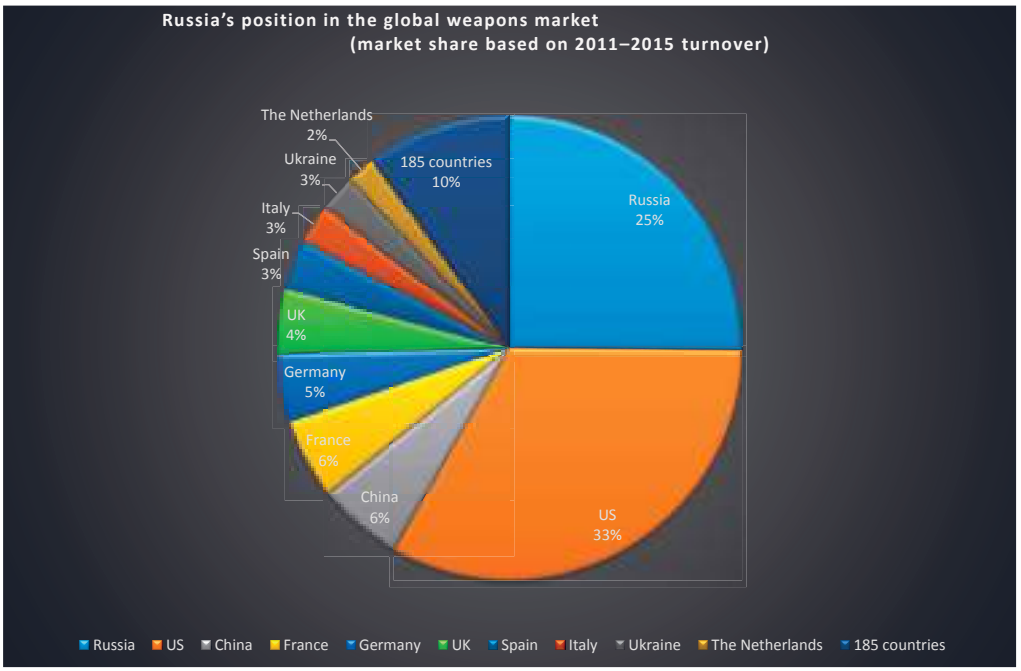
employees in the MIC had been stabilised at around 2 million and new young employees had been hired, decreasing the average age from 58 to 46 by 2012.

The capability of serial production currently varies greatly based on type of armament – production volume is high for anti-aircraft systems, tactical combat aircraft, missile systems, and transport and attack helicopters. The production chains for new-generation land platforms, major surface vessels and strategic combat aircraft are still being developed. As of 2016, the military industry is at a level where it is able to fulfil the Russian armed forces' ambitious State Armaments Programme for 2011-2020, albeit not within the desired timeframe.

Importance in the geopolitical context

Russia is one of the few countries that is capable of independently developing and producing new-generation air, land, sea, space and nuclear weaponry.

Russia is one of the few countries that is capable of independently developing and producing new-generation air, land, sea, space and nuclear weaponry. Although the geo-strategic potential of the Soviet Union was not transferred to Russia as a whole, the military industry, backed by research institutes, engineering firms, military plants and raw materials and special materials resources, does ensure that Russia can develop an independent military capability. Only the US and – in the medium-to-long term – China are able to do this. High-level weaponry is something that Europe can only



develop through cooperation between several countries, and not through the whole range of weapons systems.

There are only few weapons platforms where the Russian MIC has significant deficits as regards design, development work or production volume: aircraft carriers and large landing ships, armed unmanned drones and certain types of military satellites. The Russian MIC is independent, and the biggest limitation is the continuing incapability to produce, independently of Ukraine, turbines for combat ships. At the level of basic components, the Russian defence industry is still somewhat dependent on imported components, but this will gradually decrease. The most significant shortcoming for the Russian defence industry is in the microelectronics sector – the main limiting factor for developing and serial production of new-generation weapons platforms.

In the geopolitical context, the defence industry is one of the instruments the Kremlin uses to affect processes on the world arena. Russia sends arms shipments and makes military technology transfers to countries that it wishes to push further away from the West's foreign policy sphere of influence. By doing so, the defence industry builds unilateral dependencies that are useful for Russia, as clients with complicated weapons systems cannot service them without the Russian MIC. Furthermore, the MIC is a source for obtaining hard currency, as it is one of the few industrial production sectors whose output is competitive on the world market.

Russian armed forces in Ukraine

Russia's leaders use military interventions, instability and frozen conflicts to impede Ukraine and other countries from leaving Russia's desired sphere of influence and integrating with the West. It is inaccurate to call the Donbass conflict a frozen conflict. It is a very active conflict, where Russia directly controls the intensity of the hostilities. The new units formed in the Russian armed forces in 2015 and 2016 on Ukraine's northern and north-eastern border are forcing the Ukrainian armed forces to spread out their already thin resources to regions other than the Donbass.

