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TESTIMONY BEFORE HOUSE FINANCIAL SERVICES COMMITTEE'S
SUBCOMMITTEE ON NATIONAL SECURITY, ILLICIT FINANCE, AND
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Chairman Luetkemeyer, Ranking Member Beatty, and members of the Subcommittee, thank you for the opportunity to discuss the Administration's approach to enforcing sanctions against Iran—especially in the oil sector—and its broader implications for national security, global oil markets, and international financial stability.

Iran's Oil Sector and the IRGC's Involvement

Understanding the impact of sanctions on Iran requires looking comprehensively at the country's reliance on its oil and gas industry. This sector is a cornerstone of Iran's economy, with exports representing up to 70 percent of Iranian government revenues by some estimates.¹ Iran has a significant share of global energy reserves, ranking second in natural gas and fourth in crude oil reserves. Despite fluctuations in oil revenues due to sanctions, this sector remains Iran's pivotal economic driver.²

Iran's oil sector and the Islamic Revolutionary Guard Corps (IRGC) are deeply intertwined. Designated as a foreign terrorist organization by the United States in 2019, the IRGC controls Iran's oil industry, including exports.³ The revenue generated from Iran's oil exports is thus the financial lifeblood of the regime's military and terrorist operations. Since 2012, Tehran has channeled over \$20 billion into such activities, underlining the direct link between oil income and funding for groups like Hamas and Hezbollah.⁴ This funding pattern underscores the regime's prioritization of military aggression and terrorism above domestic needs.

Sanctions—when rigorously enforced—have been pivotal in countering Iran's nuclear ambitions and limiting its funding of terrorist proxies. The effectiveness of these sanctions has been evident in the past, with significant impacts on Iran's economy and its ability to conduct international trade, particularly in oil exports. From 2016 to 2018, following the lifting of sanctions, Iran exported between 2.0 to 2.5 million barrels of crude oil per day.⁵ The reimposition of U.S. oil sanctions in May 2019 led to a drastic reduction in these exports, limiting Iran's access to its own oil export revenues.⁶

Sanctions Enforcement During 2017-2021

From 2017 to 2021, there was a campaign of “maximum pressure” which sought to aggressively enforce sanctions against Iran, significantly curtailing Iran's oil exports. This strategy aimed to squeeze the Iranian economy, forcing Tehran to choose between its own economic viability and destabilizing activities around

¹ Jeffrey A. Sonnenfeld and Steven Tian, “To Prevent a Wider War in the Middle East, Choke Off Iran's Oil Sales,” Yale Insights, October 25, 2023, <https://insights.som.yale.edu/insights/to-prevent-wider-war-in-the-middle-east-choke-off-irans-oil-sales>.

² “Country Analysis Executive Summary: Iran,” U.S. Energy Information Administration, last updated November 17, 2022, https://www.eia.gov/international/content/analysis/countries_long/Iran/pdf/iran_exe.pdf.

³ “Treasury Sanctions Key Actors in Iran's Oil Sector for Supporting Islamic Revolutionary Guard Corps-Qods Force,” U.S. Department of the Treasury, October 26, 2020, <https://home.treasury.gov/news/press-releases/sm1165>.

⁴ “Outlaw Regime: A Chronicle of Iran's Destructive Activities,” Iran Action Group, U.S. Department of State, December 2018, <https://2017-2021.state.gov/wp-content/uploads/2018/12/Iran-Report.pdf>.

⁵ Michael R. Pompeo, “The Importance of Sanctions on Iran,” U.S. Department of State, November 18, 2020, <https://2017-2021.state.gov/the-importance-of-sanctions-on-iran/>.

⁶ “Iran Tanker Tracking,” United Against Nuclear Iran, accessed December 4, 2023, <https://www.unitedagainstnucleariran.com/tanker-tracker>.

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the region. This approach sought to drive Iranian oil exports to zero and deprive the regime of its most vital source of revenue. Indeed, Iran's oil exports fell from 2.9 million barrels per day in 2018 to as low as 400,000 barrels per day in 2019 as a result.⁷

During this time several sanctions packages aimed at curtailing Iran's illicit shipment of oil were introduced. These included designating the Iranian Ministry of Petroleum, the National Iranian Oil Company (NIOC), and the National Iranian Tanker Company (NITC) with terrorism sanctions.

