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TRANSCRIPT

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The Kremlin Playbook 2: The Enablers

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INTRODUCTION

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FEATURING

Michael Isikoff

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MODERATOR

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Andrew Schwartz: Good evening and welcome to CSIS. I'm Andrew Schwartz here at CSIS. Thank you all for being here.

Andrew Schwartz: First I want to say congratulations to my colleague Heather Conley for – today is the release of “The Kremlin Playbook 2.” We've all been waiting for the sequel, and here it is. You'll see it in the paper in the Journal tomorrow morning. It just – it came up online this afternoon. But you're going to really get a preview here first.

Andrew Schwartz: We'd like to thank the Schieffer School of Journalism at TCU, the Schieffer College of Communication. We'd also like to thank the Stavros Niarchos Foundation for all of their great help in putting this series on for so many years. We couldn't do it without them.

Andrew Schwartz: Without further ado, I'd like to introduce the greatest name in news, Bob Schieffer. (Applause.)

Bob Schieffer: I'm here for the introduction. (Laughter.) That's the best part.

Bob Schieffer: Well, thank you all for coming. This is really interesting and really, I think, a big deal what Heather and her team have done. In 2016 I think your book, “The Kremlin Playbook,” was the handiest reference source that I could find about anything all that year. And people weren't aware of what was going on, and you really laid out that the Russians don't just drive their tanks across other people's borders anymore. They've become much more sophisticated and very good at what they were doing. And when people would say to me do you think that the Russians meddled in our election, my answer was, well, if you look at the Russian playbook, if they weren't meddling in our elections it was the only developed country where they weren't meddling. And they still are in an even more sophisticated way.

Bob Schieffer: We want to start this off here with just a little – I'll introduce the crowd – the group here in just a second. But we want to start with a little video that just sort of lays this out, so.

(A video presentation is shown.)

Bob Schieffer: All right, and so that's where we're going to start.

Bob Schieffer: Let me – let me just give you a brief introduction. Full biographies of the panel are in your programs.

Bob Schieffer: But Heather, of course, is the senior vice president for Europe, Eurasia, and the Arctic, and director of the Europe Program here at CSIS. 2001 to 2005 she was deputy assistant secretary of state in the Bureau of European and Eurasian Affairs. She's a former U.S. deputy secretary of state. She began her career in the Bureau of Political-Military Affairs at the U.S. Department of State. She was selected to serve as special assistant to the coordinator of U.S. assistance to the newly independent states of the former Soviet Union and has received two State Department meritorious awards.

Bob Schieffer: Next is Juan Zarate. He is chairman and co-founder of the Financial Integrity Network, chairman of the Center on Economic and Financial Power, and senior

national security analyst for NBC News and MSNBC. Those are two English-language broadcast outlets here. (Laughter.)

Juan Zarate: Sorry about that, Bob.

Heather A. Conley: At CBS. (Laughter.)

Bob Schieffer: He is a senior fellow at West Point's Combating Terrorism Center, was a visiting lecturer at Harvard Law School for eight years. He's a published author, including his books "Treasury's War." He was the deputy assistant to the president and deputy national security adviser for combating terrorism from 2005 to 2009, and he was responsible for developing and implementing the U.S. government's counterterrorism strategy.

Bob Schieffer: Michael Isikoff, who's been around almost as long as me – (laughter) – is the chief investigative correspondent for Yahoo News, co-author of the recent book "Russian Roulette: The Inside Story of Putin's War on America." Isikoff has worked at The Washington Post, Newsweek, and NBC News. He is the author of two New York Times bestsellers, and he's a frequent guest on MSNBC and CNN.

Bob Schieffer: Heather, why don't you just start by just giving us an overview of what this "Kremlin Playbook 2" is about and why you decided you needed another?

Heather A. Conley: Well, thank you, Bob. Thank you all so much for joining us.

Heather A. Conley: Before I begin, I need to shout out to our research team. I'm sort of the spokesperson for us this afternoon, but I want to introduce and have stand our outstanding research team, particularly from the Center for the Study of Democracy.

Heather A. Conley: Let me begin by introducing Ruslan Stefanov, who is the director of the Europe Program and the Economics Program. (Applause.)

Heather A. Conley: Martin Vladimirov, who you saw also, as well. He crunched a lot of numbers. Thank you. (Applause.)

Heather A. Conley: Ognian Shentov is the chairman of the Center for the Study of Democracy, as well. (Applause.)

Heather A. Conley: And last but not least, that lovely voice you heard narrating that video is my indispensable research associate, Donatienne Ruy. Would you please stand, Donatienne? Thank you so much. (Applause.)

Heather A. Conley: If analysts have nine lives like cats, we chewed through quite a few of them with this analysis over the last year and a half. So why did we do a second report? Because it's Bob Schieffer's favorite report, so we wanted to do a second one. (Laughter.) That was part of it. No.

Heather A. Conley: I think we were shocked in many ways. We knew – I remember telling Dr. Hamre, the president and CEO of CSIS – I told him that report would be the most important work I would do that year at CSIS. I didn't know it would be probably the most important work CSIS would do in that year. There was a real hunger to understand

what was happening. And Europe has been a laboratory for this for 20 years. I've just had a front-row seat at watching how Russian malign influence works. So this real hunger really drove us, from members of Congress, the administration, to the public to say we need to understand how this works.

