



SUDAN DIVESTMENT

TASK FORCE

A project of the Genocide Intervention Network

1333 H Street NW, Washington, DC 20005

PHONE (202) 481-8220
FAX (800) 991-2024
E-MAIL info@SudanDivestment.org
WEB SITE www.SudanDivestment.org

PetroChina, CNPC, and Sudan: Perpetuating Genocide

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A Report by
The [Sudan Divestment Task Force](#)

For questions on this report, please contact us at: info@sudandivestment.org. Contributors to this report include the Sudan Divestment Task Force research team, hired researchers from the University of California, San Diego, and Maria Lewytzkjy from the Monterey Institute of International Studies.

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Executive Summary

In 2003, the Government of Sudan initiated genocide against its own civilians from several tribes in the country's Darfur region. For four years the regime in Khartoum has resisted diplomatic and political overtures to change its behavior. As a result, the international community must now use its financial leverage with a regime that has historically proven responsive to economic pressure and that relies on investments from a handful of foreign oil companies to finance its growing military expenditures. Chief among Khartoum's corporate sponsors is China's state-owned oil company, China National Petroleum Corporation (CNPC). CNPC's majority-owned, publicly-traded subsidiary, PetroChina, lists on the Hong Kong and New York Stock Exchanges.

This document describes how CNPC plays the role of enabler in the Government of Sudan's genocidal campaign against its own people and the intimate, opaque, and symbiotic relationship between PetroChina and CNPC. Management at CNPC and PetroChina almost completely overlap and frequent asset transfers between the two entities, which often take place at subsidized rates, have made CNPC completely reliant on PetroChina for its financial health. While PetroChina has no operations in Sudan, this paper makes the case that shareholder pressure on the company can ultimately change the relationship between Sudan and its most significant financial and political supporter, China.

It is the firm belief of the Sudan Divestment Task Force, supported by extensive consultations with foreign policy experts, former government officials, and international organizations involved in Sudan, that vigorous and sustained engagement by PetroChina's major shareholders would be a critical component of the international community's efforts to halt the ongoing genocide in Darfur. As some of the largest shareholders of PetroChina, Berkshire Hathaway, Fidelity Investments, JP Morgan, Templeton, and other major asset managers have a particularly important role to play and an enormous ability to influence how PetroChina is viewed in financial markets. If PetroChina is insufficiently responsive within a reasonable period of time, the Sudan Divestment Task Force calls on investors to divest from the company.

Financial Underpinnings of Darfur's Genocide

The twenty-first century's first genocide continues unabated in the Darfur region of Sudan. For the first time in history, the President of the United States and the United States Congress have declared that an ongoing crisis amounts to genocide. In a speech at the US Holocaust Memorial Museum in April of this year, President Bush rallied Americans to take action: "All of the people in this room and people in this country have a vital role to play. Everyone ought to raise their voice. We ought to continue to demand that the genocide in Sudan be stopped."¹

In response to the genocide, an unprecedented grassroots campaign has sprung to life in the United States. While advocacy to inspire more robust national and international policy continues to be a critical component of this campaign, think tanks, non-profits, and concerned citizens have also begun investigating the economic underpinnings of the

¹ <http://allafrica.com/stories/200704180742.html?page=2>

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atrocities. Because of its large debt, Sudan relies heavily on foreign direct investment (FDI) to sustain government expenditures.² Unfortunately, the government redirects the overwhelming majority of this foreign direct investment into military outlays. A very small percentage of foreign direct investment is spent on development, especially in the country's disaffected periphery (which includes Darfur).³

Additional reports detailing the problematic history of oil extraction in Sudan and the facilitative role foreign oil companies have played in human rights abuses suffered by Sudanese:

The UK non-profit **Christian Aid's** 2001 report entitled: *Scorched Earth, Oil, and War in Sudan*

<http://www.christian-aid.org.uk/indepth/0103suda/sudanoil.htm>

The US non-profit **Human Rights Watch's** 2003 report entitled: *Sudan, Oil, and Human Rights*

<http://www.hrw.org/reports/2003/sudan1103>

The US non-profit **Coalition for International Justice's** 2006 report entitled:

Soil and Oil: Dirty Business in Sudan

http://www.ecosonline.org/back/pdf_reports/2006/reports/Soil_and_Oil_Dirty_Business_in_Sudan.pdf

The Netherlands non-profit **European Coalition on Oil in Sudan's** 2006 report entitled:

Oil Development in Northern Upper Nile, Sudan

http://www.ecosonline.org/back/pdf_reports/2006/ECOS%20Melut%20Report%20final-DEF.pdf

Despite concerns about FDI, the vast majority of multinationals operating in Sudan are helping to facilitate development in the country. In fact, in conjunction with investment and policy experts, the Sudan Divestment Task Force has reviewed more than five hundred transnational corporations with ties to Sudan and found only a few dozen whose operations disproportionately contribute to Khartoum's capacity while offering little benefit to Sudan's citizens. Most of these few dozen companies have also failed to enact significant corporate policy to ensure that the company's operations don't facilitate genocide or human rights abuses.⁴ Therefore, shareholder pressure on this subset of companies that collectively represent Khartoum's economic lifeline is likely to change the Sudanese government's behavior towards Darfur while minimizing harm to Sudanese outside the ruling elite. The Sudan Divestment Task Force has developed a model to identify and effectively target such "scrutinized" companies.⁵ The organization has also documented the links between external pressure on these "scrutinized companies" and changes in Khartoum's behavior in several white papers.⁶

Many of the most problematic corporate actors in Sudan identified by the Sudan Divestment Task Force operate in the petroleum industry. Seventy to eighty percent of oil revenues are used to support Sudan's military^{7 8} which, in turn, prosecutes Darfur's genocide. When Sudan's first significant oil exports hit the market in early 2000, Sudanese army spokesman Gen. Mohamed Osman Yassin said that:

Sudan "will this year [2000] reach self-sufficiency in light, medium and heavy weapons from its local production," thanks to its "unprecedented economic boom, particularly in the field of oil exploration and exportation . . ."⁹

² Please see the following reports:

Efficacy of Targeted Divestment (http://www.sudandivestment.org/docs/effectiveness_of_divestment.pdf) especially pp. 3-4

Proposal for Divestment from Sudan (http://www.sudandivestment.org/docs/divestment_proposal.pdf) especially pp. 23-29.

³ Ibid.

⁴ Please contact the Sudan Divestment Task Force (info@sudandivestment.org) for a copy of the Sudan Divestment Task Force *Sudan Company Report*.

⁵ http://www.sudandivestment.org/docs/task_force_targeted_divestment_model.pdf

See also the Sudan Divestment Task Force's suggested Investment Policy Statement at:

http://www.sudandivestment.org/docs/sdtf_investment_policy_statement.pdf

⁶ See, for example, http://www.sudandivestment.org/docs/effectiveness_of_divestment.pdf. Contact the Sudan Divestment Task Force for further information as well: info@sudandivestment.org

⁷ <http://www.agsird.edu/China%20Oil%20by%20Dr%20Douglas%20Yates.pdf>

⁸ <http://www.nytimes.com/2006/10/24/world/africa/24sudan.html>

⁹ "Sudan to achieve self-sufficiency in weapons: spokesman," *AFP*, Khartoum, July 1, 2000.

Underscoring oil's role in sustaining Khartoum's ruling elite, Sudan's President, Omar Al-Bashir, stated just last year, "Just when some countries gave us sanctions, God gave us oil."¹⁰

China and Sudan: A Disconcerting Alliance Executed Principally Through China National Petroleum Corporation (CNPC)

Khartoum's largest foreign investor and most significant international supporter is China.¹¹ Over the past ten years, Beijing has courted Khartoum's genocidal leadership in order to secure access to petroleum and other primary resource supplies needed to feed China's booming economy.^{12 13} As the US and Europe have either imposed or considered imposing sanctions on Sudan, China poured an estimated \$15 billion into Sudan,¹⁴ and China's main oil operator in Sudan, the state-owned China National Petroleum Corporation (CNPC), has itself invested at least \$5 billion in the country.¹⁵ This cozy bilateral relationship was strengthened by Chinese President Hu Jintao's recent announcement of an interest-free loan of \$13 million to help rebuild the Sudanese presidential palace.^{16 17} In March 2007, the Sudanese Ministry of Finance also announced its intention to borrow \$2 billion from China to cover Sudan's gaping budget deficit.¹⁸



Chinese President Hu Jintao and Sudanese President Omar al-Bashir visiting Khartoum Refinery Co Ltd.

(From the website of The Central People's Government of P. R. China)

How does China benefit from its Sudanese investments and loans? First and foremost, China secures a steady oil supply and avoids the volatility of open-market purchases.^{19 20} Sudan's oil exports account for 7% of China's oil needs.²¹ Primarily through CNPC operations, between fifty and eighty percent of Sudan's oil is exported to China.^{22 24 25} Sudan is CNPC's most valuable asset, comprising more than half of the company's overseas output portfolio in 2003 and, according to Deutsche Bank, 52% of CNPC's overseas crude reserves.²⁶

How does Sudan benefit from Chinese involvement in the country? Beijing is a reliable investor willing to protect Khartoum at the United Nations, where China wields veto-power as a permanent member of the Security Council. Beijing's opposition to forceful international sanctions against Khartoum's leaders, an effective arms embargo, and the deployment of a robust United Nations protection mission make China a significant

¹⁰ <http://www.sudantribune.com/spip.php?article19080>

¹¹ Ibid.

