

**TESTIMONY OF ROGER W. ROBINSON, JR.  
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AT THE NATIONAL SECURITY COUNCIL**

**BEFORE THE**

**SUBCOMMITTEE ON TERRORISM, NONPROLIFERATION AND TRADE  
OF THE HOUSE COMMITTEE ON FOREIGN AFFAIRS**

**RAYBURN HOUSE OFFICE BUILDING  
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Thank you, Mr. Chairman and members of the Committee, for the opportunity to appear before you today. I am President and Chief Executive Officer of Conflict Securities Advisory Group, Inc. (CSAG), an independent, impartial research provider specializing in the field of global security risk management and terror-free investing. For some 30 years, I have been evaluating the nexus between international security concerns and global finance. The views expressed herein are my own and do not necessarily reflect those of CSAG.

In the way of background, I am an international banker by training, having served as a Vice President in the International Department of the Chase Manhattan Bank with responsibility for Chase's loan portfolios in the former Soviet Union, Eastern and Central Europe and Yugoslavia. I was also an assistant to then-Chase Chairman David Rockefeller. In government, I served as Senior Director of International Economic Affairs at the National Security Council from March 1982 to September 1985 and later served as Chairman of the Congressional U.S.-China Economic and Security Review Commission until January 2006.

I have been requested by the Committee to provide testimony with respect to the potential transfers of American taxpayer dollars by International Financial Institutions (IFIs), notably the International Monetary Fund, to terrorist-sponsoring states like Iran and Sudan as well as other countries of security concern. I have also been asked to comment on the activities of foreign firms that are simultaneously partnering with state-sponsors of terror while holding U.S. government contracts, or are recipients of U.S. taxpayer "bail-out" funds. Despite the efforts of the U.S. Treasury Department and other government agencies to curtail financial flows (both overt and covert) to bad actors, these regimes continue to benefit from the lawful inflows of hard currency and external financing. Having focused on this intersection of issues for many years, I have several observations that I would like to share with this Committee.

First, it is useful to understand that the principal source of financial and economic support for Iran and certain other countries of concern are publicly-traded foreign companies. Most Americans hold at least some of these companies in their retirement accounts and other investment portfolios, contributing to the funding capabilities of these corporations in a private sector venue that has typically been outside the scope of government oversight in Washington. Chairman Sherman has certainly been a leader in addressing this concern. Without these firms, hydrocarbons would largely stay in the ground or locked in the sea-bed, heavy manufacturing would be difficult to impossible, electricity and communications would be more episodic and primitive, and the list goes on.

Second, as referenced by other witnesses, the International Monetary Fund relies on the U.S. government as its single largest contributor and for underwriting 37.1 billion in Special Drawing Rights, equal to about \$58.2 billion. In an effort to better manage the spread of global financial turmoil, the U.S. has now pledged some \$100 billion in additional funds for the IMF's "New Arrangements to Borrow." This summer, the IMF will also likely call for a general allocation of \$250 billion in SDRs. Iran, Burma, Sudan, Syria and Zimbabwe, as members of the IMF, would see their SDR accounts at the IMF increased by tens of millions, or more, as a result – in the case of Iran, by reportedly more than \$1.7 billion. These SDRs may be exchanged for hard currency. The direct cash infusions potentially provided by the IMF and other IFIs to these governments is a legitimate security concern, particularly as these funds are undisciplined and easily divertible (as opposed to project finance or trade transactions).

Third, a number of private companies that have been awarded U.S. federal contracts are also actively operating in, or otherwise connected to, countries of security concern. We have calculated that among the top 100 recipients of federal contract awards for FY 2009, roughly 20 have engaged in some kind of business activity within the borders of a state-sponsor of terrorism during the past three years.<sup>1</sup> Given the dearth of attention to conditioning the security-relevant activities of companies that receive federal contracts (by way of the General Services Administration's application process), such business operations will likely increase as economic activity recovers in emerging markets.

