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MEMO

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Divestment: An Important Tool in Preventing Nuclear Iran

The international community must continue to use every diplomatic, economic and political tool to pressure Iran to halt its nuclear program. While the United States and U.N. Security Council have imposed increasingly tough sanctions on Iran, state-level campaigns to divest public pension plans from companies investing in Iran's oil and natural gas sector provide another means to pressure the regime. Divesting from these companies would reduce the risk to American shareholders while sending a strong signal to Iran that American states will not provide funds to help Iran advance its nuclear weapons pursuit and support terrorism.

Divestment should be a key part of the diplomatic, economic and political efforts aimed at preventing a nuclear Iran.

- With Iran continuing to defy the international community's demand to stop enriching uranium, it is more important than ever that the United States and its allies take every possible step to deprive Iran of the money it needs to pursue nuclear weapons.
- The U.N. Security Council has passed five resolutions demanding a halt to Iran's nuclear program and putting sanctions in place, Congress is considering a comprehensive bill that strengthens U.S. sanctions and the administration is working to close off the international banking system to Iran.
- State-level campaigns aimed at divesting public pension funds from companies investing in Iran's oil and natural gas sector are an important way for elected officials to make clear that they do not want their citizens' retirement funds to help Iran pursue nuclear weapons and fund terrorism.
- While U.S. companies have been barred by Executive Order from directly investing in Iran since 1996, American citizens, including state pension managers, can still buy the stocks of foreign companies invested in Iran that are not covered by the order. State divestment legislation partially closes this loophole by prohibiting public pension funds from investing in some foreign companies that do business in Iran's oil and gas sector.
- There is an established precedent for using financial pressure to achieve moral ends. In the 1970s, 1980s and early 1990s, governments and private investors orchestrated a comprehensive divestment campaign that helped prod South Africa to abolish apartheid.

Investing in companies conducting business in Iran poses a major risk to shareholders and helps fund Tehran's nuclear weapons program.

- The Securities and Exchange Commission (SEC) determined in 2001 that companies with business operations in terrorist-sponsoring states are exposed to a special risk category known as Global Security Risk, or the financial risk associated with damage to the corporation's share value and reputation from their business ties to these states.
- Under the Iran Sanctions Act, passed by Congress in 1996, all entities that have invested more than $20 million in any given year in Iran's oil and natural gas sector since August 5, 1996, are liable to sanctions.

- Because of economic sanctions, embargos and loan restrictions imposed by the United States and the U.N. Security Council, companies invested in and working with Iran’s oil and natural gas sector pose a growing fiduciary risk for state pension funds that have invested in such firms.
- Companies invested in Iran’s oil and natural gas sector, which accounts for 80 percent of the country’s hard currency, provide the cash needed by Iran to fund its nuclear weapons pursuit and support for terrorism.

Divestment from Iran could deter future investment and pressure the regime to halt its destructive behavior.

- Iran is already faced with growing difficulties: diminishing foreign investments, declining oil production, rising domestic energy consumption, international isolation, domestic economic instability and political unease. Divestment from Iran would pose further problems for the regime and could pressure it to halt its nuclear activities.
- Efforts to divest from holdings in companies doing business in Iran’s petroleum and natural gas sector could ultimately drive other shareholders, and the executives of those firms, to re-evaluate their investments and take them elsewhere, thus causing immense hardship for the regime.
- The most effective campaigns would focus specifically on Iran’s oil and natural gas sector. Such a move would hit the most important part of Iran’s economy and force the regime to re-examine its nuclear pursuit.

Congress and numerous states have already taken steps to divest from Iran.

- On Oct. 14, the House overwhelmingly passed the Iran Sanctions Enabling Act (ISEA), which authorizes state and local governments to divest from companies investing in Iran's petroleum and natural gas sector. The bill now awaits Senate action.
- ISEA (H.R. 1327) also authorizes divestment from any company providing tankers or any product used to construct or maintain pipelines that transport Iranian oil or liquefied natural gas, and targets any financial institution that extends $20 million or more in credit to any entity investing in Iran’s energy sector.
- Since companies investing more than $20 million are already subject to sanctions under U.S. law, states have a fiduciary responsibility to consider the financial consequences of holding stock in such companies. ISEA protects fund managers who divest from such companies from potential lawsuits.
- To date, 19 states plus the District of Columbia have either passed legislation or adopted policies requiring state pension funds to divest from companies investing in Iran’s energy sector. States that have already divested from Iran’s energy sector include the top five most populated states: California, Texas, New York, Florida and Illinois.