



Center for a  
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Committee on Financial Services, Subcommittee on National Security, International Development and  
Monetary Policy:  
“Assessing the Use of Sanctions in Addressing National Security and Foreign Policy Challenges”

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Chairman Cleaver, Ranking Member Stivers, distinguished members of the committee, thank you for inviting me to appear today to discuss the use of sanctions to address national security and foreign policy challenges. Sanctions are an essential means for the United States, its allies, and the international community to push back against the malign activity of rogue nations and transnational security threats. Sanctions are among the most powerful tools in the U.S. arsenal to exercise leverage over a wide variety of actors whose policies and threatening behavior U.S. leaders seek to change. Sanctions leverage lends tremendous force to U.S. diplomatic efforts and supplies critical forms of coercion and deterrence to the tools of U.S. national power. It is no surprise that sanctions have become the go-to instrument for successive administrations and Congresses and is now a tool of first response in U.S. foreign policy.

As sanctions are now frequently used, and trends suggest that usage will only accelerate in the future, it is fundamentally important for policymakers to have as much information as possible about how sanctions work, when they are likely to be successful, and what specific effects—intended and unintended—are likely to be associated with their use. I urge policymakers not to confuse the contemporary popularity of sanctions statecraft to address a wide array of major security threats with the notion of their utility in all instances. They cannot force capitulation and regime change and cannot be a substitute for a holistic strategy to address the threats to our national security. They also may not be the hammer for every nail. Congress, through legislation and oversight, including in hearings such as this one today, has a critical role to play in advancing a sophisticated, public understanding and analysis of sanctions and establishing principles for their responsible use.

With regard to the application of sanctions and their place in U.S. policy, there are a few operational considerations to bear in mind from the outset. Specifically, sanctions must be calibrated to account for prevailing economic and financial conditions, both in the target economy as well as globally. Also, they are a tactic, not a strategy, and must be paired with a meaningful diplomatic effort and possibly the projection of force. Moreover, sanctions programs are highest impact when they are implemented in concert with allies and other tools of statecraft. There have been longstanding debates in the policy and academic communities about the effectiveness of sanctions as a signaling and deterrent tool. These debates do, and should continue to, inform application of sanctions and learning across cases.

My testimony today outlines how sanctions fit into broader U.S. foreign policy strategy and how they have adapted over time, giving the United States tremendous forms of leverage over adversaries. The testimony will also briefly summarize a few prominent sanctions programs currently in place and offer a view on how sanctions can be used to push back against the threatening and destabilizing activity of one of the United States’ gravest strategic rivals, Russia. There are measures that Congress and the

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administration can take that would impose severe costs on Russian leadership while minimizing collateral damage.

### Sanctions as a Tool of U.S. Foreign Policy

For decades, the United States has used sanctions as a foreign policy tool against its most dangerous adversaries and to address the most severe threats to the national interest. Policymakers have reached for sanctions to signal rebuke and condemnation of specific policies or activities, including proliferation, terrorism, narco-trafficking, human rights abuse, and political destabilization. In many instances, policymakers see sanctions as a key tool to deter future malign behavior. By isolating sanctions targets from the U.S. financial system—the operational crux of sanctions—policymakers use these instruments to impose tough economic consequences and cultivate leverage to support strategic and political goals.

Since the latter years of the Cold War, the United States has sought to use coercive economic measures to affect the foreign policy decision-making of other countries in an increasing number of cases. During the post-Cold War period the tool has evolved considerably and been used to address a broad array of threats.<sup>1</sup> The 1990s were a major inflection point for the use of and perceptions about sanctions. There were many lessons learned from the high-profile and much-analyzed United Nations sanctions on Iraq.<sup>2</sup> Buyers of crude oil regularly flouted restrictions on the ability of Iraq to sell its oil under sanctions, leading to an expansive black market and corruption on a stark scale. The humanitarian consequences of these sanctions for ordinary Iraqis were dire, making the application of sanctions appear draconian.<sup>3</sup>

When the George W. Bush and Barack Obama administrations sought to use economic sanctions to increase pressure on Iran, starting particularly in the mid-2000s, they knew that broad restrictions on the shipment of its oil would encounter similar considerations and perceptions. This is a leading reason why the U.S. government sought to adapt its approach to sanctions on Iranian energy and the revenue this industry generated for the Iranian regime. Policy leaders shifted to a new form of restrictions on foreign investment on the energy sector and then added targeted restrictions on Iran's international banking ties.<sup>4</sup> The pressure that these Iran sanctions delivered, combined with an intensive diplomatic campaign to convince the international community of the need to rein in Iran's enrichment program, led to the successful negotiation of the Joint Comprehensive Plan of Action (JCPOA).

Another important historical development in the shift to narrower and "smarter" U.S. sanctions occurred around the turn of the century.<sup>5</sup> This was a firm pivot toward sanctions measures that exposed and condemned the specific conduct of criminals and malicious actors, and a pivot away from measures that punished individuals and agencies just for their status as associated with a rogue regime.<sup>6</sup> This began before the 9/11 terrorist attacks but saw a major boost afterward as the United States and the world

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<sup>1</sup> Since 1994, the earliest date for which the U.S. Treasury Office of Foreign Assets Control has public data available, there have been 8,828 individuals or entities designated across twenty-seven country or thematic sanctions programs. Enigma Sanctions Tracker, <https://labs.enigma.com/sanctions-tracker/>.

