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Office of the Press Secretary

For Immediate Release

July 29, 2014

Background Conference Call on Ukraine

Via Telephone

3:58 P.M. EDT

MS. LUCAS MAGNUSON: Hi, good afternoon, everyone. Thanks for your patience. Welcome to the call to explain the sanctions that we just rolled out -- that the President just spoke to. This call will be on background. All information will be attributable to senior administration officials.

With that, I will turn it over to senior administration official number one.

SENIOR ADMINISTRATION OFFICIAL: Great. Thanks, everybody, for getting on the call. I'll just make a few comments to give an overview, and then hand it over to my colleagues to go into more details about what both the United States and Europe did today.

First of all, you have seen since the shoot-down of MH17 the United States make very clear that we believe there needs to be greater costs imposed on Russia for its actions. That includes the shoot-down of MH17 from Russian-backed separatist-controlled areas, and it also includes the continued efforts by Russia to arm and support the separatists who are inside of Ukraine.

And we have put out a substantial amount of information in the last several days. We believe that military equipment -- including artillery, armored vehicles and air defense equipment -- recently departed from the deployment area west of Rostov, and we're concerned that this would continue the flow of support to the separatists.

We have seen Russia continue to accumulate a significant amount of equipment at a deployment site in southwest Russia that includes tanks of a type that are no longer used by the Russian military, as well as armored vehicles, multiple rocket launchers, artillery, and air defense systems. We saw additional towed artillery departed this site this week, and we are concerned that it will be transferred to separatist fighters.

I'd also note that after recapturing several Ukrainian cities last weekend, Ukrainian officials discovered caches of weapons that they assert came from Russia, and that includes MANPADS, mines, grenades, MREs, vehicles, and a pontoon bridge.

And we've also seen a buildup of Russian forces near the Ukrainian border.

So all of that is in addition to the flow of heavy weapons and support that we've seen from Russia into Ukraine over the last several weeks, and it has not abated since the tragic shoot-down of MH17.

The President has focused, since the beginning of this crisis, on coordinating with a broad, international coalition, specifically with our European allies in particular. And since the shoot-down of MH17, he has spoken many times to

European leaders, including several conversations with Prime Minister Rutte of the Netherlands, given the Dutch lead in the investigation, and most recently yesterday doing a videoconference call with his counterparts from Germany, the United Kingdom, France, and Italy.

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And we have very much encouraged the Europeans to take additional steps to impose sanctions in key sectors of the Russian economy. And today, the Europeans followed through on that commitment. And this is entirely consistent with the conversations that the President had with European leaders in Brussels at the G7, at the EU. We have been working this issue for several weeks, if not months now, and today we see the coordinated action that is a result of that leadership by the President.

Let me just say a few things. My colleagues will get into the additional sanctions imposed by the Treasury Department and the Commerce Department. I do just want to note that today's actions include steps by a range of U.S. agencies. So, for instance, USDA is suspending all bilateral export credit and development finance for Russia. OPIC has suspended consideration of any new financing and insurance transactions in Russia. And as a result of the sanctions imposed today, the Export-Import Bank is imposing a hold on all new transactions for exports to Russia. So these are very broad actions across the U.S. government.

But with that, I'll turn it over to my colleague from Treasury.

SENIOR ADMINISTRATION OFFICIAL: Thank you. And let me just give a quick overview of the actions we've taken today, and of course we'll be available for questions should people want to go into more detail. These actions today of course build on a series of actions that we've rolled out over the last month to respond to the provocations from Russia. We have targeted leaders who have been responsible for the Russian intervention. We've targeted cronies or oligarchs. We've targeted separatist leaders and groups, and others responsible for the violence and instability. And we've also taken a number of steps that target sectors of the Russian economy and go after key firms within those sectors. You're seeing more of that today.

Today, we have expanded the list of financial institutions that are sanctioned under Executive Order 13662 to include three additional major Russian state-owned banks. These are VTB Bank, Bank of Moscow, and Russian Agricultural Bank. As with our actions two weeks ago, we are prohibiting U.S. persons from dealing in any new equity from these banks or of these banks, and issuing or handling any new debt of longer than 90-day maturity.

As a practical matter, this will close those banks off from the U.S. as sources of medium- or long-term financing. And I would note that these three, as well as the two banks that we designated under this measure two weeks ago, hold a very extensive amount of U.S. dollar-denominated debt.

Second, we designated today a Russian defense technology firm under Executive Order 13661. The name is United Shipbuilding Corporation. It's been designated for operating in the Russian arms and defense sector, and it expands on the list of eight firms that we designated just two weeks ago. As a result of this action, any assets that it holds or tries to move through the U.S. financial system will be blocked, and any transactions with U.S. persons are prohibited.

