

**Testimony of Ambassador James C. O'Brien
Coordinator for Sanctions Policy, U.S. Department of State
before the Senate Foreign Relations Committee
“Keeping the Pressure on Russia and Its Enablers: Examining the Reach of
and Next Steps for U.S. Sanctions”**

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Chairman Menendez, Ranking Member Risch, distinguished members of the Committee: thank you for the opportunity to speak with you today on the Department of State’s work to impose costs on Russia and promote accountability for its unprovoked and unconscionable aggression against Ukraine.

Like our other policy tools, our sanctions and export controls are intended to ensure that Russia faces a strategic defeat. We have three objectives for this sanctions program: 1) depriving Russia of resources and technology it can use to sustain its unjust war; 2) reducing our and our partners’ reliance on Russia; and 3) maintaining global markets in key commodities.

I have two key messages to share with you today:

First, there is clear evidence that our sanctions are working to achieve these objectives. *Our sanctions are constricting Russia’s resources, denying Russia and prominent Russians the benefits of the rules-based global economy, and promoting accountability for the atrocities and abuse inherent in Russia’s imperial project.* Our success is increasing our own freedom of action, while it is furthering strategic failure for Russia.

Second: this success is the result of working in coalition with allies and partners, and together *our resolve is strong and unwavering. Our pressure will intensify unless and until Putin relents in his unprovoked war against Ukraine.*

Of course, sanctions are just a part of our overall policy response. Our robust economic and military assistance to Ukraine, the coalition we have built in solidarity with Ukraine, and most of all, the incredible courage of the Ukrainian people and their leaders, are the driving forces behind this effort.

Vladimir Putin made the choice to unleash this war and inflict untold damage on Ukraine and the Ukrainian people, and also on global food and energy security.

The crises launched or exacerbated by Putin's war are felt far beyond Europe, and the United States has rallied the world to respond.

I expect that Putin will keep fighting as long as his stores of weapons and money hold out. But our sanctions are constraining Russia's ability to develop, produce, maintain, and buy weapons; to replace key components for his war fighting equipment, and to sustain the pace of his efforts. We understand that for Putin, this is not just about one attempted conquest. He has embarked on an imperial project, and we are limiting his ability to wage war, now and in the future.

As you know, I started my job as the Coordinator for Sanctions Policy at the Department of State in April 2022, after my Senate confirmation. I am grateful for the support of this Committee. What struck me about the Russia sanctions program when I first came on board was the sheer magnitude of what the Administration had accomplished in so brief a time. The scope, breadth, and pace of our Russia sanctions program is unprecedented. Our efforts have been more innovative and more far-reaching than the Russian government and many others expected.

More than 1,000 companies, as documented by a Yale study, have withdrawn from Russia. Nearly 40 countries around the world have joined us in imposing costs on Russia for its unconscionable war on Ukraine. These numbers are testament to the fact that the Russian government's actions not only have made normal economic relations with Russia unpalatable, but unwise from a national security perspective. The global response—from traditional partners like the UK and the European Union to partners that are relatively new to deploying sanctions, such as Australia, New Zealand, Korea, and Japan—has been a game changer on many levels. This broad coalition of partners expands the reach and impact of our sanctions, and also sends a clear message of unity in opposing Russia's egregious behavior. I work daily, with teams across the interagency, to ensure that the United States and Europe are aligned to the maximum extent that our different legal and political systems allow, and to bring new partners along in our efforts.

Since February 2022, the United States has designated roughly 2,000 Russian, Belarusian, and Ukrainian individuals and entities for their involvement in and/or support for the war, cutting them off from the U.S. financial system. This includes key nodes in the Russian military-industrial supply chains, and the oligarchs and cronies who steal from the Russian people to line their own pockets and help Putin perpetuate his war. Further, the Russian Elites, Proxies, and Oligarchs (REPO) Task Force has blocked or frozen over \$30 billion worth of sanctioned Russians'

assets and immobilized about \$300 billion worth of assets of the Central Bank of the Russian Federation.

Our most recent action included the designation of more than 70 targets, including leaders of Russia's financial institutions, high-tech companies in the Russian defense sector, and human rights abusers acting in Ukrainian territory that is currently controlled by Russia. This action included the designation of 22 Russian-imposed proxy officials, including five who have overseen the seizure or theft of hundreds of thousands of tons of Ukrainian grain, exacerbating food insecurity around the globe. The United States will continue to take actions against those who are involved in, or support, Russia's defense-industrial base, its abuse of human rights, and its attempts to legitimize its seizure of Ukrainian territory, wherever they may be.

