



March 15, 2017

Testimony before the Senate Committee on Banking, Housing, and Urban Affairs Assessing U.S. Sanctions on Russia: Next Steps

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

Chairman Crapo, Ranking Member Brown, and distinguished members of the Committee, thank you for the opportunity to testify today on the topic of U.S. sanctions on Russia.

The sanctions that the United States and the European Union imposed on Russian entities and individuals over the last several years have been among the most innovative, targeted, and forceful examples of modern coercive economic statecraft. Designed to respond to Russia's illegal annexation of Crimea and aggression in Eastern Ukraine, the most powerful of these sanctions targeted Russia's financial services, energy, and arms sectors, as well as individuals close to President Vladimir Putin. These multilateral measures delivered a powerful message of transatlantic unity regarding Russia's breach of Ukrainian sovereignty and cultivated substantial economic leverage for the West. Their impact and leverage were significantly augmented by the oil price collapse in 2014 and Russia's resulting loss of hard currency to cope with the sanctions vice. Transatlantic leaders have linked implementation of the Minsk agreements, including a cessation of hostilities, withdrawal of heavy weapons from the front lines, restoration of Ukraine's borders, sovereignty, and political reform, to removal of sanctions.¹ Sanctions linked to Crimea can be removed when Russia returns control over the peninsula to Ukraine.² Additional recent U.S. and EU sanctions have exposed Russia's human rights record, its destabilizing involvement in the conflict in Syria, as well as its insidious cyber intrusions into U.S. institutions and political processes.

The economic force of these sanctions has diminished over time as investors have adapted their business operations, the Russian economy has stabilized, and U.S. and EU leaders have not kept up the pressure of sanctions. Now, political signals from the new U.S. administration, as well as from nationalist political movements in Europe that could impact upcoming elections and leadership in France and Germany, that a warmer relationship with Russia may be forthcoming indicate to the

¹ Andrea Thomas, "German Chancellor Merkel Says No Quick End to Sanctions Against Russia," *The Wall Street Journal*, October 23, 2015, <https://www.wsj.com/articles/german-chancellor-merkel-says-no-quick-end-to-sanctions-against-russia-1445611095>; "Package of Measures for the Implementation of the Minsk Agreements," February 12, 2015, accessed March 10, 2017, <http://www.elysee.fr/assets/Uploads/Package-of-Measures-for-the-Implementation-of-the-Minsk-Agreements.pdf>.

² Nikki Haley, "Remarks at a UN Security Council Briefing on Ukraine," (UN Security Council Briefing on Ukraine, New York, February 2, 2017), <https://usun.state.gov/remarks/7668>.

Bold.

Innovative.

Bipartisan.

private sector that sanctions may present event less of an impediment going forward. The U.S. Congress is in the position to enhance pressure through new sanctions in response to Russia's increasing aggression in Eastern Ukraine, as well as its deeply concerning cyber interference in U.S. institutions and electoral processes. Congress can offer leadership on the direction for an updated economic response, and set the tone for appropriate diplomatic overtures to both European allies and Russian counterparts.

The Effects of Russia Sanctions

The powerful economic effects of Western sanctions on Russia in 2014 are clear, and they have had an influence on Russia's foreign policy since that time. Financial sanctions³ locked major Russian entities out of Western capital markets and forced a scramble for hard currency, and pressure on state savings, to quickly repay massive debts.⁴ They compelled U.S. and European oil companies to pull back from frontier oil developments with Russian firms⁵ and hampered Russia's access to military technology necessary to its broader security modernization efforts.⁶

The record of Russian economic performance over the last few years demonstrates a period of distress. From the beginning of 2014 to December 2016 Russian external debt shrank from \$729 billion to \$519 billion,⁷ and officials drew down the Reserve Fund (one of the country's two sovereign wealth funds) from \$87 billion to \$16 billion.⁸ In an effort to stabilize the economy Russian officials put in place a series of spending cuts, to take effect over the 2017-2019 period, in education (20 percent in real terms),⁹ healthcare (25 percent in real terms)¹⁰ and defense (17 percent in real terms).¹¹ Russian economic managers also allowed the ruble to plunge in value from 33.15 rubles per U.S. dollar at the beginning of 2014 to as low as 83.59 rubles per U.S. dollar in January

³ Executive Order 13662 of March 20, 2014, Blocking Property of Additional Persons Contributing to the Situation in Ukraine, *Code of Federal Regulations* title 3 (2014): 16169-16171, https://www.treasury.gov/resource-center/sanctions/Programs/Documents/ukraine_eo3.pdf. See Directives 1, 2, and 3 under Executive Order 13662.