I want to stress the significance of the steps we've taken today, and you'll shortly hear about additional actions from my colleague at the Commerce Department. Executive Order 13662 authorized Secretary Lew to identify sectors of the Russian economy and then to select specific targets for action. This is a broad, powerful and flexible tool. We've used it today in that way, and we have made very clear that we can and will continue to increase pressure if Russia does not change course.

We've already seen substantial impact on the Russian economy from the actions we've taken to date. And we've seen the Russian ruble depreciating nearly 8 percent just since the beginning of the year, despite heavy intervention by the Russian Central Bank. The Russian Central Bank has spent over \$30 billion this year in an effort to stabilize the ruble and, as you can hear, quite unsuccessfully.

Third, the IMF expects as much as a \$100 billion of capital flight from Russia this year. And we've seen Standard & Poor's downgrade Russia's sovereign credit rating to BBB-, one notch above junk status. Those four indicators that I just cited are before the actions that we announced today and the actions that the EU is preparing to announce.

With that, I want to turn it over to my colleague from the Commerce Department.

SENIOR ADMINISTRATION OFFICIAL: Thank you. So the Commerce Department has announced two actions today. First, in line with the Treasury announcement on the action on United Shipbuilding Corporation, we are adding them to our entity list.

We already have eight Russian defense enterprises that have been sanctioned by Treasury on our entity list. To remind everyone the consequence of a foreign party being on the Commerce entity list, is it imposes an export license requirement for all items in the U.S. economy going to that entity regardless of their significance and regardless of whether they're exported directly from the United States or re-exported from a foreign country. It also includes the re-export of foreign-made end items if they include U.S. content that's over 25 percent of the value of that foreign-made item. So it's really the trade equivalent -- or a complement to the Treasury's financial sanctions in that respect.

I'd also remind everyone that we had previously announced defense-related export licensing policy. We are not approving any licenses for military items to any end-user in Russia or dual-use items to any military end-user in Russia or end use.

The other piece of our announcement today is that we are going to impose export license requirements on a universe of technologies if they're to be exported or re-exported to Russian deepwater, Arctic offshore, or shale oil production activities.

And these are designed not to impact Russian current production but to impact their ability to produce in more technologically challenging future projects. And we'll have a regulation that will be published in the Federal Register in the next few days that will impose this export license requirement for energy-related technologies in, as I said, deepwater, Arctic offshore, and shale projects.

And so those are the Commerce actions that are being announced today. From that, I guess I turn it over to my colleague from the State Department.

SENIOR ADMINISTRATION OFFICIAL: The European Union today announced a series of measures of its own, including some strong sanctions. I'd commend you the statement by Herman Van Rompuy, the President of the European Council, that came out a few hours ago.

The European Union sanctions are the result of obviously the work of all 28 members and the commission, but follow a period of many weeks of close consultations between the United States, the European Union, a number of member states, and other governments as part of the President's instructions that we coordinate our sanctions and the international reaction to Russia's aggression against Ukraine.

So the European Union steps are strong. They are significant. They represent a new step for Europe, and one which we and the Europeans have taken together. Those steps include financial sanctions -- that is, the Europeans have limited access to European capital markets for Russian-state banks. That is their equivalent to some of the steps that we have taken both on July 16th and today. The Europeans have imposed an embargo on trade and arms with Russia, which is forward-looking.

You heard my colleague mention that we have a similar restriction on arms exports to Russia in place. They have established an export ban for dual-use goods for military end-users, which is something also similar to what we have. And finally, the European Union has curtailed Russian access to sensitive technology by restricting the export of such technologies in the field of the oil sector. Again, that is very similar to what we have done. In the world of sanctions, which is a complicated world -- made more so by the differences between our legal systems -- this represents a high degree of coordination, and one which we think helps advance our common policy of sending a message to Russia about its behavior in Ukraine.

So we welcome the European Union statement today. We're glad we've worked with them. We think that the cooperation has had the right impact, both on Russia and around the world in that it shows our determination to respond to what the Russians have been doing in Ukraine.

Q Hi, guys. Thanks for doing the call. Appreciate it. I wonder if you could elaborate on the last part, the impact of these energy, technology sanctions, and particularly on the cooperation between Russian firms and ExxonMobil, BP, other Western firms. What kind of impact will this have on the kind of projects that they've been doing? Or is this strictly a more theoretical thing in terms of teaser things they might want to do down the road?

