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PUTIN'S PLAYBOOK: THE KREMLIN'S USE OF OLIGARCHS,
MONEY AND INTELLIGENCE IN 2016 AND BEYOND

Thursday, March 28, 2019

U.S. House of Representatives,
Permanent Select Committee on Intelligence,
Washington, D.C.

The committee met, pursuant to call, at 9:14 a.m., in Room 2175, Rayburn House Office Building, the Honorable Adam Schiff (chairman of the committee) presiding.

Present: Representatives Schiff, Himes, Sewell, Carson, Speier, Quigley, Swalwell, Castro, Heck, Welch, Maloney, Demings, Krishnamoorthi, Nunes, Conaway, Turner, Wenstrup, Stewart, Crawford, Stefanik, Hurd, and Ratcliffe.

The Chairman. Thank you. We will come to order. Without objection, the chair is empowered to declare a recess at any time.

Today, the House Permanent Select Committee on Intelligence will hold an open hearing to discuss how the Kremlin uses financial leverage and corruption as tools of intelligence operations and foreign policy.

The hearing will explore the dynamics between the Kremlin and Russia's business elites and oligarchs; President Vladimir Putin's control over the economy, Republican banks, and the oligarchs; the use of financial entanglements as a means of compromise; and the derivation and importance of sanctions to the Russian economy, particularly Putin's inner circle.

The goals of the hearing are, number one, to provide the American public with a foundational understanding of the Kremlin's use of financial leverage to influence foreign policy; and number two, the importance of counterintelligence operations and investigations as distinguished from criminal investigations.

Almost exactly 2 years ago, James Comey disclosed publicly for the first time in testimony before this committee that the FBI had initiated a counterintelligence investigation into Russia's interference in the 2016 election. While that investigation would lead Special Counsel Mueller to initiate a great many criminal proceedings, resulting in numerous indictments and convictions, it began and has continued as a counterintelligence investigation.

What does that mean? Counterintelligence investigations are designed, among other things, to determine whether any U.S. persons, and in particular, those in positions of influence in government or business, may be vulnerable to foreign influence, manipulation, coercion, or compromise by a hostile foreign power.

This notion of compromise, or *Kompromat* in Russian, can be subtle and discreet, it can be witting or unwitting, and it can take many forms. But it is at the heart of Russia's playbook to sow discord in democratic institutions, create leverage that can influence foreign and national security policy, both here and abroad, and encourage nations to act contrary to our security interests or theirs.

We do not yet know the results of the counterintelligence investigation initiated by Comey and then continued by Mueller. It is not clear whether, or to what extent the Mueller report, which is focused on prosecutorial decisions, will even discuss counterintelligence findings.

But the counterintelligence concerns that animated the investigation in the first place may ultimately have the more profound impact on security and policy, and we therefore await the publication of the Mueller report to find out.

Today, we have an expert panel that will help us explore how Russia uses intelligence tools to influence foreign nations, both the United States and others, and we will have a particular focus on Russia's use of financial leverage to achieve their goals.

Our esteemed panelists will address the interplay between business, government, and intelligence in Vladimir Putin's Russia, how Putin uses business and corruption to maintain control at home and influence foreign policy.

And finally, we will delve into the issues of sanctions and why sanctions relief was so central to Russia's foreign policy or foreign influence campaign and remains a preoccupation of Putin's today.

Let me now take a moment to introduce our panelists.

Mike McFaul served as the U.S. Ambassador to Russia from 2012 to 2014 and is currently Director of the Freeman Spogli Institute for International Studies at Stanford University, where he is also a Senior Fellow at the Hoover Institution.

Steven Hall is the former CIA Chief of Russia Operations and enjoyed a 30-year career in the Agency.

Heather Conley is a Senior Vice President for Europe, Eurasia, and the Arctic at the Center for Strategic and International Studies and is also the author of "The Kremlin Playbook."

And Eric Lorber is a Senior Director at the Center on Economic and Financial Power.

Thank you all for joining us today.

I now yield to the ranking member for any opening remarks he would like to make.

Mr. Nunes. Thank you, Mr. Chairman.

Today, we will hear from a panel on Russian oligarchs. Challenges emanating from Russia have been an abiding topic of this committee for many years. In fact, under the Obama administration, committee Republicans repeatedly warned the administration, both privately and publicly, that more resources and better intelligence were needed to counter numerous threats to our national security from the Kremlin.

Our advice, however, was not heeded. The Obama administration's approach to Russia was characterized by misspelled reset buttons, direct promises of more flexibility after Obama's reelection, the scrapping of our missile defense plans in Poland and the Czech Republic at Russia's behest, and the ridicule of then candidate Mitt Romney for identifying Russia as our primary geopolitical foe, all under an administration that watched helplessly while Russia marched into Ukraine and annexed Crimea.

This committee should be focused on intelligence oversight and making sure the IC has resources and authorities needed to protect the United States. We should not be used as a platform to spread false information and bizarre conspiracies. We have

unique capabilities and authorities to do crucial oversight work, and now, frankly speaking, that is not being done.

This committee was created to oversee the Intelligence Community, not serve as a tribunal, launching frivolous accusations and investigations of one party's political opponents.

Mr. Conaway. Will the gentleman yield?

Mr. Nunes. I yield to Mr. Conaway.

Mr. Conaway. Mr. Chairman, since prior to the inauguration of President Trump in January of 2017, you have been at the center of a well-orchestrated media campaign claiming, among other things, the Trump campaign colluded with the Russian Government. Indeed, before the appointment of Robert Mueller as special counsel, you alleged in one of your frequent television interviews that there was, quote, "more than circumstantial evidence," quote, of collusion, but that you could, quote, "not go into the particulars," close quote.

Your repeated public statements, which implied knowledge of classified facts supporting the collusion allegations, occurred at the same time anonymous leaks of alleged intelligence and law enforcement information were appearing in the media. These leaks were often sourced to current or former administration or intelligence officials, appeared to support the collusion allegations and were purported to be related to ongoing investigations of President Trump and his associates.

As you know, the committee has long been aware of and actively engaged in intelligence oversight activities related to Russia's malign activities. As part of our duty to oversee the actions of the Intelligence Community, we conducted a thorough investigation related to the 2016 Russian efforts to interfere in our elections. This investigation included a review of the allegations that the Trump campaign colluded with

Russia.

The committee found no evidence that President Trump or anyone associated with the Trump campaign colluded, coordinated, or conspired with the Russian Government. The minority views, which you submitted, were attached to our committee's findings, and yet your views did not provide any evidence to support the claim of collusion.

On March 24, 2019, the special counsel delivered his findings to the government. The special counsel's investigation did not find that the Trump campaign or anyone associated with it conspired or coordinated with Russia in its efforts to influence the 2016 Presidential election. Special Counsel Mueller's findings are consistent with those of this committee as well as the public statements of various Senators on the Senate Select Committee on Intelligence.

Despite these findings, you continue to proclaim to the media that there is significant evidence of collusion. You further have stated you will continue to investigate the counterintelligence issues; that is, is the President or people around him compromised in any way by a hostile foreign power?

Your willingness to continue to promote a demonstrably false narrative is alarming. The findings of the special counsel conclusively refute your past and present assertions and have exposed you as having abused your position to knowingly promote false information, having damaged the integrity of this committee and undermined the faith in the United States Government and its institutions.

Your actions, both past and present, are incompatible with your duty as chairman of this committee, which alone in the House of Representatives has the obligation and authority to provide effective oversight of the U.S. Intelligence Community. As such, we have no faith in your ability to discharge your duties in a manner consistent with your

constitutional responsibility and urge your immediate resignation as chairman of the committee.

Mr. Chairman, this letter is signed by all nine members of the Republican side of the committee, and I ask unanimous consent that it be entered into the record of today's hearing.

I yield back.

The Chairman. Without objection.

[The information follows:]

***** COMMITTEE INSERT *****



Permanent Select Committee
on Intelligence
U.S. House of Representatives
March 28, 2019

The Honorable Adam Schiff
Chairman
Permanent Select Committee on Intelligence
United States House of Representatives
HVC-304, The Capitol
Washington, D.C. 20515

Dear Chairman Schiff:

Since prior to the inauguration of President Trump in January 2017, you have been at the center of a well-orchestrated media campaign claiming, among other things, the Trump campaign colluded with the Russian government. Indeed, before the appointment of Robert Mueller as Special Counsel, you alleged during one of your frequent television interviews that there was “more than circumstantial evidence” of collusion but that you could not “go into particulars¹.”

Your repeated public statements, which implied knowledge of classified facts supporting the collusion allegations, occurred at the same time anonymous leaks of alleged intelligence and law enforcement information were appearing in the media. These leaks, often sourced to current or former Administration or intelligence officials, appeared to support the collusion allegations and were purported to be related to ongoing investigations of President Trump and his associates.

As you know, the Committee has long been aware of and actively engaged in intelligence oversight activities related to Russian malign activities. As part of our duty to oversee the actions of the intelligence community we conducted a thorough investigation related to the 2016 Russian efforts to interfere with U.S. elections. This investigation included a review of allegations that the Trump campaign colluded with Russia. The Committee found no evidence that President Trump or anyone associated with the Trump campaign colluded, coordinated, or conspired with the Russian government. The Minority views, which you submitted, were attached to the Committee findings. Your views did not provide any evidence to support the claim of collusion.

On March 24, 2019 the Special Counsel delivered his findings to the Department of Justice. The notification to Congress stated, “The Special Counsel’s investigation did not find that the Trump campaign or anyone associated with it conspired or coordinated with Russia in its efforts to influence the 2016 U.S. presidential election².” Special Counsel Mueller’s findings are consistent with those of this committee, as well as the public statements of various Senators on the Senate Select Committee on Intelligence.

¹ MSNBC with Chuck Todd, March 22, 2017

² Letter to Congress. Attorney General William P. Barr. March 24, 2019.

Despite these findings, you continue to proclaim in the media that there is “significant evidence of collusion.” You further have stated you “will continue to investigate the counterintelligence issues. That is, is the president or people around him compromised in any way by a hostile foreign power?”³ Your willingness to continue to promote a demonstrably false narrative is alarming.

The findings of the Special Counsel conclusively refute your past and present assertions and have exposed you as having abused your position to knowingly promote false information, having damaged the integrity of this Committee, and undermined faith in U.S. government institutions.

Your actions both past and present are incompatible with your duty as Chairman of this Committee, which alone in the House of Representatives has the obligation and authority to provide effective oversight of the U.S. intelligence community. As such, we have no faith in your ability to discharge your duties in a manner consistent with your Constitutional responsibility and urge your immediate resignation as Chairman of this Committee.

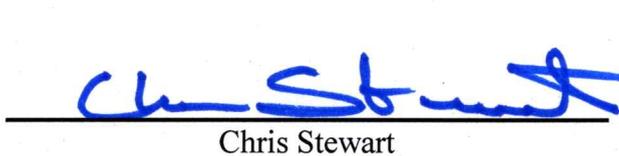
Sincerely,


Devin Nunes


K. Michael Conaway


Michael R. Turner


Brad R. Wenstrup


Chris Stewart


Eric A. “Rick” Crawford


Elise M. Stefanik


Will Hurd


John Ratcliffe

³ FOX News, *Rep. Adam Schiff doubles down on Trump guilt claims after Mueller probe*, Anna Hopkins, March 27, 2019

The Chairman. I am going to turn to our witnesses who are the subject of the hearing today, but before I do, and as you have chosen, instead of addressing the hearing, to simply attack me consistent with the President's attacks, I do want to respond in this way.

My colleagues may think it is okay that the Russians offered dirt on a Democratic candidate for President as part of what was described as the Russian Government's effort to help the Trump campaign. You might think that is okay.

My colleagues might think it is okay that when that was offered to the son of the President, who had a pivotal role in the campaign, that the President's son did not call the FBI, he did not adamantly refuse that foreign help. No, instead that son said that he would love the help of the Russians.

You might think it is okay that he took that meeting. You might think it is okay that Paul Manafort, the campaign chair, someone with great experience in running campaigns, also took that meeting. You might think it is okay that the President's son-in-law also took that meeting. You might think it is okay that they concealed it from the public. You might think it is okay that their only disappointment after that meeting was that the dirt they received on Hillary Clinton wasn't better. You might think that is okay.

You might think it is okay that when it was discovered a year later that they lied about that meeting and said it was about adoptions, you might think it is okay that the President is reported to have helped dictate that lie. You might think that is okay. I don't.

You might think it is okay that the campaign chairman of a Presidential campaign would offer information about that campaign to a Russian oligarch in exchange for money

or debt forgiveness. You might think that is okay. I don't.

You might think it is okay that that campaign chairman offered polling data, campaign polling data, to someone linked to Russian intelligence. I don't think that is okay.

You might think it is okay that the President himself called on Russia to hack his opponent's emails if they were listening. You might think it is okay that later that day, in fact, the Russians attempted to hack a server affiliated with that campaign. I don't think that is okay.

You might think that it is okay that the President's son-in-law sought to establish a secret back channel of communications with the Russians through a Russian diplomatic facility. I don't think that is okay.

You might think it is okay that an associate of the President made direct contact with the GRU through Guccifer 2 and WikiLeaks, that is considered a hostile intelligence agency. You might think that it is okay a senior campaign official was instructed to reach that associate and find out what that hostile intelligence agency had to say in terms of dirt on his opponent.

You might think it is okay that the National Security Advisor Designate secretly conferred with the Russian Ambassador about undermining U.S. sanctions. And you might think it is okay he lied about it to the FBI.

You might say that is all okay. You might say that is just what you need to do to win. But I don't think it is okay. I think it is immoral. I think it is unethical. I think it is unpatriotic. And, yes, I think it is corrupt and evidence of collusion.

Now, I have always said that the question of whether this amounts to proof of conspiracy was another matter. Whether the special counsel could prove beyond a reasonable doubt the proof of that crime would be up to the special counsel, and I would

accept his decision, and I do. He is a good and honorable man, and he is a good prosecutor.

But I do not think that conduct, criminal or not, is okay. And the day we do think that is okay is the day we will look back and say that is the day America lost its way.

And I will tell you one more thing that is apropos of the hearing today. I don't think it is okay that during a Presidential campaign, Mr. Trump sought the Kremlin's help to consummate a real estate deal in Moscow that would make him a fortune; according to the special counsel, hundreds of millions of dollars. I don't think it is okay that he concealed it from the public. I don't think it is okay that he advocated a new and more favorable policy towards the Russians even as he was seeking the Russians' help, the Kremlin's help, to make money. I don't think it is okay that his attorney lied to our committee.

There is a different word for that than collusion, and it is called compromise, and that is the subject of our hearing today.

Mr. Turner. Will the gentleman yield?

The Chairman. Mr. Ambassador --

Mr. Turner. Will the gentleman yield?

The Chairman. -- you are recognized for your opening statement.

Mr. Turner. Will the gentleman yield?

The Chairman. I will not yield.

Mr. Ambassador, you are --

Mr. Turner. Will the gentleman yield? Because you just made some things about all of us that I think we all should get the opportunity to respond to.

The Chairman. I will not yield.

Mr. Turner. Because if you are going to say "we think," we think you ought to

allow us to speak of what we think.

The Chairman. You can use your 5 minutes to speak. You attacked me in your opening statement and I have responded.

Mr. Turner. I have not had an opportunity to respond at all, especially to your statements of what we think, because no one over here thinks that.

The Chairman. Mr. Turner, you are not recognized.

Ambassador McFaul, you are recognized.

STATEMENTS OF MICHAEL MCFAUL, DIRECTOR, FREEMAN SPOGLI INSTITUTE FOR INTERNATIONAL STUDIES, STANFORD UNIVERSITY; STEVEN HALL, FORMER CIA CHIEF OF RUSSIA OPERATIONS; HEATHER CONLEY, SENIOR VICE PRESIDENT FOR EUROPE, EURASIA, AND THE ARCTIC, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES; AND ERIC LORBER, SENIOR DIRECTOR, CENTER ON ECONOMIC AND FINANCIAL POWER

STATEMENT OF MICHAEL MCFAUL

Mr. McFaul. Thank you, Mr. Chairman. Thank you, Ranking Member Nunes and everybody else that is here today.

I want to start with some good news. The ideological struggle between communism and capitalism during the Cold War is over. That is the end of my good news.

The bad news is that there is a new ideological fight between Putinism and the West, and it has only just begun. And in my estimation, we as a country are underestimating it, and we are not focused enough on it, and that is what I want to address in my brief remarks today.

Putin defines this contest as a battle between the decadent, liberal, multilateral West that dominates and is anchored by the United States of America and what he calls his brand, not my brand, of conservative sovereign values.

I define this contest as one between autocracy, corruption, state domination of the economy, and indifference to international rules, laws, and norms versus democracy, rule of law, free markets, and respect for international law.

As I wrote in my detailed written remarks with lots of footnotes -- forgive me, I am

a professor -- but I only summarized briefly today, Putin uses oligarchs' money and intelligence to wage this battle at home and abroad.

To contain and deter Putinism, we must better understand the nature of the threat, and that is why I am honored to be here today to talk a bit about that.

My remarks are divided into three different parts: the evolution of Putin's system of government at home; second, illustration of how Putin seeks to export his ideas and practices abroad; and third, time permitting, a specific focus on Putin's effort to lift sanctions on Russian individuals and companies. Let me go through those three, time permitting.

First, Putinism at home. I think we all, in this committee, especially, know the general contours of it, but let me remind you of just several specifics and trends.

First, Putin started right away in 2000 to roll back checks and balances on executive power, focusing first and foremost on controlling the media, understanding quite well how central that is for autocracy, and that is why he is focused on the internationalization of Russian media to export his ideas abroad.

Second, after two decades of Putin's rule, the Russian regime has become more autocratic over time. Every term that he has served, he is now in his fourth term, it has become more autocratic, not less.

Third, during this period, the FSB, the Federal Security Service, one of the successor organizations to the KGB, has played a growing role in running both the state and the economy. Russian intelligence officers today play a much greater role in ruling Russia than the KGB ever played during the Soviet Union.

Fourth, Putin has used the redistribution of property rights among Russia's oligarchs as a central tool for ruling Russia. Now, of course, it is true that he enriches his friends and cronies through this redistribution, but it is also a way that he rules Russia.

If he decides who is rich and who is not, that makes those that become rich on his watch completely dependent on him. Also, by seizing assets, he keeps everybody on their toes.

Fifth, and not surprisingly, therefore, the growing arbitrary and pernicious role of the state in the Russian economy has stifled economic growth. And to justify this form of rule and poor economic performance, therefore, Putin needs an external enemy, and that is us.

Second, exporting Putinism. Putin actively seeks to propagate his ideas of governance and conservative values -- and I want to keep emphasizing, as defined by him, not me, I don't consider it conservatism -- but he seeks to court both ideological allies to win them and to weaken his ideological foes, not just between states but within states, including the United States of America. He has developed several instruments of power to try to do this.

First, he and his government have invested heavily in international media. RT, \$300 million budget a year. Sputnik International, very active on American social media platforms. RT claims to be the most watched media company on YouTube today. And all of these organizations were active in influencing voter preferences in 2016.

Second, Putin and his proxies set up organizations, fake identities, bots to influence public opinion around the world, including the United States of America. I urge you to go back and read the indictment from Mr. Mueller of the Internet Research Agency. It is outrageous what the Russians did, violating our sovereignty in 2016, and I urge you to read every word of it and think about what we need to do to prevent it in the future.

Third, Putin has deployed his intelligence agencies to steal information from foes and then publish this information in ways to weaken his enemies, be they individuals or

nation-states.

Fourth, the Kremlin actively cultivates direct contacts and ongoing relationships with individuals, NGOs, political parties, religious groups, and individual politicians sympathetic to Putinism.

Fifth, in parallel, Putin uses money, corruption, and property rights abroad to influence foreign policy. Rosneft and Gazprom, just to take two instances, are instruments of Putinism, not profit-maximizing companies.

And finally, rarely, but sometimes, he uses very coercive agents, including soldiers, to advance Putinism abroad, as he did most dramatically in 2014 in Ukraine.

I see I have gone over my time. I have some things to say about sanctions. Maybe we will get back to that in questions.

Thank you, Mr. Chairman.

[The statement of Mr. McFaul follows:]

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Testimony of Ambassador Michael McFaul¹

Hearing of the House Permanent Select Committee of Intelligence

Putin's Playbook: The Kremlin's Use of Oligarchs, Money and Intelligence in 2016 and Beyond

March 28, 2019

When the Soviet Union collapsed in 1991, the worldwide ideological struggle between communism and liberalism – in other words, freedom, democracy, capitalism – also ended. Thankfully, the ideological contest between Moscow and Washington that shaped much of world politics for several decades in the twentieth century has not reemerged. However, for at least a decade now, Russian president Vladimir Putin has been waging a new ideological struggle, first at home, and then against the West more generally, and the United States in particular. He defines this contest as a battle between the decadent, liberal multilateralism that dominates in the West and his brand of moral, conservative, sovereign values. I define this contest as one between autocracy, corruption, state domination of the economy, and indifference to international norms versus democracy, rule of law, free markets, and respect for international law. This new ideological struggle is primarily being waged not between states, but within states.

At home, Putin has eroded checks and balances on executive power, undermined the autonomy of political actors, regional governments, the media, and non-governmental organizations (NGOs), and strengthened state ownership throughout the Russian economy. To propagate his ideas and pursue his objectives abroad, Putin has invested in several powerful instruments of influence, many of which parallel those used for governing within Russia, including traditional media, social media, the weaponization of intelligence (doxing), financial support for allies, business deals for political aims, and even the deployment of coercive actors abroad, including soldiers, mercenaries, and assassins. In waging this fight, Putin seeks to court ideological allies and weaken ideological foes. With regards to the United States, he has pursued both strategies in parallel, as demonstrated most dramatically during the 2016 presidential election.

To contain and thwart the malicious effects of “Putinism”, the United States government and the American people must first understand the nature of the threat. This testimony focuses on the nexus of political and economic power within Russia under Putin's leadership, and how these domestic practices can be used abroad to advance Putin's foreign policy agenda. Moreover, it is important to underscore that crony capitalism,

property rights provided by the state, bribery, and corruption constitute only a few of many different mechanisms used by Putin in his domestic authority and foreign policy abroad.

This testimony proceeds in three parts. Section I describes the evolution of Putin's system of government at home, focusing in particular on the relationship between the state and big business. Section II illustrates how Putin seeks to export his ideas and practices abroad. Section III focuses on Putin's specific foreign policy objective of lifting sanctions on Russian individuals and companies.

I. "Putinism" at Home

Autocracy

One dimension of "Putinism" became clear right after he was elected President of Russia in the spring of 2000 – his fear and disdain for democracy. Almost immediately following his inauguration, Putin began to roll back democratic institutions and consolidate autocratic practices. He first seized control of Russian national television networks, wresting ownership of two national networks, ORT and NTV, from two "oligarchs" – Boris Berezovsky and Vladimir Gusinsky – and placing control of these enterprises in the hands of Putin loyalists. In addition, he enacted policies to reduce the power of regional leaders. With time, most pockets of autonomous political activity had been eliminated or severely constrained.² Since 2000, elections to offices with power have not been competitive, and oftentimes involved falsification. After winning re-election for his third term in March 2012, Putin further constrained autonomous political activity by making demonstrations harder to organize, arresting opposition leaders, and pushing independent media off the airwaves or into political exile.³ His government continued to constrain non-governmental activities, especially by criminalizing the receipt of foreign funds. Consequently, the Russian government ultimately forced USAID to terminate its operations and eventually outlawed several other Western NGOs and foundations.⁴ After protests in 2011-2012, the Russian government started blocking certain websites and passed laws strictly regulating the internet. Earlier this month, a new Putin law made the dissemination of "fake news" or any criticism of the government illegal.⁵ To sustain this level of repression, Putin has invested heavily in the coercive elements of the state while simultaneously expanding the role of fellow intelligence officers in almost every significant institution of the Russian government and economy.⁶ The Security Council, which some now compare to the Politburo during Soviet days, is comprised primarily of Putin's KGB colleagues. Analysts and academics quibble over the degree of Putin's dictatorship compared to other regimes in the world, but most agree that the Russian political system today is an autocracy.

Putin has justified his anti-democratic restrictions by arguing that Russia needed a strong and sovereign state to recover from the 1990s. At times, Putin has even suggested that a strong centralized state is the natural condition for Russia and Russians. Throughout his first two terms, Putin and his surrogates advanced the importance of reasserting Russian sovereignty regarding domestic politics, contending that foreigners – and Americans, in particular – had exerted too much influence in Russia’s domestic affairs. Putin’s political aide, Vladislav Surkov, coined the term “sovereign democracy” as a euphemism to justify growing autocratic practices to suppress Russian domestic challengers, as well as assert greater control over foreign activity within Russia.

Economic Statism

On Putin’s watch as Prime Minister in 1999, the Russian economy grew for the first time since the country’s independence. Painful economic policy reforms from earlier in the decade provided the predicate for this growth, in addition to some important Kremlin economic reforms during Putin’s first years in office. After his election in 2000, Putin cut individual tax rates to a flat rate of 13%, cut corporate taxes to the maximum tax rate of 24%, and introduced regulatory, banking, and land reforms.⁷ These market-friendly reforms contributed to economic growth in the early 2000s; rising oil and gas prices later in the decade fueled additional growth until the global financial crash in 2008.

Investors and international financial institutions initially celebrated Putin’s austere fiscal and monetary policies. Over time, however, Putin grew more suspicious of private economic actors, both foreign and domestic. In 2003, Putin arrested Mikhail Khodorkovsky – Russia’s richest businessman at the time – and redistributed the assets of his private oil company, Yukos, to a state company, Rosneft, which is now run by a Putin loyalist, Igor Sechin. Khodorkovsky’s arrest sent a clear signal to other so-called “oligarchs” that the property rights they had obtained in the 1990s would only be maintained through continued obedience to the Kremlin. The illegitimate means by which major Russian businesspeople obtained their property rights in the 1990s – including most notoriously the loans-for-shares program – made Putin’s assault on these oligarchs easy.⁸

Three negative trends gained momentum regarding the relationship between the state and the economy under Putin. First, Putin continued to redistribute property rights, away from the 1990s-era “oligarchs” considered too independent and towards Putin’s loyalists from the KGB and his St. Petersburg friends. Only a small handful of major businesspeople from the 1990s remain active in Russia today. Regarding state-owned enterprises, Putin put his people in charge. Putin loyalists now run Russia’s largest oil and gas companies, Rosneft and Gazprom; Russia’s largest military industrial conglomerate, Rostec; Russia’s major energy transportation company, Transneft; Russia’s immense rail transport monopoly, Russian Railways; and Russia’s largest banks.⁹ As Anders Aslund has observed, “Each big state enterprise is managed by a close associate of Putin, and the top state managers are subordinate to the president rather than the state.”¹⁰ Putin also gave his

friends easy ways to make money, including the right to sell Russian energy abroad, exclusive access to government construction contracts, or permission to create the only independent gas production company, Novatek, as a competitor to Gazprom. And as a reminder to prevent anyone from veering from Kremlin's system of rule and wealth distribution, the Putin regime has occasionally jailed additional oligarchs in schemes that parallel the Khodorkovsky arrest.¹¹ Putin and his aides also have provided government contracts, licenses, and investment opportunities to those considered loyal to the Kremlin. In addition, major private sector transactions must obtain state approval to move forward. Anders Aslund explains, "At the highest levels, Kremlin interference is overwhelming. All business deals over \$1 billion have to be confirmed with the Kremlin ..."¹²

Second, Putin and his proxies have considerably reduced the size of Russia's private sector and increased the role of the state in the economy. In 2003, the private sector produced 70 percent of Russian GDP. Today, although estimates vary, that percentage has fallen dramatically.¹³ By one assessment, "[b]y mid-2015, about 55 percent of the Russian economy was in state hands, with 20 million workers directly employed by the government, equal to 28 percent of the workforce."¹⁴ The following year, the World Bank estimated that the percentage had grown to 60 percent,¹⁵ while others estimate the percentage to be closer to 46 percent.¹⁶ All agree, however, that the pernicious role of the state in the economy has grown substantially under Putin. High profile nationalizations (or de-privatizations), such as the seizure of the oil company Bashneft in 2014, or the arrest of billionaire Ziyavudin Magomedov, underscore the fragility of private property rights a quarter of a century after the end of communism.¹⁷ Earlier this year, one of America's most successful investors in Russia, Michael Calvey, was arrested under very mysterious circumstances allegedly involving a property rights dispute.

Third, the rule of law protecting property – never strong in post-communist Russia – has weakened even further under Putin's leadership. Overall, the Russian courts system has a reputation for being corrupt and easily manipulated for political ends. The selective application of the law – for example, why did Khodorkovsky go to jail, but oligarchs did not? – creates incentives to develop personal ties with Putin as the only rational strategy for preserving control over one's wealth. Russia's arbitration or economic courts used to be considered more independent than other courts, but their merger into the general system of courts in 2014 has decreased private access to the rule of law even further.

