

Congressional Testimony

Impact of the Boycott, Divestment, and Sanctions Movement

Mark Dubowitz
Executive Director
Foundation for Defense of Democracies
Center on Sanctions and Illicit Finance

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1726 M Street NW • Suite 700 • Washington, DC 20036

Chairman Desantis, Ranking Member Lynch, members of the Subcommittee, on behalf of the Foundation for Defense of Democracies (FDD), thank you for inviting me to testify today.

Mr. Chairman, America and its allies must prepare for an increasingly dangerous era. It will be marked by political, economic, and financial warfare. It will not only target the United States. Our allies also will be in the crosshairs. As always, Israel is the canary in the coalmine. With the so-called “Boycott, Divest and Sanctions” (BDS) movement, we are getting a glimpse of an economic and financial weapon that could soon be turned against us and other vital allies, with serious consequences for the national and economic security of the United States and our allies.

Many of our allies are involved in territorial disputes in the Middle East, Europe, Asia and elsewhere. We may agree or disagree with their positions in these disputes. But our support for defensive structures to protect them from conventional military, missile, cyber, WMD, and terrorist threats, among others, must never be dependent on our policies with respect to these territorial disputes. Neither should our defenses against economic and financial threats.

The U.S. must create a defense economic and financial shield to protect the United States and our allies against economic and financial warfare, and Congress is well placed to lead that effort.

BDS and Economic and Financial Warfare

The BDS movement is a tool of political, economic, and financial warfare against Israel. Those waging this war seek to first isolate and delegitimize Israel and to turn it into an international pariah. From there, doing economic damage to Israel becomes an easier task.

This is not the first time economic war has been waged upon Israel. The Arab Boycott, first enacted in 1945 before the creation of the state of Israel, was an instrument of raw economic power. The Arab states wielded oil and market access to put companies to a fundamental choice between doing business with Israel and doing business with the Arab world. Israel’s chamber of commerce estimates that the Arab boycott has cost the Israeli economy \$45 billion.¹ And the boycott was not only costly to Israel. On a global scale, the Arab oil embargo following the 1973 Yom Kippur War is estimated to have caused a 4.7 percent decline in America’s GDP and a 7 percent and 2.5 percent decline in Japan’s and Europe’s GDP, respectively.²

¹ Linda Gradstein, “Growing Concern in Israel Over BDS,” *Ynet News*, March 3, 2014.

(<http://www.jta.org/1992/08/07/archive/arab-boycott-said-to-cost-israel-45-billion-over-the-past-40-years>)

² Cutler J. Cleveland, *The Concise Encyclopedia of the History of Energy*, (San Diego: Elsevier Inc, 2009).

The BDS movement is only the most recent iteration of the Arab boycott, with many naturalized American citizens now leading the charge. The movement, purportedly supported by a grass roots constituency, is a highly organized campaign of political delegitimization designed to lay the predicate for a broader economic and financial warfare campaign. Not only is the goal to pressure Israel to make political and territorial concessions, but it also seeks to convey to countries and companies that there is increased market risk and reputational consequences for Western companies that do business with Israel. Never mind that investment in Israel is among the safest in the Middle East.³ The boycotters understand that if Israel is delegitimized, it becomes easier to pass Western sanctions against companies doing business with Israel or, at the very least, pressuring them into cutting their business ties with the Jewish state.

While many in this country are focused on the threatening atmosphere that the BDS movement has created for pro-Israel students on campus, FDD's research has determined that the economic and financial warfare campaign currently targeting Israel's economic and financial relationships with Europe is far more dangerous. Europe is Israel's largest trading partner. In 2014, EU-Israel trade was valued at \$30 billion.⁴

In 2012, the EU's consuls general in east Jerusalem and Ramallah issued a Heads of Mission report recommending sanctions on Israeli settlements,⁵ and in January 2014, PGGM, a large Dutch pension fund, withdrew its investments from Israel's five largest banks because they have branches in the West Bank.⁶ In November 2014, an internal EU document was leaked to the press. The document included an assessment of what economic sanctions against Israel could possibly include.⁷

In March 2015, reports suggested that the EU was considering sanctions against Israel in an effort to force Israel to "comply with EU law" and to compel a peaceful settlement between the Israelis and Palestinians. These sanctions would target Israeli products produced by Israelis and Palestinians in the settlements, with a focus on raising awareness among European businesses about the risks of doing business in Israeli settlements located in the disputed territories of the West Bank or east Jerusalem.⁸ Reports also indicate that the EU document came on the heels of a request from Palestinian Negotiator Saeb Erekat to Federica Mogherini, the current High

³ Oren Kessler, "Warren Buffett: Israel is 'Most Promising Investment Hub' Outside of U.S.," *The Tower*, May 2, 2013. (<http://www.thetower.org/buffett-buys-remaining-shares-of-israeli-toolmaker-im-a-big-believer-in-israels-economy/>)

⁴ "European Union, Trade in Goods with Israel," *European Commission*, April 10, 2015, page 4. (http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113402.pdf)

⁵ Barak Ravid, "EU Consuls Recommend Imposing Sanctions on Israeli Settlements," *Ha'aretz* (Israel), February 2, 2013. (<http://www.haaretz.com/news/diplomacy-defense/eu-consuls-recommend-imposing-sanctions-on-israeli-settlements.premium-1.506043>)