Heather A. Conley: And we wanted to develop a body of research. We take a case-study approach. We go inside a country. We try to figure out what is happening. It's very labor intensive. And my colleagues have spent countless of hundred of hours of research to try to understand what's going on.

Heather A. Conley: But really why we did the second report is that we detected some patterns in that first report. Certain names of countries, certain subsidiaries, certain banks, certain political leaders kept reappearing in our original five case study countries, very different countries from Latvia to Bulgaria to Hungary to Serbia. They didn't necessarily have a rhyme or reason. But we kept seeing the same types of companies and countries. Was this a coincidence, or were we seeing the amplification of Russian influence? And so that's what we wanted to study.

Heather A. Conley: So we took a look at six countries. We put them into two baskets. The first basket we looked at Austria, Italy, and the Netherlands. We term those enablers, and I'll talk a little bit about why we think they facilitate Russian malign influence.

Heather A. Conley: And then there was a second group of countries – the Czech Republic, Romania, and Montenegro. They are very similar to what we did in the first "Kremlin Playbook," but what we've seen is an adaptation of Russian tactics. Sometimes we think they remain static and we're fighting the last fight. No, my friends, there's been a lot of adaptation and evolution in those tactics. And so we looked at how they went.

Heather A. Conley: So what I'm about to do in about two minutes is summarize about 120 pages' worth of report. What we've released online is our executive summary because you probably don't want to wade through 120 pages of this. But the full online report will be available at the end of the month for those of you who are very excited about wading through about 120 pages.

Heather A. Conley: So if you think that all we need to do is toughen our rhetoric and sanction a few oligarchs, our report discounts that theory immediately. This is a story – it's a very complex story that goes back decades. It's a story of sanctions loopholes, shell ownership, letterbox companies, tax-avoidance schemes, the commingling of business and political interests, corporate service providers. It's a story that concentrates, as the video suggested, in energy and in banking and in real estate. It's about the use and a direction of approximately \$1 trillion of Russian private holdings that are held abroad. I think it was the EU that estimated that between 2 to 5 percent of global GDP today is caught up in money laundering and illicit financing. So we're talking about very big sums of money.

Heather A. Conley: So what we really drew and what we want to draw your attention to – and I hope we talk a little bit more in the panel discussion – is really a conversation about rethinking Russian economic influence. Because typically we looked at this and in the first report we calculated it through corporate presence, direct investment, trade relationships, private ownership and investment. And what we've seen now is a very different picture. We have to calculate Russian economic influence by financial flows, both inbound and outbound, foreign direct investment stocks, and

the amount of exposure that European businesses have in the Russian market itself. And of course, again, that concentration. We see energy as really the most effective source of leverage for Russian economic influence, but we're now seeing a great growth in financial institutions, in banks, telecommunications, and in particular real estate.

Heather A. Conley: But it's not just the new direction of economic flows. It's creating an ecosystem of enabling. And let me explain this a little bit. And because CSIS is more of a security and defense institution, I'm going to put this in military terms. We are seeing a new battlespace shaped in the financial system, a financial gray zone. And we're seeing where Russian economic behavior is designed just below the threshold of illegality. So it's designed to stay hidden. And so what we're seeing in this ecosystem are enabling countries that are helping grow this economic system. So I'm about to give you a couple of things that if you find these similarities, you're an enabler. I almost feel like I'm Jeff Foxworthy and you're a redneck. You know you're an enabler when. (Laughter.) So I'm about to do a little you know you're an enabler when.

Heather A. Conley: If you typically have laws that enshrine flexible double taxation or very generous tax withholding laws, you probably are an enabling country. If you have deep networks in many other countries, particularly in Central Europe and the Western Balkans, where Russia uses, through a lot of subsidiaries, an indirect corporate footprint, you probably are an enabler. If your country has very close relationships between large national champions like energy companies and banks, and you're very close to political leaders, we call that corporatism, you're very likely an enabler. If your country has a growing corporate service provider of tax attorneys, accountants, and lawyers that provide incorporation and offshore financial services, and your country protects that growing industry despite the fact that your economy does not really benefit from it, you are likely an enabler. (Laughter.)

Heather A. Conley: And this particularly true actually for the Netherlands. This is a statistic. The Netherlands has about the same size of a corporate service provider industry as Japan does. And Japan is six times an economy larger than the Netherlands. It represents up to \$4.5 trillion. If your large and growing corporate service providers excel at using trust, preferential tax treaties, letterbox companies, special purpose vehicles, shell companies, transfer pricing, or mispricing, or profit roundtripping – and these are terms I didn't know a very much about, but I'm learning a lot about them – you are likely an enabler. If you have very large banks which are heavily invested in Russia, but smaller boutique banks that are usually more conduits for Russia's funds, you are very likely an enabler. And if your export credit agencies are really exposed to your investments in Russia, you, again, are likely an enabler.

