

United States Senate

WASHINGTON, DC 20510

June 19, 2017

The Honorable Steven T. Mnuchin
Secretary of Treasury
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

The Honorable Rex Tillerson
Secretary of State
Department of State
2201 C Street, NW
Washington, D.C. 20520

Dear Secretary Mnuchin and Secretary Tillerson,

The potential transfer of control of a substantial share of U.S. oil company Citgo to Russian oil producer Rosneft raises two grave concerns: (1) the integrity of U.S. sanctions on Russia; and (2) the national security implications of an investment that could result in Russian control over U.S. energy infrastructure. We welcome the commitment made by Secretary Mnuchin in testimony before the Senate Banking Committee last week to ensure that the Committee on Foreign Investment in the United States (CFIUS) reviews the transaction in the event that Rosneft is in a position to exercise the lien it obtained against Citgo in order to ensure that U.S. national security is not compromised. In addition, we request an explanation of the steps the Treasury Department is taking to examine whether Rosneft or related entities have already acquired control over shares in the company, as well as your views on how CFIUS review might apply to this transaction. We also request your views on the application of U.S. sanctions to this transaction, and, in particular, whether current prohibitions on certain transactions would bar Rosneft from exercising the lien it obtained against Citgo.

A leading U.S. energy company, Citgo operates across 19 states, with 48 terminals, interstate oil and gas pipelines, and refineries. Citgo Petroleum has for years been a wholly owned subsidiary of Venezuela's state-owned oil company, Petroleos de Venezuela S.A. (PdVSA). Two transactions undertaken last year by PdVSA, however, have created a significant risk that Rosneft will acquire a controlling stake in Citgo: (1) a debt swap for a 50.1 percent stake in Citgo; and (2) a lien against 49.9 percent of Citgo, held by Rosneft Trading S.A. as security for a substantial loan to PdVSA.

Given the dire economic situation, increasing civil unrest in Venezuela only adds to the economic and political uncertainty in the country. PdVSA appears to be under increasing financial stress, and press reports indicate that it could imminently default on the loan. In the event of default, Rosneft could come into possession of Citgo's U.S. assets and infrastructure.

Serious questions have been raised regarding the national security risks of Rosneft – a company with close ties to President Putin – assuming control over critical U.S. energy infrastructure. In preparation for that eventuality, and potential CFIUS review, the Treasury Department must immediately determine the likelihood of Rosneft acquiring a controlling stake in Citgo. In addition,

we request responses to the following questions regarding the application of CFIUS review to this transaction:

- What are the national security risks of a sanctioned, Russian government-owned-and-controlled company coming into possession of Citgo's critical energy infrastructure?
- Under current CFIUS authorities, would the case of a U.S.-sanctioned entity, such as Rosneft, coming into possession of an asset with Citgo's economic and security characteristics be a covered transaction?
- If it would not be a covered transaction, what changes are needed to CFIUS authorities to address such a scenario?
- Does the U.S. Government have the necessary authority to compel Rosneft to divest its Citgo holdings in the event of a PdVSA default?
- Would any U.S. companies now pressing claims against Venezuela or Citgo be negatively impacted by Rosneft's possession of Citgo?

As noted above, Rosneft is subject to U.S. sanctions following the Russian military invasion of Ukraine and Russia's illegal annexation of Crimea. Rosneft Executive Chairman Igor Sechin has also been sanctioned by the United States government and is a close ally of Russian President Vladimir Putin. These factors raise additional questions regarding the legality of Rosneft exercising the lien against 49.9 percent of Citgo.

Pursuant to Executive Order 13662 of March 20, 2014, the Treasury Department prohibited U.S. persons and persons within the United States from engaging in certain specified transactions with Rosneft as well as its chairman. The prohibited transactions include dealing in new debt of sanctioned persons, their property or their interests in property, as well as transactions that result in direct or indirect provision of goods, services (other than financial services), or technology in support of certain oil production projects. Consistent with Executive Order 13662, Treasury Directives also bar "[a]ny transaction that evades or avoids, has the purpose of evading or avoiding, causes a violation of, or attempts to violate any of the prohibitions contained in this Directive; and (2) any conspiracy formed to violate any of the prohibitions in this Directive."

Regarding the application of U.S. sanctions:

- Treasury guidance indicates that under Directive 2, debt "of" a covered entity is not limited to debt undertaken by that entity, but rather extends to debt issued "by, on behalf of, or for the benefit of" the sanctioned entity." We, therefore, request your views on whether action with respect to a lien – which would appear to involve dealing in a debt for the benefit of Rosneft – would violate current U.S. sanctions with respect to Russia.
- Regarding Directive 4, we request your views on whether the transfer of an interest in Citgo to Rosneft would have the effect of directly or indirectly providing goods, services, or technology in support of the oil exploration and production projects described in Directive 4.
- We request your views on whether the transaction runs afoul of the prohibitions against transactions that evade or avoid, have the purpose of evading or avoiding, or cause a violation of U.S. sanctions prescribed by Directives 2 and 4. Given that the transaction

could result in Citgo itself becoming subject to U.S. sanctions, we request your views as to whether executing the transaction would cause a violation of sanctions due to one or more activities in which Citgo is currently engaged. Reports suggest that a license could be required for Citgo to continue orderly operations should Rosneft take control. If that is the case, it would appear that, barring the license, the transaction would necessarily result in one or more sanctions violations.

We appreciate your prompt and complete response to these questions, and look forward to continuing to work with you on these critical matters.

Sincerely,



Ron Wyden
U.S. Senator



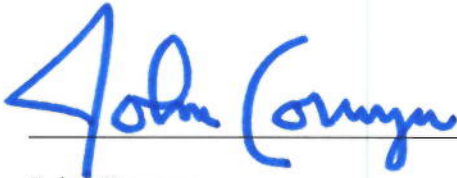
Ben Cardin
U.S. Senator



Richard Blumenthal
U.S. Senator



Marco Rubio
U.S. Senator



John Cornyn
U.S. Senator



Ted Cruz
U.S. Senator