

August 3, 2009

Senator John F. Kerry  
Chairman, Senate Foreign Relations Committee  
218 Russell Building  
Washington, DC 20510

Senator Richard G. Lugar  
Ranking Member, Senate Foreign Relations Committee  
306 Hart Senate Office Building  
Washington, D.C. 20510

Dear Senator Kerry and Senator Lugar,

We write with regard to the pending nomination of Robert Hormats as Undersecretary of State for Economic, Energy and Agricultural Affairs.

We are concerned about the instrumental role that Mr. Hormats played in reassuring the public and the financial markets about PetroChina in preparation for that company's initial public offering. PetroChina's IPO raised strong opposition due to the extensive dealings between its parent company, China National Petroleum Corporation (CNPC) and the Government of Sudan, which was under U.S. sanctions and was engaged in widespread crimes against humanity and human rights abuses in its war against Sudan's south.

While Vice Chairman of Goldman Sachs International, Mr. Hormats gave numerous assurances that safeguards would prevent PetroChina from supporting CNPC's partnerships with the Sudanese government. However, as detailed in the attached addendum, the two companies are inextricably linked and PetroChina has provided substantial capital support to CNPC. Furthermore, PetroChina and its parent are widely recognized as linked to the genocide and ongoing human rights abuses in Darfur, Sudan, as the Government of Sudan's principal partners in an industry providing the great majority of its revenue.

In light of the ongoing humanitarian crisis in Darfur and CNPC/PetroChina's continued ties to the Government of Sudan through the country's oil industry, Mr. Hormats should be provided ample opportunity to address his judgment on PetroChina and role in its IPO.

We request that you question Mr. Hormats on:

1. His current view, in contrast to his view at the time of the IPO, of the dangers of investments in PetroChina helping to fund the regime in Khartoum.
2. His willingness, now, to make a clear and public statement recognizing that PetroChina is helping to fund atrocities in Sudan and to admit that his support of the IPO was a mistake.
3. Assistance he provided to PetroChina, allowing it to raise capital in the United States and subsequently help fuel the humanitarian crisis directed by the Government of Sudan.
4. Policies that he now considers would be prudent for financial institutions to adopt, so as to avoid the mistakes he facilitated during PetroChina's IPO, and to avoid inadvertently connecting ordinary American investors to ongoing and future crimes against humanity and mass atrocities.

Mr. Hormats' answers to these questions should allow him to address the mistaken assurances he provided at the time of PetroChina's IPO, and his willingness to address these questions should be considered a significant factor in the Committee's decision to support or deny his confirmation.

The attached addendum provides useful context on the importance of examining Mr. Hormats' role, perspective and judgment with regard to PetroChina. Thank you for your consideration of this matter and for your commitment to ending atrocities in Sudan and around the world.

Sincerely,



Sam Bell  
Executive Director  
Genocide Intervention Network



Eric Cohen  
Chairperson  
Investors Against Genocide

## **Addendum on PetroChina, China National Petroleum Corporation (CNPC), and Sudan**

The relevant context behind PetroChina and CNPC's relationship with the Government of Sudan extends over the past two decades. The U.S. government placed comprehensive sanctions on the Government of Sudan in 1997 in response to Khartoum's support of international terrorists. In addition, it has issued hundreds, if not thousands, of condemnations and issued further sanctions in response to the murderous pattern of abuse by the Khartoum regime. As many as two million people died in Sudan's North-South civil war, and some four hundred thousand may have perished in Darfur since 2003.

While sanctions prevent U.S. companies from conducting business in Sudan (besides the very few who have received OFAC exemptions), more than five hundred international firms continue to operate there. Though the majority is contributing to peace and prosperity in Sudan, a few dozen companies' operations disproportionately fuel Khartoum's capacity for abuse while offering little benefit to Sudan's citizens. Among the latter, China National Petroleum Company (CNPC) is known as the largest and most involved.

CNPC is the largest player in Sudan's oil industry, holding the controlling and managing stake in the majority of Sudan's oil-producing blocks. This industry provides Khartoum with the great bulk of its revenue, some seventy percent of which is reportedly directed towards its military. When Sudan's first significant oil exports hit the market in early 2000, Sudanese army spokesman Gen. Mohamed Osman Yassin said that Sudan would that year "reach self-sufficiency [in weapons]" thanks to its "unprecedented economic boom, particularly in the field of oil exploration and exportation."

Not only is CNPC the leading player in the industry streaming revenue and capacity to the Sudanese government, but numerous reports on oil development in Sudan have addressed or documented human rights abuses associated with the industry, and with consortia (GNPOC and Petrodar) in which CNPC is involved.