Heather A. Conley: So that's a profile of what an enabling country looks like. And our enablers, Russia is Austria's second-largest investor in Russia. And Russia investments have increased – increased – since the annexation of Crimea in 2014. And this has been the trick. We thought we'd see a decrease in financial flows since sanctions were imposed since 2014. No. We saw an increase in financial flows and FDI stocks. Italy is Russia's third-largest commercial partner, and exports to Russia have grown, as has Italian outward FDI stocks have grown. UniCredit is the largest foreign bank in Russia by volume of activity. The Netherlands is Russia's second-largest trading partner, and its second-largest investment market for Russia. And

the Netherland is also the largest tax treaty jurisdiction in the world. So, again, these enabling forces allow Russian malign influence to work very, very quickly and well.

Heather A. Conley: And then finally, those other three countries – the Czech Republic, Romania and Montenegro – those enablers, well, the adaptation has been very interesting. We’re seeing a concentration of Russian economic activity in local areas. This is true in the enablers. We see a concentration of Russian real estate purchases in northern Italy, but in Montenegro it’s extremely high. Tourism, real estate purchases, hotels, that actually adds an enormous amount of pressure to the local tax base and to the company – and the country itself. Energy continues to be a very big source of that, but downstream. So we saw a lot of aluminum purchases. Mr. Deripaska’s name appeared very frequently in our analysis of Montenegro. So this is a long way of saying: How do we combat this? Two words: Transparency and accountability. As my colleague Suzanne Spaulding likes to say here, we must fight in the light, because Russian malign tactics work in darkness, in shadows. They are hidden.

Heather A. Conley: So if this is a battlespace, we better armor up and get into the battlespace. What we propose is a financial intelligence surveillance and reconnaissance financial picture. So we not just see the national picture, but see how these opaque, very complex, financial transactions are developed. We need legislation in the United States and in the European Union to increase transparency on beneficial ownership, corporate service providers is a weapon that needs to be brought into the light. These are perfectly, I’m sure, legitimate providers, but perhaps they don’t understand where they fit into this picture.

Heather A. Conley: We have a lot of work to do. And we hope the “Kremlin Playbook 2” provides a lot of insights into how this malign influence works, some recommendations to fight in the light, and that’s where democracies win. I’m sorry I went on too long but thank you so much.

Bob Schieffer: No, that’s great. So, Juan, what is illicit financing? That’s a term that we probably should know about.

Juan Zarate: Well, it’s a great – first of all, thank you. And, Heather, congratulations on this really important work. Everything you’ve said, by the way, you sound like an anti-money-laundering expert.

Heather A. Conley: I’m growing in to one.

Juan Zarate: (Laughs.) Because those of us in this world – I see lots of friends in the audience who’ve been at the Treasury Department working on anti-money-laundering issues and illicit financing concerns, have been in some ways sounding the warning bells on this for some time. The core elements, Bob, of the anti-money-laundering system are transparency, accountability, and traceability. Do we know who owns assets, how money is created, how it moves, into whose hands it operates. And the whole point of the anti-money-laundering system is to have as much transparency and accountability in that regard.

Juan Zarate: And so to answer your question, illicit finance is the proceeds of illicit activity, criminal activity. What’s interesting, Bob, in the national security context is that post-9/11 what we did in the United States government, but what’s happened

internationally, is you've had a bit of a dovetail between what had previously just been a law enforcement concern – you know, who is the criminal trying to launder their funds through banks around the world. And that has dovetailed with the national security concerns.

Juan Zarate: Starting first with terrorist financing. How do we know who is supporting terrorist groups? How do they raise money, move money? How do you disrupt that, right? That was a core part of our post-9/11 strategy. Then we moved to proliferation finance. Then we deepened the anti-money-laundering system, trying to expand that internationally. Now, what you have are sanctions and anti-money-laundering rules that are applied to not just the issues that Heather's raised, but questions of human rights violations, broad corruption, even cyber activity.

Juan Zarate: And the interesting part here, tied to the Russia problem, is you see the sanctions, you see the anti-money-laundering concerns all tied to Russian nefarious activity, which has at some point a link to their financial interests and their desire to raise capital, move capital, and to have access. And the point of our strategy post-9/11 had always been: How do you use U.S. and international financial and economic tools to unplug rogue actors from the financial system? How do you disallow their ability to access the resources, and the facilities, and the enablers that they need to actually operate and to give strategic life to their vision?

Juan Zarate: And so it's a long-winded answer to your question of illicit finance, but it raises the question of whether or not we're in a new period where these anti-money-laundering issues which were, again, once thought of as just these interesting law enforcement tools – whether or not in the context of what Russia's done to employ hybrid warfare, to try to use economic tools as tools of influence – whether or not we're now in a new stage where these are now central concerns to national security. I've been arguing for a long time that that's the case. If anyone bothered to read my book, chapter 16 talks about the coming financial wars.

Juan Zarate: And a lot of what we're talking about here, I think, is what we're facing, which is a Russia willing to use its economic tools and financial tools as part of asymmetric warfare. And the question is, can we defend ourselves in that domain? And can we be smart enough to use our tools in concert with European allies and others to actually counter Russian influence in this domain? That is yet to be determined. And I think we're just in the beginning stages of that.

