# Corruption, Intermediary Companies, and Energy Security

## *Lithuania's Lessons for Central and Eastern Europe*

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Local interests may facilitate Gazprom's entry into Central and East European energy markets.

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Although Russia's monopoly position in the Central and East European energy markets and its "pipeline diplomacy" in the region are undoubtedly important issues, it is not the main purpose of this article to discuss these as topics in and of themselves. Rather, this article takes an "inside out" view of how Russian actors use energy for policy and profit, focusing on how domestic institutional conditions in states that continue to be energy dependent on Russia affect its policies toward the region.

Unlike the conventional approach to energy politics in Central and Eastern Europe (CEE), this study concentrates, not on the largest, best-known energy actors such as Gazprom and Lukoil, but on smaller, intermediary companies, especially in the gas trade.[1] These companies are referred to as intermediary because they act primarily as links between gas suppliers (mainly Russia's Gazprom but also Central Asian suppliers) and various energy-dependent states. In some cases, they are involved only in the organization of transit services or in purchases from a single supplier; sometimes they are "gate-keepers" in charge of a country's entire gas supply from multiple sources.[2] The common denominator is the unclear nature of their operations, in terms both of the activities performed and the need for these activities, and

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of the murky character of their connections with Russian and local actors.

A focus on these opaque companies provides a unique perspective on two larger issues: the European Union's attempts to increase its energy security and the interrelationship among "state," corporate, and private interests in Russian energy policy. The intermediary companies are analyzed within the framework of these two issues, each of which presents important puzzles for both research and policymaking.

## EU Attempts to Increase Energy Security and Russia's Response

After the Ukrainian-Russian gas and Belarusian-Russian oil crises of 2006 and 2007, the rather abstract notion of energy insecurity stemming from over-dependency on Russian supplies became clear to the European Union. Consequently, after years of hesitation and an almost naive belief in the reliability of Russian energy supplies, it began to give real priority to diversification projects such as the Nabucco gas pipeline. In 2006, the EU agreed to build the 2,050-mile Nabucco pipeline, running through Turkey, the Balkans, and Hungary (but not Russia), which would bring 30 billion cubic meters (bcm) of Caspian and Middle Eastern gas to the EU yearly.

As a counter to Nabucco. Russia is promoting its own pipeline projects, such as South Stream. In addition, by increasing its control over Central Asian producers,[3] it is adding to the Nabucco project's long-standing problem of securing enough gas to fill the pipeline. Russia is also hindering the process in the transit countries. Armenia, Ukraine, and Hungary are crucial to EU diversification projects but are "weak links" because of their lack (or, in the case of Hungary, near lack) of infrastructure connecting them to European energy networks,[4] and also because of the extensive corruption in their domestic governance. These three countries have been Moscow's most successful levers for limiting the impact of efforts to bring Caspian and Central Asian oil and gas directly to the EU.

***Armenia.*** In 2006 Gazprom threatened to sharply increase gas prices to Armenia but agreed to a smaller increase in return for significant control over the construction of a gas pipeline from Iran.[5] If developed to its full potential, the pipeline would make Armenia less dependent on Russian gas, and Georgia, Ukraine, and the EU as well.[6] In November 2006 Gazprom increased its share in ArmRosGazprom, the pipeline's operator, to 58 percent.[7]

***Ukraine.*** Ukraine's potential as a important diversification player has been thwarted by its January 2006 agreements with Russia, agreements that transferred control of Ukraine's gas import policy from the realm of national policy to a nontransparent intermediary company, RosUkrEnergo, pre-empting real import diversification using Central Asian sources.[8] Ukraine lost still more control of its energy policy with the creation of UkrHazEnergo, a joint venture of Naftohaz Ukraini and RosUkrEnergo, which was given the right to distribute gas directly to industrial users, the most profitable domestic consumers. Naftohaz Ukraini soon found itself on the brink of bankruptcy after losing market share and income but continued to be legally responsible for supplying chronically less-able-to-pay residential customers. Similarly, the Odessa-Brody pipeline, built at great cost to carry alternative, non-Russian oil supplies to Ukraine, Poland, and beyond, has been used since 2004 in a reversed direction that actually increases dependency on Russia.[9]

***Lithuania.*** Although Lithuania is not on a central gas transit route, gas intermediary companies have been able to indirectly influence its energy policy in ways that have implications for the EU as a whole. Lithuania is not as significant a transit player as Ukraine or Belarus, but it is moderately important in the regional trade in Russian gas, first and foremost as transit country for Russian gas supplies to the Kaliningrad exclave.[10]

Recent developments pertaining to the Nabucco project have shown how real these impediments are, as well as the crucial role played by transit states and intermediary companies.[11]

***Bulgaria.*** The January 2007 agreement to support the extension of the South Stream pipeline through Bulgarian territory has weakened the country's formal commitment to the Nabucco project.

***Serbia.*** The January 2008 draft agreement to sell Gazprom, at preferential prices, the majority of shares in NIS, the state oil company, and to create a consortium to build the South Stream gas pipeline on Serbian territory put Serbia firmly in the South Stream camp. The agreement has important implications for other countries in the region, because it made possible Hungary's own subsequent official decision to support an extension of the pipeline from Serbia.

***Hungary.*** Although officially a member of the Nabucco consortium, Hungary has made a written commitment to support the South Stream pipeline to Western Europe. Prime Minister Ferenc Gyurcsany has further undermined Nabucco by expressing doubts about its feasibility.[12] In late February 2008 Hungary and Russia signed a bilateral agreement providing for Hungary to join the South Stream project with a 10 bcm extension going through its territory.

Interestingly, Russia has often used intermediary gas companies to influence the energy policies of these countries, thus making the companies and their sphere of activity virtual "weak links within weak links."

Most discussions of European energy security fail to consider important aspects of energy security in the post-Soviet states that go above and beyond "high politics" into domestic social and political realities. The present article will examine these issues, concentrating on Ukraine and Lithuania, both of which are weak links in the European energy infrastructure due to their lack of infrastructure connecting them to European energy networks and also because of issues related to their domestic governance.

## Competing Interests in the Russian Energy Sector

Analysts and policymakers have long tried to identify who has the upper hand in Russian policy toward the former Soviet region. Is the state using business firms to pursue its foreign policy interests, or are the businesses using the state to promote their commercial interests? In order to understand Russian policy in the former Soviet republics, however, it is not sufficient to look at the coincidence or difference between state and corporate interests. One must also analyze the multiple interests coexisting within important Russian economic actors. It is not simply that corporate interests play an important role, but also that there are what might be called "private-interests-within-the-corporation"[13]—situations where the directors of firms that in many cases are formally state-owned use the business to further their own private interests. In the case of companies like Gazprom—at least until 2001—the interests of the top managers have at times competed with or taken precedence over corporate interests through the creation of "shell" firms, often off-shore, that are given preferential treatment and otherwise engage in asset stripping to the detriment of the parent company.[14]

An understanding of the changing balances among state, corporate, and private-interests-within-the-corporation and how they are affected by the changing relationship between the Russian state and private energy companies[15] is essential for an understanding of Russia's *de facto* energy policy in the former Soviet area.[16] It is also crucial for analyzing EU efforts to diversify the transit "weak links" discussed above.

