

# COUNTERING RUSSIA: ASSESSING NEW TOOLS

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HEARING  
BEFORE THE  
COMMITTEE ON  
BANKING, HOUSING, AND URBAN AFFAIRS  
UNITED STATES SENATE  
ONE HUNDRED FIFTEENTH CONGRESS  
SECOND SESSION  
ON  
EXAMINING A LIST OF POTENTIAL POLICY RESPONSES TO RUSSIA  
DRAWN FROM VARIOUS SPHERES, INCLUDING TRADE, LAW ENFORCE-  
MENT, MILITARY, CYBERSECURITY, ENERGY, AND FOREIGN AID

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# C O N T E N T S

WEDNESDAY, SEPTEMBER 12, 2018

	Page
Opening statement of Chairman Crapo .....	1
Prepared statement .....	26
Opening statements, comments, or prepared statements of:	
Senator Brown .....	3
Prepared statement .....	27

## WITNESSES

Leon Aron, Resident Scholar and Director of Russian Studies, American Enterprise Institute .....	4
Prepared statement .....	28
Responses to written questions of:	
Chairman Crapo .....	41
Elizabeth Rosenberg, Senior Fellow and Director, Energy, Economics, and Security Program, Center for a New American Security .....	6
Prepared statement .....	30
Responses to written questions of:	
Chairman Crapo .....	42
Senator Reed .....	44
Senator Tester .....	45
Daleep Singh, Senior Fellow, Atlantic Council, and Adjunct Professor, Johns Hopkins University .....	8
Prepared statement .....	36
Responses to written questions of:	
Chairman Crapo .....	46
Senator Reed .....	49



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WEDNESDAY, SEPTEMBER 12, 2018

U.S. SENATE,  
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,  
*Washington, DC.*

The Committee met at 2:31 p.m., in room SD-538, Dirksen Senate Office Building, Hon. Mike Crapo, Chairman of the Committee, presiding.

### OPENING STATEMENT OF CHAIRMAN MIKE CRAPO

Chairman CRAPO. This hearing will come to order.

Let me begin by thanking our witnesses for agreeing to testify this afternoon and to help the Committee gain a better understanding of what might motivate the Russian Federation's President Vladimir Putin to change his present dangerous and destabilizing course.

Further to the Administration's commitment to protecting our Nation's elections from foreign interference, the White House announced this morning a new Executive order, based on its finding that the ability of foreigners to interfere in U.S. elections is an unusual and extraordinary threat to the national security of the United States.

The Executive order is entitled, "Imposing Sanctions in the Event of Foreign Interference in a United States Election" and requires the Director of National Intelligence to analyze and report on foreign Government actions, the AG and Homeland Security to report on whether or not the election was materially affected by any foreign interference, and then requires the Secretaries of Treasury and State to impose whatever sanctions they determine appropriate. A little bit later, I am sure we may want to know what the impression of this is from our witnesses.

Today the Committee meets for the third time in as many weeks on the subject of Russia and President Putin's aggressive, malign activities directed against the United States, its allies, and spheres of influence.

The hearings we have held so far have centered on the implementation status and the economic and political effectiveness of the existing sanctions architecture on Russia, including an assessment of the Countering America's Adversaries through Sanctions Act of 2017, or "CAATSA", as it is now known, and the Administration's use of its own authorities to sanction Russia.

In the course of those hearings, the Committee also explored the potential for expanding on the existing set of sanctions authorities

in order to amplify the economic effects on Russia sufficient to cause a change in Putin's behavior and strategic calculus.

In our first hearing, we asked Administration officials drawn from the Departments of Treasury, State, and Homeland Security to testify on the question of whether or not the implementation of existing sanctions against Russia are working to deter or otherwise change Putin's behavior or strategic calculus with regard to the Kremlin's complete lack of regard for sovereign territorial integrity and independence of democratic institutions.

The Administration has sanctioned over 230 individuals and entities for violations of congressional and Administration sanctions authorities, and further reported that it was stepping up its efforts to defend our Nation's critical infrastructure and aggressively support State and local efforts to secure the 2018 U.S. midterm elections.

Those targeted include the heads of major State-owned banks and energy companies, many of Putin's closest associates or oligarchs, and several Russian actors for interference in the 2016 elections.

On the issue of electoral interference, the Homeland Security official reported that malicious cyberoperations are not just State-run, not just run by a single actor, and remain one of the most significant strategic threats to the United States.

In our second hearing, a panel of outside experts testified on the same question as the Administration, offering their own views on the need for the Administration to have a cohesive Russia strategy and implement CAATSA fully, while Congress considers enacting new sanctions legislation.

The Committee received testimony from the outside experts on the need for new, increased sanctions, since Russia has adapted itself to the current round of sanctions and, in fact, its economy has developed a resilience to the sanctions imposed by the United States and Europe.

As Rachel Ziemba explained in her testimony from our last hearing, "Russia's economy may not be thriving, but it is surviving." And many analysts believe that situation can exist for a long time.

Yet we also received testimony from each witness that a serious amplification of sanctions is fraught with the potential for unacceptable blowback against the United States and European interests and our interests in the Middle East and Asia, unless carefully constructed and tied to specific behaviors while appropriate discretion and off-ramps are carefully tailored.

Sanctions alone are no silver bullet and do not guarantee quick reversals of undesirable behaviors no matter how draconian the sanction, especially since the more draconian the sanction, the more difficult multilateral participation and enforcement become.

It stands to reason then that new sanctions must at least be accompanied by other tools to constrain a large Nation like Russia and deter a ruler like Putin from future malign activities.

I look forward to a broader discussion this afternoon on resisting Putin's aggression from a broader range of geoeconomic and strategic policy options available to the United States and its allies.

In addition to the sanctions discussed in our previous hearings, what other proposals should Congress and the President be consid-

ering to reach a desirable outcome with Russia? How susceptible to domestic unrest is Putin's regime? How important is it that the United States and Europe support each other's Russia strategy, and what would that have to look like?

We must, as a Nation, find that prescription for sanctions and other measures that break the factors contributing to a Russian resilience to economic sanctions and put real pressure on Putin to change his map for Kremlin hegemony.

Senator Brown.

#### **OPENING STATEMENT OF SENATOR SHERROD BROWN**

Senator BROWN. Thank you, Mr. Chairman, for calling this hearing and our earlier hearings on the impact of Russia sanctions and what we might do to bolster them and to encourage the Administration to do its job.

We are joined by a distinguished panel of witnesses. I look forward to hearing from the three of you. Thank you.

We will hear some new ideas—sanctions and nonsanctions tools alike—that might be more aggressively deployed to counter Russian aggression.

This may include new sovereign debt and energy sanctions, transparency and anticorruption measures to combat Russian-generated money laundering through U.S. real estate transactions and offshore sources; and other measures to combat Russian illicit finance risks, or even to codify limits on Russia's access to World Bank and other international financial institution resources.

Our last hearing made clear that additional transparency would hit Russian elites where it hurts—in their pocketbooks, including their multimillion-dollar Manhattan and Miami condos.

As we have heard in prior hearings, there is little disagreement that while sanctions have had some effect on Russia's economy, they are not having much effect on Putin's decision making.

Russian abuses in Crimea and Eastern Ukraine, Syria, and here in the U.S. against our elections and other critical infrastructure are common knowledge.

Just this week, reports surfaced that the Russians may be behind the attacks on the health of our personnel in Cuba. They are supporting Assad's efforts to overtake the holdout province of Idlib, potentially with the use of chemical weapons, just as they have so brutally used barrel bombs against civilians there. With over 3 million refugees and other civilians trapped by intensified bombing, the U.N. has described Idlib as "potentially the largest humanitarian catastrophe of our new century."

Russian aggression continues unchecked here. During our hearings, no one on this Committee has challenged established conclusions of fact by the U.S. intelligence community about Russia's involvement in ongoing attacks against our elections and our infrastructure.

And as our witnesses observed last week, we have to quickly resolve the growing tension between what military, intelligence, diplomatic, sanctions, and other professionals in the U.S. Government are doing to punish and deter Russia and, conversely, too often what the President is saying and doing.

Our Government must speak with one voice. The President should make clear how he will use CAATSA to forcefully respond to Russian attacks and actually use the Executive order being issued today to sanction Russian actors found responsible for attacks directed at the midterms.

But as Ms. Rosenberg points out in her written testimony, a permissive—and underwhelming, my word—Executive order on election meddling is no substitute for further congressionally mandated actions and sanctions.

An order which effectively permits but does not automatically require sanctions for continued illegal Russian attacks on our democracy will not substitute for mandatory sanctions required by law and should not be used to preempt or slow building congressional momentum on new legislated Russia sanctions.

We should work with our allies on this rather than alienate them. Putin would like nothing more than to drive division between the United States and Europe and amongst the Nations of Europe. He seems to be having that help from the executive branch here. Europe can contribute more to NATO, as it committed to do in 2014 and has been doing since.

Today, September 12th, marks the day 17 years ago that NATO invoked Article 5, committing to take action alongside the U.S. if those responsible for 9/11 were identified. Isolation is a poor foreign or national security policy—then or now.

The same spirit of unity that marked our response in the weeks and months after 9/11 should also infuse our response to Russian attacks on our Nation's infrastructure and on our democracy.

Thank you Mr. Chairman.

Chairman CRAPO. Thank you, Senator Brown.

We will hear testimony today from three experts drawn from the think tank community, each of them with a particular expertise in the use of sanctions and a deep understanding of Russia, its leadership, and its position in the world.

We will begin with testimony from Dr. Leon Aron, a Russian emigre to the United States during the cold war, and now a prolific writer and expert analyst of all things Russian. He is a resident scholar and director of Russian studies at the American Enterprise Institute.

Following Dr. Aron, we will turn to Ms. Elizabeth Rosenberg for her testimony. She is a senior fellow and director at the Center for a New American Security and a recognized expert on energy, market shifts, and the use of sanctions and economic statecraft.

Finally, we will hear from Mr. Daleep Singh, a finance professional and an architect of the 2014 sanctions on Russia while at the Obama administration's Treasury Department. He is now with the Atlantic Council and a Johns Hopkins professor of geoeconomics.

Dr. Aron, you may please begin.

**STATEMENT OF LEON ARON, RESIDENT SCHOLAR AND DIRECTOR OF RUSSIAN STUDIES, AMERICAN ENTERPRISE INSTITUTE**

Mr. ARON. Thank you, Chairman Crapo, Ranking Member Brown, and Members of the Committee.



Before we discuss and evaluate specific measures, I think it might be useful to begin by placing the sanctions on Vladimir Putin's regime—which is not to be equated with Russia or the Russian people—in a larger context.

Why do we impose these sanctions? Essentially to exact domestic political costs on a country's foreign policy.

If that is the main purpose, there are two distinctions that need to be made in evaluating the impact of these sanctions. One is short-term versus medium- and long-term effects; and the other, more important, is the difference between economic effects and political effectiveness. The former are relatively easy to achieve, especially when the disparity between the respective economies is as great as it is today between the United States and Russia. But the latter purpose, to change the policies of the sanctioned regime, is almost never achieved in the short term and has not been especially successful even in the medium term.

The reasons for that are very simple. First, the regimes are always—the sanctioned regimes are always hoping that the sanctions will be lifted or at least lightened. And, more importantly, authoritarian regimes, even the seemingly stable ones, carry on what Churchill called the “fight of bulldogs under the carpet.” A quick retreat could lead to a hemorrhaging and eventually loss of the leader's power, which could also be accompanied by the loss of his life. Hence, defiance is almost always the first reaction.

Thus far, Russia has fit the general pattern, both with respect to the economic effects of the sanctions and their political effectiveness—which is to say that the economic effects, while hardly overwhelming, have been undeniable, damaging, and growing, but equally predictable has been the regime's defiance in the face of these sanctions. And in my written testimony, I provide details for both developments.

But the seeming absence of immediate political effects of the sanctions must not be confused with their long-term effectiveness.

To begin with, we should not underestimate the power of moral outrage which the sanctions represent—especially if they are initiated by the only country that ultimately matters to Russia and the Russians, which is America. As we learned from the Soviet Union experience after its collapse, the moral outrage by the West has chipped at the legitimacy of the regime, and Russia is not a totalitarian country. Public opinion still matters.

We should keep in mind and not be disheartened by the fact there are no silver bullets, as the Chairman said in the introduction, and it is very hard to invent something that would be both new and effective.

As a result, the several packages of measures in the pipeline today, including the DETER legislation, appear to be most promising when they build on or deepen those existing sanctions that are most likely to have a domestic political impact. I would single out two such measures.

First, building on the earlier ban on investment in and transfer of technology to the Russian oil industry. In my written testimony, I provide argumentation for this, but let me just mention one quote from a leading Russian expert, a former head of the Russia office of an oil multinational who commented in an elite online Russian

journal last month that, I quote my translation from Russian, “From my own experience . . . I know that without Western technologies and investors the oil-and-gas sector of Russia would be on a deathbed.”

The second measure I would like to mention as seeming quite promising to me is a sizable domestic political effect on the ban or at least restrictions on the buying of Russian sovereign debt. This policy builds already, as I said, on the existing restrictions on raising capital by several Russian private companies and banks.

This past August, Russian media labeled the 14-day limit on operations with sovereign debt one of the “most serious threats to the Russian economy.”

An outright ban on the sale of the OFZ, which is the Russian acronym for Obligatsii Federal’nogo Zayoma, or Federal loan bonds, would be a very serious blow. As a Russia expert put it, the OFZs are the “Finance Ministry’s workhorse funding instrument for the budget.”

In conclusion, making Vladimir Putin moderate, not to mention retreat from, his current aggressive policies will require measures targeted as precisely as possible at increasing the domestic political costs of his regime’s policies, as well as a lot of patience from us.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you, Doctor.

Ms. Rosenberg.

**STATEMENT OF ELIZABETH ROSENBERG, SENIOR FELLOW  
AND DIRECTOR, ENERGY, ECONOMICS, AND SECURITY PRO-  
GRAM, CENTER FOR A NEW AMERICAN SECURITY**

Ms. ROSENBERG. Thank you, Chairman Crapo, Ranking Member Brown, and distinguished Members of this Committee, for inviting me to appear today.

At present, the security and integrity of the United States is under attack by Russia’s threats to our democratic institutions and our core values. Russia’s malign activities undermine sovereignty, rule of law, prohibitions against the use of weapons of mass destruction, and protection of human rights. Moreover, Russia’s foreign interference is a destabilizing affront to U.S. global leadership and to the national interests of our closest allies.

Equally as alarming as these grave harms wrought by Russia is the inadequate U.S. policy response. The directors of our intelligence agencies, U.S. Cabinet-level officials, and the executives of the most prominent social media companies have spoken clearly about the threat. But the Administration’s policy response has appeared uncoordinated or contradictory and has been insufficiently bold in indicating to Russia that its activities will not be tolerated. How U.S. policy leaders proceed now is of fundamental importance to the character of, and future for, our democracy and national interests. I strongly encourage the Members of this Committee to continue your strong leadership in articulating a strategic vision for addressing Russia’s threats and deploying an array of policy tools to respond.

You have convened this hearing because you all know that sanctions, tools of choice to counter rogue regimes and security threats, are not the only option when dealing with Russia. Indeed, there is

a robust debate about whether sanctions have effectively delivered policy success since implementation of the major measures targeting Russia in 2014 and how much efficacy they can have in the future. Mixed messages from the Administration and uneven sanctions implementation provide a poor framework from which to expect foreign policy success, even if foreign policy success were clearly defined by the Administration. It is not.

Now, truly deterring Russia's malicious activities requires a holistic foreign policy strategy, coordinated with international allies as much as possible, the renewal of sanctions and economic pressure to deliver consequences for new offenses, and the use of an array of complementary U.S. policy tools in the defense, economic, diplomacy, foreign assistance, and intelligence operations arenas.

With regard to U.S. economic policy tools to address Russia, I would like to take two points today in my oral statement.

The first is a note of caution about potential new sanctions which must aim at Russian interests rather than at Russia's trading partners. I support a core goal of the leading legislative proposals under consideration, and that is the presentation of powerful consequences to deter Russia's threats and interference in our democratic institutions, Russia's territorial aggression, and its unacceptable breaches of sovereignty and human rights.

To achieve these goals and avoid unintended consequences that hurt our economy and the economies of our allies and that undermine U.S. credibility, lawmakers must select sanctions targets directly involved in threatening and insidious activities to expose and undermine them. Where sanctions target major Russian firms or financial sectors, lawmakers should strive to impede future economic activity and foreclose future growth rather than disrupt and distort current economic trading flows. This will help to preserve U.S. leverage and prevent an inadvertent enriching of Russian firms if foreign partners are suddenly shut out of Russia. It may also help keep some U.S. security partners aligned with the United States and avoid undercutting, for example, U.S. oil sanctions on Iran.

My second point is one of strong encouragement to Congress, and to this Committee in particular, to enact a requirement to gather and disclose beneficial ownership information in the corporate formation process. It must go beyond narrow beneficial ownership requirements only for high-end real estate purchase. Ultimately, passing sound beneficial ownership legislation may be the most important policy that you all adopt to promote transparency in our financial system, to close an alarming gap in our national security defenses, and to directly undermine and deter malicious Russian interference and misinformation campaigns that warp our democratic processes and sow discord in our homeland.

I address these points in detail in my written testimony and would be happy to discuss them with you all further today. I look forward to your questions.

