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Lobbyists Smoothed the Way For a Spate of Foreign Deals

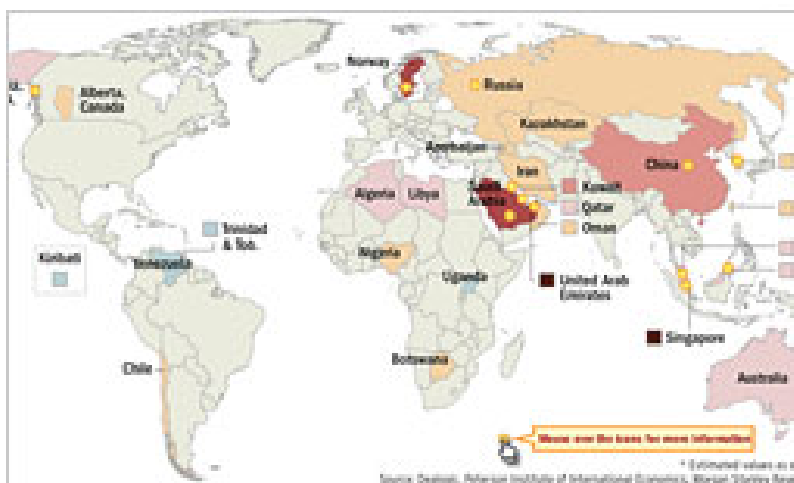
By Bob Davis and Dennis K. Berman

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WASHINGTON -- Two years ago, the U.S. Congress pressured the Arab emirate of Dubai to back out of a deal to manage U.S. ports. Today, governments in the Persian Gulf, China and Singapore have snapped up \$37 billion of stakes in Wall Street, the bedrock of the U.S. financial system. Lawmakers and the White House are welcoming the cash, and there is hardly a peep from the public.

This is no accident. The warm reception reflects millions of dollars in shrewd lobbying by both overseas governments and their Wall Street targets -- aided by Washington veterans from both parties, including big-time Republican fund-raiser and lobbyist Wayne Berman. Also easing the way: The investments have been carefully designed to avoid triggering close U.S. government oversight.

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Clearly, U.S. financial firms that have been deeply weakened by the credit crisis, including Citigroup Inc. and Merrill Lynch & Co., need the cash. Meanwhile, investment pools funded by foreign governments, called sovereign-wealth funds,

have trillions to invest. Some American politicians, though suspicious of foreign governments, deem it suicidal to oppose aid to battered financial companies.

"What would the average American say if Citigroup is faced with the choice of 10,000 layoffs or more foreign investments?" asks New York Democratic Sen. Charles Schumer, who played a central role in killing the Dubai port deal but has applauded recent foreign investment.

But by making investment by foreign governments seem routine, Washington may be ushering in a fundamental change to the U.S. economy without assessing the longer-term implications. Some economists warn that the stakes could provide autocratic governments an important say in how U.S. companies do business, or give them access to sensitive information or technology. Those familiar with the deals' governmental review processes say military officials worry that a foreign government, especially China, may be able to coax an executive into turning over secrets.

Former U.S. Treasury Secretary Lawrence Summers counsels caution. "There should be a very strong presumption in favor of allowing willing buyers to take noncontrolling stakes in companies," Mr. Summers says. "However, it's imaginable that government-related entities [investing in the U.S.] will be motivated to strengthen their national economies, make political points, reward or punish competitors or suppliers, or extract know-how."

Sovereign-wealth funds, meanwhile, continue to seek opportunities. Thursday at the World Economic Forum in Davos, Switzerland, Qatar's prime minister said the oil-rich sheikdom's investment arm wants to invest \$15 billion in European and U.S. banks. "We're looking at buying stakes in 10 or 12 blue-chip banks," Sheikh Hamad bin Jasssem Al Thani told Zawya Dow Jones. "But we will start small."

In nearly every case, American financial companies are escaping detailed U.S. government review by limiting the size of stakes they sell to government investment funds. The multiagency Committee on Foreign Investment in the U.S., led by the U.S. Treasury, can recommend that the president block foreign acquisitions on national-security grounds. Congress also can block deals by pressuring companies or by passing legislation.

Under CFIUS rules, a passive stake -- one in which investors don't seek to influence a company's behavior -- is presumed not to pose national-security problems. Neither is a small voting stake, usually of less than 10%. During the recent string of deals,

financial companies whose investments have met those requirements have notified CFIUS and haven't had to go through 30-day initial reviews.

A backlash could still develop if the funds throw their weight around in U.S. companies. The government reserves the right to examine an investment even after the deal closes.

When the U.S. economy was riding high in 2004, sovereign money was sometimes shunned. Dubai's Istithmar investment fund was viewed warily in New York when it went hunting for real estate. In part, that is because sellers worried that Istithmar's government ownership would lend the company sovereign immunity, insulating it from lawsuits if it reneged on a contract. (As a commercial arm of the government, it wouldn't have been immune.)

