

**HB**

**241**

# Alaska State Legislature

**SESSION ADDRESS:**  
Alaska State Capitol  
Juneau, Alaska 99801  
Phone: (907) 465-3743  
1-800-565-3743  
Fax: (907) 465-2381



**INTERIM ADDRESS:**  
600 E Railroad Avenue  
Wasilla, AK 99654  
Phone : 907-376-3725  
Fax: (907) 376-4768

## Representative Carl Gatto

### Memorandum

**Date:** February 15, 2010

**To:** Representative Bob Lynn, Chairman  
House State Affairs Committee

**From:** Representative Carl Gatto, Chair  
House Military and Veteran Affairs Committee

**Re:** Explanation of Changes between original (CS) for HB 241, 26-LS0680\E Kane and new (CS) for HB 241, 26-LS0680\S Kane

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Some members of the committee expressed concern over areas of ambiguity or confusion in the first committee substitute, 26-LS0680\E. The new CS, 26-LS0680\S seeks to address these concerns by:

- Deleting the word "all" on page 2, line 14, to guard against misinterpreting the statute as a mandate for the Department of Revenue to investigate *every* publically traded company, as opposed to just those companies relating to Alaska's investment portfolio
- Eliminating confusion regarding page 3, lines 26-27. The more ambiguous "gasoline and related products" was changed to "petroleum products."
- Adding new wording, Section 1 (j) (3), on page 3, lines 28-30, to more clearly define "direct investment." Under the new language, "direct investment" that would be subject to the \$20,000,000 threshold for scrutiny would "directly and significantly contribute to the enhancement of Iran's ability to develop petroleum resources, military equipment, or nuclear capabilities."
- Inserting a new provision, Section 1 (j) (9) (B), on page 4, line 31 through page 5, line 1. This new language makes clear that, for the purposes of HB 241, a parent company is only responsible for the practices of a subsidiary or jointly-owned company in which it holds a controlling interest. This provision was designed to

address the concern that the bill could be broadly read to include any dealings with a "scrutinized company" or narrowly read to exempt any company that merely formed a subsidiary to administer its interests in Iran.

R

26-LS0680S  
Kane  
2/15/10

**CS FOR HOUSE BILL NO. 241( )**  
**IN THE LEGISLATURE OF THE STATE OF ALASKA**  
**TWENTY-SIXTH LEGISLATURE - SECOND SESSION**

**BY**

**Offered:**  
**Referred:**

**Sponsor(s): REPRESENTATIVES GATTO, Ramras, Keller, Lynn**

**A BILL**  
**FOR AN ACT ENTITLED**

1 **"An Act relating to certain investments of the Alaska permanent fund, the state's**  
2 **retirement systems, the State of Alaska Supplemental Annuity Plan, and the deferred**  
3 **compensation program for state employees in certain companies that do business in**  
4 **Iran, and restricting those investments; and providing for an effective date."**

5 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

6 **\* Section 1. AS 37.10 is amended by adding new sections to read:**

7 **Sec. 37.10.072. Iran divestment.** (a) The commissioner or a fiduciary of a  
8 fund subject to this title may not invest in and shall cause the fund to divest ownership,  
9 if any, in the publicly traded securities of a company that the commissioner places on  
10 a list of scrutinized companies that conduct or have direct investments in business  
11 operations in Iran. Divestment of an ownership interest in a scrutinized company shall  
12 occur within 90 days after it is placed on the list created and updated under (c) of this  
13 section if the investment is managed by the commissioner or fiduciary. On or before  
14 January 31 of each year, if a fund has investments managed by an outside investment

1 manager, the fiduciary shall direct the investment manager not to invest in and to  
2 divest, within 90 days after receiving the direction, ownership, if any, in the publicly  
3 traded securities of a company that the commissioner places on a list of scrutinized  
4 companies that conduct or have direct investments in business operations in Iran.

5 (b) If an investment in a fund under (a) of this section is managed as a  
6 commingled investment or other business structure in which the fund is not the sole  
7 owner of the investment interest or if the investment is an index fund, the provisions  
8 of (a) of this section do not apply. The commissioner shall require that, on or before  
9 January 31 of each year, the fiduciary submit letters to the managers of commingled  
10 investments requesting the managers to consider removing from the commingled  
11 investment any company on the list of scrutinized companies.

12 (c) The commissioner shall create and update quarterly, before the first day of  
13 the immediately succeeding calendar quarter, a list of scrutinized companies.

14 (d) The commissioner shall make reasonable efforts to investigate publicly  
15 traded companies to determine whether the company is a scrutinized company for the  
16 purposes of this section. In conducting the investigation, the commissioner may use  
17 the following:

18 (1) credible publicly available information regarding companies with  
19 active business operations compiled by nonprofit organizations, research firms,  
20 international organizations, and government entities;

21 (2) information supplied by institutional investors that have divested  
22 from scrutinized companies.

23 (e) The commissioner shall provide written notice and an opportunity to  
24 comment in writing to each company identified as a scrutinized company under (d) of  
25 this section.

26 (f) The commissioner shall add a company identified under (d) of this section  
27 to the list of scrutinized companies not earlier than 90 days after providing written  
28 notice under (e) of this section, unless the company demonstrates to the commissioner  
29 that it does not conduct or have direct investments in business operations in Iran that  
30 exceed the \$20,000,000 threshold referred to in Public Law 104-172 (Iran Sanctions  
31 Act of 1996), as amended.

1 (g) The commissioner shall make every effort to avoid erroneously adding a  
2 company to the list of scrutinized companies. The commissioner shall verify that a  
3 company qualifies as a scrutinized company before adding it to the list of scrutinized  
4 companies.

5 (h) Annually, on or before January 31, the commissioner shall advise the  
6 president of the senate, the speaker of the house of representatives, and the United  
7 States presidential special envoy for Iran of the companies on the list of scrutinized  
8 companies.

9 (i) The commissioner may adopt regulations under AS 44.62 to carry out the  
10 purposes of the section.

11 (j) In this section,

12 (1) "business operations"

13 (A) means power production activities, mineral extraction  
14 activities, oil-related activities, or the production of military equipment;

15 (B) does not include operations that the company can  
16 demonstrate

17 (i) are conducted under a license from the United States  
18 Department of the Treasury, Office of Foreign Assets Control, or are  
19 expressly exempted from licensure under federal law;

20 (ii) consist of providing goods or services to an  
21 internationally recognized peacekeeping force or humanitarian  
22 organization;

23 (iii) consist of providing goods or services that are used  
24 only to promote health or education;

25 (iv) have been voluntarily suspended; or

26 (v) consist of the retail sale of petroleum products;

27 (2) "commissioner" means the commissioner of revenue;

28 (3) "direct investment" means an investment that directly and  
29 significantly contributes to the enhancement of Iran's ability to develop petroleum  
30 resources, military equipment, and nuclear capabilities;

31 (4) "Government of Iran" means the government of the Islamic

1 Republic of Iran or its instrumentalities or political subdivisions and companies owned  
2 or controlled by the Islamic Republic of Iran;

3 (5) "military equipment"

4 (A) means weapons, arms, military supplies, and equipment  
5 that readily may be used for military purposes;

6 (B) includes radar systems or military-grade transport vehicles,  
7 supplies, or services sold or provided directly to a force actively participating  
8 in armed conflict in Iran;

9 (6) "mineral extraction activities"

10 (A) means exploring, extracting, processing, transporting, or  
11 wholesale selling or trading of elemental minerals, associated metal alloys,  
12 oxides, or ore;

13 (B) includes activities involving gold, copper, chromium,  
14 chromite, diamonds, iron, iron ore, silver, tungsten, uranium, and zinc;

15 (7) "oil-related activities" means

16 (A) exporting, extracting, producing, refining, processing,  
17 exploring for, transporting, selling, or trading oil; and

18 (B) constructing, maintaining, or operating a pipeline, refinery,  
19 or other oil field infrastructure;

20 (8) "power production activities" includes establishing power-  
21 generating plants or hydroelectric dams, selling or installing components for the  
22 project, or providing service contracts related to the installation or maintenance of the  
23 project;

24 (9) "scrutinized company" means

25 (A) any company engaging in any and all active business  
26 operations that are subject or liable to sanctions under Public Law 104-172  
27 (Iran Sanctions Act of 1996), as amended, and that involve the maintenance of  
28 a company's existing assets or investments in Iran, or the deployment of new  
29 investments to Iran that meet or exceed the \$20,000,000 threshold referred to  
30 in Public Law 104-172 (Iran Sanctions Act of 1996), as amended; or

31 (B) the subsidiary of a company described in (A) of this

1 paragraph if the parent company holds a controlling interest in the subsidiary.

2 **Sec. 37.10.073. Divestment exemptions, immunity, and indemnification.**

3 For actions taken, or inaction done in good faith, in compliance with AS 37.10.072,  
4 the commissioner of revenue, a fiduciary, an agent, attorney, trustee, officer,  
5 employee, staff, custodian, research firm, or investment manager under contract of the  
6 commissioner of revenue or the fiduciary, and board members complying with  
7 AS 37.10.220 or AS 37.13.120 are

8 (1) exempt from a conflicting state statutory or common law  
9 obligation, including an obligation with respect to choice of an asset manager,  
10 investment fund, or investment for the securities portfolio of the public fund;

11 (2) immune from liability under state or local law;

12 (3) indemnified and held harmless by the State of Alaska from claims,  
13 demands, suits, actions, damages, judgments, costs, charges, and expenses, including  
14 costs and attorney fees, and against all liability, losses, and damages of any nature that  
15 the commissioner of revenue, the fiduciary, the agent, attorney, trustee, officer,  
16 employee, staff, custodian, research firm, or investment manager under contract of the  
17 commissioner of revenue or the fiduciary, or the board member may, at any time,  
18 sustain because of a decision to restrict, reduce, or eliminate an investment made in  
19 compliance with AS 37.10.072; and

20 (4) immune from adverse licensing actions under AS 08.

21 \* **Sec. 2.** AS 37.10.220 is amended by adding a new subsection to read:

22 (d) The board shall comply with AS 37.10.072.

23 \* **Sec. 3.** AS 37.13.120 is amended by adding a new subsection to read:

24 (f) The board shall comply with AS 37.10.072.

25 \* **Sec. 4. REPEAL.** AS 37.10.072, 37.10.220(d); and AS 37.13.120(f) are repealed on the  
26 day after

27 (1) Iran is removed from the United States Department of state's list of  
28 countries that have been determined to repeatedly provide for acts of international terrorism;  
29 or

30 (2) the United States Congress or the President of the United States, through  
31 legislation or executive order, declares that the Iran divestment authorized in AS 37.10.072

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## Alaskan Iran Divestiture Testimony February 9, 2010

Mr. Chairman, and members of the committee, my name is David Gottstein. I am a resident of Anchorage. I am also the Alaska Chair of the American Israel Public Affairs Committee, an American advocacy group that tries to foster good relations between the United States and Israel, America's staunchest strategic ally, and the only true democracy in the Middle East.

