

OFFICE OF THE STATE TREASURER
MEMORANDUM



**TO: Hon. Denise L. Nappier
Treasurer**

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

DATE: April 30, 2014

SUBJECT: Sudan, Iran and MacBride

The purpose of this memo is to report on the status of our Sudan, Iran and MacBride initiatives. Pursuant to Conn. Gen. Stat. §§3-21e, 3-13g and 3-13h, the Treasurer is required to report at least once per fiscal year to the Investment Advisory Council on actions taken under each of these statutes.

SUDAN

On June 1, 2012, the Treasurer approved divestment from and prohibition on direct investment in the following companies including their majority-owned subsidiaries, each of which is conducting business in Sudan. Specifically, each company conducts business in the weapons sector and has been reported as providing military equipment to the Government of Sudan:

**AviChina Industry and Technology Ltd.
Jiangxi Hongdu Aviation Industry Ltd.
China North Industries Corporation**

At the time of the decision, CRPTF had no holdings in any of the companies. No additional companies were added to the CRPTF Sudan Restricted Company List in FY 2014. However, two companies were removed from the list due to cessation of activities in Sudan, **PECD Berhad** and **Nam Fatt Corp.**

We continue to monitor activities in Sudan, but both internal conflict in South Sudan, ongoing conflict in Darfur and other regions in the Republic of Sudan, and tensions between the Republic of Sudan and South Sudan over oil have served to discourage the expansion of commercial activity in the countries.

The conflict in South Sudan arose after the President of the country, Salva Kiir, charged that his Vice President Riek Machar had attempted to overthrow the government. Over 1 million South Sudanese have either fled to neighboring countries or left their homes for locations within the country, in order to escape the violence. The conflict has heavily damaged the agricultural economy of the country and threatens to disrupt the upcoming

growing season, which begins in May. Oil production, which only recently was resumed after South Sudan's conflict with the Republic of Sudan over oil revenue, discussed below, has been cut in half due to the conflict. The U.N. has made an urgent plea for aid, estimating that 3.7 million people face starvation in the growing famine.

As indicated, the Republic of Sudan and South Sudan, which has only been an independent country for 3 years, have been embroiled in a dispute over oil. Although much of the oil reserves of Sudan lie in the newly created South Sudan's territory, all pipelines cross the Republic of Sudan. Having lost access to much of the oil (and related revenue), the Republic is charging high transport fees to South Sudan for use of the pipelines. In addition, there is a disputed territory on the border which is home to significant oil reserves and is claimed by both countries. South Sudan interrupted production of oil in response to the dispute, which was economically crippling to both countries, and although it has resumed production, there are simmering tensions.

Finally, the dispute that was behind Connecticut's passage of its Sudan law, the conflict in Darfur, continues. Government-backed militias continue to attack and destroy villages, with an escalation in 2014 that has seen an estimated 215,000 people displaced since January. The number of aid workers has decreased by 2/3 since 2009, as the competing crisis in Syria as well as lack of cooperation from the central government to allow access to the region, has drawn away resources. Conflict has also erupted in the Blue Nile and North Kordofan regions of Sudan, leading outside humanitarian groups to call for a comprehensive approach to the regional conflicts.

The CRPTF's **SUDAN RESTRICTED COMPANY LIST** (rev. 9/2013) is attached as **Exhibit A**.

Last year, as a member of the Conflict Risk Network (CRN), the Office of the Treasurer monitored CRN's engagement with Caterpillar, Inc., based upon the company's disclosure that non U.S. subsidiaries had sold equipment to the Government of Sudan or entities controlled by it. The New York State Comptroller's Office, on behalf of the New York State Common Retirement Fund, filed a shareholder resolution calling upon Caterpillar to take additional steps to ensure that its products are not sold to the Government of Sudan or entities controlled by it, and to report to shareholders by December 2013 on its progress in implementing this goal. The resolution was defeated, but we have joined as a co-filer with New York State to refile the resolution this year. The annual meeting is in June. Recent discussions with CRN confirm that Caterpillar has been unwilling to further engage on the issue, distancing themselves from the original disclosure and claiming lack of control over sales by dealers and distributors of the company's non-U.S. subsidiaries.

A copy of the resolution is attached to this report as **Exhibit B**.