While the reality of Russia's economic influence in the post-Soviet region is undeniable, it would be seriously misleading to look at the question solely in terms of Russian expansionism. Russian's energy interactions in Central and Eastern Europe take place in the context of the concrete domestic conditions in each of the energy-importing countries. This is most particularly so for matters pertaining to "rents of energy dependency"—the significant profits that the economically well connected can make in a situation of energy dependency, given the large price differentials between domestic and foreign markets, the potential arbitrage gains, the lack of transparency, and the omnipresence of corruption.[17]

The discussion that follows presents some concrete examples of the ways that intermediary companies have figured in the two above-mentioned dimensions, serving both as factors in the chain of energy (in)security and as possible instruments of Russian policy (private, corporate, state, and covert) in the area.

***The Situation Before 2001.*** Intermediary companies have been a part of the post-Soviet energy game since the dissolution of the Soviet Union in 1991. Liquidity problems (i.e., the lack of cash for payments), magnified by sharp price increases in the early post-dissolution years, created the basis for the rise of so-called gas traders (*gazotreideri*) during this period. *Gazotreideri* were able to get around some of the liquidity problems by restructuring nonperforming gas loans and by negotiating complex barter deals (trading goods, IOUs, and even tax scrip for gas) through which they were also able to amass considerable fortunes.

Companies like Itera, although technically not the same as the smaller *gazotreideri*, performed a related role. Because they were not as closely tied as Gazprom to an "ideology" (e.g., support of a fellow former Soviet republic) or to state-to-state agreements, they could help increase timely gas payments to Russia, a major challenge at the time.[18]

The location of the intermediary companies between supplier and buyer put them in a choice position to access energy-related rents, legal and illegal. Some of these rents were related to the re-export of low-priced Russian gas, to the manipulation of gas prices through barter and other non-transparent forms of energy trade, and to the transferring of liability for nonpayments to the state, although there was considerable variation depending on the case and the time period. Although *gazotreideri* are

Former Lithuanian Prime Minister Algirdas Brazauskas, President of Polish oil and gas company PK Orlen Igor Adam Chalupek, Lithuanian Prime Minister Gediminas Kirkilas, Polish Prime Minister Jaroslaw Kaczynski, and Lithuanian President Valdas Adamkus, from left, celebrate after the contract signing ceremony for the sale of Mazeikiu Nafta state shares to Poland's PK Orlen in the Government palace in Vilnius, Lithuania, December 15, 2006. (AP Photo/ Mindaugas Kulbis)

most often associated with Ukraine, they emerged, in one way or another, in most if not all of the energy-dependent post-Soviet states.

At approximately the same time, the early to mid-1990s, the transit of gas from Turkmenistan to one major gas importer, Ukraine, was taken over by murky intermediary companies specializing in barter, whose fee for "arranging transportation," something the state companies on both sides of the contract could easily have done for themselves, amounted to around 37.5–41 percent of the gas imports.[19] There are many differences between the gas trade intermediary companies, but as this highlights, they have one common denominator: the unclear nature of what they do. From an efficiency perspective, they seem utterly useless, because all their functions could be performed directly by the state companies involved. Since they are certainly not needed to organize gas trades or arrange transportation, what were they doing? Apparently transferring kickbacks to various participants in the gas trade process.[20] That some of these reasons continue to be strong in today's Ukraine is shown by the inability of Prime Minister Yulia Tymoshenko's government to do away with RosUkrEnergo despite an all-out effort in early 2008.[21]

There is no doubt that large fortunes were made through intermediary gas trade and distribution companies, especially in the early and mid-1990s. Some of these cases undoubtedly were part of larger, state-supported webs of corruption.[22] There is also good reason to believe that the companies, at least sometimes, colluded with economic actors in Russia. Whatever their negative effects on local economies and governance, however, it seems clear that these companies were not yet being systematically and purposefully used to pursue Kremlin policy in the region. In the 1990s, corruption of this kind was more parasitic and opportunistic than related to foreign policy. This is well worth keeping in mind, because it is an important point of difference from the situation that developed after 2001–2003.

The number and significance of *gazotreideri* began to decline in the mid- to late 1990s as liquidity problems eased and energy markets started moving away from barter. Similarly, intermediary companies dealing with imports from Turkmenistan saw their reputations decline as corruption and payment problems led to repeated supensions in supplies. However, this did not mean the end of the intermediaries, for they gained new content in 2001–2003.

***The Changes of 2001–2003.*** Around 2001, the post-Soviet gas trade system began to change in important ways. First, Itera and its associated companies were systematically thrown out of "traditional" Gazprom markets like Ukraine. The situation was complicated by other changes that cut the number of large intermediary companies to one or two per country. The gas volumes traded by smaller intermediary companies, as well as their market share, also began to fall.[23] In Ukraine, Belarus, and Lithuania, Itera, Itera-controlled companies, and other intermediaries all began to decline sharply around 2001. Itera and the smaller intermediary companies were replaced by a much smaller number of larger, better-organized intermediaries with a much clearer connection to Russia and, presumably, the Kremlin.

In the case of Ukraine, several processes began more or less simultaneously: Itera was driven out, the number of *gazotreidery* declined, and in 2004–2005 RosUkrEnergo replaced the Hungarian-registered Eural Trans Gas as organizer of gas imports from Turkmenistan. In Lithuania, several intermediary Gazprom gas dealers had shared the market, but in 2002 Gazprom transferred its supply contracts to a single, near-monopolist company, Dujotekana.

***Explanations for the 2001–2003 Changes.*** There are several ways to explain how the existing intermediary companies were replaced by firms more closely controlled by Russia. The most common explanation sees the easing out of Itera, Eural Trans Gas, Lithuania's Stella Vitae, and similar companies from post-Soviet markets as part-and-parcel of a larger trend to purge Gazprom of the private-interests-within-the-corporation corruption associated with the Vyakhirev period (1992–2001), when resources were shifted away from Gazprom into the hands of friends and relatives. This perspective sees the "campaign" against companies like Itera and Eural Trans Gas as part of a broader attempt to get Gazprom's business back under state control. A second interpretation sees the change as not just about "cleaning house," but about replacing some Russian private-interests-within-the-corporation with others that were closer to Putin and his inner circle. Neither of these explanations is fully satisfactory, especially in light of the unique materials that became public in the spring of 2007, as discussed below.

A third interpretation also focuses on the replacement of one set of Russian private interests with another, but acknowledges that the new companies can also be used to pursue foreign policy objectives, as well as goals more commonly associated with the special services. However, in discussing Russia's use of energy for foreign policy purposes, one should keep in mind that this is not only an issue of a monolithic Russian state using energy to pursue an equally monolithic national interest. Despite widespread coverage of Putin's "bringing the state back in," it is still unclear how much of what is being presented as state interests in the battle against anti-Putin oligarchs actually concerns the private interests of Putin's close associates.[24] In this perspective, the changes in the private-interests component and the (partial) change of partners abroad follows a certain logic. As the new Russian leadership realized, the intermediary companies were not only good business[25] but a powerful tool for influencing political elites abroad. But "adequate" structures and partners to support this potential were needed, most preferably a more centralized structure, such as a single intermediary company. Moscow chose partners able to provide good contacts with members of local security services and elites.

