

Opening Statement of Ranking Member Ron Johnson
Permanent Subcommittee on Investigations
February 27, 2024

As submitted to the record:

On February 24, 2022, the same day that Russian forces began their invasion of Ukraine, the U.S. Commerce Department announced its first of many export control measures against Russia aimed to hinder its military capabilities by “severely restrict[ing]” Russia’s access to certain technologies.¹ In the proceeding months, the U.S. imposed more sanctions targeting Russia’s defense, financial, and energy sectors.² The U.S. restricted transactions with Russia’s central bank, prohibited the maritime transport of Russian oil exports above \$60 per barrel, and banned the domestic import of Russian oil.³ The U.S. sanctioned more than 3,500 individuals and entities with ties to the Russian government.⁴ Just last week, the U.S. announced additional sanctions.

The Biden administration boasted that these efforts “are starving Russia’s military of key components and technology and restricting Putin’s ability to fight a 21st century war.”⁵

The facts tell a different story.

In reality, U.S. sanctions on Russia have failed spectacularly. They have neither denied Russia the technology needed to produce advanced weapons nor derailed the Russian economy. The failure of U.S. sanctions is due in part to Russian adaptation and evasion, but more fundamentally, it is the result of the administration’s unrealistic expectations regarding its ability to enforce them. Whereas initial projections called for Russia’s GDP to contract by about 10 percent in 2022, the IMF’s revised analysis for that year showed Russia’s GDP only contracting by 1.2 percent.⁶ In 2023, the Russian economy rebounded, growing at an estimated 3.6 percent, with an expected growth this year of 2.6 percent.⁷ Unfortunately, Moscow will be able to sustain its war effort for the foreseeable future.

Although U.S. sanctions have attempted to limit Russia’s crude oil exports, Russia has quickly found buyers in China and India. In 2023, China reportedly spent over \$60 billion on Russian crude oil.⁸ During the same period, India bought \$37 billion of Russian crude—over 13 times its pre-war amounts according to one analysis.⁹ Russia also reportedly employs a so-called “shadow fleet” of crude tankers to evade price cap restrictions on Russian oil.¹⁰ Ultimately, the U.S. and other sanctioning countries continue to purchase and rely on oil products from refineries that import Russian crude, adding more money to Russia’s coffers.¹¹

Another unintended consequence of U.S. sanctions is Russia’s increased reliance on the Chinese yuan. Without access to Western financial networks due to U.S. and European restrictions, Russia has decreased its dependence on the U.S. dollar and partnered with China for increased trading and business opportunities.¹² The subsequent trading boom between China and Russia—which totaled to \$240 billion in 2023—has advanced China’s longstanding goal of making the yuan more prominent in global transactions, weakening the U.S. dollar’s role as the world’s primary reserve currency.¹³

Today's hearing will highlight yet another failure stemming from U.S. sanctions on Russia. Despite a major expansion of export controls, a recent study found that many foreign components in Russian military equipment are from Western countries.¹⁴ Over 70 percent of nearly 2,800 foreign components found in Russian military equipment allegedly came from U.S. firms.¹⁵ To be clear, the Subcommittee has not obtained any evidence suggesting that U.S. producers of military components, such as semiconductors, are violating U.S. exports controls. Instead, based on preliminary information, it appears that non-sanctioned countries—namely Armenia, Finland, Georgia, Kazakhstan, and Turkey—are legally importing military components from the U.S. and then either directly or indirectly exporting the semiconductors to end users in Russia. Russia's ability to evade these and other export controls underscores the ineffectiveness of the Biden administration's sanctions.

It also appears that attempts to conduct independent reviews of the Commerce Department's export controls have been stymied. Just last week the Commerce Department's Acting Inspector General (IG) informed the Subcommittee that the Department has inhibited the IG from accessing information that the IG requires in order to determine whether the export controls related to Russia and Belarus are being properly implemented. Following a February 22nd meeting between IG and Commerce officials, it now appears that Commerce will reverse course and be more transparent with the IG. However, the Commerce Department's initial reluctance to provide the IG's office with full transparency is unacceptable and casts even more doubt on this administration's ability to effectively apply sanctions.

February 24th marked the two-year anniversary of Russia's brutal assault on Ukraine. In August 2023, U.S. officials estimated that military casualties in the region were approximately 500,000, and the heavy fighting of the last six months will have added to that gruesome total significantly.¹⁶ Last year, the EU and UN estimated the cost to rebuild Ukraine was already \$411 billion.¹⁷ The total cost will likely surpass \$1 trillion.¹⁸ We have to face reality. A year from now, even the best-case scenario leaves Ukraine further from pushing Russia out of its territory than it is today. Sanctions and export controls can be effective tools when directed at realistic goals. But they also have significant limitations that, when ignored, often result in bad policy and unintended consequences.

I thank the witnesses for their testimony.

¹ Press Release, U.S. Dep't of Com., Commerce Implements Sweeping Restrictions on Exports to Russia in Response to Further Invasion of Ukraine (Feb. 24, 2022), <https://www.commerce.gov/news/press-releases/2022/02/commerce-implements-sweeping-restrictions-exports-russia-response>.

² *Resources on Export Controls Implemented in Response to Russia's Invasion of Ukraine: Russia-Belarus*, U.S. DEP'T OF COM., BUREAU OF INDUS. & SEC. (FEB. 23, 2024), <https://www.bis.doc.gov/index.php/policy-guidance/country-guidance/russia-belarus>; *Resources on Export Controls Implemented in Response to Russia's Invasion of Ukraine: Russia-Belarus-Press-Releases-2022*, U.S. DEP'T OF COM., BUREAU OF INDUS. & SEC., <https://www.bis.doc.gov/index.php/policy-guidance/country-guidance/russia-belarus?layout=edit&id=2188>.

