

Statement of Under Secretary Sigal Mandelker Before the U.S. Senate Committee on Banking, Housing, and Urban Affairs

August 21, 2018

TREASURY'S EFFORTS TO COUNTER RUSSIAN MALIGN ACTIVITY

Chairman Crapo, Ranking Member Brown, and distinguished Members of the Committee, thank you for inviting me here today to speak on behalf of the Treasury Department and provide an update on our comprehensive efforts to counter Russia's malign activity. Our efforts, taken together with our partners across the U.S. Government and around the world, are guided by a clear understanding of the threat Russia poses to the United States and to our friends and allies.

As Russia seeks to challenge the United States and its allies, we see this threat manifest itself in a variety of ways, including by: continuing its occupation of Crimea and ongoing aggression against Ukraine, attempting to subvert Western democracies, including our own, through election interference; enabling the Assad regime's massacres in Syria; using chemical weapons in an attempt to assassinate a British citizen and his daughter in the United Kingdom; perpetrating malicious cyber-attacks; maintaining ties to transnational organized criminal groups; violating human rights at home; fostering corruption across Russia's economy; and facilitating sanctions evasion and other illicit activity across the globe. The breadth and brazenness of Russia's malign conduct demands a firm and vigorous response.

Precisely for this reason, Treasury's Russia sanctions program is among our most active and impactful. Since January 2017, this Administration has sanctioned 217 Russian-related individuals and entities for a broad range of activities, 200 of which were sanctioned by Treasury's Office of Foreign Assets Control (OFAC). Indeed, we have issued Russia-related measures in seven of the last nine months. Since the start of this Administration, Treasury has also added 32 Russian entities to its Sectoral Sanctions Identification List, subjecting those listed to debt and equity restrictions, as well as prohibitions on the provision of goods, services, and technology in support of certain energy projects in Russia. Pursuant to the Countering America's Adversaries Through Sanctions Act (CAATSA), we have also tightened these restrictions.

In doing so we have targeted a veritable “who’s who” of Russia’s most prominent companies. These include Rosoboronexport, Russia’s primary state-owned weapons trading company; EuroSibEnergo, among the largest independent power companies in Russia; and Surgutneftegaz, a major Russian oil company.

Our targets also include the heads of major state-owned banks and energy firms, as well as some of Putin’s closest associates. These figures include Putin affiliates Oleg Deripaska and Viktor Vekselberg; Putin’s current or former son in law Kirill Shamalov; the heads of state-owned companies such as Gazprom’s Alexei Miller, Gazprombank’s Andrey Akimov, and VTB Bank’s Andre Kostin; the head of the Russian Security Council, Nikolai Patrushev; and the Russian Minister of Interior, Vladimir Kolokoltsev. Dealings with such persons on our Specially Designated Nationals and Blocked Persons List, moreover, create exposure to secondary sanctions under CAATSA, meaning that persons who deal with them risk being sanctioned themselves. Targeting these Russian individuals and entities have made them radioactive, as we have made clear to the world that those who choose to continue to do business with them do so at their own peril.

That CAATSA was passed by a near unanimous vote demonstrated great resolve by Congress to counter Russia’s malign activity. We share that resolve. The Department of the Treasury’s approach towards Russia is informed by this Administration’s 2018 National Security Strategy, which clearly recognizes the full range of Russian malign activity, and which prioritizes the importance of economic tools to “deter, coerce, and constrain” our adversaries.

As companies across the globe work to distance themselves from sanctioned Russian persons, our actions are imposing an unprecedented level of financial pressure on those supporting the Kremlin’s malign agenda and on key sectors of the Russian economy.

