

Annual Report of the Security Information Service for 2014

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1. The Nature and Scope of Intelligence Activities

The activities, the status and the scope of powers and responsibilities of the Security Information Service (BIS) as an intelligence service of a democratic state are provided for in relevant Acts, especially in Act No. 153/1994 Coll., on the Intelligence Services of the Czech Republic, as amended, and in Act No. 154/1994 Coll., on the Security Information Service, as amended. The BIS is also governed in its activities by the Constitution of the Czech Republic, the Charter of Fundamental Rights and Freedoms, international treaties, and other legal regulations of the Czech Republic.

Under Section 2 of Act No. 153/1994 Coll., intelligence services are state agencies for the acquisition, collection and evaluation of information (hereinafter referred to as “securing information”) important for protecting the constitutional order, major economic interests, and the security and defense of the Czech Republic. Under Section 3 of Act No. 153/1994 Coll., the BIS is an intelligence service securing information within its powers and responsibilities defined in Section 5, Paragraph 1 of Act No. 153/1994 Coll. on:

- schemes and activities directed against the democratic foundations, the sovereignty, and territorial integrity of the Czech Republic,
- the intelligence services of foreign powers,
- activities endangering state and official secrets,
- activities the consequences of which may jeopardize the security or major economic interests of the Czech Republic,
- organized crime and terrorism.

Under Section 5, Paragraph 4 of Act No. 153/1994 Coll., the BIS also fulfills further tasks as defined by specific legislation (e.g. Act No. 412/2005 Coll., on the Protection of Classified Information and Security Clearance, as amended) or international treaties by which the Czech Republic is bound.

Furthermore, Section 7 of Act No. 153/1994 Coll. stipulates that the responsibility for the activities of the BIS and for the coordination of its operation lies with the Government. According to Section 8, Paragraph 4 of this Act, the Government assigns tasks to the BIS within the scope of the Service’s powers and responsibilities. The President of the Czech Republic is entitled to task the BIS with the knowledge of the Government.

To fulfill its tasks, the BIS is authorized to cooperate with other intelligence services of the Czech Republic. Section 9 of Act No. 153/1994 Coll. stipulates that this cooperation must be based on agreements concluded between the intelligence services with the consent of the Government.

Under Section 10 of Act No. 153/1994 Coll., the BIS may cooperate with intelligence services of foreign powers only with the consent of the Government.

2. Intelligence Activities and Findings

A summary of all the intelligence activities in which the BIS engaged in 2014 is part of the classified *Report on the Activities of the Security Information Service for 2014* – a report the BIS submits to the President of the Czech Republic and to the Government in accordance with Section 8, Paragraph 1 of Act No. 153/1994 Coll.

During the course of the year, again in accordance with Section 8, Paragraph 1 of Act No. 153/1994 Coll., the BIS informed entitled addressees about individual intelligence findings and the results of analyses on which the overview of its activities in this public annual report is based.

In 2014, the BIS submitted more than 600 documents to the President and members of the Government. More than 300 documents were sent to relevant state authorities, the Police of the Czech Republic, the Office for Foreign Relations and Information (in Czech: *Úřad pro zahraniční styky a informace – ÚZSI*), and to Military Intelligence (in Czech: *Vojenské zpravodajství – VZ*).

Fulfilling its obligations under Act No. 412/2005 Coll. the BIS was asked by the National Security Authority (in Czech: *Národní bezpečnostní úřad – NBÚ*) to conduct more than 20 000 security clearance investigations for the issuance of security clearance certificates for natural and legal persons.

2.1. Protection of Major Economic Interests

As in previous years, in 2014, the BIS focused on securing information on the economic aspects of activities undertaken by state institutions, state companies and state trading companies, and on threats posed to the energy security of the Czech Republic. In 2014, extensive changes in the management of state-governed organizations took place. This influenced developments in a number of areas monitored by the BIS. Therefore, the BIS focused on the timely recognition of potential new threats related to changes in influence. Furthermore, the BIS concentrated also on identifying the constituents of previously established advocacy groups not affected by the management changes which have illegitimately attempted to influence the decision-making of state entities.

In a number of cases changes in the top management of state institutions led to a more open approach to solving issues from the past. This was linked to increased pressure often successfully placed on structures engaged in activities threatening the economic interests of the Czech Republic. However, the new management (or the supervisory board) often encountered difficulties in eliminating the influence of these structures as it was beyond their power to identify the extent and intentions of clientelistic networks created over a long period of time. This led to problems not only in solving the consequences of previous decisions (e.g. consequences of unfavorable contracts), but also in distinguishing legitimate activities of the organization from attempts to go ahead with prepared plans to make illegitimate or illegal use of the organization's assets (transfer of funds from the organization etc.). The BIS detected cases in which important documents (e.g. contracts or their amendments) could not be found, sensitive information was leaked, attempts to introduce corrective personnel or systemic measures were thwarted, or in which the previous management tried to

influence employees for its benefit. Dismissed employees repeatedly attempted to re-gain employment under the new management relying on its limited insight as to the reasons leading to their dismissal.

In some state-governed companies and organizations (e.g. transport or banking) questionable decisions made in the past lead to far-reaching profound consequences paralyzing their normal functioning. This was caused by a combination of factors - the risk of major financial losses, personnel instability, and fear to make important decisions in complicated situations.

Personnel changes also led to individuals with a dubious past filling leading posts in state institutions. The BIS described e.g. the case of a group linked to opaque tenders which, after several years, once again managed to gain influence in an important regulatory body. In a similar organization from a different sphere the management appointed an untrustworthy individual to a senior management post even though it was known that this individual had previously engaged in activities posing threats.

In this context the following issue arises as problematic: the senior management of key state organizations often does not have a security clearance. This limits problem-free communication when it is necessary to share information relevant for the functioning or security of the managed companies as this information is classified under the Act on the Protection of Classified Information and on Security Clearance.

In 2014, awarding public contracts was fraught with a number of problems and suffered the consequences of a non-systemic approach. The state - being the contracting authority - faced serious difficulties especially in ICT tenders. Several government departments faced the full consequences of previous errors made when creating ICT systems. A number of key state bodies were confronted by a very similar problem - great dependence on current suppliers resulting in high ICT costs caused by a faulty licensing policy, or the incompetence or inability to invite a tender for a new supplier without disrupting the functioning of the state body.

As in previous years, concerted efforts of bidders to enter into collusive agreements had a negative influence on tenders related to the development of transport infrastructure. Moreover, the approach of state contracting authorities remained the same in many respects. As in 2013, the BIS repeatedly detected activities of prominent representatives who did not prevent these collusion agreements, in fact supported them in several cases. However, not all bidders were willing to enter into such collusive agreements. Therefore, the goals motivating these agreements - the acceleration of tenders, allocation of funds (investor's motive) and increasing prices (bidder's motive) - were not fully achieved.

In 2014, collusive agreements made by the strongest market players were detected also in other spheres. The BIS discovered e.g. an agreement not only damaging consumers in this market segment, but also causing losses for the state as the regulator of the affected segment amounting to billions.

2014 also saw the departure of foreign owners from several spheres and their replacement by strong Czech business groups. This departure was linked to the mentioned stronger tendencies to conclude nonmarket agreements.

In 2014, the BIS not only informed about the manifestations of negative phenomena linked to the administration of state property, but also focused on summarizing information obtained over a longer period of time (2008–2013) and drawing more general conclusions. The goal of this analysis was to compare the administration of state property performed by state companies and by joint-stock companies in relation to the protection of major economic interests. The analysis focused on influencing the activity of supervisory boards, opaque tenders, and on the administration of funds available to state entities.

Currently, there are no major differences between the administration of state property performed by state companies or by joint-stock companies. Nevertheless, over a longer period of time, a greater number of negative phenomena (with potentially higher financial losses for the state) were detected in relation to joint-stock companies. This is caused by the fact that this form of state property administration was performed in companies with access to a larger volume of state property and inviting tenders for costly projects. A further reason for this is the fact that the state (provided that it uses all legal means) takes a more active part in the oversight and decision-making of state companies. It seems that the system sufficient for joint-stock companies in the private sector has serious deficiencies in the state sector. Financial losses previously sustained by state entities were mainly caused by poor and inconsistent enforcement of state ownership rights.