## Lessons from Lithuania

In March and April 2007 the Lithuanian Seimas (parliament) made available an unprecedented set of confidential materials—transcripts of investigation interviews conducted by its National Security and Defense Committee regarding the activities of the Valstybės saugumo departamentas (VSD), the country's Department of State Security.[26] Dujotekana, a gas trade intermediary firm, is mentioned so often in these reports that it became one of the main protagonists of the story.

Lithuania is not a major gas transit player and is unable to directly affect diversification projects such as the Nabucco pipeline. Nonetheless, these materials offer a unique perspective on the evolution and functioning of Russian-related intermediary gas companies in the former Soviet region as a whole, as well as on their role in the energy security—or insecurity—of post-Soviet states.[27]

The Seimas investigation goes back to August 2006, when VSD officer Vytautas Pociunas died after falling from a window of the Intourist hotel in Brest, Belarus. As

Pociunas had until a year earlier been in charge of the VSD department entrusted with investigating threats to Lithuania's economic security, public opinion and members of the Seimas raised questions about the circumstances of his death.[28] In particular, they wondered why the head of a high-profile VSD department had been demoted to a third-rate post in the Lithuanian consulate in a provincial Belarusian city exactly at the time of a serious energy security crisis in Lithuania. The crisis had grown out of the convoluted attempts at a third (re)privatization of the Mazeikiu Nafta refinery, which had provided about 25 percent of the country's tax income since 1991, to Poland's PNK Orlen.[29] Moscow wanted the refinery for the Russian Lukoil company and had suspended oil supplies to Lithuania via the Druzhba pipeline after leaks in July 2006.[30] The rumor mill suggested that Pociunas had been "deported" to Belarus because he fell out of grace with VSD head Arvydas Pocius.[31] Pociunas, according to this theory, knew too much about foul play in the oil and gas sector, including possible links to Dujotekana.[32] Soon after Pociunas's death, the Conservative Party (TS) initiated a parliamentary investigation that expanded from a possible homicide case into a much broader investigation of the VSD and the post-2003 gas intermediary Dujotekana.[33] However, the prosecutors investigating Pociunas's death labeled it accidental, and (at least not until June 2007) did not consider the possibility of murder related to his role in the investigation of national security issues.[34]

The materials coming out of the VSD investigation in the spring of 2007 provided strong evidence for a third interpretation of the swift changes in 2001–2002 in the intermediary companies in most of the region's energy-dependent countries. Specifically, collusion between private and secret-service interests in Russia, aided by important local players in the energy-dependent states.

***The Lithuanian Gas Market Before Dujotekana.*** Before Aleksei Miller became chairman of Gazprom in 2001, Lithuania's gas intermediary companies followed the usual private-interests-within-the-corporation patterns characteristic of the Vyakhirev period. The main gas intermediary in Lithuania at this time, Stella Vitae, was controlled by Vakarų Lietuvos pramonės ir finansų korporacija (Industrial-Financial Corporation of Western Lithuania), Gazprom, and (with 35 percent of the shares) the Russian company Auri,[35] which was reportedly controlled by Tatiana Dedikova, Vyakhirev's daughter.[36] Stella Vitae received gas from Gazprom on the basis of a six-year contract, longer than usual in the region and thus a clear indicator of their special relationship. Other gas trade intermediary companies also existed, the most important being Itera Lietuva, Geonafta, Naftos Gavyba, and Vikonda (controlled by Antanas Bosas, one of Lithuania's richest entrepreneurs, and the rapidly rising entrepreneur-turned politician Viktor Uspaskich).[37] In addition, there was IteraLit, associated with Bronislovas Lubys, owner of the Achema fertilizer company, one of Lithuania's largest gas consumers. Thus by 2001 Gazprom had already developed strong ties with most of the major local economic players.[38]

***Dujotekana Takes Over.*** In 2001 a new company, Dujotekana, replaced Stella Vitae. Although the agreement with Gazprom ran up to 2006,[39] Stella Vitae was suddenly left without gas in late 2001, and its "quotas" were transferred to Dujotekana,[40] which for a time became Lithuania's largest gas importer, supplying 40.3 percent of the country's gas during the first eight months of 2002.[41] This meant that former Gazprom allies like Uspaskich were being replaced by the Dujotekana structure led by Rimandas Stonys.[42] What might have been the most important component of Uspanskich's business dissolved overnight.[43]

The Lithuanian and Ukrainian cases provide important information about how intermediary companies were replaced, and also about the impetus for the changes. Given the timing—shortly after Putin succeeded Boris Yeltsin on December 31, 1999—it is hard to avoid the conclusion that the new Russian president played an important role in replacing existing intermediary companies with new ones. The replacement of Stella Vitae by Dujotekana in December 2001 took place immediately after Gazprom CEO Miller visited Lithuania.

Further confirmation that the change was not spontaneous came from the fact that Gazprom openly and proactively lobbied for the legal existence and profit-making rights of Dujotekana. For example, in January 2001, in the midst of negotiations on the privatization of the national gas company Lietuvos Dujos, Gazprom repeatedly insisted on a clause seemingly in contradiction to its own interests and its impending part-ownership of Lietuvos Dujos. The clause specified that Lithuania's gas imports would not all go through Lietuvos Dujos. Instead, a significant portion would be imported through the intermediary company Dujotekana, and Dujotekana-like gas importers (which actually meant Dujotekana, as no similar companies existed) would be allowed to charge an unregulated mark-up on gas imports that was much higher than what Lietuvos Dujos would be allowed.[44] In fact, according to the agreement between Gazprom

Russian-born businessman Viktor Uspaskich, leader of the Lithuanian Labor Party, celebrates the party's success in the October 2004 parliamentary elections, in Vilnius, October 25, 2004. (AP Photo/Mindaugas Kulbis)

and Lietuvos Dujos, by February 2004 all gas brought into Lithuania, except what was purchased directly by the country's two largest gas consumers (the fertilizer manufacturer Achema and the Kaunas thermoelectric power plant) would go through Lietuvos Dujos or Dujotekana only.

These discussions around the Lietuvos Dujos privatization and Gazprom's involvement prompted intense public debate on government efforts to regulate gas prices, and contributed to the general instability of Seimas politics during this period.[45] Lietuvos Dujos remained very much at the center of debate, given its importance as the country's main gas distributor, with a much higher turnover than Dujotekana. Due to protracted wavering on the form privatization should take, and also the absence of real competition for the package of shares reserved for a "supplier" company, the privatization of Lietuvos Dujos took more than three years, much longer than originally intended, and was fully completed only in 2004.

This reshuffling was not about purging the gas trade of suspicious persons and procedures, because many of the new intermediary companies strongly resembled the ones they were supposedly replacing.[46] As demonstrated by Roman Kupchinsky, using the example of Eural Trans Gas and RosUkrEnergo in Ukraine, in many cases some or most of the actors remained the same. Thus one could hardly claim that the new companies represented a “clean sweep” against corrupt intermediary companies.

