

THE JOURNAL OF FEDERAL AGENCY ACTION

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Government Focus on Oil Smuggling Schemes and Cartels Reinforces the Need for Anti-Money Laundering and Know Your Customer Programs

Carrie Elizabeth DeLange, Deanna R. Reitman, and Joie C. Hand*

In this article, the authors discuss the federal government's multiagency campaign to curb fuel smuggling into the United States.

The federal government has launched a multiagency campaign to curb fuel smuggling into the United States. Efforts to address fuel smuggling by cartels have been multifaceted, involving the Drug Enforcement Administration, Homeland Security, the Federal Bureau of Investigation, the U.S. Department of State, U.S. Customs and Border Protection, Mexico's Financial Intelligence Unit, and most recently the Department of Justice. This is part of the administration's "whole-of-government effort . . . to use all available tools to relentlessly target drug cartels and foreign terrorist organizations."¹ This campaign reinforces the need for businesses to review anti-money laundering (AML) and know your customer (KYC) programs to limit the risk of ending up in the government's crosshairs for transactions tied to bad actors or other illegal activities.

Background and Recent Developments

Shortly after the second inauguration, the Trump administration declared a national emergency at the U.S. southwest border² and authorized the designation of cartels as foreign terrorist organizations. Over the course of the past several weeks, the administration has initiated several actions aimed to target the illicit oil smuggling activities of drug cartels.

On May 1, 2025, the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) issued an alert warning

of oil smuggling schemes along the U.S. border with Mexico, led by Mexican cartels.³ The FinCEN alert specifically calls attention to the Cartel Jalisco Nuevo Generación (CJNG), identified as a foreign terrorist organization, and the Sinaloa Cartel. In a coordinated action, the Treasury's Office of Foreign Assets Control (OFAC) issued sanctions against three Mexican nationals⁴ and two Mexico-based entities⁵ for their connections to CJNG's fuel theft and oil smuggling operations.⁶

Less than two weeks later, the State Department issued a statement sanctioning⁷ an international network of terrorists facilitating shipments of Iranian crude oil to China.⁸ The press release states that billions of dollars in revenue generated by this network are used to fund development of weapons and operations of terrorist proxies. The State Department identified Iran's Armed Forces General Staff and its front company, Sepehr Energy Jahan Nama Pars, as the relevant bad actors.

Enforcement actions related to complicit U.S. citizens and organizations is already underway. A Utah couple and their adult sons were arrested on April 23, 2025, in connection with their assistance in smuggling crude oil from Mexico over the southwest border.⁹ According to the indictment, the family allegedly smuggled 2,881 shipments of stolen crude oil into the United States via barges that were then docked at their facility, Arroyo Terminals.¹⁰ The family faces money laundering and conspiracy charges related to their alleged roles in the oil smuggling scheme. If convicted, the accused face up to 20 years in prison, \$500,000 in fines, and potential forfeiture of approximately \$300 million in property.

Understanding Oil Smuggling

Fuel theft and smuggling, colloquially known in Mexico as "huachicol," is currently the most significant nondrug revenue source for Mexican cartels. This smuggling is also used as a method to launder money, with oil being stolen through various methods, including bribes paid to corrupt oil and gas company employees, hijacking tanker trucks from refineries, and drilling taps directly into pipelines. The scale of this theft is massive, estimated at 17,000 barrels per day in 2024 for a total loss that year of \$1.05 billion.¹¹

According to the May 1, 2025, FinCEN alert, crude oil is moved through a network of companies and smuggled into Texas, with import paperwork often intentionally mislabeling the product as

“waste oil.” After the oil has made its way to complicit U.S. importers, it is sold to third-party brokers as West Texas Intermediate (WTI) crude oil. As described in Figure 1, complicit brokers then resell it to potentially innocent oil and natural gas companies in the United States and other countries that are likely unaware of the illegal origins of the crude oil.¹²

Figure 1



Source: From Treasury Department’s May 2025 press release.¹³

The effects of the oil smuggling scheme are far reaching—impacting Mexican government revenue and undercutting prices of legitimate oil and natural gas companies in the United States.

U.S. oil importers can become intentionally or unintentionally involved in money laundering or oil smuggling schemes by importing crude oil (regardless of whether they are aware of the full origins of the oil).

Protect Your Company by Knowing Your Customers

The recent enforcement activity related to oil smuggling schemes serves as an important reminder for oil and gas companies

to consider implementing and/or reviewing existing AML and KYC programs.

KYC programs are important for companies across several industries, not just financial institutions.¹⁴ In practice, KYC is diligence conducted by a company on its customers, vendors, or suppliers to verify identities and assess the risks of entering into and maintaining a business relationship. KYC programs help mitigate risks associated with fraud and other financial crime and can help prevent ties to bad actors before entering into a relationship. A strong KYC program can also help detect and prevent fraudulent transactions. Actively monitoring customers helps call attention to suspicious activity during the course of a business relationship and helps insulate businesses from allegations of complicity in a criminal enterprise.¹⁵

A proper KYC approach includes a customer acceptance policy, a customer identification policy, transaction monitoring and reporting, and risk management. An individualized risk-based assessment will help determine the necessary scope for each of these components, balancing the diligence required and maintaining efficient business practices that do not deter new customers from engaging in business.