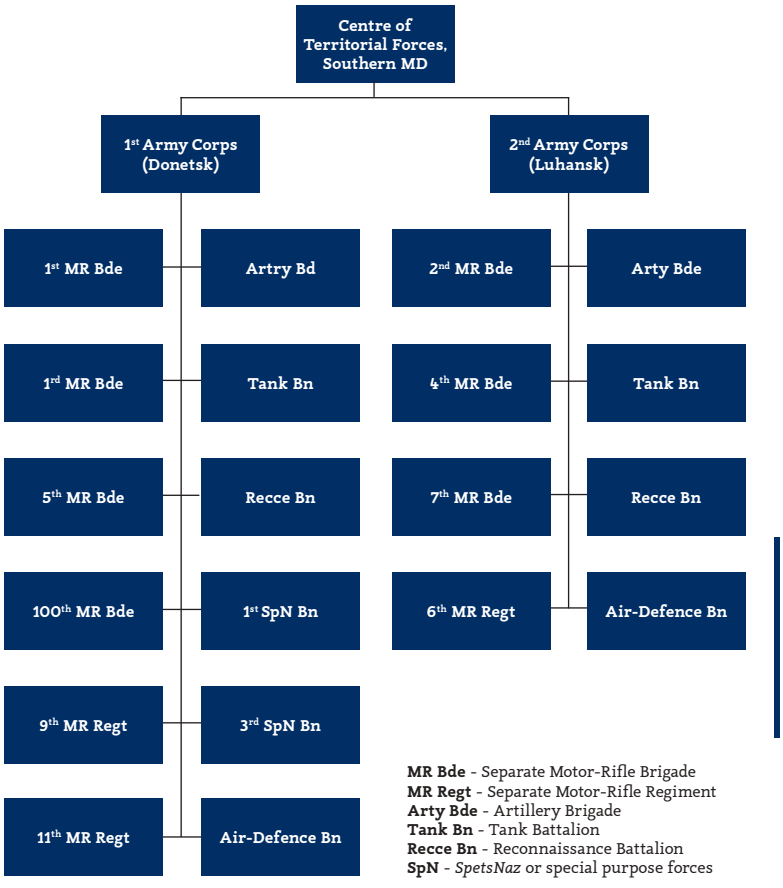
It is inaccurate to use the term "frozen conflict" to refer to the war in the Donbass. It is still in a very active phase, where Russia directly controls the intensity of the hostilities.

Ukrainian forces are pitted against the 1st and 2nd Army Corps of the Russian armed forces, which are disguised as separatist militants. In actuality, this is a heavily-armed Russian expeditionary force of up to 35,000 troops, drawing most of its power from Russian citizens,[22] not locals recruited or drafted from the occupied areas. The officers of the corps are mainly military servicemen who have been sent to serve in eastern Ukraine from the Russian regular forces as part of a rotation. This contingent is led and supplied by the Russian armed forces. The two army corps make up the first echelon of the Russian forces arrayed against Ukraine. They are tasked with defending the captured areas and keeping unrelenting military pressure on the Ukrainian state and society. Rostov Oblast on the periphery of Russia is the location of the so-called second echelon, which consists of local units from Russian regular forces. Their function is to deter and, where necessary, to intervene if the Ukrainian armed forces try to retake Donbass. Russia, thus, is in complete control of any military escalation in Donbass, and the outcome of the ceasefire depends completely on Russia's will. If the Kremlin needs to increase pressure on Ukraine, the hostilities in eastern Ukraine will intensify. If Russia needs to demonstrate to the international arena that it wishes to be constructive, the number of ceasefire violations will decrease.

Ukrainian forces are pitted against the 1st and 2nd Army Corps of the Russian armed forces, which are disguised as separatist militants. This contingent is under the command of, and supplied by, the Russian armed forces.

Russia also uses the conflict in Donbass to test new weapons systems and special equipment in a "shooting-war" environment and give troops combat experience. In Donbass, Russia has used

22 The personnel in the 1st and 2nd Guards Army Corps established in the occupied areas consist of about 70% Russian citizens.



Structure of the Russian occupation forces in eastern Ukraine.

military technology that has never been exported and was not in the arsenal of the Ukrainian armed forces. Above all, such technology includes high-tech radio electronic equipment and unmanned aerial vehicles (UAV), the use of which has been observed on many occasions in eastern Ukraine.

