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BEFORE THE UNITED STATES HOUSE COMMITTEE ON FOREIGN AFFAIRS

Concerning: “Undermining Democracy: Kremlin Tools of Malign Political Influence”

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Chairman Keating, Ranking Member Kinzinger, and Distinguished Members of the Committee, thank you for inviting me to address you today on the Kremlin’s undermining of democracy through tools of malign political influence.

Vladimir Putin’s Russia uses a suite of low-cost, asymmetric tools to undermine democratic institutions as a means of weakening Europe, the United States, and transatlantic ties. This threat poses a unique national security challenge, as the attacks exploit democracies’ openness while weaponizing societal and institutional vulnerabilities. Putin and his proxies wage these operations using five primary, non-military tools – information operations, cyberattacks, malign financial influence, political and social subversion, and state economic coercion. These activities support Putin’s goals of discrediting democracy as a form of government, destabilizing and weakening Russia’s competitors, and gaining relative power on the world stage.

While these attacks opportunistically exploit specific vulnerabilities in individual societies, there are patterns to how they manifest across countries. Elections, which are a key institution in any democracy, often serve as an opportune target. But attacks on elections are typically just one part of ongoing, multi-pronged operations. Effectively countering this threat requires understanding the full toolkit that Russia uses to attack our institutions and its broader transnational strategy.

Malign Financial and Coercive Economic Tools: An Underexplored Dimension of Interference

According to a review of open source reporting, Russia has conducted at least 362 operations targeting 41 European countries using at least one of these tools since 2000.¹ While Russia’s employment of information operations and cyberattacks has received significant attention – if insufficient response – in the United States, I have been asked to address underappreciated dimensions of its toolkit: the use of malign financial and coercive economic tactics to undermine democracies and support illiberal forces across Europe.

Our open source review, which captures a significant subset of all known cases of Russian interference, has identified Russia’s use of malign financial tactics, defined as “the facilitation of financial activity involving illicit proceeds or in furtherance of other illicit ends,”

¹ Authoritarian Interference Tracker, Alliance for Securing Democracy. Accessed 17 May 2019. <https://securingdemocracy.gmfus.org/toolbox/authoritarian-interference-tracker/>

in 28 European countries since 2000.² We also document its use of strategic economic coercion, defined as “the exploitation of national resources and commercial activity as leverage over another country’s government to weaken it and force a change in policy,” in 19 European countries since 2000.³ These activities constitute threats not only to good governance and the rule of law in Europe, but to national security, with direct implications for the United States. First, these activities undermine the cohesion of both NATO and the EU, discourage policies that Moscow sees as unfavorable and encourage policies it prefers, and facilitate dependencies that make it difficult for political leaders to challenge Moscow. Second, these activities – which include cultivating political sway with favored individuals and groups, providing non-transparent support for political parties and fringe or illiberal movements, and funding of pro-Kremlin media and information operations – weaken democracies by making it more difficult for them to govern cohesively, and by promoting corruption that makes them less responsive to their citizens.

These activities are not just tools of leverage for Putin – they are part of how he obtained and maintains power. These dark money tactics serve to both protect and grow the assets of Putin’s inner circle – assets largely stolen from the Russian people through insider contracts and non-transparent financial tactics.⁴ Putin’s primary goal is maintaining power, and for him, that is highly dependent on protecting the favored position of his inner circle and the functioning of the wider patronage system. Up to \$800 billion in Russian assets, accounting for over half the country’s financial wealth, are believed to be held offshore and extremely concentrated in the hands of a small elite.⁵ Putin and his cronies depend on the Western financial system to grow, hide, and attempt to clean their spoils. Anders Aslund estimates that since 2006, Putin and his cronies have extracted \$15-25 billion a year from these assets, or a total of \$195-325 billion, including \$10-15 billion extracted from Gazprom for their personal gain.⁶

The Russian government itself does not direct all of these activities. Russian corporations, oligarchs, and even organized crime networks are agents of malign financial influence and economic coercion, often acting of their own volition to curry favor with those in power, to protect their wealth and standing, and to help guarantee favorable opportunities in the future.⁷ As Russia expert Mark Galeotti puts it, “As part of the price of doing business without potential hindrance, or in the hope of future benefit, companies may be expected to provide funding for foreign political parties or campaigns, contribute to favoured causes, or otherwise dance to the Kremlin’s tune.”⁸

² Ibid.