Not surprisingly, increased state ownership in the economy, a major redistribution of property rights guided by political motivation rather than profit maximization, and a growing system of patronage and corruption more generally has not fostered economic growth. The state's growing and corrupt role in the economy has stifled innovation, foreign investment, entrepreneurship and productivity, as well as substantially reduced the value of Russian companies still owned by the state or renationalized during the Putin era. For instance, in May 2008, Gazprom had a market valuation of \$ 369 billion, making it one of

the most valuable publicly traded companies in the world.¹⁸ But just ten years later, Gazprom was valued by Forbes at \$57.8 billion.¹⁹ As former Finance Minister Alexei Kudrin lamented, “In our country the state dominates everything, so you have to start with reforming the state.”²⁰ Since Putin’s reelection in 2018, however, there are few signs of a Kremlin commitment to reforming the state.

Putin has grown the role of the state over the economy not only to enrich his friends, KGB comrades, and cronies, but also to entrench his leadership in Russia. Handing out these economic rents arbitrarily helps Putin govern Russia. Putin chooses who gets to be rich. Those chosen, in turn, remain completely dependent on Putin and his inner circle for their fortunes. By handing out lucrative contracts, valuable companies, and opportunities for corruption, Putin has strengthened everyone’s dependence on him.

However, it is important to underscore that Putin and his government do not control all private sector activity in Russia. Some of Russia’s major private enterprises, such as the Severstal steel company or the search engine company Yandex, maintain friendly relations with the Kremlin and do not appear to be controlled by, nor acting as agents of, the state. Pockets of private sector activity and real entrepreneurship still exist in Russia today. Likewise, Putin does not get involved directly in the control of medium and small businesses. Local governments and regional intelligence agents (the FSB) constitute the main obstacles to independent, private enterprise, sometimes acting in accordance with Kremlin preferences and sometimes not.

Wagging the Dog: The Importance of Foreign Enemies for Domestic Control

To explain Russia’s economic woes, Putin deploys familiar populist slogans in blaming oligarchs and siding with the neglected working class. Like many other populists in Europe, Putin also invokes the goodness of people in the countryside and the corruptness of urban elites. Putin even claims to champion the fight against corruption. Although difficult to measure accurately given the naturally constraining conditions of an autocratic regime, national surveys and social science experiments do suggest that Putin is popular.²¹ Raging against the ruling elites, however, has its limits as a mobilizing strategy for a leader who has been in power for twenty years and has enriched the very oligarchs he claims to despise.²² Putin is most vulnerable on the issue of corruption. Russian opposition figure Boris Nemtsov and his allies published several reports exposing the Kremlin’s and Putin’s corruption, which some argue prompted Nemtsov’s assassination in February 2015. Today, Putin’s most successful political opponent – Alexey Navalny – has focused his investigative efforts on exposing corruption within Russia’s ruling elite.

To distract from the issues of domestic corruption, lagging growth, and economic inequality, Putin has constructed a narrative that draws attention to foreign adversaries, blaming the United States first and foremost for Russia’s lackluster economic performance. According to Putin, the American deep state has enacted draconian sanctions against Russia and pressured others in Europe to follow suit. These powerful shadowy forces

within the American government and ruling elite more broadly have thwarted Trump's efforts to lift sanctions. Moreover, as Putin explains it, these Western sanctions against Russia are not punishment for belligerent Russian behavior in Ukraine, Syria, or the United States, but were designed consciously to weaken Russia and ultimately foment regime change. Survey data suggest that this demonization of the American deep state as the cause for Russian economic woes worked initially when economic sanctions were first imposed in 2014, but is now fading. Dramatic drops in Putin's favorability ratings in the first months of 2019, his lowest in a decade, have the Kremlin worried that the "blame America" narrative might have a finite shelf life.²³

II. Exporting "Putinism"

While developing his set of autocratic, illiberal, and conservative ideas for ruling Russia and disrupting the international liberal order, Putin also created a suite of instruments both to propagate his ideology and system of government abroad, and to weaken his ideological adversaries around the world, particularly those in the West who support liberal, democratic norms. Putin pursues these dual ideological objectives – promoting his conservative, nativist, autocratic ideas and attacking liberal democracy – at the same time. Today, Putin and his entourage proudly claim that "Putinism" has appeal beyond Russia's borders. As Putin aide Vladislav Surkov wrote earlier this year, it is "an ideology of the future" ... a "political system created in Russia [which] is suitable not only for the national future, but it has a significant export potential; there is already demand on it and on some of its components; its experience is already being examined and adopted; both people in power and opposition groups in many countries imitate it."²⁴ To export these ideas, Putin has deployed several strategies.

First, Putin and his government invested heavily in international media. Putin quickly understood the importance of controlling the media to maintain his rule at home and has subsequently expanded this instrument of influence abroad. In the Russian-speaking world, particularly in countries that gained independence following the Soviet Union's collapse, the Kremlin devoted massive resources to maintain and extend the reach of Kremlin-controlled television networks, radio, and other media. To propagate "Putinism" throughout the rest of the world, the Kremlin in 2005 created the media company Russia Today, later renamed RT. With an annual budget of over \$300 million,²⁵ RT now broadcasts in six languages and claims to be the most-watched media company on YouTube with nearly 3 billion views (of which 1.5 billion are from its flagship English-language channel).²⁶ In the United States, RT claims to reach 85 million households through cable bundles.²⁷ In 2014, the Kremlin also merged Voice of Russia Moscow and Ria Novosti to create Sputnik International, a multimedia platform operating worldwide to provide "alternative news" to Western sources.²⁸ These state-controlled Russian

organizations are also active on all social media platforms. RT has claimed special success in using YouTube to propagate their content.²⁹ Both RT and Sputnik actively seek to shape American public opinion, including during the 2016 presidential election. When Sputnik tweeted #CrookedHillary, the Kremlin's electoral preferences were rather obvious.

Second, Putin and his proxies set up organizations, fake identities, and bots to influence public opinion on non-Russian social media platforms around the world, but especially in the West.³⁰ The aim of these actors includes advancing the ideas of "Putinism" and exacerbating disputes, disruptions, and polarization within countries considered hostile to Putin. The most notorious of these parastatal entities is the Internet Research Agency (IRA). Created in 2013 by Putin's close associate Yevgeny Prigozhin, the IRA engages in political and electoral interference operations by creating thousands of fake accounts on various social networks to promote its agenda and objectives. As documented in Robert Mueller's indictment of 13 Russians and 3 companies involved in interfering in the 2016 presidential election:

Defendants, posing as U.S. persons and creating false U.S. personas, operated social media pages and groups designed to attract U.S. audiences. These groups and pages, which addressed divisive U.S. political and social issues, falsely claimed to be controlled by U.S. activists when, in fact, they were controlled by Defendants. Defendants also used the stolen identities of real U.S. persons to post on ORGANIZATION-controlled social media accounts. Over time, these social media accounts became Defendants' means to reach significant numbers of Americans for purposes of interfering with the U.S. political system, including the presidential election of 2016.³¹

According to this same indictment, "The ORGANIZATION employed hundreds of individuals for its online operations, ranging from creators of fictitious personas to technical and administrative support. The ORGANIZATION's annual budget totaled the equivalent of millions of U.S. dollars."³² The goal of the IRA "troll factory" was to sow discord in the U.S. political system, including during the 2016 U.S. presidential election.³³ But the mandate of IRA, as well as similar entities that are less well-known, extends well beyond the United States.

Third, Putin has deployed his intelligence agencies to steal information from foes and then publish this information in ways to weaken his enemies, be they individuals or nation-states. These techniques have been deployed actively in Ukraine. But the most audacious and impactful use of this technique – doxing – occurred in the 2016 U.S. presidential elections, when Russian military intelligence agents stole data from the Democratic National Committee and John Podesta and then used third-party digital organizations, including WikiLeaks, Guccifer 2.0, and DCLeaks, to publish this

information.³⁴ The overall aim of this operation was to undermine Hillary Clinton, and thereby strengthen Donald Trump.

Fourth, the Kremlin actively cultivates direct contacts and ongoing relationships with NGOs, political parties, religious groups, and individual politicians sympathetic to “Putinism”. Sometimes, these operations of influence focus on engagement, including invitations and scholarships to Russia, the creation of Russia Houses in other countries, and the organization of conferences. More aggressive forms of influence peddling include direct financial contributions to like-minded politicians, be it President Viktor Yanukovich in Ukraine (before his ouster in 2014), Marine Le Pen in France during her presidential campaign in 2017, or allegedly an attempt to support Deputy Prime Minister Matteo Salvini in Italy to underwrite the participation of like-minded politicians in the upcoming European elections.³⁵ Putin himself has invested in nurturing personal relationships with many European sympathizers, including Prime Minister Viktor Orbán in Hungary, Le Pen in France, Brexit champion Nigel Farage in the United Kingdom, Geert Wilders in the Netherlands, Prime Minister Andrej Babiš in the Czech Republic, and Salvini in Italy.³⁶ The rise of these populist leaders throughout Europe has fostered a perception of a growing, coordinated, populist, nativist, global movement – an illiberal international – with Putin as its spiritual anchor. This perception in turn has helped Putin win new allies and sympathizers in other countries, including the United States.

Fifth, in parallel with Putin’s use of money, corruption, and property rights as instruments for governing inside Russia, the Russian government instructs its economic actors to make deals with foreign entities to establish increased leverage and influence within these countries.³⁷ The use of these economic incentives and operations can be highly cooperative and coercive, as laundering money, for example, can be lucrative for partnering entities in the West, but also blackmailing. Gazprom, for instance, does not seek to maximize profits for its shareholders; its mission is to instead advance the Kremlin’s foreign policy interests throughout the world, but especially in Europe. The construction of Nord Stream II pipeline serves primarily to weaken Ukraine and less to achieve profit maximization. Rosneft’s investments in Venezuela also serve Putin foreign policy objectives. Most, if not all, of Russian state-owned enterprises function to varying degrees as instruments of Putin’s foreign policy objectives. However, not all Russian private companies investing and trading abroad should be considered Kremlin agents. Untangling the difference is an important subject that demands further investigation from both the U.S. intelligence community and academia.

Sixth and most rarely, Putin has mobilized soldiers – regular conscripts as well as “volunteers” – to export “Putinism” by force. Russia’s annexation of Crimea in 2014 and military support for separatists in the Donbass are the most dramatic use of this instrument of ideological transnationalism. Public opinion polling is highly constrained in these occupied territories, but most residents in Crimea do appear to have embraced “Putinism”; results in the Donbass seem to be more mixed.

III. Lifting Sanctions:

A Putin Priority after the 2016 Presidential Election

Years before the 2016 presidential election, Putin already had devoted significant resources to courting ideological allies in the United States, be it through engagement with evangelical religious organizations, the National Rifle Association, or alt-right polemicists. Furthermore, RT and Sputnik began establishing large operations in the United States and devoting major resources towards increasing their presence on American social media platforms, including Twitter, Facebook, Instagram, and YouTube. In the run-up to the 2016 presidential election, however, Putin greenlighted a much more aggressive campaign to influence voter preferences in favor of Donald Trump and against Hillary Clinton, but also more generally to exacerbate polarization in American society.³⁸ As has now been well documented, this multi-pronged Russian intervention included (1) the theft and publication of damaging materials from the Democratic National Committee and Clinton campaign chair, John Podesta; (2) active media campaigns run by RT and Sputnik in favor of Trump; (3) social media operations, including fake accounts, and purchases of advertisements; (4) the offer of compromising materials on Clinton to the Trump campaign; and (5) penetration into the electoral infrastructure in twenty-one states.³⁹

Revenge, in part, motivated Putin. He and his allies believed that the United States had been interfering in Russian elections for decades. In February 2018, the Federation Council – the upper house of Russia’s parliament – published a report on “the protection of state sovereignty and prevention of the interference in the internal affairs of the Russian Federation.” The report asserted that the United States had provided funding to Russian civil society organizations, think tanks, NGOs, journalists, and individual activists as a means to divide Russian society and undermine Russian sovereignty from within.⁴⁰ Putin was most upset with alleged American intervention in Russia’s 2011 parliamentary and 2012 presidential election. Putin blamed Hillary Clinton personally for sending a signal to demonstrators to come to the streets and protest the falsification uncovered in the December 2012 parliamentary elections.⁴¹ Putin also seemed to harbor personal animosity towards the former American Secretary of State. As Clinton wrote in her latest memoir, “Our relationship has been sour for a long time.”⁴² Most certainly, Clinton was Putin’s ideological foe: she espoused the exact brand of liberal internationalism that Putin despised. When Clinton emerged as a candidate in the 2012 presidential election, Putin seized the opportunity to try to weaken her.

In addition, Putin wanted Trump to win in order to achieve some very concrete Russian foreign policy objectives. In 2016, candidate Trump expressed some policy positions that Putin also endorsed. For instance, candidate Trump pledged to look into

lifting sanctions and recognizing Crimea as part of the Russian Federation.⁴³ Trump campaign representatives tried to change the Republican Party platform to eliminate support for lethal weapons for Ukraine. Furthermore, candidate Trump frequently criticized the NATO alliance, while never uttering a word about democracy and human rights. Trump also praised Putin personally.⁴⁴ More generally, Trump attacked many tenets of the liberal international order that are regularly criticized by Putin as well. Two years after the election, when asked directly if he wanted Trump to win in 2016, Putin answered very logically, “Yes. I wanted him to win”.⁴⁵

Of all these foreign policy issues, lifting sanctions on Russian individuals and companies seemed most salient and obtainable for the Kremlin. Breaking up NATO or recognizing Crimea as part of Russia were heavy lifts, but the U.S. president had considerable leeway and authority to eliminate sanctions on Russian individuals and companies.⁴⁶ Even before Trump was sworn in as president, Russian officials engaged in multiple conversations with Trump campaign and transition officials on the issue of sanctions. On June 9, 2016, Russian lawyer Nataliya Veselnitskaya headed a Russian delegation to meet with Trump campaign officials to discuss sanctions relief in return for *kompromat* on candidate Clinton.⁴⁷ During the campaign, senior officials in the Trump Organization also were pursuing the possibility of building a Trump Tower in Moscow.⁴⁸ The Russian state-owned bank, VTB, was proposed as the main financier of the project, but VTB at the time was on the U.S. sanctions list; sanctions would have to be lifted for this deal to proceed. After the election but before the presidential inauguration, Trump’s senior campaign advisor and subsequent first National Security Advisor, Michael Flynn, also had conversations with Sergey Kislyak, Russia’s ambassador to the United States, about sanctions.⁴⁹ Moreover, during the transition, the president’s son-in-law, Jared Kushner, met with the sanctioned VEB bank chairman, Sergey Gorkov.⁵⁰ Although the content of that meeting remains unknown, it would be hard to believe that the subject of sanctions relief for VEB and other Russian companies was not part of the conversation. Because the Trump administration has provided few substantive details about President’s Trump meetings with Putin and Foreign Minister Sergey Lavrov over the last two years, we know little about current negotiations regarding lifting of sanctions. Curiously, President Trump never criticizes President Putin. And Putin, while constantly criticizing the American deep state and foreign policy elite for the current negative state of U.S.-Russia relations, never criticizes President Trump personally.

Putin has been seeking sanctions relief for good reason. Many of his closest associates are now on the U.S. sanctions list, a circumstance that Putin has lamented as a violation of the human rights of his friends. Sanctions implemented by the United States, Europe, and other countries following Russia’s 2014 intervention in Ukraine continue to negatively impact the Russian economy. Starting in the third quarter of 2014, the Russian economy

contracted for nine quarters; sanctions contributed to this decline.⁵¹ By some estimates, sanctions were responsible for 1.5% of GDP contraction in 2014.⁵² Others assess that the impact of sanctions, independent of falling oil prices, was as much as 2-2.5% for the first few years after Russia's intervention in Ukraine.⁵³ Most recently, analysts from Bloomberg Economics have estimated that Western sanctions have reduced the Russian economy by as much as 6% since 2014.⁵⁴ Hardest hit were Russian companies and banks seeking to raise capital on international markets. In turn, according to the EBRD's chief economist, Sergey Guriev, "Russia's inability to borrow has led to a dramatic depreciation of the ruble and a fall in real incomes and wages."⁵⁵ Capital outflows had been steady for years and then accelerated after sanctions, jumping from \$61 billion in 2013 to \$151.5 billion in 2014.⁵⁶ In the wake of sanctions, foreign direct investment also slowed, though numbers are now moving slowly in positive direction again. Several plans for future investment have been cancelled, including most dramatically Exxon-Mobile's decision to suspend its joint investment projects with Rosneft, at one time estimated to total \$500 billion. Other potential foreign investments that did not occur because of sanctions are harder to track – as it is difficult to measure a non-event – but anecdotally, Western investors and companies doing business in Russia have stated publicly and privately that uncertainty about future sanctions has squelched interest in attracting new investors to the Russian market.

In response to these losses, Putin has not changed his foreign policy behavior, but is instead waiting for a change in power (and sometimes helping that change in power) in those countries that have implemented sanctions. Putin has remained hopeful that his growing number of allies in Europe and the United States will undermine consensus around the sanctions, and in the name of rapprochement in Russia, reverse course. Statements by President Trump have continued to fuel that hope.

Endnotes

¹ Michael McFaul is the Ken Olivier and Angela Nomellini Professor of International Studies in Political Science, Director and Senior Fellow at the Freeman Spogli Institute for International Studies, and the Peter and Helen Bing Senior Fellow at the Hoover Institution, all at Stanford University. McFaul served for five years in the Obama administration, first as Special Assistant to the President and Senior Director for Russian and Eurasian Affairs at the National Security Council at the White House (2009-2012), and then as U.S. Ambassador to the Russian Federation (2012-2014). His most recent book, a *New York Times* bestseller, is *From Cold War to Hot Peace: An American Ambassador in Putin's Russia*.

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⁴⁹ Greg Miller, “The Russian Ambassador,” in *The Apprentice: Trump, Russia and the Subversion of American Democracy* (Custom House, 2018).

⁵⁰ Matthew Rosenberg, Mark Mazzetti, and Maggie Haberman, “Investigation Turns to Kushner’s Motives in Meeting with a Putin Ally,” *New York Times*, May 29, 2017, <https://www.nytimes.com/2017/05/29/us/politics/jared-kushner-russia-investigation.html>. Rosalind S. Helderman, Carol D. Leonnig, and Tom Hamburger, “Top Trump Organization executive asked Putin Aide for help on business deal,” *The Washington Post*, August 28, 2017, https://www.washingtonpost.com/politics/top-trump-organization-executive-reached-out-to-putin-aide-for-help-on-business-deal/2017/08/28/095aebac-8c16-11e7-84c0-02cc069f2c37_story.html?utm_term=.cf491edf7346.

⁵¹ “Modest Growth Ahead: Russia Economic Report, Edition No. 39,” *World Bank Group*, May 2018, <http://pubdocs.worldbank.org/en/162681527086868170/RER-39-Eng.pdf>.

⁵² Isolating the independent causal impact of sanctions is difficult to measure, especially when energy prices were simultaneously declining. One and a half percent is a conservative estimate suggested by Russia's own Prime Minister, Dmitry Medvedev. "Russian economy shrinks 2% as sanctions bite – Medvedev," *BBC News*, April 21, 2015, <https://www.bbc.com/news/world-europe-32396792>. "IMF Country Report No. 15/211: Russian Federation: 2015 Article IV Consultation—Press Release; and Staff Report," *International Monetary Fund*, August 2015, <https://www.imf.org/external/pubs/ft/scr/2015/cr15211.pdf>. According to this report, the IMF estimates "sanctions and counter-sanctions could initially reduce real GDP by 1 to 1½ percent. Prolonged sanctions, could lead to a cumulative output loss over the medium term of up to 9 percent of GDP."

⁵³ Евсей Гурвич, "Как правильно и как неправильно отвечать на санкции," *Vedomosti*, May 16, 2018, <https://www.vedomosti.ru/opinion/articles/2018/05/16/769605-otvechat-sanktsii>. For a comprehensive assessment of the economic and political consequences of sanctions against Russia, see Nigel Gould-Davies, "BOFIT Policy Brief No.8: Economic effects and political impacts: Assessing Western sanctions on Russia," *Bank of Finland*, August 2018, <https://helda.helsinki.fi/bof/bitstream/handle/123456789/15832/bpb0818.pdf?sequence=1&isAllowed=y>.

⁵⁴ Natasha Doff, "Russia Still Paying Price for Crimea Five Years After Annexation," *Bloomberg*, last modified March 17, 2019, <https://www.bloomberg.com/news/articles/2019-03-17/russia-still-paying-price-for-crimea-five-years-after-annexation>.

⁵⁵ Sergei Guriev, "Russia's Constrained Economy: How the Kremlin Can Spur Growth," *Foreign Affairs*, May/June 2016, <https://www.foreignaffairs.com/articles/russia-fsu/2016-04-18/russias-constrained-economy>.

⁵⁶ Jason Bush and Alexander Winning, "UPDATE 1-Russia's capital outflows reach record \$151.5 bln in 2014 as sanctions, oil slump hit," *Reuters*, January 16, 2015, <https://www.reuters.com/article/russia-capital-outflows-idUSL6N0UV3S320150116>.

The Chairman. Thank you, Ambassador.

Mr. Hall.

STATEMENT OF STEVEN HALL

Mr. Hall. Good morning. Happy to be here with you today to share my thoughts on Vladimir Putin's Russia, gleaned from working in the CIA's Clandestine Service for over 30 years.

During my time at CIA, from when I started out as a line case officer through when I retired in 2015 as a member of the Senior Intelligence Service, most of my time and efforts were focused on Russia. I retired as the Chief of Central Eurasia Division, responsible for managing CIA's Russian operations worldwide.

I am not a trained Russian historian. I am not an analyst. Rather, my views on Putin's Russia come from my experiences as a former intelligence officer. I believe it is an important perspective, and here is why.

I am often asked for my thoughts on who Putin really is, what makes him tick, how he thinks, you know, how much of a threat is he, really. My best response is that Vladimir Putin is, first and foremost, a Chekist whose primary goal is the weakening of democracy in the United States and the West.

The Cheka was the pre-Lenin era secret police, the precursor to the KGB, of which Putin was a member, as well as the modern day Russian intelligence services. It was the Cheka and its successors that built and ran the Soviet system of concentration camps, the Gulag. It was the Cheka that executed thousands of its own citizens in the basement of the Lubyanka, its headquarters in Moscow.

The history of the Russian intelligence services is one of unalloyed brutality. Every year, on the 20th of December, Chekist Day, Vladimir Putin calls and congratulates the members of the Russian intelligence services on their historical successes.

This is how seriously Putin views his role as a Chekist. These Chekist traditions persist in Russia today.

I once had a conversation with a Russian intelligence officer who made the argument that all countries, even Western democracies, had intelligence agencies. The Russian argued that the CIA was not that different from the KGB.

I disagreed vehemently. CIA has certainly made its share of mistakes over the decades, but we have never built concentrations camps to imprison Americans, nor did we murder American citizens in the basement of Langley, or anywhere else, for that matter.

I mention this story because it illustrates the need for the West, and particularly the United States, to resist the temptation of seeing Putin's Russia through a Western lens. Most Americans were raised to believe in things like fair play, giving others the benefit of the doubt, and a generally optimistic outlook on life. Putin and his lieutenants understand this, and they use this outlook effectively against us.

Look, they argue, we have many similarities. Indeed, when I was most recently in Moscow, I could walk down the street and visit McDonald's for a Big Mac or drop into Starbuck's for a latte. There are large, luxurious hotels, some of them American chains. Businesses appear to be operating normally.

There are even governmental structures that seem comfortably similar. There is the Duma, which looks a little bit like Congress. There is a President, a Prime Minister, positions we as Westerners have heard of and can relate to.

But what one really sees in Moscow is a thin veneer of normalcy designed to cover

how things really work. Putin's Russia is an autocratic Chekist system. It is a kleptocracy run by the mob in the Kremlin, many of whom work formally for the Russian security services.

I am also asked often about Russian organized crime. Again, it is important to avoid asking this question through a Western lens. Broadly, Putin runs Russia as a crime boss runs his organizations. Those who Putin finds useful and effective, he rewards. If someone falls out of favor, punishment usually follows. Enemies of the Putin organization, either internal or external, are neutralized. Independent journalists are killed. Political opponents are flooded with lawsuits, incarcerated, or assassinated.

Oligarchs are not exempt, and Putin uses his intelligence services to collect damaging information on all of them, just in case they fail to produce for him in the future.

Like fast food restaurants in Moscow, the rule of law in Russia is a caricature, created to make us in the West believe that Putin's system really is not that bad.

Like any place run by the mafia, businesses, foreign and Russian, are allowed to operate, but only under the rules set by the mob, in this case the Kremlin.

Prior to my retirement, both staff in HPSCI and SSCI asked for CIA's thoughts on the Kasperskiy Labs, a cyber and technology company run by Eugene Kasperskiy. My response was that Kasperskiy understood that when Putin or one of his men called and needed something from the company, he had no choice but to comply.

When Putin knows in which Russian banks your fortunes are held, when he knows your net worth, when he knows where your wife and your children and your mother live, you do as you are told. If you flaunt the system, it usually doesn't end well. Ask Mikhail Khodorkovsky, a rich Russia oligarch who Putin sent to jail for almost 10 years on trumped-up charges, now in exile in the U.K.

Getting out of Russia, however, does not necessarily protect even once powerful oligarchs and other enemies of the state. Putin is the intellectual author of dozens of murders and attempted assassinations abroad, people like Alexander Litvinenko, poisoned by radioactive tea; Sergei Skripal and his daughter, attacked by the GRU using a Russian nerve agent; and the former oligarch Boris Berezovsky, found hanged in his London home. These are all lessons which other powerful Russians understand well.

This is a key component to how the oligarch system works in Russia. Putin will help you become very rich as an oligarch and allow you to maintain your riches as long as you support the Kremlin when required. If you fail, the consequences, as noted above, are severe.

Over the past several years, Putin has included the oligarchy as part of his larger reliance on hybrid warfare against the United States and the West. We now need to understand that, in addition to defending against conventional attacks from Russia, Putin is also using nontraditional means to threaten us, to include using his oligarchs. Maria Butina's association with several oligarchs, and her work for Russian in the United States, is a good example of this.

Putin controls Russia and his oligarchs using a complex system which bears many of the traits of the Chekist state. The intelligence services play a key role in neutralizing both internal and external threats.

Internally, Putin uses the FSB, the Investigative Committee, and other entities to gather information against companies and individuals that can be leveraged later should they need to be brought back into line.

Putin can also use his oligarchs to exert economic and financial pressure on targets inside and outside of Russia.

The Kremlin also controls the information that flows to the majority of Russians,

and so anti-West and pro-Putin propaganda themes keep most Russians where Putin wants them, under his control.

The same organized crime rules hold for foreign businesses in Russia. Putin will have his intelligence services collect intelligence on any American businessman in which he has an interest. Such efforts would include both physical surveillance as well as audio and visual collection against the target while in Russia.

Entrapment and arrest have been used against American businessmen in the past. More recently, Russian intelligence framed and arrested American businessman Paul Whelan, who, as far as I understand, is still languishing in a Russian prison.

All of the Russian intelligence services play important roles in collecting the information which can be used to control all businesses, foreign and domestic, in Russia.

This is not to say that foreign businesses have never been successful in Russia. What is to say is that success is contingent upon the Kremlin's approval of such business activity. If an American businessperson runs afoul of the Kremlin, all of the Kompromat collected against him or her can be quickly and efficiently leveraged.

The Russian intelligence services are expert at collecting compromising information that can later be used to blackmail anyone Putin wants. They have collected information against American businesspeople in the past. They have collected against me and my family while I was in Russia, as well as Ambassador McFaul.

If you have ever traveled to Russia, any of you, you have been collected against as well. No one is immune.

In an open session like this, I won't be able to address in great detail what I know of how the Russian intelligence services specifically do their work. I cannot risk exposing the sources and methods of our intelligence services, nor those of our allies, who often work very closely with us on counterintelligence issues. But I would be more than happy

to address any questions you might have.

Thank you.

[The statement of Mr. Hall follows:]

***** INSERT 1-2 *****

HPSCI Testimony – Steve Hall

I'm happy to be with you here today to share my thoughts on Vladimir Putin's Russia, gleaned from working in the CIA's Clandestine Service for over 30 years. During my time at CIA, from when I started out as a line case officer through when I retired in 2015 as a member of the Senior Intelligence Service, most of my time and efforts were focused on Russia. I retired as the Chief of Central Eurasia Division, responsible for managing CIA's Russian operations worldwide. I am not a trained Russian historian, nor am I an analyst. Rather, my views on Putin's Russia come from my experiences as a former intelligence officer, and I believe this is an important perspective. Here's why.