¹² <http://www.washingtonpost.com/wp-dyn/articles/A21143-2004Dec22.html>

¹³ http://www.rfa.org/english/features/lelyveld/2006/01/25/china_africa/

¹⁴ <http://www.time.com/time/magazine/article/0,9171,501041025-725174,00.html>

¹⁵ <http://www.i-ep.com/admin/Events/4/documents/CNPC.pdf>

¹⁶ <http://www.washingtonpost.com/wp-dyn/content/article/2007/02/04/AR2007020401047.html>

¹⁷ http://www.boston.com/news/world/asia/articles/2007/02/05/us_says_china_sends_mixed_signals_on_darfur/

¹⁸ http://khartoum.usembassy.gov/uploads/images/UnADkmg1nnPi1dwobAlITw/mn_32607.pdf

¹⁹ http://www.ksg.harvard.edu/kssgorg/api/issues/fall_2006_issue/pdfs/Moose_FINAL.pdf

²⁰ <http://www.investmentu.com/IJEL/2007/20070125.html>

²¹ <http://www.tmcnet.com/usubmit/2006/04/13/1571952.htm>

²² <http://www.gasandoil.com/goc/company/cna61856.htm>

²³ <http://www.washingtonpost.com/wp-dyn/content/article/2007/02/04/AR2007020401047.html>

²⁴ <http://www.cfr.org/publication/9557/>

²⁵ <http://www.tmcnet.com/usubmit/2006/04/13/1571952.htm>

²⁶ <http://www.sudaneseonline.com/enews2005/jun8-26948.shtml>

impediment to ending genocide in Darfur.²⁷ ²⁸ As noted by the Council on Foreign Relations:

“China comes to Africa with what one analyst has called the ‘complete package:’ money, technical expertise, and the influence in such bodies as the UN Security Council to protect the host country from international sanctions. China, together with its partner Malaysia, replaced western companies and enabled Sudan to become a net exporter of crude. China has become its biggest customer. Meanwhile, China has successfully prevented the UN Security Council from serious sanctions or other preventive measures in face of the alleged genocide and crimes against humanity perpetrated in the Darfur region of that country.”²⁹

Perhaps the most disconcerting aspect of the China-Sudan partnership involves weapons sales. With profits generated through production-sharing agreements with CNPC, the Sudanese government purchases assault helicopters, armored vehicles, and small arms from China.³⁰ According to William Hawkins, senior fellow for national security studies at the U.S. Business and Industry Council, “Beijing has also helped Sudan build its own factories to manufacture small arms and ammunition, the real weapons of mass destruction in Khartoum’s campaign of ethnic cleansing.”³¹ A U.N. investigation conducted in 2006 determined that the vast majority of weaponry used to attack civilians across Darfur is of Chinese origin.³² ³³ China continues to be one of the largest suppliers of arms to Sudan,³⁴ and the Coalition for International Justice’s 2006 report (introduced above) suggests that:

“...Sudan’s oil, which is extracted, transported, refined and consumed by China, provides the hard currency that Khartoum needs to purchase weapons (many from China, which is Sudan’s largest supplier of arms) to protect Chinese oil interests in Sudan.”³⁵

The implied role of CNPC in the China-Sudan arms trade and the financial support it provides Khartoum through generous production-sharing agreements justifiably place CNPC as a facilitator of Darfur’s genocide. The next section looks at some of the additional specific harms CNPC has perpetrated in Sudan since arriving in 1996.

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CNPC’s Checkered History in Sudan

CNPC’s problematic operations in Sudan can best be understood through an examination of its relationship with the country’s two largest oil consortiums, Greater Nile Petroleum Operating Company (GNPOC) and Petrodar. CNPC’s plurality ownership (approximately

²⁷ <http://washingtontimes.com/world/20050426-120652-1122r.htm>

²⁸ <http://www.genocideintervention.net/about/press/coverage/index.php/archives/150>

²⁹ <http://www.cfr.org/publication/8436/>

³⁰ <http://www.genocideintervention.net/about/press/coverage/index.php/archives/150>

³¹ <http://www.washtimes.com/commentary/20060326-092759-1015r.htm>

³² <http://www.genocideintervention.net/about/press/coverage/index.php/archives/150>

³³ <http://www.cfr.org/publication/9557/>

³⁴ <http://web.amnesty.org/library/Index/ENGAFR540722006?open&of=ENG-SDN>

³⁵ http://www.ecosonline.org/back/pdf_reports/2006/reports/Soil_and_Oil_Dirty_Business_in_Sudan.pdf

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40%) in each of these two consortiums^{36 37 38} effectively makes CNPC responsible for each consortium's management decisions. For example, at least two past presidents of GNPOC went on to become senior level executives at CNPC,³⁹ and the current presidents of both GNPOC (Zhu Junfeng) and Petrodar (Sun Xiansheng) are both long-time senior employees of CNPC.^{40 41 42 43 44} Additionally, one of GNPOC's divisional general managers, Chen Xinrong, is also a CNPC employee.^{45 46 47}

The Coalition for International Justice further emphasizes CNPC's control over GNPOC activities:

"... it was the Chinese oil company CNPC, along with its subsidiaries and subcontractors, who set the operational agenda [of GNPOC] and had far closer ties to Sudanese officials, both civilian and military, [than other consortium members]." ⁴⁸

CNPC's control of GNPOC and Petrodar operations means that the company is at least partly responsible for the abusive history of both these consortiums elaborated below.

GNPOC's detrimental behavior in Sudan stems, in part, from its close relationship with the Sudanese military. As noted by the Coalition for International Justice:

"GNPOC security staff are, by all accounts, literal mirror agents of the Government of Sudan. As noted in the Harker Report [a Canadian Assessment Mission report on Sudan prepared for Canada's Minister of Foreign Affairs in 2000], employees of the GNPOC security teams are largely 'serving or former army, police or security service officers and maintain the closest collaboration with the Sudanese Army garrison in Heglig [the area covering GNPOC's oil block], right next to which is a small compound described to us as the base for the local detachment of Sudan Security.' Strikingly, those in charge of security operations are the same as those tasked with community development projects. The manager of security operations for the oilfields and pipeline also oversees healthcare, education capacity development and freshwater supply. However, these projects have little or no oversight. The security department reports directly to the President of GNPOC [who, at that time, was] Zhou Jiping, and Mohamed Khalifa, the senior Sudanese official in GNPOC." ⁴⁹

³⁶ <http://www.gnpoc.com/default.asp>

³⁷ <http://www.petrodar.com/>

³⁸ <http://www.nbr.org/programs/energy/conferences/2005/presentations/mohamedi.pdf>

³⁹ Please see appendix, a spreadsheet, with references, of all senior management and directors of CNPC and PetroChina, including relevant biographical history.

⁴⁰ http://www.oilnews.com.cn/gb/misc/2001-08/17/content_12810.htm; translated by graduate students at University of California, San Diego hired by the SDTF

⁴¹ <http://www.people.com.cn/GB/paper464/4548/507642.html>; translated by graduate students hired by the SDTF at University of California, San Diego

⁴² <http://www.oilnews.com.cn/zgsyb/system/2005/01/17/000275663.shtml>; translated by graduate students hired by the SDTF at University of California, San Diego

⁴³ <http://www.petrodar.com/management.html>

⁴⁴ <http://www.gnpoc.com/asp/President.asp?glink=GL001&plink=PL006>

⁴⁵ <http://www.gnpoc.com/asp/mgmtTeam.asp?glink=GL001&plink=PL003>

⁴⁶ <http://www.cnpc.com.cn/cnadc/hzygy/shzr/%E4%B8%AD%E6%B2%B9%E5%9B%BD%E9%99%85%EF%BC%88%E5%B0%BC%E7%BD%97%EF%BC%89%E5%85%AC%E5%8F%B8%E6%8D%90%E8%B5%84%E5%8A%A9%E5%AD%A6%E5%85%B4%E5%9B%BD.htm>; translated by graduate students hired by the SDTF at University of California, San Diego

⁴⁷ <http://www.oilnews.com.cn/zgsyb/system/2006/06/01/000301290.shtml>; translated by graduate students hired by the SDTF at University of California, San Diego

⁴⁸ http://www.ecosonline.org/back/pdf_reports/2006/reports/Soil_and_Oil_Dirty_Business_in_Sudan.pdf

⁴⁹ Ibid.

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(Zhou Jiping, who is no longer President of GNPOC, is currently a Director of PetroChina and Vice President of CNPC.⁵⁰)

The Harker Report, an assessment mission to Sudan commissioned by Canada's Minister of Foreign Affairs in 2000, noted additional abuses by GNPOC's security staff. It was conveyed to the Harker report's authors, "in different places, from widely different sources, that in August 1999, 8 Nuer [persons from a local Sudanese tribe] went to Heglig [the oilfield where GNPOC operates] to seek work from GNPOC, and were killed for it."⁵¹ An Amnesty International report from the same year documented maltreatment of Sudanese directly by Chinese workers:

"Sudanese civilians who escaped [government] attacks in the area south of Heglig... reported that the Chinese workers were armed and appeared willing to use their guns. Other reports from the area around Heglig [spoke] of rapes committed by Chinese workers." ⁵²

(At the time of Amnesty's report, the only Chinese workers in the Heglig area were employed by CNPC.)

Christian Aid, Human Rights Watch, and Coalition for International Justice all detail the forceful displacement of local persons from GNPOC land by the Sudanese military, with either tacit approval by GNPOC or intentional, willful, and irresponsible ignorance.^{53 54 55} A report published by the state-controlled China Business News quoted "a Chinese foreign affairs official as saying that Beijing 'cooperates with the Sudan government' on security and has asked Khartoum 'to send troops' to areas in which Chinese companies operate."⁵⁶ This statement suggests that GNPOC and CNPC almost certainly have knowledge about - and may help coordinate - Sudan security abuses in and around GNPOC oil fields. This conclusion is supported by testimony from the Coalition for International Justice:

Beijing "cooperates with the Sudan government' on security and has asked Khartoum 'to send troops' to areas in which Chinese companies operate."

"Use of [GNPOC] oil infrastructure for military purposes also has been widely documented. As part of the protection of Sudanese military forces, the consortium provided use of their facilities such as air strips, landing pads, and mechanical support. The Canadian Harker Report claims that it is 'incontrovertible' that [Sudanese government] Antonov bombers, as well as helicopter gunships, [were] arming and refueling at the Heglig oilfield airstrip, operated by the GNPOC and adjacent to the oil workers' compound." ⁵⁷

GNPOC's injurious history in Sudan is mirrored, albeit to a lesser degree, by the record of Petrodar⁵⁸. A 2006 report by the European Coalition on Oil in Sudan, an alliance of over 80 European non-profits working towards sustainable oil development in the country,

⁵⁰ Please see appendix, a spreadsheet, with references, of all senior management and directors of CNPC and PetroChina, including relevant biographical history.

⁵¹ <http://www.reliefweb.int/library/documents/cansudan2.pdf>

⁵² <http://web.amnesty.org/library/print/ENGAFR540012000>

⁵³ <http://www.christian-aid.org.uk/indepth/0103suda/sudanoil.htm>

⁵⁴ <http://www.hrw.org/reports/2003/sudan1103>

⁵⁵ http://www.ecosonline.org/back/pdf_reports/2006/reports/Soil_and_Oil_Dirty_Business_in_Sudan.pdf

⁵⁶ <http://www.energybulletin.net/3753.html>

⁵⁷ http://www.ecosonline.org/back/pdf_reports/2006/reports/Soil_and_Oil_Dirty_Business_in_Sudan.pdf

⁵⁸ http://www.ecosonline.org/index.cfm?event=showcompaniesdetail&page=companiesdetail&company_id=23

details the impact of Petrodar's operations in the northern Upper Nile region. Among the report's conclusions:

"[Petrodar's] oil fields have been developed against the background of a war in which the Petrodar Operating Company Ltd has not acted as a neutral party but as a loyal partner of one of the warring sides, the Government of Sudan. The Petrodar consortium has shown no due regard for the natural environment or concern for the rights of the population..."

