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Goldman Sachs caught in a Sharia Catch-22

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Joy Brighton

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In September 2011, Goldman Sachs announced it would issue a $2 billion Shariah Compliant Islamic Bond derivative known as a "Sukuk" to finance its current business operations.

However, by Feb. 15, 2012, despite Goldman Sachs' many acts of obeisance in the service of capital, Abu Dhabi Islamic Bank's Shariah scholars decided that Goldman Sach's Islamic bond program was "noncompliant with Shariah."

Why? Because Middle East petrodollar funding must be used to strengthen Middle East petrodollar goals.

According to an article in the Arab News, Shariah-committed imams declined to issue its religious approval (fatwa) for the Goldman Bond derivative because the "use of proceeds" to fund Goldman's non-Islamic business is forbidden, according to Shariah finance laws.

Goldman Sachs is the victim of a Catch-22 business deal -- it can legally raise $2 billion in the Shariah-based Islamic market, but it cannot legally apply these funds to its business operations.

Stringent requirements placed on Western banks wanting to engage in Shariah banking were created to pull Western and American dollars out of free capital markets and divert into imam-controlled financial markets.

This explains why one of the first official mandates of Ayatollah Khoemini of Iran in 1983 was to install Shariah banking, and outlaw that nation's existing Western banking system.

Today, Iran controls 36 percent of all Shariah assets. It is not unrealistic that taxes and fees paid into this Shariah market will fund anti-Western activity.

Wading thru poorly disclosed Shariah requirements that Goldman Sachs must fulfill to receive a "Shariah compliant blessing" reveals an opaque financial system, with a kind of hidden taxation scheme.

In order to receive the necessary fatwa, a bank must pay and hire Shariah-committed imams as bank board members to help oversee the business, and they are often also made to pay a tax to Shariah governments like Saudi Arabia.

In addition, they must invest in Middle East economies; and they must not invest in "Western" business ventures that threaten the supremacy or undermine the defense or moral sanctity of Islamic-majority countries. (Other requirements such as the "ban" on interest are not relevant here.)

How will Shariah-law financial practices influence and regulate financial deals that occur outside of Islamic majority companies?

Here's an example: If Goldman were to agree to Shariah requirements, the firm would have to withdraw as underwriter of the upcoming Facebook initial public offering.

After all, many Facebook members post photos of themselves engaged in "anti-Islamic activities" such as drinking beer or posing with scantily dressed women.

And, many Facebook advertisers, which accounted for 90 percent of Facebook's $3.8 billion revenue in 2011, engage in anti-Islamic activity, such as the Hollywood advertisements for the new "Act of Valor" movie that shows real active-duty U.S. Navy SEALs training to fight Islamic Jihadists.

In fact, Facebook enables people globally to engage in all kinds of "un-Islamic activity" such as free political speech and debate, including the criticism of Islam.

So why would Goldman be willing to comply with Shariah law principles in the first place? How could Goldman fully disclose the risks of Shariah finance to potential pension and mutual fund investors, when their own due diligence department didn't figure out the "use of funds" snag? What other Shariah-finance risks might be overlooked?

In search of short-term profits, will Goldman Sachs and fellow Wall Street firms try to tap into Shariah dollars, and expand imam-controlled Shariah businesses in the United States? Who will suffer the long-term loss of economic and political independence?

You and me.

Joy Brighton is a former Wall Street trader and an expert on Shariah-compliant finance.