Now Wall Street is thirsting for new capital, preferably in huge amounts and deliverable at a moment's notice. Sovereign-wealth funds look like an oasis. These government-funded pools have about \$2.8 trillion in assets, which Morgan Stanley estimates could grow to \$12 trillion by 2015 as Middle Eastern funds bulk up on oil receipts and Asian ones expand from trade surpluses.

"You can't have a \$9 trillion debt and huge trade deficit and not expect at some point you'll have to square accounts," says David Rubenstein, CEO of Washington-based private-equity firm Carlyle Group. Foreign savings have to go somewhere, he says: "Better that it come to the U.S. than anywhere else." (An Abu Dhabi fund, Mubadala Development Corp., has a 7.5% stake in Carlyle.)

As the U.S. financial crisis deepened over the summer, sovereign-wealth funds became a favorite of capital-short Wall Street firms. That is because state funds presumably have an incentive to be passive investors, to avoid raising objections to their stakes. Domestic investors, on the other hand, might demand a bigger say or board seats for a similar-size stake. As it sought its most recent cash infusion of \$6.6 billion, Merrill Lynch turned away possible investments from U.S. hedge funds in favor of investments from government funds from South Korea and Kuwait, say people involved with negotiations.

A senior official at China Investment Corp., which has about \$200 billion in assets including a \$3 billion stake in private-equity firm Blackstone Group LP, says it doesn't want to play an active role in corporate governance. "We don't even want to take the kind of stand of someone like Calpers," which is the California state pension fund, the

official said. "We don't have enough people, and we can't send directors out to watch companies."

Behind Washington's acceptance of large-scale foreign investments lies a well-funded lobbying campaign, spurred when Congress objected to government-owned Dubai Ports World's investment in a U.S. port operator. The United Arab Emirates -- a federation of seven ministates including Dubai and Abu Dhabi -- was seared by the accusation that an Arab government-owned company couldn't be trusted to protect U.S. ports against terrorists. Last year, the U.A.E. launched a three-year, \$15 million Washington lobbying campaign, the U.S.-Emirates Alliance, to burnish its reputation.

The alliance, headed by former Hillary Clinton campaign aide Richard Mintz, recruited about two dozen businesses to form a support group. It contributed \$140,000 to a prominent Washington think tank, the Center for Strategic and International Studies, to start a "Gulf Roundtable" discussion series. It also forged alliances with prominent Jewish groups by persuading the U.A.E. to clear the way for U.S. travelers whose passports had Israeli visas; such travelers sometimes had been turned away by U.A.E. customs agents, Jewish groups said.

Such openness has its limits, though. In June 2007, the Abu Dhabi Investment Authority, the world's largest sovereign-wealth fund, with an estimated \$875 billion in assets, hired public-relations firm Burson-Marsteller for \$800,000 for an initial eight-month contract to improve communications. But it still has no press department or press kits. It forbids its Washington representative, James Lake, to talk to the media.

Even as the Dubai port controversy spurred sovereign investors to engage in a charm offensive, it led lawmakers to re-examine laws governing the Committee on Foreign Investment in the U.S. Some proposed to vastly expand the definition of investments that could pose a threat to national security. Both foreign firms and U.S. banks lobbied fiercely in response, pressing to keep the reviews narrow enough to encourage foreign investment.

Their lobbying largely succeeded. The Financial Services Forum, which represents the 20 largest U.S. financial firms, focused on Sen. Schumer, a frequent Wall Street ally. In one April 2006 session, a dozen CEOs, including then-Goldman Sachs CEO Henry Paulson, who is now U.S. Treasury Secretary, told the senator about the importance of open investment. A participant says Sen. Schumer described the Dubai port controversy as an "anomaly." Since then, executives from top financial firms have

consulted with Sen. Schumer when foreign firms seek to buy stakes and regularly win his endorsement.

Sen. Schumer says the executives assure him that foreign investors will have "not just virtually no control, but virtually no influence."

Compared with the ports industry, the financial sector speaks with an outsize megaphone in Congress. In the 2006 election cycle, commercial banks and securities firms, and their employees, contributed \$96.3 million to congressional campaigns -- 32 times as much as the sea-transport industry, which includes ports, according to the nonpartisan Center for Responsive Politics. Banks and securities firms are also the largest industry contributors to members of the Senate Banking Committee and House Financial Services Committee, which can review investments in Wall Street firms. Sen. Schumer is a member of the Senate Banking Committee.

Wall Street and the U.A.E. thought they had turned the corner by spring 2007 when another Dubai-owned company, Dubai Aerospace Enterprise Ltd., bought two firms that owned small U.S. airports and maintenance facilities that serviced some navy transport-plane engines. The Dubai firm pledged to submit to government security reviews and submit its employees for security screening. It also thoroughly briefed lawmakers on the deal. It ran into no obstacles on Capital Hill.

