

**OUTSIDE PERSPECTIVES ON RUSSIA SANCTIONS:  
CURRENT EFFECTIVENESS AND POTENTIAL FOR  
NEXT STEPS**

---

---

**HEARING**  
BEFORE THE  
**COMMITTEE ON**  
**BANKING, HOUSING, AND URBAN AFFAIRS**  
**UNITED STATES SENATE**  
**ONE HUNDRED FIFTEENTH CONGRESS**

SECOND SESSION

ON

EXAMINING THE IMPLEMENTATION AND EFFECTIVENESS OF THE  
SANCTIONS PROGRAM CURRENTLY IN PLACE AGAINST RUSSIA AND  
THE EFFECTS OF THOSE SANCTIONS

—————  
SEPTEMBER 6, 2018  
—————

Printed for the use of the Committee on Banking, Housing, and Urban Affairs



Available at: <https://www.govinfo.gov/>

—————  
U.S. GOVERNMENT PUBLISHING OFFICE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

MIKE CRAPO, Idaho, *Chairman*

RICHARD C. SHELBY, Alabama	SHERROD BROWN, Ohio
BOB CORKER, Tennessee	JACK REED, Rhode Island
PATRICK J. TOOMEY, Pennsylvania	ROBERT MENENDEZ, New Jersey
DEAN HELLER, Nevada	JON TESTER, Montana
TIM SCOTT, South Carolina	MARK R. WARNER, Virginia
BEN SASSE, Nebraska	ELIZABETH WARREN, Massachusetts
TOM COTTON, Arkansas	HEIDI HEITKAMP, North Dakota
MIKE ROUNDS, South Dakota	JOE DONNELLY, Indiana
DAVID PERDUE, Georgia	BRIAN SCHATZ, Hawaii
THOM TILLIS, North Carolina	CHRIS VAN HOLLEN, Maryland
JOHN KENNEDY, Louisiana	CATHERINE CORTEZ MASTO, Nevada
JERRY MORAN, Kansas	DOUG JONES, Alabama

GREGG RICHARD, *Staff Director*

MARK POWDEN, *Democratic Staff Director*

JOHN O'HARA, *Chief Counsel for National Security Policy*

KRISTINE JOHNSON, *Economist*

ELISHA TUKU, *Democratic Chief Counsel*

LAURA SWANSON, *Democratic Deputy Staff Director*

COLIN MCGINNIS, *Democratic Policy Director*

DAWN RATLIFF, *Chief Clerk*

CAMERON RICKER, *Deputy Clerk*

JAMES GUILIANO, *Hearing Clerk*

SHELVIN SIMMONS, *IT Director*

JIM CROWELL, *Editor*

# C O N T E N T S

THURSDAY, SEPTEMBER 6, 2018

	Page
Opening statement of Chairman Crapo .....	1
Prepared statement .....	38
Opening statements, comments, or prepared statements of:	
Senator Brown .....	2
Prepared statement .....	38

## WITNESSES

Michael A. McFaul, the Peter and Helen Bing Senior Fellow at the Hoover Institution, and Professor of Political Science, Director and Senior Fellow at the Freeman Spogli Institute for International Studies at Stanford University, and Former U.S. Ambassador to the Russian Federation (2012–14) .....	5
Prepared statement .....	40
Responses to written questions of:	
Chairman Crapo .....	65
Senator Cotton .....	65
Senator Tester .....	66
Daniel Fried, Former Coordinator for Sanctions Policy, Department of State (2013–17), and former Assistant Secretary of State for European and Asian Affairs (2005–09) .....	7
Prepared statement .....	48
Responses to written questions of:	
Chairman Crapo .....	67
Senator Cotton .....	69
Senator Tester .....	70
Rachel Ziemba, Adjunct Senior Fellow, Energy, Economics, and Security Program, Center for a New American Security .....	8
Prepared statement .....	53
Responses to written questions of:	
Chairman Crapo .....	72
Heather A. Conley, Senior Vice President for Europe, Eurasia, and the Arctic, Center for Strategic and International Studies, and former Deputy Assistant Secretary of State for Eurasian Affairs (2001–05) .....	10
Prepared statement .....	60
Responses to written questions of:	
Chairman Crapo .....	73
Senator Cotton .....	76



# **OUTSIDE PERSPECTIVES ON RUSSIA SANCTIONS: CURRENT EFFECTIVENESS AND POTENTIAL FOR NEXT STEPS**

**THURSDAY, SEPTEMBER 6, 2018**

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

The Committee met at 10:02 a.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.

We welcome all of our witnesses today and appreciate your being willing to share your expertise with us and take your time to be here. Thank you.

The Committee meets today for its second of three hearings on sanctions against the Russian Federation for its malign activities directed against the United States, its allies, and spheres of influence.

I thank our panel of outside expert witnesses today, most of whom are former Administration officials, who will help the Committee better understand the current U.S. posture toward Russia.

Testifying today will be Ambassador Dan Fried, now at the Atlantic Council, but who capped off a 40-year State Department career as the Obama administration's overall sanctions coordinator; Stanford Professor Michael McFaul, also at the Hoover Institution, who was U.S. Ambassador to the Russian Federation for the 2 years leading up to Putin's illegal annexation of Crimea; and Heather Conley, now with CSIS, but who was also a Deputy Assistant Secretary for the Russia desk in the Bush administration's State Department.

Rachel Ziemba, our sole Government outsider, now with the Center for New American Security, will share her particular expertise on the interlinkages between economics, finance, and security issues with regard to Russia's economic resilience and the role of sovereign wealth in all of this.

Two weeks ago, current Administration witnesses informed the Committee of efforts to implement the Countering America's Adversaries Through Sanctions Act, or "CAATSA," which was enacted in August 2017 and largely crafted by this Committee, and what political and economic effects that implementation have had.

Basically, the Administration reported that over the last year it had sanctioned some 230 individuals and entities through its use of CAATSA and its own administrative authorities.

Those targeted include the heads of major State-owned banks and energy companies, as well as some of Putin's closest associates or oligarchs.

On the issue of electoral interference, a 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.

Beyond any use of sanctions, which Treasury imposed against several Russian actors for interference in the 2016 elections, Homeland Security further testified that it is working aggressively to support State and local efforts to secure the 2018 elections.

They also made clear that this work must not only continually evolve, but never become complacent because those seeking to interfere and disrupt are on the cutting edge of technology.

A number of the Members on this Committee, on both sides of the dais, encouraged the Administration to do more and soon.

Whatever the economic effects of these sanctions have had over the last year, it has escaped no one's attention that Russia is still in Crimea and the Kremlin still exercises violently destabilizing activities in Ukraine and Syria.

Moreover, since CAATSA implementation began, Putin has ordered the use of chemical weapons to attack citizens of the United States' allies at home and continues his efforts to subvert the democracies of the United States and its European allies through complex disinformation campaigns and outright cyberattacks.

Getting sanctions "right" is a difficult exercise for Congress and the Administration alike.

It took decades for sanctions to take real effect in Iran. And Putin's Russia is not like Iran—or North Korea, for that matter—at least not in any way other than its penchant for engaging in malicious behaviors at home and abroad.

In the case of Russia, any constructive use of sanctions is complicated further by the level of Russia's integration into the global economy and all the attendant unintended consequences, contagions, and spillovers that come with it and which threaten to destroy the potential for needed multilateral application of sanctions against an economy like Russia's.

There is no question that Putin must pay for his actions and that the United States has the ability to impose real costs against Moscow, even as it increases its own defenses against future attacks.

The only question is how the United States will go about imposing those costs.

Senator Brown.

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

Senator BROWN. Thank you, Mr. Chairman.

Today we gather to further assess Russia's persistent efforts to attack the U.S. and our allies via cyber, influence, and other campaigns directed at our most critical infrastructure and to develop ways to strengthen U.S. responses to those attacks.

In our first hearing, senior Administration officials testified on sanctions and the protection of critical infrastructure. Directly following that hearing, all Senators had an opportunity to be briefed at a classified level on preparations by our Federal Government, working in cooperation with State and local authorities, to secure our electoral process for the upcoming midterms.

Today we will hear outside perspectives on the effectiveness of U.S. sanctions and on new tools, including new sanctions authorities that might usefully be deployed against Russian attackers. Bolstering that sanctions toolbox—and ensuring that the tools are actually used by the Administration, an important consideration, to get the job done—is critical.

We will hear from those outside the Administration, as the Chairman said, including witnesses with extensive and distinguished diplomatic experience in dealing with Russia under Republican and Democratic Administrations over decades, what they think will most likely dissuade the Russians from continuing these attacks.

While sanctions have had some effect on Russia's economy, as they have been applied it is not clear they are doing much to, most importantly, actually change Russia's behavior. And that is the goal. Sanctions are a means to an end, not an end in themselves. We seek real and immediate changes in Russian behavior; we are not yet seeing it. Checking the box, as the Administration seems to be doing, saying they have caused pain in Russia, is not nearly enough.

There is little dispute sanctions are not yet having their intended effect: Russia remains in Crimea, its proxies are still in Eastern Ukraine, it continues to support Assad in Syria, and to attack our elections and other critical infrastructure using sophisticated cyberweapons. It has attempted to assassinate British citizens; it has killed an innocent bystander in the process. It has fostered sanctions evasion and other illicit activity around the world.

Some of today's witnesses—including those with bipartisan experience in Russia-U.S. relations—have been critical of the administration's efforts to date, arguing they have been inadequate and arguing they have been undercut by President Trump's reluctance to criticize Putin and his Government.

President Trump's efforts to try to undermine what are established conclusions of fact by the U.S. intelligence community about Russia's involvement are well documented. Russian attacks on our elections and critical infrastructure like energy plants, utility systems, aviation, manufacturing, and private sector business systems are continuing.

As our next elections approach, it is long past time for Congress and the President to send a much more powerful and direct message to Vladimir Putin and those within his circles: If you continue cyberattacks against us, you and your Government will pay a heavy economic, diplomatic, and political price.

As Ambassador McFaul notes in his testimony, there is, shall we say, a tension between what sanctions professionals at Treasury and State are saying and doing and what the President is doing.

Our Government needs to speak with one voice. The President should clearly state how he will use CAATSA to forcefully respond

to Russian attacks, issue an Executive order that clearly outlines the sanctions consequences for continuing attacks, and implement that order if attacks continue.

In addition to urging the Administration to use CAATSA more effectively, I think most of us agree Congress needs to do more. Congress crafted these tough Russia sanctions, enacted last August with only two dissenting votes in the Senate. We should build on that bipartisan consensus.

Today we focus with these experts on the broader strategic questions: What active cyberattacks are the Russians directing against our elections and against our infrastructure? What range of powerful economic, trade, financial, diplomatic, and political tools can we deploy now to deter these attacks, these threats?

What will it take to actually deter Putin, by sharply increasing the price he must pay for them? I know those are the questions my constituents ask. Our large Ukrainian community in Ohio knows firsthand the dangers of Russian aggression.

This hearing should be an opportunity to get answers from those long involved in U.S.–Russia policy. I welcome former Ambassador to Russia Michael McFaul—thank you for joining us—who has had his own recent political and legal struggles with Mr. Putin, but has acquitted himself gracefully throughout. Thank you. I welcome Ambassador Fried, former sanctions coordinator at State, with a distinguished record of decades of bipartisan service in U.S.–Russia policy. Thank you, sir.

Ms. Rachel Ziemba has done extensive economic research on sanctions policies and their effects. Thank you for that. And Heather Conley, for her work at CSIS and her work before that in the Bush administration, thank you. I look forward to hearing what effects you think current sanctions are having on Russia’s economy and behavior, and especially your ideas on how we should more forcefully confront the threats posed by Russia.

Thank you all.

Chairman CRAPO. Thank you, Senator Brown.

Ambassador McFaul, we will start with your testimony, then turn to Ambassador Fried. Then we will follow with Ms. Ziemba and Ms. Conley.

I want to thank all of you again for your written testimony. It is very helpful to us, and it will be made a part of the record. I ask you to remember to honor our 5-minute rule and pay attention to that clock in front of you, as well as our Senators to remember to honor the 5-minute rule. And to our witnesses, if you have a Senator who just does not seem to be able to do that, I ask you to wrap your answers to their questions up quickly after the time runs out.

With that, Ambassador McFaul, please proceed.



**STATEMENT OF MICHAEL A. MCFAUL, THE PETER AND HELEN BING SENIOR FELLOW AT THE HOOVER INSTITUTION, AND PROFESSOR OF POLITICAL SCIENCE, DIRECTOR AND SENIOR FELLOW AT THE FREEMAN SPOGLI INSTITUTE FOR INTERNATIONAL STUDIES AT STANFORD UNIVERSITY, AND FORMER U.S. AMBASSADOR TO THE RUSSIAN FEDERATION (2012–14)**

Mr. MCFAUL. Well, thank you, Chairman Crapo, and thank you, Ranking Member Brown, for inviting me here today. I do have a long written testimony—I am an academic, after all—with even footnotes, but I will just summarize it right now in 5 minutes.

First, the facts, just the facts, about Vladimir Putin’s belligerent, criminal behavior.

In 2008, he invaded Georgia, altered the borders there. In 2014, he invaded Ukraine, annexed Crimea. In 2015, he deployed his military to support a brutal, ruthless dictator who has committed crimes against humanity in Syria. In 2016, he violated our sovereignty, as we all know well. In 2018, in March, he violated British sovereignty as you already said, and international law by trying to kill Sergei Skripal. And on a much smaller but personal level, in July of 2018 Putin and his Government violated diplomatic protocol and international norms by calling for the interrogation and suggesting criminal activities against former U.S. Government officials and one member of the congressional staff, including me, based completely on invented allegations.

You all know that list, and I could go on and on and on. But you do not want me to, Chairman. But I think it is important to remember what these issues are and that they are not just violations or against the interests of the United States of America. These are violations of international norms, rules that are vital to the international system. And, therefore, for crimes there must be punishment.

I applaud what the U.S. Congress has done, including this Committee, regarding past sanctions. I urge you to do more.

In answer to the question “Have sanctions worked? Have they been effective?” let me make three points.

First, sanctions sometimes, and most certainly in this case, are the right moral punishment to take in response to egregious illegal activity, even if they do not change Putin’s behavior. Sometimes you just have to do the right thing because it is the right thing to do.

Second, as you alluded to in your comments, sanctions have produced negative effects on the Russian economy, contributing to its contraction beginning in 2014, scaring away foreign investment, fueling capital outflows, and making it increasingly difficult for Russian companies to borrow money. I know many Russians who personally, and their companies, are suffering because of the sanctions that have happened. And yet, as you pointed out in your remarks earlier, they have not yet compelled Putin to leave Syria or to leave Ukraine—that is true—or to stop his propaganda efforts against us. But that is not a reason to say we need to change course, in my view. That is a reason to increase pressure through more sanctions, not less.

The third point about our sanctions working. I think the best evidence is the fact that Putin is annoyed by these sanctions. Putin is trying to overturn them and has been courting President Trump precisely to do that. If they did not matter, why would he be putting so much energy into it? And if it did not matter, if they were not afraid of your new legislation that is pending, why have they been so belligerent in their remarks about future sanctions? That to me is the strongest evidence that sanctions are having an effect.

Now, there is one additional reason why I think there need to be new sanctions, and that is to disabuse Putin of the idea, which he still holds, that he can sweet-talk and court and charm President Trump into lifting sanctions. This Congress, in concert with like-minded officials in the Trump administration—and make no mistake, there are many like-minded officials in the Administration—must disabuse Putin of that hope.

In my view, there should be several principles for future sanctions. I will just go through them quickly and end.

First, ongoing illegal activity must be met with new sanctions. I think that is a really important principle. I do not know what it is like around here. If you park your car on the Stanford University campus and you get a ticket one day and you leave it there, you get a ticket the next day, until you move your car. That is the principle I think we need to provide when thinking about sanctions toward Russia when they are parked in places like Eastern Ukraine.

Second, the U.S. Congress and President Trump must sign into law sanctions that would trigger automatically in response to future belligerent behavior.

Third, sanctions should be implemented in response to concrete Russian actions so that a specific sanction can be lifted when a specific Russian action is reversed.

Fourth, future sanctions should primarily be targeted at Russian Government and its proxies, not the people of Russia or the private sector.

Fifth, we need to deter money laundering in this country. That needs to be part of what we do in the future, including getting rid of anonymous ownership in the United States.

And, finally, as outlined in Section 707, the Defending American Security from Kremlin Aggression Act of 2018 rightly highlighted that the Kremlin abuses INTERPOL, red notices and red diffusion mechanisms for political purposes, and that must be stopped.

Finally, sanctions are only one instrument. We all understand that it is just one in the toolbox. We need a bipartisan grand strategy with strategic purpose with our allies in order to deter and contain Putin's Russia, but new sanctions is an integral part of that new strategy.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you, Ambassador.

Ambassador Fried.

**STATEMENT OF DANIEL FRIED, FORMER COORDINATOR FOR  
SANCTIONS POLICY, DEPARTMENT OF STATE (2013–17), AND  
FORMER ASSISTANT SECRETARY OF STATE FOR EUROPEAN  
AND ASIAN AFFAIRS (2005–09)**

Mr. FRIED. Mr. Chairman, Ranking Member Brown, I am honored to be here.

President Trump has noted that it would be nice if the United States got along with Russia. Indeed, it would. Presidents Bush and Obama both tried. Both failed, however, because Russia's conditions for good relations with the United States are those we cannot accept: American deference to Russian domination of its neighbors, including through war; and indifference to Russia's repression at home.

The 20th century taught us the hard way that a country's malign behavior inside its borders is a reliable indicator of malign behavior abroad, and that spheres of influence established through force and repression—Russia's usual methods—are neither stabilizing nor self-limiting.

Putin's system combines political authoritarianism and economic kleptocracy. Russia's development would require the rule of law, property rights, and freedom of speech and assembly. But the Putin regime seems unable to accept this and, thus, condemns Russia to stagnation. To maintain its rule, the regime cannot count on democratic legitimacy but must rely on repression, combined with chauvinistic campaigns.

A wise U.S. policy toward Russia, therefore, would combine resistance to Russia's current aggression, including by working with our allies; efforts to reduce the risks of destabilizing clashes, without, however, unwarranted concessions or apologies; cooperation with Russia where possible, without expecting too much, too soon; and the anticipation of, and planning for, potential better relations with a better Russia.

In the face of Russian aggression, the Obama administration launched sanctions, and the Trump administration has continued them. The Administration is reportedly preparing new measures, and Congress is preparing new legislation.

So what lessons can we draw from the use of sanctions against Russian targets? And what are our best next moves?

I suggest the following:

First, work with allies. The U.S.-imposed sanctions in solidarity with its European and other allies, and our allies generally did their part. This unity of purpose extended sanctions power and may have frustrated Putin's expectations. We should maintain it.

Second, we should prepare credible escalatory options. In the short run, Putin is likely to continue his aggression, and he may intensify it. Therefore, the U.S. should have and make clear to the Russians that we have escalatory sanctions options that are tough enough to hurt but restrained enough to use. These can include two types: intensified sanctions targeting finance, energy, defense, dual-use technology, and cybersectors; and additional sanctions against individuals, particularly those close to Putin.

Within sectoral sanctions, I see headroom in the finance and cybersectors. Financial sanctions options could include steps against new Russian sovereign debt and other steps. In the

cybersector, we should go after Russian bad actors and their sources of funding and deny exports of relevant technology.

There may also be some escalatory room in the energy sector, but I think the U.S. should not target current energy production. If we did, that could panic markets and drive up prices, and that gives, perversely, the Putin regime a windfall. Mandatory sanctions on all energy projects are probably too broad, but we could go after future oil production. We could ban the export to Russia of exotic technology for fracking or all enhanced oil recovery technologies for all new energy projects.

There is also room to target additional individual Russians close to Putin. CAATSA Section 241, a smart provision, mandated a study identifying these people—“The Kremlin Report”. It has considerable potential for more use. It bothers Putin. We should look at it hard.

We need to maintain operational flexibility. Licenses and care in the use of mandatory sanctions is important.

A final thought. Sanctions have more power if they are embedded in an overall policy that works, is credible, and is consistently expressed. Russia policy has been a challenge for this Administration, but the Administration has significant tools, and through wise legislation the prospect of more, to advance a strong policy resisting Russian aggression.

A final thought. A strong Russia policy should be embedded in an American grand strategy which recognizes that a rules-based world which favors democracy is in America’s national interest. For the past 100 years, American Presidents have advanced such a grand strategy, and America and the world have benefited thereby. Putin and like-minded nationalists and despots stand for nothing more than power. America can do better. At the end of our current national debate about America’s role in the world, I hope and believe that we will recall the values and purposes that propelled American world leadership.

Mr. Chairman, Ranking Member Brown, I appreciate the opportunity to appear and look forward to your questions.

Chairman CRAPO. Thank you, Ambassador.

Ms. Ziemba.

**STATEMENT OF RACHEL ZIEMBA, ADJUNCT SENIOR FELLOW,  
ENERGY, ECONOMICS, AND SECURITY PROGRAM, CENTER  
FOR A NEW AMERICAN SECURITY**

Ms. ZIEMBA. Thank you, Chairman and Ranking Member Brown, for the chance to share my views on the economic impact of sanctions and some perhaps surprising sources of resilience that have been building up in Russia’s economy. These are very important as you consider potential measures.

Sanctions imposed starting in 2014 have had economic impacts. They stressed Russia’s economy. They amplified the impact of a very severe energy price shock in the global economy. U.S. and European measures restricted capital to many Russian companies and reduced what was already low levels of foreign direct investment. And they did contribute to a lengthy if moderate recession, beginning in 2014.

But their impact has faded, and policy preferences do not seem to have changed. Recent targeted measures and press reports around legislation that this Committee is considering have triggered pressure on currency and other financial markets. But it is important to understand some of the ways in which even that asset market weakness can provide some resilience through the fiscal and external channels.

So what are these drivers of resilience? A major one has been the improvement in global oil markets and the increase in energy revenue; also, sound orthodox economic policies adopted by Russia, particularly the flexible exchange rate and relatively restrained fiscal policy. Another factor is the deepening of domestic and foreign new sources of financing, particularly from China and the Middle East.

Paradoxically, many of the factors that have sapped Russia's long-term growth for a long time are contributing to resilience. These include lack of competition, State intervention, little labor force growth, and issues in the business environment. These are reinforced by second-best funding from countries like China and the Middle East that also tend to have weaker governance.

Russia may not be thriving, but it is surviving, and these are important factors to bear in mind when one thinks about additional measures. This means that attempts to impose a significant economic shock may require more increasingly blunt measures.

I am arguing that the approach of retargeting and focusing and differentiating within Russian actors should be a very important part of sanctions measures going forward. At the end of the day, the goal is not solely to impose economic stress on Russia, but to prompt a policy change.

Broad sectoral measures might embolden those actors in Russia who are already inward-looking and prefer non-Western finance. Repatriating capital, encouraging import substitution—none of these are great outcomes for Russia, but they could end up contributing to a further consolidation of power and wealth among the Putin Government. This, of course, would continue to be counter to U.S. interests.

Let me briefly discuss some of the measures, some of the sectors targeted in pending legislation: sovereign debt, energy, and banking.

Russia's lower sovereign debt issuance already reflects tight fiscal policy and has actually limited the degree of contagion risk to the global economy. Already foreign holders of local currency debt hold less than 20 percent of the outstanding debt.

On the one hand, that limits the portfolio contagion risk to other emerging markets. On the other hand, it already limits some of the leverage of these measures.

Proposed measures would likely add to pressure on some of those emerging markets I mentioned, of course, and could add to some appreciation pressure on the U.S. dollar. But we need to be clear about what the impacts might be.

Energy financing restrictions and access to resources would likely dampen long-term production growth. I agree with other speakers about the dangers of targeting current production, particularly

given the tightening of global energy markets and concurrent U.S. policy to reduce Iranian output.

Banking sector measures should also be calibrated. State banks such as Sberbank already have a strong liquidity portfolio, and they have been gobbling up deposits from their private banking counterparts. The central bank has been acting in a very structured manner. Cutting off access to SWIFT, which I am glad to see is not currently in many of the pieces of legislation, would, I think, pose very significant risks of ruptures with our European allies, making it harder to monitor systemic risk and the payment system.

A credible sanctions regime establishes consequences for malign behavior and clarifies behavior that would result in those sanctions being lifted. I think it is very important to continue to distinguish between some of the activity and to have a sliding set of policies.

Finally, targeting the measures toward Government or those actually involved in the policies rather than just Russia as a whole seems to be a very important part of the sanctions regime going forward.

Thank you very much.

Chairman CRAPO. Thank you, Ms. Ziemba.

Ms. Conley.

**STATEMENT OF HEATHER A. CONLEY, SENIOR VICE PRESIDENT FOR EUROPE, EURASIA, AND THE ARCTIC, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES, AND FORMER DEPUTY ASSISTANT SECRETARY OF STATE FOR EURASIAN AFFAIRS (2001-05)**

Ms. CONLEY. Mr. Chairman, Ranking Member Brown, and distinguished Members of the Committee, thank you for this opportunity to share my thoughts and hopefully I can provide a bit of a summary of the witness testimonies.

If my count is accurate, the U.S. currently has 58 separate sets of sanctions against Russia broadly across 8 lines of effort that date back to 2011. So what have we achieved in those 7 years?

Russia is economically stable. With the recent increase in energy prices and depreciation of the Russian ruble, the Kremlin has found an equilibrium of sorts. Its GDP is estimated to grow this year by 1.5 percent. Moscow can blame any hardships on Western sanctions and not its own long-term economic mismanagement. And although Russia's economy will remain vulnerable to volatility in emerging markets and uncertainty in the commodities markets, our economic sanctions have little effect on either the regime's economy or its behavior.

But, perhaps more importantly, during this time President Putin has effectively consolidated his leadership of a national security State that is prepared for a prolonged period of economic stagnation and decline. This is not a regime that is tiring. It is a regime that is ready for the long haul.

Unfortunately, I cannot say the same for the United States and our European allies. I think as Ambassador McFaul and Ambassador Fried noted, we have sanctions policies that are in desperate search of a more coherent policy which is fully supported by our allies. I want to give you three words as you think through this strategy: strength, clarity, and unity. We must develop an enduring pol-

icy that addresses the global nature of Russia's disruptive and malign behavior that stretches from North Korea and Venezuela to Syria, but which focuses its most destructive intent on the United States and Europe. We must develop a prioritized policy that establishes a clear road map for Russia to return to the international legal norms—to which it is legally bound—as well as a clear and consistent path of escalating punishments as Russia continues to violate these legal norms.

Our first policy priority must be the defense of the homeland and the need to protect the United States to the best of our ability against Russia's cyberenabled attacks, against U.S. voting systems, voter data, and other critical infrastructure. This also entails thwarting Russia's ongoing disinformation campaign and influence operations through greater public awareness and proactive deletion of fake social media accounts; and—and I will return to this—ending the illicit use of the U.S. financial system, affiliated institutions, and U.S. citizens to advance its malign influence and subvert our democratic institutions.

Our second priority must be the Russian Government's return to international legal norms, which include the respect for the territorial integrity of neighboring sovereign countries Ukraine, Georgia, and Moldova; to return to the U.N. Chemical Weapons Convention and arms control treaties, including their ongoing violations of the INF Treaty. We must modernize the foundations of the Helsinki Final Act and, in particular, the Vienna Document, to restore the transparency of Russian military forces and exercises to make sure that we do not have any accidents against U.S. vessels or aircraft.

And, finally, our third priority must be to restore our focus on promoting and prioritizing the dignity of the individual and the governed over the privileges of the State-fed kleptocratic forces in Moscow. Ultimately, the success of U.S. foreign and security policy rests on that third pillar.

But what has worked over the last 7 years? Of all the sanctions that the U.S. has imposed or threatened to impose, it seems to me what disturbs the Kremlin the most is the Global Magnitsky Human Rights Accountability Act because this act shines an international spotlight on the excesses and corrupt nature of Russia's oligarchic capitalism and how it functions within Russian society. And because the Kremlin has based its economic model and its survival on kleptocracy, sanctions and other policy instruments dedicated to preventing the furtherance of corruption—or worse yet in the minds of the Kremlin, providing accurate information to the Russian people of the extent of this corruption—are a powerful countermeasure to Russia's malign behavior.

I strongly urge this Committee to quickly craft and pass legislation that enhances anti-money-laundering measures and fosters greater transparency and ultimate beneficial ownership with a very laser-like specific focus on Russia. I encourage you to think about FinCEN's robust role of the Treasury's Financial Crimes Enforcement Network to focus as much as they do on terrorism financing as illicit financing. We can do this with our allies. The EU is working on its fifth anti-money-laundering directive. The U.K. is finally taking this more seriously. But we are given daily reminders that

we are not doing enough. We just heard reports of a \$30 billion Russian and other post-Soviet Nations' funds that have coursed through the Estonian branch of Danske Bank undetected for years.