⁶ "A Campaign that is Gathering Weight," *The Economist*, February 8, 2014. (<http://www.economist.com/news/middle-east-and-africa/21595948-israels-politicians-sound-rattled-campaign-isolate-their-country>)

⁷ Barak Ravid, "Haaretz Obtains Full Document of EU-Proposed Sanctions Against Israel," *Ha'aretz* (Israel), November 17, 2014. (<http://www.haaretz.com/news/diplomacy-defense/.premium-1.626946>)

⁸ <http://www.theguardian.com/world/2015/mar/20/jerusalem-at-boiling-point-of-polarisation-and-violence-eu-report>

Representative of the European Union for Foreign Affairs and Security Policy, asking that the EU hold Israel accountable for “[v]iolations of International law.”⁹ Additionally, reports indicate that France was mulling ways to single out Israel at the United Nations and to blame it for stalled peace talks with the Palestinians.¹⁰

International organizations, religious institutions, private businesses, sovereign wealth funds, and universities have joined in supporting BDS in recent years. Most of them are European. Some are not. Some have reportedly re-entered the Israeli market. Some have not. They should all be identified publicly as having joined the economic and financial war against Israel.

For Profit Companies:

ASN Dutch Bank

- In May 2006, the Palestinian Authority and NGO’s wrote to ASN objecting to the work of French company Veolia’s work on a Jerusalem’s light rail system. ASN sold its shares in Veolia a week later.¹¹

Danske Bank

- In 2009, Danske Bank blacklisted Elbit, disqualifying it from investments due to ethical considerations.¹²
- In 2009, Danske Bank also blacklisted Africa-Israel.¹³
- In February 2014, Danske Bank blacklisted Bank Hapoalim, citing that the bank “cannot invest due to its corporate accountability rules.”¹⁴

Danwatch (Danish financial watchdog)

- In 2009, Danwatch added Elbit “to its blacklist of 35 companies that are disqualified from investments due to “ethical considerations.”¹⁵

⁹ Peter Beaumont, “Jerusalem at Boiling Point of Polarisation and Violence – EU Report,” *The Guardian* (U.K.), March 20, 2015. (<http://www.theguardian.com/world/2015/mar/20/jerusalem-at-boiling-point-of-polarisation-and-violence-eu-report>)

¹⁰ “France to Begin Push for UN Security Council Resolution on Israeli-Palestinian Conflict,” *Reuters*, March 27, 2015. (<http://www.haaretz.com/news/diplomacy-defense/1.649244>)

¹¹ Meron Rapoport, “Dutch Bank Divests Holdings in J’lem Light Rail, Cites Settlements,” *Haaretz* (Israel), December 3, 2006. (<http://www.haaretz.com/news/dutch-bank-divests-holdings-in-j-lem-light-rail-cites-settlements-1.206050>)

¹² Adri Nieuwhof, “Scandinavian Financial Institutions Drop Elbit Due to BDS Pressure,” *The Electronic Intifada*, February 19, 2010. (<https://electronicintifada.net/content/scandinavian-financial-institutions-drop-elbit-due-bds-pressure/8685>)

¹³ Adri Nieuwhof, “Scandinavian Financial Institutions Drop Elbit Due to BDS Pressure,” *The Electronic Intifada*, February 19, 2010. (<https://electronicintifada.net/content/scandinavian-financial-institutions-drop-elbit-due-bds-pressure/8685>)

¹⁴ Barak Ravid, “Denmark’s largest bank blacklists Israel’s Hapoalim over settlement construction,” *Haaretz*, February 1, 2014. (<http://www.haaretz.com/news/diplomacy-defense/1.571849>)

¹⁵ Adri Nieuwhof, “Scandinavian Financial Institutions Drop Elbit Due to BDS Pressure,” *The Electronic Intifada*, February 19, 2010. (<https://electronicintifada.net/content/scandinavian-financial-institutions-drop-elbit-due-bds-pressure/8685>)

Deutsche Bahn (German railways and logistics company)

- In May 2011, Deutsche Bahn pulled out of the A1 train project, a \$550 million deal on a line intended to connect Jerusalem and Tel Aviv.¹⁶

Dexia Israel (Belgian-French financial group)

- In June 2009, Dexia announced it will not be financing settlements through its subsidiary, Dexia Israel.¹⁷

FreedomCall UK (British telecommunications company)

- In December 2008, FreedomCall “terminated its cooperation with Israel’s MobileMax due to the IDF operation in Gaza.” FreedomCall said that it was “severing all ties with ... any other Israeli company following Israel’s strike in Gaza.”¹⁸

Kapitalforvaltning (KLP) (Norwegian insurance company)

- On June 1, 2015, KLP divested its shares from Heidelberg Cement (a German company) and Comex (a Mexican company) on the grounds of “their exploitation of natural resources in occupied territory in the West Bank.”¹⁹

Kommunal Landspensjonkasse (Norwegian Life Insurance Company)

- In September 2009, KLP divested from Elbit.²⁰
- In June 2015, KLP blacklisted Heidelberg Cement and Cemex.²¹

Pensioenfonds Zorg en Welzijn (PFZW) (Dutch pension fund)

- In November 2010, PFZW divested from “almost all of the Israeli companies in its portfolio.”²²

PGGM (Dutch pension fund)

¹⁶ Nora Barrows-Friedman, “BDS VICTORY: German Company Pulls Out of Illegal Israeli Railway Project,” *The Electronic Intifada*, May 10, 2011. (<https://electronicintifada.net/blogs/nora-barrows-friedman/bds-victory-german-company-pulls-out-illegal-israeli-railway-project>)

