Testimony of Assistant Secretary Daniel L. Glaser
House Committee on Foreign Affairs
Russia's Destabilization of Ukraine
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Chairman Royce, Ranking Member Engel, and distinguished Members of this Committee, thank you for inviting me to speak today about the U.S. Government's response to Russia's illegal annexation of Crimea and its continued provocative actions in Ukraine. The Department of the Treasury is designing and implementing a strategy that uses our toolkit of targeted financial measures to raise the costs to Russia of its actions. Our approach is a calibrated effort to impose immediate costs on Russia and to create conditions that will make Russia increasingly vulnerable to sanctions as the situation in Ukraine escalates. To this end, Treasury has targeted not only corrupt former Ukrainian officials, Crimean separatists, and their backers in the Russian government, but also individuals in President Putin's inner circle who have important interests and holdings throughout the Russian economy. Russia is already feeling the impact of our measures. As the Kremlin's decisions concerning the situation in Ukraine leave us with little choice but to continue to ratchet up the pressure, we will use the full range of sanctions authorities at our disposal, which will expose the weakness and vulnerability of the Russian economy.

In my remarks today I will describe Treasury's sanctions tools and how we are deploying them. I will also discuss the important measures we are taking to buttress the Ukrainian economy. By pursuing these dual tracks of imposing significant costs on Russia's illegal and destabilizing actions and facilitating the institution of the economic conditions necessary for a vibrant and prosperous Ukrainian economy, the Treasury Department is using the tools at our disposal to contribute to the development of a strong and sovereign Ukraine.

Imposing Costs on Russia: Sanctions and Financial Isolation

President Obama has signed three Executive Orders that provide the Secretary of the Treasury with expanded authority to sanction individuals and entities responsible for the continuation of the crisis in Ukraine, as well as entities owned or controlled by such individuals. These Executive Orders are as follows:

- E.O. 13660 provides the authority to block the assets of any individuals or entities determined to be responsible for or complicit in undermining democratic processes or institutions in Ukraine; threatening the peace, security, stability, sovereignty, or territorial integrity of Ukraine; misappropriating Ukrainian state assets; asserting governmental authority over any part of Ukraine, without authorization from the Government of Ukraine; or providing material assistance to any individual or entity that does;

- E.O. 13661 provides the authority to block the assets of any individuals or entities determined to be an official of the Russian government; operating in the arms sector in Russia; or providing material assistance to, or acting on behalf of, a senior official of the Russian government; or providing material assistance to any individual or entity whose assets are blocked;

- E.O. 13662 provides the authority to block the assets of any individuals or entities determined to be operating in such sectors of the Russian Federation economy as may be determined by the Secretary of the Treasury, in consultation with the Secretary of State, such as financial services, energy, metals and mining, engineering, and defense and related materiel; or providing material assistance to any individual or entity that does.

As noted above, we are implementing these Executive Orders in the context of a pressure strategy designed to impose immediate costs on Russia, including at high levels in Moscow, and to create market conditions that will make Russia increasingly vulnerable to financial measures and accountable as the situation in Ukraine escalates. In total we have imposed sanctions on 45 individuals and 19 entities to date. Our targets can be organized into the following categories:

Targeting Putin's Inner Circle and Certain Related Companies

- Igor Sechin, the Chairman of the State-run oil company Rosneft, and close associate of Putin;

- Sergei Chemezov, a trusted ally of Putin, who is also the CEO of the Russian weapons and metals conglomerate Rostec;

- Gennady Timchenko, who at the time of the designation ran Gunvor, one of the world's largest commodities trading firms, the funds of which may have been accessible to President Putin. Treasury also designated Timchenko's Volga Group, one of the largest investment groups in Russia, and Stroytransgaz Holding, an engineering and construction company for Russia's oil and gas industry, also controlled by Timchenko;

- The Rotenberg brothers, Arkady and Boris, who were designated for their role in supporting Putin's personal projects by receiving and executing high-price contracts for the Sochi Olympics and for state-controlled energy giant Gazprom. We also designated firms under the Rotenberg's control, including banks InvestCapitalBank and SMP Bank, as well as a gas pipeline company, SGM Group;