In 2014, the BIS focused on threats posed to the energy security of the Czech Republic. The BIS monitored changing conditions on the natural gas market experiencing significant developments in regard to both transit routes and trade contracts. The dependence on Russian natural gas and a detailed analysis of the ways and conditions under which natural gas is imported to the Czech Republic were also the main focus of attention. Gazprom, the major exporter of Russian natural gas, made efforts to exert maximum control over natural gas transit, storage and trade in Central Europe.

Developments in the energy industry included also a false presentation of some projects in the media leading to a false impression about their quality and importance. As in previous years, the media paid attention to projects casting serious doubt about their feasibility and contribution to the energy security of the Czech Republic. False proclamations in the media also aimed to disguise problems arising from past decisions.

2.2. Organized Crime

In 2014, the BIS focused on securing information related to the dysfunction of key state bodies, illegitimate activities of regional clientelistic groups, and to interference with the legislative process. Moreover, the BIS increasingly focused on the consequences of current events in Ukraine related to activities of organized criminal groups in the Czech Republic and to potentially higher migration.

Efforts to cause the dysfunction of key state bodies

In the first quarter of 2014, a group of lobbyists attempted to initiate the removal of Jan Klas, the CEO of the state company - Air Navigation Services of the Czech Republic, and to change the company's senior management. The group attempted to appoint selected individuals to key posts in order to be able to influence the economic activities of the company. The lobbyists organized meetings of their candidate for the post of CEO with cabinet members via middlemen close to prominent state representatives and from the business sector. These activities continued from 2013.

The Czech Police investigated this illegitimate lobbyist group in relation to corruption. However, the BIS considered the manipulation with tenders invited by Air Navigation Services of the Czech Republic and the destabilization of this state company the most serious security threats. Air Navigation Services achieved good financial results demonstrating the abilities of the current management. This probably played a role in the fact that the CEO was not dismissed.

The Czech Ministry of Education, Youth and Sports is an example of influencing state bodies via personal ties established by members of advocacy groups during their employment at the Ministry or during their external cooperation with the Ministry. This was a way of gaining access to detailed information on the "Education for Competitiveness" operational program exploitable in consulting on subsidies or in providing a favorable assessment of certain projects.

The BIS detected attempts to influence key state body representatives also at the Ministry of Agriculture and at organizations falling under the Ministry. Individuals and groups attempted to enlist the cooperation of employees at these institutions. Furthermore, there were attempts to fill key posts with candidates able to secure various benefits for these individuals and groups or to assist in transferring funds from these institutions.

In 2014, the BIS focused on the allocation of subsidies from EU structural funds, especially in relation to the programming period 2014-2020. The BIS analyzed the allocation of subsidies during the programming period 2007-2013 and identified major systemic shortcomings potentially endangering the allocation of subsidies in future years. These shortcomings - a result of systemic errors in the implementation process and the lack of legislative norms - caused serious problems in the allocation of subsidies which led to interventions by Czech and EU authorized bodies and to the suspension of EU funds for some operational programs.

Ineffective control mechanisms failing in all phases of the subsidy allocation process in 2007-2003 were the major problem. Furthermore, pre-conditions (ex-ante conditionalities) set by the European Commission and required for the allocation of subsidies were often not met.

Ineffective and often unqualified public administration was also an issue. This was, among other things, the direct result of the lack of legislation providing for legal conditions of civil servants. On the central level this led to frequent changes in organizational unit management of governing bodies. On the local level, the inexperience of some state officials led to the inappropriate outsourcing of services linked to subsidy allocation.

A further negative aspect was the lack of transparency in the selection process and project assessment. There was a conflict of interest on the regional level related to the interconnection of individuals making decisions about European funds in relation to specific projects. This was the result of insufficient legislation on conflict of interest, the system of allocating subsidies and the fact that elected representatives often hold more posts.

Allocating European subsidies to projects providing minimal public benefit and supporting only individual business interests, e.g. to various private recreation complexes, was quite common. Furthermore, the poor state of subsidy allocation was also the result of strong political influence on the selection and assessment of projects.

Activities of regional clientelistic groups

In some Czech regions, the BIS detected the activities of advocacy groups attempting to pursue their own goals. One group attempted to influence the decision-making of civil servants at the Ministry of Finance who could assist this group with a problem-free allocation of subsidies from EU funds.

The Ústí nad Labem Region saw significant changes in the manifestations of dysfunctional public administration related to spending public funds. The original regional mafia established after 2000 and involving, among others, convicted individuals who were active in public administration authorities or governing bodies of the Regional operational program Northwest (ROP Northwest) in the past underwent considerable changes.

New entities entered the scene especially due to the prosecution of several prominent regional representatives and ROP Northwest officials and due to financial sanctions imposed by the European Commission. These new entities have certain links to representatives of the regional mafia active in the past; however, they employ different, more sophisticated methods in order to achieve their goals. Large regional construction contracts and contracts co-financed from the ROP Northwest were replaced by “soft” projects focusing on education, social and health services, transport, and consulting on subsidies, and often financed from operational programs. Their activities also focused on influencing the decision-making of local administration bodies and on attempting to gain influence in municipal companies.

Several lobby groups attempted to gain influence in the Administration of the Šumava National Park and Protected Area, or more precisely to influence the future shape of the National Park. Advocacy groups are interested in carrying out several contentious projects in the Šumava Region, engaging in land speculation and expanding logging operations. This is linked to attempts to influence the Act on the Šumava National Park. Establishing future borders of the National Park is a matter of dispute between environmentalists and businessmen interested in construction in this area.

In relation to the activities of regional advocacy groups aimed at misusing public funds the BIS also focused on the quality of oversight of financial management performed by territorial administrative units. These units are in charge of significant amounts of public funds; nevertheless they are not subject to the same level of oversight as bodies on the central level. The outsourcing of

public services often leads to the transfer of responsibility to private entities (especially in relation to arranging applications for European subsidies, awarding tenders, making use of consulting and legal services, or the education of civil servants). The administration of companies with municipal or regional ownership interests and various transfers of public funds are further problematic areas. The BIS detected serious misuse of public funds in all these areas. Given current legislation this misuse often remains covert and is not punished. Exposing such conduct often depends on specific control mechanisms which do not have authority on this level.

Introducing control mechanisms impacting also the local level and boosting transparency is essential for increasing the efficiency of spending public funds. An effective legislative framework in this respect could be provided for by an Act on the Registry of Contracts and an Act broadening the powers of the Supreme Audit Office (in Czech: *Národní kontrolní úřad - NKÚ*).

Legislative changes related to limiting the opportunities of organized crime

An integral part of anti-corruption measures is the adoption of a number of laws and amendments leading to more effective management of public funds.

An amendment of the Act on the Supreme Audit Office would result in increased efficiency and transparency in the management of public funds. This amendment aims to broaden the powers of the Supreme Audit Office as an independent body supervising the management of property belonging to territorial administrative units, their budget income and expenditure, and to public institutions and legal persons with ownership interests of the Czech Republic or of the local administration. Up to now the Supreme Audit Office had the powers to inspect central level entities. The same entities on regional or municipal level were out of its jurisdiction.

In June 2014, the Senate rejected this amendment. The Constitutional and Legal Committee of the Senate proposed the rejection of the constitutional amendment broadening the powers of the Supreme Audit Office. The Committee on Public Administration, Regional Development and the Environment halted further discussion of the amendment. Opponents of the amendment present arguments favoring regional interests and are motivated by the fear of potential inspections of regional or municipal entities in which they are often active.

The process of passing this amendment highlights the problematic issue of senators often holding more than one post. The BIS believes the arguments put forward by the opponents of the amendment are a result of calculated behavior.

