

HB

2

<TARGET><BILL>HB 2</BILL><SUBJECT>HB
2</SUBJECT><COMM>HSTA27</COMM></TARGET>

Alaska State Legislature



Chairman
State Affairs Committee

Member
Judiciary Committee
Energy Committee
Joint Armed Services Committee
Military & Veterans Affairs Committee

Finance Subcommittees
Administration
Corrections
Military and Veterans Affairs

A Communication From
REPRESENTATIVE BOB LYNN
District 31 Anchorage

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To: Legal Services

Fax #: 465-2029

From: Nancy Manly 465-2794 *N Manly*
Alaska State Capitol, Room 108
Juneau, AK 99801-1182

of Pages (including cover): 1

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Re CS for HB 2 Version M - Draft Final 27-LS0007\M

2/28/2012

CS HB 2 Version M moved from the House State Affairs Committee this morning without amendments. Please draft a final CS for HB 2 Version M. Thanks.

CS FOR HOUSE BILL NO. 2(STA)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE STATE AFFAIRS COMMITTEE

Offered:

Referred:

Sponsor(s): REPRESENTATIVES GATTO AND LYNN, Petersen

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 P.L. 104-172 (Iran Sanctions Act of
31 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 or gas-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 or gas-related activities" means

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

18 (B) constructing, maintaining, or operating a pipeline, refinery,
19 or other oil or gas 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 P.L. 104-172 (Iran
27 Sanctions Act of 1996), as amended, and that involve the maintenance of a
28 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 P.L. 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.** AS 37.10.072, 37.10.073, 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

1 interferes with the conduct of United States foreign policy.

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

4 INITIAL IDENTIFICATION OF SCRUTINIZED COMPANIES. Within 90 days
5 after the effective date of this Act, the commissioner of revenue shall diligently work to
6 identify all scrutinized companies in which a fund under AS 37 has direct holdings. The
7 commissioner may use the sources in AS 37.10.072(d)(1) and (2), as enacted by sec. 1 of this
8 Act, as appropriate, to identify a scrutinized company.

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

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

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

Iran Divestment: HB 2

Investing Responsibly

Iran is a Threat to Our Security

- Our investments are financing our enemies
 - State Sponsor of Terror
 - Under International Sanctions
 - Nuclear Weapons Program
 - Human Rights Violations
- Strong bipartisan support for this issue

Some Foreign Companies still Invest in Iran

- Iran produces around 3.6 million barrels of oil per day
- Iran uses their oil profits to advance the regime's agenda
 - "Iran's greatest economic resource is its oil exports. Sales of crude oil line the regime's pockets, sustain its human rights abuses, and feed its nuclear ambitions like no other sector of the Iranian economy." – Timothy Geithner, US Treasury Secretary December 1st, 2011
- We should not invest in foreign companies that profit from doing business with our enemies
- Without outside help, the regime will have fewer resources
- Divestment weakens the Iranian regime's agenda
 - Slows down Iran's nuclear program
 - Weakens Iran's ability to export terror
 - Puts pressure on the regime for political change

How HB 2 Works

- The Department of Revenue would compile a list of companies who have invested an aggregate of \$20 million or more in Iranian oil and gas development
- Companies who are found to have invested this amount in Iranian oil and gas development have 90 days to either cure or explain the investment
- If a company fails to do so, the Department of Revenue will ask the State's fund managers to liquidate assets of that company within 90 days
- Compiled lists for other States already exist

Why are States Divesting Now?

- Iran continues to threaten our national security
- Divestment policies do not negatively impact States
- Congress passed a bill in 2010 to encourage States to divest from Iran
 - Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (CISADA)
 - This legislation provides greater cover for state and local governments to divest from Iran
- **Federal legislation alone cannot solve the problem**

Many States have Already Divested

- Arizona, California, District of Columbia, Florida, Georgia, Illinois, Indiana, Iowa, Maryland, Massachusetts, Michigan, Minnesota, Nevada, New Jersey, New York, Pennsylvania, and South Dakota have laws on the books
- Colorado, Mississippi, Ohio, Texas, and Washington have Iranian Divestment policies in place

Common Misconceptions about HB 2

- Will HB 2 affect any North Slope Operators?
 - No North Slope operator should be considered for divestment
- Will HB 2 hurt investment on the North Slope?
 - There will be no changes to Alaska's oil and gas incentives on the North Slope for any company
- Which companies could HB 2 affect?
 - Only foreign companies
 - China, Russia, India, Malaysia, Thailand, etc.
- Will HB 2 lead to a lot of changes in our account management?
 - Assets are valued at approximately one tenth of one percent of the state's holdings

