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Hearing on "An Axis of Autocracy? China's Relations with Russia, Iran, and North Korea"
Panel II: Economic Linkages and Sanctions Evasion

I. Summary of testimony

Commissioner Friedberg, Commissioner Stivers, and members of the US-China Economic and Security Review Commission, thank you for the opportunity to provide testimony. It is an honor to speak with you today about China's role in the Axis of Autocracy and specifically on economic linkages and sanctions evasion.

While I am currently employed by the Atlantic Council, I am providing testimony in my personal capacity. The views I express today are my own and do not represent those of the Atlantic Council.

My testimony draws from a body of research my team and I have conducted at the Atlantic Council's Economic Statecraft Initiative measuring the effectiveness of economic statecraft tools targeting Russia and our assessment that China is enabling Russia as well as Iran to circumvent and evade Western sanctions. We have coined this network "the axis of evasion."

My testimony also draws on my prior experience as a career civil servant in the US federal government for 15 years in the Intelligence Community, the Department of the Treasury, the National Security Council at the White House, and most recently serving as head of intelligence at Treasury's Financial Crimes Enforcement Network or FinCEN. I spent my career in national security "following the money" of illicit actors, terrorists, and rogue states to safeguard the US financial system from abuse and protect the American public from harm. My experience has informed my understanding of sophisticated money laundering techniques and my perspectives on how US adversaries, such as China, Iran, Russia, and North Korea work together to take advantage of the global financial system and evade US sanctions that are intended to deter and disrupt their nefarious activity.

The United States and many of its Western partners have levied significant sanctions on Russia, Iran, and North Korea. Being sanctioned by the West is one of the few things these rogue states have in common. Sanctions severely restrict these countries' access to the US-led global financial system, limit their ability to trade in commodities, generate revenue, and import sophisticated technology. Many Chinese individuals and entities are also sanctioned by the United States and its allies. When the United States closed the proverbial front door to the global financial system, China opened the backdoor for these countries to transact and conduct trade often outside the reach of US sanctions. Against this backdrop, my testimony today focuses on three key areas:

- First, China, Russia, Iran, and North Korea have constructed elaborate systems to circumvent and evade US sanctions;

- Second, third country procurement networks enable these sanction evasion systems; and

- Third, these sanctions evasion systems have limitations and vulnerabilities that may present opportunities for US action.

This assessment informs policy recommendations for Congressional consideration. A summary of which is as follows:

- Congress should require the Administration to develop a comprehensive national security strategy and economic statecraft approach that accounts for the economic and financial ties between China, Russia, Iran, and North Korea and considers these states as a network of actors. The strategy should include both punitive as well as positive or inducing measures to drive a wedge between these rogue actors and third countries that enable their activity. Foreign policy decisions related to these states can no longer be considered in silos because these actors do not operate in silos.

- Congress should invest in and resource the departments and agencies responsible for collecting and analyzing financial intelligence and information to assess the financial connectivity among these states and invest in and resource the departments and agencies responsible for sanctions enforcement and investigations.

- Congress should direct the Administration to increase information sharing and collaboration with like-minded foreign partners bilaterally and in multilateral fora to develop a comprehensive intelligence picture of the systems of sanctions evasion and jointly target vulnerabilities within the system to disrupt and deter sanctions evasion.

- Congress should request the Secretary of the Department of the Treasury, in coordination with the Federal Reserve, Departments of State and Justice, as well as the Intelligence Community, to assess offshore interbank US dollar clearing systems to determine if they are being abused by nefarious actors to circumvent US sanctions and offer recommendations to the Federal Reserve to increase transparency of these systems and ultimately security of US dollar settlements and payment rails.

- Congress should direct funding towards anti-money laundering and countering the financing of terrorism (AML/CFT) capacity building within the United States and abroad to strengthen the resilience of the global financial system and prevent malicious actors from taking advantage of it to launder their proceeds. This includes engaging with China on AML/CFT and encouraging Chinese authorities to identify and weed out sanctions evasion within China's financial system, or risk secondary sanctions as they relate to Russia and Iran.

- Congress should request the Secretaries of the Departments of Energy, Justice, Defense, and Homeland Security (US Coast Guard), as well as the Director of National Intelligence, to assess the environmental risk and piracy risk associated with the shadow fleet and offer recommendations to leverage international and maritime law, in coordination with European allies, to hold accountable those involved in shadow fleet operations to disrupt the export and import of sanctioned Russian and Iranian oil. Congress should also request these departments and agencies to collaborate with European allies to identify the true beneficial owners of the shadow fleet tankers and hold them accountable through restrictive economic measures and/or civil or criminal legal proceedings.

II. Introduction

Russia, Iran, and North Korea represent three different economic and autocracy models, but they have one problem in common: All three are subject to US sanctions. For decades, the United States has leveraged the dominance of the US dollar as a global reserve currency to advance its national security objectives by using sanctions to cut adversaries' access to the dollar and thereby the global financial system, with the intent of changing their nefarious behavior.[1] The United States sanctioned these rogue states for a myriad of different reasons and restricted their access to the global financial system and international markets, severely reducing their ability to move funds, trade, and generate revenue.

