

MEMORANDUM

To: Members of the Committee on Financial Services

From: Financial Services Committee Majority Staff

Date: December 7, 2023

Subject: December 12, 2023, National Security, Illicit Finance, and International Financial Institutions Subcommittee Hearing Entitled “Restricting Rogue-State Revenue: Strengthening Energy Sanctions on Russia, Iran, and Venezuela.”

On Tuesday, December 12, 2023, at 10:00 a.m. in Room 2128 of the Rayburn House Office Building, the National Security, Illicit Finance, and International Financial Institutions Subcommittee of the Financial Services Committee will hold a hearing titled “Restricting Rogue-State Revenue: Strengthening Energy Sanctions on Russia, Iran, and Venezuela.” Testifying at the hearing will be:

- **The Honorable Marshall Billingslea**, Senior Fellow, Hudson Institute
- **Dr. Anna Mikulska**, Senior Fellow, Kleiman Center for Energy Policy at University of Pennsylvania
- **Dr. Ryan Berg**, Director, Americas Program, Center for Strategic and International Studies
- **Ms. Claire Jungman**, Chief of Staff, United Against Nuclear Iran
- **Mr. Adam Smith**, Partner, Gibson, Dunn & Crutcher LLP

Iran

Background

The U.S. began imposing sanctions on Iran in the early 1980s, after the U.S. Embassy in Tehran was seized in 1979. In 1995, as Tehran continued to express support for extremism and terrorism and engage in the development of weapons of mass destruction (WMD), the U.S. expanded its sanctions regime. These sanctions and Executive Orders (EOs) aimed to isolate the Iranian regime from the financial benefits and resources of the U.S. and its trading partners. Since then, additional sanctions have been imposed on Iran in industries including energy/oil, metals, banking, military and defense development, and petrochemicals.¹

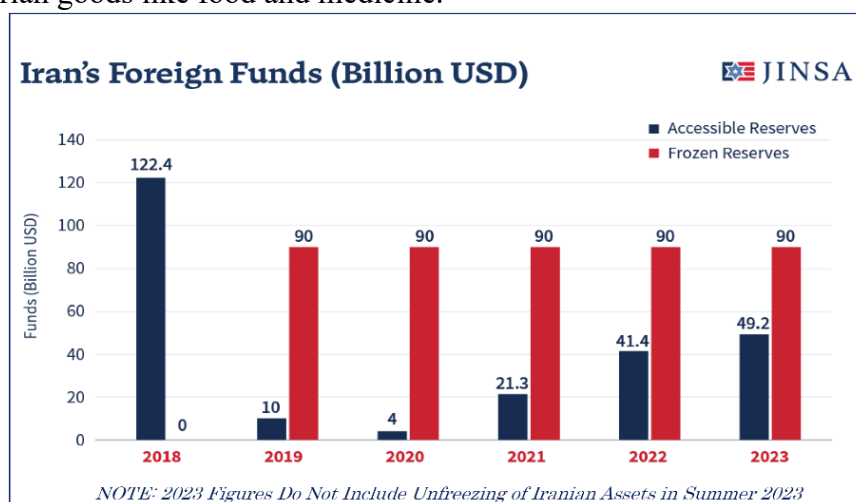
Energy Overview

Iran is home to the third-largest oil reserves (12% of world reserves) and second-largest natural gas reserves in the world. In 2021, Iran was OPEC’s fifth-largest crude oil producer and

¹ Jason Bartlett and Megan Ophel, *Sanctions by the Numbers: U.S. Secondary Sanctions*, CENTER FOR NEW AMERICAN SECURITY (August 26, 2021), <https://www.cnas.org/publications/reports/sanctions-by-the-numbers-u-s-secondary-sanctions>.

