

Israel's Bomb: Or, Finance as the Undoing of Foreign Policy

Written by NAJ Taylor

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<https://www.e-ir.info/2012/08/14/israels-bomb-or-finance-as-the-undoing-of-foreign-policy/>

NAJ TAYLOR, AUG 14 2012

The story broke like this: a German shipyard has been manufacturing submarines for Israel, who are allegedly arming them with “nuclear tipped” missiles. In the 1970s when this practice started many within the German establishment recast the Nazi holocaust as a future responsibility to arm the state of Israel. *Der Spiegel*, the daily that published the claims, and its readers, are aghast. The underlying scandal, however, is arguably more sinister than German-Israeli cooperation, and as equally troublesome as the “nuclear holocaust” paradox.

What I intend to do here is raise another possibility: that Arab states are possibly financing the German ship maker either directly, or, more probably, indirectly by investing in firms which do provide the arms producer with financial and other services. The causal logic behind this claim goes to the very heart of the interconnected, institutional structure of global financial markets.

The German shipbuilder is a firm based in Kiel called, Howaldtswerke-Deutsche Werft –let’s just call them, HDW. HDW are in turn majority-owned by ThyssenKrupp. You may not have heard of ThyssenKrupp, but you likely come into contact with one of their products or services everyday. This morning, you may have navigated numerous flights of stairs on your way to work in a ThyssenKrupp elevator. The shopping mall, airports, car parks and train stations you use daily are designed to function efficiently using ThyssenKrupp escalators.

If you have a bank account, an investment portfolio or pension fund account, chances are you’ve got some form of financial relationship with ThyssenKrupp. Say you live in London, and just have a bank account. HSBC are a big one. The bank put out a memo in June 2011 advising its retail banking customers that HSBC “continue to see value in ThyssenKrupp”, and the bank itself has a financial relationship with the group. Say you live in New York and have a vast investment portfolio or pension fund for your retirement. Because of the structure of the institutional investment market, I can’t feasibly see how you or your advisor could not have a financial relationship with ThyssenKrupp.

Without full disclosures of stock holdings, my probing may only be tentative and illustrative.

But there’s another layer of financial dealings at the heart of this story that are more interesting still: those at the level of states. Governments have large pools of money to invest too. They are known as “sovereign wealth funds”. In 2006 Norway established a fund now worth \$315 billion from its sale of petroleum. The state of California has a retirement fund set up for public servants that is valued upwards of \$220 billion.

Qatar, the owners of *Al Jazeera*, has a \$100 billion investment arm with the express mandate to “invest in foreign assets”. It’s called the Qatar Investment Authority – let’s call it QIA. It is common practice for institutional investors like QIA to withhold the details of the assets that it holds at any one time – this is, after all, its own strategy. It remains very difficult for me, therefore, to ascertain whether QIA holds stock in ThyssenKrupp or not – or any other company for that matter. One leading institute concedes that such studies are difficult since, stock holding and policy transparency is often lower for sovereign wealth funds than it is for other funds:

“Some sovereign wealth funds are non-transparent, meaning they do not report their holdings or strategies to the

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Public. Some experts say they are passive investments, while others fear they are a matter of national security. These are causes for concern for many people, investors, and governments; and will eventually fuel the fires of protectionism.”

However what we do know is that by one measure, the Qatari fund is rated a 5 from 10 – when a score of 8 is said to be the minimum, “adequate” recommended standard. What is needed then is for QIA to publicly state what it has *blacklisted* from its investment portfolio. For instance, in September 2005 Norway’s own sovereign wealth fund asked target companies the following:

“In connection with the implementation of these Guidelines, we have been asked by the Advisory Council on Ethics for the Government Petroleum Fund to enquire into whether your company, or any of its subsidiaries, is involved in the development, testing, production, assembly or maintenance of components made for nuclear weapons.”

As a result of these sorts of conversations, all recorded on Norway’s website, we know that Norway do not invest in, and why. I have no capacity to ask such questions on behalf of the Qatar Investment Authority. Except write this.

Only the Qatar Investment Authority can put cold water on my otherwise tentative claims – confirming that it has policies and procedures in place, including an Ethical Committee like the Norwegians, to review the nature of its investments for any conflicts with government policy as they may arise.

Because my point is that such dilemmas do often arise, and are best dealt with by way of a prescriptive and public policy, transparently.

But I also don’t mean to pick on Qatar owners either; many states have sovereign wealth funds. Other Arab states, such as the UAE, Bahrain, Saudi Arabia all maintain sovereign wealth funds, and some with lower levels of sophistication and transparency. But this also isn’t just “a Middle East problem”.

Australia’s sovereign wealth fund, for instance, is known to invest in firms that produce and service nuclear weapons, despite espousing its leadership role in strengthening the global nuclear norm in official statements seeking to demonstrate Australia’s principled and responsible record of international citizenship. One can’t help but think: is the institutionalisation of the financial markets such that we may never definitively know who is, and who is not, financing the vast infrastructure behind the Israeli bomb?

All I can say for sure is that if Arab states such as Qatar are found to be holding stock in that German ship maker, their financiers, or even companies like Siemens and Atlas which *Der Spiegel* identified as supplying the submarine’s navigation equipment, then I think perhaps we *have* gone past that critical juncture where the interconnectedness of global financial dealings act independent of our governments’ foreign policies.

In my experience, it has been worth asking governments these sorts of questions.

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