⁴ Simond De Galbert, "A Year of Sanctions Against Russia: A European Assessment of the Outcome and Future of Russia Sanctions," (Center for Strategic and International Studies: October 2015), https://csis-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/publication/150929_deGalbert_SanctionsRussia_Web.pdf, 7.

⁵ *Ibid.*; See also Directive 4 under Executive Order 13662; Guy Chazan and Jack Farchy, "Russia Arctic Energy Ambitions Jeopardised by Western Sanctions," *Financial Times*, September 1, 2014, <https://www.ft.com/content/41d19b16-31c9-11e4-a19b-00144feabdc0>.

⁶ Executive Order 13661 of March 16, 2014, Blocking Property of Additional Persons Contributing to the Situation in Ukraine, *Code of Federal Regulations* title 3 (2014): 15535-15538, https://www.treasury.gov/resource-center/sanctions/Programs/Documents/ukraine_eo2.pdf.

⁷ Central Bank of Russia, "Balance of Payments and Other Statistics Compiled under the Methodology of the 6th Edition of "Balance of Payments and International Investment Position Manual" (BPM6)," *External Sector Statistics*, January 17, 2017, <http://www.cbr.ru/eng/statistics/?Prtid=svs>.

⁸ Ministry of Finance of the Russian Federation, "Key Figures of Reserve Fund Management," *Reserve Fund*, March 9, 2017, http://old.minfin.ru/en/reservefund/statistics/res_key/.

"Russia's Reserve Fund Little Changed Over January," *Reuters*, February 2, 2017, <http://www.reuters.com/article/russia-funds-idUSR4N1CJ02C>.

⁹ Andrey Movchan, "Pensions and Security: Russian Budget Reveals Government Priorities," Carnegie Moscow Center, December 15, 2016, <http://carnegie.ru/commentary/?fa=66454>.

¹⁰ *Ibid.*

¹¹ Lucie Beraud-Sudreau and Douglas Barrie, "Russia's Defence Spending: The Impact of Economic Contraction," *Military Balance Blog (Posts from the IISS Defence and Military Analysis Programme)*, March 6, 2017, <http://www.iiss.org/en/militarybalanceblog/blogsections/2017-edcc/march-f0a5/russias-defence-spending-7de6>.

2016.¹² Capital has fled Russia, roughly \$210 billion in 2014 and 2015 combined,¹³ and GDP growth contracted from 0.7 percent in 2014 to negative 3.7 percent in 2015, and while it climbed back last year growth remained negative.¹⁴

Russian officials have acknowledged publicly that sanctions had an economic effect. President Putin stated in January 2016 that “sanctions are hurting us.”¹⁵ Sanctions were a meaningful contributor to Russia’s agreement to the Minsk accord in September 2014 and the Minsk II revival in February 2015. Arguably, Russia refrained from more expansionist political and territorial aims because of Western sanctions pressure. Despite the ongoing and serious violence in Eastern Ukraine, Russia and separatists are not pushing deeper into Eastern Ukraine or seeking a potential land bridge to Crimea. During this time, however, under the cover of a retaliatory sanctions campaign, President Putin implemented an import-substitution program to prop up the Russian agricultural sector and decried Western economic attacks. His popularity grew from 61 percent prior to the conflict in Ukraine to 84 percent in February 2017.¹⁶

A Diminishing Economic Force

Over the last couple of years the effects of Russian sanctions have significantly diminished. This has been one important factor in the recent Russian economic stabilization. Cautious investors scared off by the sanctions are beginning to return and Russian firms have succeeded in bringing in financing that can be shifted to some of the state owned firms directly targeted by sanctions, a loophole in the sanctions on Russia. For example, the 2017 Eurobond issuances are expected to be almost triple the 2016 amount.¹⁷ Also, in 2016, capital flight was the lowest since the financial crisis in 2008 and one tenth of the 2014 record.¹⁸ Russian economic growth is expected to rebound to 1.1 percent growth in 2017,¹⁹ and currency value has stabilized at 58.91 rubles per U.S. dollar.²⁰ Oil prices have risen roughly 108 percent from lows in January 2016,²¹ and Russia has expanded its already massive energy output by 4.4 percent between January 2014 and January 2017, drawing in critical new revenue streams for state budgets.²² In February 2017, Moody’s upgraded Russia’s outlook to “Stable” from the “Negative” rating it had given in April 2016.²³

¹² “Exchange Rate Archives by Month,” (International Monetary Fund: March 9, 2017), http://www.imf.org/external/np/fin/data/param_rms_mth.aspx.

