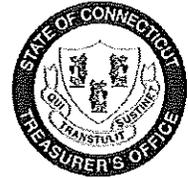


Testimony of Denise L. Nappier
Treasurer of the State of Connecticut
SUBMITTED TO THE GOVERNMENT ADMINISTRATION AND
ELECTIONS COMMITTEE
FEBRUARY 22, 2013



Thank you for the opportunity to offer testimony concerning Proposed Bill No. 5358, **An Act Prohibiting State Contracts with Entities Making Certain Investments in Iran.**

Let me say at the outset that concern over the development of nuclear weapons by Iran is a concern I share, and I applaud the efforts of the federal government which, over time, has imposed greater and more severe restrictions on any commercial activities in and with Iran. The federal government has developed an extensive and detailed global sanctions regime that has increased the isolation of Iran and will hopefully bear fruit in halting nuclear development by that country.

Connecticut likewise has taken steps to address concerns over Iran's nuclear proliferation. In 2011, the General Assembly amended Conn. Gen. Stat. §3-13g, reaffirming the discretionary authority of the Treasurer to divest pension and trust funds from companies doing business in Iran, a measure my office supported. Under this law, we are currently pursuing engagement with companies reported to be doing business in the energy sector in Iran. None of these companies are U.S. companies or subsidiaries of U.S. companies, and none are state contractors that would be affected by the proposed bill. However, they are among a relatively small number of companies, mainly domiciled in Asia, that are involved in oil exploration and production in Iran. As Iran's major industry, the production and sale of oil generates revenue used by Iran's government to pursue its development of nuclear weapons. The Treasurer's Office identified companies by virtue of a periodic report published by the federal Governmental Accountability Office on companies reported to have sold refined petroleum products in Iran or to be involved in commercial activities in the energy sector in Iran.

Although Proposed House Bill 5358 has not yet been drafted, and the devil is in the detail, last year a similar bill was considered by this body. My office shared our concerns about the bill at that time. As a small agency with over 200 contracts, many with companies having global operations, we review proposed additional contracting requirements carefully for the effect on our ability to do business in the global marketplace and on the administrative burden to the agency. Among the concerns we expressed was the difficulty in identifying companies that may be violating federal law and/or have the level of operations in Iran that would trigger the prohibition under state law. The GAO report has provided a starting point for Treasury action under Conn. Gen. Stat. §3-13g. However, it does not purport to be a comprehensive list of companies doing business in Iran. As noted previously, the federal government's sanctions regime is extensive and complex. It is exactly that complexity that raises our concern about meeting the requirements of any bill that may be drafted. Devoting scarce resources to comply with additional, complex requirements in this budgetary climate would be difficult.

The federal government requires its contractors to certify their compliance with various federal laws, including certain sanctions provisions, when submitting bids for contracts. There are penalties for false certification, but federal agencies rely upon the U.S. State Department to ascertain if a certification with regard to the Iran sanctions is false. Connecticut does not have the equivalent of the U.S. State Department—no agency with similar resources or expertise.

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In addition, while most state contracts involve the delivery of goods or services, the Treasurer, as principal fiduciary of the state's pension funds and trusts, invests a portion of the pension and trust funds through long term investment contracts, with terms of 7-10 years or more. These contracts, involving millions of dollars, are long-term to maximize the opportunity for investment gain and are structured to restrict the ability of investors to withdraw early. State contract laws that may require the Treasurer to terminate and withdraw early from such investments could potentially subject the state to large investment losses, to the detriment of the pension and trust beneficiaries. For this reason, we believe that if a bill is drafted, it should include only contracts for goods and services and should expressly carve out investment contracts.

Finally, I raise the question about whether the administrative resources that would be dedicated to comply with this bill would produce a commensurate benefit to the state. While I often am a proponent of complementary state and federal laws and regulations, where foreign policy is implicated, state laws must be more circumscribed. Within proper limits, if state law would produce a state benefit over and above the federal law, it may be appropriate. However, the state benefit here is questionable--federal law has already severely limited commercial activity in Iran, and will to continue to do so, based on the public statements of the President and members of Congress. Here, there is an extensive federal scheme, and limited state resources and benefit.

For the reasons stated, the Treasury respectfully urges members of the committee to consider this proposal carefully. Given the scarcity of available resources to implement additional contracting requirements, if a measure is drafted, it should provide for a streamlined process that is easy to administer.

Thank you for the opportunity to share my views on Proposed House Bill 5358.