TRANSCRIPT
Podcast

Sanctions in Uncharted Waters

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FEATURING
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Andrew Schwartz: I'm Andrew Schwartz and you're listening to the Truth of the Matter, a podcast by C S I S, where we break down the top policy issues of the day and talk with the people that can help us best understand what's really going on. To get to the truth of the matter about one of the key issues that everyone is talking about, which is sanctions we have with us, really the guy who wrote the book on sanctions. Our dear colleague, Juan, former Deputy National Security Advisor during the Bush administration, the first Assistant Secretary of the Treasury for terrorist financing. Juan, thank you so much for being here. I wanted to ask you right off the top. Are we doing enough with sanctions? Fast enough.

Juan Zarate: Thank you, Andrew. It's an honor to be with you. You're a friend and a great colleague. So I appreciate it. I think the sanctions that have been put in place are pretty dramatic, but in retrospect, I'd say that they've come a little bit too late and we've been reactive with the way we've applied sanctions. And I think, you know, you can Monday morning quarterback this all day long, but I think some of these measures could have been taken prior to the Russian invasion of Ukraine to both demonstrate solidarity with, uh, you know, on the sanctions issues and to, to further deter, Russian activity. But I think the reality is it has taken the invasion of Ukraine to really convert the view of European governments as well as companies that doing business with Russia is dangerous, risky, and also that it's now time to use sanctions in a much more aggressive way than they're used to, to punish, if not to cripple the Russian economy because of what they've done in Ukraine.

Mr. Schwartz: One of the big headlines out of this is that the United States and Europe are really imposing historic sanctions, and they're trying to completely decimate the Russian economy. And they're not so worried anymore about targeting, you know, average Russian civilians. Is this strategy gonna work in your view?

Mr. Zarate: Well, I think you have to take a step back and ask what are sanctions intended to do in any context? Here of course, the weight of the response to the invasion is being put on sanctions and it's somewhat unfair because I don't think sanctions under themselves, even the crippling types and the aggressive implementation that we're looking at now, I think it's very difficult to ask sanctions, to stop, you know, tanks as they're headed toward kyiv or to, you know, draw the flag down over Crimea or to do the really hard things of national security that we're asking sanctions to do. I think when you have an autocratic leader that is intent on a goal like Putin is a nationalist identity driven goal, or if a regime like North Korea in its quest for nuclear weapons is worried ultimately about regime survival. It's hard to ask sanctions to take the full weight of the change of behavior that's required, but certainly sanctions can cripple. I think they can affect the calculus, and they can certainly deter and the nature of these sanctions given how broad they are, how Russian financial institutions are being unplugged, how the Central Bank now has trouble accessing its reserves, all of this in the, in the days and weeks and months to come, will make doing business in, with, and through
Russia very difficult, very costly, and it's going to cost Putin and the Russian economy quite a bit for their misadventures in Ukraine.

Mr. Schwartz: Do you think it's enough to even bring him to the negotiating table or, or to, you know, like you said, this is autocratic leader, who's hell bent on a nationalistic goal that he's laid out. Will Putin actually feel the pain? Will Russia feel the pain of this enough to think twice or to try to, you know, settle this conflict at all?

Mr. Zarate: Well, I don't think Putin will feel it personally. I think he's, he's sort of girded and guarded himself against this kind of a moment. Although you know, the response from the US, Europe and the rest of the world has been probably quicker and more dramatic than even he anticipated, with respect to the use of sanctions. But I do think sanctions have the ability as we've seen in the Iranian context to bring what would otherwise be recalcitrant regime or more, regime that's, you know, intent on a particular goal, forcing them to at least have the conversation about how to lift or unwind sanctions, because they are painful. They constrict the ability of an economy to operate. It makes it harder, costly, or riskier to raise and move money and long term, if you're talking about regime stability, if you're talking about the ability of an economy to generate real growth, to not dissatisfy citizens, sanctions will choke all of that and will have to be lifted. So I do think there's hope that, you know, down the road, these become, the means through which negotiations happen and that what is wielded as the stick today can be used as a carrot tomorrow.

Mr. Schwartz: Are there things that we're currently not doing that we could do to ratchet up the pressure?

Mr. Zarate: Yes. So I think the US government and Europe have left themselves some headroom to impose additional measures. Although we're reaching some of the maximalist sort of, effects of sanctions. I think, you know, in the first instance, not all of Russian finance or the economy is cut off from the international financial system. So for example, the SWIFT measures that is the interbank messaging system. The switchboard of the international banking world, seven Russian institutions have been taken off that system, meaning they can't interact with or transact with the international financial order, but two banks that are left on, Sberbank, the largest Russian institution and Gazprom bank. And those two large institutions are on, in particular to be able to finance and facilitate oil and gas trade deals and transactions. So you could ratchet up and squeeze and close the financial arteries that, that still exist with respect to the Russian system.