³ Ibid.

⁴ Dawisha, Karen. *Putin's Kleptocracy: Who Owns Russia?* New York: Simon & Schuster, 2015. Print. p. 3-4.

⁵ Zucman, Gabriel *et al.* “From Soviets to Oligarchs: Inequality and Prosperity in Russia, 1905-2016.” NBER Working Paper No. 23712. August 2017, p. 23.

⁶ Aslund, Anders. “Money Laundering Involving Russian Individuals and their Effect on the EU.” Testimony to the European Parliament Tax-3 Committee. 29 Jan 2019.

<http://www.europarl.europa.eu/cmsdata/161070/2019%2001%2029%20-%20%20Andreas%20Aslund%20Replies%20and%20EP%20Testimony%20Russian.pdf>

⁷ Galeotti, Mark. “Controlling Chaos: How Russia Manages Its Political War in Europe.” European Council on Foreign Relations, 01 Sept. 2017. Web. 13 May 2019. p. 6.

⁸ *Ibid.*, p. 4.

Russia's Modes and Methods of Malign Financial and Coercive Economic Influence

Former President of Freedom House David Kramer rightly observed that “corruption is Putin’s biggest export,” but that is because the West imports it, enabling Putin’s efforts to blur the distinction between democracies and his kleptocracy.⁹ Let me highlight a few of the modes and methods Putin’s Russia uses to undermine democracy and gain malign influence in Europe.

First, Russia targets and enriches elites in target countries to cultivate direct political influence. This can include government officials and politicians, former political leaders who remain influential, and other well-connected individuals, in order to influence governments’ policies. Former German Chancellor Gerhard Schröder is the most well-known example of this, having joined the board of Russian state-owned oil company Rosneft, but lower level elites are also targets. For instance, the Organized Crime and Corruption Reporting Project (OCCRP) revealed in March that Aivars Bergers, one of the largest donors to the Latvian pro-Russian Harmony Party, received €270,000 from two offshore companies used in the Azerbaijani Laundromat and the Magnitsky affair, two well-known international money laundering schemes.¹⁰

In some cases, Russian entities provide direct support for Eurosceptic and illiberal populist political parties. The most well-known of these was in France, with the 2016 loan to Marine Le Pen’s National Front brokered by the Russian government.¹¹ The money was disbursed by First Czech Russian Bank, which was connected to organized crime and later had its license revoked for money laundering violations.¹² In Italy, Matteo Salvini’s La Lega party was, as of October 2018, reportedly brokering a deal with Russian state oil interests to receive part of the proceeds from the sale of three million metric tons of diesel. If confirmed, this would be a brazen instance of direct Russian funding of an illiberal populist political party in Europe.¹³ In Estonia, Russian Oligarch Vladimir Yakunin’s Alliance for Peace and Freedom gave 1.5 million Euros to the campaign of Edgar Savisaar, the mayor of Tallinn and leader of the opposition party. Savisaar did not disclose the donation and later tried to claim the funds as donations for construction of a church.¹⁴ In the UK, Arron Banks, co-founder of the Leave.EU campaign and one of the largest donors to the U.K. Independence Party (UKIP),¹⁵ was allegedly offered the opportunity to invest in gold and diamond mines by Russian businessmen connected

⁹ Kramer, David. Remarks at conference: “The New Tools of Authoritarian Influence.” The German Marshall Fund of the United States. Berlin, Germany. 14 May 2019.

¹⁰ Sprinġe, Inga, and Karina Shedrofsky. “Mega-donor to Pro-Russian Party Benefits from Magnitsky and Azerbaijani Laundromats.” *Re:Baltica*. The Baltic Center for Investigative Journalism, 20 Mar. 2019. Web. 14 May 2019.

¹¹ “Comment les partis sont-ils financés ?” *Vie publique*. Direction de l’information légale et administrative de la RF, 14 Jan. 2018. Web. 14 May 2019.

¹² Rosenberger, Laura, and Thomas Morley. “Russia’s Promotion of Illiberal Populism: Tools, Tactics, Networks.” *Alliance for Securing Democracy*. German Marshall Fund of the United States, 11 Mar. 2019. Web. 17 May 2019. p. 4.