It is time for the United States to close the Russian laundromat and its affiliated enabling services that operates within and outside the U.S. financial system and work closely with our allies to drain this international response. And, again, think those three words through: strength in our purpose and our policy, clarity of that policy, and unity within our allies.

Thank you.

Senator BROWN [presiding]. Thank you, Ms. Conley.

Senator Corker.

Senator CORKER. Thank you. Like today with this panel, we had an outstanding panel yesterday in the Foreign Relations Committee talking about some of these same things, and, of course, every panelist, you know, man, we got to take it to Russia.

Then you get into the details, and it gets a little murky. Let us face it. We are dealing with a country that is willing to assassinate people in other countries, use military power to create a frozen conflict in Georgia, to take Crimea, to do the same in Eastern Ukraine. And we are not willing to do that for obvious reasons. They are using military power. We are using sanctions. They are willing to get involved in our elections. They are willing to use military power in a way that we will not in Syria.

So our response always is sanctions. And, you know, what we found in CAATSA, and thanks to outstanding staff work and numbers of Senators working together, we ended up with a bill that got it about right, but we made some mistakes. We did some things that have unintended consequences as it relates to Europe and in some ways cut our own nose off to spite our face.

So there is all this bravado, and I really appreciate the effort that Senator Van Hollen has underway. He knows I appreciate it, and many other Senators. But I think getting this right matters, and I think anything we do to punish Russia that also punishes Europe actually accrues to Russia's benefit, right? I mean, we have got a President rhetorically who is trying to alienate Russia, and what I find that we do here is sometimes out of frustration, we pass legislation because our Commander-in-Chief conducts himself in the manner that he does, and we end up doing things that actually hurt the cause.

And so what I would ask each of you is: What specifically should we do sanctions-wise, specifically, to punish Russia that will not punish Europe in any way and will not blow back on us? And I think that is a much harder question to ask. And I know, Ms. Conley, you did some of that. But whether you can answer that in the time we have here or whether you just want to send that back to me, I would appreciate it.

So I will let some of you answer, and specifically. Do we really want to cut Sberbank off from the U.S. financial system? Tell me that. Is that specifically something we really want to do, or do we want to think about some of these things? Yes, sir.

Mr. FRIED. I will take a stab at this. No, we should not cut Sberbank off, but if you want to escalate in the financial sector, I



think going after new Russian sovereign debt fits your criteria of hurting the Russians and not hurting us or our allies.

Senator CORKER. They have got like 12 percent debt to GDP. OK? We have got 80 percent debt to GDP, really more than that. So do we really want to cross that threshold of sovereign debt, which will have no impact on them whatsoever, but it will be crossing the Rubicon as it relates to potentially our debt down the road. Is that something we really want to do?

Mr. FRIED. Well, yeah, I would go for it. I think that the impact on Russia is apt to be significant. The impact on us is apt to be light. We hit Iranian sovereign debt, and some people in Treasury predicted the end of the world if we did. But we took that step, and the world did not end.

In the financial area, that is where I would—that is one place I would go. There may be some other—I would not target Sberbank. I would not target all of the big Russian State banks. But I think going after new Russian sovereign debt or going after one or two selected banks may be appropriate.

However, I want to go back to something—

Senator CORKER. I tell you what, why don't you answer the rest of it in writing, if you will, so I can get to the other folks. But thank you so much for that input, and thank you for your service.

Yes, Mr. Ambassador?

Mr. MCFAUL. A couple of thoughts. First of all, we are not a patient society, usually. We want results quickly. And putting on my academic hat now, I have studied the sanction literature. It takes time for these things to have an effect. It is a ricochet thing, especially when you are talking about an economy with the resilience we already hard about, and especially when you are talking about an autocracy, not a democracy. So that is the first point.

Second point, concretely—because you asked concretely—target individuals that are close to President Putin. That is not my view of what has happened so far. I want to hear the argument from somebody that Viktor Vekselberg—you asked for specifics. I am going to get really specific. Why was he on the list? I do not know. I can tell you he does not know. What was the intention for him? I have got 12 names here—I am not going to go through them all; I will provide them in writing so we do not go through the Kovalchuks and everything—that are much closer to Putin that were not there. That is number one. Go after the people close to Putin.

Number two, I really like what is in the legislation in the DETER Act about saying right now, if you do this in 2020—2018 is already gone. If you do this, then we will sanction Sberbank. I know Mr. Gref well—I see him all the time—I know Mr. Kostin, I know Mr. Shamalov, the heads of the three Russian banks. They need to be part of the deliberative process before the action is taken, not after, because once it is after, then, you know, they cannot change Putin. It is the forward-looking thing that this is specifically what will happen to you, German Gref, you know, write a letter to him, make it very personal so that then he says he does the lobbying before the action, not after the fact, because after the fact it is very difficult to get Mr. Putin to move off his mark.

Senator CORKER. Thanks. I know I have run out of time, but if you all could specifically write back.

Thank you for being here. We appreciate it.

I am sorry, Mr. Chairman.

Senator BROWN. Thank you, Senator Corker.

Ambassador, I appreciate the last part of that answer. I think we learned that from the briefings we have had and the hearings we have had, to anticipate and threaten, for want of a better term, those sanctions.

Let me drill down a little bit on Senator Corker's question. You described in your testimony, Ambassador McFaul, the tension between professionals on the one hand at Treasury, State, and the intelligence community, what they have been doing and saying to combat Russian aggression, and on the other what the President is actually doing. You urged a unified Administration plan and policy on Russia, noting the President can engage Putin without embracing him, as he clearly has.

Would you be specific about what you think the President should do right away, publicly and privately, to signal what the consequences will be for continued Russian meddling in our infrastructure and in our elections?

Mr. MCFAUL. I would like him to start reading the talking points that his advisers provide for him. I am serious about that. I think there is a lot of consensus in the Trump administration about what should be done. This is going to sound strange to Democrats and Republicans, but I actually see a lot of continuity between the Obama administration and the Trump administration on general policy toward Russia. And in some places, like lethal assistance to Ukraine, I think the Trump administration has rightfully gone farther than the Obama administration did.

I just want to point out I left Russia the day before Putin invaded Ukraine. He did not do it on my watch. I left that to—Ambassador Fried had to deal with him after I left. The problem is the President does not seem to agree with his own Administration's policy, and every now and then, when he gets behind closed doors, he lets you know that. I was in Helsinki watching what happened, and that press conference was extraordinary in terms of the disconnect between what the President was saying and what I take to be as I read and talk to people about what the policy is. So the simple thing is get in alignment with the rest of your Government.

Senator BROWN. Thank you.

Mr. MCFAUL. Easy thing to say, hard thing to do.

Senator BROWN. Ambassador Fried, you talked about escalating options tough enough to hurt, in your testimony, restrained enough to use. What would be the top of your list of sanctions to ratchet up pressure on the Kremlin in the short term prior to the election for future attacks, going after oligarchs in St. Petersburg, sanctioning State-owned entities, Kremlin slush fund, Russian sovereign wealth fund? Talk in a little more detail about that. In the short term, how would you prioritize those in an escalatory approach?

Mr. FRIED. I agree with my colleagues who have pointed out that we should go after Putin's cronies. I think, as Heather said, that that bothers the Kremlin no end. I think that the consternation

with which the Kremlin and Moscow elites greeted Section 241 of CAATSA, The Kremlin Report, shows that that bothered them. That is my personal favorite part of CAATSA, that classified report. I think we should use it.

I like the DASKA provision which mandates a study of Putin's wealth. I think if you have that study, probably classified, and The Kremlin Report's CAATSA 241, there is good material to draw from in going after people.

You know, Vekselberg—we do not have to talk about individuals, but Mike McFaul is dead right. One escalatory ladder that we ought to start now is going after these people. Another one—and Heather Conley mentioned it—is start drawing up the channels for dirty Russian money. Force disclosure of beneficial ownership of high-end real estate. The Russians park their money in Miami, New York, and London. We should not let them do it. We should expose this.

Then the second category of sanctions are the sectoral sanctions. Senator Corker mentioned his concerns about going after Sberbank. You know, you can talk about the targets. We should be selective. I continue to think that going after new Russian sovereign debt is a good idea. We could also go after new debt financing for a broader swath of Russian State-owned companies. We also ought to go after the cybersector aggressively. We ought to go after technology. We ought to go after the cyber bad actors, and we ought to go after all of the funders.

Senator BROWN. Thank you.

Let me ask a question and any of you can answer, not all four of you, but any—in mid-April, as you remember, U.N. Ambassador Haley announced that Russian companies who help Syria make and deploy chemical weapons would be sanctioned. Then those sanctions were pulled back, reportedly on orders of the President. Anybody have an opinion, a well-formed opinion, on what might have happened?

You all have an opinion. You just do not want to state your opinion, apparently.

Mr. FRIED. The process, I think we have all become familiar with the policymaking process at the top of the Trump administration, and I do not think she made up—I do not think Ambassador Haley made up that assertion. I think the policy process was not as smooth as it should have been.

With respect to Syria-related sanctions, I am for it, but I would keep my expectations under control. Sanctions work best when they are embedded in a policy that makes sense. I think as Mike McFaul said, this Administration's Russia policy, if you take out—if you subtract what the President says—I know that is hard, but if you do that, it could make a lot of sense. But I do not think the same is true with respect to our Syria policy, and I have never been a wild fan of Syria sanctions. We ought to do them, but I would not expect too much.

Senator BROWN. Thank you.

Senator Rounds.

Senator ROUNDS. Thank you, Mr. Chair.

Based upon the conversation that has been repeated several times today with regard to where the focus should be and where

the emphasis should be, I am just curious, and I would ask Ambassador McFaul and Ms. Conley to perhaps respond to this. Mr. Putin recently backed down from a proposal to raise the age eligibility for receiving a Government pension there in Russia. Experts attribute this decision to be related to Mr. Putin's popularity decreasing significantly due to this pension reform proposal. This would suggest that Mr. Putin know that he is subject to the consent of the governed and will take reasonable action to maintain that consent and the favorability that comes with it with regard to the public.

With respect to sanctions policy, what lessons can we learn from this development? And how can we use sanctions and other foreign policy instruments to perhaps nudge Mr. Putin to make policy changes that are favorable to U.S. interests? I have heard the discussion that we should focus on the oligarchs, but clearly there is something else going on there as well with regard to the popularity issues. Are we missing an opportunity here simply because we think we are more direct on the oligarchs as opposed to impacts for other portions of the population within Russia?

Ms. CONLEY. Thank you, Senator. I think what we are seeing—President Putin is well aware of the long-term negative trajectory of the Russian economy. It is an energy-based economy that has no innovation. It is a demographic collapse that will happen beginning in 2050. He is acutely aware of this. What he was trying to do was the most timid pension reform to continue the viability of a social safety system that they can no longer meaningfully maintain for the long term. They have not reformed their pension service since the end of the Second World War, since 1947. So what he is attempting to do is make some adjustments to that, and they are not even that big. And he was met with a surprising amount of unpopularity.

There is a restlessness in Russian society. We see that with spontaneous demonstrations against corruption, the demonstrations after President Putin announced he would be returning to the Kremlin in 2012. But I think we cannot misunderstand that to mean something more significant. President Putin has a huge challenge to manage Russia's long-term economic decline as China grows ever more powerful and around it through Belt and Road and through the Arctic, and so he is doing what he can. And even that timid effort he had to step back from. He does have to manage his popularity, but I do not think we should question that he is concerned about his next 6 years in office.

Senator ROUNDS. OK.

Mr. McFAUL. If I can say, I think, Senator, you raise a very important—

Senator ROUNDS. Do you have your mic on?

Mr. McFAUL. Now I do. I will hit that "talk" button. I am slow on that. My apologies.

I think you raise a really important point about a lot of analytic assumptions we make about decision making in Russia and, therefore, the impact that sanctions have on it. That to me underscores we need to be careful about how smart we think we are about how Russia makes decisions and how Putin makes decisions. Everybody talks about he is really popular and he is going to be around forever. I agree with that. In my scenarios, I do not see a situation

in which Putin steps down or he is voted out of office. I do not. However, that he does fall in popularity—I mean, he most certainly did after he announced the pension reforms, and he responded—suggests that there is more pressure, societal pressure in that system than we give it credit for.

Number two, something to remember about the popularity of Putin—two things to remember. I used to coach basketball for my sons, and I always think about Putin’s popularity as taking my sons’ JV team and playing the Warriors. Guess what? The Warriors are going to crush us. Is that real competition? Is he really popular? Is he really so much better when he is running against nobody? Oh, by the way, and he controls all the television stations and all social media and the entire U.S. Senate—the equivalent—and the Congress? It is not so hard to be at 80 percent if you have all that on your side. So remember that about that system.

Number two, remember this about that system, because all Russians know this. You need to understand it, too. Russia is a highly policed State. They have incredible capabilities to monitor everything you do. When I was Ambassador, I assumed that every email I sent, every phone call I made, and every movement I made in my house, a beautiful house, Spaso House—thank you for your support for helping to pay—well, not you. Thank you to the American citizens for helping to pay the rent on that—was monitored and recorded.

So think about this. If you are sitting out in Vladivostok and Ivan Ivanovich calls you from Moscow from a polling agency and says, “How do you think the President is doing?” There is only one rational answer to that response, right? Oh, by the way, all the polling firms are also controlled by the Kremlin except for one. So I think we inflate what is going on in terms of Putin’s popularity by not taking those things into account.

The last thing about the oligarchs. They are not all the same. We use that phrase as if they are some group that we just would put in this room and they all have the same preferences. That is not true. Many of them acquired their wealth—I did not say “made their wealth”—in the 1990s. Many of those are those that are now externally oriented and their business models depend on being in the international system. But as was pointed out earlier by my colleagues, there is another group of oligarchs—or, you know, I would just call them “Putin’s cronies”—that acquired their property rights when Putin came to power. And those two groups do not have the same set of preferences.

I think there is a lot of tension between those groups around sanctions. I know a lot of major Russian oligarchs that think this Russia policy, Putin’s policy is bad for their business. They are not going to come and testify and tell you about it, but make no mistake, there is tension among elites, too, about this aggressive, belligerent policy that is isolating Russia today.

Senator ROUNDS. Thank you.

Thank you, Mr. Chairman.

Chairman CRAPO [presiding]. Thank you.

Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman. Thank you all for your testimony.

You know, I have been doing foreign policy between the House and the Senate for 26 years, and I have learned one thing: that if you are attacked and you do not respond, an aggressor will attack again. Does anybody disagree with that proposition?

[No response.]

Senator MENENDEZ. So we have been attacked by Russia, and we have not significantly responded to that attack. And we see the consequences of the international community not really responding. We see it—Putin made a calculated decision in Crimea, Eastern Ukraine. He made a calculated decision in Syria. It is all paying off for him at this point. So he going to continue to make calculated decisions based upon whether we, the United States, the leader of the free world, and get others to join us in responding.

So I am a big supporter of my colleagues' efforts on the DETER Act, but that is prospective. It does not deal with all of the other malign, nefarious activities that Putin and Russia is engaged in, in violating the international order that we helped create after World War II and that has brought peace and stability for the better part of three-quarters of a century.

So the question is—and I heard in my office my distinguished colleague and friend, the Chairman of the Foreign Relations Committee, on which I am the ranking Democrat. I know he has a certain degree of reticence toward sanctions. We have had some conversations about that. But it is the only tool of peaceful diplomacy that we have outside of aid and trade and international opinion that we can use.

So my point is that at this point we have been attacked through those cyberattacks. There is no question about it. We are in the midst of that even as we speak. We have seen the violation of the international order that inures to our detriment in terms of our own national interest and security. Certainly I would argue that in Syria, at least. And so we need to respond, and there is a reticence, I guess, about responding. Now, I am all for understanding how do we refine our response, but responding in and of itself, we have already taken too long from my perspective to respond.

So I look at this, and I appreciate, Ambassador Fried, some of the comments you made about DASKA, which I have joined with Senator Graham and others in pursuing. You mentioned good ideas from that legislation: targeting corrupt officials and their family members, restricting U.S. persons from dealing in new Russian sovereign debt, allowing the U.S. to designate persons operating in the cybersector generally, and identifying beneficial owners in high-end real estate deals as some of the elements. I agree. And on the energy questions, you know, we can refine some of those things. But I think what we need to do is to act.

So let me ask you, Ambassador Fried, I understand that you led the State Department's Sanctions Coordination Office in the last Administration before it was disbanded in 2017 under the Administration. What is the value of such an office at State? And what are we missing now that it does not exist?

Mr. FRIED. Well, I do not want to be self-serving, but the office principally extends the power of sanctions by bringing together the peoples, the Japanese, and the other major democracies in common cause. That is what I did. I was in the best possible negotiating po-

sition because when I traveled to Europe, I could do handshake deals at the table and deliver because I had the backing of the interagency, worked very closely with Treasury and all the parts of the State Department. And so we could work with the Europeans and actually come to common—develop a common language on parallel sanctions. That is helpful.

I would bet dollars to rubles that Putin told his people that we would never be able to bring the Europeans along in common cause on sanctions. He was wrong, and he was shown to be wrong, which gets to Mike McFaul's point about not all the Russians are comfortable with where Putin taking them.

That office was disbanded. The people doing sanctions at the State Department are capable individuals. They are good people. But they do not have the bureaucratic clout to be able to bring together the interagency and work with the Europeans, the Japanese, the Canadians, the Australians to develop common positions on sanctions, whether it is Russia sanctions or DRPK sanctions.

Senator MENENDEZ. Thank you.

My time is up, but, Ambassador, I am going to submit for the record questions as it relates to INTERPOL. I believe that the Russians are abusing access to INTERPOL to suppress efforts, and I would love to hear your answer on that.

Mr. McFAUL. Happy to do it. Thank you.

Chairman CRAPO. Thank you, Senator Menendez.

Senator Cotton.

Senator COTTON. Thank you, Mr. Chairman. Thank you all for appearing, and, Ambassador Fried and Ambassador McFaul, thank you for your service. Ambassador McFaul, thank you in particular for serving in Russia. You gave a small snapshot of what it was like to be the Ambassador there, or really anyone who works in the embassy, and I think few Americans realize what a hostile and adverse environment it is.

Ambassador McFaul, you said, if I heard you correctly, that you do not see much hope for a change in Russian behavior as long Vladimir Putin remains President. That seems to have escaped most recent Presidents. The stories of Bill Clinton's late-night interactions with Boris Yeltsin are legion and legendary. They tried to get off on the right foot with Vladimir Putin in the late 1990s. Of course, George Bush looked into President Putin's soul and got a sense of—looked in his eyes and got a sense of his soul. Barack Obama had the Russian reset, and President Trump has tried to repeatedly have a better relationship with Vladimir Putin.

Why does that always come a cropper no matter what the best intentions of Presidents of both parties?

Mr. McFAUL. That is to me?

Senator COTTON. Yes, it is.

Mr. McFAUL. Well, I would say two things. One is it is not continuity over that 30-year history. I want to emphasize that. There have been times in the U.S.–Russia relationship where it has been genuinely cooperative. No one should mix up what we did with the Russians in the 1990s, cooperative things we did with them, versus where we are at today. It has to do, as Ambassador Fried said, with the nature of the regime changing, becoming much more autocratic, and it is not a spurious correlation that when countries be-

come more autocratic they become more belligerent toward liberal democracies like ourselves. That is true.

Under Putin, it is more autocratic than ever before. It is more repressive than ever before. And as said in my opening remarks, these are criminal activities. I just want to associate myself with the way Senator Menendez described it.

And, by the way, a lot of these things never happened even during the cold war. Annexation did not happen during the cold war. Assassinating people in foreign countries using chemical weapons, maybe that—I do not think that happened in the cold war. A lot of this stuff goes well beyond—violating American sovereignty during a Presidential election, that did not happen during the cold war.

So I want to underscore I think we are in a fundamentally new place. I recently wrote a book about this history, and the last chapter is “No More Resets”. I am intimately familiar with the resets, as Ambassador Fried knows. No more resets while Putin is in power, and we need to not think that we can go back to that.

So my strategy is—I think there is a lot of agreement here—we need to contain belligerent behavior through some of the legislation that is here, and when we can, in very narrow sets of interests, cooperate where it is in America’s national interest, just like we did during the cold war, by the way.

So, for instance, most of Helsinki I think was a complete disaster. And, by the way, when people say the President’s words do not matter, those words mattered to me because it was about me and my personal safety. So that notion that he can just say things and the policy chugs along, I disagree with that. I think his words have consequences for our Russia policy, and I dare say Syria and other things. But—

Senator COTTON. Mr. McFaul, if I could reclaim my time.

Mr. McFAUL. Sure, please.

Senator COTTON. The only thing I have in response to what you said, with which I largely agree, is that they have taken some steps beyond what happened under the Soviet regimes, but most of the techniques remain the same: assassination, disinformation, subterfuge, so on and so forth.

Mr. McFAUL. I disagree, Senator. I do not—

Senator COTTON. So they had not targeted a Presidential election perhaps, but they—

Mr. McFAUL. Yes, that is new.

Senator COTTON. —did target, though, for instance, the deployment of mid-range nuclear missiles to Europe in 1983, we now know.

Mr. McFAUL. That is true.

Senator COTTON. I want to read something into the record. I think it is very important. It goes back a little bit earlier than most reports. It is “Democracy in America.” So the last page of the first book of “Democracy in America,” which was written 100 years before the cold war started, concludes like this: “There are two great peoples on the Earth today who, starting from different points, seem to advance toward the same goal. These are the Russians and the Anglo-Americans. Both have grown larger in obscurity, and while men’s regards were occupied elsewhere, they have suddenly



taken their place in the first rank of Nations, and the world has learned of their birth and of their greatness at the same time. All other peoples appear to have nearly reached the limits that nature has drawn and to have nothing more to do than to preserve themselves. But these two are growing. All the others have halted or advanced only with a thousand efforts. These alone march ahead in an easy and rapid pace on a course whose bounds the eyes cannot yet perceive. The American struggles against the obstacles that nature opposes to him. The Russian grapples with men. The one combats the wilderness and barbarism; the other, civilization vested with all its arms. Thus, the conquest of the American are made with the plowshare of the laborer; those of the Russian, with the sword of a soldier."

"To attain his goal, the first relies on personal interest and allows the force and the reason of individuals to act without directing them; the second in a way concentrates all the power of society in one man. The one has freedom for his principal means of action; the other, servitude. Their point of departure is different. Their ways are diverse. Nonetheless, each of them seems called by a secret design of providence to hold the destinies of half the world in its hands one day."

That suggests that the tension and conflict we have with Russia go a lot deeper than any one American or Russian administration, and the sanctions response and policy responses we have discussed here are all meritorious and should be pursued to the greatest extent. I do not anticipate much change in Russian behavior either, Mr. McFaul, but we can draw a set of boundaries to increase the cost for that behavior and hopefully deter it.

Thank you.

Chairman CRAPO. Thank you, Senator Cotton.

Senator WARNER.

Senator WARNER. Thank you, Mr. Chairman. And I agree with a lot of the comments made by my colleague from Arkansas. It is great to see the whole panel, but particularly you, Ambassador McFaul. Thank you for your great service.

One of the things, I do want to go back a little bit to the Helsinki episode. What I have seen from Congress is one of the few times we have truly been unified in terms of sanctions against Russia. What I have actually even seen from most of Mr. Trump's appointees in the intel community and the defense arena, uniform agreement that Russia attacked us, that they will be back to attack us again, and this is an ongoing threat.

Through pure happenstance, Senator Rubio and I had engaged with the Atlantic Council to bring together parliamentarians from European countries to talk about Russian interference in their elections, through both cyber and misinformation/disinformation. And through pure happenstance, the day we gathered was the day that Donald Trump and Vladimir Putin were meeting in Helsinki. So we had Ukrainians, Estonians, Lithuanians, Swedes, Brits, Canadians, Italians, Czechs, Poles—I am going to leave off some, but 15 to 18 countries, all who were recounting episodes similar, in some cases in Eastern Europe even more sophisticated than techniques used against our country. These fellow parliamentarians were aghast

when they saw in a sense the de facto leader of the West kowtow to a Russian President.

So to your point, Ambassador McFaul, as somebody who served in Russia, what kind of message do we send, even when we have unity in Congress, even when we have most of Mr. Trump's appointees recognizing this is a threat, even when we have clearly, as Dan Coats has indicated, all 29 Nations of NATO have been interfered with by the Russians, when we have a President of the United States that seems to ignore this threat, not acknowledge it, and, frankly, I would argue, embarrass our country on the world stage by kowtowing to a Russian despot?

Mr. McFAUL. You want me to answer that?

Senator WARNER. Yeah.

Mr. McFAUL. And I want my colleagues to—I will try to be briefer than I have been, which is to say it is not in America's national interest. It is just that simple. I looked at that performance, and I wanted—you know, I asked myself the question. I was in Helsinki. I work for NBC, so I was there covering it. What American national security interest was advanced by that summit?

I am not against engagement, by the way. That is what I wanted to say to Senator Cotton. When we engage with Soviets and we engage with autocratic regimes and enemies when it is in our national interest, sometimes to push back on them, and occasionally to cooperate. The one thing that Putin said at the summit, by the way, that I agree with him—and Putin and I do not agree on much—is that we should extent the new START Treaty. I think that is in America's national interest, and you can only do that when talking to the Russians. But nothing else was advanced. And that should be the criteria that all meetings are judged by. What American national interest was advanced? I did see very many in that Helsinki—

Senator WARNER. Well, let me try to get a question in for Ms. Conley. I think in your testimony you also indicated if we ramp up—and I support, for example, Senator Van Hollen's and others' efforts on the DETER Act. If we ramp up, though, one of the things we have learned is that the Russian ability to interfere in our elections, to use misinformation and disinformation, is both effective and cheap. We did kind of from the intel side a back-of-the-envelope evaluation and said if you add up all the costs that Russia spent interfering in our elections, in the French Presidential elections, and as increasingly clear, in the Brexit vote, you add that all together, it is less than the cost of one new F-35 airplane. So this challenge is not going to go away.

I think you made a comment about heightening and making sure that we continue to upgrade our election security. In a normal White House with this kind of happening, there would be someone designated on election security coming out of the White House, because that is the only place where you can convene our local, State, and Federal officials. And instead we have people kind of running off half-baked, well-intentioned but without that leadership.

What should we do? And if you can also comment on a more specific area I think you raised as well, and that is—and I appreciate the Chairman and the Ranking Member on this. If we are going to take on AML reform, one of the areas where we can find those

oligarchs' funds is the question around beneficial ownership. So election security and beneficial ownership, please.

Ms. CONLEY. Yes, absolutely. Thank you. This is where I was speaking about prioritize. Nothing can be more important than defending our democracy, and that is exactly what the Russian Government would like to erode confidence and credibility in. It has to be first principle.

If the White House and the President will not lead, what we are going to have to do is a substitute, which is, as best we can stitch together, a whole-of-Government effort. I do not think we are organized or fit for purpose for this. If this were a normal situation and our country was attacked the way it was in November of 2016 and before that, we would have created a 9/11 Commission. We would have looked at the structural impact, and to bring fusion centers or whatever it is, we did none of that. And we are structurally not organized to combat this. What the Russians are doing is going through our strategic seams, domestic through international, State and Federal. Whatever that division line is, they are finding it cheaply, and they are pulsing it.

This is on us. This is less about Russia, and it is more about the United States getting its act together, strengthening its institutions, and prioritizing this. We just do not have the perfect situation, unfortunately. But that is not an excuse.

Senator WARNER. My time is up, but I just want to mention that there is bipartisan legislation that is not going to solve everything, but an Election Security Act. And I sure wish that this Senate, that the Majority Leader would move that legislation, because I believe it would get 75 votes.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you, Senator Warner.

I will take my question time now. I want to follow up on what you just said, Ms. Conley. It seems to me, first of all, that there is sort of a consensus in the room that there is an opportunity here to increase sanctions on oligarchs and have some effect. But before I get to that question, you just seemed to talk about some kind of a structural change of our approach. Could you describe that a little better?

Ms. CONLEY. Yes, sir. Thank you. What strikes me—and this appears in legislation, whether we return the Sanctions Office to the State Department or put something—we are doing things on the margins. This takes a whole-of-Government effort. Where my argument is, our research is focused on Russia's economic influence and then its political influence. So you can tell from my focus on that.

In some ways our tools lie in different places, which is why we have had the Senate Banking Committee, the Senate Judiciary Committee, the Senate Foreign Relations Committee, the Armed Services Committee—everyone has a piece of this. This is a full spectrum that goes from military operations to social media and disinformation. It is hard to get your arms around, and we are not organized to do this.