Delaying the adoption of the Act on the Registry of Contracts is also irrelevant and calculated. This Act would impact almost all entities managing public funds as they would be obliged to enter all signed contracts, orders and invoices in the registry. The Act is based on a self-regulatory principle, i.e. a contract enters into force only after one of the contracting parties enters the contract in the registry. This Act would enable the comparison of funds allocated to public contracts by different contracting bodies and by doing so put a pressure on achieving more favorable prices.

Key legislation impacting the management of public funds is the Act on Public Contracts. As in previous years, the legislative process accompanying this Act was accompanied by increased in/direct lobbying of involved corporations.

Advocacy groups put forward proposals for significantly increasing the limits on small scale contracts, on the simplified below-the-threshold procedure, and on additional construction work, services and deliveries. Accepting these proposals would have a negative impact on the efficiency, effectiveness and transparency of awarding public contracts. The proposed restrictions on the supervisory role of the Office for the Protection of Competition (in Czech: *Úřad pro ochranu hospodářské soutěže – ÚOHS*) would have similar consequences. Such changes entail the risk of creating a vague legal environment as far as public procurement is concerned, and of increasing the number of public contracts (public funds) circumventing the law.

The BIS has pointed out that amendments to the Act on Public Contracts are not consistent - one of the reasons being that the Ministry of Regional Development has been preparing materials reflecting mainly the interests of lobby groups. As this Act significantly impacts the allocation of public funds amounting yearly to ca. 500 billion CZK attempts to change the Act will continue also in 2015.

Prosecuting illegitimate profits is indispensable in eradicating organized crime. However, modern organized crime groups employing illegitimate methods, i.e. clientelistic and corrupt groups focusing on the misuse of public funds, adopt sophisticated methods (including expert legal expert aid) in order to comply with the law and obtain public funds without committing a crime.

Therefore, the BIS focused on two prepared changes to tax legislation and their consequences: imposing a duty to report tax-exempt income; and introducing a bill on proving the origin of property (until the end of 2014 only an inter-ministerial comment procedure took place). Both of these changes aim to improve tax collection; nevertheless, they are also a means of prosecuting illegitimately obtained property and as such a comprehensive measure fighting against organized crime and preventing corruption.

These legislative changes will undoubtedly improve tax administration, the speed of proceedings and the implementation in the Czech legal order. To a great extent they substitute the much discussed financial disclosures. However, as far as comprehensive measures aiming at the eradication of organized crime are concerned, the above mentioned changes are not ideal – mainly due to the high limit of 5 million CZK. This limit applies both to the duty to report tax-exempt income and to the bill on proving the origin of property – 5 million CZK being the proposed discrepancy between declared income and obtained property.

Potential consequences of the situation in Ukraine on migration and on Czech organized crime

Early in 2014, the BIS analyzed the causes and potential consequences of migration from Ukraine. This analysis showed that none of the potential migration scenarios pose a security threat to the Czech Republic. Further developments proved this conclusion to be true. Even though the number of Ukrainians migrating to Central Europe increased, there is no need to adopt contingency

measures. The BIS presumes that the ongoing Ukraine crisis will not lead to a significant increase of migrants travelling to the Czech Republic.

Furthermore, the BIS analyzed the impact of the situation in Ukraine on Ukrainian organized crime and its manifestations in the Czech Republic. This led to the conclusion that the Ukraine crisis did not change Ukrainian organized crime in the Czech Republic. Moreover, the situation in Ukraine has an insignificant impact on the security situation in the Czech Republic as far as organized crime is concerned.

Ukrainian groups were never among the most influential criminal groups in the Czech Republic. They often focused mainly on Ukrainians. From the perspective of an intelligence service, these small-time groups do not pose a significant threat to the security of the Czech Republic.

The Czech Republic probably serves as a place of residence for individuals involved in Ukrainian clientelistic structures and as a platform to launder and invest money from Ukraine. The BIS does not expect that Ukrainian entities will establish stronger ties to Czech public budgets and actively participate in Czech clientelistic groups.

2.3. Counterintelligence Activities

In 2014, based on the international and domestic political situation and threat level posed to the interests of the Czech Republic and its citizens the BIS focused mainly on Russian, Chinese and Ukrainian activities in the Czech Republic.

As in previous years, the BIS concentrated on the high number of Russian intelligence officers living or engaging in activities in the Czech Republic. Given the high numbers of Russian intelligence officers travelling to the Czech Republic and to the Czech Republic's responsibility to secure not only its own security but also the security of its allies in the Schengen Area, the BIS aimed to decrease the number of Russian intelligence officers entering the Schengen Area via the Czech Republic.

In 2014, Russian intelligence services focused on Czech power engineering, on issues related to its further development, and on the scientific and technical sector. Russia continued in its attempts to exert influence over the Russian community in the Czech Republic, or more specifically to establish pro-Kremlin organizations and individuals as representatives of the Russian community responsible for the communication with Czech state institutions and bodies.

Intelligence has confirmed that Russia does not consider its ongoing interest in Czech nuclear power engineering as fighting a losing battle. This interest has only become less conspicuous. In 2014, Russian interests in the Czech Republic have broadened (the Temelín and Dukovany nuclear power plants, supplies of nuclear fuel) and include also the State Energy Concept and all entities even indirectly involved in fulfilling the goals of Czech energy policies. Russia started perceiving Czech nuclear power engineering in a broader Central European context aiming to make good use of investments and efforts devoted to creating, managing, stabilizing and future exploitation of networks expanding Russian influence in Central Europe.

Activities of Russian intelligence officers and their associates in the Czech Republic are in direct contradiction to “expert and knowledgeable” comments claiming the Czech Republic does not have anything of interest to Russian espionage. However, Russia is greatly interested in Czech Republic’s participation in international scientific and technical projects linked to obtaining access to funds from Czech and European grants. This access could be provided by Czech middlemen working with Russia. Russia not only aims to gain competitive advantage over the Czech Republic and the EU but also strives to secure funding for its activities from the Czech Republic and the EU.

In relation to the Ukraine crisis Russia and its sympathizers engaged in white, grey and black propaganda. Russian methods of exerting influence and spreading propaganda were based on time-tested Soviet practices, i.e. concealing or covering up own (Russian/Soviet) steps and highlighting or demonizing Western reactions¹. Russia has been creating influence and propaganda structures in the Czech Republic over a long period of time. The role of these structures is to promote and protect Russian economic and political interest to the detriment of the interests of the Czech Republic, the NATO and the EU. Russia could draw on these structures after the situation in Ukraine deteriorated and did not need to start creating influence structures from scratch. Russian propaganda in the Czech Republic makes use of a number of tools: from ideologically manipulated citizens supporting Russian propaganda unknowingly, to professionals intentionally working with the Russians. Unveiling the memorial commemorating Internationalists (March 2014) demonstrated that the Czech public is highly perceptive to direct Russian (or other foreign) involvement in the Czech Republic. Russia is well aware of this fact; therefore, Russian-language propaganda related to the Ukraine crisis spread by Russian (state and non-state) actors did not play a major role in the Czech Republic. However, the Czech public was and is greatly influenced by Czech pro-Russian organizations and individuals using websites to present their interpretations of Russian stances. The arguments are put forward in a way leading Czech citizens to believe they are recipients of opinions held by fellow citizens not of Russian propaganda. On the one hand, a part of the Czech public is willing to protest a memorial commemorating Soviet occupants – internationalists from 1968, but on the other hand it defends the Russian occupation of Crimea and the presence of Russian forces in Eastern Ukraine.

In general, Russian and pro-Russian propaganda in the Czech Republic and other EU member states is aimed not only against the integrity of the EU and NATO. It is assessed that Russia is creating a structure in Europe drawing on the concept of the Comintern (the Communist International; the Third International) founded by the Soviet Union. This structure is ideologically based on Dugin’s expansionist Neo-Eurasianism² (which is in a way acceptable to all European political parties, from left-wing extremists and populists to right-wing extremists).