IRAN

In the 2011 Legislative session, the Connecticut General Assembly amended Conn. Gen. Stat. §3-13g, Connecticut's Iran statute. The amended statute directs the Treasurer to review the holdings of the CRPTF for companies doing business in Iran and undertake engagement with such companies. The amended statute provides for a process similar to Connecticut's Sudan law, establishing criteria for the Treasurer to use to evaluate companies with Iran business activities and authorizes actions up to and including divestment if warranted. Also similar to the Sudan statute, there is federal law, the Comprehensive Iran Sanctions, Accountability and Divestment Act (CISADA), which endorses state Iran divestment laws by specifically exempting such laws from federal preemption, but only to the extent the state law is directed to companies in Iran's energy sector.

On April 2, 2013 the Treasurer approved the recommendation that the CRPTF divest from and restrict future direct investment in the following six companies actively engaged in business in the energy sector in Iran, including their wholly-owned and majority-owned subsidiaries. CRPTF managers were given 120 days to complete the divestment. The six companies are:

CHINA NATIONAL OFFSHORE OIL CORPORATION (CHINA OILFIELD SERVICES LTD.) DAELIM INDUSTRIAL CO. LTD. INDIAN OIL CORPORATION LTD. (IOCL) OIL INDIA LTD. PETROLEOS DE VENEZUELA S.A. SASOL LTD.

In accordance with the Treasurer's directive, managers divested CRPTF holdings in China National Offshore Oil Corp. valued at \$16,040,431, resulting in a realized gain of \$3,270,350. In addition, CRPTF managers divested from holdings in Petroleos de Venezuela valued at \$18,667,133, resulting in a realized gain of \$2,151,774.

CRPTF also had holdings in Sasol Ltd. However, prior to divestment, Sasol completed the sale of its interest in a joint venture operating in Iran in which Sasol was 50% owner. As a result, the Treasurer approved removal of Sasol from the Iran Restricted Company List.

CRPTF did not have any holdings in the other three companies.

The **IRAN RESTRICTED COMPANY LIST** (rev. 09/2013) is attached as **Exhibit C**.

The ability to conduct commercial activity in Iran remains severely restricted due to international economic sanctions, hence no additional companies have been added to the Iran list in FY 2014. Although negotiations over Iran's nuclear program began, and temporary limited easing of certain sanctions was announced, the reality is that little changed as a result. The complexity of the sanctions regime and severity of the punishment for violations, as well as the temporary nature of the easing, has discouraged banks and other businesses from adopting policies to accommodate the changes, particularly in light of seemingly limited progress in the nuclear talks since the announcement. While Iran has been allowed to sell some oil, the GAO Report, GAO-145-218R Iranian Commercial Activities, issued by the U.S. Governmental Accountability Office on January 7, 2014, did not confirm any companies not already on the CRPTF Iran Restricted Company List, as engaging in prohibited commercial activity. As indicated in earlier reports to the IAC, the GAO Report is a primary source of information on commercial activity in the energy sector in Iran.

MACBRIDE

In August, 2013, the Treasurer approved the removal of **Manpower, Inc.** and **B/E Aerospace** from the MacBride Restricted Company List, each company having supplied information demonstrating their implementation of the MacBride Principles to the satisfaction of MSCI, the MacBride compliance vendor for CRPTF.

In January, 2014, the Treasurer approved the removal of **PPG Industries Inc.** and **Sally Beauty Holdings** from the MacBride Restricted Company List, as each company also had supplied information demonstrating their implementation of the MacBride Principles to the satisfaction of MSCI.

Current activities under the MacBride statute focus on encouraging companies that fail to respond to MSCI's annual compliance survey to complete the survey. This is because the MacBride Principles are largely embodied in Northern Ireland's law, so compliance is legally required, not voluntary. However, the survey is a means to collect information on whether the company has been the subject of discrimination complaints or regulatory action based upon underrepresentation of religious minorities, based upon the population in the region where the company is located. Such information could provide the basis for a recommendation to divest or not further invest in a company.

The current **MACBRIDE RESTRICTED COMPANY LIST** (rev. 01/2014) is attached hereto as **Exhibit D**.

EXHIBIT A

Sudan Restricted Company List

(rev. 09/05/13¹)

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.