The second thing that could be done, and it's now being debated fully, you've seen the Canadians do it unilaterally is, ban trade import in Russian oil and gas. That has the implications, of course, of raising the price of oil and gas in Europe where huge amount of dependencies, 40% of LNG, natural gas supplies come from Russia still in the end stage of winter is pretty dramatic. And the president here has said very clearly that he wants to do everything possible to cushion the
price at the oil pumps at the gas station. So that's a harder debate, but one that is right in the center of gravity. And the third thing Andrew has to do with secondary sanctions you're well schooled and secondary sanctions. This is the ability or the authority that the United States or even Europe would give itself to sanction, not just the Russian institutions or the oligarchs, but those that are doing business with them. So think about the Chinese, for example, that may still be willing to give Russia outlet to the financial commercial world. Secondary sanctions would give US, European, other authorities, the ability to sanction those entities. And it would in essence act as a, a fierce deterrent to those that still wanna do business with the Russian entities that are listed. And all of that in combination, I think would really begin to choke off the entirety of the Russian economy, understanding that there are workarounds always and, and the Russians would find some

Mr. Schwartz: Well, you know, Juan, this was my next question. How does China to factor into this? Because you know, it, it's hard to imagine China trying to truly compete with the United States on a global level economically, if they're isolated from our economy and from our allies, how does China factor into this?

Mr. Zarate: I think China's trying to lay low on this Andrew, to be honest, I think we've seen this in terms of their unwillingness to condemn what Russia's done, but they're obviously not cheerleading either. We've seen some Chinese institutions outside of China decide that they are going to implement Russian sanctions. For example, we saw a bank of China in Singapore declare that they were going to abide by sanctions requirements. And you will see that I think with Chinese institutions operating in Asian countries or in the west where there are Russian sanctions in place, but the Chinese government itself has said they, they are not going to impose sanctions, at least not, not now. And part of this, Andrew has to do with China, its alliance with Russia. Obviously part of it has to do with China, not wanting to give legitimacy to a massive sanctions regime, which they have always bucked at and rejected, and certainly defended themselves against because sanctions, as, as we all know, have been increasing with respect to Chinese behavior, whether it's the treatment of the Uighurs in the west, you know, corruption, human rights issues, malicious cyber activity, so the Chinese are low to give legitimacy to greater international sanctions. And so I think they wanna lay low here. They don't wanna be tainted by what's happening, but they don't want to give any momentum to sanctions themselves, but they will find themselves, I think, in the crosshairs. And I think part of the strategy from the US will need to be putting real pressure and frankly, shining a light on Chinese behavior that may be facilitating Russian sanctions of Asian, Russian illicit activity, or even just regular Russian commerce with those entities that have been designated as a way of pressuring China and making the sanctions more effective.

Mr. Schwartz: How long can China afford to lay low, do you think? Or is that just too hard to measure?
Mr. Zarate: Well, you know, China's a big economy, right? And so they have the advantage of being attractive unto themselves and, and having the ability to obviously operate on their own. They don't want oil prices to go higher by the way, either. So they, they have an interest in making sure that oil prices stay low. We've seen press reporting that, you know, we're seeing the lowest levels of growth in China in recent memories. So they have real turns around their economy and, and making sure that they can run their economy, but it's a big one it's attractive, you know, and, and they are not at risk of having, apple pull out or major American companies pull out simply because they say the wrong thing here.

Apple and these companies have pulled out of Russia.

Mr. Schwartz: That's a fascinating phenomenon here, Andrew, it's worth taking just a second here.

Mr. Zarate: Yeah!

Mr. Schwartz: Because even before sanctions have been put in place or even understood fully, or even if sanctions, haven't applied to some of these companies, they've made decisions on their own to divest, to pull out, to stop doing business. BP, Shell Exxon in the oil sector, Maersk in shipping, Apple as you said, all the tech companies sort of restricting exposure. What it reflects is a real sensitivity, obviously to the, you know, the moral problem that everyone feels at Russian activity. I think we've reached a tipping point with Russian misbehavior as well. There's been plenty of things that the Russians have done that have been bad. And there’s been a little bit of forgiveness in the international banking and commercial world that forgiveness is now gone. And I think there's greater sensitivity to reputational risk in this kind of an environment.

