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OFFICE OF THE DIRECTOR OF NATIONAL INTELLIGENCE

**Support Provided by the People's Republic of
China to Russia**

July 2023

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EXECUTIVE SUMMARY

As directed in Section 6525 of the Intelligence Authorization Act for Fiscal Year 2023, this report was compiled by the Office of the Director of National Intelligence and was coordinated across the Intelligence Community. It includes an assessment on whether and how the People's Republic of China (PRC), including the PRC Government, the Chinese Communist Party, any PRC state-owned enterprise, and any other PRC entity, has provided support to Russia with respect to its war in Ukraine.

The report finds that the PRC has become an even more critical economic partner for Russia since its invasion of Ukraine in February 2022. Beijing is pursuing a variety of economic support mechanisms for Russia that mitigate both the impact of Western sanctions and export controls. The PRC has increased its importation of Russian energy exports, including oil and gas supplies rerouted from Europe. Beijing has also significantly increased the use of its currency, the yuan, and its financial infrastructure in commercial interactions with Russia, allowing Russian entities to conduct financial transactions unfettered of Western interdiction. The PRC has also become an increasingly important buttress for Russia in its war effort, probably supplying Moscow with key technology and dual-use equipment used in Ukraine.

THE PRC HELPING THE GOVERNMENT OF RUSSIA OR RUSSIAN ENTITIES EVADE OR CIRCUMVENT SANCTIONS

Russia has sought assistance from many countries, including the PRC, to offset the economic impact of Western sanctions, diversify its energy exports, and procure military materiel from countries not part of the Western sanctions and export controls coalition. As Russia's trade with Western countries plunged during 2022, the PRC became Russia's most important trading partner, although as of April 2023 it had not fully replaced Western trade volumes. Hefty PRC buying has been spurred by steep discounts on oil, and is providing Moscow much-needed revenue particularly after the Group of Seven (G-7) imposed a \$60 price cap on Russian crude in December 2022.

- Russian imports from the PRC increased 13 percent to \$76 billion in 2022, and its exports to the PRC increased by 43 percent to \$114 billion. Total bilateral trade between the PRC and Russia hit a record high level of \$190 billion in 2022, which is a 30 percent increase from 2021.
- Russia exported twice as much liquefied petroleum gas to the PRC in 2022 compared to 2021. Russia also shipped 50 percent more natural gas to the PRC through the Siberian Power pipeline, which began operating in 2019, and 10 percent more crude oil, during the same period. As of February, the PRC and Russia have agreed to build a new gas pipeline, Siberian Power 2, to expand their energy ties.
- The PRC's crude oil imports from Russia hit 1.65 million barrels per day (bpd) in March, overtaking India as the largest buyer of Russian crude. In May, Russia exported to the PRC a near-record 2 million bpd of oil—an increase of about 25 percent compared with the first quarter of last year—accounting for about 15 percent of the PRC's demand.
- The PRC has benefited from discounts on Russian crude, with the cost of Russian imports averaging \$73.53 per barrel in February, a 13.7 percent drop from \$85.23 per barrel in the same month the previous year. The PRC's purchases of Russian energy—mainly crude oil, but also coal, pipeline gas, and liquefied natural gas—rose from \$52 billion in 2021 to \$81 billion in 2022, according to official data. However, this trade understates the PRC's financial support for Russia through energy purchases, according to industry analysts.

The PRC is also providing supertankers and insurance coverage to move Russian Urals crude to PRC ports, as Moscow seeks vessels for exports after a G-7 oil price cap restricted the use of Western cargo services and insurance.

- As of January, at least four PRC-owned supertankers were shipping Russian Urals crude to the PRC, according to trading sources and tracking data. This year, 18 PRC supertankers and another 16 Aframax-sized vessels could be used for shipping Russian crude—enough to transport 15 million tons, or about 10 percent of total Urals exports—according to an executive with the PRC firm involved in the shipments.

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- Western insurance firms have declined to provide insurance to tankers shipping Russian oil, but there are insurance providers in the PRC which would be willing to offer such facility to Russian cargoes, according to shipping industry analysts. More reluctant PRC insurance providers might also provide insurance because Beijing will tacitly ask them to do so, according to the same report.
- Unlike Western insurance providers that have a coverage and reinsurance chest valued in the billions of dollars, the alternative insurance being taken by ships carrying Russian commodities is much smaller, according to a Singapore-based maritime insurance executive.