I am often asked for my thoughts on who Putin really is, what makes him tick, how he thinks, is he really that much of a threat. My best response is that Vladimir Putin is first and foremost a Chekist, whose primary goal is the weakening of democracy in the United States and the West. The Cheka was the Lenin-era secret police, the precursor to the KGB – of which Putin was a member – as well as to the modern day Russian intelligence services. It was the Cheka and its successors that built and ran the Soviet system of concentration camps, the Gulag. It was the Cheka that executed thousands of its own citizens in the basement of the Lubyanka, its headquarters in Moscow. The history of the Russian intelligence services is one of unalloyed brutality. Every year, on the 20th of December – Chekist Day – Vladimir Putin calls and congratulates the members of the Russian intelligence services on their historical successes. This is how seriously Putin views his role as a Chekist. These Chekist traditions persist in Russia today.

I once had a conversation with a Russian intelligence officer who made the argument that all countries, even Western democracies, had intelligence agencies. The Russian argued the CIA was not that different from the KGB, a key successor of the original Cheka. I disagreed vehemently. CIA has certainly made its share of mistakes over the decades, but we never built concentrations camps to imprison Americans, nor did we murder American citizens in the basement in Langley, or anywhere else for that matter.

I mention this story because it illustrates the need for the West, and particularly the United States, to resist the temptation of seeing Putin's

Russia through a western lens. Most Americans were raised to believe in things like fair play, giving others the benefit of the doubt, and a generally optimistic outlook on life. Putin and his lieutenants understand this, and they use our outlook effectively against us. Look, they argue, we have many similarities. Indeed, when I most recently was in Moscow, I could walk down the street and visit McDonalds for a Big Mac, or drop into Starbucks for a latte. There are large, luxurious hotels and bars, some of them American chains. Businesses appear to be operating normally. There are even governmental structures that seem comfortably similar: there is a Duma, which looks somewhat like our Congress; there is a President and a Prime Minister, positions we as Westerners have heard of and can relate to. But what one really sees in Moscow is a thin veneer of normalcy, designed to cover how things really work. Putin's Russia is an autocratic Chekist system. It is a kleptocracy run by a mob in the Kremlin, many of whom worked formerly in the Russian security services.

I am also often asked about Russian organized crime. Again, it is important to avoid asking this question through a Western lens. Broadly, Putin runs Russia as a crime boss runs his organization. Those who Putin finds useful and effective, he rewards. If someone falls out of favor, punishment usually follows. Enemies of the Putin organization, either internal or external, are neutralized. Independent journalists are killed. Political opponents are flooded with lawsuits, incarcerated, or assassinated. Oligarchs are not exempt, and Putin uses his intelligence services to collect damaging information on all of them – just in case they fail to produce for him in the future. Like fast food restaurants in Moscow, rule of law in Russia is a caricature created to make us in the West believe Putin's system is not really so bad.

Like anyplace run by a mafia, businesses, foreign or Russian, are allowed to operate, but only under the rules set by the mob – in this case, the Kremlin. Prior to my retirement, staff on both HPSCI and SSCI asked for CIA's thoughts on the Kasperskiy Labs, a cyber and technology company run by the Russian Eugene Kaspirskiy. My response was that Eugene Kasperskiy understood that when Putin or one of his men called and needed something from the company, he had no choice to comply. When Putin knows in which Russian banks your fortunes are held, when he knows your net worth, when he knows where your wife and your children and your mother live, you do as you're told. If you try flaunt the system, it does not end well. Ask Mikhael Khodorkovskiy, a rich Russian oligarch

who Putin sent to jail for almost ten years on trumped-up charges, now in exile in the UK. Getting out of Russia, however, does not necessarily protect even once-powerful oligarchs and other enemies of the state: Putin is the intellectual author of dozens of murders and attempted assassinations abroad. People like Alexander Litvinenko (poisoned by radioactive tea), Sergei Skripal and his daughter (attacked by the GRU using a Russian nerve agent), and former oligarch Boris Berezovsky (found hanged in his London home) are all lessons which other powerful Russians understand well.

This is the key component of how the oligarch system works in Russia: Putin will help you become very rich as an oligarch, and allow you to maintain your riches, as long as you support the Kremlin when required. If you fail, the consequences, as noted above, are severe. Over the past several years, Putin has included the oligarchy as part of his larger reliance on hybrid warfare against the United States and the West. We now need to understand that in addition to defending against conventional attacks from Russia, Putin is also using non-traditional means to threaten us, to include using his oligarchs. Maria Butina's association with several oligarchs, and her work for Russia in the United States, is a good example.

Putin controls Russia (to include his oligarchs) using a complex system which bears many of the traits of a Chekist state. The intelligence services play a key role in neutralizing both internal and external threats. Internally, Putin uses the FSB, the Investigative Committee, and other such entities to gather information against companies and individuals that can be leveraged later should they need to be brought back into line. Putin can also use his oligarchs to exert economic and financial pressure on targets inside and outside of Russia. The Kremlin also controls the information that flows to the majority of Russians, and so anti-West and pro-Putin propaganda themes keep most Russians where Putin wants them: under his control.

The same organized crime rules hold true for foreign businesses in Russia. Putin will have his intelligence services collect intelligence on any American businessman in which he has an interest. Such efforts would include both physical surveillance as well as audio and visual collection against the target while in Russia. Entrapment and arrest have been used against American businessmen in the past; more recently, Russian intelligence

framed and arrested American businessman Paul Whelan, who is still languishing in a Russian prison. All of the Russian intelligence services play important roles in collecting the information which can be used to control all businesses, foreign and domestic, in Russia.

This is not to say that foreign businesses have never been successful in Russia. What it is to say is that success is contingent upon the Kremlin's approval of such business activity. If an American business person runs afoul of the Kremlin, all of the kompromat collected against him or her can be quickly and efficiently leveraged. The Russian intelligence services are expert at collecting compromising information that can later be used to blackmail anyone Putin wants. They have collected information against American businesspeople in the past. They collected against me and my family while I was in Russia. If any of you have ever travelled to Russia, they have collected on you, as well. No one is immune.

In an open session like this I will not be able to address in great detail what I know of how the Russian intelligence services specifically do their work. I cannot risk exposing the sources and methods our own intelligence services use, nor those of our allies, who often work closely with us on Russian counterintelligence matters. But I would be more than happy to address any questions you might have.

The Chairman. Thank you, Mr. Hall.

Ms. Conley.

STATEMENT OF HEATHER CONLEY

Ms. Conley. Chairman Schiff, Ranking Member Nunes, distinguished members of this committee, thank you so much for the opportunity to share with you some of the research that CSIS has conducted regarding the patterns and methodology of Russian malign economic influence.

We have analyzed 11 European countries. We have entitled this body of research "The Kremlin Playbook," and we just released our second report in the series. And Mr. Chairman, with your permission, I would like to place that report in the record.

The Chairman. Without objection.

[The information follows:]

***** COMMITTEE INSERT *****

MARCH 2019



THE KREMLIN PLAYBOOK 2

THE ENABLERS

PROJECT DIRECTORS

HEATHER A. CONLEY

RUSLAN STEFANOV

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Ms. Conley. Thank you.

Congressman Nunes, you are absolutely right, Russian malign influence has been working for many, many years. In fact, our Central and Eastern European allies told us very clearly of that even as far back as 2009.

But before I dive into the Russian malign economic influence, I think it is important for us to take a quick step back to understand how Russia is weaponizing illicit financing and creating what I call a financial gray zone and place that into a broader context.

What we are living through is the Russian military doctrine of new generation warfare. It is a strategy of influence, not of force. It is designed to erode the confidence and credibility of democracies to such a point that those democracies will seek an accommodation with the Kremlin's policies and interests over their own national interests. There is no advanced U.S. weapons system that can push back against this.

Russia competes with the United States where we are at our most vulnerable. It exploits every weakness, every societal division, everything, faith, history, how and what kind of information we read, racial tensions, partisanship, illicit financing, failed privatizations, cyber attacks, each separately and in combination, and all have one objective, to diminish America's strength.

An adviser to President Putin, Vladislav Surkov, recently summarized the power of new generation warfare I think quite nicely. I quote: "Foreign politicians talk about Russia's interference in elections and referendums around the world. In fact, the matter is even more serious. Russia interferes in your brains. We change your conscience, and there is nothing you can do about it."

Well, there is something that we can do and must do. But let's be clear. Although this hearing is about what Russia does, and we need to have a much better

understanding of how Russia penetrates our institutions and our democratic processes to prevent it, this is about strengthening our own democratic house and minimizing our divisions. Our patriotism must be greater than our partisanship.

By downgrading our democracy or degrading it, the Kremlin seeks to demonstrate the moral equivalency between Putinism or managed democracy, because if there is no difference we can reach that accommodation.

But democracies are very, very different from authoritarian and kleptocratic regimes, and it is the requirement that democracy be transparent and accountable. And that is, in fact, the place where our research begins. How do we enhance transparency and accountability of our own systems and institutions?

This is where the battle is now being waged, and democracies, unfortunately, have begun to mirror and facilitate kleptocratic functions. As Russian funds are laundered through our financial system, shell corporations and subsidiaries are formed to circumvent taxes. This is what we fight.

In Mr. Putin's world view, everyone and everything has a price, and we must firmly state that democracy is priceless.

These illicit figures are absolutely eye watering, as I note in my written testimony. When we began this research, I had anticipated that Russian investments would be diminished in Europe, particularly after the imposition of U.S. and EU sanctions in 2004, but this is not the case. The size of the inbound and outbound financial flows, both illicit and perfectly legal, have all become a very powerful tool of Russian malign economic influence.

And just a very brief example. In the countries that we analyzed, Italy, Austria, and the Netherlands alone, Russian foreign direct investment stocks have expanded from 5 billion euros in 2006 to 160 billion at the end of 2017. In the Netherlands alone,

Russian company assets have jumped from 13.2 billion euros in 2007 to 96 billion euros in 2017. So we are seeing a growth of Russia's economic influence in Europe, not a reduction.

And so as these illicit funds are being used, they are funding European political parties and individuals which share the Kremlin's agenda and objectives, and that is working against U.S. security and strategic interests. They are used to deepen economic dependency on the Kremlin. We call this the unvirtuous cycle of malign influence. It appears that many individuals prove Mr. Putin right. They do have a price, and it can be easily paid.

And how we fight and win this battle is to fight through greater transparency and democratic accountability. We need to prioritize illicit financing as much as we do terrorism financing. Examples of Danske Bank, Swedbank, Deutsche Bank, Societe Generale, corporate service providers, opaque beneficial ownership.

We must work collaboratively with our European partners to detect illicit financing and push it out of our system. We need to make sure that the highest transparency standards are there for ultimate beneficial ownership. This is how we strengthen our democracy. Mr. Chairman, this is how we win.

Thank you.

[The statement of Ms. Conley follows:]

***** INSERT 1-3 *****



**Statement before the
House Permanent Select Committee on Intelligence**

***“Putin’s Playbook: The Kremlin’s Use of
Oligarchs, Money and Intelligence in 2016 and
Beyond”***

A Testimony by:

Heather A. Conley

Senior Vice President for Europe, Eurasia, and the Arctic
Center for Strategic and International Studies (CSIS)

March 28, 2019

2175 Rayburn House Office Building

Mr. Chairman, Ranking Member Nunes, and distinguished members of the committee, thank you for this opportunity to share with you our research findings to better understand the origins, development, and eventual weaponization of Russian malign economic influence. To begin to understand these economic tools, it is important to note that:

“How Russia exerts its influence abroad represents an extension of its own governing model, which operates on state-sponsored corruption, centers on a vast patronage network protected by security affiliates, and penetrates every aspect of society, including the highest levels of government.”¹

This is a quote from our seminal research published in October 2016, [*The Kremlin Playbook: Understanding Russian Influence in Central and Eastern Europe*](#). Our second volume, [*The Kremlin Playbook 2: The Enablers*](#), which we have just released, further explores the Kremlin’s use of enablers to spread and amplify its economic influence as well as assesses the continuous adaptation of its tactics. For the past four years, CSIS and the Sofia-based Center for the Study of Democracy have analyzed 11 European countries to measure the size of Russia’s economic footprint in each country and to observe how the Kremlin has leveraged its considerable economic power to influence or alter domestic politics and democratic institutions, with varying levels of success.

We conclude that Russia operates within a financial gray zone in which illicit financing (including money laundering), shell companies, and complex tax avoidance and evasion schemes are developed and used through intermediaries, patronage networks, and corrupt practices. State-owned and state-affiliated companies in Russia are often used as instruments of influence and cannot be understood as regular business actors given the vertical integration of power between the Russian state and its corporate sector. Transatlantic policymakers have been slow to recognize and acknowledge this crucial difference.

Russia’s Economic Governing Model Exported to Europe

Professor Karen Dawisha’s book, *Putin’s Kleptocracy: Who Owns Russia?*² offers the most comprehensive overview of the rise of a particularly virulent form of kleptocracy that we see in Russia today. These kleptocratic practices were integral to the political rise of Vladimir Putin when he served as Deputy Mayor of St. Petersburg, during which he was responsible for overseeing all foreign contracts in the city. Mr. Putin brought this evolving form of kleptocracy with him to Moscow, accompanied by many leading members of his St. Petersburg inner circle, when he was named head of the Federal Security Bureau (FSB) in 1998 and eventually when he became President of the Russian Federation in 2000.

¹ Heather Conley et al., *The Kremlin Playbook: Understanding Russian Influence in Central and Eastern Europe* (Lanham: Rowman & Littlefield, October 2016), 9.

² Karen Dawisha, *Putin’s Kleptocracy: Who Owns Russia?* (New York: Simon & Schuster, 2015).

As Dawisha notes, “[m]oney from all kinds of licit and illicit sources flooded out of Russia into a variety of Western banks and offshore accounts in the early 1990s.”³ One very early example of a Russian pattern of behavior and a methodology of illicit financing was described in a report by the German Federal Intelligence Agency (BND) in 1999 which investigated money laundering activities in Liechtenstein in which it was alleged that an unknown Russian-German firm, the St. Petersburg Real Estate Holding Co. (SPAG)—for which Vladimir Putin was listed as a member of the advisor board and the city of St. Petersburg also held shares —was engaged in laundering money from Russia and other sources.⁴ Two subsidiaries of SPAG were reportedly involved with the head of the Tambov criminal syndicate. It appeared from court documents that this entity was designed to launder funds and to take profits out of Russia.⁵

Russian kleptocrats skillfully use financial transactions, state-owned and state-affiliated companies, foreign direct investment stocks, corporate service providers, and unclear beneficial ownership schemes as instruments of influence. This financial gray zone has been in the making for decades, aided and abetted, wittingly and unwittingly, by the West. This system is particularly advanced in Europe where the economic linkages and historical ties with Russia are the strongest, but there are spillover effects in the United States which must be addressed.

The Russian Financial Gray Zone

The Kremlin has spent years developing a financial gray zone in which state-owned or affiliated companies actively use the complex financial tools, created by Western financial systems, to achieve their malign goals. Their methods include profit shifting for the purpose of tax avoidance (which is not necessarily illegal) and tax evasion, and egregious laundering of money obtained through corruption, embezzlement, or criminal activities. The Kremlin’s potential ties with and use of organized criminal networks have been extensively documented.⁶

These illicit financial flows have been assisted by enabling countries and industries, for example corporate service providers (CSPs; e.g., accountants, lawyers, incorporation agents) which are designed to remain below the threshold of illegality to escape attention and detection. The Kremlin exploits the many tax loopholes and complex incorporation laws many Westerners use themselves, but it uses these instruments to both enrich its inner circle *and* to provide material support to anti-Western and pro-Kremlin political parties and politicians, which can ultimately fuel societal division and erode confidence in democracy. While other state and non-state actors use these instruments as well, Russia is the most egregious state perpetrator today.

The financial figures are simply staggering:

³ Dawisha, *Putin’s Kleptocracy*, 133.

⁴ Ibid, 132.

⁵ Ibid, 135-136.

⁶ For example, see Stephen Handelman, *Comrade Criminal: Russia’s New Mafiya* (New Haven: Yale University Press, 1995).

- \$1 trillion: Estimated total Russian private holdings abroad today.⁷
- €12 trillion: The estimated amount of funds that went through the Netherlands in 2009 through trusts and companies that made use of corporate service providers.⁸
- \$4.5 trillion: The amount that flows through the Netherlands each year via companies making use of Dutch CSPs, making the Dutch CSP sector about as large as Japan's, despite the fact that Japan's economy is six times the size of the Netherlands'.⁹
- €200 billion: The estimated amount laundered through Danske Bank (a quarter of which originated in Russia).¹⁰
- \$20 billion: The amount European banks spend on financial sector compliance and due diligence each year.¹¹
- €600 million: The amount of the fine that Deutsche Bank paid for its role in a \$10 billion Russian money-laundering scheme.¹²

But it is the size of the inbound and outbound financial flows (licit and illicit) that has become a powerful tool of Russian malign economic influence. In Italy, Austria, and the Netherlands alone, our research has shown that Russian FDI stocks have expanded over the past decade from just €5.4 billion in 2006 to close to €160 billion at the end of 2017, despite the imposition of EU sanctions. In the Netherlands, Russian companies' assets have jumped from €13.2 billion in 2007 to over €96 billion in 2017 through the use of letterbox companies for tax optimization purposes. Russian assets represented 13 percent of Dutch nominal GDP in 2017. In Montenegro, approximately 13.6 percent of all inward FDI stock originated in Russia in 2016 and tourism, which is counted as trade in services, now accounts for close to 20 percent of the country's GDP.¹³

In addition to size, the concentration of Russian economic influence in specific sectors of a country's economy creates leverage points for the Kremlin. Energy, finance, and real estate are key sectors. Some large European firms in these sectors with access to high levels of political power, such as Austria's energy giant OMV or Italy's UniCredit (the country's largest banking group based on total assets), have important investments in Russia or are involved in joint

⁷ Anders Aslund, "It's time to go after Vladimir Putin's money in the West," *The Washington Post*, March 29, 2018, <https://www.washingtonpost.com/news/democracy-post/wp/2018/03/29/its-time-to-go-after-vladimir-putins-money-in-the-west/>.

⁸ Jeroen Trommelen, "Een geldstroom van 12,000 miljard," *de Volkskrant*, November 15, 2012, <https://www.volkskrant.nl/nieuws-achtergrond/een-geldstroom-van-12-000-miljard~b45b118c/>.

⁹ Rodrigo Fernandez, "Dutch efforts to combat letterbox companies have no effect," SOMO, March 29, 2018, <https://www.somo.nl/dutch-efforts-combat-letterbox-companies-no-effect/>.

¹⁰ Richard Milne, "Danske Bank charged over €200bn money-laundering scandal," *Financial Times*, November 28, 2018, <https://www.ft.com/content/6ae5f7f6-f324-11e8-ae55-df4bf40f9d0d>.

¹¹ Giulia Paravicini, "Europe is losing the fight against dirty money," *Politico*, April 2, 2018, <https://www.politico.eu/article/europe-money-laundering-is-losing-the-fight-against-dirty-money-europol-crime-rob-wainwright/>.

¹² Jethro Mullen, "Deutsche Bank fined for \$10 billion Russian money-laundering scheme," CNN, January 31, 2017, <https://money.cnn.com/2017/01/31/investing/deutsche-bank-us-fine-russia-money-laundering/index.html>.

¹³ "Predrag JELUŠIĆ: Turizam daje petinu BDP-a i čini više od polovine izvoza Crne Gore," *Portal Analitika*, September 27, 2015, <http://www.portalanalitika.me/clanak/203071/predrag-je-lusic-turizam-daje-petinu-bdp-a-i-cini-vise-od-polovine-izvoza-crne-gore>.

ventures and projects with large Russian companies. The Kremlin has at times tried to involve these companies in its web of state-run or -controlled corporations in Russia, offering lucrative projects and joint-ventures. These companies can use these political ties to protect their own economic interest *and* assist the Kremlin, wittingly or not, by convincing policymakers and the public that harm should not be done to this important economic relationship. Their size in the national economy increases their leverage on policy decisions.

In the face of such large financial flows, certain countries' oversight authorities and their limited capabilities can get overwhelmed by the complexity and multi-jurisdictional nature of potential illicit schemes emanating from Russia. It has become increasingly difficult to disentangle licit flows from illicit activity in the financial sector, and the resources allocated to anti-money laundering at the national level have not kept up with the complexity of the system.

The Unvirtuous and Reinforcing Cycle of Russian Malign Economic Influence

In the first *Kremlin Playbook* report, we detailed what we called an “unvirtuous cycle” of malign influence that the Kremlin uses to influence and direct decision-making in Central and Eastern Europe. It does so through networks of economic and political patronage across the region and follows two tracks: one through economic influence in strategic sectors of a country's economy, which can in turn provide political influence; and the other through political influence, which can later deepen and protect Russian economic influence. Corruption allows both influence tracks to become highly intertwined.

Because Russian economic presence concentrates in strategic sectors, particularly energy, finance, and real estate, there is a reinforcement velocity to this cycle to achieve maximum policy impact. In **energy**, the Russian economic footprint in Bulgaria peaked at around 27 percent of GDP in 2012, and as of 2016, Gazprom was the country's sole natural gas provider. Rosatom, the state-owned nuclear company, has a dominant position in Bulgaria and Lukoil, the major Russian oil company, controlled over 50 percent of the wholesale fuels market in 2016.¹⁴ This dominant economic presence provides the Kremlin with great leverage over the country's budget revenues, and can largely direct the distribution of public procurement contracts or the circumvention of EU law through legal changes.¹⁵

The **financial** sector in turn provides vital support to large Russian energy infrastructure projects in Italy, for example. Intesa Sanpaolo became an investor in the Blue Stream pipeline in 2000 and provided financing for the first Nord Stream pipeline. In 2017, Intesa provided a €5.2 billion loan to Glencore and Qatar Investment Authority to finance their acquisition of a stake in Rosneft after its “privatization”—an effort by the Kremlin to raise much-needed capital due to

¹⁴ Ognian Shentov, Alexander Stoyanov, and Maria Yordanova, eds., *State Capture Unplugged: Countering Administrative and Political Corruption in Bulgaria* (Sofia: CSD, 2016), <http://www.csd.bg/artShow.php?id=17723>.

¹⁵ Ruslan Stefanov and Martin Vladimirov, “Bulgaria and the South Stream Pipeline Project: At the Crossroads of Energy Security and State Capture Risks,” *Südosteuropa Mitteilungen* 54 (May–June 2014): 54–72, <http://www.csd.bg/artShow.php?id=17256>.

Western imposed sanctions. (A Chinese conglomerate later agreed to buy part of that stake and Intesa will thus be reimbursed sooner than planned).¹⁶ The Italian export credit agency, SACE, has also provided support for projects in the oil and gas sector and the metallurgical industry for Italian firms in Russia and has a total exposure of around €5 billion.¹⁷

Real estate presents an important point of leverage, particularly at the local level. In Montenegro, the state has received close to €25 million in sales taxes since 2006 from this sector. An estimated 70,000 properties belong to Russian owners and Russian businessmen acquired valuable hotels in attractive locations at a fraction of their market value during post-independence privatizations.¹⁸ Some of the most valuable hotels were acquired through shell companies, reinforcing the dependence of some sectors on the financial system. This concentration skews the local tax base and can significantly influence local political forces that rely on these funds.¹⁹

We Must Fight in the Light

Successive money laundering scandals in Europe have shown that the Kremlin has continually found ways to make economic gains despite the sanctions regime – although many important sanctions exceptions were grandfathered into European sanctions (for example, in 2014 the Viennese branches of Sberbank and VTB Bank were exempted from sanctions and thus retained their operative presence on the European market,²⁰ potentially enabling a massive influx of Russian FDI to Austria post-2014).

Russian oligarchs have enjoyed the benefits of the Western financial system, our rule of law, and our independent courts—and the West has paid the price. We must immediately remedy this situation.

- Congress should reinforce the importance of the reports provided by the Department of Treasury on U.S. efforts to combat illicit finance relating to Russia (as mandated by the **Countering America’s Adversaries Through Sanctions Act** of 2017 (CAATSA)), and ensure these reports are provided every year. The newly introduced **Defending American Security from Kremlin Aggression Act** of 2019 is a strong bipartisan effort to reinforce CAATSA and has important provisions like the specific requirement for

¹⁶ Gianluca Semeraro and Stephen Jewkes, “Intesa Sanpaolo not concerned about Glencore loan for Rosneft,” Reuters, April 27, 2018, <https://www.reuters.com/article/us-intesasanpaolo-rosneft-glencore-cefc/intesa-sanpaolo-not-concerned-about-glencore-loan-for-rosneft-idUSKBN1HY2IW>.

¹⁷ “SACE e Vnesheconombank firmano accordo di cooperazione,” SACE, June 16, 2016, <https://www.sace.it/media/comunicati-stampa/dettaglio/sace-e-vnesheconombank-firmano-accordo-di-cooperazione>.

¹⁸ “Nesterenko: U Crnoj Gori živi do sedam hiljada Rusa,” *Vijesti.me*, January 27, 2014, <http://www.vijesti.me/vijesti/nesterenko-u-crnoj-gori-zivi-do-sedam-hiljada-rusa-174290> (cache-based source).

¹⁹ Center for the Study of Democracy, *Assessing Russia’s Economic Footprint in Montenegro* (Sofia, Bulgaria: Center for the Study of Democracy, 2018).

²⁰ Miriam Widman, “Austria Shields Russian Banks from E.U. Sanctions,” *Handelsblatt Global*, July 31, 2014, <https://global.handelsblatt.com/companies/austria-shields-russian-banks-from-e-u-sanctions-5078>.

domestic title insurance companies to report information on the beneficial owners of entities that purchase residential real estate in high-value transactions;

- **Money laundering** should be elevated as a priority threat to national security, and the United States should coordinate with European allies on strengthening the international anti-money laundering (AML) architecture. This includes elevating the risk of corporate service providers in illicit finance and money laundering activities, enforcing customer due diligence requirements, and increasing penalties for non-compliance. **Ultimate beneficial ownership** information is a key element in targeting money laundering networks and Russian malign actors who game the system by remaining anonymous, and Congress should redouble efforts to establish transparency in this realm (including through limiting the use of nominee directors);
- Reports provided to Congress by the executive branch relating to Russian economic influence and its enablers should make full use of disclosure to increase the reputational penalty for harboring Russian illicit funds (“name and shame”);
- Congress should closely review the sanctions regime and address the key loopholes that allow for the evasion of sanctions, from bilateral exemptions to grandfathered deals. U.S. investment visas also offer a potential door for Russian funds to enter the United States and corrupt our financial system, and they must be put under closer scrutiny. European allies must be involved in similar efforts against the so-called “golden visas”;
- The **Global Magnitsky Act** has proven a strong tool to target kleptocrats and human rights violators, as well as those who assist them, and the United States and European allies should harmonize their use of the Act;
- Finally, Congress has still not taken steps to guarantee reciprocity with countries that have signed intergovernmental agreements under the Foreign Account Tax Compliance Act (FATCA). This reciprocity would enhance information sharing and transparency, which are both crucial in the fight against Russia’s malign efforts to evade taxes and hide its investments. The United States has still not approved the OECD’s common reporting standards (modeled after FATCA agreements²¹), though they are meant to improve two-way information sharing on tax evasion and avoidance—this must be remedied.

These efforts require strong bipartisan support and cooperation with our European allies, without which Russian malign economic influence will continue to divide the United States from its allies and undermine democratic societies. The cost of removing malign influence from our financial system and enhancing transparency and accountability in our political processes is well worth the long-term benefits of strengthening our democratic institutions as well as ending the Kremlin’s unvirtuous cycle of influence and its kleptocratic model’s use of Western institutions. All of these efforts must be complemented by continued intelligence sharing with our allies and the disclosure of influence operations wherever they occur.

²¹ Laurie Hatten Boyd, “Are Problems Looming for FATCA and the “Reciprocal” IGA?” *The Tax Adviser*, June 1, 2016, <https://www.thetaxadviser.com/issues/2016/jun/problems-looming-for-fatca-and-reciprocal-iga.html>.

If it is said that “democracy dies in darkness,”²² then it must be that it thrives in the light. Transparency and accountability rebuild confidence in democratic institutions. Enforcement of the rule of law guarantees trust in our democratic processes. In this fight, democracies win.

²² Paul Farhi, “The Washington Post’s new slogan turns out to be an old saying,” *The Washington Post*, February 24, 2017, <https://www.washingtonpost.com/lifestyle/style/the-washington-posts-new-slogan-turns-out-to-be-an-old-saying/2017/02/23/cb199cda-fa02-11e6-be05-1a3817ac21a5>.

The Chairman. Thank you very much.

Mr. Lorber.

STATEMENT OF ERIC LORBER

Mr. Lorber. Thank you, Mr. Chairman, Ranking Member Nunes, and distinguished members of the committee. I am honored to appear before you today.