¹⁷ Martijn Lauwens, “Dexia Israel stops financing Israeli settlements,” *Ma’an News Agency*, June 10, 2009. (<http://www.maannews.com/Content.aspx?id=211153>)

¹⁸ Meir Orbach, “British Telecom Firm Severs Ties with Israeli Counterparts,” *YNet* (Israel), December 31, 2008. (<http://www.ynetnews.com/articles/0.7340.L-3648346.00.html>)

¹⁹ Barak Ravid, “Norwegian Insurance Giant Divests from Multinational Firms Operating in West Bank Settlements,” *Haaretz* (Israel), June 12, 2015. (<http://www.haaretz.com/news/diplomacy-defense/premium-1.660901>)

²⁰ Adri Nieuwhof, “Scandinavian Financial Institutions Drop Elbit Due to BDS Pressure,” *The Electronic Intifada*, February 19, 2010. (<https://electronicintifada.net/content/scandinavian-financial-institutions-drop-elbit-due-bds-pressure/8685>)

²¹ Adri Nieuwhof, “German, Mexican Firms Blacklisted by Norway Pension Fund over Israeli Occupation Roles,” *The Electronic Intifada*, June 12, 2015. (<https://electronicintifada.net/blogs/adri-nieuwhof/german-mexican-firms-blacklisted-norway-pension-fund-over-israeli-occupation>)

²² Adri Nieuwhof & Guus Hoelen, “Major Dutch Pension Fund Divests from Occupation,” *The Electronic Intifada*, November 12, 2010. (<https://electronicintifada.net/content/major-dutch-pension-fund-divests-occupation/9778>)

- On January 8, 2014, PGGM, announced that it will “no longer invest in five Israeli banks, namely Bank Hapoalim, Bank Leumi, First International Bank of Israel, Israel Discount Bank and Mizrahi Tefahot.” PGGM claimed that this decision was due to the banks’ “involvement in financing Israeli settlements.”²³

PKA Ltd. (Dutch pension fund)

- In January 2010, PKA Ltd. sold its shares in Elbit worth \$1 million.²⁴
- In January 2010, PKA “announced it would no longer consider investments in Elbit Systems, and US companies Megal Security Systems and Detection Systems” as “all three are supplying equipment for the Wall.”²⁵

South African businesses

- In April 2015, over 20 South African businesses “terminated their contracts with G4S Security over its involvement in Israeli prisons and human rights abuses. The SA businesses terminated their contracts, totaling more than R7 million (\$500,000) per year, after approached by representatives of the human rights and Palestine solidarity organization BDS South Africa as well as the KZN Palestine Solidarity Forum.”²⁶

The Co-operative Group (British supermarket)

- In April 2012, the Co-operative Group announced that they will “no longer engage with any supplier of produce known to be sourcing from the Israeli settlements.”²⁷

TIAA-CREF (US pension fund)

- In September 2009, TIAA-CREF, the U.S. pension fund, divested from Africa Israel Investments.²⁸

²³ “NGOs Responsible for Dutch Pension Fund Divestment- PGGM/PFWZ: Dutch Funding for NGO Lobby Efforts,” *NGO Monitor*, January 13, 2014. (http://www.ngo-monitor.org/article/ngos_responsible_for_dutch_pension_fund_divestment_pggm_pfwz_dutch_funding_for_ngo_lobby_efforts)

²⁴ Adri Nieuwhof, “Scandinavian Financial Institutions Drop Elbit Due to BDS Pressure,” *The Electronic Intifada*, February 19, 2010. (<https://electronicintifada.net/content/scandinavian-financial-institutions-drop-elbit-due-bds-pressure/8685>)

²⁵ “2 Danish Pension Funds Divest from Israeli Companies,” *Al-Jazeera: Cross-Cultural Understanding*, January 27, 2010. (<http://www.ccun.org/News/2010/January/27%20n%20Danish%20pension%20funds%20divest%20from%20Israeli%20companies.htm>)

²⁶ “20 Businesses Across South Africa Join G4S Boycott,” *BDS Movement*, April 17, 2015. (<http://www.bdsmovement.net/2015/20-businesses-across-south-africa-join-g4s-boycott-13098>)

²⁷ Ali Abunimah, “In BDS Milestone, UK Supermarket Chain to Boycott Israel Firms Doing Business with Settlements,” *The Electronic Intifada*, April 29, 2012. (<https://electronicintifada.net/blogs/ali-abunimah/bds-milestone-uk-supermarket-chain-boycott-israel-firms-doing-business>)

²⁸ Ora Coren, “U.S. Pension Fund Giant Confirms Divestment from Israel Firm,” *Haaretz* (Israel), September 12, 2009. (<http://www.haaretz.com/news/u-s-pension-fund-giant-confirms-divestment-from-israel-firm-1.8029>)

- In June 2012, TIAA-CREF removed Caterpillar, Inc. from its Social Choice Funds portfolio. JTA reported that the delisting of Caterpillar was due to low ratings, not Caterpillar's sale of tractors to Israel.²⁹

Religious Institutions:

Church of England

- In February 2006, the Church of England voted to divest from companies operating in the West Bank. The Church of England divested £2.5m from Caterpillar.³⁰