Support American
Foreign Policy;
Support HB 2

27-LS0007\M
Wayne
2/8/12

CS FOR HOUSE BILL NO. 2()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVES GATTO AND LYNN

A BILL
FOR AN ACT ENTITLED

1 **"An Act relating to certain investments of the Alaska permanent fund, the state's**
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13 section if the investment is managed by the commissioner or fiduciary. On or before
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(e) The commissioner shall provide written notice and an opportunity to comment in writing to each company identified as a scrutinized company under (d) of this section.

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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 petroleum products;

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(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;

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22 project, or providing service contracts related to the installation or maintenance of the
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26 operations that are subject or liable to sanctions under P.L. 104-172 (Iran
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29 investments to Iran that meet or exceed the \$20,000,000 threshold referred to
30 in P.L. 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.

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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.

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

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26 day after

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28 countries that have been determined to repeatedly provide for acts of international terrorism;

29 or

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31 legislation or executive order, declares that the Iran divestment authorized in AS 37.10.072

1 interferes with the conduct of United States foreign policy.

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

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

Alaska State Legislature

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Fax: (907) 376-4768

Representative Carl Gatto

Memorandum

Date: February 27, 2012

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

From: Representative Carl Gatto

Re: **HB 2 - Iran Divestiture**

A handwritten signature in black ink that reads "Carl Gatto".

Explanation of Changes between the original HB 2, 27-LS0007\A Wayne
and (CS) work draft for HB 2, 27-LS0007\M Wayne

In a bipartisan effort to move a bill on this very important issue, I am working with Senator Wielechowski, the sponsor of a companion bill, SB131. HB 2 is an exact duplicate of SB 131 except for the following two words, which have been inserted into CSHB2 work draft.

Page 3, Line 14: after oil, insert or gas

Page 4, Line 15: after oil, insert or gas

Page 4, Line 17, after oil, insert or gas

Page 4, Line 19, after oil, insert or gas

Thank you for your consideration of this work draft CSHB 2.

Alaska State Legislature

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Representative Carl Gatto

Sponsor Statement

HB 2

Iran Divestiture

In 2007, the U.S. military released the first public evidence that Iran had been supplying Iraqi insurgents with weaponry and training. Then, in 2008, the International Atomic Energy Agency released evidence "strongly suggesting" the country had experimented with nuclear weapons.

The Iranian regime is increasingly hostile and unstable and is listed as a "State Sponsor of Terrorism." For the security of Alaska's citizens—indeed of all Americans—**HB 2** creates an Iranian divestment policy in order to keep the State of Alaska's investments from supporting the current Iranian regime. HB 2 would join with twenty-two states, the federal government, and the District of Columbia in rejecting financial entanglements with such an overtly hostile foreign power.

HB 2 directs the Department of Revenue to, 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;

HB 2 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.

We ask that you support HB 2 for the security of our nation and the safety of our troops. Thank you.

Date: 02/02/2012
House Bill 2 - Version: 27-LS0007\A
Contact: Karen Sawyer
465-5025

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version HB 002
 Fiscal Note Number _____
 () Publish Date _____

Identifier (file name) HB002-REV-APFCCMF-02-24-12 Dept. Affected Revenue
 Title DIVEST INVESTMENTS IN IRAN Appropriation APFC Custody and Management Fees
 Allocation APFC Custody and Management Fees
 Sponsor Representatives Gatto and Lynn
 Requester House State Affairs Committee OMB Component Number 2310

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates					
			FY13	FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services	0.0							
Commodities								
Capital Outlay								
Grants, Benefits								
Miscellaneous								
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF							
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1105	PF Gross (Other)	0.0						
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS								
Full-time								
Part-time								
Temporary								

CHANGE IN REVENUES								

Estimated SUPPLEMENTAL (FY12) operating costs 0.0 (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs 0.0 (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Initial version

Prepared by Laura Achee
 Division Alaska Permanent Fund Corporation
 Approved by Michael J. Burns
Alaska Permanent Fund Corporation

Phone 796-1522
 Date/Time 2/24/12 12:00 AM
 Date 2/24/2012

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. HB 002

Analysis

This bill would require that APFC divest any securities of publicly traded companies that are held in actively managed separate (non-commingled) funds. This bill would also require that APFC send letters to managers of actively traded commingled funds requesting that they consider divesting the listed securities. Based on consultations with external managers and other public funds, APFC does not expect to incur additional manager fees. Transactional costs will be netted from sale proceeds and do not require a legislative appropriation. This estimate does not include any projected investment losses that may occur from selling the more illiquid stocks.

