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Subcommittee on National Security, Illicit Finance, and International Financial Institutions

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Mr. Chairman and the Ranking Member, it is a pleasure to appear before your subcommittee to discuss how to restrict the revenue of rogue regimes such as Russia, Iran, and Venezuela.

At the outset, I must say that autocratic regimes have tried for years to advance the narrative that "sanctions don't work," for obvious reasons. And now some in Washington, DC are starting to parrot their talking points.

This is concerning. To say that sanctions don't or can't work would be incorrect and is an assertion completely at odds with the results we achieved during my tenure at the Department of the Treasury under President Trump.

Sanctions do work when they are applied properly & enforced.

Applied properly means:

1. As part of a broader strategy. Sanctions are not a substitute for strategy, but a complement.

2. Not symbolic. Sanctions have effect when the target has exposure to the global financial system. That is also to say that when the target is unconnected to global commerce or finance, sanctions are little more than virtue-signaling.

3. Applied comprehensively, without loopholes.

4. Accompanied by secondary sanctions to deter non-US third parties who otherwise might still transact with a sanctioned entity.

5. Enforced, both through civil and criminal penalties.

As I mentioned, under President Trump, all 5 of these criteria were met by our Iran and Venezuela efforts, and -- I would parenthetically add -- also our North Korean program.

The effect on the energy-related revenue streams of the Mullahs in Tehran and the murderous kleptocrat regime in Caracas was significant.

Iranian crude oil production collapsed from 3.8M barrels a day in 2018, when we started the snapback of sanctions, down to 1.8M by the time we left office. Their exports similarly crashed, due to our efforts. They were exporting less than 400,000 barrels a day and had a huge number of cargo ships serving as floating storage because secondary sanctions were effectively deterring a number of countries, such as

India and China, from buying.

The corresponding effect on the Iranian regime's finances was equally dramatic. Iran's GDP shrank by nearly 5% in 2018, and another 10% year-over-year in 2019. Inflation also spiked from 10% to approximately 35% during this timeframe, and the value of the Iranian currency (rial) hit record lows. As its economy shrank and oil and tax revenues dried up, the regime found that its own budget was in disarray. Its military spending took a serious hit; although Qassem Soleimani, the head of the Qods Force, fought aggressively to protect the terror financing of the regime, he too was forced to take major cuts.

To make ends meet, the IRGC-QF resorted to its own oil-smuggling efforts, in collaboration with Hizballah and Russia. We disrupted a number of these schemes through a mix of law enforcement, intelligence, and Treasury actions. The effect on Iran's terror network was notable. Although the best-funded of Iran's proxies by far, Hassan Nasrallah, Hizballah's leader, was forced to make major cutbacks in stipends for his members and repeatedly complained about the US Treasury. He even started fundraising telethons in an effort to make up the losses in Iranian payments. Both Hamas and the Houthis were affected to a far greater extent, and Iran started pushing its Iraqi militias -- who had been receiving Qods Force money prior to our sanctions -- to start paying some of that back.

In Venezuela, we saw a very similar pattern. Once we designated the Central Bank of Venezuela and all of the other major financial institutions, and applied secondary sanctions on its oil trade, Venezuela's crude oil output from 2.3M barrels a day to ~400,000 by the end of the Trump Administration. Hyperinflation was rampant, and in 2018 the Venezuelan currency -- the Bolivar -- became the least-valued currency in circulation, based on exchange rates.

These results speak for themselves. They prove that sanctions can significantly impair the revenue of hostile, energy-producing regimes, provided that the five principles I enumerated at the outset are followed.

But here we are at the end of 2023. Iran's oil production has bounced back to a five year high, to between 3.1 - 3.3 million barrels per day. They are exporting more than four times as much crude and condensate today than they were when President Trump left office -- 1.8 million barrels per day, mostly to Communist China (who seems no longer deterred). Hassan Nasrallah no longer feels compelled to conduct telethons, the Houthis are engaged in ballistic, cruise, and drone strikes against both Israel and shipping in the Red Sea at unprecedented levels, Iranian-backed militias have conducted 92 attacks on US servicemen in Iraq and Syria since October 17th, and an emboldened Hamas embarked on the horrific slaughtering of innocent civilians in Israel on October 7 -- a day that will live in infamy.

