

**ASSESSING THE USE OF SANCTIONS IN
ADDRESSING NATIONAL SECURITY AND
FOREIGN POLICY CHALLENGES**

HEARING
BEFORE THE
SUBCOMMITTEE ON NATIONAL SECURITY,
INTERNATIONAL DEVELOPMENT AND
MONETARY POLICY
OF THE
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED SIXTEENTH CONGRESS
FIRST SESSION

MAY 15, 2019

Printed for the use of the Committee on Financial Services

Serial No. 116-25



U.S. GOVERNMENT PUBLISHING OFFICE

37-927 PDF

WASHINGTON : 2020

HOUSE COMMITTEE ON FINANCIAL SERVICES

MAXINE WATERS, California, *Chairwoman*

| | |
|------------------------------------|------------------------------------|
| CAROLYN B. MALONEY, New York | PATRICK McHENRY, North Carolina, |
| NYDIA M. VELAZQUEZ, New York | <i>Ranking Member</i> |
| BRAD SHERMAN, California | PETER T. KING, New York |
| GREGORY W. MEEKS, New York | FRANK D. LUCAS, Oklahoma |
| WM. LACY CLAY, Missouri | BILL POSEY, Florida |
| DAVID SCOTT, Georgia | BLAINE LUETKEMEYER, Missouri |
| AL GREEN, Texas | BILL HUIZENGA, Michigan |
| EMANUEL CLEAVER, Missouri | SEAN P. DUFFY, Wisconsin |
| ED PERLMUTTER, Colorado | STEVE STIVERS, Ohio |
| JIM A. HIMES, Connecticut | ANN WAGNER, Missouri |
| BILL FOSTER, Illinois | ANDY BARR, Kentucky |
| JOYCE BEATTY, Ohio | SCOTT TIPTON, Colorado |
| DENNY HECK, Washington | ROGER WILLIAMS, Texas |
| JUAN VARGAS, California | FRENCH HILL, Arkansas |
| JOSH GOTTHEIMER, New Jersey | TOM EMMER, Minnesota |
| VICENTE GONZALEZ, Texas | LEE M. ZELDIN, New York |
| AL LAWSON, Florida | BARRY LOUDERMILK, Georgia |
| MICHAEL SAN NICOLAS, Guam | ALEXANDER X. MOONEY, West Virginia |
| RASHIDA TLAIB, Michigan | WARREN DAVIDSON, Ohio |
| KATIE PORTER, California | TED BUDD, North Carolina |
| CINDY AXNE, Iowa | DAVID KUSTOFF, Tennessee |
| SEAN CASTEN, Illinois | TREY HOLLINGSWORTH, Indiana |
| AYANNA PRESSLEY, Massachusetts | ANTHONY GONZALEZ, Ohio |
| BEN McADAMS, Utah | JOHN ROSE, Tennessee |
| ALEXANDRIA OCASIO-CORTEZ, New York | BRYAN STEIL, Wisconsin |
| JENNIFER WEXTON, Virginia | LANCE GOODEN, Texas |
| STEPHEN F. LYNCH, Massachusetts | DENVER RIGGLEMAN, Virginia |
| TULSI GABBARD, Hawaii | |
| ALMA ADAMS, North Carolina | |
| MADELEINE DEAN, Pennsylvania | |
| JESUS "CHUY" GARCIA, Illinois | |
| SYLVIA GARCIA, Texas | |
| DEAN PHILLIPS, Minnesota | |

CHARLA OUERTATANI, *Staff Director*

SUBCOMMITTEE ON NATIONAL SECURITY, INTERNATIONAL
DEVELOPMENT AND MONETARY POLICY

EMANUEL CLEAVER, Missouri, *Chairman*

ED PERLMUTTER, Colorado
JIM A. HIMES, Connecticut
DENNY HECK, Washington
BRAD SHERMAN, California
JUAN VARGAS, California
JOSH GOTTHEIMER, New Jersey
MICHAEL SAN NICOLAS, Guam
BEN McADAMS, Utah
JENNIFER WEXTON, Virginia
STEPHEN F. LYNCH, Massachusetts
TULSI GABBARD, Hawaii
JESÚS “CHUY” GARCIA, Illinois

STEVE STIVERS, Ohio, *Ranking Member*
PETER T. KING, New York
FRANK D. LUCAS, Oklahoma
ROGER WILLIAMS, Texas
FRENCH HILL, Arkansas
TOM EMMER, Minnesota
ANTHONY GONZALEZ, Ohio
JOHN ROSE, Tennessee
DENVER RIGGLEMAN, Virginia, *Vice
Ranking Member*

CONTENTS

| | Page |
|--------------------|------|
| Hearing held on: | |
| May 15, 2019 | 1 |
| Appendix: | |
| May 15, 2019 | 31 |

WITNESSES

WEDNESDAY, MAY 15, 2019

| | |
|---|----|
| Carpenter, Michael, Senior Director, Penn Biden Center for Diplomacy and Global Engagement, University of Pennsylvania | 6 |
| Mortlock, David, Nonresident Senior Fellow, Global Energy Center, Atlantic Council | 4 |
| Rosenberg, Elizabeth, Director and Senior Fellow, Energy, Economics, and Security Program, Center for a New American Security | 8 |
| Singh, Daleep, Senior Fellow, Center for New American Security | 9 |
| Zweig, Matthew, Senior Fellow, Foundation for Defense of Democracies | 11 |

APPENDIX

| | |
|----------------------------|----|
| Prepared statements: | |
| Carpenter, Michael | 32 |
| Mortlock, David | 38 |
| Rosenberg, Elizabeth | 47 |
| Singh, Daleep | 61 |
| Zweig, Matthew | 68 |

ASSESSING THE USE OF SANCTIONS IN ADDRESSING NATIONAL SECURITY AND FOREIGN POLICY CHALLENGES

Wednesday, May 15, 2019

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL SECURITY,
INTERNATIONAL DEVELOPMENT
AND MONETARY POLICY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:07 p.m., in room 2128, Rayburn House Office Building, Hon. Emanuel Cleaver [chairman of the subcommittee] presiding.

Members present: Representatives Cleaver, Perlmutter, Himes, Sherman, Gottheimer, Wexton, Lynch, Garcia of Illinois; Stivers, Williams, Hill, Emmer, Gonzalez of Ohio, and Riggleman.

Ex officio present: Representative Waters.

Also present: Representative Barr.

Chairman CLEAVER. The Subcommittee on National Security, International Development, and Monetary Policy will come to order.

Without objection, the Chair is authorized to declare a recess of the subcommittee at any time.

Also, without objection, members of the full Financial Services Committee who are not members of the subcommittee are authorized to participate in today's hearing.

Today's hearing is entitled, "Assessing the Use of Sanctions in Addressing National Security and Foreign Policy Challenges."

But I want to take some liberties at this point to acknowledge the life of Dr. Alice Rivlin, who has appeared before our committee many, many times over the years. She was a trailblazing economist, professor, and frequent guest here at the Financial Services Committee. Educated at Harvard, she served as the first female Director of the Office of Management and Budget, Vice Chair of the Federal Reserve Board, and the founding Director of the Congressional Budget Office. Her life and impact will continue to reverberate through Congress and this subcommittee. And as we mourn her passing, we all celebrate her life, legacy, and service. I would like to thank the committee for granting me this privilege in formally convening a hearing.

I now recognize myself for a 3-minute opening statement.

Today's hearing will focus on one of the more pressing matters facing Congress, the use of sanctions to preserve American national

security and advance critical foreign policy aims. Recent headlines highlight an American movement toward lurching toward war in Iran, a potential military intervention in Venezuela, and increasing instability in Iraq and Afghanistan, and, maybe most importantly, Russia to this day still has not felt the full force of American diplomacy following their audacious and churlish intrusion into our most sacred institution, our democratic elections.

I might add that, just this morning, we found out that Russia was successful in getting into a couple of voting machines in a particular county. But as Ronald Reagan once noted, the only way our children can inherit the freedom we have known is if we fight for it, protect it, defend it, and then hand it to them with the well thought lessons of how they, in their lifetime, must do the same. I would urge my colleagues and our witnesses to consider these words while we discuss this topic. The battle we fight today is not unlike the one that once faced Ronald Reagan and the generation before him. I would dare say the work to preserve freedom for the next generation, due to increased interconnectedness and global uncertainty, have become more difficult in our time than his.

Today, we are going to talk about sanctions, one of the most powerful tools in the congressional tool kit, and how to effectively utilize them to preserve national security and to change the behaviors of nefarious actors across the globe.

As the legislative body of the most powerful country in the world, we have a responsibility to ensure that sanctions are deployed effectively and efficiently to achieve a cohesive and well-thought-out policy aim. With respect to Russia, in my view, this does not appear to be the case. There does not appear to be a consistent strategy to curb their dangerous activities and lawless behavior.

Before us today is a draft bill that seeks to respond to Russia's malign activities, prohibiting U.S. persons and financial institutions from dealing in the new sovereign debt of the Russian Federation. This bill would close the disturbing loophole that allowed Russian oligarch Deripaska's companies to be delisted while possibly still allowing he and his family to benefit monetarily. And so, with this, I would look forward to a constructive conversation as we explore these issues. I will now recognize the ranking member of the subcommittee, Mr. Stivers, for 5 minutes.

Mr. STIVERS. Thank you, Mr. Chairman.

I want to recognize the chairman and congratulate him on his new chairmanship of the National Security, International Development, and Monetary Policy Subcommittee. Those three issues are not partisan issues. We look forward to working with the chairman on an agenda to keep our people safe, make sure that we help our international partners with international development, and that we also have a monetary policy that works.

With regard to today's hearing, past Administrations have attempted, and failed, to bring Russia into the international rules-based order. In the past few years, Russia has invaded its neighbor Ukraine, murdered 98 innocent civilians aboard Malaysia Airlines Flight 17, and assassinated dissidents. They have backed the likes of Bashar al-Assad in Syria, Maduro in Venezuela, and attempted to interfere with the elections in the United States.

The sanctions draft today, the discussion draft that is the subject of this hearing, says a lot about how far our understanding of the Russian government's motivation and behavior have come. I am glad we have hit the reset button, to finally acknowledge the Russian government is dangerous, that it is an enemy of human rights and democratic values. Having said that, I want to emphasize that the Russian government is an adversary and its people are not. They are victims of their corrupt leadership. This is true of many other sanctioned countries that will be mentioned today, and it is important we remain mindful of that. I want to thank all of our witnesses today. I look forward to your testimony and learning how we can more effectively use sanctions to achieve our foreign policy objectives.

Thank you, and I yield back the balance of my time.

Chairman CLEAVER. I now recognize the gentleman from Colorado, Mr. Perlmutter, who will make a statement on behalf of the Chair of the full Financial Services Committee, Chairwoman Waters.

Mr. PERLMUTTER. Thank you, Mr. Chairman.

And on behalf of Chairwoman Waters, thank you, Mr. Chairman.

There are many principled, intellectual disagreements between Republicans and Democrats about public policy and the direction we should take this country. But there is one thing about which there is no dissent: Our democracy is the greatest experiment in self-governance the world has ever seen.

Mr. Chairman, our democracy was attacked, and if we do nothing, it will be attacked again. Our intelligence agencies have assessed with high confidence that Russian President Putin ordered an influence campaign aimed at the 2016 U.S. Presidential election, and they expect Moscow to do so again in the 2020 Presidential elections.

We must send a strong signal to the Kremlin and to the markets that the U.S. sanctions have not plateaued and that the threat of additional, significant, economic actions against Russia is real. We will not tolerate attacks on our democracy. The chairwoman looks forward to discussing this matter further today.

And, with that, I yield back.

Chairman CLEAVER. The Chair now recognizes the gentleman from California, Mr. Sherman, for 1 minute.

Mr. SHERMAN. Thank you.

For a long time, I have been urging tougher sanctions on Russia for interfering in our elections and have proposed that we prohibit dealing in sovereign debt of the Russian state until they can go an election without interfering in our elections.

But let's talk about what we mean by "interfering." It is fine for RTTV to run editorials. It is fine for the Kremlin to issue a press release. And if Putin wants to make huge concessions to us on arms control in an effort to make Trump look good, fine. But when the Russians steal data, when they interfere with voting and tabulation, or when they engage in propaganda efforts under a false flag, that is when we have to respond.

Second, at the most recent hearing of the Full Committee, I attacked cryptocurrencies. Since then, the crypto community has responded, as they would, and has pointed out that I was right. I

said that cryptocurrencies would have the effect of diminishing American power, and so many of them in that world said, yes, that is the point. Now, you may disagree with American policy, and if someday a majority of Americans think we shouldn't sanction Hamas or Kim Jong-un, that is fine, but we don't want to disempower the American people by diminishing the role of the U.S. dollar or making it easier to evade sanctions.

I yield back.

Chairman CLEAVER. Thank you.

Thank you, to the witnesses who have agreed to be here with us. Let me apologize to you that we are getting started late. I am a part of a committee, a select committee, and it is a bipartisan committee, and we are working on congressional change, updates in the way we function until we are trying to create a system where we don't have votes interfering with committee hearings. It is the Congressional Committee on Modernization. This is only the third or fourth time in history we have had this committee in existence, and I think everyone is serious about trying to figure out ways in which we can avoid this kind of thing. So we apologize, but we thank you for being here.

Our first witness is Mr. David Mortlock, who is a nonresident senior fellow at the Atlantic Council's Global Energy Center, and former Director of International Economic Affairs at the White House National Security Council.

And let me go on and introduce all of the witnesses at this time.

Dr. Michael Carpenter is senior director at the Penn Biden Center for Diplomacy and Global Engagement at the University of Pennsylvania, and former Deputy Assistant Secretary of Defense for Russia, Ukraine, and Eurasia.

The next witness, Ms. Elizabeth Rosenberg, is a senior fellow and director of the Energy, Economics, and Security Program at the Center for a New American Security, and former Senior Advisor to the Undersecretary of the Treasury for Terrorism and Financial Intelligence.

Next is Mr. Daleep Singh, who is a senior fellow at the Center for New American Security, and former Acting Assistant Secretary of the Treasury for Financial Markets.

And then we welcome the final witness, Mr. Matthew Zweig, who is a senior fellow at the Foundation for Defense of American Democracies, and a former professional staff member of the House Foreign Affairs Committee.

Welcome to all of you.

We have 5 minutes for each of you. Pay attention to the light. It will tell you when to stop, and if you should go over very gently, then I will gently give you a hint.

So with that, Mr. Mortlock?

**STATEMENT OF DAVID MORTLOCK, NONRESIDENT SENIOR
FELLOW, GLOBAL ENERGY CENTER, ATLANTIC COUNCIL**

Mr. MORTLOCK. Thank you very much. Thank you very much to Chairman Cleaver and Ranking Member Stivers. It is a real privilege to be here with you today, particularly with such a distinguished panel, including several former colleagues.

Sanctions are certainly an attractive tool in foreign policy crises. They give us many options between words and war. And there is no doubt that the United States, as the strongest economy in the world, can visit significant economic harm on its adversaries.

Moreover, in recent years, the U.S. Government has gotten much more sophisticated at the way we impose sanctions. The sectoral sanctions for Russia, the restrictions on Venezuelan debt, and very sophisticated and nuanced carve-outs through licensing, has marked a real high-water mark for the Office of Foreign Assets Control (OFAC).

Unfortunately, we also have proven that sanctions have their limitations. On occasion, they have often been more bark than bite. As Director for National Economic Affairs for the National Security Council, and Deputy Coordinator for Sanctions Policy at the State Department, I worked with the individuals at this table, and numerous others, to face these questions. Based on this experience, I would like to offer three principles that I believe should guide our imposition of sanctions, including those legislated by this body: first, sanctions should only be deployed in pursuit of a clear, broader policy goal; second, a sanctions regime must have an end game or an exit strategy; and third, sanctions must be backed up by a firm political commitment. Let me explain.

So, first, an effective sanctions program must start with a clear and articulated policy goal. Economic pain in itself is not a U.S. foreign policy interest. The lack of consistent and implementable policy goals, as well as patient follow-through, has occasionally undermined the efficacy of sanctions under this President, even in areas where the Administration has implemented tough measures. For example, the Administration deserves credit for successfully corralling the world to impose tough sanctions on North Korea. But consistent sanctions have been undermined by a moving target on policy and the President's effusive praise for Chairman Kim, giving China, Russia, and South Korea an excuse to ease the pressure, reducing our leverage, and expanding North Korea's access to resources.

Second, sanctions must have an exit strategy. If future targets of U.S. Sanctions are to change their behavior under the threat of sanctions, it will be because they find those threats credible and because they believe they have a path to relief. This approach worked when Iran took steps to dismantle its nuclear program in response to relief from very specific, nuclear-related sanctions, while the United States maintained other sanctions linked explicitly to terrorism and human rights abuses. President Trump's Iran strategy has relied on an all-or-nothing approach, hoping for capitulation of the Iranian regime, something economic sanctions have never produced. Instead of a diplomatic resolution, the sanctions are more likely to produce a spiral of worsening aggression.

Third, sanctions must have political backing. This is perhaps most obvious with respect to our approach to Russia. Strong U.S. sanctions measures for Russia have been undermined by the President's public subservience to Vladimir Putin. The sanctions are unlikely to compel a change in Russian behavior when that behavior is minimized and dismissed by the President.

The Administration's mixed messages were illustrated recently by the removal of Rusal and other companies controlled by Oleg Deripaska from the SDN list. On the one hand, the action sent a strong message to other supporters and friends of President Putin: Facilitate Putin's aggressions and corruption, and you, too, could lose control of your corporate empire.

Yet, the message to Putin's supporters was undermined by the Administration's failure to fully explain the reasoning and embrace the congressional review required by statute. This was a lost opportunity.

Moreover, the Administration's failure to impose a second tranche of sanctions on Russia required by the Chemical and Biological Weapons Act after the attempted murder of Sergei Skripal has raised serious questions about the Administration's commitment to holding Russia accountable.

To close, I will simply say that sanctions can be a useful, precise, and effective tool of U.S. foreign policy, so long as they are treated as a tool to implement a clear policy and a thought-out strategy. Beyond those principles, in my written testimony, I have outlined a number of ways Congress specifically can make sanctions more effective, including using other tools to complement the sanctions, such as beneficial ownership transparency. I invite your questions and thank you again for allowing me to appear before you today.

[The prepared statement of Mr. Mortlock can be found on page 38 of the appendix.]

Chairman CLEAVER. Thank you, Mr. Mortlock.

Dr. Carpenter, you are now recognized for 5 minutes.

**STATEMENT OF MICHAEL CARPENTER, SENIOR DIRECTOR,
PENN BIDEN CENTER FOR DIPLOMACY AND GLOBAL EN-
GAGEMENT, UNIVERSITY OF PENNSYLVANIA**

Mr. CARPENTER. Chairman Cleaver, Ranking Member Stivers, and distinguished members of the subcommittee, I am grateful for this opportunity to be before you today, to talk about the use of sanctions to address national security and foreign policy challenges.

Some pundits claim that because sanctions haven't yet compelled Russian President Vladimir Putin to change course in Ukraine, Syria, or here in the United States, that sanctions are an ineffective policy instrument. It is true that sanctions are not a silver bullet, but when imposed at the right strength and combined with other policy levers, they offer the United States a unique ability to apply asymmetric leverage against our adversaries. This is particularly important when military options are off the table and when diplomacy alone is insufficient to compel our adversaries to change course.

When it comes to Russia, sanctions are a particularly appropriate policy tool because of the threat the Kremlin poses to core U.S. national security interests. Russia's invasion of neighboring countries like Georgia and Ukraine, its violations of international treaties such as the Intermediate-Range Nuclear Forces Treaty or the Chemical Weapons Convention, and its brazen cyber attacks, information warfare, and corrupt influence campaigns to destabilize the U.S. and its allies must not be allowed to stand.

In most cases, the reasons our sanctions fail is because we tend to conflate impactful measures with symbolic ones. To be effective, sanctions have to be impactful. And to be impactful, they really need to target the Russian economy as a whole. We kid ourselves when we think we can have an impact on Kremlin decision-making by surgically targeting this or that oligarch or government official. Multilateral sanctions on Iran during the period between 2012 and 2015 reduced Iranian GDP by roughly 9 percent annually. For Russia, the figure is closer to 1 to 1.5 percent. I understand that Iran and Russia have different-sized economies, but my point is that the Kremlin has to feel some pain before it reevaluates its current course.

Recall that President Putin was willing to spend \$50 billion on the Sochi Winter Olympics, which was a vanity project. To change course in Ukraine, which is a top foreign policy priority, he will need a much clearer incentive structure.

To have real impact, in my view, the United States should consider imposing full, blocking sanctions, in other words, complete restrictions on all financial transactions on select Russian banks. These sorts of sanctions would need to be coordinated with our European allies, but they would not have to be matched by the EU and could, in fact, be imposed unilaterally if we chose to do so. This is because most Russian banks have extensive exposure to U.S. financial markets.

To be clear, I am not arguing for unilateral action, because it would be far better to have our European allies along with us. However, at the end of the day, this is something the U.S. could do alone if we had to.

To minimize risks of financial repercussions for our allies, such blocking sanctions would have to be applied iteratively to guard against the risks of contagion into European financial markets. In other words, the U.S. should aim to cause sufficient pain for the Kremlin to reconsider its policies, but not so much pain as to plunge our allies into recession. Sanctioning the Russian financial sector one bank at a time is a smart way to ratchet up pressure while keeping some of our powder dry for another day.

It is also important that future sanctions be tied to one or two specific behaviors that we would like to see changed, for example, the verifiable withdrawal of Russian troops from Ukraine, and a stop to its interference in our democratic process. If we add on too many additional reasons or sanction Russia for past behavior that can't be changed, we greatly diminish the likelihood that Moscow will change its behavior.

Finally, it is critical that sanctions be integrated into a more coherent strategy that makes use of diplomatic, military, and communications tools, as David has mentioned as well. Since the invasion of Ukraine, the U.S., France, and Germany have all condemned Russian aggression and even pledged troops to defend our allies in the Baltic States and Poland.