Lax Sanctions Enforcement (2021–Present)

In contrast, from 2021 onwards, energy sanctions against Iran have not been enforced strictly.⁸ In the first seven months of 2021, no new sanctions on Iran's oil sector were introduced.⁹ Only in August 2021 were new sanctions imposed on Omani businessman Mahmood Rashid Amur Al Habsi and companies linked to him for involvement in an oil-smuggling network benefitting the IRGC's Quds Force.¹⁰ In May 2022, sanctions were imposed on an oil smuggling network that secretly funded both the Quds Force, which is the external operations arm of IRGC, and Hezbollah.¹¹ Enforcement efforts require consistent new sanctions on new entities brought into use as evasion strategies shift.

While the Treasury Department imposed additional sanctions on Iran's petroleum sector four times in 2022, these measures were relatively limited in scope.¹² Particularly, they have not targeted vessels involved in Iran's "Ghost Fleet," which play a crucial role in circumventing sanctions by transporting Iranian oil. The last Treasury Department energy sanctions enforcement announcement was in March 2023.¹³

Due to diminished sanctions enforcement, Iran has accumulated north of \$80 billion in oil revenues since 2021.¹⁴ Iranian oil exports have steadily increased over the past three years, particularly due to increased

⁷ "Iran Tanker Tracking."

⁸ Saeed Ghasseminejad, "The Monetary Value of Relaxed Oil Sanctions Enforcement by the Biden Administration," Foundation for Defense of Democracies, September 28, 2023, <https://www.fdd.org/analysis/2023/09/28/the-monetary-value-of-relaxed-oil-sanctions-enforcement-by-the-biden-administration/>.

⁹ Claire Jungman and Jerry Canto, "Analysis of Iranian Oil Sales Under President Trump vs. President Biden," United Against Nuclear Iran, October 6, 2022, <https://www.unitedagainstnucleariran.com/blog/analysis-of-iranian-oil-sales-under-president-trump-vs-president-biden>.

¹⁰ Energy Voice, "US Sanctions Omani Businessman for Iranian Oil Smuggling," August 13, 2021, [https://www.energyvoice.com/oilandgas/middle-east/342862/us-sanctions-omani-iran/#:~:text=The%20US%20government%20has%20sanctioned,Force%20\(IRGC%2DQF\)](https://www.energyvoice.com/oilandgas/middle-east/342862/us-sanctions-omani-iran/#:~:text=The%20US%20government%20has%20sanctioned,Force%20(IRGC%2DQF)).

¹¹ Iran Primer, "U.S. Sanctions Iranian Oil Smuggling Network," May 25 2022, <https://iranprimer.usip.org/blog/2022/may/25/us-sanctions-iranian-oil-smuggling-network-0>.

¹² Iran Primer, "Iran in 2022: U.S. Sanctions," December 20, 2022, <https://iranprimer.usip.org/blog/2022/dec/20/iran-2022-us-sanctions>.

¹³ Rami Ayyub, "New U.S. Treasury Sanctions Target Iranian Petroleum, Petrochemical Trade," Reuters, March 2, 2023, <https://www.reuters.com/world/new-us-sanctions-target-iranian-shipping-petrochemicals-2023-03-02/>.

¹⁴ Adam Kredo, "Iran Has Made \$80 Billion in Illicit Oil Sales Since Biden Took Office," Washington Free Beacon, October 10, 2023, <https://freebeacon.com/national-security/iran-has-made-80-billion-in-illicit-oil-sales-since-biden-took-office/>.

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imports by China.¹⁵ In 2023, Iran's oil exports have ranged between 1.1 to 1.9 million barrels per day, generating substantial revenue despite being priced at a discount.¹⁶ This increase in export volume and revenue is alarming.

Global Implications of Lax Sanctions Enforcement on Iran

From 2021 to 2023, the lenient enforcement of sanctions against Iran has significantly impacted global oil markets and the Middle East's strategic dynamics. Iran exports oil, mainly to China, at discounted prices. This has introduced a significant volume of lower-priced oil into the global market, exerting downward pressure on oil prices, which benefits net importers like China but hurts oil-exporting countries like those in the OPEC and OPEC+ alliances.¹⁷

The current lenient approach also risks altering the perception and effectiveness of international sanctions. A perceived reduction in commitment to enforcing sanctions against Iran could weaken the resolve of other nations to uphold these measures, undermining a critical tool of foreign policy and international diplomacy.

