

By Fred Burton and Scott Stewart

A lot has been written about last month's conflict between Russia and Georgia, and the continuing tensions in the region. Certainly, there were many important lessons to be gleaned from the conflict relating to the Russian military, Russian foreign policy and the broader geopolitical balance of power.

One facet of the Russian operations in Georgia that has been somewhat overlooked is the intelligence aspect. Clearly, the speed with which the Russian military responded to the Georgian invasion of South Ossetia indicates that they were not caught off guard. They knew in advance what the Georgians were planning and had time to prepare their troops for a quick response to the Georgian offensive.

It is important to remember that the Russian operation in Georgia did not happen in a vacuum or without warning. It was a foreseeable outcome of the resurgence of Russian power that began in 1999 when Vladimir Putin came to power, and an outward demonstration of Russia's increasing assertiveness. One important element of Russia's ascendancy under Putin has been a resurgence of the Russian intelligence agencies. The excellent intelligence Russia had regarding Georgian intentions in South Ossetia is proof that the Russian intelligence agencies are indeed back in force. But Putin's rise to power clearly demonstrates that while these intelligence elements may have been weakened, they were never totally gone.

As pressure continues to build between Russia and the West -- and as we perhaps slip closer to a second Cold War -- it is worth remembering that an actual armed conflict between NATO and the Warsaw Pact never took place despite military tension and some warfare between proxies. Rather, the Cold War was fought largely with intelligence services. Certainly, the Cold War led to the birth and rapid growth of huge intelligence agencies on both sides of the Iron Curtain. These intelligence agencies will also play a significant role in the current strain between Russia and the West.

The world has changed dramatically since the fall of the Soviet Union in 1991. In this age of globalization, e-commerce and outsourcing, there are many more Western companies with interests in Russia than during the Cold War. This means that an escalation of Cold War-type intelligence activity will have profound effects on multinational corporations.

#### Historical Context

The time period following the fall of the Soviet Union was catastrophic for Russia -- workers went unpaid, social services collapsed and poverty was epidemic. The oligarchs seemingly stole everything that was not nailed down and organized crime groups became extremely powerful. Public corruption, which had been endemic (though somewhat predictable) in the old Soviet system, worsened dramatically. Many Russians were ashamed of what their country had

become; others feared it would implode entirely.

Into this chaos came Vladimir Putin, a former Soviet intelligence officer who ascended in Russian politics due in part to his significant connections. But Putin's rise was also largely aided by his firm handling of the second Chechen war in 1999 and the fact that he offered the Russian people hope that their national greatness could somehow be restored. While Putin left the Russian presidency in May 2008 and is now the prime minister again (as he was in the final months of the Yeltsin presidency), he continues to be immensely powerful and extremely popular. Most Russians believe Putin saved Russia from sure destruction.

A major part of Putin's strategy to regain control over the government, economy, oligarchs and organized crime groups was his program to reorganize and strengthen the Russian intelligence agencies, which had been severely atrophied since the fall of the Soviet Union. During the 1990s, politicians such as Mikhail Gorbachev and Boris Yeltsin saw a powerful intelligence agency as a potential threat -- with good reason. Because of this threat, laws were enacted to fracture and weaken the once-powerful agency.

In 1991, the KGB was dismantled after a failed coup against Gorbachev in which some KGB units participated and tanks rolled onto Red Square. Following additional failed coup attempts, the Federal Counterintelligence Service (FSK), the KGB's immediate successor, was split into several smaller agencies in 1995 under the perception that it remained too powerful. By creating competition among the smaller intelligence services, higher-ups hoped that additional coup attempts could be avoided. Following this shattering of the FSK, the counterintelligence core of the former KGB and FSK became known as the Federal Security Bureau (FSB). The foreign intelligence portion of the FSK became the Foreign Intelligence Service (SVR).

When Putin came into power, he instituted an ambitious plan to reconstitute the FSB. He has steadily worked to reconsolidate most of the splinter intelligence agencies back under the FSB, correcting much of the inefficiency that existed among the separate agencies and making the new combined agency stronger and more integrated. Moreover, since 1999, Putin has ensured that the FSB receive large funding increases to train, recruit and modernize after years of disregard. Currently, the SVR remains separate from the FSB, but other crucial components such as the Federal Border Service and Federal Guard Service have been reintegrated, as has the Federal Agency of Government Communications and Information (FAPSI), Russia's equivalent of the U.S. National Security Agency.

Additionally, Putin has tapped many former KGB and current FSB members to fill positions within Russian big business, the Duma and other political posts. Putin's initial reasoning was that those within the intelligence community thought of Russia the same way he did -- as a great state domestically and internationally. Putin also knew that those within the intelligence community would not flinch at his sometimes brutal means of consolidating Russia politically, economically, socially and in other ways. It could be reasonably argued that Russia has become an "intelligence state" under Putin.