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version HB 002
Fiscal Note Number _____
() Publish Date _____

Identifier (file name) HB002-REV-APFCO-02-24-12 Dept. Affected Revenue
Title DIVEST INVESTMENTS IN IRAN Appropriation AK Permanent Fund Corporation
Allocation APFC Operations
Sponsor Representatives Gatto and Lynn
Requester House State Affairs Committee OMB Component Number 109

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates					
			FY13	FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants, Benefits								
Miscellaneous								
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF							
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1105	PF Gross (Other)							
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS								
Full-time								
Part-time								
Temporary								

CHANGE IN REVENUES								

Estimated SUPPLEMENTAL (FY12) operating costs 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Initial version

Prepared by Laura Achee
Division Alaska Permanent Fund Corporation
Approved by Michael J. Burns
Alaska Permanent Fund Corporation

Phone 796-1522
Date/Time 2/24/12 12:00 AM
Date 2/24/2012

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. HB 002

Analysis

This bill would require that APFC divest any securities of publicly traded companies that are held in actively managed separate (non-commingled) funds. This bill would also require that APFC send letters to managers of actively traded commingled funds requesting that they consider divesting the listed securities. APFC investment and finance staff will be able to absorb the compliance and correspondence activities into their regular workload. APFC will not incur any administrative costs in developing the divestment list, as the Commissioner of Revenue is responsible for this task under the proposed legislation.

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version HB 2
 Fiscal Note Number _____
 () Publish Date _____

Identifier (file name) HB002-DOR-TRS-02-25-12 Dept. Affected _____ Revenue _____
 Title Divest Investments in Iran Appropriation Treasury
 Allocation ARMB/ARMB Custody
 Sponsor Representatives Gatto, Lynn, Petersen
 Requester House State Affairs OMB Component Number 2812

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
			FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES							
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE (Thousands of Dollars)

1002	Federal Receipts						
1003	GF Match						
1004	GF						
1005	GF/Prgm (DGF)						
1037	GF/MH (UGF)						
1178	temp code (UGF)						
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS

Full-time						
Part-time						
Temporary						

CHANGE IN REVENUES

--	--	--	--	--	--	--

Estimated SUPPLEMENTAL (FY12) operating costs _____ (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs _____ (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Initial Fiscal Note

Prepared by Pam Leary, State Comptroller
 Division Treasury
 Approved by Angela Rodell
Deputy Commissioner

Phone 465-2300
 Date/Time 2/24/12 1:00 PM
 Date 2/25/2012

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. HB 2

Analysis

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.

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Governor Sean Parnell
STATE OF ALASKA

January 31, 2012

Mr. Michael Burns
Executive Director
Permanent Fund Corporation
801 West Tenth Street, Suite 302
Juneau, AK 99801

Dear Mr. Burns,

This will follow up on our meeting of November 21, 2011, regarding the divestiture of Permanent Fund investments from Iran. The International Atomic Energy Agency (IAEA) recently placed Iran under heavy scrutiny for "serious concerns regarding possible military dimensions to Iran's nuclear program." And, the IAEA believes Iran has "carried out activities relevant to the development of a nuclear explosive device." Additionally, Iran's ruling government has made it clear that it does not believe that citizens of Israel should be allowed to live or peaceably pursue their own interests.

I understand some believe free markets, rather than government policy, should drive our investment choices, but this very real threat requires action. No free market exists when one nation builds a nuclear arsenal while it continually and steadfastly advocates for the eradication of another entire nation, with our own not so far behind.

In my view, our State's policy should now be to divest ourselves of investments with companies doing business in Iran. This sanction comes as a last resort – an option our State has historically refused when presented. However, the time to stand on the principles of life and liberty is at hand, and we must step up along with our country and other states. For these reasons, I am asking that to the extent permitted by law, you pursue a policy of divestiture of State resources from companies that do business in Iran or with the current ruling government of Iran.

Sincerely,

A handwritten signature in black ink that reads "Sean Parnell".