the third-largest natural gas producer.² Hydrocarbon exports are a significant source of Iranian government revenue and of Iranian GDP. During the U.S. ‘maximum pressure’ campaign in 2019, Iran’s oil revenues “fell from \$100 billion to \$8 billion a year.”³ However, rising global oil prices and increased exports associated with the reversal of the maximum pressure campaign, Iran’s oil companies export revenues grew back to approximately \$40 billion in 2021.⁴

Similarly, over the past three years, Iran’s foreign reserves have increased by more than a factor of 10. Among other things, the Iranian regime benefitted from more than \$80 billion in oil sales (mostly to China). One-off actions provide further liquidity, such as the \$10 billion sanctions waiver allowing Iraq to pay Iran up to \$10 billion in back payments for electricity purchases, and a waiver to release \$6 billion of Iranian oil revenue frozen in South Korean banks as part of the exchange of American hostages for Iranian criminals earlier this year. However, these payments are not made directly to Iran but rather to offshore accounts from which distributions are made when withdrawals are authorized for use on non-sanctioned goods, such as humanitarian goods like food and medicine.⁵



China is Iran’s biggest oil purchaser and Iran is China’s third-largest oil provider – trailing Russia and Saudi Arabia.⁶ Iran “offers steep discounts for its oil to persuade Chinese refiners to accept the risk of dealing with sanctioned Iranian entities,” according to an Iranian sanctions specialist with the Washington Institute for Near East Policy.⁷ While these discounts keep money coming into the country, the sales do not solve Iran’s deep economic issues.

Iran evades U.S. oil sanctions by chartering ghost fleets, reflagging cargo ships, rebranding its crude oil as another country’s, forging documents hiding the origin and insurance

² U.S. ENERGY INFORMATION ADMINISTRATION, COUNTRY ANALYSIS EXECUTIVE SUMMARY: IRAN (Nov. 17, 2022).

³ THE WARSAW INSTITUTE REVIEW, <https://warsawinstitute.review/news-en/irans-oils-and-its-biggest-consumers/> (last visited Dec. 1, 2023).

⁴ *Id.*

⁵ *Iran prisoner swap for \$6 billion in spotlight after Hamas attacks Israel*, REUTERS (Oct. 9, 2023), <https://www.reuters.com/world/middle-east/iran-prisoner-swap-6-billion-spotlight-after-hamas-attacks-israel-2023-10-09/>.

⁶ Akmal Dawi, *Iran Boosts Cheap Oil Sale to China Despite Sanctions*, VOA NEWS (Jan. 26, 2023), <https://www.voanews.com/a/iran-boosts-cheap-oil-sale-to-china-despite-sanctions-/6935635.html>.

⁷ *Id.*

of cargo ships, among other tactics. Iran has become so adept at evading sanctions that they are aiding and abetting oil sanctions evasion by other countries, such as Venezuela and Russia.⁸

Current Sanctions Landscape

U.S. sanctions on Iran are intended to: 1) block Iranian government assets in the United States, 2) ban nearly all U.S. trade with Iran (except food and agricultural commodities, medicine, medical supplies, and other humanitarian-related goods), and 3) prohibit foreign assistance and arms sales. These sanctions target Iran's energy sector, financial sector, shipping, construction, mining, textiles, automotive, and manufacturing, the arms trade, and components of Iran's government.⁹

Beyond humanitarian exemptions, Treasury has issued general licenses to authorize otherwise prohibited transactions for specific purposes, including providing telecommunications services and equipment to thwart the Iranian government's attempts to cut off internet access.¹⁰

Russia

Background

The U.S. imposed both primary and secondary sanctions on Russia. These sanctions were imposed in response to both Russia's 2014 invasion of eastern Ukraine and annexation of Crimea, as well as for human rights abuses and official corruption. Many Ukraine-related sanctions were made mandatory under the 2017 Countering America's Adversaries Through Sanctions Act (CAATSA, pronounced "cat-sa"), which also restricted U.S. dealings in certain debt financing for the Russian energy sector. CAATSA prohibited U.S. persons from exporting goods, services (except for financial services), and technology supporting Russian deepwater, Arctic offshore, or shale oil projects. It also included a novel congressional review mechanism that allows for Congress to pass joint resolutions of disapproval to block Presidential waivers and terminations of CAATSA sanctions.

