

Statement of Assistant Secretary Marshall Billingslea Before the U.S. Senate Committee on Foreign Relations

August 21, 2018

Chairman Corker, Ranking Member Menendez, and distinguished Members of the Committee. It is my pleasure to be invited here today, and to speak about a very serious and continued threat to the security of our nation and our allies.

The Treasury Department has a clear understanding of the continued threat posed by Russia's malign activities and works every single day, together with other agencies and foreign partners, to counter that threat. Russia's continuing occupation of Crimea, human rights abuses, malicious cyber-attacks, illicit procurement of sensitive defense and intelligence technologies, election interference and other influence efforts, as well as their support to the Assad regime's massacre of its own citizens, are unacceptable. Treasury has made countering Russian aggression a top priority, and consequently, our actions to date have resulted in an unprecedented level of financial pressure against those working on behalf of the Kremlin and in key sectors of the Russian economy targeted by U.S. sanctions. Treasury will continue to do its part to impose costs in response to Russian malign activity, leveraging all of the tools and authorities that we have. I am grateful to have the opportunity to share with you today some of what the Department of the Treasury is doing to support the Administration's whole-of-government Russia strategy.

First, I'd like to take a moment to put the Russia challenge into context. Russia has spent decades developing complex and resilient networks to raise, transfer, hide, and obscure the origin and movement of the funds generated through illicit activity, including corruption, sanctions evasion, and arms sales. Their highly sophisticated apparatus relies on state and non-state agents and proxies; Russian oligarchs, for example, use their wealth and influence to advance the Kremlin's malign agenda at home and abroad.

Russia, however, is also unique from other countries subject to broad U.S. sanctions in several important ways, including the sophistication and scale of its malign activity, and we have tailored our approach accordingly. We cannot, for example, counter Russian aggression in the same way we approach countries like North Korea or Iran. Russia's economy and resource base

are more sizeable, and is fully integrated into the global economy and international financial system. North Korea and Iran, on the other hand, for decades have been largely or almost entirely isolated from the global financial system. Because Russia's integration presents an especially unique challenge, we've surgically deployed Treasury tools to balance maximizing pressure on Russia while minimizing unintentional spillovers to the United States, our European allies, and the global economy.

For example, a number of Russia's state owned entities and oligarch-owned businesses are intricately integrated into other economies and global supply chains, including the economies of some of our closest NATO allies. We designated RUSAL, the second-largest producer and supplier of aluminum in the world, on April 6 for being owned and controlled by EN+, which is owned or controlled by the Russian oligarch Oleg Deripaska. As a result of our designations, Deripaska's estimated net worth has dropped by more than 50%, and the share price of EN+ fell from \$12.20 to \$5.40 on the London Stock Exchange following its designation.

The core of our approach is to leverage every tool available to us to impose costs upon those acting on or behalf of the Kremlin against U.S. interests, and to increase financial pressure on Russia to advance our national security priorities while simultaneously mitigating unnecessary impacts on the United States, our European allies, and the global economy.

Since January 2017, this Administration has sanctioned 217 Russian-related individuals and entities for a broad range of sanctionable conduct, 200 of which were sanctioned by Treasury's Office of Foreign Assets Control (OFAC). Of those, 136 were designated under Ukraine/Russia-related sanctions authorities codified by the Countering America's Adversaries Through Sanctions Act, or CAATSA. During this Administration, Treasury has used our sanctions authorities to counter a wide spectrum of Russia's destabilizing activities, including malign cyber activity, interference in U.S. elections, and support to rogue states. In total, OFAC has also imposed blocking sanctions on 14 Russian banks and sectoral sanctions on 124 Russian financial institutions, including any 50% or more-owned subsidiaries. Furthermore, OFAC has imposed blocking sanctions on 20 Russian energy firms and sectoral sanctions on another 80 Russian energy firms.

We've seen our actions have immediate effect. For example, the RUSAL designation in April was part of a much larger sanctions package of seven Russian oligarchs along with 12 companies they own or control, 17 senior Russian government officials, and a state-owned Russian weapons trading company and that company's subsidiary, a Russian bank. Among those sanctioned on April 6 were oligarchs Oleg Deripaska and Viktor Vekselberg, as well as Putin's son

in law Kirill Shamalov; and the heads of state-owned companies such as Gazprom, Gazprombank, and VTB Bank. One of Treasury's objectives in designating Deripaska and Vekselberg, and indeed our objective in targeting oligarchs more broadly, is to make it more difficult for them to wield their influence and power to engage in malign activities.

The impact of our April 6 designation was felt within a single day. According to public reporting, the combined net worth of Russia's 27 wealthiest people fell by an estimated \$16 billion in one day, 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 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.