Presbyterian Church USA

- In June 2014, the Presbyterian Church (U.S.A.) voted to divest from Caterpillar, Hewlett-Packard, and Motorola Solutions. The Church had about \$21 million invested in these companies.³¹ The Church "reaffirmed Israel's right to exist, endorsed a two-state solution, encouraged interfaith dialogue and travel to the Holy Land, and instructed the church to undertake "positive investment" in endeavors that advance peace and improve the lives of Israelis and Palestinians."³²

Quaker Friends Fiduciary Corporation (FCC)

- According to Electronic Intifada, in May 2012, "the Quaker Friends Fiduciary Corporation (FFC), which handles investments for more than 300 Quaker meetings, schools, organizations, trusts, and endowments around the US," divested \$900,000 from Caterpillar. The following September, the FFC also divested \$390,000 from Hewlett-Packard and Veolia Environment.³³

United Church of Christ

- In July 2015, the United Church of Christ voted to divest from companies that operate in the West Bank. According to Electronic Intifada, the vote "requires the

²⁹ Ron Kampeas, "Israel Cited in Caterpillar's Delisting from Influential Investment Index," *JTA*, June 22, 2012. (<http://www.jta.org/2012/06/22/news-opinion/israel-middle-east/israel-cited-in-caterpillars-delisting-from-influential-investment-index>)

³⁰ "Church of England Votes to Divest from Caterpillar," *The Electronic Intifada*, February 6, 2006. (<https://electronicintifada.net/content/church-england-votes-divest-caterpillar/5867>)

³¹ Laurie Goodstein, "Presbyterians Vote to Divest Holdings to Pressure Israel," *The New York Times*, June 20, 2014. (http://www.nytimes.com/2014/06/21/us/presbyterians-debating-israeli-occupation-vote-to-divest-holdings.html?_r=4)

³² Laurie Goodstein, "Presbyterians Vote to Divest Holdings to Pressure Israel," *The New York Times*, June 20, 2014. (http://www.nytimes.com/2014/06/21/us/presbyterians-debating-israeli-occupation-vote-to-divest-holdings.html?_r=4)

³³ Nora Barrows-Friedman, "Quaker Socially Responsible Investment Fund Divests \$390,000 from Hewlett-Packard, Veolia," *The Electronic Intifada*, September 25, 2012. (<https://electronicintifada.net/blogs/nora-barrows-friedman/quaker-socially-responsible-investment-fund-divests-390000-hewlett>)

UCC pensions board and other church funds to divest their holdings in Caterpillar, Motorola Solutions, Hewlett-Packard, G4S and Veolia.”³⁴

- The Church also asked its members to boycott products made in settlements in the West Bank.

United Methodist Church

- In June 2014, the pension board of the United Methodist Church agreed to divest from \$110,000 from G4S “due in part to concerns about the company’s involvement in human rights violations in the Israeli prison system and the military occupation of Palestinian territories.”³⁵

Universities:

University of Helsinki

- In May 2015, the University of Helsinki in Finland canceled its security contract with G4S.³⁶

Sovereign Governments

ABP Dutch Pension Fund

- In February 2010, ABP sold their \$2.7 million shares in Elbit Systems.³⁷
- In June 2014, ABP excluded Aryt Industries Ltd. and Ashot Ashkelon from their portfolio.³⁸

AP7 Swedish National Pension Fund

- According to Electronic Intifada, in March 2009, AP7 excluded “the French transportation giant Alstom from its portfolio... because of the company’s involvement in Israel’s occupation of Palestinian land.”³⁹

Brazil’s Justice Ministry

³⁴ Ali Abunimah, “US Church Votes by Landslide to Divest from Israeli Occupation,” *The Electronic Intifada*, June 30, 2015. (<https://electronicintifada.net/blogs/ali-abunimah/us-church-votes-landslide-divest-israeli-occupation>)

³⁵ Annie Robbins, “‘Landmark Divestment Action’: United Methodist Church Divests from G4S,” *Mondoweiss*, June 13, 2014. (<http://mondoweiss.net/2014/06/landmark-divestment-methodist>)

³⁶ Michael Deas, “University of Helsinki Cancels G4S Contract over Support for Israeli Prisons,” *The Electronic Intifada*, May 21, 2015. (<https://electronicintifada.net/blogs/michael-deas/university-helsinki-cancels-g4s-contract-over-support-israeli-prisons>)

³⁷ Adri Nieuwhof, “Scandinavian Financial Institutions Drop Elbit Due to BDS Pressure,” *The Electronic Intifada*, February 19, 2010. (<https://electronicintifada.net/content/scandinavian-financial-institutions-drop-elbit-due-bds-pressure/8685>)

³⁸ “Dutch Pension Fund ABP Divests from Two Israeli Arms Companies,” *Middle East Monitor*, July 4, 2014. (<https://www.middleeastmonitor.com/news/europe/12548-dutch-pension-fund-abp-divests-from-two-israeli-arms-companies>)

³⁹ Adri Nieuwhof, “Divestment Campaign Gains Momentum in Europe,” *The Electronic Intifada*, March 24, 2009. (<https://electronicintifada.net/content/divestment-campaign-gains-momentum-europe/8151>)

- In May 2015, Brazil's government excluded an Israeli security company from working at the Rio de Janeiro Olympics in 2016, a \$2.2B contract.⁴⁰

FDC (Luxembourg's State Pension Fund)

- According to Electronic Intifada, in February 2014, Luxembourg's state pension fund FDC "excluded nine major Israeli banks and firms and one US company because of their involvement in Israeli settlements and human rights violations in the occupied Palestinian territories."⁴¹ The companies excluded are Bank Leumi, Bank Hapoalim, First International Bank of Israel, Israel Discount Bank, Mizrahi Tefahot Bank, Elbit Systems, AFI (Africa Israel Investments), Jerusalem Economy, Ltd., and Real Estate Management & Development.