Bob Schieffer: And because this is all – using this – this is all part of a broader piece, where the Russians are also looking at ways to undermine institutions in these countries, that they raise questions about the media, the credibility, the church, all of these things. And we've seen all of this coming together here.

Juan Zarate: Absolutely right. It's use of cyber tools, use of information warfare, use of financial and economic influence, use of unconventional or irregular forces, all to shape the environment in a way that is part of a long-term strategy. And I think one of the challenges that we have in terms of how we use sanctions, traditionally, and how we have thought about the anti-money-laundering tools – we haven't thought about them as asymmetric tools of warfare, right? The Russians do think of it that way. We don't, right? We think of them as international norms, and principles and programs.

- Juan Zarate: The question is, should we be adapting our tools to an environment where the Russians are playing a losing hand more smartly than we are, and where we, frankly, still have the asymmetric advantage, but we haven't quite figured out how to use that advantage?
- Bob Schieffer: Michael, do you think that once the Mueller report comes out we'll see any reference to this sort of activity?
- Michael Isikoff: (Laughs.) Well, sort of the guessing game on the Mueller report, when and what, is pretty rampant in Washington right now. And, you know, we have all been expecting something soon, but what it is and what we'll see, you know, we could be fighting over for the rest of the year. I mean, this week could be – you know, I don't want to get out on a limb here – but we've got the Manafort final sentencing on Wednesday from Judge Jackson. And that, you know, everybody expects that she will be a lot tougher than Judge Ellis was, and could bring down the hammer on him. And that will be the end of the Manafort case, which actually was the major Mueller case in the – against a U.S. person. You know, there were two indictments, a major trial, lots of evidence got put onto the public record that speaks to many of the issues that Heather was laying out. And then the next day, Thursday, there'll be a hearing – status on Roger Stone's situation.
- Michael Isikoff: So we could learn a lot more this week, and then, you know, will we actually see a report soon? You know, the expectation is that we will get an announcement from the attorney general that a report has been provided to him, which is what the regulations call for. And then what he does with it, how much of it he shares with the public, that's the \$64 million question right now. But, you know, I do want to say that regardless of how that plays out, and what he ultimately says or doesn't say about the president himself, you know, there have been some pretty significant byproducts of the Mueller investigation that I think speak to a lot of the issues that the "Kremlin Playbook" does. And I think they probably haven't got as much attention as they should.
- Michael Isikoff: Start with the enforcement of the Foreign Agents Registration Act, something which was incredibly lax over the years. You know, the law goes back to the Nazi era of the 1930s, trying to expose Nazi propaganda in the United States. Almost never criminally enforced by the Justice Department. And as a result of the Mueller investigation – you know, bringing down the hammer on Paul Manafort and what he was doing using this sort of phony nonprofit in Brussels to hire major lobbying firms in the United States – the Podesta Group, the Mercury Group – was – that's what they got. That's one of the things that Manafort was convicted for – pled guilty to, in the Washington case. and, you know, his lawyers have made the argument that, well, this is unfair because this law is so rarely enforced. And I think what Mueller has done has said, no, not anymore. And he's farmed out, you know, outgrowths of this to the Southern District. You're starting to see a lot stricter enforcement of FARA. And is a good thing for transparency. It's a major blow.
- Michael Isikoff: Attribution on cyberattacks – something we almost never saw prior to the 2016 election – you know, there were a few cases in North Korea and China – you know, China with OPM. But rarely done, you know, the default position of the FBI and the national security community is we don't want to call these countries out, this is too complicated, you know, it has, you know, foreign policy implications. And as a result, foreign nation-state actors were, you know, taking advantage of our cyber –

lack of cybersecurity to do major damage here in the United States, and very little was said publicly about it. Companies did not want to admit they had been hacked, so they stayed silent. The government didn't say anything.

- Michael Isikoff: You're starting to see a change in that. You're starting to see more aggressive enforcement with indictments by the Justice Department of foreign cyber actors, nation-state actors. We've seen that in China now. We saw it in – with indictments of Russian state-sponsored hackers. In the company I work for, Yahoo, that was a major indictment. So, you know, there are signs that, you know, we're moving in the right direction. But I totally agree with Heather. We have lots more to go.
- Michael Isikoff: You know, when you were mentioning, you know, what's the criteria for are you an enabler, I was thinking of the state of Delaware, you know, which I think would qualify under many of the criteria you just mentioned. I don't know how many of you have tried to penetrate LLCs formed in the state of Delaware. And of course, a very key part of that is the dark money phenomenon in the United States in political campaigns. You know, ever since the Citizens United ruling, you know, the growth of – the spurt of 501(c)(4)s into the political arena is an open door for all sorts of malign actors to inject money into our political system. And, you know, we don't hear a lot being talked about putting some real transparency and sunlight on that.
- Juan Zarate: Bob, can I just comment on this?
- Bob Schieffer: Sure.
- Juan Zarate: Because I think this is a great example of the overlap between these national security issues, political issues, and the money laundering world. For years, there has been debate about how do you apply ultimate beneficial ownership rules in the U.S., internationally? Now, that sounds very technical, but the fundamental question is: How do you know the natural person behind the assets and the investments, right? And when you talk about dark money, that's a critical question. When you talk about are there front companies investing or owning key technologies? You look at the Chinese. That's an important question.
- Juan Zarate: Where are the Russians hiding their money, or Venezuelan regime, hiding their money? Ultimate beneficial ownership is important. And so folks like Chip Poncy, who's a partner of mine, has been an evangelist for this for years, saying: Look, this is critical systemically. And I think we're now starting to see why it matters so much from a national security perspective, these arcane sort of anti-money-laundering rules are meeting these very fundamental national security concerns, which is why I think we're in a different period of both awareness, and why this report is so important.
- Bob Schieffer: Heather, how do our European allies view this? Are – do they view it as seriously as you do?
- Heather A. Conley: So they good news, since the first Kremlin Playbook, we have seen progress both in the U.S. and the EU. The EU has just passed its fifth anti-money-laundering directive. But, you know, the challenge is we are pointing fingers at each other, rather than working together. So last week the EU – the European Commission had put four U.S. territories on a list – sort of blacklisting them, naming and shaming them – for not having that transparency on money laundering. The Treasury