¹³ Nadeau, Barbie Latza. “An Italian Expose Documents Moscow Money Allegedly Funding Italy’s Far-Right Salvini.” *The Daily Beast*, 22 Feb. 2019. Web. 22 Feb. 2019.

¹⁴ Rosenberger and Morley, p. 5.

¹⁵ Caesar, Ed. “The Chaotic Triumph of Arron Banks, the “Bad Boy of Brexit”.” *The New Yorker*, 18 Mar. 2019. Web. 17 May 2019.

to Aleksandr Yakovlenko, then the Russian Ambassador to the United Kingdom.¹⁶ Although Banks denies accepting the offer, *The Guardian* reports that Leave.EU staff met with representatives of the Russian government as many as eleven times in the lead-up to the 2016 Brexit referendum.¹⁷

The Russian government also uses foreign investments to create dependence on Russian energy or natural resource exports, in order to build foreign policy leverage. This also includes foreign investments designed to enrich local elites in other countries, eroding those nations' political independence. The Russian government's significant control over its energy sector provides it "the ability to manipulate European energy trade to accomplish political aims, enrich chosen elites, and interfere with domestic political processes."¹⁸ In the gas sector, pipeline links and business ties date back to the Soviet era, but new deals are creating new vulnerabilities. In Hungary, for instance, businessmen linked to Viktor Orban made hundreds of millions of dollars buying underpriced Gazprom gas through a Swiss trading firm and reselling it in Hungary at market prices.¹⁹ And Hungary granted Rosatom a contract to expand a nuclear power plant without an open tender and without any public oversight. The Hungarian Parliament voted to keep most details of the agreement a state secret for thirty years.²⁰ At the strategic level, Heather Conley found in CSIS' *Kremlin Playbook*²¹ that countries where Russia's economic footprint was greater than twelve percent of GDP were vulnerable to Russian influence and state capture. In Bulgaria, for instance, Russia dominates the energy sector, with Russia's economic footprint peaking at 27% in 2012.²²²³ Russia uses a network of compromised officials and Bulgarian businessmen to maintain and further this dominance.²⁴

In addition to targeting elites and capturing interests at the state level, a network of friendly oligarchs, businesspersons, and other cut-outs establish and finance NGOs in European countries that spread and support the Kremlin's agenda. Yakunin, the former head of Russian Railways, is one of the most prolific founders and funders of NGOs used by the Russian government to advance its foreign policy goals abroad. In France, his Foundation of Saint Andrew the First-Called partnered with far-right anti-LGBT and anti-Semitic groups.²⁵ Yakunin also funds the Dialogue of Civilizations (DoC) Research Institute, a network of think tanks in

¹⁶ Kirkpatrick, David D., and Matthew Rosenberg. "Russians Offered Business Deals to Brexit's Biggest Backer." *The New York Times*, 29 June 2018. Web. 17 May 2019.

¹⁷ Cadwalladr, Carole, and Peter Jukes. "Revealed: Leave.EU Campaign Met Russian Officials as Many as 11 times." *The Guardian*, 08 July 2018. Web. 17 May 2019.

¹⁸ Rosenberger and Morley, p. 3.

¹⁹ Hegedűs, Dániel. "The Kremlin's Influence in Hungary: Are Russian Vested Interests Wearing Hungarian National Colors?" German Council on Foreign Relations, Feb. 2016. Web. 27 Feb. 2019. p. 5-6.

²⁰ "Austria sues over EU approval of Hungary nuclear plant," *Euractiv.eu*, 23 February 2018. Web. 19 May 2019. <https://www.euractiv.com/section/politics/news/austria-sues-over-eu-approval-of-hungary-nuclear-plant/>

²¹ Conley, Heather A., James Mina, Ruslan Stefanov, and Martin Vladimirov. *The Kremlin Playbook*. Center for Strategic and International Studies, Oct. 2016. Web. 17 May 2019. p. xi-xii.

²² "Greece's DEPA to Become First Gas Supplier to Bulgaria outside Gazprom." *Reuters*. Thomson Reuters, 02 Apr. 2019. Web. 15 May 2019.

²³ Conley *et al.*, p. 44.

²⁴ *Ibid.*, p. 45.