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. 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 the same entity with overlapping management, frequent asset transfers, and strong mutual dependence. (For a fuller picture, see the reports noted at the end of this addendum.)

The history of the CNPC-PetroChina relationship began in 1999 with CNPC's failed attempt at an initial public offering (IPO) on the New York Stock Exchange. At the time, Western investors' 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, which CNPC pledged would not be involved in Sudan-related activities. 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 U.S. 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. Mr. Hormats responded to those doubts with a public defense of CNPC's position:

*Wall Street Journal*, 1/14/2000: "Sudan should not be an issue because of extensive legal firewalls in place to ensure that IPO proceeds are used domestically in China."

*Business Week*, 1/24/2000: "It's not an issue because of the extraordinary steps the company is taking to ensure IPO proceeds are only used domestically."

*Washington Post*, 1/27/2000: "The structure of the deal emerging should mean that Sudan is not an issue because of the safeguards ensuring all the funds raised here will be used domestically...PetroChina will be a purely domestic company."

*LA Times*, 2/14/2000: "No one is saying there aren't problems there" in Sudan..."But . . . this particular transaction should not be affected by concerns about Sudan or other parts of the world."



The skeptics' fears were soon confirmed. Through its IPO, PetroChina incurred \$15 billion in debt from CNPC, some of which was acquired in connection with CNPC's Sudan operations. In addition, as analysts estimated at the time, some ten percent of the IPO's total (U.S. \$270- \$300 million) went directly to CNPC. This was new money that could be included in CNPC's new investment in Sudan's Eastern Upper Nile, where the Petrodar consortium operates.

Since the public offering, there have been dozens more asset transfers between PetroChina and CNPC, all executed under a non-competition agreement signed jointly by the companies at the time of PetroChina's IPO. 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.

Wang Guoliang, Chief Financial Officer for PetroChina and, since 2007, Chief Financial Officer for CNPC as well, signaled PetroChina's international ambitions at a news conference in June 2005, stating, "[PetroChina] will eventually grow from a mainly domestic oil and gas company to an international corporation with significant international oil and gas assets." Wang stated in November 2005 that PetroChina has a preemptive right to acquire CNPC's Sudan operations.

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. By virtue of CNPC's approximately 88% ownership in PetroChina, CNPC receives about 35-44% of all net PetroChina profit in any given year. Critically, this dividend payment accounted for approximately half of all of CNPC's profits in 2005, the latest year in which our organizations were able to obtain reliable profit data from CNPC. That PetroChina provides CNPC with half of its profits was also confirmed for 2002 in a report prepared for the United States Congress on Chinese industrial policy. 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.

In addition to asset transfers, the near complete overlap in the companies' management structures illustrates their interdependence. PetroChina's vice president is vice chairman and general manager of China Petroleum Hong Kong (Holding) and chairman of Shenzhen Petroleum Industrial Co., both units of CNPC. PetroChina's chairman is CNPC's general manager, while CNPC's vice general manager is also PetroChina's president.

Investments in PetroChina and other companies funding Khartoum's genocidal capacity have become a widespread concern in the United States. Shareholder proposals to avoid investments in genocide have turned up on proxy ballots of major mutual funds beginning last year. Millions of shareholders and customers of mutual fund giants Fidelity and Vanguard have voted to prevent holding stocks in companies that substantially contribute to genocide, with approval rates as high as 31%. TIAA-CREF, a major financial services firm, has adopted strong policies to draw the line at investing in companies – including PetroChina - that contribute to genocide. More than sixty of the nation's leading universities and twenty-seven state pension funds have sold their interests or barred future investments in PetroChina due to its connection to ongoing atrocities in Sudan. Moreover, the United States Congress unanimously passed the Sudan Accountability and Divestment Act, barring the federal government from contracting with PetroChina, among other companies connected to the crisis in Sudan, and supporting the right of fiduciaries to divest from those companies.

Further details can be found in reports by the Sudan Divestment Task Force:

- *PetroChina, CNPC, and Sudan: Perpetuating Genocide*  
[http://sudandivestment.org/docs/petrochina\\_cnpc\\_sudan.pdf](http://sudandivestment.org/docs/petrochina_cnpc_sudan.pdf)
- *The Detrimental Presence of PetroChina/CNPC in Sudan*  
[http://sudandivestment.org/docs/petrochina\\_cnpc\\_addendum.pdf](http://sudandivestment.org/docs/petrochina_cnpc_addendum.pdf)