The United States, along with The West, is under attack by Radical Islam. Those trying to convert us or to destroy our way of life are using every means at their disposal to attack us in their Holy War against us. Terror incidents seem to be reported almost weekly from around the world. Almost all rooted in Radical Islam. Not ordinary Islam, but Radical Islam, that unfortunately controls most of the Muslim world. Recent arrests in Houston, Denver and Brooklyn these last few months alone, along with the Fort Hood massacre, and now the Christmas Day thwarted airline suicide attempt, all point to the fact that we are under siege even on American soil. Even though Al Qaeda, the Taliban, and the other Radical Islamic movements spreading terror and death across the Middle East and Asia, are a loose collection organizationally, they all share the embracing of jihad, or Holy War, against the West. And that makes their collective arsenal deadly and sizable. At the heart of the Radical Islamic movement, and the most dangerous, is Iran. That is because the intersection of their vast oil wealth controlled by a Radical Islamic government determined to develop nuclear weapons has allowed them to come dangerously close to completing their decade's long march to join the nuclear club. Almost every week, including this week, we hear about their progress. The prospects of a nuclear Iran, capable of launching intercontinental ballistic missiles as far away as Europe, with Israel clearly in its sights, and the danger of them spreading weapons to their allies, along with for sure starting a nuclear arms race in the region, all has to be balanced against the far reaching negative consequences should military action need to be used to derail Iran's weapons program. The only good outcome is that we get Iran to change their behavior. And stop weapons development. Included in our arsenal of tools to cause that change include diplomacy, sanctions, blockades, and then military action. Diplomacy hasn't, and isn't likely to work. That leaves sanctions as the appropriate tool at this time. A peaceful approach. Sanctions have in the past had mixed results for sure. However recent revelations about the advancement and state of Iran's nuclear weapons program necessitate our using all peaceful means possible to solve the problem before having to consider harsher actions. The hope is that a collection of enhanced sanctions, including State divestitures, and the passage of the Iran Sanctions Act

passed just two weeks ago at the Federal level, intended to thwart an already weak economy, including limiting the importation of refined petroleum products, representing 40% of their domestic fuel use, might push the rulers to change their behavior. If only to preserve their own power. During a period of intense public pressure as a result of the stolen election last June, there is an extraordinary opportunity to influence things positively. And hopefully avoid the need for a discussion about military options. President Amahdinejad, a self-proclaimed holocaust denier, clearly has in his sights, the wiping of Israel off the face of the planet. Which, if he were to try and accomplish through nuclear means, would have devastating and calamitous economic consequences worldwide as the oil rich Middle East would turn into a firestorm.

As respected legislators, you are most often consumed by the onslaught of requests you get from constituents, groups, and colleagues. Especially during the shortened legislative session. All of which pretty much having to do with local and or statewide issues. Seldom, however, are you asked to grapple with national issues. But today is different. Today you have the opportunity to join in the most serious war effort since the defeat of the Nazis and the Soviet Union, by joining forces with all our men and women in uniform who are deeply engaged in the war against Radical Islam and their tactics of terror. Twenty other states have already directed their investment pools to divest from international companies that are engaged in Iranian oil and gas development to the tune of \$20 million or more. It is already illegal for American companies to do so.

We would respectfully ask for your support of legislation calling for the divestiture of stocks within the Permanent Fund, the State Retirement Programs, in addition to the Budget Reserve account, not yet included in the Committee Substitute, that have been "Scrutinized" and identified by credible sources as commercial collaborators with Iran in their oil and gas development, to be monitored by the Commissioner of Revenue. In order to not have to reinvent a very complicated wheel, we strongly suggest piggybacking on a technical approach adopted by other jurisdictions such as Florida, where it already works. As contemplated in this legislation, The Commissioner would be required every 90 days to identify companies that, according to credible sources, have been "Scrutinized" as having exceeded the \$20 million threshold investment in Iran, and therefore qualify as divestment candidates. After which, should any State portfolios contain candidate companies, the Commissioner shall notify said candidates of the designation, offering them 90 days to defend and or cure. He or she will also instruct the State's asset managers who have such companies in State portfolios to divest said companies in the event the

company fails to cure or properly defend. The legislation will have no other impact on any other state or commercial activity that may be occurring among any of the parties or others inside or outside the State of Alaska, other than stocks may be sold. The legislation before you, like the one just passed at the federal level, would, among other things, protect fiduciaries from deviating from the prudent investor rules regarding unbiased investing. Scrutinized companies would be under extra institutional selling because of the designation, and therefore more likely to suffer price decay than under normal circumstances.

In defense of America, and in support of our troops, and for the Western World in general, we make this special request. It is the one official and meaningful thing you can do to join the fight in the war against terror. We thank you in advance for your support, and are available to answer questions you may have.

Thank you again for allowing me to testify.

David Gottstein

## Alaskan Iran Divestiture 2010

Dear Fellow American:

The United States, along with The West, is under attack by radical Islam. Terror incidents occur around the world, and virtually all of these are born of a radical Islamic agenda of achieving political ends through violence. Recent arrests in Houston, Denver and Brooklyn these last few months alone, along with the Fort Hood massacre, and now the Christmas Day thwarted airline suicide attempt, reveal that such acts of violence continue even here at home.

At the heart of the radical Islamic movement, and the most dangerous, is the Islamic Republic of Iran. The combination of their vast oil wealth controlled by a radical, ideological regime determined to develop nuclear weapons has propelled Iran to the forefront of the United States national security concerns. Iran is today dangerously close to completing a decades-long march to establish itself as a nuclear power. The prospects of a nuclear Iran, capable of launching ballistic missiles as far away as Europe, with Israel clearly in its sights, would permanently strategically destabilize the region.

The likelihood of Iran providing weapons to their allies, along with the certainty of provoking a nuclear arms race in the region, all has to be weighed against the far reaching negative consequences should military action need to be used to derail Iran's nuclear weapons ambitions. The only potentially positive outcome is convincing Iran to change their behavior beforehand by convincing Iran's regime that having a nuclear weapon will cost them more than not having one. This is the reason, and probably the only reason that Iran's radical leadership will abandon nuclear weapons development.

President Obama has embarked on a policy of diplomatic engagement with the regime, only to be rebuffed time and again. Included in the U.S. diplomatic arsenal are real and effective sanctions, including Iran divestment. Diplomacy alone hasn't and isn't likely to work. Divestment efforts by states can support and enhance sanctions, making a broad and effective sanctions regime a better, more effective tool at this time. This then is a peaceful approach, but one that can have a real impact on the policy options of Iran.

The hope is that a collection of enhanced sanctions, including State divestitures, and the passage of the Iran Refined Petroleum Sanctions Act, or IRPSA, will establish this mechanism. These efforts enjoy wide support at the Federal level, and are intended to impact an already weak and vulnerable Iranian economy. As a result of the falsified Iranian election last June, this is a period of intense internal public pressure on the regime, and a greater international awareness on the brutality of Iran's rulers than ever before. This is an extraordinary opportunity to influence Iran's actions positively, and hopefully avoid the need for a discussion about military options.[Please see the attached Wall Street Journal Op-Ed piece.]

As a respected state legislator, you are most often taken up with requests from constituents, groups, and colleagues, and even more so during a shortened legislative session. Seldom, however, are you asked to grapple with national issues or international affairs. But today is different. Today you have the opportunity to join forces with freedom-loving people around the world, and all our men and women in uniform who are engaged in the war against radical Islam and their tactics of terror. Nineteen states and the District of Columbia have already directed their public funds to divest from international companies that have invested \$20 million or more in Iranian oil and gas development. It is already illegal for American companies to participate in the development of Iran's oil and gas sector.

We respectfully ask for your support of legislation calling for the divestiture of stocks within the Permanent Fund and State Retirement Programs that have been "Scrutinized" and identified by credible sources as commercial collaborators with Iran in their oil and gas development, to be monitored by the Commissioner of Revenue.

These divestment and reporting mechanisms are complex, but have been done elsewhere in the U.S. quite effectively. We strongly suggest piggybacking on a technical approach adopted by other jurisdictions such as Florida, where it already works. As contemplated in this legislation, The Commissioner would be required every 90 days to identify companies that, according to credible sources, have been "Scrutinized" as having exceeded the \$20 million threshold investment in Iran, and therefore qualify as divestment candidates. After which, should any State portfolios contain candidate companies, the Commissioner shall notify said candidates of the designation, offering them 90 days to defend and or cure. He or she will also instruct the State's asset managers who have such companies in State portfolios to divest said companies in the event the company fails to cure or successfully defend. The legislation will have no other impact on any other state or commercial activity that may be occurring among any of the parties or others inside or outside the State of Alaska, other than stocks may be sold. From an investment point of view, stepping out of the way of potentially falling stocks where institutional selling has been mandated, would be prudent in itself.

In defense of America, in support of our troops, and for the cause of liberty in general, we make this special request. It is one truly meaningful thing you can do to join the fight in the war against terrorism. We thank you in advance for your support, and are available to answer questions you may have.

Sincerely;.....David Gottstein      907-230-1031

# Iran Divestment Campaigns by State as of June 2009

11:10 AM Aug 10, 2009

## States that have enacted Iran divestment legislation:

- Arizona – May 2008
- California – October 2007
- Florida – June 2007
- Georgia – May 2008
- Illinois – September 2007
- Indiana – May 2009
- Louisiana – July 2007
- Maryland – May 2008
- Minnesota – May 2009
- Michigan – July 2008
- Nevada – June 2009
- New Jersey – January 2008
- Utah – March 2009
- Washington, DC – March 2009

## States that have adopted Iran divestment policies:

- Colorado – January 2009
- Missouri – June 2006
- New York – November 2007
- Ohio – June 2007
- Texas – September 2008
- Washington – March 2008

*w. the many more help*

## States considering Iran divestment legislation or policies:

- Colorado (Announced, January 2009)
- Massachusetts (Reintroduced – January 2009)
- Mississippi (2 bills failed, January 2009)
- New York (Bill in Assembly – January 2009)
- Virginia (Bill failed, February 2009)
- Washington (Bill in House – January 2009)

**Table 3: Scrutinized Companies with Activities in the Iran Petroleum Energy Sector**  
*No companies were added this quarter.*