Finally, Iran's increased revenue from oil sales also enables it to more effectively support proxy terrorist groups and militias and engage in regional power plays, destabilizing an already volatile Middle East.¹⁸

The 'Ghost Fleet' and its Impact

Iran uses a 'Ghost Fleet'—a 300-plus-strong armada of oil tankers that are distinct from but complement Iran's own NITC tanker fleet—to ship hundreds of millions of barrels of Iranian oil, skirting U.S. energy sanctions and exploiting regulatory loopholes.¹⁹ Most of these vessels are not sanctioned and operate clandestinely, often manipulating their tracking systems, changing names, and using ship-to-ship transfers to obscure their activities.

¹⁵ Muyu Xu, "Explainer: Iran's Expanding Oil Trade with Top Buyer China," Reuters, November 10, 2023, <https://www.reuters.com/markets/commodities/irans-expanding-oil-trade-with-top-buyer-china-2023-11-10/#:~:text=China%2C%20the%20world's%20largest%20crude,by%20Chinese%20customs%20in%202017>.

¹⁶ "Iran Tanker Tracking."

¹⁷ "Oil Dependence and U.S. Foreign Policy: 1850–2022," Council on Foreign Relations, accessed December 4, 2023, <https://www.cfr.org/timeline/oil-dependence-and-us-foreign-policy>.

¹⁸ "2022 National Terrorist Financing Risk Assessment," U.S. Department of the Treasury, February 2022, <https://home.treasury.gov/system/files/136/2022-National-Terrorist-Financing-Risk-Assessment.pdf>; Ghasseminejad, "The Monetary Value"; Kimberly Donovan, Maia Nikoladze et al, "Global Sanctions Dashboard: How Iran Evades Sanctions and Finances Terrorist Organizations Like Hamas," Atlantic Council, October 26, 2023, <https://www.atlanticcouncil.org/blogs/econographics/global-sanctions-dashboard-how-iran-evades-sanctions-and-finances-terrorist-organizations-like-hamas/>.

¹⁹ Claire Jungman and Daniel Roth, "Stop the Hop II: The Ghost Armada Grows," United Against Nuclear Iran, December 1, 2023, <https://www.unitedagainstnucleariran.com/blog/stop-hop-ii-ghost-armada-grows>.

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Unfortunately, the current Administration has not detected, monitored, or penalized the Ghost Fleet. Consequently, the Ghost Fleet has more than quadrupled in size since 2020.²⁰ This has led to a substantial increase in Iranian oil exports.

Panama's Involvement in Iranian Oil Exports

The current lax enforcement of sanctions has created opportunities for illicit traders to profit from sanctions evasion. Panama, in particular, has played a key role in facilitating this trade by providing flags to vessels transporting Iranian oil. Panama currently flags almost half of the Ghost Fleet, playing a critical role in enabling Iran to maintain its oil exports despite sanctions.²¹ The Panama-flagged vessel Bright Sonia alone has delivered Iranian oil worth \$547 million since October 2020.²² Panama is even re-flagging vessels that were previously de-flagged by other national registries for sanctionable activity.²³

United Against Nuclear Iran (UANI) has written over 65 letters to the Panama Maritime Authority over a period of three years, providing concrete evidence of vessels transporting Iranian oil. This evidence includes detailed bills of lading, satellite imagery, and other relevant documentation, clearly showing the involvement of Panamanian-flagged vessels in circumventing international sanctions against Iran.

Unfortunately, Panama has not responded substantively to any of UANI's letters and has only de-flagged 40 vessels since 2021. Some of these vessels were de-flagged due to being decommissioned, not necessarily as a result of Panama conducting due diligence on the vessels' movements.

Panama need not wait for the U.S. to designate specific ships before de-flagging them. Other national registries—like Gabon, St. Kitts and Nevis, Liberia, and Tuvalu—have acted quickly to de-flag such ships after UANI has provided them with evidence of sanctions violations. Unfortunately, Panama continues to irresponsibly prioritize profits over international security.²⁴

China's Gain from Lax Enforcement of Sanctions on Iranian Oil

The current Administration's sanctions policy has particularly benefited China. China's strategic maneuvering in this context exemplifies a significant challenge to the effectiveness of sanctions and has implications for global energy markets, including the U.S.

²⁰ Adam Kredo, "Iranian 'Ghost Armada' Ferries \$22 Billion Worth of Illicit Oil to China," Washington Free Beacon, April 12, 2022, <https://freebeacon.com/national-security/iranian-ghost-armada-ferries-22-billion-worth-of-illicit-oil-to-china/>.

²¹ Jungman and Roth, "Stop the Hop II."

²² Jungman and Roth, "Stop the Hop II."