After 9/11, we started reorganizing ourselves because we found we were not fit for organization. We have to do the same thing on malign influence. It is Russia today. It will be China and other adversaries tomorrow. They are watching this playbook, and they are

taking notes. This is about getting ourselves organized for a sustained campaign of malign influence by our adversaries, because we are most—as democracies, we are most vulnerable when our institutions do not work, we are partisan, and we do not have a unified whole-of-Government effort. I encourage perhaps in the next Congress, if possible, to think about the structural differences and to put forward a new thought process of oversight as well as Administration organization to combat effectively adversarial malign influence.

Chairman CRAPO. So have you got a suggested plan?

Ms. CONLEY. I can come up with one, Mr. Chairman. I think think tanks should be part of that conversation, just like the 9/11 Commission. Create a high-level bipartisan panel to think through those structural impediments.

Chairman CRAPO. I would appreciate your further input on that. I think that is a very insightful comment.

One last question that will probably use up the rest of my time, and I put this question out to whoever on the panel would like to respond. But it seems to me from what I have heard so far that sovereign debt and increased focus on oligarchs are two areas which seem to have some broad support for us to look at further ratcheting up our responses.

With regard to oligarchs, are there oligarchs closer to Putin whom we have not targeted? Has anyone considered or suggested whether sanctions should be imposed against Putin himself? Could you, any of you who wish, respond to the general question of what does it mean when we say we should have an increased focus on oligarchs?

Mr. FRIED. First, I would differentiate, as Ambassador McFaul said, between oligarchs. They are not all equal. Some are closer to Putin; some are independent of Putin.

The CAATSA study produced a classified report of those oligarchs who are particularly close to Putin. It is classified. I have not seen it. But by all accounts, it is a first-rate study. It was done by the pros. The Administration mishandled the public rollout, but no matter. That is a good, that is a solid document.

Second, one of my favorite provisions in the draft DASKA bill is the mandated study of the sources of Putin's wealth. So if you put those—if that passes and we have a study of Putin's wealth, then we can cross—then the Administration can cross-reference that with the Putin-connected oligarchs, and you have a pretty good target set of people. They are there. There is no question that we could escalate the sanctions and put pressure on Putin. And the fact that it bothers him is demonstrated by the lengths he went to to get the Magnitsky Act repealed. The Magnitsky Act, as it turned out, targeted people close to Putin. We did not know it at the time, but it bothered him. His anxiety suggests opportunity and leverage for us to push back.

Chairman CRAPO. All right. Thank you very much.

Senator SCHATZ.

Senator SCHATZ. Thank you, Mr. Chairman.

First, a question for the panel. We know that Russia has interfered in elections among our NATO allies, and to both Senator Corker and Senator Warner's point, it is working, it is cheap, and

it is asymmetrical in the sense that we cannot exactly invoke Article V over cyberinterference. Interfering with vote counts would be another matter. Interfering with critical infrastructure would be another matter. But just messing with an election process, we are in a position right now where we do not know really know how to respond except kinetically, which is a vast overreaction. And so I am wondering whether there is a space here short of invoking Article V to work on, in a sanctions package, some kind of response to interfering with electoral processes, especially among our allies. And I will start with Ambassador McFaul and try to go down the line.

Mr. McFAUL. First, again, I just want to underscore I like the conceptual idea of prospectively saying if you do this, this is what will happen to you. I think that is the first thing I would start with.

But, number two—and I said it at the end of my remarks, and I write about it in the testimony—there has got to be more instruments of power, right? So high on my list is resilience, like with all due respect, we have done next to nothing as a country to increase the cost and to defend our election infrastructure. I actually do not think we are going to see big violations of it in 2018. If we have time, I will go into why. But the capacity is still there. That should be number two.

And, number three, we are wrestling with it—and I know you wrestled with it, some of you wrestled with it yesterday with some folks from where I lived, but what is the balance between our national security interests and our First Amendment? What do we do with—let me just make it really concrete. When Sputnik International, a company 100 percent controlled by the Kremlin—it was actually started by a friend of mine. I know it well. When they tweet out “Crooked Hillary”—that is what they did in 2016—is that the press expressing themselves or is that a violation of American sovereignty? And I do not think we have wrestled appropriately with that question. I like the progress we have made, and I think some of the things that both Google, Facebook, and to a lesser extent Twitter have done—well, actually Twitter, too. They have all done some things that are moving in the right direction in terms of at least information about where this comes from. So RT is incredibly popular on YouTube. They know how to do that well. There is a little information thing. But that balance I think needs to be the third component of how to get it right before 2020.

Senator SCHATZ. OK. Ambassador Fried, let us focus on NATO and what we can do sort of inbetween kinetic and nothing.

Mr. FRIED. I agree with Ambassador McFaul, prospective sanctions, putting your escalation in the window and letting them see what you are prepared to do is a good idea. That is what I like particularly about the DETER Act, its focus.

Second, there is plenty of room to use sanctions against bad cyberactors. If you talk to European Governments, a lot of them are angry about the Russian electoral interference. I am convinced that there is a constituency out there for common action with us.

I was in Madrid recently. They are not happy about the fact that the Russians were messing around in the Catalonia referendum.

That is another particular for us to make common cause instead of bashing the Europeans.

Senator SCHATZ. Thank you.

Mr. FRIED. Second, in the disinformation space, it is a false choice to say we have to go after—weaken the First Amendment to go after disinformation. That is nonsense. The Honest Ads Act and other forms of transparency requirements would actually help expose Russian disinformation. The Administration—this is what Heather Conley said, and I agree completely—ought to organize itself and probably have—just as we developed after 9/11 an inter-agency counterterrorism center, we ought to have a counterdisinformation center. That center should also be working with the Europeans, who are moving forward in this space while we are doing whatever it is we are doing.

Senator SCHATZ. I am going to run out of time. I will take the next two answers for the record because I wanted to say to Ambassador McFaul, first of all, we stand with you, and we did that with our bipartisan resolution. I know there are continuing concerns for you and your safety and the misuse of the INTERPOL process with Russia-friendly regimes. If there is anything that the U.S. Senate or the U.S. Government could be doing that it is not doing, I want you not to hesitate to contact any or all of us instantly, because your safety is absolutely essential in terms of respecting your public service, but also in terms of our geopolitical position. So thank you for your service. We are sorry for this difficulty, but we certainly stand with you.

Chairman CRAPO. Senator Reed.

Senator REED. Thank you, Mr. Chairman.

First, let me thank the panel not only for your comments today but for your extraordinary service to the Nation in so many ways.

Ms. Conley, I agree with you, we are not organized, et cetera, but let me focus on the upcoming 2018 election. We are looking at it in terms of preparing our electoral system, avoiding disinformation, making sure of the integrity of the vote. There is another effect, though. I think the Russian approach is to constantly keep us upset, confused, et cetera. Whatever happens in the election, my sense is they have a plan to exploit that. So there could, in fact, be a situation where they would question through disinformation the integrity of the vote, whether people voted, whether illegal people were voting, et cetera, et cetera, et cetera.

One, and I will start with the Ambassador, how credible is that? And, two, it goes back to the point that Ambassador Fried made, that we would need someone with authority and facts to stand up almost immediately on election day or the next day and say, “No, we verify the accuracy of the vote.” The worst thing for us would be to have that message trumpeted by figures in the United States.

So with that prelude, your comments, Mr. Ambassador.

Mr. McFAUL. Let me be brief so I can get everybody else in. I think those are very appropriate concerns, and I think it is a good reminder that the Russian strategy is a very sophisticated strategy. It is not just about helping one candidate or the other. It is about exacerbating polarization already in our society. To me, the research on that is as clear as day, and that we are divided and fighting amongst ourselves and talking already about whether the

elections are legitimate or illegitimate. Those are all wins for Vladimir Putin.

I also think, at least as a hypothesis, that he may sit the next electoral cycle out so that we all are complacent and we all say, “Oh, sanctions solved it. They are afraid of our sanctions. We do not have to do any of these other things that we were just talking about.” That is one of my greatest concerns, and then we just all forget about the things we are talking about and we do not do anything. And then 2020 comes along, and in 2020 my greatest fear is not about Crooked Anybody, that that will happen. My greatest fear is exactly to your point about them questioning the integrity of the election and somehow being an actor in the integrity of the election. And all it takes is a few thousand votes where people say, “Hey, this did not work the way it was supposed to,” and we have got a big crisis on our hand in terms of the integrity of our democracy. And it is very, very easy to do, and we have not done—we have done next to nothing to prevent it from happening.

Senator REED. Ambassador Fried, other comments?

Mr. FRIED. I agree with what was said. I think that we face a challenge, but we have the tools to combat it if we focus.

Senator REED. Thank you.

Ms. Ziemba.

Ms. ZIEMBA. Yeah, I think the important thing to stress has been the broader damage to the institutions and the question that I would be less concerned—I think echoing what Ambassador McFaul was saying, in some ways I might be less concerned about direct Russia standing up and statements around the results and more about what we might see at home. And I think taking that sort of dynamic and continuing to build back up respect for the institutions that are protecting our democracy is very important. So there is the work that we can do to make sure we are targeting Russian resilience, but I do think what is coming out here is what we need to do at home.

The other challenge, I think, more generally—and just to echo what has been talked about—we can look at examples throughout Europe of the ways in which Russia took advantage, and China to some extent, but especially Russia took advantage of divides within countries. And that is where I think one of the things I liked in the DETER Act was the emphasis on working with European allies.

Now, the details of that obviously we do not have time to go into at this point, but I think that is very important. Thank you.

Senator REED. Ms. Conley, there are a few seconds left.

Ms. CONLEY. Yes. Russia is constantly adapting its tools. They will look less Russian and more American and to be more divisive, and we have to be very vigilant on that.

The second question, I think, on the cyberimpact, the Russians follow our political system very closely. They know it is a handful of swing States and a handful of swing counties that sometimes can determine. If there is, I think, a focused penetration of cyber, it will be in those swing areas, and I think that we have to prioritize those critical areas for cyberprotection of our election infrastructure.

Senator REED. Let me thank you, but just a final point. I think even though in 2018 they might take, as the Ambassador suggested, a timeout so they can get really ready for 2020, I think we have to be ready—and we are not—to have someone when the polls close everywhere be in a position to verify the accuracy of the vote from a standpoint of a credible source, because I think they will not miss the opportunity and it will be echoed by some people in the United States, maybe they will echo people in the United States, that this was not fair, that the votes were not counted right, et cetera, and we could have a huge problem in 2018 if we do not today identify that person in the Administration who will stand up and said, “I have validated these. Every Secretary of State has reported in. We had no problems.”

Chairman CRAPO. Senator Warren.

Senator WARREN. Thank you. Thank you, Mr. Chairman, and thank you to all of our witnesses.

Ambassador McFaul, I am very sorry about the threats that you have had to endure. I assure you Congress has your back. You were our Ambassador in Moscow, and it was your job to deal with an increasingly aggressive Russia. We do not permit other countries to punish our diplomats for doing their job.

You know, President Trump seems to love photo ops with dictators and summits that do not produce real results. In a recent article, you wrote that the Trump administration “should not pursue engagement as an end in itself. Good relations with Russia or a friendly summit with Putin should not be the goal of U.S. diplomacy, but the means to achieve concrete national security ends.”

So, Ambassador McFaul, briefly—because we are limited for time—when it comes to our relations with Russia, is the Trump administration making enough progress on the most urgent national security goals?

Mr. MCFaul. First of all, thank you for your initial remarks, and I just want to remind everybody that I was not the only one on that list. I was there with a dozen other U.S. Government officials and one staffer up here, Kyle Parker, and they were Democrats and Republicans. So, remember, this is about us all. But I really appreciate the support. I did in July, and it made a difference most certainly. More work to do on INTERPOL if we have time on that, but I will come back to that in a minute.

My general answer is the Administration I think is doing a pretty good job. Just the President of the United States does not seem like he supports their policy. And that has consequences for the policy. It is not just they can do everything on their own and then the President will not mess it up, and we saw that in Helsinki. When Putin came out and set him up to create this false moral equivalency between the people that Mr. Mueller indicted and the 11 or 12 of us that Putin put on, and he said it was a great idea, that is not advancing America’s national interest. And so I think generally, you know, if I were advising the President, I would say just focus on one thing to get done, and, you know, new START Treaty, extend it. And then do not do all the other stuff, because I honestly—thank you for quoting my article. I learned that from George Shultz, by the way. I do not want to take credit for that idea. He is a colleague of mine at Stanford. But I think he just does



not understand that. I think he defines so many bilateral relationships, not just Russia, as getting along with the leader. Mostly they are autocratic leaders he is concerned with, and that in my view does not serve America's national interest.

If there was a deliverable out of Helsinki and, you know, if he actually was friendly to Putin and he said, yeah, OK, I am going to get out of Eastern Ukraine, then I would celebrate it. But I see no evidence of that strategy succeeding.

Senator WARREN. Well, you know, Congress wants to push harder against Russia. Last summer, we overwhelmingly passed tougher sanctions on Russia, and over a year later, the Trump administration has not implemented seven mandatory sections of this Russia sanctions law.

Ambassador McFaul, do you believe there is any legitimate excuse for the Trump administration's failure to follow the law and to implement mandatory Russia sanctions that were passed by this Congress?

Mr. MCF Faul. No.

Senator WARREN. You know, I think you are right on this, and you rightly point out that President Trump's own National Director of Intelligence said publicly that Russia keeps trying to undermine our electoral process, our energy grid, and other critical infrastructure. On the same day that President Trump signed the Russia sanctions law last year, he said, "It disadvantages American companies and hurts the interests of our European allies to enforce these sanctions."

So let me pose that as a hypothetical here. Ambassador McFaul, in the long run, which hurts American companies and our European allies more—the Russia sanctions law passed overwhelmingly by Congress or Russia's cyberattacks, disinformation, and other destabilizing activities?

Mr. MCF Faul. I think that is a great way to think about it, because we never do—we do not think about the nonevents from our successful activities.

For instance, back in 2014, Putin had other ideas. He wanted to take all of a place called Novorossiya, and first and foremost, Ukrainian soldiers stopped that idea. But maybe Ambassador Fried's work had something to do with that as well. If we did not take those actions, things would be a lot worse, and I think that is a really important concept to think about the negative—including economic consequences. You know, I got lots of phone calls from lots of people who do business in Russia in anticipation of this hearing, as you can well imagine, and I like this argument that in the long run this could be more costly to us all if we are in a confrontation. So remember the nonevents that we do not know that maybe we are deterring that are beneficial to us and Europeans.

The last thing I would say, I am sorry, you cannot have effective sanctions with zero cost for the ones that are implementing sanctions. I do not know of a case in history that there were effective sanctions that did not somehow affect those that are doing the targeting. That is part of doing it, and you have to do that in the national interest, not just the individual interest of one company or one individual.

Senator WARREN. Thank you. You know, Congress can only do so much to confront Putin. We need a strong leader in the White House who clearly understands this threat and is willing to confront it. And right now we do not have one.

Thank you.

Chairman CRAPO. Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman. Thank you and the Ranking Member for having these hearings. I know he is not here anymore, but I want to thank Senator Corker, Chairman of the Foreign Relations Committee, and Senator Menendez. They had hearings, as Senator Corker mentioned, yesterday with some witnesses, including Ambassador Nick Burns, who worked on a lot of these issues, and the President of the Council on Foreign Relations, Richard Haass. So I think it is really important that both the committees, all committees be working together, along with the Intelligence Committee, Senator Warner and others.

I want to thank all of you for your testimony, and, Ms. Conley, you pointed out that we have a lot of things we want to focus on when it comes to U.S.–Russia relations, but we do have to prioritize. And I do agree that priority number one needs to be defending the integrity of our democracy and our election system as we continue to pursue those other issues. And that is exactly why Senator Rubio and I introduced the DETER Act, because we heard testimony from Secretary Pompeo in the Senate Foreign Relations Committee that we have clearly not deterred Russian efforts to interfere in our elections. The Trump administration national security team, everybody other than President Trump himself, has been very clear that the Russians continue to try to interfere. And the idea behind the DETER Act is simply to say up front and in advance to Vladimir Putin, “If you cross this threshold, you will face these penalties.” Deterrence has been part of our strategy when it comes to, you know, our military strategy against the Russians, and that is why we introduced this.

Ambassador McFaul, thank you for your service and for your testimony today in support of the DETER Act. Could you just elaborate a little bit more on your experience with Putin and why you believe that if you say up front here is the price you will pay if you engage in that conduct, that it probably has a better chance of success than if you after the fact take action where for him there is no way he can necessarily change his behavior to get out of it?

Mr. MCFAUL. Well, again, I do not want to exaggerate my interactions with him. I have been in summits with him a half-a-dozen times. I met him first in the spring of 1991, so we go way back. I would not say we are exactly Facebook friends right now.

I think it is very hard for him to move back from a position. I mean, you just alluded to it. He is a very stubborn guy that way. He is going to lose face, and he will dig in. And I am very struck by even in the moment of euphoria—at least in Russia there was euphoria about a new beginning with President Trump—he has not done one thing for U.S.–Russia relations to help out President Trump. To my mind, not one single positive thing in U.S.–Russia relations. I could give you half-a-dozen he could have done to help that. He has not done that. So that is not the way he behaves. He expects us to lose interest, us to fade away, our European allies—

I just want to associate with what everybody else said. Nothing we do is any good if it is not with them.

Whereas, the other way around, the prospective this is what will happen if he does this, that creates tension within his inner circle, within his Government. It creates an opportunity for deliberation about cost-benefit analysis behind closed doors that I think gives more prospect of a positive, in terms of our interest, deterring him. And I think “deter” is exactly the right word.

Senator VAN HOLLEN. Ambassador Fried, you and I have talked. We are in the process of having discussions on Capitol Hill between Republicans, Democrats, and others about changes that we can make obviously to the DETER Act. No bill is perfect as introduced, and Senator Rubio and I are very open to making those changes. But could you also comment on the overall sort of structure of the DETER Act, laying out these clear, bright lines? As you pointed out, President Putin needs to know that we believe what Trump’s national security advisers have been saying, and that we should not let President Putin think he can—I think you said “sweet talk”—sweet talk President Trump. And the way to do that, as Ambassador McFaul says in his written testimony, is for the Congress and President Trump to “sign into law preemptive sanctions that would trigger automatically in response to future malign behavior,” including election interference. Do you support that overall structure?

Mr. FRIED. Just as Mike McFaul said, I like the notion of hanging out the prospective sanctions. I think that works as a deterrent. Senator Menendez had a point when he said, look, the Russians have already done bad things. So then the challenge is to sort out the different tools we have to put pressure on the Russians because of their various tracks of malign behavior.

So where do we want to increase the sanctions now? Where do we want to hold sanctions back for future, you know, prospective malign behavior? That needs to be sorted out, and we have to think it through in a disciplined way so that there is clarity. Easier said than done. But I like the DETER Act’s focus. I like a lot of the individual sanctions provisions in DASKA. And I am cognizant of the fact that for Ukraine you both want to deter future bad Russian actions, but you also want to increase the pressure on Russia so that they fulfill the terms of Minsk, because that is a decent framework for a solution.

Now, that is complicated stuff, and it is made more complicated by the fact that we do not—that the Administration cannot hold to a consistent line on Russia policy mainly because of, frankly, the President, not because of the people in the Administration. But that undercuts the value of what the Congress is trying to do. So hard but not insolvable.

I am also heartened by the fact that so many of the actors in Congress, in the Administration, and outside are basically moving in the same direction trying to do the right thing.

Senator VAN HOLLEN. Thank you. And it is complicated, but here is what is simple and straightforward: As you all have said, if we do not take action and we do not make it clear what the consequences of action are, they are going to run all over us. And so we better do that sooner rather than later.

Mr. FRIED. Yes, sir. I agree.

Chairman CRAPO. Senator Jones.

Senator JONES. Thank you, Mr. Chairman.

Ambassador McFaul, let me add my appreciation for everything, and I was glad to be at least part of your—I did not join the Senate until January, but I was glad to be part of the Senate resolution with your support and the others. And I appreciate everybody for being here today.

Ambassador McFaul, I want to go back a little bit because I wanted to go where Senator Reed and you went earlier, and that is about whether or not we are really going to see a lot of interference in these elections.

We have got two sets of sanctions. Crimea and Ukraine are one set. But everybody is concerned about 2018, and my real concern is that they are just going to lay low and declare victory by laying low and we do not do anything.

What is it that we can do right now in which we start preparing for the possibility that there is only a small amount of interference that we do not see a whole lot and that this Administration can then say, “See what we have done,” and that we let our guard down for 2020? Which I think is the more important election that the Russians will focus on. What can we start doing now in this Congress to try to make sure that we inoculate ourselves from that possibility as well as a 2018 in which we have got all manner of interference as obvious as it was in 2016? And anybody can answer that, by the way.

Mr. McFAUL. I will go first, but I will try to be quick. Number one, I want to underscore it is a hypothesis I have about Putin. I do not know it to be true, but I am worried about it because of complacency. And so to me there are four elements, but let me just focus on three.

One, I think the DETER Act is a great way to get ready for 2020 so that they can have a deliberative idea about whether it is worth it or not to get involved to the same extent they did in 2016. And I think that will be a bigger, more healthy debate, because I know of people around Putin—not in his inner circle—that do not think that that intervention was such a great thing for Russia’s long-term national security interest and economic interest.

Number two, resilience, we have talked about it. I completely agree with what my colleague said. We missed an opportunity to have a 9/11-like Commission and to have a whole-of-Government, and all the things we did after September 11th we should have done after 2016. That boat has left. But focus on resilience for 2020. Basic things, really basic things like paper ballots, dual authentication for anybody that works on a computer that counts votes. I do not need to go through the list, you know them, but they are really, really basic.

We have people working on these things at Stanford to test them, and they are frightened by how little has been done.

Senator JONES. So we do not let up.

Mr. McFAUL. We do not let up, no. We have got a lot of work to do on the resilience.

Senator JONES. And I completely agree, it is a total hypothesis. But everything that I have heard from everyone here and in my

time in the Senate is that Putin is very opportunistic, and if he sees an opportunity to lay low for a little bit in order to get sanctions relieved or not have anything down the road, I think he will do it.

But let me go real quick, because we have alluded to it a couple times. As an old prosecutor, I would like to just go ahead and get it on the record. Let us talk a little bit about the abuses at INTERPOL and are there things that we could do in this Senate right now that we could strengthen that up? But I would like to just go ahead—we have talked about it, and we have talked around it. What is going on and what can we do? Anybody.

Mr. McFAUL. Well, I have become a big expert on INTERPOL lately, not by choice, and what I would just say is there are many countries in the world, not just Russia—they tend to be autocratic countries—that abuse the INTERPOL system, and they do not do red notices, by the way. This is what I have learned. They use this diffusion system, which is a lot—it is easier to do. It is bilateral, and, therefore, it is much harder for—it does not go through Lyon. And using that for political purposes—usually, it is against, you know, opposition leaders. You know, it is usually against Ukrainians, by the way, and not many Americans. But more attention to that, and just say, you know, Russia needs to be kicked out of INTERPOL. That is one thing one could say if they continue to abuse the INTERPOL system. I like the language that is in Section 707 to say that there will be sanctions about it.

But, third, it really has to be the Administration, a very strong message to Vladimir Putin that says, “If you ever stop any of our people in any third country, just even for a couple hours, there will be consequences.” And then say to those third countries that participate in this schema that there will be detrimental relations in our bilateral relationship, right? Both of those need to be targets of our diplomacy to stop this abuse. And it is not just Russia, but Russia is a major abuser of that system right now.

Senator JONES. All right. I think my time is up. I appreciate it. I may have some more, Mr. Chairman, for the record.

Let me say given Russia’s ability to produce misinformation in this country, you might want to go ahead and check your Facebook page. You may very well be friends with Putin today.

[Laughter.]

Mr. McFAUL. Good point.

Senator JONES. Thank you, Mr. Chairman.

Chairman CRAPO. Senator Donnelly.

Senator DONNELLY. Thank you, Mr. Chairman. I would like to thank all the witnesses for your service to the country. Ambassador, thank you for everything you have done for our country and for all of those people that you talked about. Please know—and I know that it has been mentioned before—we are on the same team, and we have your back.

Mr. McFAUL. Thank you.

Senator DONNELLY. And we will continue to do so. For anybody who is listening, please know we have his back.

The first tranche of mandatory sanctions for Russia’s use of chemical weapons in the U.K. has recently been imposed. A stronger round of sanctions that potentially includes further export and

import restrictions, a downgrading or a suspension of diplomatic relations, and a termination of landing right is supposed to take place in just under 3 months.

This goes for all of you. Are any of you aware of any efforts within the Administration to discuss this issue with Russia?

Mr. FRIED. I cannot speak from direct knowledge, but I suspect that the Administration has tried to have a dialogue with the Russians. I think that the Russians would have blocked it and it will go nowhere. That is a pretty safe prediction. So I think we will end up with the Administration grappling with the second tranche of sanctions under the CBW Act.

Senator DONNELLY. What is your opinion on how the Russians are going to react to these sanctions, including the second round?

Mr. FRIED. Well, their instant reaction will be to scoff at them in public, dismiss them and belittle them. But this is a general point worth making. We should look past the initial tranche of Russian bluster and denial that sanctions have any impact. I remember the 1980s and the dynamics. The Soviets then went from denying that any of the pressure the Reagan administration would have the slightest effect on them to acknowledging that they could not go on like that.

When I was a young diplomat in the Soviet Union in the early 1980s—

Senator DONNELLY. You still look like a young diplomat to me, sir.

Mr. FRIED. Well, I had hair then.

[Laughter.]

Mr. FRIED. What you heard were Russians looking around and, when they thought nobody was listening, saying, "We cannot go on like this." It was the early 1980s. I am starting to hear the same thing, and I think Mike McFaul may have heard it more. Russians quietly are beginning to have greater doubts about where Putin is leading them.

Pressure tactics can have a cumulative impact, and they can bring results when you do not expect it. We did not know that the Berlin Wall was going to fall, you know, before it fell. I do not want to be extravagant, but because there has been so much emphasis in these hearings about Russian strength and the weakness of our response for various reasons—which I get. I am not arguing with that. There is a larger strategic point—

Senator DONNELLY. Well, I apologize. I only have so much time. What do you think—this is for all of you—is the number one action Congress and the White House can take in the next 6 months to change Putin's calculus?

Mr. FRIED. I think strong, carefully crafted sanctions legislation, combining DASKA and DETER, would be a good, strong signal.

Senator DONNELLY. Ambassador.

Mr. McFAUL. I agree. I actually agree. And I base that assessment on the very strong reaction that you got from the Prime Minister and many other actors about this pending legislation. They are watching very closely what you are doing.

Senator DONNELLY. Ms. Ziemba.

Ms. ZIEMBA. I agree as well. The broader importance, though, I think becomes making sure that in those sanctions and in the im-

plementation, the enforcement, which is obviously the Administration level, that there is a focus on actors who—that it is not necessarily just all Russians, and differentiating and linking it to the behaviors. I recognize there is a whole part of the sanctions literature that can argue for targeting an entire country. My worry is if all of Russia was targeted, then that would increase the power of some of those who have been benefiting from sanctions.

Ambassador Fried is definitely correct that there can be vulnerabilities built up over time. We do not know. I just fear we are not at that tipping point yet.

Senator DONNELLY. Ms. Conley.

Ms. CONLEY. President Putin is under the mistaken belief that democracy is for sale. We have to make sure that Russian illicit financing has no safe home in Europe or the United States or any enabling services that that money provides. That we can do right now.

Senator DONNELLY. Mr. Fried, one last question, and that is in regard to North Korea. What do you think Putin's goal is there? Is it to make it as difficult for the United States in relations with North Korea as he possibly can?

Mr. FRIED. Yes.

Senator DONNELLY. Well, that is a succinct answer.

[Laughter.]

Senator DONNELLY. And I appreciate it. Thank you, Mr. Chairman.

Chairman CRAPO. You might get the record, Ambassador Fried, and you, Senator Donnelly, for the most succinct questioning of the Committee.

Senator Heitkamp.

Senator HEITKAMP. Thank you, Mr. Chairman, and thanks to all of our guests today. You guys are presenting really thought-provoking and important testimony and questioning.

You know, I wonder where he got the idea democracy is for sale. Huh, I wonder. That is a rhetorical question.

You know, when we look at Putin—and I had someone school me early on as we looked at kind of long-term Russian politics, and he reminded me, this young man, that Putin's position, you have to kind of look at him like the czar. You know, we kind of think about our democracies and political leadership, but he really holds the cards to all the financial ability for people to be successful, and that puts him in a very powerful position.

The ability to interfere with that kind of power seems to me to be the pressure point that we want to exert when we look at sanctions, the things that threaten the internal stability of Putin to continue to wield the kind of czar-like authority that he has.

So if we were going to be very strategic and very surgical about focusing our attention, where would we put it? And I want to start with you, Ms. Conley. What do you think? You seem to have a pretty good idea of what happens within the Russian economy.