The Comintern was founded in Moscow in 1919 with the goal of protecting the Soviet Union by exporting the revolution to neighboring states, i.e. weakening potential enemies by internal disputes and creating a buffer zone of befriended (or more precisely subordinated) states around the

¹ An example from history: Step: the basing of Soviet SS-20 missiles - Reaction: the basing of American Pershing II missiles.

² Expansionists believe that Russian interests are to be promoted by expanding beyond Russia’s western and eastern borders. They advocate a radical foreign policy aiming to secure the safety and dominance of the Russian Federation. Russia is perceived as a culturally anti-Western state aiming for constant expansion. Russia’s geopolitical and strategic goals are not only regaining control over the near abroad and re-establishing alliances with Eastern and some Western European states (France, Germany), but also creating a new global geopolitical system based on alliances with those willing to stand up to U.S. hegemony.

Soviet Union. The Comintern became a tool used for promoting Soviet influence and interests beyond the borders of the Soviet Union by controlling communist parties abroad (in 1928 the Comintern had 580 000 foreign members), spreading propaganda³, covertly financing communist parties abroad⁴, and by serving as an important and successful espionage platform. The Comintern employed skillful Soviet intelligence officers (e.g. acting under cover as academics or journalists) who recruited young people (especially students with the potential of pursuing a career as civil servants or politicians) helping Soviet espionage activities. The recruiters exploited the ideological naivety, zeal or activism of the young people they targeted. The recruits were not requested to spy against their country, but asked to help in the fight against Fascism (Nazism, Imperialism, etc.) – a relevant issue even today with Fascism, Nazism and Imperialism joined by anti-American, anti-NATO and anti-EU sentiments. The current international, political and societal climate is very close to that of the 1930's – the golden era of the Comintern⁵.

It is assessed that the functioning and administration of the new reincarnation of the Comintern (NRI) is not as strict (almost military-like) as in the case of the original Comintern. However, this does not mean the NRI has lesser propaganda and espionage capabilities than the Comintern. The NRI being a more liberal and activist platform is attractive for today's Western activists (with pro-Russian stances or fighting against the system – USA, NATO, EU, globalization, multiculturalism, liberalism, capitalism, etc.). Even though the NRI does not have the capability of creating a traditional espionage network (agent – handler – the center) as was the case of the Comintern, it has great potential for recruiting active informants.

In 2014, the BIS did not detect any activities of Ukrainian intelligence services aimed against the Czech Republic and its interests or with a harmful effect on the international status and good name of the Czech Republic. Furthermore, there are no indications of Ukrainian intelligence services engaging in activities aiming to destabilize political, societal and ethnic relations in the Czech Republic.

In 2014, Chinese intelligence services focused on gaining influence in Czech political and state structures and on political intelligence. These activities were actively aided by several Czech citizens, including politicians and civil servants.

³ Radio-telegram, illegal Communist Party in the Protectorate (September 8, 1939): *“The current war is imperialistic and unjust. The fault lies with the bourgeoisie of all the countries at war. The working class and communist parties must never support this war /.../ of two groups of capitalist countries fighting for world rule. The Communist Party must emphasize the imperialist character of this war and speak against the traitorous politics of the Social Democrats.”*

President Gottwald's radio-telegram sent to the I. illegal leadership of the Communist Party of Czechoslovakia (September 14, 1939): *“We call on the communists and the working class to engage in the national liberation fight, and to oppose the resistance movement supporting Benes' exile group which is in the service of imperialism and enemies of the Soviets.”*

⁴ E.g. Osip Piatnitsky organized the covert financing of the Communist Party USA via straw companies.

⁵ Financial crisis; middle classes weaken; societies become polarized and radicalized; growing influence of populist, nationalist political parties and movements; economic ties among states loosen; global organizations are paralyzed; global and regional powers lose the will and strength to take action; international treaties establishing a status quo after the end of a conflict (WWI, Cold War) are challenged and violated.

2.4. Protection of the Constitutionality and of the Democratic Foundations of the Czech Republic

Heightened ethnic tensions and anti-Roma protests

In 2014, heightened ethnic tensions in some Czech regions posed a lower threat to democracy in the Czech Republic than in 2013.

During 2014, there were no major manifestations of anti-Roma sentiments. Even though anti-Roma protests still took place, they were less frequent and attended by less people. Moreover, local support of these protests also decreased. The majority of these events were not organized by local residents but by right-wing extremists or various controversial activists aiming to increase their popularity. In most cases the protests were a reaction to the conflict between representatives of the Roma community and the Czech majority.

Nevertheless, the Czech public is highly perceptive to all incidents involving tension between the Czech majority and the Roma minority. Czech citizens react to these incidents and are willing to express their dissatisfaction. Therefore, the issues leading to major anti-Roma protests in 2013, could, if re-kindled, easily change the currently relatively calm situation.

The far-right political representation employed anti-Roma rhetoric in its European parliament and local election campaign. However, right-wing extremist political parties won only a few seats in local elections indicating that such parties are not attractive for higher numbers of voters even in areas with heightened social tensions. Election results showed that anti-Roma rhetoric has certain election campaign potential; however is much lower than extremist would like it to be. Most citizens did not believe the promises of far-right parties claiming they would solve all pressing issues.

Various activists often demonstrated against anti-Roma protests. Generally, their contribution to fighting racial inequality is undoubtedly beneficial; however, some of their activities or biased and one-sided proclamations were controversial worsening the situation and increasing tension in areas with heightened ethnic tensions.

Biased information regarding the Roma community appeared also on the internet and social networks. The community was presented as privileged with benefits provided at the expense of the white majority. Such comments could negatively impact the Czech public by providing a distorted view of the Roma community in the Czech Republic.

Right-wing Extremism

In 2014, the right-wing extremist scene did not pose a serious threat to democracy in the Czech Republic. The scene remained fragmented without a common unifying cause. Right-wing extremists held less public events attracting fewer participants and support from the public.

In 2014, anti-Roma rhetoric employed by right-wing extremists did not attract as much media attention and public support as in previous years. Therefore, the far-right attempted to promote new causes attractive for potential supporters.

One such cause was the criticism of Islam. Right-wing extremists were aware of Islamophobic sentiments expressed by some Czech citizens and attempted to capitalize on that in order to lure new supporters. They focused on the growth of militant Islamism in the Middle East and on issues linked to the Czech Republic and covered by the media (e.g. inappropriate behavior of Muslims in Czech spa resorts; wearing Muslim veils at schools). However, right-wing extremist events focusing on this issue have not yet gained popular support from the Czech public.

Right-wing extremists showed some interest in the Ukraine crisis, especially in the beginning. On the whole, their activities related to the situation in Ukraine were insignificant and did not fundamentally change the Czech right-wing extremist scene. Supporting different parties of the Ukrainian conflict was subject to conflicting opinions. The majority of right-wing extremists supported Ukraine; nevertheless a number of extremists expressed support for pro-Russian separatists.

Right-wing extremists demonstrated their support for Ukrainian nationalists in different ways: they expressed their support online, held several smaller events backing the Right Sector, organized several fundraising events, and a few individuals travelled to Ukraine (returning back to the Czech Republic after several days). Ties established between Czech and Ukrainian right-wing extremists were based on personal contacts between individuals and did not pose a major threat to the security of the Czech Republic.

Far-right political parties focused on the European parliament elections which took place in May and on local elections taking place in October 2014. However, they did not succeed and remained on the periphery of the political spectrum.

Some right-wing extremist entities attempted to present themselves as non-extremist groups. They disassociated themselves from National Socialism and focused on emphasizing nationalism, a critical approach to Islam and the European Union. The break from National Socialism met with negative reactions of a number of Czech right-wing extremists.

Right-wing events accompanied by music were held. These concerts were usually not openly right-wing extremist. Attending concerts abroad, especially in Slovakia, gained in popularity with higher numbers of Czech participants. Czech bands performed several concerts abroad.

