



DEPARTMENT OF THE TREASURY
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**TIGHTENING THE SCREWS ON RUSSIA:
SMART SANCTIONS, ECONOMIC STATECRAFT AND NEXT STEPS**

**HEARING BEFORE:
THE SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS**

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TESTIMONY / OPENING STATEMENT

Chairman Brown, Ranking Member Toomey, and distinguished Members of the Banking Committee, thank you for the opportunity to speak with you today and provide an update on the Department of the Treasury’s efforts to hold Russia accountable for its brutal and unjustified further invasion of Ukraine.

The U.S. Department of the Treasury is a key agency working alongside others across the Administration to implement the U.S. government’s holistic response to Putin’s war. Since the further invasion began six months ago, we have been advancing President Biden’s promise to “squeeze Russia’s access to finance and technology for strategic sectors of its economy and degrade its industrial capacity for years to come.”¹

Just last week, we imposed additional sanctions to further degrade Russia’s ability to rebuild its military, hold the perpetrators of this war accountable, and further financially isolate Putin. To date, Treasury has sanctioned hundreds of Russian individuals and entities, cutting them off from the U.S. financial system. This includes a majority of Russia’s largest financial institutions, key nodes in their military-industrial supply chains, and the oligarchs and cronies who steal from the Russian people to line their own pockets and help Putin perpetuate his war. For example, Treasury’s sanctions over the last few months, including our latest tranche last week, have targeted elites tied to the Kremlin, firms connected to Russian steel production and the military-industrial base, and sanctions evasion networks operating on behalf of designated Russian entities. They have also exposed Russian agents and entities involved with Russian government efforts to promulgate disinformation and election interference in the U.S. and Ukraine.

Treasury has also implemented restrictions on dealings in Russian sovereign debt; prohibited economic dealings with the so-called Donetsk People’s Republic and Luhansk People’s Republic regions of Ukraine; prohibited new investment in the Russian Federation, and imposed services bans covering the provision of quantum computing, accounting, trust and corporate formation, and management consulting services to any person located in the Russian federation. We have also imposed prohibitions on importing certain commodities from Russia into the United States, including oil and natural gas, and similarly imposed prohibitions on exporting certain items like luxury goods and dollar-denominated banknotes.

The United States has been joined by over 30 countries—representing more than half of the global economy—in imposing these measures. The G7, the EU, and other partners like South Korea, Singapore, and Australia have joined us in implementing the largest sanctions regime in modern history. To complement these targeted measures, Treasury has worked alongside colleagues at the Department of Justice to develop unprecedented and wide-reaching international information exchange activities with partner countries, including through the Russian Elites, Proxies, and Oligarchs (REPO) Task Force. These efforts facilitate our ability to share intelligence, law enforcement data, and relevant financial records in order to expose shadowy economic and commercial Russian evasion networks. We are also working with allies

¹ <https://www.whitehouse.gov/briefing-room/speeches-remarks/2022/02/24/remarks-by-president-biden-on-russias-unprovoked-and-unjustified-attack-on-ukraine/>

and the Government of Ukraine to examine how we may best use Russian assets that have been frozen and forfeited to support the people of Ukraine.

In addition, Treasury has mounted an aggressive campaign to close the global financial policy and regulatory loopholes across jurisdictions that Russian aiders and abettors of this war, and other criminals, use to perpetuate their illicit activity. At home, this includes three key regulatory efforts: FinCEN's work to stand up a beneficial ownership database pursuant to the Corporate Transparency Act, developing new disclosure requirements for non-financed purchases of real estate, and ongoing analysis related to the illicit finance risks presented by investment advisers and funds. FinCEN has also issued several Russia-related alerts, including on Russia's attempts to evade sanctions. Abroad, Treasury is working to strengthen global standards for corporate transparency through the Financial Action Task Force (FATF) and enhance its focus on using financial transparency tools to combat the scourge of corruption. This includes launching new efforts at the FATF to address abuse of Citizenship by Investment, or so-called golden passport programs, and the risks for money laundering, corruption, and evasion of sanctions posed by financial gatekeepers and Politically Exposed Persons (PEPs). Notably, FATF has also taken the unprecedented step of downgrading Russia's standing within FATF as a result of its war in Ukraine, further delegitimizing it in the eyes of the international financial community.

