

U.S. DEPARTMENT OF THE TREASURY

Remarks by Deputy Secretary of the Treasury Wally Adeyemo on International Sanctions Against Russia

February 21, 2023

As Prepared for Delivery

Thank you for joining me today. A little less than one year ago, Russia invaded Ukraine with the objective of unseating the democratically elected government. The Kremlin expected to take Kyiv within days and to be in control of Ukraine within weeks. But today, due to the bravery of the Ukrainian people and the support of the United States and our allies and partners, Kyiv still stands, Ukraine's democratically elected government remains in place, and the people of Ukraine continue to valiantly resist Russia's illegitimate war of aggression.

The Kremlin's war of choice has caused extraordinary death and suffering in Ukraine and around the world. Since February of last year, at least 7,000 Ukrainian civilians have died, in addition to tens of thousands of military casualties on both sides. Moreover, Russia's actions—including blocking grain and food exports from Ukraine—have exacerbated energy and food shortages worldwide, putting millions at risk of starvation in some of the world's poorest countries. This war has already taken an unacceptable toll, and we will continue to do all we can to bring it to an end.

THE COALITION'S GOALS

Starting last February, President Biden laid out a comprehensive strategy to support Ukraine, which includes making use of the full range of our economic tools. The first prong of our economic strategy is to deny the Kremlin's ability to use the money they have to buy the weapons they need, and the second is to reduce the revenues that President Putin can use to fund his war of choice and prop up Russia's economy.

At the same time, President Biden has underscored our commitment to ensure the costs of our actions fall most heavily on Russia, not the economies of the U.S. and our allies and partners.

One year on, our economic tools are constraining the Kremlin. Our sanctions and export controls—implemented in partnership with the Department of Commerce—have degraded Russia’s ability to replace more than 9,000 pieces of military equipment lost since the start of the war, forced production shutdowns at key defense facilities, and caused shortages of essential components for tanks and aircraft production. Russia is also running out of munitions and has lost as much as 50 percent of its tanks. At the same time, our coalition has provided Ukraine with state-of-the-art military equipment, while Russia has been forced to turn to mothballed Soviet-era weapons.

Going forward, our export controls and sanctions will continue to prevent Russia from accessing the equipment needed to make up for these losses, and our sanctions will make it harder for the Kremlin to use the remaining resources Russia can access to pay for the weapons they need.

While Russia’s economic data appears to be better than many expected early in the conflict, our actions are forcing the Kremlin to use its limited resources to prop up their economy at a time where they would rather be investing every dollar in their war machine.

Some of our first actions—immobilizing Russia’s central bank reserves, as well as sanctioning and de-SWIFTing some of its largest banks—sent the ruble into a 50 percent decline, creating a run on the Russian economy, as capital and foreign companies left the country as quickly as possible.

The Kremlin stemmed the bleeding by putting in place a set of draconian capital controls that prevented money from leaving the country, providing capital from the central bank to prop up their financial sector, and using the remaining assets from the Kremlin’s sovereign wealth fund to prop up their economy.

Despite the Kremlin’s best efforts, the Russian economy continues to deteriorate. Bloomberg Economics estimates that Russia’s economy is on track to lose \$190 billion in GDP by 2026, relative to its prewar path.

A good example of this decline is last year, rather than the budget surplus they forecasted, Russia suffered a budget deficit of \$47 billion dollars. This was the second highest deficit the country has experienced in the post-Soviet era. The best educated, most productive Russian citizens have left, which will dramatically reduce the economic capacity of the country.

Industrial production has declined in Russia for 9 straight months, and we are planning to take additional steps to further decimate the Kremlin’s industrial base.

As we all know, Russia's main source of revenues comes from selling energy. Perversely, the Kremlin's invasion of Ukraine raised global prices for oil, hurting oil-importing countries and increasing Russia's oil earnings. Under the President and Secretary Yellen's leadership, the price cap our coalition has implemented is already dramatically reducing Russia's revenues from energy.

Last month, Russia's monthly budget revenues from oil and gas fell to their lowest level since 2020—46 percent below where they were a year ago. The Russian Finance Ministry has been forced to nearly triple its daily foreign currency sales to make up for the shortfall.

Put simply, we are making the Kremlin's choice—between funding its illegitimate war and propping up its economy—harder each day.

Spending the country's savings can hide the damage for now, but our actions are forcing Russia to mortgage its economic future to save face today. Of course, we have more work to do, and we will continue to do more until Russia's ceases its baseless and illegal invasion. But one year into this conflict, Russia's economy looks more like Iran and Venezuela's than a member of the G20.

HOW WE GOT HERE

From the outset, our response to Russia has been rooted in multilateralism. Our coalition of more than 30 nations, representing over 50 percent of global economy, came together within three weeks of the further invasion of Ukraine.

And we have been in lockstep with the G7 and EU and at every point along the way. This multilateral approach is what enabled us to successfully immobilize the majority of Russia's sovereign wealth and central bank assets. It is what has made our export controls on defense inputs so potent.

The members of our coalition are the dominant producers of key inputs needed for modern warfare, such as the most advanced semiconductors, transistors, and software. Russia has been cut off from these critical imports, and its military performance has suffered as a result. Looking to China is not a solution to Russia's challenges. While we are concerned about Russia's deepening ties with them, Beijing cannot give the Kremlin what it does not have, because China does not produce the advanced semiconductors Russia needs. And nearly 40 percent of the less advanced microchips Russia is receiving from China are defective.

The economic size of our coalition has also been critical in enabling our actions to go after the oligarchs and elites that enable Putin's regime, through multilateral fora like the REPO Task Force. As of today, the REPO Task Force has frozen or blocked at least 58 billion dollars in ill-gotten assets.

