



DENISE L. NAPPIER
TREASURER

State of Connecticut
Office of the Treasurer

HOWARD G. RIFKIN
DEPUTY TREASURER

December 3, 2008

Members of the Investment Advisory Council

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

Dear Fellow IAC Member:

On November 13, 2008, I decided to take action under Connecticut's Sudan statute, Conn. Gen. Stat. § 3-21e, and divest CRPTF funds from and prohibit further investment in, two companies, Petronas Capital Ltd. and Wartsila Oyj Corporation. Enclosed is a report by Shelagh McClure, Director of Compliance, regarding this action as well as information on recent efforts by Treasury staff to engage companies over their business activities in Sudan.

I look forward to your comments on this report.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Denise', is written over a large, light-colored circular mark.

Denise L. Nappier
State Treasurer

OFFICE OF THE STATE TREASURER
MEMORANDUM



TO: Hon. Denise L. Nappier
Treasurer

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

DATE: December 3, 2008

SUBJECT: Sudan

The purpose of this memo is to report on the status of our most recent engagement activities with companies doing business in Sudan.

DIVESTMENT RECOMMENDATIONS

Based upon the recommendation of staff, on November 13, you decided to divest CRPTF holdings in **Petronas Capital Ltd.** and **Wartsila Oyj**. PFM has been notified of your decision, and will be contacting all managers, with instructions to divest any CRPTF direct holdings within 120 days and prohibiting direct investment of CRPTF funds until further notice.

PETRONAS: In June, you sent a letter to the Chairman and Chief Executive Officer of Petronas, seeking engagement on the company's activities in Sudan. In accordance with the recently enacted federal Sudan Accountability and Divestment Act (SADA), the letter warned that the failure to respond to the letter within 90 days could result in divestment by CRPTF under state and federal law. This letter was our third attempt at beginning a dialogue with the company. Like the two previous letters, the June 2008 letter received no response from the company, and the 90 day period expired on September 1.

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.

Although Petronas is owned by the government of Malaysia, it has five wholly-owned or majority-owned subsidiaries that raise capital through the issuance of bonds, including wholly-owned **Petronas Capital Limited**. Currently, CRPTF holds a corporate bond issued by **Petronas Capital Ltd.**, with a current market value of \$1,972,292.65.

Petronas has played a large role in developing Sudan's oil industry, which is the main source of government revenue to prosecute its abhorrent policies in Darfur. Given its preeminent role in the Sudanese oil industry, and its repeated failure to respond to our attempts to open a dialogue, divestment from Petronas including its wholly owned subsidiaries and prohibiting further direct investments is warranted.

WARTSILA OYJ CORPORATION: In January, a letter was sent to Wartsila Corporation, which supplies power stations to Sudanese oil production facilities, seeking information on their activities in Sudan, both business-related and humanitarian efforts. The company responded to our initial letter and acknowledged that it was conducting business in Sudan. However, it failed to provide sufficient details of its activities there, leaving us unable to evaluate its conduct under state or federal law. It claimed it was unable to supply us with further information due to confidentiality agreements with its customers. In April, a follow up letter was sent, requesting a more complete response to the letter we sent to the company in January 2008. The letter included the required notice under the Sudan Accountability and Divestment Act. The company has not responded to the April follow up letter.

Wartsila is a Finnish corporation that has supplied power stations to the Petrodar oil consortium, which conducts oil field exploration and production operations in Sudan. The company indicates that it is active in Sudan, through a subsidiary established to develop business in East Africa including Sudan and which maintains an office in Khartoum. While the company indicated that it has no current plans to expand its business in Sudan, its decision to maintain an office there indicates that Wartsila continues to seek business, and it acknowledged as much in communications with the Sudan Divestment Taskforce. The company provided no information on any humanitarian activities it has undertaken.

Wartsila is open for business in Sudan. Coupled with its determination not to disclose details of its business, the failure to respond to our follow up letter and the lack of any suggestion that it has undertaken any humanitarian activities in the country indicate that divestment and prohibition on further direct investment are warranted. CRPTF currently holds 5,067 shares with a market value of \$114,822.27.

ENGAGEMENT EFFORTS

In November, letters were sent to the following companies, seeking information on their activities in Sudan.