Chairman CRAPO. Thank you, Ms. Rosenberg.  
Mr. Singh.

**STATEMENT OF DALEEP SINGH, SENIOR FELLOW, ATLANTIC COUNCIL, AND ADJUNCT PROFESSOR, JOHNS HOPKINS UNIVERSITY**

Mr. SINGH. Mr. Chairman, Ranking Member Brown, distinguished Members of the Committee, thank you for convening this hearing. I am honored to be here.

I have spent my career around financial markets, mostly as a market participant, but from 2011 until 2016, I was a Treasury official. My focus was to work on economic policies that could help our country and others to recover from crisis. But 2014 was very different. Together with a team of colleagues from across the U.S. Government, our challenge was to impose economic costs on Russia for its aggression in Ukraine. For me, the mental exercise was to flip everything I had learned about what makes economies succeed.

Of course, the stakes were high, both on the geopolitics and the economics. Before 2014, the United States had never imposed sanctions on a country with the size, complexity, and connectedness of Russia. A number of principles guided our work that I think remain instructive today.

Sanctions, number one, should be powerful enough to demonstrate our capacity to impose overwhelming costs.

Number two, responsible to limit contagion and to preserve our reputation as a trustworthy steward of the global economy.

Three, targeted to avoid the appearance of punishing average Russian civilians.

Four, calibrated to increase the chance of partnering with allies.

And, five, staged to preserve scope for escalation or deescalation.

Putting these principles into action requires an understanding of asymmetries. Where did our economic leverage intersect with Russia's vulnerability? Foreign capital was and is an obvious choice. So is energy technology. U.S. and European firms are the dominant suppliers of something Russia needs in large quantity and cannot easily replace.

What were the results? Restricting foreign capital proved even more potent than we anticipated. It triggered a market-driven negative feedback loop between capital outflows, the depletion of Russia's reserves, a dramatic weakening of the ruble, a spike of inflation and interest rates, and the beginning of a 2-year recession.

Throughout this process, our words mattered at least as much as our actions. They shaped market expectations about our staying power and the capacity to do more. By the second half of 2014, further sanctions had the potential to deliver a knockout blow. But our purpose was not to cause panic. Due in large part to this restraint, the depth of Russia's economic recession and the breadth of spillovers were very much in line with our expectations. Over the medium term, these sanctions dealt Putin a weak strategic hand, a structurally weak, one-dimensional economy.

Do these costs matter to Putin? Answering this question goes beyond my expertise, but my observation is that even autocrats are sensitive to recession. Yes, Putin's tolerance for economic pain and his control of the domestic narrative are higher than most. But there is a threshold above which his calculus would change. If only we had the stamina, the discipline, and the political will to get there.

For now, Russian aggression and violations of sovereignty continue to spread while economic conditions in Russia have improved markedly. The recession has ended. Inflation recently hit an all-time low. Foreign reserves are back to presanctions levels. Were it not for the threat of sanctions, Russia might be the darling of global bond investors searching for yield.

Why is this happening? Because markets judge our words, not just our actions, the President's more than any other. Markets take signal from his words to shape their expectations of sanctions policy and, therefore, the direction of Russia's economy. I can only conclude that markets doubt our collective resolve to hold Putin to account with a coherent and coordinated strategy.

What can we do about it? I suggest five actions.

First, costs should be broadened to include the very highest levels of the Russian Government. At a minimum, Treasury and other authorities should conduct a study that attempts to identify the holdings and intermediaries that manage and benefit from Putin's wealth. Besides signaling to the Russian people that our quarrel is not with them, this step would provide a measure of transparency on his fortunes held abroad.

Two, U.S. investors should be prohibited from purchasing new Russian sovereign debt. In 2014, I was more cautious about taking aim at Russia's risk-free asset when it was on the cusp of full-fledged crisis. To be clear, this is still a serious step, but circumstances have changed. Russia is far better able to absorb a hit; investors have had years to reduce exposures; and the contagion effects would be small. More to the point, I can think of no credible reason why U.S. public pension funds and savings vehicles should fund a Government that is actively violating our sovereignty.

Fourth, a comprehensive package to counter Russian aggression requires an offensive economic strategy, not only to Ukraine but also Georgia, the Baltics, Moldova, and possibly Central Asia. The overarching purpose is to create successful alternatives to Russian-style autocracy.

And, finally, I would encourage a robust campaign to improve transparency within Russia. Distributing verifiable evidence of kleptocracy would help to counter the Government's disinformation campaign and its control of the media.

To close on a positive note, we should still leave scope for genuine exchange between U.S. and Russian businesses. If we are ever to have better relations with Russia, the private sector is not a bad place to start.

Mr. Chairman, Ranking Member Brown, I look forward to your questions.

Chairman CRAPO. Thank you, Mr. Singh.

I will start the questioning. As I indicated in my opening statement, there is a new Executive order issued today. Have any of the three of you have an opportunity to read it or to become familiar with its terms?

Ms. ROSENBERG. Thank you, Mr. Chairman, for the question. I have not had a chance to see that. I do not believe, as of the time we started this hearing, that they had released the text of it, although in a press call this morning and also in messages to you and some of your staff, they outlined some of the principles for it.

Chairman CRAPO. All right. I think that it is now out, but it may have just come out as we were assembling for this hearing. So I am not surprised that you have not seen its full text.

According to the reports, the Director of National Intelligence, with the input from all of the intelligence community, will assess and identify foreign actors responsible for election meddling, and then the Attorney General and Homeland Security Secretary will report on the materiality of that interference, followed by the Secretaries of Treasury and State, who will determine what appropriate sanctions should be imposed and then engage in the imposition of those sanctions. It appears to me to be a pretty broad authority to Treasury and State with regard to determining sanctions.

Right now I would just like an initial reaction from each of you, if you have one, as to whether this is now a helpful signal and a step toward combating election meddling, no matter what the foreign source. Mr. Singh.

Mr. SINGH. Mr. Chairman, at the risk of not knowing enough of the details, it strikes me as more of a press release than a change of policy. I do not know what costs are now authorized to be imposed on Russia that were not authorized previously. And my view is that if there is still complete discretion—in other words, if nothing is made mandatory—the background conditions in Russia, which have improved markedly, will just continue to improve.

Chairman CRAPO. Ms. Rosenberg.

Ms. ROSENBERG. If I can add to that, by definition, this authority for the Administration is discretionary. So while it may outline the intent or resolve to take action should there be a finding, a report, and a determination, there is supreme discretion and flexibility for the Administration regarding execution of sanctions. If such execution is not matched with a clear message and a strategy to respond, then it is not an advance in the policy, and it may even be a step backwards.

Chairman CRAPO. Dr. Aron.

Mr. ARON. I am just a mere——

Chairman CRAPO. Turn on your microphone.

Mr. ARON. I am just a mere Russia scholar, and I will defer to my colleagues on this.

Chairman CRAPO. Thank you. Both of you who responded on that focused on the discretion that is available there. That is actually one of the issues that has been brought to our attention throughout this process of trying to determine how to respond to Russia. I think historically there has always been significant discretion given to the Administration in sanctions law, and the reason I guess you probably know far better than I do, and that is we are already at a point with the sanctions being imposed against Russia where there is blowback from our allies and concern about whether we are actually having—or achieving results that are counterproductive to our own interests in terms of our own alliances and to whether—well, whether other Nations are willing to work with us. So the argument made to the Committee is that we need to have discretion.

I assume that you are not saying that discretion should not be a part of a sanctions regime. So could you discuss that conflict, the

need for discretion with what I heard you saying is that the discretion was too broad?

Mr. ARON. If I may at this point say something.

Chairman CRAPO. Yes.

Mr. ARON. I think the key here is a balance, to find a balance that gives the President, any President, enough flexibility to conduct diplomacy and take care of national security, and at the same time preserve the Congress' powers of supervision and, I would say, morality and the expression of public opinion in foreign policy. So I think this is—I am not a constitutional scholar. The AEI has plenty of brilliant constitutional scholars. But it seems to me it is the tug of war that I hope will arrive at this balance.

Chairman CRAPO. All right. Thank you. I am down to just a few seconds, and I am pretty tough on my colleagues to stay within their timeframe. And so, Ms. Rosenberg and Mr. Singh, I am going to ask you if you would—I may get back to a second round. I am not sure about that. But if not, I am going to ask you to respond to me in writing to that question about the balance for discretion and how we should work that issue into whatever we develop as a Committee.

Senator Brown.

Senator BROWN. Thank you, Mr. Chairman.

None of us have had time to really digest the Executive order, but pardon my suspicion, but when I hear in this Executive order, no matter what the foreign source of attacks in our elections, you know, until the President is willing to say unequivocally the Russians are attacking our elections, are trying to meddle in our elections, I do not know how we, or Vladimir Putin for that matter, can take seriously our Government's efforts, and that means it is up to us in this Congress to write strong, strong sanctions language and push and push and push this equivocating, or worse, that President to take decisive action to protect American national interests.

Mr. Aron, you said something that made me smile when you were talking about the Russian-U.S. oil technology. It made me kind of harken back to Armand Hammer and all of that. But let me ask Ms. Rosenberg and Mr. Aron about energy. Two main sanctions bills—we are looking at the DETER Act and the Graham-Menendez bill—urge different approaches on additional energy sanctions against Russia. Of the possible approaches we can take—blocking the assets of the largest Russian energy companies if Putin continues his attacks, limiting access to sophisticated Western fracking services and technology, prohibiting or limiting investments in new Russian oil and gas projects, or otherwise expanding CAATSA oil and gas project-based sanctions—which one or two, to start with you, Mr. Aron and Ms. Rosenberg, would be the most effective without unduly harming ourselves and our allies?

Mr. ARON. Well, Russia is not a petro State like Saudi Arabia. Only 15 percent of its GDP comes from oil and gas, but 50 percent of its State budget.

Senator BROWN. Right.

Mr. ARON. And so this is what Putin uses as ready cash for his key political constituencies: security services, the armed forces, over 36 million pensioners, and millions of public service workers.

The ban on financing and technology transfer is a ticking bomb under Putin's regime because, while Russia is not running out of oil, it is running out of cheap oil. Western Siberia, there is plenty of oil, and it is all, unfortunately for Russia, in northeast Siberia, above the Arctic Circle, under the permafrost, offshore, Kara Sea, Laptev Sea, East Siberia, where the temperatures go between minus 22 and minus 55 degrees Fahrenheit. Just to start explorations, Russia would need hundreds of billions of dollars, which it does not have, and the technology cannot even imagine, much less touch.

So I think this is one of the sets of sanctions where I would recommend really strengthening what we already have, which is a complete ban on investment in Russian oil and industry and complete ban on financing it.

Senator BROWN. Thank you.

Ms. Rosenberg.

Ms. ROSENBERG. To embrace an approach that would disrupt the market now, such as by restricting the ability of U.S. or non-Russian companies to participate in joint ventures or to invest, could have a major impact on supply, on the market, and on prices. That means an impact for us, U.S. consumers, consumers everywhere else in the world, including, for example, in Europe who are important consumers of Russian energy, oil, and gas supplies. That would undermine our interest in European energy security. If it also disrupts supply and has an enhanced market effect, it will undercut our own goal with respect to Russia because a higher price will compensate Russia somewhat for a diminishment in its supply to the global market. It may also undercut our policy with respect to Iran sanctions where the United States Administration is trying to pull Iranian supplies off the market. So further disrupting supply will undermine the ability to enforce that policy.

I want to make a point about the technology. Right now most of that sophisticated technology for extracting hydrocarbons from low permeability formations, rock formations, the so-called fracking technology, right now most of that technology and the expertise, including supply chain expertise, is proprietary and exists in Western upstream companies and service companies that are European and American. However, there are a broad array of Russian service companies, and while it would be disruptive to Russia for those technologies to no longer be available to Russia, it is not a certainty that Russia will not be able to engineer and find substitutes over time to be able to continue broad production of its hydrocarbon base.

Senator BROWN. Thank you.

Chairman CRAPO. Thank you.

Senator Moran.

Senator MORAN. Mr. Chairman, thank you very much. Thanks to our witnesses for being here, and I appreciate what I have heard so far, and it is capturing my attention.

Let me ask about—both our DETER and DASKA Acts have recognized the importance of coordinating with European allies. Last week in the Foreign Relations Committee here in the Senate, a conversation was had about the effects of weaponizing our financial power. Germany's Foreign Minister raised the need for an alter-



native payment system to the United States to get around ours. Chancellor Merkel rejected that idea. How legitimate do you think a threat is against—what kind of backlash would we expect from our friends in Europe if we take those steps?

Ms. ROSENBERG. There is interest in Europe by its political leaders who are outraged about the U.S. departure from the Iranian nuclear deal. That has precipitated the conversation you have referenced about being able to conduct transactions that might avoid U.S. jurisdiction. It is possible that that could be, if you will, a laboratory experiment for future activities that would get around U.S. jurisdiction for the purpose of, for example, conducting business between Europe and Russia. So another unintended consequence of aggressive U.S. sanctions on Russia could be to accelerate the movement to create these ecosystems, if you will, of financial transactions that exist outside of U.S. jurisdiction. It is surely not in our interest to accelerate those developments.

Senator MORAN. How easy would those developments be—how easy could Europe pursue that kind of development, that change? Is that realistic?

Ms. ROSENBERG. In its simplest form, these are barter arrangements. They can be barter arrangements, and they can grow into more sophisticated accounting schemes or even bespoke currencies to be able to engineer this. It is not in the realm of the impossible, and, in fact, that is a development that we should look on with great concern in thinking about at what point they could scale so as to undermine some of our economic strength and the long arm of U.S. jurisdiction and U.S. leverage. I would defer to my colleague Daleep who has also worked on this issue.

Mr. SINGH. I would just echo what Elizabeth just mentioned, but I think the incentive for Europe or other regions or countries in the world to develop alternate payment structures, alternate financial infrastructures, that incentive grows when the U.S. is perceived as abusing its power, abusing its leverage. In my judgment, I do not think responding to Russia in this context constitutes that.

There are many other examples that we could talk about, but I think with respect to today's subject, I do not think we are there.

Senator MORAN. Dr. Aron, if we go after the kleptocracy of Putin, we go after his inner circle, what would you expect to be the reaction? What tools would they use to retaliate or respond?

Mr. ARON. Well, thanks very much for the question. Going after the oligarchs I think is the equivalent of—sort of political or diplomatic equivalent of fast food. It feels very good at the time. You can put the face on the sanction. But it is very hard for me to believe that somebody like the Rotenberg brothers or the Timchenkos or the Kovalovs will come to Putin and say, "I am sanctioned, Vladimir. How about you change your policy?" They will not leave that office if they do so. Nobody in Russia today owns anything. They are managers of their wealth if Putin allows them. The wealth could be taken away at any time.

So I think that sanctioning oligarchs is probably a worthy moral goal, an expression of our moral outrage. But I do not think it is a formidable policy tool for us.

Senator MORAN. So one of the things I should learn from your response is that the power rests with Putin, not the oligarchs?

Mr. ARON. Absolutely, 100 percent.

Senator MORAN. OK. Thank you very much.

Chairman CRAPO. Senator Donnelly.

Senator DONNELLY. Thank you, Mr. Chairman. And thank you to the witnesses.

Let me start by saying that if our Government has a strategy to counter and deter Russia, it is not working. We have not been able to change Russian behavior, and in some cases their behavior has gotten worse. Our witnesses have persuasively argued we need a coherent strategy, policies with teeth, clear signaling, and smarter sanctions. I think it is up to Congress and hearings like this to help provide a vision and develop a strategy to counter the threat from Russia. And I would like to ask all witnesses and, Dr. Aron, I will begin with you, what is the number one action Congress can take in the next several months to change Putin's calculus?

Mr. ARON. To be honest, Senator, I cannot think of an action that would change Putin's policy within several months.

Senator DONNELLY. Let me say to begin—

Mr. ARON. To begin, we have to be realistic. I said that, you know, for Putin now, it is not just my opinion, it is the opinion of my independent Russian colleagues. The opposition to the United States, the opposition to the sanctions is one of the key legitimizing factors of his regime. He cannot give it up.

As I said in the introduction, I think nothing new—I cannot think of a silver bullet, but I think if we stick with some policies which have—and we should always look at the domestic political effects. Putin's audience is not the West. Putin's audience is his own constituencies inside the country. It is not a totalitarian police State yet. He cares about public opinion. And so I think the ones that I mentioned, depriving him of an inflow of foreign money via the sales of sovereign debt and the ticking bomb under his regime, and that is depriving him of funding and technology for his oil industry. The former is proximate. It could be implemented, obviously with the discretion and the expertise of people who know better than I how to do it delicately without damaging the interests of the United States and our allies. The latter, which is the restriction on Russian oil policy and oil business and oil industry, is something that we have to stick with if we want to see results.

Senator DONNELLY. Ms. Rosenberg.

Ms. ROSENBERG. Thank you. To begin with, over the next couple of months I would strongly urge a focus on Russia's involvement in election interference and misinformation in our democratic process. I note that this is the organizing principle around today's Administration EO and, of course, the organizing principle behind the DETER Act.

