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July 17, 2017

The Honorable Paul Ryan
Speaker of the U.S. House of Representatives
The Capitol, H-232
Washington, DC 20515

RE: Russian Sanctions Legislation (S.772)

Dear Speaker Ryan,

The Petroleum Equipment & Services Association (PESA) is the national trade association for the oilfield service, supply and manufacturing sector (OFS Sector). PESA members constitute the single largest assembly of oil and gas service providers around the globe, companies which provide the services, technology, equipment and expertise necessary to safely and efficiently explore and produce the world's oil and natural gas. Our members are committed to advancing safety, environmental stewardship, and ensuring that society's continued economic progress is fueled through the sustainable development of our natural resources.

As the U.S. House of Representatives considers S. 722, Countering Iran's Destabilizing Activities Act of 2017, PESA respectfully urges that important changes be made to language contained in S. 722 that, while ostensibly targeting the Russian energy sector, would in fact threaten many ongoing and future business activities of PESA member companies and other businesses in the OFS Sector.

Under Directive 4, a U.S. Department of Treasury Office of Foreign Assets Control ("OFAC") rule promulgated pursuant to the March 20, 2014 Executive Order 13662, "Blocking Property of Additional Persons Contributing to the Situation in Ukraine," U.S. persons are prohibited from working on deepwater (defined as 500 ft), Arctic offshore, or shale projects with the potential to produce oil within the Russian Federation. Section 223 of S. 722 would expand this prohibition globally whenever a "Russian energy firm" subject to Directive 4 "is involved. This dramatic unilateral escalation of Russia energy sector sanctions would in fact do little to harm Russia (and may even help it) while unfairly undercutting U.S. businesses trying to compete for business supporting U.S. technologies and manufactured products.

At issue is the fact that no threshold is placed on the extent to which Russian energy firm "involvement" triggers the prohibition on U.S. company participation—any involvement, no matter how small or indirect, would appear to be prohibited by S. 722. As *The Wall Street Journal* noted last week, "[i]n practice this could bar U.S. companies from some of the biggest deepwater drilling projects around the world and thus help Russia and China."¹ Others have noted to potential impact on

development projects that are designed to diversify Europe's energy supply, a perverse and obviously unintended outcome of S. 722.ⁱⁱ Section 223 of S. 722 is so broadly written that the provision could be “weaponized” by international competitors to drive off U.S. businesses.

If this language ultimately becomes law, PESA member companies will lose overseas business, adding to the trade imbalance that already negatively impacts the U.S. economy. The loss of revenues would likely translate into job losses and economic contraction in the American communities that PESA member companies call home. The undisputed U.S. technological edge in energy will be blunted unnecessarily.

Section 223 imposes dramatic hardship on U.S. companies without furthering—and perhaps even working against—the important policy objectives of S. 722. PESA requests that the U.S. Congress take a hard look at this language and modify it before final passage of S. 722 or any other similar Russia sanctions bill. The easiest and clearest way to fix section 223 would be to reinsert the language of Directive 4 that currently limits its reach to energy projects within the Russian Federation. The codification of this sanction is a significant escalation in and of itself. Another way would be to establish some kind of threshold—quantitative or otherwise—that makes clear that section 223 is intended only to impact global energy projects truly controlled by sanctioned Russian energy firms. This would allow American businesses, including the OFS Sector, to continue to operate in countries around the world, helping balance our trade relationships and contribute to U.S. job creation, economic expansion and enhanced energy security.

Sincerely,



Leslie Beyer
President
Petroleum Equipment & Services Association

ⁱ [“A Russia Sanctions Trap,”](#) *The Wall Street Journal*, July 10, 2017.

ⁱⁱ [“Russian Sanctions Bill Stalled by GOP over Energy Provisions,”](#) *Bloomberg*, July 13, 2017.