As this committee knows well, Russia poses a serious national security challenge to the United States. In the last few years alone, Russia has illegally occupied Crimea, destabilized Ukraine, attempted to subvert Western democracies, including by attacking the integrity of U.S. elections, launched cyber attacks against the United States and our allies, supported the murderous Assad regime in Syria, and used chemical weapons to conduct assassinations in Western Europe.

The United States and its partners must respond forcefully and thoughtfully to this threat, including through the use of targeted economic measures.

As an economic sanctions and illicit finance compliance professional, I will focus my testimony today on three key points.

First, our sanctions on Russia have had an impact. Through the use, of course, of economic measures, we have put pressure on particular Russian targets and caused economic pain to the Russian economy.

Second, this impact has been limited, and while resulting in some changes in Russian behavior, is unlikely to significantly alter Russian decisionmaking absent an escalation that would both be costly to our partners in Europe and many in the private sector.

And third, we need to look beyond sanctions to additional economic measures, to my colleague's point, to include tracking, tracing, and preventing illicit Russian funds from entering the legitimate international financial system as a way to counter certain types of Russian malign influence and activity.

This requires strengthening the anti-money laundering and combating the financing of terrorism, AML/CFT, backbone of the international financial system. Such an approach would make our sanctions programs more effective.

One of the primary challenges in any sanctions program is effective implementation. While it is relatively easy to screen transactions, customers and counterparties for names of sanctioned parties, Russian oligarchs and sanctioned persons are adept at hiding their identities and involvement in efforts to move funds around the world.

The real work to make these programs effective takes place when conducting investigations into the ultimate beneficial owners of companies, unmasking front and shell companies, and working to determine sources of funds.

To the extent that the United States and its allies bolster their AML/CFT regimes and the requirements they impose on financial institutions, they will be more likely to catch Russian illicit actors trying to use their institutions to move funds. Such an approach would also have the added benefit of strengthening our defenses against illicit financing more broadly.

To bolster our AML/CFT regime and to counter sanctions evasion and illicit finance, Congress can take a number of steps.

First, Congress can pass meaningful beneficial ownership information. Even as the United States continues to enhance and expand its financial tools to combat various national security threats, these efforts are undermined by the exploitation by anonymous

legal entities.

Foreign adversaries can use anonymous companies for a range of purposes here in the United States alone, including undermining the efficacy of important laws, such as the Foreign Agents Registration Act and campaign finance laws.

While it is important to push foreign partners to require companies to collect, maintain, and disclose accurate beneficial ownership information at the time of company formation, we must also follow the same standard here in the United States and pass such legislation.

Second, resource implementation and enforcement. The counter illicit finance apparatus in the United States Government is small and the budget spartan given the outsized role that the professionals at Treasury and the relevant law enforcement, intelligence, and regulatory agencies are asked to play in safeguarding national security. Given that Treasury is being asked to address an ever-growing set of national security challenges, Congress should provide them with significantly increased resources to ensure it is able to address the challenges at hand.

And third, call upon FinCEN, the Financial Crimes Enforcement Network, to issue an advisory on Russia sanctions evasion and money laundering red flags.

FinCEN regularly promulgates guidance to U.S. financial institutions identifying red flags related to illicit finance risks. To assist financial institutions in disrupting illicit Russian financial flows, Congress should call upon the Treasury Department to issue an advisory detailing red flags associated with Russian illicit fund flows.

In addition, Congress should also call upon FinCEN to coordinate an advisory with international partner financial intelligence units. Such a coordinated advisory would further assist foreign financial institutions in detecting and preventing the abuse of their institutions by illicit Russian actors.

Increased transparency, additional sanctions, and cooperation with partners on additional economic pressure can have an impact on Vladimir Putin and his cronies and the regime. But while these tools are powerful, this committee, Congress, and the administration more generally should not labor under the misconception that our economic authorities are a silver bullet to counter Russian malign activities.

I would be happy to discuss any of the particular recommendations I have put forth, as well as sanctions on Russia more broadly. Thank you, and I look forward to your questions.

[The statement of Mr. Lorber follows:]

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House Permanent Select Committee on Intelligence

Putin's Playbook:
**The Kremlin's Use of Oligarchs,
Money and Intelligence in
2016 and Beyond**

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**Washington, DC
March 28, 2019**

Chairman Schiff, Ranking Member Nunes, and distinguished members of the Permanent Select Committee on Intelligence, I am honored to appear before you today to discuss Putin's Playbook: The Kremlin's Use of Oligarchs, Money and Intelligence in 2016 and Beyond.¹ As an economic sanctions compliance and illicit finance professional, I will focus my testimony on the impact – and limits – of U.S. sanctions in countering Russia's continued malign activity. I will also discuss a number of additional measures that could be undertaken by the administration and Congress to limit the ability of Moscow and its cronies to surreptitiously move their funds and assets around the world.

As this committee knows well, Russia poses a serious national security challenge to the United States. In the last few years alone, Russia has illegally occupied Crimea; destabilized Ukraine through the use of the Russian military and its proxies; attempted to subvert Western democracies, including by attacking the integrity of U.S. elections; launched cyberattacks against the United States and our allies; supported the murderous Assad regime in Syria; and used chemical weapons to conduct assassinations in Western Europe, harming numerous civilians. The United States and its allies and partners must respond forcefully and thoughtfully to this threat, including through the use of targeted economic measures.

I will focus my testimony today on three key points. First, our sanctions on Russia have had an impact. Through the use of coercive economic measures, we have put pressure on particular Russian targets (including Russian oligarchs) and caused economic pain to the Russian economy writ large.

Second, this impact has been limited. While resulting in some changes in Russian behavior, existing sanctions are unlikely to significantly alter Russian decision making absent an escalation that would be costly to both our allies and partners in Europe and many in the private sector.

Third, we need to look beyond sanctions to additional economic measures. Such measures should include tracking, tracing, and preventing illicit Russian funds from entering the legitimate international financial system to counter certain types of malign Russian influence and activity, as well as to pressure corrupt actors within Russia. This requires strengthening the anti-money laundering/combating the financing of terrorism (AML/CFT) backbone of the international financial system to limit Russian illicit finance. But members of Congress and the administration should be cautious in relying too heavily on these economic tools. In recent years, sanctions and related tools have become the tool of first resort in addressing a range of Russian malign activity. While they are powerful, they must be properly situated in a strategic framework and used to complement other elements of national power.

The Current Sanctions Framework

The sanctions program targeting Russia is one of the most comprehensive sanctions programs currently administered by the United States. This program consists of all types of U.S. economic sanctions: a comprehensive jurisdictional embargo on the annexed Ukrainian region of Crimea; a

¹ The views expressed in this testimony are my personal views and do not represent the views of the Foundation for Defense of Democracies, the Financial Integrity Network, or the Treasury Department. Pursuant to legal and ethical obligations, I cannot discuss internal deliberations that occurred during my tenure at the Treasury Department.

list-based designation program targeting specific Russian persons, such as the so-called “oligarchs” and those engaged in corruption and human rights abuses; a sectoral sanctions program that limits certain types of transactions with key Russian economic sectors and entities; an export-control regime designed to prevent Russian firms from accessing American technology important to the development of the Russian energy sector; and a secondary sanctions program on foreign firms doing business with malign Russian actors in the defense and intelligence sector or with Russian specially designated nationals (SDNs).

Combined with EU sectoral sanctions, a list-based designation program, and export control restrictions, our sanctions on Russia are designed to target individuals and entities closely associated with the Putin regime, impose economic pain on key sectors of the Russian economy, and impact the long-term growth of certain Russian industries through limiting key financing and access to technology.

Like the Obama administration, the Trump administration has relied heavily on economic pressure as a way to counter Russia’s range of malign activities. To date, the Trump administration has sanctioned more than 270 Russia-related individuals and entities, including a set of designations on April 6, 2018 that targeted key Russian oligarchs close to Russian President Vladimir Putin who are engaged in illicit activity, as well as companies they own and control. The administration has also targeted Russian companies and financial institutions involved in sanctions evasion, including for their efforts to support Nicholas Maduro’s illegitimate regime in Venezuela and to provide support to North Korea, Syria, and Iran. As Treasury Under Secretary Sigal Mandelker noted in testimony in August 2018, the Russia sanctions program is among Treasury’s most active; through it, both Congress and the Treasury Department have imposed major costs on Russia.²

As part of its efforts to impose economic costs on key Russian actors for their malign activities, the Treasury Department has not shied away from targeting large and important Russian companies. Beyond the sectoral sanctions designations put into place by the Obama administration that imposed debt and equity restrictions on important Russian energy, financial, and defense companies – which Congress tightened with the passage of the Countering America’s Adversaries Through Sanctions Act (CAATSA) – the Treasury Department has targeted major Russian-owned companies. This includes EN+ Group, UC Rusal, and JSC EuroSibEnergO, which were owned or controlled by Oleg Deripaska, a Russian national designated for allegedly “threatening the lives of business rivals, illegally wiretapping a government official, and taking part in extortion and racketeering” as well as being close to the Russian State and Vladimir Putin.³ Just two weeks ago, for example, Treasury sanctioned Evrofinance Mosnarbank, a Moscow-based bank that is jointly owned by Russian and Venezuelan state-owned companies (including Russian Bank VTB owning a 25 percent stake),

² Treasury Under Secretary Sigal Mandelker, *Statement before the U.S. Senate Committee on Banking, Housing, and Urban Affairs*, August 21, 2018. (<https://home.treasury.gov/news/press-releases/sm465>)

³ U.S. Department of the Treasury, Press Release, “Treasury Designates Russian Oligarchs, Officials, and Entities in Response to Worldwide Malign Activity,” April 6, 2018. (<https://home.treasury.gov/news/press-releases/sm0338>)

for, among other things, providing financing for the illicit Venezuelan cryptocurrency, the Petro.⁴

The Effectiveness – and Limits – of U.S. Sanctions on Russia

U.S. and EU sanctions have had both macroeconomic and targeted impacts. During the initial phase of the sanctions during the Obama administration, the Russian economy clearly struggled, but the downturn was likely driven both by the collapse in global oil prices and the imposition of sectoral sanctions. For example, the Congressional Research Service (CRS) noted that most sanctions hit just as the oil price was dropping by more than 60 percent between the start of 2014 and the end of 2015.⁵ Yet the sanctions did appear to have an independent impact at the macroeconomic level. A 2015 IMF study estimated that “U.S. and EU sanctions in response to the conflict in Ukraine and Russia’s countervailing ban on agricultural imports reduced Russian output over the short term by as much as 1.5%.”⁶ In April 2015, speaking to the lower house of parliament in Moscow about “unprecedentedly harsh sanctions pressure,” Russian Prime Minister Dmitry Medvedev said that the sanctions had cost Russia \$26.7 billion in 2014 and would cost \$80 billion more in 2015.⁷ Likewise, in 2016, Putin noted that sanctions were harming Russia’s access to international financial markets.⁸

In recent years, however, the Russian economy has stabilized. According to CRS, as oil prices began to rise in 2016, “[t]he rate of economic contraction slowed, inflation fell, and the value of the ruble stabilized. The Russian government and non-sanctioned Russian entities resumed some access to international capital markets, capital outflows slowed, and foreign direct investment into Russia rebounded.”⁹ Overall, the sanctions appeared to have had a modest, but negative, impact on the Russian economy, though the economy is in significantly better shape now than it was when the sanctions were first imposed.¹⁰

Those targeted directly by U.S. sanctions have also felt their bite. As noted by Assistant Secretary of the Treasury for Terrorist Financing and Financial Crimes Marshall Billingslea:

According to public reporting, the combined net worth of Russia’s 27 wealthiest people fell by an estimated \$16 billion in one day [after the April 6 oligarch designations], Moscow-traded stocks had their biggest drop in four years, and the ruble fell to its weakest position since late 2016. Viktor Vekselberg’s net worth

⁴ U.S. Department of the Treasury, Press Release, “Treasury Sanctions Russia-based Bank Attempting to Circumvent U.S. Sanctions on Venezuela,” March 11, 2019. (<https://home.treasury.gov/news/press-releases/sm622>)

⁵ Rebecca Nelson, “U.S. Sanctions and Russia’s Economy,” *Congressional Research Service*, February 17, 2017. (<https://fas.org/sgp/crs/row/R43895.pdf>)

⁶ *Ibid.*, pages 6-7.

⁷ Ed Adamczyk, “Medvedev: Sanctions cost Russia \$106 billion,” *UPI*, April 22, 2015.

(http://www.upi.com/Top_News/World-News/2015/04/22/Medvedev-Sanctions-cost-Russia-106-billion/3551429721857)

⁸ Nikolaus Blome, Kai Kiekmann, and Daniel Biskup, Interview with Putin, *Bild*, November 1, 2016. (<https://www.bild.de/politik/ausland/wladimir-putin/russian-president-vladimir-putin-the-interview-44092656.bild.html>)

⁹ Cory Welt, Kristin Archick, Rebecca Nelson, and Dianne Rennack, “U.S. Sanctions on Russia,” *Congressional Research Service*, January 11, 2019, page 42. (<https://fas.org/sgp/crs/row/R45415.pdf>)

¹⁰ *Ibid.*, page 44.

has dropped an estimated \$3 billion, and foreign governments have launched investigations in response to his designation and subsequently frozen Vekselberg's assets in their jurisdictions. Vekselberg's Renova Group was forced to divest from ventures in Switzerland and Italy.¹¹

While sanctions on Russia have had a macroeconomic impact and have caused pain for particular Russians close to Putin, their impact on Russian behavior appears more limited.

Some analysts believe that sanctions have had some impact on behavior because, in their absence, Russia would likely have acted more aggressively. Former Deputy Assistant Secretary of State Peter Harrell observed in September 2015 that "Russia does appear to have made tactical adjustments to its strategy at different points during the crisis to minimize the odds of [further] sanctions being imposed."¹² In his view, the demonstrated effect of sanctions and the threat of broader measures "may have helped deter Russia from moving forward and seizing the strategic city of Mariupol" in February 2015. A March 2016 European Parliament publication argued that sanctions were deterring further violence, again pointing to the Black Sea port of Mariupol.¹³

In addition, at least in the context of Ukraine, Putin and Foreign Minister Sergei Lavrov explicitly called for, and even demanded, an end to sanctions. Russia has also worked to undermine EU unity on sanctions, including by "methodically lobbying southern and eastern EU member states," with Italy, Greece, Hungary, Cyprus, Slovenia, Slovakia, and Bulgaria as prime targets.¹⁴ These demands and efforts suggest that even if the sanctions have not fulfilled all of the objectives they were initially employed to achieve, they do appear to have impacted Russian decision making.

Nevertheless, Russia continues to engage in widespread malign activity. In recent years, Russia has continued its cyberattacks against Ukraine,¹⁵ Montenegro,¹⁶ and Western democracies, including efforts in 2017 to interfere with the French presidential election.¹⁷ Likewise, Russia is no closer to fulfilling its obligations under the Minsk Agreement and continues its destabilizing activities in a number of theaters around the world, including supporting the murderous Assad regime in Syria, using chemical weapons to conduct assassinations in Europe, and continually

¹¹ Treasury Assistant Secretary Marshall Billingslea, *Statement before the U.S. Senate Committee on Foreign Relations*, August 21, 2018. (<https://home.treasury.gov/news/press-releases/sm464>)

¹² Peter Harrell, "Lessons from Russia on the Future of Sanctions," *Center for a New American Security*, September 2015. (<https://s3.amazonaws.com/files.cnas.org/documents/CNAS-Report-Economic-Statecraft-2-FINAL.pdf>)

¹³ Martin Russell, "Sanctions over Ukraine: Impact on Russia," *European Parliamentary Research Service*, March 2016. ([http://www.europarl.europa.eu/RegData/etudes/BRIE/2018/614665/EPRS_BRI\(2018\)614665_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2018/614665/EPRS_BRI(2018)614665_EN.pdf))

¹⁴ "Putin Steps Up Drive to Kill Sanctions Amid Signs of EU Disunity," *Reuters*, July 29, 2016. (<http://www.voanews.com/a/putin-steps-up-drive-kill-sanctions-signs-eu-disunity/3440262.html>)

¹⁵ Natalia Zinets, "Ukraine charges Russia with new cyber attacks on infrastructure," *Reuters*, February 15, 2017. (<http://www.reuters.com/article/us-ukraine-crisis-cyber-idUSKBN15U2CN>)

¹⁶ Ben Farmer, "Montenegro Asks for British Help after Cyber Attacks in Wake of 'Russian-backed coup plot,'" *The Telegraph* (UK), February 28, 2017. (<https://www.telegraph.co.uk/news/2017/02/28/montenegro-asks-british-help-cyber-attacks-wake-russian-backed>)

¹⁷ "France drops electronic voting for citizens abroad over cybersecurity fears," *Reuters*, March 6, 2017. (<http://www.reuters.com/article/us-france-election-cyber-idUSKBN16D233?il=0>)

interfering in foreign elections, including in the United States.¹⁸ Indeed, through Department of Justice indictments, sanctions designations, and other public actions, the United States has publicly identified a number of Russian efforts to directly influence U.S. and Western European elections.¹⁹

Overall, it appears that our sanctions campaign has had a modest impact on the Russian economy and Russian decision making, but as currently conceived and implemented, and absent a significant escalation, it will be insufficient to counter the range of malign Russian activity.

Further, U.S. efforts to substantially escalate pressure on the Russian economy through sanctions and similar tools would likely come at substantial cost to U.S. allies and partners. For example, designating important Russian financial institutions as SDNs or targeting European companies participating in Nordstream II would have an impact on Russian firms and the Russian economy more broadly, but it would also have contagion effects in European markets, as well as potentially in U.S. markets. While such escalatory options are available to the United States, they also carry significant risks to U.S. interests.

Finally, there is ample reason to believe that Russia has likely planned contingencies and mitigation measures for addressing additional U.S. sanctions pressure. The United States has been ramping up and threatening additional economic pressure for almost five years, and many of the options before Congress (including designating particular Russian banks and prohibiting certain transactions in sovereign debt) have been under consideration since 2016. As one of my fellow witnesses mentioned in a recent report,²⁰ Russian illicit finance tactics have evolved significantly in the last few years, and it is likely that they have developed ways to blunt at least some of the impact of additional pressure.

Key Imperatives Moving Forward

To date, successive administrations have relied on sanctions as the primary response to continued Russian efforts to threaten U.S. interests. But we need to think more broadly and creatively about both what we are trying to achieve with our use of these tools and other, non-sanctions levers we have to counter Russian activity. In particular, Congress and the administration should work to bolster the AML/CFT regime here in the United States and among our allies, partners, and vulnerable jurisdictions abroad. Such an approach would have at least three significant benefits in the context of pushing back against Russian influence.

First, it would make our sanctions programs more effective. To the extent that U.S. and European financial supervisors, regulators, intelligence, and law enforcement agencies are better able to track, trace, and seize Russian financial flows and assets, our sanctions program will be more impactful. One of the primary challenges in any sanctions program is effective

¹⁸ For example, see: U.S. Department of Justice, Press Release, “Russian National Charged with Interfering in U.S. Political System,” October 19, 2018. (<https://www.justice.gov/opa/pr/russian-national-charged-interfering-us-political-system>)

¹⁹ “Fact Sheet: What We Know about Russia’s Interference Operations,” *Alliance for Securing Democracy*, March 25, 2019. (<https://securingdemocracy.gmfus.org/fact-sheet-what-we-know-about-russias-interference-operations>)

²⁰ Heather Conley, Donatienne Ruy, Ruslan Stefanov, and Martin Vladimirov, “The Kremlin Playbook 2,” *Center for Strategic and International Studies*, March 2019. (<https://www.csis.org/features/kremlin-playbook-2>)

implementation. While it is relatively easy to screen transactions, customers, and counterparties for names of SDNs, Russian oligarchs and sanctioned parties are adept at hiding their identities and involvement in efforts to move funds around the world. The real work to make these programs effective takes place when conducting investigations into the ultimate beneficial owners of companies, unmasking front and shell companies, and working to determine sources of funds. To the extent that the United States and its allies and partners bolster their AML/CFT regimes and the requirements they impose on financial institutions, the more likely financial institutions and other related entities are to detect and catch Russian illicit actors, including SDNs, trying to use their institutions to move illicit funds.

Second, as one of my fellow witnesses has made clear in a recent report, Russia uses these networks to exert influence in Eastern and Western Europe, including through supporting political parties and undermining democratic processes.²¹ To the extent that the intelligence agencies, regulators, law enforcement, and financial institutions are able to detect and shut down these networks, it will be more difficult for Russia to conduct such influence operations.

Third, such an approach would have the added, and important, benefit of bolstering our defenses against illicit financing more broadly. Many of the recommendations provided below would have beneficial impacts beyond countering specific Russian activity. For example, passing beneficial ownership legislation would not only make it more difficult for sanctioned Russian persons to move money into the United States, it would also make it more difficult for money launderers, drug kingpins, human traffickers, and many others to abuse the U.S. financial system.

To meaningfully disrupt these networks, Congress should take a number of actions:

- 1. Pass Meaningful Beneficial Ownership Legislation.** Russian oligarchs, money launderers, human traffickers, sanctions evaders, and other criminals have used front and shell companies to hide their true identities and move funds through the international financial system. As just one example, between 2011 and 2014, well-connected Russians used 5,140 shell companies that had accounts with 732 banks in 96 countries to move \$20.8 billion out of Russia in the so-called “Russian Laundromat Scandal.”²² Even as the United States continues to enhance and expand its financial tools and power to combat various national security threats, these efforts are increasingly undermined by exploitation of anonymous legal entities. For example, foreign adversaries can use anonymous companies for a range of purposes here in the United States, including undermining the efficacy of important laws such as the Foreign Agents Registration Act (FARA) and campaign finance laws. While it is important to push our allies, partners, and other jurisdictions to require companies to collect, maintain, and disclose accurate beneficial ownership information for certain legal entities at the time of company formation, we must also follow the same standard here in the United States and pass such legislation. This has been such an initiative in successive congressional sessions and

²¹ Ibid.

²² “The Russian Laundromat Exposed,” *Organized Crime and Corruption Reporting Project*, March 20, 2017. (<https://www.occrp.org/en/laundromat/the-russian-laundromat-exposed>)

Secretary of the Treasury Steven Mnuchin has likewise made clear that we need to figure out an efficient and prudent way to have access to beneficial ownership information.²³

- 2. Resource Implementation and Enforcement.** The AML/CFT/sanctions apparatus in the U.S. government is small and the budget spartan given the outsized role that the professionals at Treasury and relevant law enforcement and regulatory agencies are asked to play in safeguarding national security. Compared with the hundreds of billions of dollars provided to the Department of Defense each year, the Office of Terrorism and Financial Intelligence (TFI) at the Treasury Department – which houses the Office of Foreign Assets Control (OFAC), the Financial Crimes Enforcement Network (FinCEN), and an in-house intelligence agency, along with a policy shop – has a FY 2019 budget of approximately \$141 million (with a request for approximately \$166 million in FY 2020).²⁴ The professionals at TFI each handle elements of multiple programs, work very long hours, and are asked to do more than their fair share. Given that Treasury is being asked to address an ever-growing set of national security challenges, Congress should provide TFI with significantly increased resources to ensure it is able to address the challenges at hand. Note that this should also include proper resourcing for other offices and agencies engaged in this mission. Proper resourcing is critical in ensuring that our tools remain sharp.
- 3. Call Upon FinCEN to Issue an Advisory on Russian Sanctions Evasion and Money Laundering Red Flags.** FinCEN regularly promulgates guidance to U.S. financial institutions related to illicit finance risks and red flags associated with particular jurisdictions, customer types, and products and services. Recent advisories have highlighted corruption-related risks in Venezuela, red flags associated with Iranian sanctions evasion activity, and North Korean efforts to access the international financial system. To assist U.S. financial institutions in tracking, tracing, and disrupting illicit Russian financial flows, Congress should call upon the Treasury Department to issue a FinCEN advisory that details red flags associated with Russian illicit fund flows. Such an advisory would help enlist financial institutions in U.S. efforts to combat this illicit activity. In addition, Congress could also call upon FinCEN to coordinate such an advisory with its international partner financial intelligence units (FIUs) as part of the Egmont Group. An internationally coordinated advisory would further assist foreign financial institutions in detecting and preventing abuse of their institutions by illicit Russian actors.
- 4. Call Upon FinCEN to Publicly Identify Jurisdictions of Russian Money Laundering and Sanctions Evasion Concern.** Relatedly, Congress should call upon FinCEN to publicly identify particular jurisdictions that pose significantly higher risks of Russian money laundering and sanctions evasion concerns. Under Section 311 of the USA PATRIOT Act, FinCEN has the authority to identify financial institutions and

²³ Samuel Rubinfeld, “Mnuchin Seeks Shell Company Changes Within Six Months,” *The Wall Street Journal*, July 12, 2018. (<https://blogs.wsj.com/riskandcompliance/2018/07/12/mnuchin-seeks-shell-company-changes-within-six-months>)

²⁴ U.S. Department of the Treasury, “Congressional Budget Justification and Annual Performance Report and Plan: FY 2020,” accessed March 25, 2019. (<https://home.treasury.gov/system/files/266/06.-TFI-FY-2020-CJ.pdf>)

jurisdictions as primary laundering concerns and require that U.S. financial institutions impose a range of restrictions when conducting transactions and business with financial institutions incorporated in those jurisdictions. While a Section 311 jurisdictional identification may not be warranted in many cases, FinCEN, along with certain partner FIUs around the world, could publicly identify jurisdictions of higher risk for Russian sanctions evasion and money laundering, including providing specific information on the types of activities that have occurred within those jurisdictions. This would put financial institutions on notice for these red flags and take extra precautions when doing business with entities based in these jurisdictions.

- 5. Encourage Treasury to Target Russian Sanctions Evasion Networks.** OFAC has targeted a number of Russian sanctions evasion schemes in recent months, including a Russian financial institution's efforts to prop up the Maduro regime²⁵ and an international network through which the Iranian regime, working with Russian companies, provides millions of barrels of oil to the Syrian government.²⁶ In addition to making it more difficult for these networks to effectively operate, these actions have the additional benefit of highlighting Russian evasion tactics and making it clear to those in the public and private sectors around the world how Russian individuals and entities are attempting to undercut sanctions. OFAC's efforts to target these types of networks should be encouraged as a way to both roll up these networks and to provide important information that the private sector can use to bolster their sanctions and AML/CFT systems and controls, hardening the international financial system against abuse. Likewise, this committee should encourage OFAC to even more aggressively use its authorities to target key financial and commercial conduits and intermediaries between illicit actors and rogues, such as Russia, Venezuela, Iran, and others.
- 6. Consider Ways to Broaden the Aperture of Sanctions Targeting Russian Intelligence Services.** OFAC has already designated the GRU and the FSB, and secondary sanctions apply to certain foreign persons knowingly conducting significant transactions with these entities pursuant to CAATSA. OFAC should be encouraged to use these baseline designations as a platform for an operational sanctions program that aims to expose and disrupt continued Russian influence operations here in the United States and abroad. OFAC has significant experience using baseline designations to successfully build out a program targeting a network of malign actors and activity – a good example is the U.S. targeting of the Iranian Revolutionary Guard Corps (IRGC) and the focus on many of the entities it supports (and those supporting it) as part of the U.S. Iran sanctions program. Such a derivative campaign against Russian intelligence operations could increase the cost of their intelligence operations and also expose significant elements of their efforts to influence elections, undercut democratic processes, and otherwise engage in threatening activity.

²⁵ U.S. Department of the Treasury, Press Release, "Treasury Sanctions Russia-based Bank Attempting to Circumvent U.S. Sanctions on Venezuela," March 11, 2019. (<https://home.treasury.gov/news/press-releases/sm622>)

²⁶ U.S. Department of the Treasury, Press Release, "Treasury Designates Illicit Russia-Iran Oil Network Supporting the Assad Regime, Hizballah, and HAMAS," November 20, 2019. (<https://home.treasury.gov/news/press-releases/sm553>)

Conclusion

Increased transparency, additional sanctions, and cooperation with allies and partners on additional economic pressure can have an impact on Vladimir Putin's cronies and the Russian regime's willingness and ability to threaten U.S. interests. But while these tools are powerful, this committee, Congress, and the administration more generally should not labor under the misconception that our economic authorities alone are a silver bullet to counter Russia's malign activities. I would be happy to discuss any of the particular recommendations I have put forth, as well as sanctions on Russia more broadly.

Thank you and I look forward to your questions.

The Chairman. Thank you, Mr. Lorber.

Mr. Hall, can you explain a bit about how the Kremlin uses business and finance as a counterintelligence tool?

Mr. Hall. Sure. I think the best way to look at it again is to imagine the Russian intelligence services and the Putin regime, the Kremlin itself, as collectors of information, first and foremost.

And unlike in our own intelligence community where we oftentimes, if not almost exclusively, collect information for policymaking purposes, in Russia, what is collected is information that can then be used economically, if necessary, against targets of Putin's choosing and against the targets that the Russian intelligence services might choose.