Treasury’s actions have caused extensive consequences to the financial interests of targeted individuals and entities, including blocking hundreds of millions of dollars in Russian assets in the United States. Targeted state-owned banks and other sanctioned entities likely have higher financing costs than they otherwise would if not for Treasury’s prohibitions on debt purchases. Russian companies designated for their links to Crimea have been forced to cut production and have lost business relationships with foreign commercial partners. In addition, we have cut off, from the U.S. financial system and beyond, malicious cyber actors, including those providing offensive cyber capabilities to the Russian intelligence services, some of whom covertly worked on behalf of the Kremlin to interfere with the 2016 U.S. election. Such reactions illustrate the substantial costs our measures are imposing on those who undermine U.S. interests.

Building on sanctions implemented since 2014, the impacts of our Russia-related sanctions are felt far beyond the targeted entities and persons. Western sanctions and subsequent geopolitical tensions have raised uncertainty and dampened domestic and foreign private investment in Russia. In the energy sector, our sanctions have limited important investment in exploratory energy projects needed to help grow Russia's oil and gas production capacity. Overall foreign direct investment into Russia has fallen over 5 percent since 2013, with sizeable declines in direct investments from the United States, which have fallen 80 percent since 2013. Direct investment into Russia from other major economies also declined over the same period. Russia is taking note of these impacts.

In addition to sanctions, we are also strategically and smartly deploying Treasury's other economic authorities – such as anti-money laundering (AML) measures, enforcement actions, actions under Section 311 of the USA PATRIOT Act, foreign engagement, and private sector partnerships, among other tools – to disrupt Russia's illicit financial conduct and harden the international financial system against its predation. We are directly engaging our foreign allies and partners, especially those in Europe, to coordinate these efforts and augment the impact of our actions. We are working closely with our interagency partners to deploy the full range of other financial, intelligence, law enforcement, and diplomatic tools to expose, disrupt, and impose costs on those responsible for Russia's malign activities.

By strategically leveraging all of these complementary authorities, we are increasing 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. We recently submitted a report pursuant to Section 243 of CAATSA further elaborating on these efforts ([see Attachment !\[\]\(cbe80b694ebd74fcfe136a095b608235_img.jpg\)](#)).

We have imposed major costs on Russia. Yet the significance of our actions and other financial measures must ultimately be measured in terms of their strategic impacts. Though Russia's malign activities continue, we believe its adventurism undoubtedly has been checked by the knowledge that we can bring much more economic pain to bear using our powerful range of authorities – and that we will not hesitate to do so if its conduct does not demonstrably and significantly change.

OVERVIEW AND IMPACT OF APRIL 6 OLIGARCH AND RUSSIAN OFFICIAL DESIGNATIONS

An important example of the impact that Treasury actions have had on Russia was in our April 6, 2018 designation of 38 entities and individuals, including 7 Russian oligarchs and 12 companies they own or control, and a major state-owned Russian weapons trading company and its bank subsidiary. This action included sanctions against 17 senior Russian government officials, many of whom were appointed to their posts by Putin and hold prominent positions in the Russian government and business community.

Among the 12 companies sanctioned are Renova Group, an international group of asset management companies and investment funds owned by Vekselberg; RUSAL, the second-largest producer of aluminum in the world; EN+, a publicly traded holding company for Deripaska's metals and energy assets; GAZ Group, Russia's leading producer of commercial vehicles; and EuroSibEnerg, as mentioned above, one of Russia's largest independent power companies.

As a result of this action, we have impeded the ability of these actors to access the financial system, reduced the value of their assets, and forced companies to extricate themselves from involvement with designated actors. Other tangible impacts include:

- Since being designated, Deripaska's estimated net worth has dropped by roughly 50%, and the share price of EN+ fell from \$12.20 to \$5.40 on the London Stock Exchange following its designation.
- Vekselberg's net worth dropped an estimated \$3 billion, and foreign governments have launched investigations and frozen Vekselberg's assets in their jurisdictions. Additionally, Vekselberg's Renova Group was forced to divest from ventures in Switzerland and Italy.

As our public actions continue to draw high-profile attention to those individuals and entities charged with carrying out Putin's orders, the world takes note. Many have become pariahs in the international community and have lost their ability to portray themselves as legitimate businessmen.