¹³ Leonid Bershidsky, “Deutsche Bank’s Russian Scheme Isn’t Needed in 2017,” *Bloomberg*, January 31, 2017, <https://www.bloomberg.com/view/articles/2017-01-31/deutsche-bank-s-russian-scheme-isn-t-needed-in-2017>.

¹⁴ “Subdued Demand: Symptoms and Remedies,” *World Economic Outlook* (International Monetary Fund: October 2016), <http://www.imf.org/external/pubs/ft/weo/2016/02/#annex>.

¹⁵ Kenneth Rapoza, “Putin Admits Sanctions Sapping Russia,” *Forbes*, October 21, 2016, <https://www.forbes.com/sites/kenrapoza/2016/10/21/putin-admits-sanctions-sapping-russia/#6505a76c25d4>.

¹⁶ “Putin’s Approval Rating,” (Yuri Levada Analytical Center: February 2017), <http://www.levada.ru/en/>.

¹⁷ Kira Zavyalova, “Stars Align for Russian Eurobond Issues After Three-Year Drought,” *Reuters*, February 21, 2017, <http://www.reuters.com/article/russia-eurobonds-idUSL8N1G61QS>.

¹⁸ Bershidsky, “Deutsche Bank’s Russian Scheme Isn’t Needed in 2017.”

¹⁹ “Subdued Demand” *World Economic Outlook*.

²⁰ As of March 3, 2017. “Exchange Rate Archives by Month.”

²¹ U.S. Energy Information Agency (EIA), “Europe Brent Spot Price FOB,” March 3, 2017. Accessed March 13, 2017. <https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=rbste&f=D>.

²² Ministry of Energy of Russian Federation, “Statistics,” Accessed March 9, 2017. <http://minenergo.gov.ru/en/activity/statistic>.

²³ Amey Stone, “Moody’s Sees Russia’s Creditworthiness Stabilizing,” *Barrons*, February 17, 2017, <http://blogs.barrons.com/incomeinvesting/2017/02/17/moodys-sees-russias-creditworthiness-stabilizing/>.

Surely the Russian economy is not living up to its full potential, with property ownership rules and macroeconomic management at significant fault. However, the resilience and stabilization of the Russian economy confirms that recent impediments to investment and growth, specifically sanctions, are no longer cultivating truly difficult economic conditions. At present, they do not appear to be impeding plodding growth, and seem highly unlikely to compel President Putin to make any concessions to the West.

All sanctions programs will lose their force over time as economic actors find work-arounds and circumvention opportunities. Simply put, the leverage that sanctions generate is a perishable asset. If policymakers do nothing to alter or update sanctions, or enforcement authorities do not take actions against violations, the effects of sanctions will continue to diminish. In the Russia case, diminishing sanctions effectiveness redounds to the benefit of Russian economic and international business interests.

Broadly speaking, the reason for declining economic effects of the Russia sanctions is due primarily to a lack of their maintenance. U.S. and EU policymakers made only very limited efforts in this area in the last couple of years, significantly due to a lack of political will in Europe to craft and impose new sanctions.²⁴ European leaders have increasingly struggled over the last two years to hold the line on these sanctions, doubting their utility and advisability.

Since the U.S. presidential election, President Donald Trump's friendly stance toward President Putin has given rise to the perception that the United States will pull back from sanctions, or at least from their enforcement. President Trump has stated, "I would love to be able to get along with Russia."²⁵ For many, this indicates an impending removal of U.S. sanctions on Russia and the viability of signing new contracts with Russian firms. Upcoming elections in France and Germany in which Russia-friendly parties are making a strong showing also contribute to the perception that Russia will soon come in from the cold and sanctions will cease to be the threat they once were.²⁶ Additionally, the slow departure of the United Kingdom, Europe's major financial center, from the European Union signals to the business community the appearance of cracks in the common European foreign policy that hold economic sanctions in place.²⁷