Company	Country of Incorporation	Date of Initial Scrutinized Classification
China Petroleum & Chemical Corp (CPCC) Sinopec	China	September 19, 2007
CNPC Hong Kong Ltd.	Hong Kong	September 19, 2007
ENI	Italy	September 19, 2007
Gas District Cooling (Putrajaya) Sdn Bhd	Malaysia	April 14, 2009
Gazprom	Russia	September 19, 2007
Gazprom Neft	Russia	September 16, 2008
GS Engineering & Construction Corp.	S. Korea	September 16, 2008
GS Holdings	S. Korea	September 19, 2007
Indian Oil Corp Ltd (IOCL)	India	September 19, 2007
Inpax Corp.	Japan	September 19, 2007
Kingdream PLC	China	April 14, 2009
KLCC Property Holdings Bhd	Malaysia	April 14, 2009
Midciti Resources Sdn Bhd	Malaysia	September 19, 2007
MISC Bhd	Malaysia	September 19, 2007
MISC Capital Ltd.	Malaysia	April 14, 2009
Mosenergo	Russia	September 16, 2008
Oil & Natural Gas Corp (ONGC)	India	September 19, 2007
Optimal Olefins Sdn Bhd	Malaysia	September 19, 2007
Persian Gold PLC	United Kingdom	July 28, 2009
PetroChina	China	September 19, 2007
Petroleum Nasional (Petronas)	Malaysia	September 19, 2007
Petronas Capital Limited	Malaysia	September 19, 2007
Petronas Dagangan Bhd	Malaysia	September 19, 2007
Petronas Gas Berhad	Malaysia	September 19, 2007
Repsol YPF	Spain	September 19, 2007
Royal Dutch Shell PLC	United Kingdom	September 19, 2007
Shell International Finance BV	Netherlands	October 27, 2009
Sinopec Finance	China	April 14, 2009
Sinopec Kantons Holdings Ltd	Bermuda	September 19, 2007
Sinopec Shanghai Petrochemical	China	September 19, 2007
Sinopec Yizheng Chemical Fibre	China	March 25, 2008
Snam Rete Gas	Italy	September 19, 2007
Statohydro	Norway	September 16, 2007
Total (Nigeria) PLC	Nigeria	March 25, 2008
Total SA	France	September 19, 2007
# of Companies	35	

26-LS0680\E  
Kane  
2/8/10

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(g) The commissioner shall make every effort to avoid erroneously adding a company to the list of scrutinized companies. The commissioner shall verify that a company qualifies as a scrutinized company before adding it to the list of scrutinized companies.

(h) Annually, on or before January 31, the commissioner shall advise the president of the senate, the speaker of the house of representatives, and the United States presidential special envoy for Iran of the companies on the list of scrutinized companies.

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(B) does not include operations that the company can demonstrate

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(ii) consist of providing goods or services to an internationally recognized peacekeeping force or humanitarian organization;

(iii) consist of providing goods or services that are used only to promote health or education;

(iv) have been voluntarily suspended; or

(v) consist of the retail sale of gasoline and related products;

(2) "commissioner" means the commissioner of revenue;

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9 wholesale selling or trading of elemental minerals, associated metal alloys,  
10 oxides, or ore;

11 (B) includes activities involving gold, copper, chromium,  
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14 (A) exporting, extracting, producing, refining, processing,  
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17 or other oil field infrastructure;

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20 project, or providing service contracts related to the installation or maintenance of the  
21 project;

22 (8) "scrutinized company" means any company engaging in any and all  
23 active business operations that are subject or liable to sanctions under Public Law 104-  
24 172 (Iran Sanctions Act of 1996), as amended, and that involve the maintenance of a  
25 company's existing assets or investments in Iran, or the deployment of new  
26 investments to Iran that meet or exceed the \$20,000,000 threshold referred to in Public  
27 Law 104-172, (Iran Sanctions Act of 1996) as amended.

28 **Sec. 37.10.073. Divestment exemptions, immunity, and indemnification.**

29 For actions taken, or inaction done in good faith, in compliance with AS 37.10.072,  
30 the commissioner of revenue, a fiduciary, an agent, attorney, trustee, officer,  
31 employee, staff, custodian, research firm, or investment manager under contract of the

1 commissioner of revenue or the fiduciary, and board members complying with  
2 AS 37.10.220 or AS 37.13.120 are

3 (1) exempt from a conflicting state statutory or common law  
4 obligation, including an obligation with respect to choice of an asset manager,  
5 investment fund, or investment for the securities portfolio of the public fund;

6 (2) immune from liability under state or local law;

7 (3) indemnified and held harmless by the State of Alaska from claims,  
8 demands, suits, actions, damages, judgments, costs, charges, and expenses, including  
9 costs and attorney fees, and against all liability, losses, and damages of any nature that  
10 the commissioner of revenue, the fiduciary, the agent, attorney, trustee, officer,  
11 employee, staff, custodian, research firm, or investment manager under contract of the  
12 commissioner of revenue or the fiduciary, or the board member may, at any time,  
13 sustain because of a decision to restrict, reduce, or eliminate an investment made in  
14 compliance with AS 37.10.072; and

15 (4) immune from adverse licensing actions under AS 08.

16 \* **Sec. 2.** AS 37.10.220 is amended by adding a new subsection to read:

17 (d) The board shall comply with AS 37.10.072.

18 \* **Sec. 3.** AS 37.13.120 is amended by adding a new subsection to read:

19 (f) The board shall comply with AS 37.10.072.

20 \* **Sec. 4.** REPEAL. AS 37.10.072, 37.10.220(d); and AS 37.13.120(f) are repealed on the  
21 day after

22 (1) Iran is removed from the United States Department of state's list of  
23 countries that have been determined to repeatedly provide for acts of international terrorism;  
24 or

25 (2) the United States Congress or the President of the United States, through  
26 legislation or executive order, declares that the Iran divestment authorized in AS 37.10.072  
27 interferes with the conduct of United States foreign policy.

28 \* **Sec. 5.** The uncodified law of the State of Alaska is amended by adding a new section to  
29 read:

30 INITIAL IDENTIFICATION OF SCRUTINIZED COMPANIES. Within 90 days  
31 after the effective date of this Act, the commissioner of revenue shall diligently work to

1 identify all scrutinized companies in which a fund under AS 37 has direct holdings. The  
2 commissioner may use the sources in AS 37.10.072(d)(1) and (2), as enacted by sec. 1 of this  
3 Act, as appropriate, to identify a scrutinized company.

4 \* Sec. 6. The uncodified law of the State of Alaska is amended by adding a new section to  
5 read:

6 NOTICE. Not later than 30 days after the enactment of this Act, the Department of  
7 Law is directed to submit written notice to the Attorney General of the United States  
8 describing this Act.

9 \* Sec. 7. This Act takes effect immediately under AS 01.10.070(c).

# FISCAL NOTE

STATE OF ALASKA  
2010 LEGISLATIVE SESSION

Fiscal Note Number: \_\_\_\_\_  
Bill Version: HB 241  
( ) Publish Date: \_\_\_\_\_

Identifier (file name): HB241-DOR-TRS-2-5-10  
Title: Iran Divestiture  
Sponsor: Representatives Gatto  
Requester: House State Affairs  
Dept. Affected: Revenue  
RDU: Treasury and Taxation  
Component: ARMB/ARMB Custody  
Component Number: 2813/2812

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>OPERATING EXPENDITURES</b>								
Personal Services								
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CAPITAL EXPENDITURES</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CHANGE IN REVENUES ( )</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF								
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other Interagency Receipts								
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2010) cost: \_\_\_\_\_

**POSITIONS**

Full-time	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Part-time	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Temporary	0.0	0.0	0.0	0.0	0.0	0.0	0.0

**ANALYSIS:** (Attach a separate page if necessary)

This bill requires the fiduciaries of the state's retirement systems, the Supplemental Annuity Plan and the deferred compensation plan to divest certain investments in publicly traded companies that conduct business operations or have direct investments in business operations in Iran. While Treasury believes that active and passive separate account managers will not charge additionally for divestment, Treasury will incur some costs in developing a list of companies that conduct or have direct investments in business operations in Iran. Other costs to be considered would include development of letters to fund managers of commingled investments, the opportunity cost of staff time to implement new policies and processes to implement this bill. The effect this bill will have on investment performance is unknown.

Prepared by: Pamela J. Leary, Comptroller; Jerry Burnett, Deputy Commissioner Phone 465-2300  
Division: Treasury Date/Time 2-5-10; 4:28pm  
Approved by: Ginger Blaisdell, Director Date 2-5-10; 4:34pm  
Administrative Services Division

# Alaska State Legislature

**SESSION ADDRESS:**  
Alaska State Capitol  
Juneau, Alaska 99801  
Phone: (907) 465-3743  
1-800-565-3743  
Fax: (907) 465-2381



**INTERIM ADDRESS:**  
600 E Railroad Avenue  
Wasilla, AK 99654  
Phone : 907-376-3725  
Fax: (907) 376-4768

## Representative Carl Gatto

### Memorandum

**Date:** February 3, 2010

**To:** Representative Bob Lynn, Chairman  
House State Affairs Committee

**From:** Representative Carl Gatto, Chair  
House Military and Veteran Affairs Committee

**Re:** Explanation of Changes between HB 241 Original and (SS) for HB 241

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The sponsor certainly intended to encourage vigilance on the part of the Department of Revenue in ensuring state funds do not support insurgent training, advancements in nuclear weaponry, or dictatorial rule in Iran. It was not the goal of HB 241, though, to saddle the Department of Revenue with an overly broad, cumbersome new mandate. References throughout the original bill to "companies that conduct or have direct investments in business operations in Iran" were changed to "companies on the list of scrutinized companies." This change was meant to ensure that Department of Revenue did not undertake to investigate and identify *all* companies with a financial interest in Iran regardless of their relationship to Alaska state funds, but rather would understand its mandate was to monitor those companies meeting criteria laid out in the bill. This language change, as well as the establishment of a \$20,000,000 threshold for scrutiny, brought HB 241 more in line with laws in other states and at the federal level. This facilitates cooperation with and utilization of other monitoring agencies. The monetary threshold also ensures that HB 241 targets government oil revenues rather than the Iranian people.

Page 4, lines 1-27 were added to ensure that HB 241 complied with the federal government's Iran Sanctions Act of 1996 and to reiterate that HB 241 is intended to further the goals of said act.

Page 5, lines 7-14 were added to insulate the state from lawsuits concerning any lost revenue due to divestment in Iran.

# Alaska State Legislature

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Alaska State Capitol  
Juneau, Alaska 99801  
Phone: (907) 465-3743  
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600 E Railroad Avenue  
Wasilla, AK 99654  
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Fax: (907) 376-4768

## Representative Carl Gatto

### Sponsor Statement

HB 241

#### *Iran Divestiture*

In 2007, the U.S. military released the first public evidence that Iran had been supplying Iraqi insurgents with weaponry and training.<sup>1</sup> Then, in 2008, the International Atomic Energy Agency released evidence "strongly suggesting" the country had experimented with nuclear weapons.<sup>2</sup> Finally, Mahmoud Ahmadinejad began his second term in August despite riots protesting perceived election fraud and international doubt as to the election's validity.<sup>3</sup> The Iranian regime is increasingly hostile and unstable. For the security of Alaska's citizens—indeed of all Americans—the Department of Revenue should join with twenty-one states, the federal government, and the District of Columbia in rejecting financial entanglements with such an overtly hostile foreign power.<sup>4</sup>

The Department of Revenue will, in order of priority:

- Compile a list of companies that conduct or have direct investments in business operations in Iran over a certain monetary threshold;
- Divest from and halt further investment in the publically traded securities of companies on the aforementioned list;
- Contact the managers of any comingled investments in which the state has a stake to strongly encourage divestment in Iran
- Annually update the list of companies with a financial interest in Iran and inform both the legislature and the public of any changes;

The bill is repealed if and when Iran is removed from the United States Department of State's list of countries that have been determined to repeatedly provide support for acts of international terrorism or the United States Congress or President of the United States officially declare the divestment outlined in the bill to impede U.S. foreign policy.