During 2016, Ukraine made efforts to improve the fighting capacity of its armed forces. Personnel called up into service in the fourth, fifth and sixth wave of partial mobilisation in 2015 have been demobilised and largely replaced by contract servicemen. According to the Ukrainian Ministry of Defence, 6,000 new contracts a month are being signed with military starting their service.

Political situation in occupied eastern Ukraine

In the last year, Russia has substantially increased its grip on Donbass's so-called people's republics – many separatist commanders and leaders have been killed or have departed, replaced by new people who play to Moscow's tune.

The occupied areas have become a lawless zone where arbitrary power is exercised.

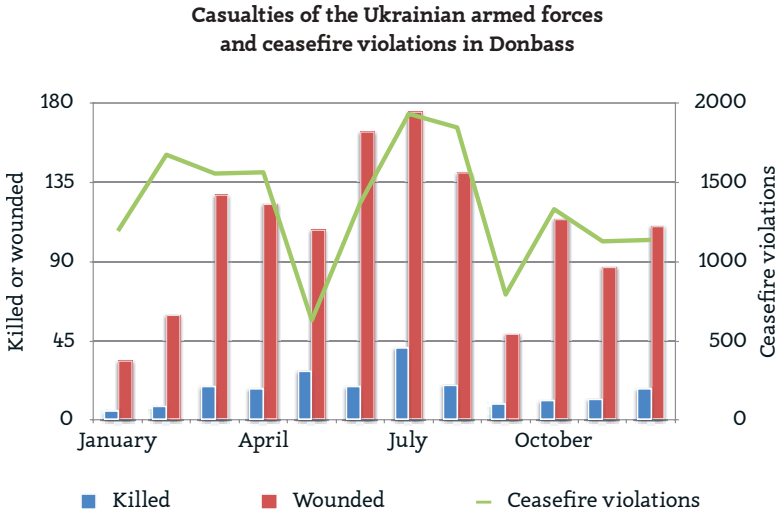
The occupied areas of Donbass have become a lawless zone where arbitrary power is exercised. The Russian-installed governors' striving for power and profit has led to bloody score-settling. The warlord-controlled territory respects no law, and violence and arbitrary actions are used to settle issues. Assassinations, disappearances and killings have become a daily occurrence. Warlord Arsen Pavlov, who was assassinated, has been hailed as a hero, even though he proudly admitted to killing POWs personally. Unfortunately, the security threats in relation to the situation in Donbass will not remain solely local. The downing of flight MH17 was a sad example of the threat from Russia's destabilisation of Donbass.

The parties' objectives in the Minsk peace plan differ – the OSCE wants to set a course for peace while Ukraine wants to restore central government control in the occupied areas. The Russian side uses the Minsk process to keep the conflict smouldering.

The outlook for the Donbass conflict in 2017 is unchanged. A lasting conflict gives Russia more assurance that Ukraine will not be integrated into Western structures. Military activity will likely remain low in general, varying in accordance with Russia's desire to apply pressure at a given moment. A military solution will likely not be sought for the Ukraine conflict as Russia has shown the ability and readiness to foil such attempts. Russia's aim is to wear Ukraine

Structure of the Russian occupation forces in eastern Ukraine.

down and discredit the country so as to pave the way to the creation of mechanisms that would allow it to control Ukraine.



The Ukraine armed forces' losses, according to information from the RNBO – the Ukrainian National Security and Defence Council press centre – and ceasefire violations, according to information from the anti-terrorism operation (ATO) staff's press centre.

Socioeconomic situation in eastern Ukraine and Crimea

As a consequence of the combat activity in eastern Ukraine, there have been widespread and persistent problems with water, power and gas supply. Many homes have been destroyed, and in some extreme cases, such as Debaltseve, nearly all structures have been destroyed or rendered unfit for habitation.

Of the pre-conflict population of 6.5 million in eastern Ukraine, only 3 million was left in the occupied areas as of August 2016. Nearly half of them were pensioners. Their only income source is pensions and social assistance, which the government pays out irregularly. Although the Ukrainian central government cut off social allowances and assistance funds to the occupied territory, some of the inhabitants still draw a pension and social assistance from Ukraine. To obtain this, many inhabitants of eastern Ukraine have registered themselves as domestically resettled outside the occupied territory.

According to the Kyiv International Institute of Sociology, the keenest shortage faced in occupied areas of eastern Ukraine in late October 2016 was medicines, food and household supplies. Although the Russian Ministry of Emergency Situations says its humanitarian aid consists mainly of the above items, the leaders of the so-called people's republics often steal the shipments. Medical facilities lack medicines so that patients have to pay out of their

pockets for procedures. Access to medical services is particularly problematic.

Smaller companies in occupied eastern Ukrainian territory have been taken over by the occupation forces since 2014. Larger companies have also had to rein in their activity.