- Yuri Kovalchuk, who served as the personal banker for Putin and many senior Russian officials, earning the moniker "Putin's cashier"; and

- Treasury designated Bank Rossiya for its close connections to Putin's inner circle and the fact that it is controlled by the inner circle's personal banker Kovalchuk. Before sanctions were imposed, Bank Rossiya was among the 20 largest banks in Russia, with approximately $10 billion in assets. As a result of our designation, Bank Rossiya lost almost $1 billion in deposits in March and was forced to sell almost $500 million worth of bonds to maintain liquidity. The bank has also lost access to its correspondent accounts in U.S. financial institutions, and we are in close cooperation with our European and global partners to ensure that other financial centers do not provide services to this bank.

Targeting Russian Officials Directing the Purported Annexation of Crimea

Our efforts have also targeted Russian officials in response to the illegal annexation of Crimea. These officials include senior Duma and Federation council officials, such as the Speaker and Deputy Duma Speaker, key Duma deputies, and senior leaders in the Federation Council. Treasury has also imposed sanctions on senior Kremlin aides, including the Chief of Staff of the Presidential Executive Office, Advisor to the President, and Head of the Presidential Administration, as well as other senior Russian government officials, including the Head of the Russian Military Intelligence Service, the Chairman of the Board of Russian Railways, Director of the Federal Drug Control Service, and Director of Russia's Protective Service.

Targeting Crimean Separatists and Former Ukrainian Government Officials

We have also identified Crimean separatists and former Ukrainian government officials for their involvement in the illegal referendum on Crimean secession and purported annexation by Russia. These include Viktor Yanukovych, who, along with his regime's cohorts, was responsible for actions that threaten the security, stability, sovereignty, or territorial integrity of Ukraine, the self-appointed "Prime Minster of Crimea" Sergei Aksyonov, Vladimir Konstantinov the speaker of the Crimean Parliament, and Viktor Medvedchuk, a political party leader responsible for pitting supporters and foes of Russia's attempt to annex Crimea against one another.

As noted above, President Obama has given the Secretary of the Treasury additional authority to significantly enhance Russia's economic costs and isolation. Executive Order 13662 authorizes the targeting of individuals and entities operating in broad sectors of the Russian economy to be identified by the Secretary of the Treasury, in consultation with the Secretary of State, such as defense, metals and mining, finance, engineering, and energy. Treasury has been working closely with our colleagues within the U.S. Government, and with counterparts within the European Union and G-7, to design a strategy to deploy our full range of tools to target the Russian economy should Russia's leadership continue to destabilize Ukraine, including by attempting to disrupt this month's Presidential election.

In this regard, I should note the importance of coordination with our international partners, particularly those in the European Union and G-7. To be clear, the United States always stands ready to take the actions we deem necessary to safeguard international security. We do, however, recognize that our financial measures are more powerful and effective when done in a multilateral framework. This is certainly the case in the context of Russia, which is financially and economically integrated with Europe and the G-7 countries to a significant degree. Our partners have taken sanctions measures of their own, and have stated that they are prepared to do more should circumstances require. It will be important for them to do so, and the State and Treasury Departments are working tirelessly to ensure that our international partners continue and expand their measures as we move forward together to address Russia's efforts to destabilize Ukraine.

Impact: The Costs of Sanctions on the Russian Economy

Sanctions, and the uncertainty they have created in the market, are having an impact, directly and indirectly, on Russia's weak economy. And as sanctions increase, the costs will not only increase, but Russia's ability to mitigate costs will diminish. Already, market analysts are forecasting significant continued outflows of both foreign and domestic capital and a further weakening of growth prospects for the year. The IMF has downgraded Russia's growth outlook to 0.2 percent this year, and suggested that recession is not out of the question. This stands in stark contrast to previous IMF forecasts, which as recently as February were projecting 2 percent growth. It is clear that our sanctions policy is working:

- Since the start of the year, Russia's stock market has declined by over 13 percent;