<sup>1</sup> McIntyre, Jamie. "Iraqi Insurgents Being Trained in Iran, U.S. Says." *Iraq: Transition of Power*. CNN, 12 Apr. 2007. <<http://www.cnn.com/2007/WORLD/meast/04/11/iraq.main/index.html>>.

<sup>2</sup> Sanger, David E. "Agency Confronts Iran with Evidence on Weapons." *The New York Times* 22 Feb. 2008, Middle East sec.

<sup>3</sup> Murphy, Dan. "Iran's Ahmadinejad Takes Office Scorning "Scowls" of Enemies." *The Christian Science Monitor* 05 Aug. 2009, Global News sec.

<sup>4</sup> "State Divestment Legislation- Enacted Laws." *Labor and Economic Development Committee*. National Conference of State Legislatures, 09 Apr. 2008. <<http://www.ncsl.org/?tabid=13297>>.

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101

State Capitol  
Juneau, Alaska 99801-1182  
Deliveries to: 129 6th St., Rm. 329

## MEMORANDUM

February 3, 2010

**SUBJECT:** Sectional summary of SSHB 241 (Work Order No. 26-LS0680\R)

**TO:** Representative Carl Gatto  
Attn: Thomas Reiker

**FROM:** Brian J. Kane *BJK*  
Legislative Counsel

You have requested a sectional summary of SSHB 241, a bill relating to divestment in certain companies doing business with Iran.

Please note that a sectional summary of a bill is not an authoritative interpretation of a bill. The bill itself is the best statement of its contents.

**Section 1** of the bill enacts a new section, AS 37.10.072. It states that the commissioner of revenue or a fiduciary of a fund listed in AS 37 may not invest in and shall cause the fund to divest in publicly traded securities of a company that the commissioner places on a list of scrutinized companies that conduct or have direct investments in business operations in Iran and must divest, if needed, within 90 days after the company is placed on the list. The commissioner is required to make reasonable efforts to investigate all publicly traded companies to determine whether the company is a scrutinized company that should be placed on the list. The commissioner must make certain reports based on the investigations into companies that may or may not be on the list.

**Section 2** of the bill requires the Alaska Retirement Management Board to comply with the provisions of AS 37.10.072.

**Section 3** of the bill requires the board of trustees of the Alaska Permanent Fund Corporation to comply with the provisions of AS 37.10.072.

**Section 4** of the bill provides that the statutes enacted in the bill are repealed the day after Iran is removed from the United States Department of State's list of countries that have been determined to repeatedly provide for acts of international terrorism or, the United States Congress or the President of the United States, through legislation or executive order, declares that the Iran divestment authorized in the Act interferes with the conduct of United States foreign policy.

Representative Carl Gatto  
February 3, 2010  
Page 2

**Section 5** of the bill requires the commissioner of revenue to diligently work on compiling the list of scrutinized countries within 90 days after the effective date of the Act.

**Section 6** of the bill directs the Department of Law to submit written notice to the Attorney General of the United States describing this Act no more than 30 days after the effective date of the Act.

**Section 7** of the bill provides for an immediate effective date.

BJK:med  
10-010.med

## **Witness Biographies: State Affairs Hearing on HB 241-Iran Divestiture**

### **About David Gottstein**

David R. Gottstein is the founder and chief architect of Dynamic Capital Management and Efficient Tax. He has a B.S. in economics and finance from the University of Pennsylvania's Wharton School. After completing postgraduate work in Food Marketing Management at the University of Southern California,, Mr. Gottstein became active in Carr-Gottstein Co., Inc., a family owned grocery operation headquartered in Anchorage, Alaska. For the next ten years, he worked in various management capacities for the company. Positions held include Sales Manager, Senior Grocery Buyer, and Director of Distribution for a 250,000 square foot distribution center with 150 employees. Mr. Gottstein left the company twice during his tenure to gain additional professional experience. For six months in 1981 Mr. Gottstein was a legislative aide to the Alaska State Senate President. In late 1984, he arranged two internships at leading financial firms, including Furman Selz of New York, New York, and the Frank Russell Company of Tacoma, Washington. Mr. Gottstein has spent the last twenty years developing, refining, and utilizing proprietary advanced portfolio management tools that act as a foundation in the execution of portfolio management at Dynamic Capital Management. In 1998 he invented Efficient Tax, and in 2000 achieved the issuance of a patent on it by the U.S. Patent & Trademark Office. He is currently the Alaska Chair of the American Israel Public Affairs Committee.

### **What is AIPAC?**

For more than half a century, the American Israel Public Affairs Committee has worked to help make Israel more secure by ensuring that American support remains strong. From a small pro-Israel public affairs boutique in the 1950s, AIPAC has grown into a 100,000-member national grassroots movement described by *The New York Times* as "the most important organization affecting America's relationship with Israel."

Political advocacy is one of the most effective ways in which AIPAC works to accomplish its mission. Each year, AIPAC is involved in more than 100 legislative and policy initiatives involving Middle East policy or aimed at broadening and deepening the U.S.-Israel bond.

AIPAC works to secure vital U.S. foreign aid for Israel to help ensure Israel remains strong and secure. AIPAC is working to promote strategic cooperation between the two nations, to develop sound U.S. anti-terrorist policies, to share homeland security techniques and technologies, and to stop rogue nations such as Iran from acquiring weapons of mass destruction.

These efforts are critical to Israel's security and to American interests in the Middle East and around the world. In addition to working closely with Congress, AIPAC also actively educates and works with candidates for federal office, White House, Pentagon and State Department officials, and other policymakers whose decisions affect Israel's future and America's policies in the Middle East. AIPAC keeps political leaders and citizen activists apprised of critical developments affecting the U.S.-Israel relationship through publications such as the Near East Report and continually updated news and issues analysis.

While building support in Washington is essential, AIPAC is found wherever the future of the U.S.-Israel relationship could be affected. AIPAC has a network of 10 regional offices and nine satellite offices that help pro-Israel activists from Missoula to Miami learn how they can affect Israel's future and security by promoting strong ties with the United States.

Throughout the year and around the country, AIPAC sponsors exciting events and educational programs featuring leading members of Congress, policymakers and top analysts. AIPAC also works on hundreds of college campuses, teaching student activists how to answer Israel's detractors and how to use political involvement to build support for Israel.

The core of AIPAC's mission is building a base of citizen advocates who team with our expert staff to educate America's elected officials, policy makers and opinion leaders. But we also engage in many important initiatives to ensure that whatever the future holds, AIPAC will be positioned to effectively promote the U.S.-Israel relationship.

Among our most recent efforts is the Synagogue Initiative, which makes AIPAC information and staff available to congregations across America. AIPAC also reaches out to Christian, Hispanic, African American and other key community leaders to help ensure that Americans remain committed to a strong and vital U.S.-Israel relationship.

AIPAC is registered as a domestic lobby and supported financially by private donations. The organization receives no financial assistance from Israel, from any national organization or any foreign group. AIPAC is not a political action committee. It does not rate, endorse or contribute to candidates. Because it is a lobby, contributions to AIPAC are not tax deductible.

## Alaskan Iran Divestiture 2010

Dear Fellow American:

The United States, along with The West, is under attack by radical Islam. Terror incidents occur around the world, and virtually all of these are born of a radical Islamic agenda of achieving political ends through violence. Recent arrests in Houston, Denver and Brooklyn these last few months alone, along with the Fort Hood massacre, and now the Christmas Day thwarted airline suicide attempt, reveal that such acts of violence continue even here at home.

At the heart of the radical Islamic movement, and the most dangerous, is the Islamic Republic of Iran. The combination of their vast oil wealth controlled by a radical, ideological regime determined to develop nuclear weapons has propelled Iran to the forefront of the United States national security concerns. Iran is today dangerously close to completing a decades-long march to establish itself as a nuclear power. The prospects of a nuclear Iran, capable of launching ballistic missiles as far away as Europe, with Israel clearly in its sights, would permanently strategically destabilize the region.

The likelihood of Iran providing weapons to their allies, along with the certainty of provoking a nuclear arms race in the region, all has to be weighed against the far reaching negative consequences should military action need to be used to derail Iran's nuclear weapons ambitions. The only potentially positive outcome is convincing Iran to change their behavior beforehand by convincing Iran's regime that having a nuclear weapon will cost them more than not having one. This is the reason, and probably the only reason that Iran's radical leadership will abandon nuclear weapons development.

President Obama has embarked on a policy of diplomatic engagement with the regime, only to be rebuffed time and again. Included in the U.S. diplomatic arsenal are real and effective sanctions, including Iran divestment. Diplomacy alone hasn't and isn't likely to work. Divestment efforts by states can support and enhance sanctions, making a broad and effective sanctions regime a better, more effective tool at this time. This then is a peaceful approach, but one that can have a real impact on the policy options of Iran.

The hope is that a collection of enhanced sanctions, including State divestitures, and the passage of the Iran Refined Petroleum Sanctions Act, or IRPSA, will establish this mechanism. These efforts enjoy wide support at the Federal level, and are intended to impact an already weak and vulnerable Iranian economy. As a result of the falsified Iranian election last June, this is a period of intense internal public pressure on the regime, and a greater international awareness on the brutality of Iran's rulers than ever before. This is an extraordinary opportunity to influence Iran's actions positively, and hopefully avoid the need for a discussion about military options.[Please see the attached Wall Street Journal Op-Ed piece.]

As a respected state legislator, you are most often taken up with requests from constituents, groups, and colleagues, and even more so during a shortened legislative session. Seldom, however, are you asked to grapple with national issues or international affairs. But today is different. Today you have the opportunity to join forces with freedom-loving people around the world, and all our men and women in uniform who are engaged in the war against radical Islam and their tactics of terror. Nineteen states and the District of Columbia have already directed their public funds to divest from international companies that have invested \$20 million or more in Iranian oil and gas development. It is already illegal for American companies to participate in the development of Iran's oil and gas sector.

We respectfully ask for your support of legislation calling for the divestiture of stocks within the Permanent Fund and State Retirement Programs that have been "Scrutinized" and identified by credible sources as commercial collaborators with Iran in their oil and gas development, to be monitored by the Commissioner of Revenue.