²⁵ Piérot, Jean-Paul. "Saint-Just, l'extrémiste de droite n'aime pas siéger." *L'Humanité*. 16 Jan. 2014. Web. 12 Feb. 2019

Moscow and European capitals that advocate for Russian interests. DoC hosts the yearly Rhodes Forum in Greece, a sort of anti-American Davos.²⁶ Underscoring the connections among these tactics and their transnational nature, Yakunin was implicated in widespread corruption at Russian Railways when he oversaw the company. Through banks in Moldova and Latvia, funds linked to that corruption scandal passed through the Russian Laundromat money laundering scheme.²⁷

Russia's tactics also include empowering fringe elements in order to drive up polarization and hinder the ability to govern. In the Republika Srpska entity of Bosnia and Herzegovina, Russian officials and investors have supported nationalist president Milorad Dodik, whose regime has gone to great lengths to undermine the Bosnian state-level government and disrupt the country's Euro-Atlantic integration. In Serbia, the hardline Serbian war veterans' association opened a paramilitary (or "military patriotic") training camp for Serbian youth, allegedly with support from Russian embassy officials²⁸ and the Russian far-right group ENOT.²⁹ Russia has also long supported Ataka, a far-right political party in Bulgaria,³⁰ characterized by its anti-Semitic and xenophobic platform, as well as its Euroscepticism and anti-Atlanticism.³¹

Russia uses dark money to support other tools of malign influence, including its efforts to manipulate the information space. The Russian government's support for media outlets across Europe – including in Hungary,³² the Baltics,³³ and the Anglosphere,³⁴ as well as the opening of RT outlets in France,³⁵ Italy,³⁶ and Germany,³⁷ has facilitated the spread of antiestablishment and pro-Kremlin narratives, including by hyping issues like migration that fuel support for Euroscepticism and antidemocratic forces. In 2017, investigations by the Baltic Center for Investigative Journalism revealed that Baltnews, a collection of three Russian-language news

²⁶ Buckley, Neil. "Rhodes Gathering Blames the World's Woes on the West." *Financial Times*, 04 Oct. 2016. Web. 17 May 2019.

²⁷ Harding, Luke, and Nick Hopkins. "How 'Dirty Money' from Russia Flooded into the UK – and Where It Went." *The Guardian*, 20 Mar. 2017. Web. 17 May 2019.

²⁸ "Serbian Police Close Paramilitary Youth Camp Run by Ultranationalists, Russian Group." Radio Free Europe / Radio Liberty, 17 Aug. 2018. Web. 13 May 2019.

²⁹ Pavelic, Boris. "Refugee Killings Controversy Haunts Croatian Serbs' Memorial." *Balkan Transitional Justice*. Balkan Insight, 12 Aug. 2013. Web. 15 May 2019.

³⁰ Hanlon, Bradley, and Alexander Roberds. "Securing Bulgaria's Future: Combating Russian Energy Influence in the Balkans." *Alliance for Securing Democracy*. German Marshall Fund of the United States, 21 June 2018. Web. 15 May 2019.

³¹ Simmons, Jo. "The Curious Tale of Bulgaria's Extremist Flip-Flopping Party." *Huffington Post*, 03 June 2014. Web. 15 May 2019.

³² Dezső, András. "Kiderült, amit eddig is sejtettünk: orosz propaganda fut a kormányajtóban." *Index*, 15 Apr. 2018. Web. 25 Feb. 2019.

³³ Sprinġe, Inga, and Sanita Jemberga. "Sputnik's Unknown Brother." *Re:Baltica*. The Baltic Center for Investigative Journalism, 6 Apr. 2017. Web. 14 May 2019.

³⁴ Hanlon, Bradley, and Thomas Morley. "Russia's Network of Millennial Media." *Alliance for Securing Democracy*. German Marshall Fund of the United States, 15 Feb. 2019. Web. 14 May 2019.

³⁵ Viscusi, Gregory, and Helene Fouquet. "France's Macron Lifts Ban on Access for Russia Today TV." *Bloomberg*, 13 Nov. 2018. Web. 25 Feb. 2019.

³⁶ Lusi, Domenico. "Lo zar Putin alla campagna d'Italia." *Pagina99*, 12 Oct. 2017. Web. 25 Feb. 2019.