Energy Overview

The late Senator John McCain famously quipped that Russia is "a gas station masquerading as a country."¹¹ Russia is the third largest oil producer in the world after Saudi Arabia and the United States. In 2022, oil and gas revenue accounted for around 8% of Russia's GDP. The Russian economy remains strongly dependent on energy exports of around eight million barrels per day (bpd) out of a total crude and condensate output of around 10.5 million

⁸ Kinga Szurc, *Iran's Oil and its Biggest Concerns*, THE WARSAW INSTITUTE REVIEW (May 24, 2023), <https://warsawinstitute.review/news-en/irans-oils-and-its-biggest-consumers/>.

⁹ *Id.*

¹⁰ *Id.*

¹¹ Jon Terbush, *John: McCain: Russia is a 'gas station masquerading as a country'*, THE WEEK (Jan. 8, 2015), <https://theweek.com/speedreads/456437/john-mccain-russia-gas-station-masquerading-country>.

bpd, the fourth-largest in the world.¹² This accounts for around 14 percent of global supply.¹³ The Russian government remains particularly dependent on the oil industry, which was privatized after the collapse of the Soviet Union but largely moved back under government control in the mid- 2000s. Oil revenue provides around 45 percent of Russian federal government revenue, or around 11.6 trillion roubles.¹⁴

The U.S. and other Western allies imposed sanctions on Russia's oil and gas sectors as a way to pressure Russia to end its war in Ukraine. In 2022, the G7 countries and Australia imposed a \$60 per barrel price cap on Russian oil. As a result of sanctions, including the price caps and an embargo on seaborne oil exports as well as the closure of the Nord Stream gas pipelines to Europe, Russia has diversified its clients away from Europe towards China and India. This has caused issues in the transaction space, as Russia's central bank does not accept various forms of currency, such as rupees.¹⁵

While Russian exports remain a significant economic factor, the sanctions have had some effect. Sales of Russian oil and gas fell by 41 percent through the first nine months of 2023, year-over year.¹⁶ As of September, Russia's fossil fuel exports were at "its lowest monthly record since Russia's full-scale invasion of Ukraine."¹⁷ The primary importers of Russian fossil fuel were China at 46% of total imports, India at 20 percent, Turkey at 17 percent, the EU at 13 percent, and Brazil at 4 percent.¹⁸ India was the primary importer of seaborne Russian oil at 38 percent, China at 34 percent, and Turkey at 8 percent. Total exports of Russian seaborne oil dropped 3 percent in September.¹⁹

Current Sanctions Landscape

The U.S. imposed a broad range of sanctions in response to Russia's 2022 invasion of Ukraine. These include personal sanctions on President Vladimir Putin, Foreign Minister Sergei Lavrov, and members of the Russian Duma. In addition, the Biden Administration imposed sanctions on the Central Bank of Russia, the National Wealth Fund, as well as correspondent account and blocking sanctions against large Russian financial institutions. Importantly, these banking sanctions exempted energy-related transactions. As a result, even though the U.S. stopped importing Russian oil and oil products, payments for Russian energy can still be processed through the U.S. financial system.

¹² STATISTA, <https://www.statista.com/topics/5399/russian-oil-industry/#topicOverview> (last visited Nov. 30, 2023).

¹³ IEA, <https://www.iea.org/articles/energy-fact-sheet-why-does-russian-oil-and-gas-matter> (last visited Nov. 30, 2023).

¹⁴ STATISTA, <https://www.statista.com/statistics/1215506/oil-and-gas-federal-budget-revenue-to-gdp-russia/> (last visited Nov. 30, 2023).