A couple of things that can be part of the strategy in the immediate future are to urge the Administration to bring forward further designations. It could have been helpful to put them in the annex to today's EO, for example, to explain to the public what methodologies Russia is using to interfere in U.S. democratic institutions or processes. This could have included which actors are involved to give information to U.S. social media companies, and financial institutions in order to understand when such malicious activity could occur. This information could also help Congress to

take action toward enacting beneficial ownership legislation which will signal to Russia that there will be no tolerance for anonymous companies that facilitate their ad buying and interference in our democratic process ahead of significant midterm elections coming in the next several months.

Thank you.

Mr. SINGH. Senator, I will give you three things: Number one, exposing the scale of corruption in Putin's inner circle and from Putin himself; Number two, increasing economic costs on Russia by sanctioning new purchases of sovereign debt; Number three, creating a successful alternative in Russia's backyard—in other words, helping Ukraine, helping Georgia, helping Moldova, helping Central Asia succeed as an alternative to Russian-style autocracy.

Senator DONNELLY. Let me ask one last question for any of you. Would legislation requiring corporate beneficial ownership transparency increase the ability to effectively apply sanctions against corrupt oligarchs and officials? Ms. Rosenberg.

Ms. ROSENBERG. Absolutely. And, in fact, this is one of the reasons why the law enforcement community has been asking for quite a long time for such legislation. They come to a dead end when there is no information behind shell companies or front companies that they believe to be involved in such corrupt or criminal activity, activity that undermines our democracy.

Senator DONNELLY. OK. Thank you.

Thank you, Mr. Chairman.

Chairman CRAPO. Senator Cortez Masto.

Senator CORTEZ MASTO. Thank you. Thank you all for being here.

Last week the *Washington Post* reported that President Trump agreed to a new strategy for Syria that may include new Russia sanctions. The strategy follows a requirement that I worked with my colleagues on the Armed Services Committee to include in this year's NDAA.

My question for you is: What sanctions, if any, do you think that our Government could impose on Russia that would change its actions in Syria? And I will open it up to the panel.

Mr. ARON. Well, again I hate to disappoint. When Putin on Russian national TV in October of 2015 shook hands in the Kremlin palace with Assad and said, "Our goal is to restore the legitimate Government of Syria," this was a promise not so much to Assad; this was a promise and a larger strategy of Putin's where he portrays himself now as the restorer of the former glory of the Soviet Union, somebody who comes to aid of the former Soviet clients and allies, and Syria is the oldest one of them. And he is a wartime president, and this is how he portrays his legitimacy.

I cannot think beyond the sanctions that already have been discussed here—which are, I think, a sustained and a long-term process, I cannot think of anything we can do at the moment to make Putin change his strategy in Syria precisely because it would undermine significantly his domestic political support.

Senator CORTEZ MASTO. Thank you.

Ms. ROSENBERG. I would associate myself with that sentiment. I am not confident that sanctions are the tool to change Russia's be-

havior in support of President Assad, including condoning or supporting the use of chemical weapons against the Syria population.

Senator CORTEZ MASTO. Thank you.

Mr. SINGH. I would just add I think it would require direct Presidential involvement.

Senator CORTEZ MASTO. OK. Thank you.

Last month several of us met with former Ambassador McFaul following the Helsinki Summit, and as you know, President Trump said after the summit that he would consider allowing Putin to question McFaul and other former American civil servants. As you can imagine, McFaul was quite concerned about his safety net of other former civil servants traveling abroad. Congress passed a resolution condemning Trump's statement not long after that, but some of us feel we have a duty to the men and women who have served this country to do more to protect them.

If you were designing an economic statecraft strategy to deter Putin from arresting former American civil servants and other Governments from cooperating with him, what would it look like? Is there more that we can do to protect those Americans who are serving abroad?

Mr. ARON. Thank you, Senator. Mike McFaul is not just a colleague. He is a good personal friend of mine for many years, a man whose both scholarly and personal integrity I highly respect. It was painful for me personally to learn about this promise to Putin. Again, I think the sanctions we already have or that are in the works and the future sanctions are probably enough, but my advice to Mike is not to travel to Russia.

Senator CORTEZ MASTO. OK. Anyone else, any other thoughts on—

Mr. SINGH. I would just say I think the moment passed in Helsinki. There should have been direct and immediate consequences. There were none.

Senator CORTEZ MASTO. It is too late, there is nothing we can do now. Is that what you are saying?

Mr. SINGH. It is never too late, but I think in order to make a difference to Putin, again, this requires Presidential engagement immediately after those actions were taken.

Senator CORTEZ MASTO. Thank you. Anything else?

Ms. ROSENBERG. No, I would just add that I am not confident that, again, sanctions are the tool of choice here, that, in fact, strong leadership must come from the Executive, as was just mentioned, as well as from the diplomatic community and diplomatic layers.

Senator CORTEZ MASTO. Thank you. Thank you again for the conversation. And let me just say to the Chair and Ranking Member, thank you so much for the hearings. This is obviously such an important topic and role that we play in Congress, and I so appreciate the opportunity to explore further the actions that we can and should be taking. So thank you.

Chairman CRAPO. And thank you for your attentiveness and support on this, Senator.

Senator Warner.

Senator WARNER. Thank you, Mr. Chairman.

Mr. Singh, back in 2014, when you were putting together some of the sanctions around Ukraine's circumstances, you chose at that point not to include any kind of sanctions on Russian debt. And let me also state for the record I am proud to support Senator Van Hollen and Senator Rubio's DETER Act, which I think even with the President's announcement today, we need that teeth that a legislative action would have because, candidly, I do not trust this White House to fulfill their obligations since we have seen an enormous, enormous blind spot in terms of Russian activity by this President. One need only look at the pitiful performance in Helsinki as an example. Sorry about my editorial comment before I go back and give you time to think about the question, Mr. Singh.

But back in 2014, with the Ukraine sanctions, you did not think sanctioning on a going-forward basis Russian debt was appropriate. My understanding is you think at this point that should be back on the table. Can you talk about that? Can you talk about the effects it might have, negative and—and what other risks that would run into in terms of our allies who still have some ongoing projects with Russia?

Mr. SINGH. Sure. Thank you, Senator. You are correct; I was cautious about sanctioning Russian sovereign debt in late 2014. I have changed my mind because the circumstances have changed. Back in late 2014, it was my view that sanctioning sovereign debt could have tipped the scales in Russia into a full-fledged financial crisis. A full-fledged financial crisis in Russia would have been counter-productive in two main ways.

One is it would cause us to lose the narrative within Russia. In other words, it would play into Putin's hands, that the hardship the Russian people were facing was just the latest in a long series of historical injustices.

Number two, it would harm us reputationally. If we were seen as intentionally provoking a full-fledged crisis in Russia, it could harm our hard-earned reputation as a trustworthy steward of the global economy. That is hard to win and easy to lose.

I think if I look at Russia now, the background conditions are markedly improved. The recession has ended. Inflation has fallen from the midteens in late 2014 to all-time record lows. Foreign reserves in Russia have been fully replenished to presanctions levels. The fiscal profile of Russia is better than ours. Foreign investors——

Senator WARNER. Is there a reason that is the case? I am looking at some of these numbers. The Chairman and I spent a long time together on a so-called Gang of Six around Simpson-Bowles. I am pretty amazed. Is the number accurate that Russian debt-to-GDP is only 13 percent?

Mr. SINGH. That is right.

Senator WARNER. Gosh, I wish we had a balance sheet like that.

Mr. SINGH. Yes, agreed. So Russia can absorb a hit, number one.

Number two, sanctioning sovereign debt would not deliver a shock wave across global markets. To your point, Senator, total outstanding Russian sovereign debt is about \$150 billion. Americans own \$10 billion of that debt. Foreigners as a whole own \$50 billion. That is tiny. The global sovereign debt market is \$45 tril-

lion. Our Treasury market is \$14 trillion. We would not see major contagion effects if we moved on Russian sovereign debt.

But I think most fundamentally, the provocation has changed. I can think of no good reason why public pension funds in the U.S.—teachers, policemen, firemen, Government officials—why their savings are directly funding a country that is violating our sovereignty.

Senator WARNER. Let me follow up on that, and maybe some of my colleagues have already raised this issue. As we think about potential targets, I know there was a great deal of interest in targeting some of the Russian oligarchs, many of those who are, frankly, cronies or have that status because of their ties to Putin. If that question has not been asked, I would love a response on that. I would also love a response on the fact that, you know, Special Prosecutor Mueller I think did a brilliant job with the level of specificity on naming the GRU agents who are involved in the election interference.

While chances of actually sanctioning those individuals remain somewhat limited, would a sanction action on named Russian intelligence agents carry any kind of chilling effect on a going-forward basis?

Mr. SINGH. I would defer to my colleagues on the change of Putin's calculus himself. I am not an expert on his psychology. But as a general matter, I like the idea of picking individuals whenever possible rather than just sanctioning economic sectors. You can deliver a comparable impact in terms of changing behavior without nearly the same degree of spillover costs. So I think we should look at the very highest levels of the Russian Government. It should include Putin; it should include the people that you mentioned, Senator.

Senator WARNER. The GRU agents themselves.

Mr. SINGH. Yes.

Senator WARNER. Thank you, Mr. Chairman.

Chairman CRAPO. Senator Rounds.

Senator ROUNDS. Thank you, Mr. Chairman.

The President with an Executive order is clearly, I believe, trying to lay a line in the sand, and his message clearly is pointed at Russia. I am just curious, and I recognize that if some of my colleagues have raised this already, I would defer. But how important is it to have a line in the sand with regard to meddling within our election processes?

Ms. ROSENBERG. I think it is absolutely crucial that the United States make clear to Russia or anyone who would meddle in U.S. democratic institutions and processes that these are the core of our sovereignty. They are only a space in which U.S. citizens can participate.

Mr. SINGH. Senator, with respect, I do not see how it is a line in the sand. It would be if there were clearly delineated consequences or if there were clearly spelled out costs for actions that have already occurred. To my knowledge, those are not laid out in the Executive order. So I do not see where the line is. I do not see what the consequences are if that line is crossed.

Ms. ROSENBERG. May I add to what I said before to say I think it is essential to make that statement. I agree that there must be

consequences. That is an excellent area for congressional oversight in order to clarify what the line is across which the United States will not permit Russia to go and what the consequences shall be.

Senator ROUNDS. That was the intent of the Secure Elections Act, which a number of us are sponsors or cosponsors of. My impression was that the Executive order was designed to make it very clear that simply by the end of the election process, the issue would not go away, and that it did not take anything off the table. I am just curious if it's time that we actually let them know that it is not simply a matter of a cyber-response but, rather—or for that matter, a sanctions response. But is it time to actually lay out, including the beefing up of our military forces, places like Europe, sending in more assets, and in strengthening and simply saying, look, this is just a case of if we do—and I believe the President really did mean it to be a line in the sand, and I think the fact that he has Treasury actively involved with the issue, along with the Secretary of State, requiring that they come back with a—not just with an analysis but with a recommendation for a response, I think his intent was to not simply say this is what we are going to do but, rather, to say there will be consequences.

I would like your thoughts, because I do like the fact that finally we have a very clear message that it is not acceptable from the Administration. Second of all, he did not say what he would do, and yet he appears to make it very clear that all options are on the table. And so, you know, the question is what deterrence. Can you simply say, “Do not do it”? Or do you have to say, “If you do it, there will be the following consequences,” and then they can weigh them? I guess that is my question.

Mr. ARON. I think it is clearly the latter. Putin grew up in the slums of postwar Leningrad. It was a very tough environment. He talks about it in his biography. He is a tough man, and he respects credible force.

To the extent that we could persuade him that we are credible, that these are not mere threats but there will be consequences, I think he is not a madman. There is a very—it is not easy to change his policy because, as I said, what he, in effect, is having today in Russia is a wartime presidency. His chief of staff, general staff of the Russian armed forces, said we are at war with the United States. It is not a kinetic war, but it is an economic war, it is a cyberwar, it is a moral war, it is a political war, it is a geopolitical contest. Putin cannot give up a lot of these assets, but I think he also understands that, on balance, he would have to respect the force and the real damage which he might read in these lines of sand, on the sand, or whatever else you have between the Congress and the executive branch.

Senator ROUNDS. So would any of you disagree with the statement that it still requires Congress to move forward with specific legislation that would codify what these sanctions could be?

Mr. ARON. Absolutely. Absolutely. Putin, for all his—you know, he made—again, his narrative of legitimacy is not that Russia is good but that the West is bad, America is just as corrupt and meretricious as we are, and this is the key thrust of Russian propaganda media in Russia today if you watch it. But with all of that, I think he understands and his advisers tell him that the American

Congress is not the Russian Duma, that what it intends, if it pursues it and stays with it, is something that he should be afraid of.

Senator ROUNDS. Thank you.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you.

Senator Jones.

Senator JONES. Thank you, Mr. Chairman.

I would like to follow up real quick, and thank you all for being here today, and to the Chair and Ranking Member for really informative and important hearings.

I would like to follow up real quick with what Senator Rounds was asking, because I think that there will be a number of people who see the actions today as drawing a line in the sand. But as you said, Dr. Aron, Putin is not a madman, but he is an opportunist. And a concern that I have and I have raised—and we heard some testimony the last time—is that if this, in fact, is a line in the sand that was drawn today, that Putin may say, “All right, we are not going to cross that line this time.” And I have a real concern that if we see a pullback and an acknowledgment that that is a line in the sand, we are not going to cross it, this election—that this Administration may declare victory and will start lifting sanctions and whatever.

Is that a possibility? Do you see that, or am I just kind of like thinking out of my head? But I see that as a possibility that that could happen, which could lead to disaster in 2020 in our elections.

Mr. ARON. There is, in my view, a bit of a danger here in getting too—sort of tying most of the sanctions, or at least as far as the Administration is concerned, to the election. One thing—I mean, you know, I love this country. I came here as a refugee. But the problem with America a lot of times is that nothing happens in the world until it happens to America. Putin started undermining democracies in 2007. Ask the Estonian Government, ask the Georgian Government, ask the Government of Ukraine and Latvia. Cyberattacks, attacks on the Governments, attacks on their banking institutions, power grids and so on. It is a separate issue, I think. I think the attack on the U.S. Presidential election was a target of opportunity. It is a fascinating story which we can discuss later. But the point is that, yes, I think Putin may indeed sit out this election.

Senator JONES. And if we do, we cannot let our guard down. I mean, we cannot—

Mr. ARON. Exactly, exactly. What we have to understand is that this election and the 2016 election were just points on Putin’s larger agenda.

Senator JONES. Right.

Mr. ARON. Which is to undermine democratic institutions of the West. He could pick and choose his elections. He can pick and choose his countries. But just because, as I believe, he will not interfere in this election because of all this attention to it, we cannot declare victory, no.

Senator JONES. All right. I would like to now follow up, Mr. Singh, because you made a real point of talking about going after or at least conducting a comprehensive study of Mr. Putin’s wealth, assets that he may have. And I agree with you. I think that that



needs to be done. And I would like—you know, we have got unofficial reports of just massive wealth and corruption. But they are just reports at this point.

So I would like to ask you a little bit about what kind of study you are envisioning here. Is that something that we can enlist our allies to do, since a lot of these assets are made perhaps abroad in their countries? Can we coordinate with allies? And, frankly, as to your experience in Treasury, do we have that ability to just do that now without congressional action? Could the Administration just say, yeah, we are going to start this right now? Have they got that authority to do that?

Mr. SINGH. Yes, Senator, I think if the estimates of Putin's wealth are anywhere close to being correct, most of his money is outside of Russia and most of it is in liquid assets in countries that we have good relationships with. So it will require partnering with countries in Europe and other jurisdictions to really get at where the ultimate investments are held. Who are the financial intermediaries that are benefiting from managing Putin's money?

This is expertise that resides within Treasury. I would not part of the group in Treasury that did this type of forensic work. Elizabeth could probably speak to it in more detail. But certainly it is something we are capable of.

Senator JONES. All right. Thank you.

Ms. Rosenberg, real quick. I have got 6 seconds. Go ahead.

Ms. ROSENBERG. Taking a leadership stand on beneficial ownership—that is, corporate transparency in the United States—and using the platform of the Financial Action Task Force presidency, which the U.S. now holds, would be an opportunity to ask many of these other countries in which Putin's assets probably lie to embrace transparency. This would help to illuminate that in other countries, supporting parallel work here in the United States.

Senator JONES. Great. Thank you. I may follow up with a couple of written questions. Thank you.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you.

Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman. Thank you for conducting these hearings, and I thank all the witnesses. I have had a chance to look at today's Executive order, which actually just did come out as we were in this hearing, and reached the same conclusion that Senator Rubio reached earlier, which is that the Executive order is like the DETER Act we introduced, except without the certainty and without the assurance of penalty, which is what is necessary in order to provide a strong deterrent.

So as far as I can tell, part of the reason they did this was not to deter Putin's action but to deter this Congress from moving forward with something that would be significant, which would have teeth and permanence, as our colleagues have talked about.

Ambassador McFaul testified here last week that, based on his assessment of Putin and the Russians, they would take into account a penalty; and if they were very clearly put on notice as to what the penalty would be in advance, it would influence their behavior. As all of you have indicated, and I agree, it is much harder to take action after the fact with sanctions and say, you know, "Mr.

Putin, unless you get out of Syria now, we are not going to lift these sanctions.” It is very different to draw a clear and bright line in advance.

Mr. Singh, if you could just talk a little bit more about that, you mentioned it, but the idea of creating a certain result and also a strong enough result to deter interference in our elections, why that is important to set out in statute.

