



DENISE L. NAPIER  
TREASURER

**State of Connecticut**  
Office of the Treasurer

HOWARD G. RIFKIN  
DEPUTY TREASURER

November 3, 2009

Members of the Investment Advisory Council

Re: Report on the Connecticut Retirement Plans and Trust Funds' Sudan Initiative

Dear Fellow IAC Member:

On September 29, 2009, I decided to take action under Connecticut's Sudan statute, Conn. Gen. Stat. § 3-21e, and divest CRPTF funds from and prohibit future direct investment in, four companies, MISC Bhd, Dongfeng Motor Corp., CNPC (Hong Kong), and Sinopec Shanghai Petrochemical Corp. Enclosed is a report by Shelagh McClure, Director of Compliance, regarding this action.

I look forward to your comments on this report.

Sincerely,

A handwritten signature in cursive script, appearing to read "Denise", is written over a horizontal line.

Denise L. Nappier

OFFICE OF THE STATE TREASURER  
MEMORANDUM



TO: Hon. Denise L. Nappier  
Treasurer

FROM: Shelagh P. McClure *SPM*  
Director of Compliance

DATE: October 19, 2009

SUBJECT: Sudan

The purpose of this memo is to report on the status of our Sudan initiative. Pursuant to Conn. Gen. Stat. §3-21e, the Treasurer is required to report at least once per fiscal year to the IAC on actions taken under the statute.

Action Taken

Following the recommendation of staff, on September 29, 2009 the Treasurer approved divestment from and prohibition on direct investment in the following companies:

**Malaysia International Shipping Corporation (MISC Bhd)**, a Malaysian shipping company, which is a publicly-traded majority-owned subsidiary of **Petronas**.

**CNPC (Hong Kong)**, a majority-owned publicly-traded subsidiary of **China National Petroleum Company**.

**Sinopec Shanghai**, a publicly-traded subsidiary of **Sinopec Corp.**, which is in turn a publicly-traded subsidiary of **China Petrochemical Corp.**

**Dongfeng Motor Corporation**, a Chinese automobile company.

At the time of the decision, CRPTF had holdings in only one of the four companies discussed in this report, Dongfeng Motor Corporation (2,050,000 shares, with a market value of \$2,168,962).

Three of the four companies listed above are majority-owned subsidiaries of or affiliates of companies from which CRPTF has already divested or in which future investment is prohibited. Under Connecticut's Sudan statute, "company" is defined to include only "wholly-owned" subsidiaries, so separate engagement with a company's majority-owned subsidiaries or affiliates is required.

In November, 2008 letters were sent to the above companies, seeking information on their activities in Sudan. Notice was provided, as required under the federal Sudan Accountability and Divestment Act, that action up to and including divestment was being considered and that the company had at least ninety (90) days to respond to the inquiry. None of the companies responded to our letter. Under Connecticut's statute, the Treasurer may consider a company's refusal to cooperate in lawful inquiries as a factor when determining whether divestment is warranted. Set forth in **Exhibit A** is additional information on the four companies, including a description of their Sudan related activities.

Prior to recommending divestment, Treasury investment staff was asked to evaluate the impact of prohibiting investment in or divesting from the additional Chinese entities and concluded that the impact is small and not likely to have a material impact on CRPTF's performance, tracking error and/or risk/return profile. This analysis was based on the index weight of the additional Chinese companies, which was determined to be insignificant when compared to the more sizable 1.5% already excluded due to prohibitions in PetroChina and Sinopec.

Although the EME influence is insignificant, staff highlighted the need to remain cognizant of the influence of the exclusions within CRPTF's Chinese exposure, Energy exposure and, most traceable, Chinese Energy exposure within the portfolio. In addition, staff noted that attention should be paid to Dongfeng due to the depressed state of the U.S. automotive sector; in the event that U.S. companies seek foreign partners for joint ventures, Dongfeng, as a Chinese auto producer, may be a company of interest to the U.S. manufacturers.

CRPTF managers have been informed of the foregoing action. In addition, as required by federal law, the United States Department of Justice has been notified of the Treasurer's determination. Finally, letters have been sent to each of the four companies informing them of the action.

**Exhibit B** is a complete list of the companies that CRPTF managers have been prohibited from investing in under Connecticut's Sudan statute.

## EXHIBIT A

**MISC Bhd:** Malaysia International Shipping Corp. (MISC Bhd) is a publicly-traded, majority owned subsidiary of Petronas. It is one of the world's largest shipping companies and has its own connections to Sudan. It entered into a joint venture agreement in 2005 with a Sudan-based company to provide shipping logistics for the petroleum industry and specifically for Petronas in Sudan. In addition, MISC Bhd, through a wholly-owned subsidiary, provides shipping services for the UN World Food Programme in Sudan, a commercial (not humanitarian) venture. A previous attempt to open a dialogue with MISC Bhd in January 2008 did not receive a response from the company.

**Petronas**, which is the state-owned oil company of Malaysia, has played one of the largest roles in developing the Sudanese oil industry. The company holds a stake in nine of Sudan's oil blocks and is participating in the construction of a \$1 billion refinery project in Port Sudan. As of April 2007, the company had invested nearly \$1.5 billion in Sudan. Through a subsidiary, Petronas purchased and operates an aviation refueling business previously owned by Royal Dutch Shell. There are no impediments to the company refueling Sudan military aircraft, which was the primary reason Shell sold the business under pressure from human rights groups. Finally, the company recently became one of two companies mainly responsible for marketing one type of Sudanese oil. In May 2008, the Petronas Chairman met, for the first time, with representatives from the Sudan Divestment Taskforce (SDTF). Although the Taskforce was encouraged that the company finally agreed to meet, the Chairman did not acknowledge any issues with Petronas' operations in Sudan and SDTF obtained no commitments from the company, other than to review materials supplied by the SDTF.