It is difficult to ascertain the extent to which the PRC has helped Russia evade and circumvent sanctions and export controls. Russia has turned to the PRC for critical components, according to PRC firms involved in the shipments, which has provided some measure of protection against the adverse effects of sanctions and export controls. In general, the extent of circumvention of Western sanctions and export controls is difficult to document and the more sanctions and export controls interrupt established patterns of trade and investment, the more efforts are made by the sanctioned regime and its collaborators to reduce and misrepresent documentation for the trade of sanctioned or export-controlled goods, according to an open-source report.

- Many shell companies and small and medium-sized enterprises—comprising of no more than 300 employees—in Hong Kong serve as receptacles for secondary sales of chips to Russia from the PRC, according to Chinese and Western press reports.
- In February, several Western media outlets reported on details of the PRC's trade and aid to Russia, including 84,000 shipments recorded by Russia's customs office, highlighting how the PRC and Russia are able to evade some Western sanctions and export controls.
- More than a year since Russia's unprovoked invasion of Ukraine, hundreds of millions of dollars' worth of U.S.-made or U.S.-branded semiconductors are flowing into Russia despite sanctions and export controls, according to an investigation by Japanese press.
- Between January and September 2022, PRC semiconductor exports to Russia increased by 19 percent from the same period in 2021, according to an examination of trade data from the United Nations Comtrade database. Despite these increased exports from the PRC, overall global exports of semiconductors to Russia and Belarus decreased by 54 percent in 2022.

U.S. export controls against Russia apply not only to U.S.-origin commodities, software, and technology, but also to certain items produced abroad to the extent such items generally incorporate controlled U.S. content or are produced with U.S. software, technology, or production equipment. This makes it more difficult to accurately track circumvention and evasion of export controls, although the PRC's firms probably are assisting Russia in circumventing and evading export controls.

- Since February 2022, the U.S. Department of Commerce has listed 24 PRC-based entities supporting Russia's military or defense-industrial base on its Entity List, restricting their access to U.S. exports. Some such PRC-based entities were also made subject to restrictions on receiving certain foreign-origin items produced with U.S. software, technology, or production equipment.
- Between February 2022 and December 2022, nearly 3,300 transactions valued at a minimum of \$740 million involving semiconductors occurred between Russia and the rest of the world. Almost 70 percent of these transactions contained products from U.S. chipmakers, almost 75 percent were shipped from Hong Kong or mainland PRC, and many of these shippers were small and medium-sized enterprises, comprising no more than 300 employees, some of which were established after the Ukraine invasion. For the same period in 2021, Russian customs data showed only 230 high-value exports of U.S. chips from Hong Kong and the PRC to Russia, with a total value of \$51 million.

DELIBERATELY INHIBITING U.S. GOVERNMENT EXPORT CONTROL END-USE CHECKS, INCLUDING INTERVIEWS AND INVESTIGATIONS, IN THE PRC

The Intelligence Community lacks sufficient reporting to assess whether Beijing is deliberately inhibiting United States Government export control end-use checks, including interviews and investigations, in the PRC.

PROVIDING RUSSIA WITH ANY TECHNOLOGY, INCLUDING SEMICONDUCTORS CLASSIFIED AS EAR99, THAT SUPPORTS RUSSIAN INTELLIGENCE OR MILITARY CAPABILITIES

The PRC is providing some dual-use technology that Moscow's military uses to continue the war in Ukraine, despite an international cordon of sanctions and export controls. The customs records show PRC state-owned defense companies shipping navigation equipment, jamming technology, and fighter-jet parts to sanctioned Russian Government-owned defense companies. Russia has continued to acquire chips through circuitous routes, with a large portion flowing through small traders in Hong Kong and mainland PRC, according to foreign press.

- The PRC has made progress in its ability to develop and manufacture chips for military use, according to academic research. However, according to the same research the PRC is still unable to make advanced chips that are competitive with U.S. and Western options, and continues to rely on foreign technology and fabrication facilities in Taiwan for production. The PRC market share for the most advanced processor categories was less than 1 percent as of early 2022. PRC-made chips are also lower quality; according to Russian news source Kommersant, the failure rate for PRC chips bought by Russia is as high as 40 percent.
- Since 24 February 2022, the U.S. Department of Commerce's Bureau of Industry and Security has added 24 parties in the PRC for supporting Russia's military or defense-industrial base, in addition to expanding controls on foreign-produced items from two

existing PRC state-owned enterprises on the Entity List by designating them as Russian military end users.

