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## Testimony before the Senate Committee on Banking, Housing, and Urban Affairs

### Countering Russia: Assessing New Tools

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

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

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

The Trump administration has embraced a maximum financial pressure strategy to address many of our leading national security priorities, including responding to threats from Iran and North Korea. With regard to Russia, however, U.S. policy has suffered from uneven execution and limited implementation of the law, and a lack of strategy, uniform messaging, and long-term vision. The administration has offered tough rhetoric and has embraced the use of sanctions. However, the White House has also telegraphed a desire to relieve tensions with Russia at times, sending confused signals to political leaders and to global financial and energy markets, and contributing to a loss of credibility for U.S. policy. The White House is reportedly considering

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tough new sanctions to respond to foreign meddling in U.S. elections.<sup>1</sup> However, the discretionary nature of such new authorities, coupled with signals from the President that Russian interference into U.S. elections is a “hoax”, undermines their deterrent effect. Members of the U.S. policy community are more keenly aware of these unfortunately mixed signals than most, which is what led Congress to almost unanimous support for tough Russia sanctions legislation last summer, and what motivates the current push for more aggressive Russia measures.

I applaud the seriousness of purpose demonstrated by members of Congress to address the threats from Russia, and I support the notion that much more must be done. It is impossible, and possibly morally reprehensible, to countenance the threats we face and contemplate inaction. However, I urge policy leaders not to embrace policy that appears tough but lacks teeth, that strives to deliver consequences to Russia but instead imposes unintended consequences to our country and its allies, and undermines our foreign policy goals. Sanctions have been a U.S. tool of choice for addressing rogue regimes and thugs, and a favorite tool to address Russia since 2014. But they are not the only option or solution, and their pathological use can diminish U.S. credibility, and the cogency and availability of sanctions more generally. It is possible that the practical utility of U.S. sanctions on Russia is now primarily in the realm of messaging and of exposing malicious activity, rather than as a force to deter Russian malicious activities. Actually achieving such deterrence now will require an adaptation of the sanctions and economic pressure applied to Russia, a holistic foreign policy strategy, and the simultaneous use of an array of complementary policy tools.

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

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

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

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

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

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

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

Looking forward, policymakers must be especially mindful of the size and global interconnectedness of Russia's economy and the willingness and ability of its leaders to cope with economic hardship and not make political concessions in the face of this stress. While sanctions implemented by the United States and the European Union in 2014 and 2015 did cause economic damage to the Russian Federation, the Russian economy has shown itself to be resilient, and the Russian government has shown itself to be an effective manager of the sanctions-imposed stress. Russia's recession ended in 2016, and while its growth has been a meager 1.5-2 percent since, this has been enough to avoid broad discontent with Putin's foreign policy. Rising oil prices and the ability of Russian state and private executives to court foreign exchange, particularly in light of the declining ruble, has been a powerful buoy to the Russian economy. Its leaders have worked diligently to bail out institutions under sanctions stress and raise capital to insulate itself from further sanctions. It has "on-shored" many critical capabilities, especially in its energy sector, is looking to China as an alternative market and financier, and is bracing for a long fight with the United States.<sup>3</sup>

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

The Senate is currently considering two major, bipartisan pieces of Russia sanctions legislation—the Defending Elections from Threats By Establishing Redlines Act of 2018 (DETER Act) and the Defending American Security from Kremlin Aggression Act of 2018 (DASKA Act). Both would impose sanctions on new issuance of Russian sovereign debt, place Russian banks on the U.S. Specially Designated Nationals and Blocked Persons (SDN) list, which would freeze any bank assets in the U.S. and block all transactions with the banks that come into U.S.

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<sup>3</sup> Rachel Ziemba, Senior Adjunct Fellow, Center for a New American Security, "Russia Sanctions: Current Effectiveness and Potential Future Steps," Testimony before the U.S. Senate Committee on Banking, Housing, and Urban Affairs, September 6, 2018, <https://www.cnas.org/publications/congressional-testimony/testimony-before-the-u-s-senate-committee-on-banking-housing-and-urban-affairs?token=khIvHdgtVWsdRODQ0Q7LdfXd8eG~g34y>.

jurisdiction, and would tighten sanctions on Russia's energy sector, which remains a dominant source of Russian government revenue. There are many ideas in the legislation worth careful evaluation and development, and I strongly support a premise and goal of the legislation: presenting powerful consequences to Russia to deter its threats and interference in our core democratic institutions, its territorial aggression, and Russia's unacceptable breaches of sovereignty and human rights. The introduction of these pieces of legislation has already achieved a powerful political goal for U.S. foreign policy. It has signaled outrage and critique to Russia, and a clear intent to escalate policy measures in the face of Russian aggression and breaches in international norms that the United States cannot abide.