¹⁵ Elena Fabrichnaya and Vladimir Soldatkin, *Revenues of Russia's top oil and gas producers fall 41% in first 9 months of 2023*, REUTERS (Nov. 30, 2023), <https://www.reuters.com/markets/commodities/revenues-russias-top-oil-gas-producers-fall-41-first-9-months-2023-2023-11-30/>.

¹⁶ *Id.*

¹⁷ Isaac Levi, *September 2023 – Monthly analysis on Russian fossil fuel exports and sanctions*, CENTER FOR RESEARCH ON ENERGY AND CLEAN AIR (Oct. 18, 2023), <https://energyandcleanair.org/september-2023-monthly-analysis-on-russian-fossil-fuel-exports-and-sanctions/>.

¹⁸ *Id.*

¹⁹ *Id.*

Venezuela

Background

Nicolás Maduro has been President of Venezuela since 2013. During the election cycle in 2018, Maduro was reelected despite claims of fraud and election rigging.²⁰ Opposition parties and collections of parties and civil organizations, notably the Unitary Platform, have formed to try to negotiate with the Maduro regime to establish a more fair and accessible presidential election process. “Maduro [has] resisted U.S. and international pressure to cede power and allow a transition of government.”²¹ Though China and Russia support Maduro, the U.S. and its allies including the EU and G7 have taken economic and political actions to pressure the regime.

In January 2019 the U.S. government withdrew its recognition of Maduro as the legitimate president of Venezuela and began to work aggressively to “compel him to leave office through diplomatic, economic, and legal pressure.”²² There has been bipartisan support for maintaining and extending those sanctions. It is seen as an important tool to stimulate negotiations to restore democracy in Venezuela.

Energy Overview

Venezuela holds the world’s largest oil reserves at around 304 billion barrels, compared to Saudi Arabia’s 298 billion barrels and U.S. reserves of 69 billion barrels²³. Venezuela is referred to as a petrostate. A petrostate is defined as a country “where the government is highly dependent on fossil fuel income, power is concentrated, and corruption is widespread.”²⁴ It is resource rich in oil and natural gas, and these resources have served as the country’s primary revenue generator.

Historically, the United States has been the primary beneficiary of Venezuelan petroleum. Since the previous Administration expanded the scope of U.S. sanctions across the globe, Venezuela has faced immense economic struggles, as its market share in the U.S. fell to essentially zero. Due to sanctions as well as many anti-market actions by the Maduro and Chávez governments, Venezuela has also suffered a profound loss of international expertise on which it relied to maintain production of its heavy and difficult to process crude. As a result, Venezuelan

²⁰ CONGRESSIONAL RESEARCH SERVICE, R44841, VENEZUELA: BACKGROUND AND U.S. RELATIONS (Dec. 6, 2022).

²¹ *Id.* at 1.

²² *Id.*

²³ Robert Rapier, *Venezuelan Oil Production Has Plummeted By 75% In Ten Years*, OILPRICE.COM (Feb. 25, 2023), <https://oilprice.com/Energy/Crude-Oil/Venezuelan-Oil-Production-Has-Plummeted-By-75-In-Ten-Years.html>.

²⁴ Amelia Cheatham, Diana Roy and Rocio Cara Labrador, *Venezuela: The Rise and Fall of a Petrostate*, COUNCIL ON FOREIGN RELATIONS (Mar. 10, 2023), <https://www.cfr.org/backgrounder/venezuela-crisis>.

production dropped by three quarters over the past decade.²⁵ However, in the last two years, Venezuela's economy has shown some signs of improvement; a stark contrast from the 2014-2021 period when the country's "economy contracted by roughly 75%...exhibiting among the world's highest rates of hyperinflation, according to the IMF." This is the largest rate of economic decline outside of a conflict context in world history.²⁶

China has become Venezuela's unofficial primary oil export market."²⁷ Just this year, China benefited from around 430,000 bpd of crude oil and fuel from Venezuela.²⁸ Venezuela would be inclined to continue to do even *more* business with China, in the hopes of lowering its debt to China. According to a Reuters article from September 2023, "Venezuela currently owes over \$10 billion to China."²⁹ Prior to U.S. sanctions being imposed in 2019, Venezuela also had oil contracts with India and various European petroleum companies. It is unclear if those contracts will be reopened.