Russia is actively exposing and seeking to deepen these various fissures among transatlantic partners and pushing back against the weakening sanctions edifice. Through military posturing, media and cyber manipulation, and selected economic interventions, President Putin has been transparently engaged in a reproach of Western interests and unity. He has directed an aggressive role in Syria in

²⁴ Michael Birnbaum, "European leaders threaten new sanctions against Russia," *The Washington Post*, October 20, 2016, https://www.washingtonpost.com/world/european-leaders-threaten-new-sanctions-against-russia/2016/10/20/ce5f8240-960e-11e6-9cae-2a3574e296a6_story.html?utm_term=.e9bfa9f279c0.

²⁵ Brian Naylor, "Nobody that I know of: Trump Denies Campaign Contacts with Russia," NPR, February 16, 2017, <http://www.npr.org/2017/02/16/515624391/nobody-that-i-know-of-trump-denies-campaign-contacts-with-russia>.

²⁶ Matthew Dalton, "France Poised for Pro-Russia Pivot," *The Wall Street Journal*, December 28, 2016, <https://www.wsj.com/articles/france-poised-for-pro-russia-pivot-1482946472>; Stefan Wagstyl, "German politics: Russia's next target?," *Financial Times*, January 29, 2017, <https://www.ft.com/content/31a5758c-e3d8-11e6-9645-c9357a75844a>.

²⁷ Laurence Norman, "Brexit Likely to Alter EU's Sanctions Policy," *The Wall Street Journal*, October 6, 2016, <https://www.wsj.com/articles/brexit-likely-to-alter-eus-sanctions-policy-1475726513>.

support of President Bashar al-Assad under the guise of counterterrorism. Russia has backed continued hostilities in Eastern Ukraine, which have ticked up recently, and in a newly provocative step has recently begun to recognize passports from the break-away Republics of Luhansk and Donetsk.²⁸ Russia is in ongoing violation of the Intermediate Range Nuclear Force Treaty, a cornerstone of post-Cold War nuclear arms control.²⁹ Russian airplanes recently buzzed a U.S. aircraft carrier in the Black Sea,³⁰ and they have approached the airspace of Japan³¹ and allegedly violated the airspace of the Baltic states, all allies of the United States.³² At the preeminent global energy forum last week in Houston, a massive Russian delegation boasted about lucrative and vast new opportunities for Western firms with Russia, the world's largest oil producer. Energy minister Alexander Novak told the industry "Russia is open, it is open to investment."³³ These projections of Russian force and the assertion of its economic strength clarify that Russia is a serious, if more limited, international competitor. The West increasingly will have to contend with Moscow to advance its security interests and leverage.

Evaluating New Sanctions Choices

The new U.S. administration and Congress are now contemplating policy toward Russia, and how to handle sanctions measures as part of that policy. The White House has not yet charted a definitive path forward with the Kremlin or, for that matter, with European allies. Just before taking office President Trump suggested that a removal of sanctions is possible if Russia helps the United States to counter the Islamic State of Iraq and Syria (ISIS) and achieve other goals. He said: "if you get along and if Russia is really helping us, why would anybody have sanctions if somebody's doing some really great things?"³⁴ More recently, Secretary Tillerson has affirmed the administration's intent to hold the line on sanctions.³⁵ Members of Congress have met revelations by the U.S.

²⁸ "Eastern Ukraine witnessed 'most violent' week in over a year, says OSCE," *Deutsche Welle*, February 10, 2017, <http://www.dw.com/en/eastern-ukraine-witnessed-most-violent-week-in-over-a-year-says-osce/a-37502565>;

"Germany: 'Unacceptable' That Russia Accepts Separatist Ukraine Passports," *Deutsche Welle*, February 20, 2017, <http://www.dw.com/en/germany-unacceptable-that-russia-accepts-separatist-ukraine-passports/a-37638344>.

²⁹ Michael R. Gordon, "Russia Has Deployed Missile Barred by Treaty, U.S. General Tells Congress," *New York Times*, March 8, 2017, https://www.nytimes.com/2017/03/08/us/politics/russia-inf-missile-treaty.html?_r=0.

³⁰ Ivan Watson and Sebastian Shukla, "Russian Fighter Jets 'Buzz' US Warship in Black Sea, Photos Show," *CNN.com*, February 16, 2017, <http://www.cnn.com/2017/02/16/us/russia-us-ship-fly-by/>.