***Dujotekana and the VSD.*** As discussed above, the change in intermediary companies was less a victory of “national interests” over private ones than the replacement of some private interests by others. A strong case can be made that once Putin, the former KGB officer, came to power, he rediscovered the political and economic potential of energy intermediary companies and acted to maximize it. (Some analysts claim that Dujotekana was created specifically to increase Gazprom’s share in Lietuvos Dujos while it was undergoing privatization.)[47] Thus, it can be argued that the main goal of the “cleanup” of intermediary companies in 2001–3 was not only or not so much saving Gazprom from the negative effects of parasitic “shell companies” pursuing private-within-the-corporation interests within it, but to use intermediary companies more “effectively” for the pursuit of Kremlin goals.

This shift required a change in partners, both in Russia and abroad, and some of the “new, better trained personnel”[48] seem to have come from the security services as indirect supporters of the company. Control over the Russian side of the intermediary gas trade companies in Lithuania, for example, was transferred from Vyakhirev’s circle to a close Putin associate, Vladimir Yakunin, head of Russian Railways and widely believed to be a former high-ranking KGB officer.[49] The KGB-connection hypothesis is also supported by the fact that at some point before the fall of 2006, former KGB employee and Russian citizen Piotras Vojeika owned 49 percent of Dujotekana’s shares.[50] Little is known about the current ownership structure of the company.[51] On the Lithuanian side, according to the newly available documents, elements of the VSD became involved as well.

## Practical Implications of VSD Involvement

As is evident from the Lithuanian materials, the involvement of elements of the security services in Dujotekana’s operations had very important implications.

***The VSD, Dujotekana, and the “Statesmen’s Club.”*** The VSD involvement in Dujotekana seems to have been part of a much broader development in which leading politicians and public figures came to support, directly or indirectly, Dujotekana’s work in Lithuania. There is no direct evidence, but the Seimas investigatory committee obtained a good deal of indirect evidence on the use of Dujotekana’s profits to secure the support of a great many politicians and public figures. Importantly, many of the people allegedly involved were not Russophiles but, on the contrary, were well known for their contributions to Lithuanian statehood (the press dubbed them the “statesmen’s club”). And it may in fact be that many of them were caught unaware in Dujotekana’s web of influence.[52]

All of this speaks of the very sophisticated nature of Dujotekana’s involvement in Lithuania. The media picture of a center of power located in the VSD and Dujotekana, and a passive, easily influenced president, may have been too alarmist, but the available materials reveal that a considerable amount of power was concentrated in the hands of Dujotekana’s chairman, Stonys, and depict power relationships reaching deep into the state structure. Stonys seems to have coordinated both with the Russian players in the project (first and foremost Vladimir Yakunin) and with Albinas Januška, an adviser to President Valdas Adamkus. According to many of the declarations made to the Seimas investigative committee, Januška was at the center of a wide web of politicians who, directly or indirectly, supported Dujotekana.

***The Kaunas Thermoelectric Power Plant.*** As the means available for the pursuit of private interests within such companies increased, VSD involvement also affected the balance among the “private-interests-within-the-corporation.”

Dujotekana was used not only to pursue “Russian” (private, state, and covert) goals in Lithuania, but to enrich certain individuals tied to them. The Lithuanian story is a very good example of how conflicts between Russian private-within-the-corporation interests can be transposed to third countries through intermediary companies. The confrontation between Russian groups was most clearly reflected in the struggle for control of the Kaunas thermoelectric plant in 2006. In effect, two warring Russian private-within-the corporation interests—associated, respectively, with Vladimir Yakunin and Gazprom’s Aleksandr Riazanov[53]—used Dujotekana and Energijos sistemų servisas (Energy System Service) as proxies.

On the Lithuanian side, Dujotekana sought VSD help to gain control of the Kaunas thermoelectric plant. According to parliamentary investigation stenographs, Stonys asked Albinas Januška, former secretary of the Ministry of Foreign Affairs, to organize VSD support during the conflict with the director general of the power plant.[54] Januška’s connections at the VSD sent agents to the plant during an attempted takeover by the Dujotekana group.[55]

At first glance there may seem to be nothing special about this situation, but two important factors emerge upon closer observation. First, this was not simply a conflict between private interests or corrupt private-interests-within-the-corporation, as occurred within Vyakhirev's Gazprom—it was fought between interests supported by elements of the Russian and Lithuanian security services. Second, once the security services became more involved in the intermediary companies, the stakes became larger. The *means* available for the pursuit of private interests within the companies changed as well.

***The VSD Connection and the Battle Against Corruption.*** The fact that some members of the VSD—the organization entrusted with defending the country against threats to its economic security—actively tried to intimidate journalists and members of parliament to keep them from delving too deeply into Dujotekana's corrupt deals greatly diminished the chances for breaking out of the cycle of corruption.

The VSD investigation materials confirm the importance of looking at the domestic context in which Russian influence takes place. Political instability resulting from connections between politicians and shady Russian business figures is nothing new in Lithuania, as shown by the examples of Rolandas Paksas and Viktor Uspaskich. Paksas became prime minister in June 1999 and had to resign five months later after he was accused of favoring a Russian bidder in the privatization of the Mazeikiu Nafta refinery, which was eventually sold to U.S. investors. He returned to power as president in 2003, but was impeached in April 2004 on charges of having provided help to Russian businessmen, thrusting Lithuania into the international limelight just weeks before its accession to the EU. Uspaskich was the founder and head of the populist Darbo Partija (Labor Party), and became economics minister in 2004 when it won the largest number of seats in the Seimas. In 2005, he was accused of lobbying for one of his companies during business negotiations with Moscow's municipal government and of having contacts with the Russian secret services. He resigned his cabinet and party posts, flew to Moscow, and remains a fugitive.[56]

The picture that emerges from the materials made available in 2007 is not so much a picture of one-sided Russian energy pressure on Lithuania,[57] or of populist politicians like Paksas and Uspaskich as the perpetrators of Russia-related foul play and corruption. Rather, it is a far more complex picture of a much broader and more nuanced influence (and possibly corrupt) network involving "regular" Lithuanian political figures. One important difference between the 2006–2007 Dujotekana scandal and the many earlier ones, as noted by the business newspaper *Verslo Zinios*, is the fact that in the past only high political leaders were involved in (Russia-related) corruption, whereas the Dujotekana web reached people occupying "important, but not senior posts."[58] Dujotekana charged more for gas than Lietuvos Dujos could, and was able to use the money generated by its import operations to distribute broadly and generously among a very broad range of politicians and public-opinion makers.

What kind of state would allow something of this kind to take place? In one of the tamest interpretations, the documents reveal that "Parliament does not control the secret services, even though such control is one of the most important attributes of a democratic country."[59] Instead, it would appear, part of them are or have been controlled by Dujotekana.

At the same time, the materials show the limits of VSD involvement. If Dujotekana had links with the Russian security services and also with at least part of the Lithuanian VSD, does this mean the VSD was controlled by the Russian security services? Based on the evidence, one cannot say. The situation seems to have been somewhat looser. Elements of the VSD had very good contacts with Dujotekana, but not directly with the Russian security services. The link between the two security services does not seem to have taken place from above, but indirectly through businessmen like Rimandas Stonys.