Venezuela and Russia have had a strategic relationship dating back to the early days of Putin and Chávez. "[B]oth find common ground in wanting an era of multipolarity." Additionally, Russia has provided over \$10 billion in military equipment to Venezuela, including advanced surface-to-air missiles S-300s.

Current Sanctions Landscape

- On November 1, 2018, President Trump issued E.O. 13850 which set forth a framework to block the assets of, and prohibit certain transactions with, any person determined by the Secretary of the Treasury to operate in designated sectors of the Venezuelan economy or to engage in corrupt transactions with the Maduro government.
- On January 28, 2019, pursuant to E.O. 13850, Treasury designated PdVSA (pronounced 'pay-duh-vay-suh') as operating in the oil sector of the Venezuelan economy and the Secretary of the Treasury determined the company was subject to U.S. sanctions. The E.O. freezes all property and interests in property of PdVSA subject to U.S. jurisdiction and prohibits U.S. persons (companies or individuals) from engaging in transactions with the company.

²⁵ Robert Rapier, *Venezuelan Oil Production Has Plummeted By 75% In Ten Years*, OILPRICE.COM (Feb. 25, 2023), <https://oilprice.com/Energy/Crude-Oil/Venezuelan-Oil-Production-Has-Plummeted-By-75-In-Ten-Years.html>.

²⁶ CONGRESSIONAL RESEARCH SERVICE, R44841, VENEZUELA: BACKGROUND AND U.S. RELATIONS (Dec. 6, 2022).

²⁷ Andrew Hayley, *China's oil trade and investment in Venezuela*, REUTERS (Sept. 12, 2023), <https://www.reuters.com/business/energy/chinas-oil-trade-investment-venezuela-2023-09-12/#:~:text=Venezuela%20currently%20owes%20over%20%2410,China%2C%20according%20to%20independent%20data.&text=Our%20Standards%3A%20The%20Thomson%20Reuters%20Trust%20Principles.&text=Andrew%20reports%20on%20energy%20and%20energy%20policy%20in%20China>.

²⁸ Marianna Parraga, *Venezuela starts to pursue former oil clients after U.S. lifts sanctions*, REUTERS (Oct. 19, 2023), <https://www.reuters.com/business/energy/venezuela-pursuing-former-oil-clients-after-us-sanctions-lift-2023-10-19/>.

²⁹ Andrew Hayley, *China's oil trade and investment in Venezuela*, REUTERS (Sept. 12, 2023), <https://www.reuters.com/business/energy/chinas-oil-trade-investment-venezuela-2023-09-12/#:~:text=Venezuela%20currently%20owes%20over%20%2410,China%2C%20according%20to%20independent%20data.&text=Our%20Standards%3A%20The%20Thomson%20Reuters%20Trust%20Principles.&text=Andrew%20reports%20on%20energy%20and%20energy%20policy%20in%20China>.

- Through January 2021, Treasury sanctioned individuals, as well as oil and shipping companies, for helping PdVSA evade sanctions. The Biden Administration has not issued similar secondary sanctions.
- Treasury’s Office of Foreign Assets Control (OFAC) issued general licenses to allow certain transactions related to PdVSA and its U.S. subsidiaries, some of which expired. OFAC authorized transactions with U.S.-based PdVSA subsidiaries PDV Holding Inc. (PDVH) and CITGO Holding Inc. through February 2021. OFAC authorized PDVH, CITGO, and other U.S. companies to import petroleum from PdVSA through April 2019, but payments went to a blocked U.S. account. OFAC permitted U.S. companies (including Chevron) working in Venezuela with PdVSA to operate through July 2019. An amended license subsequently allowed only transactions necessary for the “safety or the preservation of assets.” OFAC extended that license through mid-November 2023.³⁰