<sup>2</sup> See, for example, Daniel Drezner, "How Smart are Smart Sanctions?" *International Studies Review* (2003) 5, 107-100, <http://danieldrezner.com/research/smartsanctions.pdf>.

<sup>3</sup> See, for example, Nimah Mazaheri, "Iraq and the Domestic Political Effects of Economic Sanctions," *Middle East Journal*, 64.2 (Spring 2010): 253-268, [https://www.jstor.org/stable/40783043?seq=1#page\\_scan\\_tab\\_contents](https://www.jstor.org/stable/40783043?seq=1#page_scan_tab_contents).

<sup>4</sup> Richard Nephew, Senior Research Scholar, Center on Global Energy Policy, Columbia University, "Written Testimony of Richard Nephew," Testimony to the Senate Foreign Relations Committee, July 14, 2016, [https://www.foreign.senate.gov/imo/media/doc/071416\\_Nephew\\_Testimony.pdf](https://www.foreign.senate.gov/imo/media/doc/071416_Nephew_Testimony.pdf).

<sup>5</sup> Edward Fishman, "Even Smarter Sanctions," *Foreign Affairs*, October 16, 2017, <https://www.foreignaffairs.com/articles/2017-10-16/even-smarter-sanctions>; Meghan L. O'Sullivan, *Shrew Sanctions: Statecraft and State Sponsors of Terrorism* (Washington, DC: Brookings Institution Press, 2003).

<sup>6</sup> Daniel Drezner, "Sanctions Sometimes Smart: Targeted Sanctions in Theory and Practice," *International Studies Review*, vol. 13, no.1 (March 2011).

sought to use sanctions to identify and crack down on a wide array of specific terrorist networks and their funders and facilitators. The legacy of this is very significant. For most of the last couple decades the United States has been a leader at the United Nations, and in coalitions of likeminded countries, in adopting coordinated sanctions to address transnational terrorist threats such as al Qaeda and the Taliban. The leadership of the United States to impose coordinated international sanctions against other security threats has also become a hallmark of modern international statecraft. The United States has created sanctions and financial pressure campaigns targeting states of proliferation concern including Iran, North Korea, and Syria; drug traffickers and money laundering networks in Latin America and beyond; and corrupt, militant, kleptocratic regimes from the Democratic Republic of the Congo to Nicaragua to Myanmar.

In addition to these methodological shifts in how the United States has used the sanctions tool, alone and with international counterparts, several other factors in the development of sanctions statecraft over the last decade have reinforced the notion that sanctions are highly effective as a policy and deterrence tool. These include the massively increasing dollar value of sanctions enforcement actions as well as the notion, bolstered by financial sector regulation, that diligently complying by sanctions (even for non-U.S. persons not subject to them) is necessary to protect the transparency and integrity of financial institutions and systems from abuse by criminals.

Today, policymakers in the United States have come to view sanctions as the tool to use when diplomacy is not strong enough and military force is not an option. For their success in messaging and coalition building, and for crafting economic leverage, policymakers in Washington and around the world see the power and efficacy of sanctions. To be sure, there is an active debate about which sanctions measures have been effective, which will significantly influence politics and policy, how to manage their effects, and the appropriate principles for their use. However, sanctions statecraft is now an elemental and essential aspect of U.S. policy, and responsible policy leadership in this area in the future will involve yet more innovation, careful analytical treatment, and creativity in how to target effects and manage unintended effects.

### Future Challenges to the Use of Sanctions by the United States

America's aggressive use of sanctions is also spurring a nascent debate in Washington about whether use of these measures, combined with technological changes, could undermine America's coercive economic leverage over the mid- or long-term. A number of U.S. experts and former policymakers have raised concerns about the sustainability of America's intensive use of sanctions. Former U.S. Treasury Secretary Jack Lew and former State Department official Richard Nephew, for example, argued in *Foreign Affairs* that "Washington is increasingly using its economic power in aggressive and counterproductive ways, undermining its global position and thus its ability to act effectively in the future." A number of other experts have also argued that the United States is using sanctions too aggressively.<sup>7</sup>

Under virtually any conceivable scenario, U.S. sanctions will retain some force over at least the next decade. However, economic and technological trends may compel a shift in how the United States

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<sup>7</sup> See Jacob J. Lew and Richard Nephew, "The Use and Misuse of Economic Statecraft," *Foreign Affairs*, November 2018, <https://www.foreignaffairs.com/articles/world/2018-10-15/use-and-misuse-economic-statecraft>; Barry Eichengreen, "The Dollar and its Discontents," *Project Syndicate*, October 10, 2018, <https://www.project-syndicate.org/commentary/dollar-could-lose-global-hegemony-by-barry-eichengreen-2018-10>; Peter Harrell, "Is the U.S. Using Sanctions Too Aggressively?" *Foreign Affairs*, September 11, 2018, <https://www.foreignaffairs.com/articles/2018-09-11/us-using-sanctions-too-aggressively>; Elizabeth Rosenberg, "The EU Can't Avoid U.S. Sanctions on Iran," *Foreign Affairs*, October 10, 2018, <https://www.foreignaffairs.com/articles/europe/2018-10-10/eu-cant-avoid-us-sanctions-iran>; and Daniel W. Drezner, "Why I am starting to worry about the dollar," *The Washington Post*, November 15, 2018, <https://www.washingtonpost.com/outlook/2018/11/15/why-i-am-starting-worry-about-dollar/>.