So that is a very powerful tool because, of course, when you are looking at how to leverage people, how to get people to do what it is that you want them to do, finances, their own personal economic, and, of course, also just their professional persona, oftentimes come into play in terms of what motivates people and how you can best leverage that. The Russian intelligence services are very active in doing precisely that.

The Chairman. And how might they use financial entanglement beyond for the purpose of gather counterintelligence, but for the purpose of gathering compromise or seeking to influence foreign decisionmaking?

Mr. Hall. I would say both is the answer to that.

The first is the easy part for them. Collecting compromising information, Kompromat, as we all know now the word in Russian, is what not only the FSB, the internal service, the SVR, the external service, the GRU, the entire security structure in Russia has been doing that for decades, if not arguably centuries. So this is something that they are set up to do.

Whenever anybody comes to Russia, goes to Russia, that type of collection will be initiated against targets of interest. And what is gathered from those operations, from those collection operations, is either stored for later use, or it can be simply used immediately. And the same holds true for financial information.

I am not sure if I got the second part of what your question was.

The Chairman. Well, let me ask you this. Do the Russians engage through their oligarchs, does the Kremlin engage through their oligarchs in illicit financial transactions with an eye to the fact that it may be useful in the future to hold those illicit transactions as compromise over the targets of those transactions?

Mr. Hall. Sure. That would certainly be consistent with some of the things that the Russian intelligence services have done in the past.

Again, the goal is to collect compromising information that can, indeed, be used for any number of different activities against a given target down the road.

So whether it is financial information, business information, or some things just -- different things motivate different human beings. They will collect on all of those things in an effort to leverage those things, to get people to do what they want them to do.

The Chairman. And can that financial entanglement take the form of money laundering?

Mr. Hall. Yes, absolutely. The Russians have a long history of money laundering, not just for the purposes of, you know, avoiding sanctions and that sort of thing, but in basic intelligence operations when they want their operations to be funded in a certain way that is not easily discoverable.

You know, there may be some folks in the Caribbean islands someplace who money launder better than the Russians do, but the Russians are right up there.

The Chairman. Ambassador Mr. McFaul, in your written testimony you talk about or make reference to the effort to build a Trump Tower in Moscow. Viewing this from the Russian perspective, let me ask you a couple things.

If a Presidential candidate sought make a major real estate deal in Moscow during the campaign, is that something that would have come to the attention of Vladimir Putin?

Mr. McFaul. I don't know. I want to be clear. I think we should know the facts of that.

Let me speak generally, that over the course of time in Russian, to do big business deals requires permission from the Kremlin. Anders Aslund, one of my colleagues at the Atlantic Council, has just written a fantastic book, if I can recommend it to you all, coming out in May, and he estimates that any deal over a billion dollars has to get direct approval from the Kremlin.

And remember, just to build on some things that Steve said, Putin is using that not just as a way to enrich his friends and redistribute property to enrich his friends, but he is also doing that to make those people loyal, and here I mean domestic and foreign.

If you want to do a major multi-billion-dollar transaction in Russia, you need to coordinate and be loyal to President Putin. That is a very different -- I just want to echo another thing Steve said. You don't have to do that in the United States of America, right? Thankfully, we don't have that. But in that system, with the state being at the center of everything, you have to have at a minimum that kind of coordination with the Kremlin.

The Chairman. You know, there are public reports that The Trump Organization sought to enlist the help of Dmitri Peskov.

Mr. McFaul. Yes.

The Chairman. Can you tell us who Dmitri Peskov is, how close is he to Putin,

and how would Mr. Peskov view that kind of overture or request for assistance coming from the business of a Presidential candidate?

Mr. McFaul. So I know Dmitri Peskov. I haven't seen him for 5 years, because I am on the Russian sanctions list, so I haven't been there recently. But when I was Ambassador, I used to deal with him closely.

He is not just the press secretary for the President, as is commonly reported. He is a very close adviser to President Putin, has aspirations for other bigger jobs, by the way.

To be honest, I think it is rather naive for somebody to try to call Peskov to do a business deal, but I think that reflects a common perception that you have to deal with the Kremlin. I think there are more sophisticated ways that you would do that. But most certainly he has the public image of being very close to Putin. And if you were looking for a way to get to Putin, most certainly you would try to reach out to Mr. Peskov.

The Chairman. And what about the necessity of obtaining financing from one of the major Russian banks? Can you tell us about the relationship between those banks and the Kremlin and how the Kremlin uses those as an instrument of state policy?

Mr. McFaul. Well, all the three major banks, and even the fourth and fifth bank, but the three big ones, Sberbank, VEB, and VTB, are all owned by the government. Remember that always.

I think there is variation in the way that those banks operate in the world. I think Sberbank operates a little bit more like a normal bank. They have deposits, and they seek, you know, business opportunities.

VEB is different. I think that is the one you are referring to. VEB is not really a bank. It is completely controlled by the Kremlin. It is referred to in the press in Russia as Putin's bank. The former head of it, I think you mentioned him in your opening remarks, Sergey Gorkov, was also an intelligence officer.

The new head of it is Igor Shuvalov, somebody I used to work very closely with. He used to be the Deputy Prime Minister really in charge of the government in terms of economic policy. And it is completely controlled and acts on the behalf of the Kremlin.

The Chairman. Ms. Conley, one of the running themes through the last couple years has been an effort by the Russians to do away with sanctions on Russia over its interference in our election, over its invasion of Crimea. Can you talk about the centrality of efforts to do away with sanctions which we have seen so recurrently in our investigation? Why is that such a top priority for the Kremlin?

Ms. Conley. Mr. Chairman, it is important because Vladimir Putin has to manage a very challenging long-term decline of the Russian economy. He needs those sanctions to be lifted, particularly in the financial space, to allow needed funds to come into the Russian economy. So this is -- in some ways, it is always about regime survival, but the economic needs are very important.

Because the sanctions have been tailored to many members of his inner circle, that also increases pressure on that as well. We had anticipated that the European Union might -- individual members might challenge the longstanding EU sanctions. They have not, which is very positive.

But in our research, what we found is that we can't be comforted even by our own sanctions regime. While it has been very helpful, what we are seeing is partners of shifting changes. Now it is about incorporating through subsidiaries new monetary flows that are going through, a lot of sanctions that have been grandfathered. So we are actually not seeing, I think, as much power of those sanctions.

This is the thing that we have to understand: Russia's tactics are always evolving and adapting. What we are fighting against 2 years ago in the sanctions pattern may have already shifted into other arenas, other areas, and that is why it is a constant

moving target. It is a whack-a-mole. We have to be very forward leaning. So even though we have a robust sanctions regime, I don't think we can think about that as being very sufficient.

And then finally, there is a lot of concern about the Magnitsky Act being very, very concerning to them, and the Europeans are now increasingly adopting that legislation, which is adding additional concerns.

So we see some progress, but we also see some loopholes that are now being used to great effect.

The Chairman. Mr. Nunes.

Mr. Nunes. Thank you, Mr. Chairman.

Ambassador McFaul, you are aware that lying to Congress is a crime and you are expected to tell the whole truth here, correct?

Mr. McFaul. Yes.

Mr. Nunes. I just want to ask a series of folks that you may or may not be familiar with, but I am interested to know whether or not you have communicated with these folks.

Ambassador Kislyak was the former Russian Ambassador to the U.S. Have you communicated with Ambassador Kislyak?

Mr. McFaul. Yes. When I worked at the White House, I met with him often.

Mr. Nunes. How about Igor Sechin, who is the CEO of Rosneft?

Mr. McFaul. Yes. I first met Igor Sechin in the spring of 1991 when he was a deputy for Vladimir Putin. I didn't have a lot of contact with him until I became the U.S. Ambassador, but I met him probably two or three times as the U.S. Ambassador.

Mr. Nunes. Bill Browder.

Mr. McFaul. Yes, I know Bill Browder. I have met with him many times.

Mr. Nunes. What about Natalia Veselnitskaya?

Mr. McFaul. No, I never met Natalia Veselnitskaya, although I testified in June 2016, and she was sitting right there behind me. I had my computer up like this, and it looks like she was recording things I was doing. But I have never met her before personally.

Mr. Nunes. All right. We will count that as a no.

Glenn Simpson from Fusion GPS.

Mr. McFaul. I don't believe I have ever met him, no.

Mr. Nunes. All right. Anybody associated with Fusion GPS?

Mr. McFaul. You would have to tell me who is affiliated with them.

Mr. Nunes. Nellie Ohr?

Mr. McFaul. No.

Mr. Nunes. What about Bruce Ohr?

Mr. McFaul. No.

Mr. Nunes. Jonathan Winer, State Department.

Mr. McFaul. I know of Jonathan Winer because we were on the list together of the people that Putin wanted to arrest that they announced after Helsinki, but I don't think I have met him, sir.

Mr. Nunes. Christopher Steele?

Mr. McFaul. No.

Mr. Nunes. Benjamin Wittes?

Mr. McFaul. I know him, yes.

Mr. Nunes. What about Michael Isikoff?

Mr. McFaul. I know him. I don't -- I mean, I have met him a few times. We are not colleagues.

Mr. Nunes. Okay.

I am going to ask you, your name pops up in a lot of articles in 2016. Matter of fact, you are one of the first folks to talk about Carter Page.

There is a June 17, 2016, Washington Post article written by Tom Hamburger where you and David Kramer are sourced in that article. Are you familiar with that article?

Mr. McFaul. Sir, not off the top of my head, but I know that reporter, yes, and I know David Kramer. He used to work for the Bush administration, yeah.

Mr. Nunes. How did you know that Carter Page was going to be in Moscow in July of 2016 speaking at a conference?

Mr. McFaul. I read about it in the Russian press, sir. He spoke at the New Economic School. He was the speaker at their graduation ceremony.

Mr. Nunes. And you were live tweeting during that conference. You had several tweets at that time about that conference. Were you watching it live?

Mr. McFaul. I don't remember, sir, but whatever I said on Twitter would know what I said.

I did remember at the time I found it ironic and somewhat strange that they would choose Carter Page to be their commencement address speaker. The last American to have that honor was Barack Obama in July 2009. And I probably commented, because I most certainly believe it to this day, that it was very odd to me that this rather obscure businessperson would be given such an honor.

Mr. Nunes. There is another article I want to draw your attention to. It is rather famous, but it was written by Michael Isikoff from Yahoo News on September 23, 2016, and it was used to get a FISA warrant on Carter Page. Are you familiar with that article?

Mr. McFaul. Not off the top of my head, sir.

Mr. Nunes. Do you have any idea who the source for -- former U.S. Government official, who the source would be --

Mr. McFaul. No, not at all.

Mr. Nunes. -- that gave information on Carter Page to Michael Isikoff?

Mr. McFaul. I do not, sir.

Mr. Nunes. Were you ever briefed on or given reports from Fusion GPS?

Mr. McFaul. No, I just read about it in the press.

Mr. Nunes. So the first time you ever saw the dossier was when?

Mr. McFaul. When it was published by BuzzFeed, is that right? As I recall, that is when I saw it.

Mr. Nunes. So you never saw the dossier before that?

Mr. McFaul. No.

Mr. Nunes. All right.

Yield back, Mr. Chairman.

The Chairman. Thank you, Mr. Nunes.

Ms. Sewell.

Ms. Sewell. Thank you, Mr. Chairman.

And thanks to all the witnesses today.

So often former military and intelligence officers are often part of the business elite, become part of the business elite.

And I guess my question to you, Ambassador McFaul, is how common is it to find former Russian intelligence officers serving as senior executives in Russian banks or in Russian companies abroad?

Mr. McFaul. It has only become common under Vladimir Putin. So that was

not the case during the earlier years, during the Yeltsin years, or even the Soviet times. But over the last 20 years you have seen a very systematic replacement of CEOs of the top Russian Government enterprises, owned by the government, replaced with FSB officials and other military officials. And pretty much I could go through the list. I brought the list if you are interested, but the vast majority of them, not all of them.

So I mentioned Sberbank earlier. That is the largest Russian bank. That is run by a guy named Herman Gref, to the best of my knowledge, but Steve may know things I don't know. He is not a member of the Russian military intelligence. Shuvalov, who now runs VEB is not, but, you know, the other big, large corporations, many of them are former intelligence officers.

And I also want to underscore that is a bit of a paradoxical statement to say former intelligence officers, because once in the KGB, they are always loyal to the KGB.

Ms. Sewell. Are counterintelligence or current intelligence efforts to track Russian business financial or economic influence efforts in North America and in Europe adequate? Are our efforts, our counterintelligence efforts to track sort of these Russian business alliances, efficient?

Mr. McFaul. So I have been out of the government for 5 years, so I don't know what is happening on the classified side. You might know better than I.

I do want to say as an academic who follows these things closely, I think it is grossly understudied. This is hard stuff to study, by the way. You have some of the best people in the world that do it.

But we don't have good information on that. We are not tracing it. The ability to set up companies anonymously here and to buy property and to use law firms to transfer money, all of those things prevent researchers from doing that kind of work. And I would strongly encourage this committee to use the facilities and resources you

have to do more of that work.

Because one other thing I want to say: Not all Russian business abroad is illegal or run by Putin. A lot of it is it, but not all of it is. And I think we make a mistake if we just -- all the capital flight that Heather mentioned, a lot of that is money running away from Putin because they don't want it to be stolen from them.

And I think having a firm accounting of that and then how it is used, and how it is used as leverage, would be an excellent assignment that this committee should give somebody.

Ms. Sewell. So, Mr. Hall, are there certain red flags that are indicators of operations hidden by the Kremlin as business alliances? Are there red flags that you could talk about and not compromise sources and methods?

Mr. Hall. Yeah. I would imagine that there probably are forensically some things that can be determined when you are looking at money laundering, when you are looking at illicit activities, that type of thing. But being a former CIA guy, I mean, I want spies, because it is much easier to have somebody on the inside telling you here is what these guys are doing as opposed to trying to figure it out from the outside.

Both parts are obviously needed, and members of this committee are certainly better versed than I am in terms of what they are doing in collection on there, but it is definitely something that needs to be looked at.

Ms. Sewell. How hard is it to recruit within Moscow, within Russia?

Mr. Hall. It is a challenge for a number of reasons, and I hesitate because I am trying to figure what I should say and what I shouldn't say in that regard.

Let me just say that I think the Russia -- when I worked at CIA we had, and we probably still do, a group that we referred to as hard targets. This was Russian, China, Iran, the normal set of folks that you would probably expect. These are the hardest of

the hard. These are the folks that are really, really difficult to recruit and get information out of.

Ms. Sewell. What actors are probably the most vulnerable to intelligence operations, would you say?

Mr. Hall. In terms of recruitment operations?

Ms. Sewell. Yeah.

Mr. Hall. You know, it really -- I am not sure it breaks down in terms of blocks, because it is all about human beings and what motivates and what their vulnerabilities are. It just depends on the individuals.

Ms. Sewell. Thank you, Mr. Chairman.

The Chairman. Thank you, Ms. Sewell.

Mr. Conaway.

Mr. Conaway. Thank you, Mr. Chairman.

Before I get to my questions, Mr. Chairman, the letter I read in the record, I did so with a heavy heart and with that with thought and consideration. There is nothing more difficult that we do than trying to hold each other accountable. Our words, our actions have consequences. And so that is simply what we tried to do.

The litany -- well, let me say this. The emotional reaction you had is certainly expected. But let me be clear, a clear, convincing statement for the record. Nothing in our letter could be interpreted or remotely interpreted as causing you to be able to accuse us of thinking it is okay for that long litany of prepared remarks that you read into the record that you said you were not okay with, and then to imply with your -- the technique that you are very good at, that somehow we do. We don't.

Our letter has absolutely nothing to do with what President Trump, candidate Trump, campaigns, whatever they might have done. Our letter speaks to our concern

that the intelligence agency that we seek to oversee, the important role, in fact, unique role that this committee has in that role in Congress is compromised by your continued leadership.

And I don't say that lightly. You and I have had a good working professional relationship for over 2-1/2 years. And it doesn't please me in the least to say that.

With that, would one of the panelists speak to the Nord Stream II pipeline? Is it, in fact, a pure commercial enterprise? Or, in your judgment, will Putin at a point in time use that pipeline to further leverage his mischief in Germany and in Europe?

Ms. Conley. Sir, I am happy to take that question.

In fact, we offer some thoughts on the financing structure of Nord Stream II and how, again, how European banks are being used to fund Russian projects.

Mr. Conaway. Speaking of that, are those financing arrangements typically commercial based? Are the interest rates higher than you would expect in this market?

Ms. Conley. Sir, I would not have the details on that.

I think, again, for us, it is the transparency and the complexity of how these deals are structured that, in part, we need to have a better understanding.

No, in my view, Nord Stream II is not strictly a private energy deal, and this has been brought to the attention of the German Government. This increases Europe's dependency on Russian energy. We have to think of Nord Stream II in the same light as a pipeline called TurkStream, which is bringing Russian gas through Turkey to increase Europe's dependency.

And what we highlight in our report is that actually the energy sector, Russia uses that as such a powerful tool, not just for dependency, but it is the financing, that it buys a lot of the downstream energy of other countries. It is such a powerful tool. And it is very important that Congress continues to emphasize that Nord Stream II is not in

Europe's interest.

Mr. Conaway. Any question, to the four of you, that Putin would not use that leverage if he felt it to be at his advantage? Anybody believe he would be an honest broker across that?

In the time remaining --

Mr. McFaul. If I could just, just one footnote to what Heather already said. It increases dependence of our European allies. It also reduces the transit fees for Ukraine. So it is very deliberately aimed at weakening Ukraine.

Mr. Conaway. Thank you for that, I appreciate that, and I agree.

Can you speak to the Russian oligarchs' mischief in Armenia, and by extension, Putin, and the effect it is having on that nation's attempt to regain its sovereignty and remove the Russian influence from it? Can anybody speak to that?

Ms. Conley. I am sorry to say I am not as familiar with Armenia.

Mr. Conaway. Armenia is a country in South Caucasus.

Ms. Conley. I am aware. I am just not aware of the Russian oligarch patterns in Armenia.

Mr. Conaway. I thought maybe my west Texas accent had screwed up the pronunciation of the name of the country.

Ms. Conley. You are perfectly clear, sir.

Mr. Conaway. Thank you for your testimony this morning. I concur that Russia -- that Putin -- we probably ought to just use Putin in lieu of the word Russia anyway because everything runs through him, these malign things that are going on.

Thank you for your clear-eyed testimony this morning about the threats he poses to democracies around the world and our national interests.

With that, Mr. Chairman, I yield back.

The Chairman. Thank you.

I yield to Mr. Carson.

Mr. Carson. Thank you, Chairman Schiff.

Mr. Hall, can you explain the relationship between the Russian organized crime apparatus and the oligarchs? And how do they even coexist?

Mr. Hall. As I said in my statement, this is a question I get often, and my first response when I am asked about Russian organized crime is always to remind people to the extent possible to take off those Western lenses.

When we think of organized crime in the United States, we think of the mafia, we think of Al Capone, all that sort of thing. I believe that in Russia those distinctions are either much less clear or practically nonexistent.

When you have little rule of law in a country like you do in Russia, it is extremely weak and I would argue in some places nonexistent, so then it is very difficult then to determine who is an organized criminal and who is not.

When you have Vladimir Putin, the head of the country, essentially approving murders outside of his own country, how is that not -- how does that not make him an organized criminal?

So that said, we have in the West and intelligence services have gone to some extent to try to map those out, who are the different key mob bosses, if you will. Again, for me, it is a little bit of an artificial construct because it is all sort of organized crime. The oligarchs play a key part of that.

The way I look at this is, I think, the simplest way to look is, again, like any of the guys, whether it is Kasperskiy or any of the others, if you get a call from the Kremlin or if you get a call from any of Putin's guy saying, "Hey, I need this from you," whether or not it is building a stadium in Sochi or whether it is organizing some sort of business deal

outside of Russia or something inside of Russia, an appropriate is not, "Yeah, I appreciate that, but no."

The appropriate answer if you want to keep your -- well, your life in most cases -- is, "Yes, sir, how many bags, and three bags full, and here it comes."

It is a little more complicated, it is a little more subtle, but I think in terms of discussing the relationships, that kind of encompasses how things work a lot in Russia.

Mr. Carson. So in addition to that, and in wrapping up, given the sprawl of Russian intelligence, are oligarchs or their businesses used oftentimes as cover or vectors for influence for intelligence operations?

Mr. Hall. Again, yes. I mean, that is certainly -- and the reason I say yes is not because I have the top five in my mind.

Mr. Carson. Of course.

Mr. Hall. But, again, if the FSB, who answers directly to Vladimir Putin and the others, calls you up and says, "Hey, you have got this business located in XYZ location, I need you to do the following things for me," it gets done. It is a unity of government approach that we probably all would love -- well, I guess we wouldn't love to have it here in the United States. But it is certainly something they can do.

Mr. Carson. Are any oligarchs even bold enough to challenge Putin philosophically?

Mr. Hall. That is a tough one. That is to ask what goes on those meetings in the Dacha outside of Moscow when they all get together over the weekends.

And I argue that even if you were a fly on the wall, if you had some sort of way to monitor what goes on in those meetings, I am still not sure that we would understand, because Vladimir Putin, being a former operative himself, I think is playing his oligarchs and his power people against each other to see what their reactions are going to be and

what his best way forward is.

I think it is all very complicated stuff, and Mike is probably --

Mr. Carson. I should have asked the Ambassador that question.

Mr. McFaul. So thinking off the top of my head of oligarchs, they like to be called businesspeople, but let's call them oligarchs for now. No, I can't think of somebody that would stand up and confront Vladimir Putin today.

Mr. Carson. Not even a childhood friend?

Mr. McFaul. Well, the childhood friends are a little bit different. You know, there is a crony group.

There are different categories, right? So there is the people he put in place of the state-owned enterprises. We talked about them. Then there are the oligarchs from the 1990s, and let's point out that that is a different group than his friends and cronies that now run these companies and some who have become billionaires only because of their relationship with Putin.

Some of those people did challenge him. One was mentioned by Steve Hall earlier. His name is Mikhail Khordorkovsky, and he was arrested in 2003 and spent 10 years in jail as a result of challenging him politically. And once that happened, that, as you can imagine, that had a chilling effect on other oligarchs standing up to him.

Of his circle, I think there are two people that are not oligarchs, but people I used to deal with and others have reported that do challenge his assumptions. One is Herman Gref, who I mentioned, the head of Sberbank. He has the kind of personal relationship with Mr. Putin that he can do that. He was one of the original reformers back in the early 2000s.

Mr. Carson. Did he serve in the KGB with Vladimir Putin?

Mr. McFaul. To the best of my knowledge, I want to underscore I don't know

everything, but to the best of my knowledge, no.

And the other one is Alexei Kudrin, his former Finance Minister, who now works in a different place.

Those are the only two individuals I know that have stood up to Putin in discussions of policy, not respect to property rights but in discussions of economic policy.

Mr. Carson. Thank you both.

I yield back, Chairman.

The Chairman. Thank you, Mr. Carson.

Mr. Turner.

Mr. Turner. When Senator Joe McCarthy walked the halls of Congress, people in this Nation were transfixed. But they were also appalled. And this body then recognized the danger of unethical abuse of congressional powers.

Now, the testimony from Steve Hall today says that he has -- Vladimir Putin identified as his primary goal is the weakening of democracy in the United States and the West.

Mr. Chairman, I am asking for your resignation today because I believe you are advancing Putin's work. I believe the chair has abused his power, his power in these processes, and he is misrepresenting the information that we have received in classified sessions.

Now, Mr. Chairman, when this body understood that McCarthyism was something to be rejected, it for years watched it. But you are using that playbook. In McCarthyism, we had Russia chasing after Russian Communists, and now we have Schiff chasing after Russian collusion and those who would collude.

Mr. Chairman, in your opening statements you attacked in true McCarthy fashion each and every one of us. You stated that -- you stated what we think. You can't stay

what we think. It is the lowest form of any argument to attack someone.

Now, what we have said is we have come forward and said that we all think that your leadership of this committee is compromised, in part because you behave as if your fellow members of this committee are your enemy. You behave as if the President is also similarly your enemy. And in true McCarthy fashion, you act as though you are the only one who is capable of protecting this Nation and everyone else is a co-conspirator who have suspected intentions.

Your response could have been that you are here to protect national security, that you are here to ensure this committee has no leaks, that you are here to ensure that this committee works together, and that you want to have a true bipartisan work to support the international intelligence efforts of our country. Instead, you have shown contempt for your fellow Members of Congress. For 2 years, your opening statements have repeatedly attacked the members of this committee, their motives, and their work.

You have transformed the staff of this committee so that they are prosecutorial instead of working on issues of national security and intelligence. You have misrepresented to the American people information that we received in classified sessions. And you have had this committee diverge from its goals.

That is a danger to our national security. Is a distraction. It causes this committee not to function.

When this Congress took a look back at itself and what had happened with Senator Joe McCarthy, it made a commitment that Congress would no longer be abusive in its powers, that it would look to protecting its national security.

Mr. Chairman, your reactions today were in true McCarthyism as you chose to attack us instead of state your commitment to national security.

Ms. Conley, did Joe McCarthy advance Russia's communistic goals of separating

our country? Did McCarthyism advance democracy or did it hinder democracy? Did McCarthyism shackle us with a burden of divisiveness rather than cohesiveness in trying to move forward as we look to our adversaries?

Ms. Conley. Congressman, I am not the best-placed witness to answer your question.

Mr. Turner. Ambassador McFaul?

Mr. McFaul. I am also not an expert on McCarthyism. I am an expert on --

Mr. Turner. I just want your personal opinion.

Mr. McFaul. I do think polarization in our society advances Putin's national interests.

Mr. Turner. Ambassador, I greatly appreciate you answering that question.

Now my question goes to Montenegro.

Ms. Conley, you know I have worked on NATO and NATO issues, and I am very proud of the fact that our Nation supported Montenegro joining. And I think that certainly sets aside some of the advancement of Russia and Russia's interests. When I was in Montenegro they had billboards up chastising the dangers of NATO and trying to affect that electorate.

Could you please tell us the effect of our work with NATO in Montenegro and how it sets aside Russia's advance?

Ms. Conley. Congressman, thank you.

Russian influence in Montenegro is substantial. In fact, it is one of the case study countries we note, the economic influence, particularly concentrated on real estate and tourism. And you are absolutely seeing some of the byproducts of where that great investment is. They can finance billboards and political parties to work against the Euro-Atlantic drive of these countries.

I can't begin to tell you how vital it is for NATO to continue to give these countries hope and support alongside of our European allies that there is a different way.

But what I would highlight for you are two things.

One of the greatest weapons within Montenegro for Russian influence is the Serbian Orthodox Church. This continues to play an outsized role in shaping Montenegrins' views of themselves and where their future lies.

Secondly, I would argue the lesson that I learned, and I was Deputy Assistant Secretary at the State Department when we enlarged NATO in 2004 for our Central and European allies, and we made a fatal mistake. We believe our work is finished when these countries enter NATO or the European Union. It is absolutely the opposite. The work begins.

We have to redouble our efforts to make sure that Montenegro remains secure in the Euro-Atlantic community. The fact that Russian GRU members hatched a coup attempt in October of 2016 to prevent Montenegro from joining NATO tells you the steps that the Kremlin will take to stop the forward march of these countries joining the West.

So, sir, your leadership on that was very important. All of Congress' leadership is important as the Senate embraces ratifying an amended NATO treaty to welcome the Republic of North Macedonia, another dramatic attempt that Russia tried to prevent.

Thank you.

The Chairman. Mr. Quigley.

Mr. Quigley. Thank you, Mr. Chairman.

Interesting aspects of our chairman. I mean, any chairman who would conduct a midnight ride, prepare a memo which was called dangerously reckless, use sensitive law enforcement information without any evidence to support any of its conspiracy theories, who would tank an investigation, shut down an investigation, go along with a White

House gag order, attack the FBI and the Intel Community, inhibit their ability to complete their work, extraordinary.

Mike Morell said what the FBI -- what the Russians did was the political equivalent of 9/11. I fear that what the administration has done, and this former chairman, not the current chairman, has done, will have far greater and more profound impact on our country, on the ability of the Intelligence Community and the Justice Department to do its job.

So it is simple to say and talk about these things. But it was just last month, March, in which Chairman Nunes said he had uncovered evidence that the Intel Community, we would assume the FBI and NSA, had improperly monitored and unmasked Trump transition teams, and he rushed off to the White House to tell them all about this. It was just one of many string of activities to undermine what was attempted -- what we were attempting to do to find the truth.

So given that, we will go on to the questions at hand.

Mr. Hall, can you dive a little deeper in how the Kremlin and the GRU, among others, used the money laundering efforts to complete their intelligence activities?