³⁷ Macho, Andreas. "Russia Today: der Propaganda-Sender des Kremls in Deutschland." *Handelsblatt*, 21 Nov. 2014. Web. 25 Feb. 2019.

sites, was secretly owned by RIA Novosti via a series of Russian and Dutch shell companies.³⁸ The three news sites were also connected to a Russian funded NGO, part of a larger NGO network in the Baltic states whose work is targeted at reinforcing the Kremlin's interests among the region's Russian ethnic minority.³⁹

Russian online information operations across Europe often accompany these other tactics, and have repeatedly injected disinformation to promote far-right groups supportive of the Kremlin's agenda,⁴⁰ drive up anti-immigrant sentiment,⁴¹ spread anti-NATO messages, undermine support for Ukraine, and oppose fracking (which threatens Russia's energy dominance).⁴² A recent report from Andrew Dawson and Martin Innes at the University of Cardiff analyzed data from accounts publicly that Twitter identified to have been operated by the Internet Research Agency – controlled and financed largely by Putin's associate Yevgeniy Prigozhin – between 2014-2016. Dawson and Innes found a more significant amount of activity targeted at Europe than previously known. They found that these accounts engaged extensively in Bulgarian, Estonian, French, German, Italian, Romanian and Spanish, and that in addition to activity on the U.S. 2016 election, there were “significant levels of interest in a series of elections and democratic events across Europe in 2016.”⁴³

Vulnerabilities Enable Russia's Malign Activities

Some of Russia's tactics violate existing law, but many of its malign financial activities – much like the other asymmetric tools Putin's Russia deploys – operate in a grey zone. Russia takes advantage of weak legal and regulatory enforcement, legal loopholes, enabling jurisdictions, and erosion of the rule of law. Just as Russia has exploited U.S. tech platforms to attack our democracy, Russia has used the Western financial system to facilitate illicit practices to undermine and corrupt our systems from within. A series of large-scale money-laundering scandals in the EU in recent years has revealed the scale of this problem. These scandals are not confined to countries typically seen as having corruption problems.⁴⁴

³⁸ Springe and Jemberga, 2017.

³⁹ Jemberga, Sanita, Mikk Salu, Šarūnas Černiauskas, Guntars Veidemanis, and Anton Lysenkov. "Kremlin's Millions." *Re:Baltica*. Trans. Aleks Tapins. The Baltic Center for Investigative Journalism, 27 Aug. 2015. Web. 14 May 2019.

⁴⁰ Farand, Chloe. "French Social Media Is Being Flooded with Fake News, Ahead of the Election." *The Independent*, 23 Apr. 2017. Web. 17 May 2019.; Stelzenmüller, Constanze. "The Impact of Russian Interference on Germany's 2017 Elections." *Brookings*, 28 Nov. 2017. Web. 17 May 2019.; Applebaum, Anne, Peter Pomerantsev, Melanie Smith, and Chloe Colliver. "MAKE GERMANY GREAT AGAIN" Kremlin, Alt-Right and International Influences in the 2017 German Elections." *Institute for Strategic Dialogue*, Dec. 2017. Web. 17 May 2019.

⁴¹ Weiss, Michael. "The Kremlin Cries Rape for Propaganda in Germany." *The Daily Beast*, 02 Feb. 2016. Web. 17 May 2019.

⁴² Harvey, Fiona. "Russia 'Secretly Working with Environmentalists to Oppose Fracking'." *The Guardian*. *Guardian News and Media*, 19 June 2014. Web. 14 May 2019.

⁴³ Dawson, Andrew, and Martin Innes. "The Internet Research Agency in Europe 2014-2016." *Cardiff University Crime & Security Research Institute*, May 2019. Web. 17 May 2019. p. 3.

⁴⁴ Prominent examples include “the Russian Laundromat” in Moldova; Deutsche Bank mirror trading; Danske Bank and Swedbank in Estonia; the Troika Laundromat/Ukio Bank in Lithuania; ABLV in Latvia; and ING in the Netherlands.