Mr. SINGH. Yes, Senator, my expertise is in financial markets, so I come at that question with that perspective. And we all know markets are forward-looking. They are shaped by expectations, and those expectations cannot be abstract. They have to have concrete consequences laid out for them to react.

If we rely upon Executive orders which do not provide any clarity as to the path of escalation of certain behaviors continue, I do not think there will be any material reaction through financial markets in Russia. And if there is no reaction in financial markets in Russia, the economic costs would continue to be minimal.

Senator VAN HOLLEN. And, Ms. Rosenberg, I think you indicated the same sentiment earlier, but do you share that view?

Ms. ROSENBERG. I do. Furthermore, I see value in putting on notice, and creating consequences. But, without a strategy, without steps of escalation, just the threat of blunt force, which the market must weigh against the messages from the Administration that this is all a hoax, there is not an expectation that there would be implementation of this discretionary policy. We need a strategy and that escalatory letter. This is a role where Congress can provide significant leadership.

Senator VAN HOLLEN. Right. I appreciate that. The entire purpose of putting this in statute with some automatic types of severe responses is to take away the uncertainty and the fact that, based on President Trump’s statements, Putin would have reason to doubt the willingness of this Administration to take action. And as I look at this Executive order, it really falls short in two areas.

One is when it comes to assessing whether or not there has been interference. They first have the Director of National Intelligence look at it, but those findings are not made public.

Then you have another layer where the DOJ and Homeland Security have to make a finding as to whether or not it was material.

And then you have another layer where the Secretary of State decides whether to implement any sanctions or not, except with respect to individuals who they might have identified as involved.

And so the kind of sanctions we have been talking about here today, for example, sanctions on issuance of purchases of Russian sovereign debt, which Dr. Aron and others have said they thought would be a meaningful action, that is all left up to the Administration under this Executive order. And, you know, the Chairman made the point earlier that we have some discretion in some of our sanctions, but more recently, the way they have been designed is to say that you have mandatory sanctions, they can then be subject to a waiver if there are national security findings.

And so I believe—and I understand based on your testimony—that the more we can make it clear in advance that there will be consequences if we catch the Russians interfering in our elections again, and that they will be severe, the more likely we are—not a

guarantee, but the more likely we are to deter that interference. Would you all agree with that?

Mr. ARON. I would definitely agree with that. Again, as I said answering previous questions, these sets of sanctions ought to be preserved beyond the elections, be permanently on the books, because Putin is like that man on the tiger. He made the opposition to the United States and the West, and Russia is a besieged fortress, the core of his legitimacy. It is very difficult to get off the tiger, and who knows what the next targets will be. I am very much concerned about the Baltics.

So, yes, elections and the specific findings and penalties in connection with a possible Russian interference, but we have got to look beyond that. This is just one item and probably not even the largest item on Putin's agenda.

Senator VAN HOLLEN. Right.

Senator BROWN [presiding]. Ms. Rosenberg, Mr. Singh, make your answers brief, please. He asked the question of all three of you.

Mr. SINGH. Sure. I think it is vitally important to demonstrate resolve. The only caveat I would add is that we should retain flexibility to calibrate the measures, to partner with Europe, to have the highest probability of doing so, to have the ability to stage our escalation and to deescalate if the response is adequate, and to make sure we are fulfilling our obligations to be a faithful steward of the global economy. That is where we need flexibility.

Ms. ROSENBERG. I agree with what has been said. I would be remiss if I did not mention that, having been on the other side of this equation from my prior work within the Treasury Department, there is an important role for some measure of flexibility. It is important that these measures would not be provoked automatically and do not inadvertently undermine the policy that they are intended to carry out.

I know that you are sensitive to that, and to me that is where important congressional oversight is key and an important pivot.

Senator VAN HOLLEN. I agree. That is why we provide some waiver authority. But I do think that the automatic feature is essential to deterrence. That is my view.

Thank you, Mr. Chairman.

Chairman CRAPO [presiding]. Thank you.

Senator Warren.

Senator WARREN. Thank you. Thank you, Mr. Chairman. And thank you to our witnesses for being here.

You know, it has been well documented by this Committee that the Trump administration has not implemented seven mandatory sanctions of the Russia sanctions law that was passed overwhelmingly by Congress last year. Of course, it does not mean that the Administration is doing nothing. Since January of 2017, the Trump administration has sanctioned 217 Russia-related individuals and entities and blocked hundreds of millions of dollars in Russian assets in the United States. And that is well and good, but there is a disconnect between the punitive actions taken against Russia by Treasury and the State Department and the behavior of President Trump himself—President Trump, who said it is an “incredible offer” to let Putin’s thugs interrogate our former diplomats.

So, Ms. Rosenberg, the former sanctions policy coordinator at the State Department, Dan Fried, told this Committee last week that, "Sanctions will have more power if they are embedded in an overall policy that works, is credible, and is consistently expressed." Do you agree with that?

Ms. ROSENBERG. Absolutely.

Senator WARREN. Good. So what impact do mixed messages from President Trump have on the effectiveness of our sanctions?

Ms. ROSENBERG. They undermine credibility of the U.S. policy posture, which is not a one-time problem. That goes on until the United States wins it back. My colleague was just saying that it is hard to gather and easy to lose.

Senator WARREN. Actually, very well put on that. It sounds like President Trump and the people he has appointed to be in his Administration are not on the same page when it comes to enforcing all our Russia sanctions and making sure that those sanctions are part of a comprehensive policy to push back on Russian aggression. And President Trump's mixed signals send the message to Putin that he will not face maximum punishment for trying to interfere in our democracy. That is not good for our security. It is not good for the security of our allies.

Sanctions usually follow an effort to try to follow the money, and the Russians close to Putin want to make it harder for the United States to follow the money. In the Russia sanctions law that was passed last year, Congress required Treasury to provide a report on the net worth and the income sources of senior Russians who were close to Putin. Instead of doing that, the Treasury Department copied and pasted the billionaires list that had already been published in Forbes.

Now, Ms. Rosenberg, in January, you recommended in an article that you published that the Trump administration "should provide additional public information about the oligarchs and officials named in the list and publicly describe which oligarchs and officials have engaged in acts of corruption and/or supported Putin's malign activities". Presumably, much of this information is contained in the classified portions of the reports and can be declassified following appropriate review.

So let me ask you, does the Treasury Department need additional authority from Congress to appropriately declassify and publicize this information?

Ms. ROSENBERG. No. They have independent authority to declassify intelligence as appropriate.

Senator WARREN. So without disclosing intelligence sources and methods, do you think it would be helpful to the United States and our allies if the Treasury Department published an unclassified report on the assets of Putin and his closest associates and the companies that they use to hide those assets and publish that on, say, a public website?

Ms. ROSENBERG. With the appropriate caveats that you mentioned to not reveal sources and methods, I would say transparency is our friend, and transparency is the friend to the Russian people who have a right to know how their State assets are being spent by their own Government.

Senator WARREN. Well, thank you. I hope that the Trump administration follows your advice and publishes this information. If we want to squeeze Putin and his cronies, we need to follow the money and expose the assets so that these corrupt individuals have fewer ways to hide their assets and keep themselves rich at everyone else's expense.

Thank you.

Chairman CRAPO. Thank you very much, Senator Warren, and that concludes the questioning.

Again, I want to thank our witnesses for not only your written testimony but your answers to questions here and the advice and guidance you have given us. And I am pretty confident that you will be getting some more questions for the record. I know I have at least one that I am going to submit to you, and I advise Senators that questions for the record are due September 19th, and I ask the witnesses, if you receive questions, if you would please respond as quickly as possible. Some witnesses drag that out a bit. It really helps us if you will respond promptly.

We will keep the record open for the next 7 days, and, again, I just want to thank the witnesses for your help. This is an incredibly important issue. It is very complicated, and it is important that we get it right. So thank you for being here with us today.

With that, this hearing is adjourned.

[Whereupon, at 3:54 p.m., the hearing was adjourned.]

[Prepared statements and responses to written questions supplied for the record follow:]

### PREPARED STATEMENT OF CHAIRMAN MIKE CRAPO

Let me begin by thanking our witnesses for agreeing to testify this afternoon, and to help the Committee gain a better understanding on what might motivate the Russian Federation's President Vladimir Putin to change his present dangerous and destabilizing course.

Further to the Administration's commitment to protecting our Nation's elections from foreign interference, the White House announced this morning a new Executive Order, based on its finding that the ability of foreigners to interfere in U.S. elections is an unusual and extraordinary threat to the national security of the United States.

The EO is entitled, "Imposing Sanctions in the Event of Foreign Interference in a United States Election", and requires the Director of National Intelligence to analyze and report on foreign Government actions, the AG and Homeland Security to report on whether or not the election was materially affected by any foreign interference and then requires the Secretaries of Treasury and State to impose whatever sanctions they determine appropriate.

A little bit later, I'm sure we may want to know what the impression of this is from our witnesses.

Today, the Committee meets for the third time, in as many weeks, on the subject of Russia and President Putin's aggressive, malign activities directed against the United States, its allies, and spheres of influence.

The hearings we have held so far have centered on the implementation status and the economic and political effectiveness of the existing sanctions architecture on Russia, including an assessment of the Countering America's Adversaries through Sanctions Act of 2017, or "CAATSA" as it is now known, and the Administration's use of its own authorities to sanction Russia.

In the course of those hearings, the Committee also explored the potential for expanding on the existing set of sanctions authorities in order to amplify the economic effects on Russia sufficient to cause a change in Putin's behavior and strategic calculus.

In our first hearing, we asked Administration officials drawn from the Departments of Treasury, State, and Homeland Security to testify on the question of whether or not the implementation of existing sanctions against Russia are working to deter or otherwise change Putin's behavior or strategic calculus with regard to the Kremlin's complete lack of regard for sovereign territorial integrity and independence of democratic institutions.

The Administration has sanctioned over 230 individuals and entities for violations of congressional and Administration sanctions authorities, and further reported that it was stepping up its efforts to defend our Nation's critical infrastructure and aggressively support State and local efforts to secure the 2018 U.S. midterm elections.

Those targeted include the heads of major State-owned banks and energy companies, many of Putin's closest associates or oligarchs and several Russian actors for interference in the 2016 elections.

On the issue of electoral interference, the Homeland Security official reported that malicious cyberoperations are not just State-run, not just run by a single actor and remain one of the most significant strategic threats to the United States.

In our second hearing, a panel of outside experts testified on the same question as the Administration, offering their own views on the need for the Administration to have a cohesive Russia strategy and implement CAATSA fully, while Congress considers enacting new sanctions legislation.

The Committee received testimony from the outside experts on the need for new, increased sanctions, since Russia has adapted itself to the current round of sanctions and, in fact, its economy has developed a resilience to the sanctions imposed by the United States and Europe.

As Rachel Ziemba explained in her testimony from our last hearing, "Russia's economy may not be thriving, but it is surviving." And, many analysts believe that situation can exist for a long time.

Yet, we also received testimony from each witness that a serious amplification of sanctions is fraught with the potential for unacceptable blowback against U.S. and European interests, and our interests in the Middle East and Asia, unless carefully constructed and tied to specific behaviors while appropriate discretion and off-ramps are carefully tailored.

Sanctions alone are no silver bullet and do not guarantee quick reversals of undesirable behaviors no matter how draconian the sanction, especially since the more draconian the sanction, the more difficult multilateral participation and enforcement become.

It stands to reason, then, that new sanctions must at least be accompanied by other tools to constrain a large Nation like Russia and deter a ruler like Putin from future malign activities.

I look forward to a broader discussion this afternoon on resisting Putin's aggression from a broader range of geoeconomic and strategic policy options available to the United States and its allies.

In addition to the sanctions discussed in our previous hearings, what other proposals should Congress and the president be considering to reach a desirable outcome with Russia?

How susceptible to domestic unrest is Putin's regime?

How important is it that the United States and Europe support each other's Russia strategy, and what would that have to look like?

We must, as a Nation, find that prescription for sanctions and other measures that break the factors contributing to a Russian resilience to economic sanctions and put real pressure on Putin to change his map for Kremlin hegemony.

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#### PREPARED STATEMENT OF SENATOR SHERROD BROWN

Thank you Mr. Chairman, for calling this hearing and our earlier hearings on the impact of Russia sanctions and what we might do to bolster them.

We are joined this morning by a distinguished panel of witnesses and I look forward to hearing from them.

Today we'll hear about some new ideas—sanctions and nonsanctions tools alike—that might be more aggressively deployed to counter Russian aggression.

They may include new sovereign debt and energy sanctions, transparency and anticorruption measures to combat Russian-generated money laundering through U.S. real estate transactions and offshore sources; and other measures to combat Russian illicit finance risks, or even to codify limits on Russia's access to World Bank and other international financial institution resources.

Our last hearing made clear that additional transparency would hit Russian elites where it hurts—in their pocketbooks, including their multimillion-dollar Manhattan and Miami condos.

As we've heard in our prior hearings, there is little disagreement that while sanctions have had some effect on Russia's economy, they're not having much effect on Putin's decision making. Russian abuses in Crimea and eastern Ukraine, Syria, and right here in the U.S. against our elections and other critical infrastructure, are common knowledge.

Just this week, reports have surfaced that the Russians may be behind the attacks on the health of our personnel in Cuba. And that they're supporting Assad's efforts to overtake the holdout province of Idlib, potentially with the use of chemical weapons, just as they have so brutally used barrel bombs against civilians there.

With over 3 million refugees and other civilians effectively trapped by intensified bombing, the U.N. has described this crisis as potentially the largest humanitarian catastrophe of our new century.

Russian aggression here also continues unchecked. During our hearings, no one on the Committee has challenged established conclusions of fact by the U.S. intelligence community about Russia's involvement in ongoing attacks against our infrastructure and elections.

And as our witnesses observed last week, we have to quickly resolve the growing tension between what military, intelligence, diplomatic, sanctions, and other professionals in the U.S. Government are doing to punish and deter Russia, and what the President himself is saying and doing.

Our Government must speak with one voice. The President should make clear how he will use CAATSA to forcefully respond to Russian attacks, issue an executive order that clearly outlines the sanctions consequences for continuing attacks directed at the midterms, and implement that order forcefully if attacks continue.

But as Ms. Rosenberg points out in her written testimony, a permissive executive order on election meddling is no substitute for further mandatory sanctions.

We should work with our allies rather than alienate them. Vladimir Putin would like nothing more than to drive division between the United States and Europe, and amongst the Nations of Europe. Europe can contribute more to NATO, as it committed to do in 2014 and has been doing since.

But today, September 12th, marks the day 17 years ago that NATO invoked Article 5, committing to take action alongside the United States if those responsible for 9/11 were identified. Isolation is a poor foreign or national security policy—then or now.

The same spirit of unity that marked our response in the weeks and months after 9/11 should also infuse our response to Russia's attacks on our Nation's infrastructure, and on our democracy.

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**PREPARED STATEMENT OF LEON ARON**

RESIDENT SCHOLAR AND DIRECTOR OF RUSSIAN STUDIES, AMERICAN ENTERPRISE  
INSTITUTE

SEPTEMBER 12, 2018

Thank you Chairman Crapo, Ranking Member Brown, and Members of the Committee: Before we discuss and evaluate specific measures, I think it might be helpful to begin by placing the sanctions on Vladimir Putin's regime (which is not to be equated with Russia or the Russian people!) in a larger context.

Why are sanctions, like those on Russia, imposed on countries? Essentially to exact domestic political costs on a country's foreign policy.

If that is the main purpose, there are two distinctions that need to be made in evaluating the impact of sanctions. One is short-term vs. medium- and long-term effects. And the other, more important distinction, is the difference between economic effects and political effectiveness. The former are relatively easy to achieve, especially when the disparity between the respective economies is as great as it is between the United States and Russia today. But the latter purpose, to change the policies of the sanctioned regime, is almost never achieved in the short term and has not been especially successful in the medium term either.

This has been the case almost everywhere and at all times. One reason is the hope that the sanctions will be lifted or at least lightened. Secondly, and most importantly, authoritarian regimes, even the seemingly stable ones, carry on what Churchill called the fight of bulldogs under the carpet. A quick retreat could lead to a hemorrhaging and eventually loss of the leader's power, which could be accompanied by the loss of one's life as well. Hence, defiance is almost always the first reaction.

Thus far, Russia has fit the general pattern, both with respect to the economic effects of the sanctions and their political effectiveness. Which is to say that the economic effects have been undeniable, damaging, and growing—but equally predictable has been the regime's defiance in the face of these sanctions. Alexei Kudrin, Putin's former and longest-serving Minister of Finance and still reportedly among Putin's most trusted economic advisors, has estimated the losses from sanctions and the absorption of Crimea into the Russian Federation from 2014 to 2017 at \$100–150 billion in a country whose GDP last year was around \$1.57 trillion.<sup>1</sup>

Similarly, according to the International Monetary Fund, the sanctions could initially reduce Russia's inflation-adjusted GDP to between 1 and 1.5 percent.<sup>2</sup> The actual losses are almost certainly higher because of the impact of capital flight, the drop in foreign direct investment, and imports of technology in a country where 90 percent of industry operates on imported equipment (and 100 percent in the most advanced sectors).

As to the pattern of defiance in the face of the sanctions, there is no need to detail it to this audience; a short list of Russia's postsanctions actions would do: the shooting down of a Malaysian airliner over Russia-controlled territory in July 2014; six months later the deployment of regular Russian troops in the battle against Ukrainian forces around the town of Debaltseve; nine months later the sending of Russian troops to Syria; a year later an attempted coup in Montenegro to prevent it from joining NATO; and then of course the interference into the U.S. presidential election and the poisoning of a former intelligence officer in Britain.