The blockades put into effect by Ukraine on Crimea (trade, electricity, water) have gradually affected sentiment towards the new authorities. The quality of life has decreased and there is dissatisfaction with the rise in food prices. Tourism – a very important part of the Crimean economy – is significantly down.

After being seized by occupation forces, many of the representations of the companies that were active in the occupied areas of Donetsk and Luhansk oblasts returned to life under "new" trademarks.

www.62.ua

Russian intervention in Syria

Russia continued its involvement in the Syrian conflict despite President Putin's March 2016 pledge to withdraw the majority of troops from Syria. As of the end of 2016, there were still about 40 Russian fighter aircraft, 20 helicopters and a contingent of close to 5,000 troops in Syria. Russia has also established, in Syria, an air defence network consisting of its most modern anti-aircraft systems, the S-400 and Pantsir, and coastal defence missile systems. The Russian armed forces are also using an Iskander-M tactical missile system in Syria. Solntsepyok thermobaric missile launchers have also been seen. Private Russian military contractors are operating in Russia, essentially as mercenaries.

In October 2016, the Russian armed forces transported the S-300VM mobile anti-aircraft system to Tartus. This anti-cruise-missile capable system is an additional deterrent to military intervention by the West. In October, the Russian Navy sent a task group of ships, including its only aircraft carrier, the *Admiral Kuznetsov*, the nuclear missile cruiser Pyotr Velikiy, the submarine Severomorsk, and two nuclear submarines and one diesel submarine to the Mediterranean. The Russian vessels continued patrol service on the Mediterranean and operations to supply Syria by sea.

Russia's foreign policy and military narrative propagates an active fight against the Islamic State (IS) terrorist organisation, but has nothing to show for it – the area controlled by IS only shrank in the northern part of Syria, where the Islamic radicals are opposed by the Kurds. It is the topic of fighting ISIS that somewhat tarnishes the otherwise successful year for Moscow on the Syria front. Namely, IS recaptured Palmyra on 11 December 2016. It was an embarrassment for Moscow, as the liberation of Palmyra from IS a little more than six months before, in late March 2016, had been turned into a media circus by Russia.

Instead of the fight against IS, the two main tactical accomplishments for Russian forces in 2016 were, first, preventing defeat for the Syrian government forces, and secondly, supporting an offensive by Hezbollah and other Shiite paramilitary units against

May 2016. Valeri Gergiyev and St Petersburg's Mariinsky Theatre orchestra performing in Palmyra. Vladimir Putin also made an appearance by telebridge.

TASS/Scanpix

armed opposition groups, mainly in Aleppo. Aleppo's capture by the Bashar al-Assad regime is a noteworthy propaganda victory for the Assad regime and Russia and Iran, but not the end of the armed opposition groups' fight against the regime elsewhere in Syria. It should be mentioned that the victory in Aleppo will reduce the capacity of the armed opposition groups to apply pressure on the regime's core areas, which will strengthen Assad's positions in the Syria conflict. As a result, the Assad regime will not be amenable to making political compromises on the question of Syria's future.

Even though Russian air forces trumpet the use of surgical strikes in Syria, most of the ordnance dropped from aircraft has not been smart bombs. Russian air raids have consequently claimed a very high civilian toll. A number of hospitals have also been hit.[23]

Russia is using the participation of its armed forces in the Syrian conflict mainly for political objectives, to show that it has a presence and is needed in the world's trouble spots. The Syrian conflict also gives Russian armed forces a chance to test weapons in wartime conditions and get an additional sales argument for potential export markets. Russia's intervention, thus, in no way contributes to the international fight against terrorism; rather, it destabilises the already fragile security situation in the Middle East.

Russia is using the participation of its armed forces in the Syrian conflict mainly for political objectives, to show that it has a presence and is needed in the world's trouble spots. Russia's intervention in no way contributes anything to the international fight against terrorism; rather, it destabilises the already fragile security situation in the Middle East.

23 30 September 2016 marked the first anniversary of Russia's intervention in Syria. To mark the occasion, the Syrian human rights monitoring centre announced that over 9,300 people had been killed in Russian airstrikes over the year, including about 3,800 civilians and about 5,500 armed opposition group fighters as well as ISIS fighters. The director of the centre, Rami Abdel Rahman, said the toll from Russian airstrikes may be higher as, in many cases, it is not known which countries' airstrikes were the ones in which victims died. About 20,000 civilians have been wounded in Russian airstrikes.

On 11 December 2016, Russian and Syrian soldiers fled Palmyra military base to avoid IS attack. The photo shows the deserted mess hall.