## The Lithuanian Case in Comparative Perspective

The Lithuanian materials corroborate the patterns evident from the Ukrainian case: In the wake of the 2006 gas crisis, a gas-trading intermediary of dubious origin (RosUkrEnergo) was given virtual control of all of Ukraine's gas supply decisions: "The picture that slowly emerges is that of a situation where the Russian leadership under Putin may consciously use corrupt mechanisms not only to accrue profit (in turn used to strengthen Putin's position in the Russian leadership), but also to pursue certain political and geopolitical goals in Ukraine."[60]

At the same time, there are some differences between the two cases. First, the very different amounts of gas-related cash flow in the two countries imply very different levels of potential rents and different ways of accessing rents. The energy and, especially, gas volumes going through and changing hands in Ukraine ($3.13 billion for gas alone in 2005) were much larger than those going through Lithuania in the same period ($247.86 million for gas).[61]

This means that while Ukraine-related rents could be very significant for Gazprom as a firm, the rents possible in the Lithuanian case were significant at a much more individual level—to the various individuals or groups involved in Dujotekana's business in Moscow, but also as a moderate, albeit constantly self-replenishing source of funds available for supporting (or buying the favor of) important political actors in Lithuania.[62]

Second, the longer history of intermediary companies in Ukraine makes it apparent that Russia was not only pursuing certain policy goals in and of themselves, but also intended to weaken Ukraine by encouraging wider corruption.[63]

Finally, and perhaps most important, while the Ukrainian energy scandals of 2005–2007—and in particular turning gas-supply policy over to RosUkrEnergo in January 2006—were heavily politicized and instrumentalized by the country's main political forces, there has never been a full parliamentary investigation.[64] Here the differences in political system seem to be crucial, with Lithuania's more fragmented—with no decisive power either in the hands of the president or the parliament, with a high number of effective parties in the Seimas, and with no clear dominant party or coalition—but ultimately more accountable political system making a difference, no matter how small.

## Conclusion: Why Lithuania? Why Intermediaries?

Although Lithuania is not a major gas transit player or a direct party to the Nabucco project, the Lithuanian case is vital for understanding gas politics and the interconnection between Gazprom and local actors throughout Central and Eastern Europe. Whereas Hungary, as a Nabucco transit state, is directly targeted by Russian policy, Lithuania can be seen, more broadly, as a crucial link to EU policy and, in this capacity, very important for some Russian actors.

To understand this we must revisit Russia's observed goals in Lithuania. In addition to furthering certain "state"[65] and "private" interests,[66] the Russian leadership, through its energy investments there, seeks to use Lithuania as a bridgehead into the EU, or even as a means to foster divisions within the EU and also in the post-Soviet Baltic states.[67] Paradoxically, Lithuania's accession to the EU affords important protections against Russian interference but has also made it more attractive to Russian players.

Do intermediary gas trading companies ever have a positive function? At a certain level they are not necessarily harmful to the energy-dependent country involved. Former president Algirdas Brazauskas saw Itera's presence in the Lithuanian market in the 1990s as a guarantee of contractual diversification vis-à-vis Gazprom.[68] When Gazprom cut gas supplies to Belarus in 2004, President Alyaksandr Lukashenka was able to hold on for some time thanks to purchases from independent gas companies in Russia. According to some observers, intermediary companies, however nontransparent, can play a positive role in securing a gradual, "soft-landing" transition from heavily subsidized to market gas prices.[69] If one wanted to be cynical, it could be said that the role of intermediary companies as first and foremost conducts for graft and corruption payments is something without which gas trade in the CIS and CEE simply could not function, at least as long as large arbitrage gains continue to exist and a real gas market including alternative suppliers does not.

### Notes

1. While several oil and oil-products intermediary companies have exercised political influence (e.g., Lithuania's Viazga), this article concentrates on gas companies. Because gas intermediaries usually deal with an ostensibly centralized Russian actor, Gazprom, they can be more directly tied into Russian foreign energy policy initiatives. In addition, the fact that oil and gas are very different types of goods with different transportation options, sunk costs, and levels of fungibility affects the structure and access points of profits and "rents of energy dependency" that can be accrued through each of them, which also affects the functioning of intermediary companies dealing with each. Moreover, although neither oil nor gas pipelines can be built and left empty, it may be technically more difficult to have a stand-by, "emergency-use only" gas pipeline than an oil one. On the differences between oil and gas and their effects on rent-seeking, see Margarita M. Balmaceda, *Energy Dependency, Politics and Corruption in the Former Soviet Union: Russia's Power, Oligarch's Profits, and Ukraine's Missing Energy Policy, 1995–2006* (New York: Routledge, 2008), especially chap. 9. However, this does not mean that these companies are totally independent of Gazprom.

2. For the sake of parsimony, I have thrown together domestic gas distribution companies with intermediary functions (e.g., Ukraine's United Energy Systems in the mid-1990s), gas trade companies with access to "their own" gas resources in Russia (Itera until 2001), as well as intermediary companies dealing with a single supplier (Lithuania's Dujotekana) or multiple suppliers (RosUkrEnergo in Ukraine since 2006).

3. In May 2007, in what was seen as a major setback for the Nabucco project, an agreement was reached to build a new pipeline bringing Central Asian gas to Western Europe via Russia.

4. As stated by Vladimir Socor: "Gazprom seeks to stop the Nabucco project at both ends." Vladimir Socor, "Hungary and the Nabucco Project: Time to End the Ambiguity," *Eurasia Daily Monitor* (January 16, 2007), www.jamestown.org/edm/article.php?volume_id=420&issue_id=3974&article_id=2371807. The 2008 news about OMV selling Gazprom 50 percent of the Baumgarten gas terminal and storage facility at the pipeline's expected end-point made many observers wary.

5. Gazprom agreed to raise the price to $110 per 1,000 cm, instead of a much higher price.

6. See Reinhard Veser, "Armenische Abhängigkeiten" (Armenian Dependencies), *Frankfurter Allgemaine Zeitung* (April 11, 2006): 7.

7. See Vladimir Socor, "Russia Cements Control of Armenia's Energy System," *Eurasia Daily Monitor* (November 3, 2006), http://jamestown.org/edm/article.php?article_id=2371612.

8. Geographical diversification by itself is of little use in the absence of supplier diversification. On intermediary companies and Central Asian supplies to Ukraine, see Balmaceda, *Energy Dependency, Politics, and Corruption,* chap. 8. For a 2008 perspective on the role of Ukrainian gas intermediaries in the broader network of Gazprom-related intermediary companies in Europe, see Roman Kupchinsky, "RosUkrEnergo and Its Place in the Ukraine-Russia Gas Trade, 2006–2008"; for a theoretical perspective, see Margarita M. Balmaceda, "Transition, Weak Institutions, and Intermediary Companies: Filling Gaps, Filling Pockets"; for an analysis of the factors hindering Ukraine's ability to eliminate intermediary companies from its gas imports operations, see Alla Yeromenko, "Plus ça change . . . : Continuity or Change in Intermediary Company Schemes?" (papers presented at the conference "Reassessing Post-Soviet Energy Politics: Ukraine, Russia, and the Battle for Gas, from Central Asia to the European Union," Harvard University, March 7–8, 2008), available at www.huri.harvard.edu/na/2008_03_07-08_energy_conf.html.