In 2014, several meetings taking place every year were held. Right-wing extremists also attended various sporting events. These “bonding” events took place without any major disturbances and were mainly aimed at strengthening friendly ties among right-wing extremists.

The Internet continued to play a significant role in promoting right-wing extremism and in enabling communication between individual groups.

In 2014, cooperation between Czech and foreign right-wing extremists was quite frequent. Czech extremists worked mainly with their German, Slovak and Polish counterparts and to a certain extent with extremists from Italy, France and Austria. Cooperation took place both on the level of official entities and on the level of informal groups. It was mostly based on personal contacts between individuals.

Left-wing Extremism

In 2014, the far-left scene did not pose an immediate threat to the democratic foundations of the Czech Republic.

Marxist-Leninist groups continued to stagnate. Anarchist-autonomous groups partly mobilized and some became more radical. Regardless of this partial mobilization, there was no prominent figure uniting the far-left scene. Long-term problems linked to left-wing extremist groups for several years remained an issue also in 2014.

Attacks on targets perceived as a representation of the system and state oppression posed the greatest security threat. The Revolutionary Cells Network (in Czech: *Síť revolučních buněk – SRB*) claimed responsibility for five confirmed attacks and one unconfirmed attack.

The group focused on causing material damage and did not attack people. Three attacks targeted police vehicles and two attacks targeted CCTV systems. The unconfirmed attack was against an unfinished residential building in Prague. These attacks aimed to provoke other left-wing extremists into fighting against the democratic system.

The Revolutionary Cells Network claimed responsibility for the attacks in communiqués posted on several left-wing extremist websites. The communiqués called for a revolution dislodging capitalism, expressed support for individuals from the far-left scene in the Czech Republic and abroad, and spoke out against state surveillance and CCTV systems. The Network also criticized anarchist-autonomous groups.

In 2014, environmental extremist groups organized several attacks against mink farms.

Left-wing extremists continued expressing interest in squatting. There was a new flurry of activity in current squatter settlements and several ostentatious attempts to occupy abandoned buildings took place. 2014 saw various happenings “paying tribute” to famous squatter settlements (current and no longer existing). At the end of 2014, radical members of anarchist-autonomous groups conducted an arson attack on a police vehicle after the police cleared the building of a former health center in Jeseniova street. Activists attempting to create the community center “Klinika” (Clinic) in the building disassociated themselves from the attack.

In 2014, right-wing extremists organized a lower number of protests leading to a smaller number of events held by left-wing extremists. Nevertheless, fighting their ideological adversaries – the far right – continued to be a major topic addressed by the far-left scene. During protests or blockades extremists attempted to mobilize the public and gain its support.

In 2014, moderate anarchist-autonomous groups held a number of events aimed at promoting their activities. Usually these events did not take the form of mass demonstrations. Various cultural and educational happenings, concerts, debates, lectures, film screenings, fundraising, commemorative or charity events took place. These activities were of importance especially for the far-left and were virtually ignored by the media and the public.

Marxist-Leninist groups were active mostly only on the internet by publishing various critical articles online. They held only a few events and did not manage to attract a larger number of new supporters. These groups showed interest in the Ukraine conflict and supported pro-Russian separatists or Russia by publishing articles or taking part in protests.

2.5. Terrorism

2014 saw a number of changes in relation to the threat posed by terrorism. The majority of threats were linked to the Islamic State (IS) and its influence on the security situation in the Czech Republic. In this context the BIS engaged not only in its own intelligence activities, but also increased international cooperation aimed at sharing information. The BIS focused on assessing direct terrorist threats and on factors of radicalization affecting Muslim communities in the Czech Republic and abroad. The BIS continuously assessed the potential consequences of major events in relation to the process of radicalization – a much-discussed topic nowadays not only in relation to the situation in the Middle East. There are individuals in the Czech Republic verbally supporting (to a different extent) various terrorist groups. However, there have been no indications of a direct threat of a terrorist attack in relation to their activity.

The Islamic State – a jihadist group building a state based on fear and brutal violence – launched a military offensive in the Middle East destabilizing the situation in the region and increasing terrorist threats posed to the West. The Islamic State has achieved several victories and has been attempting to create a state based on a literal interpretation of Islamic law. Moreover, the group has been focusing on successfully spreading online jihadist propaganda making use of social networks. Thanks to its success and propaganda the Islamic State has been able to exploit the failing integration of young Muslims living in the West. This led to unprecedentedly high numbers of volunteers joining the holy war in Syria and Iraq and fighting in the ranks of the Islamic State or the al-Nusra Front, the Syrian branch of al-Qaeda. Returnees from the Syrian and Iraq conflicts pose the greatest threat to EU member states (including the Czech Republic). These radicals have an experience of fighting, ties to international jihadist networks and often have motivation to conduct terrorist attacks in their home countries. In 2014, the BIS investigated the cases of several foreigners active to a different extent in the Czech Republic and reasonably suspected of joining the fight in Syria. Furthermore, the BIS focused also on individuals expressing support to the Islamic State or other ideologically similar terrorist organizations. Controversial converts and several younger Muslims were the most problematic group in this context. However, on the whole the Czech Muslim community denounced the activities of the Islamic State.

Standard migration procedures adopted by EU member states are not sufficient for dealing with apprehended jihadists and as such are a source of a security threat. These individuals are well aware of loopholes they can exploit. Often they abuse the system protecting basic rights and

freedoms in the asylum procedure. Foreign jihadists who cannot be deported remain in the Schengen Area in a certain legal vacuum without a clearly defined status and oversight. Therefore, they become a considerable threat by enabling the spread and support of Islamism and terrorism in Europe. In 2014, the BIS cooperated on the case of a Middle East jihadist who used counterfeit travel documents in order to join the Syrian conflict. Conclusions reached by BIS investigations and based on information obtained from partners in the Czech Republic and abroad lead to the assessment that the free movement of such individuals in the Schengen Area poses a grave security threat.

In 2014, Czech critics of Islam made use of media reports about the Islamic state and the Islamic issue in the West in order to prevent representatives of Czech Muslims from laying stronger institutional foundations of Islam in Czech society. Czech Muslim representatives became a more frequent target of criticism expressed by Islamosceptics and Islamophobes on social networks. Over the course of 2014 the emphasis on collective guilt and the number of vulgar attacks carried out by radical Islamophobes significantly grew. Therefore, Muslim representatives took a back seat and limited their communication with the media. Vulgar verbal attacks were often aimed at non-Muslims criticizing the Islamophobes. Islamophobes and some controversial politicians attempted to exploit Islam in order to attract the attention of the media and to pursue their political goals. This is a significant factor of radicalization as Islamophobia is against and prevents the full integration of Muslims by aggressively promoting its own arguments. Interestingly enough, Islamists agree with Islamohobes in rejecting the possibility and meaningfulness of integrating Muslims into Western society.

Media reports on wearing Muslim veils at state schools or at spa resorts by patients from Gulf States provoked a wide-ranging discussion on the matter. According to BIS findings, these cases were not linked to Islamist radicalization. The police raid in Prague mosques which aimed to prevent the further spreading of the book “The Fundamentals of Tawheed (Islamic Monotheism)” written by the controversial author Bilal Philips contributed to the problematic dialogue between the Czech majority and the Muslim minority.

Given the ongoing tensions in relations between the West and Iran caused by Iranian support of the Syrian regime and of several organizations labeled as terrorist, the BIS focused on obtaining information on Iranian intelligence services. Iranian security services are undoubtedly a key stakeholder in local Middle East conflicts. The BIS has not obtained any information on the activities of Iranian intelligence services in the Czech Republic indicating an immediate threat of a terrorist attack in the Czech Republic. Furthermore, in 2014, the BIS detected no indications of activities in the Czech Republic aiming to support the terrorist activities of Hezbollah, Iran’s Lebanese ally, whose armed wing has been labeled by the EU as an organization supporting terrorism. Even though there are Hezbollah sympathizers in the Czech Republic, they did not openly support its terrorist activities.

