

Treasury's 'Kremlin Report' Seen as Targeting Russian Economy

The Treasury Dept. has issued a list of some 200 Russians for sanctions, which could impact the whole Russian economy and further exacerbate U.S.-Russian tensions, Gilbert Doctorow explains.

By Gilbert Doctorow

January 29 had been seen as a kind of “D-Day” in Russia, with anticipation and apprehension building for weeks over what many Russians believed could mark a critical change for the worse in relations with the United States. Russian media pitched their coverage to the country’s elites, who were under the Sword of Damocles of new U.S. sanctions that might be directed against them, but also to the general Russian public, who have watched with uneasiness, concerned over the effects of sanctions on the economy, on their livelihoods and living standards.



The document to be released on Jan. 29 was the Treasury Department’s so-called “Kremlin Report,” which identified 210 Russian officials and billionaires considered to be part of President Vladimir Putin’s ruling elite. The report, which the Trump administration was required to file with Congress no later than the 29th under the terms of the Countering America’s Adversaries Through Sanctions Act, could open up these “oligarchs” to sanctions.

CAATSA was passed overwhelmingly by Congress and signed into law by President Trump on August 2, 2017, notwithstanding the Act directly contradicting his stated desire to normalize relations with Russia. His signature was effectively forced, in the recognition that his possible veto would be instantly overridden and further embitter his relations with Congress at a time when his administration had still no legislative achievements to its record.

With the anticipation of a breaking-news story of great importance to the nation, Russian media spared no expense to ensure their coverage of the Kremlin Report on the ground in the U.S. at the time of the release of reports relating to sanctions would be appropriate to the suspense at home. The top-rated Russian state news channel, Rossiya-1 sent its principal talk show presenter Yevgeni

Popov to Washington to head up a panel of local experts that would get extensive broadcast time back home.

Among the American panelists chosen to speak about the Kremlin Report were the credible and well known commentators Paul Sanders of *The National Interest* and David Filipov, until recently the Moscow bureau chief of *The Washington Post*. Their live coverage began at mid-day Moscow time which turned out to be almost 20 hours before the Report about which they were expected to comment was actually released. No matter, talk shows often dwell on speculation and so the medium did not disappoint.

By contrast, American and European media generally reacted more slowly and with less interest to the release of the Kremlin Report, with most coverage appearing only after the fact. While part of the lag might be explained by the timing of the report's release just before midnight on the 29th – and the six-hour time difference between the U.S. and Europe – the differences in coverage may also be explained by the level of prioritization the various players in the media give to Russian affairs.

In any case, be it known that notwithstanding the midnight hour of release, the European newspapers *The Financial Times (UK)* and *Le Monde* were right there in their morning online editions with excellent news coverage of the reports that remained factual and did little or no editorializing. This set them apart from other mainstream print media on the Continent who had zero coverage even in the middle of the business day on the 30th. I think in particular of *The Guardian (UK)*, *Le Figaro (France)*, *Die Zeit* or *Frankfurter Allgemeine Zeitung (Germany)*.

Tuesday morning in the United States found no coverage of the Kremlin Report in mainstream print media including *The New York Times* and *The Washington Post*, despite the report's potential for aggravating U.S. tensions.

Typically on major developments relating to Russia that somehow take an unexpected turn, as was surely the case with the Kremlin Report, the editorial boards take their time, sniff the air to see which way the wind is blowing, and only then commit themselves to an editorial position that directs their journalistic reporting.

And so it was not before mid-afternoon that the online edition of *The New York Times* took a stand on the report. And it was an equivocal and arm's length stand, telling us that the Trump administration had issued a report that managed to offend both sides to the issue: the Russians and the American Congressmen, both sides objecting to the lists and how they were compiled.

U.S. electronic media were faster off the mark and gave much more extensive

coverage to the issue. None entered the fray with greater zest for the scent of blood than CNN, the longstanding *bête noire* of the Trump administration. CNN reporter and guest experts rounded on the President for defying the will of Congress and not immediately ratcheting up the sanctions on Russia to punish them for their meddling in the 2016 presidential elections and to prevent continued meddling in the 2018 midterm elections as CIA director Pompeo had warned might happen just the day before.

Meanwhile, Bloomberg's online article on the sanctions was factual if brief, while their opinion writer specializing in Russian affairs, Leonid Bershidsky, smelled a rat in the way the lists of officials and in particular "oligarchs" had been compiled. As one-time chief editor of the Russian edition of *Forbes*, the rather embittered anti-Putin émigré Bershidsky used his space less for objective analysis and more for editorializing on how the lists really should have been drawn up and on how sanctions should have been imposed now.

Russian concerns over what exactly the Trump administration would issue had been fed by statements to the media from several advisers to the sanctions list project, all of whom have well established reputations as Russia-bashers. I make reference to the authors of an article entitled "How to Identify the Kremlin Ruling Elite and its Agents. Criteria for the US Administration's Kremlin Report" published by the Atlantic Council on November 13, 2017.

These authors are Anders Aslund, Daniel Fried, Andrei Illarianov and Andrei Piontkovsky. The idea they wished to see realized was an exposé of Putin and his "cronies," tracing their alleged illicit gains through corruption and abuse of power. Their view follows directly on the principles that guided the first American sanctions on Russia, the Magnitsky Act of 2012. In the days just before the 29th, Russian television carried a short video of several of the authors. One, Aslund, boasted that the coming sanctions would be "smart," as in targeted against the malefactors running things in Russia while doing no harm to the general population.