Keep in mind, Andrew, we've been working at this for 20 years where sanctions really are embedded in the risk calculus of how businesses think about their exposure. And we're now in a period where those expectations are growing higher. For example, knowing beneficial ownership- who actually owns and controls entities that are incorporating it in your country, or you're doing business with and sensitivities around things like ESG. So think about the ESG movement around the world where we worry a lot about things like diversity on a board. You've gotta figure that a country going to war with a neighbor without legitimate cause causes a lot of heartburn in boardrooms.

Mr. Schwartz: Yeah. You know, these companies taking action without us putting any pressure on them. Really? What does that tell you about the future of, you know, economics with Russia? I mean, we're still dependent on Russian oil. We haven't cut it off completely yet. And lots of people are asking why we haven't done that. And there's some pretty substantial reasons. Why can you go into that a little bit?
Mr. Zarate: Yeah, and Andrew the premise here and the understanding has to be that we're in uncharted waters, right? We are as a global community trying to isolate a major global economy. And part of the reason there are major global economy is their oil, and gas trade and the dependencies there. This is why the North Stream 2 debate was so central and heated for the last few years, certainly between the US and Germany, and the US and the EU. Nord Stream 2 was going to of course, bring gas from Russia directly into Germany. And the US, you know, had concerns about that. The Biden administration lifted some of those concerns, but the Germans in the wake of the invasion of Ukraine, shelved Nord Stream 2. The US administration followed with sanctions, which basically has put on ice Nord Stream 2. And we now see reports that the company, the Swiss company behind Nord Stream 2 is going into bankruptcy.

So we're talking about a pipeline that will probably never be turned on and it's a reflection of the reality that the Russian economy is being isolated pretty dramatically in an accelerated way. And Andrew, in a way too, that capitals aren't in full control over, right? Because you have companies making their own decisions as to where they're gonna do business or not, and how they're gonna do business in Russia. So how this plays out is not clear to me other than there's going to be a debate around whether or not we ban the import of Russian oil and gas. And I think that eventually happens because if the Russians continue their onslaught and their inhumane bombings of civilian centers, that looks a lot like what they did in Grozny, Chechnya, and Aleppo, Syria, I think the attitude's gonna be, we have to do everything possible to choke this economy and to deprive it of resources. That means you can't pay them for oil and gas. The problem of course, is that's gonna raise the price of oil and gas around the world. Russia will find other ways of getting that to market, you know, they'll barter, they'll trade with folks illegally. Maybe the Chinese will buy it. And, at the end of the day, the Europeans are gonna be hurt the most because of their deep dependence on Russian oil and gas.

Mr. Schwartz: So this is a lever we haven't really touched yet. And it involves all kinds of things in the United States. Like the hundred-year-old Jones act where we, you know, can't transport natural gas cheaply, but we can trade with Russia and they can transport it for us. We talked about that on Trade Guys earlier this week.

Mr. Zarate: That’s a great podcast, by the way. I love the Trade Guys.

Mr. Schwartz: Oh, Hey, thanks, Juan. I'll pass it on to the guys. It'll make their day. But you know, we are in uncharted waters here. And, you know, do you think that this lever, once we actually maybe need to use it, you know, are we then looking- I mean, we're at $5 a gallon in Bethesda right now- it doesn't seem like a departure to get to six pretty quickly. And Americans, you know, have never dealt with something like that before, or at least, you know, in my, my recent memory habit.
Mr. Zarate: Yeah and the danger here of course is sensitivity at the gas pump exacerbates the inflation across the economy, right. So, you know, the Biden administration's gonna be very sensitive to the that, but on, on the broader point, I think this is—we're already seeing in Europe. I think we're going to have to grapple with it again in the United States. I think it has to reshape aggressively the way we think about energy security and infrastructure. To your point about the Jones act, we should be looking at all of our laws and regulations in ways that still protects the environment of course, but that give us the ability to maximize and leverage our ability to actually export oil and gas in the markets and to do so with our European colleagues. There should be no reason that we don't have a 21st century trans-Atlantic energy infrastructure that has us supplying Europe in a way that's good for American energy producers and US energy independence, but also great for European partners so that they're not beholden to Russia. And I think this is the lesson that we've seen. We've seen the Germans now recognize that they've gotta in many ways, think more clearly, more aggressively about this. So I think there's a moment of rupture that is forcing everyone to challenge the old ways that we've done business in the energy sector and find new ways of accessing safer supplies. And the US has ample and safe supplies.