ADDITIONAL TREASURY ACTIONS

We have also targeted Russia's malicious cyber activity, sanctioning those behind Russia's interference in the 2016 U.S. election, as well as companies developing and procuring offensive cyber capabilities and underwater technologies for the Federal Security Service (FSB). We designated two Russian intelligence organizations – FSB and the Main Intelligence Directorate (GRU) – both of which engage in activities that undermine U.S. cybersecurity on behalf of the Russian government.

In March, we designated Russian oligarch Yevgeniy Viktorovich Prigozhin under our cyber authorities for funding the operations of the Internet Research Agency, which has covertly worked on behalf of the Kremlin to influence social media networks and interfere with the 2016 U.S. election. In exposing the activities of these organizations and designating companies for their dealings with them, we not only cut them off from the United States and U.S. persons, but subject third parties who deal with them to potential sanctions as well.

We also are exposing and disrupting Russian support to rogue states. We used our Syria authorities to sanction Russia's primary state-owned defense firm and its bank subsidiary for supplying Russian military equipment to the Assad regime, hindering the firm's ability to receive payments from existing contracts with other countries. And just earlier this month, we designated a Russian bank, Agrosoyuz Commercial Bank, for knowingly facilitating a significant transaction on behalf of U.S. and UN-designated North Korean individuals and entities.

Our sanctions have blocked hundreds of millions of dollars in Russian assets in the United States and caused extensive damage to the economic interests of affected individuals and entities. Companies and individuals around the world have cut ties to sanctioned actors in attempts to protect their commercial interests. Notably, in early 2018, Exxon announced that it had decided to end its joint exploration ventures with Rosneft due to the continued economic pressure imposed by our sanctions. In 2017, Rosneft separately announced a hold on a major South Black Sea project, citing sanctions as limiting its ability to obtain modern technology and equipment.

We also continue to track and target illicit financial hubs where Russian actors try to hide their money. Earlier this year, we used our authorities under Section 311 of the USA PATRIOT Act to find Latvian-based ABLV Bank to be a foreign financial institution of primary money laundering concern, proposing to prohibit U.S. financial institutions from maintaining correspondent accounts on behalf of the bank. In this finding and 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, including activity emanating from Russia. This finding and proposed action not only was a shock to the Latvian banking system, helping prompt that country to undertake certain reforms, but it also put financial institutions in other similar financial hubs on notice that we will

not hesitate to act against banks that institutionalize money laundering as a pillar of their business practice.

TFI'S WORK TO ADVANCE OUR NATIONAL SECURITY

In the Office of Terrorism and Financial Intelligence (TFI), I work with some of the most dedicated professionals in the U.S. government, who are working countless hours to implement programs that protect our national security. This is especially true when it comes to our Russia team, who are wholly committed to the mission.

In addition to our robust Russia program, we also have teams of people working across a wide spectrum of other programs. Under this Administration, Treasury has sanctioned more than 1,300 individuals, entities, vessels, and aircraft.

In order for us to implement all of these programs and maximize the effectiveness of our financial tools, Treasury also has spent significant resources drafting new Executive Orders, issuing advisories, and providing guidance such as Frequently Asked Questions to the public and private sector. Our team also 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.

Here in Washington, our staff fields thousands of inquiries regarding compliance and licensing issues – many highly complicated questions that require substantial amounts of time, expertise, and effort. Since the start of FY2018, OFAC has received nearly 50,000 phone calls for guidance on our sanctions programs, including our various Russia-related authorities. On top of this, we are required to prepare and submit at least 80 reports to Congress in 2018 – reports that require thousands of hours of work. To highlight just one example, the classified oligarch report required by Section 241 of CAATSA encompassed more than 2,500 hours of interagency work over the course of several months.

TFI and the interagency colleagues with whom we work bring this same dedication to the range of programs for which we are responsible. I am proud and humbled to lead these efforts on behalf of the Treasury Department and am grateful for the opportunity to help advance our work on behalf of our national security.

####