9. Although recent declarations by the presidents of Poland and Ukraine signal that progress is being made in the effort to extend the pipeline to Płock (Poland) and restore the flow to its original direction, carrying Caspian oil to Ukraine and beyond, such political declarations have often remained unfulfilled in the past.

10. In 2001, the amount transited was 0.52 bcm, increasing to 0.64 in 2005; and an estimated 1.21 bcm in 2008. The 2008 estimate is based on information in a Gazprom press release of February 5, 2008, available at www.rustocks.com/index.phtml/Pressreleases/0/8/13738 (accessed June 20, 2008). See also Tomas Janeliunas and Arunas Molis, "Energy Security of Lithuania: Challenges and Perspectives," *Research Journal of International Studies*, no. 5 (May 2006): 22.

11. However, there are signs that the project may still make a comeback. In February 2008 the German company RWE joined the Nabucco consortium, throwing its weight and influence behind the project.

12. In September 2007 Hungarian prime minister Ferenc Gyurcsany gave an explicit endorsement to the Nabucco project that seemed to contradict earlier comments that Nabucco was an unrealistic "long dream" due to the lack of financial backing. See Judy Dempsey, "Hungary Chooses Gazprom over EU," *International Herald Tribune* (March 12, 2007).

13. Whether these are best conceptualized as "private" or "personal" interests within the corporation is a matter of debate. I thank Vitaly Merkushev for this observation.

14. The best-known case is Itera, which may have been linked with top Gazprom managers in the mid- and late 1990s. Igor Maskalevich, "Minus 'Iterizatsia' vsei strany" (Minus the 'Iterization' of the Whole Country), *Zerkalo Nedeli* 2000 No. 21 (446), June 7, 2003, p. 9, and Roman Olearchyk, "Gazprom, Naftogaz Ukrainy Replace Itera with New Firm," *Kyiv Post* (March 6, 2003): 1.

15. Best exemplified by the 2003 arrest of Mikhail Khodorkovsky, the subsequent destruction of his Yukos empire, and transfer of many of its assets to majority state-owned companies, including Gazprom.

16. By Russia's *de facto* energy policy I mean the totality of energy-policy-relevant actions affecting other states, regardless of whether or not part of official state policy.

17. For a detailed discussion of this topic, see Margarita M. Balmaceda, "Some Thoughts on Rents of Energy Dependency, 'Rent-seeking Swamps,' and Political Development: The Ukrainian Case in Comparative Perspective" (paper circulated for discussion at the WorkShop on Post-Communist Politics and Economics, Harvard University, March 13, 2006), www.fas.harvard.edu/%7Epostcomm/papers/2005-06/Balmaceda.pdf.

18. We now also know that the Itera-Gazprom relationship was very complex and by no means transparent.

19. Oleksandr Ivchenko (head of NAK Naftohaz Ukraini in 2005), cited in Oksana Liven, "Kreditnaia dobycha" (Credit Catch), *Ėnergobiznes,* September 19, 2005, accessed through the ISI Emerging Markets portal, www.securities.com (hereafter "via ISI").

20. For an exhaustive report on this issue as reflected in the Ukrainian-Turkmenistan gas trade, see Global Witness, "It's a Gas—Funny Business in Turkmen-Ukraine Gas Trade" (April 2006), www.globalwitness.org/media_library_detail.php/479/en/its_a_gas._funny_business_in_the_turkmen_ukraine_g.

21. In addition to the possibility of private interests, other factors hindering a total break with RosUkrEnergo in March 2008 were Gazprom's unwillingness to let go of the company, as well as the fact that RosUkrEnergo continues to hold long-term gas export contracts with Gazprom. See also Roman Olarchyk, "Ukraine Premier Fails to Oust Gas Group," *Financial Times* (April 11, 2008).

22. For example, former Ukrainian prime minister Pavlo Lazarenko allegedly misused his office for the benefit of his own gas distribution company. See Balmaceda, *Energy Dependency, Politics, and Corruption*, chap. 4. In August 2006, a U.S. court sentenced Lazarenko to nine years in prison and fined him $10 million for money laundering, wire fraud, and interstate transportation of stolen goods.

23. If in 2003 *gazotreidery* sold 10–15 percent of all the gas sold in Ukraine, in 2004–2005 their share had been reduced to less than 2 percent. See Alla Yeromenko, "Buvaie i take. Ta i tse–ne bida" (This Is True, But It Doesn't Matter), *Dzerkalo tyzhnia,* no. 10 (March 18–24, 2006), www.zn.kiev.ua/nn/show/589/52897.

24. See Vladimir Milov, "Russian Energy Policy in a Broader Context" (paper presented at the American Enterprise Institute, Washington, DC, March 16, 2006), available at www.energypolicy.ru/files/March16-2006.ppt. See also Konstantin Simonov, *Russkaia neft: poslednii peredel* (Russian Oil: The Last Repartition) (Moscow: Eksmo, Algoritm, 2005).

25. The actual meaning of "good business" depends on the markets involved. In the case of Lithuania, for example, although the country's relatively small gas trade volumes do not produce significant rents for Gazprom as a corporation, they provide significant benefits to particular groups or individuals.

26. Lithuania's VSD has some of the same functions as the CIA and the National Security Council, combined, perhaps, with some performed by the FBI. While this structure is not unusual for small countries, the VSD is not a "classic" intelligence agency because, so far as is known, it does not engage in covert operations. There is a separate military intelligence service that is much more narrow in scope (author interview with Thomas Klepsys, Vilnius, April 13, 2007).

27. A small note of caution concerning these materials should be raised, however. Despite the great public interest, the approximately 180 pages of testimony published in March 2007, followed by another 400 pages in April 2007, are only a fraction of the 1,500-page total, and many names have been removed. It is also not clear why these testimonies—and not others—were chosen for publication, and whether they are representative of the whole file. The first set of transcripts made public is mainly made up of transcriptions of testimony by VSD employees. The second set contains declarations by VSD head Arvydas Pocius, his deputies Darius Jurgelevicius, Dainius Dabasinskas, and Andrius Tekorius, former VSD director Mecys Laurinkus, relatives of Vitautas Pociunas, other former and current VSD personnel, and Conservative Party Seimas MPs Jurgis Razma and Andrius Kubilius. See Jurga Tvaskiene and Stasys Gudavicius, "Kaunas Found Itself in Scope of Interest," translated in "Lithuania Declassifies 400 Pages of State Security Materials," BBC Monitoring Lithuania (via ISI, May 21, 2007). In the summer of 2007, Dujotekana challenged the declassification of these materials in court.

28. A previous investigation of the death by the Belarusian police found that Pociunas was drunk when he fell from the window; the Lithuanian official investigation, released on December 1, 2006, says that he died as a result of an accident and does not mention foul play ("Seim Litvy kopaet pod shefa gosbezopasnosti" [Lithuania's Sejm Is Digging Under the Head of the State Security Service]), *Kommersant*, www.kommersant.ru/doc.html?docId=727433.

29. Reinhard Veser, "Brüchige Gleise" (Crumbling Tracks), *Frankfurter Allgemaine Zeitung* (August 23, 2006). On Mazeiku Nafta's first and second privatizations in 1999–2002, see Terry D. Clark and Keştutis Paulaskas, "When Oil and Politics Mix: The Privatization of Lithuania's Oil Industry," *Russia and Eurasia Review* 1, no. 11 (December 3, 2002), www.jamestown.org.