SENIOR ADMINISTRATION OFFICIAL: The intention of the oil technology licensing restrictions is not to affect current oil production or Russian sales right now, but it does have and will have a cumulative impact on development of future fields, particularly the exotic fields -- Arctic, deep sea, and shale. And the impact of these restrictions will grow over time.

I think my colleague from Commerce can talk about more specific impacts of projects.

SENIOR ADMINISTRATION OFFICIAL: Yes, the thing to keep in mind on this is, in these three areas -- the deepwater, the Arctic offshore, and the shale -- the Russians are generally just at the beginning stages of trying to develop that kind of exploration and production. So certainly, to the extent they're looking to get commodities, software, technology for those forward-looking projects, this will have a significant impact, with the U.S. and the Europeans having very similar restrictive policies for those items.

Q Similar to Peter's question, can you give us a sense of what portion of the energy industry -- it sounds like you've covered that -- and what portion of the financial industry are going to be affected by this? When you mentioned these few banks, does this affect 25 percent of their financial sector, or 10 percent? Just some sense of the portion. Or is this just nibbling at the very edges?

SENIOR ADMINISTRATION OFFICIAL: So let me talk to the financial side. With the three banks we've designated today, all of which are in the top six of Russia's overall banks, we've hit 30 percent of the Russian banking sector in terms of assets. And all of this has of course been focused on the state-owned side. We have not been targeting private Russian banks.

SENIOR ADMINISTRATION OFFICIAL: If you combine the three banks we've designated today and the two banks which the United States designated on July 16th, I believe that we have hit five of the six largest state-owned banks in Russia.

SENIOR ADMINISTRATION OFFICIAL: I'd just add to that that what you're also seeing is there's a direct impact that comes from the target of our sanctions, but then there's a broader impact on the investment climate in Russia. Essentially, Russia is not a very good bet right now for international investors. And that broader chilling impact has effects related to capital flight, which has been substantial this year; with respect to growth rates, which have been revised down. So you have the immediate impact from the sanctions, but then when people see the collective movement of the United States and Europe into these key sectors, including the financial sector, that also shapes the environment for the Russian economy generally.

Q The story was somewhat similar about the banks as to targeting the largest state banks. Can we get a sense, though, what percentage of the consumers are affected by the state banks? I know Bank of Moscow clearly has a fairly large consumer reach, but are you making an effort not to touch the average Russian, or do you want the average Russian to feel some of this pain to pressure the government?

SENIOR ADMINISTRATION OFFICIAL: You've seen the actions that we've taken here are very carefully constructed. These are not prohibitions that would attach to a Russian account holder moving money and dollars, or moving money abroad. These prohibitions are targeting the banks themselves and their long-term stability.

So it's not a blocking. What it is, is a prohibition on them obtaining medium- or long-term debt financing, or issuing any new equity. And between the action that we took and the EU took -- that we've taken and that the EU has taken -- basically they're out of business in the longer-term debt market, because all of that is supplied in the euro and the dollar. And the banks we've named today, just to give you a sense: VTB Bank currently holds \$21 billion in foreign debt -- 80 percent of that is in dollars; Russian Agricultural Bank, 90 percent is in dollars; and for Bank of Moscow, 100 percent of their current debt is denominated in dollars.

So you're talking about a real vulnerability, especially when the EU and U.S. act in concert as we've done today.

Q Just a basic question. What exactly do we want the Russians to do, to see these things scaled back? I mean, what's our -- specifically at this point, what are we demanding? And if they continue on their current course, is there another round in the offing or is this really the big one?

SENIOR ADMINISTRATION OFFICIAL: First of all, when we were at the G7 meeting, and in subsequent conversations that the Europeans have had with President Putin, we've been very clear about what are the conditions that need to be met by Russia. Number one, they needed to recognize the Poroshenko government as the legitimately elected government of Ukraine. Number two, they needed to stop the provision of arms and materiel across the border into Ukraine. They needed to stop their buildup of military forces along that border. And they needed to use their significant influence on the separatists to bring them into a political dialogue with the government in Kyiv.

And President Poroshenko put forward a peace plan, along with Chancellor Merkel and President Hollande's support, that made clear that the Ukrainian government was prepared to abide by a cease-fire and engage in discussions with the separatists in eastern Ukraine about decentralization; that Russia could be a part of that dialogue as well. But we saw both the separatists and Russia fail to live up to those terms.