Going forward, the breadth of this coalition is what will enable us to continue to isolate Russia. We will force those that fail to implement our sanctions and export controls to choose between their economic ties with our coalition of countries — representing more than half of the world's GDP — or providing material support to Russia, an economy that is becoming more isolated every day.

Under the President and Secretary Yellen's leadership, we have paired multilateralism with new tools and approaches to degrade Russia's economy and war machine.

Immobilizing Russia's central bank reserves and imposing a price cap on its oil were decisions not everyone believed would succeed. But the evidence to date shows these approaches are working. Take the price cap, which operates by setting a ceiling on how much Russia can charge for its crude and refined oil products if they are traded using services from a country that is a member of our coalition.

This both limits Russia's oil revenues directly and gives negotiating leverage to those who buy Russian oil without using these services, further driving down prices. And it forces Russia to choose between spending money on weapons and spending money to build its own ecosystem of services to get around the price cap.

Already, the impact of these actions is clear. According to Russia's Ministry of Finance, the country's oil revenues in January 2023 were nearly 60 percent lower than in March 2022, just after the invasion began. The price of Russian Urals crude has continued to fall and currently stands 40 percent lower than in February 2022.

In essence, Russia can no longer reap windfall profits caused by the conflict it started. At the same time, our actions have averted a sharp spike in global oil prices by keeping Russian oil on the market.

THE NEXT FRONTIER

We will continue to provide Ukraine the assistance they need to defend their country, building on the tens of billions in economic aid and comprehensive security assistance we've already provided.

And we will take further actions to set back the Kremlin's ability to build its war machine and earn revenues. In addition, we and our allies are planning to launch a renewed effort to rigorously enforce the sanctions and export controls we've already put in place.

We know the Kremlin is actively seeking ways to circumvent these sanctions — to find those that do not share our values and are willing to put the people of Ukraine at risk to turn a quick profit. In fact, one of the ways we know our sanctions are working is the Kremlin has tasked its intelligence services, such as the FSB and GRU, to find ways to get around them.

Our approach to countering evasion will focus on 3 elements. The first, consistent with our overall approach, will be to work closely with our allies and partners, especially in the G7 and EU.

We will use all of our economic tools to give countries, companies, and individuals a choice: to do business with a coalition representing half of the global economy, or to provide material support to Russia.

We will use sanctions, export controls, and other tools to prevent the Kremlin from using the money they have to purchase the weapons and goods they need to fight this war of choice.

To strengthen this effort, we will improve information sharing and coordination among our allies, as well as share additional information with firms in our countries to garner their assistance in preventing countries, companies, and individuals from providing material support to Russia.

The second element of this effort is to identify and shut down the specific channels through which Russia attempts to equip and fund its military.

For example, in response to our export controls that have disrupted Russia's military-industrial supply chains and weapons procurement, Russia has sought to backfill lost inputs by repurposing goods—like chips that come from non-military electronics—and retooling manufacturing facilities to produce the goods it needs to support its war effort. Our counter-evasion efforts will deny Russia access to the dual-use goods being used for the war and cut off these repurposed manufacturing facilities from the inputs needed to fill Russia's production gaps.

Similarly, we know Russia is working to get around the price cap through shadowy intermediaries. In addition to reducing the price Russia can charge for energy shipped with G7 and EU services, the price cap was designed to force Russia to pay a higher cost to ship oil outside the cap.

Russia has been forced to divert billions in funds from the invasion to pay for insurance, shipping, and other services to support its oil trade. For example, Russia's central bank has been forced to use billions of dollars to back stop the Russian National Reinsurance Company in order to support the shipping of energy products.

This is significantly reducing the Kremlin's profits, which it needs to fund its war. We will continue to identify and act against intermediaries that permit Russia to use G7 and EU services to be enriched by its oil trade. And we will look for additional ways to drive up the cost the Kremlin must pay to set up an alternative ecosystem to sell oil without the Price Cap Coalition's services.

The final element of our approach will be to put pressure on the companies and jurisdictions we know are allowing or facilitating evasion. Russia's invasion of Ukraine is unconscionable.

But even some of the countries who have publicly agreed with that sentiment are falling short of their obligations to enforce the sanctions we and our coalition have imposed in response. We have seen troubling patterns in several countries, including several of Russia's neighbors, where the Kremlin has deepened its financial ties and trade flows as other markets have been closed off. We are providing intelligence and actionable information to enable countries to stamp out sanctions evasion in their jurisdictions. And if they fail to do so, we and our partners are prepared to use the various economic tools at our disposal to act on our own.

Officials from the U.S. and the governments of our coalition partners are also engaging with companies and banks in these jurisdictions to tell them directly that if they do not enforce our sanctions and export controls, we will cut them off from access to our markets and financial systems.

The cost of doing business with Russia in violation of our policies is a steep one, and companies and financial institutions should not wait for their governments to make the decision for them.

CONCLUSION

To conclude, let me take a step back and say that while we have far more to do, we are succeeding in reversing the course of Russia's budget and undercutting its military-industrial complex. The battlefield situation Russia faces has fallen far short of Putin's expectations, and Russia continues to face daunting obstacles in the form of dwindling supplies and flagging morale among its troops.

At the same time, we have been able to keep global energy markets well supplied and avoid damaging price spikes, even as we've limited Russia's ability to profit from its energy exports.

Going forward, we are committed to continuing to support the people of Ukraine and to redoubling our efforts to hold Russia accountable—especially by countering efforts to evade our sanctions.

Thank you again for being here today. Let me turn it over to Juan for a few questions.