But the seeming absence of immediate political effects of the sanctions must not be confused with their ineffectiveness.

To begin with, we should not underestimate the power of moral outrage which the sanctions represent—especially if they are initiated by the only country that ultimately matters to Russians: America. As we learned after the Soviet Union collapsed, the moral outrage which U.S. sanctions represented chipped away at the regime's legitimacy. And Russia is not a totalitarian country. Public opinion matters.

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<sup>1</sup>“Russia's Losses From Crimea Integration Estimated at \$150–200 bln—Ex-Finance Minister”, TASS, March 31 2015, <http://tass.ru/en/russia/786132>.

<sup>2</sup>Anders Aslund, “Want To Hit Putin Where It Hurts? Target His Friends”, *The Hill*, September 2, 2018, <http://thehill.com/opinion/international/404524-want-to-hit-putin-where-it-hurts-target-his-friends>.



Similarly, we should keep in mind, and not be disheartened by the fact there are no silver bullets and it is very hard to invent something that is both new and effective.

As a result, the several packages of measures in the pipeline today, including the DETER legislation, appear most effective when they build on or deepen the existing sanctions that are most likely to have a domestic political impact.

I would single out two such measures.

First, the earlier ban on investment in and transfer of technology to the Russian oil industry—a measure that is furthered by the DETER package to including “blocking” or freezing assets of two of Russia’s three largest oil companies.

This is a ticking bomb under the Putin regime.

A former head of the Russia office of an oil multinational has commented in an elite Russian online journal that, I quote my translation, “From my own experience . . . I know that without Western technologies and investors the oil-and-gas sector of Russia would be on a deathbed.”<sup>3</sup>

True, Russia is not a petro-State like Saudi Arabia. No more than 15–20 percent of its GDP comes from oil and gas. But the tax revenues from energy exports constitute at least 50 percent of the Russian State budget. This is ready cash for President Putin to pay for his key political assets: the security services, the armed forces, over 36 million pensioners,<sup>4</sup> and millions of public-sector workers. Yes, in theory, if he does not have the money to feed these constituencies Putin may decide to turn Russia into a totalitarian State like Cuba or North Korea, where public opinion does not matter at all. Does he have the temperament for the inevitable bloodshed or for the risks involved? He may or may not. We simply don’t know. But these are exactly the kind of tough choices that sanctions should be designed to force Putin to make.

The ban on financing and technology transfer is a ticking bomb because while Russia is not running out of oil, it is beginning to run out cheap oil in Western Siberia. There is plenty of oil still left in Russia, more than any other country in the world, but most of it in Northeast Siberia is at or above the Arctic Circle, under permafrost, much of it offshore in the Kara Sea, Laptev Sea, and the East Siberia Sea. Virtually all of it must be mined at temperatures between minus 22 and minus 55 degrees Fahrenheit.

The startup investment in exploration and extraction is likely to run into the hundreds of billions of dollars, which Russia does not have—in addition to the required technology that Russia cannot even touch.

The second measure that is likely to have a sizeable domestic political effect is the restrictions under the DETER legislation that ban the sale of Russian sovereign debt. This policy builds on the already existing restrictions on raising capital by several Russian private companies and banks.

This past August, Russian media labeled the 14-day limit on operations with sovereign debt the “most serious threats to the Russian economy.”<sup>5</sup>

An outright ban on the sale of the OFZ, the Russian acronym for Obligatsii Federal’nogo Zayoma, or Federal Loan Bonds would be a very serious blow. As a Russia expert put it, OFZ’s are the “Finance Ministry’s workhorse funding instrument for the budget.”<sup>6</sup>

A third of Russian State debt is already held by foreigners, and Russian experts anticipate a massive fire sell-off for cents on the dollar and “nonresidents exit” from Russian “papers.”<sup>7</sup> Finally, the sale of sovereign debt, according to Russian experts, helps finance, among others, the Russian Pension Fund.<sup>8</sup>

Moreover, an ambitious economic program announced by President Putin after his inauguration this past May calls for nearly \$115 billion in additional spending over the next 6 years, and—along with hiking the Value Added Tax from 18 to 20 per-

<sup>3</sup>Konstantin Eggert, “Voina budet proigrana. Pochemu putinskaya elita boitsya sanktsii bol’she sovetiskoi” (The War Will Be Lost. Why the Putin Elite Fears Sanctions More Than the Soviet Elite), *Snob*, August 10, 2018 <https://snob.ru/entry/164380>.

<sup>4</sup>“Kakoe kolichestvo pensionerov zafiksirovano v Rossii v 2017 godu” (How Many Pensioners Are Registered in Russia in 2017), *Straxovoi Portal*, <https://insur-portal.ru/pension/kolichestvo-pensionerov-v-rossii>.

<sup>5</sup>Arnold Khachaturov, “Rubl’ Trepeshchet” (The Ruble Is Trembling), *Novaya Gazeta*, August 9, 2018, <https://www.novayagazeta.ru/articles/2018/08/09/77446-rubl-trepeshchet>.

<sup>6</sup>Ben Aris, “Even the Specter of Sanctions Is Hurting Russia”, *The Moscow Times*, August 25, 2018, <https://themoscowtimes.com/articles/even-the-specter-of-sanctions-is-hurting-russia-op-ed-62666>.

<sup>7</sup>Khachaturov, op. cit.

<sup>8</sup>See, for example, Vladislav Inozemtsev, “Prishli za Putiny” (They’ve Come for Putin), *Forbes.ru*, August 9, 2018, <http://www.forbes.ru/biznes/365639-prishli-za-putiny-chem-grozjat-kremlyu-novye-sankcii-ssha>.

cent,<sup>9</sup> and raising the retirement age, the Finance Ministry had planned to raise nearly \$36 billion by selling the OFZs, most of them to foreign investors.<sup>10</sup>

In conclusion, making Vladimir Putin moderate, not to mention retreat from, his current aggressive policies will require measures targeted as precisely as possible at increasing the domestic political costs of his regime's behavior—as well as a great deal of patience.

Thank you, Mr. Chairman.

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### PREPARED STATEMENT OF ELIZABETH ROSENBERG

SENIOR FELLOW AND DIRECTOR, ENERGY, ECONOMICS, AND SECURITY PROGRAM,  
CENTER FOR A NEW AMERICAN SECURITY

SEPTEMBER 12, 2018

Chairman Crapo, Ranking Member Brown, distinguished Members of the Committee, thank you for inviting me to appear before this Committee to discuss new tools to counter Russia.

Today, the security and integrity of the United States is under attack by Russia's threats to our democratic institutions. Additionally, Russia's malign activities actively undermine our core policies and values linked to respect for national sovereignty, rule of law, prohibitions against the use of weapons of mass destruction, and protection of human rights. Russia's malicious and aggressive foreign interference is also a destabilizing affront to U.S. global leadership and to the national interests of our closest allies.

Equally as alarming as the grave and deeply damaging harms wrought by Russia is the inadequate U.S. policy response. The directors of our intelligence agencies, U.S. cabinet-level officials, including the Secretaries of State, Treasury, and Defense, and the executives of the most prominent social media companies have spoken clearly about the threat. But so far, the Administration's policy response has appeared uncoordinated or contradictory, and has been insufficiently bold in indicating to Russia that its activities will not be tolerated. How U.S. policy leaders proceed now is of fundamental importance to the character of, and future for, our democracy and core values. Now, U.S. lawmakers must continue their strong leadership role in articulating a strategic vision for addressing this threat and deploying an array of policy tools to push back on Russia and uphold our national security.

The Trump administration has embraced a maximum financial pressure strategy to address many of our leading national security priorities, including responding to threats from Iran and North Korea. With regard to Russia, however, U.S. policy has suffered from uneven execution and limited implementation of the law, and a lack of strategy, uniform messaging, and long-term vision. The Administration has offered tough rhetoric and has embraced the use of sanctions. However, the White House has also telegraphed a desire to relieve tensions with Russia at times, sending confused signals to political leaders and to global financial and energy markets, and contributing to a loss of credibility for U.S. policy. The White House is reportedly considering tough new sanctions to respond to foreign meddling in U.S. elections.<sup>1</sup> However, the discretionary nature of such new authorities, coupled with signals from the President that Russian interference into U.S. elections is a "hoax", undermines their deterrent effect. Members of the U.S. policy community are more keenly aware of these unfortunately mixed signals than most, which is what led Congress to almost unanimous support for tough Russia sanctions legislation last summer, and what motivates the current push for more aggressive Russia measures.

I applaud the seriousness of purpose demonstrated by members of Congress to address the threats from Russia, and I support the notion that much more must be done. It is impossible, and possibly morally reprehensible, to countenance the threats we face and contemplate inaction. However, I urge policy leaders not to em-

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<sup>9</sup>"Russia's Duma Passes Bill Raising Value-Added Tax to 20 Percent". *The Moscow Times*, July 24, 2018, <https://themoscowtimes.com/news/russia-duma-passes-bill-raising-value-added-tax-20-percent-62331>.

<sup>10</sup>Ben Aris, "Russian Government Gets a New Programme and People", *bne Intellinews*, May 20, 2018 <http://www.forbes.ru/biznes/365639-prishli-za-putinyem-chem-grozat-kremlyu-novye-sankcii-ssha>; and see Aris, "Specter of Sanctions".

<sup>1</sup>Shane Harris, Josh Dawsey, and Ellen Nakashima, "White House Drafting Sanctions Order To Punish Foreign Interference in U.S. Elections", *The Washington Post*, August 8, 2018, [https://www.washingtonpost.com/world/national-security/white-house-drafting-sanctions-order-to-punish-foreign-interference-in-us-elections/2018/08/08/ef0939f2-9b0a-11e8-843b-36e177f3081c\\_story.html?noredirect=on&utm\\_term=.9bfdc2f24896](https://www.washingtonpost.com/world/national-security/white-house-drafting-sanctions-order-to-punish-foreign-interference-in-us-elections/2018/08/08/ef0939f2-9b0a-11e8-843b-36e177f3081c_story.html?noredirect=on&utm_term=.9bfdc2f24896).

brace policy that appears tough but lacks teeth, that strives to deliver consequences to Russia but instead imposes unintended consequences to our country and its allies, and undermines our foreign policy goals. Sanctions have been a U.S. tool of choice for addressing rogue regimes and thugs, and a favorite tool to address Russia since 2014. But they are not the only option or solution, and their pathological use can diminish U.S. credibility, and the cogency and availability of sanctions more generally. It is possible that the practical utility of U.S. sanctions on Russia is now primarily in the realm of messaging and of exposing malicious activity, rather than as a force to deter Russian malicious activities. Actually achieving such deterrence now will require an adaptation of the sanctions and economic pressure applied to Russia, a holistic foreign policy strategy, and the simultaneous use of an array of complementary policy tools.

### **The Role of Sanctions in Countering Russia**

The present U.S. sanctions regime targets a wide swath of Russia's malign activity. Currently, authorities are in place to expose and target Russia's illegal annexation of Crimea and territorial aggression in eastern Ukraine; support for Syrian President Bashar Assad's war crimes, including his use of chemical weapons on his own people; use of chemical weapons on the soil of a close U.S. ally; malicious cyberactivity; violations of human rights; and violations of various sanctions programs, including the North Korea sanctions program.

There has been a robust debate about whether sanctions have effectively delivered policy success since implementation of the major sanctions measures targeting Russia in 2014. The critics have a strong case that becomes more and more convincing with the passage of time, as the list of ills sanctions are meant to address becomes longer, as the United States loses credibility and allies in the campaign to push back on Russia, and as the policy delivery appears episodic and lacking in strategy.<sup>2</sup> This is a poor framework from which to expect policy success.

In fact, it appears likely that for these measures to deliver enough of an economic blow to Russia to compel policy change, they will involve an enormous set of economic consequences for the United States and its allies and trading partners. That may involve costs that the United States is only willing to bear if there is a broadly held view that we are truly at war with Russia, a political belief that is far from mainstream at present.

This does not mean that sanctions should not be part of the policy approach to address Russian threats, but rather that their application must be used to specifically expose and impose consequences for malicious Russian activities. They can also be used successfully to impede the flow of Russian money and curb Russia's malicious activities. Sanctions must not be overemphasized to the exclusion of other forms of economic statecraft, and sanctions must be paired with other tools of national power and coordinated with allies. Divided from our transatlantic partners on sanctions, we will struggle for clarity and strength in our Russia policy and we will alienate and harm our closest friends in the fight. Ultimately, U.S. sanctions cannot alone be expected to deliver foreign policy success; they must be combined with other tools of national power. Policymakers must proceed from this starting point when deploying this tool in the future.

Looking forward, policymakers must be especially mindful of the size and global interconnectedness of Russia's economy and the willingness and ability of its leaders to cope with economic hardship and not make political concessions in the face of this stress. While sanctions implemented by the United States and the European Union in 2014 and 2015 did cause economic damage to the Russian Federation, the Russian economy has shown itself to be resilient, and the Russian Government has shown itself to be an effective manager of the sanctions-imposed stress. Russia's recession ended in 2016, and while its growth has been a meager 1.5–2 percent since, this has been enough to avoid broad discontent with Putin's foreign policy. Rising oil prices and the ability of Russian State and private executives to court foreign exchange, particularly in light of the declining ruble, has been a powerful buoy to the Russian economy. Its leaders have worked diligently to bail out institutions under sanctions stress and raise capital to insulate itself from further sanctions. It has "on-shored" many critical capabilities, especially in its energy sector, is looking

<sup>2</sup>"America's Escalating Russian Sanctions: A Thickening Web", *The Economist*, August 30, 2018, <https://www.economist.com/europe/2018/08/30/americas-escalating-russian-sanctions>; Julia Ioffe, "How Not To Design Russia Sanctions", *The Atlantic*, January 31, 2018, <https://www.theatlantic.com/international/archive/2018/01/kremlin-report-sanctions-policy/551921/>.

to China as an alternative market and financier, and is bracing for a long fight with the United States.<sup>3</sup>

### **New Policy Measures on Russia**

The Senate is currently considering two major, bipartisan pieces of Russia sanctions legislation—the Defending Elections From Threats by Establishing Redlines Act of 2018 (DETER Act) and the Defending American Security From Kremlin Aggression Act of 2018 (DASKA Act). Both would impose sanctions on new issuance of Russian sovereign debt, place Russian banks on the U.S. Specially Designated Nationals and Blocked Persons (SDN) list, which would freeze any bank assets in the U.S. and block all transactions with the banks that come into U.S. jurisdiction, and would tighten sanctions on Russia’s energy sector, which remains a dominant source of Russian Government revenue. There are many ideas in the legislation worth careful evaluation and development, and I strongly support a premise and goal of the legislation: presenting powerful consequences to Russia to deter its threats and interference in our core democratic institutions, its territorial aggression, and Russia’s unacceptable breaches of sovereignty and human rights. The introduction of these pieces of legislation has already achieved a powerful political goal for U.S. foreign policy. It has signaled outrage and critique to Russia, and a clear intent to escalate policy measures in the face of Russian aggression and breaches in international norms that the United States cannot abide.

Lawmakers must proceed in earnest to refine proposed sanctions measures, but they must be mindful of the unintended consequences and the need to target the economic pressure on Russian interests rather than Russian trading partners. Lawmakers should aim squarely at sanctions targets directly involved in threatening and insidious activities. Doing so will expose this conduct in the public domain, garnering credibility for the United States and forming a basis for building multinational support to counter these Russian activities.

Maximalist sanctions designed to deliver a punishing blow to Russia’s biggest economic actors may seem appealing to security hawks eager to constrain or punish Russia, but they are not savvy. If U.S. policymakers attempt to unilaterally and suddenly sever ties between the largest Russian energy companies and their foreign partners they may negatively impact U.S., European, and Asian energy consumers or investors exposed directly or indirectly to the Russian market, and undercut U.S. sanctions strategy on Iran. U.S. policymakers may also inadvertently enrich Russian energy firms that replace foreign firms, thereby consolidating Russian influence in global supply and pricing. A further potential unintended consequence might be increases in the role Chinese firms play in the Russian market, undermining U.S. leverage on Russia. By contrast, a U.S. policy approach attempting to impede future investment and production capacity in the Russian energy sector, perhaps by limiting the provision of technology, specialty equipment, services, and capital, may deliver the economic pressure U.S. lawmakers intend but avoid disruptive market effects and harm to U.S. relationships with partners in Europe and developed Asian economies.

Similarly, U.S. sanctions measures targeting the entire stock of Russian debt trade and transactions can also have wide-ranging and disruptive market impacts. A more targeted sanctions policy approach of tailoring restrictions just on future debt issuance may achieve a strong economic and political signal and limit the consequences to U.S. interests. Although Russian authorities may be able to replace the foreign finance of new debt with either domestic sources (such as State banks, pension funds, or rich individuals) or rely on funds from autocratic States, doing so will impose costs in terms of rising rates, further restricting fiscal policy space and free cash flow of the Russian Government. As foreign ownership of Russian local currency debt has already fallen, at 28 percent of total outstanding issuance in late July according to Russian Government data, the contagion risk to other emerging markets via direct portfolio effects may have fallen. The symbolic effect of sanctions on primary issuance of sovereign debt might still be meaningful, and the economic effects would be concentrated in Russia and, to the extent that there is contagion, sentiment impacts on emerging markets with weak balance sheets, such as Brazil, South Africa, and Turkey, rather than on the debt of developed markets such as the United States.