But at the same time, Chancellor Merkel has supported building a massive natural gas pipeline between Russia and Germany. President Macron has traveled to Russia to trump up bilateral trade and commercial ties. And President Trump has proposed re-admitting Russia to the G8. We can't expect sanctions to work if

we provide the Kremlin with such mixed messaging. Together with a stronger military deterrence posture, a more coherent policy of economic isolation, and more rigorous efforts to make our institutions resilient to foreign interference, sanctions can, in fact, give us effective leverage to achieve our foreign policy goals. Thank you.

[The prepared statement of Dr. Carpenter can be found on page 32 of the appendix.]

Chairman CLEAVER. Thank you, Dr. Carpenter.

Ms. Rosenberg, you are now recognized for 5 minutes.

STATEMENT OF ELIZABETH ROSENBERG, DIRECTOR AND SENIOR FELLOW, ENERGY, ECONOMICS, AND SECURITY PROGRAM, CENTER FOR A NEW AMERICAN SECURITY

Ms. ROSENBERG. Thank you, Chairman Cleaver, Ranking Member Stivers, and distinguished members of this subcommittee, for the invitation to appear today and discuss the use of sanctions to address national security and foreign policy challenges.

Sanctions are an essential means for the United States, its allies, and the international community, to respond to security threats. They are among the most powerful tools in the U.S. arsenal to exercise leverage over a wide variety of actors whose policies and threatening behavior U.S. leaders seek to change. It is no surprise that sanctions have become the go-to instrument for successive Administrations and Congresses and are now tools of first response in U.S. foreign policy.

However, sanctions are not the solution for every challenge. They cannot force capitulation or topple a brutal regime. They cannot be a substitute for holistic strategy to address threats to our national security. On their own and without multilateral support or coordination, they can be leaky, ineffective, and very dangerous, undermining our national interests.

Congress, through legislation and oversight, including in hearings such as this one today, has a critical role to play in advancing a sophisticated public understanding and analysis of sanctions and establishing principles for their responsible and effective use. At present, the United States maintains roughly 30 sanctions programs. The Trump Administration has emphasized the threats emanating from Iran, North Korea, Venezuela, and Russia, and has wielded sanctions against these countries accordingly.

On Russia in particular, the Trump Administration has embraced sanctions, including secondary sanctions, pursuant to a variety of Russian malign activities, and the Administration has implemented meaningful designations, though not at the same scale as their Iran sanctions implementation, for example.

In one of the most high-profile sanctions designations in recent memory, the U.S. Treasury Department named Russia's Rusal with sanctions. While that designation was lifted earlier this year, of course, sanctions remain on its founder and key stakeholder, the Russian oligarch Oleg Deripaska.

Additionally, the Trump Administration has designated under Russia's sanctions authorities the Equipment Development Department of China's military for conducting significant transactions with the Russian defense or intelligence sectors. The United States could also impose Russia-related defense and intelligence sanctions

on countries such as Turkey, which has resisted complying with the sanctions and said it will not abandon its plan to purchase the Russian S-400 surface-to-air missile system.

Recently, however, the Trump Administration has slowed the implementation of its Russia sanctions. There is a robust debate, as has been previously referred to, to my copanelists, about whether sanctions can change Russia's policies and threatening actions, and if so, how. However, U.S. policymakers must not abide inaction in the face of such doubts. Lack of response to Russia's threats only empowers Russia.

Furthermore, the United States will lose credibility and allies in the campaign to push back on Russia if U.S. sanctions policy appears episodic, arbitrary, or lacking in strategy. The time is right for new, strong measures that impose real costs on Russia, constraining its ability to operate internationally, while minimizing potential collateral damage for U.S. interests, allies, and partners. Congress should consider new legislation at this time to address the grave threats presented by an array of Russian malign activity, including in the areas of malicious cyber activity; chemical and biological weapons attacks; interference in democratic processes, one of the main themes for the hearing today; human rights abuses; territorial aggression; rampant money laundering; and the undermining of international institutions, all of which undermine our national interests.

Along with diplomatic, defense, and arms control provisions, new legislation could potentially include sanctions measures targeting the following areas: financial services, including related to issuance of sovereign debt; defense, intelligence, technology, and other economic sectors; as well as further measures targeting oligarchs. I have included several specific suggestions in my written testimony.

In conclusion, the role of Congress in creating sanctions and overseeing their implementation and enforcement is critically important for the long-term ability of the United States to use this tool in pursuit of U.S. foreign policy and security goals. This work is nothing short of essential, given the factors that may undermine effectiveness and the availability of sanctions in the years ahead. The work will also be fundamental to balancing the use of sanctions with other tools of national power to strategically and effectively advance our core interests and values.

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

[The prepared statement of Ms. Rosenberg can be found on page 47 of the appendix.]

Chairman CLEAVER. Thank you, Ms. Rosenberg.

Mr. Singh, you are now recognized for 5 minutes.

STATEMENT OF DALEEP SINGH, SENIOR FELLOW, CENTER FOR NEW AMERICAN SECURITY

Mr. SINGH. Thank you, Chairman Cleaver and Ranking Member Stivers. You have asked whether current sanctions policy is effective, especially as it relates to Russia, so forgive me for being blunt, but my answer right now is "no." This isn't just my opinion. Unlike other sanctions targets like Venezuela or North Korea, Russia is a market-based economy. That means by looking at market prices,

we can gauge in realtime the opinion of investors across the world about the impact of sanctions. We can also analyze economic data in Russia at a high frequency, and, of course, we can look at Putin's own behavior, which is the ultimate test of whether sanctions are working.

So what are the data telling us? After an 18-month recession in 2015 and 2016, the Russian economy is now growing again. In fact, Russia's GDP grew in 2018 by the fastest amount in 6 years. Inflation has fallen from a peak of 17 percent in late 2014 to an all-time low last year. Foreign reserves in Russia are now back to pre-sanctions levels, almost \$500 billion in total. Russia's budget and trade balance are both well into surplus.

Financial markets are sending the same message. In February, Moody's upgraded Russia's sovereign debt from junk to investment grade. In March, the Russian government placed the largest amount of dollar issuance since 2013, and foreign investors bought over half of Russia's ruble bond issuance in the first quarter. The Russian ruble and the Russian stock market are both among the top performers in the world this year.

Why is this happening? While rising oil prices are part of the story, so is the perception that the U.S. lacks the political will to stand up to Putin. Market prices are shaped by expectations about the future. And when investors consider the future, they read signals from U.S. policymakers, none more important than the words of the President. What they hear is doubt and skepticism about whether Russia attacked our democracy. They are told it would be a good thing to get along with Russia. They see no serious action against Russia's use of chemical weapons on NATO soil. Instead, they read about long and warm phone calls and a continued rhetorical embrace. They put these signals into context. They know this President is masterful at using signals to impose costs on Iran, Venezuela, North Korea, and even China. And when contrasted with the absence of serious criticism towards Putin, they see a flashing green light to pick up Russia exposure on the cheap, and that is exactly what has happened.

Does any of this mean that sanctions can't work in Russia? Absolutely not. Along with colleagues from this panel, I was part of the effort in 2014 to impose costs on Russia's economy through sanctions. Our approach was effective and would still work today. Find asymmetries. Where does economic leverage in the U.S. intersect with Russia's economic vulnerability? Financial capital and energy technology were—and are—obvious pressure points. U.S. and European firms are the dominant suppliers of what Russia needs and can't replace.

What was the impact in 2014? In the first instance, Russia depleted 25 percent of its foreign reserves trying to defend the ruble before surrendering to market forces. The ruble then depreciated up to 50 percent in value. Capital flight reached record levels. The central bank of Russia only slowed this down by raising interest rates by 10.5 percentage points. Banks then needed bailouts to avoid bankruptcy. Ultimately, the Russian economy fell into recession while inflation spiked to the mid-teens.

So falling oil prices definitely played a major role in this spiral, but sanctions were undeniably a secondary shock. And throughout

the process, unified signaling from the President, from this Congress, and from European partners acted as a force multiplier. Costs would ratchet higher unless Putin changed course.

Now, do these costs matter to Putin's calculus? We can't prove a counter-factual, but I believe the answer is "yes." Were it not for the mounting cost of crisis in the Russian economy, Putin's forces likely would have annexed more of Ukraine's territory or marched all the way to Kyiv. Sanctions gave Ukraine breathing space to avoid an economic collapse and remain a sovereign nation.

Ultimately, Putin is a tactical opportunist, and if that is right, then costs matters and sanctions matter. So what do I recommend now? I suggest in the absence of Presidential leadership, Congress must again show the way on Russia sanctions. This is far from ideal. At best, the signals will be muddled, but it would be far worse if our system of checks and balances was questioned. Specifically, my main recommendation is to ban purchases of new Russian sovereign debt and any currency. There is simply no good reason why U.S. pension funds and 401(k)s should fund Putin as he actively undermines our national interests all around the world.

We also have to do a better job of winning the narrative on sanctions. If there was a failing in 2014, it was that most Russians bought Putin's propaganda that U.S. sanctions were just the latest example of keeping Russia down. This scapegoating muted the damage to Putin's power structure and gave his regime endurance.

Our best weapon in this fight is transparency. We need to expose the corruption and criminality of the Kremlin by identifying the scale, location, and holdings of Putin's wealth, and that of his cronies around the world. Putin is ripping off the Russian people, and they deserve to know it.

Equally important to winning the narrative is relaunching an economic offensive in Ukraine. I would be happy to discuss that in my testimony. But Russians deserve more than Putinism, and we need to show them what free market democracy can do.

[The prepared statement of Mr. Singh can be found on page 61 of the appendix.]

Chairman CLEAVER. Thank you, Mr. Singh.

And Mr. Zweig, you are now recognized for 5 minutes.

**STATEMENT OF MATTHEW ZWIG, SENIOR FELLOW,
FOUNDATION FOR DEFENSE OF DEMOCRACIES**

Mr. ZWIG. Chairman Cleaver, Ranking Member Stivers, and distinguished members of the subcommittee, I am honored to appear before you today. As Congress considers its options for additional sanctions against Russia, based on the general principles contained in my written testimony, the legislative proposal before us, and others circulating in the House and the Senate, I would like to share with you a few thoughts on sanctions legislation moving forward.

First, consider developing specific termination criteria for sanctions. The primary difficulty with respect to measuring the impact of legislatively mandated sanctions against Russia in the 2017 CAATSA sanctions is that there is no specified termination criteria for those sanctions as a whole. CAATSA sanctions were obviously predicated on a wide array of malign Russian behavior, but Con-

gress did not specify the specific behavioral changes that would have to take place for Russia to receive sanctions relief. Without articulating in legislation clear objectives for Russia to meet in order to qualify for such relief, the sanctions may be viewed as indefinite, giving Moscow little incentive to change its behavior, and creating uncertainty or confusion with our allies and partners with respect to our specific foreign policy objectives.

Second, future election-interference sanctions may want to consider not only being targeted at Russia. While Russia has clearly developed a sophisticated approach to election interference, it is not the only state or nonstate actor that can avail itself of such tactics and techniques. Therefore, any future legislation aimed at preventing Russian interference in foreign elections or U.S. elections could seek to capture Russia through a conduct-based regime rather than targeting Russia specifically.

I agree with my colleague, Liz, with respect to her written testimony, recommending the codification of Executive Order 13848. I would recommend going a step further and broadening the application of the measures contained in that executive order, applying mandatory sanctions against foreign persons or foreign states that engage in election interference against the United States and include discretionary sanctions with respect to those that interfere in our allies' elections. We are not alone in this.

Congress could also ensure that legislative sanctions are synchronized effectively with existing criminal statutes in order to support or supplement possible indictments, prosecutions, and extraditions.

Third—and a few of my colleagues have made this point as well—close coordination with our allies is important. Any additional U.S. action with respect to Russia's sanctions will likely have an impact on U.S. allies and partners, given the scale of the trade relationships that could be affected. Any new congressional sanctions should take active measures to guard against doing unintended or severe harm to U.S. allies. While some legislative proposals being considered by Congress note the need to coordinate and cooperate with Europe, for example, any new legislation should consider developing an explicit cooperative mechanism within those sanctions themselves. This is another area where balanced flexibility could help preserve alliances or partnerships as rigid sanctions could punish governments that are aiding the U.S. in other efforts to counter malign Russian behavior but that may not be able to fully comply with U.S. sanctions.

Conversely, these sanctions can also be used to provide a push for U.S. allies to take action in other areas against malign Russian behavior. One of Putin's overriding objectives has been to split the U.S. and EU on Russia- and Ukraine-related sanctions. We should not inadvertently aid those efforts.

Finally, utilize existing oversight mechanisms to ensure the near-term application of additional Chemical and Biological Weapons Control and Warfare Elimination Act sanctions that David mentioned in his testimony.

As of today, the Administration has not implemented the second round of the sanctions, nor has the President determined that Russia meets the conditions needed to avoid them. Congress has a role

to play in ensuring that the Administration in this instance imposes the strongest possible and appropriate measures as part of the second round, measures that can have a direct impact on the content of the legislative proposals under consideration by this committee and the House and the Senate.

Thank you again for the opportunity to appear before you today, and I look forward to receiving your questions.

[The prepared statement of Mr. Zweig can be found on page 68 of the appendix.]

Chairman CLEAVER. Thank you, Mr. Zweig.

I now recognize myself for 5 minutes. I began this committee hearing by talking about the fact that the Executive Branch—and some of you have mentioned it, too—never moved for the second round of sanctions. Can any of you give us some reason to believe that the failure to do that was part of some kind of strategy and that we just simply need to be patient? Ms. Rosenberg?

Ms. ROSENBERG. Mr. Chairman, I have no reason to believe that that was by design as part of a strategy, that there is an intent to, indeed, implement those sanctions at any time in the near future. I share your concern, implied, that the Administration is behind and absent in implementation.

Chairman CLEAVER. Well, I am very serious; I am not trying to be sarcastic. I am looking for something that would allow me to be able to respond to people about the fact that there is or there is not a strategy. And if there is not a strategy, then why? I mean, the whole issue with Deripaska is just extremely frustrating. Why not the 50-percent rule? Anybody? Mr. Mortlock?

Mr. MORTLOCK. If I could, first, quickly address your question on the CBW sanctions. Like Liz, I do not know the Administration's motivations or intent, but I do know that the statute suggests that the second round of sanctions was due on November 5th, based on the determination made by the Secretary of State. So the Administration knew what they were getting into when they made that determination.

I think, while the motivation is unclear, the result is crystal clear, which is essentially a waffling of our government's response to an assassination attempt by the Russian government. And I think—

Chairman CLEAVER. On British soil.

Mr. MORTLOCK. On British soil, that is right. And I think the consequence is demonstrating a lack of consequence for an action like that by the Russian government, which means they are just more likely to try such things again. With respect to Deripaska and the delisting of Rusal, I think at the heart of it, the delisting by itself is not necessarily a bad outcome, right? The fact that we were able to reach a very transparent—unprecedented, transparent deal with Mr. Deripaska, the Treasury Department was able to do so—is good news, and he did lose control—while he did financially benefit in some ways, he did lose control of companies that he had used to define himself over the past decades. I think where the failure was, was in the Administration explaining that. And again, the impact of sanctions is going to be whether that threat is credible. And to make that threat credible to Putin's other supporters, the explanation needed to be clear, but the Administration notified

Congress immediately before the holidays, from what I understand, participated in a limited number of briefings and responding to Members' and staff's questions. And it really was a lost opportunity by the Administration to have a positive impact on the Russia sanctions.

Chairman CLEAVER. Do any of you believe that the lack of some kind—you know, I had a meeting with my farmers, dealing with the tariffs. I represent a farm area in Missouri, and they are hurting. But one of the things they wanted to know is, what is the strategy on this? Are we taking steps to reach this, and so we are going to do this and then this? Does this hurt us with our diplomacy all over the world, the fact that we can't put our finger on this? Congress voted overwhelmingly—the House did, I'm sorry—that this is not a Republican or Democratic issue—to support sanctions. And we have not been able to do it, and, of course, we don't have the power of law. Anybody, any of you who would like to respond—Dr. Carpenter?

Mr. CARPENTER. So, Mr. Chairman, I would say the fact that CAATSA was passed with such overwhelming margins in both the House and the Senate, as you just referred to, and the fact that those authorities likely already existed with the Administration, with the Executive Branch, to pursue much deeper and stronger sanctions against Russia but have not resulted in follow-up, as expressed in the bill, which is now law, sends a clear message to Mr. Putin that this Administration is not willing to go after him, that they are not willing to impose significant economic pain on Russia, and, therefore, he can continue, and he does continue, his strategy of waging war in Ukraine. There are soldiers and civilians who die almost every single day, propping up the Assad regime in Syria, propping up Maduro in Venezuela, and so on and so forth, including, by the way, interfering actively in our democratic process to this very day.

I think the message that Mr. Putin takes away from this is that he is free to continue with his current policies because the repercussions and consequences simply will not be felt.

Chairman CLEAVER. Thank you, Dr. Carpenter.

I will now recognize the gentleman from the great State of Texas, Mr. Williams.

Mr. WILLIAMS. Thank you, Mr. Chairman.

Mr. Zweig, on page 4 of your testimony, you state that the previous round of sanctions against Russian aluminum producer Rusal reduced the net worth of the wealthiest 27 Russian individuals by \$16 billion in 1 day. As a result of these sanctions—we have talked about him—Deripaska reduced his shares in the company from 70 to 45 percent. The Treasury Department believes that this divestment from the oligarch provided enough justification to lift the sanctions against Rusal since Deripaska's influence had been appropriately diminished. Mr. Zweig, my question for you is this: Do you believe these types of targeted sanctions are still an effective tool against Russia given that the oligarchs wield such power with the economy with little accountability?

Mr. ZWEIG. Thank you, Mr. Williams. I not only think it is potentially an effective tool depending on how it is used in the Russia context, but also in the Venezuela context, and that is where you

have seen those types of tools increasingly utilized. As far as specifically spelling out in advance the specific requirements that persons or entities have to fulfill in order to get off the sanctions list well in advance.

My overall concern with respect to the Rusal delisting centers on two issues: first, the number of politically exposed persons involved despite the intrusive requirements of the agreement; and second, whether the Administration would have the political will or whether political will exists anywhere, given the European response to the Rusal listing, to relist them if there were a violation of the agreement that the Administration commenced with Rusal.

Mr. WILLIAMS. Okay. Thank you. North Korea recently began testing missiles again and continues to be an aggressor in the region. This is obviously a heavily sanctioned country, yet they have been able to circumvent some of the multilateral measures put in place by the United States and our allies. My question to you, Ms. Rosenberg is, can you discuss how North Korea most regularly—access to the global financial system as well as the role Chinese financial institutions play in attaining critical weapon components and technology?

Ms. ROSENBERG. Thank you for the question. You point out something that is a disturbing phenomenon that is going on: North Korea's continuous, over many years, evasion of international and U.S. sanctions, that has been facilitated by a network of front companies and trusted individuals who have had tremendous success in doing so.

China is a major lifeline for North Korea. Most North Korean trade and financial transactions move through China, which means that most roads lead to China on successful enforcement of North Korea. And when we see North Korea evading these sanctions, it means that our problem is primarily China and the lack of enforcement, political will, and technical capacity by those banks in China and trading companies that facilitate, wittingly and unwittingly, this North Korean trade.

Mr. WILLIAMS. Okay, thank you.

Mr. Singh, in your testimony you mentioned that, beyond sanctions, we must focus our efforts on winning the domestic narrative within Russia about the corruption of the Putin regime and Russian aggression. Now, while I understand the thought process behind that, I am really worried about how achievable this goal is. In the first 6 months of 2017, the number of people detained for violating regulations on public gatherings in Russia was 2½ times higher than the entire total in 2016. So can you elaborate on how you think this could be achieved when Putin is willing to take drastic steps to get rid of dissidents and control his own narrative?

Mr. SINGH. Yes, Congressman, this is a key part of how sanctions need to work going forward. I think we have the information about Putin's wealth and that of his cronies. A lot of it has been classified. I think to the extent that we can overcome concerns about sources and methods, we need to just distribute this information. Transparency is our best weapon in this regard.

The second thing we can do is look at how stashes of dark money are being stashed in the U.S. Our beneficial ownership rules currently allow anonymous shell companies, other forms of invest-

ments, to find their way into high-end real estate in Miami, New York, and other places, and we don't know who the ultimate owner is. I think it is a reasonable assumption that a lot of that money comes from Russia and from the Kremlin inner circle. If we can't expose it in Russia, let's expose it here.

And then the third thing we ought to do in terms of winning the narrative is show a better example in Russia's near abroad, and that means being really serious about helping Ukraine emerge from crisis. Right now, their reforms are languishing. It is the poorest country in Europe on a per-capita income basis. They need money. We ought to provide money with conditions that force Ukraine to battle corruption and embrace market-oriented reforms. That is Putin's worse nightmare, and we ought to do it.

Mr. WILLIAMS. Thank you. I yield back.

Chairman CLEAVER. Thank you.

The Chair now recognizes the Chair of the full Committee on Financial Services, Chairwoman WATERS.

Chairwoman WATERS. Thank you so very much, Mr. Chairman. I appreciate the opportunity to raise a few questions. We have initiated a few sets of sanctions on troll forums and those who led the sabotage of our American elections. We know that these individuals and entities continue to abuse social media to try to divide Americans based on race, vaccinations, and elections to come.

And we understand there is or has been a weak Presidential Executive Order, but we are looking at our 2020 elections, knowing that they are coming again, and I want to ask first about the President's Executive Order. Does it deal with what I am alluding to, the undermining of our democracy by hacking into the DNC and our election systems? Mr. Singh, do you know and understand a lot about the President's Executive Order?

Mr. SINGH. Madam Chairwoman, my understanding is that it simply repeats authorities that already exist, but those authorities haven't been exercised. And so, in a practical sense, nothing has happened.

Chairwoman WATERS. Well, first of all, I want to kind of respond a little bit to the information just shared about beneficial ownership and some other kinds of things. I understand that the Russian economy has not been hurt at all by our so-called sanctions, that they are doing very well. I want to get directly at the systems that are used to undermine our democracy and our elections, and I think you are right about a sanction dealing with beneficial ownership. Because I do think these high-end properties in California and New York, for example, are owned or invested in by Russians. So, aside from what is being attempted in the President's weak order, what else can we do, particularly getting at the systems that they use for trolling and undermining our democracy? Mr. Carpenter?