deploys these tools and what entities it selects as targets. For example, macroeconomic trends appear likely to force the United States to rely relatively less on the U.S.-dominated international financial system as a primary source of leverage for sanctions. In addition, America's continued aggressive use of sanctions, including against U.S. allies, is likely to make foreign governments increasingly committed to establishing and building cross-border payment mechanisms that will be insulated from U.S. jurisdiction. Financial technology developments will likely facilitate these efforts.<sup>8</sup>

These developments are not likely to displace the U.S. dollar as the dominant international currency, nor will these developments immediately undercut other sources of U.S. coercive economic leverage, such as the size of the U.S. economy and the U.S. role in global supply chains. But if U.S. policymakers fail to mitigate these trends and to adapt America's sanctions tools to changing circumstances, these trends will likely provide increasing avenues for America's adversaries to circumvent U.S. coercive economic measures. In short, U.S. sanctions risk becoming increasingly "leaky" and less impactful than U.S. policymakers have come to expect, even if they retain some force overall.

The United States also faces a small, but non-zero, chance of more significant, rapid changes that could have more dramatic impacts on U.S. economic power. For example, although the underlying drivers of the shift from the British pound to the U.S. dollar as the dominant currency developed over decades, the shift itself occurred quite rapidly between 1940 and 1945, triggered by World War II.<sup>9</sup> Any such rapid shift in the role of the dollar would similarly require a major and unlikely triggering event that would severely diminish confidence in and perceptions of stability associated with the United States. This could include a hypothetical U.S. federal debt crisis or major U.S. economic or foreign policy blunder. However, should the United States face—or by its own policy choices create—such a triggering event, foreign government policies and the development of enabling technologies could make such a shift more likely.

Ultimately, U.S. policymakers have significant control over the use and utility of sanctions in the years ahead. America's monetary and fiscal policies will play a major role in whether the United States remains economically and financially dominant. U.S. trade policy will also play a role. U.S. foreign policy will also be important, either convincing foreign governments or firms to aggressively seek to circumvent U.S. coercive economic power, or reassuring U.S. allies that the United States will use its coercive economic power responsibly and in coordination with allies and their interests. At this political moment, amidst deteriorating security and economic relationships between the United States and many of its allies, signaling on these points may have a meaningful impact on the evolution of the efficacy of U.S. sanctions. Congress can play an important role in guiding U.S. foreign policy in this domain.

### Major Current U.S. Sanctions Programs

At present, the United States maintains roughly 30 sanctions programs, using the sanctions tool of economic statecraft to address a wide array of national security threats.<sup>10</sup> I will describe several of the most prominent contemporary sanctions programs. The Trump administration has emphasized the threats emanating from Russia, Iran, North Korea, and Venezuela, and has wielded sanctions against these countries accordingly. Under the Russia program, the administration has designated 129 individuals and

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<sup>8</sup> Peter E. Harrell and Elizabeth Rosenberg, "Economic Dominance, Financial Technology, and the Future of U.S. Economic Coercion," (Center for a New American Security, April 30, 2019), <https://www.cnas.org/publications/reports/economic-dominance-financial-technology-and-the-future-of-u-s-economic-coercion>.

<sup>9</sup> See, for example, Menzie Chinn and Jeffrey Frankel, "The Euro May Over the Next 15 Years Surpass the Dollar as Leading International Currency," Working Paper Series rwp08-016, Harvard University, John F. Kennedy School of Government, February 13, 2008, 1, [https://sites.hks.harvard.edu/fs/jfrankel/EuroVs\\$-IFdebateFeb2008.pdf](https://sites.hks.harvard.edu/fs/jfrankel/EuroVs$-IFdebateFeb2008.pdf).

<sup>10</sup> U.S. Department of the Treasury, Office of Foreign Assets Control, "Sanctions Programs and Country Information," <https://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx>.

entities; under the Iran program it has added 797; under the North Korea program it has added 89, and under the Venezuela program it has added 78.<sup>11</sup>

The administration has used the threat of secondary sanctions to pressure European companies and banks to discontinue dealings with Iran. After November, 5, 2018, sanctions that were withdrawn under the terms of the Joint Comprehensive Plan of Action were reimposed, exposing international firms to tremendous consequences for trading with Iran in a variety of economic sectors including. On North Korea, the U.S. administration notably has imposed sanctions on Chinese entities that were involved in deceptive shipping practices on behalf of North Korea.<sup>12</sup> It has also used measures like Section 311 of the USA PATRIOT Act to target the Chinese Bank of Dandong for doing business with North Korean banks.

On Russia, the Trump administration has embraced sanctions, including secondary sanctions, pursuant to a variety of Russian malign activities, though not on the scale of the Iran program. In one of the most high-profile sanctions designations in recent memory, the U.S. Treasury Department hit Russia's RUSAL with sanctions. While that designation was lifted earlier this year sanctions remain on Russian oligarch Oleg Deripaska. Additionally, sanctions against individuals aligned with Russian President Vladimir Putin have been matched by measures targeting Russia's key defense partners. The Trump administration has designated the Equipment Development Department of China's Military Central Military Commission for conducting "significant transactions" with the Russian defense or intelligence sectors. A Russia-related sanctions threat also applies to countries such as Turkey, which has said it will not bow to pressure from the U.S. to decline purchasing the Russian S-400 surface-to-air missile system.<sup>13</sup>

The United States also maintains sanctions programs to address a variety of transnational threats, including international terrorism, corruption, and human rights abuses. Many allies of the United States have parallel sanctions programs, mirroring U.S. authorities and targets in their own jurisdictions.