Legislation

1. H.R. 6605, the *Stop Terrorism and Illicit Finance Location Exploitation (STIFLE) Act of 2023* (Nunn)

H.R. 6605 would require the Secretary of the Treasury to conduct a study and report to Congress within a year assessing: the role that location obfuscation techniques, including VPNs, proxy servers, GPS location manipulation applications, and device tampering plays in money laundering, sanctions evasion, and other forms of illicit finance; the ease with which an illicit actor can manipulate and falsify location data relevant to compliance with sanctions, the Anti-Money Laundering Act of 2020, the Bank Secrecy Act, and other statutory and regulatory obligations; the degree to which financial technology platforms rely on an IP address as the primary or sole indicator of the precise location of a platform user; and the ability of financial technology platforms to use multiple aggregated points of location data to indicate the precise location of a user if an illicit actor manipulates one or more of such data points.

2. H.R. ____, “*Countering Cyber Crimes Act of 2023*” [DRAFT]

This legislation strengthens the authorities of the United States Secret Service by closing a gap in their ability to investigate various crimes related to digital asset transactions and to counter transnational cyber-criminal activity, including unlicensed money transmitting businesses, structured transactions, and fraud against financial institutions, and for other purposes. This legislation also expands the sunset, by five years, on the reporting requirement of the Secretary of the Treasury to Congress on the Financial Criminal Enforcement Network (FinCEN) relating to benefits realized by law enforcement agencies from partnering with financial institutions, among other purposes. Finally, it extends the sunset, by five years, an International Financial Institution provision.

3. H.R. 6588, the *International Financial Institution Counter Terrorism Accountability Act* (De La Cruz)

³⁰ CONGRESSIONAL RESEARCH SERVICE, IF10715, VENEZUELA: OVERVIEW OF U.S. SANCTIONS (November 1, 2023).

H.R. 6588 aims to ensure international financial organizations, including the World Bank and IMF, are appropriately analyzing their anti-money laundering and anti-terrorism financing programs in the wake of the Hamas attack on Israel. To do so, this legislation would require a report to Congress evaluating the effectiveness of these programs and activities. After the submission of this report, Treasury is tasked with developing subsequent recommendations for the World Bank and IMF to improve their counter terrorist financing and anti-money laundering programs to ensure American tax dollars are being effectively used to hinder money laundering and terrorism activities in the global market.

4. H.R. 6589, the *Prevent the Financing of Terrorism through the Drug Trade Act* (De La Cruz)

H.R. 6589 will require the Secretary of the Treasury to submit a report to Congress within 180 days outlining the sources and scope of terrorist financing done by Hamas and Hezbollah in Mexico, Central America, South America, and the Caribbean. Further, it would also add Hamas as a primary threat on Treasury's National Terrorist Financing Risk Assessment report, which will require the reporting of more data. As we have seen the terrorist activities of Hamas and Hezbollah increasing following the October 7, 2023 terrorist attacks in Israel, it is necessary to understand the sources and scope of their activities in Mexico, Central America, South America, and the Caribbean to best protect our National security and Southern Border.

**5. H.R. _____, *Strengthening Financial Crimes Enforcement Act* (Sponsor)
[DRAFT]**

This bill would add the Secretary of the Treasury to the Federal Financial Institutions Examination Council (FFIEC), which writes the Bank Secrecy Act/Ani-Money Laundering Examination Manual, and which conducts training for BSA/AML examiners. Doing so will allow Treasury to add representation from the Financial Crimes Enforcement Network (FinCEN) and the Office of Foreign Assets Control (OFAC) to appropriate activities, as appropriate.