Mr. Schwartz: Yeah. And you know, of course this plays into trying to get to net zero by 2050. So it shouldn't be that we can't do one without the other. It has to be a policy discussion in the United States and a serious one where we take all this into account and try to make sure that we're on track to do a bit of both.

Mr. Zarate: I couldn't agree more, Andrew, I, I have an allergic reaction to sort of binary debates. It's one way or the other. We have to be able to walk and chew gum at the same time, we have to be able to develop the infrastructure and capabilities and efficiency and the scaling of renewables while also using what we have now, given our current infrastructure, given the current security demands, otherwise the Russians are gonna hold us hostage. I mean, that's what we're seeing now. The Russians are holding Europe and the west hostage based on their nuclear weapons and their energy. And it'd be nice to be able to take away the energy card which is also a key financial lever that they have that they use as a sword and a shield in moments just like this.

Mr. Schwartz: That's so well, put Juan. I mean my next question is gonna be- putting on your national security advisor hat. There's some really attractive targets that NATO and the United States could hit to disrupt Russia's attack on Ukraine. For instance, this traffic jam of 40 miles, even Jim clapper was on CNN the other day saying that's a target rich environment. We could take it out with a few, A-10s, but I take it really, what is preventing us from doing that is starting world war II and the real possibility that Vladimir Putin would use nuclear weapons. Is that really the calculation here?
Mr. Zarate: I think so. I think the first sort of principle for the US is not to escalate, right? Not to have this escalate in a way that does have the US or NATO forces in direct confrontation with Russia. So I think that's been the animating principle behind everything we say we are going to do and a lot of the things we say we aren't going to do, which is difficult, right? Because it gives Putin in many ways an easy roadmap as to what his boundaries are and how far he can go. You know, just in seeing what he is doing in Ukraine and seeing what he could do with other non-NATO members, for example, with Georgia, you have to ask yourself if that principle really is a fair one, is a safe one and actually makes a safer or maybe not.

And I think, we see a bit of that debate happening, but in the absence of direct confrontation, I think what you've seen Europe and the US do, and Canada is move toward more direct weapon support. The Germans shifted aggressively on this recently, which was good to see even Sweden, supplying missiles and other weaponry. But that assumes the Ukrainian forces, the Ukrainian people, can survive on their own. It also assumes that supply lines can get these things in to people who can use them. And I worry that this may be too little too late in that regard. But you're right, the challenge is not to escalate this to the point where Putin feels so cornered or confronted that he begins to escalate the means that he's using to attack and the targets themselves. And that's, in part why you have NATO forces, amassing a bit more on the Eastern flank,

Mr. Schwartz: Juan in your judgment, how much can our lethal aid to the Ukrainians really help? And, you know, perhaps also we're giving some, clandestine advice, but how much can that really help them here?

Mr. Zarate: I actually think it can help a lot. Now I have to admit, I don't, I'm not tracking the supply lines and the corridors well enough to say that those are open enough or robust enough for the weapons to get to the right people into the front. Right? So that's a big question- to keep corridors open that allow for supplies to get in, not just humanitarian supplies, but obviously weaponry. That said, I think the US can do a lot. It can do a lot in sharing intelligence, which I understand from press reporting is happening. Where are Russian troop movements? How are they moving their supplies, helping to direct, maybe not target, but to help strategize? So that's all very good. Stinger missiles against helicopters obviously can prove incredibly powerful, even against low flying aircraft below two miles. That’s good!

You have the javelins that have gone in the anti-tank, anti-personnel, missiles. Those can be really effective. And I agree, there are these choke points, the Russians have had trouble with their mobility. There are ways of making this complicated. And the last thing I would say, Andrew is that the Ukrainians, both have a culture and a history of insurgency. You have this from the period of 1944 to 53, 54. I'm not a deep historian in that period in Ukrainian history. But from what I understand from experts, the Soviets lost more people that period in
Ukraine to the insurgency and the partisans than they lost in Afghanistan.

Mr. Schwartz: Wow. I didn't know that.

Mr. Zarate: Yeah. Well, that's- again, full disclosure- I'm not a Ukrainian historian.

Mr. Schwartz: But that's really interesting.

Mr. Zarate: Which again, speaks to the insurgency and frankly, the history of resistance to Soviet, if not Russian oppression.

Mr. Schwartz: Juan, thank you so much for helping us better understand this sanctions picture, this national security crisis that we have and how we're really gonna approach handling it going forward. Thank you so much.

Mr. Zarate: Thank you, Andrew. Thank you for having me. I appreciate it.

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