

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

May 15, 2019

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

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

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

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

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

### **Making Sanctions on Russia Work**

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

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

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

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

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

## Packing a Punch

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

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

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

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

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

<sup>3</sup> Congressional Research Service, "Iran Sanctions," April 22, 2019.

## **Towards a Sanctions Regime That Works**

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

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

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

## Meaning What We Say and Do

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

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

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