

Testimony of Congressman Ted Deutch before the
Senate Committee on Homeland Security and Governmental Affairs

May 12, 2010

Thank you Chairman Lieberman and Ranking Member Collins for inviting me to participate in this important hearing.

The Iranian nuclear weapons program poses a grave and growing national security threat to the United States, risks a nuclear arms race in the Middle East, threatens our allies in Europe, the Middle East and beyond, and poses an existential threat to our critical ally Israel.

The State Department has continually declared Iran to be the chief sponsor of international terrorism, and Iran has consistently violated international law, its own international agreements, and it continues to defy the international community with its continued pursuit of nuclear weapons. In addition, human rights abuses are significantly rising in Iran, and the denial of freedom to everyday citizens has only grown since last year's fraudulent presidential election. I am gratified that the House and Senate have now both passed new Iran sanctions legislation, and I firmly expect strong language to emerge from the conference committee before the end of this month.

In addition, I support the Obama Administration's efforts to move the United Nations Security Council to enact punishing new sanctions, which in turn should encourage the E.U. to take stronger action against Iran's nuclear weapons ambitions.

As these federal and international efforts unfold, it is important to note that states and local governments have been at the forefront of the Iran sanctions movement for years, highlighted by dramatic successes such as those in my state of Florida. These state efforts provide an excellent roadmap for Congress on what is possible and what works, as we enact new federal economic sanctions on the Iranian regime.

I was elected to the Florida State Senate in 2006, and recognizing the threat of the Iranian nuclear program, I was determined to use every tool at my disposal to put pressure on the regime. Building on divestment legislation from the 1980's that was successful in helping to end apartheid in South Africa, I crafted legislation that would prevent the pension funds of Florida's workers from investing in companies that conduct business within the energy sector of Iran. Our focus on the energy sector was consistent with the existing framework established by the Iran Sanctions Act (ISA) which targeted any company that invests more than \$20 million toward Iran's efforts to develop its petroleum resources. The energy sector is critical because it is this profitable sector of the Iranian economy that funds the regime's very expensive nuclear weapons program.

In 2007, with the unanimous support of both Republicans and Democrats, Florida became the first state in the nation to successfully pass Iran divestment legislation. As the author of the Protecting Florida's Investments Act (PFIA), I crafted a procedure for identifying and engaging those 'violating' companies who currently invest in the energy sector of Iran above the thresholds of the PFIA and the ISA. The Florida State Board of Administration, or SBA, subsequently worked with experts from across the country to develop an effective course of action for divesting the nation's fourth largest pension fund.

Three years later, it is clear that this effort has been a dramatic success. Thus far, the state of Florida has divested nearly \$1.5 billion from 24 companies that do (or did) business in the Iranian energy sector, including Royal Dutch Shell, Total, ENI and many others. This is \$1.5 billion from Florida alone. But no public worker or retiree, from any state or local government or from any police force, fire department or school district should see his or her retirement savings invested in Iran's nuclear weapons program. Divestment must be expanded, and the companies must be identified.

The Florida Legislature passed another law in 2009 requiring the SBA to identify and offer at least one "terror-free" investment plan. This will give participants in Florida's defined contribution plan the ability to ensure that their money will not be invested in terror-sponsoring states. Our law is nearly identical to Chairman Lieberman's important efforts to offer a similar "terror-free" option within the Thrift Savings Plan for federal

workers. I commend you, Mr. Chairman, for championing this effort. American citizens can wield great economic power individually in the battle against terror, and they should be given the opportunity to exercise that power.

Aggressive state government divestment, like we enacted in Florida, sends a clear message that the American people will not support companies who continue to invest in and engage with the dangerous Iranian regime. It is no surprise that companies do not often respond to moral pressure alone. We need to hit them hard in their pocket book and on their balance sheet. We need to show them that their stock prices will be affected if their actions encourage Iran's nuclear weapons ambitions. Divestment has provided, and will continue to provide, crucial financial pressure that will help to convince companies to stop doing business with Iran. Already, I am aware of major international corporations that have decided to pull out of Iran based in part on the pressure of divestment. One recent example is the oil and gas behemoth ENI, Italy's largest industrial company, which announced on April 29th that it would not extend contracts in Iran due to the pressure of divestment.

While 19 other states and the District of Columbia have passed similar divestment policies, Florida is the only state to have successfully identified, named, and published a list of the violating companies – followed by a full and successful divestment from these companies. Therefore, I would urge Congress to look to Florida as a model for how to identify those companies who are doing business in Iran in contravention of international security. Once those companies are identified, immediate economic pressure can be brought to bear at the federal level.

Florida's State Board of Administration, the entity that invests on behalf of the Florida Retirement System, is responsible for complying with the terms of the PFIA. On a quarterly basis, the SBA assembles and publishes on their website a list of violating companies.

SBA identifies potentially violating companies through a thorough and multi-source research effort which relies on SBA analysis along with independent external research providers. Identified companies are researched using SEC reports, industry analysis,

government agencies including the SEC's Office of Global Security Risk, the Treasury Department's Office of Foreign Asset Control, CRS and NGO reports, along with other publicly available information. The SBA then sends written notification to any company found to have active business operations with Iran informing the company it is now subject to divestment, and that it has 90 days to cease such activity.

Each quarter, the SBA issues a report that includes a summary of correspondence with engaged companies; a listing of all investments sold, redeemed, divested, or withdrawn; a listing of all prohibited investments; a description of any progress finding "terror-free" investment options; and a list of all publicly traded securities held directly by the state. Those reports are published at the SBA's website, www.sbafla.com.