³¹ Franz-Stefan Gady, "Japan Scrambles Fighter Jets to Intercept 3 Russian Strategic Bombers," *The Diplomat*, January 26, 2017, <http://thediplomat.com/2017/01/japan-scrambles-fighter-jets-to-intercept-3-russian-strategic-bombers/>.

³² Damien Sharkov, "Russia Prompts 20 Nato Air Force Scrambles In Baltic," *Newsweek*, October 10, 2017, <http://www.newsweek.com/russia-prompts-20-nato-air-force-scrambles-baltic-508727>; Lisa Ferdinando, "Russian Airspace Violations in Nordic-Baltic Region Dangerous, Work Says," *DoD News*, October 7, 2017, <https://www.defense.gov/News/Article/Article/968780/russian-airspace-violations-in-nordic-baltic-region-dangerous-work-says>.

³³ Alexander Novak, "Russia's Energy Future," (CERAWeek, Houston, March 7, 2017).

³⁴ Peter Nicholas, Paul Beckett, and Gerald F. Seib, "Trump Open to Shift on Russia Sanctions, 'One China' Policy," *The Wall Street Journal*, January 13, 2017, <https://www.wsj.com/articles/donald-trump-sets-a-bar-for-russia-and-china-1484360380>.

³⁵ Carl Schreck, "Ukrainian FM Says Tillerson Pledges U.S. Support Against 'Russian Aggression,'" RFE/RL, March 7, 2017, <http://www.rferl.org/a/ukraine-says-us-tillerson-pledges-support-vs-russia-aggression/28356188.html>; "Minister of Foreign Affairs of Ukraine Pavlo Klimkin held a meeting with the U.S. Secretary of State Rex Tillerson," Ministry of Foreign Affairs of Ukraine, News, March 7, 2017, <http://mfa.gov.ua/en/press-center/news/55381-ministr-zakordonnih-sprav-ukrajini-pavlo-klimkin-proviv-zustrich-z-derzhavnim-sekretarem-ssha-reksom-tillersonomministr-zakordonnih-sprav-ukrajini-podyakuvav-za-solidarnisty-spoluchenihshtativ-u-borotybi-ukrajini-proti-agresijirfposlidovna-praktichna-pi>.

intelligence community of Russian intrusion into the U.S. electoral process with alarm and critique. Many have indicated the intent to conduct a full investigation into these practices.³⁶ Members of the Senate have also proposed strong new sanctions on Russia³⁷ and an effort to prevent the U.S. administration from withdrawing sanctions without congressional approval.³⁸

If U.S. policy leaders do decide to alter Russia policy, specifically by making changes to sanctions, the primary challenge will be creating a unified stance between Congress and the administration. If, for example, the U.S. Congress adopts tough new sanctions on Russia, over and against the wishes of the U.S. administration, it may ironically empower President Putin and create serious confusion in the business community. Private sector firms may be unconvinced that the Trump administration will enforce harsh new congressional sanctions. They will also face conflict of law problems as U.S. and EU sanctions move out of step, creating a complex web of potential liability. Cautious firms will hang back, and opportunistic entrepreneurs will move forward to sign deals with Russian firms. President Putin has demonstrated acumen leveraging this kind of confusion and disunity in Western political relationships to deflect attention and advance Russian interests.

Looking beyond this hypothetical scenario for Russia sanctions, there are two other likely policy courses that also would have the effect of empowering President Putin economically and strategically, at the expense of U.S. interests and transatlantic leverage. First, if transatlantic partners maintain status quo sanctions on Russia but neither update nor enforce them, the effects of sanctions will diminish further over time. The business community and Russian political leaders will infer a lack of commitment by the West. In this environment new business with sanctioned Russian firms will emerge, and Russian political leaders will perceive an opportunity to pursue foreign adventurism unchecked.

The second alternative policy course is one in which the U.S. administration unilaterally rolls back sanctions on Russia, perhaps as part of a deal with Moscow, signaling greater political leeway to President Putin in his international dealings. Appearing to appease President Putin in this way will suggest to him that his hybrid warfare approach, military posturing, direct interference in U.S. and other elections, and adventurism are acceptable. It could serve to encourage an escalation in such aggressive behavior, particularly on Russia's periphery. Additionally, it would constitute a truly historic signal from the new administration that interference in a U.S. presidential election will go unaddressed and invite our enemies to violate the sanctity of U.S. elections and our democracy openly and without restraint.