2.6. Proliferation of Weapons of Mass Destruction and their Carriers, Conventional Weapons and Explosives

The Czech Republic has committed itself to several International Control Regimes⁶ fighting the proliferation of weapons of mass destruction and their carriers (WMD) and striving to minimize risks related to the international trade with conventional weapons, military equipment, explosives and dual-use goods. Internationally controlled goods are subject to Czech legislation⁷; nuclear, chemical and biological (bacteriological and toxin) WMDs are completely excluded from trade.

The BIS⁸ focuses on attempts to circumvent International Control Regimes in international trade with controlled items and related services. Furthermore, foreign companies with Czech interests producing devices subject to Czech control mechanisms are also monitored by the BIS.

In 2014, Iran and the DPRK posed the gravest proliferation threats. In order to develop and produce their own WMDs these states need specific engineering devices, materials, technologies and know-how. Often, they attempted to obtain the needed goods abroad by resorting to various means, e.g. to posting their demands for exploitable goods on commercial websites with unclear hosting, or to planning complicated trade routes via third countries. Furthermore, they also made use of front companies or entities unaware of the real purpose of the trade and of the extent to which other companies were involved. Complicated trade routes are accompanied by payments which aim to prevent the identification of the trade routes and of the companies involved.

The international community sanctions such attempts to obtain controlled goods abroad. The sanctions ban the direct supply of controlled items and the receipt of payments for such trades. Sanctions on the DPRK and Syria remained in effect. Sanctions imposed on Iran were partially lifted; however sanctions on controlled items and individual Iranian entities remained in effect. EU sanctions banning exports of equipment for military use in Russia entered into force in August 2014.

The Czech Republic - a traditional engineering country known for affordable high-quality products, materials and technologies - is not immune to demands for proliferation-sensitive goods. Strict legislative measures and export control are obstacles hindering direct purchases of such goods in the Czech Republic. Despite that, some businessmen attempt to obtain export licenses by hiding the real trade purpose, e.g. by arguing the exported goods will be used for civilian purposes.

The possibility of controlled items being abused in international trade cannot be completely excluded. Therefore, it is extremely important to pay attention even to partial findings about changes in companies, their business partners, or in the ways of preparing and conducting trades.

⁶ The Australia Group (AG), the Missile Technology Control Regime (MTCR) reinforced by The Hague Code of Conduct (HCOC), the Nuclear Suppliers Group (NSG), the Zangger Committee (ZC), the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies (WA), and the United Nations Security Council Resolution No. 1540 (2004).

⁷ E.g. Act No. 38/1994 Coll., on Foreign Trade with Military Material, Act No. 594/2004 Coll., implementing the regime of the European Communities for the control of export of dual-use goods and technologies, or Act No. 61/1988 Coll., on mining activities, explosives and the State mining administration, as amended.

⁸ Section 5, Paragraph 4 of Act No. 153/1994 Coll., on Intelligence Services of the Czech Republic, as amended.

Countries with unstable or repressive regimes and countries in armed conflicts also expressed interest in obtaining military equipment, weapons, explosives and special components usable for military drone development and production. Trading with such countries is prohibited or significantly limited by arms embargoes imposed by UN Security Council resolutions, European Council and Organization for Security and Cooperation in Europe (OSCE) directives. The violation of these sanctions would harm the good name of the Czech Republic in the international control regimes.

2.7. Cybersecurity

In 2014, as in the previous year, the BIS monitored the activities of a hacker group responsible for several attacks on information systems providing IT services or software solutions for important economic entities, state bodies and institutions. The attacks aimed to obtain detailed information on the clients of the affected entities and use them to identify weak points in IT systems delivered to these clients. The hackers were mainly interested in the source codes of delivered online applications and in login details for service accounts.

Up to now the group has focused on detecting flaws in applications used by private sector entities. The hackers used the following simple modus operandi: they obtained information on the vulnerability of systems used by private companies and subsequently demanded a financial reward for providing the obtained vulnerability information to the private companies. Their goal was to secure funds from private companies. Moreover, the hackers modified the attacked systems and used the data obtained by attacking the systems to conduct further attacks.

The list of affected IT companies also includes state administration bodies, state companies and Czech embassies. The question arises as to the way the hackers intended to make use of the vulnerabilities detected in state entity systems. There have been no indications suggesting the hacker group has been making concerted efforts to reveal the vulnerabilities of IT systems used in public administration.

In 2014, the BIS warned the Czech National Bank of being on a list of national banks and major Western bank institutions potentially targeted by a series of DDoS attacks. The attacks were to be carried out by several hacker groups from all over the world. According to a released message calling for attacks the main assault wave was to start on November 5, 2014.

Although the Czech National Bank was one of the listed targets the list indicated that it would not be a priority target and that an attack was not very likely. Nevertheless, the BIS informed the Czech National Bank well in advance to allow the Bank to adopt any potential measures.

In mid-2014, the BIS looked into a newly detected cyber-espionage campaign. The campaign consisted of concerted cyber attacks conducted by a global network of command and control servers exploiting a not yet fully identified system vulnerability.

The method of disseminating the malware is currently unknown. It is possible that malicious or spoof websites are used for spreading the malware. To a certain extent the malware is vulnerable by

communicating with the command and control servers. Obtaining the server's IP addresses can lead to devising a code enabling the detection of the infected devices.

According to information obtained by the BIS, this cyber-espionage campaign has victims all over the world – in Europe, the U.S., the Middle East, Africa and Asia - including government institutions and entities from various industries: aerospace, power engineering, nuclear research, finance, military and media.

Given the fact that the cyber-espionage campaign has been carried out over a long period of time and based on its targets, high level of sophistication and technological prowess, this all points to the conclusion that the campaign is likely state sponsored.

As in previous years, the BIS focused on identifying devices and technologies potentially posing a security threat. In 2014, the BIS focused, among other things, on IP cameras (net cams, webcams). The BIS obtained information confirmed by its own findings that an undocumented administrator account (a backdoor) is included in the firmware of an inspected IP camera. When connected, the camera tries to communicate with a pre-set domain, which is probably part of a larger cloud. Hackers can find devices with the above mentioned backdoor by entering a query string into a web browser.

Several conditions must be met in order to exploit the above mentioned vulnerability. Therefore, the risk of hackers gaining remote access to a large number of security cameras is not very high. Nevertheless, the fact that data from available webcams can be accessed and exploited should not be underestimated. Webcams are one of many vulnerable hardware devices which could be exploited for various reasons, e.g. to gain access to IT networks belonging to the Czech Republic, state bodies and major economic entities.

As in the previous year, the BIS focused on cybercriminals exploiting Visapoint - an information system of the Czech Ministry of Foreign Affairs enabling foreigners to electronically schedule an appointment at Czech embassies. In previous years, problems emerged as cybercriminals attempted to exploit the new system for their own benefit. By creating automatized tools quickly occupying all the appointment dates in the Visapoint system, they prevented legitimate applicants from scheduling an appointment. The applicants were forced to pay considerable sums of money to these cybercriminals for arranging a Visapoint appointment (i.e. freeing an appointment date and enabling applicant registration). Several new features were added to the Visapoint system and temporarily improved the situation - applicants were able to schedule an appointment without any intermediaries. However, some middlemen responded and adapted swiftly to these measures and continue exploiting the Visapoint system for their own benefit.

3. Protection of Classified Information

3.1. Administrative Security

In 2014, expert opinions related to the protection of classified information were drawn up within the BIS.

3.2. Security of Information and Communications Systems

All BIS information systems processing classified information have a valid National Security Authority certificate.

In 2014, the following certificates expired: the certificate of the information system processing information classified as confidential, and the certificate of the information system processing information classified as secret. Both these systems were successfully re-certified, checked by the National Security Authority, and the certificates were prolonged. The re-certification also included an update to security documentation.