- The Russian ruble has depreciated by almost 8 percent since the beginning of the year, despite substantial market intervention by the Russian Central Bank and an interest rate hike, amid heavy capital outflows that have already exceed last year's total;

- The Central Bank of Russia has spent nearly $50 billion (10 percent of its total foreign exchange reserves) in an effort to defend the value of the ruble;

- The yield on Russia's 10-year government bond is up over 170 basis points;

- The government is feeling the bite of rising borrowing costs. On April 23, Russia was forced to cancel a debt auction due to a spike in the price investors demanded to buy Russian bonds;

- IMF expects as much as $100 billion in capital flight from Russia this year; the World Bank puts that estimate closer to $130 billion;

- Citing recent large capital outflows and a deteriorating economic outlook, S&P downgraded Russia's sovereign credit rating to BBB-, or one notch above junk status, with a negative outlook; and

- S&P has downgraded ratings and outlook for several Russian banks and corporations on the deteriorating outlook for the Russian economy.

Supporting Ukraine

In addition to our measures to isolate the Russian economy, the Department of the Treasury is working with the international community to support the Ukrainian government in returning the country's economy to solid footing. Last week's approval of a two-year, $17 billion IMF reform program is a positive first step and has unlocked additional bilateral and multilateral financial support to help Ukraine as it undertakes essential reforms to set its economy on the path to sustainable growth.

The IMF will be at the center of this international assistance effort and is best placed to support Ukraine's implementation of robust and market-oriented reforms. The Ukrainian authorities have already begun undertaking the necessary steps to build a secure economic foundation, including urgently needed market reforms that will restore financial stability, improve economic potential, and allow Ukraine's people to better achieve their economic aspirations.

Total financial support from the international community for Ukraine is expected to reach $27 billion over the next two years, including support from the IMF, World Bank, European Bank for Reconstruction and Development, European Investment Bank, the United States, European Union, Canada, Japan, and possibly other bilateral donors. Financial support for Ukraine totaling $5.9 billion is estimated to be released in May, including $3.2 billion from the IMF and an estimated $2.7 billion from the United States, EU, World Bank, Japan, and Canada.

Our $1 billion loan guarantee agreement with the Ukrainians was signed last month, and we continue to work expeditiously to enable Ukraine to issue the $1 billion in U.S. guaranteed debt by mid-May – the proceeds of which will allow the Ukrainian government to insulate vulnerable Ukrainians from the impact of necessary economic reforms.

In addition to this direct financial support, the international community is supporting Ukrainian efforts to recover billions of dollars in assets stolen by the former Yanukovych regime. At an international conference last week in London, Attorney General Holder announced that the FBI would form a "financial SWAT team" to assist the Ukrainian government. In support of this effort, Treasury will offer its expertise in identifying, tracking, and recovering stolen Ukrainian state assets, following the Department of Justice's lead. Already, Treasury's Financial Crimes Enforcement Network (FinCEN) issued an advisory on February 26 reminding U.S. financial institutions of their responsibility to apply enhanced scrutiny to private banking accounts of assets related to Viktor Yanukovych. When the Ukrainian government announced its criminal investigation against Yanukovych officials for misappropriation of state assets, we added those names to the list to be scrutinized as well.

The United States has also pledged $50 million for new programs to address emerging needs in Ukraine. As a part of these efforts, expert Treasury advisors have been deployed to Kyiv to help the Ukrainian authorities stabilize the financial sector and implement reforms. Treasury advisors are already working closely with the Finance Ministry and National Bank of Ukraine, helping to develop strategies to manage existing liabilities, resolve failed banks, improve banking supervision, and spur financial intermediation. As Ukraine's needs evolve, Treasury will be in a position to deploy additional advisors with expertise in areas such as budget and tax administration.

Conclusion

As the United States and our international partners continue to confront Russia's illegal actions in Ukraine, we stand ready to further employ our arsenal of financial measures as the situation escalates. A diplomatic resolution to the crisis remains our goal, but if Russia choses to continue its illegal and destabilizing actions in Ukraine, we can impose substantial costs on, and expand the isolation of, an already weak Russian economy.

Thank you for the opportunity to testify in front of this committee. I am happy to answer your questions.