"I call the strategy, 'wearing your underwear on the outside,'" says one of Dubai Aerospace's Washington lobbyists, Joel Johnson, a former Clinton White House communications adviser. "We have to show everybody everything -- no secrets, no surprises."

The deal that provided a blueprint for the current wave of foreign investments was China's \$3 billion stake in Blackstone Group's initial public offering, announced last May. In helping to gain congressional approval for the deal, lobbyist Mr. Berman emerged as a key strategist.

Mr. Berman, a Commerce Department official in the administration of George H.W. Bush, has been one of the Republican Party's most adept fund-raisers, bringing in more than \$100,000 for President George W. Bush in 2000 and more than \$300,000 in 2004. Mr. Berman cultivates a range of contacts with salon-style dinners at his home with his wife, Lea, who was Laura Bush's social secretary. He is now a fund-raiser for Sen. John McCain's presidential bid.

Blackstone asked Mr. Berman, a longtime lobbyist for companies in the financial industry, to help smooth the way in Congress for China to buy a piece of the private-

equity firm. A minority stake made sense to both sides: Blackstone wanted to boost its presence in China. China, which was in the process of setting up China Investment Corp., wanted to show it could become a trusted investor in top U.S. firms.

Mr. Berman pointed out that offering a board seat, or a stake of more than 10%, would invite government review. Ultimately, the two sides agreed on a stake of as much as 9.9% and passive investment. "Our intention was not to arouse too much sensation in any way," says the senior China Investment Corp. executive.

Mr. Berman says the goal wasn't to get around the rules but to work within them. "Policy considerations didn't drive the specifics of the deal," says Mr. Berman. "Policy considerations informed the deal."

Blackstone executives briefed several dozen lawmakers, with the firm's chief executive, Stephen Schwarzman, sitting in on some sessions. Stiff opposition came from Sen. James Webb, a first-term Virginia Democrat. Sen. Webb wrote a novel published in 1991, "Something to Die For," in which Japan uses its financial muscle to gain influence in Washington. The senator worries Beijing could do the same.

Mr. Webb wanted the China investment deal delayed so regulators could examine whether Blackstone's stake in a semiconductor company posed national-security problems. One of Mr. Berman's partners pointed out that the firm produced off-the-shelf chips. Sen. Webb withdrew his objections to the deal, though he remains skeptical of sovereign investors.

Mr. Berman's firm, Ogilvy Government Relations, a unit of WPP Group PLC, billed Blackstone \$3.9 million in 2007 for the work on the investment, tax and other issues.

Other deals followed, similarly structured to avoid raising congressional uproar. Two other Berman clients, Carlyle Group and Citigroup, negotiated investments with sovereign-wealth funds -- both marked by passive stakes and no board seats -- and faced no resistance. Mr. Berman says he didn't lead strategizing in either deal.

Citigroup and Merrill Lynch, in their most recent round of capital-raising, included U.S. investors, including New Jersey's Division of Investment, giving politicians even more reason to support the deals. "The principality of New Jersey" is now buying stakes in Citigroup and Merrill Lynch, jokes Democratic Rep. Barney Frank of Massachusetts, who heads the House Financial Services Committee.

Other sovereign-wealth funds have turned to Washington experts for advice. Former New York Fed Chairman William McDonough, a vice chairman of Merrill Lynch, is also

a member of the international board of advisers of Temasek Holdings Pte. Ltd. of Singapore. Temasek has stakes in Merrill Lynch as well as British banks Barclays PLC and Standard Chartered PLC. Former Senate Banking Committee Chairman Phil Gramm, now an adviser to Sen. McCain, is vice chairman of investment banking at UBS AG of Switzerland, which sold a stake to another Singapore government investment fund. He says he talks regularly with sovereign-wealth funds who seek his advice on dealing with Washington.

U.S. financial firms say the welcoming attitude of the U.S. Treasury has also helped. Essentially, the Treasury and other industrialized nations have subcontracted some of the most difficult questions concerning sovereign-wealth funds to the International Monetary Fund. In particular, the IMF is trying to persuade the funds to adopt voluntary codes to act for commercial, rather than political, reasons.

Presidential candidates have widely ignored sovereign-wealth funds' investments. Democrat Hillary Clinton, alone among top contenders for the White House, has addressed their downsides. "Globalization was supposed to mean declining state ownership," she said in an interview. "But these sovereign-wealth funds point in the opposite direction." She wants to go beyond the IMF efforts and look into a "regulatory framework" for the investments.

Banking Committee Chairman Christopher Dodd said on Wednesday that his committee would be "examining" sovereign-wealth-fund investments. So far, the only congressional hearing on the funds was held by Indiana Democratic Sen. Evan Bayh. "No one wants to rock the boat," Sen. Bayh says, because flagship financial institutions need the cash.

Still, he is skeptical of the sovereign money. "If you had unfettered U.S. government investments in markets, you'd have people throwing around words like socialism," says Sen. Bayh. "With foreign government investments, the silence is deafening on all sides."

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