Government Pension Fund Global (GPF) (Norwegian State Pension Fund)

- In September 2009, "Norway's Minister of Finance Kristin Halvorsen announced that the Norwegian State Pension Fund had sold its shares in Elbit, worth \$5.4 million."⁴²
- In June 2012, Norway's finance ministry "excluded Israeli contractors Shikun & Binui from the Government Pension Fund Global (GPF), the largest pension fund in Europe, over its construction of illegal Israeli colonies in East Jerusalem."⁴³

Additional efforts have been made throughout Europe to boycott Israeli military companies and to stop purchases of defense articles by European countries.⁴⁴

What's noteworthy about several of these BDS actions is that:

(1) they were spurred by pressure from the BDS movement on the companies and other entities to terminate their ties with Israel; and,

(2) they targeted major Israeli financial institutions and companies providing goods and services to the West Bank and east Jerusalem through local branches or distributors.

⁴⁰ Charlotte Silver, "Brazil Cancels \$2 billion Contract with Israeli Security Firm for 2016 Olympics," *The Electronic Intifada*, May 12, 2015. (<https://electronicintifada.net/blogs/charlotte-silver/brazil-cancels-2-billion-contract-israeli-security-firm-2016-olympics>)

⁴¹ Ali Abunimah, "Luxembourg Pension Fund Dumps 9 Israeli Firms over Settlements," *The Electronic Intifada*. February 25, 2014. (<https://electronicintifada.net/blogs/ali-abunimah/luxembourg-pension-fund-dumps-9-israeli-firms-over-settlements>)

⁴² Adri Nieuwhof, "Scandinavian Financial Institutions Drop Elbit Due to BDS Pressure," *The Electronic Intifada*, February 19, 2010. (<https://electronicintifada.net/content/scandinavian-financial-institutions-drop-elbit-due-bds-pressure/8685>)

⁴³ Michael Deas, "Norway's Pension Fund Divests from Israel's Largest Real Estate Firm," *The Electronic Intifada*, June 19, 2012. (<https://electronicintifada.net/blogs/michael-deas/norways-pension-fund-divests-israels-largest-real-estate-firm>)

⁴⁴ "Stop Support to Israeli Military Companies," *AlternativeNews.org*, July 14, 2015. (<http://www.alternativenews.org/english/index.php/activism/bds/935-eu-stop-support-to-israeli-military-companies>)

Does this mean that any Israeli company providing financial services, electricity, medical services, or security, among others, to the West Bank or east Jerusalem would be subject to boycotts, sanctions or divestment? What about Israelis companies with no connection to the West Bank or east Jerusalem? If the BDS movement has targeted Israeli academics or Israeli companies hosting international entertainers, which have no connection to the West Bank or east Jerusalem, will it also call for boycotts, sanctions, and divestment from other Israeli companies without such a connection? For those who are well acquainted with the tools and strategies of economic and financial warfare, this is a familiar playbook as pressure is ratcheted up on the target country to inflict increasing pain.

That all of these entities have gone out of their way to single out Israel for alleged injustices, while ignoring all of the other countries in the Middle East, let alone the world, smacks of discrimination. Israel is the only democracy in the Middle East, and the only country with a transparent judiciary. The BDS movement doesn't target Sudan, Syria, China, Russia or Iran for their massive violations of human rights. Rather, it targets the only Jewish state.

OFFENSIVE ECONOMIC AND FINANCIAL WARFARE

It should come as no surprise that Israel's enemies are ratcheting up an economic and financial warfare campaign. This type of warfare is the new normal in the international arena. Indeed, it is America's default instrument of coercive statecraft for confronting challenges to the international order. Sanctions have been America's weapon of choice to combat Russia's invasion of Ukraine, the Assad regime in Syria, and the financing of terrorist groups such as the Islamic State, al-Qaeda, as well as – for a time – Iran's nuclear program. The United States Department of the Treasury, with vital input and pressure from Congress, has been at the forefront of this effort.

The impact of American financial power reached its height with the successful congressional push in 2012 to force the Obama administration and EU banking regulators to expel Iranian banks from the ubiquitous SWIFT financial messaging system. SWIFT's chief executive noted that the move was intended “to intensify financial sanctions against Iran.”⁴⁵ And that it did. Tehran lost its most important global banking entry point to finance its overseas trade, prompting Iran to negotiate with the West over its illicit nuclear program.

Watching from the sidelines, others have learned from America's success. On October 6, 2014, pro-Palestinian organizations petitioned SWIFT to disconnect Israeli financial institutions from its financial messaging system.⁴⁶ SWIFT rejected the pressure and

⁴⁵ Rick Gladstone & Stephen Castle, “Global Network Expels as Many as 30 of Iran's Banks in Move to Isolate Its Economy,” *The New York Times*, March 15, 2012. (http://www.nytimes.com/2012/03/16/world/middleeast/crucial-communication-network-expelling-iranian-banks.html?_r=0)

⁴⁶ Barak Ravid, “International Banking Giant Refuses to Cut off Israel, Despite Boycott Calls,” *Ha'aretz* (Israel), October 7, 2014. (<http://www.haaretz.com/business/.premium-1.619514>)

explained that it would not take action without direction from EU regulators.⁴⁷ SWIFT, however, would presumably comply, as it did in the case of Iran, if the EU ordered SWIFT to expel Israeli financial institutions because they operate in the West Bank or east Jerusalem.