Mr. CARPENTER. Yes, thank you, Madam Chairwoman.

My belief is that a lot of the methods that the Russians use to interfere in our democracy, including cyber attacks, including information warfare, putting up disinformation through social media, or using dark money to try to perpetrate influence campaigns, these are all operations run via proxies. It is very difficult to find the actual individuals behind these.

Now, our intelligence community has done some excellent work in terms of designating individuals within a particular unit of Russia's military intelligence agency who were involved in hacking, in terms of identifying also individuals within the Internet Research Agency that were involved in spreading disinformation. But sanctioning those individuals or even those organizations really doesn't have an effect. The GRU can be sanctioned and has been sanctioned, and it is not going to change the way it operates because they don't conduct transactions through transparent means.

What we need to be doing is imposing tough pain on the Russian economy as a whole. Some of the measures that have been discussed here, including new sovereign debt, but also as I have proposed, going after Russian banks with full blocking sanctions. That sends a message to Mr. Putin that he will feel pain for interfering in our democratic process. If we go after specific actors, it is useful to expose what they are doing, but it does not send a truly grave consequence to the Russians.

Chairwoman WATERS. Okay. Let me just ask you this, quickly, in late 2018 and early 2019, we have seen a number of signs that markets no longer see a significant risk of sanctions escalation on Russia. For example, in recent months, the Russian government issued a new U.S. dollar, denominated by an attractive rate, indicating the markets think there are solid fundamentals. In another sign that markets have priced out sanctions risk, in early February Moody's upgraded Russia's rating. Moreover, in March, French oil company Total signed a massive new agreement to develop LNG resources in Russia. Does this increasing appetite by markets for Russian assets suggest that the markets don't see the Trump Administration's Russia sanctions policy as credible?

Ms. ROSENBERG. Madam Chairwoman, may I respond to your question?

Chairwoman WATERS. If the Chair will allow you, yes.

Yes, please go ahead.

Ms. ROSENBERG. Thank you very much. I think that is exactly the signal that markets have understood. They look at the Rusal delisting example in particular as an example that the U.S. Administration blinked, it lost its spine, it won't be imposing tough penalties for the array of Russian malign activity that it is conducting and has conducted, and therefore, they feel confidence in investing in that market because they don't believe that they will be hit by sanctions in the future.

Chairwoman WATERS. Thank you so very much.

The Chair has been generous. And I yield back the time I don't have.

Chairman CLEAVER. Thank you, Madam Chairwoman. The Chair now recognizes the gentleman from Arkansas, Mr. Hill.

Mr. HILL. Thank you, Mr. Chairman. I appreciate that.

I appreciate the panel before us for bringing your expertise and I also thank you for your service to the country, those of you who have served ably at the Treasury and other locations. And there is no doubt that we have sanctioned Russia in this Administration and in the Obama Administration, and I just want to be on record that Congress supports that. We have worked together for 4 years, 2 in the Obama Administration and 2 in the Trump Administra-

tion, to send that message to Russia and to Putin and to his cronies. And I just hope that—I sense a little bit of second-guessing, a little significant criticism on the panel, and I wouldn’t ask you if you supported President Obama’s release of sanctions on Cuba, for example, Cuba being the largest supporter of the disaster in Venezuela. I won’t put you on that spot. I won’t put you on the spot, having worked in the Obama Administration, about the lack of sanctioning Russia in any meaningful way for the absolute systematic dismantling and destruction of the country of Syria. I won’t bring that subject up.

But with that said, I really appreciate your service and appreciate your comments today, particularly the constructive ones you made.

And I am curious, as we have done on Iran in the last Congress, your views, Ms. Rosenberg, on this issue of naming names that Dr. Carpenter talked about in Russia, as we proposed in Iran in the last Congress, how to do that and also protect sources and methods but get the point across, because this legislation proposes that.

Ms. ROSENBERG. I do think there is an important role for transparency, and everywhere there is an opportunity to declassify information about Russian agents and entities that are involved in doing harm to U.S. national security, we should do that. And I appreciate the effort of Congress, and this committee in particular, in making this point precisely with regard to Russia.

The particular language in this bill is designed to go after that point. There are other ways this committee has and that you can focus on the issue of declassifying information and making notice of it. One particularly important way to promote transparency in this regard is the committee—rather the legislation before this committee on beneficial ownership, which is a wonderful opportunity. I would urge you to advance that to the greatest extent possible.

In addition to that, the opportunity—your urging of the Financial Crimes Enforcement Network and the Treasury more generally to give information about the typologies or methodologies of Russian money laundering in the United States. Particularly, we heard the reference to geographic targeting orders, the purchase of high-end real estate in cash, for example, which—

Mr. HILL. Excuse the interruption, but during the Obama Administration, of course, we did sweep exams and targeting exams in New York and Miami that Dr. Carpenter was referencing. Do you think you had a good track record in that work?

Ms. ROSENBERG. I think there is much more to be done. I am pleased that that effort started. That was a new initiative just a number of years ago, and responded to a—

Mr. HILL. And it continues today, right?

Ms. ROSENBERG. Absolutely. And in many more geographic locations than have been named publicly so far.

Mr. HILL. Good. So I am supportive of that, too. This committee has been very supportive over the years of that geographic targeting, and I would hope that we would get testimony from FinCEN on exactly what they have learned from that, even if we have to do it in a classified setting. Because as we have talked in here, we collect beneficial ownership information, and we have a

requirement to know our customer since 1999, in the financial industry. And if people don't understand the beneficial owners, they should have been filing a SAR on those people. So I just want to—I always want audiences to understand, we collect that information, and we have a legal expectation to do that. And what the Treasury has tried to do in the last year or so is clarify what to measure, and what we are debating about is how to improve that collection, make it the best that it can be, to support both the business community and the banking and financial community and bring balance to that.

But I don't want anyone watching this testimony to think that we don't collect beneficial ownership information, we don't have our financial institutions held to a high standard of trying to get that information and providing it to FinCEN when we have a particular concern about suspicious activity.

Let me turn to North Korea, if I could. In the Treasury sanction, Chinese trading companies that have had connections with North Korea, and in that reporting, there were 5,000 such companies in China operating between 2013 and 2016. It makes it very difficult, even though we have now sent a U.S. Coast Guard cutter over to help interdict in the waters over there as of last month.

Should we sanction the Chinese banks more aggressively, Ms. Rosenberg?

Ms. ROSENBERG. We have some examples of that to learn from. So the Administration has gone after—the Bank of Dandong is one example—Chinese financial institutions. And there are doubtless opportunities to think about that in the future.

Mr. HILL. Thank you.

I yield back.

Chairman CLEAVER. Thank you.

The Chair now recognizes the gentleman from Colorado, Mr. Perlmutter.

Mr. PERLMUTTER. Thanks, Mr. Chairman.

And I promised myself not to get mad today. But listening to the testimony and sort of going back over the invasion of Ukraine, Crimea, the cyber war that has been conducted against us, the biological warfare and the chemical warfare, killing the guy in England, and the fact that we keep, instead of ratcheting up sanctions, laying off the sanctions, the crying wolf.

Mr. Singh, you talked about the rhetorical embrace. I remember the picture of the big wet kiss between Putin and our President. It was just a painting and all that.

If you were to give me a continuum of sanctions against Russia, where would freezing their assets be?

Mr. SINGH. That is very close to the top.

Mr. PERLMUTTER. So just kind of run through what kinds—where we are, if we were enforcing sanctions, and where we could go if we considered these acts to be as terrible as I think they are.

Mr. SINGH. Yes, sir. There is a spectrum.

At the mild end of the spectrum are sanctions on individuals. At the more extreme end are sanctions on the entire economy. And then, as you go across that spectrum, whether it is an individual or it is the entire economy, you can have either greater or lesser depth of the sanctions.

In other words, right now, we have sanctions on a lot of Russian banks, a lot of Russian energy companies, but we only restrict their ability to raise money from U.S. investors. And Europe has done the same.

A more extreme step is to block any kind of transaction by that bank with the U.S. financial system. In other words, you can shut them out entirely.

But I want to emphasize, the actions haven't diminished greatly in the last couple of years. What has changed are words and our signals. Russia is a market-based economy. The pain is transmitted through markets. And, yes, markets care about the actions, absolutely, but they are really conditioned to read the guidance from our top leadership. That is the biggest reason why Russian markets are where they are now versus where they were in 2014 and 2015 when Russia was really on the ropes.

Mr. PERLMUTTER. So Mr. Mortlock talked about how there has to be a broader policy goal, as one of the three things that you mentioned; there has to be an exit strategy, an endgame, and political commitment, which is more or less what you have just been talking about.

And going back to Mr. Deripaska and Rusal and En+, or whatever it is called, as part of our relief that the President demanded and Congress, at least the House, objected to, as I understand it, he still is under sanctions, but the company is not, his ex-wife got some of his interest in it. Some family members got some interest in it. And the value of that company is way up to the point that there, in effect, is no sanction.

Mr. Mortlock, can you comment on that?

Mr. MORTLOCK. Absolutely. On the delisting of Rusal, I think the—again, in theory, that could have been a good outcome, to have an SDN publicly divest from his biggest companies. We tried to do similar efforts in Burma over the years. And so this was a big moment. It could have set a blueprint for how we do this in the future. Again, the end game of how people come after the sanctions list.

I think the failure here was the Administration sending a strong message—there was obviously an explanation of what that deal looked like, but it was very complicated, it was complex. It was—there were financial benefits to Mr. Deripaska, and, frankly, there was a complete failure to explain to the public and to this body why it was a good outcome for the U.S. sanctions program and, most importantly, to send a strong message to Putin's other friends about what they needed to do.

And I think really if I could give another example of what you are trying to get at here, is I think there are a lot of sanctions on the books on Russia already. I am certainly not against the other measures that have been proposed by the other panelists, but there are a lot of sanctions on the books already that simply are not being implemented as they should be.

For example, speaking about Oleg Deripaska, it may surprise a lot of people to learn that there are actually secondary sanctions, so similar to what we have on Iran, in CAATSA, for any significant transaction with an SDN, a Russian SDN, including Mr. Deripaska. But no one has been sanctioned under those provisions.

It is hard to imagine that there has been no company anywhere in the world that engaged in a significant transaction with Deripaska.

Mr. PERLMUTTER. Thank you. My time has expired.

I yield back.

Chairman CLEAVER. Thank you, Mr. Mortlock.

The Chair now recognizes Mr. Gonzalez from Ohio for 5 minutes.

Mr. GONZALEZ OF OHIO. Thank you, Mr. Chairman.

Thank you all for your testimony and, again, for your service to the country.

Look, there is bipartisan support in this committee and across Congress for devising an effective sanctions regime and program against Russia and anybody, whether we are talking about China or ISIS, whomever it is. This committee is committed to that, and that is a good thing.

I do take exception to some of the testimony that seemed to imply, Mr. Mortlock and Mr. Singh, that the Obama-era sanctions were somehow—I won't call it the Holy Grail, but that you guys kind of cracked the nut on Russia, and everything there has been downhill.

I would just like to remind you of a few things: one, in the 2012 election, the comment, "The 1980s called and want their foreign policy back," with respect to Russia; two, in 2014, after sanctions had been implemented, the Malaysia Airlines flight was shot down; three, in 2015, Russia bombed anti-Assad rebels years after the red line was crossed; and four, in 2016, the Russian misinformation campaign.

So I appreciate the effort, certainly, and the sentiments, but to suggest that the Obama-era sanctions were fantastic and everything since has been downhill, I think paints an inaccurate picture. Frankly, I think we just haven't figured this out as a country. You can look at multiple Administrations across multiple parties. I don't actually think this is partisan. I think we just haven't figured out exactly how to deal with Russia, and China, frankly.

But, with that, I will shift to questions.

Ms. Rosenberg, in your written testimony, you suggested measures to sanction primary issuance of Russian sovereign debt. Given Europe's dependence on Russia for its energy supply, can this discussion draft change Russia's behavior without our European allies' support, and can we successfully changing Russia's rogue behavior if we are acting unilaterally, in your opinion?

Ms. ROSENBERG. I think it is possible to succeed acting unilaterally, though it is more likely that the U.S. will be successful if there is multilateralism. Whether that is sanctions coordinated and taken on the part of Europe or something less than or different than that, where there is an effort at coordination but no sanctions from Europe, nevertheless an effort to try and keep the pain focused on Russia and not on our European allies.

Mr. GONZALEZ OF OHIO. Thank you.

And then, Mr. Singh, you sort of talked about the overwhelming driver of the rebound in the Russian markets being the change in tone. Is it fair to characterize your comments that way?

Mr. SINGH. That is right.

Mr. GONZALEZ OF OHIO. Okay. Can you talk about the difference between where we are today, where you have Europe basically

partnering with Russia on more of its energy projects and soliciting for our help in that in some ways, versus back in the 2014 time-frame when the Obama-era sanctions were implemented?

Mr. SINGH. Sure. So I want to be clear, just to respond to your earlier comment.

Mr. GONZALEZ OF OHIO. Can you focus on this one, please?

Mr. SINGH. Yes, I am going to respond—

Mr. GONZALEZ OF OHIO. Okay. Perfect.

Mr. SINGH. —in the context of that.

Mr. GONZALEZ OF OHIO. Thank you.

Mr. SINGH. The Obama-era sanctions were not perfect. There were lots of failings. And as I mentioned in my comments earlier, we didn't win the narrative within Russia. The narrative that Putin spread that this was another historical injustice perpetrated by the West on the Russian people carried the day. That was a failing.

I think more transparency about his criminality is part of the solution to that. Also, showing to the Russian people that there is another choice they can make and showing that Ukraine is another big part of the answer.

Specifically on your question, look, the Europeans have had dealings with the Russians for a long time. Some of those have increased. But if we want to figure out how do we actually have more impact right now on Russia, we have to do what Dr. Carpenter suggested. We have to think about how to impose costs on the entire Russian economy. Right now, we are in a much worse place than we were in 2014.

Mr. GONZALEZ OF OHIO. So I will agree with Dr. Carpenter's point. I would agree with that.

Let me shift to Mr. Zweig and Venezuela, if I have a moment. Many of our partners and allies recognize Juan Guaido as the legitimate leader of the Venezuelan people. In one of your policy briefs, you argued for the Administration to expand the sanctions architecture against the Maduro regime's foreign allies and enablers.

Can you kind of just go into detail on that, if you could? Because we have a lot of players in there now, who are kind of mucking up the whole thing.

Mr. ZWEIG. Absolutely, sir.

In fact, probably about 6 weeks after that was written, the Administration sanctioned, under Executive Order 13850, sectoral Venezuelan sanctions, I think it is Evrofinance bank, a Russian bank, for involving themselves in both corruption and sectoral-based violations.

One of the ideas that we have been floating around is—well, number one, both China and Russia have significant investments in Venezuela. And as far as demonstrating a success in pushing one of them or one of the significant—one of the significant company out—

Mr. GONZALEZ OF OHIO. I believe we are out of time, Mr. Zweig. My office will follow up with you. I would love to talk about this.

Mr. ZWEIG. Absolutely.

Mr. GONZALEZ OF OHIO. Thank you so much.

Chairman CLEAVER. Thank you.

The Chair now recognizes the gentlewoman from Virginia, Ms. Wexton.

Ms. WEXTON. Thank you, Mr. Chairman.

And thank you to all of the witnesses for appearing today.

I appreciate all of the discussion of Russia, and there is obviously a lot going on there. But I do want to switch gears very briefly and talk about China and its treatment of ethnic Uighurs and other Turkic Muslim groups in the Xinjiang autonomous region of China because my district in Northern Virginia is one of the largest populations of Uighurs in the United States. And I would imagine most of you are aware that the Chinese Communist Party has undertaken a methodical campaign of oppression and an apparent attempt to wipe out the religion and ethnicity of the Uighur people.

The Pentagon estimates that between 1 to 3 million Uighurs are being held in concentration camps, which is the term that the Pentagon uses, and being reeducated. Many more are living under a very tightly controlled surveillance system where government-assigned relatives are living with Uighur families and reporting back to the Communist government about what is going on within those households.

And this surveillance is not confined only within China's borders. I have spoken to constituents who have reported intimidation and harassment by agents of the Chinese government here on American soil.

Mr. Sherman, who serves on this committee, has been a leader in terms of drawing attention to this and attempting to expand export controls on U.S. businesses that provide technology, training, or other support and equipment to the Chinese government security apparatus, and I have been working with a bipartisan group of Representatives and Senators to attempt to get the Administration to impose Global Magnitsky sanctions on Communist party officials.

My question to Mr. Zweig, Ms. Rosenberg, Mr. Mortlock is, are Magnitsky Act sanctions something that could be an effective tool in pressuring Beijing to change its behavior in this regard?

Mr. ZWEIG. Thank you, ma'am. I think in the interim they could be. I would expand the aperture to the specific companies providing surveillance equipment, and I think it would largely be captured, if not under the statute, then under the Executive Order.

Ms. WEXTON. Okay.

Ms. ROSENBERG. I would agree and just add that the United States, beyond that Global Magnitsky actions, also should concern itself with rules, requirements, and regulations that prohibit U.S. entities from in any way participating in the provision of technology and equipment or enabling of that surveillance and that treatment to occur.

Ms. WEXTON. Okay. Thank you.

Mr. MORTLOCK. I also agree. I think Global Magnitsky has been a real highlight of Congress imposing sanctions and giving the Administration new authority in the human rights area and the Administration following through on that.

Another list of sanctions was due in December by the Administration. We are waiting on it now.

I think, given the horrific reports on the treatment of the Uighurs and the scale of those abuses, this certainly seems like a strong candidate for Global Magnitsky sanctions, which would send, I think, a very strong message to China and the companies supporting those efforts.

Ms. WEXTON. Thank you. One concern that has been raised is that China has warned that it will retaliate in proportion to any—against any U.S. sanctions.

Is the threat of retaliatory sanctions, is that a credible threat and something that policymakers should be concerned about?

Ms. ROSENBERG. It is certainly credible that China may respond, including in ways that have economic and political detriment to the United States. They have been engaged for years now in various forms of economic coercion that have often hit countries in its near abroad, not as often U.S. entities. But there is no reason that China's growing economy and growing points of leverage could not be used to advance this, which is among the core of China's national interest related to sovereignty and their concern if they were to be targeted by the United States, that they should not be, that this would be an inappropriate extraterritorial exercise of U.S. power. So I think it is credible that they would respond, not that that should deter the United States from doing the right thing, but eyes wide open would be a good approach for the U.S. in pursuing such implementation of such policies, Magnitsky or otherwise.

Ms. WEXTON. Thank you. Thank you very much.

I will yield back my time.

Chairman CLEAVER. Thank you.

The Chair now recognizes the ranking member of the subcommittee, the gentleman from Ohio, Mr. Stivers, for such time as he may consume.

Mr. STIVERS. Thank you, Mr. Chairman.

Before I ask questions, I want to make it clear that I support the objectives of this discussion draft. I think that it is important that Russia understand that, if it interferes with our elections, they will suffer serious consequences. However, I do have some concerns about the specific proposals in the discussion draft.

The first question I have for the panel is, how exposed are U.S. banks and asset managers to Russian sovereign debt? Does anybody want to handle that?

Mr. SINGH. The estimates are that foreign investors own about 20 or 30 percent of Russia's ruble denominated debt. That is the bulk of what Russia issues. I think we can assume that most of that foreign-owned debt is held by U.S. investors.

Mr. STIVERS. Do you believe that if we enact this bill, that one of the outcomes could be a default on U.S. creditors, and what would that do to the debt markets in the United States?

Mr. SINGH. No, I don't think that is a serious concern. If we look at Russia's holdings of U.S. Treasuries, for example, they sold about 90 percent of those holdings last year. Even before they sold those holdings, Russia was only the 15th largest holder of Treasuries.

We have had much bigger owners of U.S. Treasuries sell in much larger size, China in particular, in 2015 and 2016, and the effects on the U.S. Treasury market were negligible.

Mr. STIVERS. Okay. I want to talk a little bit about the U.S. fossil fuel production and energy security.

Under the draft, Russian interference in elections would trigger tough new sanctions, including restrictions on any new investment in Russia's energy sector. If you want to punish Russia, I think that is a really good place to inflict pain for Russia. Russia is ranked second in natural gas production, third in oil. The United States is now the top producer in both categories. And Congress has witnessed a lot of debate about energy policy, some pushing for divestment of all fossil fuel sources.

I have a simple question. Has the shale revolution in the United States energy production made it easier or harder for the United States to impose energy-related sanctions on countries like Russia?

Ms. ROSENBERG. Congressman, I would like to speak to this question.

I think there is a perception that because the United States is a bigger producer and indeed now exporter and that this contributes more meaningfully to the U.S. balance of trade and our economy, that we are in a position to impose energy sanctions, cut off supply elsewhere in the world, because the United States is more secure or it is adding more supply and can, therefore, substitute for other in the market.

Though there is an attractiveness in thinking that way, that obfuscates the actual vulnerability we nevertheless feel, which is tremendous, for every consumer of energy products, which includes everyone who drives a car and who uses diesel for their vehicle, or gasoline, otherwise, that if there is volatility in the market that we impose, we ourselves will be faced with that as well.

And so I think we should carefully resist the notion that just because we are in a stronger economic position as a bigger producer, we therefore insulate ourselves from market volatility. We do not.

Mr. STIVERS. Okay. Thank you.

Yes, Mr. Carpenter?

Mr. CARPENTER. If I could add onto that, though. I do think that targeting new investments in the energy sector whether it is in Arctic, deep water, unconventional, or in conventional, will impose pain without having a price shock in the near term. And so that is probably a more advantageous way to go than trying to limit supply in the near term.

Mr. STIVERS. Thank you.

Mr. Carpenter, in your testimony, under the subtitle, "Meaning what we say and do," you talked about the lack of a coherent message on Russia and talked about this Administration and the G8. And every testimony I think stated that sanctions are stronger when they are imposed by a coalition of allies.

Do you believe our partners in Europe have been clear about their views on Russian aggression?