This connection between tax dollars and contract awards to corporations with ties to countries like Iran has been exacerbated by Washington's TARP (Troubled Asset Relief Program) and TALF (Term Asset-Backed Securities Loan Facility) outlays undertaken thus far. These programs involve an unprecedented sum of federal dollars available to the private sector and are offered with a similar lack of security-minded conditionality regarding the recipient's business activities overseas. For example, a prospective borrower interested in participating in TALF must do so through a primary dealer. A primary dealer is required to review an application along with the Federal Reserve Bank

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<sup>1</sup> Some such activity is humanitarian in nature and/or has been recently halted by the company in question (ref: CSAG's *Global Security Risk Monitor* online database, June 3, 2009).

of New York and then determine if a prospective borrower is eligible. Nowhere in this process, however, is there any due diligence into the recipient's business activities in U.S.-sanctioned states. We understand that several recipients of such funds have such ties, as do certain primary dealers.

The range of direct and indirect infusions of cash into firms helping provide economic and financial support to terrorist-sponsoring regimes and human rights abusers is fundamental to some of the questions being addressed today.

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As part of my contribution to today's hearing, I wanted to emphasize some of the private sector arguments for companies to implement new security-minded due diligence procedures that bring a self-policing dimension to their activities in a way that mitigates the valid risks involved. The U.S. Government, and the U.S. Congress, can play a catalytic role in supporting corporate behavior modification. Indeed, these efforts need to transcend "name and shame" tactics and should comprise the mitigation of legitimate business risk.

For these reasons and others, some foreign firms have already demonstrated positive behavioral and procedural change. Companies involved in the sale of gasoline to Iran, which have come to the attention of Chairman Sherman and this Committee, have recently reconsidered their business relationship with Iran. Media sources reported on June 4 that Reliance Industries, for example, would halt shipments of gasoline to Iran in order to protect its access to the U.S. market. This wise corporate governance decision by Reliance may be replicated elsewhere. After all, there are hundreds of publicly-traded companies that maintain business operations and investments in vital Iranian industries as well as those of other countries of concern.

Based on research conducted by my firm, Conflict Securities Advisory Group, we understand there to be over 350 publicly-traded companies worldwide with active, non-humanitarian business ties to Iran. No doubt, many of these have a presence of some sort in the United States, whether via contracts with the U.S. government or operations in this country. This pattern is evident in several other countries of concern mentioned in the course of this hearing. Our research shows that some 200 publicly-traded companies have active ties to Sudan, about 180 have active ties to Syria, and, roughly 50 have operations in, or with, North Korea. On the whole, over 500 public firms have active ties to at least one state sponsor of terrorism.<sup>2</sup>

This research is available for the performance of due diligence into the business operations of public companies, many of which are held in portfolio by both individual and institutional investors that are increasingly intent on scrutinizing their investments for

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<sup>2</sup> Data provided by CSAG's *Global Security Risk Monitor*

such security-related concerns. Accordingly, reliable data is no longer an impediment to action.

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*What more can be done?* I have several recommendations for this Committee.

(1) Strengthen corporate awareness and increase the overall profile of what the U.S. Securities and Exchange Commission (SEC) defines as “global security risk” (i.e., the risk to share value and corporate reputation stemming from business ties to U.S.-sanctioned states). This could be accelerated by mandating that federal contractors report on risk mitigation steps taken with regard to any ties to U.S.-sanctioned states in the course of their application process.

In addition to emphasizing the relevance of such business activity to federal procurement decisions, this process might, at minimum, urge the establishment of global security risk management programs, much like export controls already in force. The SEC determined as early as May 2001 that publicly-traded firms that have business operations in U.S.-sanctioned countries, such as Iran, are exposed to asymmetric global security risk, even though such activities are legal. Among the risks are: new U.S., U.N., or other official sanctions that could affect a company’s operations; consequential negative publicity; law suits by victim’s rights groups; and opposition-oriented shareholder activism, including divestment campaigns. This proven financial risk can be compounded by firms doing business in more than one terrorist-sponsoring state and/or in security-sensitive sectors of these economies.