Since assuming power, Putin has also worked to strengthen the Russian military and the GRU, Russia's military intelligence agency. The GRU was undoubtedly very involved in the operation

in Georgia, as was the SVR. There are some who suggest that Russian agents of influence may have played a part in convincing Georgian President Mikhail Saakashvili to attack South Ossetia and spring a trap the Russians had set.

### Implications for Business

Since the fall of the Soviet Union, foreign corporations have been very busy in Russia as they scramble for market share, attempt to profit from Russia's massive natural resources and seek to meet growing demand for consumer products. For these companies, growing Russian nationalism and tension with the West increases both the chance of regulatory and legal hassles and the possibility that Russian intelligence activity might be directed their way. In other words, as tensions rise, so could the risk for Western corporations.

Not all these problems are new. As a young KGB officer, Putin earned his living by stealing technology from the West. And he has since encouraged Russian intelligence agencies to expand their collection programs with the awareness that such information can assist the Russian economy and specifically the revival of the defense sector.

While the Russians have an advanced weapons research and development infrastructure, they are very pragmatic. They do not see the need to spend the money to develop a technology from scratch when they can steal or buy it for a fraction of the cost and effort. This pragmatism was clearly demonstrated in their early nuclear weapons program. Just as Russia's reinvigorated intelligence collection efforts were gaining steam, the United States was hit by the 9/11 attacks. As a result, domestic intelligence agencies in the United States and many other Western nations focused on the counterterrorism mission and diverted counterintelligence resources to help in that fight. It would take several years for the domestic counterintelligence efforts to get back to their pre-9/11 levels, and like the Chinese, the Russian intelligence services took broad advantage of that window of opportunity to recruit sources and obtain critical information from foreign companies. Additionally, the Russians have gone to great lengths to steal intellectual property from foreign firms operating inside Russia, either by infiltrating their companies with agents or by recruiting employees.

The Russians are not only drawn to companies that produce sophisticated military equipment. Like the Chinese and others, they are interested in collecting information on emerging technology that is not yet classified but has potential military application. These sectors include materials research, nanotechnology, advanced electronics and information technology.

Ultimately, however, they will not turn their backs on the opportunity to obtain sophisticated current weapons system data. Russian collection and recruitment efforts will also not be confined to Russia or the United States. The Russians can gain as much information by recruiting an American businessman in Tokyo, Vienna or Mexico City as they can from one they recruit in New York or Seattle, if they choose their target wisely.

The Soviets and Russians have long enjoyed operating out of third countries. During the Cold War, their primary platform for collecting intelligence against the United States was Mexico City, and their preferred platform to collect against European targets was Vienna.

Former KGB officers are also heavily involved in trafficking Russian and Eastern European women for prostitution in Tokyo, Dubai and Miami. These former KGB officers could easily utilize their positions of access to identify potential recruits for friends at their old agency, perhaps for a profit -- consider how many former intelligence officers now are working as contractors for U.S. intelligence. The FSB/SVR might not be the KGB in name, but they clearly are the KGB in spirit and will not hesitate to use sexual or other blackmail if that is more effective than money, ideology or ego as a recruiting hook.

For Western companies operating inside Russia, an increase in tensions will, in all likelihood, mean an increased scrutiny of the companies' activities as well as an increased focus on their expatriate employees in an effort to recruit sources and to locate Western intelligence officers. Like it or not, all intelligence agencies use nonofficial cover to get their officers into hostile countries -- and corporate cover is widely used. Indeed, the Russians have long claimed that the United States and other countries have been using businesses and nongovernmental organizations to provide cover to intelligence officers seeking to undermine Russian influence in the former Soviet Union and to operate inside Russia itself.

Nonofficial cover officers (referred to as NOCs in intelligence parlance) are intelligence officers without visible links to their government and therefore not protected by diplomatic immunity. For this reason, NOC operations are somewhat riskier. Harder to identify as intelligence officers, NOCs are frequently assigned to sensitive tasks -- those that a host country counterintelligence service would dearly love to learn about. Keeping this in mind, Russian counterintelligence services will be carefully looking over the business visa applications of Western companies.

Surveillance activities on expatriate employees will also likely increase as the Russians work to identify any potential undercover intelligence officers. They will also seek to recruit expatriate and local employees who can act as spotters to identify any potential intelligence officers. This surveillance of Western businesses may apply to both corporate offices and employees' residences. Businessmen may be physically surveilled and their residences subjected to technical surveillance and mail/garbage covers. Domestic workers may also be recruited in an effort to collect information on their employers. Known or suspected NOCs will be carefully watched and will likely even be overtly harassed.

So far, we have not heard of the Russians directing this type of aggressive surveillance activity against U.S. companies, or of U.S. companies having problems obtaining visas for their employees. But as the tensions increase between Russia and the United States, and as intelligence operations become increasingly hostile, it is only a matter of time before they do.

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