Ms. CONLEY. Well, thank you, Senator. I think, again, it is—President Putin has really consolidated his inner circle and his strength. In fact, the last 4 years of these sanctions have proved a bit of a loyalty test, which is why I find it striking that many of his inner circle have their funds not in Russian banks but to be

protected overseas so they cannot be used for higher purposes in this State.

I think if we can apply pressure to the inner circle that he relies on very closely to stabilize the security services, his national guard led by his former bodyguard, we can get very specific to those individuals that allow Mr. Putin to continue. That is not harming the Russian people. That is minimizing the sacrifice that our companies and our allies have to take for higher principles. If we can focus like a laser beam on those individuals that sustain his own personal power structure, that could make an important difference. But these are very targeted, they are very specific.

So, for instance, with Mr. Deripaska, it is not going after Rusal. It is going after Mr. Deripaska very specifically and where his financings are.

Senator HEITKAMP. If I can just comment on that, I found it very interesting that we gave him enough advance notice so he could divest his interest. You know, it just did not seem to me to be a very strategic response.

I would like everyone to answer that question, if you could, but I wanted to make sure that we understood maybe the economic implications. Ms. Ziemba.

Ms. ZIEMBA. I think, again, back to targeting some of those in the inner circle and who end possibly some smaller—you know, not State banks necessarily, but some banks that are actually involved in the transfers of illicit finance and the like. I remain somewhat concerned about the effectiveness of targeting sovereign debt just because of the limits and because it could be another example of that sort of loyalty test that Ms. Conley just mentioned. And I think we have seen some of the bluster in the Russian press, even this morning has suggested that there is cash available in that context. So I think focusing where it hurts and enforcing some of the divides within Russia, just as Putin has been trying to do within our society.

Senator HEITKAMP. Ambassador Fried.

Mr. FRIED. I think you have heard echoes of a debate in the Russia and sanctions community about what works best. I think everybody agrees—and you have heard it on this panel—that we ought to be going after the bad actors, the cronies close to Putin. There is a difference about how much we should go after the sectors like cyber and finance. So far we have done both. I think that we ought to be pushing harder on the individual sanctions for the reasons that you have heard, and I agree with my colleagues. I am not willing to give up on sectoral sanctions because I think if we finally craft it, that can also be useful.

I think that there will be a rallying around the flag effect, but I do not think that will last. And in the end I think that there are advantages to pressure. But the advice you have heard from other members of the panel strikes me as sound, so I think being discrete about sectoral sanctions and aggressive about going after bad actors is the way I would move the sanctions policy.

Senator HEITKAMP. Ambassador McFaul.

Mr. McFAUL. Well, the first point, I just want to underscore a very important analytic point you made, Senator, and I think some people get confused about the nature of Putin's rule. We think that



there are these capitalists, these owners, and these sanctions hurt them, and then they go lobby Putin to change the policy.

What is wrong about that analytic framework is they are all rich because of Putin. They are dependent on Putin. So they cannot go to him and say, "Hey, make me richer, you know, you have got to change your policy in Ukraine." And he is, like, "What do you mean, man? You are a billionaire because of me." That is number one.

Number two—

Senator HEITKAMP. He is Santa Claus.

Mr. McFAUL. And he has got leverage on them. They cannot go to a court to protect their property rights. They protect their property rights by being in good standing with Putin. That is the inner circle.

The paradox of sanctions is that the outer circle, the people that are actually doing business in the international world, including Mr. Deripaska, including Mr. Vekselberg, are the ones that are more susceptible to our sanctions—right?—and also are the ones that are least connected to Putin. And so we have got to get our head around the fact that we are not going to have this causal effect as quickly as we want, and that then leads me to the last thing I want to say about this. Even if you are not going to change his behavior, you do the sanctions on the people that are responsible for all this egregious behavior because it is the right thing to do. And do not forget that Ukrainians are watching that, that Estonians are watching that, and that Russians, who are against this regime, are also watching that.

So when it has the causal effect—I think Ambassador Fried made a good point. We are not very good—by the way, the Government is not very good at predicting when these things happen. Neither is academia, I can tell you that. But we should not underestimate the kind of churning that happens there. So sometimes just doing the right thing, you do it because it is the right thing to do, not because you think you are going to change the behavior.

Senator HEITKAMP. I am completely out of time, but, otherwise, I would ask the effect of belittling or in some way diminishing the effect of Article V, what that has done in terms of internal politics. We cannot take that off the table, and that goes to speaking with one voice.

Thank you, Mr. Chairman, for your indulgence.

Chairman CRAPO. Thank you, Senator Heitkamp, and thank you to all of our witnesses. That concludes the testimony. We have had a very helpful discussion here today, and I also think that the written testimony provided has been very helpful as well. We appreciate, again, the help that all of our witnesses have brought to us as we deal with this issue.

For Senators, questions for the record are due Thursday, September 13th, and you probably will get some questions following the hearing. We ask that you respond to those questions as quickly as you possibly can.

With that, the hearing is adjourned.

[Whereupon, at 12 p.m., the hearing was adjourned.]

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

**PREPARED STATEMENT OF CHAIRMAN MIKE CRAPO**

The Committee meets today for its second of three hearings on sanctions against the Russian Federation for its malign activities directed against the United States, its allies and spheres of influence.

I thank our panel of outside expert witnesses today, most of whom are former Administration officials, who will help the Committee better understand the current U.S. posture toward Russia.

Testifying today will be Ambassador Dan Fried, now at the Atlantic Council, but who capped off a 40-year State Department career as the Obama administration's sanctions coordinator; Stanford Professor Michael McFaul, also at the Hoover Institution, who was U.S. ambassador to the Russian Federation for the 2 years leading up to Putin's invasion of Crimea, and Heather Conley, now with CSIS, but who was also on the Russia desk in the Bush administration's State Department.

Rachel Ziemba, our sole Government outsider, now with the Center for New American Security, will share her particular expertise on the interlinkages between economics, finance, and security issues, with regard to sanctions, Russia's economic resilience and the role of sovereign wealth in all of this.

Two weeks ago, current Administration witnesses informed the Committee of efforts to implement the Countering America's Adversaries Through Sanctions Act, or "CAATSA", which was enacted in August 2017 and largely crafted by this Committee, and what political and economic effects of that implementation have had.

Basically, the Administration reported that over the last year it had sanctioned some 230 individuals and entities through its use of CAATSA and its own administrative authorities.

Those targeted include the heads of major State-owned banks and energy companies, as well as some of Putin's closest associates or oligarchs.

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.

Beyond any use of sanctions, which Treasury imposed against several Russian actors for interference in the 2016 elections, Homeland Security further testified that it is working aggressively to support State and local efforts to secure the 2018 elections.

They also made clear that this work must not only continually evolve, but never become complacent because those seeking to interfere and disrupt are on the cutting edge of technology.

A number of the Members on this Committee, on both sides of the dais, encouraged the Administration to do more, and soon.

Whatever the economic effects of these sanctions have had over the last year, it has escaped no one's attention that Russia is still in Crimea, and the Kremlin still exercises violently destabilizing activities in Ukraine and Syria.

Moreover, since CAATSA implementation began, Putin has ordered the use of chemical weapons to attack citizens of U.S. allies at home, and continues his efforts to subvert the democracies of the United States and its European allies through complex disinformation campaigns and outright cyberattacks.

Getting sanctions 'right' is a difficult exercise for Congress and the Administration alike.

It took decades for sanctions to take real effect in Iran. And, Putin's Russia is not like Iran or North Korea, for that matter, at least, not in any way other than its penchant for engaging in malicious behaviors at home and abroad.

In the case of Russia, any constructive use of sanctions is complicated further by the level of Russia's integration into the global economy and all the attendant unintended consequences, contagions and spill-overs that come with it and which threaten to destroy the potential for needed multilateral application of sanctions against an economy like Russia's.

There is no question that Putin must pay for his actions and that the United States has the ability to impose real costs against Moscow, even as it increases its own defenses against future attacks.

The only question is how the United States will go about imposing those costs.

**PREPARED STATEMENT OF SENATOR SHERROD BROWN**

Today we gather to further assess Russia's persistent efforts to attack the U.S. and our allies via cyber, influence and other campaigns directed at our most critical infrastructure; and to develop ways to strengthen U.S. responses to those attacks.

In our first hearing, senior Administration officials testified on sanctions and the protection of critical infrastructure. Directly following that hearing, all Senators had

an opportunity to be briefed at a classified level on preparations by the Federal Government, working in cooperation with State and local authorities, to secure our electoral process for the upcoming midterm elections.

Today we'll hear outside perspectives on the effectiveness of U.S. sanctions, and on new tools, including new sanctions authorities that might usefully be deployed against Russian attackers. Bolstering that sanctions toolbox—and then ensuring the tools are actually used to get the job done—is critical.

We'll hear from those outside the Administration—including witnesses with extensive and distinguished diplomatic experience in dealing with Russia under Republican and Democratic Administrations over decades—what they think will most likely dissuade the Russians from continuing these attacks.

While sanctions have had some effect on Russia's economy, as they have been applied it's not clear they are doing much to actually change Russian behavior. And that, after all, is the goal. Sanctions are a means to an end, not an end in themselves. We seek real and immediate changes in Russian behavior, and we are not yet seeing it.

There is little dispute sanctions are not yet having their intended effect: Russia remains in Crimea, its proxies are still in eastern Ukraine, it continues to support Assad in Syria, and to attack our elections and other critical infrastructure using sophisticated cyberweapons. It has attempted to assassinate British citizens with a chemical weapon, and killed an innocent bystander in the process. It has fostered sanctions evasion and other illicit activity around the world.

Some of today's witnesses—including those with deep bipartisan experience in U.S.–Russia relations—have been critical of the Administration's efforts to date, arguing they have been inadequate and are undercut by President Trump's reluctance to criticize Putin and his Government.

President Trump's efforts to try to undermine what are established conclusions of fact by the U.S. intelligence community about Russia's involvement are well documented. And Russian attacks on our elections and critical infrastructure like energy plants, utility systems, aviation, manufacturing and private sector business systems are continuing.

As our next elections approach, it is long past time for the President and Congress together to send a much more powerful and direct message to Putin and those within his circles: If you continue cyberattacks against us, you and your Government will pay a heavy economic, diplomatic, and political price.

As Ambassador McFaul notes in his testimony today, there's a tension between what sanctions professionals at Treasury and State are doing and saying, and what the President is doing on Russia.

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

In addition to urging the Administration to use CAATSA more effectively, I think most of us agree Congress should also do more. Congress crafted these tough Russia sanctions, enacted last August by overwhelming majorities in both chambers. We should build on that bipartisan consensus.

Today we should focus with these experts on the broader strategic questions: What active cyberattacks are the Russians directing against our elections and critical infrastructure? And what range of powerful economic, trade, financial, diplomatic, and political tools can we deploy now to deter those threats?

What will it take to actually deter Putin, by sharply increasing the price he must pay for them? I know those are the questions my constituents are asking. Our large Ukrainian community in Ohio knows firsthand the dangers of Russian aggression.

This hearing should be an opportunity to get answers from those long involved in U.S.–Russia policy. I especially welcome our distinguished former Ambassador to Russia Michael McFaul, who has had his own recent political and legal struggles with Mr. Putin, but has acquitted himself gracefully throughout.

I welcome Ambassador Fried, former sanctions coordinator at State with a distinguished record of decades of bipartisan service in U.S.–Russia policy. Ms. Rachel Ziemba has done extensive economic research on sanctions policies and their effects, as has Ms. Heather Conley of CSIS. I look forward to hearing what effects you think current sanctions are having on Russia's economy and behavior, and your ideas on how we should more forcefully confront the threats posed by Russia.

Thank you Mr. Chairman.

**PREPARED STATEMENT OF MICHAEL A. MCFAUL**

PETER AND HELEN BING SENIOR FELLOW AT THE HOOVER INSTITUTION, AND PROFESSOR OF POLITICAL SCIENCE, DIRECTOR AND SENIOR FELLOW AT THE FREEMAN SPOGLI INSTITUTE FOR INTERNATIONAL STUDIES AT STANFORD UNIVERSITY, AND FORMER U.S. AMBASSADOR TO THE RUSSIAN FEDERATION (2012–14)

SEPTEMBER 6, 2018

In the last several years, the Russian Government has taken increasingly belligerent actions abroad, threatening not only American national interests but also violating international laws, norms, and values. Russia has not always behaved as a rogue or outlaw State. Under Soviet leader Mikhail Gorbachev and Russian President Boris Yeltsin, the Kremlin adopted a different, more cooperative approach towards the United States and the West and adhered more closely to the rules of the game of the international system. Under the leadership of President Vladimir Putin, however, especially after his return to the Kremlin in 2012, Russia has moved in the opposite direction, defying the West, challenging international rules, and aggressively undermining American national interests. In parallel, Putin has consolidated autocratic rule inside Russia, a lamentable trend that correlates with Russia's growing belligerency abroad.

While Putin remains in power, Russian foreign policy is unlikely to change. But that fact should not lead to the erroneous conclusion that the United States—together with our allies—cannot constrain, contain, or deter Putin's bad behavior. By developing a sustained, multipronged strategy of containment regarding most issues, combined with engagement on a limited agenda, the United States and the West can begin to reduce Russia's disruptive, dangerous, and damaging actions in the world. Part of that strategy must include a new and improved sanctions regime.

**The Facts on Putin's Belligerent, Criminal Behavior**

Tragically, Russian foreign policy has become increasingly belligerent and rogue during the almost 20 years of Putin's rule.

In August 2008, Russia invaded Georgia.<sup>1</sup> In the wake of that war, Moscow recognized Abkhazia and South Ossetia as independent countries, changing de facto by force the borders of the sovereign country of Georgia. This Russian action violated international laws and norms and adversely affected American national interests.

In February 2014, Russia invaded Ukraine. Russia first seized control and then annexed Crimea. Annexation is illegal and taboo in the international system.<sup>2</sup> After annexation proved easy and cheap, Putin fomented separatist movements in eastern Ukraine, sparking a civil and interstate war, since Russian soldiers and intelligence officers have been directly involved in the fighting. Putin also provided the rocket that shot down MH17 over Ukraine, killing all 283 passengers and 15 crewmembers on board, another criminal act.<sup>3</sup> Since the fighting began in eastern Ukraine, over 10,000 people have died and roughly two million Ukrainian citizens have been displaced. During World War II and before, dictators annexed territory in Europe. But during the Cold War and after, annexation ceased to be a practice in European politics, until 2014.

In September 2015, Putin deployed the Russian military to Syria with the mission to prop up a ruthless dictator, Mr. Assad. Russia's ally in Syria used illegal chemical weapons to kill innocent civilians in a violent campaign of suppression that started against peaceful protestors and then metastasized into a civil war. Many external observers have labeled Assad use of chemical weapons and other military actions against civilians as crimes against humanity,<sup>4</sup> yet Putin continues to back him.

<sup>1</sup> Dmitry Medvedev had been inaugurated as Russian president months before this war, but Prime Minister Putin assumed operational control of this military intervention.

<sup>2</sup> Turkey invaded and seized control of part of Cyprus in 1974, but never annexed this territory, instead, recognized the Turkish Republic of Northern Cyprus (TRNC) in 1983, similar to Russia's recognition of independence of Georgian regions, Abkhazia, and South Ossetia.

<sup>3</sup> After a joint investigation was completed, the Dutch Government announced that they will seek to prosecute those responsible in Dutch courts after an effort to set up an international tribunal had failed. "Statement by the Minister of Foreign Affairs on MH17, 5 July 2017", Government of the Netherlands, July 5, 2017, <https://www.government.nl/latest/news/2017/07/05/statement-by-the-minister-of-foreign-affairs-on-mh17-5-july-2017>.

<sup>4</sup> "Amnesty Slams Syrian Regime for Crimes Against Humanity", DW, November 13, 2017, <https://www.dw.com/en/amnesty-slams-syrian-regime-for-crimes-against-humanity/a-41352848>; and Lizzie Dearden, "Syria Conflict: U.N. Report Accuses Assad Regime of Massacres and Crimes Against Humanity", *Independent*, August 27, 2014, <https://www.independent.co.uk/news/world/middle-east/syria-conflict-un-report-accuses-assad-regime-of-massacres-and-crimes-against-humanity-9694116.html>.

Some of Russia's own military operations in the Syrian war, including the carpet-bombing of Aleppo, also have been portrayed as crimes against humanity.<sup>5</sup>

In 2016, Putin violated American sovereignty. The Russian president used several instruments—including theft and then publication of private data, deployment of Russian State-owned and State-controlled conventional media, social media, bots, trolls, and fake accounts, as well direct engagement with the Trump campaign—to try to help Donald Trump win the 2016 presidential election. Russian State-sponsored actors also sought to exacerbate American political polarization more generally. Putin and his proxies also may have used other means, including money and “kompromat,” to sway the outcome of the election and influence subsequent actions by President Trump. We must wait for the outcome of the Mueller investigation to understand the full extent of the Russian operation to influence our vote and subsequent politics and policies. But we know already that Putin's actions in 2016 adversely affected American interests and violated international norms. During the Cold War, the Kremlin never violated American sovereignty so illegally, aggressively, and audaciously.

Since the 2016 presidential election, the Russian State and its proxies continue to use traditional and social media to spread disinformation and sow division in American society. Russian Government officials and their allies also continue to seek partnerships and cooperation with like-minded Americans.<sup>6</sup> This Russian campaign inside the United States is part of a global effort by Putin to win over ideological allies within democracies as a means to change their policies towards Russia. Putin has anointed himself as the global leader of nationalist, nativist, conservative (as defined by him) movement fighting against the decadent, liberal West. Putin also cultivates an image of a strong, virile ruler—bare chested fishing, hunting, horseback riding and all that—in contrast to weak democratic leaders in chaotic democratic societies. Putinism has attracted ideological allies sometimes in the Government and sometimes in the opposition in Hungary, Italy, Czech Republic, Turkey, the Philippines, Austria, the Netherlands, Germany, France, the United Kingdom, and the United States.<sup>7</sup>

In March 2018, the U.S. State Department assessed that the Russian Government attempted to assassinate Sergei Skripal, a former Russian intelligence officer living in the United Kingdom. Russian operatives used illegal chemical weapons, violated British sovereignty, injured innocents, and served notice to everyone around the world that the Kremlin can come after you anywhere.

Skripal is not the only Kremlin foe attacked overseas. The tragic assassination of Kremlin critic, Pavel Sheremet, in Kyiv, Ukraine on July 20, 2016, remains officially unsolved. Others Putin considers foes of his regime, like Boris Berezovsky (found dead in 2013 in London in suspicious circumstances) and Alexander Litvinenko (killed in 2006), which, a British inquiry concluded nearly 10 years later, was ordered by the Kremlin, were similarly violations of British sovereignty. Even in the United States, former Russian press minister Mikhail Lesin died mysteriously in 2015 in Washington, DC. On occasion, Soviet leaders did assassinate dissidents abroad, including most famously Leon Trotsky in Mexico in 1940. But for

<sup>5</sup> Human Rights Watch, Syria 2017, <https://www.hrw.org/world-report/2018/country-chapters/syria>; and “Russia/Syria: War Crimes in Month of Bombing Aleppo”, *Human Rights Watch*, December 1, 2016, <https://www.hrw.org/news/2016/12/01/russia/syria-war-crimes-month-bombing-aleppo>.

<sup>6</sup> Casey Michel, “The Kremlin's California Dream”, *Slate*, May 4, 2017, <http://www.slate.com/articles/news—and—politics/foreigners/2017/05/why-russia-cultivates-fringe-groups-on-the-far-right-and-far-left.html>; and Sharon LaFraniere, Adam Goldman, “Maria Butina, Suspected Secret Agent, Used Sex in Covert Plan, Prosecutors Say”, *The New York Times*, July 18, 2018, <https://www.nytimes.com/2018/07/18/us/politics/maria-butina-russia-espionage.html>.

<sup>7</sup> Bob Dreyfuss, “Is Steve Bannon Trump's Link to Putin and the European Far Right?” *The Nation*, March 19, 2018, <https://www.thenation.com/article/is-steve-bannon-trumps-link-to-putin-and-the-european-far-right/>; Timothy Snyder, *The Road to Unfreedom. Russia, Europe, America*. Penguin Random House, 2018; Fabrizio Tassinari and Miguel Poiates Maduro, “Why European Populists Idolize Putin and Trump”, *The Washington Post*, July 16, 2018, [https://www.washingtonpost.com/news/worldpost/wp/2018/07/16/trump-putin/?utm\\_term=.f4daad0f11fc](https://www.washingtonpost.com/news/worldpost/wp/2018/07/16/trump-putin/?utm_term=.f4daad0f11fc); Ronald Brownstein, “Putin and the Populists, The Roots of Russia's Political Appeal in Europe and the United States”, *The Atlantic*, January 6, 2017, <https://www.theatlantic.com/international/archive/2017/01/putin-trump-le-pen-hungary-france-populist-bannon/512303/>; Jon Stone, “Italy Breaks With European Allies and Voices Support for Russia After Populist Party Takes Power”, *Independent*, June 6, 2018, <https://www.independent.co.uk/news/world/europe/italy-prime-minister-giuseppe-conte-russia-sanctions-end-populist-five-star-vladimir-putin-crimea-a8385626.html>; and William Galston, “The Rise of European Populism and the Collapse of the Center-Left”, *Brookings Institution*, March 8, 2018, <https://www.brookings.edu/blog/order-from-chaos/2018/03/08/the-rise-of-european-populism-and-the-collapse-of-the-center-left/>.

many decades of the Cold War and post-Cold War era, these practices were considered taboo, until recently.

In addition, the true perpetrators of several assassinations inside Russia remain unresolved, including most recently the murder of former first deputy prime minister Boris Nemtsov, in February 2015. Those responsible for the wrongful death of Sergei Magnitsky in November 2009 have never faced justice. Nor has anyone gone to jail for the assassination attempts against opposition activist Vladimir Kara-Murza. Especially troubling are the number of Russian journalists who have been murdered mysteriously, including most famously Anna Politkovskaya in 2006, and most recently, Nikolai Andrushchenko and Dmitry Popkov in 2017.<sup>8</sup> American journalist Paul Klebnikov also was killed in 2004; those behind his tragic murder have never been arrested.

In July 2018, at his Helsinki summit with President Trump, Putin called for the interrogation and arrest of several former U.S. Government officials (including me) and one currently serving staffer here at the U.S. Congress, Kyle Parker. For performing our jobs in the U.S. Government, we are accused falsely of violating Russian law. Again, in a now familiar pattern, by calling for the interrogation and hinting as his Government plans to indict American officials without any evidence about illegal activities, Putin's action violated international norms.<sup>9</sup> Unfortunately, Russia has a long track record of violating INTERPOL procedures and practices in seeking to detain innocent people in third countries. Putin's "incredible offer" proffered in Helsinki obviously served no American national interest but also violated basic diplomatic protocol. During the height of the Cold War, no Soviet leader sought to interrogate or arrest American Government officials.

I could go on. But the point of this long but impartial list is to remind this Committee that Putin is not only acting against American national interest across several issue domains, but is also audaciously violating international laws and norms. Many of these actions are criminal. He should not be embraced; he must be deterred.

### **The Necessity of Sustaining and Expanding Economic Sanctions**

For crimes, there must be punishments. Economic sanctions are a blunt, but necessary tool for punishing illegal, belligerent Russian Government behavior.

In 2012, the U.S. Congress rightly passed and President Obama rightly signed the Russia and Moldova Jackson-Vanik Repeal and Sergei Magnitsky Rule of Law Accountability Act, followed by the Global Magnitsky Act in 2016. In 2014, the Obama administration rightly sanctioned Russian individuals and companies in response to the annexation of Crimea and Russian military intervention in eastern Ukraine, and then 2 years later added additional sanctions in reaction to Russia's interference in our 2016 presidential elections. In July 2017, the U.S. Congress rightly passed (and President Trump reluctantly signed the following month) the Countering America's Adversaries Through Sanctions Act in response to Russia's interference in the 2016 U.S. election, violation of human rights, annexation of Crimea and military operations in eastern Ukraine.<sup>10</sup> In April 2018, the Trump administration implemented additional sanctions against seven Russian oligarchs and twelve companies they own or control, 17 senior Russian Government officials, and a State-owned Russian weapons trading company and its subsidiary, a Russian bank. In August 2018, the Trump administration rightly implemented additional sanctions in accordance with the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991 (CBW Act), after issuing a finding that the Russian Government used illegal chemical weapons to try to assassinate Sergei Skripal and his daughter Yulia in the United Kingdom. The United States Government has now sanctioned

<sup>8</sup>The Committee to Protect Journalists count 38 Russian journalist who have been murdered between 1992–2018 in Russia. See Committee to Protect Journalists website, <https://cpj.org/data/killed/europe/russia/?status=Killed&motiveConfirmed%5B%5D=Confirmed&type%5B%5D=Journalist&typeOfDeath%5B%5D=Murder&cc-fips%5B%5D=RS&start-year=1992&end-year=2018&group-by=location>.

<sup>9</sup>Alexander Kurennoi, the spokesperson for the Prosecutor General, gave more details about the alleged crimes these Americans had committed, in a conspiracy with Bill Browder, in his press conference the day after the Helsinki summit. You can watch the press conference here: <https://www.youtube.com/watch?v=he4RIInnq44w&feature=youtu.be>; See also, "Russian Officials Want To Question Former Ambassador Michael McFaul and Other U.S. Officials in Their Investigation of Bill Browder", *Meduza*, July 17, 2018, <https://meduza.io/en/news/2018/07/17/russian-officials-want-to-question-former-ambassador-michael-mcfaul-and-other-u-s-officials-in-their-investigation-of-bill-browder>.

<sup>10</sup>H.R. 3364—Countering America's Adversaries Through Sanctions Act, U.S. Congress website, <https://www.congress.gov/bill/115th-congress/house-bill/3364/text>.

several hundred Russian individuals and entities.<sup>11</sup> Never in the history of U.S.–Russian relations, including the most charged moments of the Cold War, have so many Russians (and Americans, including me) been on sanctions lists.

And yet, superficially, sanctions do not appear to have changed Putin’s behavior at home or abroad. Some, therefore, argue that sanctions don’t work, and should be abandoned in favor of other more cooperative strategies of influence. I disagree.

First and foremost, sanctions are the right, moral punishment to take in response to egregious, illegal actions even if they do not change Putin’s behavior. The United States must respond to annexation, or violations of our sovereignty, or the use of chemical weapons. For moral reasons, we believe as a Nation that crimes committed within the United States must be met with punishment, even if the punishment does not deter future crimes. The same principle must apply regarding international behavior. Moreover, we must think of the counterfactual; doing nothing would encourage even more belligerent behavior. Demonstrating resolve to defend international laws, rules, and norms is essential for the long-term preservation of international order.

In addition, sanctions implemented by the United States, Europe, and other countries have produced negative effects on the Russian economy.

Starting in the third quarter of 2014, the Russian economy contracted for nine quarters; sanctions contributed to this decline.<sup>12</sup> By some estimates, sanctions were responsible for one-and-a-half percent of GDP contraction in 2014.<sup>13</sup> Others estimate that the impact of sanctions, independent of falling oil prices, was as much as 2–2.5 percent for the first few years after Russia’s intervention in Ukraine.<sup>14</sup> Hardest hit were Russian companies and banks seeking to raise capital on international markets. In turn, according to the EBRD’s chief economist, Sergey Guriev, “Russia’s inability to borrow has led to a dramatic depreciation of the ruble and a fall in real incomes and wages.”<sup>15</sup> Capital outflows had also been steady for years and then accelerated after sanctions, jumping from \$61 billion in 2013 to \$151.5 billion in 2014.<sup>16</sup> In the wake of sanctions, foreign direct investment also slowed, though numbers are now moving slowly in positive direction again. Some future investment planned, we know, has been canceled, including most dramatically Exxon–Mobil’s decision to suspend its joint investment projects with Rosneft, at one time estimated to total \$500 billion. Other potential foreign investments that did not occur because of sanctions is harder to track—it’s hard to measure a nonevent—but anecdotally Western investors and companies doing business in Russia have stated publicly and privately that uncertainty about future sanctions has squelched interest in attracting new investors to the Russian market. Most of those already in Russia will fight to stay; those who may have thought about investing in Russia market are now looking for less risky opportunities.

<sup>11</sup> As Assistant Secretary of State for European and Eurasian Affairs A. Wess Mitchell testified last month that Trump administration actions include “217 individuals and entities sanctioned, 6 diplomatic and consular facilities closed or kept closed, and 60 spies removed from U.S. soil.” See Statement of A. Wess Mitchell, Assistant Secretary of State for European and Eurasian Affairs, Senate Foreign Relations Committee, U.S. Strategy Towards the Russian Federation, August 21, 2018, [https://www.foreign.senate.gov/imo/media/doc/082118\\_Mitchell\\_Testimony.pdf](https://www.foreign.senate.gov/imo/media/doc/082118_Mitchell_Testimony.pdf).