Mr. CARPENTER. I think our partners in Europe have—it is remarkable that they have stood with us for as long as they have. I think that is a very tenuous coalition right now. You have a number of countries, including principally Hungary, Italy, and Austria, that are very weak on Russia, that have embraced Mr. Putin, and have complained very vocally about the impact of sanctions on their economies, whether that is true or not. And so we are right

now almost at the end of the rope, I think, as far as European cohesion goes.

Mr. PERLMUTTER [presiding]. Dr. Carpenter, I am going to cut you off, because I want the last two gentlemen to be able to get their—

Mr. STIVERS. Thank you. I yield back.

Mr. PERLMUTTER. —questions in.

The gentleman yields back.

Mr. Gottheimer from New Jersey is recognized for 5 minutes.

Mr. GOTTHEIMER. Thank you, Mr. Chairman.

Terrorist groups like Hamas and Palestinian Islamic Jihad in Gaza are well known for firing rockets and digging terror tunnels into Israel and using Gazans, including women and children, as human shields.

In March, Congressman Brian Mast of Florida and I introduced the Palestinian International Terrorism Support Prevention Act, along with House Foreign Affairs Committee Chairman Engel and Ranking Member McCaul, to impose sanctions on foreign persons and governments that provide support to these terrorist groups.

Mr. Zweig, if I could ask you a question, sir? First, I assume you would agree that Hamas and PIJ are foreign terrorist organizations as designated by the United States of America?

Mr. ZWEIG. Yes, sir.

Mr. GOTTHEIMER. Also, I assume you would agree that—or if I could ask your opinion on this—if you would agree that the United States and our allies need a comprehensive strategy to strengthen sanctions against those who knowingly and materially assist terrorist groups like Hamas and PIJ so we can further isolate, weaken, and cut them off at the source? If you could comment on that, sir?

Mr. ZWEIG. Yes, sir. I absolutely agree. And I think your legislation is a very important marker in achieving those objectives.

Mr. GOTTHEIMER. Thank you.

If I can move on to Iran sanctions for a minute.

In 2017, Congress passed the Countering America's Adversaries Through Sanctions Act, or CAATSA, to increase sanctions on Russia, Iran, and North Korea.

Section 241 of CAATSA requires Treasury, in consultation with the Director of National Intelligence and the Secretary of State, to submit a report to Congress on Russian oligarchs and other entities.

Ms. Rosenberg, the Iranian regime has also enriched corrupt regime-connected officials. Wouldn't it be beneficial, in your opinion, for Congress to require a similar public report on Iranian oligarchs to shed light on that that regime's corruption, distortion, and mismanagement of Iran's economy?

Ms. ROSENBERG. Congressman, I share your concern.

Mr. GOTTHEIMER. Thank you, Ms. Rosenberg.

Ms. ROSENBERG. And I would encourage the Administration to implement sanctions that have the effect of highlighting and exposing those Iranian officials that have engaged in terrorist activity and support of missile proliferation, abuse of human rights and otherwise. That is a facet of the current sanctions implementation across a variety of programs. There can always be more there,

given the dangerous nature of the regime and the activities in which they have been involved.

Mr. GOTTHEIMER. Thank you, Ms. Rosenberg. I appreciate that.

Mr. Zweig, if I could ask you a follow-up question on Iran. Iran is the world's leading state sponsor of terror, providing hundreds of millions of dollars annually to terrorist groups like Hezbollah.

How effective have reimposed sanctions on Iran been in terms of limiting the flow of Iranian resources to Hezbollah and other proxies, sir?

Mr. ZWEIG. Just anecdotally, Hezbollah has issued one of its first public appeals for resources in recent memory. And I think, through that, you can see that there is a real squeeze on them.

Mr. GOTTHEIMER. That seems to be a growing consensus, right? If I can—

Ms. ROSENBERG. Congressman, may I speak to that point?

Mr. GOTTHEIMER. Please, Ms. Rosenberg. Thank you.

Ms. ROSENBERG. Yes. It may be true that Iran—and I expect that Iran will be squeezed by the reimposition of sanctions, and that we will see that show up over coming months.

Nevertheless, it may be the case that this regime spends every last dinar on intensity conflict in its support for terror regimes—terror groups throughout the region. And one thing that we saw during the period of most intensive sanctions in 2012 through 2015 is that there was funding nevertheless during that intensive period of sanctions for these groups who continued to threaten and destabilize the region.

Mr. GOTTHEIMER. But if they are being squeezed and continue to be, and that will give them fewer resources to fund Hezbollah and Hamas and others, right, in the region?

Ms. ROSENBERG. That is surely the case. At least I hope that that is the—that is a theory of the case, and it will be true to some extent. But given that this is a top priority of the Iranian regime, there must be complementary efforts to nevertheless try and contain and undermine the efforts of these terrorist groups in the region which will survive on a shoestring in that intensity conflict is cheap.

Mr. GOTTHEIMER. Mr. Zweig, do you want to say something?

Mr. ZWEIG. I just want to mention that it is a dual-track effort. You hit the Iranian regime. But in addition, the Administration and the Congress, similar to legislation that you mentioned earlier, has sought to go after the proxies themselves through successive legislative efforts related to Hezbollah, also Syria, in the Congress but also the actions that the Administration has taken recently to effectively go after Syria's access to oil.

Mr. GOTTHEIMER. Thank you very much. Thank you all very much for being here today.

I yield back. Thank you.

Mr. PERLMUTTER. The gentleman from New Jersey yields back.

The gentleman from Kentucky, Mr. Barr, is recognized for 5 minutes.

Mr. BARR. Thank you, Mr. Chairman.

As the former chairman of this subcommittee, I appreciate you allowing me to jump into the fray here. And let me stay on the same topic that Mr. Gottheimer was exploring related to Iran.

Specifically, I want to talk about NGOs and the BDS movement. As all of you know, any U.S. banked organization that has ties with a designated terrorist organization is subject to U.S. sanctions. I think that was part of an Executive Order post- 9/11.

What concerns me is the potential for these nongovernmental organizations who receive access to U.S. funding or access to the U.S. banking system to use their humanitarian or stated educational mission as a cover to actually facilitate terrorist activity.

Mr. Zweig, are you aware of any NGOs, particularly those that are participating in the BDS movement, that are circumventing U.S. sanctions and that have ties with terrorist organizations like PIJ, Hamas, or Hezbollah?

Mr. ZWEIG. I don't have the information in front of me, but I can get back to you on it.

Mr. BARR. I know that FDD has done a lot of work on this. And I would appreciate you informing Congress, with all of your extensive expertise, if your organization has identified NGOs—particularly NGOs operating in either the United States or Western European countries—that parade as a humanitarian organization with an educational mission but have actual ties, or maybe even financial ties, with Hamas, Hezbollah, PIJ, or other similar type organizations.

I think that if we do discover that, U.S. sanctions are appropriate to affirmatively go after these NGOs as opposed to just passively resist BDS. And I would invite your reaction to that.

Mr. ZWEIG. Absolutely, sir. And I will be happy to get—as I said, I don't have the information in front of me right now, but I am happy to get back to you immediately after the hearing.

The one thing I would note is, for those organizations operating in the United States, they potentially run afoul of the material support threshold within the foreign terrorist organization statutes, which is title 18 criminal liability, which is much stronger than that of the International Emergency Economic Powers Act civil liability. So that is also another thing to consider when looking at the aperture—

Mr. BARR. Good thought. Good feedback.

Last Congress, I introduced the Otto Warmbier North Korea Nuclear Sanctions Act, which passed the House 415 to 2. I will be reintroducing this bill in the near future due to what I believe is the need for continued and even heightened sanctions on North Korea given the recent missile tests.

We must continue to increase pressure on North Korea and ensure we have used all of our available tools to ensure that North Korea is negotiating in good faith, which they are not, and that Secretary Pompeo and the rest of our negotiators—we want to make sure that they have the leverage that they need.

Mr. Zweig, in your testimony, you talked about how sanctions can be undermined by an unwillingness on the part of our allies and partners to escalate pressure.

Obviously, China is not an ally. They are certainly not a continuously willing partner in applying sanctions to North Korea. Can you identify the ways in which they are helping North Korea evade sanctions?

Mr. ZWEIG. I think we have seen in the past, both in the financial sector and in the shipping sector, efforts on the part of Chinese entities to do so. And it is a matter of fully deploying, implementing, enforcing existing sanctions, including shipping sanctions contained in CAATSA that, to my knowledge, hitherto have not been fully implemented or enforced.

Mr. BARR. Any other tools that we have in our arsenal that are not being used to put maximum pressure on North Korea, specifically secondary sanctions related to China?

Mr. ZWEIG. Yes, absolutely. And then you have secondary sanctions related to China, which is again something that comes up fairly frequently. But you also have, for example, entity lists, Department of Commerce-related actions with respect to companies providing support, direct or indirect, to North Korea. You also have Department of Homeland Security, both Homeland Security Investigations and CBP action, as it pertains to a rebuttable presumption on goods with any part manufacturer—with any growth or manufacturer emanating from North Korea, preventing it from coming to the United States. And that has proven to be a fairly substantial sanction.

Mr. BARR. I don't have much time left. But in my remaining time, with respect to the underlying draft on Russian sanctions, as I visited Eastern Europe and NATO countries, what I am disturbed by is this Nord Stream 2 project. I applaud the provisions in the draft that relate to the energy sector of Russia. I think they are probably overbroad. But I would want to know from anyone why we don't specifically target Nord Stream 2 as a matter of U.S. sanctions policy.

Mr. Singh?

Mr. PERLMUTTER. The gentleman's time has expired. We have 1 minute left to vote on the Floor, so I am going to bring this to a close without cutting off Mr. Barr—

Mr. BARR. Thank you. I yield back.

Mr. PERLMUTTER. He is yielding back.

Mr. BARR. I yield back.

Mr. PERLMUTTER. I would like to thank our witnesses for their testimony today.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

I ask our witnesses to please respond as promptly as you are able.

Thank you very much. We are going to bolt out of here. And I appreciate the testimony of this panel.

This hearing is adjourned.

[Whereupon, at 3:39 p.m., the hearing was adjourned.]

A P P E N D I X

May 15, 2019

Testimony for the
United States House of Representatives
Committee on Financial Services
Subcommittee on National Security, International Development,
and Monetary Policy

May 15, 2019

**“Assessing the Use of Sanctions in Addressing
National Security and Foreign Policy Challenges”**

Dr. Michael Carpenter
Senior Director
Biden Center for Diplomacy and Global Engagement
University of Pennsylvania



Note: The statements, views, and policy recommendations expressed in this testimony reflect the opinions of the author alone, and do not necessarily reflect the positions of the Penn Biden Center for Diplomacy and Global Engagement or the University of Pennsylvania.

Chairman Cleaver, Ranking Member Stivers and members of the Committee, I am grateful for the opportunity to testify today on the subject of assessing the use of sanctions to address national security and foreign policy challenges.

Sanctions have become an increasingly common instrument of U.S. foreign policy. They present an attractive policy option because they allow the United States to apply asymmetric leverage against our adversaries when military options are undesirable and when diplomacy alone is insufficient to compel our adversaries to change course. Sanctions can also be calibrated to impose financial costs at a level of our choosing and tailored to either narrowly target specific actors or broadly target an entire state. While these attributes make sanctions a popular policy instrument, they have also resulted in the proliferation of sanctions regimes of questionable effectiveness.

As former Treasury Secretary Jack Lew and others have noted, the overuse of sanctions – especially “secondary” sanctions, which not only prohibit U.S. companies from doing business with sanctioned entities themselves, but also with various third parties – threatens to undermine the primacy of the dollar and of U.S. financial markets over the long run.¹ Moreover, sanctions are increasingly being used as a political tool to demonstrate that “something” is being done without real regard to their effectiveness, which threatens to devalue their currency over time.

Making Sanctions on Russia Work

It would be a grave mistake, however, to infer that simply because we have failed to change Russia’s behavior thus far, that sanctions are an ineffective instrument. This would be like forswearing antibiotics based on a single experience of insufficient dosage. Indeed, in the case of Russia, sanctions have the potential to be a very effective policy tool and should be employed as part of a broader strategy of countering Russian aggression through the imposition of costs, strengthening of defense and deterrence capabilities, and mitigation of domestic vulnerabilities to malign influence. The key, however, is to streamline our sanctions against Russia

¹ Jacob L. Lew and Richard Nephew, “The Use and Misuse of Economic Statecraft,” *Foreign Affairs*, October 15, 2018.

and to apply stronger measures that will have a real impact on Kremlin decision-making. Too often we have conflated symbolic measures with truly impactful ones.

Among the various U.S. sanctions regimes, Russia should be considered a priority because of the threat it poses to core U.S. national security interests. Since at least 2014, Russia has proven it is willing to break international norms, agreements and treaties to achieve its core aims of weakening Western democracies, fragmenting the transatlantic community, and delegitimizing international norms of democracy and human rights. To these ends, Russia has violated state borders and invaded its neighbors. It has cheated on ceasefire agreements in Georgia and Ukraine before the ink on these agreements was even dry. It has violated international treaties, such as the Intermediate-Range Nuclear Forces (INF) Treaty and the Chemical Weapons Convention. It has brazenly carried out cyber-attacks, information warfare, and corrupt influence campaigns to destabilize the United States and its allies. In Montenegro it even sought to foment a coup d'état to assassinate the sitting Prime Minister.

To effectively leverage sanctions against Russian aggression and malign influence, the United States needs to link our sanctions to specific behaviors that we want to change. Sanctioning Russia for a plethora of different reasons – such as violating cyber norms, undermining nonproliferation agreements, providing weapons to Syria, using chemical weapons in the UK, violating Ukraine's sovereignty, interfering in U.S. elections, etc. – leads Moscow to conclude that no matter what it does it will continue to face U.S. sanctions. A wiser policy would be to prioritize the key issues that affect U.S. national security, such as Russian interference in our democratic process and its ongoing war in Ukraine, and tie the bulk of our sanctions to those behaviors. The Kremlin should be led to understand that if, for example, it were to verifiably withdraw troops from Ukraine or cease to interfere in our democratic process, sanctions tied to those specific behaviors would be lifted. This means sanctions should be aimed at changing future behavior rather than adopted as a punitive response to past actions.

Packing a Punch

To be effective, sanctions have to be impactful. Current U.S. sanctions on Russia designate a variety of different actors from intelligence agencies to oligarchs to government officials to corporations. Not all of these are equally impactful.

The strategy adopted by the Obama administration was to apply selective pressure on Putin's network of "cronies" – i.e. the friends and companies personally linked to President Putin. The rationale for this was that Putin would take more notice of these sanctions since they affected his personal relationships. However, while there are good reasons to sanction corrupt oligarchs and government officials who violate human rights, as a means of applying leverage this strategy is of limited utility. In a tributary state like Russia, cronies and their companies will always be compensated by the regime, which simply shifts the economic burden from those at the top to the population at large.

To have real impact, sanctions must therefore target the economy as a whole. A regime that is concerned about its grip on power is necessarily concerned about the state of the economy. To date, however, U.S. sanctions on Russia have had only a modest impact on the economy. The IMF estimated this impact (in 2015) at somewhere between 1.0 and 1.5 percent of GDP.² Contrast that with the impact of multilateral sanctions on Iran during the period between 2012-15, when Iranian GDP fell by roughly 9 percent annually.³

Such economic leverage is necessary if we aim to bring Russia to the negotiating table on Ukraine or to convince the Kremlin to re-evaluate its interference in our democratic process. President Putin was willing to spend \$50 billion on the Sochi Winter Olympics, which was a vanity project that produced little economic benefit. For him to consider changing course on a major foreign policy priority like Ukraine, it stands to reason the costs would have to be significantly higher.

² International Monetary Fund, Press Release No. 15/368, "IMF Executive Board Concludes 2015 Article IV Consultation with the Russian Federation," August 3, 2015.

³ Congressional Research Service, "Iran Sanctions," April 22, 2019.

Towards a Sanctions Regime That Works

While energy, mining, and defense sector sanctions all have a palpable economic impact, the easiest way for the United States to impose real costs on Russia is to target its financial sector. Because virtually all global companies conduct transactions that intersect with U.S. financial markets, financial sanctions offer a way to impose immediate and impactful costs. To date, however, U.S. sanctions in the Russian financial sector have been rather weak, consisting of minor debt and equity restrictions that have failed to stop Russia from accessing global markets. In March 2019, for example, Russia raised \$3 billion in a dollar-denominated Eurobond. If we want to exert real leverage, we have to impose measures that pack a much stronger punch.

To have an impact, the United States should consider imposing full “blocking” sanctions – i.e. complete restrictions on all financial transactions – on Russia’s banks. These are the types of measures that were imposed on Iran to bring Tehran to the negotiating table during the last administration, and a similar approach should be adopted with regards to Russia today. These sorts of sanctions would need to be coordinated with our European allies, but they would not necessarily have to be matched by the EU and could in fact be imposed unilaterally (if necessary) since most Russian banks have extensive exposure to U.S. financial markets.

To minimize risks of financial contagion for our European allies, such blocking sanctions should be applied iteratively. The goal of any sanctions regime should be to compel a change of behavior, not to implode an adversary’s economy. Particularly in the case of Russia, which is deeply integrated into European financial markets, the U.S. should aim to cause enough pain for the Kremlin to reconsider its policy course but not so much as to plunge our European allies into recession. Sanctioning the Russian financial sector one bank at a time while carefully calibrating each designation based on the cumulative impact of previous designations is the best way to avoid a sudden economic collapse or unintended spillover into European financial markets.

Meaning What We Say and Do

Finally, sanctions have to be integrated into a more coherent strategy that makes use of diplomatic, military, and communications tools. To date, the United States, France and Germany (the key European decision-makers on sanctions) have all adopted schizophrenic policies with respect to Russia. On the one hand, the leaders of all three countries rightly accuse Russia of military aggression and pledge troops and warfighting equipment to deter further aggression. But at the same time Chancellor Merkel has supported building a massive €9.8 billion natural gas pipeline between Russia and Germany, President Macron has traveled to Russia to promote bilateral trade and commercial ties, and President Trump has proposed readmitting Russia to the G8. Such policies not only fail to send a coherent message, but they undermine the very purpose of our sanctions.

Similarly, when the Treasury Department bows to a lobbying campaign by delisting companies owned and controlled by an influential Russian oligarch, we send a message of hesitancy and uncertainty about our willingness to follow through with tough measures. That said, I believe the United States should seek to target the Russian economy as a whole and stop trying to single out oligarchs with ties to Mr. Putin. While sanctioning companies such as EN+ or Rusal is far more consequential than sanctioning government officials or government agencies, we should be focused on even broader economic sanctions and stop trying to surgically put pressure on the regime.

Targeting the Russian economy as a whole means that significant costs will be imposed on the Russian people. This is an unfortunate fact. But we cannot forget that the Kremlin is waging a war in Ukraine that has claimed over 13,000 lives; that the Kremlin is aligned with the Asad regime, Iran, and Hezbollah to annihilate all surviving remnants of the moderate Syrian opposition; and that it is brazenly attacking our democratic institutions to this very day. In the absence of other suitable options to stop Russia from engaging in these deeply destabilizing activities, we have to rely on sanctions to impose real costs. If combined with robust military deterrence, a more coherent economic policy that encourages our partners to isolate Russia from global markets, and a diplomatic campaign that rallies our partners and allies around a common set of goals, we could achieve much greater leverage over the Kremlin.

Statement by David Mortlock**Hearing on Assessing the Use of Sanctions in Addressing
U.S. National Security and Foreign Policy Challenges****Subcommittee on National Security, International Development, and Monetary Policy
Committee on Financial Services****U.S. House of Representatives****May 15, 2019**

Mr. Chairman, Ranking Member Stivers, and distinguished members of the Subcommittee, thank you for the opportunity to appear before you today. It is my privilege to address the use of economic sanctions as a critical tool of U.S. foreign policy and national security, and I am delighted that this Subcommittee is dedicating its time and energy to review this tool and learn lessons from our past and current efforts.

The United States has used sanctions to great success, and also with great futility. We have dramatically refined and improved the tool over the past few decades, yet appear determined to repeat our past mistakes. As the greatest economy in the world we have unprecedented ability to put pressure on our adversaries through the use of sanctions, but just as with our military or other tools of statecraft, the ways we use this tool will determine whether pressure will effectively change behavior, or whether we merely entrench hostile regimes.

As Director for International Economic Affairs for the National Security Council and former Deputy Coordinator for Sanctions Policy at the State Department, and current chair of the Global Trade & Investment Group at the law firm of Willkie Farr & Gallagher LLP, I have had the privilege of being part of numerous teams that developed and deployed sanctions and economic statecraft to address the most pressing national security and foreign policy issues faced by the United States and our allies.

The United States has turned to sanctions repeatedly in the past decades, and exponentially more so in the past few years, to address threats as disparate as Russian aggression, Iranian nuclear proliferation, and the deteriorating political situation in Venezuela. We have proven that sanctions can be an effective tool to help change behavior of the world's bad actors, such as pushing the Iranian regime to the negotiation table on the Joint Comprehensive Plan of Action ("JCPOA"), or encouraging the Burmese junta to take steps toward democratic rule.

Unfortunately, we also have proven that sanctions have their limitations. Sanctions themselves are a means to an end, and not a foreign policy. On recent occasions the Administration has demonstrated that sanctions cannot compensate for the absence of a broader U.S. strategy. Even where the Administration has developed a strong sanctions strategy – including for Russia, Venezuela, and North Korea – we have seen those efforts undermined by the absence of a broader strategy, a failure to build international credibility, and the absence of a clear plan for winding down sanctions. We must do better if we intend future sanctions regimes to have any bite, and not just a token, futile bark.

Statement by David Mortlock
 Subcommittee on National Security, International Development, and Monetary Policy
 U.S. House of Representatives
 May 15, 2019

I. Sanctions Are an Attractive Tool

Sanctions are an attractive tool in foreign policy crises, giving us many options between words and war. They do not require the dramatic escalation, risk to lives, and financial costs of a military option. The strength of the U.S. financial system and the ubiquity of the U.S. dollar in the global financial marketplace make U.S. sanctions a powerful option, and there is no doubt the United States can visit significant economic harm on its adversaries.