### *Iran*

Since the Trump administration took office in January 2017, much of the debate about the place of sanctions in U.S. foreign policy has focused on their applicability to Iran. Tehran has long been a target of U.S. economic power, with some measures dating back to the Iranian revolution of 1979 and the seizure of the U.S. embassy. The 2018 U.S. withdrawal from the JCPOA and reimposition of U.S. sanctions that had been waived as part of the nuclear deal represents a new chapter in U.S. policy toward Iran,<sup>14</sup> and in multilateral relations between the United States and the partners that America has relied on to ensure the success of previous sanctions efforts. In addition to bringing these measures back into force, the United States has imposed an array of new sanctions on Iran targeting its support for terrorism, malicious cyber activity, and human rights violations.

The Trump administration has dramatically increased pressure on Iran in the past month. It designated the Islamic Revolutionary Guard Corps (IRGC) as a Foreign Terrorist Organization, announced that the United States would not grant further significant reduction exemptions for importers of Iranian oil--thereby

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<sup>11</sup> Enigma Sanctions Tracker, <https://labs.enigma.com/sanctions-tracker/>.

<sup>12</sup> U.S. Department of the Treasury, "Treasury Designates Two Shipping Companies for Attempted Evasion of North Korea Sanctions," press release, March 21, 2019, <https://home.treasury.gov/news/press-releases/sm632>.

<sup>13</sup> "Turkey says it will not bow to U.S. sanctions over S-400 deal," Reuters, May 5, 2019, <https://www.reuters.com/article/us-turkey-usa-defense/turkey-says-it-will-not-bow-to-u-s-sanctions-over-s-400-deal-idUSKCN1SB06J>.

<sup>14</sup> Eric Brewer, Elisa Catalano Ewers, Ilan Goldenberg, Peter Harrell, Nicholas Heras, Elizabeth Rosenberg, and Ariane Tabatabai, "A Realistic Path for Progress on Iran: 12 Guiding Principles to Achieve U.S. Policy Goals," (Center for a New American Security, January 29, 2019), <https://www.cnas.org/publications/reports/a-realistic-path-for-progress-on-iran>.

seeking to prevent Iran from exporting any oil, heavily modified the waivers around Iran's civilian nuclear program to constrict Iran's operations, and imposed new sanctions on metals industries in Iran. Iran has responded with an escalation in tensions, indicating that it will cease to uphold its commitments in the deal. These developments significantly increase the potential for violent, and unintended, escalation between the United States and Iran, two deeply entrenched and well armed adversaries. There does not appear to be any prospect for diplomatic de-escalation or a shift to more stable and peaceful politics in the region at any point soon.

Considering the lessons about sanctions statecraft to be learned from the Iran case, practitioners and observers are likely to perceive challenges associated with a major new embrace of unilateral sanctions without coordination or support from close U.S. allies or other major global economies. The European reaction to the cleavage with the United States on Iran policy and a return to maximum pressure U.S. sanctions has been particularly worrisome. In discussing the creation of a special purpose vehicle to shield non-U.S. firms trading with Iran from the force of U.S. sanctions, European Union foreign affairs chief Federica Mogherini said the U.S. strategy had "made us and other parts of the world wonder what kind of (financial) autonomy we have."<sup>15</sup> While there is a transatlantic consensus on the threat from Iran, there is a great divergence on how to approach it and Europe is developing a firm resolve to block the efficacy and applicability of U.S. sanctions.<sup>16</sup>

### *North Korea*

The Trump administration has worked diligently to expand pressure on North Korea, and its economic lifelines in China, in support of a denuclearization diplomatic process with the Kim regime. This has included the issuance of Executive Order 13810 (September 2017),<sup>17</sup> creating extraordinarily powerful sanctions authorities to target any foreign financial institution that facilitates transactions with North Korea, an array of new sanctions designations, including a USA Patriot Act Section 311 action against the Chinese Bank of Dandong, and advisories about North Korean sanctions circumventions.<sup>18</sup> The United States has also sent a strong signal to North Korea about the unacceptability of violating sanctions with some meaningful, if limited, sanctions enforcement actions. This includes the recent seizure of a vessel illegally trafficking in North Korean coal, whose operations were paid for with transfers routed through U.S. banks.<sup>19</sup> Since the end of the Obama administration, the United States has taken a leading role in building a multilateral coalition for imposing an increasingly strict sanctions regime against North Korea, including U.N. Security Council resolutions from 2016-2018 that added unprecedented measures to the international regime to constrain many critical forms international trade with the North Korea.<sup>20</sup> These

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<sup>15</sup> Rodrigo Campos, "EU's Mogherini eyes Iran SPV for trade 'before November'," Reuters, September 26, 2018, <https://www.reuters.com/article/us-iran-nuclear-mogherini/eus-mogherini-eyes-iran-spv-for-trade-before-november-idUSKCN1M62OF>.

<sup>16</sup> Thorsten Benner, "Europe's Quest for Financial Independence," *Foreign Affairs*, August 31, 2018, <https://www.foreignaffairs.com/articles/europe/2018-08-31/europes-quest-financial-independence>.