"Oil exploitation has coincided with a decline in the rural population in parts of [the Upper Nile State]. This is mostly due to forced displacement of [local] populations, and partially to the effects of cheap and environmentally harmful engineering. The total number of people that has been forcibly displaced can be safely estimated at well above 15,000 minimum; the true number could easily be double that figure. Several hundreds of people have reportedly been killed."⁵⁹

In evaluating whether CNPC's operations in Sudan have the *potential* to facilitate positive development despite the company's vicious historical record presented above, the Sudan Divestment Task Force also examined the company's day-to-day business practices in the country. Disturbingly, the company tends to import Chinese labor for its Sudan projects rather than employing Sudanese citizens, having, at one point, a Chinese labor force of 10,000 in the country to help build Sudan's largest oil pipeline.^{60 61} More generally, Elizabeth Economy, Director for Asia Studies at the Council on Foreign Relations, notes that Africans are concerned over China's *modus operandi* on the continent, accusing Chinese companies of underbidding local firms and not hiring Africans.⁶² Economy writes:

"International observers say the way China does business—particularly its willingness to pay bribes and attach no conditions to aid money—undermines local efforts to increase transparency and good governance and international efforts at macroeconomic reform by institutions like the *World Bank* and the *International Monetary Fund*."⁶³

Through conversations with non-profits familiar with Sudan's oil industry, financial analysts covering the company, Sudan government officials, and other oil companies operating in Sudan,⁶⁴ the Sudan Divestment Task Force has heard repeated stories of rampant graft committed by CNPC in Sudan. CNPC's corrupt tendencies are, perhaps, not surprising; according to the preeminent non-profit dedicated to stamping out global corruption, Transparency International, China ranks as the second most corrupt country on its Bribe Payer's Index, which measures the propensity of companies from a particular country to bribe abroad.⁶⁵ Meanwhile, according to Transparency International's Corruption Perceptions Index, Sudan is tied for fourth worst country in the world in terms of the extent of graft within the country.⁶⁶

⁵⁹ http://www.ecosonline.org/back/pdf_reports/2006/ECOS%20Melut%20Report%202006/ECOS%20Melut%20Report%20final-DEF.pdf

⁶⁰ http://www.hrw.org/reports/2003/sudan1103/26.htm#_Toc54492754

⁶¹ http://www.cfr.org/content/publications/attachments/Africa_Task_Force_Web.pdf

⁶² <http://www.cfr.org/publication/9557>

⁶³ *Ibid.*

⁶⁴ Those that the Sudan Divestment Task Force has interviewed regarding accusations of CNPC graft have asked to remain anonymous, but the remarkable similarities in the accusations from disparate sources lends strong credibility to the allegations.

⁶⁵ http://www.transparency.org/news_room/latest_news/press_releases/2006/en_2006_10_04_bpi_2006

⁶⁶ http://www.transparency.org/content/download/10825/92857/version/1/file/CPI_2006_presskit_eng.pdf

The evidence presented here paints an unambiguous picture of CNPC as a direct contributor to grave human rights abuses suffered by Sudanese. The revenue it provides Khartoum's ruling elite, combined with its implied role in the unbridled sale of arms from China to Sudan, would be reason enough to question the company's insistence that it brings sustainable development to the country. But CNPC's role in forced displacement of local populations, cooperation with the Sudanese military, environmental destruction, labor abuses, and graft seal the judgment. Having laid out CNPC's abuses in Sudan, the next section explores the links between CNPC and its majority-owned, publicly-traded subsidiary, PetroChina.

CNPC and PetroChina: Substantially Similar Entities with Overlapping Management, Frequent Asset Transfers, and Strong Mutual Dependence

While CNPC is owned by the Chinese government, the company opened itself up to international investors by creating a publicly-traded subsidiary, PetroChina, in 2000. With just under \$3 billion invested in PetroChina as of April 13, 2007, Berkshire Hathaway ranks only behind CNPC as the company's largest shareholder.⁶⁷ Several other major US asset management firms, including JP Morgan, Templeton Asset Management, and Fidelity, hold billion dollar positions in the company as well, and while none are as large as Berkshire Hathaway's holding, this document is intended for all major shareholders of PetroChina.

With regards to CNPC's abuses in Sudan, PetroChina investors may reasonably ask, "What does this have to do with our investment?" After all, PetroChina is CNPC's subsidiary. In most cases, subsidiaries do not exercise control over their parent companies, and technically, PetroChina doesn't operate in Sudan (although it plans to refine Sudanese oil in China). A closer look at CNPC and PetroChina, however, shows that the two companies are substantially similar entities with overlapping management, frequent asset transfers, and strong mutual dependence.

Fluid Asset Transfers Between CNPC and PetroChina

The history of the CNPC-PetroChina relationship begins in 1999 with CNPC's failed attempt at an initial public offering (IPO) on the New York Stock Exchange (NYSE). At the time, "Western investor concerns about [CNPC's] operations in Sudan forced the company to scrap its initial IPO plans and instead carve out and offer a subsidiary, PetroChina, to the public which CNPC pledged would not be involved in Sudan activities."⁶⁸ Today, CNPC owns 88.21% of PetroChina's shares with the rest available to outside investors.⁶⁹ At the time of its IPO application, CNPC's promise to maintain an absolute firewall between PetroChina and CNPC's Sudan assets was met with skepticism by many US investors, who pointed out that any revenue generated by PetroChina for CNPC (for example, in the form of dividend payments) was inherently fungible and could therefore be used, even if indirectly, to fund CNPC's Sudan operations. One noted analyst

⁶⁷ 2.33 billion H shares x \$1.17/share + 659,000 ADS shares x \$116.42/share = approx \$2.8 billion; taken from Berkshire's 2006 annual report and market data on 4/13/07

⁶⁸ http://www.hno.harvard.edu/gazette/daily/2005/04/04-sudan_statement.html

⁶⁹ http://google.brand.edgar-online.com/EFX_dll/EDGARpro.dll?FetchFilingHTML1?SessionID=UWVhjqomAhErUwx&ID=4491641

claimed that the only way the firewall could work “is for CNPC to get out of Sudan”⁷⁰ and another referred to the firewall as “a smoke screen.”⁷¹ The fears of the skeptics were soon confirmed. When “PetroChina was offered to the public, it incurred \$15 billion in debt from CNPC, some of which was acquired in connection with CNPC’s Sudan operations.”⁷² In addition, analysts at the time estimated “that some US\$270-US\$300 million of PetroChina’s [IPO], about ten per cent of the total, went directly to CNPC – and this was new money that could be included in CNPC’s new investment in the Eastern Upper Nile [the area where Petrodar operates].”⁷³

Since the public offering, there have been dozens more asset transfers between PetroChina and CNPC, all executed under a non-competition agreement jointly signed by the companies at the time of PetroChina’s IPO.⁷⁴ Immediately following the IPO, the two companies cemented their interdependence by agreeing to a Comprehensive Products and Services Agreement, a Land Use Rights Leasing Contract, a Building Leasing Contract, and several other agreements involving cross-provision of goods and services.⁷⁵ More recently, cross-company asset transfers have occurred as PetroChina seeks international assets. Because Chinese law forbids PetroChina from entering into production sharing contracts directly with foreign oil and gas companies, the company acquires foreign assets through CNPC⁷⁶, as detailed in the Asian edition of the *Wall Street Journal* in October 2006:

“PetroChina’s parent, CNPC, has basically taken on the task of investing in and developing high risk or capital-intensive projects, and then selling them to the listed company at favorable prices -- a boon to investors who find the value of their company rising with few of the downside risks associated with exploring and developing. PetroChina and its parent have formed a joint venture that owns most of CNPC’s overseas fields -- except its holdings in Sudan, which have been sharply criticized by human-rights groups and remain entirely owned by the parent.”⁷⁷

PetroChina announced the construction of a new China-based \$1.6 billion refinery, set to come online in 2008, that will be primarily dedicated to refining Sudanese oil drilled by its parent company.

Wang Guoliang, Chief Financial Officer for PetroChina and, as of April 2007, Chief Financial Officer for CNPC as well,⁷⁸ signaled PetroChina’s international ambitions at a news conference in June 2005, “[PetroChina] will eventually grow from a mainly domestic oil and gas company to an international corporation with significant international oil and gas assets.”⁷⁹ Not surprisingly, according to Wang PetroChina has intentionally left CNPC’s most prized and profitable oil outpost, its Sudan operations, out of these ongoing asset transfers for “political reasons.”⁸⁰ PetroChina’s calculation is, per its own admission, an attempt to avoid the current criticism directed at CNPC for its Sudan operations. In fact, Wang stated in November 2005 that PetroChina has a preemptive right to acquire CNPC’s Sudan

⁷⁰ <http://www.christian-aid.org.uk/indepth/0103suda/sudan3.pdf>

⁷¹ Ibid.

⁷² http://www.hno.harvard.edu/gazette/daily/2005/04/04-sudan_statement.html

⁷³ <http://www.christian-aid.org.uk/indepth/0103suda/sudan3.pdf>

⁷⁴ <http://www.sec.gov/Archives/edgar/data/1108329/000114554906000842/h00585e20vf.htm>

⁷⁵ Ibid.

⁷⁶ Ibid.; the 20-F form specifically notes, “PetroChina does not have the capacity to enter into production sharing contracts directly with foreign oil and gas companies under existing [Chinese] law. Accordingly, CNPC will continue to enter into production sharing contracts [internationally]. After signing a production sharing contract, CNPC will, subject to approval of the Ministry of Commerce, assign to PetroChina most of its commercial and operational rights and obligations under the production sharing contract as required by the Non-competition Agreement between CNPC and PetroChina.”

⁷⁷ <http://www.uofaweb.ualberta.ca/chinainstitute/nav03.cfm?nav03=52039&nav02=43569&nav01=43092>

⁷⁸ http://www.shanghaidaily.com/sp/article/2007/200704/20070407/article_311828.htm

⁷⁹ <http://www.iht.com/articles/2005/07/08/business/energy.php>

⁸⁰ <http://www.thestandard.com.hk/stdn/std/Business/GF11Ae01.html>

assets in the future.⁸¹ And in January 2007, PetroChina announced the construction of a new China-based \$1.6 billion refinery, set to come online in 2008, that will be primarily dedicated to refining Sudanese oil drilled by its parent company. Construction support for building the refinery will come from CNPC under the Comprehensive Products and Services Agreement between the two companies.⁸² ⁸³ This project puts PetroChina as close to CNPC's Sudan operations as possible while still shielding itself from investor outrage, further highlighting just how porous the Sudan firewall originally set up between CNPC and PetroChina during PetroChina's IPO is.