<sup>3</sup>Rachel Ziemba, Senior Adjunct Fellow, Center for a New American Security, “Russia Sanctions: Current Effectiveness and Potential Future Steps”, Testimony before the U.S. Senate Committee on Banking, Housing, and Urban Affairs, September 6, 2018, <https://www.cnas.org/publications/congressionaltestimony/testimony-before-the-u-s-senate-committee-on-banking-housing-and-urbanaffairs?token=khIvHdgtVWsdRODQ0Q7LdfXd8eGg34y>.

Additionally, new defense measures may be most effective by taking a targeted approach to restricting Russia's ability to procure internationally made component parts for use in weapons and defense systems, possibly through an updated application of Countering America's Adversaries Through Sanctions Act (CAATSA) section 231. This could be done while maintaining reasonable pressure to reduce Russia's defense exports and earnings. When it comes to using sanctions to target cronies close to President Putin, it will be important to train these authorities on individuals who are actually part of Putin's inner circle and to the greatest extent possible expose their involvement in Russia's malicious and destabilizing activities.

There are certainly an array of other policy options that legislators must study to counter Russia, including through increased force posture and projection in Europe, the Eastern Mediterranean, and the Black Sea, and through offensive cyberoperations. There are also proactive measures the United States should pursue, through provision of aid and technical assistance, to advance European energy security, shore up support for backsliding democracies in Eastern and Central Europe, and support an informed and free press into Russia and in countries it seeks to influence and misinform.

### **Financial Transparency as a National Security Priority**

Now, in the realm of economic statecraft to address Russia, I urge U.S. lawmakers, and the Members of this Committee in particular, to pair any new set of sanctions measures on Russia with critical and much-needed policy to promote financial transparency and the disclosure of beneficial ownership information in the corporate formation process. This may have broad-ranging and powerful effects in exposing and deterring Russian corruption and illicit financial activity in the United States and Russia's interference in our democratic processes. Ultimately, it may be the most effective thing that Congress can do to root out and confront Russia's insidious influence and destabilization campaigns in our homeland. It should be a centerpiece of the array of tools the United States uses in a holistic policy to address the Russian threat, including military, diplomatic, intelligence, economic, technical and development assistance, and legal measures.

The current version of DASKA includes a provision to expand Geographic Targeting Orders for obtaining information from title insurance companies on beneficial owners of entities that purchase high-value residential properties.<sup>4</sup> While this would represent a useful new measure of financial transparency, it is wholly insufficient on its own to meet the scale of the vulnerability.

I urge you to take up new legislative language to require the collection and disclosure of beneficial ownership information in the corporate formation process and on an ongoing basis. This would offer a powerful solution to the problem of anonymous companies in the United States, which represents an appalling gap in the integrity of our financial system and an enormous loophole that enables malicious actors, including Russian operatives seeking to undermine U.S. democratic institutions and processes, to operate anonymously and with utter impunity in the United States.

The United States boasts the most sophisticated and preeminent financial system globally, with unparalleled financial crimes enforcement capabilities and resources. Yet, even with all of those advantages, our financial system has a wide-open back door for our adversaries to march through, set up shop and wage an enormous and well-funded influence campaign, laundering money, and paying for attacks on our democracy. U.S. law enforcement agencies have been asking for access to beneficial ownership information for some time, the likes of which could help to expose and deter Russian attacks on our democracy. But, despite the severity of the threat, these requests from the law enforcement community have been ignored.<sup>5</sup> Banking executives also support the requirement for collection of beneficial ownership information, as it would help them to better protect themselves from abuse by criminals and other illicit financiers.<sup>6</sup>

The international community is well aware of the gaps in U.S. oversight of corporate entities. The Financial Action Task Force (FATF), the global standard-setter for financial crimes compliance, found the United States "noncompliant" in its most

<sup>4</sup>United States Senate, *Defending American Security Against Kremlin Aggression* of 2018, S. 3336, 115th Congress, <https://www.congress.gov/bills/115/congress/senate-bill/3336/titles>.

<sup>5</sup>M. Kendall Day, Acting Deputy Assistant Attorney General, Criminal Division, U.S. Department of Justice, "Beneficial Ownership: Fighting Illicit International Financial Networks Through Transparency", Testimony to the Senate Judiciary Committee, February 6, 2018, <https://www.judiciary.senate.gov/imo/media/doc/02-06-18%20Day%20Testimony.pdf>.

<sup>6</sup>Greg Baer, President, The Clearing House Association, "Implementation of FinCEN's Customer Due Diligence Rule—Financial Institution Perspective", Testimony to the House Financial Services Subcommittee on Financial Institutions and Consumer Credit, April 27, 2018, <https://financialservices.house.gov/uploadedfiles/hhrg-115-ba15-wstate-gbaer-20180427.pdf>.

recent review of our approach to transparency and beneficial ownership. As FATF stated: “Beyond [a SEC requirement for entities which issue securities] there is no requirement for other companies or company registries to obtain and hold up-to-date information on their [beneficial owner] or to take reasonable measures to do so.”<sup>7</sup> This is an alarm bell about a tremendous gap in our national security, one we know that Russia is exploiting.

At present, anonymous companies are free to operate without providing accurate information to law enforcement. This enables their involvement in illicit activity, such as money laundering, or the funding of major political and social influence campaigns to undermine our democracy and sow discord.<sup>8</sup> Other jurisdictions also rated by FATF as noncompliant during this evaluation period include: Nicaragua, Sri Lanka, Zimbabwe, and Panama.<sup>9</sup> It is disgraceful that this level of international public humiliation for inadequate beneficial ownership regulations has done nothing to motivate policy change.

Why have our financial and national security leaders failed to act? Efforts to advance beneficial ownership over the last year have foundered on concerns about privacy and the burden of imposing such regulations on small businesses. But these protestations are often inflated, ideological, and impractical. It is possible to responsibly balance civil liberties concerns and the requirement to disclose basic beneficial ownership information. Our national security and the need to maintain the integrity of our democracy demand it.

Even before the chilling revelations about insidious Russian threats from the U.S. intelligence community and social media executives before Congress, there was a broad coalition of law enforcement, business interests, and national security supporters that supported beneficial ownership legislation. Kenneth Blanco, the Director of the Treasury Department’s Financial Crimes Enforcement Network (FinCEN) testified to the House Committee on Financial Services about the importance of collecting beneficial ownership information for the implementation of the new Customer Due Diligence (CDD) Rule.<sup>10</sup>

The Financial Accountability and Corporate Transparency (FACT) Coalition, a nonpartisan alliance of civil society and public interest organizations, has highlighted the high cost of allowing illicit money to flow absent greater transparency measures.<sup>11</sup> They have focused specifically on the threat of illicit finance originating through the use of anonymous corporate entity formation as a grave national security concern, most recently in an open letter to the House Committee on Financial Services from distinguished experts on the topic with decades of relevant Government experience.<sup>12</sup>

State Governments, which have specific responsibility for regulating corporate entities within their borders, are also starting to sound the alarm. Earlier this year, 24 State attorneys general signed a letter to Congress calling for tightening of beneficial ownership transparency.<sup>13</sup> The need to effectively address Russian threats, including to our democratic institutions and processes, must be the catalyst to motivate policy change on beneficial ownership now. Lawmakers should adopt this policy and make it part of the economic statecraft targeting Russia, embracing it alongside

<sup>7</sup> Financial Action Task Force, “Anti-Money Laundering and Counter-Terrorist Financing Measures: Mutual Evaluation Report” (December 2016), <http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MERUnited-States-2016.pdf>, 224.

<sup>8</sup> Matea Gold, “Did Facebook Ads Traced to a Russian Company Violate U.S. Election Law?”, *The Washington Post*, September 27, 2017, [https://www.washingtonpost.com/news/postpolitics/wp/2017/09/07/did-facebook-ads-traced-to-a-russian-company-violate-u-s-election-law/?hpid=hp\\_hp-top-table-main-facebook-ads%3Ahomepage%2Ft%3Afacebook&utm\\_term=.46220204c35d](https://www.washingtonpost.com/news/postpolitics/wp/2017/09/07/did-facebook-ads-traced-to-a-russian-company-violate-u-s-election-law/?hpid=hp_hp-top-table-main-facebook-ads%3Ahomepage%2Ft%3Afacebook&utm_term=.46220204c35d).

<sup>9</sup> Financial Action Task Force, Table of ratings for assessment conducted against the 2012 FATF Recommendations, using the 2013 Methodology (September 2018), <http://www.fatf-gafi.org/media/fatf/documents/4th-Round-Ratings.pdf>.

<sup>10</sup> Kenneth Blanco, Director, Financial Crimes Enforcement Network, “Testimony for the Record”, Testimony to the Subcommittee on Terrorism and Illicit Finance, House Committee on Financial Services, May 16, 2018, <https://financialservices.house.gov/uploadedfiles/hhrg-115-ba01-wstate-kblanco-20180516.pdf>.

<sup>11</sup> FACT Coalition, “Briefing Memo: IRS Does Not Collect Beneficial Ownership Information and Additional Concerns With an IRS Approach”, May 7, 2018, [https://thefactcoalition.org/briefing-memo-irs-does-not-collect-beneficial-ownership-information-and-additional-concerns-with-an-irs-approach?utm\\_medium=policy-analysis/briefing-memos](https://thefactcoalition.org/briefing-memo-irs-does-not-collect-beneficial-ownership-information-and-additional-concerns-with-an-irs-approach?utm_medium=policy-analysis/briefing-memos).

<sup>12</sup> FACT Coalition, “36 Former Military and Civilian National Security Leaders Urge House of Representatives To End Anonymous Shell Companies”, June 1, 2018, [https://thefactcoalition.org/36-former-military-civilian-national-security-leaders-urge-congress-end-anonymous-shell-companies?utm\\_medium=resources/incorporation-transparency](https://thefactcoalition.org/36-former-military-civilian-national-security-leaders-urge-congress-end-anonymous-shell-companies?utm_medium=resources/incorporation-transparency).

<sup>13</sup> “Ferguson Calls on Congress to Require Shell Company Transparency”, Washington State Office of the Attorney General, press release, August 2, 2018, <https://www.atg.wa.gov/news/news-releases/fergusoncalls-congress-require-shell-company-transparency>.

broader economic and financial sanctions in any forthcoming legislation targeting Russia.

Additionally, to further promote financial transparency that can protect us from Russia's meddling and threats to our homeland, Congress should consider long-delayed crossborder funds transmittal reporting requirements.<sup>14</sup> Current regulations require financial institutions to retain records of electronic funds transfers of greater than \$3,000. However, there is no requirement that this information be furnished to FinCEN, merely that it be retained in the event that FinCEN asks for it. This passive approach stands in contrast to other leading economies that require disclosure of international value transfers as a matter of course. The countries, including close U.S. allies, have found this information valuable for understanding and combating national security threats, including the progress of rogue regimes in the financing of proliferation of weapons of mass destruction and other financial crimes. Congress should revisit the feasibility of the FinCEN proposed rule and consider what implementation of the crossborder rule would do to address and combat the Russian threat to U.S. national security.

#### Further Congressional Oversight

Beyond these measures there are other policy options that the U.S. Congress should consider to advance its efforts to promote transparency and expose and counter Russia's threats. First and foremost, lawmakers must keep up the pressure in their oversight efforts, calling the Administration to regularly account for its strategy and implementation of policy. The Treasury Department's repeated extension of a sanctions wind down period to the Russian aluminum firm Rusal should serve as a lesson to Congressional overseers in needing to better understand the potential consequences of sanctions action, and in playing a more active role in making sure that their message and effect are consistent with a coherent policy toward Russia. Rusal was targeted because it is controlled by Russian oligarch Oleg Deripaska, whose holding company was also sanctioned. In designating the entire firm, however, the Treasury Department put the aluminum market into a spiral, with potential long-term consequences for the firm's operations worldwide, including in the United States, supply chains, and how traders and observers perceive—and unfortunately misperceive—the intent of U.S. sanctions.<sup>15</sup>

Congress also has an important role to play in elevating oversight of sanctions authorities already in place. Additionally, CAATSA required the Administration to produce an annual report that identifies and maps “illicit financial flows linked to the Russian Federation if such flows affect the United States financial system or those of major allies of the United States.” Congress should use this report as a roadmap for identifying areas in which the Treasury Department could use additional resources, or be encouraged to expand existing efforts to share information with allies, break down barriers to interagency cooperation, identify typologies of Russian illicit finance, and better repair other gaps in our regulatory or legal infrastructure.<sup>16</sup>

While Congress considers various measures to advance the transparency of how categories of corporate entities in the U.S. financial sector operate, it should not lose sight of the opportunity to extend transparency to other ways the Russian Government and Putin's inner circle funnels money into the United States. Lawmakers can consider restrictions on investment of Russian money in the U.S. market, especially by individuals identified as oligarchs, many of whom have demonstrable connections to Russian President Vladimir Putin. The U.S. Treasury has wide authority to freeze assets and impose other sanctions on these actors, and initial evidence from the April sanctions of some of these cronies and oligarchs suggests that investment restrictions do put pressure on members of Putin's inner circle.<sup>17</sup> The current

<sup>14</sup> Financial Crimes Enforcement Network, “Implications and Benefits of Cross-Border Funds Transmittal Reporting” (January 2009), <https://www.fincen.gov/sites/default/files/shared/ImplicationsAndBenefitsOfCBFTR.pdf>.

<sup>15</sup> Donna Borak and Marshall Cohen, “Sanctions on Russia's Rusal Could Be Lifted, Mnuchin Says”, *CNN.com*, July 27, 2018, <https://www.cnn.com/2018/07/27/politics/mnuchin-russia-sanctionsrusal/index.html>.

<sup>16</sup> Public Law 115-44, “Countering America's Adversaries Through Sanctions Act”, August 2, 2017, Section 243; the first report can be found at Treasury Department, Report to Congress Pursuant to Section 243 of the Countering America's Adversaries Through Sanctions Act of 2017 Regarding Interagency Efforts in the United States to Combat Illicit Finance Relating to the Russian Federation (August 6, 2018), [https://home.treasury.gov/sites/default/files/2018-08/U\\_CAATSA\\_243\\_Report\\_FINAL.pdf](https://home.treasury.gov/sites/default/files/2018-08/U_CAATSA_243_Report_FINAL.pdf).

<sup>17</sup> Tom Keatinge, “This Time, Sanctions on Russia Are Having the Desired Effect”, *Financial Times*, April 13, 2018, <https://www.ft.com/content/cad69cf4-3e40-11e8-bcc8-cebcb81f1f90>.

version of the DETER Act includes authorities for mandatory sanctions on “any senior foreign political figure or oligarch in the Russian Federation”, including a visa ban if the Director of National Intelligence determines that the Russian Government, or agents acting on its behalf, knowingly interfered in a U.S. elections.<sup>18</sup>

An additional idea that Congress should begin to study is the development of new anti-money laundering requirements, which currently apply primarily to banks and money services providers, to cover other kinds of professional services providers that Russian oligarchs and cronies rely on to move money into the U.S., such as investment advisors, venture capital and private equity firms, and certain professional services providers. Press reports have highlighted the potential threat from Russian venture capital firms in Silicon Valley, who may be using Russian State resources to acquire sensitive national security-applicable technology.<sup>19</sup>

### Conclusion

Every American should be concerned about Russia’s efforts to undermine our democracy, to violate sovereignty, and to blatantly support and enable grave abuses of human rights and use of weapons of mass destruction. The scope of these threats is broad, and there is limited indication that Russia is deterred by any of the policy measures that have been undertaken to date. Congress has used coercive economic and financial measures to push back against this malign activity, measures which are justified by the severity of the threat. However, those tools must be used wisely, in conjunction with other financial, diplomatic, and military tools, and in coordination with allies.

In particular, the financial transparency measures I outlined today would constitute a powerful weapon to push back against the flow of Russian money into our financial system, which has been difficult for law enforcement officials to track and account for. These measures would lose deficiencies that have made the United States a haven for illicit finance from a variety of sources, including those who work on behalf of Russia’s malign influence campaigns. Many of the solutions I have outlined have been proposed or considered in previous agency regulation or legislation. All that is required is the political will to follow through on their adoption and implementation.

Congress has taken an active role in the application of sanctions to the variety of areas in which the United States and Russia are at odds. Congress has a direct role to play in this aspect of the fight as well, by eliminating the pervasive use of anonymous corporate entities, providing more resources to Treasury/FinCEN, but also exercising oversight of their activities, and pursuing other disclosure measures that will shine a light on dirty money flowing through the U.S. financial system. In doing so, Congress can put tremendous pressure on Russia’s malign activity and offer a strong complement to the other methods the United States is using to defend itself against this unprecedented threat.

Thank you for your time and attention. I look forward to answering your questions.

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### PREPARED STATEMENT OF DALEEP SINGH

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SEPTEMBER 12, 2018

Mr. Chairman and Ranking Member Brown, thank you for the opportunity to appear before this Committee.

