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Memorandum

TO: Senator Bill Wielechowski
FROM: Susan Haymes, Legislative Analyst
DATE: October 24, 2011
RE: Iran Divestment and State of Alaska Investments
LRS Report 12.070

You asked about economic sanctions against the government of Iran by means of the divestment of public assets in certain companies. Specifically, you asked about the potential effects of a "targeted divestment" law on the State of Alaska with respect to the Alaska Permanent Fund and other Alaska state funds.

Economic sanctions have been a major feature of U.S. Iran policy since the U.S. Embassy hostage crisis in 1979. In 1995, President Clinton issued executive orders prohibiting U.S. companies from investing in Iranian oil and gas and from trading with Iran. Also in 1995, Congress passed the Iran Sanctions Act (ISA), which required the U.S. government to impose sanctions on foreign firms investing more than \$20 million a year in Iran's energy sector.¹ On July 1, 2010, President Obama signed the Comprehensive Iran Sanctions, Accountability and Divestment Act (CISADA, P.L. 111-95), which significantly expanded the authority of the ISA by imposing sanctions on sales to Iran of gasoline and related equipment and services. Among other things, the CISADA also authorizes state and local governments to divest shares of companies that are involved in trade with Iran that could be subject to sanctions under CISADA.²

Divestment of Alaska State Funds

In April 2011 (27th Legislature), Alaska lawmakers introduced SB 131, which would require the state to divest ownership in any publicly traded securities from scrutinized companies that conduct or have direct investments in business operations in Iran.³ Under the proposed legislation, the commissioner of the Department of Revenue shall compile a list of scrutinized companies. The commissioner is required to provide written notice and an opportunity to comment in writing before the company is identified as a scrutinized company. The divestment process described in SB 131 is similar to the process used in other states that have passed legislation or are considering legislation requiring divestment from Iran.

In assembling a list of scrutinized companies, we note that many states appear to be sharing information concerning companies with business activities in Iran. Some states, such as California and Florida, use research performed by Institutional Shareholder Services/RiskMetrics Group and others to evaluate companies with possible links to Iran. Nevertheless, lists may vary somewhat.⁴ For purposes of this report we use a list of 36 scrutinized companies compiled by Institutional Shareholder Services/RiskMetrics Group for the Minnesota legislature in January 2011.

¹ Originally called the Iran and Libya Sanctions Act (P.L. 104-172), Libya was removed from the law in 2004. Congress enacted sanctions in an effort to deny Iran the resources to further its nuclear program and its support of terrorist organizations such as Hizbollah, Hamas, and Palestine Islamic Jihad.

² Kenneth Katzman, "Iran Sanctions," Congressional Research Service, February 3, 2011.

³ Under the legislation, business operations mean power production activities, mineral extraction activities, oil or gas-related activities, or the production of military equipment. Representatives Carl Gatto and Bob Lynn introduced a companion bill in the House, HB 2.

⁴ We note that each state is required to review and update the list of scrutinized companies on a regular basis. The Florida State Board of Examination maintains a list of scrutinized companies as well as companies that are under continued examination and may be added later. RiskMetrics Group provides risk management and financial services.

The state of Alaska maintains invested assets totaling about \$78 billion.⁵ Of these investments, nearly \$79 million—or about 0.1 percent—would be subject to divestment under SB 131 as proposed. We calculate that as of September 30, 2011, almost \$71 million in Permanent Fund investments would require divestment and almost \$8 million in other state assets would be targeted for divestment.

The following table shows the list of companies and the market value of the investments held by the Alaska Permanent Fund and other state funds that would be subject to divestment.

Permanent Fund and Other State Stock Holdings Potentially Subject to Iranian Divestment		
Permanent Fund		
Company	Market Value	Country
Air Liquide L'	\$8,312,454	France
China Petroleum and Chemical	\$21,441,552	China
CNOOC Ltd	\$1,890,363	China/Hong Kong
Daelim Industrial Company	\$90,106	South Korea
Gazprom OAO	\$8,674,991	Russia
GS Engineering and Construction	\$116,464	South Korea
KunLun Energy Company Limited	\$198,460	Hong Kong
MISC Berhard	\$115,469	Malaysia
Oil and Natural Gas Corporation	\$241,590	India
OMG AG	\$3,771,598	Austria
PetroChina Company	\$1,512,966	China
Petrofac Limited	\$1,656,908	United Kingdom
Petronas Dagangan Bhd	\$149,977	Malaysia
Petronas Gas Berhad	\$325,262	Malaysia
PTT Exploration and Production	\$344,206	Thailand
Sasol Limited	\$11,935,379	South Africa
SGS SA	\$2,098,084	Switzerland
Technip SA	\$8,004,444	France
Total for Permanent Fund	\$70,880,273	
Other State Funds Managed by the Division of Treasury		
Air Liquide L'	\$2,916,692	France
Costain Group	\$2,050	United Kingdom
Gazprom OAO	\$4,543,890	Russia
OMV AG	\$155,137	Austria
SGS SA	\$289,862	Switzerland
Total for Other State Funds	\$7,907,631	
GRAND TOTAL	\$78,787,904	

Notes: The market value of the Permanent Fund holdings is the value as of September 30, 2011.

Sources: Permanent Fund holdings and market value can be accessed at

<http://www.apfc.org/home/Media/investments/09302011WebHoldings.pdf>. Pam Leary, state comptroller, Department of Revenue, provided the information on other state holdings. Ms. Leary can be reached at 907.465.3751.

⁵ As of September 30, 2011, the state's investments included \$21.3 billion under the fiduciary responsibility of the Commissioner of Revenue, \$18.4 billion under the fiduciary responsibility of the Alaska Retirement Management Board, and \$38.2 billion in the Alaska Permanent Fund, <http://www.revenue.state.ak.us/treasury/>.

The Alaska Permanent Fund and the Alaska Retirement Management Board have in the past expressed reservations about the wisdom of divestment, citing increased administrative costs and possible declines in fund performance.⁶ While, given the nature of the global investment marketplace, it is unlikely that the divestment of Alaska public funds from targeted companies would have a direct, negative impact on those companies, proponents of divestment point to the recent decisions by a number of major multinational companies to withdraw from Iran. For example, Royal Dutch Shell, France's Total SA, Italy's Eni SpA, Norway's Statoil ASA, all have agreed to end investments in Iran. At least 22 states and the District of Columbia have likewise enacted laws or adopted policies to divest public funds from companies active in Iran. We note that under the proposed legislation, the Act would be repealed when the U.S Department of State removes Iran from its list of terrorist countries, or the United States Congress or the President determines that Iran divestment interferes with the conduct of U.S. foreign policy.

We hope this is helpful. If you have questions or need additional information, please let us know.

⁶ Daniel Lesh, "Divestment of Qualifying Companies Operating in Sudan from Alaska Public Funds," Legislative Research Report 09.118, January 27, 2009.