Mr. Hall. I think the best way to look at it is that when the GRU, or really any of the Russian intelligence services, has a requirement for financing, whether it is an operational requirement for people to travel from point A to point B or whether they want to use or try to develop compromising information, business or financial or otherwise, they have the means to do that, not only internal to the GRU, but also because the order for doing something like that would probably come from more senior outside the GRU. Again, this is sort of like a mob type of situation that we are thinking about.

Resources inside of Russia that the GRU can access are essentially limitless. When the boss says we need financial information on this particular individual or that

Western businessman, then it gets done. And if the GRU is the one who is chosen to do it by the Kremlin, then off they go, and the resources are there. There is no oversight process there. There is no budgeting process. There is, but it is primarily paperwork.

So they really have all the resources that they need to go after whatever target the Kremlin decides they need to go after.

The Chairman. Mr. Quigley, there are only 2 minutes left on the vote.

Let's recess here, and we will return right after votes, and we will pick up with Mr. Quigley.

Thank you. We are in recess.

[Recess.]

RPTR FORADORI

EDTR HOFSTAD

[11:01 a.m.]

The Chairman. The committee will come to order.

Mr. Quigley, you are recognized.

Mr. Quigley. Thank you.

To our panel, where do the Russians launder money, and who are their dance partners?

Mr. Lorber. Sir, I will take that question.

The Russians launder money -- short answer -- all over, but certainly throughout Eastern and Western Europe, through major financial institutions and in major financial capitals, and potentially here in the United States as well.

Mr. Quigley. And, to your knowledge, do we have any idea where here in the United States and who they might be working with? Obviously, we are aware of Deutsche Bank being fined money for laundering money.

Mr. Lorber. So, not to my knowledge, where specifically. But that gets to sort of the primary issue, is that both the United States and in Europe, as one of my co-witnesses has made clear, there are limits to how much information we can obtain regarding beneficial ownership information, information about the true identity of individuals behind companies. And that obscures both our ability within law enforcement and intelligence but also private-sector financial institutions' efforts and ability to really dig deep and figure out who these individuals behind these companies are and where they are located.

Mr. Quigley. So they are laundering to escape sanctions, principally, and taxes, we assume?

Mr. Lorber. I think it is a whole range of financial crimes, to Mr. Hall's point from earlier. It is not just sanctions evasion. It is laundering for tax evasion. It is laundering for other types of illicit finance, for human trafficking, kind of across the board.

Mr. Quigley. Yes, sir.

Mr. McFaul. Just if I could add to that, Cyprus, of course, is one of the countries that Russia uses for money laundering, but the U.K. and the United States are probably close to the top of the list as well because of the things that my colleagues have talked about. I just wanted to underscore it.

You know, anonymous companies, we allow that here, and that is a vehicle for laundering money. Purchase of property can be done without transparency; that is another way. And then because of client-privilege relations, law firms are also one of the vehicles.

So, as a recommendation, I just want to underscore something Heather said earlier -- actually, Eric as well. Very concretely, if you want to fight what the oligarchs do abroad, more transparency is the right thing -- is a very important part of that.

The second thing I want to emphasize, however, is that not all of the money coming out of Russia is controlled by Putin. I think that is really important for people to understand. A lot of it is money that is afraid of Putin. They don't want their money to be stolen; they don't want their money to be confiscated by the Kremlin. So they are also part of the group that are moving their money from Russia to places in the West.

Mr. Quigley. Thank you.

My time has more than expired.

The Chairman. Thank you.

Dr. Wenstrup.

Dr. Wenstrup. Thank you. Thank you very much.

Thank you all for being here.

One thing I do want to say from the outset, as somebody who is in his first elected office -- not my first term, but my first elected office -- I am a doctor, I am a surgeon. It was not illegal for me to continue seeing patients and operating on them while I was a candidate. But things changed once I became a candidate, and there were different rules -- or became a Member of Congress, and there were different rules. I just want to say that for the record.

Ambassador McFaul, I appreciate you talking about the -- I call it the instruments of Putinism, if you will. I think that it is what we do need to address. And I want to talk about that in a minute.

But I also -- you know, we have had morality defined to us today. And, frankly, I consider entrapment to be immoral, especially if it is being done by Russians. I think it is immoral for a campaign or a party, to which many of our members here have donated, to pay a British agent and Russians -- let me point that out: Russians were involved with the dossier -- to create an unverified, salacious document against the opposing candidate. Okay?

Now, I doubt that Putin was unaware that Russians took part in that. That is well-documented. But I am surprised to see the legs that that took. Putin probably never imagined -- or maybe he did, maybe he did -- that the FBI, the DOJ, possibly the CIA would focus on the American candidate and their campaign rather than the Russian involvement with this entire thing, you know, to the point of surveillance of the campaign, running people into the campaign, and, in my opinion, to try and entrap innocent people from that campaign. We even saw an attempt at entrapment on the chairman by some comedians.

But with all of this, I am sure that Mr. Putin looks on with glee, as we now have a Nation so divided, polarized, as was said here today, it is beyond my belief. And they have gotten away with it.

I said in this committee 2 years ago as the fighting began -- which was not there in my first term on this committee, by the way, until Mr. Trump won -- as the fighting began, I said: The Russians are getting everything they want right now.

And we have not had discussions of FISA abuses this term. We have not had discussions on the unmasking processes that take place, all the risks which have raised serious concerns about what is taking place here. We also haven't had discussions on Russian involvement with the dossier.

And I don't know how we get back together as a Nation and how we become unpolarized, if we will, if we don't address the truth and have true justice and America know what actually took place.

So I am disappointed, as you might imagine, to see all this focus, and none on the Russians themselves, as they were involved with that entire process from the beginning as having helped to write that dossier.

And if Putin was for Trump, what has happened to the Russians that tried to take him down? You have been very eloquent about the power of this man.

So I would like to hear anybody who would like to comment on the Russian involvement with this whole process from the beginning as being involved with the dossier.

Mr. Hall. I mean, I could try to speak to that. You are referring to the Steele dossier. I am not aware of -- and, again, I have been out of service for a number of years now, but I am not aware of direct Russian involvement in the dossier. I don't rule it out. I am simply not aware of it.

Dr. Wenstrup. Well, that is how it has been reported, but we haven't seen anything coming from within ourselves to say yes or no.

Mr. Hall. That is --

Dr. Wenstrup. We are investigating it. Yet that is what has been reported. And let me tell you, we have gone down a lot of paths because of things that were reported that weren't necessarily true.

But shouldn't we be trying to look into that? Let me just have your opinion. If that is true, doesn't it disturb you?

Mr. Hall. I think it is absolutely important.

Dr. Wenstrup. Mr. McFaul, you are shaking your head "yes," so I would love to hear from you.

Mr. McFaul. Absolutely, sir. I have a lot of questions about what the Russians did in 2016 that haven't been answered. That is why I want to read Mr. Mueller's report. I used to work with him. He is a thorough guy. I look forward to reading that.

I think we, A, have to know what happened. We have to do the diagnostics properly.

And just let me say two things, because you asked for my opinion, so that is why I woke up, okay? I am not an expert on what happened, but two things I feel really strongly about.

National security is not a partisan issue. I worked for the National Security Council. I didn't work for the Democratic Security Council. And I took an oath of office to the United States of America when I became the U.S. Ambassador.

And when we don't -- there are other issues that are done in partisan ways, right? Tax policy benefits some and others, and we can debate about that. You all debate

about that. But when it comes to national security, if the Russians attack us, they are not going to just attack the Republicans and leave the Democrats to the side. They are not going to do that.

And I hope -- I am sorry to get emotional, but I want us to get back to the national security threats that threaten all of us together.

Dr. Wenstrup. Thank you. I appreciate that. I joined the military under a President I didn't vote for because I put that first. That was my Commander in Chief. I took an oath to defend the United States of America. I couldn't agree with you more, Mr. Ambassador. Thank you.

The Chairman. Mr. Swalwell.

Mr. Swalwell. Thank you, Chairman. And, Chairman, I support you holding this hearing and the work you have done to address the threats from the outside as well as from the inside.

And, first, I just want to ask, yes or no, is it the judgment of each witness that Russia intends to attack and interfere in our democracy again this upcoming 2020 election?

Ms. Conley?

Ms. Conley. They will not stop. They will continue.

Mr. Swalwell. Ambassador McFaul?

Mr. McFaul. I don't know. I know they have the capacity to do everything they did in 2016. And we, as a country, on multiple planes -- and I would be happy to walk through all of them if we have time -- have done next to nothing to protect ourselves. That doesn't mean that they will use that capacity. I think it will depend on the situation in 2020.

But will they look at the United States, will Putin look at the United States as his

principal enemy in the world and do things to reduce our capacity to do things in the world? The answer to that is yes.

Mr. Swalwell. Thank you.

Mr. Hall?

Mr. Hall. Yes, I believe they will.

Mr. Swalwell. And Mr. Lorber?

Mr. Lorber. I don't know, but if past is prologue, as evidenced in the 2016 and the 2018 elections, I have serious concerns that they will try.

Mr. Swalwell. Thank you.

Ms. Conley, what is the objective of sanctions against Russia?

Ms. Conley. The objective is to change Russia's behavior and its violations of international law, whether that is the illegal annexation of Crimea, the seizure of territory in eastern Ukraine. It is to punish them for the use of chemical weapons on NATO territory. It is to change behavior.

Unfortunately, we have not seen a change of behavior. If anything, we have seen a doubling down of aggressive behavior.

Mr. Swalwell. Ambassador McFaul, have the various sanctions affected the Russia economy over the years?

Mr. McFaul. Yes. There are different estimates. I go through different estimates in my written testimony. One estimate is 1.5 percent of GDP was lost in 2014. Another one by the World Bank puts it more at 2-1/2 percent. Bloomberg Economics put it at 6 percent since 2014.

And that is only aggregate, Congressman. Remember, on the individuals they also have an effect. Putin himself has said on the record that it violates the human rights of some of those individuals. These are his close, personal friends. So they

definitely are having an impact.

And I want to add two things, if I may, to what Heather already said. The goal for us, of course, is to change Putin's behavior. That is what sanctions are put in place for. But there is another thing I think that is important. Sometimes you just have to do the right thing even if you know you are not going to change that behavior.

So think of the counterfactual: Russian annexes territory in Crimea, and we do nothing? That will then create, I think, permissive conditions for him to do more. So remember that, even if you are not seeing change in behavior.

Also remember, Putin very rationally wants to lift sanctions. If I were the President of Russia, I would want to lift sanctions on my close friends and to reduce that burden on the Russian economy. There is nothing spectacular about that. But --

Mr. Swalwell. Are they worthy of having sanctions lifted?

Mr. McFaul. Am I worried?

Mr. Swalwell. Are they worthy?

Mr. McFaul. Oh, no. No.

But what I wanted to say is, rather than changing his behavior, he is waiting for governments to change. That is a very different strategy, right? In Europe and here in the United States, that is what he has been waiting for.

And, in my opinion, that would be a cataclysmic mistake, to lift sanctions just in the name of getting along with Putin. You can't do that until he has changed his behavior.

Mr. Swalwell. I have long thought -- or I first thought after the interference campaign that the reason that the Russians sought to help Donald Trump, as our Intelligence Community assessed, was that, transactionally, they wanted to get a benefit. They wanted to see the reduction of NATO's influence, a candidate who had talked about

doing that. They wanted a candidate who would reduce sanctions. They wanted a candidate that would look the other way on what they have done in Crimea.

But the more I have learned through many of you and others on Russia's intentions is that what they really sought to do was to tear down the idea of America, this idea that, no matter who you are, where you are from, what your parents did, who you love, that if you work hard enough, you can be anything. And if that is true in our young country, it could be true anywhere, including in Russia. And the best way to keep Russians from asking for that fair shot, that democracy, free markets, free ideas, a freedom to dream, is to destroy it at its origin, and that that was the bigger goal that they had.

Would you agree with that, Ambassador?

Mr. McFaul. I think both can be true.

So most certainly the second piece. And that is part of their focus, and that has been the focus of Putin well before the 2016 election. He is just using new means to get at what you described.

The second is also true. You don't need to believe me. Vladimir Putin said it at the Helsinki summit, at the press conference. He said, "I wanted Trump to win." And, by the way, that is very rational, if you are Putin, because of what candidate Trump said.

Now, I want to give the Trump administration credit that all those things that they thought they were going to get they didn't get. But the second category, I think they feel pretty good that they are receiving returns on their investment on the second category you described.

Mr. Swalwell. I only point that out because we have now learned about Russian investments in the NRA. And when you step back and think about it, they don't have gun rights in Russia, so it is not like they are advancing some principle they believe in at

home. But it is to really stoke a culture war -- again, tearing down the idea of America.

And I will yield back.

The Chairman. Mr. Stewart.

Mr. Stewart. Thank you, Mr. Chairman.

And to the witnesses, thank you all. I am familiar with not all of you, but several of you I am, and your long years of service. And I thank you for that service and for being here today.

And I do have a list of questions for you, which I will get to in a moment, but before I do, I feel like I have to address, at least briefly, you know, the elephant in the room and, as kind of man to man, explain to our chairman why I signed this letter today.

I consider myself a fairly soft-spoken person. I don't like conflict. I don't seek after conflict. But, again, I think that this deserves an explanation. And that is that the chairman of the Select Intelligence Committee is not just another politician. It is not just someone who is a member of the resistance and may disagree with this President. This individual is in a position of great responsibility and special trust. And that trust can be destroyed if accusations are made without evidence.

Last weekend, the Attorney General and Mr. Mueller released their report and a synopsis of those reports. And, now, some -- this is important to make. Some have said that he concluded there wasn't sufficient legal threshold was reached to prove conspiracy or collusion, but that is simply not true. He didn't say: We saw evidence, but it wasn't sufficient to reach a legal threshold to prosecute. He said: We saw no evidence of collusion. And he even added: despite multiple attempts by the Russians to make contact with the campaign.

The House Intelligence Committee found this. The Senate Intelligence Committee has indicated they have found no evidence of conclusion. Mr. Mueller found

evidence -- or no evidence of collusion. And yet, just a few days ago, Chairman, you said undoubtedly there was collusion.

And I think it is important to note that I would substitute "collusion" with "treason," because you are not accusing someone of getting a parking ticket or stealing a piece of bubble gum. You are accusing the President of treason, of working with a foreign government and not an ally, not an unknown government entity, a longtime known adversary, and you are saying he has committed high crimes, he is subverting our own lie, he is trying to steal an election, he is destroying the trust of the electoral process to break down faith in democracy.

And I don't think you can make that accusation and at the same time say: But we are not going to call for his impeachment. I don't think you can have it both ways. If you truly believe that, I don't know how you could not rise today and say: And he should be impeached, and I will lead efforts to impeach him. Because you can't say that he has committed treason and say: But we are okay with that -- to use your phrase, Mr. Chairman -- we are okay with that. We will allow him to stay in office. It has to be one or the other.

And that is why I signed this letter today.

Now, to the witnesses, I would like to ask you a series of questions, if I could, in the few minutes I have left. And just answer yes or no. I think they really are yes-or-no questions.

Do you think that the President's efforts to pressure NATO to comply with their long-held commitments of spending 2 percent of their GDP on military and on readiness -- I was a former Air Force pilot. I remember flying with NATO pilots. Loved those guys. They wanted to be in the fight. But they didn't have the capabilities that we needed them to have, because their politicians and policymakers had not committed

to spending the money that they said they would.

Do you think that pressuring NATO to fulfill that commitment is an important tool to countering Russia's influence in Europe?

Ms. Conley?

Ms. Conley. Congressman, pressing our European allies to spend more on defense has been the policy of the United States Government for well over 40 decades, and we must continue it.

But we cannot use this pressure to break the alliance. And what the President has done, has used an important tool to get them to spend more, and now created a real division in the alliance in the fact that many of our allies are not entirely sure America is faithful in its credibility in that alliance.

Mr. Stewart. Well, I--

Ms. Conley. So the objective is right. The tactics, however, are defeating the objective.

Mr. Stewart. I completely disagree with you. I don't think that it was the President's intention at all to weaken the alliance. We are simply asking them to do what they have committed to do. And they will either do that or they won't. If they won't, then they are not a true member of the alliance. And I think that is a fair thing for him to do.

Does anyone disagree that committing on pressuring NATO to increase their defense spending helps to counter Russian influence? None of you disagree with that, surely.

Let me give another couple examples in the few seconds. Kinetic weapons to Ukraine. The European Reassurance Initiative, something I think is incredibly important. Pressuring our European allies not to rely on Russia for their energy needs. In fact,

domestic energy policy that provides an increased world supply and drives down the price of global energy.

I think every one of those are important policy decisions which help to counter Russia's influence globally and in Europe. Do any of you disagree with that?

Okay. Thank you. And --

Mr. Hall. Could I address that?

Mr. Stewart. Yes. Well, my time is up. It is up to the chairman, if he will allow, but --

The Chairman. Yes, you may respond.

Mr. Hall. I think that everything that we have just talked about with regard to NATO and NATO members paying and so forth, interpreted in this room and in a Western context, is completely understandable and, as Heather indicated, has been policy.

The Russians don't see it that way. Vladimir Putin sees that as a split. He sees that as weakening the NATO alliance and weakening our Western --

Mr. Stewart. Well, then he is simply mistaken.

Mr. Hall. He may be, but --

Mr. Stewart. He can interpret it however he wants, but he is mistaken if that is how he views this.

Mr. Hall. He may be, but that is what I assess he believes.

Mr. Stewart. Yeah. Thank you.

The Chairman. Before I recognize Mr. Heck, I do want to comment on something you said, Mr. Stewart, because I think it fundamentally misconceives what the Mueller report is and, indeed, what the Barr summary is.

The Barr summary, which is all we have right now, doesn't say they found no evidence of collusion. That is simply not true. And that is repeated over and over

again, so people think that is true, but that is not what the Barr letter says.

What the Barr letter says is that Mueller could not establish a criminal conspiracy. That is something you would have to establish beyond a reasonable doubt. It doesn't mean there is not evidence. There is. And that is the fundamental difference here.

And as I have said, Mr. Stewart, time and time again -- and you can look in the public record, because I have said this as a mantra dozens of times over the last year -- that I think that these interactions with the Russians that I enumerated earlier are evidence of corruption -- they are evidence of collusion, rather, but that whether that amounts to proof beyond a reasonable doubt of a crime, the crime of conspiracy, I have always said, is a different question that Bob Mueller would have to decide.

And he has decided that question. And I respect it. And I said that I would respect his judgment.

But that is what I have said, and I think that the letter fundamentally misconceives that.

Mr. Heck.

Mr. Stewart. Well, would the chairman allow me to respond?

The Chairman. Yes.

Mr. Stewart. And I will do so just quickly.

We are going to have to agree to disagree on the verbiage. And I think you are making a distinction without a difference, in the sense that you have never, to my knowledge, added that caveat. You have said: I see evidence of collusion. You didn't add: that would reach a legal threshold. And we can find evidence of all sorts of things, but if it doesn't reach a legal threshold, then it is meaningless.

And, again, Mr. Chairman, we could have this conversation, but we will agree to disagree, and I will concede my time. Thank you.

Mr. Swalwell. Mr. Chairman, may I just briefly be recognized for a procedural point?

The Chairman. Mr. Swalwell.

Mr. Swalwell. Thank you, Mr. Chairman.

May I enter into the record a PolitiFact finding from PolitiFact that you indeed did, every time that you brought up the question of collusion, characterize it as a difference between a proof-beyond-a-reasonable-doubt finding by a prosecutor but that there was evidence?

And that is a March 25, 2019, PolitiFact story, "What Democrats Said About Trump, Collusion Before Mueller Report." I would like to enter that into the record.

The Chairman. And for clarification, would you share part of what it says?

Mr. Crawford. Mr. Chairman? Mr. Chairman? Point of order. Are we introducing PolitiFact information into this hearing?

The Chairman. Yes. Yes, Mr. Crawford, I am, without objection.

Mr. Crawford. I object to that.

The Chairman. Mr. Swalwell, you may be recognized.

Mr. Swalwell. Thank you.

The article says: "Republicans have been having a field day rubbing the Democrats' noses in the outcome of Special Counsel Robert Mueller's investigation. As the summary from the Attorney General William Barr quoted Mueller's report, 'the investigation did not establish that members of the Trump campaign conspired or coordinated with the Russian Government in its election interference activities.'"

It goes on to characterize your statements, Mr. Chairman. It says: "As the top Democrat and current chair of the House Permanent Select Committee on Intelligence, Adam Schiff has been a point man for the Democrats throughout the investigation."

And it quotes you as saying a number of times, including about a year after January 10, 2018, you said: "There is clear evidence of the issue of collusion, but whether it amounts to conspiracy beyond a reasonable doubt, I think we still have to wait for Bob Mueller's work."

"Schiff tweeted similar comments after Barr's letter was released March 24."

Schiff wrote: "Mueller did not find sufficient evidence to establish conspiracy, notwithstanding Russian offers to help Trump's campaign, their acceptance, and a litany of concealed interactions with Russia. I trust Mueller's prosecutorial judgment, but the country must see the evidence."

The Chairman. Thank you, Mr. Swalwell. And I would just mention, you could find literally dozens of times where I made the same observations over the last year and a half.

Mr. Heck, you are recognized.

Mr. Swalwell. And I would ask to put that into the record.

The Chairman. It will be made a part of the record.

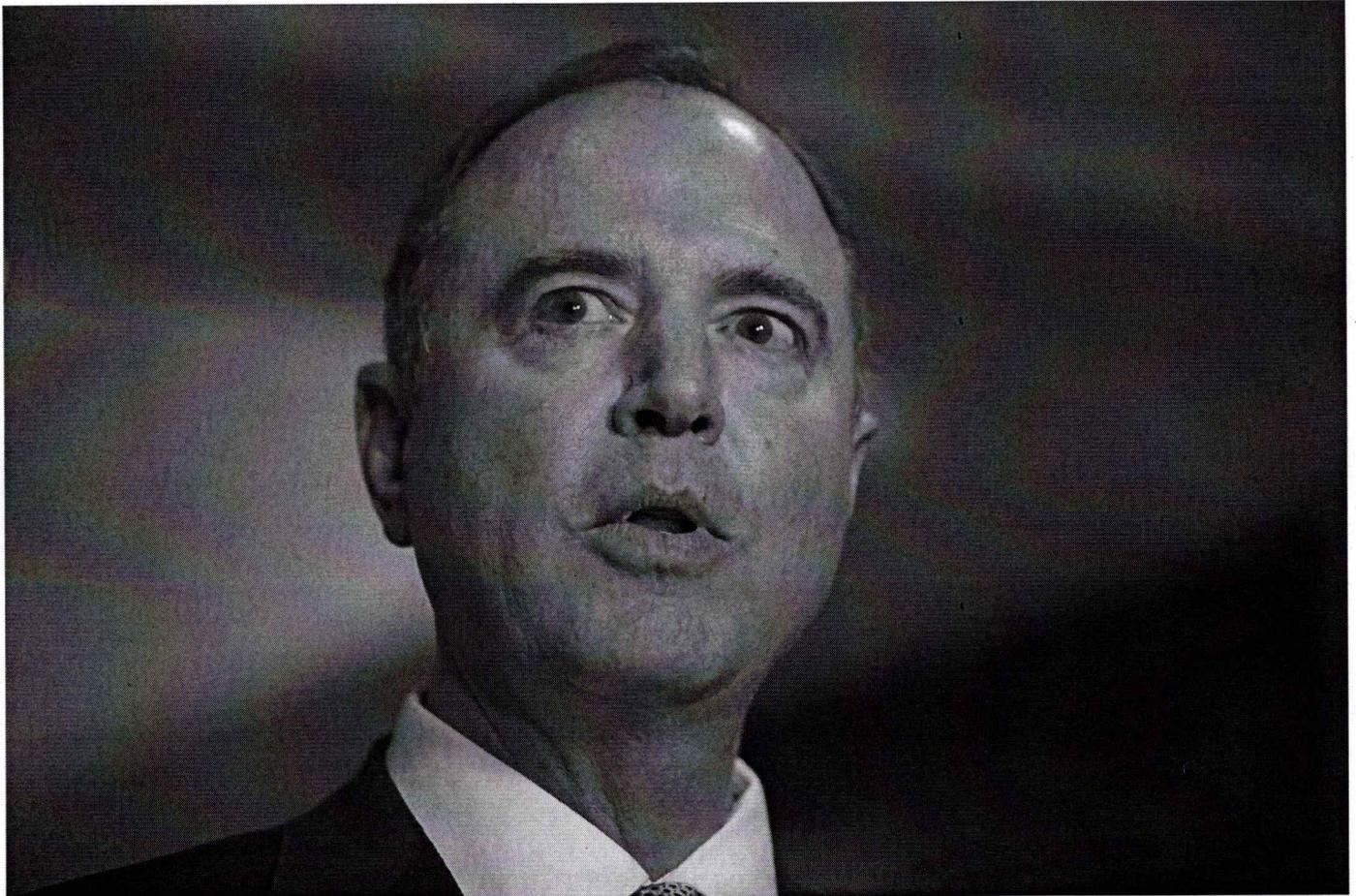
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What Democrats said about Trump, collusion before Mueller report

By Jon Greenberg on Monday, March 25th, 2019 at 6:34 p.m.



House Intelligence Committee Chairman Adam Schiff, D-Calif., speaks after hearing Michael Cohen, President Donald Trump's former lawyer, testify before a closed-door committee session March 6, 2019. (AP)

Republicans have been having a field day rubbing the Democrats' noses in the outcome of Special Counsel Robert Mueller's investigation. As the summary from Attorney General

William Barr quoted Mueller's report, "the investigation did not establish that members of the Trump Campaign conspired or coordinated with the Russian government in its election interference activities."

Donald Trump Jr. said it is "time to hold the conspiracy caucus in Congress accountable."

"These Democrat Truthers spent the last 2 years knowingly lying to the American people about collusion," Trump Jr. tweeted March 25. "They've disgraced their offices and should step down."

The video attached to Trump Jr.'s tweet video featured Democratic lawmakers, all saying in some fashion that there was collusion between the Trump campaign and the Russians.

The Trump campaign sent a memo to television producers, listing top Democratic lawmakers and others and sound bytes of their past statements on collusion. It challenged the producers to ask, "Does this person warrant further appearances in our programming, given the outrageous and unsupported claims made in the past?"

To be sure, we still know very little of what's in Mueller's report. We don't know what his team found and why he decided it fell short of a tacit or express agreement between the Trump campaign and the Russian government.

With that in mind, we wanted to review what Democrats said before Barr's memo came out.

They used the collusion word a lot.

The 2016 Trump Tower meeting where a Russian lawyer dangled the promise of damaging information on Hillary Clinton loomed large in the Democratic narrative. So did the contacts between campaign insiders and WikiLeaks.

The most common refrain was they believed President Donald Trump or others in the campaign colluded with the Russians. But they generally stopped short at predicting what Mueller would do.

For Republicans, that is a distinction without a difference. For the record, here are some key quotes, with added context from the interviews.

Adam Schiff

As the top Democrat and current chair of the House Permanent Select Committee on Intelligence, Rep. Adam Schiff, D-Calif., has been a point man for the Democrats throughout the investigation. In December 2017, he appeared on CNN's State of the Union.

"The Russians offered help, the campaign accepted help, the Russians gave help, and the president made full use of that help, and that is pretty damning, whether it is proof beyond a reasonable doubt of conspiracy or not," Schiff said. "Can you prove beyond a reasonable doubt, (that) will be Mueller's question to answer."

By that point (see our timeline), the public record included the Trump Tower meeting between campaign officials, including Trump, Jr., and a Russian lawyer, who offered damaging information on Hillary Clinton. Campaign adviser George Papadopoulos had pleaded guilty to lying to the FBI, as had national security adviser Michael Flynn.

The intelligence community broadly agreed that Russia had interfered with the 2016 election.

About a year later, Schiff said, "there's clear evidence on the issue of collusion," in a CNN interview on January 10, 2019. "But whether it amounts to conspiracy beyond a reasonable doubt, I think, we still have to wait for Bob Mueller's work."

Schiff tweeted similar comments after Barr's letter was released March 24.

"Mueller did not find sufficient evidence to establish conspiracy, notwithstanding Russian offers to help Trump's campaign, their acceptance, and a litany of concealed interactions with Russia," Schiff wrote. "I trust Mueller's prosecutorial judgement, but the country must see the evidence."

Richard Blumenthal

"The evidence is pretty clear that there was collusion between the Trump campaign and the Russians," Sen. Richard Blumenthal told MSNBC host Chris Hayes Nov. 17, 2018.

Hayes asked if it really was that clear.

"The evidence is there, whether they have enough of it to bring criminal charges is another issue in town," Blumenthal said.

A few days before Mueller delivered his report, the Connecticut Democratic senator delivered an ominous prediction.

"There are indictments in this president's future," Blumenthal said March 21 on MSNBC. "They're coming. Whether they're after his presidency or during it."