<sup>17</sup> United States Department of the Treasury, *Executive Order 13810 of September 20, 2017, Imposing Additional Sanctions with Respect to North Korea*, (September 25, 2017), <https://www.treasury.gov/resource-center/sanctions/Programs/Documents/13810.pdf>.

<sup>18</sup> Financial Crimes Enforcement Network, "FinCEN Restricts North Korea's Access to the U.S. Financial System and Warns U.S. Financial Institutions of North Korean Schemes," press release, November 2, 2017, <https://www.fincen.gov/news/news-releases/fincen-further-restricts-north-koreas-access-us-financial-system-and-warns-us>.

<sup>19</sup> "North Korean Cargo Vessel Connected to Sanctions Violations Seized by U.S. Government," U.S. Department of Justice, press release, May 9, 2019, <https://www.justice.gov/opa/pr/north-korean-cargo-vessel-connected-sanctions-violations-seized-us-government>.

<sup>20</sup> Kelsey Davenport, "UN Security Council Resolutions on North Korea," Arms Control Association, <https://www.armscontrol.org/factsheets/UN-Security-Council-Resolutions-on-North-Korea>.

measures deprive North Korea of hard currency necessary for the sustainability and growth of the regime's weapons of mass destruction programs.

Despite the multilateral nature of the sanctions, there are numerous obstacles to effective implementation, as many United Nations member states ignore the relevant Security Council resolutions because they find trade with North Korea either lucrative or diplomatically advantageous.<sup>21</sup> There are also numerous unanswered questions about the Trump administration's diplomatic strategy with regard to North Korea, which will have a bearing on whether the North Korea sanctions program will be perceived as effective. The failure of the Hanoi summit, as well as the apparent effort by President Trump to rescind sanctions that had been imposed on two Chinese entities by his own administration, underscore concerns about the credibility of the administration's approach.<sup>22</sup> Congress should demand clarity from the administration on the denuclearization concessions it will demand from North Korea in exchange for sanctions relief and on what kind of sanctions relief it plans to offer.

### *Russia*

In response to Russia's illegal annexation of Crimea and continued territorial aggression in eastern Ukraine, the United States, in coordination with European partners, instituted sanctions against Russian targets in 2014.<sup>23</sup> Since that tranche of measures, the United States has added new measures, imposing further restrictions on many Russian banks' access to Western capital markets, the provision of Western technology and services to much of the Russian energy sector, as well as the addition to the Specially Designated Nationals and Blocked Persons (SDN) List of Russian government officials and oligarchs, and the creation of executive authorities relevant to election interference. In 2017 Congress passed unprecedented legislation, the Countering America's Adversaries Through Sanctions Act (CAATSA), creating many powerful new Russian sanctions authorities and congressional oversight mechanisms.

The administration has spent considerable time over the last year and a half implementing aspects of CAATSA. Since last summer the U.S. Congress has devoted an array of hearings and oversight activities to the implementation of CAATSA, the 1991 Chemical and Biological Weapons Control and Warfare Elimination Act (CBW Act), and the exercise of foreign policy toward Russia more generally. As I will describe later in my testimony, there is a strong political impetus for additional measures with respect to Russia, as there is no strong evidence that Putin has been effectively deterred from malign activity and because many members of Congress are concerned that the administration is not strong or clear enough in its policy toward Russia.

### *Venezuela*

The U.S. administration began imposing sanctions on Venezuela in 2014, targeting corruption, human rights abuse, and the administration's hindrance of democratic processes. The past few weeks have seen a newly assertive push by the United States to force Venezuelan leader Nicolas Maduro from power. After the democratically elected National Assembly President Juan Guaidó declared himself the interim President of Venezuela on January 23, 2019, using powers enshrined in Venezuela's constitution, the

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<sup>21</sup> See, inter alia, Colum Lynch, "U.N. Report Details How North Korea Evades Sanctions," *Foreign Policy*, September 20, 2018, <https://foreignpolicy.com/2018/09/20/un-report-details-how-north-korea-evades-sanctions/>.

<sup>22</sup> Saleha Mohsin, Jennifer Jacobs, and Nick Wadhams, "Trump Tried to Undo North Korean Penalty, Contrary to U.S. Account," Bloomberg, March 26, 2019, <https://www.bloomberg.com/news/articles/2019-03-26/trump-tried-to-undo-n-korea-penalty-contrary-to-u-s-account>.

<sup>23</sup> OFAC, "Ukraine-/Russia-related Sanctions," <https://www.treasury.gov/resource-center/sanctions/Programs/Pages/ukraine.aspx>; and European Council, "EU restrictive measures in response to the crisis in Ukraine," <https://www.consilium.europa.eu/en/policies/sanctions/ukraine-crisis/>.

United States responded swiftly to recognize him.<sup>24</sup> On January 28, 2019, the United States announced punishing economic restrictions on PDVSA, Venezuela's national oil company, complementing the array of financial sanctions on Venezuela. Collectively these measures constrain the Maduro regime's ability to sell its oil and its access to hard currency.<sup>25</sup> The banking and energy industries have made meaningful shifts in provision of services, operations, contracts, and commercial relationships with Venezuela. The Venezuelan economy and population are absorbing the implications of these measures, which are having significant economic, social, and political consequences. With the apparent failure of Guaidó to convince significant elements of the Venezuelan military to defect from the Maduro regime, thanks in part, it appears, to Russian support, Congress should be asking the administration about its anticipated next steps. This includes asking about the administration's plans with regards to the application of future sanctions on Venezuelan targets.