These divestment and reporting mechanisms are complex, but have been done elsewhere in the U.S. quite effectively. We strongly suggest piggybacking on a technical approach adopted by other jurisdictions such as Florida, where it already works. As contemplated in this legislation, The Commissioner would be required every 90 days to identify companies that, according to credible sources, have been "Scrutinized" as having exceeded the \$20 million threshold investment in Iran, and therefore qualify as divestment candidates. After which, should any State portfolios contain candidate companies, the Commissioner shall notify said candidates of the designation, offering them 90 days to defend and or cure. He or she will also instruct the State's asset managers who have such companies in State portfolios to divest said companies in the event the company fails to cure or successfully defend. The legislation will have no other impact on any other state or commercial activity that may be occurring among any of the parties or others inside or outside the State of Alaska, other than stocks may be sold. From an investment point of view, stepping out of the way of potentially falling stocks where institutional selling has been mandated, would be prudent in itself.

In defense of America, in support of our troops, and for the cause of liberty in general, we make this special request. It is one truly meaningful thing you can do to join the fight in the war against terrorism. We thank you in advance for your support, and are available to answer questions you may have.

Sincerely;.....David Gottstein      907-230-1031

**Witness Biographies: State Affairs Hearing on HB 241-Iran Divestiture**

**Akiva Tor**

**Consul General of Israel, Pacific Northwest Region**

**Akiva Tor** is the Consul General of Israel for the Pacific Northwest region. He has served as World Jewish Affairs Adviser to the President of Israel, as Director of the Israel Economic and Cultural Office in Taipei, as Deputy Director for Palestinian Affairs in the Israel Ministry of Foreign Affairs. He is a graduate of the Harvard University Kennedy School of Government and has written and lectured extensively on Jewish values in the foreign policy of Israel and on ethical considerations in international relations.

He served as a paratrooper in the Israel Defense Forces and as infantry captain in the IDF reserves. He is interested in running, mountain biking and ascending high places. Akiva is married to Naomi, a community social worker. Their home town is Beit Shemesh, near Jerusalem, and they have four children – Yonah, Zohar, Yehudah and Roni.

## Witness Biographies: State Affairs Hearing on HB 241-Iran Divestiture

### About Sarah Steelman



Sarah Steelman is currently serving as a professor at Missouri State University in their Executive in Residence program teaching a political science class in leadership and public policy change. She just finished a four year term as State Treasurer of Missouri serving as the 44th State Treasurer after having been elected in 2004. Steelman elected not to run again for State Treasurer and made an unsuccessful bid for Governor in 2008.

As Missouri Treasurer Steelman was responsible for the management of more than \$19 billion in Missouri's annual revenue and managed the investment of over \$3 billion in long- and short-term investments in the state's portfolio. She started the first terror-free investment fund in the nation which ensured that no taxpayer dollars are invested in terrorist sponsoring countries. Many other states have followed her lead enacting similar policies.

As treasurer Steelman served as chairman of the state's Higher Education Savings Board, which administers the Missouri Saving for Tuition, or MOST program and as Chairman of the Missouri Housing Development Commission. She also served as a member of the Missouri State Employee Retirement System and the Board of Fund Commissioners that oversees issuance of debt instruments by the state.

In 1998 and 2002, Steelman was elected to serve as the Senator for the 16th State Senatorial District. As a member of the State Senate, Steelman served as chairman of the Senate Committee on Commerce and the Environment. She served as a member of the Senate Committee on Aging, Families, Mental and Public Health; a member of the Senate Committee on Education; and a member of the Senate Committee on Governmental Accountability and Fiscal Oversight.

She also served on the Missouri Consolidated Health Plan Board of Trustees; the Joint Task Force on Terrorism, Bio-Terrorism and Homeland Security; and the Joint Committee on Rules.

Previously, Steelman served as deputy director of the Missouri Department of Natural Resources – Division of Geology and Land Survey. She also worked as an economist for the Department of Revenue and as an adjunct professor in economics at Lincoln University. She served as an investment broker and as the director of the Big Brothers and Big Sisters program in Rolla, a not-for-profit organization that matches children in need of attention with volunteer mentors.

Steelman holds a Bachelor of Arts degree in History and a Master of Arts degree in Economics from the University of Missouri – Columbia. She is married to David Steelman and is the mother of three boys – Sam, Joe, and Michael. Her stepdaughter, Amanda is married to Taylor Moore and lives in Springfield, Missouri with their baby Lily.

**The Wall Street Journal Terror-Free Investing**

Printed in The Wall Street Journal

By Sarah Steelman

JEFFERSON CITY, Mo. -- The idea of "shareholder democracy" is today much bruited about, but whatever connotations that term has acquired, at bottom it means investors have a "vote" - that is, they can choose where to put their money, and where not. That kind of democracy assumes a new urgency in the post-9/11 world, as tens of billions of dollars are currently surging into countries that sponsor terrorism.

According to the independent research provider Conflict Securities Advisory Group (CSAG), there are some 485 publicly traded companies doing business with four regimes designated by the State Department as sponsors of terror. The activities of these mostly foreign-owned companies -- such as Total, Sinopec and BNP Paribas -- in terrorist-sponsoring states generate billions in revenues for the governments of Iran, Sudan, North Korea and Syria.

By so doing, these companies create part of the cash flow that enables these nations to underwrite the activities that our armed forces are fighting around the world. Were they to stop doing business with our enemies, it would be vastly more difficult for those regimes to sponsor terrorism, finance weapons of mass destruction programs and threaten -- or, in the case of Sudan, engage in -- genocide.

In this case, shareholders -- citizens -- have the power to influence. If American investors in these businesses -- not only institutional investors such as public pension systems, money managers, investment trusts and university endowments, but also individuals -- pressure companies to sever such business relations, they can become change agents in the financial sector and force multipliers for our troops abroad. It's high time we afford all American investors the opportunity to exert this influence by investing terror-free. That's why I am pleased to announce that the Missouri Investment Trust (MIT) became, in July of this year, the first public agency in America to implement a terror-free investment fund. This specially crafted, actively managed international fund screens out companies with ties to regimes involved with terrorism.

Our experience makes clear that it is possible for investors to hold these companies accountable for their business decisions by excluding their stocks from portfolios. We are proving that terror-free investing is a matter of *choice*, and that Wall Street will respond to the demand. What's more, it can be accomplished with leading investment firms and without sacrificing returns.

From a financial standpoint the results have been impressive. MIT, in conjunction with CSAG and Boston-based State Street Global Advisers, engaged in extensive due diligence. We back tested bidders' portfolios, for instance, and found that performance would not have been impaired over the past five years had the terror-free screen been in place.

The transition to the new fund was minimally disruptive. In fact, in the first quarter following its establishment, MIT's screened fund outperformed the MSCI EAFE index (the benchmark for international equities in developed Asian and European countries) by 74 basis points -- showing

that this terror-free public fund will do well for Missourians while also doing good for America. This result should not be surprising. The Securities and Exchange Commission determined years ago that companies conducting business in U.S.-sanctioned nations are exposed to "global security risk" -- risk that, in some cases, can negatively affect share value. Sadly, and somewhat shockingly, the vast majority of fiduciaries have, to date, ignored this financial risk, to say nothing of the ethical considerations, when investing in these companies. Terror-free investing should not, however, be limited to public funds. Elected officials, fund managers, American corporations and Wall Street ought to afford this investment option to the maximum degree possible.

Toward that end, in 2007, Missouri's 529 College Savings Advisor Plan will make available to all American investors the Roosevelt Anti-Terror Multi-Cap Fund (RATF) -- the only mutual fund in the country that is currently certified to exclude companies that have business ties to the terrorist-sponsoring states referenced. Additionally, Missouri is actively pursuing the inclusion of an international terror-free fund in our 529 advisor plan line-up.

Missouri is not alone in believing that Americans want to invest terror-free. Nationwide Financial has elected to make this same certified fund available to investors through its vehicle for corporate 401(k) plans. Recently, Swiss America, a tangible asset firm located in Arizona, became the first Nationwide 401(k) client to offer its employees the RATF option. The vast majority of Swiss America's employees took advantage of this option. Nationwide is exploring how to make a terror-free investment option more available to its over 25,000-member private sector plan base.

More importantly, this type of shareholder activism has a long record of success. Over 20 years ago, companies responded to such pressure by freezing their business relations with South Africa until apartheid was abolished. In short order, the government maintaining that oppressive practice was forced first to abandon it and then to relinquish power.

Lincoln said it best: "We -- even we here -- have the power, and bear the responsibility." This American culture of civic engagement has made all the difference: encompassing everything dumping tea into a harbor to buying war bonds to serving in the armed forces.

By choosing to invest terror-free, we can help cut off financing for terror-sponsoring governments, help our soldiers, make our investments less risky and make a difference in the contemporary fight for liberty. That's democracy.

***Ms. Steelman is state treasurer of Missouri.***

[http://online.wsj.com/article/SB116606981566249923.html?mod=googlenews\\_wsj](http://online.wsj.com/article/SB116606981566249923.html?mod=googlenews_wsj)

# The Committee on the Present Danger

*fighting terrorism and the ideologies that drive it*

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## **A Committee on the Present Danger Policy Paper:**

### **IRAN - AN UPDATE**

In December 2004 the Committee on the Present Danger published its initial policy paper on Iran, recommending a number of U.S. policy steps to achieve a democratic Iran.

Since then, Iran has continued dissembling over its nuclear program. The Militant Islamist Mahmoud Ahmadinejad became president of Iran last summer in an election that was neither free nor fair and that was boycotted by a majority of Iranians. He has issued a call to "wipe Israel off the face of the map" and denied that the Holocaust occurred. He has promised a "world without America," adding that such a goal is "attainable, and surely can be achieved."

Ahmadinejad has reiterated the objective of the constitution that has governed Iran since the 1979 revolution: perpetuation of theocracy and militant, offensive jihad. He has said: "The message of the [Islamic] Revolution is global ... Allah willing, Islam will conquer what? It will conquer all the mountain tops of the world." Hassan Abbasi, "intelligence" advisor to the Iranian president, has been specific about how that might be accomplished: "We have a strategy drawn up for the destruction of Anglo-Saxon civilization," he boasted. "We must make use of everything we have at hand to strike at this front by means of our suicide operations or by means of our missiles."

Ahmadinejad personifies the most radical of the Shi'ite Islamists who espouse theocracy and reject democracy. Their war against us began before 9/11. Such Militant Islamists cannot be appeased - they will wage war until they are stopped.

There is ample evidence that most Iranians do not endorse such radicalism - rather, they yearn for the opportunity to chart their own destiny unhindered by the regime's tools: the Revolutionary Guards, the Basij and the Morality Police.

Nearly a century ago, Iran adopted a constitution that established freedoms for its citizens - freedoms that have been lost. The ruling regime sponsors terrorism, represses human rights, jails dissidents, oppresses women, and is determined to have nuclear weapons. We believe the United States' policy objective must be regime change in Iran so that the Iranian people can join the international community and indeed the Free World; so that Iran can become a nation that does not repress its own people and threaten others, one with a freely-elected government accountable to the people, not to a tiny minority bent on theocratic dictatorship.

