

Cinema Vérité : Corruption Scandals and Russian Influence in the Baltic

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It has all the ingredients of a quality cinematic dark comedy, right down to a high-speed international car chase in which the main character's escape is foiled only by a seemingly perpetual work zone on the main Tallinn-Riga highway. Sadly, however, this recent scandal—touched off by the arrest of Latvijas Dzelceļš (Latvian Railways, LDz) CEO Uģis Maģonis on corruption charges—is all too real. Maģonis was detained when police [discovered](#) (in a detail a filmmaker might have rejected as a tad too cliché) a briefcase containing nearly €500,000 cash in the trunk of his chauffeured Mercedes.

This was not the first time that the flamboyant Maģonis had attracted the attention of Latvia's anti-corruption bureau: in 2010, he was caught up in a money-laundering probe, while in 2012 allegations were made of a conflict of interest when LDz entered into a logistics contract with a company owned by his common-law wife; however, no formal charges were filed in either instance. Maģonis has also been closely linked with Russian Railways chairman Vladimir Yakunin, who was able to attend his Latvian counterpart's elaborate 50th birthday [bash](#) thrown at Rūndale Palace—also known as the “Latvian Versailles”—thanks to the [exemption](#) from the EU sanctions list lobbied for by Latvian politicians. (Yakunin, who [resigned](#) shortly after Maģonis' arrest, is perhaps more infamous in Estonia for having been [accused](#) by the Internal Security Police [KaPo] of seeking to transfer €1.5 million to the Center Party to fund its 2010 election campaign.)

According to authorities, the bribe was made in connection with the purchase of four used railway locomotives for €8 million from a company owned by Estonia's richest man, entrepreneur Oleg Ossinovski. The tender was specifically issued for the precise quantity and type (2TE116) of engines that Ossinovski's Skinest corporation had [itself](#) purchased from the Estonian state-owned firm EVR Cargo just a few months before—at a mere quarter of the cost.

Nicknamed “Oligarchovich” by the weekly *Eesti Ekspress*, which also [questioned](#) whether the businessman is a “bribe-giver,” Ossinovski has for his part maintained that “the procurement was completed by following all the rules” and stressed that it made possible the reopening of a repair plant in the city of Daugavpils (the largest settlement in Latgale, the poorest region not just of Latvia but of the entire euro zone) and the resulting creation of 800 jobs.

Economic leverage

As investigations into the case continue in both Estonia and Latvia, the more immediate concern has been about the potential reaction from Russia—which continues to possess considerable economic leverage in the sector. Shortly after the arrest, the Latvian side was informally [notified](#) that rail shipments from Russia would be disrupted due to “necessary repairs” for at least two months. Even a short interruption, however, can have considerable economic impact on the country, given that 1/3 of cargo transshipment at the Port of Riga is from Russian coal alone.

After subsequent discussions with the Russian side, Latvia’s Minister of Transportation Anrijs Matīss recently [argued](#) that “there is no reason for concern,” concluding that the repairs are critically necessary—and are in fact a sign of deeper Russian commitment to Latvia as an export transit route. While only time will tell if the repairs are indeed completed on schedule, recent historical precedent presents many reasons for worry indeed. In several cases, the Russian government (either directly or through affiliated companies) has interrupted supplies to the Baltic countries after the latter took political decisions of which it disapproved.

In 2006, immediately after the Lithuanian government decided to sell a stake in its Mažeikių refinery to the Polish company PKN Orlen instead of Rosneft, Russia’s pipeline operator announced a “temporary” halt to oil exports via Lithuania because the Druzhba pipeline [had](#) “sprung a leak.” To this day, exports have [yet](#) to resume. It was Estonia’s [turn](#) in May 2007, when it saw a sharp drop in oil transport due to “planned track repairs” in the wake of its decision to move a Soviet-era war monument in what became known as the Bronze Soldier crisis. Latvians with longer memories might even recall a 1998 [incident](#) in which Russia explicitly announced that it was cutting off oil exports via the port of Ventspils in response to Riga’s decision to crack down on Russian-speakers’ street protests.

Corruption: a transportation sector-specific issue?

It is possible to view the Maģonis case not as a sign of widespread corruption at the highest levels of Baltic business and politics, nor as a security risk, but instead as a sector-specific issue. Certainly, the rail industry is more linked to Russia and thus more susceptible to influence from its business climate—the Baltic network overwhelmingly focuses on east-west traffic as it is built to Russian broad gauge, not the incompatible European standard gauge network.

However, it is no longer possible merely to view the incident as a *Latvia*-specific problem. The initial wave of Estonian press coverage (like the above-cited *Eesti Ekspress* article) helpfully noted that cash in bags is a normal business practice in the Latvian and Russian railway sector, “but not in Estonia.” While Estonians are justly proud of the country’s [increasingly high scores](#) on international

corruption indices, such coverage sounded slightly hubristic¹ in retrospect just days later. In the largest scandal to hit the country in some years, Port of Tallinn CEO Ain Kaljurand and board member Allan Kiil were [arrested](#) by KaPo on suspicion of having taken large bribes “[totaling in the millions](#)” over the past several years. Although most details have yet to emerge, the investigation has already extended to other countries in the region, with [Polish](#) authorities recently searching a shipyard from which the Port was to purchase ships for a tightly-contested tender to operate Estonian domestic ferry services beginning in 2016.

It seems clear that the significance of these corruption scandals goes beyond just the railway or even transportation sector—with considerable consequences. As Prime Minister Taavi Rõivas of Estonia [stated](#), if the Port of Tallinn allegations were confirmed it would be “not only an act of immense greed, but also a major security risk.” Indeed, it was only thanks to the Latvian special services that an even greater security scandal was narrowly averted. As has recently emerged, they reportedly [blocked](#) another Ossinovski business venture—this time to repair a shipment of ex-British armored vehicles for the Latvian military—despite the Estonian entrepreneur having met with then-defense minister and current president Raimonds Vējonis (as well as a “[collection](#)” of other Latvian political figures, according to the national newspaper *Diena*.)

Even if one takes the view that the problem of corruption in the Baltic is fundamentally an issue endemic to the transportation sector, this still does not negate the security risk. While there are positive elements to emerge from the scandals reviewed here—notably the effective [cooperation](#) among Estonian and Latvian authorities that enabled the case against Maõonis to be built in the first place—without greater action to change business practices in the transportation sector and reform public procurement processes in the Baltic more generally, then the strategic vulnerability will remain for two reasons.

First, it is vastly easier for an outside power to exercise influence in this area than in more sensitive domains such as defense or communication that receive far more scrutiny. Second, it may well be the case that, as the long-running campaign to bring an end to the Baltics’ status as a vulnerable “energy island” within the EU finally begins to bear fruit, Russia’s ability to exploit its energy weapon will decrease. Accordingly, the Kremlin may find it more advantageous to shift its resources to the transportation industry as a way to maintain its economic and political leverage over the region—allowing it to write its own script for a film in which no Baltic country would want to play a starring role.

¹ Even before this year, Estonia’s railway sector was not immune to colorful financial scandals, such as the 2014 case in which Eesti Raudtee [Estonia’s rail infrastructure company] chairman Ahti Asmann had to [resign](#) after allowing his wife to run up €5,000 in non-business-related gasoline charges on his corporate card. The misdeed had been revealed when accounting records showed his Audi A6 as having obtained the improbably poor fuel-economy figure of 20L/100km [11.8 miles per gallon].

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