Sean Parnell
Governor



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Memorandum

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

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

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

Divestment of Alaska State Funds

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

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

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

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

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

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

HB 2 Iran Divestment
Credit: provided by Sen.
Wielechowski, Sponsor of SB 131

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

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

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

Notes: The market value of the Permanent Fund holdings is the value as of September 30, 2011.
Sources: Permanent Fund holdings and market value can be accessed at <http://www.apfc.org/home/Media/investments/09302011WebHoldings.pdf>. Pam Leary, state comptroller, Department of Revenue, provided the information on other state holdings. Ms. Leary can be reached at 907.465.3751.

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

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

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

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

Quick Facts about HB-241 and SB-131: Iran Divestment Legislation

HB-241 and SB-131: What would the bills do?

The goal of the proposed legislation is to keep the State of Alaska's investments from supporting the current Iranian regime. The Commissioner of the Department of Revenue would annually receive a list of companies that have invested an aggregate of \$20 million or more in Iran's oil and gas fields. If a company is listed, then the State must notify that company that it has 90 days to cure or explain these investments. If after 90 days, the company fails to adequately cure or justify the investments, the State's fund managers (for the Permanent Fund, PERS/TERS, etc.) would be required to liquidate the assets they hold for those companies within 90 days. Mutual funds that include companies that have invested in Iran's oil and gas sector are not subject to the asset liquidation.

What is the harm/why do we need this bill

Iran is listed by the U.S. State Department as a "State Sponsor of Terrorism" and is currently under U.N. sanction "because of [Iran's] sponsorship of terrorism, its refusal to comply with IAEA regulations regarding its nuclear program, and its human rights violations." Passing this legislation would weaken the Iranian regime, making it more difficult for them to export terror, harm U.S. personnel, and illegally pursue the development of nuclear weapons.

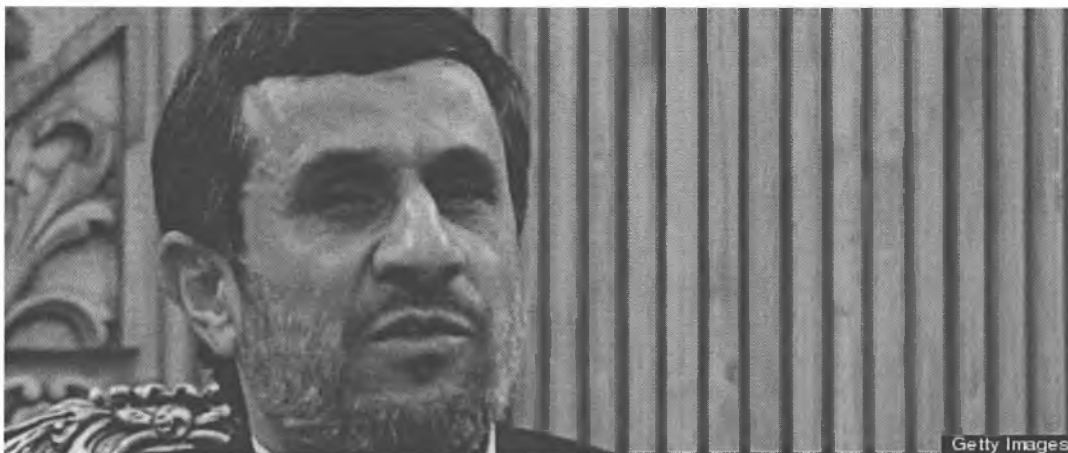
Would this hurt development/producers on the North Slope?

This legislation will not hurt oil production on the North Slope for three reasons. First, no company currently producing on the North Slope will likely be subject to divestment according to a recent Legislative Research Report. Second, even if a company is listed, that would not stop us from providing incentives for investment and production on the North Slope. This legislation targets the Iranian regime, not oil companies. Third, one only needs to look at Texas, which has divested its funds from Iran since 2008, to see that our oil and gas production will not be hurt from this legislation.

Will divesting from Iran be costly to the state?

No. We believe that fund managers currently have the tools and personnel needed to buy and sell a small number of stocks if they are asked to do so. A similar divestment bill from 2009 (HB-92) had two zero fiscal notes, since the bill could be carried out "through existing personal services and custodial resources." A recent Legislative Research Report says that about a tenth of one percent (\$79 million) of the State's total assets could be affected by the legislation. This money would not be lost; it would simply be reinvested elsewhere.