Russia's foreign policy interests in Syria

Russia has successfully fulfilled the main goal of its intervention in Syria – to escape the isolation it found itself in as a consequence of the Ukraine crisis, and return to the negotiating table with the United States. Russia's intervention in Syria characterises Moscow's tactic of solving problems by bringing something new to the "table". In doing so, Russia has brought about a situation where any solution to the Syrian conflict is impossible without Moscow being involved.

Russia's second, broader goal – to re-establish itself as a power on the global arena – has also been partly fulfilled with the intervention in Syria, as due to limited resources, Moscow has focused on the geopolitically important Middle East and hopes to play a role in global processes. It is hard to believe that Russia and Iran would withdraw support for Syria's current regime, considering the military exertions that both countries have made to bolster the regime, even if an international agreement on replacing Assad could be reached and Moscow and Tehran agreed to it. Moscow is strategically interested in retaining its bases in Syria. The current Syrian regime is the force that legitimises the Russian bases.

For Russia, the continuation of intense hostilities in Syria is not desirable in the long term. Moscow would prefer a gradual de-escalation instead. At first glance, it seems that Moscow holds all of the trump cards. In fact, it will be extraordinarily hard for Moscow to achieve the de-escalation it hopes for given the very disparate and mutually incompatible goals of the parties in the conflict.

For Russia, the continuation of intense hostilities in Syria is not desirable in the long term. Moscow would prefer a gradual de-escalation instead. As the belligerents in the Syrian conflict have very different and incompatible goals, Russia will have a hard time achieving de-escalation.

Decline of the Islamic State's "caliphate"

The so-called Islamic State (IS)[24] found itself under increasing pressure in 2016, in Syria and especially in Iraq. Since the military activity began in 2014, the American-led coalition has made over 9,600 airstrikes against IS in Iraq and over 5,000 against IS. Already in 2015, IS lost 14% of the territory it controlled – down from 90,800 km^2 to 78,000 km^2. IS territory continued to shrink in 2016 at an increasing rate, and, more importantly, strategically key regions and settlements were affected. The most significant loss for IS was its loss of direct access to the Turkish border in September 2016. This had been the most important conduit for IS to the rest of the world. IS has sustained many blows, but the most important is the fact that IS is no longer able to turn developments to its advantage, and it is only a matter of time before IS ceases to exist in its current form in Iraq and Syria, that is, as a terrorist organisation that also controls territory.

If the "caliphate" in Syria and Iraq is destroyed, IS will go underground and will continue to use guerrilla tactics, becoming a traditional terrorist organisation.

This, however, will not mean that IS is consigned to the dustbin of history. If the "caliphate" in Syria and Iraq is destroyed, IS will go underground and continue to use guerrilla tactics, becoming a traditional terrorist organisation. Such a shift was signalled by a change in IS rhetoric in May 2016: territory is no longer important for IS but rather ideology. Fighters of local origin will remain in Syria and Iraq after the caliphate is gone. Thus, even after Raqqa in Syria and Mosul in Iraq have been liberated, the terrorist organisation will remain in place in the region, at least for a time. Moreover, according to the National Counterterrorism Center in the US, IS has cells in 18 countries around the world, and sub-organisations in Libya, Egypt, Somalia, Bangladesh, Indonesia, the Philippines, Afghanistan and Pakistan. In spite of setbacks in Syria and Iraq, IS still has global reach and the capability to commit acts of terrorism.

24 IS is an outgrowth of al-Qaida in Iraq. When Syria became the most important battlefield for jihadism, the group's importance, including in its own eyes, grew, leading to a rift with the al-Qaida nucleus. Before the caliphate was proclaimed on 29 June 2014, the group's name was Islamic State of Iraq and the Levant (ISIL). The abbreviation ISIS (Islamic State of Iraq and Syria) is often used as well. The Arab name, Daesh, is also commonly used.

In the longer term, we can still hope that IS's influence will wane, as will, even more rapidly, its capability to inspire people to commit terrorist attacks. The latter can be expected solely on the basis of its finances drying up. Since 2015, taxation of the population and businesses in areas it controls, and seizures of their properties, have become, as a source of funding for IS, more important than oil revenue. The decrease in the territory controlled by IS, especially the loss of large urban centres, has sapped the funds at IS's disposal.

Threat posed to Europe by the "Islamic State"

IS is under greater pressure in Iraq and Syria, and it is decreasingly likely that complex terrorist attacks on Europe will be coordinated from these regions. Instead of Raqqa, complex operations might be orchestrated from Europe instead.

