

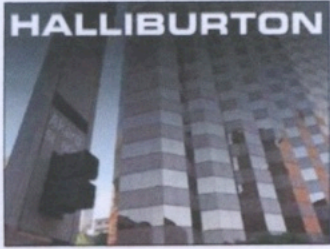
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Aug. 29, 2004

Doing Business With The Enemy

Are U.S. Firms Doing Business In Nations That Support Terrorism?

By Rebecca Leung



Halliburton sells about \$40 million a year worth of oil field services to the Iranian Government. (AP / CBS)

(CBS) Did it ever occur to you that when President Bush says, "Money is the lifeblood of terrorist operations," he's talking about your money -- and every other American's money?

Just about everyone with a 401(k) pension plan or mutual fund has money invested in companies that are doing business in so-called rogue states.

In other words, there are U.S. companies that are helping drive the economies of countries like Iran, Syria and Libya, all places that have sponsored terrorists. **Correspondent**

Lesley Stahl reported on this story last January

"The revenue that is generated from the work that these companies are doing, we believe, helps to underwrite and support terrorism," says William Thompson, the New York City comptroller who oversees the \$80 billion in pension funds for all city workers.

He says he wants everyone with a retirement or investment portfolio to know what these companies are up to: "We're going to increase the public visibility on this issue until these companies change their practices."

He's actually identified specific companies that have invested in these rogue countries, including Halliburton, Conoco-Phillips and General Electric. And he points out that New York's pension funds own nearly \$1 billion worth of stock in these three Fortune 500 companies, which have operations in Iran and Syria.

What was Thompson's reaction when he found out about this? "Anger that there were companies that could be contributing to attacks on our nation," he says. "You'd think to yourself, well, why would they do that? I didn't think they could. And more than anything it was, you thought, that the law prevented them from doing this."

In fact, U.S. law does ban virtually all commerce with the rogue nations, but there's a loophole that G.E., Conoco-Phillips and Halliburton have exploited: The law does not apply to any foreign or offshore subsidiary so long as it is run by non-Americans.

"These three companies, as far as we were concerned, appear to have violated the spirit of the law," says Thompson. "In the case of Halliburton, as an example, they have an offshore subsidiary in the Cayman Islands. That subsidiary is doing business with Iran."

That subsidiary Halliburton Products and Services, Ltd., is wholly owned by the U.S.-based Halliburton and is registered in a building in the capital of the Cayman Islands -- a building owned by the local Calidonian Bank. Halliburton and other companies set up in this Caribbean Island, because of tax and secrecy laws that are corporate friendly

Halliburton is the company that Vice President Dick Cheney used to run. He was CEO from 1995 to 2000, during which time Halliburton Products and Services set up shop in Iran. Today it sells about \$40 million a year worth of oil field services to the Iranian government.

In the case of Iran, Thompson says they earn most of their revenues through their oil industry So what

is the connection between that oil business and terrorism and weapons of mass destruction?

“The Iranian government is receiving dollars from it. And then turning around and exporting terrorism around the world. It benefits terrorism. At least that's our belief,” says Thompson.

60 Minutes decided to ask Halliburton's subsidiary about its work in Iran. But we weren't allowed to enter the building with a camera. So we went in with a hidden camera, and were introduced to David Walker, manager of the local Calidonian Bank, where the subsidiary is registered.

60 Minutes was expecting to find a bustling business, but, to our surprise, Walker told us that while Halliburton Products and Services was registered at this address, it was in name only. There is no actual office here or anywhere else in the Caymans. And there are no employees on site.

We were told that if mail for the Halliburton subsidiary comes to this address, they re-route it to Halliburton headquarters in Houston.

“If you understood what most of these companies do, you would, they're not doing any business in Cayman per se. They're doing business, international business,” says Walker. “Would it make sense to have somebody in Cayman pushing paper around? I don't know. And some people do it. And some people don't. And it's mostly driven by whatever the issues are with the head office.”

Does that mean the head office is calling the shots? If it is, that would be against the law which says the subsidiary must be completely independent of the U.S. company. But *60 Minutes* attempts to ask headquarters in Houston about this were rebuffed.

In a letter to New York City Comptroller Thompson, Halliburton says its Cayman Island subsidiary is actually run out of Dubai. *60 Minutes* went there and learned that it shares office space, phone and fax lines with a division of its U.S.-based parent company -- which raises more legal questions about its independence from Houston. But once again, our inquiries went unanswered.

In its letter to Thompson, Halliburton insists it is complying with all U.S. laws. But he and legal experts we consulted believe they are dancing right along the edge of legality.

“If the intent was to try and prevent United States-based companies from doing business in these “rogue” nations, then it appears as if they've gotten around what the law had intended,” says Thompson, who filed a shareholder's resolution calling on the company to review and justify its operations in Iran. “Halliburton attempted to block the shareholder resolution. They went to the SEC and asked for permission not to put this before shareholders.”

Did the SEC take it up and rule on it?

“Oh, absolutely. The SEC ruled against Halliburton and said that it had to be put in front of the shareholders,” says Thompson, who plans to file the resolution at the next shareholders meeting in April.