Department's statement in response to that was probably the most emotive statement I think I have ever read from the Treasury Department, saying: absolutely not. I think the listed – help me Juan – Puerto Rico, American Virgin Islands –

Juan Zarate: American Samoa, American Virgin Islands.

Heather A. Conley: Guam and American Samoa. So I felt like, you know, the “Kremlin Playbook,” because we're looking at Europe, we're also pointing out a lot of deficiencies. It's sort of the biblical take the beam out of your eye before you pick out the splinter in your neighbor's eye. We have to look at this ourselves. And exactly right, the comments I'm making on the Netherlands should be said about Delaware, Nevada. We have a problem. This is our problem. This is our house, —to clean up. And what happens is we – I think we blame each other and say: You really have a problem, you really need to do something about it, not looking at this together.

Heather A. Conley: And because this – we have to create this common operating picture because what can begin in Europe – this is sort of the Manafort indictment sheet, from what we know. It can work in the U.S., and then it can turn around and go back and work into Europe. And this is our system together. Russia does not create this. They simply exploit the weaknesses that are presented. And this has been our weakness. We have beautiful laws and rules, but we don't implement them. We don't use examples, like FARA, that says we have got to do this. And if you're an adversary, and you're trying to erode credibility in institutions, well, we're just continuing to give them opportunities by not increasing beneficial ownership, by not increasing the transparency.

Heather A. Conley: For the first time, I hope Congress understands this is not in the nice to do category, this is in the national security category. And I think we missed the opportunity in 2016 in saying: Look, after 9/11 – and, Juan, you were in the middle of this – we changed our architecture. We created fusion cells. We highlighted this. You don't see that imperative at all. If anything, we're pointing to it, we're admiring this problem. But I don't get the sense of urgency that we want to fix this problem.

Juan Zarate: I have a slightly different opinion. I think you're right. I think we do this in pieces and parts. And one of the things that you recommended, which I think CSIS does better than anybody else in town, is the exposure and the mapping. You've seen this in the South China Sea context. You've seen it in the North Korean, you know, missile sites. You know, those are images and analysis coming out of CSIS. I think sort of a mapping function here as to not where are there missile sites, but where is economic influence? Where are the key nodes of Russian influence and coercion? It's critical. So I completely agree with you.

Juan Zarate: Where I push back a little bit – and you see this in the Treasury's statement to the EU listing – and this is the listing, as well, that listed Saudi Arabia and other countries that were very upset about being listed by the European Union – was, first of all, telling U.S. banks: You don't have to listen to this list. Which is a pretty aggressive approach, right? And secondly, a question of, well, what is the methodology around sort of understanding this? There is already an international process under the Financial Action Taskforce, which is the standard-setting body around the world, that has a black list, a gray list, et cetera.

Juan Zarate: But I think that the challenge here in the transatlantic divide is you do have the finger pointing. You also have concerns that the U.S. has grown too aggressive at times with the use of some of these tools, right? So we sanction too much. We have used anti-money-laundering rules and fines against major European banks to the tune of billions of dollars. And so you do get this question of, OK, what are we doing about Russian influence? But we also get European complaints about the U.S. is being hyper-aggressive with the use of these tools.

Juan Zarate: And so I agree with you, we have to have a transatlantic understanding of how we're going to understand the threat, how we're going to use these tools. And I think the difference here is how do we do it for the long term? Because the Europeans have always thought the sanctions will be unwound at a certain point. This is tied to Crimea. Or now – you know, how do we stop doing this sanctions, and this rule? We're in this for the long term.

Juan Zarate: The Russians are investing in this illicit economy, this illicit asymmetric tool. We're not geared – whether it's in the U.S., or in Europe, or combined – to actually deal with it. And I think that's a real challenge. And particularly in the European context, where they haven't enforced these rules. And in the U.S. context, where we've done it in pieces and parts.

Bob Schieffer: Michael, go ahead.