In the meantime, America's adversaries have been developing their own economic weapons and financial tools. In 2010, for example, in response to a Sino-Japanese dispute over fishing waters, China banned exports of rare earth minerals critical to a number of Japan's industries,⁴⁸ and frequently has used economic and diplomatic pressure to challenge international recognition of Taiwan.⁴⁹ It may only be a matter of time before China backs up its ongoing naval maneuvers with economic coercion to challenge the Philippines, Vietnam, and other Asian countries in the territorial disputes that are taking place over the massive oil and gas reserves in the disputed South China Sea.

In 2008, during the Great Recession, Russia tried to convince China to dump their massive holdings in Fannie Mae and Freddie Mac. Beijing and Moscow ultimately balked, likely over fears that they had as much to lose as America. Still, the move would have delivered a debilitating blow as the U.S. struggled to contain the spiraling financial crisis.⁵⁰

In Europe, after Russia's annexation of Crimea and invasion of eastern Ukraine, Moscow used its energy and regional economic power to intimidate America's European allies, temporarily suspending the supply of natural gas to Ukraine, and threatening Eastern and Central European countries with similar consequences, including the ban of certain food imports. Moscow has used its control over key natural gas supplies to Europe to deter harsher sanctions.

Russia also has used political and economic warfare (as well as force in some cases) to try and re-establish what it considers its sphere of influence in former Soviet Republics. The Kremlin has done so by undermining the sovereignty of Eastern European countries, for example, Ukraine in Crimea and eastern Ukraine, Georgia in Abkhazia and South Ossetia, and Moldova in Transnistria. Baltic allies are also rightfully concerned about threats to their territorial integrity where there are large Russian speaking minorities and a steady stream of Russian provocation. Other allies in Scandinavia and Northern Europe have seen more frequent intimidation tactics via aerial and naval incursions.

⁴⁷ Ibid.

⁴⁸ Keith Bradsher, "Amid Tension, China Blocks Vital Exports to Japan," *The New York Times*, September 22, 2010. (http://www.nytimes.com/2010/09/23/business/global/23rare.html?_r=0)

⁴⁹ "Sanctions Turn Tables In U.S.-China Relations," *NPR*, February 7, 2010. (<http://www.npr.org/templates/story/story.php?storyId=123463748>)

⁵⁰ Juan Zarate, *Treasury's War: The Unleashing of a New Era of Financial Warfare*, (New York: PublicAffairs, 2013).

The use of cyber financial warfare by Russia, China, North Korea, and Iran against the United States and our allies also is increasing in scope and lethality, as my colleague at FDD's Center on Sanctions and Illicit Finance Juan Zarate has observed.⁵¹

CHALLENGE TO U.S. DOMINANCE

For now, America and its allies are vulnerable but buttressed by the fact that America dominates the global economy. This means that Washington sets the rules – and penalties for breaking the rules – in the formal financial sector. This all hinges on the power of the U.S. dollar. As long as the U.S. dollar is the currency of choice for global trade and foreign exchange reserves, and with the U.S. Treasury bill seen as the safest investment (even during financial crises) the United States has significant leverage to deflect economic broadsides, including illegitimate boycotts and some of the other measures mentioned above.

Thankfully, 87 percent of international trade is still conducted in dollars, and about 61 percent of global foreign exchange reserves are denominated in dollars, too.⁵² But this won't last forever. A number of countries and institutions are already looking at non-dollar options. As global finance expert Jim Rickards describes, the IMF is working on a multiyear plan to establish an alternative global reserve asset, SDRs or Special Drawing Rights, linked to a basket of currencies where the weight of the greenback would be reduced and the Chinese yuan would increase.⁵³

Other attempts are underway to circumvent the dollar-dominated system, primarily to evade U.S. penalties. One popular workaround is the Chinese credit card UnionPay, which has captured nearly half the global credit card market, with 45 percent of the credit cards in circulation, and it is now accepted in 135 countries.⁵⁴ UnionPay is delinked from New York, providing an alternative for countries like Russia to skirt U.S. sanctions.

With the Ukraine crisis escalating, Russia knows that more U.S. sanctions are coming. U.S. legislators and British officials have even contemplated expelling Russian banks from SWIFT – a move that Andrei Kostin, head of Russia's state-owned VTB Bank and a close Putin adviser, warned would be tantamount to a declaration of war.⁵⁵ Meanwhile,

⁵¹ Juan Zarate, "The Cyber Financial Wars on the Horizon: The Convergence of Cyber and Financial Warfare and the Need for a 21st National Security Response," *Center on Sanctions and Illicit Finance, Foundation for Defense of Democracies*, July 2015.

⁵² John Mauldin, "China's Renminbi Is Well On Its Way To Becoming A Global Reserve Currency," *Business Insider*, September 29, 2013. (<http://www.businessinsider.com/renminbi-soon-to-be-a-reserve-currency-2013-9#ixzz3gxLiuPFE>); "Current Composition of Official Foreign Exchange Reserves," *International Monetary Fund Website*, June 30, 2014. (<http://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4>)

⁵³ James Rickards, *The Death of Money: The Coming Collapse of the International Monetary System*, (New York: Penguin Group, 2014).