EU Iran Oil Embargo Sanctions 'Unprecedented'



DON MELVIN 01/23/12 02:40 PM ET Associated Press^{AP}

BRUSSELS — The European Union and Iran raised the stakes Monday in their test of wills over the Islamic republic's nuclear program, with the bloc banning the purchase of Iranian oil and Iran threatening to retaliate by closing the Strait of Hormuz, through which a fifth of the world's crude is transported.

The escalating confrontation is fraught with risks – of rising energy prices, global financial instability, and potential military activity to keep the strait open.

The EU's 27 foreign ministers, meeting Monday in Brussels, imposed an oil embargo against Iran and froze the assets of its central bank, ramping up sanctions designed to pressure Iranian officials into resuming talks on the country's nuclear program.

EU officials say the tighter sanctions are part of a carrot-and-stick approach, an effort to increase pressure while at the same time emphasizing their willingness to talk.

In Washington, Department of State Secretary Hillary Rodham Clinton and Department of the Treasury Secretary Timothy Geithner welcomed the EU decision, calling it "another strong step in the international effort to dramatically increase the pressure on Iran." In their joint statement, they said the EU sanctions, combined with earlier ones imposed by the U.S. and the international community, "will sharpen the choice for Iran's leaders and increase their cost of defiance of basic international obligations."

But the initial response out of Tehran, the Iranian capital, was harsh.

Ramin Mehmanparast, a spokesman for Iran's Foreign Ministry, called the economic sanctions "illogical and unfair" saying: "It is only understandable in the framework of propaganda and psychological war."

Mehmanparast was quoted by website of state broadcasting company as saying, "Pressure and sanctions against a nation that has a strong logic and reason for its policy is a failed method."

He said due to the world's long-term need for energy, "It is not possible to impose sanctions on Iran," which has huge resources of oil and gas.

And two Iranian lawmakers threatened that their country would close the strait in retaliation for the EU embargo.

Lawmaker Mohammad Ismail Kowsari, deputy head of Iran's influential committee on national security, said Monday the strait "would definitely be closed if the sale of Iranian oil is violated in any way."

The strait – just 34 miles (54 kilometers) wide at its narrowest point – runs alongside Iran and is the only way to get from the Persian Gulf to the open sea. Tensions over the potential impact its closure would have on global oil supplies and the price of crude have weighed heavily on consumers and traders. The U.S. and Britain both have warned Iran not to disrupt the world's oil supply.

After news of the EU move, benchmark crude for March delivery rose 90 cents on the day to \$99.23 a barrel in early morning European time in electronic trading on the New York Mercantile Exchange. Brent crude was down 35 cents at \$109.51 a barrel on the ICE futures exchange in London.

Many analysts doubt that Iran would maintain a blockade for long, but any supply shortages would cause world oil supplies to tighten temporarily. But Kowsari said that, in case of the strait's closure, the U.S. and its allies would not be able to reopen the route, and warned America not to attempt any "military adventurism."

An American aircraft carrier, the USS Abraham Lincoln entered the Gulf on Sunday without incident to conduct scheduled maritime security operations, and U.S. warships frequently operate in the Gulf. But when the carrier USS John Stennis departed the Gulf in late December, Iranian officials warned the U.S. not to return. The British Ministry of Defense said British and French warships joined the U.S. carrier group transiting through the Strait of Hormuz "to underline the unwavering international commitment to maintaining rights of passage under international law."

Russia's Foreign Ministry said the sanctions are a severe mistake likely to worsen tensions. "It's apparent that in this case there is open pressure and diktat, aimed at 'punishing' Iran for uncooperative behavior. This is a deeply mistaken policy, as we have told our European partners more than once," the ministry said in a statement. "Under pressure of this sort, Iran will not make any concessions or any corrections to its policies," it said.

The EU sanctions include an include an immediate embargo on new contracts for crude oil and petroleum products. Existing contracts with Iran will be allowed to run until July.

Last month, the U.S. enacted new sanctions targeting Iran's central bank and its ability to sell petroleum abroad, but it has delayed implementing the sanctions for at least six months, worried about sending the price of oil higher at a time when the global economy is struggling.

Other countries are steering clear of such measures altogether. China also does not support an embargo, and Japan's finance minister, Jun Azumi, has expressed concern about the effectiveness of U.S. sanctions on Iran – not to mention their potential impact on Japanese banks.

Some 80 percent of Iran's foreign revenue comes from oil exports and any sanctions that affect its ability to export oil would hit its economy hard. With about 4 million barrels per day, Iran is the second largest producer in OPEC.