Blumenthal was talking about "the credible case of obstruction of justice that is right now against President Trump, about other crimes that clearly there's evidence he's committed." That covers a lot of legal ground, so it's not entirely clear what crimes he expected Trump to face indictment for.

On obstruction of justice, according to Barr, Mueller said the evidence failed to exonerate Trump. Barr's decision not to pursue that charge left Blumenthal's forecast high and dry.

Other issues related to banking and tax filings and campaign contributions remain open, so Blumenthal has yet to be proved wrong on that front.

Jerry Nadler

CNN interviewed Rep. Jerry Nadler, D-N.Y., House Judiciary Committee chairman, on Nov. 30, 2018. Nadler said he definitely saw collusion.

"The fact that Manafort and Trump Jr. met with Russian agents who told them they wanted to give them dirt on Hillary as part of the Russian government's attempt to help them, and that they said fine," Nadler said. "I mean, it's clear that the campaign colluded, and there's a lot of evidence of that. The question is, was the president involved?"

Nadler told ABC News March 3 that impeachment "is a long way down the road. We don't have the facts, yet."

"There can be crimes that are impeachable offenses and impeachable offenses that are not crimes," Nadler added. "We have to focus much more broadly on abuses of power."

Ron Wyden

"When you look at Donald Trump Jr., and what is on the record, there was clearly an intent to collude," Sen. Ron Wyden, D-Ore., said Dec. 14, 2017.

Wyden's focus was more on Russian money and the Trump Organization — a follow-the-money approach.

"Their portfolio consisted of a lot of Russian money," Wyden said. "Then the president didn't disclose his taxes... There's a lot to do here."

Wyden called the Barr memo "little more than a public relations strategy."

"The Barr letter doesn't square with what is publicly known about Mueller's investigation," Wyden wrote. "The indictments and other documents Mueller released revealed all kinds of links between the Trump campaign and family and the Russians. You would think from the Barr summary that they had nothing to do with each other."

Tom Perez

"Over the course of the last year we have seen, I think, a mountain of evidence of collusion between the campaign and the Russians to basically affect our democracy," Democratic National Committee Chairman Tom Perez said after the DNC filed a civil suit against the Trump campaign, the Russian government and Wikileaks in April 2018.

Ted Lieu

Rep. Ted Lieu, D-Calif., said it all in a one-word tweet.

"Collusion!" he wrote Dec. 27, 2018.

"If you look at the indictment that was handed down on Roger Stone, it very clearly says that a senior Trump campaign official was directed by someone even higher to go seek dirt on Hillary Clinton from Wikileaks, which is a front for the Russians," Lieu told CNN Feb. 12, 2019. "That looks like collusion to me. In addition, you have Paul Manafort, Trump's former campaign chair, handing over internal polling data to a Russian operative, so I think the investigations need to continue before any judgements are made."

Eric Swalwell

"There's circumstantial evidence that (Trump) colluded," Rep. Eric Swalwell, D-Calif., said March 19. "He knew they were doing this. His family was meeting with them. Offers being made. It was being passed to him. He would publicly go out and encourage them to do it."

Maxine Waters

One of the strongest voices for impeachment has been that of Rep. Maxine Waters, D-Calif.

At a town hall meeting of the Black Congressional Caucus Foundation in Washington, Waters urged activists to press for impeachment.

"Here you have a president who I can tell you, I guarantee you, is in collusion with the Russians to undermine our democracy," Waters said Sept. 21, 2017. "Here you have a president who has obstructed justice and here you have a president that lies every day."

The March 16, 2017, tweet pinned to the top of her profile shows "Trump's Kremlin Klan," with Russian President Vladimir Putin and Trump prominently featured, surrounded by the faces of Trump's son-in-law Jared Kushner, Michael Flynn, Julian Assange of WikiLeaks, former Russian Ambassador to America, Sergey Kislyak, and many others.



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The Chairman. Mr. Heck.

Mr. Heck. Thank you, Mr. Chairman.

I would like to be added to the list of those who also want to actually see Director Mueller's work product.

I have, consistent with what the chair has asserted over the last year and a half, placed a great deal of confidence in him, and there is nothing about that confidence that has been changed or amended in any way by the developments of the last week.

I am more than bothered by the fact that there seems to be a subtle but nonetheless real campaign to foot-drag on the release of this material.

My mother always taught me, consider the source. And so, when it does come to the 4-page letter from the appointed Attorney General who last summer submitted a 19-page, single-spaced, unsolicited argument that there was no basis for proceeding with an obstruction-of-justice angle, for example, I do want to read the Mueller report.

And I want to consider, as well, that which we seem to forget, because this is an evolving set of periodic amnesia, it seems to me. The original assertion for quite some time by the administration was there was no interference whatsoever in the election. None.

And then when the weight of the unanimous opinion of the Intelligence Community came to full effect, then it was, well, yeah, there may have been interference, but they didn't really favor either candidate. And then that fell by the wayside. And then it was no collusion. And, of course, we are where we are on the definition of these terms.

Earlier today, there were repeated references to McCarthy hearings and Joseph McCarthy. I don't know, maybe it is because I sit next to my good friend from Vermont,

but I am reminded of the other Joseph, Joseph Welch, who famously said: At long last, have you left no sense of decency? Asked and answered.

Ms. Conley, so grateful to you for your reference earlier about the importance of Congress continuing to emphasize that Nord Stream 2 is not in Europe's best long-term interest. Thank you for getting that characterization on the record.

I would appreciate it, however, if you were comfortable associating some qualitative measure of that. We have a lot of risk that we have to assess that confront our NATO allies and confront us directly or indirectly. How serious of a threat to Europe's long-term interest and ours is the completion of Nord Stream 2, in your opinion?

Ms. Conley. Congressman, it is quite serious. But I would add, it is also equally as serious as a pipeline called TurkStream that will increase dependency of Southern Europe on Russian gas. We have to see this in the totality.

I believe we should do everything in our power to convince our European partners that this is not in their interest.

We are in a very fragile moment with our alliances. Alliances are America's greatest strength, and our adversaries know that. And that is why, in fact, Vladimir Putin is trying to break those alliances, because that is our strength. We have to work this very difficult issue but maintain alliance unity. And that has been very difficult to do for previous administrations as well as for this administration.

But it is very important that Europe breaks the dependency on Russian energy. There is EU law that provides for that, but they have to follow that law. We have to keep working very hard to prevent this from happening.

Mr. Heck. Do the Russians financially incentivize the Germans to play along? You or Ambassador McFaul.

Ms. Conley. Well, I would just say, what we are seeing, again, across Europe are

deep, deep economic relationships that have been there for decades. These are difficult relationships to break. These economic relationships have great political support and patronage across the political spectrum in these countries. It is very difficult --

Mr. Heck. Do the Russians financially incentivize the Germans?

Ms. Conley. Well, of course they do. This is part --

Mr. Heck. And individuals?

Ms. Conley. Well, banks, and there are very notable individuals, like former German Chancellor Gerhard Schroder, that is a part of this. And we see this repeating itself in other countries as well.

Mr. Heck. Have the sanctions on Gazprom had any effect in this regard?

Mr. Lorber. In terms of causing specific transactional pain to Gazprom, the answer is likely yes. I don't have the figures directly in front of me, but --

Mr. Heck. Sufficient to deter the completion of Nord Stream 2?

Mr. Lorber. At the current time, I don't think so, no.

Mr. Heck. I see I am out of time. Thank you, Mr. Chairman. I yield back.

The Chairman. Thank you, Mr. Heck.

Mr. Crawford.

Mr. Crawford. Mr. Chairman, before I am recognized, I have a parliamentary inquiry. I believe the gentleman from California asked unanimous consent to enter that into the record, and, by definition, that would require unanimity. I objected, and yet you ignored that objection.

The Chairman. Mr. Crawford, would you like to take a vote on entering a PolitiFact record into the record? We made no objection to the partisan letter from you and your colleagues being entered into the record.

Mr. Crawford. All right. Okay. Well, that is fine.

I have a list of quotes here I would like to submit for the record. I can read them all, or I can just submit it for the record, if you would like.

The Chairman. You are more than welcome to submit them for the record.

Mr. Crawford. I will submit those for the record.

[The information follows:]

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SCHIFF QUOTES

March 2019: "Ample Evidence of Collusion" "On the issue of collusion, the reality is that there has been ample evidence of collusion in plain sight, and it has been for a very long time." ([C-SPAN](#))

March 2019: "A Growing Body Of Evidence Of Obstruction Of Justice." "I think what we saw today, both in the developments in the Cohen side of things and these new e-mails that were publicly disclosed, but as well the conversation that Chairman [Jerrold] Nadler had, with Matt Whitaker. A growing body of evidence of obstruction of justice. I think that's really the significance of what's come out today." ([MSNBC](#))

February 2019: There Is "Compelling" Evidence "In Plain Sight" Of Trump-Russia Collusion. "Look, you can see evidence in plain sight on the issue of collusion, pretty compelling evidence. Now, there's a difference between seeing evidence of collusion and being able to prove a criminal conspiracy beyond a reasonable doubt." ([CNN](#))

February 2019: "Ample Evidence Of Collusion" "There is ample evidence of collusion of the campaign, and it's very much in the public record, and it's everything from what we have seen recently about Paul Manafort meeting with someone linked to Russian intelligence and sharing polling data, and not top-line data, not this is why we think Trump is going to win data, but raw data, complicated data. We have seen evidence of Roger Stone in communication with Wikileaks." ([ABC](#))

November 2018: "Media Has Done An Excellent Job Of Making Sure The Truth Comes Out." "We are certainly going to move heaven and earth to make sure the truth comes out," he said Tuesday. "And, you know, for your part in the media, the media has also done an excellent job of making sure that the truth comes out. The reality is he needs to know that he is not going to be able to conceal any conduct that interferes with this investigation. And if he acts in any way unethically, that it will be exposed. And exposure is powerful." ([MSNBC](#))

*****January 2019: "[Mueller's Office Disputes Buzzfeed Story About Trump Directing Cohen's False Testimony](#)"**

September 2018: "Only Person Who Is Draining The Swamp Is Robert Mueller." "The concern I have right now is Donald Trump said he was going to drain the swamp and the only person who's draining the swamp is Robert Mueller. Donald Trump is trying to pardon the swamp. We have to make sure there is no further acts of obstruction of justice." ([NBC](#))

August 2018: "I Think There's Plenty Of Evidence Of Collusion Or Conspiracy In Plain Sight." "I think there's plenty of evidence of collusion or conspiracy in plain sight. Now, that's a different statement than saying that there's proof beyond a reasonable doubt of a criminal conspiracy. Bob Mueller will have to determine that." ([CBS](#))

March 2018: Dems' Report Will "Show The Facts Supporting The Issue Of Collusion" "STEPHANOPOULOS: I know you dispute that, but will a report by the Democrats be able to demonstrate that collusion did, in fact, take place? SCHIFF: Well, it certainly would be able to show the facts supporting the issue of collusion and the secret meetings all the lies about the secret meetings and

putting them in their important context, the timing of these secret meetings." ([ABC](#))

March 2018: "There Is Ample Evidence Of Collusion" "MCCAIN: Last March you said you have more than circumstantial evidence of treasonous collusion with Russia. What specifically were you referring to? And please be specific because if it's true I do believe Americans have the right to know a year later what that is. SCHIFF: I've certainly said that there is ample evidence of collusion. But I never used the word "treason," only Steve Bannon has used that word. But, if you look at the facts that are already in the public domain, they are pretty damning." ([ABC](#))

February 2018: "Evidence Is Already Ample And In The Public View" "Rep. Adam Schiff, the top Democrat on a House committee investigating Russia interference in the 2016 election, said Wednesday that there is "certainly a lot of evidence on the issue of collusion" with the Trump campaign...In terms of ethical violations and acting against the interest of the United States, that evidence is already ample and in the public view." ([BuzzFeed](#))

December 2017: "Doesn't Make Rational Sense" To Think Russia Didn't Collude With Trump. "To believe these are all isolated incidents and not connected to each other; it just doesn't make rational sense....We know the Russians offered help, the campaign accepted help, the Russians gave help, and the president made full use of the help and that is pretty damning whether it is proof beyond a reasonable doubt conspiracy or not." ([CNN](#))

May 2017: "There Is Evidence Of Collusion"; "Not Prepared To Make Conclusions About Strength Of Evidence" SCHIFF: I still maintain that there is evidence of collusion. I'm not prepared to make any conclusions about the strength of the evidence once we conclude our investigation. ROSE: But is it circumstantial evidence? SCHIFF: You know, in -- from my point of view, it is not purely circumstantial. I can't and I don't want to go into the specifics of the evidence that we have been presented." ([PBS](#))

April 2017: I "Believe" There Is Evidence Of Russian Collusion; "Premature" To Say There Will Be No Proof. "But I do think we need to get to the bottom of these allegations of collusion or coordination. I have to disagree with my colleague in terms of whether there is any evidence of collusion. I believe that there is." ([CNN](#))

March 2017: "Circumstantial Evidence Of Collusion, Direct Of Evidence Of Deception." "I would characterize it this way at the outset of the investigation: There is circumstantial evidence of collusion. There is direct evidence, I think, of deception and that's where we begin the investigation." ([NBC](#))

Mr. Crawford. And now I will claim my time. Thank you, Mr. Chairman.

Mr. Ambassador, 1990, the first McDonald's franchise was opened in Moscow. And you spent a lot of time there in Moscow as an Ambassador and --

Mr. McFaul. I ate at that McDonald's in 1990 many times.

Mr. Crawford. And there have been, I am sure, several opened since then in that area.

In 2007, Starbucks opened their first store. Starbucks is not a franchise; it is company-owned.

So I raise that point to just illustrate the difference between franchise and a company-owned store. So certainly there are some different considerations there, wouldn't you agree?

Mr. McFaul. I am not an expert on these companies, but that is true. And I would remind you that the McDonald's that opened in 1990, if my memory serves me right -- I want to be careful -- I think was a Canadian enterprise, not an American one.

Mr. Crawford. Okay. Have there been any American franchises opened up of other brands since that 1990 timeframe that you are aware of?

Mr. McFaul. Sir, because Congressman Nunes reminded me I am the record, I want to be careful. I do not know. I did not do that research before coming here. My guess would be, absolutely, yes, there are several hundred of --

Mr. Crawford. You know, the world has just gotten so much smaller, and there are American-owned businesses all over the globe --

Mr. McFaul. Right.

Mr. Crawford. -- whether they are franchised, whether they are company-owned.

So, in 2007, Starbucks goes into Moscow, and I am sure there have been several Starbucks locations since then.

And now we have a Presidential candidate, Howard Schultz. Do you think he should come under the same scrutiny? You think there is any potential collusion there? Do you think he might be compromised because he has done business there, opening up Starbucks stores in Russia?

Mr. McFaul. Sir, I don't know the answer to that question. I think it is a great question.

What I would say is -- because I don't know what the business transactions were to open those Starbucks. I want to be clear about that. I know generally --

Mr. Crawford. Well --

Mr. McFaul. I know generally that it is difficult. I know generally that there are sometimes compromising things that have to happen. But I don't know that with the specific case of Starbucks.

The second thing I would say is, we should just call for transparency about that. And so you actually know that those Starbucks are there. And I think for all Presidential candidates, we should know of all their business relations abroad. I think that is in America's national interest.

Mr. Crawford. Okay. Well, I hope that that comes to light. I certainly wouldn't want to see a Presidential candidate that is not thoroughly vetted with regard to international business, given the context of what we have seen over the last couple years.

Mr. McFaul. I couldn't agree more. And one of the ways to know that is to have people publish their taxes. That is how we know that.

Mr. Crawford. We are not going to settle that in this committee.

Mr. McFaul. I understand, but that is a really great way to have transparency

about what you do financially abroad.

Mr. Crawford. Okay.

And something else you mentioned in your opening comments, you mentioned that the Russians influenced the 2016 election. That is an assessment I am not sure you can make. I am sure they attempted to influence, but that is entirely subjective, the degree to which they were influencing American voters. Isn't that fair to say?

Mr. McFaul. Here is the way I would characterize it. And there have been many great academic studies -- I cite many of them in the footnotes of my written testimony -- about this. Here is my personal assessment of that academic research, okay?

Number one, just to remind everybody, there was a multipronged effort by the Kremlin to influence the outcome of our 2016 Presidential election -- not just one thing, but many, many things that happened.

Number two, they had clear preferences in that race. When Sputnik International tweets "#crookedhillary," you don't need a Ph.D. in Russian studies to figure out what they are trying to do there.

And, number three, I, as-- now I want to put my political science hat on, which I have spent most of my life as a political scientist and not as a government official. I don't think one can isolate the independent causal influence of the Russian factor set against all the other factors that influenced votes in the 2016 Presidential election.

So I am not prepared to say that, unlike other people who have said that.

Mr. Crawford. Let me pause. Just in the brief time I have left, it has probably been less than 2 years ago, former CIA Director Brennan said before this committee that the Russians had been engaged in active measures to seek to influence elections in the United States for decades.

Do you agree with that?

Mr. McFaul. Yes and no. I think what happened in 2016 was qualitatively different than any action of influence --

Mr. Crawford. But is that attributable to the media they have available, or is it attributable to something else? Because we didn't have Twitter and Facebook back in the 1990s.

Mr. McFaul. That is right. So that is different. We did have it in 2012. They didn't use it then.

But, without question, for me, in my assessment -- and this is my assessment, I want to emphasize -- the most important thing they did was not that, it was the doxing. It was the stealing of American property from individuals and then publishing that. That is something that they had capabilities to do before and chose not to do it.

So I think it is true this has always been their way. And, by the way, I want to emphasize it is not just the United States of America that is a target of these operations. It is all in other places. Watch what happens in Ukraine shortly. But I think 2016 was a qualitatively different operation than previous elections.

Mr. Crawford. Thank you. My time has expired. I appreciate the amplification on the fact that they have been involved in other countries beside the United States.

Thank you.

The Chairman. Mr. Welch.

Mr. Welch. Thank you very much.

This is really an extraordinary panel. And I am struck with the clarity and the consensus among the four of you about the threat that Russia poses.

Ambassador McFaul, your opening statement was chilling, in a way. The contest

is now between, to quote you, autocracy, corruption, state domination of the economy, and indifference to international norms versus democracy, rule of law, free markets, and respect for international law.

And I take it there is a consensus among you about that characterization.

And, Professor Conley, what you also said, I thought, was very, very powerful, about this is about the strategy of influence, not force, and it exploits any societal weaknesses and divisions that we have, and they can get in your head.

And, Ambassador, what you were just describing, which is qualitatively different, is what is chilling to me.

And I will say this, as a Member of Congress, until I watched this, I was not as aware of the depth and aggression that has been behind this until I am now becoming a student of it. And I say that because I think that suggests that everyday citizens who are trying to figure out how to get through their day, get their kids to daycare, this is not forefront on their mind.

So, aside from this question that is the political debate that we are having, is it essential for our security that we have a consensus in the American body politic about what a dangerous adversary and determined adversary Russia is to our democratic values?

I will start with you, Ambassador.

Mr. McFaul. The answer to that is yes.

And let me say a couple of things, if I may.

Number one, it was raised earlier, I think somebody was quoting Mike Morell, that this was the political equivalent of September 11. I think that is the right way to frame it. It was a violation of our sovereignty in 2016.

But unlike 9/11, we didn't have a bipartisan commission that investigated what

happened -- by the way, investigated what the Bush administration did. I am a former member of the Obama administration. I think that should have been interrogated too. We didn't do that. And we haven't even gotten to the prescriptive part.

So I would just, one, associate with that. I think that is the right frame.

Number two, you know, Putin is a person I have known. I met him first in 1991. I have written about him a lot. We are not exactly Facebook friends. He doesn't like me; I don't like him. But what I would note, as somebody who has watched his career, maybe not quite as long as Steve but probably close, a couple of things:

One, he is aggrieved. He thinks that we have ruined his country.

But, two, with time, he has gotten way more aggressive. He is taking bigger risks -- so annexation, 2014; intervening in Syria, 2015; intervening in our elections in 2016; trying to kill Skripal in 2018; and trying to arrest Americans. Remember, that is what happened in Helsinki.

Mr. Welch. So --

Mr. McFaul. Those are riskier actions. And I just want to make sure we understand the nature of this threat. It is growing, and he has become more belligerent.

Mr. Welch. Right. And that would suggest that there has to be -- whatever our divisions are and our debates here, there has to be some unity coming from our State Department, from our executive branch, from our Congress that, whatever our divisions are, this is a threat to all of us.

Would you speak to that?

Ms. Conley. Yes.

Mr. Welch. And you talked about corruption and how that undercuts democracy. Please elaborate.

Ms. Conley. Well, thank you for your question. I do a lot of speaking to groups

across the country, world affairs, councils, and things like that. The American people do not understand the totality of the challenge and that it is a strategy that is working with inside of us. It is a fight for the integrity of the American mind.

I will give you an example. After the Skripal poisoning, where a chemical agent was used on NATO territory, Russian disinformation provided over 46 different explanations of what that could possibly be. If you are an average citizen --

Mr. Welch. Right.

Ms. Conley. -- trying to figure out who, what, where, how, nothing is true, and then everything becomes possible.

That was followed up by the Russian hacking of the Organisation for the Prohibition of Chemical Weapons to try to alter the results of that.

Mr. Welch. Right.

Ms. Conley. This is what is at stake.

During the active measures period in the Cold War, the American people knew who the enemy was.

Mr. Welch. Right.

Ms. Conley. There was training and understanding of this. There is none of that. And political polarization makes it worse.

Mr. Welch. Let me -- I only have a couple of minutes left, but --

Ms. Conley. Sorry.

Mr. Welch. -- you know, there are arms control treaties in our Defense Department, but what I am hearing that you are saying is that we, number one, have to build our alliances, and, number two, we have to express great clarity about what the threat is. Would you agree with that?

Well, I want to thank you -- go ahead. I am running out of time, but go ahead.

Mr. Hall. The only thing I would -- this is a great line of questioning. Vladimir Putin is neither a Republican nor a Democrat. He does not care. All he cares about is that we become divided and split. And he will continue to work in unprecedented fashions, to allude to an earlier question.

Mr. Welch. Right.

Mr. Hall. I agree with my -- what happened in 2016 and what I think we can expect to happen in the future, in terms of their active measures, their hybrid warfare, is indeed unprecedented. And there are going to be more 9/11s from Russian, in short, and we have to figure out a way to deal with that.

Mr. Welch. Well, thank you.

And before I yield back, I just want to say, Mr. Chairman, I would be interested in us taking up some of the suggestions that Mr. Lorber made about the illegal moving of money.

I yield back. Thank you very much.

The Chairman. Thank you, Mr. Welch.

Mr. Hurd.

Mr. Hurd. Thank you, Mr. Chairman.

I want to thank our witnesses not just for being here today but for your long careers of commitment to this country.

Ambassador McFaul, our Foreign Service oftentimes gets dragged into the mud, and they are doing incredible things in hard places. And most people don't understand what it is like to be targeted by the Russians the way you do, so thank you for that.

And, Mr. Hall, our colleagues that have to deal in denied areas and work in tough places against an insurmountable foe, most people can't understand that, nor will they ever understand that. You do, and thank you for bringing your attention to this.

And, Mr. Lorber and Ms. Conley, thank you for the unsexy work of getting into the details about some of these issues that help inform folks like us.

And while I do have a question, I must associate myself with the gentleman from Texas and his letter.

Prior to the 2016 election, I was calling for Ambassador Kislyak to be PNG'd from this country. Prior to the 2016 election, I was trying to say how this sustained covert influence operation by the Russians had to be addressed.

Grizzly Steppe, what the Intelligence Community refers to, the attempts by the Russian Government to influence our election, is going to go down in history as the Russian intelligence's greatest covert influence operation. Why? Because their goal -- and, Mr. Hall, you alluded to this -- is to erode trust in our democratic institutions. It is to erode trust in the American people and the intelligence services. It is to erode trust between the intelligence services and the legislative branch. Its goal is to erode trust between the legislative branch and the executive branch.

And I have sat here for 22 months having many of my colleagues question our side of the aisle's commitments and understanding that the Russians are a threat. It is clear, Republicans and Democrats on this committee agree, the Russians attempted to influence our election. They tried to do in 2018. They are going to try to do it in 2020. They are doing it in Moldova. They have done it in Armenia. They are going to continue to do that.

And so, when we question that, when we imply that there is not an agreement on that particular issue, we are falling into the trap of eroding trust in our institutions. And we have to change our behavior. We have to get at this threat, because they are continuing to do it, and they are very good, and we are not prepared for that.

And, Mr. Hall, my question for you: Who is responsible for counter covert

influence, and who should be responsible for that in the U.S. Government?

Mr. Hall. I think, given how the Russians have evolved in terms of their capabilities, their hybrid warfare, their influence operations, all of those different disciplines, I believe that it actually now, in the United States, needs to be an all-of-government approach, if such a thing is possible.

Obviously, we need to have certain folks taking the lead. The Intelligence Community has to inform what is going on. There is a military component to it, because I think we need to protect critical infrastructure. But the way that the Russians are doing it now, it touches so many different parts of our government and, indeed, our society that it has to be a widespread thing.

So, unfortunately, I don't know that I can name one person, one agency, one organization to do it. It is too broad now.

Mr. Hurd. Thank you.

Ambassador McFaul?

Mr. McFaul. All of that said, I also want to make sure, in my view, we understand that the answer to your question is not just an intel question, it is a policy question.

Mr. Hurd. For sure.

Mr. McFaul. The President of the United States needs to stand next to Vladimir Putin and say: We know what you did in 2016, and if you do it again, these are going to be the consequences. And until the President of the United States does that, it is not going enough for the rest of the Trump administration to try to do that.

I know a lot of those people. I think they have a pretty good policy towards Russia. I actually do. And in some of the things, they were better than us, in terms of our policy in the Obama administration.

But when the President of the United States, standing right next to him in Helsinki, sides with Putin and not your former colleagues, that does the very damage that you just described about trust --

Mr. Hurd. And, Mr. McFaul, I have made my opinions on this topic very clear.

But what I will end with, before I yield back, Mr. Chairman, I left a job as an undercover officer in the CIA because I was disgusted with the things I had to do and the lack of knowledge that congressional leaders had when I had to brief them when I was overseas. I felt that there were people in Congress at that time that were going against the opposite of what my friends and my colleagues were doing, not just in the CIA but in the military, in our Foreign Service, and I was disgusted with that, and I said, I have to try to do something about it.

And it is great to be able to help the Intelligence Community in a different way by serving on this committee. But what we need to do is stop with the innuendo, stop with abusing our position and implying we have access to something that we do not have access.

And, Mr. Chairman, I yield back.

The Chairman. I thank the gentleman.

I would only mention to my colleague that, in the last session, the majority produced a report that suggested to the American people that the Intelligence Community's conclusion that Russia had intervened, and, in fact, intervened to help one candidate and hurt the other, should be subject to doubt, that the Intelligence Community didn't use the proper tradecraft, that that conclusion should be called into question.

I don't think that that was in the service of the country. I don't think that is reflected in any of the intelligence. I don't think that is going to be reflected in Bob

Mueller's report. And that was the unanimous opinion of the then-majority. Every member of this panel who was a part of that signed that report.

And I fully concur, Mr. Hurd, that we need to be very clear about Russian intervention. We need to all condemn it on a bipartisan basis. We should show no daylight in that.

We will never know whether that intervention was decisive in the election. I have never suggested it was. We don't know. And our Intelligence Community, though the President has represented that that is what they concluded, that is not their job, and, of course, that wasn't their conclusion. It is beyond their role and their capability to predict election outcomes.

Ambassador McFaul --

Mr. Hurd. Would the gentlemen yield?

The Chairman. Yes.

Mr. Hurd. Is it normal within the Directorate of Intelligence, or I guess it is now the Directorate of Analysis, for a senior analyst involved in a subject matter to be excluded from the review of all-source intelligence on that subject?

The Chairman. Mr. Hurd, you and I can carry on this conversation, or we can ask the experts whether they have any reason to question the Intelligence Community's assessment that the Russians intervened on one side and not the other. Shall we put it to the witnesses?

Mr. Hurd. I doubt they will have the opportunity to speak on classified materials --

The Chairman. Okay.

Mr. Hurd. -- but I would love to talk about the process on how intelligence has been developed and how all-source intelligence should be developed.

And, again, there is no question about the ICA assessment about the Russians' attempt to influence our elections. But standards of tradecraft are standards of tradecraft. And when there is a deviation from that standard of tradecraft, we should understand why.

The Chairman. Well, Mr. Castro, you were up next. If you will indulge me, let me ask the witnesses, does anyone on this panel question the Intelligence Community's finding that the Russians intervened in our election and did so for the purpose of helping one candidate and hurting the other?

Mr. Hurd. Would the gentleman yield to add an additional question?

The Chairman. I would like to allow the witnesses to answer.

Does anyone question that?

Ms. Conley?

Ms. Conley. No, I do not question it.

The Chairman. Ambassador?