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

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

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

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

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

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

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

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

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

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

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

The international community is well aware of the gaps in U.S. oversight of corporate entities. The Financial Action Task Force (FATF), the global standard-setter for financial crimes compliance, found the United States “non-compliant” in its most recent review of our approach to transparency and beneficial ownership. As FATF stated: “Beyond [a SEC requirement for entities which issue securities] there is no requirement for other companies or company registries to obtain and hold up-to-date information on their [beneficial owner] or to take reasonable measures to do so.”<sup>7</sup> This is an alarm bell about a tremendous gap in our national security, one we know that Russia is exploiting.

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

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

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

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

<sup>8</sup> Matea Gold, “Did Facebook ads traced to a Russian company violate U.S. election law?,” *The Washington Post*, September 27, 2017, [https://www.washingtonpost.com/news/post-politics/wp/2017/09/07/did-facebook-ads-traced-to-a-russian-company-violate-u-s-election-law/?noredirect=on&utm\\_term=.46220204c35d](https://www.washingtonpost.com/news/post-politics/wp/2017/09/07/did-facebook-ads-traced-to-a-russian-company-violate-u-s-election-law/?noredirect=on&utm_term=.46220204c35d).

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

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

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

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

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

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

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

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

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

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

### Further Congressional Oversight

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

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

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<sup>14</sup> Financial Crimes Enforcement Network, *Implications and Benefits of Cross-Border Funds Transmittal Reporting* (January 2009),

<https://www.fincen.gov/sites/default/files/shared/ImplicationsAndBenefitsOfCBFTR.pdf>.

<sup>15</sup> Donna Borak and Marshall Cohen, “Sanctions on Russia’s Rusal could be lifted, Mnuchin says,” CNN.com, July 27, 2018, <https://www.cnn.com/2018/07/27/politics/mnuchin-russia-sanctions-rusal/index.html>.

<sup>16</sup> Public Law 115-44, *Countering America’s Adversaries Through Sanctions Act*, August 2, 2017, Section 243; the first report can be found at Treasury Department, *Report to Congress Pursuant to Section 243 of the Countering America’s Adversaries Through Sanctions Act of 2017 Regarding Interagency Efforts in*

While Congress considers various measures to advance the transparency of how categories of corporate entities in the U.S. financial sector operate, it should not lose sight of the opportunity to extend transparency to other ways the Russian government and Putin's inner circle funnels money into the United States. Lawmakers can consider restrictions on investment of Russian money in the U.S. market, especially by individuals identified as oligarchs, many of whom have demonstrable connections to Russian President Vladimir Putin. The U.S. Treasury has wide authority to freeze assets and impose other sanctions on these actors, and initial evidence from the April sanctions of some of these cronies and oligarchs suggests that investment restrictions do put pressure on members of Putin's inner circle.<sup>17</sup> The current version of the DETER Act includes authorities for mandatory sanctions on "any senior foreign political figure or oligarch in the Russian Federation," including a visa ban if the Director of National Intelligence determines that the Russian government, or agents acting on its behalf, knowingly interfered in a U.S. elections.<sup>18</sup>

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

## Conclusion

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

In particular, the financial transparency measures I outlined today would constitute a powerful weapon to push back against the flow of Russian money into our financial system, which has been difficult for law enforcement officials to track and account for. These measures would close deficiencies that have made the United States a haven for illicit finance from a variety of

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*the United States to Combat Illicit Finance Relating to the Russian Federation* (August 6, 2018), [https://home.treasury.gov/sites/default/files/2018-08/U\\_CAATSA\\_243\\_Report\\_FINAL.pdf](https://home.treasury.gov/sites/default/files/2018-08/U_CAATSA_243_Report_FINAL.pdf).

<sup>17</sup> Tom Keatinge, "This time, sanctions on Russia are having the desired effect," *Financial Times*, April 13, 2018, <https://www.ft.com/content/cad69cf4-3e40-11e8-bcc8-cebcb81f1f90>.

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

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

sources, including those who work on behalf of Russian's malign influence campaigns. Many of the solutions I have outlined have been proposed or considered in previous agency regulation or legislation. All that is required is the political will to follow through on their adoption and implementation.

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

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

## Biography

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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. Current geographic areas of focus include Iran, Russia, China, North Korea, and Venezuela. She has testified before Congress on an array of banking and trade issues, and on energy geopolitics and markets topics. She is widely quoted by leading media outlets in the United States and abroad.

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.

Prior to her service in the U.S. government 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 received an MA in Near Eastern Studies from New York University and a BA in Politics and Religion from Oberlin College.