"It means that we will paralyze, bit by bit, Iran's economic activity and keep the country from using a major part of its resources," said French Foreign Minister Alain Juppe. "You can be skeptical, but it is better than making war."

At the heart of the dispute is international unease about Iran's nuclear program. Iran says its nuclear program is peaceful, but the United States and other nations suspect it is trying to build nuclear weapons. Iran is now under several rounds of U.N. sanctions for not being more forthcoming about its nuclear program.

Late Monday, British Prime Minister David Cameron, German Chancellor Angela Merkel and French President Nicolas Sarkozy issued a joint statement urging Iran to suspend its sensitive nuclear activities.

"Our message is clear," the statement said. "We have no quarrel with the Iranian people. But the Iranian leadership has failed to restore international confidence in the exclusively peaceful nature of its nuclear program. We will not accept Iran acquiring a nuclear weapon."

Iran's denials of military intent have utterly failed to convince EU officials.

"The recent start of operations of enrichment of uranium to a level of up to 20 percent in the deeply buried underground facility in Fordo near Qom further aggravates concerns about the possible military dimensions to Iran's nuclear program," the foreign ministers said in a statement Monday.

That accelerated enrichment is in violation of six U.N. Security Council resolutions and 11 resolutions by the board of the International Atomic Energy Agency, "and contributes to rising tensions in the region," the statement said.

British Foreign Secretary William Hague called the embargo part of "an unprecedented set of sanctions."

"I think this shows the resolve of the European Union on this issue," Hague said.

The EU also decided to freeze the assets of the Iranian central bank. Together, the two measures are intended not only to pressure Iran to agree to talks but also to choke off funding for its nuclear activities.

Before Monday's decision, negotiators worked hard to try to ensure that the embargo would punish only Iran – and not EU member Greece, which is in dire financial trouble and relies heavily on low-priced Iranian oil.

The foreign ministers agreed to a review of the effects of the sanctions, to be completed by May 1. And they agreed in principle to make up the costs Greece incurs as a result of the embargo.

Raf Casert in Brussels, Nasser Karimi in Tehran, Matthew Pennington in Washington, and Gregory Katz in London contributed to this report.

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WSJ.com

MIDDLE EAST NEWS | FEBRUARY 6, 2012, 1:43 P.M. ET

U.S. Toughens Sanctions on Iran's Central Bank

By TENNILLE TRACY

WASHINGTON—The U.S. handed down a fresh set of sanctions on the Iranian government Monday in the latest bid to pressure Tehran to end its nuclear program.

The White House announced Monday it was freezing all property owned in the U.S. by Iran or the Central Bank of Iran. President Barack Obama, in an executive order signed Sunday, said the Central Bank of Iran was concealing transactions of sanctioned parties and that Iran was not making progress in halting money laundering.

The U.S. Treasury Department, which is responsible for enforcing sanctions, said in a statement Monday that "Iran now faces an unprecedented level of pressure" and that the new sanctions confirms Iran "will face ever-increasing economic and diplomatic pressure until it addresses the international community's well-founded and well-documented concerns regarding the nature of its nuclear program."

Western governments are trying to tighten the screws on Iran amid growing concern that the country is trying to develop nuclear weapons. Iran has said that its nuclear program is for peaceful means.

The U.S. is already implementing sanctions that aim to cut off Iranian oil exports, a major source of revenue for Iran's government. Top U.S. officials recently met with Japanese and Chinese leaders, who are being asked to cut off Iranian crude oil imports.

The European Union also approved an embargo on Iranian oil that goes into effect in July. Collective efforts to block Iran oil shipments have forced Asian and European countries to look for alternative supplies from Saudi Arabia, Russia and other producers.

The sanctions announced Monday are likely to escalate tensions with Iran, which recently threatened to block off the Strait of Hormuz, a valuable waterway near the Persian Gulf that carries about 20% of the world's oil shipments.

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National Post

Sanctions against Iran may destabilize, topple regime by 'ratcheting up hassle factor': expert

Peter Goodspeed Jan 28, 2012 – 5:29 PM ET



HB 2 Iran Divestment

Credit: provided by Sen.

Wielechowski, Sponsor of SB 131

A handout picture obtained from the Iranian president's office shows Iranian President Mahmoud Ahmadinejad delivering a speech during a visit to the city of Kerman, 1,000km southeast of Tehran, on January 26, 2012.

The 9/11 terrorist attacks drove Mark Dubowitz, a young business whiz who worked as a Bay Street lawyer and high-tech venture capitalist in Toronto, to change careers.