### U.S. Sanctions and Countering Russian Malign Activity

The use of sanctions against Russia is of particular concern to policymakers and the American public at present. Russia's well-documented interference in the 2016 U.S. presidential election, as well as its ongoing efforts to sow misinformation and discord in the United States and among the United States and its allies, is a major driver of this concern. U.S. intelligence agencies have consistently warned about the severity of the threat. Earlier this year the Director of National Intelligence, Dan Coats, said that "the Kremlin is stepping up its campaign to divide Western political and security institutions and undermine the post-WWII international order."<sup>26</sup> To be sure, there are an array of other motivating factors driving the current interest in strong sanctions against Russia, including Russia's backing of chemical attacks, its ongoing territorial aggression, malicious cyber activity, and human rights abuses.

There is a robust debate about whether sanctions have the capacity to change Russia's policies and activities in any of these domains. However, U.S. policymakers must not abide inaction in the face of such doubts. Lack of response to Russia's threats will only empower Russia. Furthermore, the United States will lose credibility and allies in the campaign to push back on Russia if U.S. policy toward Russia, including the implementation of sanctions, appears episodic, arbitrary, and lacking in strategy. It will take deft maneuvering to keep the pain of sanctions directed at Russia, and not at U.S. allies and firms. If future sanctions involve draconian measures targeting legitimate European commerce with Russia, European companies and governments may not willingly comply. The United States has a major challenge ahead in implementing needed, tough policy toward Russia but doing so without risking a far-reaching rupture with European allies that would undermine coordination to address strategic challenges from Iran, Russia, and China.

What this means is that policymakers must stay rigidly focused on a methodology of Russia sanctions to specifically expose, and impose consequences for, malicious Russian activities with the intent to compel policy change. Sanctions can be used successfully to impede the flow of dirty Russian money and curb Russia's malicious activities. However, sanctions must not be overemphasized as a policy measure to deal with the array of Russian threats to U.S. national security, or used to the exclusion of other forms of statecraft. Furthermore, sanctions, as tactics, must not be confused with a strategy, or be implemented alone without a parallel diplomatic process and messaging effort.

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<sup>24</sup> Secretary of State Michael Pompeo, "Recognition of Juan Guaido as Venezuela's Interim President," U.S. Department of State, press statement, January 23, 2019, <https://www.state.gov/secretary/remarks/2019/01/288542.htm>.

<sup>25</sup> U.S. Department of Treasury, "Issuance of a New Venezuela-related Executive Order and General Licenses; Venezuela-related Designation," press release, January 28, 2019, <https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20190128.aspx>.

<sup>26</sup> The Honorable Dan Coats, Director of National Intelligence, "Annual Threat Assessment: Opening Statement," Statement to the Select Committee on Intelligence, United States Senate, January 29, 2019, 7, [https://www.dni.gov/files/documents/Newsroom/Testimonies/2019-01-29-ATA-Opening-Statement\\_Final.pdf](https://www.dni.gov/files/documents/Newsroom/Testimonies/2019-01-29-ATA-Opening-Statement_Final.pdf).



Wherever possible, U.S. policymakers should coordinate with international allies in the application of pressure on Russia, such as in the targeting of Russia's territorial aggression, its chemical attacks, and its human rights abuses. Divided from transatlantic partners on sanctions, the United States will struggle for clarity and strength in its Russia policy, and it will alienate and harm closest friends in the fight. Ultimately, U.S. sanctions alone cannot be expected to deliver foreign policy success. They certainly will not cause President Putin to capitulate. 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.<sup>27</sup> 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.<sup>28</sup> Relatively strong oil prices and the ability of the Russian state and private executives to court alternative sources of financing, including from China, and particularly in light of the declining ruble, has been a powerful buoy to the Russian economy. Russia's 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. Moreover, it made a remarkable shift out of U.S. debt holdings last year, reducing its these holdings 84 percent.<sup>29</sup>

Many market observers will look to the early 2019 lifting of sanctions on several companies linked to sanctioned Russian oligarch Oleg Deripaska—En+ Group, Rusal, and EuroSibEnerg— as another sign of Russian economic adaptation and an ability to get out from under sanctions pressure.<sup>30</sup> Many political observers also see the United States as weak on Russia to have agreed to a deal in which Deripaska retains meaningful, if minority, ownership over these firms. The delisting generated a tremendous amount of political controversy in the United States. Congress used the review measures it wrote into CAATSA to attempt to pass a resolution of disapproval, which overwhelmingly passed in the House of Representatives but failed in the Senate.

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<sup>27</sup> Rachel Ziemba, Adjunct Senior Fellow, Center for a New American Security, "Russia Sanctions: Current Effectiveness and Potential Future Steps," testimony to the U.S. Senate Committee on Banking, Housing, and Urban Affairs, September 7, 2018, <https://www.cnas.org/publications/congressional-testimony/testimony-before-the-u-s-senate-committee-on-banking-housing-and-urban-affairs>.

<sup>28</sup> International Monetary Fund, "Real GDP growth; annual percent change," [https://www.imf.org/external/datamapper/NGDP\\_RPCH@WEO/RUS?year=2019](https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/RUS?year=2019).

<sup>29</sup> Thomas Frank, "Treasury data shows Russian holdings of US debt plunged 84% since March, but here's what it really means," CNBC.com, July 29, 2018, <https://www.cnbc.com/2018/07/29/treasury-department-report-shows-russian-holdings-of-us-debt-plunged.html>.