US sanctions targeting Russia

Following Russia's invasion of Ukraine in 2014 and again in 2022, the United States and its Western partners took unprecedented joint action to restrict Russia's access to the global financial system, reduce its revenue from commodity exports, and restrict its import of sophisticated technology to limit Russia's success on the battlefield. The financial sanctions include a secondary sanctions clause that provides Treasury authority to designate foreign financial institutions that continue to transact with sanctioned parties, greatly expanding the reach of the sanctions.[2] The United States and several of its Western partners have also sanctioned Russian individuals and entities for a range of nefarious activity[3] including election interference,[4] cybercrime,[5] corruption, and human rights abuses.[6]

US sanctions targeting Iran

Iran has been subject to US sanctions since 1979, when the Islamic Republic seized the US Embassy in Tehran and took US hostages at the start of the revolution. US sanctions on Iran are the most extensive and comprehensive set of economic measures that the United States maintains on any foreign country, including Russia, and financial activity with Iran is subject to US secondary sanctions.[7] The intent of the sanctions is to change the Iranian regime's behavior, including its support for terrorism and its disruptive activities in the Middle East, human rights abuses against its people, and nuclear proliferation ambitions.

US sanctions on Iran block Iranian government assets in the United States, prohibit foreign assistance and arms sales, and ban nearly all US trade with Iran, except for humanitarian carve outs such as medicine and medical supplies. During the maximum economic pressure campaign President Trump undertook during his first term, the United States sanctioned nearly every sector of Iran's economy in addition to designating thousands of individuals and entities that are a part of or associated with the regime. In addition to OFAC-administered sanctions, Treasury's FinCEN found the entire jurisdiction of Iran to be a primary money laundering[8] concern in 2019 pursuant to Section 311 of the USA PATRIOT Act, further isolating Iran from US correspondent banks[9] and the financial system.

US sanctions targeting North Korea

The United States maintains a sophisticated sanctions regime on North Korea,[10] consistent with United Nations Security Council Resolutions[11] and US foreign policy. North Korea, like Iran, is designated by the State Department as a state-sponsor of terrorism.[12] The United States has sanctioned North Korea for nuclear proliferation, ballistic missile procurement, cybercrime, and human rights abuses among other issues. As a result, North Korea is isolated from the international community and global financial system and is increasingly dependent on China for connectivity and access to goods and services.

China's role in evading US sanctions

Chinese individuals, entities, and financial institutions have found themselves subject to a variety of US sanctions due to corruption and human rights abuses,[13] cybercrime,[14] and sanctions and export control evasion.[15] These sanctions, when coupled with strategic geopolitical and economic competition with the United States, as well as China's need for cheap energy, provide a motive for China to work with Russia, Iran, and North Korea to evade Western sanctions. Meanwhile, these states have found a powerful economic ally in China and are increasingly dependent on China for access to the global financial system and international markets.

China, Russia, Iran, and North Korea have developed trade systems that bypass Western financial systems and shipping services. In this system, payments are denominated in Chinese currency and processed through China's opaque financial system. Meanwhile, goods and commodities, such as oil, are carried by the "shadow fleet" tankers that operate outside of maritime regulations and take steps to obscure their operations.

Propping up three heavily sanctioned autocracies plays into China's geopolitical objective of undermining US global influence, while also reaping economic benefits. China saved a reported $10 billion dollars in 2023 by importing sanctioned oil from Iran, Russia, and Venezuela.[16] While North Korea does not provide much economic benefit to China, it is a strategic and political ally that keeps US influence in check on the Korean peninsula and broader Indo-Pacific region.

III. Systems for sanctions evasion

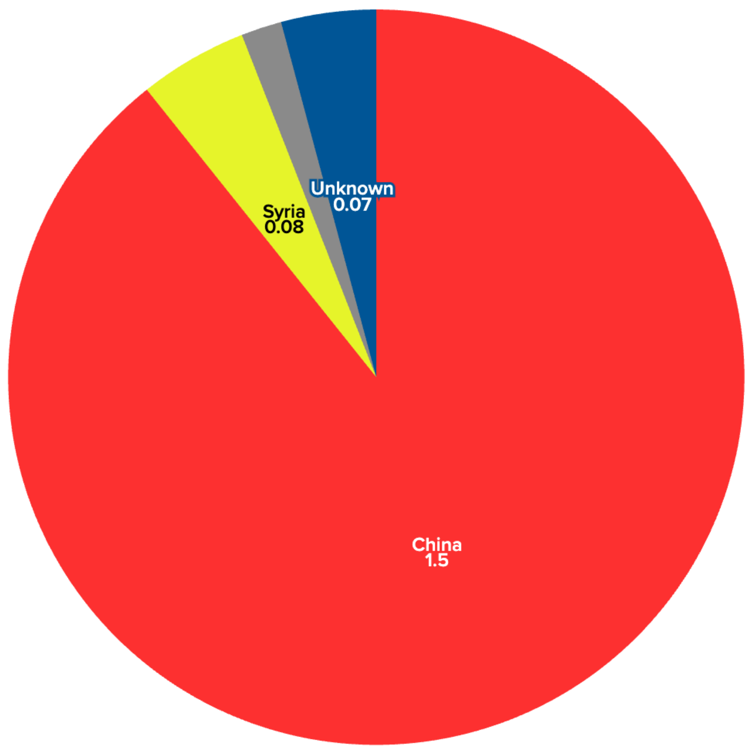
While China's trade models with Russia, Iran, and North Korea differ, they all share elements that create the system for sanctions evasion: (1) the shadow fleet, (2) alternative currencies and payment systems, and complex money laundering schemes, and (3) barter trade.