The EU also does not closely monitor foreign investments, opening itself to strategic, non-commercially motivated investments from Russia. Opaque foreign investments may also provide the Russian government access to controlled technology, personal user data, or government contracting opportunities. The ability to form anonymous companies in the United States also constitutes a weak link in the international financial system, particularly in the real estate sector, facilitating the movement of dark money. A number of European countries also have weak or no laws banning foreign funding of political candidates or parties, leaving the door wide open for Russian political influence.⁴⁵ Finally, a number of European countries play a particular role in facilitating these activities through weak enforcement, corruption, or economies that serve as offshore financial service ecosystems, including Cyprus, Switzerland, Austria,⁴⁶ and until recently, Latvia.

A recent scandal that forced snap elections in Austria highlights the ways in which illiberal forces in Europe welcome and facilitate these activities. Austrian Vice Chancellor Heinz-Christian Strache, leader of the far-right Freedom Party of Austria, was forced to resign after footage emerged of him discussing illegal quid pro quo arrangements with a woman he thought was a Russian oligarch's niece. In the video, he and a colleague explained how she could circumvent foreign donation limits, take over a media outlet to support his candidacy, and receive illegal public contracts for a company she might found.⁴⁷

While Russia is particularly adept at exploiting these vulnerabilities, these same pathways can be and are exploited by other authoritarian actors. As this committee heard at a recent hearing, China is seeking to expand its influence in Europe using a range of tactics. Chinese investments in Europe come with some of the same concerns over elite cultivation by entities with opaque ties to the state – and in many ways Chinese and Russian activities reinforce one another in eroding European cohesion and leveraging political influence. In the Czech Republic, a nominally private Chinese conglomerate, CEFC China Energy, cultivated a close relationship with Czech president Miloš Zeman and his political associates through a series of high-profile investments in the country.⁴⁸ Zeman has since emerged as a vocal champion of a deepening partnership between China and the Czech Republic (even as CEFC's profile itself has declined).^{49,50,51} However, CEFC's investment in Zeman continues to pay dividends for the Chinese party-

⁴⁵ Berzina, Kristine. "Foreign Funding Threats to the EU's 2019 Elections." German Marshall Fund of the United States, 15 Oct. 2018. Web. 17 May 2019.

⁴⁶ Conley, Heather A., Ruslan Stefanov, Martin Vladimirov, and Donatienne Ruy. *The Kremlin Playbook 2*. Center for Strategic and International Studies, Mar. 2019. Web. 17 May 2019.. p. 56.

⁴⁷ Leila Al-Serori, Oliver Das Gupta, Peter Peter Münch, Frederik Obermaier and Bastian Obermayer. "[Caught in the Trap](#)" *Süddeutsche Zeitung*

⁴⁸ Barboza, David, et al. "China Seeks Influence in Europe, One Business Deal at a Time." *The New York Times*. 12 Aug. 2018. Web. Accessed 20 May 2019.

⁴⁹ "Zeman Hopes B&R Initiative Will Help Boost Czech Development." *Xinhua*. 26 January 2019. Web. 20 May 2019.

⁵⁰ Allen-Ebrahimian, Bethany, and Emily Tamkin. "Prague Opened the Door to Chinese Influence. Now It May Need to Change Course." *Foreign Policy*. 16 Mar. 2018. Web. 20 May 2019.

⁵¹ Ke, Dawei, et al. "Update: Prague Approves Citic Takeover of CEFC China's Czech Assets". *Caixin*. 30 Aug 2018. Web. 20 May 2019.

state. In a recent television appearance, he defended Huawei's desire to build the Czech Republic's 5G network and attacked his own country's security agencies for opposing it.⁵²

Time to Act

To date, Putin's Russia has faced little real consequence for its nefarious activities, and the damage is compounding. The need for action could not be more urgent. And as the United States has learned all too clearly, Russia's use of these tools to undermine democracy are not confined to Europe's borders, and have been used to attack the United States as well. There are a series of steps that the United States and our allies can take that would both make our systems more resistant to these tactics and strengthen our democracies, and make it more difficult for Putin and his cronies to enrich themselves at our expense. The bipartisan initiative I co-directed developed a comprehensive strategy to counter authoritarian interference in democracies, endorsed by a bipartisan and transatlantic group of former senior national security officials (See Appendix A).⁵³

The United States needs to recognize the threat to our national security posed by Russia's use of this toolkit and respond with the kind of serious effort required. Many of Russia's tactics fall in the cracks and seams of the U.S. bureaucracy. We need to ensure our analysts and policymakers are seeing and responding to the full range of tools that Russia is employing to undermine democracies and exert malign influence. Establishing a National Hybrid Threat Center at ODNI and creating a senior-level coordinator at the NSC to counter foreign interference would be critical steps to ensure the U.S. government has a full appreciation of the challenges we face and can coordinate a response across the U.S. government and with our partners and allies.