Due to its loss of territory, IS has changed its narratives, now emphasising the organising of terrorist attacks on the West and the need to show that it can also escalate attacks. Thus, at least for now, IS attacks are not expected to become less frequent, especially if we consider that planning attacks on the West is an intrinsic part of the IS ideology. With the playing field increasingly tilted against IS, it can be presumed that the attacks organised by terror organisations will become more opportunistic in nature. That is, it will become harder to predict their targets and modus operandi, and the attacks may also become more brutal as the likelihood of detection decreases.

IS will remain capable of inspiring and recruiting susceptible people whose enthusiasm is aroused by the IS ideology calling over social media for new attacks, and earlier acts of terrorism.

Some of the volunteer fighters who travelled from Europe to Syria and Iraq will return to their home countries or other European countries. Some of the foreign fighters who travelled to Syria and Iraq from elsewhere in the Middle East or North Caucasus may try to come to Europe instead of returning home. These radicalised IS fighters from Syria, now possessing war experience, may pose long-term security problems. The situation is also complicated by the confirmed fact that members of the terrorist organisation embed themselves in the flows of illegal migrants in order to seep into Europe. The increase in the number of people who have been exposed to or influenced by members of terrorist organisations fighting in Syria, and who have become radicalised, is another threat.

IS will remain capable of inspiring and recruiting susceptible people whose enthusiasm is aroused by the IS ideology, with incitement to acts of terror made over social media, and earlier

acts of terrorism. The group has built an effective image for itself and become a much more attractive terrorist organisation. Yet due to the losses suffered by IS, the dissemination of the photos and videos used for recruiting new members dropped dramatically in 2016. Whereas IS produced 700 media and propaganda products in August 2015, the number was 200 in the same month a year later. Besides the decrease in the amount of propaganda, content also changed significantly during this period. IS distributed many fewer images of life in the "caliphate", such as pictures of schools, libraries, police and public services. At the same time, there were more videos of executions of spies. IS has less and less capability to produce media content. It is also harder to find the content online, and the material is also less optimistic compared to a year ago. IS's diminished propaganda power also decreases its capability to inspire or recruit new members. This, in the long run, helps to reduce the acute threat of terrorism in Europe.

In an environment that is becoming more complicated for IS, attacks organised by terror organisations will presumably become more opportunistic in nature. That is, it will become harder to predict their targets and modus operandi.

The Islamic State's Libya and Sinai branches

In North Africa's main conflict hotspot, Libya, a power struggle continues between the UN-recognised Libyan Government of National Accord based in western Libya, also known as the Tripoli government, and the so-called liberals' government in Tobruk, eastern Libya. Libya's fragmented situation and rivalry between the factions is not expected to be resolved in the near future. The impoverishment of the population amidst the continuing conflict, forcing people to seek a sideline in human and drug smuggling, and dysfunctional government institutions and corruption, are fertile grounds for continued flows of refugees from the shores of Libya to Europe. The weakening of the position of IS in Libya, in the same manner as in Syria and Iraq, is a positive aspect.

In May 2016, units loyal to the unity government in the city of Misrata began clearing the most important power centre for the

For the first time, Estonian citizens (two of them) were among those killed in a terror attack where a truck (pictured a day later, with the terrorist's travel document photo) was driven into a crowd in Nice.

AFP/Scanpix

Libyan branch of IS terrorists. IS has controlled this port city between Tripoli and Benghazi and surrounding areas for more than a year, and Sirte is essentially the third most important IS centre after Raqqa in Syria and Mosul, Iraq. The loss of Sirte is a major blow to IS, but will not reduce the threat posed by IS in Libya as a whole. With the country still fragmented, IS fighters may try to consolidate in the southern part of Libya, a setting for networks of illegal trade bound to Libya from neighbouring areas. IS becoming consolidated in southern Libya will strengthen its ties with terrorist organisations in the vicinity, especially with Boko Haram, which is active in Nigeria, Chad, Cameroon and Niger, and which swore loyalty to IS in 2015, taking the name of the Western African province of IS. The Islamic extremists fleeing the Sirte area will pose a threat to neighbouring countries – Tunisia and Egypt, and more distant Morocco. There is the risk that IS's Libyan offshoot may seek payback in Europe – Islamists may attempt to enter Europe as part of flows of illegal immigrants between Libya and the shores of Italy.

The most active and strongest terrorist organisation in Egypt – IS's Sinai province – has an estimated 1,000 to 1,500 fighters. The Sinai branch has been behind attacks on Egyptian military and police institutions, resulting in heavy loss of life, and has also taken responsibility for the 31 October 2015 attack on a Russian passenger plane bound from Sharm el-Sheikh to St Petersburg, which killed 224 people. The Egyptian authorities are fighting against the ISIL-SP branch that has become increasingly entwined with local Bedouin tribes, but rapid progress is not to be expected. IS terrorists have vowed to continue terrorist attacks against tourists vacationing in Egypt, and such attacks are considered probable.