Moreover, the U.S. government has gotten significantly more sophisticated at using these tools over time, evolving from the blunt instrument of an embargo to more nuanced restrictions on certain business with unique bad actors around the world. The sectoral sanctions for Russia, the restrictions on Venezuelan debt, and sophisticated carve-outs through licensing have been a high-water mark for the Office of Foreign Assets Control (“OFAC”) imposing the most pointed economic pressure while trying to avoid unintended consequences.

The Trump administration has turned to sanctions frequently and has often touted that it has produced more sanctions actions than the Obama administration. Sanctions are at the forefront of the Administration’s foreign policy efforts. The Administration has repeatedly used sanctions to respond to Russia’s continued aggressions in Ukraine, as well as interference in U.S. elections, the attempted murder of Sergei Skripal, and other nefarious actions. They relied heavily on sanctions as a response to the crisis in Venezuela, targeting President Nicolás Maduro’s levers of financial power, including the end of imports of Venezuelan oil in April 2019. Human-rights abuses and corruption have been the focus of actions taken under the Global Magnitsky sanctions program, which have highlighted and condemned some of the worst actors around the world, including the murder of Jamal Khashoggi and ethnic cleansing by Burmese security forces.

II. Sanctions Are a Useful Tool, Not a Panacea

An effective sanctions program must start with a clear and articulated policy goal. Economic pain in itself is not a U.S. foreign policy interest. Instead, sanctions should be designed around a broader strategy to achieve a policy outcome.

For example, sanctions can pressure a party toward negotiations and behavioral change. At the same time, we must recognize that behavior change and deterrence are not always achievable goals. For example, sanctions will not change the behavior of terrorist organizations such as ISIS. Instead, sanctions can be used to isolate or name and shame bad actors. Most large, reputable banks around the world screen against US sanctions lists, and generally do not do business with or maintain accounts for designated persons, making their nefarious activities more difficult and expensive. Sanctions on terrorist groups aren’t likely to deter, therefore, but they are likely to make their operations and financing difficult and expensive. Similarly, sanctions on North Korea aren’t just about getting Kim Jong Un to the negotiating table, but also about

Statement by David Mortlock
 Subcommittee on National Security, International Development, and Monetary Policy
 U.S. House of Representatives
 May 15, 2019

making it more difficult for North Korea to obtain the technology and funding necessary to advance its nuclear weapons and missile programs.¹

Yet it is difficult to see how the Administration's approach to sanctions policy has ultimately been effective in achieving all of the actual foreign policy outcomes the Administration claims to seek. The Administration's repeated practice appears to be to deploy sanctions as the primary tool in a foreign policy strategy, and often in the face of overwhelming international opposition. The lack of consistent and implementable policy goals, as well as patient follow-through, has undermined the efficacy of sanctions under this President, even in areas where the administration has implemented tough measures. The ineffective use of sanctions creates threats to the utility of the tools themselves—more so than any overuse. Simply put, sanctions are an effective tool, but by themselves are not a panacea.

To use sanctions most effectively, Congress and the Administration should be guided by a few key principles.

A. Sanctions Must Be Imposed to Implement a Clear Policy

To have the desired impact, sanctions must be imposed in pursuit of a clear policy, with a consistent approach from the entire U.S. government and the use of other tools such as diplomacy and multilateral pressure. The Administration deserves credit for successfully corraling the world, especially the United Nations Security Council, to impose tough sanctions on North Korea. The maximum-pressure campaign convinced even China to take its UN sanctions obligations more seriously, and to cut off bilateral trade that was critical to North Korea. Multilateral implementation of the sanctions on North Korea strangled its funding and restricted access to technology for its nuclear weapons and missile programs, and causing the North Koreans to explore diplomatic engagement as an avenue for relief.

Even in this instance, though, the Administration has not followed-through on the policies beyond tough sanctions, which has eroded the international implementation of the sanctions, reducing their leverage and expanding North Korea's access to resources. Once the president announced the first summit with Kim in Singapore, China quickly eased its push for compliance. Subsequently, both summits between the leaders lacked measurable deliverables or new commitments from North Korea, and Trump's effusive praise for Kim—and his post-summit tweets maintaining that the North Korean threat was over—gave China, Russia, and South Korea, an excuse to further ease the pressure. Indeed, the President's recent reversal on OFAC's North Korea sanctions, by tweet no less, has dramatically diluted the North Koreans' expectation that we will follow through with any meaningful sanctions in response to their provocations.

¹ Laura Rosenberger and Richard Johnson, *Sanctions on North Korea Don't Just Punish North Korea. They Also Protect Us*, Wash. Post (Mar. 6, 2019), available at <https://www.washingtonpost.com/outlook/2019/03/06/sanctions-north-korea-dont-just-punish-north-korea-they-also-protect-us/>.

Statement by David Mortlock
 Subcommittee on National Security, International Development, and Monetary Policy
 U.S. House of Representatives
 May 15, 2019

The United States has exited two summits with less leverage and isolation of North Korea than before.

Similarly, the Administration organized a multilateral effort to confront the Maduro regime in Venezuela and used sanctions as part of that strategy. Together with restrictions on the extension of credit to the Government of Venezuela and the designation of *Petróleos de Venezuela* (“PdVSA”), effectively prohibiting imports of Venezuelan oil, the United States took strong action to support a broader multilateral strategy toward Venezuela, including joining dozens of governments in recognizing the interim presidency of Juan Guaidó. In recent months, however, a steady drumbeat of U.S. sanctions, including on Maduro himself, has seemingly failed to put any additional pressure on Maduro to leave his post; as former Treasury Undersecretary and CIA Deputy Director David Cohen recently wrote, the costs of sanctions to a nation’s leader will always be bearable when the alternative is regime change.² Instead, the more realistic goal of these sanctions should be to pressure military leaders to throw their support behind Guaidó. Treasury has cleverly targeted a number of regime members, as well as lifted sanctions on one general who switched his loyalty to Guaidó, demonstrating the costs of clinging to Maduro. The Administration should ensure that the message to Maduro’s military supporters is not drowned out by a much louder effort to inflict economic pain on the country.

B. Sanctions Must Have an End-Game

If future targets of U.S. sanctions are to change their behavior under the threat of sanctions, it will be because they find those threats credible and because they believe they have a path to relief from the sanctions. We must therefore tie sanctions directly to an articulable, concrete, and realistic policy goal, after which sanctions will be eased. The Obama Administration deployed that strategy with Burma, gradually easing sanctions as the junta took steps toward democracy, while maintaining reporting requirements on new U.S. investments and keeping the worst actors on the List of Specially Designated Nationals and Blocked Persons to prompt further change. The Obama Administration similarly undertook sanctions relief for Iran after Iran took steps to dismantle its nuclear program, while maintaining other sanctions linked explicitly to terrorism and human rights abuses. These actions sent a message not only to Burma and Iran, but also to other governments, that there would be a clear path to sanctions relief – if only they take the steps expected by the United States and its multilateral partners.

President Trump’s Iran strategy has relied on a maximum pressure campaign to try to convince Tehran to not only renegotiate the JCPOA, but also to take an array of other actions on its regional meddling, support to Hezbollah, and human rights abuses, in one fowl swoop. Trump and his team are trying to replicate that pressure through unilateral escalation of sanctions. However, they are doing so without building the broad international consensus that existed on the threat of Iran’s nuclear program. Instead, the President is undertaking this campaign in the

² David Cohen and Zoe Weinberg, *Sanctions Can’t Spark Regime Change*, Foreign Policy (Apr. 29, 2019), available at <https://www.foreignaffairs.com/articles/united-states/2019-04-29/sanctions-cant-spark-regime-change>.

Statement by David Mortlock
 Subcommittee on National Security, International Development, and Monetary Policy
 U.S. House of Representatives
 May 15, 2019

face of staunch opposition from almost all other governments—notably including all other parties to the JCPOA.

As a result, the Administration is unlikely to achieve pressure greater than that which existed in 2012 and led to the JCPOA. Indeed, the European Union (EU) has amended its blocking statute to prohibit European companies from complying with U.S. sanctions and announced its intent to create a special payment vehicle to avoid their impact. The EU measures reflect a striking effort to undermine U.S. policy and to demonstrate political unity with Iran in order to keep it in the nuclear deal. Iran will face economic hardship as a result of the reimposition of the sanctions, but it will not face the same level of diplomatic isolation this time around and an “all-or-nothing” demand from the United States. It is difficult to see how this reduced political leverage against Iran will help achieve a stronger deal with Iran than the one the Administration exited or reverse its entire world view in the face of unilateral sanctions pressure.

C. Sanctions Must Have Political Backing

The dissonance between sanctions implementation and policy perhaps is starkest with respect to Russia. Strong U.S. sanctions measures for Russia have been undermined by the absence of a coherent strategy and consistent message from the White House.

OFAC has imposed some of the most impactful sanctions in history on President Putin’s closest friends and Russia’s largest companies. Treasury Under Secretary Segal Mandelkar has rightfully touted the strength of Treasury’s actions.³ The Administration has sanctioned well over 200 Russian individuals and entities in relation to Russia’s aggressions, including adding dozens of companies to the list of entities subject to sectoral sanctions with restrictions on financing and support to Russia’s non-conventional oil projects. In April 2018, OFAC imposed sanctions on some of Putin’s most prominent supporters and those engaged in nefarious activities in Russia, including Oleg Deripaska and Viktor Vekselberg, as well as their prominent organizations, and the heads of state-owned companies such as Gazprom’s Alexei Miller, Gazprombank’s Andrey Akimov, and VTB Bank’s Andre Kostin. The Administration has implemented important provisions of the Countering America’s Adversaries Through Sanctions Act (“CAATSA”), passed overwhelmingly by Congress in 2017. For example, the State Department has published an extensive list of entities operating in Russia’s defense and intelligence sectors, and foreign companies now face the threat of U.S. sanctions for engaging in significant transactions with those entities. Taken together, these measures form the toughest sanctions imposed on Russia to date.

Nonetheless, the strongest sanctions policy cannot compensate for the absence of a broader cohesive strategy, and the sanctions on Russia appear unlikely by themselves to change Russia’s behavior in light of the Administration’s broader messages. The president has consistently undermined his Administration’s actions on Russia by being publicly subservient to Vladimir

³ See, e.g., Statement of Under Secretary Sigal Mandelker Before the U.S. Senate Committee on Banking, Housing, and Urban Affairs, Aug. 17, 2018, *available at* <https://home.treasury.gov/news/press-releases/sm465>.

Statement by David Mortlock
 Subcommittee on National Security, International Development, and Monetary Policy
 U.S. House of Representatives
 May 15, 2019

Putin, and by siding with Putin's perfunctory denials regarding election interference and cyber-attacks over the consistent judgment of his intelligence and foreign policy communities.⁴ Sanctions on Russia are generally designed to serve as a deterrent against further aggression, but the sanctions are unlikely to compel a change in Russian behavior when that behavior is minimized and dismissed by the President. At best, the Administration is left with a mixed message that dilutes whatever pressure Treasury and State are able to muster through legal measures.

The Administration's mixed messages were illustrated recently by the removal of three companies formerly owned and controlled by Oleg Deripaska – Rusal, EN+, and EuroSibEnerg – from the List of Specially Designated Nationals and Blocked Persons ("SDN List"). Following the April 6, 2018 designation of Deripaska and of his companies for being owned or controlled by Deripaska, U.S. persons were faced with the prospect of terminating all business involving his companies, including Rusal, a major supplier to the international aluminum market. In December, Treasury announced that it had reached a negotiated deal with the companies for Deripaska to divest below majority ownership in the companies and relinquish many levers of control.⁵ The deal was complex. Deripaska would receive some benefits in the form of debt relief but would receive no cash payments and ultimately lose effective control of the companies that had defined his professional life for decades.

On one hand the development was a rousing success for U.S. sanctions on Russia. The sanctions and the impending threat to the Russian economy had forced Deripaska to relinquish control of these companies to get them out from under the sanctions. The action sent a strong message to other supporters and friends of President Putin: facilitate Putin's aggressions and corruption and you too could lose control of your corporate empire. In addition, the action creates an important blueprint for how sanctions can be lifted against individuals and companies that separate themselves from bad acts and bad actors. The Obama Administration had employed a similar effort in 2015 to delist cronies of the Burmese junta who demonstrated transparency and positive behavior toward reform.⁶ The Rusal delisting provided an even more sophisticated and, thanks to the requirements of CAATSA, more public and transparent process to pull companies away from designated bad actors.

Yet the impact of this deal with Deripaska's companies was undermined by the Administration's failure to clearly explain the link between the delisting and the steps taken to separate the companies from Putin's inner circle and nefarious activities, diminishing the message to other sanctioned actors or those contemplating their support to Putin. Possibly nervous about reinforcing the President's sympathetic statements toward Russia, Treasury notified Congress of

⁴ See, e.g., Transcript of Joint Press Conference between President Trump and President Putin, July 16, 2017, available at <https://www.vox.com/2018/7/16/17576956/transcript-putin-trump-russia-helsinki-press-conference>.

⁵ Letter from OFAC Director Andrea Gacki to Senate Majority Leader Mitch McConnell, Dec. 19, 2018, available at https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Documents/20181219_notification_removal.pdf.

⁶ *U.S. Offers Path to Redemption for Cronies*, Myanmar Times, Apr. 29, 2015, available at <https://www.mmtimes.com/business/14179-us-offers-path-to-redemption-for-cronies.html>

Statement by David Mortlock
 Subcommittee on National Security, International Development, and Monetary Policy
 U.S. House of Representatives
 May 15, 2019

the delisting on December 19, immediately before the holidays, and, as some reports suggest, provided limited briefings and responses to members' questions.

While the eight-page notification letter to Congress provided a helpful outline of the deal, limited public messaging led to significant confusion in the media whether sanctions were being lifted against Deripaska or his companies and why.⁷ Arguably a successful measure in isolation, the Administration's failure to fully explain the reasoning and embrace the congressional review required by CAATSA undermined the message for other members of Putin's inner circle looking to escape or avoid U.S. sanctions and, most importantly, the purpose of the sanctions as a rebuke and economic cost to Putin and his supporters.

III. Actions by Congress to Strengthen the Use of Sanctions

Congress has a number of ways it can help to improve the effectiveness of sanctions in achieving these critical foreign policy and national security goals.

A. Invest in the Tool

First, Congress should invest in the tool. The Obama Administration expanded the use of sanctions significantly beginning in 2008, but for many years, neither the Executive nor Legislative Branch made a corresponding investment in the required personnel or technological infrastructure. In 2018, the Trump administration took a necessary, and long-overdue, step by increasing the budget for OFAC's parent organization at Treasury. However, that investment has been offset, to some degree, by ongoing delays in the filling of positions at the State Department and the elimination of the office of the Sanctions Coordinator.

A lack of resources has resulted not only in limited capacity to implement new sanctions, but also difficulties implementing the sanctions already on the books. OFAC, inundated with requests to impose new designations and deal with the aftermath of major changes to sanctions policy, could use more resources to provide clarifying guidance regarding new prohibitions and to issue licenses to avoid unintended consequences.

OFAC's budget should continue to increase, and there should be a renewed push to fill the State Department's offices, including a senior official responsible for coordinating sanctions implementation and policy and liaising with senior Treasury and White House officials.

B. Implement Sanctions Already on the Books

Congress should prioritize the thorough implementation of CAATSA and other sanctions authorities when considering new sanctions measures for Russia. Statutory sanctions for Iran were and are effective in deterring private companies because the threat of secondary sanctions was credible. Even when the Obama Administration opposed certain Iran sanctions bills, it

⁷ See, e.g., *Trump-Loyal Senators Make Russian Oligarch's Day*, Rolling Stone, Jan. 16, 2019, available at <https://www.rollingstone.com/politics/politics-news/republican-sanctions-russia-780221/>.

Statement by David Mortlock
 Subcommittee on National Security, International Development, and Monetary Policy
 U.S. House of Representatives
 May 15, 2019

implemented final legislation with gusto, ultimately bringing Iran to the negotiating table. The statutory threats imposed for Russia, however, are perceived as more lenient. Section 228 of CAATSA, for example, requires the President to impose sanctions on any person who facilitates a significant transaction on behalf of a Russian SDN. Not a single person has been sanctioned under this authority, leaving companies to wonder whether or not they should engage in transactions involving SDNs. A patchwork of new sanctions threats will not put additional economic pressure on Russia if the threat of even the existing sanctions is questionable.

Congress should require a concrete set of guidelines for secondary sanctions with respect to Russia so that companies understand exactly what type of transactions are off-limits if they want to avoid U.S. sanctions. Congress also can expand on the oversight authorities in CAATSA, not to interfere with the work of knowledgeable technocrats at OFAC and State, but to ensure that the Administration is articulating a clear message and a consistent policy with respect to Russia and other policy priorities involving sanctions.

C. Develop a Policy First, Sanctions Second

Finally, Congress should demand that the Administration not use sanctions as a substitute for policy, only as part of a policy goal. Congress can do this by establishing clear policy statements, as it recently did in CAATSA with respect to Nordstream 2.

Congress also can develop new tools as a supplement to sanctions to achieve the same policy goals. For example, beneficial-ownership legislation and financial-transparency regulation would reduce opportunities for hidden and corrupt Russian money to flow into the United States—complementing U.S. sanctions targeting the personal assets of senior Russian officials.

In cases where naming and shaming bad actors and preventing their travel to the United States is a primary goal, the State Department should be able to publicize visa denials with a statement of the case.

Most importantly, diplomacy can build broad coalitions to impose sanctions, such as the Obama Administration's coalition with the EU and Group of Seven (G-7) on sanctions against Russia, or the Trump administration's initial push to impose maximum pressure on North Korea and Venezuela. Both were examples of successful cooperation with allies and partners that created conditions for success, even if successful end states remain elusive.

IV. Conclusion

Sanctions can be a useful, precise, and effective tool of U.S. foreign policy. Sanctions are a tool that can support a broader policy with clear goals, international legitimacy, and political follow-through. We should not confuse the economic pain of our adversary with the ultimate achievement of a U.S. foreign policy goal. By focusing on that goal, and using sanctions as one of many tools to achieve it, we can strengthen the effectiveness and credibility of the tool.

Statement by David Mortlock
 Subcommittee on National Security, International Development, and Monetary Policy
 U.S. House of Representatives
 May 15, 2019

Given its central role in shaping sanctions policy, Congress can contribute to these goals by ensuring that it is employing these lessons when drafting sanctions of its own into legislation. Specifically, Congress should: (1) design each measure to pursue a specific policy goal, be it leverage or isolation, rather than just visit economic pain; (2) ensure that sanctions can be eased or adjusted based on improved circumstances and other unforeseen developments; and (3) build political support across the two branches of government for a cohesive policy, sanctions and otherwise.



Center for a
New American
Security

May 15, 2019

Testimony before the United States House of Representatives
Committee on Financial Services, Subcommittee on National Security, International Development and
Monetary Policy:
"Assessing the Use of Sanctions in Addressing National Security and Foreign Policy Challenges"

Elizabeth Rosenberg, Director and Senior Fellow
Energy, Economics, and Security Program, Center for a New American Security

Chairman Cleaver, Ranking Member Stivers, distinguished members of the committee, thank you for inviting me to appear today to discuss the use of sanctions to address national security and foreign policy challenges. Sanctions are an essential means for the United States, its allies, and the international community to push back against the malign activity of rogue nations and transnational security threats. Sanctions are among the most powerful tools in the U.S. arsenal to exercise leverage over a wide variety of actors whose policies and threatening behavior U.S. leaders seek to change. Sanctions leverage lends tremendous force to U.S. diplomatic efforts and supplies critical forms of coercion and deterrence to the tools of U.S. national power. It is no surprise that sanctions have become the go-to instrument for successive administrations and Congresses and is now a tool of first response in U.S. foreign policy.

As sanctions are now frequently used, and trends suggest that usage will only accelerate in the future, it is fundamentally important for policymakers to have as much information as possible about how sanctions work, when they are likely to be successful, and what specific effects—intended and unintended—are likely to be associated with their use. I urge policymakers not to confuse the contemporary popularity of sanctions statecraft to address a wide array of major security threats with the notion of their utility in all instances. They cannot force capitulation and regime change and cannot be a substitute for a holistic strategy to address the threats to our national security. They also may not be the hammer for every nail. Congress, through legislation and oversight, including in hearings such as this one today, has a critical role to play in advancing a sophisticated, public understanding and analysis of sanctions and establishing principles for their responsible use.

With regard to the application of sanctions and their place in U.S. policy, there are a few operational considerations to bear in mind from the outset. Specifically, sanctions must be calibrated to account for prevailing economic and financial conditions, both in the target economy as well as globally. Also, they are a tactic, not a strategy, and must be paired with a meaningful diplomatic effort and possibly the projection of force. Moreover, sanctions programs are highest impact when they are implemented in concert with allies and other tools of statecraft. There have been longstanding debates in the policy and academic communities about the effectiveness of sanctions as a signaling and deterrent tool. These debates do, and should continue to, inform application of sanctions and learning across cases.

My testimony today outlines how sanctions fit into broader U.S. foreign policy strategy and how they have adapted over time, giving the United States tremendous forms of leverage over adversaries. The testimony will also briefly summarize a few prominent sanctions programs currently in place and offer a view on how sanctions can be used to push back against the threatening and destabilizing activity of one of the United States' gravest strategic rivals, Russia. There are measures that Congress and the

Bold.

Innovative.

Bipartisan.

administration can take that would impose severe costs on Russian leadership while minimizing collateral damage.

Sanctions as a Tool of U.S. Foreign Policy

For decades, the United States has used sanctions as a foreign policy tool against its most dangerous adversaries and to address the most severe threats to the national interest. Policymakers have reached for sanctions to signal rebuke and condemnation of specific policies or activities, including proliferation, terrorism, narco-trafficking, human rights abuse, and political destabilization. In many instances, policymakers see sanctions as a key tool to deter future malign behavior. By isolating sanctions targets from the U.S. financial system—the operational crux of sanctions—policymakers use these instruments to impose tough economic consequences and cultivate leverage to support strategic and political goals.