<sup>12</sup> “39 Russia Economic Report”, *The World Bank*, May 2018, p. 4, <http://pubdocs.worldbank.org/en/162681527086868170/RER-39-Eng.pdf>.

<sup>13</sup> Isolating the independent causal impact of sanctions is difficult to measure, especially when energy prices were also declining at the same time. One-and-a-half percent is a conservative estimate suggested by Russia’s own prime minister, Dmitry Medvedev. “Russian Economy Shrinks 2 Percent as Sanctions Bite—Medvedev”, *BBC News*, April 21, 2015, <https://www.bbc.com/news/world-europe-32396792>; The IMF estimates “sanctions and countersanctions could initially reduce real GDP by 1 to 1½ percent. Prolonged sanctions, could lead to a cumulative output loss over the medium term of up to 9 percent of GDP”) Russia Country Report #15/211, *International Monetary Fund*, August 2015, <https://www.imf.org/external/pubs/ft/scr/2015/cr15211.pdf>.

<sup>14</sup> Evsey Gurvich, “[How To Properly and Incorrectly Respond to Sanctions]”, *Vedomosti*, May 16, 2018, <https://www.vedomosti.ru/opinion/articles/2018/05/16/769605-otvechat-sanktsii>; For a comprehensive assessment of the economic and political consequences of sanctions against Russia, see Nigel Gould-Davies, “Economic Effects and Political Impacts: Assessing Western Sanctions on Russia”, (Helsinki: Bank of Finland, BOFIT Policy Brief No. 8, 2018).

<sup>15</sup> Sergei Guriev, “Russia’s Constrained Economy”, *Foreign Affairs*, May/June 2016 issue, <https://www.foreignaffairs.com/articles/russia-fsu/2016-04-18/russias-constrained-economy>.

<sup>16</sup> “UPDATE 1—Russia’s Capital Outflows Reach Record \$151.5 bln in 2014 as Sanctions, Oil Slump Hit”, *Reuters*, January 16, 2015, <https://www.reuters.com/article/russia-capital-outflows-idUSL6N0UV3S320150116>.

The Russian economy did grow last year.<sup>17</sup> But the IMF, World Bank, and even some in the Russian Government predict a sluggish recovery of 1.5–1.8 percent over the next several years, far below the world average of 3 percent and well below other major emerging market countries and even other countries to emerge from the collapse of the Soviet Union.<sup>18</sup> In his address to the Federation Assembly in 2018, Putin stated explicitly, “our economic growth rates should exceed those of the world’s. This is a difficult task but not instance case of wishful thinking. This is a fundamental condition for a breakthrough in resolving social, infrastructure, defence and other tasks.”<sup>19</sup> Western sanctions have frustrated Putin’s ability to achieve this goal.

The negative effects on the Russian economy from sanctions have not compelled Putin to quit his war in eastern Ukraine, leave Crimea, abandon Assad, or stop sowing division in American society. Russia is not a democracy, so societal pressure for policy change is difficult to achieve at all and most certainly not very quickly. In all targeted countries, the feedback loop from sanctions to economic downturn to foreign policy change is a long and indirect one. In Iran, for instance, it took several years (and a presidential election producing a new leader) before sanctions deployed in 2010 helped to pressure the theocratic regime to negotiate a nuclear deal. Similarly, sanctions against apartheid South Africa took several years to yield changes in Government policy, even though the South African economy was much more dependent on the West than either Iran or Russia. Russia’s economy is much bigger than Iran’s and arguably has more immunity to the highly targeted Western sanctions imposed to date and that do not go nearly as far as those implemented against Iran.<sup>20</sup> Moreover, Putin and his media outlets have portrayed Western sanctions as a policy to weaken Russia and foment regime change. That alibi compels Russian patriots to endure economic suffering in the defense of the Motherland.

And yet, there are increasing signs of Russian societal dissatisfaction. Putin’s approval rating has fallen to its lowest level in several years: in July 2018 Putin’s approval rating was 67 percent, a drop from 82 percent in April of this year or from 87 percent in July 2015.<sup>21</sup> Putin’s unpopular pension reform is the main driver of these falling numbers, but economic sluggishness is also part of the equation. Economic elites show incremental but growing signs of division, especially between those who need access to the global economy to prosper (that is, those who need access to international markets, especially capitals markets, as well as trade, foreign investment, and technology) and those more focused on Russia’s domestic economy. If Russia’s economy continues to grow at anemic rates, we should expect these anxieties about Putin’s current foreign policy course to grow.

We also do not know about nondecisions or nonactions by the Kremlin that may have been influenced by sanctions. For instance, in the spring of 2014, Putin appeared ready to annex even more territory in eastern Ukraine—a region called Novorossiia. But he stopped. Ukrainian soldiers played the central role in stopping this more ambitious land grab, but sanctions may also have helped to deter this bigger military operation. In the run up to the American midterm elections in November 2018, Russian cyberactors and propagandists seem less active than in 2016. Have sanctions helped to diminish this activity? We do not know, but we cannot assume that sanctions played no role in Putin’s thinking regarding disruption of these elections. (The real test will come in 2020.)

Finally, perhaps the best evidence that sanctions are working is Putin’s irritation with them and his efforts to lift them. The Russian Government has continued to denounce American sanctions. Putin may even have tried to help Trump to win the presidential election, in part perhaps because candidate Trump said he would look

<sup>17</sup> Henry Foy, “Russian Economy Grows in 2017 for First Time in Three Years”, *Financial Times*, February 1, 2018, <https://www.ft.com/content/707f64b8-0752-11e8-9650-9c0ad2d7c5b5>.

<sup>18</sup> Andrey Biryukov and Anna Andrianova, “Russia To Lower Forecast of Economic Growth”, *Bloomberg*, June 27, 2018, <https://www.bloomberg.com/news/articles/2018-06-27/russia-said-to-lower-view-of-economic-growth-on-planned-tax-hike>; and “Russia Economic Report”, *The World Bank*, issue 39, May 2018, <http://www.worldbank.org/en/country/russia/publication/1rer>.

<sup>19</sup> Vladimir Putin, “Presidential Address to the Federal Assembly”, Official Kremlin website <http://en.kremlin.ru/events/president/news/56957>.

<sup>20</sup> On the effectiveness of economic sanctions more generally, see Daniel Drezner, “Targeted Sanctions in a World of Global Finance”, *International Interactions*, 41-4, (2015), pp. 775–764; and Rosenberg, Elizabeth, Zachary K. Goldman, Daniel Drezner, and Julia Solomon-Strauss, *The New Tools of Economic Warfare: Effects and Effectiveness of Contemporary U.S. Financial Sanctions*. (Washington: Center for a New American Security, 2016); and Robert Blackwill and Jennifer Harris, *War by Other Means: Geoeconomics and Statecraft*. (Cambridge: Harvard University Press, 2016).

<sup>21</sup> [Odobrenie Institutov Vlasti, Levada-Center], July 31, 2018, <https://www.levada.ru/2018/07/31/odobrenie-institutov-vlasti-3/>.



into lifting sanctions.<sup>22</sup> On June 9, 2016, a Russian delegation met with Trump campaign officials to discuss, among other topics allegedly, the lifting of sanctions on Russian individuals and companies implicated by the Magnitsky Act. At the Helsinki summit in July 2018, Putin made clear his obsession with the Magnitsky Act, and its main champion, Bill Browder, by devoting several minutes of the joint press conference to spinning a crazy, fabricated tale about how U.S. Government officials helped Browder launder money out of Russia to help finance the Clinton campaign. This summer, on August 10, 2018, in response to press reports about new sanctions legislation, Prime Minister Medvedev stated most aggressively that new sanctions against Russian banks would be “declaration of economic war” and that Russia would retaliate “economically, politically, or, if needed, by other means”.<sup>23</sup> If sanctions were so ineffective, why are all of these Russian Government officials working so hard to lift them? Clearly, sanctions matter.

### Principles for Applying Future Sanctions

Because economic sanctions have produced a tangible impact on the Russian economy and concrete reactions from the Russian Government but have not yet changed fundamentally Russian foreign policy, new sanctions are necessary. Economic pressure must be increased until Putin changes course. Because President Trump continues to send mixed signals to Putin about American resolve, the U.S. Congress must pass new legislation to compel the Trump administration to increase pressure on the Russian Government. Trump’s lavish praise of Putin, including most recently at the Helsinki summit, keeps alive in Moscow the hope that President Trump can be cajoled into lifting sanctions without insisting on any meaningful change in Russian policy. The U.S. Congress—in concert with liked-minded officials in the Trump administration—must disabuse Putin of that hope.

Several principles should guide the implementation of new sanctions and the adoption of new laws mandating new sanctions.

First, ongoing Russian illegal activity must be met with new sanctions. Sanctions must escalate if Putin does not change Russian behavior. For instance, every day that Russia supports the separatist war in eastern Ukraine should be understood as new illegal Russian action.<sup>24</sup> Instead of just maintaining the originally implemented sanctions in response to Russia’s intervention in eastern Ukraine, U.S. lawmakers should lock into place by law a timetable for ratcheting up sanctions if the Russian Government continues illegal, belligerent activity.

Second, the U.S. Congress and President Trump must sign into law preemptive sanctions that would trigger automatically in response to future malign behavior by the Russian Government. By spelling out explicitly future American sanctions in response to specific possible Russian actions before they occur, the United States would help to clarify for Putin his cost-benefit analysis. This deterrence strategy should be applied to defend our sovereignty during elections as in the “Defending Elections from Threats Establishing Redlines Act of 2108” (the DETER Act), but also should be applied to other policy domains, such as deterring the arrest of American Government officials, past and former, in third countries through the abuse of the INTERPOL system, or deterring cyberattacks on critical infrastructure in the United States.

Third, sanctions should be implemented in response to concrete Russian actions or future actions, so that a specific sanction can be lifted when a Russian specific action has been reversed. Implementing sanctions in response to a general bundle of bad behavior makes it difficult for Kremlin officials and their proxies to know what they need to do in order to get those sanctions lifted.<sup>25</sup> The tighter the link

<sup>22</sup> Aaron Blake, “The Other Remarkable, Pro-Russia Thing That Donald Trump Just Said”, *The Washington Post*, July 27, 2016, [https://www.washingtonpost.com/news/the-fix/wp/2016/07/27/the-other-remarkable-pro-russia-thing-that-donald-trump-just-said/?noredirect=on&utm\\_term=.97f9cf06bce2](https://www.washingtonpost.com/news/the-fix/wp/2016/07/27/the-other-remarkable-pro-russia-thing-that-donald-trump-just-said/?noredirect=on&utm_term=.97f9cf06bce2).

<sup>23</sup> “U.S. Curbs on Russian Banks Would Be Act of Economic War—PM Medvedev”, *Reuters*, August 10, 2018, <https://uk.reuters.com/article/uk-usa-russia-sanctions-moscow-reaction/u-s-curbs-on-russian-banks-would-be-act-of-economic-war-pm-idUKKBNIKVOFM>.

<sup>24</sup> The analogy here is parking illegally for many days. The owner of an illegally parked car does not receive just one ticket on the first day the car is violating law but accumulates a new ticket for every day the car is parked illegally. Russia is parked illegally in Ukraine.

<sup>25</sup> In April 2018, the Treasury Department issued new sanctions on several Russian business people and their companies as well as Russian Government officials. (“Treasury Designates Russian Oligarchs, Officials, and Entities in Response to Worldwide Malign Activity”, U.S. Department of the Treasury, April 6, 2018, <https://home.treasury.gov/news/press-releases/sm0338>) The direct role of these individuals in the Russian State’s bad behavior, however, was not spelled out. In announcing this new round of sanctions, the Treasury Department listed “a range of malign [Russian] activity around the globe, including continuing to occupy Crimea and insti-

Continued

between the American sanctions and the Russian actions, the more effective new sanctions will be.

Fourth, although easy to state in theory and difficult to do in practice, future sanctions should primarily target Russian Government officials, State organizations, debt instruments issued by the Russian Government, enterprises owned or controlled by the Russian State, and traditional and social media entities owned or controlled by the State. Since roughly 60 percent of the Russian economy is effectively State-owned or State-controlled, the State sector is a rich target environment for future sanctions and also the segment of the economy closest to and valued by Putin. Genuine private-sector individuals and companies should not be sanctioned unless their direct support of egregious Russian foreign policy behavior can be documented. To the extent possible, private Russian citizens not involved with Russian foreign policy should not be the targets of sanctions. Collateral damage to nongovernmental actors and organizations only reinforces Putin's claim that the United States is out to weaken Russia and impoverish the Russians.

Fifth, to the extent possible, private American interests—individuals, companies, and shareholders—should not be adversely affected by new sanctions. Our aim should be to deter and punish Putin, his Government, and their proxies, not American traders and investors engaging in the Russian private sector. The growth of the Russian private sector—autonomous from the Russian State and cooperating with the American private sector—still serves American national interests, as actors in this sector of the Russian economy are most likely to pressure Putin to stop isolating Russia through aggressive foreign policy actions. In practice, this principle is difficult to navigate since private American companies invest, trade, and cooperate with Russian State-owned enterprises (i.e., Sberbank, Rosneft). In these cases of overlap between the private and public sectors, experts implementing new sanctions will have to determine if the Russian entity in question is behaving more like an instrument of Russian foreign policy or more like a profit-maximizing company. If the former, then the Russian actors could be targeted even if American investors also suffer. If the latter, then the United States Government should not sanction them and explain this rationale for nonaction.

Sixth, greater transparency about Russian investments and economic activity abroad serves American national interests. Russian citizens should know how and where their leaders hide their money abroad, especially if laundered into the United States. Americans and our allies also should know. In the United States, new legislation should be adopted that eliminates anonymous ownership of corporations and real estate, and the transfer of funds abroad through law firms.<sup>26</sup>

Seventh, the Kremlin's abuse of INTERPOL—through the inappropriate use of both red notices and red diffusions—must be stopped. INTERPOL's constitution forbids the use of the organization for political purposes, yet the Russian Government has attempted to use red notice and red diffusion mechanisms to silence and threaten critics. The U.S. Congress and the Trump administration should codify in law the specific sanctions that the U.S. Government will implement in response to future abuses of INTERPOL's red notice and red diffusion mechanisms.

#### **Beyond Sanctions: The Need for a Grand Strategy To Contain (and Sometimes Engage) Russia**

Sanctions—even a more robust sanctions regime—are only one instrument of American foreign policy needed to be deployed to confront Putin's Russia. To contain or deter Putin's belligerent behavior abroad requires that the United States and our allies use our full arsenal—multiple instruments of diplomacy, including coercive diplomacy—to implement and sustain a bipartisan, grand strategy of containment.

The United States must lead in articulating and implementing such a grand strategy, and then work with our allies and partners in the world to execute it. Alone, we will not succeed.

For instance, to reduce the probability of Russian belligerent acts against NATO members in Europe, the United States and our NATO allies must threaten sanc-

---

gate violence in eastern Ukraine, supplying the Assad regime with material and weaponry as they bomb their own civilians, attempting to subvert Western democracies, and malicious cyberactivities." Because this list is so long, it is not obvious what the newly sanctioned individuals would have to pressure the Russian Government to do differently to be removed from these sanctions lists.

<sup>26</sup>See for instance, S. 1717, The Corporate Transparency Act of 2017: <https://www.congress.gov/bills/115/congress/senate/bills/1717>. Anders Aslund details how these mechanisms are used to launder money from Russia to the United States in "How the United States Can Combat Russia's Kleptocracy" (Washington, DC: The Atlantic Council, July 31, 2018): <http://www.atlanticcouncil.org/images/publications/How-the-United-States-Can-Combat-Russia-s-Kleptocracy.pdf>.

tions in response to new acts of aggression, but also strengthen our defensive posture and cyber-resilience, especially in frontline States. In June 2014, in response to Russia's invasion of Ukraine, President Obama rightly announced the creation of European Reassurance Initiative (ERI), a multibillion dollar project designed to increase America's military presence in Europe. The Trump administration has increased support for ERI. In subsequent NATO summits in 2014, 2016, and 2018, the alliance has taken significant steps to enhance deterrence, including the NATO Readiness Initiative, a pledge in 2014 to spend two percent of the GDP on defense, and Forward Presence, and the deployment of four new battalions, totaling roughly 4,500 soldiers, in Estonia, Latvia, Lithuania, and Poland. These advances in capabilities must now be matched with credible commitments in intention from the United States. Above all else, President Trump must signal more credibly that the United States will respond to an attack on any NATO ally (including Montenegro).<sup>27</sup>

In affirming our commitments to the alliance, President Trump and his Administration should also remind Putin that NATO is a defensive alliance that has never attacked Russia and would be insane to ever do so. Enhanced NATO military capacity within allied countries bordering Russia only threatens the Russian armed forces if they attack a NATO ally. Making that Russian military option more costly preserves peace; as President Ronald Reagan said, "peace through strength."

To increase the costs of Russia's military intervention in Ukraine, the United States and our partners must maintain and expand economic sanctions, but also increase economic, political, and military assistance to the Government in Kyiv and the people of Ukraine. Sending lethal weapons of a defensive nature to Ukraine has helped to increase the costs of Russian military escalation in Ukraine, since these weapons only threaten Russian armed forces who are or might be in the future in Ukraine illegally. More important than lethal military assistance, however, is continued American support for Ukrainian economic and political reform. Ukraine faces a pivotal challenge during presidential elections next year. A free and fair election will mark a major milestone in the consolidation of Ukrainian democracy. An election influenced by Russian disinformation or worse yet, cybermanipulation of election results, will set back Ukraine's already fragile democratization process. Providing loud public support and increased financial assistance for free and fair elections (election monitors, cybersecurity, NGOs exposing disinformation, international election observers, etc.) is an immediate, tangible way to push back on Putin. The Russian president fears nothing more than an independent, democratic, market-oriented, and Western-leaning Ukraine.

To increase the costs of Russian intervention in our electoral process, the U.S. Government must threaten new sanctions in response to future Russian meddling, and at the same time increase the cybersecurity resilience of the entire infrastructure used for conducting elections and counting election results. In parallel, the U.S. Government must develop clearer rules and regulations for constraining foreign activities of influence—especially through traditional and social media—during our elections and more generally. Progress has been made. American social media companies independently have taken a series of measures to reduce disinformation and increase transparency.<sup>28</sup> But the norms, rules, and laws for defending American sovereignty are still poorly developed. Sanctions alone will not deter Russia, or other hostile State actors, from seeking to influence our domestic politics.

<sup>27</sup> Helena Smith, "How Trump Destabilized Montenegro With a Few Words", *The Guardian*, July 19, 2018, <https://www.theguardian.com/world/2018/jul/19/how-trump-destabilised-montenegro-with-a-few-words>.

<sup>28</sup> "Defending Democracy Program", Microsoft, <https://news.microsoft.com/on-the-issues/topic/defending-democracy-program/>; "Making Ads and Pages More Transparent", Facebook Newsroom, April 6, 2018, <https://newsroom.fb.com/news/2018/04/transparent-ads-and-pages/>; "We're Making Our Terms and Data Policy Clearer, Without New Rights To Use Your Data on Facebook", Facebook Terms Update, <https://www.facebook.com/about/terms-updates>; "Hard Questions: What Is Facebook Doing To Protect Election Security?" Facebook Newsroom, March 29, 2018, <https://newsroom.fb.com/news/2018/03/hard-questions-election-security/>; Mischee Smith, "Introducing a New Transparency Report for Political Ads", Google Blog, August 15, 2018, <https://www.blog.google/technology/ads/introducing-new-transparency-report-political-ads/>; "Transparency Report, Political Advertising on Google", Google, <https://transparencyreport.google.com/political-ads/overview>; Vijaya Gadde and Bruce Falck, "Increasing Transparency for Political Campaigning Ads on Twitter", Twitter Blog, May 24, 2018, [https://blog.twitter.com/official/en\\_us/topics/company/2018/Increasing-Transparency-for-Political-Campaigning-Ads-on-Twitter.html](https://blog.twitter.com/official/en_us/topics/company/2018/Increasing-Transparency-for-Political-Campaigning-Ads-on-Twitter.html); Ads Transparency Center, Twitter, <https://ads.twitter.com/transparency>; Bruce Falck, "Providing More Transparency Around Advertising on Twitter", Twitter Blog, June 28, 2018, [https://blog.twitter.com/official/en\\_us/topics/company/2018/Providing-More-Transparency-Around-Advertising-on-Twitter.html](https://blog.twitter.com/official/en_us/topics/company/2018/Providing-More-Transparency-Around-Advertising-on-Twitter.html).

To increase the difficulty of conducting Russian intelligence operations in the United States, the Obama and Trump administrations rightly have used other means, in addition to sanctions, including expelling Russian intelligence officers and closing Russian consulates in San Francisco and Seattle. Sanctions alone were not enough to deter Russian intelligence operations inside our country. At the same time, our Government must continue to deter and reduce Russian intelligence operations without fueling anti-Russian hysteria within our society. Russian diplomats must be able to meet with all kinds of Americans, including Government officials, business leaders, civil society organizations, and scholars. Similarly, Americans should be allowed, even encouraged, to travel to Russia and meet with their counterparts and not be accused automatically of malicious intent.

To deter the Russian Government from trying to detain American officials, past and present, in third countries for invented crimes, sanctions are an effective tool. However, the threat of sanctions must be accompanied by diplomatic engagement—at the highest levels—warning Putin and his Government of the deleterious consequences for our overall bilateral relationship of any attempt to detain American officials. Third countries also should be warned of the negative consequences of responding favorably to red notice or red diffusions mechanisms initiated by the Russian Government against American officials.

While seeking to contain and deter Russian aggression along many fronts, the United States generally, and the Trump administration in particular should also engage the Russian Government and Russian society to advance American national interests. For instance, the Trump administration should work with the Putin administration to extend the New Start Treaty, which expires in 2021. The preservation of that treaty—especially the inspections regime—serves American national security interests. As a country, we also should seek to maintain and expand relations between American and Russian societies, especially regarding educational and cultural exchanges. Genuine private sector engagement between Russian and American businesses also should be encouraged. The free flow of factual information between our two countries also serves long-term American national interests. At the same time, President Trump and his Administration must soberly realize that the areas for possible cooperation with the Russian Government are extremely limited as long as Putin continues to threaten American national interests and undermine the international order.

To signal a credible commitment to this long-term strategy of containing (and at times engaging) Putin's Russia, President Trump and his Administration must commit to a single, unified policy. Such a commitment would generate bipartisan support in Congress and throughout American society. To date, the Trump administration appears to be implementing one policy, while the President pursues another. President Trump's adulation and support for Putin in Helsinki last July—especially when he sided with Putin against the assessment of the U.S. intelligence community—undermines American national interests. Trump should use future meetings with Putin to push back and criticize illegitimate, illegal, and threatening Russian actions, just as American presidents did during summits with Soviet leaders during the Cold War. Trump can engage Putin without embracing him. Likewise, Trump's lukewarm reaction to sanctions only encourages Putin to seek to overturn sanctions by engaging Trump, rather than changing Russian behavior. A unified message will make all of the dimensions of a new strategy towards Russia outlined in this testimony more effective.

---

#### **PREPARED STATEMENT OF DANIEL FRIED**

FORMER COORDINATOR FOR SANCTIONS POLICY, DEPARTMENT OF STATE (2013–17),  
AND FORMER ASSISTANT SECRETARY OF STATE FOR EUROPEAN AND ASIAN AFFAIRS  
(2005–09)

SEPTEMBER 6, 2018

Mr. Chairman, Ranking Member Brown, I appreciate the opportunity to appear before you today. The topic is relevant and timely.

#### **The Russia Problem**

In recent testimony before Congress, Assistant Secretary of State Wess Mitchell, Under Secretary of Treasury Sigel Mandelker, and Assistant Secretary of Treasury Marshall Billingslea summed up well the behavior of Putin's regime: its aggression against Ukraine and Georgia; interference in U.S. and European elections; its use of violence against opponents at home and abroad, including assassination and attempted assassination; and its autocracy and corruption.

President Trump has noted that it would be nice if the United States got along with Russia. Indeed, it would. Both Presidents Bush and Obama tried to establish constructive relations with Putin's Russia. Both failed, however, and the reasons for those failures are instructive. Russia's conditions for good relations with the U.S. are those that no U.S. Administration can or should accept: namely, U.S. deference to Russian domination of its neighbors, including through intimidation and war, and U.S. indifference to Russia's repression at home.

There are those in this country and in Europe who might accept these Russian conditions. But hard experience in the 20th century—through World Wars and Cold War—taught that a country's bad behavior inside its borders is a reliable indicator of bad behavior abroad, and that spheres of influence established through force and repression, Russia's usual methods, are neither stabilizing nor self-limiting.

Putin's system of rule combines political authoritarianism and economic kleptocracy; it is a regime dedicated to enriching its members, not the Nation it supposedly serves. Economically, it depends on control of raw materials which it can export. Russia's advance over the longer term would require, among other things, respect for the rule of law, property rights, and freedom of speech and assembly. These are reforms that the Putin regime seems unable to accept, because these would allow the development of economic and political power independent of the regime-connected crony system. Thus, the Putin regime essentially condemns Russia to structural stagnation, recalling the more reactionary Tsars and the late-Soviet period. Under these circumstances, Putinism cannot depend on democratic legitimacy, but must rely on repression at home combined with chauvinistic campaigns directed especially against the United States, which remains the "main enemy."

The regime seeks to prevent its democratic rivals—what we used to call the Free World—from challenging Putin's regime by the power of their example. From this perspective, it is critical for the Kremlin that Ukraine not succeed in its attempt to transform itself from a Putin-dependent kleptocracy, as it was before 2014, to a free market democracy drawing closer to Europe. Should Ukraine succeed, it might demonstrate to the Russian people the viability of an alternative to Putinism. In like fashion, Putin's policy, like that of the Soviets, also aims to weaken the institutions of the Free World, including the European Union and NATO, and to discredit the very idea of democracy as a potentially appealing alternative for Russia.

To challenge the Free World's democratic, rule-of-law system, Putin seeks to assemble a counteralliance of autocrats and nationalists. The Trump administration's national security strategy argues that the world has returned to a period of great power rivalry, with Russia and China challenging the United States and its allies. The Administration has a point, and I hope that it will seek, in a consistent way, to strengthen our friends and resist the aggression of our adversaries.

Given this background, some believe that Russia will always be America's strategic rival, that its history condemns it to perpetual hostility to the United States and the values which our country has championed for at least 100 years.

I do not share this view. While relations with Russia are currently bad and may get worse, Russia's history suggests that if the West resists Russia's aggression abroad, Russia may turn to reform at home, accompanied by efforts to improve relations with the West to support economic reforms and integration with the world.

A wise U.S. policy toward Russia would, therefore, combine resistance to Russia's current aggression, including by working with our Allies; efforts to reduce the risks of destabilizing clashes, without, however, unwarranted concessions or apologies; cooperation with Russia where possible, without expecting too much, too soon; and the anticipation of, and planning for, potential better relations with a better Russia. A strong, democratic, and peaceful Russia would be an asset to the world and a country with which we should seek and could sustain better relations.

### **Current Russia Sanctions**

In the face of Russian aggression in many areas, the Administration—and Congress—have turned to sanctions as a principal tool of the U.S. response. Launched during the Obama administration, these included extensive Ukraine-related sanctions, coordinated with the EU and other key allied Governments; human rights sanctions through the Magnitsky Act, a few Syria- and DPRK-related sanctions; nonproliferation related sanctions; and sanctions related to cyberelection interference, announced in late December 2016.

The Trump administration has continued these, adding new designations. It has also used additional authorities, such as a significant individual designation under the "Global Magnitsky" Act, new sanctions under the 1991 Chemical and Biological Weapons Control Act (in response to Russia's use of nerve gas in the U.K.), a strong set of omnibus sanctions under the framework of the Countering America's Adversaries Through Sanctions Act of 2017 (CAATSA), and a broad tranche of designa-

tions of Russian oligarchs and their companies on April 6, 2018. The Administration is reportedly preparing additional sanctions, including, according to the *Washington Post*, a new Executive order providing for more sanctions in case of Russian illegal interference in the U.S. midterm elections.

The Office of Foreign Assets Control, part of the Treasury Department, has the major responsibility for sanctions within the U.S. Government and has done, and continues to do, capable work, supported by professionals at the State Department and NSC, both career and political appointees. CAATSA has given the State Department increased sanctions authorities; given this and the importance of sanctions generally, State might wish to strengthen its sanctions policy capacity, including by reestablishing the Office of the Sanctions Coordinator (which I headed from 2013–2017), led by a senior career official.

Congress last summer passed a major piece of sanctions legislation, CAATSA, and is considering additional legislation, including the Defending Elections from Threats by Establishing Redlines Act (DETER) and the Defending American Security from Kremlin Aggression Act (DASKAA).

The scope of the sanctions programs against Russia, either existing or planned, reflects the fact that there are a lot of areas of bad Russian behavior.