While our Russia sanctions program is among our most active, sanctions are not and cannot be the only tool on which we rely. The scale and sophistication of Russian malign activity is far more advanced than that of other states currently subject to broad U.S. sanctions. Further, the size of the Russian economy and its deep integration into the global economy and financial system present a unique challenge. As I've testified before, a key reason we have been so effective in countering malign activity and illicit finance is we implement comprehensive financial diplomacy. Accordingly, in certain circumstances other tools will either complement or far more effectively advance our national security interests in countering Russian aggression. For example:

- **Engagement with foreign governments:** Senior and working-level Treasury officials frequently engage and consult with foreign counterparts regarding our Russia efforts. We leverage relationships painstakingly built over many years to consult, pre-notify of pending actions, share information regarding observed typologies, and urge them to match U.S. designations. Since the passage of CAATSA, Treasury has traveled extensively to discuss the implementation of the Russia-related provisions of that statute with foreign and finance ministries. When appropriate, Treasury also supports foreign partners' designations and enforcement actions, including by providing financial intelligence. In some cases partners need more than one-off support, and in these cases Treasury offers technical assistance to build partners' institutional capacity to effectively address procedural, legislative, or other gaps.
- **Engagement with the private sector at home and abroad:** Treasury regularly meets with U.S. and foreign private sector entities to explain our sanctions regulations and actions, and

share information, typologies of illicit activity, and best practices, among other things. For example, we have held roundtables with banks in jurisdictions at elevated levels of risk for Russian money laundering, including Cyprus and Latvia, to convey the risks and also to urge relevant industry authorities to take steps to prevent the exploitation of their respective financial sectors by bad actors. We also use private sector engagement opportunities to communicate our intent to aggressively enforce U.S. sanctions, and to pursue entities that facilitate Russian malign activity.

- **Advance multilateral efforts:** Treasury works multilaterally to strengthen international anti-money laundering and countering the financing of terrorism (AML/CFT) standards and to ensure that these measures are effectively implemented around the world. For example, Treasury officials have engaged with international partners under the G-7+ Contact Group, a group of likeminded countries coordinating efforts to counter Russian malign influence. The United States also currently holds the presidency of the Financial Action Task Force (FATF). At FATF, Treasury works to strengthen international AML/CFT standards and ensure that these measures are effectively implemented around the world. For example, the FATF's efforts to ensure that all jurisdictions apply a high level of scrutiny to the financial activities of politically exposed persons (PEPs) and collect information on the beneficial owners of legal entities helps to detect attempts by Russian officials to launder, hide, or move the proceeds of corruption. Similarly, the FATF's work to promote the global implementation of United Nations (UN) sanctions and hold underperforming countries accountable through its "grey list" process helps undermine Russian attempts to circumvent international prohibitions on dealings with North Korea, Iran, or other UN-listed programs. Indeed, the U.S. named the countering of proliferation finance as one of the priorities of the FATF during the current U.S. presidency, in an effort intended to harden the world's financial systems against the type of illicit procurement and proliferation activity in which Russian actors are regularly involved. All FATF members are evaluated against their effectiveness in implementing FATF standards. Russia, as a FATF member, will be subject to rigorous assessment and peer review of its AML/CFT regime beginning in 2019.
- **Deploy other authorities:** As Treasury works aggressively to deter and prevent illicit Russian financial activity abroad, we are simultaneously protecting the U.S. financial system. For example, on February 16, 2018, Treasury's Financial Crimes Enforcement Network (FinCEN) issued a finding pursuant to Section 311 of the USA PATRIOT Act that Latvia-based ABLV Bank AS (ABLV) was a financial institution of primary money laundering concern. In its public notice of proposed rulemaking, FinCEN cited multiple instances of

institutionalized money laundering in which ABLV management solicited high-risk shell company activity that enabled the bank and its customers to launder funds. ABLV's facilitation of shell company activity typically benefitted illicit actors engaged in an array of illicit conduct, including transnational organized criminal activity, corruption, and sanctions evasion, emanating mostly from Russia and former Commonwealth of Independent States. Pursuant to this finding, FinCEN proposed the imposition of a prohibition on U.S. financial institutions from opening or maintaining correspondent accounts for, or on behalf of, ABLV.

- **Public affairs engagement:** Finally, Treasury officials work with the domestic and foreign media to disseminate information, including information on designations and sanctions evasion, to ensure information is made available to appropriate audiences.

Before concluding, I would be remiss if I did not speak to the tremendous effort it takes on the part of Treasury's professional staff to implement all of our programs, liaise with other country partners, and with the private sector. Our team travels around the world to ensure our sanctions are effectively implemented and the real-world risks of transacting with designated individuals and entities are fully understood. Treasury staff fields thousands of inquiries each year regarding compliance and licensing issues – many highly complicated questions that require substantial amounts of time and effort. On top of this, we are mandated to prepare and submit at least 80 reports to Congress in 2018 – reports that require thousands of hours of work. Treasury's Office of Terrorism and Financial Intelligence is a small component compared to our interagency partners.

As you can see, Treasury has aggressively targeted the range of Russian malign activity through our tools and authorities. In coordination with our interagency and international partners, we will continue to maintain pressure against the Kremlin. I would like to end my comments here, and welcome your questions.

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