The shadow fleet

Russia, Iran and North Korea use the global shadow fleet to bypass Western shipping services while transporting sanctioned cargo. The shadow fleet is composed of aging and poorly maintained vessels with opaque ownership structures.[17] They often change flag registrations and take steps to obscure their operations.[18] The size of the global shadow fleet has increased tremendously since Russia's invasion of Ukraine, currently comprising 17 percent of all oil tankers.[19]

North Korea uses the shadow fleet and deceptive shipping practices to import luxury goods, technology, and refined petroleum,[20] in turn exporting its sanctioned weapons to countries like Russia.[21] Meanwhile, Iran and Russia have used the shadow fleet to export oil to China. Thanks to the shadow fleet, Iran's oil exports reached $53 billion in 2023.[22] China buys the majority of Iranian oil[23] and in February 2024, imported 89 percent [24] of Iran's oil, at an estimated 1.5 million barrels per day. Likewise, the shadow fleet, responsible for 90 percent of Russia's seaborne crude oil exports, generated an extra $9.4 billion revenue for Russia in the first eleven months of 2024.[25] In 2024, China reportedly imported 2.17 million barrels per day, marking a 1 percent increase from 2023 and a record high for Chinese imports of Russian oil.[26]

China imported 89% of Iranian oil in February 2024



Source: United Against Nuclear Iran

The growth of the global shadow fleet since 2022 is a direct result of Western sanctions on Iran, Russia, and North Korea and a consequence of the lack of beneficial ownership information on the buyers of these tankers. The number of tankers sold to undisclosed buyers more than doubled from 2021 to 2022. The undisclosed buyers of European tankers were most likely shell companies or individuals representing Russian beneficial owners of the shadow fleet tankers.[27] The Financial Action Task Force (FATF),[28] and intergovernmental organization founded in 1989 by the Group of 7 (G7) to develop policies and international standards to combat money laundering and the financing of terrorism, has previously recommended its member states to make the identities of true owners of companies available to competent authorities. This would help European companies identify if they are selling tankers to sanctioned Russian or Iranian buyers, prevent further growth of the global shadow fleet, and disrupt Russia and Iran's sale of its sanctioned oil to China.

Alternative currencies, alternative payment systems, and complex money laundering schemes

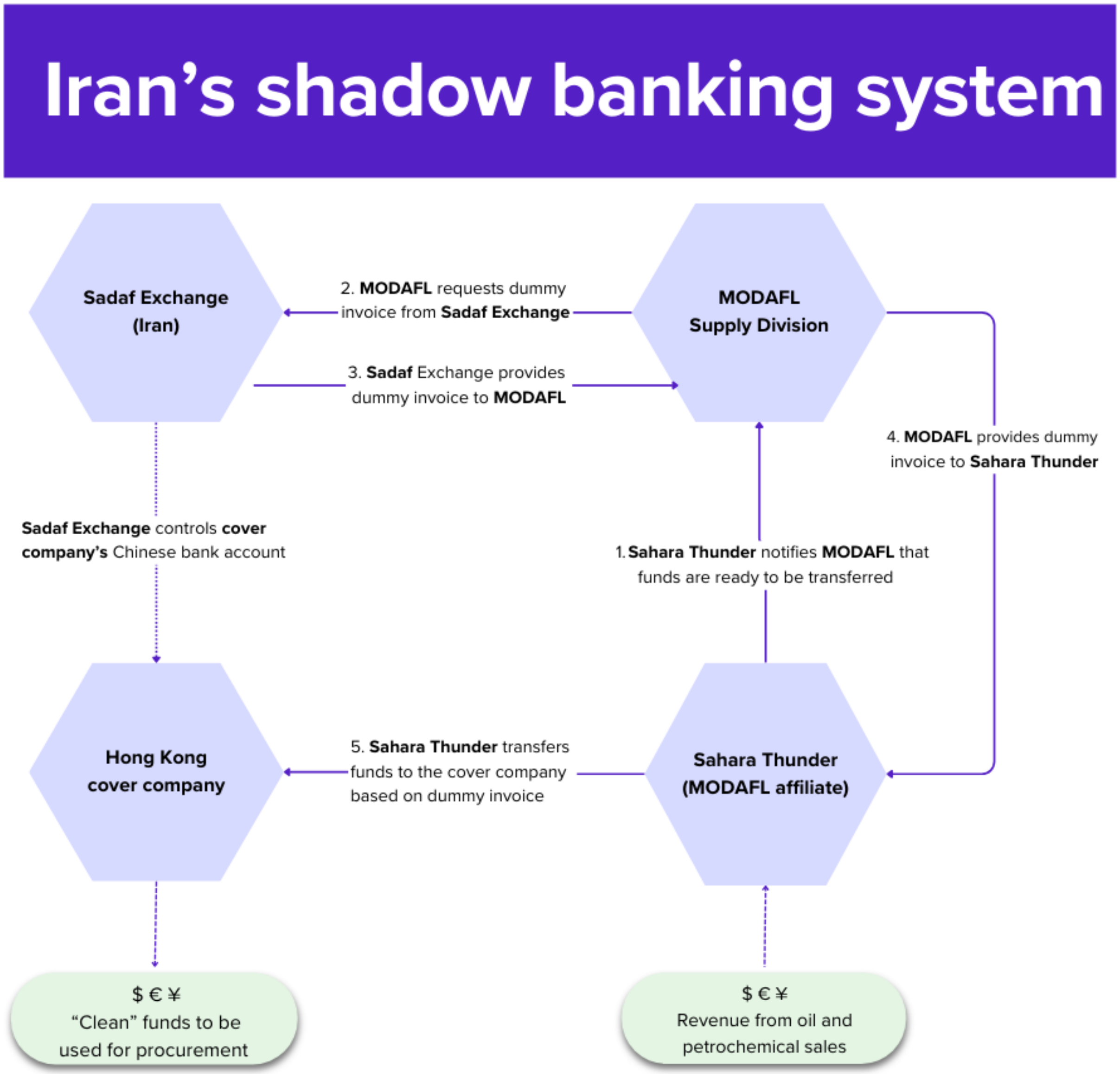
Iran, Russia, and North Korea take advantage of China's opaque financial system and payment systems to launder the proceeds of oil exports.[29] Meanwhile, Russia, which is not as heavily sanctioned as Iran or North Korea and has a more sophisticated banking system, has sought to blunt the blow of sanctions by adapting its financial system to use Chinese renminbi (RMB) and connecting its financial system to China's. Finally, North Korea, which does not have considerable oil or natural resources, uses China's financial system to launder the proceeds of cybercrime, which often involves converting cryptocurrencies to fiat currencies, including RMB.