For more than a week in advance of what they called "Judgment Day," Russian media had featured warnings that the Kremlin Report could spell sharply stepped up sanctions. In Davos last week, Andrei Kostin, CEO of VTB Bank, one of the country's largest state-owned financial institutions decried the expected new sanctions as all-out economic warfare which would get a very harsh response from the Kremlin.

Against the background of threats by American Neocons and Russian fears and warnings in response, US Ambassador in Moscow Jon Huntsman had, in the meanwhile, been issuing statements to the press insisting that the sanctions would not be a serious impediment to relations,, that he sought dialogue with

Russia just as his counterpart, the Russian Ambassador in Washington, was doing, and that there remain prospects for cooperation in areas of common interest notwithstanding the disagreements making the news.

So we must ask yet again, which voice on Russia policy coming from Washington is authoritative? Who has the upper hand: Congress or the White House? And within the administration, the President or his cabinet, and in particular his Secretary of State, who has in recent months become an intellectual hostage to the same neocons who ran the Obama foreign policy and before that the foreign policy of George W. Bush?

The Kremlin Report mandated by U.S. law was released to the public by the Treasury at the same time as a longer secret redaction was delivered to Congress. The time of delivery and more importantly the content of the report suggest that the Trump administration was responding to the letter of a law that the President had opposed but could not veto given its fulsome support in the legislature.

Yet, the administration dragged its feet and produced at the very last moment a report that could have been compiled in a couple of hours if it so desired. And the public version of the report itself is so patently absurd in content as to bring ridicule on the Congress that ordered it.

To wit, as the few Russians who were amused by this cynical anti-Russian exercise commented, the authors of the Kremlin Report lists of 200-plus Russians eligible for future sanctions just took the telephone directory of the Russian cabinet of ministers, presidential administration, and parastatal institutions and copied down the names of the top officers. The only high official omitted was Vladimir Putin himself.

As for the "oligarchs," they were arbitrarily defined as persons with net worth of more than \$1 billion, as shown in the Forbes ranking of the 100 richest persons in Russia.

If there was any exposé, any dirt on Russia's government and business elite in the secret version of the report, one can be sure that would have been leaked by now, given past behavior of the US authorities in anti-Russian operations. Nothing at all has surfaced so far.

This, of course, did not prevent the Russian authorities from hyperventilating over the sanctions report when asked to comment by local and international media today. For his part, while attending a campaign gathering, Vladimir Putin explained his views on the Kremlin Report in taking a question from the floor as to why he alone in the government was not on the sanctions list.

Putin said that the report named individuals who hold sway over whole sectors of the economy and strata of the population, which means, in a sense, that the sanctions lists embraced the entire Russian nation of 146 million people.

He noted that things could have been worse, and that he had been prepared, if necessary, *to cut all ties with the United States down to zero*. Nonetheless, he deemed the release of the Kremlin Report to be a hostile act that would contribute only to further deterioration of relations with the United States. For the moment, he said, there would be no Russian counter-measures, with his government adopting a wait-and-see posture.

Indeed, while the Kremlin Report did not introduce new personal sanctions and only identified those who would be the first to feel them if the situation justifying sanctions changed, that situation itself is very much under the control of American authorities and their proxies in Ukraine, in the Baltics, in Syria. The possibility is ever present that some miscalculation or some provocation would once again bring opprobrium upon the Russian Federation and prompt imposition of severe sanctions that were averted now.

Finally, let us consider the second report delivered by the Trump administration to Congress under the terms of the CAATSA: the report on advisability of further sectoral sanctions on Russian companies.

This was still briefer and will surely be questioned by the Russia-bashers in Congress. The administration reported that the existing sectoral sanctions on Russia's military industrial complex and on those who do business with it domestically in Russia and abroad were working effectively, so that no further sectoral actions were required. Specifically, it was claimed that thanks to the sanctions in place, Russia had been denied sales of arms worth several billion dollars.

That claim may be hard to verify, but January 29 was also the effective date for application of previously enacted sanctions on companies anywhere in the world doing business with prescribed Russian defense manufacturers and sales or import entities.

The ultimate objective of these sanctions is to attack Russia's arms sales abroad which amounted to more than \$14 billion in 2017, making it one of the largest suppliers worldwide. Major customers for Russian arms were India, China, Algeria, Vietnam, Iraq and Egypt as reported by the news agency RBC quoting *Jane's* for 2016.

Theoretically the U.S. can punish companies violating this ban on dealings with the Russian military industrial complex by applying any of five different

sanctions including restricting their access to credits from American banks, a prohibition on carrying out transactions in dollars, or barring their officers from entering the United States.

However, in practice these sales can be shifted from private companies to Ministries of Defense, and then the feasibility of attaching sanctions becomes doubtful. The recent efforts of the U.S. to persuade the Turkish authorities to abandon their \$2.5 billion contract with Russia for procurement of its S-400 air defense system failed miserably. In these open trials of strength with the objective of punishing Russia, the United States exposes itself to failure and humiliation.

To summarize, should the United States resolve one day to impose sanctions on the whole Russian government listed in the Kremlin Report of 29 January, it will create a barrier that will quickly be broken by kinetic action, meaning a hot war with Russia.

If it implements the possibilities it theoretically enjoys against Russian industrial sectors, and in particular against the military industrial complex, then it is likely to suffer humiliation as other nations refuse to be bullied. For the United States in relation to Russia, the whole sanctions game amounts to a “heads you win, tails I lose” proposition.

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