So there still is an off-ramp available to Russia and to President Putin. And the basic elements of that off-ramp have been very clear for the last several weeks: Stopping the flow of weapons and support to the separatists; pressing them to come to the table in peaceful dialogue; de-escalating the Russian buildup along the border; and engaging in a political settlement inside of Ukraine with the government of Kyiv that addresses the interests of all of the people of Ukraine. And that continues to be available to Russia, and we will continue to hold that door open. So that's the first question.

On the second question, these are the very powerful sectoral sanctions that you've heard us describe for a number of months now. We always have additional targets that we could add to these sanctions; however, I think today's step is a very substantial move by the United States and Europe together, and we will certainly want the impact of these sanctions to sink in and to test Russia's willingness and capacity to take the path of de-escalation.

So again, we always have additional sanctions available to us, but I think this is the very significant step that you've heard us describe as the United States and Europe moving into sectoral sanctions together. We, of course, have moved into sectors with our last round of sanctions, and now the Europeans have joined us there. And again, I think this will send a powerful message about Russia's behavior in supporting these separatists, and a powerful message to the people of Ukraine that the international community is supporting their sovereignty and territorial integrity.

Q Hi. You just actually answered the question I had about whether or not you were talking about -- there was some kind of talk of an off-ramp with Putin, but I think you just answered it.

SENIOR ADMINISTRATION OFFICIAL: Thanks. We'll take -- got time for like two more questions.

Q Thanks. At the outset, you described the military buildup along the border and inside Russia in a way that obviously raises the question of whether expanded military action may be ahead. So I want to ask whether there are any non-economic sanctions, measures that the U.S. and/or its allies are taking to deal with the possibility of military escalation in eastern Ukraine.

SENIOR ADMINISTRATION OFFICIAL: Sure. Let me just say a couple of things here.

First of all, this is continuing a pattern that we've seen of Russian buildup along its border of arms and heavy weapons and materiel flowing across the border, and frankly, even Russian leadership among the separatists. As we've pointed out, a number of the separatist leaders are actually Russians, not simply ethnic Russians, but Russian citizens with Russian addresses. And we pointed out earlier in the week the artillery that we've seen fired across the border, as well. So this has been a disturbing pattern of Russian support for the separatists. The economic cost of the sanctions we believe are the most significant tool that we have to shape Russian decision-making, and so that's why we focused our efforts with Europe on what we can do to impose a cost on Russia and to isolate it internationally.

But we also have other elements of our policy that are focused on support for the Ukrainian government, and that includes very significant economic assistance as Ukraine reforms and stabilizes its economy. That includes support to the Ukrainian military, and we have ramped up our non-lethal support in areas like night-vision goggles, body armor, communications equipment. And we regularly discuss with the Ukrainians what their needs are in that

respect, again, not with the intent of seeking to overnight bring the Ukrainian military into parity with the Russian military -- that's not going to happen -- but rather with the intent of filling some immediate needs for the Ukrainians while also having a longer-term conversation with them about how we can help train and equip their security forces in a way that helps them modernize and professionalize over time.

So again, I think our immediate focus is on sending a message to Russia about the cost of its actions. And the fact of the matter is Russia finds itself today more isolated than at any time since the end of the Cold War, suffering the economic impacts of these sanctions, the political and diplomatic isolation that comes with its decision-making in Ukraine. And that to us is the most powerful incentive we have to try to shape their calculus.

I'd also add the Europeans moved in a very strong fashion today, but this is hardly just the United States and Europe. Canada has been very strong in imposing sanctions on Russia. Japan has joined us through the G7 and has imposed some of their own sanctions. The Australians have been very outspoken since the shoot-down of MH17. So increasingly, this is a global chorus of voices that are speaking in opposition to what Russia is doing to its Ukraine policy.

Q Hey, guys, just a quick question on the big three banks, including VTB. I know you've talked a little bit about the effect on consumers, but does it mean at all that credit cards could stop working tomorrow for Russians? Or are they affected at all, especially Visa, MasterCard and American Express, that kind of thing?

SENIOR ADMINISTRATION OFFICIAL: I think your question goes to impacts we saw earlier when we designated -- froze the assets of and prohibited all transactions with Rossiya Bank, which is a bank controlled by and owned by Russian cronies that we had designated. The actions we've taken with respect to these five major state-owned banks is not asset-blocking and it would not prohibit the provision of credit card services. It goes to their ability to obtain medium- and short-term debt financing prospectively from the U.S. and from Europe.

MS. LUCAS MAGNUSON: All right. Thanks, everyone, for joining. That concludes the call. Just as a reminder, all this information is on background attributable to senior administration officials. And have a nice day. Thank you.

END
4:28 P.M. EDT

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