The threat from IS is not restricted to the Middle East and North Africa. IS supporters are also trying to consolidate in **South-East Asia.** In June 2016, the first attack inspired by IS propaganda took place in Malaysia – a grenade attack on a nightclub near Kuala Lumpur. Several factions in the southern Philippines have also sworn loyalty to IS. IS, forced to relinquish its hold on the "caliphate" in the Middle East, is trying to compensate for its losses by establishing an IS Southeast Asia province. It deserves mention that in 2016, IS propaganda featured unprecedentedly intense calls for terrorist attacks on Sydney and Melbourne in **Australia.**

Despite the decline of the "caliphate", the organisation has not ceased to be attractive, and in 2017, it will continue to pose a serious threat in many parts of the world, including Europe.

Power is no longer concentrated solely in the Euro-Atlantic region. The rapid development of China and other Asian countries and the international focus on this region are the reasons why we are also covering Asia this year.

In 2016, three tense crisis areas in Asia drew international attention and are covered in our threat assessment. The first two are the South China Sea, whose geographic/strategic importance and rich resources have caused territorial disputes, and the East China Sea, where Japan and China have unresolved territorial disputes. Third, we look at the extraordinary events in North Korea, where the Kim Jong-un regime held the most powerful nuclear weapon test in history. For the first time in North Korea, more than one nuclear test was held in the same year.

The security situation in East Asia

In 2016, three tense crisis areas in Asia drew international attention. These conflicts did not surface for the first time; rather, the inability to find a solution to problems thus far shows their seriousness and need for skilful diplomatic coordination. China's emergence as an economic and military regional and world power has meant a new situation for a number of Asian countries that depend economically on China but look to the US for military defence.

Countries that border on the same bodies of water as China find themselves in a strategic environment that is impacted by China's sharper focus on modernising its military. China is seeking capability for its navy to carry out more extensive and complex operations, leading to tensions in the waters around China and mainly related to the navy. Control over regional seas and islands is an important part of China's narrative of "national revitalization and building a strong state". This has made other Asian countries increase their defence spending.

In recent years, the US increased its influence in the region through the "Asian rebalancing strategy". Washington shored up ties with allies and partners in the region in order to be prepared to respond to crises on partners' territories and ensure security and freedom of navigation in the international waters around China. In 2014, the US and the Philippines signed an enhanced defence cooperation agreement, in which the Philippines allowed US forces to rotate troops into and build on

Philippine naval bases and military airfields. Japan-Philippines cooperation has also increased. The US has sought closer relations with Vietnam, partially lifting the arms sale embargo on the country, and Japan announced in 2014 that it would supply coast guard ships to Vietnam. Brunei, Indonesia and Malaysia are also pursuing stronger naval capabilities.

In northeast Asia, the US has strengthened its already good relations with Japan, and the renewed security treaty between the United States and Japan pledges closer cooperation in more distant regions. Japanese Minister of Defence Tomomi Inada, appointed in 2016, has publicly welcomed the American plan to deploy 60% of its navy and air force in the Pacific region by 2020. In speeches, the Japanese defence minister has mentioned the desire to expand bilateral cooperation with South Korea as well. Japan plans to increase the effectiveness of military deterrence and the capability of patrols.

South China Sea

The South China Sea is strategically important to both China and many other Asian countries, as 30% of the world's maritime trade passes through it and it boasts the world's four busiest commercial ports. The UN estimates that the South China Sea yields over 12% of the global fish catch, and there are considerable oil and gas reserves on the seabed. Japan, South Korea and the Philippines rely economically on foreign trade and imports of energy products, and a Chinese blockade of the South China Sea would have a very unfavourable effect on these countries' economies.

The resource richness and strategic importance of the sea have led to territorial disputes and clashes between China, the Philippines, Vietnam, Taiwan, Malaysia and Brunei. The Chinese claims cover 85% of the South China Sea and conflict with the claims and economic zones of the neighbouring countries (Vietnam's claim also amounts to a very large percentage). Although there have been many clashes between the disputants over the decades, the Philippines decided, due to an escalation of the conflict in 2013, to seek recourse to the Hague Permanent Court of Arbitration so that the territorial dispute could be resolved based on the UN Convention on the Law of the Sea.

In July 2016, the Court of Arbitration issued a decision that was not to the liking of China. The tribunal concluded that the Chinese claim to the majority of the South China Sea is unlawful based on the Convention on the Law of the Sea. The main reason is the fact that the islands in the middle of the territorial disputes are islands in name only; the court found that they were mere maritime features that do not confer a right to invoke a 200-nautical-mile exclusive economic zone.