We also continue to coordinate with partners to close gaps and share information on our priority targets. For instance, after close collaboration with allies, one of our previous rollouts included oligarchs sanctioned by the EU, UK, and/or Canada, including Dmitriy Pumpyanskiy, Andrey Melnichenko, and Viktor Rashnikov. Our continued cooperation on future actions will further the momentum of our sanctions programs.

Sanctions are working

There is clear evidence our sanctions are reducing Russia's access to the resources and technologies it needs to fund, maintain and field a modern military to conduct a modern war. These effects will only increase over time.

The cracks in Russia's economy already are showing: the Russian government defaulted on its foreign currency debt for the first time since 1918, when Lenin ruled the country; Russia's credit ratings have cratered, making borrowing expensive and harder to source; Russia is burning its budget propping up industries hurt by sanctions and pursuing violence against the Ukrainian people. The Russian government ran a monthly budget deficit in July and August alone of over \$21 billion, and on September 16, the Kremlin announced intentions to cut ten percent of all non-military government spending.

We do not have a full picture, since the Russian government has refused to release much key economic data in recent months. So debates will continue on the macroeconomic situation in Russia. But from what we can see right now, it

appears that the Russian government has avoided a collapse of its financial system only at considerable costs, including strict capital controls and extraordinary measures by the Central Bank. Russia effectively is frozen out of major international debt markets, and sanctions restrict U.S. and partner investors from making new investments in Russia. This hamstringing the Russian government's capacity to draw investments from outside Russia and raises government and private sector borrowing costs.

Our efforts to disentangle Russia from global supply chains and deny it the benefits of integration in the global economy are having a significant impact. Russia's inability to get microchips and other imports has been devastating for many industries; for example, passenger car manufacturing is down between 80 and 90 percent year on year. The lack of access to imported inputs and finished goods—particularly goods embedded with sophisticated technologies—has created bottlenecks that are impairing not only industrial production and transport, but importantly, the production and maintenance of military equipment and hardware.

Even Russian government statistics show a decline in industrial production year-to-year for July 2021 to July 2022. Overall manufacturing was down 1 percent. Chemical and chemical products was down 4.5%, optics and electrics down 3.2 percent. There was an even steeper decline in electronic equipment (down 10 percent) and textiles (down 15 percent).

Our sanctions and export controls target key “chokepoints” for the supplies and technology that Russia's defense sector needs to wage war, whether now or in the future. As the chair of NATO's Military Committee reported earlier this month, our work is impeding Russia's ability to replace cruise missiles and more advanced weapons. Already, Russia has been forced to seek military equipment from Iran and the DPRK. News reporting shows Russia cannibalizing commercial goods to obtain microchips and other microelectronics for use in the defense sector. Russia's diminished future economic prospects will further hamper its ability to fund its military. Going forward Russia has two choices: it can spend more of its shrinking GDP on the military, or it can fund fewer of its military ambitions.

Vladimir Putin has for years focused on leveraging advanced science and technology to strengthen Russia's defense capabilities. So the most recent package of sanctions that we released on September 15 included targeted sanctions on companies engaged the development of semiconductors, microelectronics, and advanced computing that support Russia's Ministry of Defense.

Our sanctions also throw a spotlight on the atrocities and egregious abuses of human rights that are inherent in Russia's imperial project in Ukraine. The Department of State has imposed visa restrictions on nearly five thousand individuals in response to Russia's full-scale invasion of Ukraine, including for human rights abuses, violations of Ukraine's sovereignty, and suppression of dissent in Russia and abroad. Treasury's recent designations include a neo-Nazi group that fights for the Russians in Ukraine, and the Russian official responsible for the forced deportation of Ukrainian children to Russia. We also track and expose Russia's theft of Ukrainian grain, and we most recently designated five Russia-appointed authorities who oversee grain theft operations in the territories they control.

As President Biden declared on September 23, the United States will never recognize Ukrainian territory as anything other than a part of Ukraine. Russia's referenda are a sham. Moscow is creating a false pretext to attempt to annex parts of Ukraine by force in flagrant violation of the United Nations Charter and international law. The United States stands with our allies and partners around the world as well as with every nation that respects the core tenets of the United Nations Charter, rejecting whatever fabricated outcomes Russia will announce. We are working with allies and partners to impose additional severe and swift economic costs on Russia.