3.3. Physical Security

In the area of physical security, the BIS implemented measures aimed at improving special rule systems providing for the operation of BIS buildings, their technical protection and their physical guarding in order to meet the requirements on the protection of classified information provided for in Act No. 412/2005 Coll. and in Regulation No. 454/2011 Coll.

Documentation on BIS offices and buildings was regularly updated. Due to the relocation of some workplaces, relevant documentation was updated to reflect the current situation.

3.4. Crisis Management

Focusing on the protection of classified information in emergencies, Plans for Building and Area Security, which are part of Security Projects, were updated.

4. Cooperation with Intelligence Services of the Czech Republic and with other State Authorities

4.1. Cooperation with Intelligence Services of the Czech Republic

The BIS regularly provides intelligence and findings to Military Intelligence and the Office for Foreign Relations and Information. Cooperation with these services takes place at different levels encompassing operational, analytical and service activities.

The BIS closely cooperated on fighting WMD proliferation and the illegal trade with military equipment with the Office for Foreign Relations and Information and with Military Intelligence.

In 2014, the BIS cooperated on fighting terrorism with other intelligence services of the Czech Republic – either individually or working together in the Joint Intelligence Group of the Cabinet Office of the Czech Republic.

Furthermore, the BIS regularly cooperated with Czech intelligence services on investigations requested by foreign partner intelligence services.

4.2. Cooperation with the Police of the Czech Republic

Section 8, Paragraph 3 of Act No. 153/1994 Coll. stipulates that the BIS must provide information to the Police of the Czech Republic. In many cases cooperation between various departments of the BIS and the police draws on the nature of submitted information.

Bilateral cooperation related to individual cases took place with the following police units: Unit Combating Organized Crime (in Czech: *Útvar pro odhalování organizovaného zločinu*), Special Operations Unit (in Czech: *Útvar zvláštních činností*), the Protection Service (in Czech: *Ochranná služba*), Rapid Response Unit (in Czech: *Útvar rychlého nasazení*), Unit Combating Corruption and Financial Crimes (in Czech: *Útvar odhalování korupce a finanční kriminality*), foreign police units, traffic police units and local police units.

The BIS and representatives of the Criminal Police and Investigation Service (in Czech: *Služba kriminální policie a vyšetřování*) focusing on investigating economic crime attended meetings regarding organized crime activities in the Czech Republic. The meetings focused on advocacy groups, corruption, fund transfers among organized crime groups, and on organized crime infiltrating public administration.

The BIS and the Unit Combating Corruption and Financial Crimes discussed dysfunctional public and local administration, organized crime infiltrating public administration, and individual persons and advocacy groups of interest.

In 2014, BIS representatives attended several meetings with the Czech Police and provided police officials with information indicating potential criminal conduct of certain individuals. The

information was related especially to conduct with a negative impact on the administration of state property.

In 2014, the BIS continued to cooperate with the Police of the Czech Republic on issues regarding the illegal trade and manipulation with military equipment, security equipment, guns, ammunition, explosives, hazardous materials, and on fighting WMD proliferation.

Furthermore, the BIS played an active role in regular meetings of the National Contact Point for Terrorism (in Czech: *Národní kontaktní bod pro terorismus - NKBT*) falling under the remit of the Unit Combating Organized Crime. The BIS focused mainly on a promoting a faster exchange of relevant information related to terrorism. Moreover, the BIS actively attended both regular and ad hoc seminars held by the NKBT.

4.3. Cooperation with other State Authorities and Institutions

In 2014, the BIS worked closely with the National Security Authority on protecting classified information. Cooperation involved mainly the following investigations based on NBÚ requests: investigations pertaining to personal and industrial security and security clearances; security clearance investigations for the issuance of security clearance certificates for natural and legal persons; or investigations for the revocation of security clearance and security eligibility certificates.

Based on NBÚ requests, the BIS carried out security clearance investigations examining whether a natural or legal person holding a security clearance or security eligibility certificate still meets the requirements for their issuance. Throughout the year meetings regarding the cooperation on specific cases were held.

Furthermore, the BIS worked with the National Security Authority on enhancing cybersecurity. The need to coordinate certain process and the planned exchange of information on security incidents with the National Cyber Security Center (in Czech: *Národní centrum kybernetické bezpečnosti*), a part of the National Security Authority, was discussed. This cooperation was put to a test by several cybersecurity exercises - one held by the Czech Republic and one by NATO. The exercises focused on cooperation among state entities responsible for ensuring cybersecurity and on investigating detected security incidents.

Regular consultations with the Czech National Bank management concerning bank sector cases were held. Furthermore, cooperation with the Financial Analytical Unit of the Ministry of Finance (in Czech: *Finančně analytický útvar - FAÚ*), the Directorate General of Customs (in Czech: *Generální ředitelství cel – GŘC*) and the General Financial Directorate (in Czech: *Generální finanční ředitelství - GFŘ*) continued. Consultations regarding state property management and competition were held with the Office for the Protection of Competition.

In 2014, the BIS cooperated with Czech customs authorities (with the Directorate General of Customs and local customs directorates) on fighting WMD proliferation. The BIS provided these authorities with information on the threat of military equipment being re-exported to a sanctioned country.

Cooperation in the fight against WMD proliferation took place also with the Ministry of Foreign Affairs, the Ministry of Industry and Trade Licensing administration, and with the State Office for Nuclear Safety (in Czech: *Státní úřad pro jadernou bezpečnost*) and its subordinate organizations.

5. Cooperation with Intelligence Services of Foreign Powers

Cooperation with intelligence services of foreign powers is provided for in Section 10 of Act No. 153/1994 Coll. The BIS is authorized by the Government to cooperate bilaterally with 104 services of 65 countries. In 2014, the BIS was actively in contact with 66 foreign partner services. As far as multilateral cooperation is concerned, the BIS was active in the Counter- Terrorist Group (CTG) and in the NATO Civil Intelligence Command (CIC).

The BIS received more than 7 500 reports from its foreign partners and sent almost 1 400 documents. BIS representatives took part in more than 500 international strategic and expert meetings.

The most active exchange of information traditionally took place between the BIS and the services of EU and NATO member states focusing on the fight against terrorism, counter-intelligence, and proliferation.

6. Oversight

Act No. 153/1994 Coll., on the Intelligence Services of the Czech Republic, provides the legal basis for the oversight of intelligence services. Section 12 of this Act stipulates that the activities of intelligence services are subject to oversight by the Government and Parliament. Furthermore, this Act (Sections 14 - 16) defines the relation between the Chamber of Deputies (lower house) of the Czech Parliament and the Government as far as intelligence services are concerned. Moreover, section 12 refers to a separate Act providing for direct parliamentary oversight of intelligence services. Section 13a provides for specific oversight conditions.

The Act defines neither the scope nor the manner of the government oversight. It is based on the Government's entitlement to assign tasks to the BIS within the Service's legal powers and responsibilities and to assess their fulfilment; and on the fact that the BIS is accountable to the Government, which also coordinates its activities and appoints and dismisses the Director of the BIS. Section 8, Paragraph 1 of Act No. 153/1994 Coll. states that the BIS must submit reports on its activities to the President and to the Government once a year and whenever it is requested to do so. Government oversight focuses on all BIS activities.

Sections 14 to 16 of Act No. 153/1994 Coll. provide for information provided by the Government to the Chamber of Deputies. Section 14 stipulates that the Chamber of Deputies is informed about the activities of Czech intelligence services by the Government, through the intermediation of its respective body for intelligence services. This body is not created by legislation; its establishment is dependent on a Chamber of Deputies Resolution. Direct parliamentary oversight of intelligence services as stipulated by Section 12 of Act No. 153/1994 Coll. is defined by separate legislation; therefore the above mentioned respective body for intelligence services acts to a certain extent as a means of parliamentary oversight of the Government.