He's also taking issue with GE and its electrical work in Iran, as well as Conoco-Phillips' gas production business in Syria: “If there are nations that wind up increasing their resources because these companies are doing business there, and we're attacked because of it, it in fact undermines our entire country.”

Thompson says he decided to open the investigation in the first place at the request of New York City's police and firemen, who were outraged when they learned where their retirement money was going.

“The members of the Fire Department and the Police Department, after September 11th, given the fact that hundreds of them died in the World Trade Center as a result of a terrorist attack, had greater sensitivity than almost anybody,” says Thompson. “And they were the ones who kind of took the lead on this.”

But why do moral issues come into play when talking about pension funds?

"The way we've approached it isn't as on a moral basis, it is as investors," says Thompson. "And what is in the best long-term interests of our pension funds because we hold stock in these companies."

What these companies are doing, he says, isn't just a question of ethics - it's financially unsound, and bad for business.

Roger Robinson, who runs a research firm in Washington that monitors companies working in rogue states, agrees. He cites the case of Talisman Energy whose reputation was damaged when it did business with the Islamic Republic of Sudan. The negative publicity led to something Wall Street calls "The Sudan Discount of Talisman Stock."

"In other words, the share value or stock price was depressed by some 20, 25 percent by some estimates," says Robinson, who believes that Halliburton and GE could face the same risk.

Robinson has identified nearly 400 companies that are in most pension portfolios that are doing business in terrorist-sponsoring states. Well over 200, he says, are actually doing business in Iran; of that, more than 60 are doing business in Libya.

He says the companies are funneling tens of billions of dollars worth of capital, technology and know-how to the state-owned oil and gas sectors of these two countries.

Does he ever say to himself that by revealing this information, he's taking steps to hurt the company and hurt the pension fund?

"I think that it could be looked at another way We're certainly alerting investors to a genuine new risk category in the markets, every bit as legitimate as environmental risk was through Three Mile Island, Exxon Valdez and superfund legislation," says Robinson. "So investors, we think, have a right to know Remember, this is their retirement dollars. They should have a sense of those who invest on their behalf, are there genuine risks there?"

With that question of risk in mind, state treasurers across the country, like David Peterson of Arizona, are using Robinson's database to investigate their pension portfolios.

"I want to find out what projects they're doing and what is specifically the dollars they're investing, where they're going," says Peterson.

Taken together, state-run pension investments amount to something like \$7 trillion.

"Connecticut is working on it," adds Peterson. "I know Pennsylvania, their legislature passed unanimously that we need to screen, with the approval of their pension system, for these risks."

But some of the state treasurers are running into resistance from the pension funds. In Peterson's case, the Arizona State Retirement System refused to tell him anything about its holdings.

"I have asked the pension system. We'd like to know what investments you have, the scope of your investments, what companies you're involved with. We had a legislator ask," says Peterson. "We actually had an intern from this office ask about what investments holdings do they have in some of these companies. And they just didn't want to provide it to us."

And Peterson believes that they really don't have grounds to refuse to give him, as state treasurer that information.

"They've more just kind of tried to be evasive, and said that it's too hard to get this information," he says.

This went on for months, but to our surprise, when we asked Arizona's pension fund managers for a list of its holdings, they gave it to us right away And it confirmed what Peterson had suspected: that

Arizonans unwittingly own stock in companies like Halliburton, General Electric and Conoco-Phillips.

“There’s about 11 to 14 companies that are on the S&P 500 that are involved in some substantial projects with some of these countries,” says Peterson.

Congress recently directed the Securities and Exchange Commission to monitor companies operating in rogue nations.

But in New York, Comptroller Thompson isn’t waiting. He says he’s going to expand his investigation to include Boeing and other companies that do business in terrorist states.

“Those countries depend on dollars from us to live, to do business also,” says Thompson. “If we have, and if we put pressure on the companies, and they can’t do business there, and others become embarrassed in doing business or buying oil there, well maybe we can help to force these countries to change their practices.”

Does he think this issue’s going away?

“This issue isn’t going to go away any time soon, at all,” says Thompson.

Halliburton declined *60 Minutes*’ request for an interview but in an e-mail, the company indicated it has no intention of leaving Iran -- or addressing the questions we raised about the independence of its subsidiary

The company did suggest that Thompson is playing politics with pension funds, insisting there is no connection between its operations in Iran and either terrorism or nuclear research.

As for General Electric and Conoco-Phillips, they say they are breaking no laws, and like Halliburton, make no apologies for their business dealings with states that sponsor terrorism.

Since *60 Minutes* first broadcast this story, the company’s work in Iran has come under increasing scrutiny first by the Treasury Department and members of Congress, and most recently by the Justice Department, which last month convened a federal grand jury in Houston to investigate whether the company is violating the U.S. embargo against Iran.

Halliburton officials, who declined our requests for an interview, maintain that the company is violating no laws or regulations. As for the other companies mentioned in our report, General Electric called our reporting “shallow and one-sided,” while Conoco-Phillips announced that it will not accept any new business in any country that sponsors terrorism.

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