### Sanctions Lessons

What lessons can the U.S. draw from the use of sanctions against Russian targets? What are our next best moves, by the Executive and Congress?

Lesson one: remember what it is we're trying to achieve. Sanctions should put pressure on the Russians to change their behavior. Sanctions are not themselves a strategy. They are a tool, as good as the policy they seek to advance. Specifically, the U.S. Government's (USG) Russia sanctions seek to:

- Support a settlement that will get the Russians out of the Donbass and eventually Crimea, while dissuading the Russians from a renewed military offensive or new forms of aggression against Ukraine;
- Deter or limit future Russia's deplorable actions in Syria (though I would keep expectations regarding Syria under control), continued sanctions evasion with respect to the DPRK, and more use of nerve gas to murder its enemies;
- Dissuade the Russians from repeated illegal interference in our elections; and
- Demonstrate that there will be a cost for the regime's gross corruption and human rights violations, including inside Russia.

Sanctions are not an alternative to diplomacy, as is sometimes suggested. They advance diplomacy by giving weight to our proposals, credibility to our threats, and leverage from which to negotiate.

Do sanctions work? They can, if we don't get greedy or impatient. Sanctions, combined with other means of pressure, can sometimes bring about changes surpassing expectations. In the 1980s, pressure, combined with diplomacy and democratic resistance inside the Soviet empire such as Poland's Solidarity, helped bring about the end of Communism in Europe. But I would caution against outsized expectations. Sanctions alone seldom cause their target to surrender, or to admit that it is beaten. Sanctions usually work at a pace slower than you want (or have promised to your boss or to Congress). Still, if maintained and enforced, they can have a cumulative impact over time, especially when accompanied by other forms of pressure.

Nevertheless, when sanctions work, they may bring about an imperfect or incomplete outcome, as is often the case with diplomatic action and was the case with Iran and the JCPOA (the Joint Comprehensive Plan of Action, a.k.a. the Iran nuclear deal).

In my career, however, I learned not to dismiss imperfect outcomes. In the case of Ukraine, the imposition of U.S. and parallel European and Canadian sanctions, combined with Ukraine's own determined resistance, probably convinced Putin to limit his objectives—including by abandoning (for the present) Russia's floated claim of huge areas of Ukraine as "Novorossiya" or "New Russia"—and to accept the Minsk framework for settlement in the Donbass. The Minsk framework is flawed, and it does not include Crimea. But the Minsk framework does signify Russia's formal agreement that the Donbass is in fact Ukrainian and that a settlement there will include restoration of Ukrainian control over its Eastern international border. The Minsk framework can be the basis of a settlement that ends at least part of Russia's aggression against Ukraine. Imperfect can be good enough.

Moreover, it is worth doing a thought experiment: what would Russia have concluded and what would it have done, had the U.S. and Europe not imposed sanctions at all after Russia's invasion of Ukraine in 2014? Putin is certainly aware of—and probably follows—Lenin's old dictum, "Thrust in the bayonet; when you hit fat,

keep pushing; when you hit steel, pull back.” Had we done nothing, Russia might well have attempted to do still worse, such as trying to seize the Ukrainian city of Mariupol, pushing further West to create a land-bridge to Crimea, or opening new fronts in Ukraine.

Sanctions have costs and risks, and we need to think these through. Sanctions should not be imposed for their optics. We should not try to prove our commitment to a policy by showing how much pain we’re willing to absorb ourselves. The point is to impose costs which fall on the opponent, at a level minimal to ourselves.

### Sanctions Options

This background suggests the following guide-to next steps:

*Work with Allies.* The U.S. imposed sanctions in solidarity with its European and other allies, and our allies generally did their part. Putin may not have expected that European Governments, given their varying views about Russia, would agree to impose sanctions or be able to sustain them. But they did. When they did, this international solidarity extended the sanctions’ power and may have frustrated Putin’s expectations.

Moving forward, the U.S. should choose Russian sanctions targets aware of the relative impact on the U.S. and European countries, as well as Japan, Canada, and other allied Nations. Those impacts are not likely to be equal, but the U.S. should strive for some rough equity. U.S. and European companies have taken hits from sanctions and should not expect immunity in the future; companies should know by now that doing business with Russia carries extra risks due to Russian aggression. Nevertheless, both the Executive and Congress should be aware of the costs to business and countries before making decisions. Working with allies also means making clear that we will enforce sanctions, including, if warranted, through action against either European companies or our own for sanctions evasion. We must play it straight, however: we cannot let a narrative develop that U.S. companies get off the hook while European companies get hit.

*Prepare credible escalatory options.* In the short-term, Putin is likely to continue his aggression and he may intensify it, either in Ukraine, against the U.S. through election interference, or elsewhere. Therefore, the U.S. should have, and the Russians should know that we have, escalatory sanctions options that are tough enough to hurt but restrained enough to use. Escalatory options can include two types: intensified sectoral sanctions targeting specific sectors such as finance, energy, defense/dual use technology, and cyber; and additional sanctions against individuals, particularly those close to Putin. We should escalate sanctions for cause—in response to specific malign Russian actions—not as a show of general irritation or as part of a domestic-driven political cycle.

Within sectoral sanctions, there remains plenty of reasonable escalatory headroom, especially in finance and cyber. Viable options in the finance sector could include steps against new Russian sovereign debt, prohibition of new debt financing for all Russian State-owned companies, and imposition of full blocking sanctions against selected State-run financial institutions such as VEB. However, full blocking sanctions against all the major Russian State-owned banks is likely to trigger financial blowback that would not be in the U.S. or broader Western interest. In the cybersector, the U.S. should be aggressive in pursuing financial sanctions against Russian malign cyberactors and their sources of funding, and in denying exports of technology relevant to the cybersector generally. To strengthen export controls, it may be worth reconstituting COCOM, the Cold War-era multilateral forum, to coordinate Western export controls to the Soviet Union.

There may be escalatory room in the energy sector, but the U.S. should be careful not to target current energy production or areas where U.S. and EU companies could be quickly replaced by less scrupulous actors. Doing so could panic markets and drive up prices, which might perversely give the Putin regime a windfall, causing little harm to Russian companies and effectively transferring western investments to Asian or other energy players. DASKAA Sections 601/236 and 237, imposing mandatory sanctions and similar DETER Act sanctions on large energy or oil projects are probably too broad. There is much to be said against Nord Stream II. But sanctions explicitly targeting that project would risk political blowback in Germany, which has otherwise been key in upholding a strong European stance in support of Russia sanctions generally.

Instead, in the energy sector the U.S. could intensify targeting of future Russian oil production. This could include banning the export to Russia of exotic technology such as fracking or all enhanced oil recovery (EOR) technologies for all new energy projects. As an additional escalation in response to additional Russian aggression, the U.S. should explore the impact of banning EOR technologies, even for existing and conventional fields. As a yet further escalation, we should with our allies ex-

plore targeting the gas sector, focusing on future (not existing) liquefied national gas (LNG) projects.

There is also room to target additional individual Russians close to Putin. CAATSA Section 241—a smart provision—instructed the Executive branch to produce a study identifying these people (sometimes called the “The Kremlin Report”). The mere preparation of the Kremlin Report triggered consternation last fall within elite circles in Moscow, suggesting that its potential impact was significant. In fact, using the Kremlin Report to target Putin’s circle of cronies and agents can demonstrate the costs of being close to Putin. The Administration mishandled the rollout of the Section 241 unclassified report last January, but appears to have drawn on the classified report, said to be of high quality, in preparing its April 6 package of sanctions. The Kremlin Report may well have considerable potential as a source of future sanctions. Still, discretion in picking targets will be required. When the Administration last April 6 imposed full blocking sanctions against the aluminum magnate Oleg Deripaska, a justified target given his actions and closeness to Putin, that required the sanctioning of all the companies Deripaska owns or controls, and all their subsidiaries, including companies located in EU member States. The Treasury Department has been struggling since to mitigate the spillover consequences while denying benefit to Deripaska, the target of those sanctions.

*Maintain operational flexibility.* The Executive branch should make clear that the USG is prepared and able to remove sanctions should Russian behavior improve. The U.S., for example, needs to be able to fulfill its commitment to remove most of the Ukraine-related sanctions should there be an agreement that restores effective sovereignty of the Donbass and Ukraine’s Eastern international border to Ukraine (the Crimea-related sanctions should remain in place while Russia occupies Crimea). Given the limitations imposed by CAATSA, this could be a challenge. Congress must be ready and willing to approve lifting sanctions if Russia’s actions warrant it. Happily, the DETER Act outlines conditions for lifting sanctions imposed for Russian election interference.

As it considers legislative options, Congress should allow the Executive branch sufficient flexibility to administer sanctions, especially by keeping OFAC’s licensing authority intact. Licenses are not a tool to weaken sanctions; on the contrary, they enable bolder, faster action on sanctions by allowing the Executive flexibility to rapidly deal with unintended consequences or excessive spillover.

*Advance good legislative ideas.* CAATSA Section 241 (mandating the Kremlin Report) was a good idea. Other good ideas from pending legislation include provisions targeting corrupt officials and their family members (DASKAA Section 601/235), restricting U.S. persons from dealing in new Russian sovereign debt (DASKAA Section 601/238; DETER has parallel provisions), allowing the U.S. to designate persons operating in the cybersector generally (DASKAA Section 601/239), and a provision that would identify beneficial owners in high-end real estate deals (DASKAA Section 702). This latter provision (especially if focused on foreign beneficial owners) would restrict the ability of corrupt oligarchs and others generally to easily disguise their purchase of expensive real estate in Miami, New York, and elsewhere. That said, this provision is relatively narrow and other legislation has been introduced that seeks on a broad basis to get at the problem of corrupt money flowing into the United States. Perhaps inspired by CAATSA Section 241, DASKAA (Section 623) mandates a study of Putin’s wealth, which could generate additional sanctions targets.

Timing and conditions are important. Some legislative provisions, such as those targeting corrupt officials or imposing greater transparency on real estate markets, could be put into effect now. A study of Putin’s wealth should be launched as soon as possible and, in combination with the Kremlin Report, used to provide material for future sanctions. Preparing such a study could have deterrent value. Other measures, such as escalation in the financial sector, might best be held for future response to new acts of Russian aggression. Congress (and the Administration) should try, as much as is practical, to tie different sanctions to different aspects of bad Russian behavior, rather than lump all sanctions together as a response to collective malign actions. Advertising potential future sanctions can have deterrent value, and the Obama administration used this technique. If done thoughtfully, contingent sanctions authorities, whether in law or in Executive orders, can be useful, especially when they are credible and done in coordination or at least consultation with Europe.

As a veteran of the Executive branch, I generally support maximum discretion for the Administration. If Congress chooses mandatory sanctions, it should weigh each action to make sure that the U.S. and its allies come out ahead in the balance. The current Administration would strengthen its case for discretion in sanctions if its overall message on Russia is steady; if it uses existing sanctions authorities well



and not minimally; and if, as needed, it extends its authorities, such as through one or more new Executive orders, to deal with Russian aggression such as continued election interference.

#### **Strategic Context**

This leads to a final thought: sanctions will have more power if they are embedded in an overall policy that works, is credible, and is consistently expressed. Russia policy has been a challenge for this Administration, given some of the President's remarks, including during his press event with President Putin in Helsinki earlier this summer. Nevertheless, the Administration has significant tools, and through wise legislation the prospect of more, to advance a strong policy of resisting Russian aggression, defending U.S. interests and values, and setting the stage for better days to come.

A strong Russia policy should be linked to an American Grand Strategy which recognizes that a rules-based world which favors democracy is in America's national interest. For the past 100 years, American Presidents have advanced such a Grand Strategy, and America and the world have benefited thereby. Putin, and like-minded nationalists and despots, stand for nothing more than power. America can do better. At the end of our current national debate about America's role in the world, I hope and believe that we will recall the values and purposes which have propelled American world leadership.

Mr. Chairman, Ranking Member Brown, I appreciate the opportunity to appear before you to discuss these issues and look forward to your questions.

#### **PREPARED STATEMENT OF RACHEL ZIEMBA**

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

SEPTEMBER 6, 2018

Thank you, Chairman Crapo and Ranking Member Brown, for giving me the opportunity to testify before this Committee on the effectiveness of sanctions on Russia and potential next steps.

Russia's economy has largely adjusted to sanctions imposed by the U.S. and Europe, despite recurrent pressures on its financial markets when new measures are imposed. This adjustment has sparked debate about whether existing tools are insufficient and need to be extended or merely implemented more stringently. Given the significant measures being considered by Congress, I will lay out some of the factors that have shaped the impact of sanctions on Russia's economy and the drivers of Russian economic resilience to sanctions, in the hope of better targeting measures to achieve political, rather than just economic, objectives.

Given the sources of resilience and adjustment in Russia's economy, there are grave potential consequences to the global economy and key U.S. allies from significantly tighter broad-based sectoral sanctions on Russia. These could include risks to global energy supply and spillover effects on other financial markets, especially in emerging economies. Russia has become more resilient to U.S. and European sanctions in the last 3 years, thanks to higher global oil prices and output, sound management of Russian macroeconomic policy (fiscal, currency, banking, and monetary), and the deepening of Russia's supply and financing channels at home and abroad, particularly from China and the Middle East.

Paradoxically, many of the factors that cap Russian long-term economic growth potential at around the current 1.5–2 percent pace have contributed to its resilience to economic sanctions. These include concentration of assets in its State banks, inefficiencies of selected State-owned enterprises, and difficulty attracting long-term capital. At the same time, Russia has used the last 4 years to build up its domestic resilience, maintaining a tighter fiscal stance to reduce its reliance on foreign capital markets, liberalizing its currency regime to allow the currency to be part of its adjustment toolkit, and deepening relationships with other State-led economies, including China and Saudi Arabia. These countries have fewer governance or other demands on Russia and empower those in Russia who are more focused on self-reliance and extending State capitalism. The combination of sanctions and the oil price shock helped Russia indigenize and bring home selected financial assets and supply chains. Russia's economy may not be thriving, but it is surviving. This increases the challenge of imposing broad-based sanctions, as it diminishes U.S. leverage. Russian resilience suggests that the sort of blunt measures that might impose meaningful economic stress on Russia might also create damaging global spillovers, primarily by increasing energy prices. This, in turn, could dampen global consumption, spread contagion to emerging markets, and extend U.S. dollar strength that challenges U.S.

exports. Such measures are also more likely to be seen by the Russian Government as acts of war, and by others, including U.S. allies, as disproportionate, thus limiting their impact.

That said, Russia does have vulnerabilities that proposed financial sanctions would target. It has drawn down much of its sovereign wealth savings, has many structural rigidities, and has low potential for growth. The main source of vulnerability for Russia's economy lies in its dependence on natural resource exports, especially oil and gas, but also agriculture and metal production, which collectively account for the bulk of Government revenues, trade revenues, and performance of its financial markets. This implies that the sort of severe economic shock that would prompt a recession in Russia might require significant reductions in demand for Russian resources, including oil and gas. A shock severe enough to force significant quantities of Russian oil and gas off the market (a much more aggressive outcome than being considered by current legislation), would come with significant global costs, including potential sharp increases in energy prices for U.S. and global consumers. These energy-price spikes, in turn, could provide a potential windfall to Iran, undercutting U.S. policy toward that country. Such measures should not be considered now given their significant costs to the global economy and potentially international stability.

The Russia sanctions program, at its most effective, has been targeted and coordinated with allies, traits that contributed to its initial economic and financial impact. This Committee, and Congress more broadly, have an opportunity to refocus on targeting those responsible for malign behavior by the Russian State, rather than broad punitive actions, which would be less effective in achieving U.S. policy with respect to Russia and could undermine the effectiveness of future sanctions tools.

#### **Impact of Past Economic Sanctions and Sources of Russian Resilience**

The main macroeconomic impact of the financial sanctions implemented since 2014 has been a financing shock that contributed to capital outflows and more restrictive policy. Pressure on Russian capital markets increased risk premiums, exacerbated capital outflows, and amplified the economic pressures of the coincident oversupply of global oil markets. Together these trends contributed to a rise in inflation and contraction in real gross domestic product and earnings in 2014–15. Russia gradually exited recession in 2016, economic activity began to expand modestly in 2017, helped by the revival in energy prices, and more recently volumes. Further sanctions, including some of those implemented this year, have again triggered pressure on the exchange rate and other securities, though these impacts have tended to fade, due to Russia's by-the-book macroeconomic policy choices and the stronger resource environment. The coincidence of these shocks provided domestic political cover for Russian Government officials who wanted to take tough decisions including fiscal cuts, pension reform, and restrained investment.

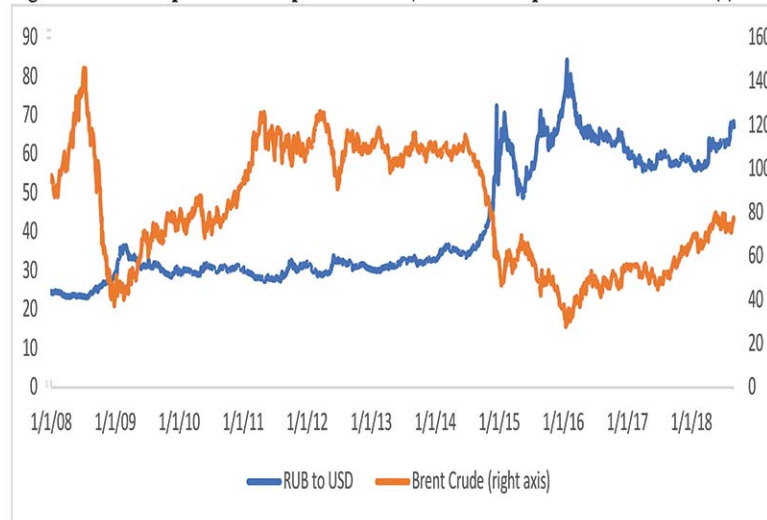
U.S. and EU sanctions contributed to a major shock to Russia's financial markets in 2014 and 2015, amplifying the impact of the sharp decline in oil and gas prices in 2014, which weakened Russia's nominal GDP, and led to a contraction in economic output. Sanctions to restrict the duration of finance, high interest rates at home to retain capital, and austere fiscal policy all contributed to a mild recession and left Russia reliant on financing from China and the Gulf States. However, the economic output loss was much milder than it had been during the global financial crisis or the Russian crisis of 1998, both of which had sharper financial pressure, liquidation of inventories and uncertainty about global demand. Several reasons explain the relative resilience of Russia's economy to the twin shocks of sanctions and falling energy prices. These include the lack of inventory rebuilding by firms after the global financial crisis, the decision not to control the exchange rate, and the availability of domestic financing to avoid defaults. The Russian Government's adherence to orthodox macroeconomic policies, while surprising to some at the time, helped it emerge from this crisis and adjust to the economic sanctions over time.

Energy, and to a lesser extent other commodities (metals and agriculture), remain key transmission channels of global shocks to the Russian economy and financial markets. This trend holds, despite the diversification of the economy, because export revenues and Government funding remain based on commodities. Oil and natural gas prices and demand, which hit Russian revenues, remain critical drivers of Russian macroeconomic and market performance. Orthodox economic policymaking, including tight fiscal and monetary policy and ample banking-sector liquidity, helped Russia adjust to the economic sanctions and avoid default. Indeed, Russia's external (foreign currency) debt was much lower than most emerging-market peers (Turkey, Brazil) in 2014, and it stands even lower today.

Depreciation of the ruble was a major tool of adjustment, facilitating a drop in imports and helping to maintain the domestic value of most resource exports. As

the global energy market rebalanced, due in part to the pact between Russia, OPEC, and other energy producers, oil revenues began to increase. Now in 2018, Russia is one of the few countries which has spare capacity to deploy to meet increased global demand. As Brent crude currently approaches \$80/barrel, up from a low in the mid-\$30s in late 2014, Russian global and local revenues have increased significantly. Indeed, periods of weaker ruble value due to sanctions uncertainty actually can increase the local currency value of these exports, helping the Russian Government meet its local spending needs and gain higher revenues for its nonenergy exports (including other resources, military equipment, and technology). Such unintended consequences may limit the effectiveness of sanctions.

Figure 1: Ruble Depreciation Helped Russia Adjust to the Drop in Crude Oil Prices (\$)



Source: Macrobond

Russian economic growth has averaged a lackluster 1.5 percent for the last 3 years after exiting recession. The 2017 pace of 2 percent was above what economists estimate to be its potential suggesting that continued growth at that level is not sustainable without incurring a major inflation shock, or unless there is a major change that prompts a productivity jump. While not a high rate of growth, 1.5 percent is not far from the Russian Government's admittedly conservative estimates of growth from the mid-2010s.<sup>1</sup> This suggests that Russia adjusted to sanctions (and the oil price shock) and that some of the weak growth reflects limited capital investment, productivity, and low labor force participation, all chronic for Russia.

In addition to the ruble flexibility, other elements of Russia's policymaking contributed to its resilience including its textbook adoption of restrained fiscal and monetary policy. Russia sped up planned implementation of inflation targeting, which kept interest rates high and retained capital. It also chose to follow a conservative fiscal policy, reducing its need to issue additional debt. Finally, Russian State companies and banks faced political pressure to return capital and to buy up local assets rather than send it abroad. That coordination helped to meet the end of 2014 financing pressures, and would likely be used in the future.

<sup>1</sup>Alexei Kudrin and Evsey Gurvich, "A New Growth Model for the Russian Economy", *Russian Journal of Economics* 1, No. 1 (March 2015), <https://www.sciencedirect.com/science/article/pii/S2405473915000033> provide a review of these drivers and propose measures which could change the low productivity environment, few of which seem likely to be implemented, even in the absence of sanctions. More recently these were reviewed in Martin Russell, "EU Parliament Members Research Service", 2018, [http://www.europarl.europa.eu/RegData/etudes/IDAN/2018/625138/EPRS\\_IDA\(2018\)625138\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/IDAN/2018/625138/EPRS_IDA(2018)625138_EN.pdf) and numerous analyses by the EBRD, World Bank and IMF.

Russia's increasing financial ties with China and the Middle East have provided another important lifeline. Russia's sovereign development platform, the Russia Direct Investment Fund (RDIF), has been a major vehicle for attracting foreign investment. The RDIF, created in 2011 to entice wary foreign capital via coinvestment with the Russian Government, has been the means through which most greenfield investment has entered Russia in the last 4 years. The RDIF has established joint funds with many sovereign funds and pension funds, allowing them to access assets not available on public markets and to ensure Russian Government skin in the game to reduce expropriation risk, another example of a tool created to temper Russia's governance vulnerabilities and build its resilience against sanctions and other shocks. Pledges include \$10 billion coinvestment funds with entities like Abu Dhabi's Mubadala, Saudi Aramco, various Chinese public and private companies, and smaller funds with European, South Korean, and Japanese entities.<sup>2</sup> Even if not all of these measures have been implemented these sovereign-to-sovereign coinvestments appear to have helped Russia mitigate the effect of sanctions, reinforcing the concentration of financing.

#### **Potential Future Economic Effects of Sanctions**

Energy sector sanctions, which included shortening the duration of lending to Russia's main energy companies, seem to have had more impact on long-term investment than short-term output. The latter already benefited from pre-2014 investment programs, high prices, and tax changes that incentivized production. The reduction in investment from European and U.S. energy companies and servicing firms is likely to restrain oil and gas output in Russia beyond 2020. While Russian energy companies have been able to find new financing from China, among others, enabling them to procure capital and parts, the quality of investment has likely declined.

Looking ahead, now that Russia has mostly recovered from the recession of 2014–15, growth is likely to average around 1.5 percent in the remainder of 2018 and 2019. What factors might prompt a slowdown? The most likely negative shock would be a reduction in oil or natural gas export volumes, which would cause a terms-of-trade shock and hit to local revenues as well as weaker currency and higher interest rates. A sharp decline in the ruble and selloff of Russian sovereign, sub-sovereign, and financial sector assets would likely increase local interest rates, dampening growth. However, local actors (financial firms and pensions) would likely be willing to purchase these assets. Other foreign actors, including State-linked vehicles in China, elsewhere in Asia, and the Middle East might also be interested. The net result would likely empower actors in Russia who look inward and resent Western influence, and might increase the influence of U.S. competitors like China.

#### *Potential Consequences of Proposed Sanctions on Sovereign Debt, the Energy Sector, and the Financial Sector*

This Committee is currently considering several pieces of legislation that would give the Administration powers to increase sanctions on Russian entities or mandate additional sanctions. As written, they would add to the powers present in past legislation (like the Countering America's Adversaries through Sanctions Act (CAATSA)) which have yet to be fully implemented by the Administration. While the economic and financial impact would vary based on implementation and enforcement, it is possible to map the transmission mechanisms to assess the impacts on Russian entities and potential spillovers to the global economy and financial markets.

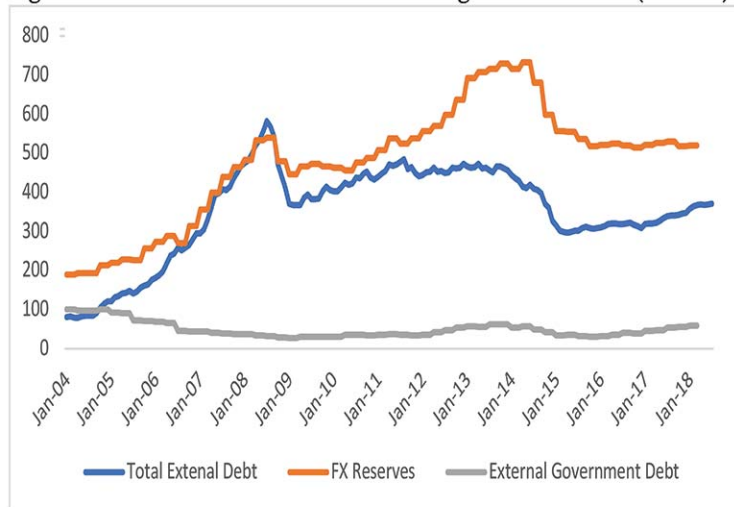
*Sovereign Debt:* Limiting the holding of newly issued Russian debt by U.S. persons, either in the primary or secondary market would likely reduce local liquidity as well as raising risk premia on other Russian assets, State-owned or not. Merely the prospect of U.S. sovereign debt sanctions has contributed to recent price pressures and capital outflows, though these have been short-lived. Implementing these measures would reduce the Russian Government's monetary and fiscal policy space, but would be unlikely to cause a major financing challenge for Russia given the significant availability of liquidity in the banking system, the country's net asset position, and some of the savings available both from local actors and Asian/MENA Governments that have provided capital.

In short, imposing sanctions on sovereign debt might further increase Russia's reliance on Chinese and GCC funding, as well as prompting Government efforts to repatriate capital from the U.S. and Europe, including via dedicated sovereign bonds.

<sup>2</sup>For a full list of coinvestment vehicles, sub-funds, and holdings, please see the RDIF website [https://rdif.ru/Eng\\_Partnership/](https://rdif.ru/Eng_Partnership/).

Targeting Russian sovereign debt would also raise some important precedents for global markets. Some people have looked to other sanctions cases for comparison, especially Venezuela—where sanctions were imposed on new sovereign debt—and Iran, which has no foreign-owned debt and has been excluded from much of the global banking system due to sanctions and severe money laundering violations. In Venezuela, sovereign bonds were already trading well into default territory and thus had very low correlations with other sovereign debt, given the idiosyncratic risks of limited payment of debt, sizeable arrears, and nationalization. Venezuela by its actions had already cut itself off from the global financial markets in a way that Russia has not, suggesting that there could be portfolio contagion effects if concentrated emerging market investors look to exit Russia quickly, selling to local actors. This in turn could add to volatility (rallies and selloffs) of a range of mostly European, Middle Eastern, and African higher-yielding assets, adding to political uncertainty.

Figure 2: Russia has Modest Levels of Sovereign External Debt (\$ billion)



Source: Central Bank of Russia via Macrobond

As such, sovereign debt sanctions would likely imply some spillover risk, as investors look to sell some of their other emerging market and European, Middle Eastern, and African assets to compensate for losses in Russia. While the U.S. itself might be relatively resilient to these trends, the net result might be a weaker global economy, greater uncertainty for U.S. exports, and greater impetus towards new payment systems. In turn these might increase safe-haven flows toward USD-denominated assets, strengthening the dollar and reducing these countries' purchasing power and ability to maintain purchases including of U.S. goods.

The Russian Government has also acted to build its resilience: issuance of new sovereign debt has been falling due to its conservative fiscal stance, with the bulk of the issuance in rubles rather than U.S. dollars or euros. Conservative Russian fiscal policy suggests that the country has the ability to reduce its issuance further if needed. This might not be an ideal sustainable long-term solution, but could temper the short-term impact on Russia. Foreign investors, including U.S. actors and financial actors in Europe and Asia, who are more likely to have U.S. persons among their investors and counterparts, would bear the brunt, something Members of this Committee may want to consider and weigh against possible damage to Russia.