MISC Bhd: Malaysia International Shipping Corp. (MISC Bhd) is a publicly traded, majority owned subsidiary of Petronas and provides shipping and logistics to the Sudanese oil industry. Connecticut law defines "company" to include only "wholly-owned" subsidiaries, so separate engagement with a company's majority-owned subsidiaries is required. A previous attempt to open a dialogue with MISC Bhd in January 2008 did not receive a response from the company.

ALSTOM: Alstom, a French company, is a global corporation in the power generation sector. It has business in Sudan through contracts to provide services in connection with the Merowe Dam project, a large dam construction project on the Nile River. The company has maintained a dialogue with shareholders and has committed not to seek additional business in Sudan, but it intends to fulfill its contractual obligations in connection with the Merowe Dam project. It is expected that such commitments will keep Alstom in Sudan until at least 2010.

ABB Ltd: ABB Ltd., a Swiss company, is a global corporation in the power generation sector. Like Alstom, ABB has business in Sudan through contracts to provide services in connection with the Merowe Dam project. Treasury staff opened a dialogue with the company on their business activities in Sudan, and met in person with representatives from ABB, which has an office in Norwalk, in 2005. In late 2006, ABB committed to fully withdraw from Sudan. However, it recently confirmed that although it has ceased much of its activity in Sudan, it has been unable to fully withdraw due to certain contractual commitments; however, it is not accepting new business. Due to project delays, the commitment of ABB to exit Sudan will be delayed, by some estimates, until 2010.

SCHLUMBERGER: We have exchanged a number of letters with Schlumberger on their activities in Sudan. The most recent correspondence we received was in December, 2007. The company is an oil field services firm with ongoing contracts in Sudan. Its customers are joint ventures that have rights to explore and extract oil in Sudan, and whose members include Petronas, Oil and Natural Gas Corp. of India and China National Petroleum Corp. (parent of PetroChina). Schlumberger employs and trains local residents; currently, it has nearly 950 Sudanese employees (out of a workforce of 1200). The company works closely with universities in Sudan to train Sudanese citizens as engineers for the oil and gas industry. It has undertaken local health and safety programs and connected a local school to the internet. In response to the efforts of the Sudan Divestment Taskforce, Schlumberger has agreed to undertake projects, which will be verified by an independent third party, in Internally Displaced Persons (IDP) camps, including agreeing to build a school, provide a mobile health clinic and install water wells.

CHINESE OIL COMPANIES

CHINA NATIONAL PETROLEUM CORPORATION: China National Petroleum Corp. (CNPC), which is owned by the government of China, 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. 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.

CNPC is owned by the Chinese government, but it has two majority-owned publicly traded subsidiaries, PetroChina Ltd. and **CNPC (Hong Kong)**. The Boards of Directors and management of these companies substantially overlap with CNPC, and their finances are substantially intertwined. CRPTF external managers

are currently prohibited from investing in PetroChina, but are not prohibited from investing in CNPC (Hong Kong).

CHINA PETROCHEMICAL CORPORATION (SINOPEC GROUP): Sinopec Group is another 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. Like CNPC, the management and finances of the Sinopec Group and its subsidiaries are substantially interlinked. CRPTF has already divested from Sinopec Corp., a publicly traded subsidiary of Sinopec Group, but has not divested from **Sinopec Shanghai**, a publicly traded subsidiary of Sinopec Corp.

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 arms embargo. Dongfeng has not cooperated with inquiries by the Sudan Divestment Taskforce.

A report of CRPTF's holdings in the above companies as of 12-02-08 is attached as **Exhibit A**. The approximate value of CRPTF holdings is \$ 33.6 million, but slightly more than \$2 million represents holdings for which divestment has been ordered (Petronas Capital Limited and Wartsila).

Exhibit A

<u>Security Name</u>	<u>Market Value (as of 12-02-08)</u>
ABB LTD	3,694,588
ALSTOM	8,261,768
CNPC (HONG KONG) LTD	554,626
DONGFENG MOTOR GRO	353,469
MISC BHD	994,161
PETRONAS CAPITAL LTD	1,972,292
SCHLUMBERGER LTD	17,678,327
WARTSILA	114,822