On the other side, Russian propagandists have been hard at work. In the style of the former Soviet Union, Moscow is aggressively attempting to bury any unfavorable news and push the paradoxical narrative—and misinformation—that sanctions are simultaneously not working and yet also cause food insecurity. In fact, Russia's invasion spiked the price of energy earlier this year by 21 percent. Russia's months-long blockade of Ukraine's Black Sea ports, coupled with the purposeful destruction and theft of agricultural infrastructure, crippled Ukraine's farming and export economy, dramatically drove up global grain prices, and outrageously deprived food-insecure recipients of much needed resources. Its attacks on a major food exporter produced similar shocks to global food prices. To detract focus from its brutal tactics, Russia continues to minimize the dislocations it has caused to global commodity markets and its inhumane deprivation of people in Ukraine and across the globe.

This lies in stark contrast with the efforts of the U.S. and others to aid Ukraine and developing countries around the world suffering from Putin's actions. Foremost among these efforts are the Congressional commitments to provide Ukraine with budget support and economic assistance to keep critical government functions going. In addition, we are pushing international donors to accelerate their complementary bilateral support. We thank Congress for already granting \$8.5 billion for Ukraine assistance that has gone toward these efforts.

The economic actions we have taken, both independently and jointly with our international partners, have had and will continue to have a significant effect on the Russian economy. Russia had been forced to impose draconian capital controls and is burning through its rainy-day fund, dramatically eroding its economic base and buffers in unsustainable ways. Russia will be in fiscal deficit by the end of this year. The IMF expects Russia's economy will contract for at least the next two years, a sharp reversal from its 4.7 percent growth in 2021.² Russia's inflation rate after its invasion reached up to 21.3 percent, almost triple the rate from 2021, and remains in the

² <https://www.imf.org/en/Publications/WEO/Issues/2022/07/26/world-economic-outlook-update-july-2022>

double digits.³ The Russian stock market also reflects pessimism—its valuation remains depressed, sitting about 35 percent below pre-war levels.⁴ Further, the Central Bank Governor of Russia has started to advocate for “structural transformation.”⁵ The bottom line is that Russia’s economic picture is bleak and deteriorating.

Significantly, these economic constraints are translating into real battlefield difficulties for Russia. The Russian Duma proposed wartime economic controls over the economy which would allow the state to commandeer private businesses as necessary and force employees of certain enterprises to work overtime.⁶ Struggling to import a host of industrial goods and technology, Russia has been forced to cannibalize its domestic industry to assemble battlefield hardware it can no longer buy from responsible countries. Russia has been forced to turn to outdated equipment and approach global pariahs like North Korea and Iran to source the tools to fight.

Fundamentally, the challenge we face in using financial measures to hold Russia accountable while mitigating the effects of the war on third countries is of a different kind than we face in other sanctions programs. Russia is not North Korea, Iran, or Venezuela. Moreover, Russia is a sizeable international economy, a globally important energy producer, and over the last 30 years has grown closely tied—and in some instances inextricably intertwined—with some of our closest international partners and allies. Imposing financial costs on Russia for its brutal policies while mitigating the consequences of Russia’s actions has required extraordinary planning, coordination, economic analysis and diplomacy, and creative policymaking, all alongside a large group of international partners.

In line with the 2021 Treasury Sanctions Review, we are constantly re-evaluating and reassessing our course of action. We ask ourselves: Do our policies achieve our intended goals? How has the target adapted to our measures? What adjustments do we need to make to increase our effectiveness and mitigate unintended consequences? How do we sustain and strengthen the international coalition of countries working together to hold President Putin accountable for his horrific war?

Examples of the real time adjustment Treasury has made to our financial policies include the multiple fact sheets we have issued just this year, including Preserving Agricultural Trade, Access to Communication, and Other Support to Those Impacted by Russia’s War Against Ukraine in April 2022 and the Food Security Fact Sheet published in July 2022, which both offer expansive information about how sanctions are calibrated to avoid unintended impacts as well as to counter Russian disinformation. These public guidance documents also clarify, in writing, to both industry and the international community that agricultural and medical products are not the targets of U.S. sanctions. Rather, any impediments to the delivery of these vital commodities lie squarely with Russia and its war, theft of food products, and shelling of agricultural sites, in addition to Russia’s own export restrictions on food and fertilizer.