³ Press Release, U.S. Dep't of the Treasury, Treasury Prohibits Transactions with Central Bank of Russia and Imposes Sanctions on Key Sources of Russia's Wealth (Feb. 28, 2022), <https://home.treasury.gov/news/press-releases/jy0612>; Press Release, U.S. Dep't of the Treasury, FACT SHEET: Limiting Kremlin Revenues and Stabilizing Global Energy Supply with a Price Cap on Russian Oil (Dec. 2, 2022), <https://home.treasury.gov/news/press-releases/jy1141>; Exec Order No. 14066, 87 F.R. 13625 (2022), <https://ofac.treasury.gov/media/919111/download?inline>.

⁴ Press Release, U.S. Dep't of State, U.S. Participation in the EU—Sanctions Coordinators Forum (Feb. 14, 2024), <https://www.state.gov/u-s-participation-in-the-eu-sanctions-coordinators-forum/>.

⁵ *Id.*

⁶ Alexandra Prokopenko, *The Cost of War: Russian Economy Faces a Decade of Regress*, CARNEGIE ENDOWMENT FOR INT'L PEACE (Dec. 19, 2022), <https://carnegieendowment.org/politika/88664>; WORLD ECONOMIC OUTLOOK UPDATE, JANUARY 2024: MODERATING INFLATION AND STEADY GROWTH OPEN PATH TO SOFT LANDING, INT'L MONETARY FUND 11 (Jan. 30, 2024), <https://www.imf.org/-/media/Files/Publications/WEO/2024/Update/January/English/text.ashx>; Julia Press, *Why US-Led Sanctions on Russia Haven't Stopped the War*, BLOOMBERG (Feb. 22, 2024), <https://www.bloomberg.com/news/articles/2024-02-22/russia-s-war-on-ukraine-continues-despite-two-years-of-economic-sanctions>.

⁷ Press, *supra* note 6; Sam Fleming et al., *IMF Raises Russia Growth Outlook as War Boosts Economy*, FIN. TIMES (Jan. 30, 2024), <https://www.ft.com/content/21a5be9c-afaa-495f-b7af-cf937093144d>.

⁸ Laura He, *China's Largest Oil Supplier in 2023 Was Russia*, CNN (Jan. 22, 2024), <https://www.cnn.com/2024/01/22/business/china-top-oil-supplier-2023-russia-intl-hnk/index.html#:~:text=Russia%20now%20accounts%20for%2019,its%20energy%20trade%20with%20Beijing>.

⁹ Nick Paton Walsh & Florence Davey-Attlee, *The Kremlin Has Never Been Richer—Thanks to a US Strategic Partner*, CNN (Feb. 19, 2024), <https://www.cnn.com/2024/02/19/europe/russia-oil-india-shadow-fleet-cmd-intl/index.html>.

¹⁰ *Id.*

¹¹ REFINING LOOPHOLE WIDENS: 44% INCREASE IN SANCTIONING COUNTRIES IMPORTS OF OIL PRODUCTS FROM RUSSIAN CRUDE IN 2023, CTR. FOR RSCH. ON ENERGY & CLEAN AIR (Dec. 5-31, 2023), https://energyandcleanair.org/wp/wp-content/uploads/2024/02/CREA_PCC_Refined-Oil-Analysis_19.02.2024.pdf; Walsh & Davey-Attlee, *supra* note 9.

¹² Chelsey Dulaney et al., *Russia Turns to China's Yuan in Effort to Ditch the Dollar*, WALL ST. J. (Feb. 28, 2023), <https://www.wsj.com/articles/russia-turns-to-chinas-yuan-in-effort-to-ditch-the-dollar-a8111457>.

¹³ He, *supra* note 8.

¹⁴ Laurence Norman & Georgi Kantchev, *The Biggest Ever Sanctions Have Failed to Halt Russia's War Machine*, WALL ST. J. (Feb. 22, 2024), <https://www.wsj.com/world/the-biggest-ever-sanctions-have-failed-to-halt-russias-war-machine-0986873f>.

¹⁵ *Id.*

¹⁶ Helene Cooper, *Troop Deaths and Injuries in Ukraine War Near 500,000, U.S. Officials Say*, N.Y. TIMES (Aug. 18, 2023), <https://www.nytimes.com/2023/08/18/us/politics/ukraine-russia-war-casualties.html>.

¹⁷ Carlo Bastasin, *Want Ukraine in the EU? You'll Have to Reform the EU, Too.*, BROOKINGS INST. (July 2023), [https://www.brookings.edu/articles/want-ukraine-in-the-eu-youll-have-to-reform-the-eu-too/#:~:text=In%20March%202023%2C%20a%20report,\(approximately%20%E2%82%AC383%20billion\)](https://www.brookings.edu/articles/want-ukraine-in-the-eu-youll-have-to-reform-the-eu-too/#:~:text=In%20March%202023%2C%20a%20report,(approximately%20%E2%82%AC383%20billion)).

¹⁸ Sarah Anne Aarup & Susannah Savage, *It's Time to Start Rebuilding Now, Says Ukraine*, POLITICO (Feb. 22, 2023), <https://www.politico.eu/article/time-start-rebuild-ukraine-war-yulia-svydyrenko/>.