Written Statement of Rhode Island General Treasurer Frank T. Caprio

for the Senate Committee on Banking, Housing, and Urban Affairs

Respectfully submitted October 1, 2007

Mr. Chairman, Members of the Committee:

My name is Frank T. Caprio and I am the General Treasurer of Rhode Island. In this capacity, I manage Rhode Island's pension fund, which encompasses the pension systems of state employees, teachers and many municipal employees, including police officers and firefighters.

The subject of today's testimony, divestment from Sudan, concerns one of the most horrific humanitarian crises in recent history. Statements that decry the current situation in Darfur have resounded from numerous government agencies, organizations, businesses and individuals, who have joined in a strong movement to end the atrocities being executed in this region. History has repeatedly demonstrated that genocide, from the Holocaust to Rwanda, can only persist in the face of inaction by bystanders. Simply put, there are some issues which not only cry out for our attention, but demand our sustained action. I appear before you to testify about the States' role and responsibility in acting against this genocide of our time, which deplorably continues, even as we discuss this issue.

As Treasurer of a state that has successfully passed Sudan divestment policy into law, I can speak to the role that Rhode Island, and all states, can effectively and responsibly assume regarding this issue. First and foremost, I must speak to what is <u>not</u> the role of the states – to undermine, in any way, the provisions of federal foreign policy. It is instead essential for states to work in concert with US foreign policy to supplement the goal of divestment - placing economic pressure on companies with business ties to the Sudanese government and ultimately severing the monetary means that facilitate genocide. In keeping with US foreign policy on this issue, it is incumbent upon the states to pursue divestment, to help close a loophole that allows US investment in foreign companies doing business with the Sudanese government. Most importantly, it is the state's role to work diligently to protect its own financial interests. When a humanitarian crisis escalates to the point where taking action is not only in humanity's best interest, but also in a society's fiscal best interests, then we must act, as guardians and fiduciaries of our states' financial welfare.

There are a number of recognized trends in the financial world which demand attention and detail the sound reasoning for state divestment. Currently, US foreign policy is being undermined by the presence of a sizeable loophole, one which divestment policies close. Sudan is a country absolutely dependent on direct foreign investment. Although American companies are barred from conducting business in the oil-rich country because Sudan is considered a terrorist state, foreign multinational companies provide the Sudanese government with the revenue they desperately need to conduct their expensive genocide. Indeed, a Human Rights Watch report estimated that 60-80% of the oil revenue which the Sudanese government receives goes directly to the Sudanese military, the very entity perpetrating these crimes[i].

When investments are made, by US entities, in these foreign companies doing business in Sudan, it directly undermines our foreign policy. It is by pursuing the divestment of state funds from these foreign companies that this loophole can ultimately be closed. The passage of targeted divestment policies at the state level supports the original intent of the US sanctions, namely, to cut off monetary support to Sudan's outlaw government.

A second trend that mobilizes the states' responsibility in this matter is popular support of the initiatives. The divestment movement has garnered a dedicated and vast following, with nearly unanimous and consistent public support. To date, twenty states have adopted divestment policies from Sudan, joining an array of universities, municipalities and businesses in placing an imperative on the value of humanitarian aid by choosing divestment[ii].

With all this support, the momentous success of the movement proves that divestment is working. Several major companies, including European powerhouses ABB and Siemens, have pulled out of the country, citing divestment as rationale for their withdrawal[iii]**.** Rhode Island originally had assets invested in two companies - Petronas Capitol LTD, an oil company that provides refined oil to Sudanese aircraft used to bomb the villages of Darfur and Rolls Royce PLC, a provider of engines used in the oil refineries in the Darfur region[iv]. However, in April 2007, Rolls Royce responded to the pressure by announcing their gradual withdrawal from business dealings in Sudan, citing humanitarian concerns[v]. It is becoming obvious that the risk of investment in Sudan is too high to justify the pursuit of business in the region. Thus, the divestment movement has influenced large, multinational companies to reconsider this increasing level of risk, by pulling out of Sudan. This is a tremendous victory and a call for states to continue on this course, leading to progress.

