

Senate Committee on Banking, Housing, and Urban Affairs

Tightening the Screws on Russia: Smart Sanctions, Economic Statecraft and Next Steps

Witnesses: The Honorable Elizabeth Rosenberg, Assistant Secretary for Terrorist Financing and Financial Crimes, U.S. Department of the Treasury; Mr. Andrew C. Adams, Director, Task Force KleptoCapture, U.S. Department of Justice.

Hearing Highlights

- In an exchange with **Chairman Sherrod Brown (D-OH)**, **Assistant Secretary Rosenberg** explained some of the metrics used to determine whether sanctions are working. The Assistant Secretary asserted that half of Russia's foreign exchange reserves has been locked up; Russia is heading towards fiscal deficit by the end of the year; Russia is struggling to find imports; and collectively this has translated into battlefield difficulties for Russia. In terms of challenges, Assistant Secretary Rosenberg explained that her team's priority is looking to opportunities that Russia may be pursuing to find ways to evade the sanctions - this is a "current and future priority." The Assistant Secretary stated that the goal is to **enforce sanctions that get at Russia's supply networks being used for evasion.**
- Chairman Brown asked the Assistant Secretary what else can be done to keep the pressure on Russia. Assistant Secretary Rosenberg argued that it is crucial for our allies to expand and augment their own sanctions. Chairman Brown also asked the Assistant Secretary to expand on the **impact and goals of the price cap on Russian oil**, citing the legislation to be introduced by **Ranking Member Pat Toomey (R-PA)** and **Senator Chris Van Hollen (D-MD)** intended to complement the Administration's price cap policy. Assistant Secretary Rosenberg responded that Russia is earning windfall profits from energy exports given it has driven up energy prices itself by invading Ukraine.
- The price cap policy, Assistant Secretary Rosenberg continued, will have **two major economic effects**: (1) depriving Russia of revenue and given this downward pressure on prices, (2) developing economies would have the opportunity to purchase Russian oil at a lower price. The Assistant Secretary added that *it is not essential for Russian oil importers to join the price cap policy effort*, as importers can still use the existence of the price cap to leverage lower prices from Russia.
- **Ranking Member Toomey** expressed concern that China and India will continue to buy Russian oil, and asked Assistant Secretary Rosenberg to comment on the mechanism for Russia to continue to sell oil outside of the G-7. The Assistant Secretary responded that this **price cap policy envisions a scenario where China and India continue to purchase Russian oil**, and it's possible they can purchase below that cap *using* the G-7 services. Ranking Member Toomey, however, pushed back, arguing that there will be efforts to evade the price cap. Accordingly, the Ranking Member advocated the legislation that he and

Senator Van Hollen collaborated on. Ranking Member Toomey asserted that “if the price cap doesn’t work, our legislation will provide a backstop” and suggested that the price cap be very close to the marginal cost of production of Russian oil.

- **Senator Thom Tillis (R-NC)** asked Assistant Secretary Rosenberg, in the context of the Russian oil price cap, what would be the biggest changes in terms of consumption. The Assistant Secretary responded that the EU’s stoppage of purchasing Russian oil will begin on December 5, and there is not “one single country or two that will take on all of it - there will likely be an array.”
- **Senator Chris Van Hollen (D-MD)** asked Assistant Secretary Rosenberg whether she would support mechanisms, such as legislation, to provide additional leverage against the Russians in their oil regime. The Assistant Secretary responded that the U.S. and our G-7 partners “have a good deal of leverage and authorities right now in order to pursue a policy that represents a powerful set of incentives to purchase Russian oil below the cap.”
- **Senator Bob Menendez (D-NJ)** asked Assistant Secretary Rosenberg whether there is buy-in [on the price cap policy] from other major economies beyond the G-7. The Assistant Secretary reiterated that “we’ve worked very closely with our partners in the G-7, and that includes the EU, so all of the EU nations, as well.” The Assistant Secretary added that “we’ve also had the opportunity to speak with major purchasing economies that are not part of the G-7,” and those economies “understand the purpose of this policy and they understand that we have significant common cause with them.”
- Shifting to **Director Adams**, Senator Menendez urged that “the long-term success of a successful [Russian assets] seizure will come down to coordination and information sharing.” Accordingly, Senator Menendez asked Director Adams what some of the challenges are in ensuring that this coordination takes place. Director Adams replied that the biggest obstacle *historically* has been coordination with partners, but in the wake of the February invasion of Ukraine, *that obstacle has been diminished greatly*. Director Adams expressed optimism that this improved coordination effort “will only continue.”
- **Senator Mike Rounds (R-SD)** asked Assistant Secretary Rosenberg whether she believes that sanctions are an effective way to advance U.S. policy objectives. The Assistant Secretary replied “yes - but not by themselves.” She expanded, noting that sanctions are “most effective when used alongside international partners both as an economic matter and a signaling matter to the target of the sanctions.” Following up on this inquiry, Senator Rounds asked Assistant Secretary Rosenberg how we can “make certain that our economic and other non-military tools stay effective.” Assistant Secretary Rosenberg stressed “multilateralism,” and that “there are other significantly-sized economies that have even greater connectivity with Russia. When we act together, it will have an even greater effect.”
- **Senator Tina Smith (D-MN)** asked Director Adams how Russian strategies have evolved and how our strategies are evolving in response since the U.S. implemented its policies to economically deter Russia. Director Adams stated that he has seen the “same playbook that

we've seen for sanction evasion for years" from Russia. He added that "from a strategic standpoint, we at [the Department of Justice] are **looking at efforts to evade sanctionable financing of controlled exports** and looking **specifically at new financiers, new shell companies, and new finance firms** that are essentially playing a shell game in terms of how to hide that money." Director Adams highlighted that one strategy the Department has adopted "is to be as public as quickly as possible" to inform the private sector so that it can effectively respond to the threats that Russia presents economically.

- **Senator Steve Daines (R-MT)** asked Director Adams whether he was privy to guidance concerning what the Biden Administration plans to do with the \$39 billion in seized Russian assets. Director Adams stated that "the concern behind the question is entirely felt within the Department and the Administration." Director Adams added that his task force "stands ready to work with you, your office, and the Committee to talk about legislation that has been proposed." In response to Senator Daines' concerns, both Director Adams and Assistant Secretary Rosenberg emphasized the challenge of moving from frozen assets to forfeited assets.
- **Senator Jon Ossoff (D-GA)** asked Assistant Secretary Rosenberg what the most significant implementation challenges will be associated with the G-7 price cap. The Assistant Secretary responded that this is a different set of rules than what they have imposed before and that one challenge is to explain [the price cap policy] to the parties who would use it, including the service providers. The Assistant Secretary noted that "we have sought to engage those service providers extensively as we have structured the framework for compliance." Accordingly, "the challenge we have is to be able to discuss and explain this broadly with all those in the situation to implement it."