Since the latter years of the Cold War, the United States has sought to use coercive economic measures to affect the foreign policy decision-making of other countries in an increasing number of cases. During the post-Cold War period the tool has evolved considerably and been used to address a broad array of threats.¹ The 1990s were a major inflection point for the use of and perceptions about sanctions. There were many lessons learned from the high-profile and much-analyzed United Nations sanctions on Iraq.² Buyers of crude oil regularly flouted restrictions on the ability of Iraq to sell its oil under sanctions, leading to an expansive black market and corruption on a stark scale. The humanitarian consequences of these sanctions for ordinary Iraqis were dire, making the application of sanctions appear draconian.³

When the George W. Bush and Barack Obama administrations sought to use economic sanctions to increase pressure on Iran, starting particularly in the mid-2000s, they knew that broad restrictions on the shipment of its oil would encounter similar considerations and perceptions. This is a leading reason why the U.S. government sought to adapt its approach to sanctions on Iranian energy and the revenue this industry generated for the Iranian regime. Policy leaders shifted to a new form of restrictions on foreign investment on the energy sector and then added targeted restrictions on Iran's international banking ties.⁴ The pressure that these Iran sanctions delivered, combined with an intensive diplomatic campaign to convince the international community of the need to rein in Iran's enrichment program, led to the successful negotiation of the Joint Comprehensive Plan of Action (JCPOA).

Another important historical development in the shift to narrower and "smarter" U.S. sanctions occurred around the turn of the century.⁵ This was a firm pivot toward sanctions measures that exposed and condemned the specific conduct of criminals and malicious actors, and a pivot away from measures that punished individuals and agencies just for their status as associated with a rogue regime.⁶ This began before the 9/11 terrorist attacks but saw a major boost afterward as the United States and the world

¹ Since 1994, the earliest date for which the U.S. Treasury Office of Foreign Assets Control has public data available, there have been 8,828 individuals or entities designated across twenty-seven country or thematic sanctions programs. Enigma Sanctions Tracker, <https://abs.enigma.com/sanctions-tracker/>.

² See, for example, Daniel Drezner, "How Smart are Smart Sanctions?" *International Studies Review* (2003) 5, 107-100, <http://danieldrezner.com/research/smartsanctions.pdf>.

³ See, for example, Nimah Mazaheri, "Iraq and the Domestic Political Effects of Economic Sanctions," *Middle East Journal*, 64.2 (Spring 2010): 253-268, https://www.jstor.org/stable/40783043?seq=1#page_scan_tab_contents.

⁴ Richard Nephew, Senior Research Scholar, Center on Global Energy Policy, Columbia University, "Written Testimony of Richard Nephew," Testimony to the Senate Foreign Relations Committee, July 14, 2016, https://www.foreign.senate.gov/imo/media/doc/071416_Nephew_Testimony.pdf.

⁵ Edward Fishman, "Even Smarter Sanctions," *Foreign Affairs*, October 16, 2017, <https://www.foreignaffairs.com/articles/2017-10-16/even-smarter-sanctions>; Meghan L. O'Sullivan, *Shrew Sanctions: Statecraft and State Sponsors of Terrorism* (Washington, DC: Brookings Institution Press, 2003).

⁶ Daniel Drezner, "Sanctions Sometimes Smart: Targeted Sanctions in Theory and Practice," *International Studies Review*, vol. 13, no.1 (March 2011).

sought to use sanctions to identify and crack down on a wide array of specific terrorist networks and their funders and facilitators. The legacy of this is very significant. For most of the last couple decades the United States has been a leader at the United Nations, and in coalitions of likeminded countries, in adopting coordinated sanctions to address transnational terrorist threats such as al Qaeda and the Taliban. The leadership of the United States to impose coordinated international sanctions against other security threats has also become a hallmark of modern international statecraft. The United States has created sanctions and financial pressure campaigns targeting states of proliferation concern including Iran, North Korea, and Syria; drug traffickers and money laundering networks in Latin America and beyond; and corrupt, militant, kleptocratic regimes from the Democratic Republic of the Congo to Nicaragua to Myanmar.

In addition to these methodological shifts in how the United States has used the sanctions tool, alone and with international counterparts, several other factors in the development of sanctions statecraft over the last decade have reinforced the notion that sanctions are highly effective as a policy and deterrence tool. These include the massively increasing dollar value of sanctions enforcement actions as well as the notion, bolstered by financial sector regulation, that diligently complying by sanctions (even for non-U.S. persons not subject to them) is necessary to protect the transparency and integrity of financial institutions and systems from abuse by criminals.

Today, policymakers in the United States have come to view sanctions as the tool to use when diplomacy is not strong enough and military force is not an option. For their success in messaging and coalition building, and for crafting economic leverage, policymakers in Washington and around the world see the power and efficacy of sanctions. To be sure, there is an active debate about which sanctions measures have been effective, which will significantly influence politics and policy, how to manage their effects, and the appropriate principles for their use. However, sanctions statecraft is now an elemental and essential aspect of U.S. policy, and responsible policy leadership in this area in the future will involve yet more innovation, careful analytical treatment, and creativity in how to target effects and manage unintended effects.

Future Challenges to the Use of Sanctions by the United States

America's aggressive use of sanctions is also spurring a nascent debate in Washington about whether use of these measures, combined with technological changes, could undermine America's coercive economic leverage over the mid- or long-term. A number of U.S. experts and former policymakers have raised concerns about the sustainability of America's intensive use of sanctions. Former U.S. Treasury Secretary Jack Lew and former State Department official Richard Nephew, for example, argued in *Foreign Affairs* that "Washington is increasingly using its economic power in aggressive and counterproductive ways, undermining its global position and thus its ability to act effectively in the future."⁷ A number of other experts have also argued that the United States is using sanctions too aggressively.⁷

Under virtually any conceivable scenario, U.S. sanctions will retain some force over at least the next decade. However, economic and technological trends may compel a shift in how the United States

⁷ See Jacob J. Lew and Richard Nephew, "The Use and Misuse of Economic Statecraft," *Foreign Affairs*, November 2018, <https://www.foreignaffairs.com/articles/world/2018-10-15/use-and-misuse-economic-statecraft>; Barry Eichengreen, "The Dollar and its Discontents," *Project Syndicate*, October 10, 2018, <https://www.project-syndicate.org/commentary/dollar-could-lose-global-hegemony-by-barry-eichengreen-2018-10>; Peter Harrell, "Is the U.S. Using Sanctions Too Aggressively?" *Foreign Affairs*, September 11, 2018, <https://www.foreignaffairs.com/articles/2018-09-11/us-using-sanctions-too-aggressively>; Elizabeth Rosenberg, "The EU Can't Avoid U.S. Sanctions on Iran," *Foreign Affairs*, October 10, 2018, <https://www.foreignaffairs.com/articles/europe/2018-10-10/eu-cant-avoid-us-sanctions-iran>; and Daniel W. Drezner, "Why I am starting to worry about the dollar," *The Washington Post*, November 15, 2018, <https://www.washingtonpost.com/outlook/2018/11/15/why-i-am-starting-worry-about-dollar/>.

deploys these tools and what entities it selects as targets. For example, macroeconomic trends appear likely to force the United States to rely relatively less on the U.S.-dominated international financial system as a primary source of leverage for sanctions. In addition, America's continued aggressive use of sanctions, including against U.S. allies, is likely to make foreign governments increasingly committed to establishing and building cross-border payment mechanisms that will be insulated from U.S. jurisdiction. Financial technology developments will likely facilitate these efforts.⁸

These developments are not likely to displace the U.S. dollar as the dominant international currency, nor will these developments immediately undercut other sources of U.S. coercive economic leverage, such as the size of the U.S. economy and the U.S. role in global supply chains. But if U.S. policymakers fail to mitigate these trends and to adapt America's sanctions tools to changing circumstances, these trends will likely provide increasing avenues for America's adversaries to circumvent U.S. coercive economic measures. In short, U.S. sanctions risk becoming increasingly "leaky" and less impactful than U.S. policymakers have come to expect, even if they retain some force overall.

The United States also faces a small, but non-zero, chance of more significant, rapid changes that could have more dramatic impacts on U.S. economic power. For example, although the underlying drivers of the shift from the British pound to the U.S. dollar as the dominant currency developed over decades, the shift itself occurred quite rapidly between 1940 and 1945, triggered by World War II.⁹ Any such rapid shift in the role of the dollar would similarly require a major and unlikely triggering event that would severely diminish confidence in and perceptions of stability associated with the United States. This could include a hypothetical U.S. federal debt crisis or major U.S. economic or foreign policy blunder. However, should the United States face—or by its own policy choices create—such a triggering event, foreign government policies and the development of enabling technologies could make such a shift more likely.

Ultimately, U.S. policymakers have significant control over the use and utility of sanctions in the years ahead. America's monetary and fiscal policies will play a major role in whether the United States remains economically and financially dominant. U.S. trade policy will also play a role. U.S. foreign policy will also be important, either convincing foreign governments or firms to aggressively seek to circumvent U.S. coercive economic power, or reassuring U.S. allies that the United States will use its coercive economic power responsibly and in coordination with allies and their interests. At this political moment, amidst deteriorating security and economic relationships between the United States and many of its allies, signaling on these points may have a meaningful impact on the evolution of the efficacy of U.S. sanctions. Congress can play an important role in guiding U.S. foreign policy in this domain.

Major Current U.S. Sanctions Programs

At present, the United States maintains roughly 30 sanctions programs, using the sanctions tool of economic statecraft to address a wide array of national security threats.¹⁰ I will describe several of the most prominent contemporary sanctions programs. The Trump administration has emphasized the threats emanating from Russia, Iran, North Korea, and Venezuela, and has wielded sanctions against these countries accordingly. Under the Russia program, the administration has designated 129 individuals and

⁸ Peter E. Harrell and Elizabeth Rosenberg, "Economic Dominance, Financial Technology, and the Future of U.S. Economic Coercion," (Center for a New American Security, April 30, 2019), <https://www.cnas.org/publications/reports/economic-dominance-financial-technology-and-the-future-of-u-s-economic-coercion>.

⁹ See, for example, Menzie Chinn and Jeffrey Frankel, "The Euro May Over the Next 15 Years Surpass the Dollar as Leading International Currency," Working Paper Series rwp08-016, Harvard University, John F. Kennedy School of Government, February 13, 2008, 1, [https://sites.hks.harvard.edu/fs/jfrankel/EuroVs\\$:IFdebateFeb2008.pdf](https://sites.hks.harvard.edu/fs/jfrankel/EuroVs$:IFdebateFeb2008.pdf).

¹⁰ U.S. Department of the Treasury, Office of Foreign Assets Control, "Sanctions Programs and Country Information," <https://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx>.

entities; under the Iran program it has added 797; under the North Korea program it has added 89, and under the Venezuela program it has added 78.¹¹

The administration has used the threat of secondary sanctions to pressure European companies and banks to discontinue dealings with Iran. After November, 5, 2018, sanctions that were withdrawn under the terms of the Joint Comprehensive Plan of Action were reimposed, exposing international firms to tremendous consequences for trading with Iran in a variety of economic sectors including. On North Korea, the U.S. administration notably has imposed sanctions on Chinese entities that were involved in deceptive shipping practices on behalf of North Korea.¹² It has also used measures like Section 311 of the USA PATRIOT Act to target the Chinese Bank of Dandong for doing business with North Korean banks.

On Russia, the Trump administration has embraced sanctions, including secondary sanctions, pursuant to a variety of Russian malign activities, though not on the scale of the Iran program. In one of the most high-profile sanctions designations in recent memory, the U.S. Treasury Department hit Russia's RUSAL with sanctions. While that designation was lifted earlier this year sanctions remain on Russian oligarch Oleg Deripaska. Additionally, sanctions against individuals aligned with Russian President Vladimir Putin have been matched by measures targeting Russia's key defense partners. The Trump administration has designated the Equipment Development Department of China's Military Central Military Commission for conducting "significant transactions" with the Russian defense or intelligence sectors. A Russia-related sanctions threat also applies to countries such as Turkey, which has said it will not bow to pressure from the U.S. to decline purchasing the Russian S-400 surface-to-air missile system.¹³

The United States also maintains sanctions programs to address a variety of transnational threats, including international terrorism, corruption, and human rights abuses. Many allies of the United States have parallel sanctions programs, mirroring U.S. authorities and targets in their own jurisdictions.

Iran

Since the Trump administration took office in January 2017, much of the debate about the place of sanctions in U.S. foreign policy has focused on their applicability to Iran. Tehran has long been a target of U.S. economic power, with some measures dating back to the Iranian revolution of 1979 and the seizure of the U.S. embassy. The 2018 U.S. withdrawal from the JCPOA and reimposition of U.S. sanctions that had been waived as part of the nuclear deal represents a new chapter in U.S. policy toward Iran,¹⁴ and in multilateral relations between the United States and the partners that America has relied on to ensure the success of previous sanctions efforts. In addition to bringing these measures back into force, the United States has imposed an array of new sanctions on Iran targeting its support for terrorism, malicious cyber activity, and human rights violations.

The Trump administration has dramatically increased pressure on Iran in the past month. It designated the Islamic Revolutionary Guard Corps (IRGC) as a Foreign Terrorist Organization, announced that the United States would not grant further significant reduction exemptions for importers of Iranian oil--thereby

¹¹ Enigma Sanctions Tracker, <https://labs.enigma.com/sanctions-tracker/>.

¹² U.S. Department of the Treasury, "Treasury Designates Two Shipping Companies for Attempted Evasion of North Korea Sanctions," press release, March 21, 2019, <https://home.treasury.gov/news/press-releases/sm632>.

¹³ "Turkey says it will not bow to U.S. sanctions over S-400 deal," Reuters, May 5, 2019, <https://www.reuters.com/article/us-turkey-usa-defense/turkey-says-it-will-not-bow-to-u-s-sanctions-over-s-400-deal-idUSKCN1SB06J>.

¹⁴ Eric Brewer, Elisa Catalano Ewers, Ilan Goldenberg, Peter Harrell, Nicholas Heras, Elizabeth Rosenberg, and Ariane Tabatabai, "A Realistic Path for Progress on Iran: 12 Guiding Principles to Achieve U.S. Policy Goals," (Center for a New American Security, January 29, 2019), <https://www.cnas.org/publications/reports/a-realistic-path-for-progress-on-iran>.

seeking to prevent Iran from exporting any oil, heavily modified the waivers around Iran's civilian nuclear program to constrict Iran's operations, and imposed new sanctions on metals industries in Iran. Iran has responded with an escalation in tensions, indicating that it will cease to uphold its commitments in the deal. These developments significantly increase the potential for violent, and unintended, escalation between the United States and Iran, two deeply entrenched and well armed adversaries. There does not appear to be any prospect for diplomatic de-escalation or a shift to more stable and peaceful politics in the region at any point soon.

Considering the lessons about sanctions statecraft to be learned from the Iran case, practitioners and observers are likely to perceive challenges associated with a major new embrace of unilateral sanctions without coordination or support from close U.S. allies or other major global economies. The European reaction to the cleavage with the United States on Iran policy and a return to maximum pressure U.S. sanctions has been particularly worrisome. In discussing the creation of a special purpose vehicle to shield non-U.S. firms trading with Iran from the force of U.S. sanctions, European Union foreign affairs chief Federica Mogherini said the U.S. strategy had "made us and other parts of the world wonder what kind of (financial) autonomy we have."¹⁵ While there is a transatlantic consensus on the threat from Iran, there is a great divergence on how to approach it and Europe is developing a firm resolve to block the efficacy and applicability of U.S. sanctions.¹⁶

North Korea

The Trump administration has worked diligently to expand pressure on North Korea, and its economic lifelines in China, in support of a denuclearization diplomatic process with the Kim regime. This has included the issuance of Executive Order 13810 (September 2017),¹⁷ creating extraordinarily powerful sanctions authorities to target any foreign financial institution that facilitates transactions with North Korea, an array of new sanctions designations, including a USA Patriot Act Section 311 action against the Chinese Bank of Dandong, and advisories about North Korean sanctions circumventions.¹⁸ The United States has also sent a strong signal to North Korea about the unacceptability of violating sanctions with some meaningful, if limited, sanctions enforcement actions. This includes the recent seizure of a vessel illegally trafficking in North Korean coal, whose operations were paid for with transfers routed through U.S. banks.¹⁹ Since the end of the Obama administration, the United States has taken a leading role in building a multilateral coalition for imposing an increasingly strict sanctions regime against North Korea, including U.N. Security Council resolutions from 2016-2018 that added unprecedented measures to the international regime to constrain many critical forms international trade with the North Korea.²⁰ These

¹⁵ Rodrigo Campos, "EU's Mogherini eyes Iran SPV for trade 'before November'," Reuters, September 26, 2018, <https://www.reuters.com/article/us-iran-nuclear-mogherini/eus-mogherini-eyes-iran-spv-for-trade-before-november-idUSKCN1M62OF>.

¹⁶ Thorsten Benner, "Europe's Quest for Financial Independence," *Foreign Affairs*, August 31, 2018, <https://www.foreignaffairs.com/articles/europe/2018-08-31/europes-quest-financial-independence>.

¹⁷ United States Department of the Treasury, *Executive Order 13810 of September 20, 2017, Imposing Additional Sanctions with Respect to North Korea*, (September 25, 2017), <https://www.treasury.gov/resource-center/sanctions/Programs/Documents/13810.pdf>.

¹⁸ Financial Crimes Enforcement Network, "FinCEN Restricts North Korea's Access to the U.S. Financial System and Warns U.S. Financial Institutions of North Korean Schemes," press release, November 2, 2017, <https://www.fincen.gov/news/news-releases/fincen-further-restricts-north-koreas-access-us-financial-system-and-warns-us>.

¹⁹ "North Korean Cargo Vessel Connected to Sanctions Violations Seized by U.S. Government," U.S. Department of Justice, press release, May 9, 2019, <https://www.justice.gov/opa/pr/north-korean-cargo-vessel-connected-sanctions-violations-seized-us-government>.

²⁰ Kelsey Davenport, "UN Security Council Resolutions on North Korea," Arms Control Association, <https://www.armscontrol.org/factsheets/UN-Security-Council-Resolutions-on-North-Korea>.

measures deprive North Korea of hard currency necessary for the sustainability and growth of the regime's weapons of mass destruction programs.

Despite the multilateral nature of the sanctions, there are numerous obstacles to effective implementation, as many United Nations member states ignore the relevant Security Council resolutions because they find trade with North Korea either lucrative or diplomatically advantageous.²¹ There are also numerous unanswered questions about the Trump administration's diplomatic strategy with regard to North Korea, which will have a bearing on whether the North Korea sanctions program will be perceived as effective. The failure of the Hanoi summit, as well as the apparent effort by President Trump to rescind sanctions that had been imposed on two Chinese entities by his own administration, underscore concerns about the credibility of the administration's approach.²² Congress should demand clarity from the administration on the denuclearization concessions it will demand from North Korea in exchange for sanctions relief and on what kind of sanctions relief it plans to offer.

Russia

In response to Russia's illegal annexation of Crimea and continued territorial aggression in eastern Ukraine, the United States, in coordination with European partners, instituted sanctions against Russian targets in 2014.²³ Since that tranche of measures, the United States has added new measures, imposing further restrictions on many Russian banks' access to Western capital markets, the provision of Western technology and services to much of the Russian energy sector, as well as the addition to the Specially Designated Nationals and Blocked Persons (SDN) List of Russian government officials and oligarchs, and the creation of executive authorities relevant to election interference. In 2017 Congress passed unprecedented legislation, the Countering America's Adversaries Through Sanctions Act (CAATSA), creating many powerful new Russian sanctions authorities and congressional oversight mechanisms.

The administration has spent considerable time over the last year and a half implementing aspects of CAATSA. Since last summer the U.S. Congress has devoted an array of hearings and oversight activities to the implementation of CAATSA, the 1991 Chemical and Biological Weapons Control and Warfare Elimination Act (CBW Act), and the exercise of foreign policy toward Russia more generally. As I will describe later in my testimony, there is a strong political impetus for additional measures with respect to Russia, as there is no strong evidence that Putin has been effectively deterred from malign activity and because many members of Congress are concerned that the administration is not strong or clear enough in its policy toward Russia.

Venezuela

The U.S. administration began imposing sanctions on Venezuela in 2014, targeting corruption, human rights abuse, and the administration's hindrance of democratic processes. The past few weeks have seen a newly assertive push by the United States to force Venezuelan leader Nicolas Maduro from power. After the democratically elected National Assembly President Juan Guaidó declared himself the interim President of Venezuela on January 23, 2019, using powers enshrined in Venezuela's constitution, the

²¹ See, inter alia, Colum Lynch, "U.N. Report Details How North Korea Evades Sanctions," *Foreign Policy*, September 20, 2018, <https://foreignpolicy.com/2018/09/20/un-report-details-how-north-korea-evades-sanctions/>.

²² Saleha Mohsin, Jennifer Jacobs, and Nick Wadhams, "Trump Tried to Undo North Korean Penalty, Contrary to U.S. Account," *Bloomberg*, March 26, 2019, <https://www.bloomberg.com/news/articles/2019-03-26/trump-tried-to-undo-n-korea-penalty-contrary-to-u-s-account>.

²³ OFAC, "Ukraine-/Russia-related Sanctions," <https://www.treasury.gov/resource-center/sanctions/Programs/Pages/ukraine.aspx>; and European Council, "EU restrictive measures in response to the crisis in Ukraine," <https://www.consilium.europa.eu/en/policies/sanctions/ukraine-crisis/>.

United States responded swiftly to recognize him.²⁴ On January 28, 2019, the United States announced punishing economic restrictions on PDVSA, Venezuela's national oil company, complementing the array of financial sanctions on Venezuela. Collectively these measures constrain the Maduro regime's ability to sell its oil and its access to hard currency.²⁵ The banking and energy industries have made meaningful shifts in provision of services, operations, contracts, and commercial relationships with Venezuela. The Venezuelan economy and population are absorbing the implications of these measures, which are having significant economic, social, and political consequences. With the apparent failure of Guaidó to convince significant elements of the Venezuelan military to defect from the Maduro regime, thanks in part, it appears, to Russian support, Congress should be asking the administration about its anticipated next steps. This includes asking about the administration's plans with regards to the application of future sanctions on Venezuelan targets.