Moreover, unilaterally lifting U.S. sanctions will create a very difficult situation for allies in Europe. There may be some European articulations of concern about the current sanctions approach and its impact. However, there is no popular desire to capitulate to Russia, rescinding the demand that Russia implement the Minsk agreements and throwing out sanctions. European leaders prioritize and value their alliance with the United States and the international influence this confers. Without

³⁶ Austin Wright and Martin Matishak, "Senators set to huddle on Russia hacking probe," Politico, February 2, 2017, <http://www.politico.com/story/2017/02/russia-hacking-senate-investigation-234456>.

³⁷ U.S. Senate, *Counteracting Russian Hostilities Act of 2017*, S. 94, 115th Cong., 1st sess. <https://www.congress.gov/115/bills/s94/BILLS-115s94is.pdf>.

³⁸ U.S. Senate, *Russia Sanctions Review Act of 2017*, S. 341, 115th Cong., 1st sess. <https://www.congress.gov/115/bills/s341/BILLS-115s341is.pdf>.

U.S. sanctions on Russia they will scramble to push back on Russia and simultaneously maintain alliance with the United States. Countries on the European periphery, particularly the Baltic countries, will be left vulnerable by the abandonment of Washington on sanctions and the policy chaos that will ensue in Europe. The Lithuanian Ambassador to the United States praised the U.S. sanctions at a Senate hearing last week, calling them “the strongest tool we have in our toolbox,” and indicating that they “will unite Europe.”³⁹

In the economic realm, unilaterally removing U.S. sanctions will create some confusion for the private sector, as U.S. sanctions move away from EU sanctions. This move will also create new commercial opportunities with Russia. The United States is a more aggressive enforcer of sanctions than Europe and is perceived to set a very strong bar on sanctions compliance. So, in the absence of U.S. sanctions and a clear signal from the U.S. administration that it is rejecting this economic check, the White House will be validating Russia’s message that it is open for business.

The only effective strategy for cogent and credible sanctions on Russia in the future is one in which the U.S. Congress and administration are at least loosely coordinated. Whether sanctions are expanded, or if they are pulled back, policymakers must coordinate signaling and clearly express legal expectations for the private sector. Moreover, a new direction for sanctions will be forceful if the sanctions are coordinated with European counterparts. Notwithstanding the previously mentioned political views in Europe and the United States that undermine, or call into question, common European foreign policy, NATO, and the transatlantic alliance, it is not impossible to envision a coordinated transatlantic policy emerging on Russia in the future. Ultimately, coordination between the U.S. Congress, the U.S. administration, and EU leaders on sanctions is essential for clarity of messaging and to prevent them from being, in practice, a sham policy effort rife with opportunities for circumvention.

The Role for Congress

Congress has an important role to play in the adaptation and management of future U.S. sanctions policy toward Russia. There is considerable expertise in this policymaking body on both the crafting of sanctions and the exercise of U.S. policy toward Russia. Congress plays a fundamental role in offering ideas for sanctions policy. It can also deepen the public conversation over the strategic basis and consequences of sanctions enforcement, or non-enforcement, for the United States and other stakeholders. Fundamentally, legislators have a powerful ability to signal policy imperatives to the U.S. administration, its allies in Europe, and in this case directly to President Putin and his associates, about the economic consequences of aggression and foreign adventurism.

More broadly on Russia policy, members of Congress are in a unique oversight position, capable of soliciting and making public expert views on the threats that Russia poses to U.S. institutions and core interests at home and abroad. Members of Congress working to set the right tone for U.S. engagement with Russia is crucial; they can be a source of important leadership in the overall execution of U.S. policy toward an aggressive adversary. Moreover, the decisions of Congress

³⁹ U.S. Congress, Senate, Committee on Appropriations, Subcommittee on State, Foreign Operations, and Related Programs, Hearing on Russian Policies & Intentions Toward Specific European Countries, 115th Cong., 1st sess., 2017, 230.

regarding appropriations and lawmakers' guidance on force posture and projection, and foreign assistance, is fundamental to advancing U.S. national security interests.