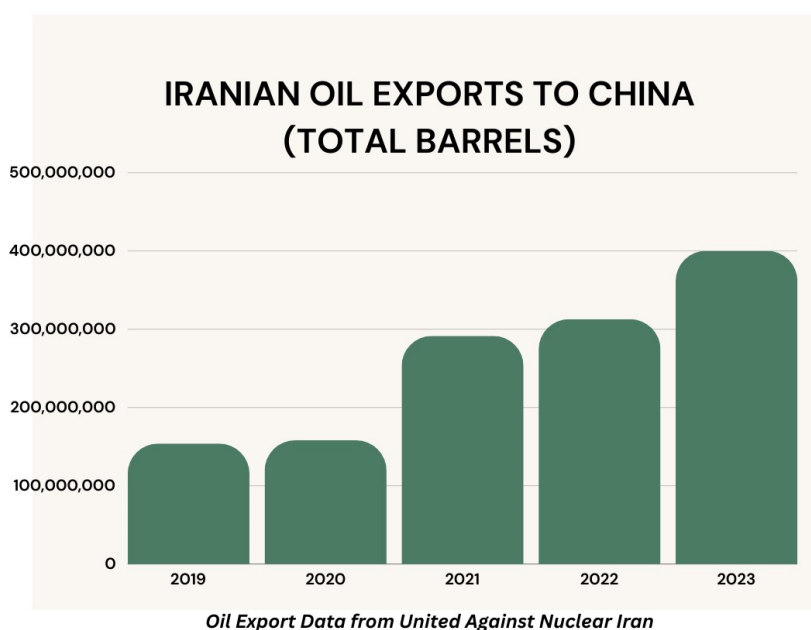
²³ Claire Jungman, "Panama's Controversial Re-Flagging of Sanction-Violating Vessels: Prioritizing Profit Over Principles," United Against Nuclear Iran, August 16, 2023, <https://www.unitedagainstnucleariran.com/blog/panamas-controversial-re-flagging-of-sanction-violating-vessels-prioritizing-profit-over>.

²⁴ Ibid.

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China, leveraging America's relaxed Iran oil sanctions enforcement, buys Iranian oil at significantly discounted prices.²⁵ Simultaneously, oil prices remain high in the United States and other parts of the world, creating a competitive advantage for Beijing and weakening America's economic position.²⁶

Iranian oil exports to China have increased substantially in the past three years. According to UANI's latest data, in 2023, China imported approximately 400 million barrels of crude oil from Iran. This compares to 313 million in 2022, 291 million in 2021, and 158 million in 2020.²⁷ This figure represents 72 percent of Iran's total oil exports from 2020 to 2023 and highlights the extent to which China capitalizes on weaknesses in Iran sanctions enforcement.²⁸



Where Do We Go From Here?

Effectively countering Iran's sanctions evasion in the petroleum industry could be addressed by the U.S. implementing a more comprehensive and robust strategy. Such a strategy might include the following elements:

²⁵ Chen Aizhu and Muyu Xu, "China saves billions of dollars from record sanctioned oil imports," Reuters, October 11, 2023, <https://www.reuters.com/markets/commodities/china-saves-billions-dollars-record-sanctioned-oil-imports-2023-10-11/>.

²⁶ Ibid.

²⁷ "Iran Tanker Tracking."

²⁸ *Hearing: How America and Its Allies Can Stop Hamas, Hezbollah, and Iran from Evading Sanctions and Financing Terror*, 118th Cong. (2023) (statement of Gabriel Noronha, fellow, Jewish Institute for National Security of America).

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Strengthening Enforcement of Existing Oil Sanctions