To provide instructive detail on the opaque nature of hard asset transfers between CNPC and PetroChina typified above and the resulting potential for significant, hidden cross-subsidy, the Sudan Divestment Task Force examined two major transactions between the companies in the past two years that involved the sale or acquisition of ownership in subsidiaries.

Sale of China United Oil by PetroChina to CNPC

The pending disposal by PetroChina of China United Oil to CNPC (announced 3/18/2007) has been agreed to by PetroChina's Board at a value of approximately \$130 million.⁸⁴ In compliance with Chapter 14A.22 of the Hong Kong Stock Exchange's listing rules, PetroChina is required to retain an Independent Financial Advisor to certify in writing whether the transaction is on normal commercial terms, in the ordinary and usual course of business, fair and reasonable, and in the interests of the listed issuer and its shareholders as a whole.⁸⁵

ICEA Securities Limited was retained for this independent evaluation.⁸⁶ Its written certification to independent shareholders points out that it relied upon information provided by the Directors of PetroChina and made no effort to carry out any independent verification or conduct "any form of independent in-depth investigation into the business affairs or assets and liabilities of [PetroChina], CNPC, China United Oil or any of their respective subsidiaries or associated companies. Additionally, [ICEA] did not conduct any physical inspection of the properties or facilities of [PetroChina], CNPC, China United Oil or any of their respective subsidiaries or associated companies."⁸⁷ The letter calculates the Net Asset Value (NAV) and Price to Earnings ratio (PE) of the transaction based on non-independently audited financial statements for China United Oil. These financial statements are not available to the public. Based on the unverified assumption that these statements are true, ICEA concludes that "the consideration payable by CNPC and the other principal terms of the Disposal are fair and reasonable so far as the Independent Shareholders are concerned."⁸⁸ It also points out the low PE and NAV of the China United Oil transaction compared to valuations of comparable companies but excuses this as a function of China United Oil's highly leveraged position and low net profit margin.⁸⁹ Because the financial statements, from which the financial advisor's recommendations are based, were not independently verified, there is significant

⁸¹ <http://www.gasandoil.com/goc/company/cna52763.htm>

⁸² <http://www.energytribune.com/articles.cfm?aid=361&idli=1>

⁸³ http://www.prophet.net/quotes/stocknews.jsp?symbol=PTR&article=20070214670.2_131d00036e59dbda

⁸⁴ http://www.forbes.com/markets/2007/03/19/petrochina-earnings-slide-markets-equity-cx_vk_0319markets5.html

⁸⁵ [http://www.hkex.com.hk/rule/listrules/Chapter%2014A%20\(0331\).pdf](http://www.hkex.com.hk/rule/listrules/Chapter%2014A%20(0331).pdf)

⁸⁶ <http://www.sec.gov/Archives/edgar/data/1108329/000114554907000492/h01126e6vk.htm>

⁸⁷ *Ibid.*

⁸⁸ *Ibid.*

⁸⁹ *Ibid.*

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potential for hidden cross-subsidization in the transaction. For there to be any confidence in the fair market value of this transaction, there should be:

- a) Full disclosure of the methodology used by China Beijing Enterprise Appraisal Co. to determine China United Oil's value.⁹⁰
- b) An independent valuation of China United Oil, based on independently audited financial data. An arms length acquisition would demand no less, and in the unlikely event that record-keeping was such that independent auditing was unfeasible, such a transaction would only take place after a sufficient risk premium was built in to reflect the uncertainty of the asset's real value. Among related parties, such a risk premium should be independently determined and the methodology made public.
- c) To the extent that un-audited information supplied by the connected parties is utilized, at minimum, these figures must be disclosed before independent shareholders can begin to have confidence that the transaction is taking place at market value.

Purchase of 50% of Newco by PetroChina from CNPC

On June 9, 2005, PetroChina announced the purchase of 50% of Newco (Chinese name, "Zhong You Kan Tan Kai Fa") from a wholly-owned subsidiary of CNPC. As with the China United Oil transaction, no financial statements of any kind are publicly available and although a technical advisor was voluntarily retained to value the proven, probable, and unproven reserves of Newco, the valuation methodology is not disclosed in any detail, making it unverifiable. Furthermore, the valuation relies on the quality of data provided by CNPC to the technical advisors.⁹¹

Of additional concern, the filing explains that "adjustments" were made to the technical evaluations to account for such things as overhead, but no detail is given as to the amount, direction, or methodology of these adjustments. It simply states that the amounts of these adjustments were "agreed between [PetroChina] and CNODC, [the wholly-owned subsidiary of CNPC]."⁹² Since the purpose of an independent verification is to make an outside determination as to the fairness of a connected party transaction, it cannot be valid if it is modified by undocumented "adjustments" that were agreed to by those very connected parties. Therefore, there is significant potential for hidden cross-subsidization in the transaction. Again, for there to be any confidence that this transaction occurred at fair market value, there should be:

- a) Pro-forma audited financial statements for Newco for 2004 and first quarter 2005.
- b) Full disclosure of the valuation method and figures used to price the transaction.
- c) Full disclosure of the methodology and figures used to make adjustments to the valuation.

⁹⁰ A detailed methodology employed by the firm hired to value China United Oil, China Beijing Enterprise Appraisal Co., is missing in the 6-K filing on the transaction -

<http://www.sec.gov/Archives/edgar/data/1108329/000114554907000492/h01126e6vk.htm>

⁹¹ <http://www.sec.gov/Archives/edgar/data/1108329/000114554905001030/u99854exv99w1.htm>

⁹² Ibid.

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- d) An independent valuation, with fully disclosed methodology, which relies solely on audited data. In the event that this is not feasible, an appropriate discount should be applied to the transaction to reflect the uncertainty of using un-audited data reported by the connected parties themselves.

Conclusions from the China United Oil and Newco Transactions

Since both the China United Oil and Newco transactions involved subsidiaries that were not listed at the time of transfer (which is the case for almost all hard asset transfers between CNPC and PetroChina to date), financial information was not publicly available. This makes valuation of the subsidiaries virtually impossible without more transparent disclosure from CNPC and PetroChina.

Furthermore, where financial advisors were retained to make an opinion with regard to the fairness of these transactions (whether this was voluntary, in the case of Newco, or required, in the case of China United Oil), their conclusions were based on non-public, un-audited financial data supplied by CNPC and PetroChina. The financial advisors for the China United Oil transaction explicitly state that they made no effort to verify data given to them by CNPC or PetroChina. Therefore, their conclusions are only as good as the data they were provided behind closed doors.

This raises the possibility that CNPC may have structured the transactions above or below market value in order to provide or extract a hidden subsidy from PetroChina, bypassing the company's independent shareholders. PetroChina's 2006 SEC 20-F filings go so far as to acknowledge such a possibility:

"[PetroChina] has extensive transactions with other members of the CNPC group. Because of the relationship, it is possible that the terms of the transactions between [PetroChina] and other members of the CNPC group are not the same as those that would result from transactions with other related parties or wholly unrelated parties."⁹³

PetroChina and CNPC's property transfers go beyond reciprocal service provisions and non-transparent hard asset swaps with the potential for cross-subsidy. Indeed, many of the hidden cross-subsidies between PetroChina and CNPC arise in the exchange of soft assets. Consider the following:

- As noted above, after its IPO, PetroChina took on \$15 billion in debt from CNPC.⁹⁴
- PetroChina has made it a practice to place much of its cash on hand with China Petroleum Finance Company, the wholly-owned finance subsidiary of CNPC (otherwise known as CP Finance), which then uses this cash to make loans to other CNPC subsidiaries (including, potentially, those subsidiaries active in Sudan); according to its 2006 SEC 20-F report, PetroChina placed around \$3.15 billion of the company's cash with CP Finance in 2005.⁹⁵ This practice of placing publicly-traded subsidiary cash in the finance arm of a state-owned parent is prevalent in China and has been widely criticized by shareholder activists who note that the action amounts to

⁹³ http://google.brand.edgar-online.com/EFX_dll/EDGARpro.dll?FetchFilingHTML1?SessionID=UWVhjqomAhErUwx&ID=4491641

⁹⁴ http://www.hno.harvard.edu/gazette/daily/2005/04/04-sudan_statement.html

⁹⁵ <http://www.sec.gov/Archives/edgar/data/1108329/000114554906000842/h00585e20vf.htm>

funding of projects by the subsidiary (like, potentially, CNPC's operations in Sudan) without shareholder approval.^{96 97}

- PetroChina's liabilities, according to its 2006 SEC 20-F report, include short-term and long-term debts owed to CP Finance of \$3.83 billion, \$3.87 billion, and \$3.54 billion in each of the three years ending December 31, 2003, 2004, and 2005. Critically, "these debts were unsecured with interest bearing at below the prime rate as published by the People's Bank of China."⁹⁸ Unsecured loans at below market interest rates can be reasonably construed as a cross-subsidy.
- According to PetroChina's 2006 SEC 20-F report, PetroChina has distributed and continues to expect to distribute 40-50% of reported net income in the form of dividends.⁹⁹ By virtue of CNPC's 88.21% ownership in PetroChina, PetroChina therefore sends 35-44% of all net profit to CNPC in any given year.¹⁰⁰ Critically, this dividend payment accounted for approximately half of all of CNPC's profits in 2005, the latest year in which the Sudan Divestment Task Force was able to obtain reliable profit data from CNPC.¹⁰¹ That PetroChina provides CNPC with half of its profits was also confirmed for 2002 in a report prepared for the US Congress on Chinese industrial policy.¹⁰² Not only does PetroChina's dividend payout constitute a major pure profit stream for CNPC, but it is also impossible to determine where and how those dividend payments will be used by CNPC; with its inherent fungibility, the dividend cash is altogether likely to be directly or indirectly funding CNPC's Sudan operations.

PetroChina sends 35-44% of all net profit to CNPC in any given year. Critically, this dividend payment accounted for approximately half of all of CNPC's profits in 2005.

The Chinese business paper, *The Standard*, noted that the "[t]ransparency in the relationship between PetroChina and CNPC is so poor that investors are often in the dark about potential cross-subsidies."¹⁰³ While it is impossible to calculate the total value of all cross-subsidization between the two companies, PetroChina's 2006 SEC 20-F form reveals tens of billions of dollars in related party transactions every year, all in the context of a non-competition agreement. Clearly, the absolute firewall promised to PetroChina investors at the time of its IPO is eroded by the company's intricate and opaque financial relationship with CNPC. However, asset transfers are only one aspect of the intersection between PetroChina and CNPC. The next section describes a shocking and almost complete overlap in management of the two companies.