Michael Isikoff: Well, I just wanted to just underscore the point I was making before, about our campaign finance laws, because this did remind me of the discussion of a story I did back during the 2012 election, when I found – there was a big super PAC that was supporting Mitt Romney's campaign. And there was a million-dollar donation from an LLC to the super PAC – publicly disclosed, but who's the LLC? Who is that? You know, it was a Delaware-registered corporation, and I got the records – what records you could get from Delaware – and it showed that the LLC had been created something like four days before the donation, and then dissolved the week after the donation. So it was clearly set up for the sole purpose of funneling dark money into the candidate – to help support the candidacy of Mitt Romney.

Michael Isikoff: Now, my story helped – did create some public momentum for this to be publicly disclosed. And sure enough, the donor finally stepped forward. He was some Bain Capital partner of Mitt Romney. So that part, you know, did correct itself. But, you know, the fact is, that LLC money, fearing public disclosure from, you know, pesky journalists like me, now just simply goes into dark money 501(c)(4)s, where we never see who the donors are. And so if the –if the – if one of the concerns here, it clearly is, is political manipulation, then, you know, that is something that really has to be, you know, seriously addressed as part of the agenda to fight the kind of things you're talking about.

Bob Schieffer: Yeah. The fact is, we no longer have campaign finance laws, for all practical purposes.

Michael Isikoff: None that make any sense, anyway, yeah.

Bob Schieffer: You know – well, in 1975, after Watergate, 32 people paid heavy fines or went to prison for campaign finance law violations. Today, every single they went to prison for is legal. We're not going forward. We're going backwards in trying to police

this. And let me tell you something, the hardest thing in the world as a journalist is to get people interested in campaign finance law. (Laughter.) It's like – James Reston once said that the American people will do anything about South America but read about it. Well, campaign finance law is pretty much the same way, because people think they have nothing to do with them. They think they have to do with politics. But of course, they have everything to do with them. But that's where we are.

Michael Isikoff: Well, but when the violation goes to paying hush money to porn stars, you know, public interest does rise with that, so yeah. Yeah.

Bob Schieffer: Yeah. So let me ask you – we want to go and get some questions from the audience here in a minute. But do sanctions still work, Heather?

Heather A. Conley: So I think they are diminishing in their power. I think they make us feel better that we're doing something. But as our report uncovered, the tactics evolve. It means less. Particularly, we are sanctioning more, but financial flows are increasing. We're doing something that's not correct. And it's something that absolutely Juan said, we aren't being smart about how to target these sanctions in getting at some of these blind spots, if you will. I have suggested that if we would just add transparency into this system that we described we'd have more impact than any sanction that we could do.

Heather A. Conley: But let's be clear, it's going to be a little painful to change how our economies work, and how – I mean, Delaware receives an enormous amount of income from incorporation. That hurts. But here's the thing, there's going to be sacrifice for this, or this is going to keep continuing, and our democracy is going to be eroded, and we're going to be helping them finance the way they erode our own democracy. So we have to think smartly about how to do this.

Bob Schieffer: You see this as a threat to our national security.

Heather A. Conley: Absolutely. Absolutely. This is – this is how the new system is working. And this is my frustration. We're not elevating this threat. This is being weaponized. This is being used. And we're helping. We are helping. We are in fact, in some countries and economies, we're encouraging this to take place because banks aren't getting a lot of money because of low interest rates. There's a network to protect that. That's the challenge. So – but it's going to hurt us. But the only way – it's sort of like how you treat cancer. That chemotherapy is really hard. It weakens you initially, but it makes you stronger. And that's what I think we have to think about. This is repairing our own institutions, transparency, fighting this inside. And then we're stronger to attack it.

Bob Schieffer: OK. So we're going to take questions from the audience. But before we do, Heather, sum up the recommendations. What do you think we need to do here?

Heather A. Conley: So it is focusing on transparency and accountability. The EU and the U.S. need to do a whole lot more on beneficial ownership. We have to find a definition of corporate service providers that are more transparent. We have to work together, particularly with the EU, to focus on that common operating picture. So we are detecting this together, and we're stopping it together. But we're going to have to

change how our systems work. And think of this as a battlespace, a financial gray zone. And we're going to have to attack it, because it's attacking us right now.

Bob Schieffer: All right. From the audience. Right here, front row.

Q: I would argue that –

Heather A. Conley: There's just a – there's a microphone. Yeah.

Bob Schieffer: Tell us who you are and –

Q: Sure. Michael Greenwald, former Treasury Department.

Q: At the time of the height of Ukraine-Russia, the United States could have decimated the Russian economy, but chose a more scalpel-like approach. Yes, there's innovation since. Juan, what do you see as how much the United States can leverage the U.S. dollar moving forward? What is that scalpel? And given the amount of exposure to dollars, how that can be leveraged going forward?

Juan Zarate: Michael, it's a great question. And thanks for your service at the Treasury Department.

Juan Zarate: You're right, there's been an evolution of how we've thought about the use of sanctions against Russia. Keep in mind, Russia is not Iran and North Korea, right? This is a major G-20 economy, major dependencies in Europe. So initially the sanctions with respect to Russia were designed in a way not to have major implications to the European economy, even to U.S. interests. It goes a little bit to Heather's point about the pain induced by applying aggressive tools. But it's been – it was an aggressive and innovative period in some ways, because it went after particular sectors, particularly debt and equity. And I disagree with Heather in this respect.