Petronas has three majority-owned publicly-traded subsidiaries: Petronas Gas, Petronas Dagangan and **MISC Bhd**. In addition, Petronas has five wholly-owned or majority-owned subsidiaries that raise capital through the issuance of bonds, including wholly-owned **Petronas Capital Limited**, from which CRPTF has already divested. Divestment from Petronas Capital Ltd. was based upon Petronas' large role in developing Sudan's oil industry, which is the main source of government revenue to prosecute its abhorrent policies in Darfur. Given MISC's role in providing logistics for the Sudanese oil industry, and in particular, for Petronas, and its failure to respond to our attempts to open a dialogue, divestment and prohibiting further direct investments is warranted from MISC Bhd as well, notwithstanding its contract to provide shipping services to the World Food Programme.

CRPTF holds no shares in MISC Bhd currently, but has been a shareholder in the past (CRPTF held over 500,000 shares when we sent our January 2008 letter to the company).

**CNPC (Hong Kong):** CNPC (Hong Kong) is a majority-owned subsidiary of China National Petroleum Corp., which is owned by the government of China, and is an affiliate of **PetroChina Ltd.**, which is already on CRPTF's prohibited list.

China National Petroleum Corp. (CNPC) is the preeminent force in the Sudan oil business. China has invested over \$6 billion in Sudan, much of it through CNPC. CNPC holds an interest in 6 of the 7 oil blocks currently producing oil there, and has an interest in other blocks where exploration is currently ongoing and jointly owns production facilities with the Government of Sudan. Working through multiple subsidiaries, CNPC participates in all phases of the business, including building infrastructure, oil exploration and production, and oil field services. It financed and jointly owns with the Government of Sudan a refinery in Port Sudan. One of CNPC's subsidiaries is set to begin seismic studies of an oil tract in North Darfur, and this activity has been cited as a cause in the upsurge of military actions by the Government in northern Darfur.

The Boards of Directors and management of CNPC and its majority-owned subsidiaries substantially overlap, and their finances are substantially intertwined. Thus, even subsidiaries that do not directly operate in Sudan supply capital to the parent to pursue its business activities in Sudan, and the lack of independence from the parent corporation has been cited by investors divesting from such subsidiaries. On this basis, prohibiting further direct investments is warranted.

**Sinopec Shanghai:** Sinopec Shanghai is a publicly traded subsidiary of Sinopec Corp., which is a subsidiary of Sinopec Group. CRPTF has already divested and prohibited future investment in **Sinopec Corp.**

Sinopec Group is a large Chinese state-owned oil company with well documented operations, through subsidiaries, in Sudan. Sinopec has an ownership interest in one Sudanese oil tract, but its largest business interest in Sudan is in the oilfield services arena. One subsidiary has over 1,200 employees in Sudan, and has supplied equipment, laid pipelines, conducted seismic testing and performed other oil field services for oil field exploration and development joint ventures, whose partners include the Sudanese national oil company, Petronas, CNPC and others.

Like CNPC, the management and finances of the Sinopec Group and its subsidiaries are substantially interlinked. Thus, similar to CNPC, even Sinopec Group subsidiaries that do not directly operate in Sudan supply capital to the parent to pursue its business activities in Sudan, and the lack of independence from the parent corporation has been cited by investors divesting from such subsidiaries. On this basis, prohibiting further direct investments in **Sinopec Shanghai** is warranted.

CRPTF does not currently hold shares of Sinopec Shanghai or of CNPC (HK) but has had holdings in the past.

**Dongfeng Motor Corporation:** This Chinese automobile company has been cited in reports as supplying vehicles to the Sudanese military. These vehicles, military trucks, have been seen in the Darfur region, reportedly being used by the Sudan military, and upon capture, vehicles have also been used by rebel forces. The sale of the vehicles, which the

press has reported as fitted with anti-aircraft guns, occurred after the UN approved an arms embargo. Dongfeng has not cooperated with inquiries by the Sudan Divestment Taskforce.

One of the criteria to be considered under Connecticut's Sudan law is whether a company "supplies infrastructure or resources used by the government of Sudan to implement its policies of genocide in Darfur." The sale of vehicles to the Sudanese military meets this criterion and, when added to the company's failure to respond to our attempts at engagement, warrants divestment from and prohibition on future investment in Dongfeng.

As of September 29, 2009, CRPTF held 2,050,000 shares of Dongfeng Motor Corp., with a market value of \$2,168,962.

## **EXHIBIT B**

### **Sudan Restricted Company List**

Pursuant to Conn. Gen. Stat. §3-21e, the Office of the Treasurer prohibits direct investment in the following companies:

Bharat Heavy Electricals Ltd. (BHEL)  
China Petroleum and Chemical Corp. (Sinopec Corp.)  
CNPC (Hong Kong)  
Dongfeng Motor Corporation  
MISC Bhd  
Nam Fatt Corp.  
Oil and Natural Gas Corp. (ONGC)  
PECD Group  
PetroChina Co. Ltd.  
Petronas Capital Ltd.  
Sinopec Shanghai Petrochemical Corp.  
Sudan Telecom (Sudatel)  
Wartsila Oyj