ESTABLISHING ECONOMIC OR FINANCIAL ARRANGEMENTS THAT WILL ALLEVIATE THE EFFECT OF U.S. AND/OR MULTILATERAL SANCTIONS

The PRC and Russia have increased the share of bilateral trade settled in yuan and financial institutions in both countries are expanding their use of domestic payment systems. The share of Russian exports paid for in yuan rose to 14 percent by September 2022, up from 0.4 percent before the start of the war, according to the Central Bank of Russia. After Russian banks were barred from using the Society of Worldwide Interbank Financial Telecommunication (SWIFT) system, Moscow and Beijing turned to domestic payment systems—the PRC’s Cross-Border Interbank Payment System (CIPS) and Russia’s System for Transfer of Financial Messages (SPFS)—to clear and settle local currency transactions. The PRC has also provided its correspondent banking network to Russian banks that have been cut off from Western banking networks.

- Russian companies issued yuan-denominated bonds worth more than \$7 billion last year, according to Refinitiv data. As of March, the yuan-ruble was the most traded currency pair, per daily volume, on the Moscow Exchange (MOEX). In October 2022, total transactions in the yuan-ruble pair on the MOEX ballooned to an average of almost \$1.25 billion a day—previously, they rarely exceeded \$150 million in an entire week.
- As of mid-July 2022, more than 20 Russian financial institutions were connected to CIPS, according to Russian media. As of January, the average daily Russian transaction volume through CIPS had increased by nearly 50 percent since Russia’s invasion, to 21,000 transactions per day. As of March 2022, the Central Bank of Russia and the People’s Bank of China were working to integrate SPFS and CIPS, according to the Chairman of the State Duma’s Financial Markets Committee.
- In August 2022, Russia accounted for 4.3 percent of offshore yuan payments—a more than 10-fold increase in its share since February 2022—and since July 2022 has been the third largest user of yuan behind Hong Kong and the United Kingdom, according to SWIFT statistics and Russian press reports. Before March 2022, Russia was not among the top 15 yuan users.
- In September 2022, the Chief Executive Officer of state-owned VTB Bank, the second largest bank in Russia with approximately one-fifth of the market, boasted that the bank was the first Russian bank to establish a correspondent banking service with the PRC. As of March, PRC banks have extended numerous correspondent banking relationships to Russian banks, allowing these banks access to international banking channels, according to a Russian bank chairman.

PROVIDING ANY MATERIAL, TECHNICAL, OR LOGISTICAL SUPPORT, INCLUDING TO RUSSIAN MILITARY OR INTELLIGENCE AGENCIES AND STATE-OWNED OR STATE-LINKED ENTERPRISES

The PRC's state-owned defense companies have shipped navigation equipment, parts for fighter jets, and other dual-use technology equipment to Russian defense companies, according to Russian customs data. The PRC has sent tens of thousands of shipments of goods—some of which are classified as dual-use, according to a Western report that analyzed Russian customs data.

- In January, PRC state-owned defense companies reportedly exported dual-use products with commercial and military applications to Russia, according to a U.S. news outlet. The reporting claimed Russian custom records showed PRC state-owned companies are shipping navigation equipment, jamming technology, and jet-fighter parts to Russian state-owned defense companies.
- As of March, the PRC had shipped more than \$12 million in drones and drone parts to the country, according to third-party data provider analysis of official Russian customs data. This analysis concluded that it was difficult to definitely identify whether U.S. components were included in these products because of the vague product descriptions used in the export data and complicated sales channels that facilitated at least some of this trade.

The PRC's state-owned companies are shipping a variety of dual-use related products to Russia, according to press reporting, and as of April, Kyiv has stated that its forces are increasingly finding PRC components in weapons used by Russia.

- In August 2022, the PRC's state-owned defense company China Poly Technologies—which was added to the U.S. Entity List in 2013—shipped navigation equipment to Russia's state-owned military export firm JSC Rosoboronexport for M-17 military transport helicopters, according to U.S. arms analysts interviewed by Western press. That month, PRC electronics firm Fujian Nanan Baofeng Electronic Company also supplied to Rosoboronexport—through an Uzbek state-owned defense firm—a telescoping antenna for military vehicles, which is used for communications jamming, according to U.S. arms analysts interviewed by Western press.
- In October 2022, China Taly Aviation Technologies Corp., a procurement unit of the PRC's Air Force Equipment Department, shipped parts sent to Russia's sanctioned state-owned missile-manufacturer Almaz Antey for use on mobile radar units. Russia uses the radar to detect enemy jet fighters, missiles, and drones as part of its S-400 anti-aircraft missile system being used in Ukraine, according to U.S. arms analysts interviewed by Western press.
- In April, Russian President Vladimir Putin and PRC Defense Minister Li Shangfu met in Moscow to discuss military cooperation between the two nations, which they described as a “boundless” partnership. During that meeting, Putin announced that the Russian and PRC militaries were regularly exchanging information, working

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together in the field of military-technical cooperation, and holding joint exercises in the Far East and in Europe, involving land, naval and air forces.

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