Iran's schemes for laundering the proceeds of oil exports to China

Small Chinese independent refineries called "teapots", which absorb 90 percent of Iranian oil, are believed to be paying[30] Iranian companies in RMB using smaller US-sanctioned financial institutions such as the Bank of Kunlun.[31] In this case, Iranian companies are accumulating RMB which can create challenges for the Iranians because Chinese currency is not entirely freely tradeable. Since Iranian companies cannot spend RMB outside of China, they have to buy Chinese goods. In 2023, Iran imported $10 billion worth of goods from China, mostly vehicles, machinery, and electronic equipment.[32] Thus, out of the reported $53 billion Iran made from oil exports in 2023, $10 billion could have been used to buy Chinese goods in RMB through small Chinese banks.[33] Assuming that this is the case, Iran would still have to launder the rest of the $43 billion through the global financial system in order to use it.

Recent investigations of the transaction scheme between Iranian oil companies and Chinese refineries revealed that Iran uses a complex web of financial facilitators and front companies to move dollars and euros through the global financial system.[34] Iran is reported to have about $53 billion dollars and €17 billion euros parked abroad.[35] This money laundering scheme consists of the (1) financial departments of the Iranian oil companies, (2) local Iranian money exchanges handling illicit payments for oil companies, and (3) front companies or "trusts" abroad. These front companies maintain accounts with Chinese banks, which provides them access to the global financial system. It has been speculated that large Chinese banks could be processing transactions for these front companies unwittingly, in addition to smaller provincial banks. While it is difficult to assess if the Chinese government is wittingly involved or has "blessed" this scheme, the government willingly buys sanctioned Iranian oil and is in a 25-year agreement with Iran to build economic, diplomatic, and security cooperation, which increases the likelihood of their awareness.[36]

In June 2024, the Treasury Department sanctioned the shadow banking network that moves billions of dollars for Iran's Ministry of Defense and Armed Forces (MODAFL) and Revolutionary Guard Corps (IRGC), which generate revenue through the sale of Iranian oil and petrochemicals.[37] Treasury's designation targeted 27 cover companies in Hong Kong and the United Arab Emirates (UAE) that facilitated MODAFL's sanctions evasion activity.



Source: US Treasury Department

More recently, on February 6, the Treasury Department also sanctioned a global network of entities, individuals as well as vessels across China, India, and the UAE for facilitating oil shipments for the front company of Iran's Armed Forces General Staff (AFGS).[38] Iranian oil sales to China, facilitated by this network of front companies and brokers, have generated billions of dollars for the Iranian regime, which uses the revenue to fund terrorist organizations like Hizballah and Hamas.

Russia's adoption of RMB and efforts to connect the Chinese payment system with the Russian alternative of SWIFT

Since Russia has faced a gradual escalation of sanctions dating back to 2014, rather than a single overwhelming strike, it has had time to adapt its financial system to utilize the RMB. In 2024, Russia-China trade reached an all-time high of $244.8 billion,[39] a staggering 74 percent growth from the $141 billion[40] in 2021. At the same time, in July of last year, the share of RMB in Russia's foreign exchange market reached almost 100 percent.[41] Setting up the energy-for-technology trade model with China and switching to the use of RMB threw a lifeline to the Russian financial system and significantly mitigated the effects of Western sanctions.

However, after the United States established the Russia secondary sanctions authority and expanded the definition of Russia's military-industrial complex in 2024, Chinese banks became cautious about transacting with sanctioned Russian entities.[42] As a result, oil payments from Chinese banks were either suspended or delayed.[43] On January 10 of this year, the Treasury Department designated two of Russia's most significant oil producers and exporters and their subsidiaries—Gazprom Neft and Surgutneftegas—which was by far the most powerful measure taken against Russia's energy sector.[44] These two companies and their subsidiaries handle more than a quarter of Russia's seaborne oil exports, and sanctioning them could severely restrict Russia's energy revenues this year.[45] One consequence of the January 10 designation is that China and India have suspended[46] March purchases of Russian oil and started looking for alternative oil suppliers in the Middle East.[47]

On the payments side, Russia has developed its own version of SWIFT called SPFS (Sistema Peredachi Finansovykh Soobcheniy) and developed a national payment system, MIR, to avoid reliance on payment platforms run by US companies including Mastercard, Visa, and American Express.

In the beginning, SPFS served as a messaging platform only for domestic banks. However, the platform's international reach expanded significantly in 2022, when the West deSWIFTed ten major Russian banks (but still left 314 Russian banks in the system).[48] In 2024, the Russian News Agency reported that over 160 non-residents from twenty countries have joined SPFS, including financial institutions from Armenia, Cuba, and Central Asia.[49] The reported number of total participants is currently 557.[50]

To deter sanctions evasion through SPFS, the US Treasury Department's Office of Foreign Assets Control (OFAC) issued an alert, warning foreign financial institutions that joining SPFS will be considered sanctionable activity.[51] OFAC considers SPFS part of Russia's financial sector, indicating that any financial institution that joins or has already joined SPFS could be sanctioned pursuant to Executive Order 14024.