Near Complete Overlap in Management Between CNPC and PetroChina

As PetroChina's 2006 SEC 20-F report notes:

⁹⁶ <http://proquest.umi.com/pgdweb?index=0&did=1246145391&SrchMode=1&sid=3&Fmt=3&VInst=PROD&VType=PQD&RQT=309&VName=PQD&TS=1176175900&clientid=1561>

⁹⁷ <http://proquest.umi.com/pgdweb?index=2&did=1248830361&SrchMode=1&sid=3&Fmt=3&VInst=PROD&VType=PQD&RQT=309&VName=PQD&TS=1176189555&clientid=1561>

⁹⁸ <http://www.sec.gov/Archives/edgar/data/1108329/000114554906000842/h00585e20vf.htm>

⁹⁹ Ibid.

¹⁰⁰ .882 x 40-50% = 35-44% of PetroChina's net profit goes to CNPC

¹⁰¹ Latest published figures (2005) from CNPC's website

(<http://www.cnpc.com.cn/eng/company/presentation/figures/Financial.htm> ; accessed April 17, 2007) show a 2005 net profit of around \$13.73 billion. Dividend payment in 2005 from PetroChina amounted to \$7.7 billion

(http://www.petrochina.com.cn/chinese/tzzqx/ftp/2005ndyj_eng.pdf). Taking CNPC's share of this (.8821 x \$7.7 billion = \$6.79 billion) and comparing it to CNPC's net profit for 2005 (approximately \$13.73 billion), it is clear that about half of CNPC's profits came from PetroChina's dividend payments.

¹⁰² http://www.uscc.gov/hearings/2003hearings/written_testimonies/03_09_25/nolan.htm

¹⁰³ http://www.thestandard.com.hk/stdn/std/Front_Page/FJ25Aa01.html

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"CNPC owns approximately 88.21% of our share capital. This ownership percentage enables CNPC to elect our entire board of directors without the concurrence of any of our other shareholders. Accordingly, CNPC is in a position to... control our policies, management and affairs..."¹⁰⁴

If PetroChina is a sufficiently distinct entity from CNPC but still under CNPC's control, CNPC would install and/or retain PetroChina Directors that at least partially diverge from CNPC's management team. This would be consistent, for example, with the approach Berkshire Hathaway takes with its myriad subsidiaries. It is also the policy of the federal government with respect to the US government sponsored enterprises Freddie Mac and Fannie Mae, two companies highlighted by Berkshire Hathaway in its commentary on the company's PetroChina holdings.¹⁰⁵ Indeed, while the President of the United States of America has the right to appoint 5 out of the 18 Board members for both Freddie Mac and Fannie Mae, those five positions have been intentionally left vacant since 2004. None of the current Board members of either company are employed or appointed by the US government.^{106 107}

In contrast to Berkshire Hathaway and the President of the United States, CNPC has appointed a PetroChina Board that is nearly indistinguishable from CNPC. The PetroChina Board is comprised of 13 Directors (of which one Directorship position is currently unfilled), only three of which are independent (and one of the three independent Directors is tied to the Chinese government).¹⁰⁸ Eight out of the nine current non-independent Directors of the Board have a current or former connection to CNPC. The Board's Chairman is the immediate past President of CNPC and the Board's Vice-Chairman is the current President of CNPC. Furthermore, CNPC's Chief Financial Officer and four out of five CNPC Vice Presidents also serve as Directors on PetroChina's Board. The only CNPC Vice President that doesn't serve on PetroChina's Board is, instead, a Vice President at PetroChina.¹⁰⁹ These elaborate but confusing relationships are visually laid out in the Appendix immediately following this report.

PetroChina also has a Board of Supervisors whose job is ostensibly to oversee the behavior of PetroChina's Directors. The Board of Supervisors is comprised of 7 members, only two of which are independent (and one of the two independent Supervisors is tied to the Chinese government).¹¹⁰ Four out of the five non-independent Supervisors have an ongoing or former connection to CNPC.¹¹¹ In other words, a Supervisory Board dominated by individuals with an immediate connection to CNPC is responsible for oversight of a Board of Directors dominated by individuals with an immediate connection to CNPC.

With both the Boards – Directors and Supervisors – dominated by past and present CNPC officials, it should be no surprise that PetroChina's executive team is also dominated by CNPC's management.¹¹² The President of CNPC is the President of PetroChina. The Chief Financial Officer of CNPC is the Chief Financial Officer of PetroChina. Two of PetroChina's four Vice Presidents are also Vice Presidents of

The President of CNPC is the President of PetroChina. The Chief Financial Officer of CNPC is the Chief Financial Officer of PetroChina.

¹⁰⁴ <http://www.sec.gov/Archives/edgar/data/1108329/000114554906000842/h00585e20vf.htm>

¹⁰⁵ <http://www.berkshirehathaway.com/sudan.pdf>

¹⁰⁶ <http://www.freddiemac.com/investors/ar/pdf/2006annualrpt.pdf>

¹⁰⁷ <http://www.fanniemae.com/governance/board/index.jhtml?p=Corporate+Governance&s=Board+of+Directors>

¹⁰⁸ Please see appendix, a spreadsheet, with references, of all senior management and directors of CNPC and PetroChina, including relevant biographical history.

¹⁰⁹ *Ibid.*

¹¹⁰ *Ibid.*

¹¹¹ *Ibid.*

¹¹² *Ibid.*

CNPC. The other two Vice Presidents have past connections to CNPC. All PetroChina executives listed on the company's 2006 SEC 20-F form have an ongoing or former immediate connection to CNPC.¹¹³

The overwhelming overlap in management between PetroChina and CNPC is another compelling reason to doubt PetroChina's faithfulness to its "firewall" pledge, and it suggests that CNPC and PetroChina can be considered a single macroscopic entity. This claim is reinforced by other "red flag" management practices at PetroChina described in the next section.

Other "Red Flag" Management Practices at PetroChina

PetroChina lists on the New York Stock Exchange and the Hong Kong Stock Exchange. Under NYSE corporate governance rule 303A.03, the non-executive Directors of a listed company must meet at regularly scheduled executive sessions without management. While PetroChina, as a foreign issuer majority-owned by a parent, is not subject to this listing requirement, the company could – *but has chosen not to* – hold such meetings to help establish a degree of independence from CNPC.¹¹⁴ Additionally, under NYSE corporate governance rule 303A.04, a listed company must have a nominating/corporate governance committee composed entirely of independent Directors, with a written charter that covers certain minimum specified duties. Again, while not technically subject to this listing requirement as a foreign issuer, PetroChina has chosen to forego a nominating/corporate governance committee altogether¹¹⁵ and thereby bypassed another chance to exercise independence from CNPC. These deviations from standard practices of domestic companies listing on the NYSE emphasize how little "breathing room" there is between PetroChina and CNPC.

Another PetroChina "red flag" is the close connection between company management and the Chinese government (see Appendix). Such connections suggest that shareholder engagement of PetroChina's management is similar to engaging the Chinese government itself, an important point for investors who question whether PetroChina management can influence China and CNPC's behavior in Sudan. At least six senior executives, Directors, or Supervisors of PetroChina served in leadership roles in the Chinese government; this includes at least one independent member from the Board of Directors and one independent member from the Board of Supervisors.¹¹⁶ The most recent PetroChina Senior Vice President and CNPC Vice President to retire, Su Shulin (November 2006), went on to take up a government post,¹¹⁷ a path also taken previously by former CNPC/PetroChina executives.¹¹⁸ Furthermore, a 2001 review of the contracts for two of seven PetroChina vice presidents revealed performance incentives tied to support of the Chinese government, including recognition for "improving ideological and political work, enhancing [Chinese Communist] Party conduct and anticorruption campaign". These performance standards were to be met through 'preventing occurrence of any mass commotion and any severe offense against [Chinese Communist] Party conduct'.¹¹⁹

¹¹³ Ibid.

¹¹⁴ http://www.petrochina.com.cn/english/tzzqx/gszljg_10.htm

¹¹⁵ Ibid.

¹¹⁶ Ibid.

¹¹⁷ Ibid.

¹¹⁸ http://www.businessweek.com/globalbiz/content/sep2006/gb20060915_126460.htm?chan=asia_sprb_bw50asia

¹¹⁹ Ewing, Richard Daniel. *Chinese Corporate Governance and Prospects for Reform*. Journal of Contemporary China (2005). 14(43); May, 317-338.

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Having examined inter-company asset transfers, management overlap, and other management “red flags” of PetroChina and CNPC, the next section examines how dependent each company is on the other.

Interdependence of CNPC and PetroChina

The Sudan Divestment Task Force argues that pressure on PetroChina could alter CNPC’s business practices not only because the two companies can be considered parts of a single macroscopic entity but also because of CNPC’s overwhelming dependence on PetroChina for its financial viability. Whereas no single subsidiary determines Berkshire Hathaway’s survival, 64% of CNPC’s assets are represented by shareholder equity in PetroChina (as of 2005).¹²⁰ If PetroChina’s share price continues its recent upward trend and CNPC continues to transfer its most profitable assets to PetroChina (see above), an even larger percentage of CNPC’s assets will be represented by shareholder equity in PetroChina in the future. Furthermore, as was established above, approximately 50% of CNPC’s profits come from PetroChina dividends, and most of CNPC’s revenue comes from the provision of services and products to PetroChina.¹²¹



As if to publicly demonstrate their symbiotic dependence, CNPC and PetroChina use the same company abbreviation, “*Zhongguo Shiyou* (China Petroleum),” and have identical logos.

(Logo Source: <http://www.enmax.com.cn/enmaxonline/shownews.asp?id=56>. Translation provided by graduate students at University of California, San Diego hired by SDTF)

The interdependence of PetroChina and CNPC is common among Chinese state-owned enterprises with publicly-traded subsidiaries, as described by a recent academic analysis entitled *Chinese Corporate Governance and Prospects for Reform*:

“In addition to being a vehicle for government influence, parent SOE [State Owned Enterprises like CNPC] control of newly corporatized subsidiaries through extremely high levels of ownership creates a separate set of governance issues. Boundaries between parent and listed companies are sketchy. Both firms often compete in the same

business sector, and senior managers are frequently employed by both parent and listed company—a condition ripe for agency problems. Many parent companies also share resources with subsidiaries, dictate interparty transfers, require soft loans, use listed company assets to guarantee bank loans, or simply strip assets... Most executive and nonexecutive directors [for the corporatized subsidiaries] are drawn from SOEs, while many others come from government ministries and research institutes—producing the colloquial description, ‘old wine in new bottles’. The majority of Chinese corporate board members are also company executives, with less than one-third of them being nonexecutive directors. This compares poorly with large publicly traded US firms, which have 75% outside directors, and with UK firms, with approximately one-half outside directors.”¹²²

¹²⁰ <http://money.cnn.com/magazines/fortune/global500/2006/snapshots/1983.html> ; CNPC total assets = \$143.7 billion while the company’s shareholder equity is just over \$92 billion. After adjusting for CNPC’s shareholder equity in its other publicly-traded subsidiary, CNPC Hong Kong, one is left with $92/143.7 = 64\%$.