What We Are Doing to Help Markets Run Smoothly

I have shared with you the clear evidence we already have that our sanctions are working; but we know that they will take time to achieve their full effect. That is why one of our priorities in our sanctions policy is to ensure that global markets continue to function smoothly; this is important for the overall success and sustainability of our sanctions.

In spring, the Biden administration announced a historic release from the Strategic Petroleum Reserves. The President's historic action is in addition to agreements with International Energy Agency member countries for collective action to address the market disruption caused by Russia's invasion of Ukraine. My Treasury Department colleague will discuss the G7's commitment to implement a price cap for crude oil and petroleum products from Russia. The price cap advances our twin goals of denying Putin revenue to fund his brutal war in Ukraine, while also putting downward pressure on global energy prices by allowing Russian crude oil and petroleum products to continue flowing to the

global market.

We have also taken extraordinary steps—along with our EU partners and the UN—to ensure Ukraine is able to export its grain and cooking oil to a hungry world. In the aftermath of Russia’s further invasion, Ukraine’s food exports plummeted to 300,000 metric tons per month. We supported the EU’s development of “Solidarity Lanes,” strengthening Ukraine’s east-west trade routes via road, river, and rail. And in August, the EU Solidarity Lanes brought out three million metric tons of grain and oilseeds. Still short of the pre-war levels, but an amazing achievement. The Solidarity Lanes also are carrying other products like poultry and metals, generating billions in foreign exchange for Ukraine’s economy.

Putin’s war of choice exacerbated what was already a grave crisis in global food security. According to World Food Programme, an additional 70 million people are at risk of acute hunger because of Putin’s war. We didn’t cause this problem, but we are doing our best to ensure that our response to Putin does not worsen food insecurity further.

From the beginning of Russia’s further invasion of Ukraine, our sanctions program on Russia has had exceptions for trade in medicine, food and fertilizer. We have worked with the U.S. Department of the Treasury to clarify the scope of U.S. sanctions with a food security fact sheet, and we have reached out to countries across the Global South to make it clear to commercial actors that our sanctions do not target Russian food and fertilizer, so the food trade can continue. We even opened a Food Security Help Desk at State for those countries that are encountering difficulties, or have questions about our sanctions, when buying Russian grain or fertilizer.

Putin has tried to blame global food insecurity on Western sanctions, while at the same time he was blockading Ukraine’s Black Sea ports and maintaining a quota on his own wheat exports. But it’s clear that, when it comes to food security, it’s the United States that has been leading the global response. The Biden Administration is providing nearly \$8.2 billion in humanitarian and \$2.3 billion in development assistance to address food insecurity this year. We strongly support the Black Sea Grain Initiative spearheaded by the United Nations and Türkiye to bring Ukrainian grain to world markets, and the Administration provided \$68 million to the World Food Programme to procure Ukrainian grain for people in Yemen, Ethiopia, and elsewhere in desperate need. While we will continue to tighten the noose on Russia’s imperial ambitions, we will do so in a way that

addresses the impact Putin's war is having on some of the world's most vulnerable populations.

Looking Ahead

Looking ahead, the pressure will only intensify unless and until Putin relents in his unprovoked war against Ukraine. The Administration has been rolling out a new sanctions package on average every six weeks, and I would expect that pace to continue. In the coming months, we will continue our focus on chokepoints in the Russian economy and Russia's military supply chains. Already it is very difficult for Russia to obtain a range of critical inputs at prices and through channels that are efficient.

We will continue to be vigilant about sanctions evasion and backfilling. We want to ensure that Russia can find no back door to obtain military equipment, to hide ill-gotten wealth, or to wield malign influence. Those who continue to do business with designated persons face increased sanctions risk. Under existing authorities, persons that provide material support for designated persons could be subject to U.S. sanctions.

Russia is largely shut out of the global financial system, and we want to make sure that they cannot recreate those connections to global financial networks. That is why what the EU has done is so important. Removing banks from the SWIFT messaging service banks allows them to continue operating, but it means they are no longer important to the global financial system; they will not be hubs of activity or investment.

International partnerships are key to maintaining our impact. We need to ensure that other countries do not provide a base from which Russian actors can hide assets or evade sanctions and export controls measures. We also work with many governments to encourage and support their efforts to ensure that persons in their jurisdiction do not provide support or services to designated individuals and entities.

In closing, I want to reiterate that our sanctions are just a part of our overall policy response, one in which the United States is joined by countries across Europe and around the world. We remain united in our determination to reject Russia's aggression.

I look forward to your questions. More importantly, I look forward to working with you as we promote accountability for Russia's unjust war and unlawful conduct. Thank you.