(2) Instill a sense of “America risk”, among foreign companies in particular, for those firms partnering with Iran and other terrorist-sponsoring states. Leveraging the SEC’s Office of Global Security Risk and its special mandate would likely get the attention of those firms with a significant footprint in the United States.

(3) Highlight Iran’s use of foreign correspondent banks that permit money transfers, issuance of letters of credit, interbank deposits and related financial activity with most, if not all, of its major trading partners, despite U.S. and/or U.N. financial sanctions in place against major Iranian banks (e.g., Sepah, Melli, Mellat, Saderat, etc.). In addition, attention should be given to investment funds such as that created by Tehran to support Iran’s Pars Oil and Gas Company.

(4) Capitalize on existing private investment initiatives in the markets by mandating investment options for federal employees that take into account these concerns. As a result of the heightened risk factors outlined above, a number of fiduciaries have indicated a desire to exercise greater caution and due diligence with respect to investing in public companies with operations in the terrorist-sponsoring states.

(5) Support state-led initiatives such as Florida's recently executed law, which provides investment alternatives for state employees sensitive to security concerns.

(6) Strengthen the breadth and intensity of Treasury Under Secretary Stuart Levey's efforts to pressure foreign governments and companies to adhere to U.S. banking standards regarding anti-money laundering and terrorist finance activities. In addition, encourage the Obama Administration, for the first time, to enforce the Iran Sanctions Act.

(7) Augment IMF structural conditionality and controls for the Fund's directors as well as the government-run boards of other international financial institutions (IFIs). The IMF should be urged to embark on a study, much like that conducted in January 2008, of loan conditions focused on security-related risk considerations.<sup>3</sup> The Boards of the IFI's should likewise be briefed immediately on the security implications of the likely diversion of at least some of the funds they provide to these countries that ultimately help underwrite malevolent activities (e.g., terrorism, WMD development, etc.).

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## **Conclusion**

State-sponsorship of terrorism takes many forms including training facilities, communications infrastructure, weapons and specialized equipment, political cover and much-needed funding. North Korea's increasing nuclear weapons stockpile, not to mention Iran's nuclear ambitions, could soon facilitate the ultimate security nightmare for our country -- terrorists equipped with weapons of mass destruction. That said, the Congress, particularly this Committee, is keenly aware that without the support of these authoritarian governments, terrorist groups are apt to shrivel like a virus without a host.

Accordingly, the time is past due to take a more serious inventory of financial measures that could be brought to bear to hobble these regimes and change their cost-benefit calculations, much as happened with Libya. Conditioning U.S. government procurement practices is within the purview of this Congress. Among the first steps should be:

- (1) Requiring full disclosure of business ties of prospective foreign suppliers, and
- (2) Inquiring whether such firms have implemented global security risk programs.

This latter condition could prove a strong incentive to modify corporate behavior in countries tied to state-sponsors of terror. Greater scrutiny of correspondent banking networks of Iranian and other targeted banks, as well as the external banking relationships of larger state-owned enterprises, would broaden the financial net

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<sup>3</sup> IMF website (<http://www.imf.org/external/pubs/ft/survey/so/2008/POL013A.htm>)

considerably and result in higher transaction costs and outright disruptions of these vital “life-support” components.

Mr. Chairman, I am persuaded that the market-oriented measures referenced above could serve as the most potent non-military means available to the U.S. to curtail terror-sponsorship and WMD development and proliferation (including barring known proliferators from raising funds in the U.S. capital markets). Naturally, these measures would prove most effective with strong, cohesive multilateral support – support which has traditionally been in short supply. If such allied policy coordination is unachievable, or would diminish the effectiveness of these measures while searching for consensus, the U.S. would be well-advised to proceed unilaterally. The U.S. financial system remains a dominant force on the global landscape that few responsible foreign financial institutions and companies can live without.

Regrettably, requiring these hard choices on the part of primarily foreign companies and banks is now a necessity. Postponing this day of financial reckoning will make more likely a nuclear Iran and more capable and dangerous U.S. adversaries worldwide.

Thank you, Mr. Chairman.

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