¹²¹ http://google.brand.edgar-online.com/EFX_dll/EDGARpro.dll?FetchFilingHTML1?SessionID=UWVhjqomAhErUwx&ID=4491641

¹²² Ewing, Richard Daniel. *Chinese Corporate Governance and Prospects for Reform*. Journal of Contemporary China (2005). 14(43); May, 317-338.

Echoing this analysis, Chinese nationals at a prestigious graduate school of international relations have told the Sudan Divestment Task Force that:

"Because the concepts of companies and capital came from the West, there are no real conventional notions about parent/subsidiary relationships in China."¹²³

Having demonstrated that the intimate, opaque, and deeply symbiotic connection between CNPC and PetroChina confers PetroChina with influence over CNPC, the next section argues that shareholder pressure on PetroChina is an appropriate and effective response to CNPC's operations in Sudan.

Why Shareholder Pressure on PetroChina is an Appropriate Response to CNPC's Operations in Sudan

In a typical parent-subsidiary relationship, subsidiaries do not possess significant influence with the parent corporation. As Mr. Buffett pointed out to the Omaha World-Herald, "Nebraska Furniture Mart doesn't dictate policy to Berkshire [Hathaway], its parent company... 'Those (Chinese) companies don't tell their government what to do.'"¹²⁴ Berkshire Hathaway, in its statement on the company's PetroChina holdings,¹²⁵ further extended the analogy by noting that Freddie Mac and Fannie Mae, two US government sponsored enterprises, have no control over US government policies.

While it is true that subsidiaries don't usually have significant influence with their parent companies, the comparison between PetroChina and Nebraska Furniture Mart (NFM) or Freddie Mac/Fannie Mae is inexact. If the comparison were to hold, NFM's executive team would include at least Mr. Buffett and Marc Hamburg, Berkshire's CFO. The senior executives at NFM would be executives at Berkshire Hathaway. And, perhaps most significantly, Nebraska Furniture Mart would represent 64% of Berkshire Hathaway's total assets as well as 50% of Berkshire's profits. If this hypothetical were, in fact, the reality of the present relationship between Berkshire and NFM and the latter were publicly-traded, it would be astounding if shareholder pressure on NFM for a Berkshire Hathaway transgression didn't at least inspire serious discussion at Berkshire. After all, NFM shareholders would be complaining to NFM's CEO and CFO, Mr. Buffett and Mr. Hamburg, about Berkshire's operations. Of course, Mr. Buffett and Mr. Hamburg are also Berkshire's CEO and CFO.

For the CNPC-PetroChina comparison to hold with regards to Freddie Mac or Fannie Mae and the US Government, the executive management of the United States government and the two companies would have to almost completely overlap. They do not. In fact, while the US President is allowed to appoint 5 out of the 18 Directors for each company, the US intentionally decided to stop filling these 5 slots in 2004. Therefore, at present time, there is zero overlap between US government management and the Boards of either government sponsored enterprise. The comparison is furthermore inexact because the

¹²³ Those Chinese nationals interviewed by the Sudan Divestment Task Force wish to remain anonymous due to concerns about retribution and/or loss of job opportunities.

¹²⁴ http://www.omaha.com/index.php?u_page=1208&u_sid=2349940

¹²⁵ <http://www.berkshirehathaway.com/sudan.pdf>

goal of shareholder pressure on PetroChina is, first and foremost, to change CNPC's behavior in Sudan. In contrast, there is no majority-owned, publicly-traded subsidiary of Freddie Mac or Fannie Mae. If such a subsidiary existed *and* it comprised 64% of Freddie Mac/Fannie Mae's assets, 50% of its revenue, and had near complete management overlap with Freddie Mac/Fannie Mae, it's entirely reasonable to assume that shareholder pressure on the subsidiary triggered by an objectionable action taken by the parent company would influence the parent.

Not only does PetroChina have significant influence with CNPC, but the Sudan Divestment Task Force firmly believes that it is legitimate to target PetroChina for CNPC's Sudan operations for four key reasons. First and foremost, PetroChina is the *primary* financial sponsor of CNPC. Investing in PetroChina *is* equivalent to investing in CNPC's main source of profit – part of which is undoubtedly diverted to CNPC's Sudan operations. Second, the long history of fluid asset transfers and significant management overlap between the two companies reinforces the suggestion that the companies are one macroscopic entity. Third, PetroChina continues to creep ever closer to being a formal and direct sponsor of CNPC's Sudan operations. Already, PetroChina is constructing, with CNPC's help, a \$1.6 billion facility dedicated to refining Sudanese crude in China. PetroChina's CFO (who is also CNPC's CFO) has also declared that PetroChina has a preemptive right to CNPC's Sudan assets in the future. And one of PetroChina's Directors was the former President of Sudan's largest oil consortium at a time when the consortium was accused of serious human rights violations.¹²⁶ Fourth, the actions of CNPC in Sudan, as detailed above, are so irresponsible and so intimately tied to humankind's worst imaginable crime that the faintest hint of doubt concerning the legitimacy of the promised firewall between PetroChina and CNPC should trigger, at minimum, rigorous shareholder engagement.

Since shareholder pressure on PetroChina is a reasonable response to CNPC's actions in Sudan, the next section examines whether such investor pressure can actually influence CNPC's operations in the country.

Berkshire Hathaway's Voice is Critical for Delinking CNPC's Operations from Ongoing Genocide

In an interview with the Omaha World-Herald, Mr. Buffett noted, "I can be a direct descendant of William Jennings Bryan, but I will not be changing the Chinese government's policy... I doubt I could change the policies of the Douglas County [Nebraska] Board."¹²⁷ However, this assessment is contradicted by analysis in *CFO Asia*, the top magazine in Asia for CFOs, finance directors, and treasurers, owned by the Economist Group:

"If Buffett were to sell for any reason, PetroChina's stock would almost certainly tank - and the company's reputation would sink along with it...PetroChina already had a foretaste of this in August [2003] when its stock price fell 2.1 percent in one day. Buffett disclosed to US regulators that he had sold US\$5 million worth of PetroChina's American Depositary Shares in the second quarter of 2003. Flustered investors rushed to the exits. Was Buffett's confidence in PetroChina wavering? The markets were reassured when

¹²⁶ Please see appendix, a spreadsheet, with references, of all senior management and directors of CNPC and PetroChina, including relevant biographical history.

¹²⁷ http://www.omaha.com/index.php?u_page=1208&u_sid=2349940

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it was revealed that Buffett's ADS sales were made before he accumulated the 2.3 billion in H-shares he bought in Hong Kong."¹²⁸

It is a major boon for PetroChina to have the world's greatest investor put full faith and confidence in the company. The pilgrimage that PetroChina's Investor Relations Director made to Omaha in October 2003 "is indicative of PetroChina's desire to keep communication lines open with a high-profile investor whose decisions can make or break the company's stock."¹²⁹

The tremendous influence that Mr. Buffett has in the public securities markets should not be underestimated, but it is also important to understand that actions taken by Mr. Buffett or Berkshire Hathaway wouldn't occur in a vacuum - they would be part of a nascent global movement pushing for improved behavior of CNPC in Sudan. Indeed, a major report on Africa published in late 2005 by the Council on Foreign Relations noted that "China is not impervious to world opinion [about its Africa operations] or to its image as a world power."¹³⁰ Emphasizing this point, the ability of one prominent individual's voice to propel forward a related campaign linking China's 2008 Olympics with Darfur was strikingly demonstrated in April 2007, as reported by the *New York Times*:

"For the past two years, China has protected the Sudanese government as the United States and Britain have pushed for United Nations Security Council sanctions against Sudan for the violence in Darfur.

But in the past week, strange things have happened. A senior Chinese official, Zhai Jun, traveled to Sudan to push the Sudanese government to accept a United Nations peacekeeping force. Mr. Zhai even went all the way to Darfur and toured three refugee camps, a rare event for a high-ranking official from China, which has extensive business and oil ties to Sudan and generally avoids telling other countries how to conduct their internal affairs.

So what gives? Credit goes to Hollywood — Mia Farrow and Steven Spielberg in particular. Just when it seemed safe to buy a plane ticket to Beijing for the 2008 Olympic Games, nongovernmental organizations and other groups appear to have scored a surprising success in an effort to link the Olympics, which the Chinese government holds very dear, to the killings in Darfur, which, until recently, Beijing had not seemed too concerned about.

Ms. Farrow, a good-will ambassador for the United Nations Children's Fund, has played a crucial role, starting a campaign last month to label the Games in Beijing the "Genocide Olympics" and calling on corporate sponsors and even Mr. Spielberg, who is an artistic adviser to China for the Games, to publicly exhort China to do something about Darfur. In a March 28 op-ed article in *The Wall Street Journal*, she warned Mr. Spielberg that he could "go down in history as the Leni Riefenstahl of the Beijing Games," a reference to a German filmmaker who made Nazi propaganda films.

Four days later, Mr. Spielberg sent a letter to President Hu Jintao of China, condemning the killings in Darfur and asking the Chinese government to use its influence in the region "to bring an end to the human suffering there," according to Mr. Spielberg's spokesman, Marvin Levy.

¹²⁸ <http://www.cfoasia.com/archives/200311-02.htm>

¹²⁹ Ibid.