On Russia sanctions going forward, Congress can and should engage the administration to urge continued enforcement of sanctions and make clear the folly of any policy to remove sanctions without Russian fulfillment of Minsk commitments or cessation of malicious cyber intrusions. Congress must also ensure that outcomes of congressional investigations into Russian actions during the 2016 U.S. elections are factored into this discussion. Additionally, given the technical expertise of the Banking Committee in particular, members can offer a sober reminder to administration officials and colleagues in Congress of some of the core principles necessary to carry out a successful sanctions policy. There are four principles in particular to bear in mind with regard to Russia sanctions.

First among these is the necessity to maintain a broad coalition of support for the economic measures, for clarity of message and to prevent circumvention. This requires U.S. policy leaders to coordinate and move together with European allies, as previously mentioned. Second, sanctions cannot be the only foreign policy tool to use against Russia to advance U.S. interests in Ukraine, Syria, or with regard to Russian cyber intrusion. They must be accompanied by broad and intensive diplomatic engagement, a sustained commitment to NATO, and thoughtful use of U.S. foreign assistance and security assets abroad. When it comes to Ukraine, they must also be accompanied by transatlantic allies' provision of a serious package of economic, security, and technical assistance with specific conditionalities and assurances.

A third policymaking principle that is particularly important in the Russia sanctions case is the need to keep sanctions implementation consistently tied to specific foreign policy objectives. Decision makers cannot let them evolve into mere expressions of blunt hostility, punishment, or antagonism. Any new sanction must be accompanied by an articulation of the behavior change that U.S. leaders seek from Russia, and there must be a practical path laid out for relief from sanctions if Russia changes its behavior. If this is absent, sanctions cannot be the deterrent or inducement of behavior change that they are meant to be.

A final principle to guide Russia sanctions is that the development of new sanctions ideas, and their possible deployment, should not preclude a U.S. approach to Russia policy that can be both constructive and tough. It can feature sanctions on one policy issue area, such as Ukraine, but engagement and potential collaboration in another issue area, such as Syria and countering ISIS. The U.S.-Russian bilateral relationship is, of course, broad, featuring a variety of serious security interests. Over the last several years this relationship was able to accommodate strong coordination in the negotiation of the Iran nuclear deal and removal of sanctions, while simultaneously experiencing a sharp deterioration in relations due to Russian actions in Ukraine and the expansion of targeted sanctions on Russia. Going forward, the U.S. approach to sanctions can and must be as variegated as it has been in the past, featuring adaptation and tightening of sanctions in some areas, and possibly relief in others if policy circumstances merit.

New Measures for Consideration

Members of this Committee and other legislators in the Senate and House are considering a variety of approaches to maintain and deepen the effects of Russia sanctions. These include efforts to

compel the administration to hold the line on current Ukraine-linked sanctions; codifying existing executive sanctions authorities into law by statute; and urging enforcement of these executive authorities. These ideas have considerable scope and merit and should be seriously considered. In addition, newly proposed legislation to address Russia's malicious cyber activity would create new financial penalties for such action. Many legislators expect and demand a penalty for these intrusions and are looking expectantly to sanctions options. This is reason enough to carefully study and refine these new cyber sanctions ideas, along with additional cyber, intelligence, covert action, and other policy options, to expose and counter Russia's insidious cyber activities.

New sanctions proposals introduced in the Senate to deepen the penalties on Russia for its aggression in Ukraine would create aggressive new authorities to tighten Russia's access to financial services and its ability to garner investment in its vast oil and gas producing or pipeline delivery and export sector. These energy-focused measures could be tremendously damaging to markets, to U.S. credibility, and to the enterprise of U.S. economic statecraft more broadly.

Specifically, the aggressive new Russia energy sanctions currently under Senate consideration would be virtually impossible to implement, even with full European cooperation given the tremendous size and scope of the Russian energy and transportation sector. Europeans will not participate in such sanctions, even if they are inclined to strenuously expand economic pressure on Russia, given the disastrous economic consequences of, in effect, suddenly cutting off one of their most important sources of energy. U.S. lawmakers will look unserious if they impose policy that is impossible to implement. Even worse, it will undermine the ability of U.S. policymakers to use sanctions in any future instance because it will strengthen the impression of some that U.S. sanctions are a paper tiger lacking force and credibility.