U.S. Sanctions and Countering Russian Malign Activity

The use of sanctions against Russia is of particular concern to policymakers and the American public at present. Russia's well-documented interference in the 2016 U.S. presidential election, as well as its ongoing efforts to sow misinformation and discord in the United States and among the United States and its allies, is a major driver of this concern. U.S. intelligence agencies have consistently warned about the severity of the threat. Earlier this year the Director of National Intelligence, Dan Coats, said that "the Kremlin is stepping up its campaign to divide Western political and security institutions and undermine the post-WWII international order."²⁶ To be sure, there are an array of other motivating factors driving the current interest in strong sanctions against Russia, including Russia's backing of chemical attacks, its ongoing territorial aggression, malicious cyber activity, and human rights abuses.

There is a robust debate about whether sanctions have the capacity to change Russia's policies and activities in any of these domains. However, U.S. policymakers must not abide inaction in the face of such doubts. Lack of response to Russia's threats will only empower Russia. Furthermore, the United States will lose credibility and allies in the campaign to push back on Russia if U.S. policy toward Russia, including the implementation of sanctions, appears episodic, arbitrary, and lacking in strategy. It will take deft maneuvering to keep the pain of sanctions directed at Russia, and not at U.S. allies and firms. If future sanctions involve draconian measures targeting legitimate European commerce with Russia, European companies and governments may not willingly comply. The United States has a major challenge ahead in implementing needed, tough policy toward Russia but doing so without risking a far-reaching rupture with European allies that would undermine coordination to address strategic challenges from Iran, Russia, and China.

What this means is that policymakers must stay rigidly focused on a methodology of Russia sanctions to specifically expose, and impose consequences for, malicious Russian activities with the intent to compel policy change. Sanctions can be used successfully to impede the flow of dirty Russian money and curb Russia's malicious activities. However, sanctions must not be overemphasized as a policy measure to deal with the array of Russian threats to U.S. national security, or used to the exclusion of other forms of statecraft. Furthermore, sanctions, as tactics, must not be confused with a strategy, or be implemented alone without a parallel diplomatic process and messaging effort.

²⁴ Secretary of State Michael Pompeo, "Recognition of Juan Guaidó as Venezuela's Interim President," U.S. Department of State, press statement, January 23, 2019, <https://www.state.gov/secretary/remarks/2019/01/288542.htm>.

²⁵ U.S. Department of Treasury, "Issuance of a New Venezuela-related Executive Order and General Licenses; Venezuela-related Designation," press release, January 28, 2019, <https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20190128.aspx>.

²⁶ The Honorable Dan Coats, Director of National Intelligence, "Annual Threat Assessment: Opening Statement," Statement to the Select Committee on Intelligence, United States Senate, January 29, 2019, 7, https://www.dni.gov/files/documents/Newsroom/Testimonies/2019-01-29-ATA-Opening-Statement_Final.pdf.

Wherever possible, U.S. policymakers should coordinate with international allies in the application of pressure on Russia, such as in the targeting of Russia's territorial aggression, its chemical attacks, and its human rights abuses. Divided from transatlantic partners on sanctions, the United States will struggle for clarity and strength in its Russia policy, and it will alienate and harm closest friends in the fight. Ultimately, U.S. sanctions alone cannot be expected to deliver foreign policy success. They certainly will not cause President Putin to capitulate. Policymakers must proceed from this starting point when deploying this tool in the future.

Looking forward, policymakers must be especially mindful of the size and global interconnectedness of Russia's economy and the willingness and ability of its leaders to cope with economic hardship and not make political concessions in the face of this stress. While sanctions implemented by the United States and the European Union in 2014 and 2015 did cause economic damage to the Russian Federation, the Russian economy has shown itself to be resilient, and the Russian government has shown itself to be an effective manager of the sanctions-imposed stress.²⁷ Russia's recession ended in 2016, and while its growth has been a meager 1.5-2 percent since, this has been enough to avoid broad discontent with Putin's foreign policy.²⁸ Relatively strong oil prices and the ability of the Russian state and private executives to court alternative sources of financing, including from China, and particularly in light of the declining ruble, has been a powerful buoy to the Russian economy. Russia's leaders have worked diligently to bail out institutions under sanctions stress and raise capital to insulate itself from further sanctions. It has "on-shored" many critical capabilities, especially in its energy sector, is looking to China as an alternative market and financier, and is bracing for a long fight with the United States. Moreover, it made a remarkable shift out of U.S. debt holdings last year, reducing its these holdings 84 percent.²⁹

Many market observers will look to the early 2019 lifting of sanctions on several companies linked to sanctioned Russian oligarch Oleg Deripaska—En+ Group, Rusal, and EuroSibEnergo—as another sign of Russian economic adaptation and an ability to get out from under sanctions pressure.³⁰ Many political observers also see the United States as weak on Russia to have agreed to a deal in which Deripaska retains meaningful, if minority, ownership over these firms. The delisting generated a tremendous amount of political controversy in the United States. Congress used the review measures it wrote into CAATSA to attempt to pass a resolution of disapproval, which overwhelmingly passed in the House of Representatives but failed in the Senate.

²⁷ Rachel Ziemba, Adjunct Senior Fellow, Center for a New American Security, "Russia Sanctions: Current Effectiveness and Potential Future Steps," testimony to the U.S. Senate Committee on Banking, Housing, and Urban Affairs, September 7, 2018, <https://www.cnas.org/publications/congressional-testimony/testimony-before-the-u-s-senate-committee-on-banking-housing-and-urban-affairs>.

²⁸ International Monetary Fund, "Real GDP growth; annual percent change," https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/RUS?year=2019.

²⁹ Thomas Frank, "Treasury data shows Russian holdings of US debt plunged 84% since March, but here's what it really means," CNBC.com, July 29, 2018, <https://www.cnbc.com/2018/07/29/treasury-department-report-shows-russian-holdings-of-us-debt-plunged.html>.

³⁰ Oleg Deripaska and his companies were sanctioned "for having acted or purported to act for or on behalf of, directly or indirectly, a senior official of the Government of the Russian Federation, as well as pursuant to E.O. 13662 for operating in the energy sector of the Russian Federation economy. Deripaska has said that he does not separate himself from the Russian state. He has also acknowledged possessing a Russian diplomatic passport, and claims to have represented the Russian government in other countries. Deripaska has been investigated for money laundering, and has been accused of threatening the lives of business rivals, illegally wiretapping a government official, and taking part in extortion and racketeering. There are also allegations that Deripaska bribed a government official, ordered the murder of a businessman, and had links to a Russian organized crime group." U.S. Department of the Treasury, "Treasury Designates Russian Oligarchs, Officials, and Entities in Response to Worldwide Malign Activity," press release, April 6, 2018, <https://home.treasury.gov/news/press-releases/sm0338>.

Members of Congress who have concerns about how the administration executed the delisting do have tools available to exercise oversight and should do so with regard to Rusal, and on Russia policy more broadly. Members should require the Treasury Department to regularly report on its monitoring of the operations of the delisted companies to ensure that it is impossible for Oleg Deripaska to exercise effective control or influence, as was the condition of the delisting. Congress can also ask how much of the debt forgiveness within the delisting deal enriches Deripaska's personal balance sheet, and what that may mean for his ability to engage in illicit activity even not related to the delisted firms. Administration officials should also discuss what signals they believe this delisting sends to other firms about the legal and accounting mechanisms they could employ to divest below the 50 percent OFAC threshold for ownership that subjects firms of designated individuals to sanctions. Congress should also ask administration officials what metrics they will use to evaluate behavior change in Russian oligarchs targeted by U.S. sanctions and the lessons to be learned in the future from targeting cronies and parastatals in Russia.

I urge Congress to focus its grave concerns with Russia on oversight of the current sanctions regime, including on the de-listed Deripaska companies, and on enforcement of existing sanctions. There is much to be done in this domain and no other institution that can be as forceful in urging the U.S. administration to act in this domain. On the day that the administration sent notice to Congress that it would delist Deripaska's companies, it announced a tough set of sanctions on other Russian entities, including a right-hand man of Deripaska.³¹ Congress should encourage the administration to continue with this implementation. It should persist with efforts like the recent letter from Chair Waters and Chairman Engel, asking for the long-overdue administration report on its efforts to carry out the provisions of the Russia Magnitsky Act.³² Congress should also support and urge the administration's efforts to compel oversight associated with any delisting cases. Ideally, this will be even stronger in the future. Furthermore, Congress should actively work to keep the public narrative on Russia on the ongoing work of pressuring Russia for its malign activity, including its grave and ongoing efforts to interfere with democratic processes. Congress should demand that the U.S. administration take further action to safeguard the U.S. electoral system ahead of the next election, using the election interference authorities it put in place last September. If policymakers get bogged down with one specific, if important, instance of sanctions delisting, or only one aspect of Russia's efforts to undermine U.S. interests, they risk leaving the United States vulnerable and exposed to other Russian threats.

New Legislation and Oversight Initiatives

Congress should consider new legislative measures with respect to Russia. The time is right for new, strong measures that impose real costs on Russia, constraining its ability to operate internationally, while minimizing potential collateral damage for U.S. allies and partners. Such legislation should address the grave threats presented by the array of Russian malign activity, including in the areas of malicious cyber activity, chemical and biological weapons attacks, interference in democratic processes (including politically motivated assassinations), human rights abuses, territorial aggression, rampant money laundering, and the undermining of international institutions. Along with diplomatic, defense, and arms control provisions, new legislation could potentially include sanctions measures targeting the following areas: financial services (including related to issuance of sovereign debt), defense, intelligence, technology, and other economic sectors, as well as further measures targeting oligarchs. New sanctions on Russia need to be carefully crafted to mitigate potential unintended economic consequences to U.S.

³¹ United States Department of Treasury, Treasury Targets Russian Operatives over Election Interference, World Anti-Doping Agency Hacking, and Other Malign Activities," press release, December 19, 2018, <https://home.treasury.gov/news/press-releases/sm577>.

³² "Engel & Waters Demand Overdue Russian Sanctions Report," U.S. House of Representatives Committee on Foreign Affairs, press release, May 6, 2019, <https://foreignaffairs.house.gov/2019/5/engel-waters-demand-overdue-russian-sanctions-report>.

firms. However, in the face of haphazard focus and uneven pressure by the Trump administration, Congress needs to pass tough new measures to guide U.S. policy on Russia and curb Moscow's aggression.

In addition, enacting new legislation on corporate transparency, including creating requirements for the collection and disclosure of beneficial ownership information, would be valuable in preventing illicit Russian money from flowing into the country. This committee has heard testimony from a variety of experts encouraging you to adopt legislation in this area, and in negotiations to advance a bill to mitigate the anonymous company problem. I urge the Committee to send legislation addressing this issue to the full House for a vote as expeditiously as possible.

To complement these legislative efforts, the U.S. Congress should consider oversight to follow and guide administration policy on Russia in the following areas of implementation and enforcement: Russian policy or conduct that may interfere with U.S. democratic institutions and processes; the administration's delays in imposing sanctions required by statute, such as sanctions against Russia's chemical weapons attacks; Russian attacks on U.S. allies; Russian abuse of human rights and violation of territorial sovereignty; and delisting of major Russian companies.

A further area for congressional oversight related to Russia sanctions should be an intensive analytical inquiry into the economic implications of Russia sanctions measures on the economies of Russia, the United States, and allies and partners of the United States as well as the strategic implications on U.S. security and alliance relationships of the imposition of U.S. sanctions linked to Russia.

Below are select suggestions for measures that Congress should consider in its ongoing Russia legislation and oversight.

- **Mandating follow-through on chemical and biological weapons sanctions.** Evidence provided by United Kingdom police and security services clearly points to Russian responsibility for the lethal use of chemical weapons on the soil of one of this country's closest allies.³³ Unfortunately, the U.S. administration has not followed up on an initial round of sanctions in August 2018 with another set of measures authorized and required by the 1991 Chemical and Biological Weapons Act (CBW Act).³⁴ Congress should require the administration to impose statutorily mandated further sanctions on Russia for its brazen use of a weapon of mass destruction.
- **Measures sanctioning primary issuance of Russian sovereign debt.** In 2014, Treasury officials and sanctions experts believed it would have been too disruptive to the global economy to implement measures targeting the trading of new Russian sovereign debt. However, in recent years, the dynamic of Western capital market interaction with Russia has changed. It may be possible for such sanctions measures to have a limited contagion effect for the broader economy. Congress should include close consideration of sanctions on primary issuance of Russian sovereign debt as it crafts new Russia sanctions measures.

³³ "Britain identifies two Russians as suspects in the Skripal poisoning," *The Economist*, September 6, 2018, <https://www.economist.com/britain/2018/09/06/britain-identifies-two-russians-as-suspects-in-the-skripal-poisoning>.

³⁴ United States Department of State, Bureau of International Security and Nonproliferation, *Determinations Regarding Use of Chemical Weapons by Russia Under the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991*, Federal Register, August 27, 2018, <https://www.federalregister.gov/documents/2018/08/27/2018-18503/determinations-regarding-use-of-chemical-weapons-by-russia-under-the-chemical-and-biological-weapons>.

- **Strengthening the effort to prevent Russian election interference.** Congress should codify and update the authorities created by the administration in its September Executive Order 13848, "Imposing Certain Sanctions in the Event of Foreign Interference in a United States Election." This authority as crafted is cumbersome and may be inadequate to address the election interference threat facing the United States currently. Additionally, Congress should expand the scope of election interference to best match the range of insidious challenges to our democracy from disinformation campaigns to tampering with election infrastructure.
- **Expanding the targeting of Russian oligarchs and parastatal entities.** Congress must ensure that those individuals closest to Putin realize that the lifting of sanctions against the corporate entities associated with Oleg Deripaska is not a signal that the United States is relieving pressure on Russia. Indeed, as Deripaska remains on the SDN list, Congress should ensure that the administration is identifying individuals that are ideal candidates to join him. Congress could require that the State Department release a public report of the oligarchs generally considered closest to President Putin, along with the factors that are used to measure "closeness." This will signal to these oligarchs and the Kremlin that the United States is closely watching the networks of President Putin's influence and brutal control. While sanctioning oligarchs and the companies over which they exercise control or maintain ownership will not fundamentally alter Russian foreign policy, it is beneficial to the United States to separate them from access to the global financial system, and therefore limit President Putin's ability to influence proxies to advance illicit interests.
- **Improving financial transparency in the United States.** Congress should pass new legislation to require the collection and disclosure of beneficial ownership information in the corporate formation process and on an ongoing basis. This would offer a powerful solution to the problem of anonymous companies in the United States, which represents an appalling gap in the integrity of our financial system and an enormous loophole that enables malicious actors, including Russian operatives seeking to undermine U.S. democratic institutions and processes, to operate anonymously and with utter impunity in the United States.

The United States boasts the most sophisticated and preeminent financial system globally, with unparalleled financial crimes enforcement capabilities and resources. Yet, even with all of these advantages, our financial system has a wide-open back door for our adversaries to march through, set up shop, and wage an enormous and well-funded influence campaign, laundering money to pay for attacks on our democracy. For some time, U.S. law enforcement agencies have asked for access to beneficial ownership information, the likes of which could help to expose and deter Russian attacks on our democracy. But, despite the severity of the threat, these requests from the law enforcement community have been ignored.³⁵ Banking executives also support the requirement for collection of beneficial ownership information, as it would help them to better protect themselves from abuse by criminals and other illicit financiers.³⁶

- **Congressional appropriations.** Congress should ensure that the agencies responsible for implementation and coordination of sanctions are well-resourced. The previous Congress did

³⁵ M. Kendall Day, Acting Deputy Assistant Attorney General, Criminal Division, U.S. Department of Justice, "Beneficial Ownership: Fighting Illicit International Financial Networks Through Transparency," Testimony to the Senate Judiciary Committee, February 6, 2018, <https://www.judiciary.senate.gov/imo/media/doc/02-06-18%20Day%20Testimony.pdf>.

³⁶ Greg Baer, President, The Clearing House Association, "Implementation of FinCEN's Customer Due Diligence Rule—Financial Institution Perspective," Testimony to the House Financial Services Subcommittee on Financial Institutions and Consumer Credit, April 27, 2018, <https://financialservices.house.gov/uploadedfiles/hhrg-115-ba15-wstate-gbaer-20180427.pdf>.

expand funding for the Treasury Department's Office of Terrorism and Financial Intelligence, but it was still below the budget request. Congress should also call for the reopening of the State Department's Sanctions Coordination Office so that that the U.S. usage of sanctions has the diplomatic support it needs to be successful.

Conclusion

The role of Congress in creating sanctions and overseeing their implementation and enforcement is critically important for the long-term ability of the United States to use this tool in pursuit of U.S. foreign policy and security goals. Sanctions are a powerful instrument of economic coercion, creating economic effects that can be disruptive not only to our adversaries, but to our allies and partners as well. It is essential for Congress to ask questions of the administration and experts in forums such as these and create guidelines about the methods the United States uses in applying sanctions. Congress will be instrumental in helping the U.S. policymaking community understand the effects and implications this kind of statecraft is having on a variety of actors, and the overall strategy they are meant to be supporting. This work is nothing short of essential given the factors that bear on the effectiveness and availability of sanctions in the years ahead. It will be a critical factor in ensuring that U.S. policies advance a strategic goal and in so doing avoid the missteps that will compromise the tools themselves, or their ultimate goals, in the long run.

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

Biography

Elizabeth Rosenberg

Senior Fellow and Director, Energy, Economics, and Security Program, Center for a New American Security



ELIZABETH ROSENBERG is a Senior Fellow and Director of the Energy, Economics and Security Program at the Center for a New American Security. In this capacity, she publishes and speaks on the national security and foreign policy implications of the use of sanctions and economic statecraft as well as energy market shifts. She has testified before Congress on sanctions and energy issues and been quoted widely by leading U.S. and international media outlets.

From May 2009 through September 2013, Ms. Rosenberg served as a Senior Advisor at the U.S. Department of the Treasury, to the Assistant Secretary for Terrorist Financing and Financial Crimes, and then to the Under Secretary for Terrorism and Financial Intelligence. In these senior roles, she helped to develop and implement financial and energy sanctions. Key initiatives she helped to oversee include the tightening of global sanctions on Iran, the launching of new, comprehensive sanctions against Libya and Syria and modification of Burma sanctions in step with normalization of diplomatic relations. She also helped to formulate anti-money laundering and counter-terrorist and counter-proliferation financing policy and oversee financial regulatory enforcement activities.

From 2005 to 2009 Ms. Rosenberg was an energy policy correspondent at Argus Media in Washington D.C., analyzing U.S and Middle Eastern energy policy, regulation and trading. She spoke and published extensively on OPEC, strategic reserves, energy sanctions and national security policy, oil and natural gas investment and production, and renewable fuels.

Ms. Rosenberg studied energy subsidy reform and Arabic during a 2004-2005 fellowship in Cairo, Egypt. She was an editor of the Arab Studies Journal from 2002-2005 and researched and wrote on Middle Eastern politics at the Council on Foreign Relations in 2003. She received an MA in Near Eastern Studies from New York University and a BA in Politics and Religion from Oberlin College.

Statement by Daleep Singh

Assessing the Use of Sanctions in Addressing National Security and Foreign Policy Challenges

Subcommittee on National Security, International Development and Monetary Policy

U.S. House of Representatives

May 15, 2019

Chairman Cleaver and Ranking Member Stivers, thank you for the opportunity to appear before this committee.

As a Treasury official, I worked extensively on the design of Russia sanctions in 2014. I draw three main conclusions from the experience: (1) well-designed sanctions are highly effective at imposing costs on a market-based economy; (2) signals from our top leadership are often more potent than sanctions themselves; and (3) sanctions are rarely enough, by themselves, to achieve the foreign policy objective - especially when we're confronting an entrenched autocrat.

Bearing these lessons in mind, I will offer suggestions on how we might respond to Russia's continued aggression in the current context. As background, allow me to share perspective from the 2014 experience.

How were sanctions designed in 2014?

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

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

¹ Maximizing economic costs against Russia (i.e., causing a financial crisis) was never our objective.

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

Financing restrictions proved especially potent

Restricting foreign capital proved even more potent than we anticipated. By removing the U.S. and European supply of debt and equity financing to the largest Russian state-owned enterprises in the most critical sectors of the economy, the 2014 sanctions triggered a negative feedback loop in Russia that ultimately led to a deep recession and double-digit inflation.

The mechanism was the reversal of market-based financing. For sanctioned entities, we prohibited the supply of Western capital through debt and equity issuance. Closing access to external financing spiked the borrowing cost for sanctioned targets to distressed levels. The sudden impairment of balance sheets in the largest sectors of Russia's economy spilled over to the corporate sector more broadly and sparked record levels of capital flight from the country as a whole.

In a futile attempt to defend its currency, the ruble, the Russian central bank depleted about a quarter of its foreign currency reserves before surrendering to market forces and allowing the ruble to depreciate close to fifty percent from its pre-sanctions value. Importantly, the speed of deterioration in Russia's financial markets was determined by investor choice and Putin's own defiance, rather than prescribed in advance by U.S. policy.

Punishing impact to the Russian economy followed soon afterwards. Import prices surged in tandem with Russia's weakened currency and pushed the inflation rate up to the mid-teens, forcing several rounds of emergency interest rate hikes by the Russian central bank. Banks required government injections of capital and regulatory forbearance just to avoid bankruptcy. Adjusted for inflation, wages and spending collapsed. Bank lending and investment dried up. The economy fell into recession.

Spillover risks were managed carefully

By late 2014, our sanctions program had the potential to deliver a knockout blow, particularly with lower oil prices causing an even larger shock.² Instead we showed restraint – both to increase the staying power of sanctions and to avoid the appearance of targeting Russian civilians. Our sanctions program only targeted a handful of state-

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

owned companies in key sectors. We did not target private companies, nor did we sanction all sectors of the Russian economy. We prohibited new flows of financing to sanctions targets, but existing stocks of risk³ were not frozen. U.S. investors remained free to reduce exposure to Russia at a pace and magnitude of their choosing. Derivatives and money markets, both of which tend to be the 'dry tinder' of financial crisis, were largely untouched to avoid accidents in the global economy.

Sanctions “do their job”: impact and spillovers were largely as expected

Due in large part to this restraint, the economic impact to and spillovers from Russia were in line with our expectations. The Russian economy contracted 2.5 percent in 2015, the biggest decline among large economies, and the recession continued into 2016.