Another possible unintended consequence might be increased pressure to develop new payments and clearing systems, including measures that China and Russia have been considering. While these measures are far from being realized at this point, new sanctions on sovereign debt might accelerate their development.

*Banking Sector Measures:* Proposed legislation would extend and increase measures to restrict finance to Russia's major banks, especially State-owned banks, in the hope that this would prompt policy change and reduce cash flow. Some of these banks already face restrictions issuing debt in European and U.S. markets, but have largely been able to continue to finance themselves. Targeting the larger banks not only would increase global counterparty risks but might also be seen as a disproportionate act, reducing the willingness of third-party States to comply.

Russian banks continue to operate in a liquidity surplus, especially the big banks, and are cautious about lending to local actors, especially the private sector. This liquidity surplus reduces the need of State banks to issue debt locally or abroad as they are funded with local deposits. Private sector banks are more vulnerable due to domestic reasons. Since the global financial crisis, Russian State banks like Sberbank have been winning the war for deposits and loans over their smaller counterparts, who are struggling to grow profits. Foreign banks too, have struggled to attract deposits, and tend to be subject to more restrictions. Russian authorities might respond to new sanctions with greater regulatory burdens on global banks in retaliation.

The large State-owned banks like Sberbank have increased their assets, liabilities, and share of the local market since 2008, and have been a beneficiary of the Government's efforts to close down selected small- and medium-sized banks. These smaller banks tend to have more money-laundering allegations, terror financing risks and in some cases related party lending to the conglomerates to which they are linked. The central bank has been effective in dealing with a series of bank failures, including some of the medium-sized private banks which were more involved in high-risk lending, but the net result has been modest credit growth due to supply and demand of credit restraints, which has limited the willingness of local banks to pass on the additional liquidity. As a result, restrictions on their foreign finance would likely dent but not cripple Russia's banks who would likely be able to find local finance. If so, the net result could be a further consolidation of Russia's bank finance domestically and in the hands of State actors.

It is worth briefly discussing the potential impacts of excluding select Russian entities from the SWIFT payments system, something that I believe is not currently being considered due to the potential risk to this payment system. I share a concern about their potential risks, which reflects Russia's role as a significant global counterparty, its domestic financing notwithstanding. Looking to restrict Russian banks from SWIFT would likely cause a real challenge for U.S.-EU relations, potentially increasing the costs and uncertainties if the transatlantic stance becomes less aligned. The heavy integration between the U.S. and European banking systems argues against imposing new regulations that would boost counterparty risk, hamper efforts to monitor money laundering and terrorist finance violations and assess systemic risks. Such divides could again encourage the development of new payments systems, not only from entities like China and Russia, but also eventually from Europe for select transfers, resulting in barriers that might increase costs for U.S. actors, and make it harder for U.S. policymakers to assess financial risks or impose sanctions. These are not near-term risks, but could undermine the long-term leverage of the United States not only on Russia but also other entities.

*Energy Sector:* Proposed energy sanctions under consideration would extend existing measures to limit investment in and access to capital for Russian energy firms, which are mostly State-owned. As with other sanctions, the impact would be more likely to come in medium-term production as underinvestment and lack of access to State-of-the-art equipment might make it more difficult for Russia to replace depleting fields.

Russia has been a major beneficiary of the recent rebalancing of the global oil market, which stems in part from supply collapse in Venezuela, smaller outages elsewhere, including in Africa, and, more recently, the reduction in Iranian crude oil and product exports.<sup>3</sup> Russia, along with Saudi Arabia and other oil producers in the Gulf Cooperation Council, are among the few countries with sufficient spare capacity to increase production, which has boosted Russia's U.S. dollar and local currency earnings. This suggests that measures to temper investment in the energy sector might have limited impact on Russian policy decisions. This Committee would need to weigh several objectives and risks to U.S. security, including the impact of even greater Chinese influence on the Russian, Central Asian and Middle East/North Africa energy sectors, as well as the priority placed on countering Russian

<sup>3</sup>Ziembra, Rachel, Edoardo Saravalle, and Elizabeth Rosenberg, 2018, "The Trump Administration's Iran Strategy May Be High-Cost, Low-Return", Center for a New American Security, <https://www.cnas.org/publications/commentary/the-trump-administrations-iran-strategy-may-be-high-cost-low-return>.

activity versus Iranian activity. Measures to counter Russian energy sector finance might increase the incentive of Russian actors to become involved with smuggling operations in Iran.

Proposed legislation does not seem to aim at measures that would restrict current energy production, which I see as the most meaningful potential shock to the Russian economy, and also to the global economy through the risk of increased costs to consumers. Efforts to restrict energy exports and revenue would likely be viewed by Russian officials as a disproportionate response to U.S. concerns about Russian policy. Moreover any efforts to restrict energy output would likely undermine the already difficult task of restricting Iranian oil output. Russia, along with the Gulf Cooperation Council and the U.S. are among the few countries likely to increase oil production meaningfully in 2018–19. I would see a high risk of damaging unintended consequences of any moves to sharply restrict Russian resource exports, on U.S. consumers and on U.S. allies in Asia and Europe, who are the primary buyers of Russian supplies. Given the tightening balance of global oil supplies, and the fact that OPEC+ is struggling to replace production declines in Venezuela and Iran, the United States might need to choose among its priorities or risk sharp increases in costs to consumers.

#### *Impact of Potential Retaliation and Countersanctions from Russia*

Russian countermeasures and policy choices are a major factor when assessing the economic and political impact of sanctions. In 2014, Russian counter sanctions on European food products contributed to nonnegligible declines in EU food production, especially for countries like Poland and Finland.<sup>4</sup> These countermeasures amplified the impact of the ruble depreciation (which would have discouraged imports to some extent on its own) and helped to support a previously stated Russian objective of deepening its domestic production on food production and manufacturing sectors. Funding to support greater local production in these areas was one of the few areas of increased Government funding in the austere budget of 2015. Despite the increase in trade-related inflows, Russian import growth has remained soft, growing much more slowly and perpetuating its trade and current account surplus. While trade ties between the U.S. and Russia remain very small and investment flows have fallen, European firms and those in Korea could bear some increased costs.

This trend of import substitution (replacing imports with local production via new policies and boycotts) remains a major Russian policy priority. There is more evidence of success in the military production and energy technology sectors. Efforts that look to eliminate Russia's access to global markets would be welcomed by some members of the Putin Government and Russian officials who are looking to make Russia more self-sufficient, and thus would be unlikely to prompt policy change.

One area of recent concern has been Russia's holdings of U.S. Treasuries and other U.S. assets. While any sharp drop in foreign holdings would be meaningful and concerning, if it sparked a broader trend among larger holders like China or the pension funds of Europe and Japan. Official U.S. data suggested holdings fell from a recent peak of \$98 billion in early 2018 to \$48 billion in April 2018 and \$9 billion in May 2018—the biggest 2 month drop since the global financial crisis, when Russia sold its reserves to prop up the currency. The drawdown in U.S.-denominated assets may reflect outflows following the implementation of sanctions on Rusal and other designees in April. The data may overestimate the drop, though.<sup>5</sup> Even if Russia did sell its holdings, the volume is small compared to the monthly treasury issuance (which is set to increase in 2019) and small compared to potential Fed action should there be a notable sign of yields rising. Holdings at their peak were \$144 billion in 2011 and fell to \$108 billion at the end of 2014 due to currency intervention, capital outflows and diversification of reserves to better match Russian trading partners. The Russian sales would more meaningful impact if they sparked a greater sales by China or other actors, but do not seem to be a major concern for U.S. financial stability on their own. China has several reasons not to sell its Treasuries including concern about the resulting appreciation of their own currency and domestic financial stability, a topic better addressed in another venue.

<sup>4</sup> Iikka Korhonen, Heli Simola, and Laura Solanko, 2018, "Sanctions, Counter-Sanctions and Russia—Effects on Economy, Trade, and Finance", Bank of Finland, <https://helda.helsinki.fi/bof/bitstream/handle/123456789/15510/bpb0418.pdf?sequence=1>.

<sup>5</sup> The U.S. Treasury (TIC) data does not report holdings through overseas custodians, something that complicates monitoring. Russia did sell down agency holdings at a pivotal economic and political time ahead Benn Steil, Council on Foreign Relations, 2018, <https://www.cobdencentre.org/2018/08/benn-steil-did-russia-really-dump-its-u-s-debt/>.

### Conclusion

In conclusion, further sanctions would undoubtedly cause pain to Russian actors and financial markets, but should take account of the growing sources of resilience within Russia, especially the stabilization of the global oil market and associated increase in revenues. In fact, the recurrent financial and currency shocks following sanctions implementation have helped Russia maintain the local currency value of exports without meaningfully impacting ample domestic liquidity. Furthermore economic stress does not necessarily trigger political change, particularly in the case of a country like Russia, when sanctions may provide political cover for domestic priorities such as deepening of supply chains and reducing foreign exposure. This resilience suggests that measures that target Russia as a whole may need to be increasingly blunt, increasing the risk to the global economy. This suggests that an effort to retarget sanctions to the individuals involved in malign behavior may be warranted. This would prevent mission creep, more closely tie penalties to the actions involved and provide more incentives for compliance. It would also limit the risk of empowering the very actors (Russian and foreign) who seek to harm U.S. interests and security.

U.S. policymakers may need to weigh the costs of blunt measures towards Russia as they may challenge coincident efforts to choke off financing to Iran, or add to price volatility of fuel for American and global consumers. Russia's increased reliance on local financing, and that from China and Middle Eastern autocracies challenges U.S. influence. Efforts to exclude Russia from select global financial markets might not only contribute to additional pressure on emerging markets economies and the energy markets, but might deepen the common interests between Russia and the GCC, Turkey, and China in ways that may reduce U.S. influence in all of these countries. The activities Russia is involved in are serious and a threat to our institutions, so too might be blunt U.S. measures that escalate pressure on Russia. One way to temper these risks might be to increase U.S. policy coordination with allies in Europe, as well as developed Asia, especially those that have been at risk from these policies. Further sanctions targeting of Russian actors involved in specific malign activities might assist in building this coalition.

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

---

### PREPARED STATEMENT OF HEATHER A. CONLEY

SENIOR VICE PRESIDENT FOR EUROPE, EURASIA, AND THE ARCTIC, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES, AND FORMER DEPUTY ASSISTANT SECRETARY OF STATE FOR EURASIAN AFFAIRS (2001–05)

SEPTEMBER 6, 2018

Mr. Chairman, Ranking Member Brown, and distinguished Members of the Committee, thank you for this important opportunity to testify and share my thoughts on the current effectiveness of Russian sanctions and next steps. Unfortunately, the sanctions the United States has imposed have not been effective, and our next steps must include developing a comprehensive and durable U.S. policy framework toward Russia—one that focuses like a laser-beam on stopping illicit Russian financing and corrupt activities while substantially boosting transparency efforts, such as on beneficial ownership.

#### Sanctions Tools in Search of a Policy

If my count is accurate, the U.S. currently has 58 separate sets of sanctions against Russia across eight broad lines of effort that date back to 2011. What have we achieved in 7 years? Very little. Russia has not altered its behavior; if anything, the Kremlin has significantly accelerated and expanded its malign activities. If something is not working for 7 years, it earns the right to be reassessed. I am very grateful that this Committee is willing to conduct such an assessment as it considers new legislation that increases U.S. sanctions against Russia.

This Committee has oversight and jurisdiction over some of the most powerful and punishing tools in the U.S. arsenal: sanctions. But tools are used to construct something; they are not sufficient in and of themselves. For far too long, the U.S. has imposed sanctions in lieu of constructing policy frameworks. When confronted by a State or non-State actor that challenges international laws and norms, our first instinct is to quickly demonstrate that we are “doing something” by sending a policy signal through sanctions. But that is often where the process seems to come to an abrupt stop and, over time, we accumulate a series of sanctions that backs us into a policy rather than working towards clear objectives.



In the case of Russia, we have now stretched this concept to a breaking point. To summarize, we are currently sanctioning Russia under the following categories:

- Transnational and organized crime
- Human rights violations and corruption
- Illegal annexation of Crimea and violation of Ukraine’s territorial integrity and democratic institutions
- Interference in the 2016 U.S. presidential election
- Supporting the Syrian regime and its activities
- Cyberenabled activities
- Violating North Korea sanctions
- Use of chemical weapons

Curiously, we have never sanctioned Russia for its ongoing violation of the Intermediate Nuclear Forces (INF) Treaty, and one would think that violating a nuclear arms treaty for the past 10 years would have made this list,<sup>1</sup> but this has not occurred for reasons unknown to me.

The only policy framework that is attached to one of these sanctions categories and that has benefited from a clear policy path and a broader consultative framework with our European allies has been the sanctions related to Russia’s military incursion in eastern Ukraine, the policy framework of the February 2015 Minsk Agreement (also known as Minsk II) to which the United States is not party. And even with the benefit of a policy framework, for the past 3½ years, not only has there been no meaningful progress on the implementation of the Minsk agreement, but cease-fire violations occur regularly, and loss of life continues on a near daily basis. It is highly unlikely there will be any further progress—rather, it is likely there may be greater instability—until next year’s presidential election in Ukraine, which the Kremlin hopes will produce a more pliant Ukrainian leader.

#### **A Policy That Prioritizes**

From this extraordinary list of sanctions, and as you consider future sanctions legislation, I fear neither the Administration nor Congress can adequately answer these questions: Do we and Moscow have a clear understanding of what steps Russia must take (other than to cease and desist its activities) to return to an international normative framework? Do we understand how these different sanctions interact with each other, or are potentially redundant? Do we understand the impact of their cumulative effect on U.S. companies, and the economic impact on our allies? Do we understand how U.S. sanctions against other adversarial regimes such as North Korea and Iran interact with and impact U.S. policy toward Russia?

We do not have answers to these questions, but we continue to sanction Russia nonetheless.

Simply put, looking tough is not a substitute for clear policy.

In 1947, George Kennan provided the strategic underpinnings of the “Sources of Soviet Conduct”<sup>2</sup> which formed the basis for an overarching U.S. policy toward the Soviet Union that endured for more than 50 years. The United States must now craft a similarly enduring policy that addresses the global nature of Russia’s disruptive and malign behavior, which stretches from North Korea and Venezuela to Syria, but focuses its most destructive intent on the United States and Europe. We must develop a prioritized policy that establishes a clear roadmap for Russia to return to international legal norms—to which it is legally bound—as well as a clear and consistent path of punishments that will escalate should Russia continue to violate these international legal norms. The United States has lacked a coherent policy toward Russia since the end of the “reset policy” in 2011, largely after it had achieved its near-term objectives to negotiate the new START Treaty, secure Russian support for the Iran nuclear agreement, and gain Russian support to increase U.S. supply lines to Afghanistan. For the past 7 years, we have needed a comprehensive framework of action whose long-term policy direction and consequences are understood by both Washington and Moscow, as well as fully supported by our allies.

One such policy consequence is inadvertently sliding into a larger antagonistic posture with Russia as we escalate the imposition of sanctions in the absence of a

<sup>1</sup>Michael R. Gordon, “U.S. Says Russia Tested Cruise Missile, Violating Treaty”, *The New York Times*, July 28, 2014, <https://www.nytimes.com/2014/07/29/world/europe/us-says-russia-tested-cruise-missile-in-violation-of-treaty.html>.

<sup>2</sup>George F. Kennan (originally published under “X”), “The Sources of Soviet Conduct”, *Foreign Affairs*, July 1947, <https://www.foreignaffairs.com/articles/russian-federation/1947-07-01/sources-soviet-conduct>.

comprehensive policy framework. At some point, Russia may view the culminating effect of U.S. sanctions as an act of war or a direct threat to the regime's survival, all steps for which I believe the U.S. Government is currently ill prepared. Please do not take this warning as a signal that we should stop punishing Russia for its malign behavior. Far from it. I believe the Russian Federation is a pariah State that poses a threat to the United States. But because this Committee is examining even more powerful sanctions legislation against Russia—an adversary that has repeatedly demonstrated it is willing to tolerate punishment and will take military action to achieve its political objectives—it is essential for us to fully prepare our policy for a time when Russia no longer absorbs U.S. sanctions without taking direct action against us.

To fully prepare, we must prioritize. Our first policy priority must be the defense of the homeland and the need to protect the United States to the best of our ability against Russia's cyberenabled attacks against U.S. voting systems, voter data and other critical infrastructure. This also entails thwarting Russia's ongoing disinformation campaign and influence operations through greater public awareness and proactive deletion of fake social media accounts; and ending the illicit use of the U.S. financial system, affiliated institutions and U.S. citizens to advance its malign influence and subvert our democratic institutions.

Our second priority must be the Russian Government's return to abiding by international legal norms, which includes respect for the territorial integrity of neighboring sovereign Nations Ukraine, Georgia, and Moldova, and for the U.N. Chemical Weapons Convention and current arms control treaties, including the INF Treaty. We must modernize the foundations of the Helsinki Final Act, and in particular the Vienna Document, to restore the transparency of Russian military forces and exercises, and to return to confidence-building measures to avoid miscalculation, particularly as there continues to be unprofessional conduct by Russian forces near U.S. vessels and aircraft.

Our third priority must be to restore our focus on the human dimension and the dignity and rights of the individual because ultimately, the success of U.S. foreign and security policy rests on this pillar. As President Reagan understood, peace through strength meant both a strong U.S. military and a proactive foreign policy that promoted democratic values and worked closely with civil society. The success of U.S. policy in the Cold War, particularly after 1975, was the United States' focus on the human dimension and the whole-of-Government effort to support democratic impulses wherever they were growing. As neo-authoritarianism and illiberalism finds fertile ground across Europe, U.S. policy must return to its offensive posture on elevating the dignity of the individual and the importance of civil society in its relation to the State.

### **Why Russia Has Not Responded to U.S. Sanctions**

As we develop this overarching policy framework, it is essential to understand why we are not seeing any near-term changes in Russian behavior after 7 years of U.S. sanctions: the Kremlin has largely been able to stabilize economically despite 7 years of increasing sanctions. With the recent increase in energy prices and depreciation of the Russian ruble, the Kremlin has found an economic equilibrium of sorts. Its GDP is anticipated to grow by 1.5 percent in 2018.<sup>3</sup> Contrary to conventional wisdom, Russia is not currently suffering economic hardship. Conveniently, Moscow can blame any hardships on Western sanctions and not its own long-term economic mismanagement, which is beginning to manifest with growing public discontent over the regime's timid efforts to reform. By redirecting trade patterns, Russia has renationalized portions of its agricultural and energy sectors and forced the cannibalization of Russian companies and banks. Russia's economy will remain vulnerable to volatility in emerging markets and uncertainty in the commodities market but largely, our economic sanctions have had little effect on either the regime's economy or behavior. At the same time, President Putin has effectively consolidated his leadership of a national security State that is prepared for a prolonged period of economic stagnation and decline.

This is not a regime that is tiring; it is a regime that is ready for the long haul. We, and our European allies, however, are not ready.

Interestingly, of all the sanctions that the U.S. has imposed or threatened to impose over the past 7 years, what appears to disturb the Kremlin the most is the worldwide adoption and spread of the Global Magnitsky Human Rights Accountability Act. This Act shines an international spotlight on the excesses and corrupt

<sup>3</sup>“World Bank Lowers Russia 2018 Economic Growth Forecast”, *Reuters*, May 23, 2018, <https://www.reuters.com/article/us-russia-economy-worldbank/world-bank-lowers-russia-2018-economic-growth-forecast-idUSKCN1102MM?il=0>.

nature of Russia's oligarchic capitalism, and how it functions within Russian society. Because the Kremlin has based its economic model and its survival on kleptocracy, sanctions and other policy instruments dedicated to preventing the furtherance of corruption—or worse yet in the minds of the Kremlin, to providing accurate information to the Russian people of the extent of this corruption—are a powerful countermeasure to Russia's malign behavior.

#### **A Better Way To Sanction: End Russian Illicit Financing (and U.S. Complicity With It)**

CSIS's longstanding research into better understanding how Russian malign economic influence works to undermine democratic institutions and the rule of law in Europe has shown how extensively Russian-backed corruption, money laundering, illicit financing and opaque beneficial ownership allows Russian malign influence to persist and proliferate. The 2016 release of the Panama Papers<sup>4</sup> exposed extensive levels of corruption by Russian Government officials and oligarchs through investigative journalism, to the great embarrassment of the Kremlin. This was furthered by the 22 million-plus downloads of the "He Is Not Dimon to You" documentary produced by Russian opposition figure, Alexei Navalny, which showed the extraordinary and extravagant wealth of Russian Prime Minister Dmitri Medvedev that was reportedly channeled through charitable foundations. The documentary motivated spontaneous demonstrations across 80 Russian cities in 2017 and 2018.<sup>5</sup>

The most powerful elements of proposed sanctions legislation, such as the Defending American Security from the Kremlin Aggression Act of 2018 among others, is the enhanced financial transparency specifically related to domestic title or beneficial ownership. This legislation has a vital dual purpose: it simultaneously strengthens U.S. institutions and rebuilds trust in these institutions while ending Russia's illicit and corrupt activities. I strongly urge this Committee to quickly craft and pass legislation enhancing anti-money laundering measures and fostering greater transparency in ultimate beneficial ownership with a specific focus on Russia. It is essential to substantially elevate and empower the Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) to trace and prosecute illicit Russian-linked financial flows.<sup>6</sup>

To my great frustration, if this were an issue of terrorism financing, there would be no question about our resolve. But when it comes to addressing Russian illicit financing, which is causing great damage to our democracy, we hesitate. Why? It is one thing to sanction a Russian oligarch on the Forbes list, but it is another to dry up their ill-gotten gains which have left the Russian people in greater poverty. We must place anti-money laundering on an equal policy footing with our advanced financial infrastructure to combat terrorism financing.

This endeavor is also an ideal opportunity for the United States to work closely with the European Union, which is currently working on a more robust (5th) anti-money laundering directive, as well as with the United Kingdom which is also finally getting serious about addressing its economic dependency on Russian illicit funds, though there is still much to do. As the Foreign Affairs Committee of the U.K. House of Commons recently stated, "associates and allies of the Russian President . . . use money laundered through London to corrupt our friends, weaken our alliances and erode faith in our institutions," and noted that it was time to "close the laundromat."<sup>7</sup> We are given daily reminders of our inability to shut down the Western "laundromat" as recent reports of over \$30 billion of Russian and other post-Soviet Nations' funds that went through the Estonian branch of Danske Bank undetected for years attest.<sup>8</sup> It is time for the United States to close the Russian laundromat and affiliated enabling services that operates within and through the U.S. financial system, and to work closely with our allies to drain this international swamp. By doing so we protect the U.S. homeland, as the growing nexus between

<sup>4</sup> Organized Crime and Corruption Reporting Project, "The Panama Paper", 2016, <https://www.occrp.org/en/panamapapers/>.

<sup>5</sup> Doug Stanglin, "Rallies in 80 Russian Cities Protest President Vladimir Putin on His 65th Birthday", *USA Today*, October 7, 2017, <https://www.usatoday.com/story/news/2017/10/07/rallies-80-russian-cities-protest-president-vladimir-putin-his-65th-birthday/743050001/>.

<sup>6</sup> See detailed recommendation in: Heather A. Conley, et al., "The Kremlin Playbook: Understanding Russian Influence in Central and Eastern Europe", Center for Strategic and International Studies (October 2016), 31.

<sup>7</sup> House of Commons Foreign Affairs Committee, "Moscow's Gold: Russian Corruption in the U.K.", Eighth Report of Session 2017–2019 (HC 932), <https://publications.parliament.uk/pa/cm201719/cmselect/cmselect/cmselect/932/932.pdf>.

<sup>8</sup> Jim Brunsten, Caroline Binham, and Claire Jones, "Scandals Expose Flaws in EU Fight Against Dirty Money, Say Watchdogs", *The Financial Times*, September 4, 2018, <https://www.ft.com/content/1090520e-b05a-11e8-8d14-6f049d06439c>.

the illicit U.S. and international financial systems and attempts by Russia to influence the 2016 presidential election becomes clear.<sup>9</sup>

Decades ago, the United States successfully established a durable policy toward the Soviet Union that won the Cold War without direct military conflict and helped spread greater security and prosperity for over 100 million people in Central and Eastern Europe. Our future success therefore does not necessarily lie in imposing new and more painful sanctions, but it does rest in our ability to develop a clear long-term policy toward Russia which: (1) defends the homeland; (2) develops a clear path to return Russia to international legal norms; and (3) positions the U.S. to once again promote and prioritize the dignity of the individual and the governed over the privileges of the State-fed kleptocratic forces in Moscow. We can have the most significant impact on all three lines of effort by ending illicit Russian transactions through stronger anti-money laundering, greater transparency of beneficial ownership, and exposing Russian corruption. This is fully within this Committee's scope and writ. When it comes to addressing Russia malign behavior today, the Senate Banking Committee may be more powerful than the Senate Armed Services Committee.

---

<sup>9</sup>USA v. Manafort, Jr., et al., Case No. 17-cr-201, October 27, 2017, <http://www.dcd.uscourts.gov/sites/dcd/files/17-201.pdf>.

**RESPONSES TO WRITTEN QUESTIONS OF CHAIRMAN CRAPO  
FROM MICHAEL A. MCFAUL**

**Q.1. *Discretion and Flexibility.*** From your testimony, each of you understand that sanctions, are themselves, not a policy, strategy, or alternative to diplomacy. In fact, they are a powerful tool used to advance that policy or strategy.

Based on the experience each of you gained from your employment with past Administrations, what is your response to the idea of imposing automatic mandatory sanctions, generally, and giving the authority to make determinations and designations to the discretion of the intelligence community?

Drawing on your professional experience with sanctions, generally, and specifically with regard to Iran, North Korea, and Russia, how much discretion or flexibility and what kind is appropriate for an executive branch to retain in using this tool?

In the context of foreign interference in U.S. elections, should the penalties imposed on interference by Russia be any different from that imposed against similar interference by Iran, North Korea, China, or any other foreign actor?

**A.1.** Response not received in time for publication.

**Q.2. *Next Steps and Overuse of Sanctions.*** The United States is currently running about 25 active sanctions programs against rogue Nations and other bad actors, and Ms. Conley notes in her testimony that there are about 58 separate sets of sanctions against Russia, alone, spread across 8 broad categories of policy objectives.

In terms of U.S. policy or strategic objectives, and according to each of your testimony, very little has been gained, so is the answer, just to pile on more sanctions and objectives?

Do we run the risk of losing the effectiveness of the sanctions tool, if we overuse it?

**A.2.** Response not received in time for publication.

**Q.3.** Each U.S. Administration since 1991 has sought to improve its relationship with Russia, at least at the beginning of its term, and the Trump administration is not very different in that respect.

Can there be a path forward to both either preserve or intensify sanctions and still improve relations with President Putin and the Russian Federation?

**A.3.** Response not received in time for publication.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR COTTON  
FROM MICHAEL A. MCFAUL**

**Q.1.** I'd like to compare what we saw in 2016, and what we are seeing today, with Russia's past covert influence efforts. As most people are aware, the most detailed accounting of Russia's past activities is the Mitrokhin Archive. On page 243 of the Mitrokhin Archive, as detailed in "The Sword and the Shield", it states,

It was the extreme priority attached by the Centre (KGB Headquarters) to discrediting the policies of the Reagan administration which led Andropov to decree formally on April 12, 1982, as one of the last acts of his 15-year term

as chairman of the KGB, that is was the duty of all foreign intelligence officers, whatever their “line” or department, to participate in active measures. Ensuring that Reagan did not serve a second term thus became Service A’s most important objective.

On February 25, 1983, the Centre instructed its three American residences to being planning actives measures to ensure Reagan’s defeat in the presidential election of November 1984. They were ordered to acquire contacts on the staffs of all possible presidential candidates and in both party headquarters . . . The Centre made clear that any candidate, of either party, would be preferable to Reagan. Residences around the world were ordered to popularize the slogan “Reagan Means War!” The Centre announced five active measures “theses” to be used . . . his militarist adventurism; his personal responsibility for accelerating the arms race; his support for repressive regimes around the world; his responsibility for tension with his NATO allies. Active Measures “theses” in domestic policy included Reagan’s alleged discrimination against ethnic minorities; corruption in his Administration; and Reagan’s subservience to the military-industrial complex.

So, in 1982, over 35 years ago, we had the KGB using active measures in the United States to sow racial discord, try to create problems with NATO, discredit our nuclear modernization, undercut military spending, highlight corruptions, and try to encourage the U.S. to retreat from the world stage.

How would you compare the themes and tactics the KGB used in 1982, to those we saw in 2016, and are seeing in 2018?