In only a matter of months, Florida published a verifiable and comprehensive list of companies and did so with a small budget and minimal staffing levels. The federal government can easily match and replicate the actions of Florida to create and maintain its own list of violating companies that are presently doing business in Iran.

I am confident the legislation that emerges from the House/Senate conference will now include a requirement that the Administration provide a list of all companies that are in current violation of the ISA, including the requirement that if the Administration chooses to waive the sanctions, an explanation must be sent to Congress.

In advance of these new legislative requirements, however, the Administration should waste no time in creating its own definitive list so that the American people can know immediately which companies are choosing to risk international security by investing in Iran. It would be highly imprudent to waste time by waiting until after the new sanctions law takes effect to compile this important list – when in fact that list can be created quickly and easily today. In Florida, this research is done by the pension fund administrators and their outside research consultants. I am aware the State Department currently has jurisdiction over this area, but it may be worth noting that the Energy Department could assist in the publication of such a list, as these are ultimately factual findings, and the Department of Energy has a long track record of publishing similar data

within their detailed reports that document energy activity in specified countries including Iran.

As I have detailed, identifying companies investing in Iran can be readily accomplished using currently available resources. However, if the United States is serious about shining a light on companies that continually defy U.S. law, we must do everything in our power to simplify this process. The easiest way to gather this information is to mandate companies to divulge their business activities in Iran. I would like to commend SEC Chairman Mary Schapiro for her recent comments in support of strengthening the disclosure requirements for companies engaged in such dealings with Iran. It is apparent to me and a growing number of observers that, under U.S. securities law, doing business in Iran should properly be considered a material event that triggers mandated disclosure on SEC filings. Should the SEC formally mandate that Iranian business interests are a material event, companies would in effect self-disclose whether they are violating companies for purposes of the ISA and state and local divestment laws. Stricter SEC disclosure requirements have also been promoted by the SBA and the not-for-profit group, United Against Nuclear Iran, who recently circulated a letter to myself and Senator Lieberman favoring this new understanding of materiality in the context of securities law. I would also respectfully ask the Members of this Committee to join the call for more complete disclosure requirements. A company's decision to do business in Iran at a time when the United Nations, the European Union, and this Congress are debating various forms of economic sanctions, certainly makes any such Iranian investment material and worthy of full notice to the company's shareholders and to the public.

Once the Administration has easily identified the full scope of the violating companies under the measures I have already discussed, we have additional tools at the state and federal level to ratchet up pressure on Iran. We must cease awarding any government contracts to companies that invest in Iran. Before my election to this Congress, I wrote and introduced legislation in the Florida Senate that would have barred the State of Florida from entering into any contracts with companies doing business in the Iranian energy sector. My colleague, Congressman Ron Klein, has written tough and important

legislation in the House that is included in the comprehensive Iran sanctions package currently in conference committee.

As a recent New York Times article confirmed, over 107 billion dollars of federal government money has been awarded to companies appearing to be in violation of the Iran Sanctions Act. Further, as the most recent GAO report states, the federal government spent almost 880 million dollars in the last five years contracting with companies currently doing business in the Iranian energy sector.

This is unacceptable, and I am gratified that we are on the verge of passing legislation to ban this practice going forward. Companies that do business in the Iranian energy sector – the very sector that supports the ruling regime, the Revolutionary Guard and the illegal nuclear weapons program – should never contract with the United States government.

Through both Democratic and Republican Administrations, the sanctions regime under the ISA has essentially lay dormant. I am certain that Congress did not repeatedly enact thoughtful and complex Iran sanctions for them never to be used. This practice must end, and it is long past time for these sanctions to be utilized as designed.

I am aware in the world of international diplomacy it is not polite to name names. I understand that foreign nations don't want us telling their companies when and where to invest, but the stakes are now too high for diplomatic niceties to trump international security. It is time for our government to name and publish the companies that are investing in Iran. I am aware that many of these companies are based in countries that are our allies. Nevertheless, there is no greater threat to global security than the Iranian regime's quest for nuclear weapons, and it is time we put proper pressure on our friends, allies, and international competitors alike to end their investments in Iran.

We are making progress, led in great part by the incredible work of Stuart Levey in the Treasury Department. In fact, in recent days, more and more companies are cutting ties with Iran. Four out the five largest suppliers of refined petroleum to Iran have ceased their operations with Iran. The top four accounting firms are also pulling out.

The government should be using every power at our disposal to encourage, badger, demand, entice, and sanction companies to remove their business interests from Iran. Now Congress must act, and it is time to make these companies choose – either you do business with the United States or you do business with Iran – there is no middle ground. If you want access to the established US banking system, you cannot enter it with tainted Revolutionary Guard dollars.

We are at a crucial moment in history, and time is not on our side. For many years, we waited for diplomacy to take hold and for Iran to forgo its nuclear weapons program. Instead, Iran is spinning more centrifuges and announcing the opening of new nuclear facilities, while their President declares his intent to wipe Israel off of the map and publically envisions a world without America. We will have failed if our discussion shifts toward containment and how to deter Iran from using its nuclear weapons. Our mission is clear – we must prevent Iran from acquiring nuclear weapons. Therefore, we must act now before it is too late for economic sanctions to deliver genuine results. Florida has shown that it is possible to identify violating companies and to exert real economic pressure. I now urge Congress and the Administration to do the same. We must all focus our efforts on the singular premise of preventing a nuclear-armed Iran. Thank you, Mr. Chairman.