<sup>30</sup> Oleg Deripaska and his companies were sanctioned "for having acted or purported to act for or on behalf of, directly or indirectly, a senior official of the Government of the Russian Federation, as well as pursuant to E.O. 13662 for operating in the energy sector of the Russian Federation economy. Deripaska has said that he does not separate himself from the Russian state. He has also acknowledged possessing a Russian diplomatic passport, and claims to have represented the Russian government in other countries. Deripaska has been investigated for money laundering, and has been accused of threatening the lives of business rivals, illegally wiretapping a government official, and taking part in extortion and racketeering. There are also allegations that Deripaska bribed a government official, ordered the murder of a businessman, and had links to a Russian organized crime group." U.S. Department of the Treasury, "Treasury Designates Russian Oligarchs, Officials, and Entities in Response to Worldwide Malign Activity," press release, April 6, 2018, <https://home.treasury.gov/news/press-releases/sm0338>.

Members of Congress who have concerns about how the administration executed the delisting do have tools available to exercise oversight and should do so with regard to Rusal, and on Russia policy more broadly. Members should require the Treasury Department to regularly report on its monitoring of the operations of the delisted companies to ensure that it is impossible for Oleg Deripaska to exercise effective control or influence, as was the condition of the delisting. Congress can also ask how much of the debt forgiveness within the delisting deal enriches Deripaska's personal balance sheet, and what that may mean for his ability to engage in illicit activity even not related to the delisted firms. Administration officials should also discuss what signals they believe this delisting sends to other firms about the legal and accounting mechanisms they could employ to divest below the 50 percent OFAC threshold for ownership that subjects firms of designated individuals to sanctions. Congress should also ask administration officials what metrics they will use to evaluate behavior change in Russian oligarchs targeted by U.S. sanctions and the lessons to be learned in the future from targeting cronies and parastatals in Russia.

I urge Congress to focus its grave concerns with Russia on oversight of the current sanctions regime, including on the de-listed Deripaska companies, and on enforcement of existing sanctions. There is much to be done in this domain and no other institution that can be as forceful in urging the U.S. administration to act in this domain. On the day that the administration sent notice to Congress that it would delist Deripaska's companies, it announced a tough set of sanctions on other Russian entities, including a right-hand man of Deripaska.<sup>31</sup> Congress should encourage the administration to continue with this implementation. It should persist with efforts like the recent letter from Chair Waters and Chairman Engel, asking for the long-overdue administration report on its efforts to carry out the provisions of the Russia Magnitsky Act.<sup>32</sup> Congress should also support and urge the administration's efforts to compel oversight associated with any delisting cases. Ideally, this will be even stronger in the future. Furthermore, Congress should actively work to keep the public narrative on Russia on the ongoing work of pressuring Russia for its malign activity, including its grave and ongoing efforts to interfere with democratic processes. Congress should demand that the U.S. administration take further action to safeguard the U.S. electoral system ahead of the next election, using the election interference authorities it put in place last September. If policymakers get bogged down with one specific, if important, instance of sanctions delisting, or only one aspect of Russia's efforts to undermine U.S. interests, they risk leaving the United States vulnerable and exposed to other Russian threats.

### New Legislation and Oversight Initiatives

Congress should consider new legislative measures with respect to Russia. The time is right for new, strong measures that impose real costs on Russia, constraining its ability to operate internationally, while minimizing potential collateral damage for U.S. allies and partners. Such legislation should address the grave threats presented by the array of Russian malign activity, including in the areas of malicious cyber activity, chemical and biological weapons attacks, interference in democratic processes (including politically motivated assassinations), human rights abuses, territorial aggression, rampant money laundering, and the undermining of international institutions. Along with diplomatic, defense, and arms control provisions, new legislation could potentially include sanctions measures targeting the following areas: financial services (including related to issuance of sovereign debt), defense, intelligence, technology, and other economic sectors, as well as further measures targeting oligarchs. New sanctions on Russia need to be carefully crafted to mitigate potential unintended economic consequences to U.S.

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<sup>31</sup> United States Department of Treasury, Treasury Targets Russian Operatives over Election Interference, World Anti-Doping Agency Hacking, and Other Malign Activities," press release, December 19, 2018, <https://home.treasury.gov/news/press-releases/sm577>.

<sup>32</sup> "Engel & Waters Demand Overdue Russian Sanctions Report," U.S. House of Representatives Committee on Foreign Affairs, press release, May 6, 2019, <https://foreignaffairs.house.gov/2019/5/engel-waters-demand-overdue-russian-sanctions-report>.

firms. However, in the face of haphazard focus and uneven pressure by the Trump administration, Congress needs to pass tough new measures to guide U.S. policy on Russia and curb Moscow's aggression.

In addition, enacting new legislation on corporate transparency, including creating requirements for the collection and disclosure of beneficial ownership information, would be valuable in preventing illicit Russian money from flowing into the country. This committee has heard testimony from a variety of experts encouraging you to adopt legislation in this area, and in negotiations to advance a bill to mitigate the anonymous company problem. I urge the Committee to send legislation addressing this issue to the full House for a vote as expeditiously as possible.