We present the following proposals toward this objective of regime change. We stress that military options should be only a last resort.

### **PRESSURE IRAN'S GOVERNMENT**

Defuse the nuclear threat posed by Iran. The International community's goal must be to prevent the development or acquisition of nuclear weapons by Iran's present rulers, who comprise the most radical regime in the Broader Middle East, a terrorist-sponsoring regime espousing explicitly hostile, aggressive and genocidal intentions.

In September the International Atomic Energy Agency voted 22-1 that Iran was in non-compliance with its governing statute. This vote was a necessary trigger to send the matter to the United Nations Security Council.

The issue is not whether Iran is entitled to have nuclear reactors to generate electricity; it is the current ruler's insistence on having the capability to enrich uranium and undertake other steps in the nuclear fuel cycle that will enable them to acquire nuclear weapons. The regime already has - with North Korean help - a major ballistic missile program. In time, the mating of these programs will threaten the security of many nations.

On Tuesday, January 10, at its Natanz facility, Iran removed the International Atomic Energy Agency's (IAEA) seals on its nuclear equipment. The Iranian government states that its purpose is to engage in "research." It is clear to any objective observer, given the full range of the government's duplicity and actions, that the real purpose is to obtain enriched uranium as a step toward producing weapons.

On Thursday, January 13, after nearly three years of fruitless negotiations, the EU-3 (Britain, France and Germany) declared the discussions with Iran at a "dead end" and urged that the matter be referred to the Security Council. A first step will be referral by the IAEA board to the Security Council.

Some say that any Security Council punitive action against Iran would be thwarted by a veto -- Russian, Chinese or both. But the Russians reacted quite negatively to Iran's rebuff of their recent proposal to enrich Iran's nuclear fuel in Russia (which would provide a means of blocking Iranian nuclear weapons development). An Iranian nuclear energy program has been and can be lucrative for Russia, but Russia has never supported an Iranian effort to develop weapons. In recent weeks the Russians have moved much closer than before to the U.S. position.

China generally opposes sanctions of any kind; however, if the EU-3, the U.S. and Russia are united and China finds itself isolated on the issue, it may be amenable to persuasion -- if not to vote "aye," then to abstain, which would have the same effect.

There is a strong lever available to generate support in the Security Council: the Iran, Libya Sanctions Act of 1996 (ILSA, amended in 2001 and extended to the end of this year). ILSA

allows our government to impose severe sanctions on any company that invests more than \$20 million a year in Iranian oil production. This can include denying Export-Import Bank loans, barring export licenses, barring U.S. banks from lending more than \$10 million a year to sanctioned parties, barring sanctioned financial institutions from serving as primary dealers of U.S. bonds, banning U.S. government procurement of goods and services from sanctioned parties and imposing import sanctions. Since many overseas-based oil industry companies are closely allied with U.S. companies, through subsidiaries or contracts, the invocation of this act could have a major impact on them as well as on American companies.

Although the act has not been invoked, it could be by administrative order. The mere threat of invocation might be enough to get reluctant countries--such as Russia and China -- to vote with us (or abstain) on the Security Council because of the close ties American oil companies have with their own companies.

If this leverage or other persuasion results in positive Security Council action, there are several sanctions the Council could impose on Iran. Among these would be an embargo on refined petroleum products (which Iran imports), a freeze on Iranian government and leadership assets abroad (see "Smart Sanctions" below) and prohibiting Foreign Direct Investment (FDI) in Iran.

If Security Council cooperation of Russia and China cannot be obtained, we should tell the EU-3 that they and we should impose the sanctions described to the fullest extent possible. And, if the EU-3 do not join us, we can unilaterally invoke ILSA to greatly crimp Iran's ability to obtain FDI for oil production expansion.

Simultaneous with these steps the U.S. can and should apply ancillary pressure on Tehran. Iran uses Hezbollah to project its influence in the region. Now that Syria has withdrawn from Lebanon, the U.S. is providing Lebanon with considerable aid. Under threat of withdrawing the aid we should demand that Lebanon use its army to disarm Hezbollah whose cadres in the southern part of the country conduct raids against Israel. An added benefit: A disarmed Hezbollah is a necessary pre-condition for full Lebanese sovereignty and freedom.

In time, once Iran has become a democratically-governed country, in peace with its neighbors and the world, nuclear energy for power production purposes would no longer lead to the threat of nuclear weaponry.

Smart Sanctions. The Grand Ayatollah Khamenei and President Ahmadinejad and their circles are the problem and the Iranian people are our natural allies. We should develop sanctions that target the leaders, their families and their cohorts so that the sanctions are harmful to them, not the people of Iran.

As part of a "smart" sanctions effort, we can create leverage against the theocratic regime by deftly making it known that an international legal case is being marshaled against Khamenei and his cohorts. U.S. Government agencies, working closely with human rights organizations, should

begin gathering evidence. Then we could seek the cooperation of like-minded governments, leading toward the possible creation of an international tribunal to try Khamenei and others. By calling for the elimination of Israel, for example, Ahmadinejad has violated Article 3(c) of the 1949 Genocide Convention which makes punishable "direct and public incitement to commit genocide." Ahmadinejad did not utter his statement in private; he did it before an audience of 4,000 people.

Other crimes for which evidence could be gathered include financing and facilitating of terrorists, corruption, the torture and murder of Khamenei's opponents at home and abroad, and development of weapons of mass destruction in violation of the Non-proliferation Treaty and other accords. There is precedent for a special tribunal gathering evidence and eventually indicting a leader still in office. It is the case of Liberia's Charles Taylor and the U.N.-approved Sierra Leone tribunal. In Taylor's case, having an Interpol arrest warrant out against him contributed toward de-legitimizing him.

Other "smart" sanctions can be developed as well. Iran's Revolutionary Foundations (*bunyads*) control 35 percent of Iran's import-export business and are directly controlled by Khamenei. The Iranian people are well aware that Khamenei, certain other mullahs and their supporters have grown rich and corrupt. The U.S. and other nations are becoming more adept at identifying the economic crimes and assets of dictators and their cohorts. We should undertake a serious effort to identify those companies and overseas accounts associated with Khamenei and his entourage and Ahmadinejad and his and develop sanctions targeting them.

### **BUILD THE OPPOSITION**

Fund and assist pro-democracy dissidents within Iran to help them better organize and communicate. It is time to strongly support Iranian freedom fighters. Regime change can come from within. While the pace cannot be predicted, it can be accelerated by giving pro-democracy Iranians the assistance and tools they require.

Activate the U.S. Interests Section of the Swiss embassy in Tehran. Iran has 36 Iranian nationals in its Interests Section of the Pakistan embassy in Washington. We should have the equivalent number of U.S. nationals in Tehran. At present we have none. Once in place, this group of Americans would be a listening post and an active cadre to encourage non-violent democratic forces in Iran. If Iran does not agree to reciprocity, we should expel the 36 Iranians from the United States. (Of course, posting American diplomats again in Tehran must depend on having confidence that Americans in Iran will receive full diplomatic rights and privileges – the experience of U.S. diplomats in Tehran in 1979 cannot be forgotten. Means to guarantee diplomatic protection would need to be explored.)

Undermine pillars of regime support. Khamenei relies on his security services to keep him in power. Faced with demonstrations in 2002, Khamenei was unsure the army would obey his orders and thus resorted to using hired paramilitary thugs.

The U.S. has opportunities to quietly develop relations with the military and various services in Iran and should seek to do so. Our CIA, FBI and Drug Enforcement Agency forces in the region have issues to work on, ranging from cross-border threats to terrorism to drugs. In developing these relationships our people should make it clear that those who cooperate in the transition to democracy can thrive "on the other side" (as many others in former dictatorships have done), but that those who persist in committing crimes against the Iranian people or others will be prosecuted. Specifically, we should call for the eradication of the Islamic Guard Corps and the Basij, reform or elimination of the Ministry of Information and investigation into the government's support for vigilante groups such as Ansar al-Hezbollah.

### **ENGAGE THE IRANIAN PEOPLE**

The President should appoint a senior official as the "point person" on Iran, and he should announce this in high-profile speeches spelling out U.S. policy - and the stakes involved in Iran. This would be aimed at both the Iranian and American peoples. Once appointed, the official should speak frequently with the Iranian people through all available media, such as radio, the Internet, satellite television. They will know he is speaking for the American president.

He should dramatize the plight of Iranian dissidents, jailed because they dared to call for free speech and assembly - journalists such as Siamak Pourzand and Arash Sigarchi, and democracy advocates such as Ahmad Batebi and the Mohammadi brothers, Manouchehr and Akbar. And, this official should coordinate U.S. efforts to have Iran barred from UNESCO and the U.N. Human Rights Commission (or its successor organization).

Television, radio, the Internet. The U.S. Government's Farsi-language Radio Farda ("Tomorrow") and several hours weekly of Voice of America television are a beginning, but not enough if we are going to effectively communicate directly with the Iranian people. Furthermore, these outlets do not always convey a coordinated U.S. policy message. They should, even if it means making staff changes.

A number of private U.S.-based Iranian satellite television stations exist, but they are underfunded and thus unable to achieve their real potential. A budget equal to that of Radio Farda and VOA television should be made available to them. At least \$10 million annually should be appropriated to assist independent television, radio and Internet communications with the Iranian people. Provide additional funds to pro-democracy dissidents within Iran to help them better organize and communicate.

Visa and exchanges. Ultimately it is Iranians themselves who will make the breakthrough to democracy and remove the Militant Islamists from power. There are many ways we can help, particularly with young Iranians and women as major agents of change. Cultural, academic and professional exchanges must form an important part of our effort to assist Iranians in the democratization of their country. Visiting scholars have considerable freedom of movement and association. Young activists from democratic countries could also enter Iran as tourists to meet with their Iranian counterparts. We should authorize American non-governmental organizations

(NGOs) such as Freedom House to operate within Iran and press the Iranian government to accept their presence.

Toward these ends, we should tie U.S. visas for Iranians to those which Iran grants to the U.S. Over the last year approximately four Iranians received visas to enter the U.S. to every one American receiving an Iranian visa. If the Iran government does not grant us parity, we should limit the number of visas we grant to the number granted us over the previous 12 months, and we should bar Iranian officials, their family members and business partners from entering the U.S.

### **PUBLICIZE THE REPRESSION**

Disseminate widely information about the Iran regime's repression. Public hangings, Morality Police crackdowns on women thought to be dressed with insufficient modesty, the continued solitary confinement of journalist Akbar Ganji for supporting democracy - all are manifestations of a repressive regime.

Though promising improvements in social welfare, the mullahs and their followers have not delivered. Individual incomes are two-thirds, on average, of what they were before the fall of the Shah. Many young men are underemployed or unemployed. Iran's population is predominantly young and all of this contributes to their disillusionment of the regime. We should use every means possible to disseminate these cases of repression - and others - to build international support for regime change.