30. After the original accident, contradictory Russian assessments of Druzhba continued. While some news from Moscow said that oil supplies would be resumed shortly, other reports said that Russia might build a new pipeline to Primorsk, thus cutting by half the amount oil transited through Belarus to Lithuania. Soon afterwards, it was announced by the Russian organization in charge that defects had been found in 95 percent of the Druzhba pipeline, diminishing hopes that it would ever be fully restored. In May 2007, at the same time as Lithuania was vetoing a new EU-Russia agreement, Valerii Yazev, head of the Duma's Committee on Energy, Transport, and Communications, repeated that it would take one to two years to repair the pipeline, and that "of course, the economic sense of repairing the pipeline in not clear." See Baltic

Business News, (April 13, 2007) (via ISI); also www.alfa.lt (April 16, 2007); "Goodbye to 'Druzhba,' " BNS (April 25, 2007) (via ISI, April 25, 2007), and "Na remont uchastka truboprovoda 'Druzhba' v napravlenii Litvy mozhet potrebovatsia 1–2 goda" (Repairs on the Lithuanian-Bound Segment of the Druzhba Pipeline May Take One-Two Years), ELTA Lithuanian News Agency, May 17, 2007 (via ISI). A pattern seemed to be at work here: Russia establishing *de facto* economic sanctions without calling them as such, as in the boycott of Estonian goods in Russia, the closing of the Narva bridge for trucks, and the computer hacker attacks on Estonian government Web sites in May 2007 in response to the war memorial issue. On Lithuania's energy security situation, see Zeyno Baran, "Lithuanian Energy Security: Prospects and Choices" (Hudson Institute, Washington, DC, 2006).

31. "Seim Litvy kopaet pod shefa gosbezopasnosti" (Lithuania's Sejm Is Digging Under the Head of the State Security Service).

32. Parliamentary Investigation into VSD (Nacionalinio saugumo ir gynybos komiteto atlikto, Valstybės saugumo departamento veiklos parlamentinio tyrimo), "Witnesses VSD officer: Extract from the 15th Session Stenograph," available at www.alfa.lt/straipsnis/130571 (trans. Tomas Klepsys).

33. BBC Monitoring Europe—Political, "Lithuanian Daily: TS Taking Money from Gazprom Intermediary While Attacking It," translation of report in *Lietuvos Rytas* (November 15, 2007) (via ISI).

34. See declarations of Deputy Prosecutor General Gintaras Jasaitis in *Kauno Diena*, June 29, 2007, cited in Raimundas Celencevicius and Lauryna Vireliunaite: "Prosecutors Did Not Even Consider the Version of Pociunas's Death That Is Becoming the Most Important Version," *Kauno Diena,* June 30, 2007, translated in BBC Monitoring (Lithuania), June 30, 2007 (via ISI).

35. Zhanna Skripova, "Stranam Baltii smeniat postavshchika gaza" (They Will Change the Gas Supplier for the Baltic States), *Biznes i Baltia*, October 31, 2001 (via East View Universal Databases CIS and Baltic Periodicals (EVUD CISBP).

36. Zhanna Skripova, "V Litve 'zachistili' detei Rema Viakhireva" (In Lithuania They 'Cleared out' Rem Vyakhirev's Children), *Biznes i Baltia*, December 3, 2001 (via EVUD CISBP), referring to report in *Lietuvos Rytas*, no date.

37. See Commentary by Valdas Vasiliauskas, "New Politics Mark 2," translated in "Lithuanian Commentary Sees Gazprom Interests Dividing the Country," BBC Monitoring (via ISI).

38. See Vasiliauskas, "New Politics Mark 2."

39. Galina Molochkova, "Zapakhlo gazom. Tseny na gaz v Latvii mogut vyrasti" (It Smelled Like Gas. Gas Prices in Lithuania May Go Up), *Biznes i Baltia* (June 14, 2000) (via EVUD CISBP).

40. Gazprom did not transfer all of its Lithuania-related gas contracts to Dujotekana, just the ones that had until then been shared by four or five intermediary companies.

41. "Gazprom poboretsia za Lietuvos dujos" (Gazprom Fights for Lietuvos Dujos), *Kommersant*, October 24, 2002 (via ISI).

42. See Vasiliauskas, "New Politics Mark 2."

43. This was also the beginning of a five-year confrontation between Uspaskich and Gazprom-Dujotekana, which ended with the leak of corruption evidence against Uspaskich, the order for his arrest, and his flight to his native Russia.

44. The difference in markups between Lietuvos Dujos and Dujotekana peaked in 2004, when gas sold by Dujotekana, not subject to any limit, had a markup of 32 percent, whereas Lituvos Dujos was limited by law to 15 percent. Dujotekana's markup was reduced to 20 percent in 2005 and 17 percent in 2006. See *Verslo Zinios*, article name not stated, January 22, 2007, translated in "Lithuanian Daily Criticizes Seimas for Indecision on Natural Gas Act Amendment," BBC Monitoring, January 22, 2007 (via ISI).

45. See "Gas Market Regulations Drive a Wedge into Govn't," *news2biz LITHUANIA*, February 16, 2005 (via ISI) and Economist Intelligence Unit, Country Briefing, "Lithuania Politics: See-saw Politics," May 13, 2005 (via ISI).

46. Roman Kupchinsky, "The Unexpected Guest: RosUkrEnergo" (paper presented at the conference on "The Ukrainian-Russian Gas Crisis and Its Fallout: Domestic and International Implications," Harvard University, February 5–6, 2006, available at www.huri.harvard.edu/newsannals/newsannals.gas_conf_2006.html). In the case of Lithuania, some central actors, such as Rimandas Stonys, were retained, with their responsibilities increased.

47. One of Gazprom's (unsuccessful) strategies for gaining increased control of the company during privatization was to try to combine the percentage of shares originally allowed for a supplier company (25 percent) with an additional percentage of shares controlled by *de jure* "Lithuanian capital" (25 percent), *de facto* meaning Gazprom-controlled Dujotekana. This strategy would have allowed Gazprom to *de facto* control 50 percent of Lietuvos Dujos's shares, but it was thwarted by changes in the privatization legislation that eliminated a separate quota for domestic investors and limited the percentage of shares a supplier could have to 34 percent. For example, see Vladimir Skripov and Aleksei Grivach, "Litovskii gazovyi put: 'Gazprom' i Vilnius zhdut ustupok drug ot druga" (Gazprom and Vilnius Are Waiting for Mutual Concessions), *Vremia Novostei* (August 8, 2002).

48. Vasiliauskas, "New Politics Mark 2."

49. Daniel Treisman has referred to this process as the "rise of the Silovarchs." See Daniel Treisman, "Putin's Silovarchs," *Orbis* 51, no. 1 (winter 2007): 141–53. On the argument that Yakunin was tied to Dujotekana, see "Lithuanian Gazprom Intermediary Head: Other Companies 'More Dependent' on Russia," *Lietuvos Rytas* (November 13, 2006), translated in BBC Monitoring (November 13, 2006) (via ISI).