³ <https://www.cbr.ru/eng/press/keypr/>

⁴ Data from time series Moscow Stock Exchange Index available here: <https://www.moex.com/>

⁵ <https://www.cbr.ru/eng/press/event/?id=14034>

⁶ As reported by Russian media: <https://tass.com/economy/1476563>

We have also been keenly focused on Russia's oil exports as we have implemented our evolving policy approach to deny Russia the money needed to sustain its war. At this point, these exports represent Russia's primary source of hard currency. Moreover, Russia is reaping windfall profits from oil and petroleum products due to rising energy costs, spurred by the geopolitical uncertainty Russia caused by choosing to pursue a land war in Europe. We are concerned with the way energy revenues fuel Russia's war efforts but the global nature of the oil market requires a careful approach.

Energy security affects us all—including American households that have seen rising prices at the pump and elsewhere as the downstream effects of rising energy costs have applied inflationary pressures across the economy. Elevated energy prices hit the poorest the hardest, in our country and across the world. Simply put, applying financial pressure to curb Russia's windfall energy profits requires a different, creative approach to make sure that Russian coffers, not regular citizens in our economy and the rest of the world, bear the costs we impose. That challenge—and the need for a carefully tailored policy approach—is urgent. We cannot allow Russia to continue to fund its atrocities, and we must do all we can to prevent the recessionary risks that follow extended painful, unaffordable energy prices.

Our commitment to counter Russia's energy war profiteering centers on our effort—alongside an international coalition, [starting with the G7 countries](#)—to impose a “price cap” on maritime Russian oil and product exports. Ultimately, the price cap policy is the most viable option to support the security and affordability of the global oil supply.

The oil price cap mechanism is a tool for other importers—mainly developing and emerging economies suffering most as a result of Putin's war—to demand a lower price for Russian oil that they purchase. We are already seeing this take place with Russia negotiating steep discounts for the oil it sells to buyers in Asia. These discounts are already depriving Russia of revenues it would otherwise use to finance its reckless war.

As a technical matter, this policy [creates a framework](#) for companies in price-cap-coalition countries offering services for Russia's maritime transport of oil: They can continue to offer these services for Russian oil priced below the cap, and may not for any Russian oil sold above that price. Given that premium service providers and the majority of providers of some maritime services—like insurance, payments, and trade finance—are located in G7 and EU countries, there is an overwhelming economic incentive for buyers to purchase under the price cap so they can engage these service providers. It will be cheaper and less risky to move Russian oil cargoes this way. We will continue to communicate closely with service providers, as we have already done in developing this framework, to collectively, constructively, and aggressively sustain participation in and the success of this policy.

But make no mistake: This is and will remain very hard work. This is an entirely new way to use financial measures against a global bully. A price cap coalition requires unprecedented coordination with international partners, as well as close partnership with global maritime industries, and exceptional resolve in the face of hostile Russian bluster and threats, including the risk that Russia may seek to retaliate. I can tell you confidently that we at Treasury—and our partners across the U.S. Government—are extraordinarily diligent when it comes to these

economic policies and the commitment to extensive and creative multilateral engagement. Moreover, we are laser-focused on the imperative to hold Russia accountable and support the people of Ukraine, to constantly understand the risk environment, and to advance a foreign and financial policy that embodies our goals and does not bend to the rants and coercion of a brutal bully.

We know that Russia’s war in Ukraine is not the only challenge for which the Treasury Department will be called upon to act. Other threats demand our attention as well, and the illicit finance landscape continues to evolve. Additionally, while the U.S. dollar, U.S. financial institutions and services, and our capital markets are still dominant in international finance and trade, our adversaries are actively finding ways to attack this centrality and insulate themselves from touchpoints with the U.S. financial system. These are long-term challenges that we cannot sanction ourselves out of. We must continue to strengthen the U.S. financial system and innovate new ways to use economic policies and authorities to meet both our domestic and foreign policy objectives. The price cap—a bold policy never previously attempted by the U.S. Treasury—is the vanguard for a new form of economic statecraft, and I am proud to be a part of the team pushing these boundaries in the interest of U.S. national security.

Lastly, I’d like to echo Secretary Yellen and Deputy Secretary Adeyemo’s sentiments from when they were last here and express my gratitude for the additional resources Congress has provided in the Ukraine supplemental appropriations packages. Your timely actions are what allow me and the dedicated career staff at Treasury to surge on this urgent national security priority. The partnership between Congress and the Administration has always been very important to U.S. policy toward Russia, sanctions, and responding to the crisis in Ukraine. I would be happy to answer your questions and look forward to working with you as we move forward. Thank you.