Transatlantic cooperation, including unified responses across the EU and within NATO, is essential – especially as Putin seeks to divide us. We need to enhance information sharing and coordination mechanisms, including on technical fronts like establishing a system among the United States, UK, and EU to track cross-border payments in centralized databases to support law enforcement, counterintelligence, and anti-money laundering (AML) supervision. More broadly, the United States and European allies need to share threat information and learn from one another's responses. The nascent G7 Rapid Response Mechanism presents one avenue for such coordination, though it should be broadened beyond disinformation to cover the full range of tools Russia and others are using to undermine democracies. And while NATO has expanded its strategy on dealing with hybrid threats, many of Russia's tools fall outside the bounds of the traditional political-military alliance. Given the harm these tools pose to the unity of the alliance, NATO should increase its focus on non-traditional security threats, including – as former U.S. Ambassador to NATO Doug Lute has suggested – through a renewed focus on building resilience under Article 3 of the Washington Treaty. NATO-EU cooperation on these issues is also critical, and the two bodies should form a joint task force on countering asymmetric threats,

⁵² Willoughby, Ian. "President Slams Security Agencies over 'Campaign' against Huawei | Radio Prague." *Radio Praha*, 11 Jan 2019. Web. 20 May 2019.

⁵³ Rosenberger, Laura, Jamie Fly, and David Salvo. "The ASD Policy Blueprint for Countering Authoritarian Interference in Democracies." *Alliance for Securing Democracy*. German Marshall Fund of the United States, 26 June 2018. Web. 17 May 2019.

including to facilitate intelligence sharing. The mandate of the European Centre of Excellence for Countering Hybrid Threats includes economic threats, and it should emphasize this area in its work, along with ongoing work on other challenges like information operations.

The United States should also increase assistance to our European partners and allies to ensure they have the ability to withstand and respond to these tactics. This should include expanding capacity building and technical assistance programs, both bilaterally and through multilateral institutions, to strengthen our allies' ability to combat illicit finance. The Departments of State and Treasury should also increase diplomatic efforts to convince countries of key concern to undertake reforms. And the United States should continue to work with European partners to reduce dependence on Russian energy, including by encouraging them to work in solidarity with each other to oppose projects like Nord Stream 2, while continuing to swiftly permit LNG exports to provide Europe with new sources of gas. Finally, the U.S. should increase assistance to civil society in Europe, which is critical for building resilience, with a particular focus on independent and investigative media, NGOs, and transparency organizations – especially in countries where Russia is investing its own resources and where space is shrinking for civil society organizations and media.

The United States should continue to increase costs on Moscow for its continued nefarious activities. In particular, the Administration needs to fully implement existing sanctions on Russia, and ensure that these measures are part of a comprehensive strategy, including with consistent messaging and coordination with European allies. Congress should consider additional sanctions – particularly in the financial sector such as new sovereign debt restrictions – as well as consider measures such as the DETER Act that would set automatic triggers for sanctions if Russia engages in interference operations. The United States should also work with our European partners to develop a set of shared principles on unacceptable foreign interference and articulate clear deterrent warnings about the costs that will be imposed on foreign actors for engaging in such activity.

The United States also needs to make clear to our allies and partners that it will not tolerate the enabling, indulging in, or importing of Russia's corrupt practices. U.S. security interests are inherently intertwined with issues of rule of law and good governance, as corruption and anti-democratic governance makes countries more vulnerable to Russian malign influence. This poses uncomfortable choices when U.S. allies engage in these tactics, but doing business-as-usual with governments like Victor Orban's only invites further Russian malfeasance – and sends a signal to others that they can get away with similar behavior.