As a Treasury official, I worked extensively on the design of Russia sanctions in 2014. Looking back, I draw three main conclusions from the experience: (1) sanctions “do their job” if they are carefully designed and embedded into a coherent foreign policy; (2) the signaling of future sanctions is at least as potent as the actions themselves (like any weapon, the best sanctions are never used); and (3) sanctions aren’t enough to change behavior. Bearing these lessons in mind, I will offer suggestions to counter ongoing Russian aggression and malign behavior—both using sanctions and other economic tools.

For context, allow me to share perspective from the 2014 experience.

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<sup>18</sup>U.S. Senate, “Defending Elections From Threats by Establishing Redlines Act of 2018”, S. 2313, 115th Congress, 2nd Session, January 16, 2018, <https://www.congress.gov/bills/115/congress/senate/bills/2313/text/toc-idA56783BD8F5140649B72C1AA9AE7BCA9>.

<sup>19</sup>Zach Dorfman, “How Silicon Valley Became a Den of Spies”, *Politico*, July 27, 2018, <https://www.politico.com/magazine/story/2018/07/27/silicon-valley-spies-china-russia-219071>.



### How Were Sanctions Designed in 2014?

Before 2014, the United States had never imposed sanctions on a country the size of Russia. It was the tenth largest economy in world, with a GDP roughly the size of Italy. More important than its size was the complexity of Russia's economy and its connections to the rest of the world. Russia was and is of systemic importance in global energy markets, ranking second and third in the production of natural gas and oil, respectively. Its largest banks were comparable in size and complexity to Lehman Brothers before 2008. Given the high stakes involved, our objective was clear: design a menu of options that could deliver<sup>1</sup> economic costs while minimizing spillovers to the U.S. and global economy.

We pursued this objective by first writing down a set of guiding principles that remain instructive. Sanctions against a large, complex, and integrated market economy such as Russia should be: (1) powerful enough to demonstrate U.S. resolve and our capacity to impose overwhelming costs; (2) responsible to limit contagion through the U.S. and global financial system; (3) targeted to avoid the appearance of punishing the Russian civilian population and, in doing so, strengthening Putin's domestic narrative; (4) calibrated to increase the chance of partnering with European and international allies; and (5) staged to preserve scope for escalation or deescalation, in addition to learning from previous steps.

Putting these principles into action required an understanding of Russia's economic pressure points. We focused on asymmetries. Where did U.S. economic leverage intersect with Russia's vulnerability? Foreign capital was and is an obvious choice. U.S. and European firms are the dominant suppliers of something Russia needed in large quantity and could not easily replace from other sources. Similarly, in energy, Russia's supply chains were dependent upon U.S. and European technology to boost their long-term production capacity and innovative potential. Here again, U.S. and EU companies are major suppliers of goods and services that Russia needs and cannot easily replace.

### Financing Restrictions Proved Especially Potent

Restricting foreign capital proved even more potent than we anticipated. By removing U.S. and European supply of debt and equity financing to the largest Russian State-owned enterprises in the most critical sectors of the economy, the 2014 sanctions triggered a wave of capital outflows from Russia, followed by economic recession.

The mechanism by which the financial restrictions operated is worth recalling to appreciate their potency. For sanctioned entities, the restricted supply of Western capital spiked their cost of borrowing and reduced their access to foreign capital at any price. The sudden financing shock impaired our targets' credit profiles, leading to record levels of capital outflows from Russia as a whole. In a futile attempt to defend the ruble, the Russian central bank depleted about a quarter of its foreign currency reserves before allowing the currency to depreciate up to fifty percent from its presanctions level against the U.S. dollar. Importantly, the speed of the negative feedback loop in Russia was determined by market forces and Putin's own actions, not prescribed in advance by U.S. policy.

Import prices surged in tandem with the weakened currency and pushed overall inflation to the midteens, forcing several rounds of emergency interest rate hikes by the central bank to extreme levels. Banks required Government injections of capital and regulatory forbearance to avoid insolvency. Adjusted for inflation, wages and spending collapsed. Bank lending and investment dried up.

### Spillover Risks Were Managed Carefully

By the second half of 2014, we knew these sanctions had the potential to deliver a knockout blow, particularly with lower oil prices causing a dual shock,<sup>2</sup> but we took care to limit unwanted spillovers—both to increase the staying power of sanctions and to avoid appearances of targeting Russian civilians. Our sanctions only targeted a handful of State-owned companies in key sectors. We did not target private companies, nor we did not sanction all sectors of the economy. We prohibited new U.S. flows of financing to the targets of our sanctions, but existing stocks of risk were not disrupted. U.S. investors remained free to reduce exposure to Russia at a pace and magnitude of their own choosing. Derivatives and money markets, both of which tend to be the “dry tinder” of financial crisis, were largely untouched by sanctions.

<sup>1</sup> Strictly speaking, maximizing costs (financial crisis) was not the objective.

<sup>2</sup> Most credible estimates are that 10 to 40 percent of Russia's economic contraction during this period was due to sanctions, with lower oil prices playing a larger role.

### **Impact and Spillovers Were Largely as Expected**

Due in large part to this restraint, the economic impact to and spillovers from Russia were in line with our expectations. The Russian economy contracted 2.8 percent in 2015, the largest decline among large economies, and the recession continued in 2016. Somewhere between one-half and two-thirds of this impact was likely caused by lower oil prices; the rest we can conservatively attribute to sanctions.

Over the medium term, these sanctions dealt a weak strategic hand to Putin's Russia. Its already depleted capital stock was starved of much-needed financing and direct investment. Removal of U.S. and European energy technology, and the deintegration of Russia from the global financial system, deprived Russia of key inputs to productivity growth and made its economy even more brittle. The overall chilling effect reportedly prompted defections from talented portions of Russia's declining labor force. As of last July, the IMF estimated potential growth in Russia over the medium-term at no more than 1.5 percent.

Meanwhile, unwanted spillovers within Russia and to Western economies were largely contained. Sanctions forced the Russian Government to deplete a portion of its finite set of resources to contain financial and economic stress, but we avoided causing widespread panic and impoverishment among the general public. This was consistent with our purpose: to create diplomatic leverage and deal space, not to deliver a knockout blow.

Blowback to the U.S. economy was minimal in the aggregate, although certain businesses and sectors were more negatively affected. (By construction, sanctions are an economic distortion; spillovers are unavoidable). Even for Europe, where direct trade and financial linkages to Russia are far more significant, the effects were summarized by the European Commission as "contained."<sup>3</sup> In fact, without sanctions, it is fair to project that the costs and uncertainties brought about by unchecked Russian aggression in the heart of Europe would have been far less contained than what was experienced.

### **Signals Were at Least as Important as Actions**

Throughout this process, both the impact and spillovers from sanctions were managed through signaling. The signals were expressed by the most senior officials of the U.S. Government, and they were made credible by a coherent, multifaceted, and coordinated foreign policy.

In March 2014, after announcing the first round of sanctions against Russia, President Obama signaled the possibility of further escalation with a new executive order that authorized broader sanctions against key sectors of the Russian economy. In the same statement, he pushed forcefully in favor of an IMF bailout program for Ukraine—a recognition that the best defense against Russian aggression was a strong economic offense. Vice President Biden was dispatched to the Baltic States to reinforce our Article 5 commitment to NATO countries, and to step up cooperation with Europe on developing buffers against energy shortfalls in the region.

After announcing sanctions in July 2014 against Russia's largest banks, energy companies, and defense firms, President Obama warned again that the costs on Russia would ratchet higher if Putin's aggression in Ukraine continued. He also signaled that European allies were poised to replicate our sanctions after close consultations (which they did, multiplying the direct effect of sanctions and reducing the competitive disadvantage to U.S. firms). The same credible threat of escalation was repeated by President Obama in September after another round of sanctions, this time targeted at Russia's largest bank, even amid diplomatic efforts in Minsk to broker a cease-fire.

Many of the most punishing days in Russian markets during 2014 were not those in which new sanctions actions were formally announced; some of the biggest impacts were delivered after signals about future policy were revealed. This makes intuitive sense. Markets are forward-looking; asset prices determined by expectations about the future. Escalatory signals were often enough to could deliver impact to Russian markets without taking any new action, and they were perhaps a small counterweight to Putin's so-called "escalation dominance" in the military realm. Of course these effects become muted when investors doubt the credibility of the threat, but this has only become a relevant concern more recently.

### **Changing Behavior**

Did any of these costs ultimately matter to Putin? Answering this question is beyond my expertise, but I would observe that any leader—however rogue—cares about popularity (at least as a method of control), and recessions do not win hearts and minds. Putin's tolerance for economic pain is demonstrably higher than that of

<sup>3</sup> 0.3 percent of GDP in 2014 and 0.4 percent in 2015.

most Western leaders, but I believe there is a threshold above which his calculus is changed. Pointing out Putin's history as a tactical opportunist, some have argued convincingly that were it not for the mounting costs to the Russian economy in late 2014, Putin's forces would have marched all the way to Kyiv; or, at a minimum, he would have rejected even half-hearted engagement in the Minsk process. We'll never know the counterfactual, but by the Russian leadership's own admissions the impact of sanctions was appreciable during this period. Even less clear is whether we managed to win the narrative. Do the Russian people understand that U.S. sanctions were an attempt to defend the sovereignty and territorial integrity of a free country? Or do most Russians believe in Putin's story that the recession of 2014–15 is just the latest in a series of historical injustices perpetrated by the West? We simply don't know the answer, and this is a subject I will address in the recommendations section.

### Current Context and Recommendations

Turning to the current context, we know that Russian aggression and violations of sovereignty have spread across Europe and the U.K., into Syria, and certainly here at home. At the same time, economic and financial conditions in Russia have improved markedly. The economy is out of recession. Inflation recently touched an all-time low. Oil prices have tripled from their trough. Foreign reserves have been replenished to presanctions levels. The Government's deficit and debt profiles remain sound. Both the provocations from Russia, and its ability to absorb a hit from sanctions, have increased.

Against this background, I would emphasize that the sanctions toolkit designed in 2014 does not need to be reinvented. What matters, ultimately, is the political willingness to use our sanctions tools in a sustained and coherent fashion, together with high-level signaling that expresses our resolve to change Putin's behavior. Escalation can take two general forms: increasing the scope of existing sanctions to cover a broader set of targets, or deepening the scale of impact on any particular individual or institution. Sanctions can go broader, deeper, or both.

Below I sketch out an illustrative set of options that apply the principles described earlier.

First, costs should be broadened to include the very highest levels of the Russian Government. At a minimum, Treasury and other authorities should conduct a study that attempts to identify the location, holdings, and financial intermediaries that manage and benefit from Putin's wealth. Even in the unlikely scenario that this effort has no effect on Putin's geopolitical calculus, it will signal to the Russian people that our quarrel is not with them, and it might provide a measure of transparency on his fortunes held abroad.

Second, U.S. investors should be prohibited from purchasing new Russian sovereign debt. In 2014, I was more cautious about the unpredictable spillover effects that could result from a sudden disruption to Russia's risk-free, benchmark asset, particularly during a period of acute stress. To be clear, this is still a serious step—but circumstances have changed. Russia is far better able to absorb a hit to its sovereign debt market, considering the background conditions described earlier,<sup>4</sup> and investors have had years to reduce exposures in Russia. More to the point, I can think of no credible argument why U.S. public pension funds and savings vehicles should indirectly fund the Russian Government while the latter continues to sponsor violations of U.S. sovereignty.

Third, while I am not in favor of prohibitions on secondary market trading<sup>5</sup> of Russian assets as a general matter, there is merit in constructive ambiguity. Requirements on U.S. persons to disclose any existing holdings of Promsvyazbank (Russia's designated bank to service the defense sector), and possibly VEB, would be an effective step to generate a broader chilling effect, especially if it includes a grace period. By itself, this measure would not prohibit any activities, but markets are conditioned to read the signals. These financial institutions are appendages of the Russian Government, oriented around domestic lending with relatively fewer international linkages than other large Russian banks.

Fourth, a comprehensive package to counter Russian aggression requires an offensive economic strategy in its near abroad, not only to Ukraine but also to Georgia, the Baltics, Moldova, and possibly central Asia. Possible steps could include conditions-based financial support to reinforce long-standing IMF priorities in the region to improve the rule of law, battle corruption, and implement market-oriented re-

<sup>4</sup>In fact, the Russian Finance Ministry recently suggested it would buy back its domestic debt in an adverse scenario.

<sup>5</sup>Secondary market trading refers to the buying and selling of a financial instrument (e.g., Russian debt) after it has been issued.

forms. The overarching purpose is to create successful alternatives to Russian-style autocracy.

Finally, I would strongly encourage a robust campaign to improve transparency within Russia. Distributing verifiable evidence of corruption, and the dependence of the current regime on kleptocracy, would help to counter the Government's disinformation campaigns and its control of the media. Working with the IMF and other multilateral institutions could also shine a light on the basic challenges of doing business in Russia—enforcing contracts, protecting intellectual property, and defending property rights. Fostering genuine private-sector exchanges between the U.S. and Russia could also help in this regard.

Mr. Chairman and Ranking Member Brown, thank you once again for the invitation to testify, and I look forward to your questions.

**RESPONSES TO WRITTEN QUESTIONS OF CHAIRMAN CRAPO  
FROM LEON ARON**

**Q.1. *Discretion and Penalties.*** In your discussion of the President's recent Executive Order "Imposing Certain Sanctions in the Event of Foreign Interference in a United States Election", issued on September 12, 2018, you each raised some concern over the amount of discretion the Administration retained in the process of coming to a sanctions determination.

In your opinion, what is the optimum amount of discretion for this or any future Administration to retain in this particular case, or sanctions determinations more generally?

**A.1.** The standard practice is to grant the Executive flexibility and discretion as to the timing and scope of application, while preserving the overall Congress-mandated framework.

**Q.2.** The Director of National Intelligence is tasked with investigating and reviewing election meddling from almost any foreign source, should that review culminate in assessment of foreign interference, in your opinion, should sanctions be automatically imposed on that assessment, or should there be a further finding of materiality by the Attorney General and Secretary of Homeland Security?

**A.2.** Given the sensitivity of the issue and that, in the case of Russia, the other nuclear superpower would be sanctioned, I would support the involvement of the AG and Homeland Security.

**Q.3.** In other words, would it be good policy, in your opinion to have the intelligence community making sanctions determinations, itself?

**A.3.** See the above.

**Q.4.** The Executive Order and the DETER Act, each contemplate sanctions against any foreign actor, but the specific types of sanctions and their targets are only specified with regard to Russian interference.

In your opinion, should the types of sanctions and their targets be any different for other foreign actors who interfere in U.S. elections?

**A.4.** I believe sanctions ought to be meted out based on the severity of offense, not on the country of origin.

**Q.5. *Other Tools.*** The Committee has held two hearings, before today, and a number of Senators, and witnesses alike, have advocated for harsher restrictions, moving forward.

How much more can the U.S. amplify sanctions against an economic and political target like Russia, before contagions and spillovers make their use unacceptable to the United States?

**A.5.** Since the target is the world's other superpower, Congress should understand that at least some negative consequence for the U.S. are inevitable. As I mentioned at the hearing, a ban on the purchase of Russian sovereign debt (OFZ) is one such option. Russia's exclusion from the SWIFT system would represent an ultimate escalation (bearing in mind that Russian officials have called such a move a "declaration of war").

**Q.6.** What other tools or policies, beyond sanctions, might encourage Russia to reverse course in Ukraine, or cease its information warfare operations against the democratic processes of the United States and European Union?

**A.6.** Outside the sanctions, the toolbox is rather small. A more vigorous and robust support of Ukraine in its ongoing war with Russia would represent one such step.

**Q.7.** In your opinion, which tools in the U.S. toolbox would Putin fear more than sanctions?

**A.7.** Being forced to withdraw from Ukraine.

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**RESPONSES TO WRITTEN QUESTIONS OF CHAIRMAN CRAPO  
FROM ELIZABETH ROSENBERG**

**Q.1.** *Discretion and Penalties.* In your discussion of the President's recent Executive Order "Imposing Certain Sanctions in the Event of Foreign Interference in a United States Election", issued on September 12, 2018, you each raised some concern over the amount of discretion the Administration retained in the process of coming to a sanctions determination.

In your opinion, what is the optimum amount of discretion for this or any future Administration to retain in this particular case, or sanctions determinations more generally?

**A.1.** As a general matter, Congress should prescribe what activity ought to be exposed, deterred, and/or targeted by sanctions, while the Administration must maintain the flexibility to select individuals or entities to target with designations. This will facilitate an appropriate balance between the use of sanctions and other tools of statecraft and ensure that the Administration can keep the sanctions list appropriately updated.

**Q.2.** The Director of National Intelligence is tasked with investigating and reviewing election meddling from almost any foreign source, should that review culminate in assessment of foreign interference, in your opinion, should sanctions be automatically imposed on that assessment, or should there be a further finding of materiality by the Attorney General and Secretary of Homeland Security?

**A.2.** A determination of interference should not automatically lead to the imposition of sanctions. The Administration must have discretion to determine thresholds of significance or materiality, and the appropriate target. This will help to facilitate greatest utility and advancement of U.S. policy interests. If, for various reasons, sanctions designations are not the most appropriate or effective next step after a determination of interference, the Administration should nevertheless take some form of action to address this activity and deter any future such activity.

**Q.3.** In other words, would it be good policy, in your opinion to have the intelligence community making sanctions determinations, itself?

**A.3.** As is the case at present, the policy community should make the decision to impose sanctions, based on intelligence and publicly available information, as appropriate. It would be inappropriate for

the intelligence community to take on the role of sanctions implementer, regulator, or enforcer.