⁵⁴ Zijing Wu, "UnionPay: Visa and MasterCard's Tough Chinese Rival," *Bloomberg*, December 20, 2012. (<http://www.bloomberg.com/bw/articles/2012-12-20/unionpay-visa-and-mastercards-tough-chinese-rival>)

⁵⁵ Mikhail Klukushin, "Top Russian Banker and Putin Confidante Threatens US with 'War'," *Observer*, December 4, 2014. (<http://observer.com/2014/12/top-russian-banker-and-putin-confidante-threatens-us-with-war/#ixzz3gxNu4dWw>)

Russian officials reportedly are creating an alternative to SWIFT with Chinese cooperation, which doesn't yet have SWIFT's capabilities, credibility or market presence but one day could.⁵⁶

Trouble is on the horizon. The combination of an alternative global reserve asset, a Chinese global credit card, an alternative SWIFT system backed by Russia and China, and other banks willing to defy the global financial order could represent a significant challenge to U.S. interests and allies. Given the dollar's dominance, that challenge is unlikely to succeed any time soon. But an economic war is undeniably underway. And that war is now expanding to America's allies, too. Israel is among them.

RECOMMENDATIONS

Mr. Chairman, important efforts are underway to protect Israel from the economic and financial war being waged against it. But more must be done. This includes:

1. Congress should expand upon what was already accomplished by the anti-BDS amendment included in the Trade Act 2015 under the Trade Promotion Authority. The amendment discourages BDS measures by requiring U.S. trade negotiators to make rejection of BDS a "principal trade objective" in the Transatlantic Trade and Investment Partnership (TTIP) negotiations with the European Union. These measures were originally introduced as H.R. 825 with bipartisan support by Representatives Pete Roskam and Juan Vargas,⁵⁷ and S. 619 by Senators Rob Portman and Ben Cardin.⁵⁸ More federal legislation should be crafted to defend Israel against economic and financial warfare on multiple fronts.
2. Congress should further take steps to encourage the good work being done at the state level. Illinois Governor Bruce Rauner became the first governor to sign into law legislation making it illegal for taxpayer-funded public pension funds to invest in companies that participate in BDS activity.⁵⁹ The bill, supported across the political aisle, was sponsored by lawmakers Sen. Ira Silverstein (D-Chicago) and Rep. Sara Feigenholtz (D-Chicago). It passed 49-0 in the Senate and 102-0 in the House in voting which concluded in May. A similar bill, passed unanimously in both houses of the South Carolina legislature, also seeks to prohibit the state

⁵⁶ Mark Dubowitz & Annie Fixler, "SWIFT Warfare: Power, Blowback and Hardening America's Defenses," *Center on Sanctions and Illicit Finance, Foundation for Defense of Democracies*, July 2015. (http://www.defenddemocracy.org/content/uploads/publications/Cyber_Enabled_Swift.pdf)

⁵⁷ U.S House of Representatives, 114th Congress, "H.R. 825, To Promote Trade and Commercial Enhancement between the United States and Israel, and For Other Purposes," *Government Printing Office*, February 10, 2015. (<http://www.gpo.gov/fdsys/pkg/BILLS-114hr825ih/pdf/BILLS-114hr825ih.pdf>)

⁵⁸ U.S. Senate, 114th Congress, "S. 619," *Congress.gov*, March 2, 2015. (<https://www.congress.gov/114/bills/s619/BILLS-114s619is.pdf>)

⁵⁹ Rebecca Shimoni Stoil, "Illinois's Newest Law Fights Divestment with Divestment," *The Times of Israel*, July 24, 2015. (<http://www.timesofisrael.com/illinoiss-newest-law-fights-divestment-with-divestment/>)

from contracting with companies that boycott US trading partners. It protects South Carolina from participating in discrimination based on race, color, religion, or national origin and could have application to other American allies under threat by economic and financial warfare.⁶⁰

Plans are underway for similar bills in 19 other states.

But protecting Israel in these ways are tactical steps. We must begin to think strategically. Washington must now erect an economic shield of defense to protect the U.S. economy, and those of our allies against economic and financial coercion. This will require the U.S. government to change existing structures and develop doctrines to counter these economic and financial threats.

Juan Zarate is the former assistant secretary of the Treasury for terrorist financing and financial crimes and former deputy assistant to the president and deputy national security advisor for combating terrorism. He is also chairman and senior counselor at the Center on Sanctions and Illicit Finance, which I direct, at the Foundation for Defense of Democracies.

In a forward to a recent paper that I co-authored on offensive and defensive economic warfare,⁶¹ Mr. Zarate wrote:

Confronting the new realities of this geo-economic ecosystem requires innovative policy, new institutions and doctrines, and new modes of public-private collaboration and international cooperation. The nuclear age brought nuclear doctrine and strategies; the development of long-range missiles led to the creation of missile shields and alliances; the proliferation of cyberattacks has led to the creation of a Cyber Command and consideration of new forms of warfare. The age of financial warfare should likewise bring new strategies, doctrines, alliances, defensive shields, and command and control structures. The winners in this new era of economic warfare will be those who can sharpen their offenses while complementing with economic defense-in-depth. To date, the United States has too often focused on the former and neglected the latter.