The source of the tensions has been China's efforts to enforce its claims prior to the court decision. China increased its presence, building artificial islands, airfields and ports on the atolls and reefs. All of the countries in the dispute have done so, but China has established structures and islands in a greater amount and more rapidly than any other country in the region has or would have been able to do. In 2016, several large airfields were completed. They can be used for military purposes and they give China a way of projecting military power approximately 1000 km to the south. The Chinese military can patrol the entire South China Sea and more strongly position itself against the US, the Philippines and Vietnam. During the year, China held numerous military exercises to demonstrate its presence, and the US, in turn, instituted more frequent sea patrols to demonstrate freedom of navigation.

China denounced the Hague decision and refuses to abide by it. Besides pointed rhetoric, though, China's reaction has been relatively restrained – it has not established an "air defence identification zone" over the islands and has not started construction on the Scarborough Shoal. The Philippines' response has likewise shown restraint. Both have signalled that they are ready for bilateral negotiations, and the idea of joint use of resources may be one of the objectives. The nature of the tribunal's decision will theoretically allow China to hold talks without losing face; none of the parties want tensions to escalate. China will likely continue a strategy aimed at strengthening its naval

presence, in combination with diplomatic measures for launching bilateral talks with the Philippines.

East China Sea

In the East China Sea, Japan and China have an unresolved territorial dispute over the Senkaku/Diaoayu islands and rocks. The islands are controlled by Japan, and the area around them is important for access to the sea and fishing. When the governor of Tokyo announced in 2012 that the islands would be bought out from their private owners, it necessitated intervention by the Japanese government. The incident was a source of displeasure to Chinese nationalists and private Chinese vessels, and coast guard ships entered the waters in the vicinity of the island, where clashes occurred with Japanese ships. Major protest marches were held in China against Japan and in November 2013, China said it was establishing an air defence identification zone in the East China Sea. The economies of the two countries are closely intertwined, so the Chinese authorities used censorship to clamp down on the wave of nationalism and started looking for diplomatic ways to defuse the situation. This has, in part, duly been achieved by meetings of the leaders Xi and Abe, and further major clashes were avoided in 2016. A contributing factor has been the fact that although the US has refrained from taking a position on the territorial dispute, Washington has confirmed that the islands come under the Security Treaty between the United States and Japan. The US has not been able to issue a similarly clear position in the case of the South China Sea dispute.

North Korea

2016 was extraordinary for North Korea, as the Kim Jong-un regime held the most powerful nuclear weapon test in history and for the first time in North Korea, more than one nuclear test was held in

the same year. In addition, North Korea carried out testing of missiles with various ranges – at a frequency that could also be considered unprecedented. Some missiles fell in Japan's exclusive economic zone – even dangerously close to the coastline. Because of the nuclear tests, North Korea is under the most stringent UN sanctions ever.

The seventh congress of the North Korean Workers' Party was held in May 2016 after a 36-year hiatus. Kim-Jong-un's father, Kim Jong-il, never convoked the congress. The main objective of the congress was to officially proclaim Kim's power, as Kim became leader as a young man after his father's sudden death and was therefore considered politically weak. At the congress, Kim confirmed that the Byungjin policy would continue – development of the nuclear programme in parallel with economic development. At the same time, he also said nuclear weapons would be used only if the country's sovereignty was in danger.

While consolidation of power meant China's acceptance of Kim as leader, Chinese-North Korean relations are still at a historical low point due to Kim's aggressive behaviour, and China supports more actively UN sanctions on North Korea. South Korea's attitude has become more radical: it is willing to deploy the THAAD anti-missile system on its soil, and South Korea and Japan are strategically becoming somewhat closer. North Korea's aggressive behaviour has allowed South Korea to start a discussion with the international community about the seriousness of the problem. As the Ukraine crisis allowed the US to refocus on Europe, the North Korea's belligerence could set the pendulum swinging back toward Asia.

China's goal has been to avoid instability and a collapse of the regime in North Korea in order to maintain a buffer zone. If the regime were to collapse, it could create a potentially unpredictable situation or fill the power vacuum with a regime ideologically unacceptable to China and led by the US and its allies. The cost of maintaining the buffer zone under Kim has become higher for China. The North Korea situation will likely not be resolved before the UN Security Council members learn to speak a common language, as it were, about their conflicting goals. The strategies of North Korea's leader, Kim Il-Jong, are different to those of the former leader, Kim Jong-il. Kim Jong-il only rarely mentioned nuclear weapons and possible use of nuclear weapons, while Kim Jong-un sees the bomb as the source of his power. Kim Jong-il was prepared to negotiate with regard to a nuclear-free North Korea, and there was a theoretical possibility of a peace accord between North Korea and the US. But Kim Jong-un is clearly working in the direction of status as a nuclear power.