Juan Zarate: I think the sanctions can be and have proven to be effective when applied with the strategy and with other tools. They can't just be seen as an on/off switch to be kind of listed, and then left alone, right? I've often said, especially in the context of other types of sanctions, you have to tend the garden, because the target will evolve, there's sanctions evasion, you have to use other tools besides classic sanctions – like anti-money-laundering rules and principles. And so I think what's happened with the Russian program is we've recognized that they're involved in all sorts of things – all the cyber manipulation, the poisoning in London, support to Assad. Even just today the Treasury announced the designation of a Russian bank that's been involved with PDVSA offering debt and equity to the Venezuelan government. There's overlap in some of these programs.

Juan Zarate: And so I think this program has evolved over time. And what we haven't realized is, A, this is a long-term effort. B, it's asymmetric in its design. And, C, to your point about the use of the dollar in the economy – and, I mean, even the euro to a certain extent – we have escalatory dominance in this space. And the Russians realize it. And you remember this, when the U.S. Congress was threatening Russian banks with being deSWIFTed, taken off the international bank messaging system, at the highest levels of the Russian government they said twice: If you do that, we will consider it an act of war. Why? Because they understood the importance of that

system to their economy to do the kinds of things that Heather has laid out, and they also understand that we retain escalatory dominance in this space. What we haven't done is to push the envelope as to what that means.

Juan Zarate: Final point on this, this comes at a time when there are complaints about the U.S. weaponizing the dollar, right? Jack Lew, the former Treasury secretary, warned about overusing sanctions, thinking about the dollar too much as a weapon of statecraft. We're caught in a little bit of a pickle here, because we do need to use our economic influence and power. We do need to use our suasion, and our transparency, and our laws to affect what the Russians are trying to do. So it's a very delicate balance, because we do need to use that authority, that escalatory dominance. But we have to do it in a way where we don't tip the balance in a way that you have negative externalities in reaction to U.S. tools.

Bob Schieffer: OK. Next? How about back here, the lady.

Q: Dr. Elaine Sarao, associate rector of UACU in Kyiv, Ukraine.

Q: Thank you very much for the presentation. It's been illuminating. I would like to ask, given the weaponization of the lack of transparency and accountability, how do you see the last two years of what's taken place in Congress fostering that actually within this – the position, within the United States, and actually making the situation possibly worse? Thank you.

Heather A. Conley: So I actually – I have been hopeful. The Senate last year did a series of hearings – it was a joint effort between the Senate Banking Committee, the Senate Foreign Relations Committee. They were trying to get at this: Are these sanctions working? And trying to think about how to build in that transparency and accountability. I just think the challenge that we're seeing is there's an enormous agenda and a press of business, and things that should be getting done are not getting done. There's an impetus there. A lot of us have testified. We have to change laws. So Congress has a huge role to play in that.

Heather A. Conley: But it's the executive branch that has to implement those laws and that transparency and that sanctions, and even down to the state level. This is hard, hard work. People have been trying to get this legislation passed for two decades and can't. So I think Congress is doing a good job. We need to do more. And they have to press the executive branch, I believe, to do more structural changes.

Bob Schieffer: Well, Heather, what is the executive branch doing on this? (Laughter.)

Heather A. Conley: So I think the individual departments are doing everything that they can within their authorities to try to meet this challenge. The problem is that they're – and you've heard this from many, many experts – there is not a whole of government, White House prioritized and focused way of going after this. If we view this as a 9/11, as an attack against our democracy that comes through different ways, you would have seen the full force of the United States government reauthorizing, reorganizing, restructuring, focusing on this. You don't see that. You see departments and intelligence community doing what they can do with – under their limited authority. And that's the best we've got.