What is needed is a strategic framework for national economic security that accounts for the emerging economic security environment of the twenty-first century. A policy planning function at the U.S. Treasury, greater depth and convergence of expertise within

⁶⁰ Michael Wilner, "South Carolina Becomes First US State to Take Action against Anti-Israel Boycotts," *The Jerusalem Post*, June 5, 2015. (<http://www.jpost.com/Diaspora/South-Carolina-becomes-first-US-state-to-take-action-against-anti-Israel-boycotts-405120>)

⁶¹ Mark Dubowitz & Annie Fixler, "SWIFT Warfare: Power, Blowback and Hardening America's Defenses," *Center on Sanctions and Illicit Finance, Foundation for Defense of Democracies*, July 2015. (http://www.defenddemocracy.org/content/uploads/publications/Cyber_Enabled_Swift.pdf)

the White House staff on issues of financial power, a clearly defined doctrine on the use of economic coercion, and even the proposal for an Economic Warfare Command, among other recommendations, are important ideas to consider if the United States hopes to prepare to defend itself against potential financial and economic aggression. To address our vulnerabilities, we need to conceive of the global landscape differently and organize ourselves appropriately to use the full expanse of U.S. national power to defend our interests.

Mr. Chairman, to better prepare the United States to defend its economic security and those of its allies from economic and financial warfare, I recommend that this Subcommittee work with other relevant congressional committees and the administration to institute the government reforms as discussed below. These recommendations are further detailed in my paper and are based on extensive discussions with former and current government officials and private sector experts.⁶²

1. Create an Office of Policy Planning at the U.S. Department of Treasury.

Unlike the State Department and the Pentagon, the Treasury Department does not have an office responsible for policy planning. This new Office of Policy Planning would emphasize creativity in the development and deployment of new economic and financial tools for both offensive and defensive purposes. It would assemble experts from different offices throughout the department who can bring different expertise and assets to the table, including specialists from the Office of Foreign Assets Control (OFAC)—the office in charge of U.S. sanctions programs—to examine technical regulations and financial sanctions enforcement; experts from the Office of Terrorism and Financial Intelligence (TFI), including those from the Office of Terrorist Financing and Financial Crimes (TFFC) to focus on illicit finance; those from the Office of Intelligence and Analysis (OIA) to share financial intelligence; and the financial crimes experts from the Financial Crimes Enforcement Network (FinCEN); as well as professionals from Treasury's International Affairs office to consider economic warfare and its impact on global markets, financial trading, and other macroeconomic systems.

The new Office of Policy Planning should develop long-range strategies on how to position the United States to deal effectively with offensive and defensive economic and financial warfare, including how to create a defensive shield architecture to protect the U.S. economy and those of our allies against this threat.

2. Set up an Economic Warfare Directorate at the National Security Council.

U.S. officials have told us that the White House itself needs more staff members who have in-depth understanding of coercive economic tools and view economic coercion as a central component of national security policy making. The NSC has a directorate of

⁶² Mark Dubowitz & Annie Fixler, "SWIFT Warfare: Power, Blowback and Hardening America's Defenses," *Center on Sanctions and Illicit Finance, Foundation for Defense of Democracies*, July 2015, pp. 31-37. (http://www.defenddemocracy.org/content/uploads/publications/Cyber_Enabled_Swift.pdf)

international economics, and thus from this directorate—as a subcomponent or as a reconfiguration of its priorities—a directorate of economic coercion ought to be created. This directorate would focus broadly on economic coercion and would need to cooperate and perhaps have a permanent cross-directorate mechanism with other experts in the NSC to address offensive and defensive economic warfare.

3. Create a Doctrine on the Use of Offensive and Defensive Economic Warfare.

The new Office of Policy Planning and Economic Sanctions Directorate should develop and articulate a doctrine on the use of both offensive and defensive economic coercion. This doctrine could provide a framework for strategic evaluation of when, and how, economic coercion can be effective in policy relevant timeframes. The Defense Department has well-developed doctrines on the use of military force, and it is creating a cyber warfare doctrine. There is also an increasing interest in developing an all-of-government “lawfare” doctrine to guide how legal tools can be used as instruments of offensive and defensive lawfare. The Pentagon has created clear rules of engagement on the use of the tools at its disposal, and so should the Treasury Department and NSC.

4. Create an Economic Warfare Command.

The United States needs to develop an Economic Warfare Command, ECONCOM, in the way that it has developed a Cyber Command. This Command would become the locus for developing and leveraging offensive coercion and incentive tools and for devising and building proactive strategies of economic defense. Housed at the Treasury Department and led by the Treasury’s Office of Terrorism and Financial Intelligence with close coordination with the new Treasury Office of Policy Planning, this new command would coordinate and draw assets from within Treasury and across the federal government. Placing ECONCOM at Treasury would be unique as CYBERCOM, which is led by the director of the National Security Agency, is housed within the Department of Defense.

CONCLUSION

Mr. Chairman, this may sound very ambitious, but a government-wide approach to hardening defenses against economic and financial warfare is long overdue. With new economic threats looming, this is what will be required to protect America and its allies. The mandate of this subcommittee is ideal to rise to this challenge.

BDS is a form of economic and financial warfare. We can and should weaken it through tactical measures. This hearing is an important step to that end. But BDS must also be viewed within a broader problem set that must be addressed at a more strategic level. Failure to do so will leave us vulnerable to attack, while also leaving exposed our most reliable partner in the Middle East as well as other important allies in Europe, Asia and around the world.

Mark Dubowitz

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