Even if such sweeping energy sanctions could be implemented they would be deeply damaging to the economic interests of the United States and its allies. Russia is the largest oil producer⁴⁰ and the second largest producer of natural gas;⁴¹ severely crippling this supply by halting foreign investment into its production and pipeline distribution would cause painful energy spikes and volatility that would ripple through the entire global economy. Any new energy sanctions on Russia should be the subject of serious discussion with European counterparts and U.S. economic managers.

There are other more targeted ways that U.S. policy leaders can expand financial and energy pressure on Russia if they determine that such steps are appropriate to address Russian threats. I believe this chamber is considering the idea of creating restrictions on the participation of U.S. individuals and institutions in the issuance of Russian sovereign debt, a powerful escalation in sanctions pressure. Legislators are also considering narrowing the access of Russian firms to U.S. capital markets by shrinking the maturity length of debt instruments, or access to derivatives trading, available to Russian firms. These ideas would make it significantly more difficult for Russian entities to raise money and access hard currency. They could be relatively targeted and implemented in an incremental fashion to minimize unintended consequences.

⁴⁰ Claudia Carpenter, "Russia Overtakes Saudi Arabia as World's Top Crude Oil Producer," Bloomberg, February 20, 2017, <https://www.bloomberg.com/news/articles/2017-02-20/russia-overtakes-saudi-arabia-as-world-s-largest-crude-producer>.

⁴¹ U.S. Energy Information Administration, "Russia," last updated October 25, 2016, accessed March 10, 2017, <https://www.eia.gov/beta/international/analysis.cfm?iso=RUS>.

Other ideas that I believe this chamber is considering in the energy domain include the expansion of restrictions on U.S. firms from providing technology, equipment, and services to the Russian refining sector. Additionally, under consideration is the idea of expanding the shale, deepwater and Arctic restrictions in current sanctions to cover Russian oil ventures outside of Russia's territorial boundaries. These ideas would create some limitations on Russia's ability to upgrade its refining fleet to be able to deliver higher quality and higher value products for domestic use and export, primarily to Europe. It would also impose limitations on Russia's ability to launch frontier oil projects abroad in the future. In the current oil price environment, and given Russia's abundant untapped domestic crude resources, the new frontier oil measure would have no real immediate effect but would instead represent a clip on prospective energy developments and a symbolic gesture to limit Russia's international economic expansion.

Beyond these new sanctions ideas, Congress could lobby European leaders to expand economic pressure on Russia by toughening their own set of sanctions. European sanctions currently allow for some grandfathering of European business with Russia as well as some European financing for projects with Russia where such activities are not offered by U.S. entities. There may be opportunity for Europe to more closely circumscribe these permitted business arrangements. Congress should urge European counterparts to consider such options, while being cognizant of the broader economic burden European businesses shouldered when it comes to sanctions and their greater economic vulnerability to Russian retaliation.

These ideas, and others, are worth the careful consideration of the Congress. They can be measures to prepare for deployment, along with other policy options, to address Russian aggression and incursions in the future. They can also be a set of ideas to form the basis for discourse and negotiation between Congress and the administration to ultimately formulate a coordinated Russia policy. Additionally, they can be discussion points in a conversation with European allies about how to proceed on Russia policy. With a wide array of diplomatic relationships in Europe, foreign policy leaders in Congress can play a crucial role in this domain. As previously mentioned, any sanctions approach on Russia is stronger and more credible if it is coordinated between branches of the U.S. government and multilaterally, underpinned by close transatlantic communication and a clear-eyed appreciation of stakeholders' goals and challenges.

Conclusion

The grave nature of U.S. security concerns at home and abroad regarding Russia means that the stakes are high for sanctions policy. Now, as U.S. leaders are contemplating recalibration of this policy they have less leverage than they did a couple of years ago and a much more challenging footing to keep transatlantic ties strong and respond to Russian aggression. The only path for continued effective sanctions on Russia is a difficult one. It involves negotiation and coordination among various leaders whose political and worldviews may render such activity distasteful and frustrating. Yet the alternatives, stasis or conflicting sanctions policy, delivers economic, security, and political benefits to President Putin and undermines U.S. interests. These are losing propositions. It is far preferable to maintain Western economic leverage with Russia and negotiate from a position of strength, whether or not an ultimate goal is a deal with the Kremlin. In this

context, U.S. leaders must pro-actively take on the project of updating sanctions and forging what will be a new stage in transatlantic coordination on this critical policy challenge.

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 energy issues and been quoted widely by leading media outlets in the United States and Europe.

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 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.