The separate legislation mentioned in Section 12 of Act No. 153/1994 Coll. is the Act No. 154/1944 Coll., on the Security Information Service, as amended. Under Section 18 of the said Act, the responsibility for overseeing the activities of the BIS lies with the Chamber of Deputies, which sets up a special oversight body (the Standing Oversight Commission). Sections 19 and 20 of the said Act provide specifically for the powers of the Oversight Commission. Authorized members of the oversight body may, e.g.: enter BIS buildings when accompanied by the BIS Director or by a BIS official designed by the Director for this purpose; or request due explanation from the BIS Director should they feel that the activities of the BIS illegally curb or harm the rights and freedoms of citizens. The Director of the BIS is obliged to provide legally defined information and documents to the Oversight Commission.

Oversight regarding BIS management of state-assets and of the funds allocated to the BIS from the state budget is stipulated in Act No. 320/2001 Coll., on Financial Audit in Public Administration and on the Amendment to some Acts (the Financial Audit Act), as amended, and in Regulation No. 416/2004 Coll., implementing this Act. Internal audit activities are provided for in an internal regulation issued by the Director of the BIS.

6.1. External Oversight

External oversight of the BIS is carried out by authorities and institutions with the legal right to oversee individual activities of the BIS. In 2014, 5 external audits were conducted - an audit of sickness insurance, pension insurance, social security payments and contributions to the state employment policy, of lead concentrations at the in-house shooting range, and of food processing, accommodation and water management facilities. No deficiencies were found.

In 2014, the National Security Authority conducted an audit of the BIS classified information registry in compliance with Section 79, Paragraph 7 of Act No. 412/2005 Coll., on the Protection of Classified Information and on Security Clearance. The audit did not expose any shortcomings.

6.2. Internal Audit

In 2014, the internal audit group carried out 4 inspections focusing on: compliance with Act No. 137/2006 Coll., on Public Contracts, as amended and with internal regulations providing for public procurement; and on the implementation of recommendations arising from previous inspections and approved by the BIS Director.

Within their scope of powers other expert monitoring units of the BIS conducted 54 inspections. These inspections focused on compliance with internal regulations in respect to economical and effective management of individual BIS departments. The inspections focused on the following areas:

- fulfilment of the budget; adherence to binding limits and the keeping of records; adherence to budget discipline, including adherence to principles of allocating money from the cultural and social needs fund;
- provision of material needs in organizational units and keeping material records;
- monitoring the technical condition of vehicles, required vehicle inspections, adherence to fuel consumption norms;
- monitoring the structural condition of buildings and their usage in accordance with their intended purpose; conducting prescribed inspections; adherence to principles of occupational safety and hygiene, fire protection, water management, and of ecology; monitoring energy consumption.

Act No. 187/2006 Coll., on Sickness Insurance stipulates that the BIS is responsible for providing its members with sick pay. In compliance with Section 76 of the said Act, in 2014, the BIS carried out 7 inspections of persons (officials on a contract of service; former officials in the protection period) temporarily unable to work. The inspections did not reveal any shortcomings.

Employees of the archive and of the control group carried out 51 archive inspections related to records management. The inspections focused mainly on establishing that no classified documents or their parts were missing, on meeting administrative requirements, and on the precision of keeping record entries.

Intelligence documentation stored by individual BIS divisions and documentation stored in the registry was regularly inspected.

As far as physical security and the consolidation of security documents are concerned, the following inspections were carried out: adherence to requirements for the storage of classified documents; inspections of installed security elements, including of objects and individual elements of security lock systems.

Emergency Plans for BIS buildings were updated in order to protect BIS officials in emergencies.

7. Maintenance of Discipline; Handling Requests and Complaints

7.1. Investigation of Conduct Suspected of Having the Traits of a Misdemeanor, of a Disciplinary Infraction, and of other Infractions

In this area the BIS Inspection Department focuses on traffic accidents involving Service officials which are investigated by relevant authorities of the Police of the Czech Republic. The Inspection Department is responsible for findings that cannot be provided by the police but are important for a decision in the matter.

In 2014, the Inspection Department completed 131 investigations of cases in which BIS officers were suspected of having committed disciplinary breaches or of conduct having the traits of a misdemeanour. This number includes also the investigations of extraordinary incidents.

Of the total of 131 cases, 87 pertained to transportation, e.g. traffic accidents involving service or private vehicles, damage to service vehicles, and suspicions of other violations of the Act on Road Traffic.

7.2. Investigations of Complaints and Notifications

In 2014, the BIS Inspection Department investigated complaints, notifications and suggestions from BIS officials as well as from other entities. No submission out of the 127 in total was declared a complaint. Compared to 2013, the number of notifications and motions decreased by 16.4 %. In terms of content, reports made by citizens usually reflect the BIS Annual Report.

7.3. Activities of the BIS Police Authority

In cases where a BIS official is suspected of having committed a crime, BIS Inspection Department officials play the role of a police authority in the sense of Section 12, Paragraph 2 of the Code of Criminal Procedure.

In 2014, a number of criminal proceedings which commenced in 2011 and investigated suspicions of committing property crime were closed. Furthermore, the BIS police authority was active in cases linked to suspicions of neglecting the duty to take care of another's property (Section 221, Paragraph 1 of the Czech Criminal Code), of abusing the legal powers of an official (Section 329, Paragraph 1, letter a) of the Czech Criminal Code), and of endangering classified information (Section 317, Paragraph 1 of the Czech Criminal Code).

7.4. Cooperation with other Public Administration Authorities

The BIS Inspection Department cooperates with other public administration authorities primarily in connection with letters rogatory, which are most often sent by authorities of the Police of the Czech Republic engaged in criminal or misdemeanour proceedings. The number of requests made by public administration authorities is steady with minimal changes.

8. Budget

The budget of the BIS in 2014 was stipulated by Act No. 475/2013 Coll. from December 19, 2013, on the State Budget of the Czech Republic for 2014. Income was set at CZK 136,300,000 and expenditure at CZK 1,152,678,000.

Total income amounted to CZK 148,123,000. Social security payments and contributions to the state employment policy accounted for the majority of total income. Similarly to other chapters of the state budget, the remainder of income consisted mainly of regular revenues from BIS activities. In 2014, the sale of unneeded property contributed to this income.

The BIS expenditure budget amounting to CZK 1,152,678,000 was influenced by 3 budgetary measures adopted by the Minister of Finance.

In October 2014, CZK 3,974,000 was transferred to the BIS from the budgetary chapter of General Fiscal Administration as a result of one budgetary measure. Two budgetary measures stipulated the transfer of CZK 4,498,000 from the BIS budget to the chapter of the Ministry of the Interior. These funds were designed to cover the activities of the Ministry of the Interior and of police units provided to the BIS under long-term cooperation agreements.

At the end of the period in question the final expenditure budget, i.e. funds available in 2014, amounted to CZK 1,206,843,000. Actual expenditure amounted to CZK 1,174,066,000.

In 2014, capital investment expenditure was invested in two programs focusing on capital replacements and improvements of tangible and intangible assets. Actual expenditure allocated to both of these programs, including entitlements from unused expenditure, amounted to CZK 121,470,000.

Salaries and equipment payments accounted for the majority of total expenditure as high-quality personnel play a key role in the functioning of an intelligence service. Personnel expenditures also include pensions and severance benefits for Service members whose service has ended.

Further current expenditures included mainly standard expenditures for services, fuels and electrical power expenses ensuring the normal functioning of the organization. Expenditures for repairs and maintenance were aimed at assuring the operability and appropriate technical condition of the property and buildings of the BIS. Furthermore, funds were allocated for intelligence technology and field intelligence activities.

Furthermore, more than two fifths of capital investment expenditures were invested in communications and information systems infrastructure in order to enhance radio communications and improve features of certified computer networks.

The BIS is a specific chapter of the state budget as it must comply with requirements on the protection of classified information provided for in Act No. 412/2005 Coll. on the Protection of

Classified Information and on Security Clearance, especially in the areas of physical, administrative, and personnel security, and in the area of security of information and communications systems. The need to take these facts into consideration in the whole spectrum of activities of the BIS leads to many expenditures that do not occur in other organizational units of the state.