¹³⁰ http://www.cfr.org/content/publications/attachments/Africa_Task_Force_Web.pdf

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China soon dispatched Mr. Zhai to Darfur, a turnaround that served as a classic study of how a pressure campaign, aimed to strike Beijing in a vulnerable spot at a vulnerable time, could accomplish what years of diplomacy could not.”¹³¹

There is other evidence to suggest that China is slowly beginning to change its approach towards Sudan in response to international pressure. As Stephanie Kleine-Ahlbrandt, an International Affairs Fellow at the Council on Foreign Relations, notes:

“This revolution [in China’s approach towards Sudan] has two sources: China’s increasing sensitivity to outrage over its international behavior and a stark reassessment of its political interests.... China’s foreign policy transformation has been a while in the making. Its long-standing protection of the Sudanese regime was already unraveling during the China-Africa summit meeting in Beijing in early November [2006] when [Chinese President] Hu raised the issue with President Omar al-Bashir of Sudan. China’s ambassador to the UN, Wang Guangya, then made crucial interventions at the November meeting in Addis Ababa to secure Sudan’s agreement, albeit temporary, to replace the African Union contingent with a larger hybrid AU-UN force. These moves earned the praise of the American special envoy for Sudan, Andrew Natsios, who recently affirmed that Washington and Beijing were largely working in concert on Darfur.”¹³²

Besides wanting to avoid reputational costs, there are other reasons PetroChina and CNPC care about investors like Berkshire Hathaway. According to the company’s 2006 SEC 20-F form, 50-70% of executive, Director, and Supervisor compensation is tied to stock appreciation rights; recalling that most of these executives, Directors, and Supervisors are also CNPC employees, PetroChina stock price is therefore strongly related to salaries for CNPC management. In fact, PetroChina has granted stock appreciation rights to a total of 300 persons, including members of the Board of Directors and the Supervisory Committee, President, Vice Presidents and departmental managers, and general managers and deputy general managers of specialized companies and local subsidiaries.¹³³ This creates a clear incentive for all levels of PetroChina management to respond to investor concerns.

Having detailed how Mr. Buffett and Berkshire Hathaway can indeed influence CNPC’s behavior in Sudan, especially at a time when China appears particularly vulnerable to pressure, the next section examines the most likely outcomes if pressure on PetroChina were ratcheted up and any possible unintended consequences of such pressure.

What Is the Most Likely Outcome in Sudan if Shareholder Pressure on PetroChina Is Ratcheted Up?

In his interview with the Omaha World-Herald, Mr. Buffett pointed out the potential for shareholder action to have unintended and detrimental consequences. He noted that years ago, “a Berkshire subsidiary helped develop oil resources in Siberia and ended up losing money when the Soviet Union simply took over that property. ‘Essentially we were forced to leave, but we couldn’t take any of it with us.’ In Sudan’s case, he said, Sudan

¹³¹ <http://www.nytimes.com/2007/04/13/washington/13diplo.html>

¹³² <http://www.cfr.org/publication/12529>

¹³³ <http://www.sec.gov/Archives/edgar/data/1108329/000114554906000842/h00585e20vf.htm>

likely would acquire China's holdings at a bargain price and make more money off the oil, thus improving its finances."¹³⁴

The Sudan Divestment Task Force strongly agrees with Mr. Buffett that taking action without evaluating potential unintended consequences is foolish. However, before making any formal request to Berkshire Hathaway regarding its PetroChina investments, the Sudan Divestment Task Force completed a thorough investigation of the most likely outcomes if shareholder pressure on PetroChina increased. Our assessment below is the cumulative work of thousands of hours of research on companies operating in Sudan, consultation with think tanks and non-profits familiar with the country, and conversations with Sudanese government officials. Unfortunately, none of the major oil companies operating in Sudan have responded to repeated requests by the Task Force for a dialogue. As a result, most company information comes from annual reports, news articles, and conversations with Sudan stakeholders.

The conclusion of the Sudan Divestment Task Force – supported by significant research and agreement from experts in this area – is that China prizes its Sudan assets and would much prefer to alter its behavior in Sudan than abdicate those assets. This conclusion isn't surprising; Sudan has become a critical part of China's national energy and primary mineral supply strategy. As described above, 7% of China's oil imports come from Sudan, mostly via CNPC. CNPC has invested at least \$5 billion into the country, and China has used this position of dominance to help secure a variety of other valuable contracts, including mineral extraction rights, with Sudan. That shareholder pressure would lead to a

"If pressure is ratcheted up on PetroChina/CNPC, the most likely outcome would be a subtle shift in the behavior of PetroChina/CNPC in Sudan and a potential alteration in the absolute diplomatic cover China currently affords Sudan on the UN Security Council..."

- Samantha Power, Pulitzer Prize winning genocide scholar and Harvard professor

change in behavior rather than an exit from Sudan is also supported by the recent shifts, albeit subtle, in China's approach towards the country. Furthermore, Berkshire Hathaway's actions would not take place in a vacuum. In concert with the myriad other forms of pressure presently exerted on China, Berkshire's actions can and will alter CNPC's practices in Sudan and China's relationship with the country. This assessment is corroborated by Samantha Power, Pulitzer-prize winning genocide scholar and Harvard Professor:

"If pressure is ratcheted up on PetroChina/CNPC, the most likely outcome would be a subtle shift in the behavior of PetroChina/CNPC in Sudan and a potential alteration in the absolute diplomatic cover China currently affords Sudan on the UN Security Council. It is highly unlikely, if not impossible, to foresee a circumstance where China would abandon its assets in Sudan."¹³⁵

In the extremely unlikely event that shareholder pressure on PetroChina led CNPC to sell its stake in Sudan, there are three basic reasons that Sudan would *not be the most likely buyer*. First, Sudan simply can't afford to purchase the assets, even at rock bottom prices; Sudan's debt of \$29.69 billion (2006 est.) well exceeds its GDP of \$25.5 billion (2006 est.).¹³⁶ Second, Sudan does not have the technical expertise to run CNPC's assets. The country's national oil company, Sudapet, is still in very early learning stages and has continually elected to take a 10% or smaller stake in all oil concessions granted by the government, even those granted recently or currently being mulled over by Khartoum.^{137 138 139} Third, Sudan has

¹³⁴ http://www.omaha.com/index.php?u_page=1208&u_sid=2349940

¹³⁵ Personal communication; April 2007.

¹³⁶ <https://www.cia.gov/cia/publications/factbook/print/su.html>

¹³⁷ <http://www.sudantribune.com/spip.php?article16722>

¹³⁸ <http://www.sudantribune.com/spip.php?article19001>

¹³⁹ <http://www.sudantribune.com/spip.php?article20564>

established exceptionally lucrative profit-sharing agreements for foreign company contracts. This is a strong incentive for the government to entice foreign operators to its oil blocks. For example, the only *publicly-disclosed* production-sharing agreement Sudan has signed with an oil consortium revealed that a whopping 60-80% of all consortium profit goes to Khartoum and 20-40% goes to participating companies.^{140 141} Given Khartoum's lack of technical expertise and how much revenue the government generates from these production-sharing agreements with foreign companies, it would be foolish for Khartoum to purchase CNPC's assets. Even acquiring the assets at a steep discount, the government would likely incur significant opportunity costs in the form of decreased production and profits if it attempted to run CNPC's venture itself rather than leasing the oil block assets to another willing company whose technical expertise is comparable to CNPC's. In short, Khartoum has all the overwhelming incentives to entice another foreign company to fill any potential void left by CNPC. Indeed, this is exactly what has happened historically when oil companies were forced or chose to leave Sudan.

Since Sudan would be extremely unlikely to purchase CNPC's stake, Berkshire's question remains relevant: "And then what [would happen if CNPC is forced to leave Sudan on account of external pressure]?"¹⁴² Answering this question requires an understanding of the other major oil players in Sudan, Petronas (Malaysia's state-owned oil firm) and Oil and Natural Gas Company (a.k.a. – ONGC; one of India's state-owned oil firms). Together, China, India, and Malaysia currently control 90% of Sudan's oil industry.¹⁴³ ONGC's Sudan operations include a 25% stake in the Greater Nile Petroleum Operating Company (GNPOC), the largest oil consortium in Sudan in which CNPC has a 40% share. ONGC has repeatedly demonstrated strong interest in expanding its Sudan assets and would almost assuredly jump at the chance to purchase some or all of CNPC's 40% share in GNPOC.^{144 145 146} Petronas' Sudan operations include a 30% stake in GNPOC and a 40% stake in Petrodar, another one of Sudan's largest oil consortiums in which CNPC has a 41% share. Like ONGC, Petronas has repeatedly demonstrated strong interest in expanding its portfolio of Sudan assets and would also almost assuredly rush to purchase some or all of CNPC's GNPOC or Petrodar assets.^{147 148 149 150} With two companies, already well established in Sudan, eager to expand their assets in the country and competing with each other for Sudan's precious few, available oil concessions, it is almost certain that either Petronas or ONGC (or both) would purchase CNPC's assets well above any price tag Sudan could afford.

If CNPC did sell its Sudan assets to ONGC or Petronas (or both), one may reasonably ask whether this would be a positive outcome. After all, ONGC and Petronas would continue to provide Khartoum with significant revenue through production-sharing agreements – revenue that could be used to fund Sudan's genocidal military apparatus. The answer to this question goes beyond the fact that CNPC is widely considered to be the most irresponsible and unethical of the large investors in Sudan's oil industry in terms of local community impact, environmental destruction, forced displacement, arms sales, connection with Sudan's military and security forces, and graft. Rather, the most important

¹⁴⁰ http://www.ecosonline.org/back/pdf_reports/2006/Oil%20conference/NESI-ECOS%20Juba%20Seminar-%20JJPark-%20Oil%20Contracts%20in%20Sudan%202006-11-01-%20Distribution%20Version.PPT

¹⁴¹ <http://www.bicc.de/events/sudanws/9seymour20june02.pdf>

¹⁴² www.berkshirehathaway.com/sudan.pdf

¹⁴³ <http://www.msnbc.msn.com/id/17951341/site/newsweek/#storyContinued>

¹⁴⁴ <http://www.ecosonline.org/index.cfm?event=showcompanies&page=companies>

¹⁴⁵ <http://www.sudantribune.com/spip.php?article19782>

¹⁴⁶ <http://www.sudantribune.com/spip.php?article14466>

¹⁴⁷ <http://www.ecosonline.org/index.cfm?event=showcompanies&page=companies>

¹⁴⁸ http://www.ecosonline.org/index.cfm?event=showcompaniesdetail&page=companiesdetail&company_id=23

¹⁴⁹ <http://www.sudantribune.com/spip.php?article10282>

¹⁵⁰ <http://taylorandfrancis.metapress.com/index/J2664225T7820600.pdf>

reason to hope for “anyone but CNPC” as an investor in Sudan’s oil industry is that sale of CNPC’s Sudan assets would remove China’s financial incentive for enabling Sudan’s ongoing genocide. Neither India nor Malaysia can replace the economic and diplomatic protection China currently affords Sudan. This is especially true when one considers China’s permanent veto power at the UN Security Council and its weapons sales to Sudan. This assessment is again echoed by Samantha Power:

“In the unlikely situation that China were to abandon their oil assets in Sudan, those assets would almost certainly be scooped up at discount by Malaysia and/or India, neither of which has the capacity to provide Sudan the diplomatic and political cover that China provides.”¹⁵¹

In summary, the most likely outcome of shareholder pressure on PetroChina is a change in CNPC’s behavior in Sudan or, albeit less likely, the sale of CNPC assets to the less problematic major oil players in Sudan (Petronas and/or ONGC). The next section outlines the Sudan Divestment Task Force’s specific requests of Berkshire Hathaway and other major PetroChina investors, such as JP Morgan, Templeton Asset Management, and Fidelity.