He moved to Washington and became executive director of the Foundation for the Defense of Democracies (FDD), an aggressive new neo-conservative think-tank that helps shape U.S. thinking on war, terrorism and the Middle East.

Now, he is a recognized international expert on developing sanctions that might cripple Iran's oil industry.



Yuri Gripas

Mark Dubowitz is at his office in Washington on January 26, 2012.

Many of the ideas generated over the past five years by the FDD and Mr. Dubowitz have made their way into the international sanctions package now being applied to Iran — restrictions on gasoline sales, curbed investments in natural gas development, embargoed oil exports, targeted sanctions aimed at its Revolutionary Guards Corps and bans on business dealings with its Central Bank.

“Oil is the lifeblood of the regime,” Mr. Dubowitz said. “Iran is essentially a one-crop country: They sell oil. It also has the second-largest natural gas resources in the world, but it can’t get it out of the ground because of investment restrictions. It can’t distribute it. It is actually a net importer of gas. At the end of the day, the Iranians sell oil.”

That’s the main source of Iran’s strength and its Achilles’ heel.

“I think that it is probably very unlikely that economic pressure is going to change [Iran’s Supreme Leader Ali] Khamenei’s commitment to building a [nuclear] bomb,” Mr. Dubowitz said.

“Men who talk about crushing the ‘enemies of God’ won’t give up their enriched uranium because transaction costs have increased. The acquisition of the bomb is now probably inseparable from the ruling elite’s religious identity.”

But sanctions that cripple Iran’s oil industry and rapidly deprive its government of crucial revenue could destabilize the country to a point where the regime might be in danger of falling.

“Designing sanctions to make Khamenei relent is a delusion,” Mr. Dubowitz wrote recently.

“Sanctions that could contribute to popular unrest and political tumult are not. The Great Arab Revolt and its forerunner, the Iranian summer of 2009, were propelled by profound frustration as well as indignation at tyranny. A democratic revolution might be reborn.”

In the past five years, sanctions are estimated to have cost the government in Tehran dearly. It has lost more than US\$60-billion in energy investment and US\$14-billion in oil sales; gasoline exports to Iran have been cut by 90%, while an estimated US\$4.4-trillion of Iranian natural gas has been prevented from reaching markets.

More recent sanctions imposed by Washington on companies doing business with Iran’s Central Bank have made it enormously complicated for Iran to receive payment for its oil, particularly from China, India and South Korea.

But Mr. Dubowitz is still looking for ways to increase the pressure.

“My whole theory is that the goal of sanctions is not to impose a complete embargo on Iranian oil or to cut Iran off completely from international global markets, but to significantly ratchet up the hassle factor in doing business with Iran and to persuade ‘white-hatted companies’ from doing business with Iran, leaving the ‘black-hatted companies’ who would never comply with sanctions to negotiate significant concessions from the Iranians in the form of discounts on the price of oil or premiums on the supply of gasoline,” he said.

“That’s what the Chinese are doing now. They have literally and figuratively got the Iranians over a barrel so they are driving for discounts and better prices for oil. On the other side of it, the Chinese are selling the Iranians gasoline and charging them 25% to 30% premiums.”

Similarly, there are banks around the world that are willing to do business with Iranian banks controlled by the Revolutionary Guard Corps and the Central Bank of Iran, but they are being forced to pay significantly for the increased risks.

“The ultimate goal is to see sanctions that aren’t airtight, because they can never be airtight, but to see sanctions designed in a way that significantly drains the Iranian treasury of its hard earnings,” he said.

“Sanctions should never be thought of as a ‘silver bullet.’ But they can be thought of as ‘silver shrapnel’ — part of a comprehensive strategy. I think they can significantly wound the regime.”

Mr. Dubowitz, who was born in South Africa and raised in Toronto, studied at the University of Western Ontario and McGill University, before taking a law degree and a master’s of business administration at the University of Toronto. After he moved to Washington, he picked up a master’s in international public policy from John Hopkins University’s School of Advanced International Studies.

He spent eight years working as a lawyer and venture capitalist in Toronto, focusing on fundraising for early-stage technology companies. He was also director of international business development for Doubleclick, a global Internet advertising company that was ultimately purchased by Google, and director of corporate development and manager of European and Asian operations for FloNetwork, an email messaging marketing company later bought by Doubleclick.

In his work at the FDD, Mr. Dubowitz said he found “the intersection of foreign policy, law and business.”