- **Increase Sanctions Enforcement:** A serious approach to enhancing sanctions enforcement in the context of the Iranian oil trade would involve establishing a robust reporting system. This would require regular compilation and analysis of open-source data to identify vessels involved in the transport of Iranian oil. Regular updates and reports on these activities would be essential for maintaining a thorough understanding of the situation. Additionally, a key component of this approach would be the systemic assessment of each identified vessel to determine the appropriate actions, including the possibility of sanctions on the vessels, owners/operators, registries, class societies, and/or insurance companies. Such a structured and consistent process would aim to ensure a fair and uniform application of sanctions, targeting all entities involved in the illicit Iranian oil trade.
- **Funding Sanctions Enforcement:** Increase funding to support the Department of Homeland Security's Homeland Security Investigation Office (HSI) in enforcing oil sanctions on Iran. One such proposal is the Iranian Sanctions Enforcement Act, which would establish and provide seed funding for the Iranian Sanctions Enforcement Fund. One of the key functions of this fund would be to facilitate the HSI in conducting physical interdictions of vessels carrying Iranian oil, thereby reinforcing the effectiveness of the sanctions.
- **Focus on Iran's Ghost Fleet:** Sanction Iran's Ghost Fleet. Identifying, tracking, and sanctioning these vessels will significantly impede Iran's ability to export oil illicitly.
- **Economic and Regulatory Pressure on China:** Implement economic and regulatory measures to deter Chinese companies from engaging in trade with Iran. This could involve sanctioning Chinese banks and companies involved in this trade—especially the 'teapot' refineries responsible for importing almost all Iranian oil²⁹—and restricting their access to the U.S. financial system.
- **Private Sector Cooperation:** Encourage or mandate cooperation from private sector entities, such as insurance companies and maritime service providers, in identifying and reporting activities related to the illicit Iranian oil trade. This could be achieved through incentives for compliance or penalties for non-compliance.
- **Global Maritime Surveillance:** Enhance global maritime surveillance and interdiction capabilities to actively disrupt illicit oil shipments. This might involve deploying additional naval assets strategically and increasing cooperation with allies to monitor and intercept illicit shipments.

Addressing Panama's Role in Facilitating Iranian Oil Exports

²⁹ Claire Jungman and Daniel Roth, "Uncovering the Chinese Purchasers of Iranian Oil," United Against Nuclear Iran, last updated November 30, 2023, <https://www.unitedagainstnucleariran.com/blog/uncovering-chinese-purchasers-of-iranian-oil>.

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- **Diplomatic Engagement with Panama:** Engage more actively in diplomatic discussions with Panama, emphasizing the importance of vigilance in their ship registry. This engagement would aim to address the issue of vessels involved in the illicit Iranian oil trade being flagged under Panama's registry. Fostering collaborative efforts and sharing best practices could assist in mitigating the challenges associated with monitoring and regulating such maritime activities.
- **Comprehensive Audits of Panama's Shipping Registry:** Implement a system of comprehensive and regular audits of Panama's shipping registry, focusing on due diligence and compliance with international sanctions. Independent international entities could carry out these audits to ensure transparency and effectiveness.
- **Incentivizing Compliance:** Consider economic and diplomatic incentives for Panama to comply with international sanctions against Iran. For example, Panama's access to the U.S. financial system should be conditional on its compliance with sanctions against Iran. This could include restrictions on transactions between U.S. financial institutions and Panamanian entities that are found to be non-compliant. Alternatively, consider targeted trade measures against Panama if it continues to facilitate Iranian oil exports. This could include specific restrictions or tariffs on Panamanian goods entering the U.S. market.
- **Sanctions for Non-Compliance:** Impose targeted sanctions against Panamanian persons and entities that knowingly facilitate the evasion of sanctions on Iranian oil. These sanctions could target specific companies, financial institutions, or individuals involved in such activities.
- **Threatening with a Port Ban:** Consider conveying to Panama the potential repercussions of non-compliance with sanctions against Iran, which might include restrictions on Panamanian vessels entering U.S. ports. In parallel, it would be prudent to plan for the broader economic implications of such a decision, especially in terms of affecting legitimate trade. This planning could encompass the development of specific criteria for exemptions and active collaboration with the shipping and maritime industry to minimize adverse effects. Additionally, to enhance the effectiveness of any such measures, the U.S. might explore the possibility of a coordinated effort with other nations. A joint international stance on restricting non-compliant Panamanian vessels could potentially increase the impact of the action and demonstrate a unified commitment to upholding sanctions against Iran.
- **Restricting Visa Policies:** Implementing restrictive visa policies for executives and representatives of foreign companies and states found to be aiding Iran's oil trade, limiting their travel and ability to conduct business internationally.

Conclusion

The present Administration's lack of enforcement of sanctions against Iran—particularly its critical oil sector—demands urgent reevaluation. The current lax enforcement has undermined the sanctions' effectiveness and benefitted nations like China, creating significant imbalances in the global oil market. Furthermore, Panama's role in enabling Iran's evasion of sanctions through its shipping registry is a matter of serious concern that necessitates immediate and decisive action.

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Therefore, it could benefit the U.S. to explore a more thorough and encompassing approach in its strategy toward sanctioning Iran. This could involve ensuring the strict enforcement of current sanctions, targeting Iran's Ghost Fleet, considering economic and regulatory measures against Chinese entities purchasing Iranian oil, and engaging diplomatically with Panama to encourage compliance with sanctions. Such steps could be important in addressing Iran's nuclear ambitions and destabilizing activities, and in upholding international financial stability and national security.