- Michael Isikoff: Isn't that because the head of the executive branch has been under investigation for his ties to Russia and has fought back and called the whole thing kind of a witch hunt? (Laughter.)
- Heather A. Conley: I think there's multiple Russia policies in the U.S. government. This is also the challenge. Congress has one policy. I think the intelligence, defense, and national security community has a policy. And I think the White House has its own policy.
- Bob Schieffer: Mike, I want to ask you – I'll be in the audience now and ask you a question. (Laughter.) We talk about transparency and so forth. A lot of this falls to journalism, it seems to me, and to investigative reporters. How hard is it to do this story?
- Michael Isikoff: It's pretty hard, because, I mean, the core question – and this is something I faced from the beginning in starting, you know, during my coverage in the 2016 campaign of the – what the Russians were up to – is credibility of sources. I mean, look at the dispute just playing out over the last, you know, few weeks about the – Michael Cohen's testimony, in which, you know, certainly what he had to say about the Trump Tower Moscow project, you know, was one of the more significant things we learned from Mueller's investigation.
- Michael Isikoff: And Cohen finally – he pled guilty to lying to Congress the first time, and then he reappears and gives new testimony, and gives new accounts that contradict what the president, you know, has said, and continues to say. And they're going to bring, as a – you know, another key witness in a couple of weeks to testify. That's Felix Sater. So just like think about that, trying to judge the credibility of this trio of witnesses to this one central project of the Mueller investigation – Michael Cohen, convicted felon, Felix Sater, convicted felon, and Donald Trump. Who do you believe out of all that in their accounts? (Laughter.)
- Michael Isikoff: It's pretty tough to figure out. And, you know, obviously what the documentation is is going to be key. But that's – you know, that's been a problem from the get-go, of talking to sources who you have a real hard time trusting that they're giving you accurate accounts.
- Bob Schieffer: All right.
- Heather A. Conley: I will tell you, Bob, investigative journalism is absolutely key to the transparency and the accountability. The Panama Papers was through a group of journalists. We held our first workshop in Prague working on this report with our experts. And just a reminder, that day a young Slovak investigative journalist, Ján Kuciak, was murdered because he was uncovering linkages with organized crime in Slovakia, which – and the government was forced to change over that. A Maltese investigative journalist has been murdered because he was investigating that corruption.
- Heather A. Conley: This is deadly business for investigative journalists that are seeking the truth, and this is the only way. So much of our report, if it weren't for investigative journalism and Panama Papers and things like that, we would not even understand these connections. It's incredibly important.
- Bob Schieffer: Okay, next question.

Bob Schieffer: Right here.

Q: Augustus Alzona. I'm a former financial data analyst, Federal Reserve Board during the golden years of 1980 to '85 under Chairman Volcker – commercial bank report section.

Q: My question is this, is just sort of basically, I mean, at least this sounds like, looking at it in a macro sense, a discussion about accounting, real estate, and ultimately what's the real conflict today, at least in the West: accounting, real estate, and religion.

Q: Now, while the chattering classes in D.C. and in the media are arguing about the Benjamins and AOC and Omar, etc., I'm just thinking, just putting it into maybe a political or a world context, isn't it also about kind of like a realignment of the world between the West, as either led by Western Europe and/or the United States versus Russia and its allies, or developing allies, versus China, sort of like a triumvirate, if you want to use a Roman Empire sort of reference. And it's also about the Chinese U.N. and rubles.

Heather A. Conley: So I think your question is perfectly placed to understand the difference between democracies and institutions, and authoritarians. And if we leave you with one thing as we close up, Bob, the one thing I want to leave with: democracies are different. They demand transparency and accountability. They don't always live up to that aspiration or that demand. Authoritarians don't live up to those views but are very comfortable using our system to put their funds in it. And there is a contestation. There is an ideological difference here, and in some ways this illicit question falls right into it.

Q: Can I ask the question?

Juan Zarate: Hold on, just because I want to answer what you were saying, because I think you're right. And I'm a bit more forgiving of the U.S. government, having served at the Treasury, the White House and the Justice Department, because I think a major challenge for us is exactly – you're describing what Heather is describing, which is, this is a contest of different systems. The way that Russia and China use the global financial and capitalist system is frankly different than the way that Western Europe and North America have traditionally viewed and used that system. And so part of the convulsion here is the recognition that Russia and China are using the very implements of investment, of global capitalist system, of state-owned enterprises to not only further their national security interests, but to undermine U.S. interests.

Juan Zarate: That's a very hard thing for the U.S. government to grapple with, in part because you've got to have a common operating picture, but you also have to have a different model as to how we interact with our private sector, how we think about investment. This goes right to the heart of many of the debates that we're in the middle of. And in some ways, we're about 15 years late on this, because Russia and China have been marching forward with their model. What we're faced with is a Russia and China that are now extending their influence globally, and we haven't quite figured out how to put our own house in order.

Bob Schieffer: All right, your question.

Q: Yeah, the question is – and if you can answer this – if you were to send out either a tweet or have a private meeting with the president, what would you advise him?

Heather A. Conley: Mike, would you like that question?

Bob Schieffer: Michael, you're the man. (Laughter.)

Michael Isikoff: I don't give advice to politicians.

Q: It goes to anybody.

Juan Zarate: I'm happy to suggest it. One, let's not alienate our allies when we need them to confront very hard problems and major competitors in China and Russia. So that's one thing.

Juan Zarate: I would applaud them for what they've done to actually expose what China's been doing, right? The whole spectrum of Chinese activity from IP theft to trade imbalances to cyberactivity, you know, we were long overdue for that conversation. The Trump administration has done that.

Juan Zarate: What we haven't done – and this may go to the investigation, may go to mixed motives – we haven't done it in the Russian context. So I would say let's apply the same energy and focus that we've had on China in the Russian context. Because the danger here is not just what Russia and China are doing, but the lessons learned for America's enemies across the board. We've seen this with Iran. No doubt we'll see it with North Korea. We'll see it with other countries that are taking the Kremlin playbook and making it their own playbook.

Heather A. Conley: Illicit financing is a national security imperative to protect the country. You have to make it stop.

Bob Schieffer: All right. Well, while on that, the one thing I know how to do is get off on time. (Laughter.) The time has come. So thank you all for coming on behalf of TCU and CSIS. (Applause.) Thank you all very much.

(End)