### **CONCLUSION**

For too long there has been in the U.S. an academic debate about Iran: "engagement vs. containment" and "dialogue vs. regime change." Inaction and ambivalence in policy were the result. The hope that the Khatami Administration, elected in 1997, would put through important reforms lingered. As hope faded, the pro-democracy student movement turned away from the feckless Khatami regime. By 2004, however, the disgust of the pro-democracy students was complete and they turned their backs on the self-styled "moderates" in Iran.

The advent of Ahmadinejad, with his inflammatory rhetoric - frequently reiterated - makes it clear that we should adopt a determined and muscular policy aimed at non-violent regime change in Iran. The means can range from moral support for a student-led effort to demand a national referendum in favor of a constitution based on the Universal Declaration of Human Rights to the various elements described in this paper and other elements that will be formulated as circumstances dictate.

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January 23, 2006

# Iran Policy Committee

Insights: International Peace and Security

## The Threat that Iran poses to Iraq

Wednesday, January 20, 2010

By Raymond Tanter

Since the invasion of Iraq in 2003, Iran has sought to dominate Iraq politically, economically, and militarily. The most recent and visible manifestation of Iran's meddling with its neighbor was the late December 2009 seizure of a portion of the remote Fakka oil field in Maysan Province in southeastern Iraq; although the Iranians, however, withdrew after three days, the seizure made it clear that Tehran has the capability to enforce its will on Baghdad. Also, there is the threat of suicide bombing in Iraq by foreign Arabs; in addition to Syria—Iran's only Arab ally—Iran itself has become another entry point for foreign suicide bombers to enter Iraq, e.g., for Arabs entering Iraq from Afghanistan.

### **Political Threats**

Despite promises to the United States not to do so if Washington took action against the main political opposition to Tehran based in Iraq, thousands of Iranian-sponsored clerics crossed into Iraq from Iran. They carried books, compact discs, and audiotapes that promoted the Iranian version of militant Islam in spring 2003, following Operation Iraqi Freedom. Furthermore, the Islamic Revolutionary Guards Corps Qods (Jerusalem) Force established and continues to support armed underground cells across the Shiite southern region of Iraq, using the humanitarian organization, the Iranian Red Crescent, as a front.

The Jerusalem Force has medical centers and local charities in Najaf, Baghdad, Hillah, Basra, and Amarah to gain support from the local population. Even as Tehran began to send Iranian operatives into post-Saddam Iraq, members of what has become Iraqi Hezbollah infiltrated the country. Because most of Iraqi Hezbollah's members are Arab, they constitute an even more effective Iranian proxy in Iraq than Farsi-speaking Iranian agents trained in Arabic.

Tehran tasked Iraqi Hezbollah with sending agents and clerics across a major portion of southern Iraq. Indeed, once major combat operations came to an end on 1 May 2003, Hezbollah "holy warriors" crossed into the country not only from Syria, but from Iran as well, again despite pledges from Tehran to

Washington not to interfere in Iraq. Initially, these operatives numbered nearly 100, but this relatively small figure has increased and belies their potential impact on behalf of Tehran.

Hezbollah established "charitable" organizations in Iraq to create a favorable environment for recruiting, which is a tactic Lebanese Hezbollah had previously tested and honed in southern Lebanon with Iranian assistance. Furthermore, according to Mohammed al Alawi, Hezbollah's chief spokesman in Iraq, the organization's agents act as local police forces in many southern cities (e.g., Nasiriya, Ummara), ignoring the official Multinational Force-Iraq and Iraqi government ban on illegal militias.

Overall, Tehran uses Iraqi Hezbollah to supplement its own penetration of local Iraqi governing offices and judiciaries. The Iranian regime has used Iraqi Hezbollah to smuggle Iraqis living in Iran back into their native country. A significant number of Iraqis have dual nationalities and have resided in Iran for many years; some have even served as Revolutionary Guards commanders. Hezbollah helps conceal their long association with Iran; indeed, some of these individuals have joined Iraqi police forces since the end of major combat.

Additionally, Iraqi Hezbollah cased coalition assembly centers in Iraq and tracked the timing and order of movements by various coalition vehicles including tanks, armored personnel carriers, and motorcades. Iraqi Hezbollah agents videotaped locations in two-person teams, often with public transportation like taxis. Footage of targets is sometimes concealed behind commonplace imagery (e.g., wedding festivities) to avoid detection by coalition forces. Such reports echo Iraqi Hezbollah's own public statements, voiced as early as mid-April 2003, regarding its willingness to attack U.S. forces in Iraq and its increasing ability to do so.

### **Military Threats**

A more nefarious aspect of the Iranian threat to Iraq is Tehran's transfer of weapons to its proxies in Iraq. In Joint Guidance for 2010, General Mike Mullen, Chairman of the Joint Chiefs of Staff, stated that "Iran...ships weapons to surrogates inside Iraq." According to the Department of State 2008 Country Reports on Terrorism,

Tehran was responsible for some of the lethality of anti-Coalition attacks by providing militants with the capability to assemble improvised explosive devices (IEDs) with explosively formed projectiles (EFPs) that were specially designed to defeat armored vehicles. The Qods Force, in concert with Lebanese

Hizballah, provided training both inside and outside of Iraq for Iraqi militants in the construction and use of sophisticated IED technology and other advanced weaponry.

Tehran pursues its perceived interests in dominating Iraq by such means as supplying arms to its proxy forces there. Indeed, Iran's shipment of IEDs to Iraqi proxies is part of the Iranian regime's broader effort to subvert the Iraqi government while making Baghdad dependent on Tehran for protection against such threats. The transfer of IEDs into Iraq is particularly troublesome as U.S forces withdraw because Iraq lacks intelligence and technology in the American arsenal to counter the IED threat.

According to revelations made by the main Iranian opposition group, the Mujahedeen-e Khalq (MEK), since 2006, Iranian ordnance factories have produced an advanced form of roadside bomb incorporating EFPs to satisfy orders placed by the Islamic Revolutionary Guards Corps (IRGC). These IED/EFPs are often placed along roadsides at choke points where vehicles must slow down, such as at intersections and junctions. This procedure gives the operator time to judge the moment to fire—when the vehicle is moving more slowly. Detonation is controlled by a cell phone triggering device, cable, radio control, TV remote control, or passive infrared sensor. IEDs can be deployed singly, in pairs, or in arrays, depending on the tactical situation.

Within Iran, ordnance factories are located in the Lavizan neighborhood of northern Tehran where weapons production occurs at three independent industrial sectors called Sattari, Sayad Shirazi, and Shiroodi. The Sattari Industry specializes in making various types of anti-tank mines and bombs, and now parts for IEDs.

In 2008, there is a production site at Parchin, to the southeast of Tehran, also revealed by the MEK. A new generation of roadside bomb was being produced by affiliates of Iran's Ministry of Defense for use by proxies in Iraq. Tehran began to transfer the Sahere ("Vigilant" in Farsi), to Iraq along its southern border with Iran. This weapon targeted U.S. armored vehicles and tanks. During 2007, the Qods Force transferred new bombs mainly through the border crossings of the Misan province, particularly at Majr al-Kabir. The bombs were then distributed to Baghdad and elsewhere in Iraq.

One recipient of the Sahere has been Moqtada al-Sadr's Mahdi Army, which used the weapons against American forces in Sadr City, Hay Al-Amin, Eskan, and Al-Sholeh districts of Baghdad. According to a militia report to the Qods Force headquarters in Tehran,

In the Hay Al-Amin area of Baghdad, a full column of American forces was set ablaze using these bombs. This heroic operation was carried out by the Sheikh Hossein al-Zobaidi group. But regrettably the brothers who took part in exploding these bombs did not have a chance to pull back on time and as a result of the aerial bombardment of the area, fourteen members of the Sheikh Hossein al-Zobaidi group were martyred.

Confirming MEK revelations, in January 2007, Commander, Multinational Corps-Iraq, LTG Ray Odierno and then-Director of National Intelligence, John Negroponte, released similar intelligence documenting the Iranian supply of the most deadly roadside bombs. A February 2007 Pentagon briefing in Baghdad revealed Iran's supply of sophisticated weapons technology to Iraqi militias and was a comprehensive presentation of evidence regarding Iran's destabilizing role in Iraq.

Documents captured along with Iranian Qods Force members arrested in Iraq during 2006 revealed that the Iranian regime was also assisting Sunni groups, such as al Qaeda and Ansar al Islam, in addition to Tehran's Shiite insurgent proxies.

British officers in Iraq also have acknowledged the presence of Iranian weapons in Iraq. In March 2007, they attributed over 30 British casualties from an attack on a base in Basra to Katyusha-style rockets and mortars originating in Iran. The British military distinguished new Iranian-supplied weaponry from the older mortars looted from Iraqi army bases that had been used by the militias in the past.

Not only does Iran produce IEDs for Iraqi proxies, it also trains them in bomb-making. The Jalil Abad Qods Force garrison is used to train Iraqi Hezbollah members to assemble bombs, use Rocket-Propelled Grenades (RPGs), and fire Katyusha rockets. Iraqi insurgents have also used "sticky IEDs," which are magnetically attached to vehicles to carry out precise assassinations of Iraqi officials. These compact IEDs are magnetically attached to the underside of automobiles and detonated with timers or by remote control.

Iraqi government officials, mainly from the army and police are the primary targets, but local officials, judges, journalists, and Sons of Iraq members have also been attacked. The danger from a force protection perspective is that insurgents will begin employing sticky IEDs against U.S. military officials and other high risk personnel. This risk is especially acute during the period of the 2010 drawdown of U.S. forces.

There are fewer American intelligence gathering operations and lack of effective use of Iranian dissident intelligence sources in Iraq, which are under increasing threat from Iranian regime proxies in the Iraq Security Forces.

### **Countermeasures**

The U.S. military has deployed a number of successful countermeasures to address the threat from IEDs in Iraq. Mine Resistant Ambush Protected Vehicles (MRAPs) were originally employed by Explosive Ordnance Disposal (EOD) units at the outset of Operation Iraqi Freedom; but with the growing IED threat, the Marine Corps championed the vehicle as a troop carrier during 2007. MRAPs proved much more effective than simply up-armorizing Hummers, which had been a short-term solution. Although MRAP Vehicles, signal jammers, and special road clearing vehicles have helped lower the percentage of casualties from IEDs from 60% during 2006 and 2007, the number of roadside bomb attacks remains high.

Insurgents will almost never detonate an IED in close proximity to their cache and almost never launch an IED attack so far from their cache that they risk being intercepted. Software is available to combine proximity with other factors like demographic composition of neighborhoods. If an attack is believed to be carried out by an Iranian-supported Shiite group, it is extremely unlikely that the militia's weapons cache would be in a predominately Sunni area. After inputting such information, an algorithm determines the most likely cache sites.

