



**Statement Before the**  
**Senate Committee on Banking, Housing, and Urban Affairs**

***“Outside Perspectives on Russia  
Sanctions: Current Effectiveness and  
Potential for Next Steps”***

A Testimony by:

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

### Sanctions Tools in Search of a Policy

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

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

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

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

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

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

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

### A Policy That Prioritizes

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

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

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

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

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

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

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

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

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

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

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

As we develop this overarching policy framework, it is essential to understand why we are not seeing any near-term changes in Russian behavior after seven years of U.S. sanctions: the Kremlin has largely been able to stabilize economically despite seven years of increasing sanctions. With the recent increase in energy prices and depreciation of the Russian ruble, the Kremlin has found an economic equilibrium of sorts. Its GDP is anticipated to grow by 1.5% in

2018.<sup>3</sup> Contrary to conventional wisdom, Russia is not currently suffering economic hardship. Conveniently, Moscow can blame any hardships on Western sanctions and not its own long-term economic mismanagement, which is beginning to manifest with growing public discontent over the regime's timid efforts to reform. By redirecting trade patterns, Russia has renationalized portions of its agricultural and energy sectors and forced the cannibalization of Russian companies and banks. Russia's economy will remain vulnerable to volatility in emerging markets and uncertainty in the commodities market but largely, our economic sanctions have had little effect on either the regime's economy or behavior. At the same time, President Putin has effectively consolidated his leadership of a national security state that is prepared for a prolonged period of economic stagnation and decline.

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

Interestingly, of all the sanctions that the U.S. has imposed or threatened to impose over the past seven years, what appears to disturb the Kremlin the most is the worldwide adoption and spread of the Global Magnitsky Human Rights Accountability Act. This Act shines an international spotlight on the excesses and corrupt nature of Russia's oligarchic capitalism, and how it functions within Russian society. Because the Kremlin has based its economic model and its survival on kleptocracy, sanctions and other policy instruments dedicated to preventing the furtherance of corruption—or worse yet in the minds of the Kremlin, to providing accurate information to the Russian people of the extent of this corruption—are a powerful countermeasure to Russia's malign behavior.

#### A Better Way to Sanction: End Russian Illicit Financing (and U.S. Complicity with it)

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

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<sup>3</sup> "World Bank lowers Russia 2018 economic growth forecast," Reuters, May 23, 2018, <https://www.reuters.com/article/us-russia-economy-worldbank/world-bank-lowers-russia-2018-economic-growth-forecast-idUSKCN11O2MM?il=0>.

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

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

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

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

This endeavor is also an ideal opportunity for the United States to work closely with the European Union, which is currently working on a more robust (5th) anti-money laundering directive, as well as with the United Kingdom which is also finally getting serious about addressing its economic dependency on Russian illicit funds, though there is still much to do. As the Foreign Affairs Committee of the UK House of Commons recently stated, "associates and allies of the Russian President ... use money laundered through London to corrupt our friends, weaken our alliances and erode faith in our institutions," and noted that it was time to "close the laundromat."<sup>7</sup> We are given daily reminders of our inability to shut down the Western 'laundromat' as recent reports of over \$30 billion of Russian and other post-Soviet nations' funds that went through the Estonian branch of Danske Bank undetected for years attest.<sup>8</sup> It is time for the United States to close the Russian laundromat and affiliated enabling services that operates within and through the U.S. financial system, and to work closely with our allies to drain this international swamp. By doing so we protect the U.S. homeland, as the growing nexus between the illicit U.S. and international financial systems and attempts by Russia to influence the 2016 presidential election becomes clear.<sup>9</sup>

Decades ago, the United States successfully established a durable policy toward the Soviet Union that won the Cold War without direct military conflict and helped spread greater security and prosperity for over 100 million people in Central and Eastern Europe. Our future success therefore does not necessarily lie in imposing new and more painful sanctions, but it does rest in

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

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

<sup>8</sup> Jim Brunsten, Caroline Binham and Claire Jones, "Scandals expose flaws in EU fight against dirty money, say watchdogs," *The Financial Times*, September 4, 2018, <https://www.ft.com/content/1090520e-b05a-11e8-8d14-6f049d06439c>.

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

our ability to develop a clear long-term policy toward Russia which: (1) defends the homeland; (2) develops a clear path to return Russia to international legal norms; and (3) positions the U.S. to once again promote and prioritize the dignity of the individual and the governed over the privileges of the state-fed kleptocratic forces in Moscow. We can have the most significant impact on all three lines of effort by ending illicit Russian transactions through stronger anti-money laundering, greater transparency of beneficial ownership, and exposing Russian corruption. This is fully within this Committee's scope and writ. When it comes to addressing Russia malign behavior today, the Senate Banking Committee may be more powerful than the Senate Armed Services Committee.