Over the medium term, these sanctions dealt a weak strategic hand to Putin's economy. Russia's already depleted stock of capital was starved of much-needed financing and investment. Removal of U.S. and European energy technology, and the de-integration of Russia from the global financial system, deprived Russia of productive capacity and made its economy even more brittle. The chilling effect across the economy prompted defections from talented portions of Russia's already declining labor force. As of last September, the IMF estimated potential growth in Russia over the medium-term at no more than 1.5 percent per year, well below the average for emerging economies.

Meanwhile, unwanted spillovers were minimal. Sanctions forced the Russian government to spend a sizeable portion of its resources to contain economic stress, but we avoided causing widespread panic among the general public. This was consistent with our purpose: to create diplomatic leverage and deal space for our political leadership, not to deliver financial hardship for the Russian people.

Blowback to the U.S. economy was limited in the aggregate, although certain businesses and sectors were negatively affected. (By construction, sanctions are an economic distortion; spillovers are unavoidable). Even for Europe, where direct linkages to Russia are far more significant than in the U.S., the spillovers were summarized by the European Commission as “contained.”⁴ Were it not for sanctions, I believe the paralyzing uncertainty brought about by unchecked Russian aggression in the heart of Europe would have caused far more economic damage to the region.

Signals were at least as important as actions

Throughout this process, both the impact and spillovers from sanctions were managed through signaling. The signals were expressed by the most senior leaders of the U.S. government, and their force was multiplied by international partnership.

³ This was our way of respecting the sanctity of contracts.

⁴ 0.3 percent of GDP in 2014 and 0.4 percent in 2015. *Russia's and the EU's sanctions: economic and trade effects, compliance and the way forward*
[http://www.europarl.europa.eu/RegData/etudes/STUD/2017/603847/EXPO_STU\(2017\)603847_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2017/603847/EXPO_STU(2017)603847_EN.pdf)

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

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

Looking back, I have no doubt that direct signaling from the U.S. President was among the most potent sanctions tools we deployed against Russia. This is not just a matter of opinion. Many of the most punishing episodes in Russian markets during 2014 were not the result of sanctions *actions* being announced, but rather they occurred after new *signals* about future actions were expressed by the President. This makes intuitive sense. Markets are shaped by expectations about the future; the past and present are already in the price.

Escalatory signals from the President provided new information that markets had yet to incorporate into prices, and these signals were invariably strong enough to impose costs on Russian markets *by themselves*. Of course this signaling would have lost its potency had investors doubted the credibility of the threat, but this has only become a relevant concern more recently.

Sanctions can change behavior, but not by themselves

Did these economic costs ultimately matter to Putin? Answering this question goes beyond my expertise, but I would observe that any leader – however rogue – cares about popularity, and recessions do not win hearts and minds among cronies, nor with the general public. It's certainly true that Putin's tolerance for economic pain is higher than that of most Western leaders, but there was threshold above which his decision-making calculus appeared to change.

Close observers have argued convincingly that were it not for the mounting costs to the Russian economy in late 2014, Putin's forces might have annexed more territory or

marched all the way to Kyiv.⁵ We'll never prove the counterfactual, but by the Russian leadership's own admission the impact of sanctions was painful during this period.⁶ My takeaway is that sanctions have the potential to overwhelm Putin's endurance, but only if they are backed with clear and unified signals from our top leadership – and embedded into a broader strategy. Ultimately, Putin is more tactical opportunist than grand strategist – costs matter.

A key caveat is the importance of winning the narrative within Russia. If there was a major failing in our 2014 sanctions regime, it was that the average Russian citizen did not see our purpose as honorable or even lawful.⁷ Instead of believing our objective was to defend the free will of a sovereign Ukraine, the average Russian likely bought Putin's propaganda that U.S. sanctions were just the latest in a series of historical injustices perpetrated by the West upon Russia.⁸ Our inability to counter Putin's scapegoating dampened the effects of sanctions on Russia's political economy and gave the regime far more staying power than it would have enjoyed otherwise.

Current context

Turning to the current context, we know that Russia's aggression abroad and repression at home have only worsened since 2015. At the same time, economic developments in Russia have improved markedly. The economy is out of recession; while it's still growing slowly, Russia's GDP grew in 2018 by the fastest amount in six years. Inflation touched an all-time low last year. Oil production also set a new post-Soviet record in 2018. Foreign reserves are back to pre-sanctions levels, nearing \$500 billion in total. Both the government's budget surplus and trade surplus have reached record levels.

Financial conditions have taken a similarly positive turn. In February, Moody's upgraded Russia's sovereign debt to investment-grade. In March, the Russian government placed the largest amount of dollar issuance since 2013. Foreign investors have been major buyers of Russian debt sales, absorbing almost half of all issuance according to official sources.⁹ The Russian ruble and Russian stock market are both among the top performers in the world this year.

Rising oil prices are undoubtedly driving part of the rebound, but so is the perception that the U.S. lacks the political will to stand up to Putin. Markets are reading the

⁵ Testimony of Ambassador Michael McFaul, <https://www.banking.senate.gov/download/mcfaul-testimony-09-06-18>

⁶ "Ruble falls, sanctions hurt Russia's economy: Medvedev," *Reuters*. <https://www.reuters.com/article/us-russia-medvedev-sanctions/ruble-fall-sanctions-hurt-russias-economy-medvedev-idUSKBN0JO0SR20141210>

⁷ <https://www.levada.ru/2016/08/18/sanktsii-zapada-i-produktovoe-embargo-rossii/>

⁸ "A year into a conflict with Russia, are sanctions working," *Washington Post*.

https://www.washingtonpost.com/world/europe/a-year-into-a-conflict-with-russia-are-sanctions-working/2015/03/26/45ec04b2-c73c-11e4-bea5-b893e7ac3fb3_story.html?utm_term=.b745d8e51f79

⁹ "Foreign buyers bought just over half of all Russia's OFZ bonds issued in Q1 2019," *Intellinews*. <https://www.intellinews.com/foreign-investors-bought-just-over-half-of-all-russia-s-ofz-bonds-issued-in-1q19-158907/>

signals, but unlike in 2014 they are muting rather than amplifying the impact of sanctions. President Trump has repeatedly questioned the findings of our top intelligence officials about Russia's attack on our democratic process in 2016. President Trump says it would be a good thing to get along with Russia, despite Putin's desire to undermine our national interests in Ukraine, Syria, and Venezuela. He congratulated Putin on his re-election even amid outrage over Russia's brazen chemical attacks on NATO soil. Investors see the sanctions tool being applied to the limit against rogue regimes in Iran and Venezuela, but when it comes to Russia, they read stories of sanctions fatigue – even within the U.S. Congress. If I were to summarize the general market attitude towards the U.S. government's Russia sanctions program, it would be described as political theater, an unserious show of concern without any real desire for policy action behind the scenes.

In a practical sense, that's the good news – expectations for U.S. sanctions are low, and greed has overtaken fear in the pricing of Russian assets. Perhaps more now than at any point since 2014, new Russia sanctions would be a surprise blow to markets and make a real difference. I suggest two immediate actions:

- First, U.S. investors should be prohibited from purchasing new Russian sovereign debt in any currency. In 2014, I was cautious about taking this action due to the unpredictable spillover effects of disrupting the risk-free, benchmark asset of a sovereign nation. Circumstances have changed. Russia is far better able to absorb a hit to its sovereign debt market, for the reasons described above, and investors have had almost five years to reduce exposures in Russia. More to the point, I can think of no credible argument why U.S. public pension funds and household 401Ks should fund the Russian government after its "sweeping and systematic" attempts to undermine American democracy.¹⁰
- Second, while I am not in favor of prohibitions on secondary market trading¹¹ of Russian assets as a general matter, there is merit in constructive ambiguity. Requirements on U.S. persons to disclose any existing holdings of Promsvyazbank (Russia's designated bank to service the defense sector), and possibly VEB, would generate a broader chilling effect. By itself, this measure would not prohibit any trading activities, but markets are conditioned to read the signals that broader restrictions could follow. Note: these financial institutions are essentially appendages of the Russian government, oriented around domestic lending and with relatively limited international linkages.

¹⁰ See Volume 1: Report On The Investigation Into Russian Interference In The 2016 Presidential Election <https://www.justice.gov/storage/report.pdf>

¹¹ Secondary market trading refers to the buying and selling of a financial instrument (e.g., Russian debt) after it has been issued.

Beyond sanctions, we must focus our efforts on winning the domestic narrative within Russia – both by exposing the corruption and criminality of Putin's regime, and through a renewed effort to bolster Ukraine as a successful, free market democracy in the near-abroad.

- **Transparency outside of Russia:** Treasury and other authorities should conduct a study that attempts to identify the financial intermediaries that manage and benefit from Putin's wealth and the fortunes of his fellow Kremlin kleptocrats. Even in the unlikely scenario that this effort has no effect on Putin's geopolitical calculus, it will signal to the Russian people that our quarrel is not with them, and it would provide a measure of transparency on Putin's fortunes held abroad. Passage of beneficial ownership legislation by Congress would also help to shine a light on stashes of stolen wealth held in high-end U.S. real estate, shell companies, and other anonymous investments. These efforts are long overdue.
- **Transparency within Russia:** Relatedly, I would encourage a robust campaign to improve transparency within Russia. Distributing verifiable evidence of corruption, and the dependence of the current regime on kleptocracy, would help to counter the government's disinformation campaign and its control of the media. Putin is ripping off the Russian people, and they deserve to know it.
- **Ukraine as the positive alternative:** Lastly, a comprehensive effort to counter Russian aggression requires an offensive economic strategy in its near abroad, especially in Ukraine. It remains the poorest country in Europe on a per capita income basis, largely because the reform effort has stalled. Capital continues to flow out of the country, and lending conditions are choked by interest rates in the mid-teens and nonperforming loans near fifty percent. Corruption remains rampant in the financial system and the judiciary system. The most impactful step that could be taken is conditions-based bilateral U.S. support to reinforce long-standing IMF priorities to battle corruption, improve the rule of law, and establish property rights. The overarching purpose must be to create a successful alternative to Putinism in Russia's near-abroad, a scenario that has long been Putin's worst nightmare.

CONGRESSIONAL TESTIMONY: FOUNDATION FOR DEFENSE OF DEMOCRACIES

House Financial Services Committee

Subcommittee on National Security, International Development and Monetary Policy

Assessing the Use of Sanctions in Addressing National Security and Foreign Policy Challenges

MATTHEW ZWEIG

Senior Fellow

Foundation for Defense of Democracies

Washington, DC
May 15, 2019



www.fdd.org

Matthew Zweig

May 15, 2019

Chairman Cleaver, Ranking Member Stivers, and distinguished members of the Subcommittee on National Security, International Development and Monetary Policy, I am honored to appear before you today to discuss the use of sanctions and economic statecraft in addressing U.S. national security and foreign policy challenges.

Introduction

I will focus my testimony on the congressional role, as this committee and others consider additional sanctions on Russia, in developing and overseeing the implementation of U.S. sanctions and other coercive economic instruments.

When effectively developed and employed, sanctions provide the United States with an asymmetric instrument imposing costs on our adversaries that far outweigh those borne by the U.S. and our allies. Still, there are limitations on these instruments. They should not be a primary instrument of national power in instances where they would not yield an asymmetric effect.

For both practical and constitutional reasons, Congress has a critical role to play in applying sanctions. Primacy with respect to wielding other instruments of national power – from diplomatic to military tools – is either constitutionally divided or subject to the sole discretion of the executive branch. Congress can neither direct the deployment of military personnel (although it can approve or disapprove of such deployments) nor recognize foreign states or the jurisdiction of foreign states over territory.

Conversely, the executive branch in most instances cannot refuse to implement congressionally mandated sanctions. The unique congressional role in sanctions development and implementation requires close cooperation between Congress and the executive branch in order to deploy sanctions successfully while limiting their adverse effects on the U.S. and our allies. Congress also has a critical role to play in resourcing government agencies involved in U.S. sanctions policy and ensuring the continued power of these tools.

The Congressional Role in Creating Effective Sanctions

Article I, Section 8 of the Constitution provides Congress with the responsibility of regulating “commerce with foreign nations.”¹ While the executive branch has no inherent authority to impose sanctions independently, Congress has delegated to the executive branch the plenary authority to design, implement, and enforce most sanctions and other coercive economic measures. This delegation has taken the form of two pieces of landmark legislation: the Trading With the Enemy Act of 1917 and the International Emergency Economic Powers Act of 1977. The former applies to economic sanctions during wartime and the latter applies to economic sanctions during peacetime declarations of national emergencies. Nonetheless, when Congress has become frustrated with the executive branch’s actions or lack thereof, it has effectively exerted its authority over the objections of successive administrations, from Cuba to Iran and Russia.

¹ Article I, Section 8 of the United States Constitution.

For example, in the sanctions against Russia contained in the Countering America's Adversaries Through Sanctions Act (CAATSA), Congress mandated that specific sanctions be imposed, and limited the administration's ability to lift existing sanctions in whole or in part against individuals or entities. Even with the significant delegation of power to the executive branch, sanctions are far less subject to the discretion of the executive branch than other instruments of national power.

Despite these limits, successive administrations have increasingly relied on sanctions and other coercive economic measures to achieve their foreign policy objectives. Therefore, this committee, and Congress generally, has an opportunity to exert increased influence on foreign policy. In doing so, Congress should abide by certain principles.

Create a Responsible Sanctions Architecture that Balances Flexibility and Firmness.

Congressional sanctions signal to adversaries that there will be significant consequences if they challenge our interests. For example, congressional efforts from 2010 to 2013 to impose new sanctions on Iran's oil and financial sectors played a powerful role in putting pressure on Iran's economy and coercing Iran to negotiate. Likewise, congressional efforts have established important benchmarks and requirements to ensure the executive branch continues to exert pressure on Russia for its malign activities.

To maximize effectiveness, sanctions legislation should strike an appropriate balance between requiring specific actions from the executive branch and giving it sufficient flexibility to implement sanctions effectively. Congress also must closely examine how legislative sanctions are constructed and constituted. It should examine whether there are useful authorities that the Treasury Department, State Department, and other agencies in the executive branch do not already have. Also meriting examination is whether there is or there is likely to be a significant policy dispute or concern that will lead the executive branch to act in a way that is inconsistent with congressional objectives.

In the context of Iran and Russia, for example, Congress helped spur the executive branch to adopt a more aggressive posture when it was reluctant to do so. However, in the case of proposed sanctions legislation on North Korea in late 2017, Congress and the administration agreed on the need for maximum economic pressure. When Congress imposed mandatory sanctions obligations on the Trump administration as it was working toward the shared goal of imposing maximum economic pressure on North Korea, lawmakers only complicated Treasury's ongoing efforts and created additional work. At the same time, some legislators were concerned that a future fissure between the administration and Congress over North Korea policy would leave Congress at a disadvantage. There were also concerns regarding whether the limitations on the administration's flexibility can impact its willingness to take effective actions.

Limiting any administration's flexibility can be appropriate in certain situations, but there can be a significant downside. This is why mandatory sanctions legislation usually includes waiver provisions, licensing authorities, and either termination criteria or sunset provisions that cause the legislation to expire after a certain date or timeframe. Preserving flexibility is good, yet Congress must also guard against the potential abuse by any administration. The key is to ensure that a proper balance is established.

Ensure Sanctions Fits into a Broader Strategy. Sanctions are not a strategy. They are a tool for achieving particular objectives, such as deterring an adversary, degrading a target's capability, or extracting concessions. Too often, sanctions are used in lieu of a well-crafted strategy that uses all elements of national power and that includes buy-in across the branches of government. As Congress considers how to ramp up pressure on adversaries such as Russia, it should ensure that its use of sanctions fits into a broader strategy for achieving our national security and foreign policy objectives. This will require both an assessment of other tools *and* an assessment of how any additional sanctions are going to result in our desired objectives.

As a rule, the strategic objective should drive the choice of a specific sanction; the objective should also drive whether sanctions themselves are a primary instrument or a supporting one. One key objective of sanctions is to deny adversaries the resources necessary to continue their malign behavior. Another key objective is to compel targets to change undesirable behavior. For example, in the Russia context, the United States has used a combination of sectoral, list-based, jurisdictional, and secondary sanctions to impose costs on Putin and his cronies for interfering in U.S. elections, annexing Crimea, destabilizing Eastern Ukraine, supporting the Assad regime in Syria, and using chemical weapons in Europe.

The impact of these tools in Russia is significant. As Assistant Secretary of the Treasury for Terrorist Financing and Financial Crimes Marshall Billingslea noted in August 2018 regarding the impact of sanctions against RUSAL, a major aluminum producer owned or controlled by a Russian oligarch, "the combined net worth of Russia's 27 wealthiest people fell by an estimated \$16 billion in one day, Moscow-traded stocks had their biggest drop in four years, and the ruble fell to its weakest position since late 2016."²

Yet Russia is not any closer to fulfilling its obligations under the Minsk Agreement,³ and it continues its destabilizing activities including supporting the Assad regime in Syria, using chemical weapons in Europe, and continually interfering in foreign elections.

It is important to recall that these sanctions can be undermined by an unwillingness on the part of our allies and partners to escalate pressure. Congress must be aggressive in its outreach to these allies and partners to develop mechanisms that could reduce further strains on our alliances, particularly the transatlantic alliance. While such tensions should not dissuade Congress from taking aggressive action against Russia, a dialogue would likely yield better methods for doing so.

Coordination between the Executive Branch and Congress on Sanctions Relief. When any administration or Congress levies sanctions on an adversary, it implies that sanctions will be lifted once an adversary's behavior changes. There should be an agreement between the administration and Congress on what constitutes an adequate behavioral change. If there are

² U.S. Department of the Treasury, "Statement of Assistant Secretary Marshall Billingslea Before the U.S. Senate Committee on Foreign Relations," August 21, 2018. (<https://home.treasury.gov/news/press-releases/sm464>)

³ "Senior Officials Urge Steps to Make Eastern Ukraine Ceasefire Irreversible, Telling Security Council Minsk Accords Remain Largely Unimplemented." United Nations Security Council Press release (SC/13698), February 12, 2019.

competing policy objectives between the executive branch and Congress, promised sanctions relief may not be forthcoming.

Such an approach can be utilized with respect to specific designations. In the case of Venezuela, for example, Treasury's Office of Foreign Assets Control (OFAC) on January 8 designated a network of corrupt Venezuelan businessmen and senior officials for its role in a multi-billion dollar bribery and embezzlement scheme.⁴ As part of the designation, OFAC designated the media conglomerate Globovision for being owned or controlled by the corrupt businessmen. In its press release, Treasury made clear that "[t]he path for the United States to provide permanent sanctions relief to these entities is through divestment and relinquishment of control by any Specially Designated Nationals."⁵ Likewise, when targeting PdVSA and the Central Bank of Venezuela, the administration made clear that the path to sanctions relief for both is through the expeditious transfer of control to the government of the interim president, Juan Guaido, or a subsequent, democratically elected government.⁶

By signaling to companies designated for being owned or controlled by designated parties that they have a clear path to de-listing, Treasury is trying to incentivize regime officials to change their behavior. In addition, Treasury is also attempting to incentivize companies to overhaul their corporate governance structure in order to remove the ownership or control of such entities by malign actors. To the extent that such an approach is successful, it will allow OFAC to target more significant companies and persons, because the risks of creating long-term negative market disruptions may be lower. This is a method that Congress should contemplate as it develops sanctions legislation.

Conduct Responsible and Effective Oversight. The committees of jurisdiction have an important role in ensuring that U.S. sanctions programs are properly implemented and are as effective as possible. Congress should continue to conduct aggressive oversight – such as formalizing the congressional nomination process for sanctions targets and using the authorization and appropriations process to leverage information requests. At the same time, Congress should balance the need for oversight with a desire to provide Treasury a degree of flexibility in executing its mission.

Absent a compelling national security rationale, Congress should be reluctant to insert itself into working-level decisions, such as whether to issue licenses or waivers for specific companies. Rather, Congress should develop legislative mechanisms to guard against potential abuse – such as utilizing licensing authorities to circumvent statutory sanctions provisions – while not overreaching.

⁴ U.S. Department of the Treasury, Press Release, "Treasury Targets Venezuela Currency Exchange Network Scheme Generating Billions of Dollars for Corrupt Regime Insiders," January 8, 2019. (<https://home.treasury.gov/news/press-releases/sm583>)

⁵ U.S. Department of the Treasury, Press Release, "Treasury Targets Venezuela Currency Exchange Network Scheme Generating Billions of Dollars for Corrupt Regime Insiders," January 8, 2019. (<https://home.treasury.gov/news/press-releases/sm583>)

⁶ U.S. Department of the Treasury, Press Release, "Treasury Sanctions Venezuela's State-Owned Oil Company Petroleos de Venezuela, S.A.," January 28, 2019. (<https://home.treasury.gov/news/press-releases/sm594>)

Matthew Zweig

May 15, 2019

Provide Necessary Resources and Authorities. The sanctions apparatus in the U.S. government is small and the budget is spartan given the outsized role that the professionals within the interagency, and particularly those at Treasury's Office of Terrorism and Financial Intelligence (TFI), are asked to play in safeguarding national security. Compared with the hundreds of billions of dollars provided to the Department of Defense each year and DOD's two million personnel, TFI has a staff of approximately 800 employees with a budget of approximately \$125 million for FY 2018, and an approved increase to \$159 million in FY 2019.⁷ The professionals at TFI each handle multiple programs, work long hours, and do more than their fair share.

Given that Treasury must address an expanding set of national security challenges, Congress should provide TFI with increased resources that should include adequate resourcing and authorities for other offices and agencies engaged in the sanctions mission, including but not limited to the Department of Justice, the State Department, the Department of Commerce, the Department of Homeland Security, and the broader intelligence community.

By doing so, Congress can ensure that sanctions remain an effective instrument of national security policy for well into the future.

Thank you for the opportunity to testify and I look forward to your questions.



⁷ U.S. Department of the Treasury, "Congressional Budget Justification and Annual Performance Report and Plan: FY 2019," accessed May 13, 2019. (<https://www.treasury.gov/about/budget-performance/CJ19/09.%20TFI%20FY%202019%20CJ.pdf>)