Furthermore, it is evident that states possess not only the responsibility but also the right to act. I take my role, as the Chairman of Rhode Island's Investment Commission, to be that of the fiduciary responsible for the protection of the state, teacher, judicial, and municipal state employee pension dollars under my management. Under this structure, all of these funds are commingled as part of a single $8 billion dollar fund which is invested, divested, and administered as an individual participant in the market place. Given the fund's structure, my role with the pension fund is that of an investor, not a regulator, and as such I, and other Treasurers, have the ability to direct funds under our management as we see fit. Should we have the foresight to identify risks to our funds, be it the risk of exposure to sub-prime mortgages, or the questionable and reprehensible investments on the other side of the globe, it is our responsibility to act on that foresight, and to eliminate investments that pose an excessive risk to our fund.

At its very basis, divestment from Sudan represents a choice by the state to invest its money in concert with the values of its citizens. Accordingly, states possess both the right and the capacity to invest based on social, humanitarian and financial values, as long as those decisions are consistent with prudent investment standards. The targeted approach to divestment, followed successfully in Rhode Island and in other states, addresses these concerns while upholding rigorous financial standards.

When intelligent policy is found that addresses a humanitarian crisis, while mitigating financial risks, action must be taken. The targeted approach to divestment has proven to be a sound policy, ensuring fiscal responsibility, while upholding standards of humanitarian aid that can effectively help the people of Darfur. This approach targets only a scrutinized list of companies that provide the most financial support to the Sudanese government. By cutting off the monetary support from these companies, the Sudanese government subsequently loses its financial hold over the people of Darfur, taking away the funds for their genocide. The selection process for this list of companies involved comprehensive research, including contact with asset managers and pension funds, perusing public company filings, communicating with Sudan experts on the situation in Darfur and contact with the companies themselves. The process identified companies that will effectively alter the resources available to fund genocide, with their divestment from the country.

The targeted approach is directly in keeping with current foreign policy on this issue. For example, it includes a statement, within the legislation, that no company will be targeted that has been explicitly exempted from the US sanctions by the Treasury Department[vi]. Additionally, targeted divestment includes a provision that the bill will sunset when either Congress declares the Genocide to be over, or when the State Department removes sanctions on Sudanese government[vii]. Furthermore, the targeted model protects the state's fiscal interests by providing an opt-out clause, in which states possess the right to cease divestment, if it has proven to result in a negative impact on the investment returns[viii].

As Treasurer of a state that has recently seen the passage of divestment legislation, I feel that this is a successful means for addressing this issue. The pursuit of legislation by the states, as opposed to an alternative course, is a strategy that confirms the public's support of this issue. When representatives in state legislatures solidify, into the law, the concerns of the people, that action has a tremendous amount of energy and force behind it. Additionally, the targeted legislation provides a safeguard for future support of divestment, by giving a clear mandate to money managers and the state's investors regarding continued action on this matter.

On these grounds and based on our model, we are confident that states have not only the right, but also the responsibility to divest. Federal legislation will end this ambiguity and galvanize the states' right to act in their own, as well as in humanity's, best interests. Further, this action guarantees that we will not allow genocide to occur on our watch, nor will we allow genocide to occur on our dollar.

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[i] http://www.hrw.org
[ii] http://www.sudandivestment.org/statistics.asp
[iii] http://www.sudandivestment.org/statistics.asp
[iv] http://www.ajws.org/uploaded_document/sudan_company_rankings_Aug_2007.pdf
[v] http://www.ajws.org/uploaded_document/sudan_company_rankings_Aug_2007.pdf

[vi] Rhode Island Bill H 5142/ S 0087 pg. 8, lines 15-17
[vii] Rhode Island Bill H 5142/ S 0087 pg. 9, lines 9-24
[viii] Rhode Island Bill H 5142/ S 0087 pg. 10, lines 1-17