### **Conclusions**

Because the Iranian regime continues to pose political and military threats to Iraq, it is important to counter these threats. Research of the Iran Policy Committee suggests that the most effective antidote to the political threat in Iraq would be for the international community to protect Iranian dissidents in Iraq from the growing threat posed by Iraqi proxies of Iran.

Regarding the military threat posed by Tehran to Baghdad, such as the transfer of weapons to Iran's regional Shiite proxies and Sunni insurgents, countermeasures are essential tools for the U.S. military to leave in the Iraqi arsenal. Iranian weapons are going to Shiite militias that include rogue elements of Moqtada al-Sadr's Mahdi army militia and a breakaway faction of the Badr Corps, the armed wing of a

powerful Iraqi Shiite political party.

Given the high priority placed on Iran's nuclear program and Tehran's diplomatic intractability to date on its nuclear file, a diplomatic solution to Iran's transfer of improvised explosive devices is unlikely. And as Tehran develops a nuclear weapons capability, it will likely be even less vulnerable to diplomatic pressure and more emboldened to pursue its perceived interests via the transfer of arms to its proxies in Iraq. Hence, as U.S. forces withdraw from Iraq, it is important to leave Iraqi Security Forces with the capability to counter the improvised explosive device threat from Iran.

The good news is that Washington has designated Iran's Islamic Revolutionary Guards Corps Qods Force and Iraqi Hezbollah as foreign terrorist organizations. According to research of the Iran Policy Committee, the bad news is that Washington also continues to designate Tehran's main political opposition in exile with extensive influence in Iran—the National Council of Resistance of Iran and Mujahadeen-e-Khalq—as foreign terrorist organizations. This research suggests that removal of the terrorist tag from these two organizations would be one way to decrease the political threat posed by the Tehran to Baghdad and the military threat to American forces as they withdraw from Iraq.

But perhaps the best hope for countering the Iranian threat to Iraq as American forces draw down is to increase the Iranian regime's problems at home. To the degree that the United States can rhetorically and covertly support Iran's growing "Green" movement, encourage dissidents within Iran to work with oppositionists in Paris and in Iraq, such as the National Council of Resistance of Iran and Mujahadeen-e-Khalq, respectively; and divide the Iranian regime with "crippling sanctions," Tehran will be less capable of being a growing threat to Iraq.

*Raymond Tanter, Ph.D. is Visiting Researcher at Georgetown University, Professor Emeritus at The University of Michigan, and President and co-founder of the Iran Policy Committee.*

# ***National Public Radio***

## **Morning Edition**

### **Missouri Pioneers Iran Divestment Efforts**

by Michele Kelemen

March 16, 2007

March 16, 2007

Divestment was used to fight apartheid in South Africa, and has been used to shame Sudan. Now, Missouri has taken action to divest from companies that do business with Iran and other nations on the State Department's list of countries that sponsor terrorism. Missouri officials and others hope that more states will consider similar action.

Missouri was helped by the efforts of a former Defense Department official, Frank Gaffney, who researched state pension funds' ties to countries on the State Department's terrorism-support list.

"Roughly 100 of the leading pension funds of the United States had about \$188 billion invested in companies that were doing business with one more of those state sponsors of terror," Gaffney said.

The first activists to pick up on this were those interested in punishing Sudan, not because of its links to terrorism, but because of the violence in Darfur. That divestment push has been fairly successful, with several states and universities dumping shares of companies doing business in Sudan.

Missouri Treasurer Sarah Steelman told a news conference in Washington this week that she hopes states will now follow her lead — and start what she calls terror-free employee pension funds.

"It seems strange to me that we send men and women to defend freedom — some of whom pay the ultimate sacrifice — however, we have not yet used our most powerful weapon, America's financial markets," Steelman said.

Though supporters of this campaign portray it as a broad battle against terrorism, there is no evidence that it could pressure al-Qaida. Its main target is Iran — along with other countries on the U.S. blacklist — including Sudan, Syria and North Korea. Steelman says it was an uphill battle in her state to divest from companies doing business in those countries.

"We heard the argument about performance, that performance is going to suffer and we've proved that this is not true," she said. "We've heard that states shouldn't be in the role of foreign policy. That's nonsense. We are not in the business of setting foreign policy. We were just implementing foreign policy set by the State Department and American businesses can't do business in those countries."

Most of the companies dropped from the Missouri state pension fund were European - but she says the list also included Halliburton — the company Vice President Dick Cheney used to run — because one of its subsidiaries' business dealings in Iran's oil sector. Several members of congress — including Democrat Brad Sherman of California - want to close all the loopholes for American companies.

"Right now the door is open to American dollars going into the pockets of terrorist countries," Sherman said. "Our job is to close that door one step at a time."

He joined Steelman at the Washington news conference and said the idea is to put the maximum possible pressure on states accused of sponsoring terrorism.

"We need therefore to put the maximum possible pressure on major corporations in the world to get them to stop providing necessary capital to these terrorist states," Sherman said. "In particular, Iran is very susceptible to a cut-off of investment in its oil sector and we have to devote our efforts to hit that Achilles heel."

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## States Divest From Businesses Tied to Iran

Brian Radzinsky

Eleven U.S. states have adopted legislation to divest public pension funds from companies with financial ties to Iran's petroleum, defense, and nuclear sectors in an attempt to persuade Iran to give up its uranium-enrichment program and alleged sponsorship of terrorism. Almost 20 more states are considering similar legislation to supplement existing federal and international sanctions.

This is the first time that state investments have been leveraged for nonproliferation goals. During the 1980s, anti-apartheid activists urged state and local authorities and some universities to divest holdings from companies invested in or doing business with South Africa. During the 1990s, humanitarian activists persuaded Massachusetts to divest from companies "doing business with" Burma (Myanmar). More recently, almost 30 states passed legislation to divest from companies with investments in or engaged in trade with Sudan. The Iran case is unique, however, because divestment legislation explicitly references Iran's alleged sponsorship of terrorists and its uranium-enrichment program.

Since the 2003 discovery of Iran's clandestine uranium-enrichment program, the UN Security Council has imposed three rounds of sanctions freezing the finances and limiting the travel of prominent members of the nuclear and ballistic missile programs (see page 39). Enriched uranium can fuel nuclear reactors and provide the explosive core for a nuclear weapon.

The effort by U.S. states to divest from Iran mirrors a larger change in the Bush administration's approach to Iran. For its part, the U.S. government has maintained various sanctions on Iran since 1979. Recently, however, Washington has moved away from advocating sanctions against individuals and organizations and toward a strategy of financial isolation. The Department of the Treasury in 2007 barred Iran's Bank Saderat, Bank Sepah, and Bank Melli from the U.S. financial system and cut off their ability to conduct transactions with U.S. banks through a third party. (See *ACT*, March 2007.) In March, the UN Security Council urged member states to "exercise vigilance" about the activities of these banks. (See *ACT*, April 2008.) Treasury officials have recently discussed sanctioning Iran's central bank, which is said to have picked up some of the business that used to flow to sanctioned institutions.

### Legal Challenges

State divestment efforts also face legal challenges. The National Foreign Trade Council (NFTC) in 2000 successfully sued Massachusetts over legislation to divest from Myanmar. In that case, *NFTC v. Crosby*, the U.S. Supreme Court ruled that Massachusetts' decision hindered the president's ability to

conduct foreign policy effectively. The NFTC won another legal battle in a U.S. district court over an Illinois law mandating divestment from Sudan.

Lawmakers have taken steps to circumvent subsequent court challenges. Several bills pending at the federal level encourage and authorize state divestments. The Iran Sanctions Enabling Act, introduced by Barack Obama (D-Ill.), the presumed Democratic presidential nominee, and Sam Brownback (R-Kan.) in the Senate and a bipartisan group of eight representatives in the House, would publish in the Federal Register the names of companies with \$20 million or more invested in Iran's energy sector and authorize individual states to adopt divestment legislation.

The bill also provides legal safe harbor for fund administrators who might oppose divestment on grounds that doing so would cause their funds to depreciate. To this end, the bill protects mutual fund managers from lawsuits and pension fund managers from charges of fiduciary responsibility. According to Missouri's treasurer, the Missouri portfolio suffered minimal disruption following divestment and in some years outperformed the original fund.

### **Divesting From Terrorism**

Most divestment legislation adopts the criteria laid out in the 1996 Iran Sanctions Act to identify significant investment in Iran. Formerly the Iran-Libya Sanctions Act, it requires the president to sanction those foreign companies with investments of \$20 million or more in Iran's energy sector.

In that vein, legislation signed in Arizona, California, Colorado, Florida, Georgia, Illinois, Louisiana, Maryland, and Michigan directs state pension administrators to divest from companies that meet this standard and companies with financial ties to Iranian "terrorist organizations" identified by the U.S. government. Also anathema are companies that facilitate Iran's acquisition of nuclear, chemical, or biological weapons technology or military equipment.

Missouri and New Jersey have adopted explicitly "terror-free" investment policies. Terror-free investing, part of a larger initiative endorsed by the American Israel Public Affairs Committee (AIPAC), the Center for Security Policy, and a number of other groups, encourages U.S. states to divest from companies "reasonably known to be operating directly with the government or a government-controlled agency in U.S.-sanctioned nations, or that are engaged in the sponsorship of terrorism." Known as the Divest Terror movement, proponents argue that investing in such blacklisted countries as Cuba, Iran, North Korea, Sudan, and Syria poses not just a threat to national security, but to the health of the investments themselves.

Of these countries, Iran stands the most to lose from widespread divestment from its economy. Iran's gross domestic product is greater than that of Cuba, North Korea, Sudan, and Syria combined—around \$600 billion, according to most sources.

The movement has gained several prominent adherents, including presumptive Republican presidential nominee Sen. John McCain (Ariz.). In a June 2 speech at AIPAC's national convention, McCain called for a "worldwide divestment campaign" in order to pressure Iran's "radical elite."

The target of state divestments, both in practice and as a part of a broader strategy to pressure Iran financially, is to hurt companies with significant ties to Iran's energy sector. Companies potentially affected by divestments include such European giants as Spain's Repsol, France's Alcatel and Total, and Royal Dutch Shell. Some states' pension funds are too small to conceivably have an impact. On the other hand, California's Public Employees and State Teachers Retirement Systems invest a combined \$400 billion in U.S. and international companies. An estimated \$2 billion of those funds are tied up in Iran's oil sector.

Matthew Levitt, a former Treasury Department official in the Office of Terrorism and Financial Intelligence and director of the Stein Counterterrorism Center at the Washington Institute for Near East Policy, concedes that divestment alone will probably not force Iran to adhere to international demands. "The real issue is not divestment [by itself]," he says, "but the totality of the various [coercive] measures. Together they have a very good chance of forcing Iran to rethink its policies."

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1313 L St., NW, Ste. 130  
Washington, DC 20005  
Tel: (202) 463-8270 | Fax: (202) 463-8273

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