“I had experience in all three,” he said. “I wasn’t some PhD who spoke Farsi and understood the inner workings of the theocratic regime. I wasn’t an award-winning economist or an international trade lawyer. I didn’t have particular depth in any one issue or area, but I had a pretty good experience in all three and an ability to integrate them.”

Using that experience, he has produced eight reports that provide research and analysis in support of strong, broad-based energy sanctions on Iran.

Six of those reports are documents that have been shared only with the Obama administration and selected congressional offices.

“There are a lot of people who deserve credit for what has already happened,” Mr. Dubowitz said.

“There are members of Congress and their particular, hard-working staff and people within the administration and internationally. It’s one of those rare issues where there is broad and deep bipartisan support, which is rare in Washington, and there is a really impressive international coalition.”

But time may be running out for sanctions to work and convince Iran to abandon its quest for nuclear weapons.

“I think sanctions have to impose severe economic pressure on this regime over the next 12 months or even sooner. If we are in June or July this year and these oil market sanctions, for whatever reason, are not leading to a significant drop in Iranian oil revenues, then we are in a situation where the range of peaceful alternatives is almost exhausted.”



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

December 1, 2011

The Honorable Carl Levin
Chairman
Committee on Armed Services
United States Senate
Washington, D.C. 20510

Dear Chairman Levin:

I am writing to address amendment 1414 to S. 1867, the National Defense Authorization Act for Fiscal Year 2012, regarding the imposition of sanctions on foreign financial institutions that conduct business with the Central Bank of Iran (CBI).

The Obama Administration's determination to prevent Iran from acquiring nuclear weapons is unwavering. We are resolved to build and sustain as much pressure as necessary to bring Iran to meet its international obligations and address the international community's grave concerns with its nuclear program. I know that you and your colleagues in the Senate share this commitment.

We understand that this amendment was offered in this spirit. However, I am writing to express the Administration's strong opposition to this amendment because, in its current form, it threatens to undermine the effective, carefully phased, and sustainable approach we have undertaken to build strong international pressure against Iran. In addition, the amendment would potentially yield a net economic benefit to the Iranian regime.

We have steadily increased the pressure on Iran by tightening sanctions, closing loopholes, and encouraging other countries to do the same. Congress has been absolutely critical in providing some of the tools that we have used to accomplish that goal, and we are seeing genuine results. The collaborative approach the U.S. has taken with our international partners has led many to impose sanctions on Iran that were not even contemplated three years ago, including on Iran's energy sector.


Iran's greatest economic resource is its oil exports. Sales of crude oil line the regime's pockets, sustain its human rights abuses, and feed its nuclear ambitions like no other sector of the Iranian economy. We are committed to doing as much as possible to reduce Iran's oil revenue while concurrently working to stabilize global oil markets. Today, the United States does not permit the import of Iranian crude. Other countries have already begun to reduce their consumption of Iranian crude and the Administration is working hard to discourage anyone from taking advantage of the responsible policies of these countries. Our closest allies are seriously considering curtailing their own crude purchases altogether in the near future and we are doing everything possible to encourage them to make the right decision.

HB 2 Iran Divestment
Credit: provided by Sen.
Wielechowski, Sponsor of SB 131

However, as currently conceived, this amendment threatens severe sanctions against any commercial bank or central bank if they engage in certain transactions with the CBI. This could negatively affect many of our closest allies and largest trading partners. Rather than motivating these countries to join us in increasing pressure on Iran, they are more likely to resent our actions and resist following our lead – a consequence that would serve the Iranians more than it harms them. Further, there is a substantial likelihood that this amendment, particularly if passed into law at this time and in its current form, could have the opposite effect from what is intended and increase the Iranian regime's revenue, literally fueling their suspect nuclear ambitions. The Administration is prepared at your convenience to share the details of our analysis on this point, in a classified briefing.

The Obama Administration strongly supports increasing the pressure on Iran significantly, including through properly designed and well-targeted sanctions against the CBI. The Administration has several legislative proposals to both enhance and expand the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA) and to strike at the CBI that we would like to discuss with you and your colleagues. We intend to work with our partners to achieve the objectives of this amendment, but in a fashion that we believe will have a greater and more sustainable impact on Iran. We ask that you continue to work with us on ways to improve this amendment and to consider other, more immediate and more effective steps that we can take to accomplish our shared goals while we work with our partners to bring about the effects this amendment is intended to achieve.

Sincerely,



Timothy F. Geithner