Incorporate Known Indicators of Fraud into Compliance Efforts

FinCEN's May 1, 2025, alert identifies red flags that indicate suspicious activity related to cartel oil smuggling. Oil and gas companies should review these flags in connection with existing AML and KYC programs. Such red flags include:

- Anyone selling WTI crude oil and other types of crude oil for significantly less than the market rate;
- A company selling high volumes of crude oil but with minimal online presence;
- Anyone purportedly purchasing waste oil or other hazardous waste without possessing the proper registrations with the Environmental Protection Agency;
- Outgoing and incoming wire transfers that are mismatched, with some identifying crude oil and others identifying waste oil;

- Customer exhibiting signs of being a shell company;
- The ultimate consignee of a waste oil purchase being registered to a residential address; and
- When searches of public sources such as OFAC press releases, Mexican reporting and indictments indicate that the beneficial owners of a company are associated with a cartel.

In Summary

- Crude oil is moved through a network of companies and smuggled into Texas, with import paperwork often intentionally mislabeling the product as “waste oil.” After the oil has made its way to complicit U.S. importers, it is sold to third-party brokers as WTI crude oil. Complicit brokers then resell it to potentially innocent oil and natural gas companies that are likely unaware of the illegal origins of the crude oil.
- U.S. oil importers can become intentionally or unintentionally involved in money laundering or oil smuggling schemes by importing crude oil (regardless of whether they are aware of the full origins of the oil).
- A proper KYC approach includes a customer acceptance policy, a customer identification policy, transaction monitoring and reporting, and risk management. An individualized risk-based assessment will help determine the necessary scope for each of these components, balancing the diligence required and maintaining efficient business practices that do not deter new customers from engaging in business.
- Of course, no single red flag is determinative, and a thorough analysis is necessary to assess the facts and circumstances of suspicious transactions or customers. Oil and gas companies should evaluate the risks associated with the red flags and should consider consulting outside counsel to review existing KYC policies and any indicators of suspicious activity.

Conclusion

Of course, no single red flag is determinative, and a thorough analysis is necessary to assess the facts and circumstances of

suspicious transactions or customers. Oil and gas companies should evaluate the risks associated with the red flags and should consider consulting outside counsel to review existing KYC policies and any indicators of suspicious activity.

Notes

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1. Treasury Targets Major Mexican Cartel Involved in Fentanyl Trafficking and Fuel Theft, U.S. Department of the Treasury, <https://home.treasury.gov/news/press-releases/sb0125>.

2. Executive Order 14157.

3. FinCEN Alert on Oil Smuggling Schemes on the U.S. Southwest Border Associated with Mexico-Based Cartels, <https://www.fincen.gov/sites/default/files/shared/FinCEN-Alert-Oil-Smuggling-FINAL-508C.pdf>.

4. Cesar Morfin Morfin (aka Primito) and his brothers Alvaro Noe Morfin Morfin and Remigio Morfin Morfin.

5. SLA, Servicios Logísticos Ambientales, S.A. de C.V.; and Grupo Jala Logística, S.A. de C.V.

6. OFAC sanctioned nine other individuals and 26 entities for connection to CJNG's fuel smuggling activities on September 10, 2024, <https://home.treasury.gov/news/press-releases/jy2568>.

7. Sanctions are issued pursuant to Executive Order 13224, as amended by Executive Order 13886.

8. U.S. Department of State, Press Alert: Sanctioning Oil Smuggling Network Generating Billions for Iranian Military (May 13, 2025), <https://www.state.gov/sanctioning-oil-smuggling-network-generating-billions-for-iranian-military/>.

9. Crystal Bonvillian, Utah Couple, Sons Charged with Smuggling \$300 Million in Crude Oil, <https://www.newsnationnow.com/world/international-headlines/utah-couple-sons-charged-smuggling-300-million-oil/>.

10. Indictment, United States of America v. James Jensen, Maxwell Sterling Jensens, Kelly Anne Jensen, and Zachary Golden Jensen, Crim. No. B-25-257, <https://www.valleycentral.com/wp-content/uploads/sites/39/2025/04/Arroyo-Terminals-Indictment.pdf>.

11. Edgar Sigler, Fuel Theft in Mexico Rose 10pc in 2024: Pemex (May 6, 2025), <https://www.argusmedia.com/en/news-and-insights/latest-market-news/2685455-fuel-theft-in-mexico-rose-10pc-in-2024-pemex>.

12. See Treasury Targets Major Mexican Cartel Involved in Fentanyl Trafficking and Fuel Theft, U.S. Department of the Treasury (May 1, 2025), <https://home.treasury.gov/news/press-releases/sb0125>.

13. <https://ofac.treasury.gov/media/934256/download?inline=>.

14. The USA PATRIOT Act mandates that financial institutions know their customers both during onboarding and throughout the business relationship.

15. See 31 CFR §§ 1020.320(d), 1021.320(d), 1022.320(c), 1023.320(d), 1024.320(c), 1025.320(d), 1026.320(d), 1029.320(d), 1030.320(d).