



FedFin Client Report

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Senate Banking Questions Sanctions Regime, Vows Stronger Prohibitions

Client Report: SANCTION20

Executive Summary

In a remarkably bipartisan session, the Senate Banking Committee today made it clear that Congress wants tougher sanctions against Russia, near-term action against hold-out nations to oil-price caps and other efforts, and perhaps even confiscation of Russian assets to fund U.S. Ukraine aid. The panel was also united on the need to swiftly punish China should relations deteriorate. Several bills likely soon to advance were discussed, including soon-to-be-reintroduced Warren-Marshall legislation to extend AML and sanctions standards more effectively to cryptoassets and Rounds-Tester legislation (S. 168) to bar persons from sanctioned nations from purchasing agricultural property. Discussion was clear on Daines legislation (S. 536) related to asset confiscation, a proposal that in the past has sparked Administration concern due to sovereign-immunity and global financial-stability considerations. As this report notes, the session also assessed sanctions effectiveness, with the consensus seeming to center on Senate views that sanctions have worked to some extent but may need to be strengthened. Republicans were particularly emphatic on the latter point.

Analysis

Opening Statements

Chairman Brown (D-OH) praised current Russian sanctions and called for stronger economic deterrence of Chinese action adverse to U.S. national security interests, especially with regard to technology and financing. Ranking Member Scott (R-SC) argued that current sanctions have failed due to ineffective enforcement and sharply criticized Biden Administration limitations to domestic oil and natural gas production. Echoing Chairman Brown, he also called for stronger safeguards against Chinese technology theft.

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Testimony

Daleep Singh, Former National Security Council Deputy Director, said that Russian sanctions to date have been effective, arguing for a sanctions regime balanced with other statecraft objectives, such as improving funding for the IMF and World Bank. Clay Lowery, Former Treasury Assistant Secretary for International Affairs, focused on CFIUS, urging that it remain narrowly focused on national security and avoid government controls on private-sector transactions. Kevin Wolf, Former Commerce Department Assistant Secretary of Export Administration, argued for a multilateral, expanded, and bipartisan vision for export controls and sufficient incentives for allied cooperation.

Q&A

- **Sanctions Effectiveness:** Chairman Brown asked Mr. Singh about the effectiveness of U.S. sanctions; Mr. Singh noted that sanctions have been effective despite a smaller Russian recession than expected which should not be mistaken for resilience, noting that Russia's capital controls, weaponization of energy, and heightened government spending have distorted the short-term economic picture. Ranking Member Scott asked if the Russian economy is working and how greater sanctions on Russian energy would impact it. Mr. Lowery argued that greater international cooperation on price caps for Russian petroleum products would be of significant benefit and called for expanded controls over Russian natural gas. The Ranking Member also asked if greater U.S. oil production would strengthen the country's economic toolkit; Mr. Lowery said it would, citing German diversification efforts with natural gas. Sen. Kennedy (R-LA) asked if the Biden Administration should do more to expand the sanctions coalition, noting India's absence as a particular failure; Mr. Singh acknowledged the need for a broader coalition as well as for greater Indian support but argued that the current regime is effective. Sen. Vance (R-OH) disputed that data demonstrate sanctions effectiveness, asking if the current sanctions regime underestimates the Russian industrial base; Mr. Singh repeated that the regime is calibrated to exploit Russian vulnerabilities and maintained that the Russian military is experiencing major supply shortages.
- **AML/CFT:** Sen. Warren focused on ransomware attacks, asking Mr. Singh if these would be possible without crypto; he said they would not be as prevalent, noting that nearly one hundred percent of ransomware attacks are paid off with crypto. Sen. Warren then asked if this puts American national security at risk; Mr. Singh said it does. Sen. Warren also asked if crypto is allowing for Russian sanctions

evasion; Mr. Singh said yes but not at scale. He also argued that launching a digital dollar would help protect against attacks.

- **PASS Act:** Sen. Rounds (R-SD) raised his bipartisan legislation to prohibit China, Russia, Iran, and North Korea from purchasing U.S. agricultural land and include the Secretary of Agriculture on CFIUS. He asked Mr. Lowery if he believed the legislation would offer economic protection for agricultural areas; the witness noted that CFIUS already has the ability to look at greenfield investments in agricultural areas with a national security nexus and cautioned against prohibiting international investment. Sen. Tester (D-MT) asked if the government currently has the ability to track and prohibit the sale of U.S. agricultural land to Chinese and Russian entities; Mr. Lowery said he believed CFIUS can investigate transactions in sensitive areas. Sen. Tester then argued for an outright ban of any foreign greenfield investment from each country listed in the bill and asked if enforcement of this is possible. Mr. Lowery said it would entail a significant expansion of CFIUS. Sens. Britt (R-AL) and Cramer (R-ND) also strongly supported the legislation.
- **Economic NATO:** Foreign Relations Committee Chairman Menendez (D-NJ) argued for greater action to deter other countries – especially India, Turkey, and China – from engaging in trade with Russia, pressing an alliance he dubbed an “Economic NATO.” He then asked Mr. Singh if this is possible, with the witness saying it is and that it is an excellent idea.
- **Russia Confiscation:** Sen. Daines (R-MT) brought up his reintroduced legislation (S. 536) to seize Russian assets to fund U.S. aid to Ukraine. Mr. Singh supported the legislation.
- **Chinese Sanctions:** Chairman Brown asked Mr. Singh what lessons can be learned from Russian sanctions for China; Mr. Singh noted major economic differences between the two countries such as banking-sector size, echoing his testimony by arguing for both negative coercive strategies and positive inducements for coalition-building. Sen. Haggerty (R-TN) asked Mr. Singh if more should be done to hold Chinese entities accountable for violating national sovereignty; Mr. Singh said more evidence might be needed but that we have sufficient tools to do so. Sen. Haggerty then asked what conditions would be necessary for the Administration to consider Chinese sanctions; Mr. Singh argued that a holistic approach should guide any sanctions regime.

- **Price Cap:** Sens. Daines, Kennedy, and Van Hollen (D-MD) asked witnesses about Russian oil price cap enforcement and what measures could improve compliance. Mr. Lowery noted that most price cap evasion is likely coming from areas that do not support them and that he is not aware of any enforcement actions. Mr. Singh reiterated that the U.S. should continue to tighten the cap and induce countries into the coalition whenever possible, emphasizing complications to doing so.