CNPC (Hong Kong)

Dongfeng Motor Corporation

MISC Bhd

Oil and Natural Gas Corp. (ONGC)

PetroChina Co. Ltd.

Petronas Capital Ltd.

Sinopec Shanghai Petrochemical Corp.

Sudan Telecom (Sudatel)

Wartsila Oyj

AviChina Industry & Technology Ltd.

Harbin Dongan Auto Engine Co.

Hafei Aviation Industry Co.

China North Industries Group

China North Industries Corporation a.k.a. NORINCO

NORINCO International Cooperation Ltd.

Liaoning Huajin Tongda Chemicals Co. Ltd.

Sichuan Nitrocell Co. Ltd.

China North Optical-Electrical Technology Co. Ltd.

AKM Industrial Co. Ltd.

Jiangxi Hongdu Aviation Industry Ltd.

¹ Reflects removal of two companies from prohibited investment status, Nam Fatt Corp. and PECD Group.

EXHIBIT B



CONNECTICUT RETIREMENT PLANS TRUST FUND ("CRPTF")

Report on Sales to Sudan

WHEREAS, human rights abuses by the Sudanese government in that country's Darfur region, and allegations of state sponsorship of international terrorism, have led the U.S. government and a number of U.S. states and cities to impose sanctions and enact divestment legislation designed to limit trade and corporate business ties to Sudan, and

WHEREAS, sales of Caterpillar products to Sudan companies (e.g., "http://www.sutrac.com/downloads/Sutrac_Profile.pdf") by Caterpillar subsidiaries totaled USD \$265.5 million in the fiscal years 2008-2010 (including Q1 of 2011), and

WHEREAS, in 2011, Caterpillar disclosed in its 10F filing to the U.S. Securities and Exchange Commission that "the dealers and distributors of Caterpillar's non-U.S. subsidiaries have in some cases sold products to the Government of Sudan or entities controlled by it", and

WHEREAS, Caterpillar has acknowledged that the ongoing sales by its non-U.S. Caterpillar subsidiaries would be in violation of U.S. sanctions if conducted by the U.S.-based parent, and

WHEREAS, the Conflict Risk Network (formerly the Sudan Divestment Taskforce) citing Caterpillar's sales to Sudan, has added the company to its list of "scrutinized" companies which may subject it to divestment or a prohibition on investment under Sudan divestment legislation adopted by a number of U.S. states and cities,

THEREFORE, BE IT RESOLVED, that shareholders request that the company take additional steps to ensure that its products not be sold to the Government of Sudan or entities controlled by it, by creating detailed report to shareholders by December 2014, prepared at reasonable cost and omitting proprietary information, disclosing the terms and enforcement mechanisms, including internal controls related to its Enterprise Export Control Compliance Program, including but not limited to:

- Audit verification and tracking of product sales;
- Publish findings, successes, challenges relating to its policies/procedures effectiveness;
- Senior management and board-level oversight.

Supporting Statement

Additionally, we encourage the requested report examine the feasibility of creating contract terms with distributors that require disclosure of any contracting or sales to the Government of Sudan or entities controlled by it.

EXHIBIT C

Iran Restricted Company List

(rev. 09/05/13²)

Pursuant to Conn. Gen. Stat. §3-13g, the Office of the Treasurer prohibits direct investment in the following companies:

China National Offshore Oil Corporation including its subsidiaries:

China Oilfield Services Ltd.

China Bluechemical

Offshore Oil Engineering Co.

CNOOC

Daelim Industrial Co. Ltd.

Indian Oil Corporation Ltd. (IOCL)

IBP Co. Ltd.

Chennai Petroleum Corp. Ltd.

Lanka Ioc plc

Bongaigaon Refinery & Petrochemicals

Oil India Ltd.

Petroleos de Venezuela S.A.

Ca La Electricidad de Caracas

² Reflects removal of one company (including subsidiaries) from prohibited investment status, Sasol Ltd.

EXHIBIT D

MacBride Restricted Company List

(rev. 01/29/14)

Pursuant to Conn. Gen. Stat. §3-13h, the Office of the Treasurer prohibits direct investment in the following companies:

Domino's Pizza Inc.

Yum Brands, Inc.