Russia has been working towards integrating SPFS with China's CIPS (Cross-Border Interbank Payment System). CIPS is an RMB clearing and settling mechanism which relies on SWIFT to transmit bank messages.[52] Since SPFS has a similar function as SWIFT, connecting SPFS with CIPS would allow Russian banks to transact with Chinese banks without having a Western sanctions-compliant intermediary in the middle. However, Russia's plans will likely be hindered by Chinese concerns about the secondary sanctions risk associated with SPFS.

Russia's MIR National Payment System[53] has also been identified and sanctioned by OFAC[54] as a mechanism for Russia to reconstitute cross-border payments and evade US sanctions. The Russian Central Bank developed MIR after US sanctions restricted Russian access to cross-border payment networks following Russia's 2014 invasion of Crimea. MIR is used domestically in Russia and is also accepted in a handful of countries including Iran, Cuba, Belarus, and Venezuela. MIR has recently connected with Iran's Shetab interbank network to allow for the use of their respective bank cards across their jurisdictions.[55] Russian banks also issue co-badged MIR – UnionPay cards, allowing Russians to leverage China's expansive UnionPay payment network that is accepted in 180 countries.[56]

How China-based financial facilitators launder North Korea's ill-gotten cryptocurrencies

North Korea has set up an extensive network of front companies to evade sanctions and launder the proceeds of cybercrimes, particularly in countries such as China, Russia, and Southeast Asia. State-sponsored hacking groups, most notably the Lazarus Group, are responsible for cyberattacks targeting financial institutions and cryptocurrency exchanges. Once illicit gains are converted into hard currency through money laundering schemes, they are used to procure technology and materials for North Korea's nuclear program.

While China officially supports United Nation sanctions on North Korea, its loose regulatory environment in certain regions—especially in provinces bordering North Korea—allows for minimal oversight. Chinese companies, particularly those in shipping and finance, act as intermediaries for North Korean front companies, enabling illicit transactions that support the regime's activities. This also includes the use of Chinese financial institutions, such as the US sanctioned Bank of Dangdong, to move money and bypass international scrutiny.[57] While China is often criticized for not fully enforcing sanctions, it continues to play an indirect but significant role in facilitating North Korea's sanctions evasion.

For example, the Department of Justice uncovered that Hong Kong-based financial facilitators helped North Korean hackers launder the proceeds of ransom payments. In July 2024, the Department of Justice charged one of the members of the North Korean hacking group Andariel for extorting ransom payments from US hospitals and using the proceeds to fund hacks into government agencies and defense companies across the globe.[58] Andariel received ransom payments in cryptocurrency and converted them to hard currencies, including in RMB, with the help of Hong-Kong-based facilitators.

Just a few months later, in December 2024, the Treasury Department, in partnership with the UAE, sanctioned a UAE-based front company and two Chinese nationals who were facilitating money laundering and cryptocurrency conversion services that channeled illicit funds back to North Korea.[59] Illicit funds were obtained through cybercrime and fraudulent information technology worker schemes.[60] The sanctioned Chinese individuals were acting on behalf of OFAC-sanctioned Sim Hyon Sop, China-based banking agent for North Korea who coordinates money laundering operations to finance the regime.

The United States' vigilance and thorough investigation of North Korea's sanctions evasion and money laundering schemes is essential for thwarting the advancement of North Korea's weapons programs. This will require cooperation and information-sharing with partners such as the UAE, and stronger messaging about the threat and implications of sanctions with China.

Hong Kong as a hub for sanctions evasion

China's opaque financial system and decreasing transparency in economic and financial data make it difficult to determine exactly how Chinese banks are transacting with Iran, Russia, and North Korea, and granting them access to the global financial system.[61] However, recent investigations[62] and several Treasury[63] and Commerce[64] actions point towards Hong Kong. Many international banks still treat Hong Kong as a global financial hub, but Beijing is cracking down and has significant influence over the so-called "special administrative region."[65] Notably, in 2022, Hong Kong's Chief Executive John Lee said that the city would not implement US sanctions on Russia, raising concerns that Hong Kong would become a permissible environment for sanctions evasion.[66] It is important to note that Western financial institutions operating in Hong Kong are required to comply with Western sanctions. However, several Chinese banks have subsidiaries in Hong Kong and Iranian,[67] Russian,[68] and North Korean[69] actors use shell companies[70] with complex ownership structures to get around sanctions compliance screening measures, which ultimately provide them access to the global financial system and US dollar.

A unique aspect of the Hong Kong financial sector is USD CHATS, the US dollar Clearing House Automated Transfer System and interbank real-time gross settlement system. USD CHATS was established in 2000 to process US dollar interbank payments in real time, as well as bulk US dollar clearing and settlement of cheques and stock market related payments.[71] The Federal Reserve authorized Hong Kong, Tokyo, Singapore, and Manila as official offshore US dollar clearing centers to alleviate delays in transaction timelines due to the time difference between these financial hubs and the United States.[72] USD CHATS is considered to be a safe and efficient settlement platform for US dollar interbank payments settled in commercial bank money.[73] However, competent authorities in the United States do not have direct oversight of this payment or other off-shore interbank dollar clearing platforms for monitoring purposes. This lack of monitoring and transparency may create a vulnerability that enables Chinese banks, wittingly or unwittingly, to clear dollars on behalf of sanctioned entities.[74] US competent authorities should consider conducting an assessment of off-shore interbank dollar clearing systems and sanctions evasion risks to identify and address potential money laundering and/or mitigate concerns that have been raised by journalists about these systems.[75]