In Venezuela, crude oil production has nearly doubled, up to a recent high over the summer of 790,000 barrels per day. Now that the Biden Administration has waived most of our energy sanctions, we should expect to see this number grow further, driven principally by Chevron's joint ventures with the regime-controlled PdVSA. Not to be outdone by the Iranians, Maduro has also now decided to mass Venezuelan troops along the border with Guyana and is threatening forcible annexation of the oil- and mineral-rich Esequibo region.

With respect to Russia, despite the Biden Administration's sanctions, Moscow reportedly pulled in $11.3 billion in oil revenue this past October -- more than it did during any month during the year prior to its further attack on Ukraine. Both India and China are more than willing to purchase Russian oil, and India is refining that oil and selling it right back to Europe and -- if some accounts are to be believed -- the US as well. The Russian economy, though under pressure, is far from collapsing. In fact, its GDP appears to have grown between 2-4% in 2023, depending upon whose numbers you rely. As a result, its Federal Budget revenues (which benefit from multiple forms of taxation on energy products) will be approximately 10% higher than originally anticipated. The bottom line: while Russia is still deficit spending, it will be able to continue its planned increases in military expenditures and weapons production.

There are very concrete reasons why these three oil producing dictatorships are shrugging off sanctions, growing their economies, and feel free to engage in hostile actions.

President Biden has made two major policy changes that have undercut the effectiveness the sanctions he inherited, and the new ones he has sought to impose.

First, his emphasis on multilateralism has resulted in a “lead-from-behind” approach and in lowest common denominator results. Nowhere is this more evident than in the case of Russia. Rather than imposing a sweeping embargo on all Russian energy exports, the Biden Administration allowed various countries in the EU to carve out their own exemptions. Viktor Orban, for instance, insisted that Hungary be able to continue buying Russian pipeline oil. Greek shipowners were determined to ensure they could keep trafficking in Russian crude and diesel, so the Greek government opposed any meaningful restrictions on transport of Russian energy products. The result of negotiations with the EU and the G7 was a so-called "oil price cap" which is simply performative art. Set at $60 barrel, the cap is largely unenforceable, and there are multiple methods by which Russia is evading it -- starting with the fact they have assembled their own "ghost fleet" of vessels, with the help of Greek shipping magnates.

At the outset I said that sanctions are not a substitute for strategy. But it remains unclear to many what the actual strategy is with respect to Russia. It clearly isn't a strategy to help Ukraine decisively win, or we would not be seeing repeated hesitancy by the Administration in providing to Ukraine the needed military capabilities (whether tanks, ATACMs, F-16s, etc.), and to do so rapidly and in sufficient numbers. The foot dragging is hard to understand, but the cumulative effect of hesitation in providing high-end weapons, together with a failure to shut down the main driver of Russia's economy (oil exports), has already perpetuated the war far longer than should have been the case.

With respect to Iran and Venezuela, I also am unclear on what the strategy is, other than an overweening desire to just get those regimes to the negotiating table. But this has meant a willingness to trade away sanctions just as an inducement to talk. This is the opposite of our approach, which was to consistently build up the crushing power of sanctions until those regimes themselves begged to negotiate. Removal would happen only after achievement of our objectives, not as a carrot to start discussions. There is a big difference.

Finally, if the Administration -- or Congress -- wishes to once again apply the crippling financial and economic pressure that we successfully employed under President Trump, our sanctions need to include secondary measures. Absent this, India will feel free to continue buying Russian oil, and China to purchase Iranian and Venezuelan crude.

And the sanctions need to be enforced. That takes political will, leadership, negotiating skills, and -- unlike the oil price cap on Russia -- the crafting of sanctions that are actually enforceable.

Again, thank you for the opportunity to speak with you on this important matter. I look forward to your questions.