Mr. McFaul. No.

The Chairman. Mr. Hall?

Mr. Hall. No.

The Chairman. Mr. Lorber?

Mr. Lorber. No.

The Chairman. Mr. Castro, you are recognized.

Mr. Hurd. Mr. Castro, would the gentleman yield for 20 seconds, please, sir?

Mr. Castro. Sure.

Mr. Hurd. I would welcome the gentleman asking the question if any of the panelists knew how the ICA was developed and whether their understanding of the process on which it was vetted through the intelligence agencies.

And I yield back.

Mr. Castro. I will let them answer your question.

Ms. Conley. I have no knowledge of the process.

Mr. McFaul. Neither do I.

Mr. Hall. I have no direct knowledge, but it would be difficult for me to imagine that the heads of the intelligence organizations would stand up and vouch for it if there were not some integrity to it. But that is speculation on my part.

Mr. Lorber. Likewise, I have no knowledge of the process.

Mr. Castro. All right.

Thank you for you all's testimony today.

I wanted to ask you about sanctions and their effectiveness and whether sanctions in the long term will have an effect on Vladimir Putin's grip on power in Russia and how they are affecting his hold on power in Russia.

Ms. Conley. Congressman, I am probably on the pessimistic side of our sanctions regime, as important as it is to continue to place those sanctions.

I think, in many ways, President Putin has used these sanctions as a method of weeding out those that are not loyal to him and more loyal to their bank accounts in the West. He has re-nationalized important parts of his economy. What he recently announced and which was met with some fairly significant protests in Russia, he is unplugging from the international system because he understands it is a vulnerability. So the online Iron Curtain, he is removing himself from the online -- because he knows we have a cyber offensive capability, that during the midterm elections we shut down the Internet Research Agency and other things.

They are trying to develop now -- we are seeing this across the board, the exhaustion of sanctions, that they are creating a separate financial system so that if -- you

know, the most extreme option -- if we were to eliminate them from the international financial transaction system, the SWIFT system, that they would have additional resources to be able to withstand that. So there is a system to prevent the sanctions from impacting them completely.

And I think this is where -- what we are suggesting in our report, what Eric has been suggesting is we now need a new set of tools to actually prevent Russian money laundering and illicit financing from being housed and sheltered in our systems. And that could be a very robust way of responding to Russian aggression in its many forms.

Mr. Lorber. Do you mind if I build on --

Mr. Castro. Sure. Sure.

Mr. Lorber. -- Heather's comments? Because I think there is a risk of what I term sanctions atrophy in two ways.

One, to Heather's point about invasion techniques, the Russians are very good about using front and shell companies, and they are only getting better so that, as she said, in the last 2 years you have seen significant innovation.

The other issue which I think is important to flag in terms of the long-term consequences and long-term impact of these tools in Russia, in particular, is that the longer that the European Union maintains its sanctions program, the less likely that over time they are going to renew.

The way the EU sanctions work is that there is a 6-month period, and at the end of that 6 months they have to renew these sanctions, the sectoral sanctions they have in place. As time goes on and as the sanctions don't seem to be having a significant impact in change in Russian behavior, you are hearing increasing calls from particular EU member states to not renew. And because it is a unanimous decision that is required in the EU, if there is the opportunity to peel off one or two significant European countries, you could

see a significant fracturing of the transatlantic unity on the sanctions regime.

Mr. Castro. Thank you.

Ambassador?

Mr. McFaul. Just a couple of comments.

I think it is wrong to assume, because Putin hasn't changed his behavior, that Russians support the sanctions and support Putin. I know many of the people on the sanctions list. I have to see them in third countries now, as I already talked about, because I am on the sanctions list. But I think it is important to understand that there is a real division among them about the wisdom of the belligerent behavior that Putin did and that they are suffering for it. They will tell you that privately, but for all the reasons we have been discussing for the last couple hours, they would never do that publicly. But, remember, that sentiment is there among the elites.

Number two, polling data in Russia is flawed. Most of the polling companies are controlled by the government. And remember, it is a heavily surveilled country. So when you are sitting out in Novosibirsk and Ivan Ivanovich calls you from Moscow and he says, hey, what do you think of Putin, there is only one rational answer to that, right? You support him.

That said, even with that flawed data, his numbers are going down. The rallying-around-the-flag effect of the war in Ukraine and calling us the enemy because of sanctions, that is dissipating. In Russia, they talk about the fight between the television, which is the propaganda, and the refrigerator. And I would never be so unwise as to try to predict when that moves in a way that changes his behavior, but the numbers are moving in this way. And there is a real despondency, both among elites and growing in society, about this period of stagnation that Russia is in.

Mr. Castro. Thanks.

I yield back.

The Chairman. Mr. Maloney.

Mr. Maloney. Thank you, Mr. Chairman. And thank you for your dignity and strength in the face of some truly ridiculous remarks that were made this morning.

And I think it is ironic that our colleagues on the other side bristled at the notion that they didn't care as much about Russian influence in our elections or malign influence generally and yet not a single one of them remains to join the conversation with some of the leading experts in the world. I think that speaks volumes.

And I also think that if their position is that the improper, unethical, and unpatriotic conduct of the President wasn't criminal and that that, therefore, is some cause for celebration, well, I just have a very different view of it.

And I, for one, appreciate very much the temerity you have shown to ask some questions about that in your role as the chairman of the House Intelligence Committee.

Gentlemen and Ms. Conley, thank you so much for your appearance here today. We really do value your expertise. We depend on it. Thank you for your service.

My question is to Ambassador McFaul, but anyone should feel to free to answer it.

You spoke earlier about the prescriptive measures that we should be taking. What would those look like? If you were advising the President today and that President was going to follow that advice, what were the top two or three things you said we are not doing now that we should be doing?

Mr. McFaul. Thanks for the question.

We will have a big report with a group of Stanford colleagues on it coming out shortly, and I will make sure everybody gets a copy of it. We briefly summarized it in a piece in The Washington Post, which I will make sure everybody gets, that was published yesterday, with one of your Members, by the way, Ro Khanna, and my colleague Alex

Stamos. He used to be the head of security at Facebook.

Let me just go through a couple of the things, starting with the most important: cybersecurity infrastructure for our electoral infrastructure.

We have done some measures, but not nearly enough, in order to make sure that the votes that are cast are the ones that we are able to count.

And even on the voting rolls, by the way -- remember, Russia doesn't have to do -- and I don't want to say "Russia." Putin. Because it is not all Russia. And, by the way, not all Russians -- let me just add a footnote to something I said earlier. I want to correct the record. I think it is very important to remember that not all Russians are corrupt. There are many Russians doing legitimate business with Americans. And we need to be careful to be precise when we are talking about that, because I was not precise earlier.

But back to this, Putin doesn't need to steal 78,000 votes, right? All he needs is for a few thousand people to show up to vote and their name is not on the roll, and then there are camera crews and there is what is going on. That will undermine the integrity of the election. And we have done very little on that.

Number two, basic cyber hygiene for people that work on campaigns. I don't want to put people on the spot, but there are very simple things one can do -- dual authentication is the most basic -- that are not required by law or even norms. That is an easy thing that we should do.

Number three, de-amplifying what happens on the social media platforms of these campaigns. Now, notice I didn't say ban them. I think that is a much more difficult thing. But I interact with all those companies in the Silicon Valley, and I think there are ways that they can de-amplify when they expose those things.

But then, number three or four that I am on, one of the things they would say if

they were here is: We didn't know about the activity on our platforms because there was not enough coordination between the Intelligence Community and the private sector. And I think setting up that coordination, maybe with third parties involved to make sure there is no conflict interest, that would be another thing to do.

Another really big debate we have to have is, what is the norms of allowing foreign governments to participate in our electoral procedures? You know, I said earlier Sputnik International, completely controlled by the Kremlin, tweets out "#crookedhillary." That is obviously trying to influence the campaign. What do we do to prevent that kind of activity?

I could go on, but I will stop there.

RPTR MERTENS

EDTR HOFSTAD

[12:03 p.m.]

Mr. Maloney. And those are very helpful. But I guess I would invite you -- and the others should feel free to join in -- in terms of more significant responses by the U.S. Government. I mean, those are prophylactic measures. They make a lot of sense to me. But should we have a red line on cyber attacks in this country? Should we make it very clear that if a bomb went off at the DNC and the Russians did it they would expect a response, and if they engage in this kind of activity that they should expect a response? And what could that look like, if we were truly committed to bloodying their nose so they didn't do it again?

Mr. McFaul. So my brief answer -- I will let my colleagues jump in. The answer to that is yes. That is deterrence. There may have been more of that in 2016 than we know on the record, by the way, because the Obama administration was very focused on election day.

What would the contours be? You know, I want to be careful about commenting on the record about that. In many ways, it is important to have that conversation off the record with the Russians.

But you can't have it if you are not acknowledging that the Russians did it in first place. And I think the first step would be for the President of the United States to acknowledge on the record what happened and say that there will be grave consequences and then talk about those consequences privately.

One other thing I just want to say, just because I have the microphone, I also want more transparency about interactions with Russians and other governments. And we have been focused on Russia, rightly, but I want to remind you that there are other actors

out there that have an interest in destabilizing and delegitimizing our elections.

I don't want to ban interaction between Americans and foreigners, including Russians, but I think, during campaigns, we should require, either through norms or maybe even legislation, transparency about those interactions.

Ms. Conley. Congressman, if I just may, to be brief, what we have heard repeatedly, the United States Government has to restructure fundamentally for this challenge. We are set up to fight terrorism. We are not set up to fight malign influence, which is perfected by Russian statecraft today. It will be Beijing statecraft. I mean, this is not going to go away. This is our vulnerability.

So there has to be a fundamental restructuring, which includes intelligence, but it also includes the seam between domestic and foreign. That is where this falls into. And that is where we have important laws to prevent and make sure there is a separation, but that is where they are working.

We have to inform the American people, again, to Congressman Welch's point. We have to talk about this so Americans are literate and armed with what is going on so they can read their news feeds in an educated way, they can understand what is going on.

And, third -- and this is what has been missing for quite some time -- we have to have an offensive strategy. Once we return our confidence in our democracy and our market economy to -- as what Ronald Reagan said, we have to return to the city on the hill. We want for the Russian people what we want for the Ukrainian people, which is freedom for them to choose their leaders and their way of life, however they wish.

We haven't been on offense for a long time. That is what won the Cold War, in many ways. We helped solidarity movements. We kept faith with civil society. We told them we stand for something better. That is what has been missing in our strategy.

Mr. Maloney. My time has expired. Would the chairman allow Mr. Hall to

respond if he --

The Chairman. Mr. Hall?

Mr. Hall. Just two brief things.

First of all, I agree with everything that Mike and Heather said. We have to make the Russians, and specifically Vladimir Putin, understand that the price that he would pay, that Russia would pay, would be exceedingly high if they attempt something like that again. The details as to how that happens, hopefully, is already underway in our government, but that is one thing.

And the second thing is we have to do it in coordination with our allies. That amplifies it so much more.

It is pretty much that simple. The devil is in the details, but that is what I would recommend.

Mr. Lorber. Thanks.

I would say that we need to work to deputize the private sector. And by that, I mean there is a lot of focus today on what, you know, the Intelligence Community can do and what law enforcement can do, and those capabilities are tremendous. But one of the greatest force multipliers we have are individuals in financial institutions throughout the world who are looking for this type of illicit activity every day -- I mean, hundreds of thousands of people.

To the extent that you can provide them with the tools, whether it be legal authorities or obligations to pull information that shows or helps better illustrate where the Russians are hiding assets, how they are attacking our democracy, how they are moving funds, that is incredibly important and will pay significant dividends above and beyond what we already have.

Mr. Maloney. Thank you.

The Chairman. Mrs. Demings.

Mrs. Demings. Thank you so much, Mr. Chairman.

And thank you to all of our witnesses for being with us today.

You know, as a former law enforcement officer and now a Member of Congress, I think often about a quote that says: The only thing necessary for the triumph of evil is that good men do nothing.

At the beginning of this hearing, the chairman outlined a list of behaviors that I believe any reasonable person would find inappropriate, especially as it pertains to our national security. That is a number-one concern for me.

However, my colleagues on the other side of the aisle have lamented over the suggestion that they don't care about those behaviors. Well, as a former police chief, when inappropriate, criminal, unethical behavior was brought to my attention, I did something about it. You don't sit silent and do nothing and work hard to either find a technicality to discredit the witnesses or remind a former Ambassador to the United States of America that he is under oath. You don't do that. You work diligently in the pursuit of justice and protecting this country. You hold people accountable who engage in wrongdoing, regardless of who they are.

And so this -- I am delighted to be a Member of Congress but disappointed at the direction that my colleagues on the other side of the aisle -- we have to do this together -- chose to take this morning. There is one team for this committee, especially, and that is to protect the American team.

With that, thank you for allowing me to get that out. It has been painful.

Ms. Conley and Mr. Hall, are there any notable instances of the Kremlin using malign financial influence abroad that have not been discussed yet, that we haven't had the time to discuss, that you would like to discuss?

Ms. Conley. Well, the report that we have passed out to you, it really dives into at least the use and focusing on concentrated sectors of energy, finance, real estate, how it works, how it metastasizes. This is a shared problem. We focus on Europe, but this is a transatlantic challenge.

So I welcome you to read that. And if there are any questions, that we can follow up and provide those that have been on the front lines, which are many of our European colleagues that have watched this type of malign influence work within their countries for quite some time. So I am happy to follow up with you and give you those specific details.

Mrs. Demings. Thank you.

Mr. Hall, any in particular?

Mr. Hall. I have less specifics than I do just in terms of modus operandi. I mean, the Russians do not hesitate, would never hesitate to use any of their intelligence services to identify individuals and organizations where they see an opportunity to carry out that type of malign activity.

It is, again, a different system than we have here. Our intelligence agencies here, for the most part, collect information for policymakers. In Russia, they collect it to do precisely that type of malign activity.

Mrs. Demings. Thank you.

Again, Ms. Conley, is there anything in our financial, legal, or regulatory system that makes the United States particularly vulnerable to tactics used by the Kremlin?

Ms. Conley. So the one we certainly highlight is the incorporation -- we highlight the Netherlands, which is a vast tax incorporation. We could see similarities in the State of Delaware, to be perfectly honest with you.

So this is where I said it is not a pointing of fingers; it is a shared issue, that we

have to greatly heighten transparency on beneficial ownership. I think this is legislation that has been around for quite some time. I hope we give you all the national security imperative to highlight the transparency of beneficial ownership.

We also argue in our report that what we need is basically a financial intelligence surveillance and reconnaissance system. And I am using, you know, technically, the terms of warfare. That is how we allow our military to have a common operating picture where they can see the different aspects of it. We need that financially so we can see where the red light is blipping in the Estonian branch in Danske Bank, which is money laundering, which is buying real estate, you know, using its malign influence to help fund political parties and other activities to help harm the nation. So we have to create a better common operating picture.

This gets back to my concern about we are not structured to do this, exactly to Eric's point. This has to be a shared public-private partnership. I think the banks and others want help in doing this, because the problem is so massive, they can't meet that challenge.

I think on cyber, the same thing. The technology companies want help, want a partnership to try to combat this malign influence. It is very evasive, and it is going to be very difficult to root out.

Mrs. Demings. Thank you.

Mr. Chairman, may the Ambassador --

The Chairman. Yes, of course.

Mrs. Demings. Thank you.

Mr. McFaul. Just one quick point to underscore something Steve said a couple hours ago that I think is very important analytically, is: Don't put the Western lens on how Russia works, the way that we think about it.

So we have some lines of authority and lines of jurisdiction between what Steve used to do and what I used to do, right? Russia doesn't have that. It is all blurred. And there are varying degrees. By the way, the President of Russia is also a former KGB officer, and everything, therefore, is blurred.

And just always constantly remind yourself, when you are, like, looking to understand what is happening here, it is a very different system, completely dominated these days by the Russian intelligence services.

Mrs. Demings. Thank you so much, Mr. Chairman. I yield back.

The Chairman. Thank you.

Mr. Himes.

Mr. Himes. Thank you, Mr. Chairman.

I will associate myself with the comments of Mr. Maloney.

And I am actually glad that Mr. Turner brought Senator McCarthy into the conversation. History will clarify what has happened, and some of the smaller details will be alighted. But if my Republican colleagues are betting that the chairman, who is a good friend to all of us and a man of deep, deep integrity, will play the role of Joseph McCarthy in the historical interpretation, rather than a President who regularly calls the press the enemy of the people, who regularly attacks the Department of Justice, the FBI, the CIA, and discredits them when they don't provide information that is consistent with his personal interests, who says there are very fine people on both sides of the Nazi march in Charlottesville -- if that is their bet, I will take the other side of that bet.

Mr. Chairman, thank you for your spirited response to outrageous behavior on the part of our colleagues on the other side of the aisle.

With that, to the panel, thank you for being here.

I want to just take a little bit of time to get a little bit more detail around the role

that the Russian banks play in this.

And I want to quickly just read a quote from a BuzzFeed document dump. It is a letter to Michael Cohen from Felix Sater, and I am just going to read one line. This is in reference to Trump Tower. And it is not the Trump Tower I am concerned with here, but Mr. Sater writes: "Kostin, who is Putin's top finance guy and CEO of the second-largest bank in Russia, is on board and has indicated he would finance Trump Moscow. This is major for us, not only the financing aspect but Kostin's position in Russia, extremely powerful and respected." A quote that sort of implies that there is a really rich and deep partnership between the Kremlin and this bank.

I also was personally involved in the discussion of the lifting of sanctions on En+ and Rusal, which involved Deripaska transferring 14 percent of his ownership in En+ to VTB Bank.

So there are just two facts that show what feels like a family relationship between the Kremlin, between banks, and oligarchs.

And so let me start with Mr. Lorber. I think this is your area of expertise. Can you just talk a little bit about how that relationship, Kremlin-controlled banks but also banks that are maybe not Kremlin-controlled, with respect to providing financing for projects, providing support to oligarchs, and maybe even doing the service of the Kremlin, as is implied in Mr. Sater's letter here?

Mr. Lorber. Thank you, Representatives Himes. I am actually not a Russia-specific financial expert, but my understanding is, as you laid out, that there is a very close connection in the way, for example, that Russian oligarchs are able to access financing from entities like Sberbank, from VTB, from VEB. But I will defer to the other witnesses on the question of how, specifically, those causal mechanisms are working.

Mr. Himes. Ambassador, do you have a view?

Mr. McFaul. Sure, I can talk about that.

I know Mr. Kostin. I know VTB. That was part of my job as the U.S. Ambassador, to help us understand those kind of activities. And I think it is important to understand that VTB is a completely controlled bank. I am not even sure the word "bank" is the right word for it. Even the language I am not sure we should be using -- but would do whatever President Putin called them to do.

Now, they had other aspirations long ago at VTB and VTB Capital to expand in these other directions. They had other aspirations to privatize. I know that that was a plan that they had years ago. All those plans have been set aside.

And so the thing you are quoting, that is very consistent. I don't know the specifics of that case, I want to be clear, but that would be very consistent with the general way that I know that the Kremlin works with the three major banks.

Mr. Himes. Ms. Conley, do you have a --

Ms. Conley. So, Congressman, our research has looked at how Russian influence manifests itself in Europe. So our expertise looks at, in some ways, how that Russian financing goes through European institutions.

So, for one example, before the 2014 European Parliament elections, we saw where Russian finance went through the First Czech-Russian Bank, which is now defunct, to provide funds to Marine Le Pen's campaign prior to that election.

We are also watching how Europeans -- actually, this is both for UniCredit, Italy's largest bank, also Austria's banks. They are actually growing in size within Russia. And, again, we didn't think we would anticipate that 5 years after the annexation of Crimea. But, actually, European state-owned champions, energy and banking, are actually growing in their size, and that creates a risk to them.

So that is my knowledge, comes from how the European banking structure is

amplifying a lot of the Russian financing.

Mr. Himes. So I am out of time, but very, very quick question. It sounds like one of the things we should do and maybe other committees in the Congress should do is investigate or at least propagate the idea that, if you secure financing from a Russian entity, there may be strings attached. It could ultimately be used -- and I am looking at you, Mr. Hill -- as a mechanism of compromise and, therefore, be a counterintelligence concern. Is that fair?

Mr. Hall. Yeah, absolutely. I think your description of, you know, it being a family affair is good if you recognize the family is the Cosa Nostra. So it is like a mob relationship.

It is not to say that all business contacts with banks, I think, are false and are somehow suspect. But they could be compromised at any moment with that phone call from the Kremlin.

Mr. Himes. Ambassador?

Mr. McFaul. Because I didn't mention Deripaska; you mentioned him. I would just say on that case, one I followed fairly closely, two things.

One, when people say sanctions don't work, they most certainly worked with Mr. Deripaska. He lost billions of dollars and, allegedly -- this is just in the reporting -- spent hundreds of thousand of dollars to get off that sanctions list. So remember that.

But, number two, I think we need to understand how he did get off that sanctions list. You mentioned the restructuring that was done. This is very mysterious to me, why that was done. Because it has always been my view, both as an academic and as a former policymaker, that sanctions are put in place to change the behavior of the target country that you are sanctioning. Putin has not changed his behavior, yet for some

reason the sanctions were lifted on Mr. Deripaska's firms. I think we should know more about how exactly that happened.

Mr. Himes. I agree. Thank you, Ambassador.

I yield back.

The Chairman. Ms. Speier.

Ms. Speier. Thank you, Mr. Chairman.

Let me just compliment you, first of all, for holding this hearing in the open so that the American people can begin to understand the threats that Russia has against our country.

And let me also say that you showed extraordinary restraint with some of the viciousness that was exemplified by, regrettably, some of our colleagues on the other side of the aisle.

I also note, as does my colleague, that no one is here from the Republican side of the aisle. That is very unusual. Normally, there is always a representative of the Republican side of the aisle at hearings. I think it suggests a bit of stuntmanship that went on earlier.

Let me also point out that the Barr letter specifically says that the Mueller report outlines the Russia efforts to influence the election. Clearly stated. Now, we don't have the underpinnings of that yet, but we should all wait to see that.

The report by the Republican majority at the time said, and I quote, "The Intelligence Community assessment judgments on Putin's strategic intentions did not employ proper analytical tradecraft." So, on the one hand, they will accept the Mueller report, but their own report suggested that it was inadequate.

Let me just ask Ms. Conley -- thank you so much for your work. I am curious about the Raiffeisen Bank in Austria. You spend a whole chapter on Austria and the

banks. Could you express to us the relationship of Russia to the Raiffeisen Bank?

Ms. Conley. So, again, it is a general pattern that we see, a close relationship that has been in the makings for decades. And this was, in some ways, Austria's very unique role in being, as they say, neither East nor West, neutral, and they were able to do quite a bit of trade.

What we are seeing in the banking structures is really Austria's ability to amplify that Russian funding and take it elsewhere within Europe. So Austria is very powerfully placed -- their banking system -- across Central Europe, in the Western Balkans.

And this is, to be honest with you, why we did the second research book, "The Kremlin Playbook 2," is that we kept seeing Austrian firms, their banks and their energy firms, repeatedly appearing throughout our first research. So we wanted to take a deeper dive in two types of banks.

Raiffeisen Bank, because of its size and its great importance to the region, amplifies nontransparency. And Austria has very unique and special --

Ms. Speier. Let me interrupt you for a moment.

Ms. Conley. Of course.

Ms. Speier. The Raiffeisen Bank actually funded a Toronto Trump project for \$300 million and never came back after that project went bankrupt to secure what it could in bankruptcy in terms of the return of their funds. Is that commonplace?

Ms. Conley. So, Congresswoman, we have studied how it works within Europe. We did not identify any specific structural arrangement outside of Europe.

Ms. Speier. Thank you.

Ambassador, thank you again for your outstanding comments today.

To what extent is Putin personally aware of Russian individuals who are engaged in money laundering in U.S. real estate?

Mr. McFaul. I don't want to speculate. I don't know for sure. He most certainly wouldn't share that information with me personally.

But knowing generally how the system works, I think he would be acutely aware of those kinds of things. He is a man of detail. I was always struck by that in my interactions with him when I was in the government, usually accompanying President Obama or other members of our administration.

So I would -- again, it would be very consistent that he would know about those things, but I don't know for sure. Maybe Steve knows.

Ms. Speier. Mr. Hall?

Mr. Hall. I think the term "acutely aware," that is a good term, yeah. Anything that is of critical importance to him and splitting the West and splitting the United States and dividing us he would take a great interest in.

Ms. Speier. So if a number of LLCs are created in which ownership of the real estate in the United States is by Russians, there is potentially a likelihood that Putin knows about it.

Mr. Hall. There certainly could be.

Ms. Speier. All right.

Mr. Hall. It would stand to reason, yes.

Ms. Speier. Would Putin ever authorize an oligarch to purchase a U.S. property at an inflated price as kompromat, Mr. Ambassador?

Mr. McFaul. I know the case you are talking about. I don't know the answer to that. That is a great question. We should get our Intelligence Community to help you get the answer to that question. I personally don't know.

Ms. Speier. Thank you.

Mr. Hall?

Mr. Hall. That would be consistent with how the Russian intelligence services function.

Ms. Speier. Thank you, Mr. Chairman. I yield back.

The Chairman. Are there any further questions from my colleagues?

Ms. Speier. Can I ask just one last question?

The Chairman. Yes. Ms. Speier.

Ms. Speier. I think the comments that many of you made about the porousness of our election system and the Russian ability to not only get into the voting rolls but, conceivably, into the voting machines is something that the American people really care about, and yet it has not gotten the attention it deserves.

We have four companies that basically have a lock on all the voting machines in this country. There is no requirement for audits, for paper ballots, for the kind of optical scanning.

Do any of you have confidence that the Russians would not -- maybe I am saying this wrong. Knowing that and the vulnerabilities, is that something that clearly the Russians would take full advantage of if they could?

Mr. Hall. Yes, they absolutely would.

And in fairness to those companies and others who are trying to do these protective measures, which are important defensively, we have to understand that the way our open society is set up and the way the internet functions, it is designed to share information as efficiently as possible.

So this is a real struggle when you are trying to protect really critical information. Having worked in an organization that really wants to protect its information, it is a really hard thing to do when you are talking about systems that are designed to share.

How you get around that is -- how you defend against that is a really difficult

thing, but I don't think you can do it unless you also have that offensive thing that we were talking about before, letting the Russians know, look, we are going to defend, but if we catch you, the price you are going to pay is brutal. That one-two thing is the only thing I think we can do.

Ms. Conley. Well, Congresswoman, I think, looking at what Europe has done, it is the redundancy of the paper ballot that is absolutely essential. And, in fact, in many European countries, they still -- I mean, it seems so archaic to what we should be doing and the fantastic technologies we have, but they do require that redundancy of paper just to make sure. Again, it is about ensuring confidence --

Ms. Speier. Yeah.

Ms. Conley. -- that every vote is there. So I think there could be some redundancy very helpfully to that process.

Mr. McFaul. And if I could just add to that, if I may, absolutely, paper trail for every ballot, that seems like a complete no-brainer. And that we haven't done that yet is shocking to me.

But I also want to remind you that there are a lot of other actors copying the Putin playbook now, including domestic actors. And we need to be aware of the fact that we could have multiple actors trying to disrupt our elections in 2020. And that is why I think it is so vital that we focus on these prescriptive measures now.

Ms. Speier. Thank you, Mr. Chairman, for accommodating me.

The Chairman. I thank you.

And, Ambassador, on that point, one of the issues that our committee is investigating is the development of the deep fake technology. My paramount concern during 2016, as we were watching what the Russians were doing in real-time, the hacking and the dumping of these documents, is that they were going to begin dumping forgeries

among the real.

That concern now is heightened exponentially given that this new technology would allow the Russians or any other foreign actor or any other malicious domestic actor to push out in proximity to an election video or audio which is completely a forged product but nonetheless has all the indicia of veracity and reliability.

When we consider just how disruptive that would be, the Russians don't need to hack our elections infrastructure, although it is all too vulnerable. Pushing out that kind of false content could be far more influential.

And we are in the race right now with technologies -- the technology to develop deep fakes and the technology to detect them. And I am deeply concerned, given just how polarized the country is, the electorate is, indeed our committee is, that our ability to respond to that is very much in doubt.

And psychologists will tell you, once you have seen a video, even if you are later persuaded intellectually that the video was a fake, you cannot undo the impression and the lingering impact of that.

So we are entering a brave new world. And what we need is a whole-of-government approach that looks at what each and every agency is doing to protect the country and to protect the integrity of our democratic institutions, that is working collaboratively, that is talking to each other. We need the public to be more critical of what they learn on social media. And this needs to be a comprehensive effort.

Your testimony today has been very, very helpful in informing us of the task ahead. And I want to thank you for appearing today, and, more than that, I want to thank you for your service to the country.

We are adjourned.

[Whereupon, at 12:31 p.m., the committee was adjourned.]