**Q.4.** The Executive Order and the DETER Act, each contemplate sanctions against any foreign actor, but the specific types of sanctions and their targets are only specified with regard to Russian interference.

In your opinion, should the types of sanctions and their targets be any different for other foreign actors who interfere in U.S. elections?

**A.4.** Sanctions authorities related to interference in U.S. elections, as well as the posture for implementation and enforcement of these authorities, should apply equally to individuals or entities of any nationality.

**Q.5. *Other Tools.*** The Committee has held two hearings, before today, and a number of Senators, and witnesses alike, have advocated for harsher restrictions, moving forward.

How much more can the U.S. amplify sanctions against an economic and political target like Russia, before contagions and spillovers make their use unacceptable to the United States?

**A.5.** The United States can impose additional sanctions on Russia that will have meaningful effects on Russian targets and limited spill-over effects for non-Russian entities, including the United States. This may include sanctions on primary issuance of sovereign debt, or on nonsystemically significant Russian financial institutions. Harsher financial sanctions that target financial institutions central to the Russian economy, or that target current Russian oil production, are likely to produce spillover effects that many in the United States may find unacceptable either for the economic spillover effects or the tension they cause in relationships with allies and partners.

**Q.6.** What other tools or policies, beyond sanctions, might encourage Russia to reverse course in Ukraine, or cease its information warfare operations against the democratic processes of the United States and European Union?

**A.6.** Beyond sanctions, continued public awareness-raising about the specific methods Russia and other actors use in information warfare operations would provide benefits to the international community in identifying red flags and typologies of election interference. The more information that can be incorporated in risk assessments and countermeasures, the less effective Russia will be in the future. Forms of force projection by NATO or by the United States directly may also serve to discourage Russia from its territorial aggression.

**Q.7.** In your opinion, which tools in the U.S. toolbox would Putin fear more than sanctions?

**A.7.** The strongest U.S. tool is multilateral security alliances and the potential that the United States and its transatlantic partners could mobilize an array of capabilities, from defense, economic, information, and cybermeasures, to push back on Russian malign activity.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR REED  
FROM ELIZABETH ROSENBERG**

**Q.1.** It is clear that economic sanctions are most effective when implemented with the cooperation of the international community. Unlike in the U.S., EU sanctions must be renewed by member States on a unanimous basis, generally every 6 months.

What efforts should be made to deepen our coordination with our partners to enforce sanctions?

**A.1.** The U.S. Administration should reopen the State Department's Sanctions Coordination Office, in much the same format and structure as what is called for in the newest version of the Defending American Security from Kremlin Aggression Act. The United States needs a high-level, institutionalized diplomatic effort to keep lines of communication open with European partners.

**Q.2.** Are there specific steps that the Administration should take that it has not already taken with respect to coordinating with our partners?

**A.2.** Along with reopening the State Department's Sanctions Coordination Office, the Administration should also report to Congress on its strategy to ensure greater coordination with European partners and how it plans to navigate widening differences in the U.S. and EU sanctions regimes going forward.

**Q.3.** What are the risks that Russia is able to pick off a Nation within the EU and prevent an extension of sanctions by the Europeans?

**A.3.** There are EU member States that lean towards weakening sanctions pressure against Russia, and Russia has cultivated its ties to these countries. It remains incredibly likely that, as a result, the EU will not be able to add more significant sectoral sanctions targeting Russia to existing authorities. At best, the EU can be expected to list more individuals implicated in malign activities.

**Q.4.** What additional authorities (if any) do you think are needed to increase cooperation with our allies?

**A.4.** Congress should help to institutionalize the presence of the Sanctions Coordination Office in the State Department to steer the diplomacy on these efforts. Congress should also provide further support to Treasury's Office of Foreign Assets Control to help manage the heavy burden of sanctions implementation and enforcement.

**Q.5.** Russia has responded to Western sanctions with heated rhetoric and by placing a retaliatory ban on certain imports, among other measures. It is likely to respond with hostility to additional sanctions.

What actions do you expect the Russian Government to take in response to a new round of sanctions? Please provide what you believe to be Russia's most likely response to an additional round of sanctions.

**A.5.** In response to a new round of sanctions the Russian Government is most likely to respond similarly to how it has responded to past rounds of sanctions, such as with CAATSA. It might expel additional U.S. diplomats or otherwise force the United States to



downsize its diplomatic mission in Russia. The Russian Government might also respond with additional sanctions of its own against U.S. persons and products, although this may have as great an effect (or greater) on Russian entities as it is likely to have on U.S. businesses and consumers.

**Q.6.** How likely is it that increased sanctions lead to a response by Russia in another domain or in some form of other aggression?

**A.6.** Russia may respond to additional sanctions measures with cyberintrusions similar to those it carried out to interfere in U.S. and European elections. However, those activities are likely to continue with or without additional U.S. sanctions against Russia. It is unlikely that Russia would respond to additional sanctions with direct military action in Ukraine or elsewhere.

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**RESPONSES TO WRITTEN QUESTIONS OF SENATOR TESTER  
FROM ELIZABETH ROSENBERG**

**Q.1. *Money Laundering.*** Ms. Rosenberg, in your written testimony, you mention that the U.S. financial system has a “wide open back door for our adversaries to march through, set up shop, and wage an enormous and well-funded influence campaign, laundering money and paying for attacks on our democracy.” As you suggest, one avenue to stop this would be to provide U.S. law enforcement with increased access to beneficial ownership information.

What actions would you recommend Congress take in order to allow U.S. law enforcement agencies further access to beneficial ownership information?

**A.1.** I strongly recommend that Congress pass legislation requiring the collection of beneficial ownership information and the disclosure of that information to the Financial Crimes Enforcement Network (FinCEN) in order to form a beneficial ownership registry. I would also recommend appropriating additional resources to FinCEN so that it can better work with other law enforcement bodies to share and utilize beneficial ownership information.

**Q.2. *Russian Spying.*** We know from public reporting that Russian efforts to obtain information on valuable, sensitive, or even dual-use technologies in Silicon Valley has been going on for years. From public reporting, it has also been made clear that Russia’s espionage activities have in part been financed by Russian companies or venture-capital firms based in and around Silicon Valley.

In your estimation, who is providing resources to Russian venture capital firms in Silicon Valley in order to acquire sensitive national security-applicable technology? For what purposes?

**A.2.** Some venture capital and investment organizations, like the Skolkovo Foundation and Rusnano, are directly backed or owned by the Russian Government.<sup>1</sup> Others are backed by or related to major Russian financial institutions like Sberbank and VTB. There are also major investors like Yuri Milner, whose venture capital firm DST Global has major Russian financial institutions as inves-

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<sup>1</sup> Zach Dorfman, “How Silicon Valley Became a Den of Spies”, *Politico*, July 27, 2018, <https://www.politico.com/magazine/story/2018/07/27/silicon-valley-spies-china-russia-219071>.

tors.<sup>2</sup> Russian venture capital firms have made a wide range of investments in Silicon Valley; the investments tied to sensitive national-security applicable technology appear to have been in biotechnology and nanotechnology.<sup>3</sup>

**Q.3.** Do there currently exist anti-money-laundering requirements to prevent Russian oligarchs close to Putin from investing in these venture capital firms?

**A.3.** While FinCEN has proposed expanding anti-money-laundering requirements to all registered investment advisers, including venture capital firms, there are currently no anti-money-laundering requirements placed on these venture capital firms that might prevent investments from Russian oligarchs.

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**RESPONSES TO WRITTEN QUESTIONS OF CHAIRMAN CRAPO  
FROM DALEEP SINGH**

**Q.1. *Discretion and Penalties.*** In your discussion of the President's recent Executive Order "Imposing Certain Sanctions in the Event of Foreign Interference in a United States Election", issued on September 12, 2018, you each raised some concern over the amount of discretion the Administration retained in the process of coming to a sanctions determination.

In your opinion, what is the optimum amount of discretion for this or any future Administration to retain in this particular case, or sanctions determinations more generally?

**A.1.** Generally speaking, my belief is the executive branch should retain substantial discretion to determine the design and execution of sanctions. Sanctions are most effective when used as leverage for diplomatic negotiation. To the extent that the executive branch retains primary authority to conduct U.S. foreign policy, it should also retain the ability to calibrate sanctions to maximize the likelihood of diplomatic success. Splitting the responsibility for sanctions across branches of Government runs the risk of sending mixed messages, thereby reducing the potency of sanctions to change behavior—the ultimate goal.

With respect to Russia, however, I worry that the executive branch has not exercised its sanctions authority in an optimal manner. The outperformance of Russian markets makes this clear: investors do not believe the executive branch is serious about holding Russia accountable. Faced with this circumstance, I don't think Congress has any choice but to take the lead on the design and execution of Russia sanctions. This is not optimal, and it may create an unhelpful precedent over the long-term, but it's still better than the alternative of doing nothing.

**Q.2.** The Director of National Intelligence is tasked with investigating and reviewing election meddling from almost any foreign source, should that review culminate in assessment of foreign interference, in your opinion, should sanctions be automatically im-

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<sup>2</sup> Julia Ioffe, "Russian Money in Silicon Valley", *The Atlantic*, November 9, 2017, <https://www.theatlantic.com/international/archive/2017/11/yuri-milner-paradise-papers/545483/>.

<sup>3</sup> Joanna Glasner, "These Are the U.S. Startups That Russian Investors Are Backing", *TechCrunch*, November 11, 2017, <https://techcrunch.com/2017/11/11/these-are-the-us-startups-that-russian-investors-are-backing/>.

posed on that assessment, or should there be a further finding of materiality by the Attorney General and Secretary of Homeland Security? In other words, would it be good policy, in your opinion to have the intelligence community making sanctions determinations, itself?

**A.2.** This is well outside my area of expertise, but my view is that a finding of foreign interference by the Director of National Intelligence (DNI) should be sufficient to warrant sanctions. Ideally, the DNI could provide context on the materiality of the interference, both relative to history and across countries—in consultation with other relevant Government authorities. If the violation is material, the executive branch should take the lead role on designing and executing the appropriate response via sanctions or other tools of foreign policy. As described above, Congress should act as a check on the executive branch’s actions, filling the void if sufficient action is not taken.

**Q.3.** The Executive Order and the DETER Act, each contemplate sanctions against any foreign actor, but the specific types of sanctions and their targets are only specified with regard to Russian interference.

In your opinion, should the types of sanctions and their targets be any different for other foreign actors who interfere in U.S. elections?

**A.3.** I recognize the distinction between the degree of specificity on sanctions against Russia compared to lack of detail on consequences for other foreign actors. In this case, however, I believe it’s appropriate. The violations of U.S. sovereignty committed by Russia are not abstract or prospective; according to our most senior intelligence officials, they have already occurred—and repeatedly. To my knowledge, malign behavior of this kind by other foreign actors has not been substantiated. Specifying the precise sanctions that would be appropriate for a prospective foreign belligerent would be premature and perhaps misguided without any context.

**Q.4. *Other Tools.*** The Committee has held two hearings, before today, and a number of Senators, and witnesses alike, have advocated for harsher restrictions, moving forward.

How much more can the U.S. amplify sanctions against an economic and political target like Russia, before contagions and spillovers make their use unacceptable to the United States?

**A.4.** Russia’s economy is far better able to absorb a hit from U.S. sanctions than in 2014 or 2015. The economy is out of recession. Inflation recently touched an all-time low. Oil prices have tripled from their trough. Foreign reserves have been replenished to presanctions levels. The Government’s deficit and debt profiles remain sound. In my judgment, the key areas of spillover risk are from the Russian banking system and energy production. So long as our sanctions are not designed to cause widespread default within the Russian banking system, panic within the Russian financial system, and/or the export of Russian energy production, we are unlikely to see major spillovers or contagion.

**Q.5.** What other tools or policies, beyond sanctions, might encourage Russia to reverse course in Ukraine, or cease its information

warfare operations against the democratic processes of the United States and European Union? In your opinion, which tools in the U.S. toolbox would Putin fear more than sanctions?

**A.5.** I agree with the premise of your question—sanctions alone are unlikely to change Putin’s behavior. My suggestions are three-fold:

First, costs should be broadened to include the very highest levels of the Russian Government. At a minimum, Treasury and other authorities should conduct a study that attempts to identify the location, holdings, and financial intermediaries that manage and benefit from Putin’s wealth. Even in the unlikely scenario that this effort has no effect on Putin’s geopolitical calculus, it will signal to the Russian people that our quarrel is not with them, and it might provide a measure of transparency on his fortunes held abroad.

Second, a comprehensive package to counter Russian aggression requires an offensive economic strategy in its near abroad, not only to Ukraine but also to Georgia, the Baltics, Moldova, and possibly central Asia. Possible steps could include conditions-based financial support to reinforce long-standing IMF priorities in the region to improve the rule of law, battle corruption, and implement market-oriented reforms. The overarching purpose is to create successful alternatives to Russian-style autocracy. This is what Putin fears most.

Finally, I would strongly encourage a robust campaign to improve transparency within Russia. Shining a light on verifiable evidence of corruption, and the dependence of the current regime on kleptocracy, would help to counter the Government’s disinformation campaigns and its control of the media. Working with the IMF and other multilateral institutions could also shine a light on the basic challenges of doing business in Russia—enforcing contracts, protecting intellectual property, and defending property rights.

**Q.6.** In your testimony you tout the many virtues of the sanctions architecture put into place in 2014, and for that matter, Congress enhanced later in 2017 with CAATSA. Yet, despite this web of sanctions, most economic indicators are now up, in Russia. What are the possible contagions and spill-over effects of possibly over-correcting through the use of more restrictive sovereign debt measures? What financial or economic defenses has Russia been working on to blunt such measures?

**A.6.** Sanctioning sovereign debt is a serious escalation. Government bonds are the “risk-free” asset that underpin the valuation of virtually all other assets in the country, as well as the national currency. Pension funds and insurance companies often hold large amounts of sovereign debt to meet obligations to their customers. Banks and other companies use sovereign debt as collateral in borrowing arrangements, both domestically and abroad. Derivative contracts also involve sovereign debt in their valuation and collateral arrangements, often in ways that are complex and difficult to understand in advance. Index funds that trade widely in Western markets include Russian sovereign debt as a key component.

If sanctions are restricted to primary issuance, however, many of these risks are contained. And as mentioned earlier, Russia is far better able to absorb a hit to its sovereign debt market, considering the favorable background conditions for Russia and its efforts to

improve its debt profile. Western investors have had years to reduce exposures to the Russian sovereign. More to the point, I can think of no credible argument why U.S. public pension funds and savings vehicles should indirectly fund the Russian Government while the latter continues to sponsor violations of U.S. sovereignty.

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**RESPONSES TO WRITTEN QUESTIONS OF SENATOR REED  
FROM DALEEP SINGH**

**Q.1.** It is clear that economic sanctions are most effective when implemented with the cooperation of the international community. Unlike in the U.S., EU sanctions must be renewed by member States on a unanimous basis, generally every 6 months.

What efforts should be made to deepen our coordination with our partners to enforce sanctions?

Are there specific steps that the Administration should take that it has not already taken with respect to coordinating with our partners?

What are the risks that Russia is able to pick off a Nation within the EU and prevent an extension of sanctions by the Europeans?

What additional authorities (if any) do you think are needed to increase cooperation with our allies?

**A.1.** I am in full agreement. Multilateral cooperation is a force multiplier in terms of the direct effects of sanctions (excluding Russia from European and U.S. capital markets is 70–90 percent of the global total), the potency of the signal (the U.S. is not acting arbitrarily), and the avoidance of putting U.S. firms at competitive disadvantage. The first step that should be taken is to restore the role of U.S. sanctions coordinator at the State Department. Daniel Fried served with distinction in this role, and his efforts to coordinate sanctions with the EU were instrumental. Second, the Treasury Department should step up efforts—both formally and informally—to develop working relationships with sanctions counterparts from finance ministries in the EU and elsewhere. Lastly, U.S. political leaders should make it clear that participation in the international community is reserved for countries that respect U.S. and international norms of sovereignty and territorial integrity.

With regard to the risk of Russia picking off a single nation within the EU to prevent sanctions extension, this is a serious danger that France and Germany have managed well in recent years. Any fracture in the commitment by these two anchor countries to stand united against Russian aggression, in coordination with the United States, would be cause for alarm.

**Q.2.** Russia has responded to Western sanctions with heated rhetoric and by placing a retaliatory ban on certain imports, among other measures. It is likely to respond with hostility to additional sanctions.

What actions do you expect the Russian Government to take in response to a new round of sanctions? Please provide what you believe to be Russia's most likely response to an additional round of sanctions.

How likely is it that increased sanctions lead to a response by Russia in another domain or in some form of other aggression?

**A.2.** Russia's economy matters far less to the United States than the American economy matters to Russia. The food sanctions to which you refer were largely counterproductive for Russia; they raised import inflation, contributed to the rise of interest rates in Russia, and reduced consumer purchasing power. The only area in which Russia is of global systemic importance is the energy sector, but Russia's economy would not function—nor would its Government get financed—without receipts from oil and gas. Taken together—and viewed through an economic lens—I do not see good options for Russia to impose harm on the U.S. without hurting itself even more. For that reason, my belief is that Russia's response would likely be in the geopolitical realm. Meddling in the non-NATO, near-abroad (e.g., Moldova, Ukraine, Georgia) seems quite plausible.