We also need to enhance transparency of the international financial system to track and prevent the flow of dark money, monitor foreign investments, and close legal loopholes. This includes recognizing the role that a lack of transparency in parts of the U.S. financial system plays while pushing our allies to improve their own systems. For the United States, the highest priority should be ending the formation of anonymous companies by passing measures like the bipartisan Corporate Transparency Act, which would require disclosure of beneficial ownership. Treasury Department efforts to track foreign ownership of residential real estate in select cities under a temporary Geographic Targeting Order program are welcome, but should be made permanent and expanded nationwide. The United States should encourage the EU to develop a

central AML agency across the full single market to address the current mismatch with national level regulators.⁵⁴ The United States should also encourage European partners to fortify the EU's new investment screening framework by strengthening screening at the Member State level and adding an enforcement mechanism at the EU level. And the United States should press Switzerland, the global leader in the commodities trade and a key venue for the exportation of corrupt practices by the Russian energy sector, to take the lead and regulate the industry to prevent corruption, money laundering, and other illicit activity.⁵⁵

The United States should enhance AML enforcement and the imposition of penalties for these activities, and encourage Europe to do the same. Weak penalties for money-laundering scandals only perpetuate the problem. Additionally, targeting key offshore nodes for illicit Russian activity under Section 311 of the PATRIOT Act is a powerful tool that complement sanctions. Treasury's determination that Latvia's ABLV Bank was a foreign financial institution of primary money laundering concern demonstrated this, spurring reform in Latvia and highlighting systemic European vulnerabilities.

Finally, we need to identify our own asymmetric advantages and go on offense. Putin and his cronies rely on the Western financial system to protect and grow their ill-gotten gains, even while they seek to weaken us. This gives us leverage, and we should use it. Anders Aslund has argued that the best way of undermining "Putin's authoritarian and kleptocratic regime is transparency, shining light on this anonymous wealth" held in our countries.⁵⁶ Targeted sanctions on Putin's cronies may have limited utility as an effect on Russia's economy, but if applied correctly could affect Putin's calculus – and potentially his own wealth.⁵⁷ We can do more to cut off access to our financial systems unless Putin and his cronies change their behavior. The Global Magnitsky Act also provides a powerful avenue to impose costs on government officials or senior associates of government officials if they are complicit in "acts of significant corruption." Such designations send a strong message that there are consequences for corrupt behavior, and the Administration should make better use of this tool. Several EU countries⁵⁸ have enacted their own Magnitsky Acts, and the U.S. should encourage others to follow suit, while the EU looking to develop a European-wide framework. We should not allow Putin and his cronies to simultaneously attack our system of government while exploiting it for their own benefit.

Conclusion

The United States faces a multidimensional challenge from Putin's Russia and its use of asymmetric tools to undermine democracies and weaken transatlantic institutions. Successfully defending against and deterring these activities requires an approach integrated across the U.S.

⁵⁴ Kirschenbaum, Joshua, and Nicolas Veron. "A Better European Union Architecture to Fight Money Laundering." *Bruegel*, 25 Oct. 2018. Web. 17 May 2019.

⁵⁵ "Fatal Inaction: Swiss Government Has Shied Away from Regulating the Commodities Sector since 2013." *Public Eye*. Berne Declaration, 29 Nov. 2018. Web. 17 May 2019.

⁵⁶ Aslund, Anders. "The Illusions of Putin's Russia." The Atlantic Council. 6 May 2019. <https://www.atlanticcouncil.org/blogs/ukrainealert/the-illusions-of-putin-s-russia>

⁵⁷ The classified list of Russian oligarchs created by the Treasury Department pursuant to CAATSA could provide a roadmap for such targeted sanctions.

⁵⁸ These include Estonia, Latvia, Lithuania, and the United Kingdom.

government and coordinated with our allies. It will also require mustering the political will to address the loopholes in our own systems that allow many of these activities to proceed unimpeded. Russia's undermining of democracy is a matter of bipartisan concern. It is past time for the U.S. government to recognize the serious national security threat posed by the actions of Putin's Russia, including malign financial influence and economic coercion, and to take the necessary steps to defend the United States and our allies.

Appendix A

Jamie Fly, Laura Rosenberger, and David Salvo. *Policy Blueprint for Countering Authoritarian Interference in Democracies*. June 26, 2018. <https://securingdemocracy.gmfus.org/wp-content/uploads/2018/06/Policy-Blueprint.pdf>