To complement these legislative efforts, the U.S. Congress should consider oversight to follow and guide administration policy on Russia in the following areas of implementation and enforcement: Russian policy or conduct that may interfere with U.S. democratic institutions and processes; the administration's delays in imposing sanctions required by statute, such as sanctions against Russia's chemical weapons attacks; Russian attacks on U.S. allies; Russian abuse of human rights and violation of territorial sovereignty; and delisting of major Russian companies.

A further area for congressional oversight related to Russia sanctions should be an intensive analytical inquiry into the economic implications of Russia sanctions measures on the economies of Russia, the United States, and allies and partners of the United States as well as the strategic implications on U.S. security and alliance relationships of the imposition of U.S. sanctions linked to Russia.

Below are select suggestions for measures that Congress should consider in its ongoing Russia legislation and oversight.

- **Mandating follow-through on chemical and biological weapons sanctions.** Evidence provided by United Kingdom police and security services clearly points to Russian responsibility for the lethal use of chemical weapons on the soil of one of this country's closest allies.<sup>33</sup> Unfortunately, the U.S. administration has not followed up on an initial round of sanctions in August 2018 with another set of measures authorized and required by the 1991 Chemical and Biological Weapons Act (CBW Act).<sup>34</sup> Congress should require the administration to impose statutorily mandated further sanctions on Russia for its brazen use of a weapon of mass destruction.
- **Measures sanctioning primary issuance of Russian sovereign debt.** In 2014, Treasury officials and sanctions experts believed it would have been too disruptive to the global economy to implement measures targeting the trading of new Russian sovereign debt. However, in recent years, the dynamic of Western capital market interaction with Russia has changed. It may be possible for such sanctions measures to have a limited contagion effect for the broader economy. Congress should include close consideration of sanctions on primary issuance of Russian sovereign debt as it crafts new Russia sanctions measures.

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<sup>33</sup> "Britain identifies two Russians as suspects in the Skripal poisoning," *The Economist*, September 6, 2018, <https://www.economist.com/britain/2018/09/06/britain-identifies-two-russians-as-suspects-in-the-skripal-poisoning>.

<sup>34</sup> United States Department of State, Bureau of International Security and Nonproliferation, *Determinations Regarding Use of Chemical Weapons by Russia Under the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991*, Federal Register, August 27, 2018, <https://www.federalregister.gov/documents/2018/08/27/2018-18503/determinations-regarding-use-of-chemical-weapons-by-russia-under-the-chemical-and-biological-weapons>.

- **Strengthening the effort to prevent Russian election interference.** Congress should codify and update the authorities created by the administration in its September Executive Order 13848, “Imposing Certain Sanctions in the Event of Foreign Interference in a United States Election.” This authority as crafted is cumbersome and may be inadequate to address the election interference threat facing the United States currently. Additionally, Congress should expand the scope of election interference to best match the range of insidious challenges to our democracy from disinformation campaigns to tampering with election infrastructure.
- **Expanding the targeting of Russian oligarchs and parastatal entities.** Congress must ensure that those individuals closest to Putin realize that the lifting of sanctions against the corporate entities associated with Oleg Deripaska is not a signal that the United States is relieving pressure on Russia. Indeed, as Deripaska remains on the SDN list, Congress should ensure that the administration is identifying individuals that are ideal candidates to join him. Congress could require that the State Department release a public report of the oligarchs generally considered closest to President Putin, along with the factors that are used to measure “closeness.” This will signal to these oligarchs and the Kremlin that the United States is closely watching the networks of President Putin’s influence and brutal control. While sanctioning oligarchs and the companies over which they exercise control or maintain ownership will not fundamentally alter Russian foreign policy, it is beneficial to the United States to separate them from access to the global financial system, and therefore limit President Putin’s ability to influence proxies to advance illicit interests.
- **Improving financial transparency in the United States.** Congress should pass new legislation 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.

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 these 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 to pay for attacks on our democracy. For some time, U.S. law enforcement agencies have asked for access to beneficial ownership information, 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>35</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>36</sup>

- **Congressional appropriations.** Congress should ensure that the agencies responsible for implementation and coordination of sanctions are well-resourced. The previous Congress did

<sup>35</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>36</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/hhrq-115-ba15-wstate-gbaer-20180427.pdf>.

expand funding for the Treasury Department's Office of Terrorism and Financial Intelligence, but it was still below the budget request. Congress should also call for the reopening of the State Department's Sanctions Coordination Office so that that the U.S. usage of sanctions has the diplomatic support it needs to be successful.

### Conclusion

The role of Congress in creating sanctions and overseeing their implementation and enforcement is critically important for the long-term ability of the United States to use this tool in pursuit of U.S. foreign policy and security goals. Sanctions are a powerful instrument of economic coercion, creating economic effects that can be disruptive not only to our adversaries, but to our allies and partners as well. It is essential for Congress to ask questions of the administration and experts in forums such as these and create guidelines about the methods the United States uses in applying sanctions. Congress will be instrumental in helping the U.S. policymaking community understand the effects and implications this kind of statecraft is having on a variety of actors, and the overall strategy they are meant to be supporting. This work is nothing short of essential given the factors that bear on the effectiveness and availability of sanctions in the years ahead. It will be a critical factor in ensuring that U.S. policies advance a strategic goal and in so doing avoid the missteps that will compromise the tools themselves, or their ultimate goals, in the long run.

Thank you for your time and attention. I look forward to 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. She has testified before Congress on sanctions and energy issues and been quoted widely by leading U.S. and international media outlets.

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.

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.