The Sudan Divestment Task Force’s Specific Request of Berkshire Hathaway of PetroChina: Engage First, Divest if Necessary

In its statement on the company’s PetroChina holdings, Berkshire Hathaway noted:

“We do not believe that Berkshire should automatically divest shares of an investee because it disagrees with a specific activity of that investee.”¹⁵²

The Sudan Divestment Task Force agrees with Berkshire’s assessment that objectionable activities of an investee should not automatically trigger divestment. Instead, **the Sudan Divestment Task Force advocates for an expedited engagement approach with PetroChina followed by divestment if the company is insufficiently responsive.** Given Berkshire Hathaway’s large investment in PetroChina and the strong evidence presented in this document regarding CNPC’s abuses in Sudan, PetroChina’s connections to CNPC, China, and Sudan, and the most likely outcome of shareholder pressure on PetroChina, Berkshire Hathaway should recognize the imperative to take substantial and powerful action.

Berkshire Hathaway should publicly communicate concerns with PetroChina executives about the company’s disconcerting connections to its parent company, CNPC, and CNPC’s operations in Sudan.

Specifically, Berkshire should request that PetroChina/CNPC immediately:

1. Halt future expansion of operations in Sudan, including its exploration operations currently underway on the South Darfur border;

¹⁵¹ Personal communication; April 2007.

¹⁵² www.berkshirehathaway.com/sudan.pdf

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2. Prohibit use of company grounds for any military operations and renounce protection afforded to the company's oil blocks by security forces associated with Khartoum;
3. End the forced displacement of local populations from oil blocks and allow returning refugees to resettle on lands from which they were displaced;
4. Publicly and forcefully condemn abusive actions taken by Khartoum to protect PetroChina/CNPC assets.
5. Build a coalition with Sudan's other major oil-players (Petronas and ONGC) that collectively requests Khartoum allow a robust international peacekeeping force into Darfur consistent with the November 2006 Addis Ababa agreement.

(A number of NGOs with strong connections to communities in Sudan affected by CNPC's business practices, including the Sudan Divestment Task Force, the European Coalition on Oil in Sudan, and United Nations personnel, stand ready to provide information, insight, and assistance to shareholders looking to engage PetroChina/CNPC.)

If PetroChina/CNPC does not fulfill these requests OR immediately suspend operations in Sudan within the next six months, Berkshire Hathaway should begin divestiture of PetroChina holdings.

In making these requests, Berkshire Hathaway would be acting as a loud and important, but not solitary, voice. Berkshire would be declaring that the company sees through the sophisticated but porous firewall that is supposed to separate PetroChina from CNPC's Sudan assets. Berkshire would make it acceptable for others to legitimately ask tough questions of PetroChina. And, in response, PetroChina would be compelled to finally answer those questions (which it has steadfastly ignored to date) or face the loss of confidence of the world's greatest investor.¹⁵³


¹⁵³ On May 5th, at the Berkshire Hathaway annual meeting, the company's Chairman, Warren Buffett, and Vice-Chairman, Charlie Munger, will discuss the PetroChina issue.

APPENDIX: DIRECTORS AND STAFF OF PETROCHINA AND CNPC

SUMMARY

- * The head (General Manager) of CNPC, Jiang Jiemin, is the President of PetroChina and also sits as Vice-Chairman of PetroChina's Board of Directors.
- * The Chairman of PetroChina's Board of Directors is the immediate past President of CNPC.
- * Per information posted on CNPC and PetroChina's websites on April 9, 2007, the Chief Financial Officer of PetroChina, Wang Guoliang, is also the Chief Financial Officer of CNPC.
- * At least six senior executives, Directors, or Supervisors of PetroChina served in leadership roles in the government; this includes at least one independent member from the Board of Directors and one independent member from the Board of Supervisors.
- * At least two CNPC officials, including one that is also a member of PetroChina's Board of Directors, used to serve as President of Sudan's largest oil consortium, the Greater Nile Petroleum Operating Company.
- * Zhou Jiping, a Director of PetroChina (see below), was President of the Greater Nile Petroleum Operating Company (GNPOC) exactly when GNPOC security forces were documented by the Canadian government to be displacing local populations and even possibly participating in the summary execution of citizens.
- * The current Presidents of Sudan's two largest oil consortiums, the Greater Nile Petroleum Operating Company and Petrodar, are both Chinese; given the history of Sudan oil consortium leaders going on to take leadership posts in CNPC and PetroChina, the Task Force strongly suspects, but can not prove, that these two Presidents are affiliated with CNPC.
- * CNPC's CFO and all but one of its Vice Presidents serve on the Board of Directors for PetroChina; the once CNPC Vice President who doesn't serve on PetroChina's Board nevertheless serves as a Senior Vice President to PetroChina
- * Every high ranking PetroChina executive has a current or past connection to CNPC
- * The most recent PetroChina and CNPC executive to retire, Su Shulin (November 2006), went on to take up a senior government post with the Communist party, a path taken by many former CNPC/PetroChina executives
- * Only 3 out of 12 PetroChina Directors are independent and only 2 out of 6 Supervisors of the company are independent; and at least two of these independent directors or supervisors are linked to the Chinese government
- * Only 1 out of 9 non-independent Directors of PetroChina has no current or former connection to CNPC; only 1 out of 5 non-independent Supervisors of PetroChina has no current or former connection to CNPC.

Names listed below represent ALL high level executives or Board members listed by CNPC and PetroChina

Name	PetroChina Board of Directors	PetroChina Executive Staff	CNPC Executive Staff	Chinese Government
 中国石油天然气股份有限公司 PetroChina Company Limited  中国石油天然气股份有限公司 PetroChina Company Limited  中国石油天然气集团公司 CHINA NATIONAL PETROLEUM CORPORATION 	Chen Geng <u>Chairman</u>		(Former) General Manager	Director <i>State Petroleum and Chemical Industry Bureau (1998)</i>
<i>* Retired in November 2006 from position as President of CNPC; still retains PetroChina Board Chairmanship, but plans to retire from this position shortly</i> <i>* Additional reference</i>		Jiang Jiemin <u>Vice Chairman</u>	President	General Manager
				Vice Governor <i>Qinghai Province (2000-2004)</i> Deputy Secretary <i>Communist Party, Qinghai Province (2003-2004)</i>
	Li Huaiqi <u>Secretary to the Board of Directors</u>		(Former) Director <i>CNPC Foreign Affairs Bureau (1992-1998)</i>	
	Zheng Hu <u>Director</u>		(Former) Vice President/ Deputy General Manager <i>Replaced in April 2007 by PetroChina Vice President Liao Yongyuan</i>	
	Zhou Jiping <u>Director</u>		Vice President/ Deputy General Manager	
<i>* Former President of Greater Nile Petroleum Operating Company, Largest Oil Consortium in Sudan</i> <i>* Additional supporting website</i>				

Wang Yilin	<u>Director</u>		<u>Vice President</u>	
Zeng Yukang	<u>Director</u>		<u>Vice President/ Deputy General Manager</u>	
Gong Huazhang	<u>Director</u>		<u>(Former) Chief Financial Officer</u> <i>Replaced in April 2007 by PetroChina's CFO</i>	
Jiang Fan	<u>Director</u>	<u>General Manager</u> <i>Dailan Petrochemical Company (Wholly-Owned PetroChina Subsidiary)</i>		
Chee-Chen Tung	<u>Independent Non-Executive Director</u>			
Liu Hongru	<u>Independent Non-Executive Director</u>			<u>Deputy Director</u> <i>Economics Committee, Chinese People's Political Consultative Conference</i>
Franco Bernabè	<u>Independent Non-Executive Director</u>			
Su Shulin	<u>(Former) Director</u>	<u>(Former) Senior Vice President</u>	<u>(Former) Vice President</u> <i>(as of 2005)</i>	<u>Alternate Member</u> <i>16th CPC, Central Committee</i>
	<i>* Retired in November 2006 to take up a government post in the Liaoning Province * Second Reference for Above</i>			
Duan Wende	<u>Director</u>	<u>Senior Vice President</u>	<u>Vice President</u>	
	<i>* Punished by Chinese government in November 2006 for massive benzene spill and coverup by PetroChina subsidiary</i>			
Wang Guoliang		<u>Chief Financial Officer</u>	<u>Chief Financial Officer (Former) Vice President</u> <i>(1995-1997)</i>	
Liao Yongyuan		<u>Vice President</u>	<u>Vice President</u>	<u>Deputy Director</u> <i>Gansu Provincial Economic and Trade Committee (2001-2004)</i>
Jia Chengzao		<u>Vice President</u>	<u>(Former) Vice President</u> <i>China Oil Exploration and Exploitation Scientific Research Institute of CNPC (1998)</i>	
Hu Wenrui		<u>Vice President</u>	<u>(Former) Director</u> <i>CNPC Changqing Oilfield Branch Company (1999-2002)</i>	
Wang Fucheng	<u>Chairman</u> <i>Supervisory Committee</i>	<u>(Former) Vice President</u>	<u>Chief</u> <i>Discipline and Inspection Group</i>	

Xu Fengli	<u>Supervisor</u>	<u>General Manager</u> <i>Audit Department</i>	<u>(Former) Deputy Director</u> <i>Finance and Assets Department</i> <i>(1998 - ?)</i>	
Qin Gang	<u>Supervisor</u>	<u>Officer</u> <i>Tarim Oilfield Company</i> <i>(Wholly-Owned PetroChina Subsidiary)</i>		
Wen Qingshan	<u>Supervisor</u>		<u>Director</u> <i>Finance and Assets Department</i>	
Sun Xianfeng	<u>Supervisor</u>		<u>Director</u> <i>Audit Department</i>	<u>Director</u> <i>Eighth Office</i> <i>State Council Compliance Inspectors' General Office</i>
Li Yongwu	<u>Independent Supervisor</u>			<i>Numerous government posts, including:</i> <u>Vice Minister</u> <i>Ministry of Chemical Industry (1995)</i> <u>Director</u> <i>State Petroleum and Chemical Industry Bureau (1998)</i> <u>Standing Member</u> <i>Tenth Chinese People's</i> <i>Consultative Conference (2003)</i>
Wu Zhipan	<u>Independent Supervisor</u>			
Liu Haisheng			<u>Assistant President</u>	
Xu Wenrong			<u>Assistant President</u>	
Wang Dongjin			<u>Assistant President</u>	
* Former President of Greater Nile Petroleum Operating Company, Largest Oil Consortium in Sudan				