

Tracking Global Sanctions against Syria

MSCI ESG Research Analysis

By Eric Fernald

Syria, Human Rights, Sanctions, and Investors

As the Arab Spring continues to bloom into late summer and the Syrian people work to turn over yet another long-time repressive regime, investors are right to ask “what does it all mean?”

In order to answer that question we will need to review the human rights situation in Syria, existing and proposed U.S., EU and UN sanctions, and the implications for different types of investors.

Syria and Human Rights

The democratic awakening in Northern Africa and Southwest Asia of 2010 and 2011 spread in earnest to Syria in March 2011. Peaceful protests by Syrian citizens calling for democratic reforms have been met with violence by security forces. As of August 2011, over 2000 Syrian citizens had been killed by Syrian security forces, and over 10,000 had been arrested.

The UN Human Rights Council and well-respected human rights groups such as Human Rights Watch have called the actions of the Syrian government **possible crimes against humanity** – citing summary executions, torture, and violence against children.

Syria has been ruled by the Ba’athist party under an emergency decree that severely limits political dissent since 1963. The current Syrian president, Bashar al-Assad, became president after the death of his father Hafaz al-Assad, who ruled from 1970-2000. By most measures Syria is in the bottom quartile of rankings of countries on democratic metrics - for example the country ranks 152 out of 167 countries in The Democracy Index maintained by the Economist Intelligence Unit.

Syria and Sanctions

Against this backdrop government and non-governmental organizations are turning to economic sanctions to pressure the Syrian regime. The following is a brief overview of the state of sanctions in the U.S., the EU and the UN.

U.S.

U.S. federal government sanctions limit U.S. exports to Syria, limit the U.S. financial sector relations with the Syrian central bank, and target the top leadership of Syria. Many of these sanctions were in place prior to the recent popular protests due to Syria being on the U.S. State Department list of countries supporting terrorist organizations.

In August 2011, the U.S. federal government added a ban on oil imports from Syria, prohibited U.S. company investments in the Syrian oil industry, barred all dealings with the main commercial bank of Syria and targeted Syrian's main mobile phone operator, Syriatel. In addition, the U.S. Congress is considering legislation to prevent non-U.S. companies from bidding on U.S. federal contracts if they are deemed to be involved in the Syrian energy sector.

At the U.S. state level, 15 state legislatures have mandated that state employee pension funds divest from companies that have economic ties to Syria. The criteria for divestiture vary by state, but most focus on banning investments in companies that have a direct involvement either with the government of Syria – especially the military, or with a one of the crucial economic sectors of the Syrian economy – such as energy.

European Union

As of August 2011, the EU had also imposed a limited set of sanctions against Syria, including freezing assets of regime leaders, and an embargo against sales of arms and equipment that could be used against civilian protesters. The EU is actively considering a ban on oil imports from Syria, which would be a significant development since Europe purchases over 90% of Syrian oil exports.

United Nations

In early August 2011, the UN Security Council unanimously condemned the wide spread violations of human rights in Syria. The UN Security Council is actively considering economic sanctions against Syria.

Investors

In light of these human rights infractions, the existing economic sanctions and the possibility of more to come, what are the implications for investors in equities? The answer to this question depends on the investor.

Government Mandates and public pension funds

Many fund managers for U.S. state government employee pension funds face investment constraints due to state legislative mandates. For example, the state of Hawaii has mandated divestment for companies operating in Syria. The definition of “operating in Syria” includes owning/controlling property or assets, having employees or facilities, providing goods/services to or obtaining goods/services from, having distribution agreements with, issuance of credit or loans to, purchasing bonds, investing in or having equity ties with, or being domiciled in Syria.

MSCI ESG RESEARCH's Global Sanctions service tracks all global publicly traded companies that have any involvement with the Syrian government and/or the Syrian economy.

As of August 2011, sanctions imposed by the U.S. Federal government and by the EU do not mandate investment restrictions on public pension funds.

Human Rights and Investor Exposure to Syria

Investors that manage accounts that have ethical constraints related to human rights violations may need to review those guidelines in light of the events in Syria. Such investors might find it appropriate or necessary to avoid companies that have significant ties to the Syrian regime, or they might decide to target those companies for engagement. Investors in this instance would be primarily concerned with the support companies may be providing to a repressive regime rather than with companies being directly implicated in human rights violations.

For example, two companies with operations in the Syrian oil industry are the Canadian company, Suncor Energy Inc., and the British company Gulfsands Petroleum Plc. Suncor participates in the Elba oil company joint venture with Syria's state-owned General Petroleum Corp. Gulfsands Petroleum owns 50% of a license to produce oil in Syria with Sinochem of China. Both of these companies are possible candidates for engagement or divestment given their involvement in the oil industry in Syria. In addition, these companies' operations in Syria may be at risk if future EU or UN sanctions are enacted.

MSCI ESG RESEARCH's *Impact Monitor* product focuses on companies that have major or moderate links to key sectors of the Syrian economy.

Contact Us

esgclientservice@msci.com

Americas

+1.212.804.5299

Europe, Middle East & Africa

+44.207.618.2510

Asia Pacific

+612.9033.9339

Notice and Disclaimer

- This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of MSCI Inc. or its subsidiaries (collectively, "MSCI"), or MSCI's licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the "Information Providers") and is provided for informational purposes only. The Information may not be reproduced or disseminated in whole or in part without prior written permission from MSCI.
- The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indices, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.
- The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.
- Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or wilful default of itself, its servants, agents or sub-contractors.
- Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.
- None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.
- MSCI's indirect wholly-owned subsidiary Institutional Shareholder Services, Inc. ("ISS") is a Registered Investment Adviser under the Investment Advisers Act of 1940. Except with respect to any applicable products or services from ISS (including applicable products or services from MSCI ESG Research Information, which are provided by ISS), none of MSCI's products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and none of MSCI's products or services is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.
- The MSCI ESG Indices use ratings and other data, analysis and information from MSCI ESG Research. MSCI ESG Research is produced by ISS or its subsidiaries. Issuers mentioned or included in any MSCI ESG Research materials may be a client of MSCI, ISS, or another MSCI subsidiary, or the parent of, or affiliated with, a client of MSCI, ISS, or another MSCI subsidiary, including ISS Corporate Services, Inc., which provides tools and services to issuers. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indices or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body.
- Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, ISS, CFRA, FEA, and other MSCI brands and product names are the trademarks, service marks, or registered trademarks or service marks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor's. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and Standard & Poor's.

About MSCI ESG Research

MSCI ESG Research is a leading source of environmental, social and governance (ESG) ratings, screening and compliance tools to advisers, managers and asset owners worldwide. Its products and services are used by investors to integrate ESG factors into their investment processes.

MSCI ESG Research is the successor of sustainability pioneers KLD, Innovest and IRRC, which were acquired through MSCI's acquisition of RiskMetrics. ESG ratings, data and analysis from MSCI ESG Research are also used in the construction of the MSCI ESG Indices.

About MSCI

MSCI Inc. is a leading provider of investment decision support tools to investors globally, including asset managers, banks, hedge funds and pension funds. MSCI products and services include indices, portfolio risk and performance analytics, and governance tools.

The company's flagship product offerings are: the MSCI indices which include over 148,000 daily indices covering more than 70 countries; Barra portfolio risk and performance analytics covering global equity and fixed income markets; RiskMetrics market and credit risk analytics; ISS governance research and outsourced proxy voting and reporting services; FEA valuation models and risk management software for the energy and commodities markets; and CFRA forensic accounting risk research, legal/regulatory risk assessment, and due-diligence. MSCI is headquartered in New York, with research and commercial offices around the world.