Barter trade among sanctioned regimes

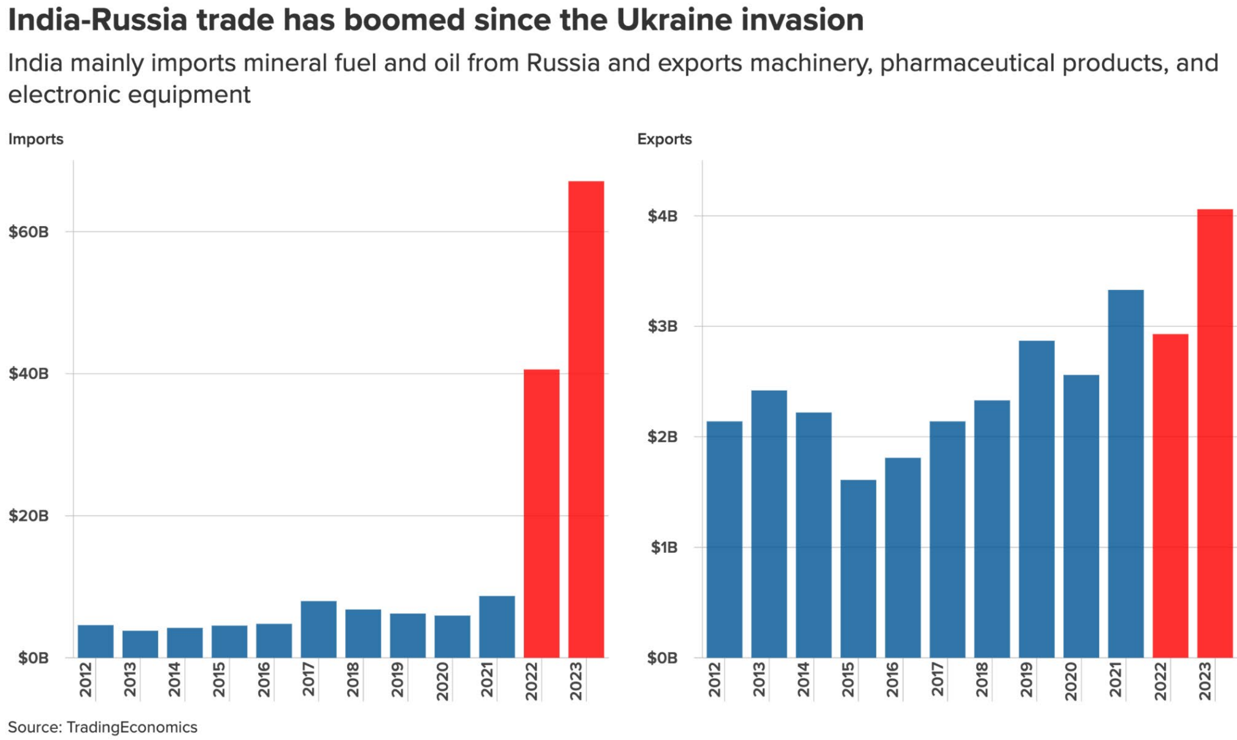
Barter trade is another technique sanctioned regimes have adopted to trade with one another. Despite being antiquated, inefficient, and inapplicable in most situations, the desperation caused by sanctions has pushed Russia, Iran, and North Korea to use barter to exchange sanctioned goods with one another and China. Barter trade creates a black hole for US sanctions enforcement authorities because it completely bypasses the financial system. For example, North Korea is believed to be shipping weapons to Russia through the shadow fleet tankers and receiving food and oil in exchange. Russia's arms deal with North Korea is estimated to range between $1.72 and $5.52 billion but since the weapons trade was likely conducted through barter trade or a mix of barter and cash, the transactions cannot be tracked or blocked.[76]

Iran, China, and Russia also have a history of using barter trade to bypass the global financial system. In 2021, a Chinese company exported auto parts to Iran in exchange for $2 million worth of pistachios. In the summer of 2024, Russian bank officials claimed that Russia was preparing a barter trading scheme with China and developing regulations for barter trade.[77] Russia has also been actively working on barter trade with Iran, primarily to exchange weapons.[78]

While US sanctions enforcement authorities will face difficulties in monitoring or preventing barter trade, it will be even more challenging to arrange such transactions. Pairing two companies that mutually require each other's products with comparable valuations is a difficult task. Sanctioned regimes are likely to keep barter trade as an option but will keep using alternative currencies or money laundering schemes as the primary sanctions evasion activity.

IV. How third countries enable the Axis of Evasion

While China plays a key role in sustaining the sanctioned economies of Iran, Russia, and North Korea, third countries also play a significant role in keeping them afloat. Last year, India emerged as a primary transshipment hub and the second largest provider of sensitive technology to Russia after China. Largely fueled by oil sales, India's total imports from Russia surged from approximately $9 billion in 2021 to $67 billion in 2023.[79] India paid Russia in rupees for a part of these imports, leaving Moscow with a significant surplus of rupees it could not spend elsewhere, mirroring its RMB dilemma with China.[80]



Based on leaked documents, the *Financial Times* reported that Russia's Industry and Trade Ministry made a secret plan by October 2022: Russia would purchase sensitive technology from India worth 82 billion rupees (about one billion dollars) using funds accumulated by Russian banks from oil exports.[81] The transactions would occur within a "closed payment system between Russian and Indian companies", including through digital assets, bypassing Western oversight.[82] Although verifying whether the plan succeeded is challenging, it is reasonable to assume that it did, as India has become Russia's second largest technology provider, and deSWIFTed Russian banks maintain presence in India which could potentially facilitate payments in local currencies and outside Western monitoring.