50. See interview with Rimandas Stonys, where the moderator referred to such versions. TV show Savaite, LTV, no date given, reported by Lietuvos Rytas Internet version November 13, 2006, translated by BBC Monitoring, November 13, 2006 (via ISI). In this interview Stanys conceded that Vojeika had indeed worked for the KGB, but said he no longer owned 49 percent of the company's shares or was the largest shareholder.

51. When asked, Dujotekana head Stanys refused to answer, arguing business confidentiality. See interview with Rimandas Stonys, TV show Savaite. By mid-2002, Dujotekana was owned, in addition to majority-holder Gazprom, by the Industrial Finance Corporation of Western Lithuania, controlled by Antanas Bosas and Rimantas Stonys. See "Gazprom, Dujotekana Submit Bid in Lietuvos Dujos Tender," *New Europe* (July 21, 2002) (via ISI).

52. As noted by Tomas Klepsys, the evidence currently available does not support assertions of corruption payments to Lithuanian actors. Rather, legal contributions to Lithuanian NGOs were often used to channel Dujotekana's influence, and information collected on various players was used to influence them. See Tomas Klepsys, unpublished note, August 22, 2007, pp. 2, 4.

53. Parliamentary Investigation into VSD (Nacionalinio saugumo ir gynybos komiteto atlikto, Valstybės saugumo departamento veiklos parlamentinio tyrimo), "Witnesses VSD Officer: Extract from the 15th Session Stenograph," www.alfa.lt/straipsnis/130571 (trans. Tomas Klepsys).

54. On the connections between Stonys and Januška, see Parliamentary Investigation into VSD (Nacionalinio saugumo ir gynybos komiteto atlikto, Valstybes saugumo departamento veiklos parlamentinio tyrimo), "Witness Former VSD Officer: Extract from the 8th Session Stenograph," www.alfa.lt/straipsnis/130567 (trans. Tomas Klepsys). The former VSD officer is widely presumed to be Raimundas Burkovskis.

55. See Parliamentary Investigation into VSD (Nacionalinio saugumo ir gynybos komiteto atlikto, Valstybės saugumo departamento veiklos parlamentinio tyrimo), "Extract from 11th Session Stenograph," www.lrt.lt/news.php?strid=5082&id=3687465 (trans. Tomas Klepsys).

56. On corruption under Paksas, see Terry D. Clark and Egle Verseckaite, "PaksasGate: Lithuania Impeaches a President," *Problems of Post-Communism* 52, no. 3 (May/June 2005): 16–24.

57. Through, for example, the indefinite suspension of oil shipments through the Druzhba pipeline since July 2006.

58. Unattributed editorial, "Up to Our Ears in Democracy," *Verslo Zinios* (March 22, 2007), translated in "Lithuanian Daily Says State Security Scandal 'Disgrace' for Country," *BBC Monitoring*, March 22, 2007 (via ISI). One example would be the second-level but crucial energy policy positions at the Ministry of Economics that, according to some of those testifying in the VSD investigation, came under Dujotekana's control. See Parliamentary Investigation into VSD (Nacionalinio saugumo ir gynybos komiteto atlikto, Valstybes saugumo departamento veiklos parlamentinio tyrimo), "Witnesses VSD officer: Extract from the 15th Session Stenograph," www.alfa.lt/straipsnis/130571 (trans. Tomas Klepsys).

59. Darius Kuolis (director, Civil Society Institute), "Moving Towards Putin-Style Governance," *Verslo Zinios* (April 6, 2007), translated in "Lithuania Moving Towards 'Putin-style Governance,—Pundit," *BBC Monitoring*, April 6, 2007 (via ISI).

60. Margarita M. Balmaceda, "State, Corporate and Private Interests in Russian-Belarusian and Russian-Ukrainian Energy Relations: What Have We Learned from the January 2006 Ukrainian-Russian Crisis?" in *The Future of Energy Security*, ed. Leszek Jesień (Kraków: Tischner European University, 2006), p. 150.

61. The 2005 Ukrainian figure is based on imports of 37 bcm of gas from Turkmenistan at $44 per 1,000 cm and 30 bcm of Russian gas at $50 per 1,000 cubic meters in 2005. Data from Ferdinand Pavel, German Institute for Economic Research, "The Ukrainian-Russian Gas Agreement: Analysis and Alternatives" (paper presented at the conference on "The Ukrainian-Russian Gas Crisis and Its Aftermath: Economic, Political and International Ramifications," Harvard University, February 5–6, 2006), streaming video available at www.huri.harvard.edu/na/na_gas_conf_2006.html. The Lithuanian figure is based on imports of 2.916 bcm of gas from Russia at $85 per 1,000 cm. in 2005. See *CIA World Factbook* for volumes (www.cia.gov/library/publications/the-world-factbook/fields/2182.html), and Tatiana Manenok. "Nam i mirovaya tsena na gaz nipochem?" (What Does the World Gas Price Matter to Us?), *Belarusskii Rynok* (August 1, 2005) for prices.

62. Although Lithuania's relatively small gas market cannot produce significant rents for Gazprom as a corporation, activity in this market can provide significant rents and benefits to particular groups or individuals, as well as produce a continuous amount of income that could be used to influence local politicians. Thus, as stated by Lithuanian commentator Stasiukynas, Dujotekana "was established in order to make money *and to use it* [emphasis added]" (Gediminas Stanisauskas, "In the Mud of Secret Interests," *Kauno Diena* [September 18, 2006], translated by BBC Monitoring Europe: Political [September 20, 2007], http://web.lexis-nexis.com.ezp1.harvard.edu/universe/document?_m=f95e4750432c00b5e200bda1bba3fb37&_docnum=1&wchp=dGLzVlz-zSkVb&_md5=d8e8791828d21ceca8d48d5b04db233f).

63. See comments by Paul D'Anieri and Margarita M. Balmaceda (Conference on "The Ukrainian-Russian Gas Crisis and its Fallout: Domestic and International Implications," Harvard University, February 5–6, 2006).

64. Although Rada investigations took place in 1997 and 2006, either they were not fully carried out or their results not made public.

65. Russian "state" interests in Lithuania may include the geopolitical goal of controlling port infrastructure in the Baltics.

66. These "private" interests may include the attempt to control some or all gas imports to Lithuania in the pursuit of individual profit.

67. Such differences have recently become obvious through the open discussion in these states of their new national energy infrastructure projects, which cast into doubt their real commitment to building a joint Lithuanian-Latvian-Estonian-Polish nuclear power plant, as announced in 2006. On these policy differences, see Mart Laar, "Baltic Countries Need More Cooperation on Energy," *Baltic Times* (March 19, 2008) (via ISI).

68. See Vladimir Skripov, "Kupi rynok" (Buy the Market), *Ekspert Severo-Zapad* (February 2, 2004) (via ISI).

69. See Andrei Konoplyanik, "Russia-Ukraine Gas Trade: From Political to Market-Based Pricing and Prices" (paper presented at the conference "Reassessing Post-Soviet Energy Politics: Ukraine, Russia, and the Battle for Gas, from Central Asia to the European Union," Harvard University, March 7–8, 2008), available in streaming video at www.huri.harvard.edu/na/2008_03_07-08_energy_conf.html.