**A.1.** Response not received in time for publication.

**Q.2.** The Senate Intelligence Committee has heard testimony in open session, most notably from then CIA Director Mike Pompeo, that the Russians are using active measures to undermine our missile defense deployments, nuclear modernization efforts, and to try and drive a wedge between the U.S. and NATO on these issues. Additionally, we know from Mitrokhin and Bob Gate’s memoir “From the Shadows” (p. 260) that this was part of their playbook in the 1980s as well.

How do you believe that the Russians are attempting to use active measures to undermine U.S. missile defense deployments and nuclear modernization efforts today?

How do you believe their tactics in these areas today differ from 1982?

**A.2.** Response not received in time for publication.

---

#### **RESPONSES TO WRITTEN QUESTIONS OF SENATOR TESTER FROM MICHAEL A. MCFAUL**

**Q.1.** *American Grand Strategy.* In his written testimony, Ambassador Fried mentioned that a strong Russia policy should be linked to an “American Grand Strategy.” The Administration’s National Security Strategy mostly combines the threats facing the U.S. in

the same categories alongside the threats we face from China, North Korea, and Iran.

Are you aware of any coordinated efforts from this Administration, outside of the National Security Strategy, that specifically addresses the threats we face from Russia?

In addition to sanctions, what do you feel would be an equivalent response to the actions taken by Russia to interfere in U.S. elections and undermine American interests abroad?

Please provide any examples of what should you feel should be included in an “American Grand Strategy” that would contain Russian aggression against U.S. interests, and protect our democracy from further interference?

**A.1.** Response not received in time for publication.

**Q.2.** *State Department in Russia.* Earlier this year, Russia expelled 60 U.S. diplomats and closed the U.S. Consulate in St. Petersburg in the wake of the expulsion of 60 Russian officials from the United States.

Given your former position as U.S. Ambassador to Russia, in what ways did the expulsion of these diplomats from Russia affect our mission in Russia?

In your estimation, how has this action affected the implementation of U.S. sanctions, if at all?

What State Department programs in Russia are, in your estimation, currently most effective to advance U.S. interests there?

**A.2.** Response not received in time for publication.

**Q.3.** *INTERPOL.* In your testimony, you mention that Russia has an extensive history of violating INTERPOL procedures and practices in an attempt to detain innocent people in third countries. Now, in the aftermath of the Helsinki Conference, I am sorry that you now must worry about being harassed by Russia through its abuse of INTERPOL.

In your opinion, how should the U.S. address Russian abuse of the INTERPOL system?

**A.3.** Response not received in time for publication.

#### **RESPONSES TO WRITTEN QUESTIONS OF CHAIRMAN CRAPO FROM DANIEL FRIED**

**Q.1.** *Discretion and Flexibility.* From your testimony, each of you understand that sanctions, are themselves, not a policy, strategy, or alternative to diplomacy. In fact, they are a powerful tool used to advance that policy or strategy.

Based on the experience each of you gained from your employment with past Administrations, what is your response to the idea of imposing automatic mandatory sanctions, generally, and giving the authority to make determinations and designations to the discretion of the intelligence community?

Drawing on your professional experience with sanctions, generally, and specifically with regard to Iran, North Korea, and Russia, how much discretion or flexibility and what kind is appropriate for an executive branch to retain in using this tool?

In the context of foreign interference in U.S. elections, should the penalties imposed on interference by Russia be any different from

that imposed against similar interference by Iran, North Korea, China, or any other foreign actor?

**A.1.** In general, I am skeptical about legislation that mandates sanctions and do not favor giving the intelligence community authority to make policy determinations either generally or with respect to sanctions designations; such is not its responsibility. The intelligence community's responsibility, of course, includes making analytic judgments, including about the extent of Russian interference in U.S. elections. More broadly, the executive branch's argument for policy discretion (and legislative restraint) is stronger when its policy is understandable and consistent. This Administration, especially the President, has struggled to articulate a consistent policy with respect to Russia, and has sometimes obfuscated the challenge of Russian aggression. Inconsistencies of the Administration's Russia policy, particularly at the top levels, may have triggered the various sanctions legislation under consideration.

Executive branch flexibility is important both in general and with respect to implementation of sanctions programs. The Treasury Department's licensing authority is especially important to mitigate unintended consequences of sanctions in a timely fashion.

The United States should respond to (and resist) interference in U.S. elections from all foreign sources, e.g., including the Governments of Russia, Iran, and the DPRK. The tools we chose will differ because, among other things, our relations with these countries differ, as do the sanctions regimes we have developed in response to their behavior.

**Q.2. *Next Steps and Overuse of Sanctions.*** The United States is currently running about 25 active sanctions programs against rogue Nations and other bad actors, and Ms. Conley notes in her testimony that there are about 58 separate sets of sanctions against Russia, alone, spread across 8 broad categories of policy objectives.

In terms of U.S. policy or strategic objectives, and according to each of your testimony, very little has been gained, so is the answer, just to pile on more sanctions and objectives?

Do we run the risk of losing the effectiveness of the sanctions tool, if we overuse it?

**A.2.** I do not agree that "very little has been gained" through sanctions against Russia. Sanctions imposed against Russia for its 2014 invasion of Ukraine and illegal attempted annexation of Crimea appear to have contributed to Russia's decision to limit its aggression (e.g., retreating from a trial-balloon claim to even more Ukrainian territory), and may have convinced Russia to agree to the Minsk Accords framework. If implemented, the Minsk Accords would restore Ukrainian sovereignty in the Donbass, a significant success. Additional sanctions against Russia—for human rights violations, interference in the 2016 U.S. elections, and the use of nerve gas in attempted assassinations on U.K. territory—are not a piling on, but a measured response to continued Russian aggression in separate contexts.

Misuse of sanctions—for example by failure to work in concert with allies, overambitious objectives in the use of sanctions, or moving goalposts with respect to sanctions—can indeed result in



the loss of effectiveness of sanctions. Continued coordination of Russia sanctions with U.S. allies in Europe and elsewhere is important to maintain (and if necessary increase) their impact.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR COTTON  
FROM DANIEL FRIED**

**Q.1.** I'd like to compare what we saw in 2016, and what we are seeing today, with Russia's past covert influence efforts. As most people are aware, the most detailed accounting of Russia's past activities is the Mitrokhin Archive. On page 243 of the Mitrokhin Archive, as detailed in "The Sword and the Shield", it states,

It was the extreme priority attached by the Centre (KGB Headquarters) to discrediting the policies of the Reagan administration which led Andropov to decree formally on April 12, 1982, as one of the last acts of his 15-year term as chairman of the KGB, that it was the duty of all foreign intelligence officers, whatever their "line" or department, to participate in active measures. Ensuring that Reagan did not serve a second term thus became Service A's most important objective.

On February 25, 1983, the Centre instructed its three American residences to begin planning active measures to ensure Reagan's defeat in the presidential election of November 1984. They were ordered to acquire contacts on the staffs of all possible presidential candidates and in both party headquarters . . . The Centre made clear that any candidate, of either party, would be preferable to Reagan. Residences around the world were ordered to popularize the slogan "Reagan Means War!" The Centre announced five active measures "theses" to be used . . . his militarist adventurism; his personal responsibility for accelerating the arms race; his support for repressive regimes around the world; his responsibility for tension with his NATO allies. Active Measures "theses" in domestic policy included Reagan's alleged discrimination against ethnic minorities; corruption in his Administration; and Reagan's subservience to the military-industrial complex.

So, in 1982, over 35 years ago, we had the KGB using active measures in the United States to sow racial discord, try to create problems with NATO, discredit our nuclear modernization, undercut military spending, highlight corruptions, and try to encourage the U.S. to retreat from the world stage.

How would you compare the themes and tactics the KGB used in 1982, to those we saw in 2016, and are seeing in 2018?

The Senate Intelligence Committee has heard testimony in open session, most notably from then CIA Director Mike Pompeo, that the Russians are using active measures to undermine our missile defense deployments, nuclear modernization efforts, and to try and drive a wedge between the U.S. and NATO on these issues. Additionally, we know from Mitrokhin and Bob Gate's memoir "From the Shadows" (p. 260) that this was part of their playbook in the 1980s as well.

How do you believe that the Russians are attempting to use active measures to undermine U.S. missile defense deployments and nuclear modernization efforts today?

How do you believe their tactics in these areas today differ from 1982?

**A.1.** Current Russian disinformation efforts indeed recall earlier tactics of Soviet disinformation, including in the 1980s and even the 1930s.

Current Russian disinformation campaigns, especially in Europe, are aimed at weakening local support for NATO deployments to NATO's eastern tier of countries (e.g., the Baltic States, Poland, and Romania) and weakening transatlantic solidarity generally.

Russian tactics have evolved with technology. For example, in the 1980s, the Soviets planted stories in African newspapers that the CIA had created the HIV virus. Within weeks, this story had migrated to European media and gradually entered the mainstream media network. Today, however, false stories can be planted online and given prominence through bots, trolls, and cyborgs, and can and do enter the mainstream media within a matter of days or even hours.

---

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR TESTER  
FROM DANIEL FRIED**

**Q.1.** *American Grand Strategy.* In his written testimony, Ambassador Fried mentioned that a strong Russia policy should be linked to an "American Grand Strategy." The Administration's National Security Strategy mostly combines the threats facing the U.S. in the same categories alongside the threats we face from China, North Korea, and Iran.

Are you aware of any coordinated efforts from this Administration, outside of the National Security Strategy, that specifically addresses the threats we face from Russia?

In addition to sanctions, what do you feel would be an equivalent response to the actions taken by Russia to interfere in U.S. elections and undermine American interests abroad?

Please provide any examples of what should you feel should be included in an "American Grand Strategy" that would contain Russian aggression against U.S. interests, and protect our democracy from further interference?

**A.1.** The Administration has built on the last Administration's efforts to resist Russian aggression, including by continuing sanctions from the Obama administration and adding new ones. It has also continued and even strengthened the Obama administration efforts to increase NATO's ability to defend countries on its eastern flank most vulnerable to Russian aggression. That said, the President's language, e.g., at his Helsinki press conference with Russian President Vladimir Putin last July, has sent mixed messages, probably weakening the impact of otherwise laudable policy steps.

The United States should lead its allies in Europe and Asia in efforts to resist Russian aggression. In addition to sanctions, this should include increasing NATO's military support for its most vulnerable members, efforts to plan for (and potentially counter) Russian hybrid and cyberattacks, and development of potential

escalatory sanctions and other actions to deploy if Russia intensifies its aggression. Finally, the U.S. and its allies should support countries not in NATO or the EU, such as Ukraine and Georgia which are seeking to strengthen their sovereignty against Russian pressure within a framework of democratic and free-market reforms. At the same time, the U.S. and its transatlantic allies should maintain ties with Russian society, keeping in mind that Russia is more than just President Putin and the Kremlin power structure.

American Grand Strategy for the past hundred years has sought to advance a rules-based world system which favors democracy. First articulated by Woodrow Wilson in 1918, and later by Presidents Roosevelt, Truman, Kennedy, and Reagan, American Grand Strategy held that our interests would advance with our values; and that America would prosper in an open world regulated by rules, not a world with closed economic empires and spheres of influence. Since 1945 and again since 1989, the U.S. has led the Nations of the free world to advance our mutual values and interests, and resist aggression from predatory powers. American Grand Strategy should be built on a foundation of free Nations, democracies committed to the rule of law, working together, and on that basis should seek to contain Russian (and Chinese) aggression and predatory behavior.

**Q.2.** *State Department in Russia.* Earlier this year, Russia expelled 60 U.S. diplomats and closed the U.S. Consulate in St. Petersburg in the wake of the expulsion of 60 Russian officials from the United States.

In what ways do you believe the expulsion of these diplomats from Russia affect our mission in there?

In your estimation, how has this action affected the implementation of U.S. sanctions, if at all?

What State Department programs in Russia are, in your estimation, currently most effective to advance U.S. interests there?

**A.2.** As was the case with rounds of reciprocal expulsions of Soviet and U.S. diplomats in the 1980s, the loss of trained and skilled foreign service personnel in our Embassy and Consulates in Russia does damage our ability to advance U.S. interests. Experience suggests, however, that a strong response to Russian aggression (these latest expulsions were a response to Russian use of nerve gas in the U.K. in an attempt to murder two Russians living there) is worth the cost.

The loss of U.S. diplomatic personnel in Russia should not significantly damage U.S. ability to administer our sanctions program, since most U.S. sanctions are administered and enforced the U.S. Treasury.

It is important to maintain regular contacts with the Russian Government and Russian society. In a society without a free press, which has been the case in Russia for some time, direct knowledge of developments is critical. Beyond daily diplomatic work and regular contacts with society, the long-term impact of cultural exchanges and other forms of outreach to Russians can advance our interests by helping counter the reach of Russian official propa-

ganda. This was one lesson of the Cold War and it remains viable today.

---

**RESPONSES TO WRITTEN QUESTIONS OF CHAIRMAN CRAPO  
FROM RACHEL ZIEMBA**

**Q.1. *Discretion and Flexibility.*** From your testimony, each of you understand that sanctions, are themselves, not a policy, strategy, or alternative to diplomacy. In fact, they are a powerful tool used to advance that policy or strategy.

Based on the experience each of you gained from your employment with past Administrations, what is your response to the idea of imposing automatic mandatory sanctions, generally, and giving the authority to make determinations and designations to the discretion of the intelligence community?

Drawing on your professional experience with sanctions, generally, and specifically with regard to Iran, North Korea, and Russia, how much discretion or flexibility and what kind is appropriate for an executive branch to retain in using this tool?

In the context of foreign interference in U.S. elections, should the penalties imposed on interference by Russia be any different from that imposed against similar interference by Iran, North Korea, China, or any other foreign actor?

**A.1.** Response not received in time for publication.

**Q.2. *Next Steps and Overuse of Sanctions.*** The United States is currently running about 25 active sanctions programs against rogue Nations and other bad actors, and Ms. Conley notes in her testimony that there are about 58 separate sets of sanctions against Russia, alone, spread across 8 broad categories of policy objectives.

In terms of U.S. policy or strategic objectives, and according to each of your testimony, very little has been gained, so is the answer, just to pile on more sanctions and objectives?

Do we run the risk of losing the effectiveness of the sanctions tool, if we overuse it?

**A.2.** Response not received in time for publication.

**Q.3.** Russia's banking interests are powerful, global, and certainly not the most transparent. Almost everyone would agree that Russian laundering must be stopped as a national security priority.

Is the world prepared to unravel the myriad of networks that encompass Russia's nested shell corporations within shell corporations to find a true Russian beneficial owner?

Is this something that can be accomplished by the U.S. alone?

**A.3.** Response not received in time for publication.

**Q.4. *Russia's Energy Sanctions.*** When sectoral sanctions were first imposed, the energy sector sanctions only targeted deep-water, offshore Arctic and shale oil exploration.

Can energy sector sanctions bear expansion, over those prescribed in CAATSA and in what way?

What would be the consequences or costs of expansion?

In your opinion, would such an expansion lead to a change in Putin's behavior?

**A.4.** Response not received in time for publication.

**Q.5.** *Russian Mitigation Efforts.* The Russians are said to be taking steps to prepare for a next round of Administration sanctions or new legislation that may involve financial, energy, and sovereign debt sanctions.

Could you explain what defensive steps are available to the Russians and how successful they might be against that next evolution of sanctions?

How is Russia adapting to mitigate the impact of current sanctions, and can the United States counter that mitigation?

**A.5.** Response not received in time for publication.

**RESPONSES TO WRITTEN QUESTIONS OF CHAIRMAN CRAPO  
FROM HEATHER A. CONLEY**

**Q.1.** *Discretion and Flexibility.* From your testimony, each of you understand that sanctions, are themselves, not a policy, strategy, or alternative to diplomacy. In fact, they are a powerful tool used to advance that policy or strategy.

Based on the experience each of you gained from your employment with past Administrations, what is your response to the idea of imposing automatic mandatory sanctions, generally, and giving the authority to make determinations and designations to the discretion of the intelligence community?

**A.1.** Mandatory sanctions are appropriate for the most clear and heinous violations of international law and for those individuals and entities that significantly threaten U.S. national security. I do not support giving the sole authority to make such determinations and designations to the intelligence community (IC). The IC should present its findings to the legislative and executive branches, and it is for the executive branch to propose and the legislative branch to place into law—should that be necessary—the imposition of sanctions. Should the executive branch fail to implement the law, Congress must hold the executive branch accountable and develop legislation that is consistent with U.S. treaty obligations and other areas of import to U.S. national security.

**Q.2.** Drawing on your professional experience with sanctions, generally, and specifically with regard to Iran, North Korea, and Russia, how much discretion or flexibility and what kind is appropriate for an executive branch to retain in using this tool?

**A.2.** Discretion and flexibility—like respect—must be earned. They are not rights. If there is strong oversight of the executive branch's policy actions by Congress and bipartisan support for those policies, discretion and flexibility are appropriate and very important to policy formation. If, however, oversight is lax or partisan in nature and/or the executive branch's proposed policies do not achieve the promised or anticipated results, it would be appropriate for Congress to reduce the degree of discretion and flexibility afforded the executive branch over sanctions policy. It is equally important that Congress conduct rigorous oversight over the implementation of existing sanctions legislation. If implementation by the executive branch is found to be lacking, further reduction of discretion and flexibility is fully warranted, and Congress must step in to develop

legislation that is consistent with U.S. treaty obligations and the protection of U.S. national security.

**Q.3.** In the context of foreign interference in U.S. elections, should the penalties imposed on interference by Russia be any different from that imposed against similar interference by Iran, North Korea, China, or any other foreign actor?

**A.3.** There should be a standard penalty for State actors which interfere in the U.S. election process. The executive branch, in consultation with the legislative branch, should establish clear thresholds of behavior that would constitute gross interference in the U.S. election process and its institutions at the tribal, local, State, or Federal level by any foreign actor. This could include a cyberattack on or the implantation of malware in election infrastructure, cybermanipulations of voter registration data, etc.

More difficult to counter is the widespread use of disinformation and voter suppression efforts by foreign actors with the unwitting or witting support of American proxies. The U.S. Government can and has sanctioned individuals and entities that are involved in disinformation, but it is impossible to know the impact that disinformation could have on American citizens and their voting or nonvoting preferences. To combat disinformation, the U.S. Government must develop a comprehensive public education and awareness strategy that could consist of public service announcements, bipartisan political announcements at the local, State and Federal level and news literacy initiatives. This could include national awareness campaigns regarding the risk of foreign interference from actors such as Russia.

**Q.4. *Next Steps and Overuse of Sanctions.*** The United States is currently running about 25 active sanctions programs against rogue Nations and other bad actors, and Ms. Conley notes in her testimony that there are about 58 separate sets of sanctions against Russia, alone, spread across 8 broad categories of policy objectives.

In terms of U.S. policy or strategic objectives, and according to each of your testimony, very little has been gained, so is the answer, just to pile on more sanctions and objectives?

Do we run the risk of losing the effectiveness of the sanctions tool, if we overuse it?

**A.4.** No, piling on is not the answer. The more you randomly pile on and the more policy objectives you have, the less efficacious the overall effect of sanctions becomes. Sanctions must be selectively used for an urgent policy imperative, selectively targeted to maximize pressure, and very powerfully applied at the beginning of the policy violation rather than slowly turning up sanctions pressure over a long period of time. This is a change in approach to how sanctions are normally applied, i.e. imposed slowly and ratcheted up over time.

The United States is already experiencing the effects of sanctions overuse, which will eventually lead to diminishing policy returns on U.S. sanctions. Adversaries and allies alike are able to resist sanctions more effectively by creating parallel and alternative structures to the U.S. financial system to avoid the impact of sanctions or secondary sanctions. For example, the European Union is estab-

lishing a Special Purpose Vehicle (SPV)—a clearing house of sorts—to attempt to shelter firms from the impact of U.S. secondary sanctions from the snap-back of sanctions against Iran. China is creating bartering-like systems and separate financial mechanisms to prevent interaction with U.S. banks. Thus, there is a clear risk of losing the power of sanctions if they are too often applied, or without clear objectives and timelines.

**Q.5.** Russia’s banking interests are powerful, global, and certainly not the most transparent. Almost everyone would agree that Russian laundering must be stopped as a national security priority.

Is the world prepared to unravel the myriad of networks that encompass Russia’s nested shell corporations within shell corporations to find a true Russian beneficial owner?

**A.5.** Certainly, the political Western world is not prepared for the full truth about how much it has enabled illicit Russian financial flows or how much of this money runs through communities in the United States and in Europe. Like the political explosions following the release of the Panama Papers, the Paradise Papers, and the Russian Laundromat report, Governments may fall, prime ministers and senior officials may be forced to resign, political party financing will be scrutinized, and high-level individuals may go to jail. There will be great embarrassment and careers will be ruined. However, shining a full light on the extent of these networks is the only way to begin to: (1) restore and rebuild trust and confidence in open and free democratic societies, their leaders and institutions; (2) shut down a mechanism through which foreign adversaries can influence and manipulate a country’s policies; and (3) place a crippling blow against corrupt authoritarians, kleptocrats and murderous regimes. The only question is: Why wouldn’t the full force and power of the U.S. Government be used to expose these networks—unless the U.S. itself has grown susceptible to the monied influence of these networks?

**Q.6.** Is this something that can be accomplished by the U.S. alone?

**A.6.** No, the U.S. cannot do this alone. It must work closely with like-minded allies and partners because when illicit networks are foiled in one place, these networks will reconstitute in another environment that is more hospitable to illicit financing. Just as the U.S. financial system is an extraordinarily powerful tool when it comes to sanctions, it is an equally powerful tool when it comes to stopping illicit financing of any kind. Examples of this are the closure of the Latvian ABLV Bank and the significant fines against Deutsche Bank, Société Générale, and potentially Danske Bank. While the U.S. has demonstrated great leadership externally, it has not focused enough on its own institutions and affiliated enablers of illicit financial transactions such as boutique investment firms, as well as tax and legal counsel, and legal support to construct opaque shell companies and tax havens that may be used for illicit purposes—the so-called ‘corporate service providers’ or Designated Non-Financial Businesses and Professions as they are classified by the intergovernmental Financial Action Task Force.<sup>1</sup>

<sup>1</sup> Financial Action Task Force Glossary, <http://www.fatf-gafi.org/glossary/d-i/>.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR COTTON  
FROM HEATHER A. CONLEY**

**Q.1.** I'd like to compare what we saw in 2016, and what we are seeing today, with Russia's past covert influence efforts. As most people are aware, the most detailed accounting of Russia's past activities is the Mitrokhin Archive. On page 243 of the Mitrokhin Archive, as detailed in "The Sword and the Shield", it states,

It was the extreme priority attached by the Centre (KGB Headquarters) to discrediting the policies of the Reagan administration which led Andropov to decree formally on April 12, 1982, as one of the last acts of his 15-year term as chairman of the KGB, that it was the duty of all foreign intelligence officers, whatever their "line" or department, to participate in active measures. Ensuring that Reagan did not serve a second term thus became Service A's most important objective.

On February 25, 1983, the Centre instructed its three American residences to begin planning active measures to ensure Reagan's defeat in the presidential election of November 1984. They were ordered to acquire contacts on the staffs of all possible presidential candidates and in both party headquarters . . . The Centre made clear that any candidate, of either party, would be preferable to Reagan. Residences around the world were ordered to popularize the slogan "Reagan Means War!" The Centre announced five active measures "theses" to be used . . . his militarist adventurism; his personal responsibility for accelerating the arms race; his support for repressive regimes around the world; his responsibility for tension with his NATO allies. Active Measures "theses" in domestic policy included Reagan's alleged discrimination against ethnic minorities; corruption in his Administration; and Reagan's subservience to the military-industrial complex.

So, in 1982, over 35 years ago, we had the KGB using active measures in the United States to sow racial discord, try to create problems with NATO, discredit our nuclear modernization, undercut military spending, highlight corruptions, and try to encourage the U.S. to retreat from the world stage.

How would you compare the themes and tactics the KGB used in 1982, to those we saw in 2016, and are seeing in 2018?

**A.1.** The tactics of Soviet-era active measures are very similar to those that the Russian Federation deploys today, with the difference being that the Kremlin has harnessed 21st century information technologies for much greater and damaging affect. But, unlike in 1982, the United States has not developed an effective response. Moreover, during the Cold War, the American people clearly understood that the Soviet Union was its adversary, and there was a general national consensus regarding Soviet disinformation tactics against the United States, such as the use of doctored photographs, documents and placement of false stories in newspapers. Unfortunately, this national consensus for a new generation of Americans does not exist today. There is little bipar-



tisan or national understanding of the sophisticated and encompassing nature of the threat, and there is no national strategy to combat it. Tragically, the many manifestations of Russian malign influence have become caught in growing American partisanship to such a point where the Kremlin does not need to exert itself much to exploit and deepen divisions within American society.

In 1982, President Reagan understood the leadership imperative to combat Soviet active measures: (1) the clarion call that the Soviet Union was “an evil empire” (although this was very controversial at the time); (2) the use all Government resources and instruments of power which were focused uniquely on one adversary to defeat the Soviet Union at home and abroad; and, perhaps most importantly, (3) the issuing of a presidential directive that instructed the U.S. Government to go on the democratic, civil society, and human rights offensive to provide encouragement and hope to those who believed in and fought for the dignity of the individual over the repression of the State. None of those elements exists today. And finally, it would be hard to believe that if anyone on Ronald Reagan’s campaign—most of whom had served in combat or were steeped in the Cold War ethos—had been approached by a Russian official or intermediary, they would not have quickly alerted Government officials to the approach.

**Q.2.** The Senate Intelligence Committee has heard testimony in open session, most notably from then CIA Director Mike Pompeo, that the Russians are using active measures to undermine our missile defense deployments, nuclear modernization efforts, and to try and drive a wedge between the U.S. and NATO on these issues. Additionally, we know from Mitrokhin and Bob Gate’s memoir “From the Shadows” (p. 260) that this was part of their playbook in the 1980s as well.

How do you believe that the Russians are attempting to use active measures to undermine U.S. missile defense deployments and nuclear modernization efforts today?

How do you believe their tactics in these areas today differ from 1982?

**A.2.** Again, the Kremlin does not need to exert itself much, particularly in relation to the status of the Intermediate-Range Nuclear Forces (INF) Treaty, because of actions taken by the U.S. Government. President Trump’s mention of U.S. withdrawal from the INF Treaty at a campaign rally on October 20 without prior consultation with allies and prior to Ambassador John Bolton’s meeting with Russian leaders, significantly undermined alliance unity and led to condemnation of the United States for unilateral withdrawal from the treaty, rather than where the international condemnation rightfully belongs: Russia’s material breach of the INF Treaty for at least the past 5 years. Therefore, tactics for “personal responsibility for accelerating the arms race” and “responsibility for tensions with NATO allies” were exactly the same mission the Kremlin had in 1982, except that the United States is now aiding and abating it. All the Kremlin needs to do is amplify American actions and subsequent criticism of these actions; it does not need to do much to undermine the treaty or nuclear modernization efforts. Their work is being done for them.

Prior to the INF Treaty controversy, the Kremlin had frequently used scare tactics regarding nuclear weapons. Whether it was the provocative address by President Putin on March 1 of this year where he demanded that all countries “listen to Russia now” as it has developed and is willing to use new nuclear weapons, senior Russian officials giving provocative statements and making threatening comments in the press (e.g., the Russian Ambassador to Denmark suggesting that Russia could retaliate with nuclear weapons were Denmark to join NATO’s missile defense shield<sup>1</sup>), or exercising with nuclear weapons,<sup>2</sup> Moscow seems to target those countries that are closely working with NATO and the United States bilaterally, those who could become NATO members in the future (Finland and Sweden), those countries that are hosting components of NATO’s missile defense system (Poland and Romania) or contemplating hosting future missile defense components. These tactics are in part meant to reinforce Russia’s status as a great power “that will be listened to” by the West, but for the most part they are designed to influence public opinion and turn it against cooperation with the United States or NATO.

Typically, these heavy-handed tactics have the exact opposite effect: Governments seek to work more closely with NATO and the United States, like they did during the Cold War. However, because of the political fragmentation in Europe as well as the spread in Russian malign influence, Russian active measures may be much more successful today. The United States is also much less focused on Russia as a national security challenge in 2018; it has a much-weakened national security interagency process and leadership team; and it is in a chronic antagonistic posture toward its allies. These are perfect conditions for Russian active measures to be much more successful than they were in the 1980s.

---

<sup>1</sup>Adam Withnall, “Russia Threatens Denmark With Nuclear Weapons if It Tries To Join NATO Defence Shield”, *The Independent*, March 22, 2015, <https://www.independent.co.uk/news/world/europe/russia-threatens-denmark-with-nuclear-weapons-if-it-tries-to-join-nato-defence-shield-10125529.html>.

<sup>2</sup>Robin Emmott and Andrius Sytas, “Russia’s Zapad War Games Unnerve the West”, *Reuters*, September 13, 2017, <https://www.reuters.com/article/us-russia-nato/russias-zapad-war-games-unnerve-the-west-idUSKCN1BO10G>.