DeSwifted Russian banks' presence in India

Russian bank	deSwifted	Secondary sanctions	Branch(es) in India	Sanctioned by
Sberbank	✅	✅	✅	US, UK, EU, Canada, Switzerland, Australia, Japan
VTB	✅	✅	✅	US, UK, Canada, Switzerland, Australia
VEB	✅	✅	✅	US, Canada, Switzerland, Australia, Japan
Promsvyazbank	✅	✅	✅	US, UK, EU, Canada, Switzerland, Australia, Japan
Moscow Credit Bank	✅	✅	❌	US, Switzerland
Bank Otkritie	✅	✅	Unknown	US, UK, Canada, Switzerland, Australia
Russian Agriculture Bank	✅	❌	❌	US, UK, Canada, Switzerland, Japan
Sovkombank	✅	✅	Unknown	US, UK, Canada, Switzerland, Japan
Novikombank	✅	✅	❌	US, UK, EU, Canada, Switzerland, Australia, Japan
Bank Rossiya	✅	❌	Unknown	US, UK, EU, Switzerland

Sources: Bankiros, OFAC Sanctions Search, S&P Global, Russia Sanctions Database, European Parliament • The chart includes 10 out of Russia's 324 banks that have been deSwifted and sanctioned.

Since Treasury's January 10 designation[83] of the two major Russian oil producing and exporting companies and 200 tankers of the shadow fleet, India started blocking payments for Russian oil imports and will not let sanctioned tankers enter Indian ports after March 12.[84] Sanctioned Surgutneftegaz and Gazprom Neft accounted for 20 percent of Russian oil exports to India, while sanctioned tankers used to carry 25 percent of all deliveries.[85] Indian refineries have reportedly entered agreements to purchase crude oil from the UAE and Oman.[86] While this is a welcome step on India's part, Indian authorities should also work towards ensuring that Indian financial institutions cut ties with sanctioned Russian banks as well as any potential connections with SPFS.

Meanwhile, Malaysia has been instrumental in facilitating Iran's oil exports to China. While China imported almost all[87] Iranian oil in 2024, Chinese customs did not report any crude oil imports from Iran that year.[88] However, China's oil imports from Malaysia—often recognized as a transshipment hub for sanctioned Iranian and Venezuelan oil—increased by 28 percent last year.[89] Notably, the volume of Malaysia's crude oil exports to China exceeds Malaysia's crude oil production capacity. This could indicate that the oil Malaysia exports to China is in fact blended or rebranded Iranian oil.

The UAE, in addition to being a global financial hub, has also become a global evasion hub for Iran, Russia, and North Korea.[90] A substantial portion of entities within Iran's sanctioned shadow banking network operate out of the UAE. UAE-based foreign exchange houses and front companies have enabled sanctioned Persian Gulf Petrochemical Industry Commercial Co. (PGPICC) to facilitate sales of Iranian petrochemicals worth billions of dollars to foreign buyers.[91] The UAE quickly became a popular destination for sanctioned Russian individuals and companies as well. Shortly after Russia's invasion of Ukraine started, now-sanctioned Russian companies, such as private equity company Huriya, moved their assets into UAE institutions to protect them from sanctions.[92] Financial facilitators based in the UAE have also been instrumental in laundering the illicit proceeds of North Korean hackers.

UAE-based entities and individuals have been included in the recent tranches of designations against Russia,[93] Iran,[94] and North Korea.[95] Notably, UAE authorities worked closely with the Treasury Department in targeting the North Korean money laundering network and have historically taken targeted action against exchange houses facilitating Iranian transactions. However, policy alignment between UAE and the United States appears less evident when it comes to comprehensive sanctions enforcement against Russia and Iran. It is important to remember that, China is UAE's largest trading partner and Abu-Dhabi is balancing its relationships with the United States and China amid increasing competition between them and their competing foreign policy interests and demands.[96] A thorough investigation, increased information sharing, and possible secondary sanctions designation of UAE-based financial institutions facilitating Russian and Iranian sanctions evasion activity could be needed to prevent illicit actors from taking advantage of the UAE's financial system.

V. Limitations in the Axis of Evasion

The axis of evasion has developed complex mechanisms to evade US sanctions, but they are not without limitations.

China needs access to the US dollar and market

The dominance of the dollar is a vulnerability and a significant limitation for China's, as well as the third countries described above, willingness to support sanctioned regimes. China's economic strength[97] is derived from its exports and dominance over supply chains, while the United States' economic power resides in the dominance of the dollar[98] in international trade and the global financial system. According to Atlantic Council analysis, the US dollar and euro together make up 80 percent of global foreign exchange reserves and the dollar remains the most important currency in international banking.[99] While China has been able to maneuver within the financial system and evade sanctions to continue trade with Russia, Iran, and North Korea, it still needs access to the US dollar and market to bolster its dragging economy,[100] poor domestic consumption, and issues of overcapacity.[101]

China is Russia's largest trading partner, especially after Western governments levied sanctions on Russia in response to the war in Ukraine. However, following the Treasury Department's June action[102] expanding the scope of secondary sanctions against Russia to include all persons blocked by Executive Order 14024, such as designated Russia banks such as VTB Bank and Sberbank, we saw Chinese banks retreat from transacting with sanctioned Russian entities.[103] While political will between Russia and China remains intact and Chinese banks ultimately found workarounds to the threat of secondary sanctions, Russian imports from China declined by one percent in the first half of 2024 due to payment problems.[104] China finds itself in a precarious balancing act. The fact that Chinese banks restricted their exposure to sanctioned Russians signals concern within China about the potential of losing access to the US dollar and global financial system. As Russia, Iran, and North Korea increase their financial linkages and economic ties to China, China increases its exposure to sanctioned entities, which increases the sanctions risk for its financial institutions.

Complex money laundering schemes are costly and vulnerable to disruption

The complex money laundering schemes discussed in this testimony are costly. Moving funds through shell companies and constantly needing to obscure the true beneficial owner of an asset takes time and money, which can drain an adversary's resources.

US authorities continue to identify money launderers and financial facilitators, key nodes that enable this network of rogue states to evade sanctions and target them with sanctions and other enforcement actions, including civil and criminal penalties.[105] While these actions can create a "whack-a-mole" solution, they are disruptive and have an effect on the broader money laundering network.[106] Effective disruption of the axis of evasion network requires intelligence collection, analysis, as well as targeting investigations, and sanctions enforcement. Over the years, Congress has allocated greater resources to Treasury and Commerce to enhance their targeting capabilities. However, these teams remain exceptionally small relative to the size of their missions. As a result, enforcement cannot keep up. While the enforcement teams across Treasury, Commerce, and Justice, have taken considerable action through the Disruptive Technology Strike Force,[107] the REPO Task Force,[108] and the recently disbanded Task Force KleptoCapture,[109] to name three specific efforts, they are often faulted for not more aggressively enforcing sanctions. To effectively disrupt the axis of evasion and its money laundering schemes, the departments and agencies tasked with enforcing sanctions need to be resourced to do it.

US efforts are bolstered by multilateral action

US allies and foreign partners have taken considerable restrictive economic action targeting Russia, Iran, and North Korea. North Korea and to an extent Iran, remain under United Nations sanctions as well as unilateral sanctions taken by key European and FVEY (Five Eyes intelligence alliance between the United States, United Kingdom, Australian, New Zealand, and Canada) partners. Russia, while not subject to United Nations sanctions, is heavily sanctioned by G7 partners and a broader Western coalition because of its invasion of Ukraine. Chinese entities, especially in Hong Kong, are also subject to sanctions by the United States and its allies. These multilateral efforts extend the reach of sanctions and have further restricted these rogue states' access to the global financial system, by limiting their access to payment rails that carry the yen, euro, pound, and other currencies. Increased information sharing and collaboration with foreign partners bilaterally and multilaterally can result in more coordinated action to disrupt sanctions evasion.

The Shadow Fleet is an environmental disaster waiting to happen

As discussed, the shadow fleet that the axis of evasion relies on to export and import sanctioned oil is made up of old tankers that are not deemed seaworthy. Iranian ship-to-ship transfers in the Persian Gulf resulted in a major oil spill last October.[110] Meanwhile, Russian oil tankers have recently been in the news for splitting in half at sea[111] and experiencing explosions while at ports,[112] highlighting the environmental risks associated with using old ships and deceptive practices to transport oil. This presents a massive vulnerability for Russia and Iran in particular. European countries are beginning to consider implementing international law to seize Russian tankers pursuant to environmental or piracy grounds.[113] Russia and Iran's mechanism for exporting their sanctioned oil could be severely disrupted if the United States were to join European efforts to hold Russia, Iran, and countries like China that buy shadow fleet oil, accountable for environmental damage and risk associated with the shadow fleet.

VI. Conclusion and Policy Recommendations

In conclusion, China maintains economic and financial ties with Russia, Iran, and North Korea that enable sanctions evasion, while undermining US and partner actions to counter these rogue states. Further, the money laundering techniques these actors employ undermine the integrity, security, and stability of the US-led global financial system. China's economic ties and financial connections with Russia, Iran, and North Korea will continue to grow if left unchecked. To resolve these challenges, I offer the following recommendations for Congressional consideration:

- Congress should require the Administration to develop a comprehensive national security strategy and economic statecraft approach that accounts for the economic and financial ties between China, Russia, Iran, and North Korea and considers these states as a network of actors. The strategy should include both punitive as well as positive or inducing measures to drive a wedge between these rogue actors and third countries that enable their activity. Foreign policy decisions related to these states can no longer be considered in silos because these actors do not operate in silos.

- Congress should invest in and resource the departments and agencies responsible for collecting and analyzing financial intelligence and information to assess the financial connectivity among these states and invest in and resource the departments and agencies responsible for sanctions enforcement and investigations.

- Congress should direct the Administration to increase information sharing and collaboration with like-minded foreign partners bilaterally and in multilateral fora to develop a comprehensive intelligence picture of the systems of sanctions evasion and jointly target vulnerabilities within the system to disrupt and deter sanctions evasion.

- Congress should request the Secretary of the Department of the Treasury, in coordination with the Federal Reserve, Departments of State and Justice, as well as the Intelligence Community, to assess offshore interbank US dollar clearing systems to determine if they are being abused by nefarious actors to circumvent US sanctions and offer recommendations to the Federal Reserve to increase transparency of these systems and ultimately security of US dollar settlements and payment rails.

- Congress should direct funding towards AML/CFT capacity building within the United States and abroad to strengthen the resilience of the global financial system and prevent malicious actors from taking advantage of it to launder their proceeds. This includes engaging with China on AML/CFT and encouraging Chinese authorities to identify and weed out sanctions evasion within China's financial system, or risk secondary sanctions as they relate to Russia and Iran.

- Congress should request the Secretaries of the Departments of Energy, Justice, Defense, and Homeland Security (US Coast Guard), as well as the Director of National Intelligence, to assess the environmental risk and piracy risk associated with the shadow fleet and offer recommendations to leverage international and maritime law, in coordination with European allies, to hold accountable those involved in shadow fleet operations to disrupt the export and import of sanctioned oil. Congress should also request these departments and agencies to collaborate with European allies to identify the true beneficial owners of the shadow fleet tankers and hold them accountable through restrictive economic measures and/or civil or criminal legal proceedings.

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